Fourth Quarter 2017 Newsletter

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Spotlight:

Firing On All Cylinders Globally

Béatrice Philippe
President
FOUR*POINTS* Asset Management

2017 was an exceptional year as stock markets around the world continued their upward progression unabated, driven by synchronized global growth for the first time in many years! Despite a lot of noise, politics, whether it be elections in Europe (France, Germany, Belgium, Austria), Brexit negotiations between the EU and the UK, China's 19th Party Congress, North Korean nuclear threats, or dysfunction in the U.S., did not have a meaningful or lasting impact on markets last year. Technology companies, particularly disrupters like Amazon, Google, Facebook, Netflix and the like, continued to perform extraordinarily well, driven by very strong growth. In our opinion, the only sign of a bubble is probably in Bitcoin and other cryptocurrencies, but even a crash there would probably not impact real economies or stock markets.

Meanwhile, 2018 is starting off with a bang as most major markets around the world are up between 4% and 5% in the first three weeks of January.

While there is always a possibility of a correction, underlying fundamentals are strong, so we remain optimistic. Indeed, a correction would create opportunities to introduce a few stocks that we have been monitoring closely.

With respect to the firm, on September 29, Paris-based Groupe Herez wholly acquired our French sister company, FOURPOINTS Investment Managers, and purchased a 34% stake in New York-based FOURPOINTS Asset Management. Both the New York and Paris teams remain in place, and they continue to manage U.S. and European equities, respectively.

We wish you and yours a happy and healthy new year!

Thank you for your continued support,

Béatrice

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.

The Philippe Euro Global Leaders, LLC ended the year up 30.1%, outperforming its benchmark, the MSCI Europe, by more than 380 basis points, including net dividends reinvested in the index.

Over the course of the year, sector allocation had a slightly negative impact as our absence from financials (+28%) and our 7% average cash position was only partially offset by our absence from telecoms (+16%) and outperformance by our industrial and energy holdings. Stock selection, on the other hand, had an especially positive impact on relative performance.

In particular, the fund's industrial holdings, which increased 42% versus a gain of 32% for index peers, were the greatest contributors to 2017 performance. The sector benefitted from accelerating economic momentum in Europe, continued strong growth in the U.S., and an improvement in emerging economies. Industrial strength was further bolstered by the rebound in commodity markets. Strong performance by **Mersen** (+113%) was driven by rising demand for graphite in the electronics and renewable energy markets, which contributed to a significant improvement in the company's plant utilization rate and a sharp rise in margins. Similarly, **Intertek** (+67%) benefitted from strong momentum in its core business, while its commodity testing segment has started to recover and is expected to return to positive growth over the course of 2018. In addition to improved operating leverage from higher volumes, productivity gains and favorable exchange rates bolstered profitability for the company in 2017. Business services companies exposed to European domestic demand, whose potential we identified at the beginning of last year, also delivered strong performance. Capitalizing on good momentum, **Elis** (+66%) not only raised guidance for France, its largest segment, but also opportunistically acquired competitor **Berendsen**, thereby establishing itself as the undisputed leader of the European linen and workwear rental and laundry markets.

Energy was the second greatest contributor to relative performance in 2017. Following a disappointing 2017, **La Française de l'Energie**, **GTT**, and **Galp** were up 78%, 52%, and 27%, respectively, helping offset losses by our UK-based holdings **Ophir** (sold in December) and **Tullow Oil**.

The fund also benefitted from its exposure to automotive suppliers, whose attractive growth prospects and cheap valuations we highlighted at the beginning of last year. At that time, and contrary to our opinion, expectations for these companies were overly pessimistic. **Norma**, which increased by 60% in 2017, significantly raised its guidance during the year. Meanwhile, tire manufacturer **Michelin** (+34%), with its considerable pricing power, was able to pass on higher input costs to customers without sacrificing volumes.

