Greenfield Seitz
CAPITAL MANAGEMENT

2014 Mid-Year Letter

July 16, 2014

Dear Investor,

The Greenfield Seitz Core Composite was up 7.0% (net-of-fees) for the six months ended June 30th versus 7.1% for the S&P 500 Index and 5.5% for the MSCI International Index.[1]

Economic Update:
Recent economic data shows the U.S. economy is continuing its recovery from the 2008-2009 recession. Real GDP has been growing at roughly 2% for the past four years, but fell at a 1% annual rate in the first quarter largely due to the third coldest winter in the past 30 years.[2] While the GDP growth is positive, it is still below the long-term average of 3.2%. The U.S. housing market recovery has been powerful with average U.S. home prices up 22% over the last two years, however the rebound has stalled over the last six months.[3] With the steadily improving economy, unemployment has fallen to 6.1% which is the lowest level since September 2008.[4] Corporate profits continue to improve as the earnings of the S&P 500 are growing at a 5-6% annual rate.[5]

One major concern, that is shared almost universally among investors, is that the rebound in economic activity and stock prices are being artificially driven by the Federal Reserve's massive stimulus effort. The Federal Funds rate has been at zero percent since 2008 compared to a long-term average of roughly 5%, but despite six years of historic easy money policies the economy is barely growing. This year, the Fed has reduced its $85 billion in monthly bond purchases (QE3) to $35 billion a month. So far, this has had little effect on rising rates and stock prices. Though it is important to remember the S&P 500 fell 15% in 2010 after the end of QE1 and it again fell 16% in 2011 after QE2 ended. However, the market usually does quite well in normal periods of tightening with an average gain of 11% in 21 months following the first tightening. But, we presume rates were being increased in past cycles to slow down an overheating economy, which isn't the case this time.

Holdings Review
Below is a sampling of two holdings in our portfolio and the rationale behind these investments. Last summer, we reviewed HDFC Bank, Novo Nordisk, and Suncor. Those stocks have gained 62%, 43%, and 23% respectively, since the time of our letter.

> **Bank of the Ozarks** is a regional bank headquartered in Little Rock, Arkansas. The bank has 164 branch locations throughout the southeast and $4 billion in deposits.[6] We first purchased shares of Bank of the Ozarks shortly after its IPO in October 1997 and still own them today. Despite the ~500% run up in its stock price over the past five years, we still own and continue to buy shares.
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> George Gleason has been CEO since 1979 and has done an outstanding job. In fact, the *ABA Banking Journal* named Bank of the Ozarks the top performing bank in each of the past three years. The bank has been profitable in 15 of the 17 years since its IPO and grown its annual earnings from $4.5 million to over $100 million. Mr. Gleason has led the company's incredible growth while maintaining industry leading fundamentals.
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> In addition to its impressive growth, the company boasts a 16% ROE (return on equity) which compares to the industry average of only 9%. Additionally, Ozarks' net interest margin (the difference between interest income and interest paid) of 5.5% is significantly better than the industry average of 3.2%. Over the last 14 years, the bank's net charge-offs for bad loans has been 0.24% which is just 1/3 of the industry average for bad loans.

Earlier this year, the bank completed the largest acquisition in its history buying Summit Bancorp for $216 million. Summit was the 6th largest bank in Arkansas with 24 locations. We are positive on the acquisition for several reasons. First, Gleason paid a fair price of 1.6x book and a P/E of 15x for a bank that will dramatically boost its position in Arkansas. Summit is already a good bank with low credit losses and a loyal customer base. We think it will only become better as part of Bank of the Ozarks. With $1.2 billion in assets, the acquisition will grow Bank of the Ozarks by roughly 25%. With 14 offices located within two miles of existing Ozarks offices, there is considerable opportunity to close overlapping offices while keeping customers and thus lowering operating costs. Management believes it can cut operating costs by 30% at Summit. Ozarks is using 80% stock to fund the deal and since their stock is valued at a higher multiple, the deal should immediately add $0.25-$0.30 to its $2.40 in annual EPS.

DirecTV is the largest satellite television provider with about 20 million subscribers. On May 18th, AT&T announced it would purchase DirecTV in a stock-and-cash deal for $95 per share.[7] At the time, DirecTV stock was at $86.18 and the $95 offer represented a 10.2% premium. Due to antitrust concerns that the deal might be cancelled, the stock fell and we were able to buy a month later at roughly $84 per share. Assuming the deal is completed at $95, we will realize a gain of roughly 13%. AT&T expects to close the transaction before May 2015, so if the deal closes in less than 12 months we will actually realize an *annualized* return of greater than 13%. If the transaction does not close, we believe there is limited downside because DirecTV was already trading at $86 before the announcement and has a terrific stand alone business.

The definition of "risk arbitrage" is the pursuit of profits from an announced corporate event such as a sale of the company, merger, reorganization, self-tender, etc. The arbitrageur expects to profit regardless of the behavior of the stock market. We prefer to make long-term investments but sometimes have more cash than ideas or we just want to keep some cash to be defensive. At such times, arbitrage offers much greater returns than cash and helps limit any temptation to relax our standards for long-term investments. The major risk is that the announced event won't happen.

We like arbitrage situations like DirecTV because we reduce market risk and replace it with deal risk. In theory, if the stock market declines 10%, our DirecTV position would still make money if the deal closed at $95. This makes for a nice hedge to potentially zig when the market zags and the 13% appreciation is much better than the tiny yields from money funds/bonds. Over the past three years, we have utilized merger arbitrage strategy successfully three times with Alcon (bought by Novartis), Nexen (bought by CNOOC) and AirTran (bought by Southwest Airlines).

