Greenfield Seitz
CAPITAL MANAGEMENT

2012 Mid Year Letter

July 24, 2012

Dear Investor,

The Greenfield Seitz core composite was up 3.10% (net of fees) for the first half of 2012, compared to a 9.49% increase for the S&P 500 Index.

Economic Update

Recent economic data shows the U.S. economy is growing moderately. Real GDP rose at a 1.9% annual rate in the first quarter. Consumer spending grew 2.7% in the first quarter and has increased steadily since 2009. The consumer is being helped by lower gasoline prices. The U.S. housing market has been bouncing along a bottom since 2009 despite record low mortgage rates (30-yr mortgage at 3.5%). Unemployment remains high at 8.2% (total underemployment is 19.1%) as large firms continue to emphasize cost-cutting and small businesses are constrained by difficult bank lending conditions. Corporate profits continue to improve as the earnings of the S&P 500 grew 6% in the first quarter of 2012.

In early 2013 there is the possibility of major fiscal changes ("fiscal cliff") including the expiration of the Bush-era tax cuts, the end of the 2% payroll tax reduction, and sequestered cuts in government spending. According to the Congressional Budget Office, this will subtract 4% from GDP. Most likely lawmakers will act to postpone or soften this, but no action is expected until after the elections. As we draw closer to 2013, this could be a short-term negative for stocks.

Concern over Eurozone sovereign debt has continued to increase. In June, Greece's conservative party won the election and supports a bailout and staying in the euro. We believe the chances of Greece leaving the euro are still high and it is unclear how this would actually be done and what the implications would be for Europe.

1980's Déjà Vu

There are many similarities in today's stock market and that of the early 1980's; high unemployment, hangover from housing crisis, banking scandals, demoralized investors, and assorted bad news. There is also the notion that America is losing its competitive edge, exacerbated by a lost decade in the stock market (stocks were essentially flat 1970-1980 and 2000-2010).

Currently, there are a lot of negative headlines which worry market participants. When you combine the negative news with flat stock market returns over the past decade, you get investors that are disinterested in stocks. This lack of interest leads to a lack of buying and creates low valuations and high yields. We believe investors have soured on investing in stocks, and this creates a nice opportunity with low prices positioning stocks for future gains. Just because the past 10 years were flat doesn't mean the next 10 years will be flat. In fact, it is highly unlikely by historical measures. The lost decade of 1970-1980 was followed by two record decades for stocks; 1980's with an average annual return of 17.3% and the 1990's with an average annual return of 18.1%.

European Stocks: Guilty By Association

By now, everyone is aware of the problems of Europe's most profligate members (Greece, Spain, Italy, and Portugal). As a result of these countries' ballooning sovereign debt, the market has sold off most European stocks. The MSCI Europe Index has fallen 25% in the past 18 months. We must remember that Greece is less than 1.5% of Europe's GDP. We admit there will be some contagion as these countries trim spending, but when we look at our European domiciled holdings (roughly 10% of our portfolio) we see dominant global franchises that are weathering the storm and relatively unaffected by smaller European countries. In our opinion, these stocks are guilty by association as investors simply sell European stocks indiscriminately. To test our "*throwing the baby out with the bathwater*" theory, here is a briefing on our European holdings:

Nestle is the largest food company in the world with sales of $84 billion last year. Based in Switzerland, Nestle is the definition of a global company with 95,000 employees in 19 countries.[1] In fact, only 30% of its sales are derived from Europe.[1] We are attracted to the extremely stable and profitable business of selling food staples (coffee, water, chocolate, ice cream, baby food, etc). Nestle is an extremely profitable business with operating margins consistently above 15%.[1] In 2010, Nestle was the most profitable company in the world with $34 billion in profits.[2] Nestle has consistently had return on equity (ROE) above 15% while keeping its debt levels reasonable (less than 25% debt/cap). The company has extremely profitable brands, with 30 brand names with annual sales in excess of $1 billion. In addition to being a highly stable and profitable business, we are attracted to its growth potential. More than 40% of its sales come from emerging markets with growing middle classes. Last year, its emerging market sales grew 13% organically, highlighted by 23% growth in China and 20% growth in India. Lastly, Nestle has a 3% dividend yield and has increased its dividend for 16 consecutive years at a 12% annual rate.

