Second Quarter 2017 Newsletter

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Firm News

"La vie n'est pas un long fleuve tranquille"

As a follow up to last quarter's firm news, the deal with YCAP Asset Management fell through in May. However, one of the firms that had been very keen to acquire us in early 2016 expressed continued interest in pursuing a partnership. We are pleased to announce that we just signed an agreement with **Groupe Herez**, a dynamic group of independent financial advisors to €1.1 billion ($1.25 billion) in non-discretionary assets on behalf of high net worth individuals, to sell 100% of FOURPOINTS Investment Managers (Paris) and 34% of FOURPOINTS Asset Management (New York). Both the Paris and New York teams remain in place.

Pending final approval from the AMF (the French equivalent of the SEC), we expect the deal to close by the end of the third quarter. We are all very happy about and looking forward to this exciting new partnership.

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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.

Spotlight:

Brewing Up Profits

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Portfolio Manager
FOUR*POINTS* Investment Managers

Julien Chehowah
Portfolio Manager
FOUR*POINTS* Investment Managers

On October 11, 2016, **AB InBev** acquired **SABMiller**, thereby reinforcing its position as the world's undisputed leader in brewing with 27% market share by volume (31% by value), far surpassing second place **Heineken** with 10% market share.

Since then, the Belgian-Brazilian brewer has underpeformed the European market and its peers (-14% vs. +19% for the MSCI EMU and +6% for MSCI EMU consumer staples as of the end of June). The main reason has been the collapse of its Brazilian business's earnings, which is the second largest market for the company. In 2016, **AB InBev** grew sales by 2.4%, while EBITDA declined a slight 0.1%. Excluding Brazil, sales and EBITDA would have grown 4% and 6.3%, respectively. Given Brazil's deep economic recession, the company attempted to pass on soaring input cost inflation to financially strapped Brazilian consumers, which only caused volumes and profitability to suffer. Results were also negatively impacted by unfavorable currency hedging contracts. Consequently, first quarter 2017 EBITDA margin for **AB InBev**'s Brazilian business contracted by 1,200 basis points!

We believe the first quarter represents an inflection point for the company's Brazilian business. Leading economic indicators point to a rebound in activity (the manufacturing PMI climbed above 50 in April), and consumer confidence is stabilizing. These improvements can be seen in **AB InBev**'s first quarter volumes, which grew 3.4%. Moreover, the unfavorable currency hedges are expected to wane in the second half of the year.

Unburdened by these headwinds, the new **AB InBev** will finally be able to demonstrate the strength of its competitive positioning and earnings growth power. This has already been the case in the beginning of 2017 in areas like Latin America (excluding Brazil), Africa, Europe, and Asia, where growth has been solid. 12% sales growth for **AB InBev**'s leading brands (Budweiser, Stella Artois, Corona) also bodes well for their large-scale deployment in **SABMiller**'s legacy markets, in particular Africa and Latin America.

We believe **AB InBev** will be able to grow sales between 5% and 6% per year, driven by demographic and economic dynamics in emerging countries where the company operates, low beer penetration in a number of them, and growing consumer interest in more prestigious international brands as their standard of living increases.

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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 increased by 7.7% in the second quarter and finished the first half of 2017 up 15.9%. European equities benefitted from a combination of favorable factors: political risk in France receded, while several important economic indicators hit 5-year highs (both the manufacturing and services PMIs, Germany's IFO, consumer confidence), which confirms accelerating economic momentum in the Eurozone, where GDP is expected to grow approximately 2% in 2017. Finally, encouraging first quarter earnings results also confirm an economic upturn in Europe. Earnings expectations for 2017 remain strong, and have even been revised upwards for the first time in many years.

Despite positive economic momentum for the Eurozone, the MSCI Europe Index declined by 1% in June. This decline occurred in the final three days of the month following comments from Mario Draghi, President of the European Central Bank (ECB), who cited a general improvement in the Eurozone economy as well as the fact that certain economic indicators had reached appropriate levels to begin tightening monetary policy. Draghi's comments were taken as an indication that the ECB could begin raising interest rates within the year, which is earlier than most economists had anticipated. As a result, sovereign yields rose across maturities and the euro appreciated by 2% against the dollar. Given the market's rather strong reaction, which was reminiscent of the 2013 taper tantrum in the U.S., ECB officials have since provided more nuanced policy guidance, including continued accommodative measures so long as inflation remains subdued.

