First Quarter 2017 Newsletter

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Spotlight:
Economic Growth vs. Political Uncertainties

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At the end of the first quarter 2017, we find ourselves in a world of uncertainty with challenges in the areas of politics, economics, trade, ideology, war and terrorism. Surprisingly, in the midst of all this, equity markets have performed well.

In the U.S. on the political front, President Trump began his administration with an intensive flurry of executive orders apparently designed to deliver on as many campaign promises as rapidly as possible. One of the most hotly debated orders limited arrivals from several Middle Eastern countries, but it was stalled by the courts. The ban on arrivals from these countries has been particularly unwelcome by technology businesses, who seek qualified technical workers all over the world. On March 24, President Trump failed to bring in the necessary votes for the House healthcare reform bill which raises questions about his ability to achieve a number of other legislative initiatives – most importantly tax reform. Surprisingly, after an initial drop following the healthcare misfire, the market stabilized and rallied.

Meanwhile, in the U.K., Prime Minister Theresa May has been working hard to define "BREXIT means BREXIT". On March 29, she initiated Article 50 of the Lisbon Treaty, which triggers a two-year negotiation process by which Britain will formally leave the European Union. Prime Minister May has warned, "no deal for Britain is better than a bad deal." The two-year withdrawal clock is now running and uncertainty about what the impact will be is likely to continue through that period.

With respect to Europe, from an economic point of view, the region is rebounding. The populist candidate lost the Dutch election in March, and while extreme right/anti euro candidate Marine Le Pen is almost certain to advance from the first round of elections in France on April 23, she is unlikely to win the second round on May 7, although anything is possible. German elections will be held in September, but there is no populist in play there. In spite of all these uncertainties, European markets were up almost 7.5% in USD during the quarter.

Turning to Asia, following concerns about capital flight early in 2016, China has jolted their economy with strong fiscal spending and plenty of money availability. The Plenum of the 19th National Congress of the Communist Party takes place in October. Between now and then there will be backroom struggles to determine who represents which factions in the Standing Committee of the Politburo. This is a period where economic distress would be most unwelcome by President Xi, and the People's Bank

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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.

Philippe
Euro Global Leaders

Effective January 2017, The FOURPOINTS AM Euro Global Leaders, LLC and The Philippe Fund International Equities, LLC 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, continues to serve as a vehicle for U.S.-based, high net worth individuals and endowments/foundations to invest in leading European companies.

European markets continued to rise in March, ending the first quarter up 7.6%. In fact, Europe was the best performing developed market in the first quarter, outperforming the MSCI USA and the MSCI World indices in both local currencies and in dollars despite elections in several European states that could cause volatility.

European equities benefitted from the sharp acceleration of leading economic indicators. In particular, the manufacturing and services PMIs reached their highest levels in 6 years. Moreover, consumer and business confidence remain buoyant thanks to low interest rates, low inflation, cheap oil, and a depressed euro. Finally, upward earnings revisions support the notion of a sustained recovery in Europe.

Given favorable economic conditions, cyclical stocks outperformed during the first quarter (information technology +12.9%, industrials +10.5%, materials +7.8%). Consumer staples and health care stocks, which were up 9.4% and 9.2%, respectively, also outperformed after suffering a violent de-rating in the second half of 2016.

The only sector to end the quarter in negative territory was energy (-3.0%) following a 7% drop in the price of oil. In an effort to address oversupply and provide support to oil prices, OPEC members and several other oil producing countries established production quotas, with which they have been complying. However, investors are now worried about the sharp rebound in U.S. shale activity. Renewed investment could drive U.S. production past mid-2015 highs by the end of the year, which could create a supply-demand imbalance at the global level. As a result, U.S. shale production could destabilize OPEC's production agreement and ignite a possible price war.