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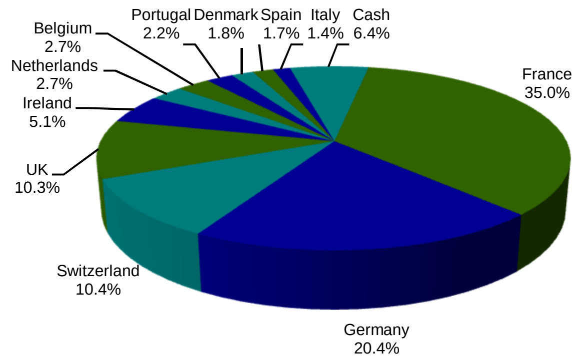
Stocks held in the portfolio are bold and underlined. All stock and index performance is in USD.

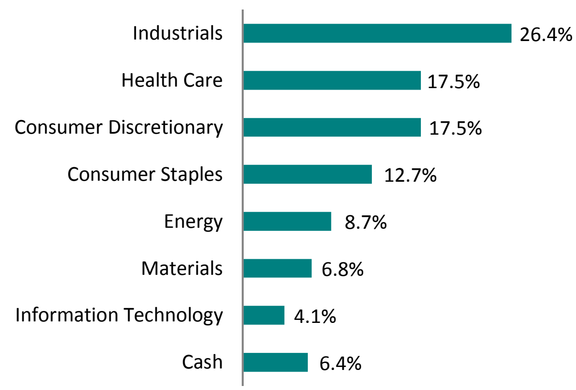
Market Cap Allocation as of 12/31/17

Mega Cap (Greater than $50 billion)	29.2%
Large Cap ($7.5 billion - $50 billion)	40.6%
Mid Cap ($750 million - $7.5 billion)	25.9%
Small Cap (Less than $750 million)	4.3%

Geographic Breakdown as of 12/31/17



Sector Breakdown as of 12/31/17



Top Ten Holdings as of 12/31/17

Wirecard AG	4.1%
Française de l'Energie	4.1%
Intertek Group	3.3%
Sodexo	2.9%
Thales SA	2.9%
Diageo plc	2.9%
CTS Eventim	2.8%
Norma Group	2.8%
Danone	2.8%
Philips	2.7%
Total:	**31.2%**

Performance as of 12/31/17 in USD

	Philippe Gross Return	MSCI Europe
Quarter	1.1%	2.3%
Year-to-Date	30.1%	26.2%

Inception date: January 3, 2017

Sources: Northern Trust, Zephyr Style Advisor

The S&P 500 was up 6.6% in the fourth quarter. 2017 culminated with the signing of a U.S. tax reform bill, which provided a boost to most sectors, with the exception of utilities, which were down slightly during the quarter. The **Philippe U.S.** portfolio gained 4.5% over the same period, driven by industrial (**Rockwell Automation** and **United Technologies**) and consumer discretionary (**Carter's** and **Home Depot**) holdings, offset by unfavorable consumer staples stock selection (primarily **TreeHouse Foods**) and our lack of exposure to the financial sector, which fared well. **TreeHouse**, the leading private label food and beverage producer and distributor in North America, corrected by 35% after missing third quarter earnings, which led management to lower full-year guidance for the second time in 2017. We continue to believe **TreeHouse** stands to benefit from improved volumes over the medium-to-longer term as customers continue to develop their private label programs based on changing consumer preferences, in particular millennials, who are increasingly brand agnostic and price sensitive.

In 2017, the **Philippe U.S.** portfolio increased 14.8%, while the S&P 500 rose 21.8%. The index took political rhetoric out of Washington, the end of the Federal Reserve's quantitative easing, political events in Europe, and global geopolitical concerns in stride, steadily climbing every month. It was difficult to keep apace with such strong market momentum in 2017, led by cyclicals (information technology +36.9%, materials +21.4%, consumer discretionary +21.2%, and financials +20.0%). Although most sectors were up double-digits, telecom (-6.0%), energy (-3.8%), and utilities (+8.3%) lagged.

