FOURPOINTS Fourth Quarter 2016 Newsletter

INSIDE THIS ISSUE

Spotlight:

Goodbye 2016, Hello 2017

Béatrice Philippe
President, **FOUR***POINTS* Asset Management

It was a busy, but exciting fourth quarter and year for **FOURPOINTS**!

The beginning of 2016 was marked by fear of a potential U.S. recession: global commodity markets were in the midst of a sell-off, the health of U.S. banks and of the U.S. consumer was in question, S&P 500 earnings had been falling year-over-year since the second quarter of 2015, and slower-than-expected growth and currency woes in China were weighing on market performance. Oversupply in the energy sector, a lack of catalysts for the industrial sector, and poor consumer sentiment drove a cyclical sell-off in January/early February (financials bore the brunt of the correction) while defensives outperformed (utilities and telecom were the only sectors in the black during the same period).

However, economic trends started to improve in the second half of 2016, S&P 500 earnings turned positive in the third quarter after five consecutive quarters of year-over-year declines, and U.S. third quarter GDP grew an estimated 3.5%. In fact, anticipated tax reform, the potential for a capital repatriation holiday and deregulation, and higher interest rate, inflation, and infrastructure spending expectations following Trump's election drove the S&P 500 to record highs.

Amidst all of this, **FOURPOINTS** was undergoing several significant changes. For more than a year, our Paris-based sister company, FOURPOINTS Investment Managers, has been evaluating strategic partnerships. For several months, we were in exclusive talks with a potential partner that requested that the Digital Leaders strategy be divested. Those discussions eventually fell through, but we are pleased to report that former colleagues Benoît Flamant and Leslie Griffe de Malval found a new home with another French asset manager, and that the Digital Leaders strategy lives on. We wish them the best of luck going forward.

In late December, **FOURPOINTS Investment Managers** agreed to partner with **YCAP Asset Management**, a credit, risk management, and asset allocation specialist, which is also going to take a stake in New York-based **FOURPOINTS Asset Management**. YCAP AM is an entrepreneurial company that shares our professional and ethical values. In conjunction with our experience managing U.S. and European equities for the past 85 years, YCAP AM's varied, but complementary expertise across a different asset class will allow the combined entity to develop more holistic, in-depth research, improve the risk-return of our portfolios, as well as create tailor-made solutions for institutional investors. Subject to the completion of certain regulatory proceedings, the partnership is expected to be finalized in the first quarter of 2017. The combined entity will have more than $1.7 billion in assets under management.

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If you would like further information about **FOUR***POINTS*, our products or people, or would like to comment on the *Spotlight,* please let us know.

FOURPOINTS
Euro Global Leaders

FOURPOINTS Euro Global Leaders ended 2016 up 2.3% in USD and outperformed its benchmark.

During the first half of the year, concerns about Chinese growth, the risk of recession in the United States, and commodity price volatility caused the MSCI EMU Index to correct by 9.3% (-7.3% in USD) versus a decline of only 0.8% in USD for the fund. We used this opportunity to strengthen our exposure to cyclicals based on, in our opinion, particularly attractive valuations for industrial and material stocks. With just over 50% exposure to cyclicals, the portfolio benefitted from post-Brexit rallies across economically sensitive sectors, especially materials (+25% in the second half of the year).

However, the fund's lack of exposure to the financial sector weighed on relative performance in the second half of the year (financials were up 36% in the last six months of 2016).

Over the full year, the fund benefitted from strong performance by its industrial (+15%) and material (+23%) holdings, which combined account for 35% of the portfolio. The lack of exposure to financials, telecom services, and utilities had a positive impact on relative performance as those three sectors ended the year in negative territory.

Conversely, technology and energy, specifically **Ingenico** (-34%) and **La Française de l'Energie** (-57%), respectively, weighed on full-year fund performance. Despite a robust underlying market, automotive suppliers **Norma**, **Continental**, and **Elrinklinger** also underperformed as fears about the impact of electric vehicles led to a de-rating for traditional automotive players.

As was the case in 2015, merger/acquisition activity benefitted several fund holdings in 2016. Specifically, portfolio holding **Saft** was bought by **Total**, which drove the stock up 36%, while **SEB**, **Elis**, and **Spie** each made strategic acquisitions. In November, **SEB**, the world's leading manufacturer of small domestic appliances and cookware, completed its acquisition of Germany's WMF, the world's leading producer of professional coffee machines and Germany's leading cookware brand. In December, **Elis**, the European leader in linen and work clothing rental and laundry services, announced the acquisition of two companies in Spain and Brazil, thereby doubling its market share in both geographies.