The Philippe Fund Euro Global Leaders, LLC gained 8.1% in the first quarter and outperformed the MSCI Europe Index (+7.6%). In the first three months of 2017, the fund benefitted from strong performance by its information technology holdings (+23.1% over the period, driven by **Criteo**, **Wirecard**, and **Ingenico** following reassuring earnings). The fund's industrial holdings, which were up 10.6%, also outperformed versus the broader market (+7.6%) and comparable index constituents (+10.5%). Our consumer discretionary holdings, primarily luxury goods companies **LVMH** and **Richemont** and auto parts suppliers **Michelin** and **Elringklinger**, also positively contributed to relative performance during the quarter. Finally, strong performance by mid cap, French holdings, particularly **Mersen**, **Elis**, and **Spie**, illustrated that political uncertainty in France has already been accounted for by the market.

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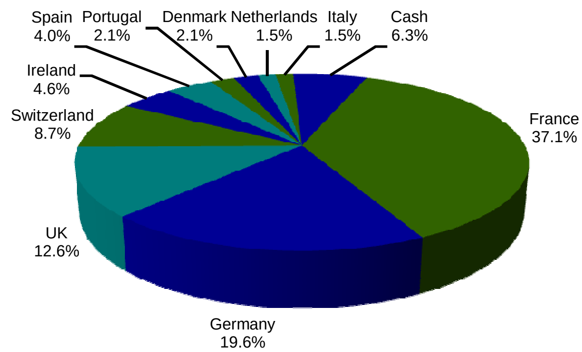
Stocks held in the portfolio are bold and underlined. All stock and index performance is in USD.

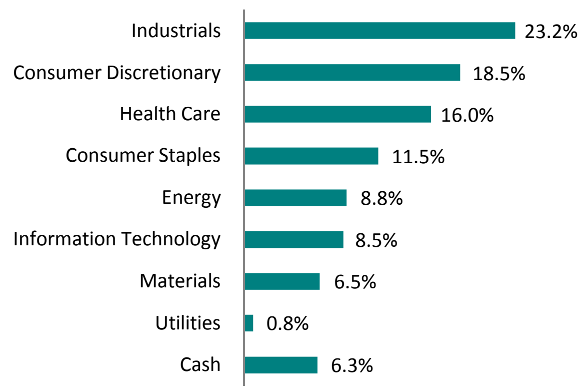
Market Cap Allocation as of 3/31/17

Mega Cap (Greater than $50 billion)	21.5%
Large Cap ($7.5 billion - $50 billion)	40.9%
Mid Cap ($750 million - $7.5 billion)	32.6%
Small Cap (Less than $750 million)	5.0%

Geographic Breakdown as of 3/31/17



Sector Breakdown as of 3/31/17



Top Ten Holdings as of 3/31/17

Française de l'Energie	3.6%
Wirecard	2.9%
CTS Eventim	2.9%
Criteo	2.8%
Ingenico	2.8%
Roche Holding	2.7%
Intertek Group	2.7%
Thales	2.6%
Norma Group	2.6%
WPP	2.6%
Total:	**28.2%**

Performance as of 3/31/17 in USD

	Philippe Gross Return	MSCI Europe
Quarter	8.1%	7.6%

Inception date: January 3, 2017

Sources: Northern Trust, Zephyr Style Advisor

Philippe
U.S. Equities

The S&P 500 was up 6.1% in the first quarter of 2017 versus +1.0% and +1.4% in the first quarters of 2015 and 2016, respectively. The market was boosted by accelerating global growth (fourth quarter U.S. GDP growth was revised up to 2.1%) and improving consumer and business confidence. Given the U.S. economy's resilience to adverse shocks, the Federal Reserve decided to raise interest rates by another 25 basis points. For reference, the tightening cycle began in December 2015, and the federal funds rate now stands at a range of 75 to 100 basis points following 3 separate hikes.

The best performing sectors in the S&P 500 were information technology (+12.2%), consumer discretionary (+8.1%), and health care (+7.9%). Only two sectors, energy (-7.3%) and telecom (-5.1%), posted negative performance in the first quarter. OPEC's efforts to reduce oil production have been encouraging. However, at the same time, U.S. shale production growth has put renewed pressure on the price of oil. After rising 45% in 2016, WTI crude prices fell 6% to $50.6 at the end of March.

