Second Quarter 2018 Newsletter

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Firm News

FOURPOINTS Asset Management is pleased to announce the launch of a new service for French expatriates.

In conjunction with colleagues in Paris who joined FOURPOINTS Investment Managers from our new partner, Herez, FOURPOINTS Asset Management has launched a service primarily intended for French expatriates in the U.S. Leveraging the Paris team's expertise with respect to asset allocation/fund selection, FOURPOINTS AM is now offering four unique risk-based investment mandates, with accounts custodied with Interactive Brokers[1].

[1] Member NYSE - FINRA - SIPC and regulated by the U.S. Securities and Exchange Commission and the Commodity Futures Trading Commission

Béatrice Philippe, President & CIO
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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:

Volatility is back…

Béatrice Philippe
President
FOUR*POINTS* Asset Management

Anticipating a synchronous economic recovery in 2018, global equity markets started the year on a very positive note. Six months later though, things have changed somewhat, and as a result, volatility is back.

The U.S. economy is strong and likely accelerating, whereas other economies around the world are seeing their growth slow, particularly in Asia and Latin America, but also in some European countries. During the second quarter, the dollar appreciated by 5.5% against the euro.

A potentially destabilizing trade war between the U.S. and the rest of the world is looming, signs of inflation (primarily raw materials and transportation costs) are starting to appear, and populism is gaining momentum in some European countries (although Italy's new populist government as of early June seems to have already backed off from a prior proposal to exit the euro).

Overall, we believe that stronger U.S. growth and policy tailwinds should eclipse weaker overseas growth, a stronger dollar, and trade uncertainties, but this bears monitoring. In spite of these headwinds, we remain optimistic regarding the strength of the underlying U.S. economy, which is expected to grow around 3% in 2018 thanks, in part, to high consumer confidence and a strong labor market. In addition to strong fundamentals, favorable technicals (share buybacks, growing dividends, and M&A) should provide further support for the market.

Lastly, but most importantly, volatility creates opportunities!

We wish you a restful and relaxing summer!

Thank you for your continued support,

Béatrice

Philippe
Euro Global Leaders

European equity markets dropped 0.9% in the second quarter in reaction to Italy's political crisis and the ousting of Spain's Prime Minister, Mariano Rajoy, after a no-confidence vote following a corruption scandal. The return of political risk in Europe was accompanied by a decline in the euro below $1.20 and a rapid rotation toward safer-haven sovereign debt, especially the 10-year German bund, the yield on which fell below 0.3% after reaching 0.75% in February.

In equity markets, Italian stocks logically were under pressure with the Milan index losing its early-year lead in just a few days. Meanwhile, fear of contagion as a result of the Italian crisis caused bank stocks across the region to collapse. On the other hand, European exporters regained investor favor, particularly the technology, health care, and materials sectors.

The Philippe Euro Global Leaders, LLC ended the quarter up 0.9%, significantly outperforming the MSCI Europe thanks to the fund's lack of exposure to financials and telecom, which were the worst performing sectors in the second quarter.

The portfolio's overweight exposure to health care (21% of fund assets) also had a positive contribution to relative performance, as our positions in the sector rose 6% and outperformed both the broader market and their peers within the MSCI Europe. **Tecan**, **<u>Qiagen</u>**, and **<u>Philips</u>** all gained more than 10% on the back of strong earnings, while **<u>LivaNova</u>** shares reacted positively after the Centers for Medicare & Medicaid Services announced a 30-day public comment period regarding the possibility of reimbursement coverage for its implantable vagus nerve stimulator (VNS) for the treatment of depression. With $300 million in sales, which represents one-third of the company's revenues, VNS is used to treat drug-resistant epilepsy. The device had already been indicated for use for depression, but the lack of Medicare/Medicaid reimbursement limited its commercial potential (4,000 patients currently have the implant for depression compared with more than 100,000 for epilepsy). Reimbursement for depression would open up a much larger market for VNS. In fact, of the 15 million estimated people suffering from depression in the U.S., only half are undergoing treatment. Of these 7-8 million patients, 10-30% suffer treatment resistant depression. An estimated 1 million patients could benefit from use of the implant for depression compared with just 100,000 for epilepsy. In the event of a favorable outcome, VNS sales could easily double and enable **<u>LivaNova</u>** to achieve 7% organic growth versus 5% currently.