During the second quarter, most cyclical sectors outperformed, especially financials (+10.7%), industrials (+9.9%), and information technology (+7.9%). Health care and consumer staples further re-rated in the second quarter, rising by more than 8% each.

Philippe Euro Global Leaders gained 11.3% in the second quarter and is up 20.3% through the first half of 2017. The fund benefitted from strong performance by its industrial holdings, which rose 11.4% collectively during the quarter. Our health care and consumer discretionary positions also outperformed (+11.3% and +8.6%, respectively) and positively contributed to relative performance. Despite the 9% drop in the price of Brent crude oil, our energy holdings surged 40.4% during the quarter thanks to a 94.5% recovery by **La Française de l'Energie** as heavy selling pressure from a large shareholder following the company's IPO has abated. So far in 2017, **La Française de l'Energie** has made good progress with respect to clean electricity generation projects in northern France as well as its natural gas exploration activities in Lorraine.

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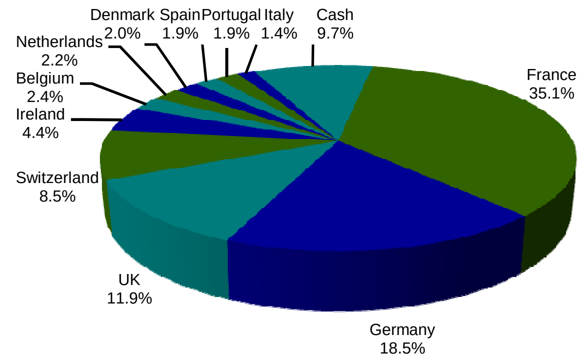
Stocks held in the portfolio are bold and underlined. All stock and index performance is in USD.

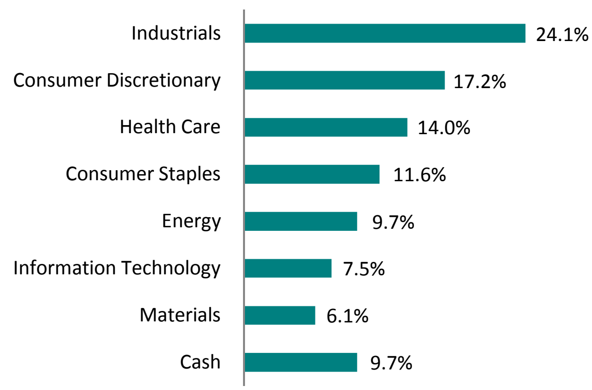
Market Cap Allocation as of 6/30/17

Mega Cap (Greater than $50 billion)	24.7%
Large Cap ($7.5 billion - $50 billion)	41.3%
Mid Cap ($750 million - $7.5 billion)	27.1%
Small Cap (Less than $750 million)	7.0%

Geographic Breakdown as of 6/30/17



Sector Breakdown as of 6/30/17



Top Ten Holdings as of 6/30/17

Française de l'Energie	5.0%
Intertek Group	2.7%
Thales	2.6%
Danone	2.6%
Schneider Electric	2.6%
Norma Group	2.6%
Criteo	2.5%
CTS Eventim	2.5%
Michelin	2.5%
Ingenico	2.5%
Total:	**28.3%**

Performance as of 6/30/17 in USD

	Philippe Gross Return	MSCI Europe
Quarter	11.3%	7.7%
Year-to-Date	20.3%	15.9%

Inception date: January 3, 2017

Sources: Northern Trust, Zephyr Style Advisor

Philippe
U.S. Equities

The S&P 500 was up 3.1% in the second quarter and has risen 9.3% year-to-date through the end of June. While second quarter performance was lower than the first quarter (3.1% vs. 6.1%, respectively), it was reassuring to see the market's resilience in the face of delayed pro-growth reforms, softening U.S. inflation, and a Federal Reserve determined to gradually normalize monetary policy. In the second quarter, the S&P 500's best performing sectors were health care (+6.7%), industrials (+4.2%), financials (+3.8%), and information technology (+3.8%). Following first quarter weakness, energy (-7.0%) and telecom (-8.1%) underperformed yet again as WTI crude prices continued to contract from $50.6 at the end of March to $46.0 at the end of June.