The **Philippe U.S.** portfolio was up 5.3% in the first quarter. Consumer staples stock selection was the strongest contributor to performance, driven in particular by **Mead Johnson Nutrition**. Known globally for its Enfamil and Nutramigen brands, the pediatric nutrition manufacturer received a $17.9 billion acquisition offer from **Reckitt Benckiser Group**, a leading consumer health and hygiene company from Britain. The offer represented a 29% premium to **Mead Johnson**'s February 1, 2017 closing price, before the market suspected a potential transaction. Our lack of exposure to the financial sector positively contributed to relative performance as well. After a strong fourth quarter 2016 rally, financials continued their upward march, but lagged the broader market in the first quarter of 2017.

Conversely, the fund's performance was most negatively impacted by our elevated cash position (17.4% as of the end of March given persistent geopolitical and economic uncertainty). Had it not been for cash, the fund would have performed in line with the S&P 500 during the first quarter. Overall, we remain optimistic about U.S. growth prospects, and plan to use excess cash as attractive investment opportunities present themselves.

Information technology holding **Genpact** and former health care holding **Express Scripts** also weighed on relative performance. Spun-off from **General Electric**, who is still a major client, **Genpact** provides IT and analytical solutions to manage business processes. More recently, the business has suffered due to declining **General Electric** revenues, declining IT service revenues, as well as continued macro uncertainty, which has led clients to delay capital investments. However, we believe the strength of **Genpact**'s core business process service, which continues to perform well, upside potential from M&A, and a recently initiated quarterly dividend (approximately 1% yield) will offset the aforementioned headwinds over the long-term.

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

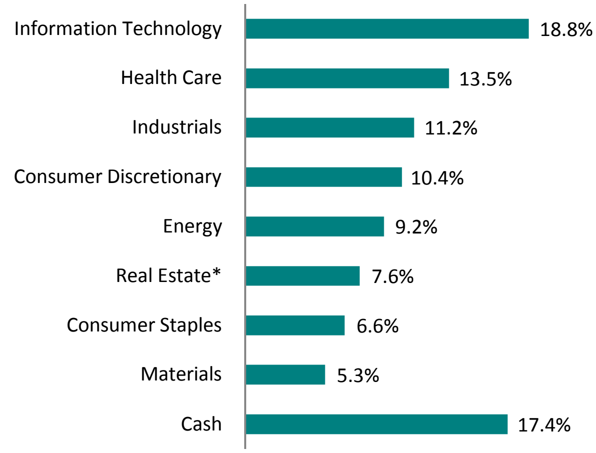
Market Cap Allocation as of 3/31/17

Mega Cap (Greater than $50 billion)	42.3%
Large Cap ($7.5 billion - $50 billion)	34.1%
Mid Cap ($750 million - $7.5 billion)	23.6%
Small Cap (Less than $750 million)	0.0%

Top Ten Holdings as of 3/31/17

PTC	3.7%
Zoetis	3.2%
Procter & Gamble	2.9%
Alphabet	2.9%
United Technologies	2.9%
Ansys	2.8%
RPM International	2.8%
Pioneer Natural Resources	2.8%
Time Warner	2.8%
Schlumberger	2.6%
Total:	**29.3%**

Sector Breakdown as of 3/31/17



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

Performance** as of 3/31/17 in USD

	Philippe Gross Return	S&P 500	Russell 1000
Quarter	5.3%	6.1%	6.0%
1 Year	12.9%	17.2%	17.4%
3 Years	4.8%	10.4%	10.0%
5 Years	8.5%	13.3%	13.3%
Since Inception	5.1%	5.6%	5.9%

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

Sources: Northern Trust, Zephyr Style Advisor

Spotlight: ***Economic Growth vs. Political Uncertainties*** (*Continued from page 1*)

of China is undoubtedly making sure distress does not happen via very supportive economic policies. China's debt continues to escalate, and observers differ on whether that will become a problem in 2018 and beyond.