Spie, the leading multi-technical services company, also announced in December that is was acquiring Germany's SAG, a power network maintenance service provider (70% of sales) throughout Europe (Germany 73% of sales, Central Europe 17%, France 10%). **Spie** gains exposure to faster growing end-markets and strengthens its competitive position in Germany with SAG.

In 2016, **SEB**, **Elis**, and **Spie** increased 38%, 13%, and 21%, respectively.

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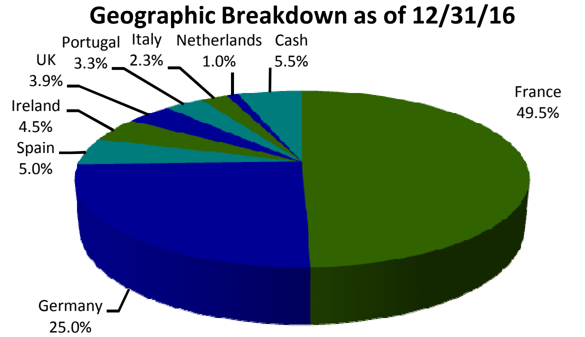
Stocks held in the portfolio are bold and underlined. All stock and index performance is in local currency unless otherwise stated.

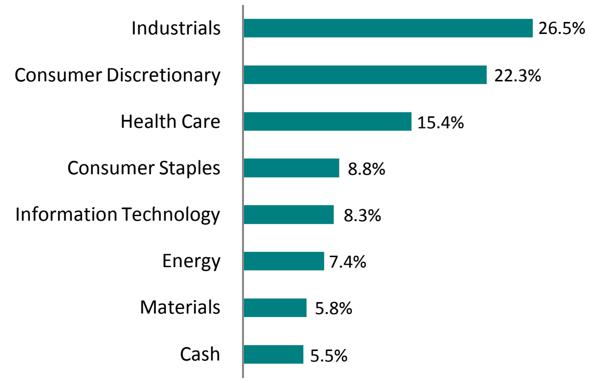
Market Cap Allocation as of 12/31/16

Mega Cap (Greater than $50 billion)	8.9%
Large Cap ($7.5 billion - $50 billion)	51.1%
Mid Cap ($750 million - $7.5 billion)	38.0%
Small Cap (Less than $750 million)	2.1%

Geographic Breakdown as of 12/31/16



Sector Breakdown as of 12/31/16



Top Ten Holdings as of 12/31/16

SPIE	4.0%
Publicis	3.9%
Sodexo	3.4%
Elis	3.4%
Fresenius SE	3.3%
Galp Energia	3.3%
Schneider Electric	3.2%
Thales	3.1%
Linde	3.1%
Danone	3.1%
Total:	**33.8%**

Performance* as of 12/31/16 in USD

	FOURPOINTS Gross Return	EURO STOXX 50 TR	MSCI EMU (Net)
Quarter	(2.4%)	3.1%	1.4%
1 Year	2.3%	0.7%	1.3%
3 Years	(1.9%)	(4.2%)	(2.9%)
5 Years	6.1%	6.0%	7.4%
Since Inception	0.8%	(3.6%)	(2.8%)

**Performance greater than 1 year is annualized.*
Inception date: December 31, 2007

Sources: Bloomberg, Zephyr Style Advisor, and FOURPOINTS IM

Philippe
International Opportunities

The **Philippe International Equity** portfolio declined 6% in 2016 and significantly underperformed its benchmark.

The fund benefitted from strong performance by its industrial (+12%) and material (+20%) holdings, which combined account for 25% of the portfolio. The lack of exposure to financials and telecom services had a positive impact on relative performance as those two sectors ended the year in negative territory.

Energy holdings were the biggest detractors from fund performance. The fund's Canadian positions did particularly well, increasing more than 50%, but French natural gas producer **La Française de l'Energie** offset this strong performance with a decline of 60% since its June 2016 IPO. The company specializes in the extraction of coal bed methane from French coal mines that are no longer in operation. The attractive IPO price allowed the company to secure enough funding to drill 15 wells in the Lorraine area over the next two years. **La Française de l'Energie** owns 253 billion cubic feet of proven reserves, and 2.6 trillion cubic feet of contingent reserves, or the equivalent of 6 years of French natural gas consumption. The gas it will extract is extremely competitive in terms of production and distribution costs, and its carbon footprint is also significantly better compared to imported gas (3.4g of CO^2/kWh versus 32g for imported gas, which accounts for 100% of French natural gas consumption today).