The **Philippe U.S.** portfolio gained 2.8% in the second quarter and has increased 8.2% year-to-date through the end of June. During the second quarter, the fund benefitted from the strong stock selection in the information technology (**Genpact**, **Ansys**, **Corning**), industrial (**Wabtec**, **United Technologies**), and health care (**Zoetis**, **Thermo Fisher Scientific**) sectors. Conversely, our energy holdings weighed on relative performance as **Pioneer Natural Resources** and **Schlumberger** significantly lagged the overall market. Following **Amazon**'s bid to acquire **Whole Foods**, fear that traditional retail is undergoing secular change pressured both consumer discretionary and consumer staples companies. As a consequence, our consumer holdings lagged the broader market, particularly **Walt Disney**, **Bed Bath & Beyond**, which we sold during the quarter, **Procter & Gamble**, and **McCormick**.

We reduced our cash position to 11.9% as of the end of June after introducing three new consumer holdings (**Omnicom**, **McCormick**, **Amazon**) and one health care holding (**LivaNova**) to the portfolio in the second quarter.

Omnicom Group, a global marketing communications holding company with 19% market share, supports various businesses in all facets of the marketing process, from planning and strategy to creative, design, and buying. **Omnicom**'s agencies, including BBDO and DDB, are some of the most acclaimed in the industry. Advertising agencies' revenues are highly correlated with GDP growth and consumer confidence, both of which are expanding in both North America and Europe (85% of **Omnicom**'s revenues combined), as these macroeconomic factors influence businesses' marketing budgets. In addition to acquisitions, we believe **Omnicom**'s focus on faster-growing emerging and digital ad markets will allow the company to accelerate already robust growth.

McCormick is a leading manufacturer and distributor of spices, seasoning mixes, condiments, and other flavoring products that are sold in retail outlets, to food manufacturers, and to the foodservice industry. Through 2021, Euromonitor estimates that the global spice and seasoning industry will grow an average of 5% annually, more than double the projected rate of growth for the global packaged food industry over the same time period. In addition to robust top line growth, management has identified approximately $300 million in cost savings over the next three years, which are expected to drive more than 100 basis points of margin improvement, double-digit EPS

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

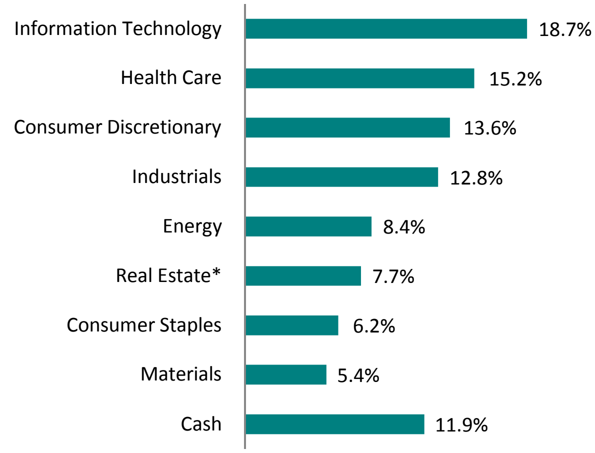
Market Cap Allocation as of 6/30/17

Mega Cap (Greater than $50 billion)	42.7%
Large Cap ($7.5 billion - $50 billion)	34.9%
Mid Cap ($750 million - $7.5 billion)	22.4%
Small Cap (Less than $750 million)	0.0%

Top Ten Holdings as of 6/30/17

PTC	3.3%
Alphabet	3.2%
United Technologies	3.1%
Howard Hughes	2.9%
Zoetis	2.9%
Thermo Fisher Scientific	2.9%
Time Warner	2.8%
Procter & Gamble	2.8%
Genpact	2.8%
RPM International	2.8%
Total:	**29.3%**

Sector Breakdown as of 6/30/17



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

Performance** as of 6/30/17 in USD

	Philippe Gross Return	S&P 500	Russell 1000
Quarter	2.8%	3.1%	3.1%
Year-to-Date	8.2%	9.3%	9.3%
1 Year	12.2%	17.9%	18.0%
3 Years	3.8%	9.6%	9.3%
5 Years	10.0%	14.6%	14.7%
Since Inception	5.2%	5.7%	6.0%