On the economic front in the U.S., data for the first quarter shows that inflation has hit the Fed's target of 2%, and future growth forecasts were raised slightly (from 2.0% to 2.1% for 2018). The Fed continues to keep a watchful eye on the struggle between inflationary and deflationary forces. The very high level of debt in the system puts downward pressure on consumption, and the failure of consumer spending to accelerate leads to business uncertainty regarding productivity increasing capital spending. The debt overhang, an aging/retiring population in developed countries, and productivity increases far below past decades lead some observers to feel we are trapped in an era of "secular stagnation." However, consumer and business sentiment has soared to record levels, and optimists believe that with deregulation and tax reform, the U.S. economy can surge forward to 3+ percent real growth.

Another question is whether full employment will cause wage growth to accelerate and whether productivity will grow fast enough to allow corporate profits to grow. With equity markets at current levels, the answer to this needs to be positive. We are optimistic about the earnings potential of the companies in our portfolios, but are very much aware that wage inflation and rising interest rates may lead to a period of more market volatility.

In terms of trade, the world has been on a 25-year ride of accelerating globalization and multinational trade treaties. In the U.S., President Trump intends to reverse that trend and replace major treaties with a series of bi-lateral agreements. The U.K. needs to negotiate new trade terms with the EU and the rest of the world in its Brexit process. Meanwhile, President Xi of China carried the banner of globalization as a global statesman at the World Economic Forum in Davos, Switzerland.

Despite the challenges noted above, the global markets have done quite well in the quarter. So what could go wrong as the year unfolds? Some possibilities are:

- President Trump has legislative disappointments on taxes.
- Protectionism across developed countries further limits broad global growth.
- The elections in Europe empower protectionist leaders, which could lead to a further unravelling of the EU.
- The recapitalization of EU banks (Italy) fails to get backing from Berlin leading to a banking crisis.
- The Greek crisis arises anew and the IMF, under threats from Washington, fails to participate.
- China experiences financial instability exacerbated by very high debt level and inflated housing prices.
- A very strong Dollar (following a border adjustment tax) sets off emerging market debt problems.
- Further Russian interventions lead to a major confrontation.
- Kim Jong-Un in North Korea launches a missile toward Japan, which forces U.S. military intervention.

So while we climb the wall of worry that is customary for bull markets, we would note that, for the first time in a long time, there seems to be synchronous, improving economic growth occurring in all developed regions of the world and China. The IMF is revising growth forecasts higher in these regions, in stark contrast to their pattern of lowering expectations over the past few years. Despite all the apparent political turmoil, most of which is the result of a rising nationalism and increasing skepticism over globalization, we would emphasize that gathering powerful economic forces may be sufficient to overwhelm the threats posed by the uncertain politics. It has taken nine years since the Great Recession to turn the Queen Mary of global growth in our favor. We would not underestimate the benefit of this turn on our portfolios.

- Garnett Keith and the SeaBridge team, with additional commentary from Béatrice Philippe

Philippe Euro Global Leaders (*Continued from page 2*)

Given the improved macroeconomic backdrop, we elected to strengthen some of our industrial and materials positions whose performance had been lagging, including **GEA**, **CRH**, and **Johnson Matthey**, as well as to initiate a position in **WPP**, a British multinational advertising company. Part of these investments were financed with profits taken on health care holding **Grifols** and consumer discretionary holding **LVMH**, whose upside potential had decreased.

In an increasingly digital world, can advertising agencies continue to grow at their historical pace?

The digital revolution (e-commerce, mobile, social networks, and so on) has forced advertisers to rethink how they communicate with targeted audiences and allocate marketing capital. In just a few short years, digital advertising budgets at large, multinational corporations like Unilever, **Nestlé**, and **L'Oréal** have soared to nearly 40% of total marketing spend, and clients and advertisers alike have become obsessed with efficiency metrics like "marketing productivity".