The fund's technology holdings, which account for 5.5% of total assets, rose 23% during the quarter and contributed meaningfully to performance. German online payment service provider **<u>Wirecard</u>**, in particular, posted very strong first quarter earnings results and appreciated by nearly 40% in the second quarter.

Conversely, the fund's industrial holdings had a disappointing quarter, declining by 4%. The slowdown in European growth and softer-than-expected PMI readings weighed on sentiment and led to profit taking. Beyond these

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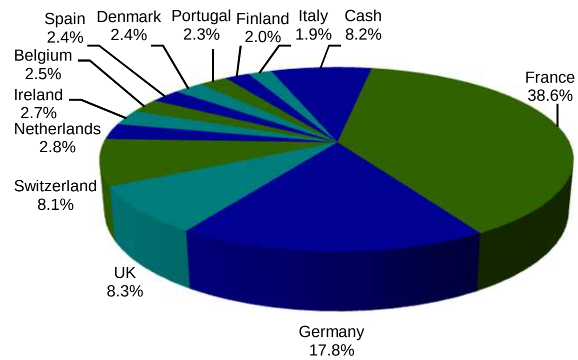
Stocks held in the portfolio are bold and underlined. All stock and index performance is in USD.

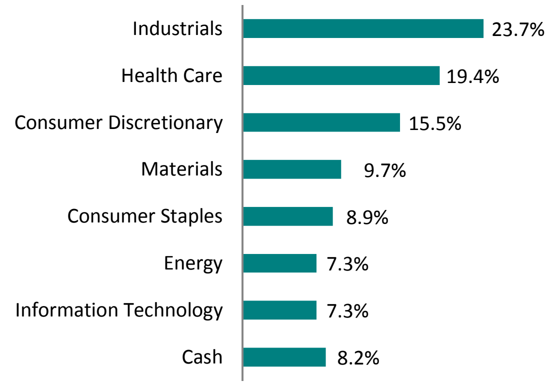
Market Cap Allocation as of 6/30/18

Mega Cap (Greater than $50 billion)	22.1%
Large Cap ($7.5 billion - $50 billion)	45.7%
Mid Cap ($750 million - $7.5 billion)	27.9%
Small Cap (Less than $750 million)	4.2%

Geographic Breakdown as of 6/30/18



Sector Breakdown as of 6/30/18



Top Ten Holdings as of 6/30/18

Française de l'Energie	3.9%
Airbus	3.0%
Thalès	3.0%
Cap Gemini	3.0%
Philips	2.8%
Schneider Electric	2.7%
Linde	2.7%
Fresenius SE	2.7%
SEB	2.7%
CRH	2.7%
Total:	**29.2%**

Performance* as of 6/30/18 in USD

	Philippe Gross Return	MSCI Europe
Quarter	0.9%	(0.9%)
Year-to-Date	(1.2%)	(2.7%)
1 Year	6.7%	5.9%
Since Inception	18.2%	14.7%

**Performance greater than 1 year is annualized.*
Inception date: January 3, 2017

Sources: Northern Trust, Zephyr Style Advisor

Philippe
U.S. Equities

Despite uncertainty around trade tariffs, an appreciating dollar, a flattening U.S. yield curve, and a second interest rate hike this year by the Federal Reserve (the seventh since December 2015), the S&P 500 ended the second quarter of 2018 up 3.4%, led by energy (+12.7%). A growing shortage of oil pushed WTI prices up 14.2% during the quarter to new heights. The consumer discretionary (+7.8%) and information technology (+6.7%) sectors also strongly contributed to quarterly performance, while financials (-3.6%) and industrials (-3.7%) were the greatest laggards this quarter due to escalating trade tensions. Year-to-date, the S&P 500 is up 2.7% driven by the consumer discretionary (+10.8%), information technology (+10.2%), and energy (+5.3%) sectors, while consumer staples (-9.9%) and telecom (-10.8%) have been the weakest.