L'Oreal is based in France and is the world's largest cosmetics company with over $25 billion in annual sales. The company has almost no debt and has increased its dividend each of the past five years at a pace of more than 11% annually. It is globally diversified with operations in 130 countries and 62% of its sales are derived from outside of Europe.[3] This is an extremely profitable business with gross margins of 72%, operating margins of 16%, and return on equity of 15%. L'Oreal spends $900 million a year on research and has 613 patents.[3] We are attracted to this stable company that has been in existence for more than 100 years and economists have shown cosmetics sales are often counter-cyclical. We believe there is an enormous opportunity for growth in emerging markets. Currently, L'Oreal only markets its products to 15% of the world's population and expects Asia Pacific sales to be larger than the U.S and Europe combined in 10 years.[3] L'Oreal has grown its earnings per share at a 13% annual rate over the past three years. Despite these positive fundamentals, L'Oreal's stock price has been affected by concerns about Europe. The company's stock trades at just 16x earnings and its stock price is the same as it was in 2007.

Novartis is headquartered in Switzerland and is the second largest pharmaceutical company in the world with $59 billion in annual sales (only 35% of sales from Europe). This is a highly profitable business with a 21% operating margin and 14% return on equity. Earnings growth has averaged 14% a year for the past five years. The company has a 4% dividend yield and has raised its dividend for 15 consecutive years. We believe this is the best managed pharmaceutical company and are attracted to Novartis for its strong pipeline of new drugs based on the largest R&D budget in the industry. This focus on R&D pays off as Novartis has 147 drugs in development and 16 major FDA submissions.[4] Further, Novartis gets 30% of its sales from new drugs (less than four years old). Novartis has less of its sales exposed to drugs coming off-patent than its peers. This is a serious issue for other drug makers as seven of the world's top 20 drugs are coming off patent this year.[5] Novartis was the first major drug maker to have a generic drugs division, which has provided consistent double digit growth. We are positive on management's acquisition of Alcon Labs, which makes the company a leader in eye care. Lastly, we like the non-cyclical nature of healthcare. We believe Novartis is a wonderful company but it is currently valued at just 10x earnings (which represents a P/E to growth rate of just 71%).

ABB is also based in Switzerland and provides power and automation technologies. The company has annual sales of $38 billion and receives 65% of its revenues from outside Europe. ABB has grown its earnings 12% annually over the last three years. Additionally, the company boasts a return on equity of

22% while having almost no debt. We are attracted to ABB because the value their products offer their customers by managing power more efficiently and profitably. Additionally, much of the developed world's electric grid is in need of updating and much of the emerging world's infrastructure is overloaded and needs modernization. For example, in the U.S. our electric grid is still based on 1960's infrastructure and the average power transformer in service is more than 40 years old.[6] ABB now has a record backlog of $28 billion. We like the management of ABB, which has cut operating costs by $2.6 billion over the last two years and expects to cut another $1 billion of costs this year. We believe management made smart acquisitions with Baldor Electric and Thomas & Betts. In fact, we owned Baldor Electric shares for more than 15 years prior to being acquired by ABB. The company's dividend yield is currently 4.4% and it has grown dividends at a 28% annualized rate over the past seven years. All of these positives and yet the stock is down 30% from its recent high and trades at the same price it did in 2006. ABB trades at 10.5x this year's earnings per share which is a 30% discount to the S&P's average P/E.

European Debt = Inflation = Gold

We have discussed the unhealthy fiscal policies of Greece, Italy, and Spain for several years. It should be no surprise that these serial defaulters are in trouble again. Spain has defaulted 13 times since 1800 and Greece has defaulted five times since 1800.[7] In Greece, a quarter of the population works for the government and enjoys unrealistic compensation.