Now that the company is well funded, we see tremendous value creation opportunities over the coming year. Two wells to be drilled in Lorraine could go a long way in proving the company's reserves potential. Moreover, the company is expected to being producing green, gas-powered electricity in the Nord region by midyear, which will significantly boost cash flows for the business.

As was the case in 2015, merger/acquisition activity benefitted several fund holdings in 2016. Specifically, portfolio holding **Saft** was bought by **Total**, which drove the stock up 38%, while **Elis** and **Spie** each made strategic acquisitions. In December, **Elis**, the European leader in linen and work clothing rental and laundry services, announced the acquisition of two companies in Spain and Brazil, thereby doubling its market share in both geographies.

Spie, the leading multi-technical services company, also announced in December that is was acquiring Germany's SAG, a power network maintenance service provider (70% of sales) throughout Europe (Germany 73% of sales, Central Europe 17%, France 10%). **Spie** gains exposure to faster growing end-markets and strengthens its competitive position in Germany with SAG.

In 2016, **Elis** and **Spie** increased 10% and 18%, respectively.

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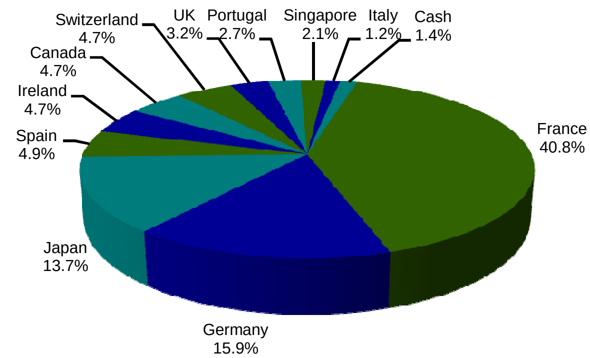
Stocks held in the portfolio are bold and underlined. All stock and index performance is in USD.

Market Cap Allocation as of 12/31/16

Mega Cap (Greater than $50 billion)	16.2%
Large Cap ($7.5 billion - $50 billion)	47.1%
Mid Cap ($750 million - $7.5 billion)	31.5%
Small Cap (Less than $750 million)	5.3%

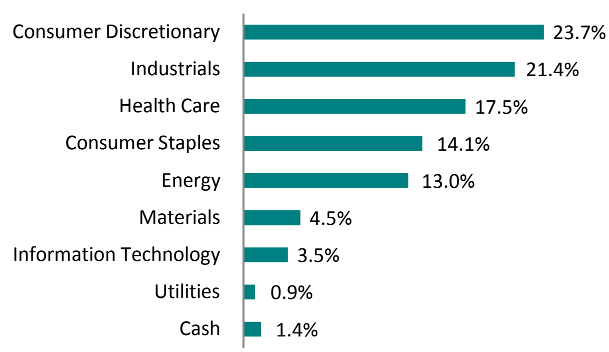
Geographic Breakdown as of 12/31/16



Top Ten Holdings as of 12/31/16

La Française de l'Energie	4.0%
Thales	3.5%
Bridgestone	2.9%
CRH	2.9%
Sodexo	2.8%
Bureau Veritas	2.8%
Ryohin Keikaku	2.8%
Criteo	2.7%
Galp Energia	2.7%
Schneider Electric	2.7%
Total:	**29.8%**

Sector Breakdown as of 12/31/16



Performance* as of 12/31/16 in USD

	Philippe Gross Return	MSCI EAFE (Net)	MSCI EAFE Growth (Net)
Quarter	(5.0%)	(0.7%)	(5.5%)
1 Year	(6.1%)	1.0%	(3.0%)
3 Years	(6.3%)	(1.6%)	(1.2%)
5 Years	1.3%	6.5%	6.7%
Since Inception	1.4%	3.4%	2.9%

**Performance greater than 1 year is annualized.*
Inception date: January 1, 2001

Sources: Bloomberg, Zephyr Style Advisor, and FOURPOINTS IM

Philippe U.S. Equities

The S&P 500 was up 3.8% in the fourth quarter of 2016, driven by market optimism following the U.S. presidential election in November, as well as the widely anticipated Federal Reserve rate hike in December. Index performance was driven mostly by cyclicals (financials +20.5%, industrials +6.6%, and energy +6.6%), while defensives lagged (health care -4.4%, consumer staples -2.7%, and utilities -0.8%). In 2016, the S&P 500 was up 12.0%, with all sectors but health care (-4.4%) contributing positively.