The fund was up 3.5% in the second quarter. Outperformance relative to the index was driven by the portfolio's information technology (**Novanta**, **Amazon**, and **Salesforce**) and health care (**LivaNova** and **Merck**) holdings, as well as exceptionally strong performance from **TreeHouse Foods** (+37.2%). Industrials (**Stanley Black & Decker**, **Mercury Systems**, and **Allegion**) and select technology holdings (**IBM** and **Genpact**) lagged during the quarter. Year-to-date, the fund is up 3.0%.

During the second quarter, we exited **Pembina Pipeline**, **Stratasys**, and **Alexander & Baldwin** in order to introduce new positions in the industrial (**SiteOne Landscape Supply** and **Healthcare Services Group**) and health care (**Medidata Solutions**) sectors.

SiteOne Landscape Supply is a dominant wholesale landscape supply distributor with over 400 stores in the U.S. and Canada. We believe the company is well-positioned to benefit from continued steady growth thanks to healthy residential and commercial construction markets, rising home values, and improving disposable income. In addition, **SiteOne** is a proven industry consolidator with a deep acquisition pipeline of 200-250 deals to supplement organic growth over the next 10-15 years. Finally, **SiteOne** has been improving EBITDA margins through supply chain optimization, pricing, SKU rationalization, and mix (private label) initiatives, with a 2020 margin target of 10%+.

Healthcare Services Group is a provider of housekeeping and facility management services to nursing homes, retirement complexes, rehabilitation centers, and hospitals. From January to May of this year, the stock corrected by 35% on investor concerns about macro factors affecting the skilled nursing facility industry (rising labor costs, reimbursement pressures, occupancy levels, and pricing). However, the company benefits from a customer base that serves the fastest-growing segment of the U.S. population, aging baby boomers. Given the company's favorable organic growth outlook, large and growing market opportunity, cash-based recurring revenue model, and solid returns on invested capital, we estimated that the risk/reward was attractive enough to establish a small position.

Medidata provides cloud-based solutions for life sciences companies' clinical development programs, with revenue generated mainly from subscriptions to

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

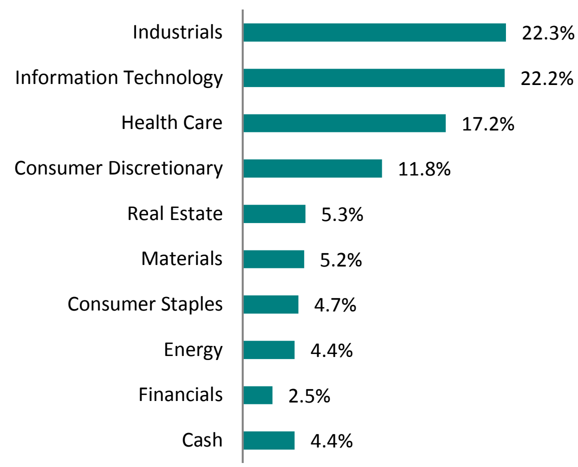
Market Cap Allocation as of 6/30/18

Mega Cap (Greater than $50 billion)	43.4%
Large Cap ($7.5 billion - $50 billion)	32.6%
Mid Cap ($750 million - $7.5 billion)	24.0%
Small Cap (Less than $750 million)	0.0%

Top Ten Holdings as of 6/30/18

Westinghouse Air Brake Technologies	3.3%
Alphabet	3.2%
Home Depot	3.0%
United Technologies	3.0%
Salesforce	2.9%
Gilead Sciences	2.9%
FedEx	2.8%
Zoetis	2.8%
Genpact	2.7%
Medtronic	2.7%
Total:	**29.4%**

