Greenfield Seitz
CAPITAL MANAGEMENT

2012 Annual Letter

January 22, 2013

Dear Investor,

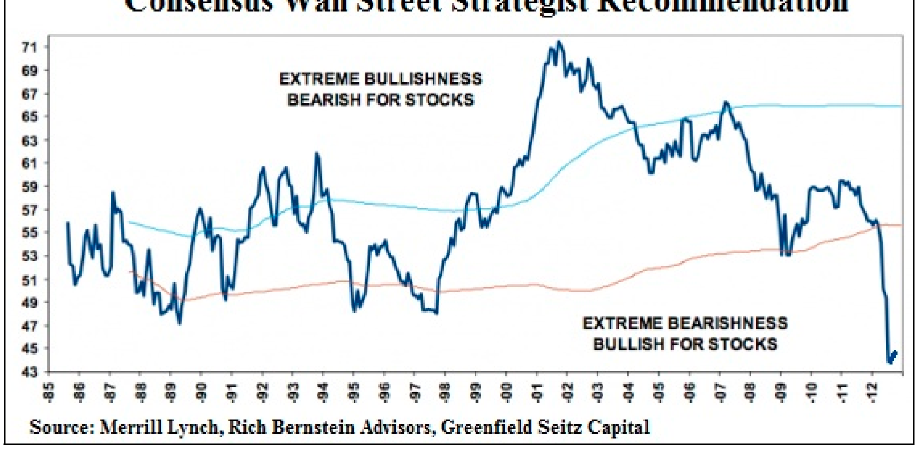
For 2012, the Greenfield Seitz core composite was up 11.5% (net of fees), compared to a 16.0% increase for the S&P 500 Index. Since our 1996 inception, Greenfield Seitz has achieved an annual rate of return of 7.8% (net of fees) compared to 6.1% for the S&P 500 Index.

Economic Update
Recent economic data have shown continued economic growth. Real GDP is growing at 3.1%, which is actually above the long-term average of 2.9%. Consumer spending has increased steadily since 2009. The U.S. housing market is improving with the help of record low mortgage rates (3.4% 30-year) and housing supply back below the long-term average. Despite this, unemployment has remained high at 7.8% as corporations have been reluctant to increase headcount. Corporate profits continued to improve as the earnings of the S&P 500 grew an estimated 3%.

Throughout 2012, there was great concern over macroeconomic issues such as Greece and the European Monetary Union, our domestic fiscal problems, a slowdown in China, and war in the Middle East. We believe investors are overly focused on these negative issues and are missing out on strong equity returns while worrying about the next potential crisis. With the upcoming debt ceiling debate in the first quarter, we expect concerns to continue.

Our Favorite Stock Market Indicators Are Positive
We believe removing emotions from investing is critical to success, so we use objective and time-tested indicators to assess investor fear levels and the attractiveness of stocks. Below are four of our favorites:

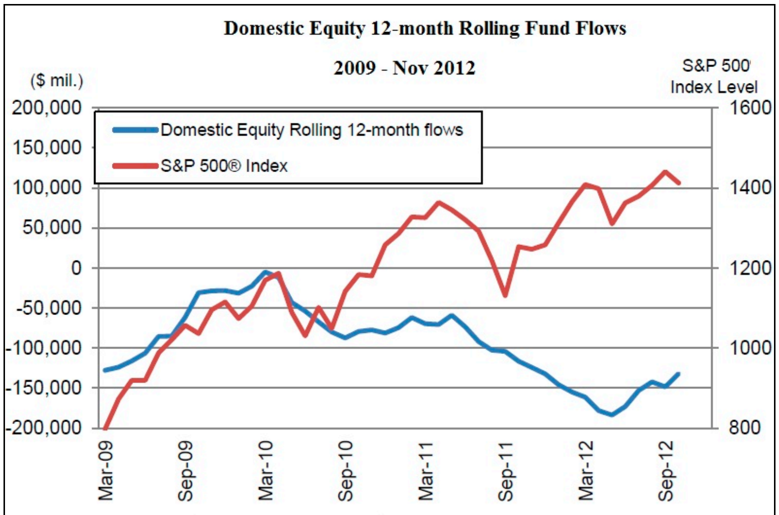
1. Wall Street Strategist Recommendation. The consensus recommendation from Wall Street strategists is a very accurate contrary indicator. When strategists recommend stocks, it is usually time to sell and when they recommend selling stocks for bonds, it has been a great time to buy stocks. We've always wondered how they got paid so well to be consistently wrong. Currently, Wall Street strategists are recommending the lowest equity allocation in the 30 year history of the data (44% equities versus the long-term average recommendation of 65% equities/35% bonds/cash).[1] This is very positive for stocks.