The **Philippe U.S.** portfolio, which was flat in the fourth quarter, underperformed the market. Performance was negatively impacted by our lack of exposure to financials, as well as health care stock selection (**Medtronic** -17.1%, **Thermo Fisher Scientific** -11.2%). Despite a slowdown in sales for some of **Medtronic**'s products, we remain confident in the strength of its competitive advantages and the health of the underlying demand for most of its products. We believe recent concerns about academic order flow for **Thermo Fisher Scientific** are also only temporary. Despite these drags, consumer discretionary (**Time Warner** +21.8%, **Walt Disney** +13.1%) and real estate (**Alexander & Baldwin** +17.0%) stock selection contributed positively to relative performance.

In 2016, the **Philippe U.S.** portfolio was up 9.1%, driven by consumer discretionary (**Time Warner** +52.4%, **Coach** +10.8%), energy (**Pioneer Natural Resources** +43.7%, **Pembina Pipeline** +51.6%, **Anadarko Petroleum** +25.7%), and industrial (**Xylem** +37.6%, **Deere** +38.9%, **Rockwell Automation** +34.4%) stock selection. Until October, our lack of exposure to the financial sector positively contributed to relative performance. However, the impressive rally by financial stocks in the fourth quarter negated any sector allocation benefit through the first three-quarters of the year, and financials ended up being a drag on relative performance for the full-year. Moreover, many information technology holdings failed to gain momentum in 2016, lagging their sector and the broader index. Finally, mixed performance from our health care holdings was a drag on relative performance for the year, with **Express Scripts** (-21.3%) and **Gilead** (-27.6%) offsetting positive contribution from **Merck** (+15.1%) and **Zoetis** (+12.6%). The health care sector was left on the sidelines in 2016 due to drug pricing scrutiny during the U.S. presidential campaign, as well as uncertainty regarding the future of the Affordable Care Act. The possibility of cash repatriation (**Gilead** has $24 billion of cash overseas), easier regulation, and greater visibility into the Trump administration's health care initiatives should create favorable tailwinds for the sector in 2017. We believe that **Gilead** runs a quality business and that its drug development pipeline (cancer, infectious disorders, Crohn's disease, rheumatoid arthritis) is undervalued by Wall Street. Moreover, pharmacy benefit manager **Express Scripts** adds tremendous value through its cost-saving services, which will remain a priority for the government and large companies.

2016 did not see a bear market, nor a recession as many had feared in the beginning of the year. Plenty of strategists suggested positioning portfolios

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Stocks held in the portfolio are bold and underlined. All stock and index performance is in USD.

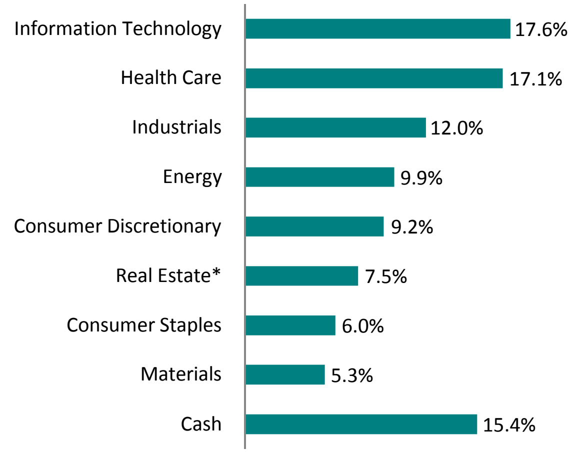
Market Cap Allocation as of 12/31/16

Mega Cap (Greater than $50 billion)	42.5%
Large Cap ($7.5 billion - $50 billion)	37.4%
Mid Cap ($750 million - $7.5 billion)	20.2%
Small Cap (Less than $750 million)	0.0%

Top Ten Holdings as of 12/31/16

Zoetis	3.4%
PTC	3.4%
Schlumberger	3.0%
United Technologies	2.9%
Merck	2.9%
RPM International	2.8%
Time Warner	2.8%
Procter & Gamble	2.8%
Alphabet	2.8%
Pioneer Natural Resources	2.8%
Total:	**29.6%**

