FOURPOINTS Third Quarter 2018 Newsletter

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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:

Fundamentals Over Technicals

Béatrice Philippe
President
FOUR*POINTS* Asset Management

The U.S. market was up in the third quarter (S&P 500 +7.7%), with growth outperforming value stocks and large-cap U.S. stocks outperforming small- and mid-cap stocks (Russell 2000 +3.3%). Strong GDP growth, rising corporate profits, record high consumer confidence, ultra-low unemployment, a strong job market, and subdued inflation offset escalating trade tensions between the U.S. and China. In Europe, despite renewed political tensions, equity markets still gained 0.8% in the quarter. Sustained by robust domestic demand, leading economic indicators for the Eurozone have stabilized at elevated levels. Lastly, emerging markets continued to suffer from the strong dollar. Year-to-date, the S&P 500 is up 10.6%, while the MSCI Europe is down 1.9%.

Since the end of the third quarter, volatility has returned to markets. The increase in the 10-year Treasury yield above 3% triggered indiscriminate algorithmic selling, somewhat reminiscent of February's flash crash. Third quarter earnings season just started, which should refocus markets on fundamentals, which remain healthy and do not indicate a recession is looming. We expect third quarter earnings will confirm an already strong growth outlook for the U.S.

As JPMorgan's head of U.S. equity strategy, Dubravko Lakos-Bujas, recently noted, "Ultimately, the evolution of fundamentals rather than technicals will dictate the duration and end of this cycle. Tame inflation combined with a still positive earnings backdrop and non-inflationary growth should allow this bull market to run for longer." We agree, and believe that this October correction will provide opportunities to selectively buy growth companies, which had become a little too expensive.

We wish you a healthy autumn and a happy holiday season!

Thank you for your continued support,

Béatrice

FOURPOINTS

Philippe
Euro Global Leaders

Despite renewed political tensions, European equity markets gained 0.8% in the third quarter. Fears over the new Italian government's fiscal policy caused the spread between Italian treasuries and the German bund to widen to 300 basis points, a 4-year high. The Italian stock market dropped by more than 3% over the quarter and the whole European banking sector was weak.

Meanwhile, rising interest rates in the U.S. and strong inflationary pressures in the emerging world have caused some currencies to fall. Countries with weaker economic fundamentals, a strong reliance on foreign financing, and a high current account deficit were especially impacted. As a result, European companies with significant exposure to emerging countries were penalized.

In spite of these headwinds, leading economic indicators in Europe have stabilized at elevated levels, signaling healthy economic expansion in the coming months. Although the manufacturing sector slowed significantly in September as a result of weaker export growth, this was offset by robust domestic demand. European households remain optimistic about the future as unemployment continues to decline and wages rise. Similarly, corporate investment spending should grow further as financing conditions are still attractive and capacity utilization rates are trending north of 80%.

The Philippe Euro Global Leaders, LLC ended the quarter up 0.3%, underperforming the MSCI Europe. The fund's positions with a significant exposure to emerging countries, in particular **AB InBev** and **Huhtamaki**, recorded sharp declines (both ended the quarter down 13%). Within the energy sector, **La Française de l'Energie** lost 20% due to delays at its test well in Eastern France. However, the company's Gazonor business (conversion of coal mine methane into green electricity) is performing better-than-expected and remains the main source of cash generation for the company.

As was the case in the second quarter, technology and health care were the greatest contributors to performance. Electronic payment processing specialist **Wirecard** continued to significantly outperform and gained 34% in the third quarter. In health care, fund holdings **Virbac**, **LivaNova**, **Sanofi**, and **Roche** all posted double-digit gains.

During the quarter we took profits on **Wirecard**, **Thalès**, **Philips**, and **Linde** and reinvested the proceeds into stocks that we believe had been unduly penalized, such as **SPIE**, **Norma**, **CRH**, and **ConvaTec**. After a tough start to the year for Germany's leading parcel delivery company (down ~25% year-to-date), including a June profit warning for 2018 due to wage inflation and rising transportation costs for its postal business, we decided to initiate a new position in **Deutsche Post DHL** in July.

In our opinion, the structural decline in mail volumes (15% of revenues) is largely priced in. Conversely, the significant growth opportunities provided by e-commerce are being overshadowed by the omnipresent **Amazon** threat. **Deutsche Post**'s established postal delivery network is a decisive competitive advantage, which we expect will generate further synergies with subsidiary

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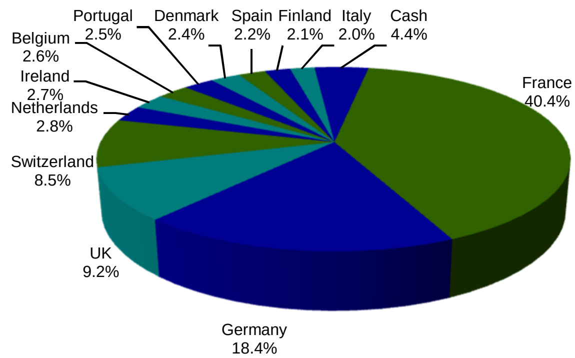
Stocks held in the portfolio are bold and underlined. All stock and index performance is in USD.