Source: Merrill Lynch, Rich Bernstein Advisors, Greenfield Seitz Capital

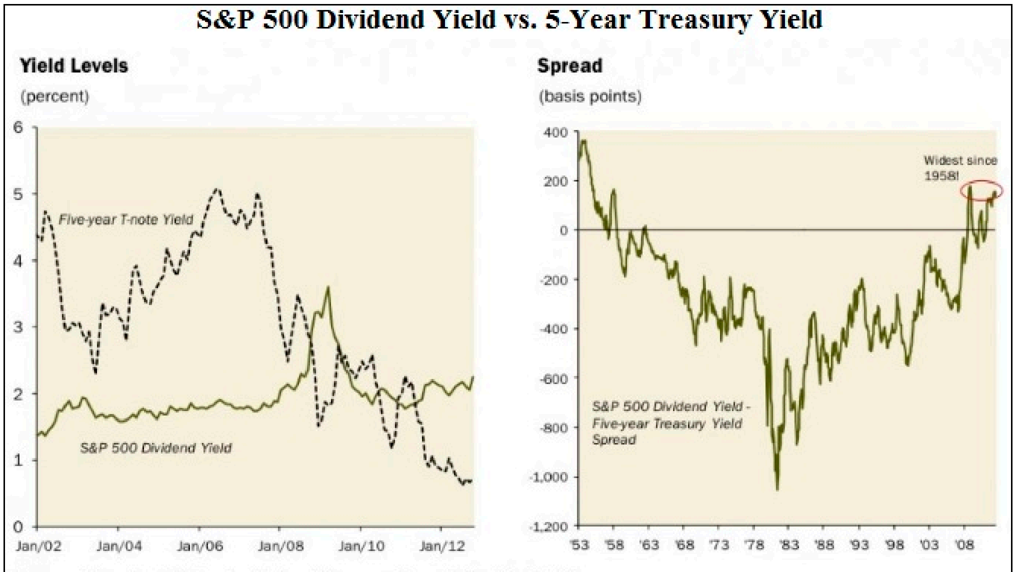
2. Mutual Fund Flows. Our second favorite indicator is mutual fund flows, which are only slightly less accurate as a contrarian indicator than Wall Street strategists. As investors put money into equity mutual funds, it has historically been a good time to sell and vice versa. This makes sense as investors trying to time the market usually get in once stock prices have already gone up. The chart below shows mutual fund investors have been consistent net sellers of stocks for the past five years. This is fascinating in the face of 16% stock market gains last year and a market that has doubled in the past four years. We think this shows how jaded investors are after living through the past decade with the Dot-Com Bear market and the Financial Crisis Bear market. This is a sign that stocks are still relatively cheap.

Investors have been plowing money into bonds at the expense of stocks, but now with bond yields at record lows we think investors will begin to rotate into stocks. Interestingly, in 2000 no one wanted to invest in bonds and everyone was chasing stocks, particularly tech stocks. A decade later, we see it was the unloved bonds that were the better investment (over the next 10 years, bonds +65% vs. stocks +9%).[2] Now we see the opposite of this. Over the past five years, bond funds have taken in over $1.1 trillion dollars while equity funds have had five straight years of net withdrawals totaling more than $500 billion.



Source: Richard Bernstein Advisors LLC, ICI, Standard & Poor's

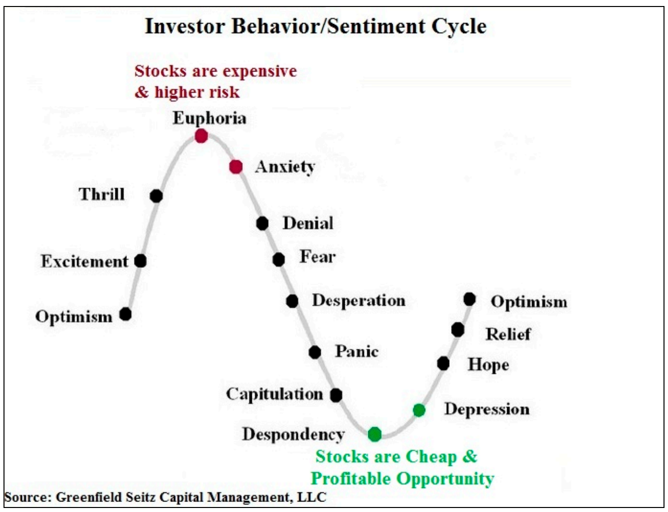
3. Dividend Yield Spread. The Yield Spread indicator is another favorite of ours and further illustrates the money flows out of stock funds and into bond funds. Currently, the spread between the S&P 500 dividend yield and the five-year treasury yield is at the widest is has been since 1958. This shows us that investors love bonds by requiring only a 0.75% yield over five years. While they simultaneously are indifferent to stocks currently yielding 2.2%. We should note our portfolio has a 2.8% dividend yield.