Full-year fund performance benefitted from industrial holdings like **Rockwell Automation** and **Xylem**, offset by our prudent cash allocation, which averaged 12% in 2017. Unfavorable impact from consumer staples holding **TreeHouse Foods** offset positive performance by sector peer **Mead Johnson Nutrition**, a pediatric nutrition manufacturer and distributor that was acquired early in 2017 by **Reckitt Benckiser Group**, a leading consumer health and hygiene company from Britain. Our exposure to the energy sector, which was left behind by the market, also weighed on annual performance. Finally, even though nine of our ten information technology holdings performed exceptionally well (+21% to +60%), it was not enough to keep up with the index constituents not held in the fund, namely internet software, electronic equipment, and semiconductor companies. Despite accelerating momentum in the last quarter of 2017, **IBM** was our only technology holding to end the year in the red (-4.0%). **IBM** provides an end-to-end portfolio of products and services to help customers plan, build, manage, and maintain their IT infrastructures, platforms, applications, and services, which has helped the company entrench itself within the largest multinational firms. Even though growth in its legacy businesses (IT hardware) slowed, CEO Ginni Rometty has pivoted the company toward analytics, cloud, mobile, and security, with a strong emphasis on its cognitive platform, Watson. **IBM** is uniquely positioned to provide customized, cloud-based solutions that leverage its vast knowledge of unique challenges for various business verticals (health care, financial services, retail, energy, automotive, and government), which we believe distinguishes it from **Amazon** and **Microsoft**. **IBM**'s analytics, blockchain, and

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

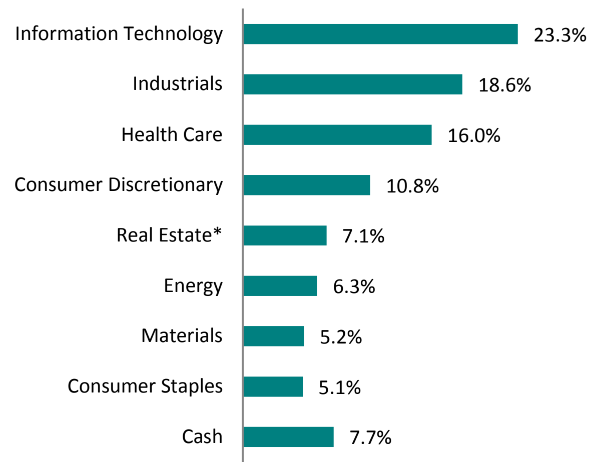
Market Cap Allocation as of 12/31/17

Mega Cap (Greater than $50 billion)	42.8%
Large Cap ($7.5 billion - $50 billion)	37.3%
Mid Cap ($750 million - $7.5 billion)	19.9%
Small Cap (Less than $750 million)	0.0%

Top Ten Holdings as of 12/31/17

PTC	3.5%
Alphabet	3.5%
Westinghouse Air Brake Technologies	3.2%
Zoetis	3.2%
United Technologies	3.1%
Genpact	3.1%
Home Depot	3.0%
Thermo Fischer Scientific	3.0%
Howard Hughes Corp	3.0%
IBM	3.0%
Total:	**31.5%**

Sector Breakdown as of 12/31/17



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

Performance** as of 12/31/17 in USD

	Philippe Gross Return	S&P 500	Russell 1000
Quarter	4.5%	6.6%	6.6%
1 Year	14.8%	21.8%	21.7%
3 Years	6.3%	11.4%	11.2%
5 Years	9.7%	15.8%	15.7%
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*)

Despite a synchronized acceleration in global growth, which is, in principle, more favorable to cyclical stocks, we argued at the beginning of 2017 that there were attractive opportunities in more defensive sectors, such as consumer staples. Mindful of valuations, our selections paid off, as the fund's consumer staples holdings grew 36% versus an increase of 24% for index peers. Strong growth in emerging markets and accelerated investments behind product innovation in Europe contributed to a 58% rise in the stock price for **Kerry**, a leading ingredients manufacturer to the food industry. **Diageo**, which was up 47%, saw revenues accelerate in 2017 on the back of strong spirits growth in the U.S., its largest market, and increasing popularity of scotch products around the world (**Diageo** is the global leader in the scotch category). In addition to a significant share buyback program, the company's share price also benefitted from the announcement of an ambitious medium-term margin target. Finally, **Danone** rose by 36% thanks to strong infant nutrition sales in China and improved prospects for its water business.

The fund's exposure to digital themes also benefitted performance. **CTS Eventim**, a leader in event ticketing, grew 52% driven by double-digit growth in lucrative online ticket sales thanks to growing consumer demand for experiences like concerts and shows. Likewise, with earnings growth guidance of more than 25% per year over the medium-term, payment processing specialist **Wirecard** surged 154% in 2017.