Sector Breakdown as of 12/31/16



**Effective September 1, 2016, MSCI added Real Estate as a GICS sector classification. Previously, real estate investments were classified as Financials.*

Performance** as of 12/31/16 in USD

	Philippe Gross Return	S&P 500	Russell 1000
Quarter	(0.0%)	3.8%	3.8%
1 Year	9.1%	12.0%	12.1%
3 Years	3.1%	8.9%	8.6%
5 Years	9.2%	14.7%	14.7%
Since Inception	4.9%	5.4%	5.7%

***Performance greater than 1 year is annualized.*
Inception date: January 29, 1999

Sources: Bloomberg, Zephyr Style Advisor, and FOURPOINTS IM

Spotlight: ***Goodbye 2016, Hello 2017*** (*Continued from page 1*)

Finally, effective January 2017, The FOURPOINTS AM Euro Global Leaders, LLC and The Philippe Fund International Equities, LLC have merged in order to better focus on our competitive advantage managing European equities. The new commingled fund, which is called **The Philippe Fund Euro Global Leaders, LLC**, will continue to serve as a vehicle for U.S.-based high-net worth individuals, endowments, and foundations to invest in leading European companies.

Looking forward to 2017, rising nominal growth, higher wages, and a stronger U.S. consumer are driving upward revisions to corporate earnings estimates. We believe cyclical stocks should continue to outperform in this context of accelerating economic growth. Yet, uncertainty about the impacts of policy changes under the new administration remains high, particularly with respect to trade agreements, the Affordable Care Act (ACA), and immigration. It will take time to pass legislation and to see positive (or negative) effects of new policies. Moreover, unless U.S. shale production picks up strongly, the global oil market could fall into a deficit in 2017. Finally, rising inflation and a stronger dollar may accelerate the pace of interest rate hikes. Given so much uncertainty, we will continue to be disciplined, look for investment opportunities with a reasonable margin of safety, and review our convictions regularly as we comprehend the policy changes ahead that will shape the market in 2017.

FOUR*POINTS* Euro Global Leaders (*Continued from page 2*)

Conditions appear favorable as we enter 2017: since September 2016, leading economic indicators suggest an acceleration in European and global growth; similar to 2015, the sharp depreciation of the euro should be a significant growth driver for companies; in December 2016, the Eurozone PMI reached its highest level in five years thanks to strong growth in the manufacturing sector; consumer and business confidence have rebounded strongly in recent weeks; finally, should Trump succeed in stimulating the U.S. economy, 2017 corporate earnings estimates could prove relatively conservative.

That said, political and economic risks still abound. Upcoming elections in several European countries in 2017 could create market instability. Meanwhile, the Chinese economy is at risk of slowing down while the U.S. economy could overheat, which would force the Federal Reserve to tighten monetary policy.

In our opinion, the portfolio's construction is well-suited for current global economic conditions. Cyclicals represent more than 50% of the portfolio, and the companies held in the portfolio generate 25% of their sales in North America. With the MSCI EMU trading at an 18% discount to the U.S. market, we estimate the fund has approximately 25% upside potential.

Effective January 2017, The FOURPOINTS AM Euro Global Leaders, LLC and The Philippe Fund International Equities, LLC have merged in order to better focus on our competitive advantage managing European equities. The new commingled fund, which is called The Philippe Fund Euro Global Leaders, LLC, will continue to serve as a vehicle for U.S.-based high-net worth individuals, endowments, and foundations to invest in leading European companies.

Philippe International Opportunities (*Continued from page 3*)

Conditions appear favorable as we enter 2017: since September 2016, leading economic indicators suggest an acceleration in global growth; in particular in Europe where the sharp depreciation of the euro should be a significant growth driver for companies; in December 2016, the Eurozone PMI reached its highest level in five years thanks to strong growth in the manufacturing sector; consumer and business confidence have rebounded strongly in recent weeks; finally, should Trump succeed in stimulating the U.S. economy, 2017 corporate earnings estimates could prove relatively conservative.

That said, political and economic risks still abound. Upcoming elections in several European countries in 2017 could create market instability. Meanwhile, the Chinese economy is at risk of slowing down while the U.S. economy could overheat, which would force the Federal Reserve to tighten monetary policy.

In our opinion, the portfolio's construction is well-suited for current global economic conditions. Cyclicals represent more than 50% of the portfolio, and the companies held in the portfolio generate a significant amount of their sales in North America. European stocks continue to trade at a sharp discount to the U.S. market and we estimate the fund has approximately 25% upside potential.