Source: Standard & Poor's, Federal Reserve Board, Gluskin Sheff

4. Investor Sentiment. Lastly, we like the Peter Lynch's "Cocktail Party Market Indicator" where he judges interest in the stock market by casual conversations at parties. He sums this up in four stages. In stage 1, when the market is depressed and profitable opportunities abound, party goers quickly change the subject away from stocks. In stage 2, they linger a bit but mostly to warn of the dangers of stocks and the uncertain economic outlook. As Bull market goes on and stocks are more expensive and there are fewer values to be had (stage 3), people are interested in Lynch's job and ask for stock tips. In stage 4, when stocks are popular and priced to perfection, the investors are not asking Lynch for advice but instead they are giving him advice on their latest stock picks.

Using this feel for investors' risk appetite, we believe we are somewhere near the disinterest level (stage 2) and thus stocks are not widely owned and are not expensive. Since the 2008 collapse, it seems investors have little interest in stocks. When we see someone sell a business or come into money, they invest in real estate, private equity, oil & gas, etc (anything but stocks). It appears everyone is acutely aware of all the uncertainties surrounding the economy, government, etc. This uncertainty leads to attractive stock prices. We remind ourselves there is always uncertainty. The general lack of interest in stocks makes sense as investors are jaded after ten years of stagnant returns and two major Bear markets. We believe this current environment of low investor sentiment is one of the main reasons stocks will appreciate. After a 100% rebound from 2009 lows, investors may soon start to show interest in stocks again. Since January 2009, the S&P 500 has posted 14% compound annual returns compared to just a 4% annual return for 10-Year Treasuries. We surely have a long way to go before we reach the next stock mania (stage 4). The chart below illustrates the cycle of investor psychology.



Gold

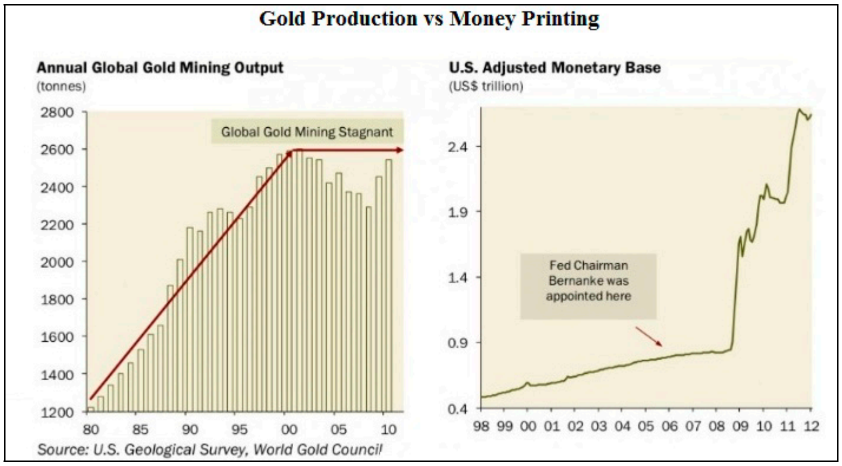
Our 7% exposure to gold mining stocks was a significant drag on 2012 performance, as the Gold Miners Index fell 14%.[3] Despite the underperformance of gold mining stocks, we still believe this is a valuable insurance policy towards government spending, high debt levels, and inflation. Gold rose roughly 10% last year, but gold miners fell on concerns that mining costs and political risks are increasing.

Over the past five years, gold has more than doubled to roughly $1,700, but the miners have fallen 2%. The Miners Index to Gold Price ratio is at its lowest level since the data began in 1984. Barrick Gold and Newmont Mining, the world's biggest gold producers, trade for about 60% of the estimated value of their gold reserves. The current prices for gold-mining stocks equate to $1,300/oz gold rather than the current level of $1,700.