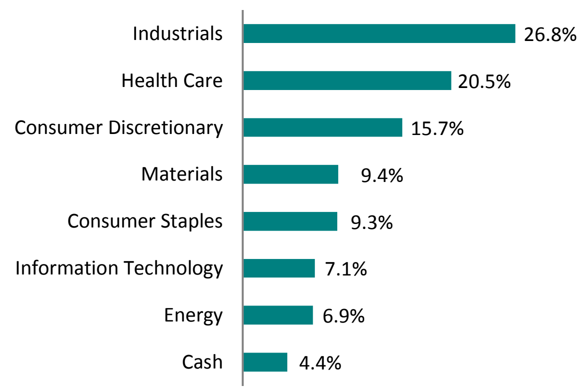
Market Cap Allocation as of 9/30/18

Mega Cap (Greater than $50 billion)	24.3%
Large Cap ($7.5 billion - $50 billion)	42.7%
Mid Cap ($750 million - $7.5 billion)	28.4%
Small Cap (Less than $750 million)	4.6%

Geographic Breakdown as of 9/30/18



Sector Breakdown as of 9/30/18



Top Ten Holdings as of 9/30/18

Airbus	3.2%
Française de l'Energie	3.1%
Cap Gemini	2.8%
Philips	2.8%
Atos	2.8%
Michelin	2.7%
CRH	2.7%
Danone	2.7%
Schneider Electric	2.7%
SPIE	2.7%
Total:	**28.1%**

Performance* as of 9/30/18 in USD

	Philippe Gross Return	MSCI Europe
Quarter	0.3%	0.8%
Year-to-Date	(0.9%)	(1.9%)
1 Year	0.2%	0.3%
Since Inception	15.6%	13.0%

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

Sources: Northern Trust, Zephyr Style Advisor

Given ultra-low unemployment, a strong job market, steady economic growth, and tame inflation, U.S. Federal Reserve Chairman Jerome Powell expressed a remarkably positive outlook for the U.S. economy. He forecasted only modest rate increases through 2021, after lifting the key short-term rate to 2.00% - 2.25%, the third hike this year and the eighth since December 2015. Amid escalating trade tensions and concerns about emerging markets, the S&P 500 was up 7.7% during the third quarter, reflecting strong U.S. economic fundamentals. Eight of the S&P 500's eleven sectors posted positive returns, led by health care (+14%) and industrials (+9.5%), while materials and energy, each down 0.1%, lagged. Over the summer and going into the mid-term elections, the health care sector has stood out as a defensive play. The possibility of grid-lock in Congress post mid-term elections is expected to create a more stable political environment for the health care sector, with a significantly reduced threat of "repeal and replace" to Obamacare. Growth continued to outperform value stocks and large-cap U.S. stocks outperformed small- and mid-cap stocks, with the Russell 2000 lagging, up only 3.3% during the quarter. In the context of rising rates, investors are increasingly focused on leverage, favoring clean balance sheets. Large-cap leverage appears healthier, while that of small- and mid-cap stocks has reached new peak levels.

The fund was up 8.4% during the third quarter, driven by strong performance from our information technology (**Corning**, **Apple**, and **Amazon**) and health care (**LivaNova**, **Biogen**, and **Thermo Fisher Scientific**) holdings. We were also pleased with strong second quarter results from **Mercury Systems**, which delivered $21.6 million in free cash flow (up 487% year-over-year) and 16% organic revenue growth, and more than offset prior quarter weakness. Conversely, small-cap stocks **SiteOne Landscape Supply**, **Medidata Solutions**, **TreeHouse Foods**, and **Weyerhaeuser** weighed on the portfolio's performance. Year-to-date, the fund is up 11.6% versus an increase of 10.6% for the S&P 500.

We decided to exit our position in **Pentair**, a provider of water-focused products and services for commercial and residential applications, following delayed price increases to offset increasing material cost inflation and due to concerns about customer consolidation-related weakness in the filtration segment. We also sold **Exxon Mobil** after two strong quarters of performance, as oil prices are near a 4-year high due to looming Iran sanctions and reduced global production. The sale proceeds were used to add two new holdings to the portfolio.