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

Sources: Northern Trust, Zephyr Style Advisor

Spotlight: ***Brewing Up Profits*** (*Continued from page 1*)

Over the next three to four years, we also expect profitability to improve based on $2.8 billion in synergies identified by **AB InBev**, $1 billion of which have already been realized. **AB InBev**'s management team has already demonstrated their competency handling large-scale integrations, exceeding synergy targets after acquiring both **Anheuser Busch** and **Modelo**. Moreover, management is an advocate of zero-based budgeting and is always looking for cost savings. We believe they could easily identify further means by which to improve profitability as they become more intimately knowledgeable of **SABMiller**'s operations. The company's operating margin, which is now approximately 30%, is expected to reach 35% by 2020.

AB InBev is also expected to quickly delever from 4.7x net debt-to-EBITDA after the **SABMiller** acquisition thanks to strong cash flow generation over the next few years, including a negative working capital requirement and limited investments in new capacity.

Over the medium-term, the company's earnings per share are expected to grow in excess of 10% per year, which is remarkable in the world of consumer staples. Moreover, this growth does not include potential acquisitions. There are plenty of available targets, both in beer (partner **Castel** in Africa, **Anadolu Efes** in Central Asia, **Carlsberg** in Eastern Europe, as well as local players in Southeast Asia) or even soft drinks (**Coca-Cola**, **Pepsi**).

Short-term headwinds have made **AB InBev** attractive in both absolute and relative terms. Using 2017 EV/EBIT, the world's leading brewer trades at a 15% discount to **Nestlé** (agri-food) and a 5% discount to **Diageo** (spirits) despite having 5% higher projected EBIT growth (cumulative until 2020) than both companies.

Management's reassuring commentary during the first quarter earnings call, which pointed to a gradual acceleration in growth over the coming year and stabilization of the Brazilian market, should reverse this discount and allow the stock to make a comeback.

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

During the quarter, we strengthened our positions in several industrials and initiated a new position in **AB InBev** (see this quarter's Spotlight article on page 1 for more information on the company). These portfolio changes were funded with profits taken on stocks whose valuation had become stretched and with proceeds after exiting **Grifols** and **L'Oréal**, for which our models no longer indicated upside. We also divested **Véolia Environnement** as we believe the renewal of water concessions in France will continue to weigh on profitability.

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

growth, and more than $2 billion in cash flow. We anticipate that **McCormick** will use increased cash flow to make further acquisitions to supplement organic growth, as well as return cash to shareholders through dividends (1.9% yield currently) and share buybacks ($600 million authorization underway).

E-commerce, which is growing 10-15% per year driven by value and convenience, now represents more than 10% of total U.S. retail sales. The internet’s impact on retailing has and continues to be profound. In particular, **Amazon** accounted for 30% of total U.S. e-commerce spending in 2016 (based on gross merchandise value) and continues to gain share. In fact, it is estimated that **Amazon** drove 49% of U.S. e-commerce market dollar growth in 2016. Following the company’s more aggressive push into apparel and footwear (Prime Wardrobe, **Nike** distribution), entry into the grocery market (**Whole Foods**), promising international growth opportunities, vast and efficient fulfillment and distribution network, and outstanding customer service, it is becoming increasingly difficult for traditional retailers to compete. Given these substantial competitive advantages and a massive global network of active users and sellers, we believe **Amazon** is well positioned to continue to disrupt tradition retail channels and drive growth for years to come.

LivaNova is a medical device company focused on cardiac surgery, cardiac rhythm management (e.g. pacemakers and implantable cardiac defibrillators), and neuromodulation. **LivaNova** is the leading manufacturer of heart-lung machines and cardiopulmonary bypass products used in open-heart surgery. The company also provides neuromodulation therapies to help treat drug-resistant epilepsy, treatment-resistant depression, and chronic heart failure. With facilities and R&D centers in Europe, the Americas, and Asia, **LivaNova** is well-positioned to improve the lives of patients around the world. **LivaNova** was formed following the October 2015 merger of **Cyberonics** and **Sorin**.

DISCLOSURES

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 June 30, 2017 were $28.8 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 June 30, 2017 were $25.0 million.

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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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