Technology and the development of digital advertising has created a much more complex advertising ecosystem filled with exploitable marketing data relative to traditional marketing. While technology has certainly created more growth opportunities for advertising agencies, there are also inherent risks of cannibalization, especially as technology continues to evolve and more and more players, from digital marketing titans like Google and Facebook to consulting firms and software developers, crowd into the space. Anticipating this problem, major advertising agencies adapted by acquiring technology companies capable of providing their clients with new and innovative digital marketing solutions.

Given the rapidly changing landscape of advertising, advertising agency **WPP** has acquired or taken a minority stake in several niche data companies. With a focus on and expertise in data and consumer insights, **WPP** is differentiating itself by creating more precisely targeted and measured advertising campaigns. While the company has historically had a market research business (Kantar TNS), **WPP** expanded its data expertise through targeted acquisitions of small technology companies. As the largest advertising agency in the world, **WPP** also benefits from its scale. In 2016, the company generated nearly $20 billion in sales versus $15 billion and $11 billion for competitors **Omnicom** and **Publicis**, respectively. Moreover, **WPP** has developed the largest automated ad buying platform, and it is a leader in emerging markets, particularly China, where it has the highest exposure to local businesses in the advertising industry.

In general, we believe advertising agencies are indispensible because of their consumer insights and expertise engaging consumers on behalf of clients. Nimble, leading agencies will exploit traditional, digital, and next generation channels in order to provide the most holistic advertising suite for their clients.

At current valuations, the market appears cautious that agencies can continue to grow EPS at historical levels in excess of 10%. However, we believe the growth prospects for advertisers remain attractive. Agencies continue to be a good proxy of global growth, and as such, they should be able to grow 3% to 4% organically per year. Moreover, we believe agencies will continue to make acquisitions to supplement growth and drive synergies. **WPP** also has levers at its disposal to improve profitability, including restructuring analog activities, further implementing shared services, as well as simplifying its organization. Finally, ad agencies generate significant cash flows, which help fund attractive dividends (approximately 3% yield for **WPP**) and share repurchases.

We decided to gain exposure to the attractive advertising industry by initiating a position in **WPP**. In our opinion, **WPP** is trading at an attractive valuation (14x next-twelve-month earnings), and we estimate that the company has more than 20% upside potential.

In addition to **WPP**, we also have a position in **Criteo**, the leader in digital retargeted ads, a niche industry in which traditional agencies do not currently participate. Established in 2005, **Criteo** significantly increases visitor-to-buyer conversion for e-commerce clients. The company's complex algorithms and vast data create strong barriers to entry, which continue to grow as the company collects more data and its algorithms become more accurate. Customers seem very satisfied with **Criteo**'s services: 80% of the company's clients have unlimited budgets for retargeted ads, its client base grew by 40% in 2016, and client retention is 90%. Unsurprisingly, **Criteo**'s constant currency sales increased by 34% last year.

Philippe U.S. Equities (*Continued from page 3*)

Pharmacy benefit manager (PBM) **Express Scripts**, which promotes lower drug costs through mail-order prescription services and the use of generic drugs, had been pressured by contentious contract negotiations with its largest customer, health insurer **Anthem**. Additionally, political uncertainty regarding the possible repeal of the Affordable Care Act and negative publicity regarding lack of transparency by PBMs in the context of rising drug prices informed our decision to exit the position.

During the quarter, we also exited **Deere**. In our opinion, an improved growth outlook, positive earnings revisions, as well as any potential benefit from infrastructure and tax reform already appear priced in to **Deere**, thereby limiting upside potential following a particularly strong rally in 2016.

In March, we introduced two new holdings to the portfolio, **Westinghouse Air Brake Technologies** (Wabtec), a provider of value-added, technology-based products and services for the rail industry, and **Carter's**, a marketer of branded apparel for infants and young children.