The portfolio's advertising holdings were the biggest disappointments this past year, with **Criteo** and **WPP** down 41% and 16%, respectively. **WPP** was negatively impacted by the reduction in major consumer staples customers' advertising and marketing budgets, which account for approximately 30% the advertiser's sales. In order to compensate for lower volumes, to ward off hostile takeovers, and to appease activist investors, advertisers' customers cut costs and renegotiated contract terms, which was unfavorable for agencies. After achieving constant currency sales growth of 3.1% in 2016, **WPP** is expected to see sales flatten in 2017. While it is obviously difficult to time an inflection point, we believe these unfavorable operating conditions are cyclical rather than structural and that woes are fully priced-in at this point. Therefore, we continue to hold **WPP** based on strong catch-up potential.

French-based, retargeted advertiser **Criteo** was the greatest detractor from 2017 performance. Despite reassuring investors that it could preserve volume after **Apple** introduced third-party ad blocking software to its web browser Safari, **Criteo** failed to develop a bypass solution. Until now, the company had been successful in evolving its ad re-targeting tools to circumvent blocking technologies. However, the recent issue with **Apple** raises concerns that other target-rich ecosystems, including **Google** and **Facebook**, may adopt similar measures and permanently compromise **Criteo**'s business model. Adding to this uncertainty is the threat of more stringent consumer protection legislation in Europe, where the European Parliament is expected to vote on new measures in 2018, the size and scope of which remain unclear. Given these risk factors, we decided to exit the position in December.

2018 looks promising for European equity markets: despite the euro's sharp rise this summer and potentially destabilizing political developments in Catalonia, rising consumer and business confidence confirm accelerating economic growth in Europe. Economic conditions for Europe's trading partners are also favorable: U.S. tax reform should support GDP growth above 2%, while China is expected to continue to grow close to 6.5% so long as structural reforms are prudently implemented so as not to stifle growth. Given the synchronized acceleration in global growth, Europe is expected to grow by more than 2% in 2018. Profits for European companies, which are still far below their pre-crisis levels, could rise in the new year by as much as 8-10%.

After underperforming global indices in the last quarter of 2017, European markets are trading at attractive valuations on both an absolute (MSCI Europe next-twelve-months price-to-earnings of 15x) and a relative (the MSCI Europe now trades at a 12% discount to the MSCI World) basis. All else being equal, it stands to reason that European markets should experience robust growth in 2018.

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

cybersecurity initiatives are transforming the company into a strong cloud competitor. At 11.9 times earnings, **IBM**'s valuation leaves a fairly large margin of safety and is very attractive for a company with a 3.7% dividend yield and 8.4% free cash flow yield.

Looking ahead to 2018, our industrial holdings stand to benefit from a broad recovery across end markets that is driving capex outlooks and infrastructure spending prospects higher, as evidenced by improving output and utilization rates, optimistic business confidence surveys, and favorable credit conditions. Despite persistent risks of health care reform and drug pricing scrutiny in the U.S., we believe population growth, aging demographics, and growth in emerging markets will be sustainable drivers of volume growth for our health care holdings. Our holdings' exceptional competitive positioning (**Rockwell Automation**, **Home Depot**, and **Thermo Fisher Scientific**), strong brands (**Carter's**, **McCormick**, and **Stanley Black & Decker**), continued innovation (**Biogen**, **LivaNova**, and **Westinghouse Air Brake Technologies**), and valuable assets (**Pioneer Natural Resources** and **Howard Hughes**) are reflected in their pricing power and strong operational performance. Together, they create a balanced, diversified portfolio that, in our opinion, is well-positioned to benefit from accelerating growth both domestically and abroad. This strong, synchronized global growth, driven by pro-growth policies, ample liquidity, and reduced political risks following elections in many major European countries in 2017, should continue to support corporate investment, earnings growth, and investor sentiment, as well as drive greater consumer spending. We remain vigilant of unexpected shifts, whether that be slowing growth, particularly for high-growth technology companies that created strong momentum in 2017, unexpected changes in inflation or interest rates, and potential liquidity issues as central banks around the world simultaneously adjust their respective monetary policies.

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 December 31, 2017 were $30.7 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 December 31, 2017 were $25.9 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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