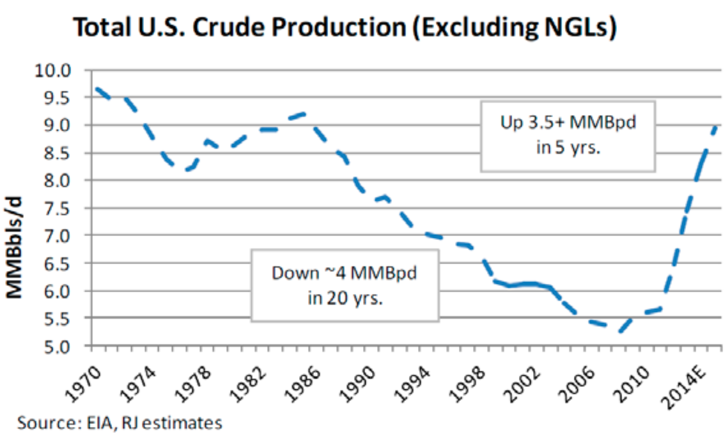
Historically, when a nation's Debt/GDP reaches 90% there has been significant inflation 100% of the time.[5] The easiest way for a country to repay its debt is to print money and we expect both Europe and the U.S. to continue to print their way out of increasing debt burdens. We believe inflation will continue because politicians are unwilling to make difficult choices (cutting spending/increasing taxes).

Unlike many portfolios (such as fixed income), our portfolios should benefit from inflation. More than a third of our stocks are commodity producers, such as gold miners and energy companies. We believe gold's value will increase with an increase in the supply of fiat currencies.

Energy Exposure

With the advent of horizontal drilling and hydraulic fracturing, the U.S. has unlocked tremendous shale reserves. In the past seven years, we have seen domestic natural gas production grow 28%.[8] The dramatic increase in supply from unconventional sources has driven natural gas prices from $12/MMBtu down to under $3/MMBtu. We believe a similar trend is now taking place with domestic oil production.

It is now estimated that the U.S. will grow oil production 60% over the next four years, which is an amazing change after 40 years of declining domestic production.[9] Combining growth in domestic and international production with flat demand, we expect oil prices (WTI) to drop next year from current prices of $90/Bbl.



This is dramatic reversal from the past 10 years that saw increasing oil demand and declining production lead to a fivefold increase in oil prices. In 2001, GSCM predicted an increase in oil prices and since then we have profited from having roughly 20% of our portfolio in energy sector (versus ~10% for the overall market). We are now changing course and lowering our exposure to oil and gas stocks in light of the change in supply/demand.

Lastly, this decline in oil prices should be a boost to consumers and many businesses such as airlines. For every $10 drop in the price of oil, consumer expenses drop $30 billion and GDP is increased by a half of a percent.[10]

Outlook

It seems everyone is expecting terrible things and has a negative outlook so we believe stocks are cheap and there is potential for an upside surprise if Europe doesn't implode. Conversely, one of the reasons the market fell so much in 2008 is that everyone was optimistic and invested in stocks during the run-up the previous five years.

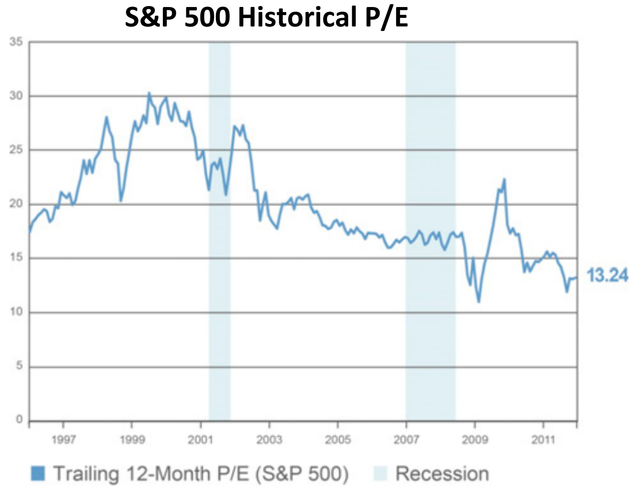
Wall Street strategists are notoriously bullish and it is rare when they are bearish on stocks. It is also a contrarian indicator that usually precedes bull markets. Merrill Lynch has tracked the sell-side strategist consensus since the 1980's. This month, it dropped below 50 for the first time in 15 years. Coincidentally, the last time Wall Street was this negative on stocks was during the 1997 Asian Currency Crisis (which has similarities to Europe's current crisis). The market (S&P 500) increased 75% in the two years following the last time strategist were this negative (summer 1997).