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Effective January 2017, The FOURPOINTS AM Euro Global Leaders, LLC and The Philippe Fund International Equities, LLC have merged in order to better focus on our competitive advantage managing European equities. The new commingled fund, which is called The Philippe Fund Euro Global Leaders, LLC, will continue to serve as a vehicle for U.S.-based high-net worth individuals, endowments, and foundations to invest in leading European companies.

Philippe U.S. Equities (*Continued from page 4*)

defensively, but cyclicals outshined. Moreover, few strategists predicted that the price of oil would rally by more than 100% from its February low, or that Donald Trump would win the presidential election. 2016 was full of uncertainties and market reversals, which demonstrate the importance of being well-diversified. Improved investor, business, and consumer sentiment/confidence are promising for 2017, yet market performance will very much be dependent on President Trump’s new policies, and the complexities related to reduced regulation, fiscal stimulus, and other pro-growth initiatives. Uncertainty abound, we remain disciplined with respect to our investment and portfolio allocation strategy. Overall, we believe that U.S. economic growth has the potential to accelerate, which would bolster corporate earnings, business investment, and consumer spending.

PERFORMANCE DISCLOSURES

Composite Descriptions

The **FOUR***POINTS* **Euro Global Leaders** composite includes a fully discretionary, euro-denominated European FCP (a French mutual fund) and a commingled fund (LLC), suitable for U.S.-based, high-net-worth individuals and endowment/foundation clients. The benchmark is the DJ Euro Stoxx 50. All returns are translated into U.S. dollars The composite is asset-weighted, computed monthly, based on time-weighted returns, gross of fees, including income and all cash equivalents. (Although the FCP product is not available to U.S. investors, the track record, converted into U.S. dollars, is representative of our results for separate accounts for U.S. investors.) Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. A fee schedule is available upon request and is described in Part II of the firm's ADV. Accounts are included from the first full month under management. Leverage is not used in this composite. Non-fee-paying accounts are not included in the composite. Past performance is not indicative of future results. There are two portfolios in the composite. Composite assets as of December 31, 2016 were $42.4 million.

The **Philippe International Opportunities** composite includes a commingled fund (LLC), suitable for U.S.-based, high-net-worth individuals and endowment/foundation clients. The minimum investment in the LLC is $250,000. The minimum time frame recommended for investment in the LLC is two years. Separate accounts are available. The LLC is officially valued at the end of each month. Further information on the LLC is available in our *Confidential Memorandum*, which can be obtained from **FOUR***POINTS Asset Management*, Inc. The benchmark for the composite is the MSCI EAFE (Net). Returns include the effect of foreign currency exchange rates. The exchange rate source for the benchmark and the composite is FTID. The composite is asset-weighted, computed monthly, based on time-weighted returns, gross of fees and includes income. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. A fee schedule is available upon request and is described in Part II of the firm's ADV. Accounts are included from the first full month under management. Leverage is not used in this composite. Composite performance is presented net of foreign withholding taxes. Past performance is not indicative of future results. There is one portfolio in the composite. Composite assets as of December 31, 2016 were $19.9 million.

The **Philippe U.S. Equities** composite includes a commingled fund (LLC), suitable for U.S.-based, high-net-worth individuals and endowment/foundation clients. The minimum investment in the LLC is $250,000. The minimum time frame recommended for investment in the LLC is two years. The LLC is officially valued at the end of each month. Further information on the LLC is available in our Confidential Memorandum, which can be obtained from **FOUR***POINTS Asset Management*, Inc. The benchmark is the S&P 500 Index. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. A fee schedule is available upon request and is described in Part II of the firm's ADV. The fund is available to qualified investors only. Accounts are included from the first full month under management. Leverage is not used. Past performance is not indicative of future results. There is one portfolio in the composite. Composite assets as of December 31, 2016 were $23.8 million.

All returns shown in this publication assume the reinvestment of dividends.

This letter represents the views of the principals of **FOUR***POINTS Asset Management, Inc. as of the date written and these views may change at any time. The information should not be construed as investment advice or a recommendation for any investment strategy. There are no guarantees that any projection, forecast, or opinion expressed herein will be realized. The views presented here are based on analysis of publicly available information. The opinions of other analysts based on these data may differ.*

A complete list and description of FOUR*POINTS* **Asset Management, Inc.'s composites is available upon request.**

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