A surge in gold miners' operating costs has reduced profits. If the gold miners would reduce their massive capital spending campaigns to focus on existing mines, they could significantly increase earnings. There are some signs that industry executives have become more cost conscious.

The combination of printing money and declining gold production, should lead to higher gold prices. Further demand from Central Banks has the potential to drive prices much higher. We believe Central

Banks are just getting started increasing their exposure to gold. Just this month, Germany is moving all of its gold held at the New York Federal Reserve back to Germany.



U.S. Industrial Revival

We believe we are in the midst of a renaissance in domestic manufacturing as companies begin to bring jobs back to the U.S. In the 1990's, the shift to Asian manufacturing was helped by \$20/bbl oil, rather than \$100/bbl oil. Domestic companies should benefit from closing wage differentials with low cost countries. For example, manufacturing wages in China have increased 25% in four of the last five years compared to flat wage growth in the U.S.[4] Just ten years ago, the average hourly wage for a factory worker in China was \$0.58 and today is over \$3.00.[5] Companies are now finding higher productivity from talented domestic workers at a smaller wage gap to low cost nations. The average U.S. manufacturing worker is at least 8 times more productive than a Chinese worker.[6]

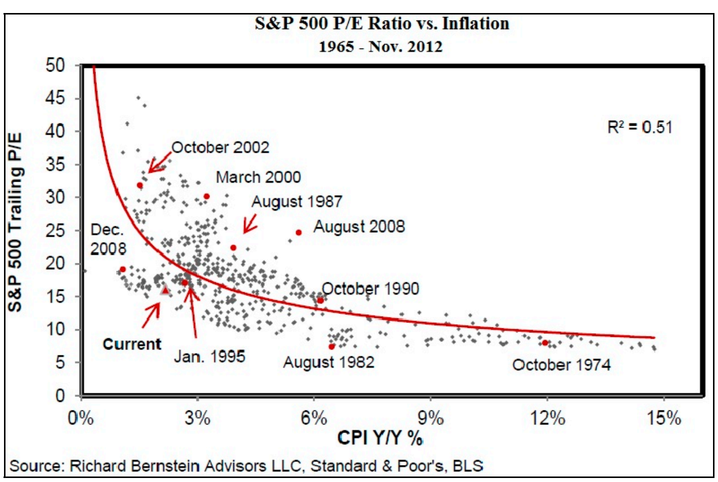
The U.S. is also a politically stable region with a favorable energy situation. Lower domestic energy costs from increased shale production lead to cheaper power input costs and distribution fuel costs. Lastly, and perhaps most critically, by keeping operations in the U.S., companies can protect their proprietary information. In December, Jeff Immelt (GE CEO) said "Outsourcing is quickly becoming outdated as a business model." Our portfolio is overweight U.S. manufactures whose share prices should benefit from this resurgence in domestic manufacturing.

Outlook

We believe the trend favoring bonds over stocks will begin to reverse. Stocks should benefit significantly over the long-term as investors move out of bonds and into stocks.

Many investors are scared of stocks because of uncertainties regarding economic and political issues. We believe "uncertainty" is good because it leads to cheap equity valuations.

We think stocks are attractive on a number of measures including P/E. The S&P 500 now trades at 15x its 2012 earnings. In our opinion, this is very cheap considering the current low inflation environment.



Our portfolio is comprised primarily of companies with long histories of raising dividends and we expect them to continue increasing their dividends in the future. Additionally, we believe the companies in our portfolio have excellent management and a strong outlook for continued earnings growth.

In general, we are optimistic because the type of market we foresee has historically been the most profitable for Greenfield Seitz. We appreciate the trust you place in us to manage your investments.

As always, please contact us anytime if you have any questions.

Sincerely,

Greenfield Seitz Capital Management

GREENFIELD SEITZ CAPITAL MANAGEMENT

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1 Rich Bernstein Advisors, LLC. December 2012
2 Standard & Poor's. Vanguard Total Bond Index. 2012
3 Philadelphia Gold Miners Index. 2012
4 Bureau of Labor Statistics. 2012
5 The Boston Consulting Group. 2012
6 Amiti and Stiroh, "Is the United States Losing its Productivity Advantage?" Federal Reserve Bank New York. April 8, 2011.

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