Sector Breakdown as of 6/30/18



Performance* as of 6/30/18 in USD

	Philippe Gross Return	S&P 500	Russell 1000
Quarter	3.5%	3.4%	3.6%
Year-to-Date	3.0%	2.7%	2.9%
1 Year	9.3%	14.4%	14.5%
3 Years	6.2%	11.9%	11.6%
5 Years	8.0%	13.4%	13.4%
Since Inception	5.4%	6.2%	6.4%

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

Sources: Northern Trust, Zephyr Style Advisor

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

sector wide issues, **GEA** and **Dormakaba** reported results that missed expectations and dropped 19% and 11%, respectively.

During the quarter we divested our positions in **Kerry** and **Tecan** because they had reached our respective target prices. We also sold **Sodexo** after the shares had rebounded from their April low, as we believe it will take several quarters for corrective measures to have a meaningful impact on the company's top line growth. We reinvested the proceeds into industrial holdings **Dormakaba**, **Huhtamaki**, and **LISI**. During the quarter, we also added to small home appliance manufacturer **SEB** and animal health/veterinary pharmaceutical producer **Virbac**, as well as increased our exposure to technology through **Cap Gemini** and **Atos**, which we initiated in early June.

Atos is a global leader in managed infrastructure services, an industry that has been disrupted by the emergence of the cloud, which brings new business opportunities for service providers like **Atos**, but is also deflationary. The company's growth slowed as the industry went through this transition phase. However, by repositioning its offering towards hybrid cloud orchestration and by signing partnerships with leading industry players (most recently with Google to deploy its public cloud solution), we believe **Atos** is successfully achieving its digital transformation and looks poised to experience faster growth going forward.

The company's software integration and application development division is benefitting from the deployment of next generation digital tools, such as **SAP**'s S/4HANA ERP software, which its customers consider a priority. Similarly, its big data and cybersecurity division is extremely well-positioned to capture increased customer investment in artificial intelligence and IT security. Finally, we believe growth prospects for Worldline, **Atos**' electronic payment division, remain healthy, with even further opportunity to consolidate the European market following its recent takeover of Swiss-based SIX Payment Services.

Led by the same management team since 2008, **Atos** has demonstrated an extraordinary ability to create value through strategic acquisitions. A failed bid for **Gemalto**, which ended up in the hands of **Thalès**, and headwinds in the U.S. pressured the stock in the beginning of the year. However, CEO Thierry Breton's reassuring commentary on the U.S. business and on **Atos**' external growth opportunities convinced us to seize this investment opportunity at an attractive valuation.

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

the Medidata Clinical Cloud and related services. The majority of clinical trials (~150,000 around the world) are still conducted manually with the use of basic software. Increasing scrutiny and regulation, the growing complexity of trials, and improvements in technology solutions, like those offered by **Medidata**, are likely to drive increased adoption/use of cloud-based software by large pharmaceutical companies, clinical research organizations, and academic institutions. We believe the company's strong competitive edge will drive exceptional revenue growth (20-25% per year) and will improve profitability (management is targeting a 30% operating margin longer term versus 20% currently).

For the first half of the year, the U.S. economy is tracking at 3% GDP growth, with the leading economic index at elevated levels. Stronger sales growth and improved profitability thanks to tax cuts and regulatory reform is keeping small business owner optimism high. Meanwhile, the U.S. consumer is also benefitting from tax cuts, strong employment growth, and rising wages. The Federal Reserve remains on track to raise interest rates two more times this year and three times in 2019, while the European Central Bank is on hold for the next 15 months. We remain constructive on the U.S. market while cautiously monitoring more prominent near-term risks like trade negotiations, U.S. quantitative tightening, rising oil prices, and a stronger dollar.

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, 2018 were $29.5 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, 2018 were $26.5 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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