Wall Street Sentiment Index

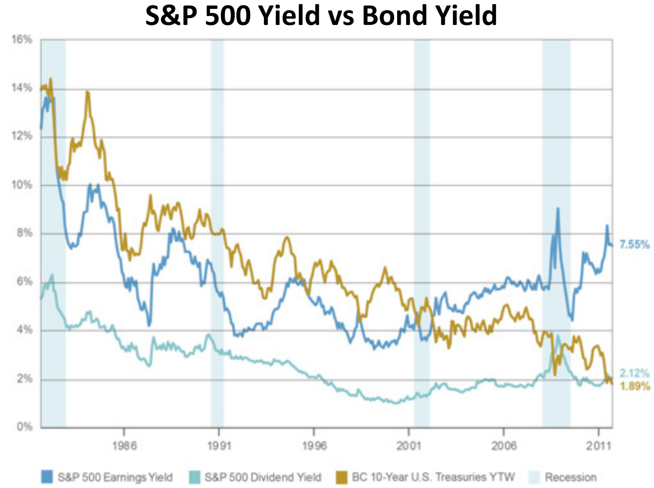
Source: BofA Merrill Lynch Global Research US Equity Strategy

Historically, periods of low returns for stocks have been followed by periods of high returns for stocks. Coming off a decade of lackluster returns and two recent Bear markets, investors seem jaded and uninterested in stocks. This attitude sets us up well for a period of outperformance by stocks. The equity market is now yielding 2% and it is becoming clear equity valuations are more favorable than bond valuations.

S&P 500 Historical P/E



S&P 500 Yield vs Bond Yield



Many stocks offer attractive dividend yields, which we believe will grow over time. Many of the companies in our portfolio are non-cyclical and should grow their businesses regardless of the overall economy. Valuations are low, with the equity market valued at 13x trailing earnings. Corporate balance sheets are strong with cash of roughly $1.2 trillion (up 60% in 3 years).[9] Corporate earnings have been strong and should support higher equity values. Lastly, yields on most alternatives to stocks are at historic lows so this is a potential catalyst to lure investors into higher returns offered by stocks.

As always, we appreciate the trust you place in us. Please contact us anytime if you have questions.

Sincerely,

Greenfield Seitz Capital Management

GREENFIELD SEITZ CAPITAL MANAGEMENT

---

1 Nestle Company Report. 2012
2 Fortune Magazine. 2011
3 L'Oreal Annual Report. 2012
4 Novartis Annual Report. 2012
5 The Dallas Morning News. July 25, 2011
6 EnergyBiz. Edwin D. Hill. 2005
7 Reinhart and Rogoff. This Time is Different. Princeton University Press. 2009
8 U.S. Energy Information Administration (EIA). 2012
9 Raymond James Research. 2012
10 International Monetary Fund. 2011

Greenfield Seitz Capital Management has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Firm Information: Greenfield Seitz Capital Management ("GSCM") is a registered investment advisor based in Dallas, Texas. GSCM specializes in managing separate investment accounts for high net-worth individuals and institutions, with a focus on equities. GSCM is structured as a Limited Liability Corporation. GSCM utilizes Raymond James Financial, Inc. as its custodian of assets.

Composite Characteristics: The Greenfield Seitz Capital Management Core Composite is comprised of accounts whose primary objective is growth of principle by investing primarily in stocks of U.S. and international companies. Before investing with GSCM, all clients agree to the investment style so all accounts are employing GSCM's investment strategy. The composite contains all discretionary accounts that exceed the minimum asset level. The GSCM Core Composite is the only composite for GSCM and contains no carve-outs. A complete list and description of all firm composites is available upon request (GSCM Core Composite is the only composite for Greenfield Seitz Capital Management). The minimum portfolio size for the GSCM Core Composite is $1,000,000. Accounts may include up to 20% fixed income investments. As a whole, fixed income securities represent less than 5% of total composite assets. The start date for the GSCM Core Composite was January 1, 1997 and the composite was created in October 2004. The composite benchmark is the S&P 500 Index, which represents two-thirds of U.S. equity market value. New accounts are added to the composite at the beginning of the first full calendar month that they meet the composite definition. Closed account data is included in the composite as mandated by the standards in order to eliminate a survivorship bias. Accounts are removed on a monthly basis from the composite when assets fall below 70% of the minimum. Dispersion is only shown on annual periods.