Wabtec is currently undertaking what we believe to be a transformative integration following the late 2016 acquisition of Faiveley Transport. The deal further diversifies **Wabtec**'s geographic and end-market exposure away from the U.S. freight market, which has been in a cyclical decline for several years, to the faster growing transit markets of Europe and Asia. The integration, which is expected to take three years to complete, should generate significant synergies, including sourcing, eliminating redundant product development costs, cross-selling of products that are manufactured in-house rather than purchasing them from outside suppliers, and facility consolidations.

Between its two brands, Carters and Oshkosh, **Carter's** has about 16% share of the infant and children's apparel market. Despite encouraging fourth quarter/holiday season earnings results marked by continued strong e-commerce and international sales growth, the company provided a somewhat cautious outlook for 2017. In spite of overly negative investor sentiment for retail in general, we decided to initiate a position in **Carter's** following recent weakness. We believe the stock stands to benefit from improving U.S. birth trends, e-commerce penetration, and international market growth.

We believe that the U.S. economy is relatively strong and that U.S. corporate earnings growth could accelerate, driven by renewed manufacturing growth, stabilizing oil prices, and record high consumer confidence. Given the favorable economic backdrop, the market could continue to benefit from pro-growth initiatives, such as individual and corporate tax reform, corporate repatriation of foreign profits, and regulatory easing. Moreover, there is ample liquidity in the markets for increased flows into U.S. equities, specifically cyclicals. In this context, our cyclical holdings, particularly industrials, materials, and consumer discretionary stocks, should outperform defensives. Still, the timing and success of reform implementation is uncertain. In addition, the highly levered global environment and the impact changes in monetary policy may have on currency markets constrain how quickly the Federal Reserve can raise interest rates. Hence, we expect the U.S. market to experience increased volatility, at which point we plan to use excess cash to make opportunistic investments at attractive valuations.

FIRM NEWS

❖ As we reported in January, FOURPOINTS Investment Managers, our Paris-based sister company, is joining forces with YCAP Asset Management, who is also taking a minority stake in New York-based FOURPOINTS Asset Management. Regulatory authorities are taking longer than expected to sign off on the transaction, which we initially anticipated would close in the first quarter. We now expect to finalize the deal in the second quarter of 2017 pending YCAP AM's registration with the Securities and Exchange Commission (SEC).

In the interim, FOURPOINTS Investment Managers has moved to a temporary office at 121 avenue des Champs Elysées as the AMF, the French equivalent of the SEC, did not want the company to move to YCAP AM's offices until the deal officially closed.

LLC Descriptions

The **Philippe Fund Euro Global Leaders, LLC** is a commingled fund 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 is available in our Confidential Memorandum, which can be obtained from **FOUR***POINTS* Asset Management, Inc. The benchmark is the MSCI Europe 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 2 of the firm's Form 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. The fund's assets under management as of March 31, 2017 were $26.3 million.

The **Philippe Fund U.S. Equities, LLC** is a commingled fund 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 2 of the firm's Form 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. The fund's assets under management as of March 31, 2017 were $24.8 million.

Performance Disclosures

FOURPOINTS Asset Management uses objective, non-performance based criteria to select the securities listed in the quarterly newsletter. The objective, non-performance based criteria include the following, as applicable: 1) three largest purchases and three largest sales by dollar size made by each fund, 2) portfolio management decisions (new/eliminated holdings), and the reasons for those decisions that are not based on profits or losses, 3) portfolio changes based on significant new publicly released company information, not based on profits or losses, 4) corporate actions (M&A, spin offs, bankruptcies), and 5) sector contribution/attribution to the portfolio based on performance attribution, without discussing specific securities. FOURPOINTS Asset Management will use the same selection criteria for each quarter for each fund. The specific securities identified in the newsletter do not represent all of the securities purchased or sold, or held in the fund and the reader should not assume that investments in the securities identified and discussed were or will be profitable. There is no assurance that any securities discussed herein will remain in the fund at the time you receive the newsletter or that those sold have not been repurchased.

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

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

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