During the quarter, we initiated a position in **MasterCard**, the world's second largest payment network only to **Visa**. Networks comprise the critical infrastructure necessary for real-time, secure transmission of electronic payment data. While **MasterCard** and **Visa** account for approximately one-quarter of all credit cards in circulation globally, they process more than 80% of the world's purchase transactions annually. The networks enjoy high barriers to entry given the scale-driven nature of their businesses – as more cards are issued and more merchants accept cards, transaction volumes increase (consumers feel more comfortable using the card as it is more convenient and secure), thereby creating a virtuous cycle. As the smaller player, **MasterCard** is

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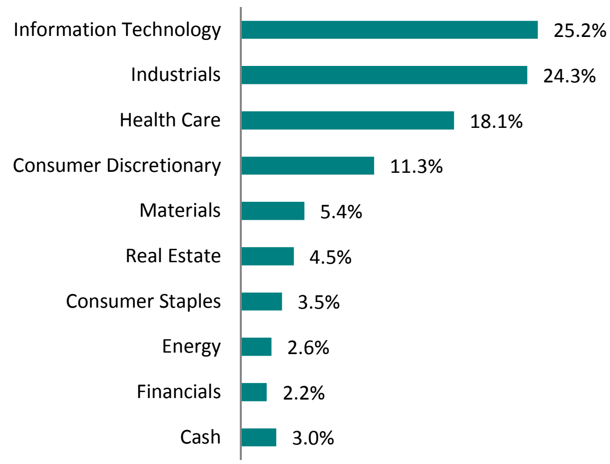
Market Cap Allocation as of 9/30/18

Mega Cap (Greater than $50 billion)	42.3%
Large Cap ($7.5 billion - $50 billion)	34.8%
Mid Cap ($750 million - $7.5 billion)	22.9%
Small Cap (Less than $750 million)	0.0%

Top Ten Holdings as of 9/30/18

Mercury Systems	3.6%
Stanley Black & Decker	3.3%
Salesforce.com	3.2%
Alphabet	3.2%
United Technologies	3.1%
Home Depot	3.0%
Gilead Sciences	2.9%
Medtronic	2.9%
Thermo Fisher Scientific	2.8%
Zoetis	2.8%
Total:	**30.7%**

Sector Breakdown as of 9/30/18



Performance* as of 9/30/18 in USD

	Philippe Gross Return	S&P 500	Russell 1000
Quarter	8.4%	7.7%	7.4%
Year-to-Date	11.6%	10.6%	10.5%
1 Year	16.7%	17.9%	17.8%
3 Years	13.0%	17.3%	17.1%
5 Years	8.7%	14.0%	13.7%
Since Inception	5.7%	6.5%	6.7%

**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*)

DHL's business-to-consumer operations. Since 2010, the company has grown an average of 11.5% per year, delivering above-market parcel delivery margins.

DHL Express (42% of profits), which specializes in international shipping/delivery services, is an extremely attractive business because the company's expansive global network and logistics expertise create a wide moat. The structure of the industry itself, an oligopoly between **UPS**, **FedEx**, and DHL, is evidence of its high barriers to entry. Driven by growth in global trade and e-commerce, DHL should continue to deliver outstanding performance (operating profits +12% per year since 2010).

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

more aggressively growing its cards in circulation (projected to grow at a 6.5% CAGR from 2015 through 2020) compared to the more established **Visa** (expected to grow a more modest 3.5% over the same time period). Moreover, we believe **MasterCard** stands to benefit from greater exposure to faster growing geographies, particularly Asia-Pacific and Europe, versus the more domestically-focused **Visa**.

We also initiated a position in **PayPal**, one of the world's leading digital payment platforms. With 244 million active customer accounts and 19.5 million active merchants, **PayPal** provides the most seamless, one-touch e-commerce checkout process with far greater choice of payment method (**PayPal** balance, bank account, debit card, credit card) than any competitor. For this reason, most of the world's leading financial institutions and technology companies have chosen to partner with **PayPal**. Given the rapid rise in e- and m-commerce, we believe **PayPal** is well-positioned to capture an increasing share of global payment volumes going forward.

U.S. macroeconomic fundamentals remain supportive, though U.S.-China trade tensions are expected to continue to escalate in the coming months. Indeed, the economic impact of tariffs enacted on Chinese imports in late September remains to be seen. Third quarter earnings season has begun, and so far, results have been better-than-expected. **Accenture** and **FedEx** reported above consensus top line growth and raised earnings guidance for fiscal 2019. We will continue to monitor results for our holdings, taking into consideration their growth prospects and profitability, and make any necessary changes in order to optimize the portfolio's risk/reward profile as we navigate the last quarter of 2018.

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 September 30, 2018 were $29.4 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 September 30, 2018 were $28.5 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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