Calculation Methodology: Valuations and returns are computed and stated in U.S. dollars, and individual portfolios are revalued monthly. Pricing information is supplied by ISS. The firm uses the trade date monthly returns and links these returns geometrically to produce an accurate time-weighted rate of return. Prior to January 2002, some accounts may have employed the use of settlement date accounting to calculate performance results. Time-weighted total returns include both capital appreciation and reinvested dividends. The GSCM Composite performance is the total return including cash and cash equivalents, of an asset-weighted composite of all discretionary portfolios managed by Stuart Greenfield and Yancey Seitz. Composite returns are asset-weighted. Net of fees returns are calculated net of management fees, transaction costs, and custodian fees. To calculate gross of fees returns, please review our fees and add applicable fees back into returns accordingly. Returns are calculated gross of all withholding taxes on foreign dividends. The dispersion measure is the asset-weighted standard deviation of accounts in the composite for the entire year. On 2/28/06, the composite changed software to Advent Axys. After the change in software programs, composite returns are now calculated using modified dietz and cash-basis dividends.

Key Manager Change: In February 2002, Stuart Greenfield assumed co-responsibility for stock selection and investment management from Eric Greenfield. Yancey Seitz has shared investment management responsibility during all periods of the Composite.

Net-of-Fee Performance: Net of fee performance shown reflects the deduction of actual fees. To calculate gross of fees returns, please review our fees and add applicable fees back into returns accordingly. Actual fees are expected to be lower than the maximum scheduled rate of 1%. All charts and tables are shown Net of Fees.

Benchmark: The S&P 500 is an unmanaged index of the shares of large U.S. companies. It includes reinvested dividends and is presented gross of fees.

Statistical Definitions: Tracking error/Standard Deviation is the square root of the variance. Beta is measure of a portfolio's volatility relative to the market. R2 is the relative predictive power of a model. Alpha is the extra return above what CAPM determines for the amount of risk taken, risk adjusted return. Excess Return is return in excess of the risk-free rate.

Custodian Transfer: On 4/1/05, GSCM changed asset custodians. There were no disruptions in performance and no trading activity during transfer.

Retail Fee Schedule: 1.00% on assets under management

Other Disclosures: Greenfield Seitz Capital Management has received a firm-wide GIPS® Verification for the period January 1, 1997 – June 30, 2012 from ACA Beacon Verification Services. Past performance does not guarantee future results. This performance report should not be construed as a recommendation to purchase or sell any particular securities held in composite accounts. Market conditions can vary widely over time and can result in a loss of portfolio value. To obtain performance data current to most recent month end, please contact us. You should consider our investment objectives, risks, and fees carefully before you invest. Additional information regarding policies for calculating and reporting returns is available upon request.

Past performance does not guarantee future results. The market value of securities fluctuates and you may incur a profit or a loss. This analysis does not include transaction costs and tax considerations. The material included in this presentation is for informational purposes only, and is not intended as an offer or a solicitation to buy or sell any securities.

Any views or opinions presented in this presentation are solely those of GSCM. All country performance figures are actual MSCI Indexes. While the information contained in this presentation is believed to be reliable, no representation or warranty, whether express or implied, is made and no liability or responsibility is accepted by GSCM as to the accuracy or completeness thereof.

Special risks are involved with global and international investing related to market and currency fluctuations, economic and political instability, and different financial accounting standards. These risks are magnified by emerging markets.

Investing in commodities is generally considered speculative because of the significant potential for investment loss. Commodities are volatile investments and should only form a small part of a diversified portfolio. Markets for precious metals and other commodities are likely to be volatile.

Separately Managed Accounts (SMAs) are similar to mutual funds in that a professional investment manager takes care of security selection and monitoring of the portfolio. However, a separate account manager holds the investor's assets in a segregated account instead of placing them in a pool with other investors. SMAs may not be appropriate for all investors.

Please visit www.gscapital.net for additional disclosures or to view our updated Form ADV.