Warren Buffet has quietly been very active in merger arbitrage and has written about it many times in the annual reports of Berkshire Hathaway. He recently noted that arbitrage has produced unlevered returns of over 20% annualized for Berkshire Hathaway.
(This information is supplemental to the GIPS Compliant Presentation and is not an offer or a solicitation to buy or sell any securities)

Greenfield Seitz 50-Year Anniversary

It is with great pride that we celebrate the 50 year anniversary of Greenfield Seitz. We could not have done this without you, our loyal clients. In fact, many of our clients have been with Greenfield Seitz since the beginning, a half century ago. To those of you initial investors reading this, think of it as *"a half century young."*

In 1964, Eric Greenfield moved from Tyler to Dallas to begin his investment career. He developed an investment philosophy based on identifying companies with outstanding fundamentals and owning them for the long-term. The process has many unique facets that we believe add value. We still use the same investment process today. Although he retired in 2005, he taught us all the importance of independent thought, hard work, curiosity, conviction, and patience.

Since 1964, the world has experienced a myriad of economic environments ranging from hyper-inflation to war. We have seen countless investment management firms and products come and go over the years. It is a true testament to our process that it has not only survived the test of time, but flourished over time. According to NBER, there have been seven recessions since 1964.

As much as things change, they also stay the same. We believe stocks are still the best investment class and "buy and hold" is still the best strategy. The past 50 years has been an incredible illustration of the power of compounding growth on portfolio values. We are optimistic about the next 50 years.

Outlook

The Dow Jones industrial average broke through 17,000 earlier this month and notched its 14th record high this year. The S&P 500 Index is up almost 200% from its 2009 Bear market low, which is another great reminder to never sell in a Bear market. At five years and counting, this is now the fourth longest Bull market since 1930 (defined as no 20% declines).[8]

As we are further along in this cycle, we remind ourselves which sectors perform better in the later stages of a Bull market (Energy & Healthcare) and which perform poorly (Utilities and Financials). Our sector weightings are largely driven by bottom-up company fundamentals but also match this idea with our longstanding overweight of Energy & Healthcare and underweight of Financials & Utilities.

Strangely, this Bull market has occurred despite a sputtering economy, serious geopolitical issues, and cautious investor sentiment. For this reason, we must wonder how much of this is driven by the Fed's efforts to keep rates low and drive investors into higher returning assets such as stocks. Low rates combined with historic corporate earnings have been the primary drivers of this market. Analysts estimate the S&P 500 will grow earnings 9.6% in the second half of this year driven by strong international earnings (45% of S&P earnings are from overseas) and higher profit margins from continued cost cutting.[9] As we have noted, analysts have a history of being wrong and with profit margins at all-time highs, we find it hard to imagine margins increasing.[10]

With the Bull market entering its sixth year and at an all-time high, we have increased our cash position and taken a more defensive stance. There are some worrying signs that risk-taking is back again. Margin debt is at an all-time high as investors buy stocks with borrowed money more than they did in any prior Bull market.[11] Stocks now comprise 42% of household assets which is second only to March, 2000.[12] This year we have been surprised at the number of successful IPO's of money losing tech companies. So far, 83% of IPO's this year were for companies with negative earnings.[13] We have a history of avoiding these high-flying, speculative stocks and believe we know how this story will end, just not *when*. With this in mind, we believe we are well prepared to weather any potential pullback and Greenfield Seitz Capital has traditionally outperformed in down markets.

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

Sincerely,

Greenfield Seitz Capital Management

GREENFIELD SEITZ CAPITAL MANAGEMENT

Past performance does not guarantee future results.
1 MSCI ACWI-ex U.S.
2 Bureau of Economic Analysis. June 25, 2014.
3 S&P Case Shiller 20-City Index
4 Bureau of Labor Statistics. 2014
5 Standard & Poor's. 2014
6 Bank of the Ozarks Annual Report. 2014
7 AT&T press release. May 18, 2014 – The offer is comprised of $28.50 in cash and $66.50 in AT&T stock. The stock portion is subject to a collar such that DirecTV shareholders will receive 1.905 AT&T shares if AT&T stock price is below $34.90 and 1.724 shares if AT&T stock price is above $38.58 at closing.
8 InvesTech Research. 2014
9 Factset Research. 2014
10 Bureau of Economic Analysis
11 Bloomberg. 2014
12 Federal Reserve Board. 2014
13 SentimentTrader.com 2014
All company figures are from company reports or S&P Capital IQ.

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, 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 had 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, 2014 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.

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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.

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

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GIPS® Compliance Verification Statement

Greenfield Seitz Capital Management, LLC
Issued July 15, 2014

The following report issued by ACA Performance Services, LLC ("ACA") is for a firm-wide GIPS Verification of Greenfield Seitz Capital Management, LLC's ("Greenfield Seitz") claim of compliance with the Global Investment Performance Standards ("GIPS standards") for the period January 1, 1997 through June 30, 2014.

We have examined whether Greenfield Seitz (1) complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) designed its policies and procedures to calculate and present performance results in compliance with the GIPS standards for the period January 1, 1997 through June 30, 2014. Greenfield Seitz's management is responsible for compliance with the GIPS standards and the design of the policies and procedures that present the firm's performance results in accordance with the GIPS standards. ACA's responsibility is to express an opinion on Greenfield Seitz's compliance based on its verification procedures.

ACA has completed this firm-wide GIPS Verification in accordance with the required verification procedures set forth in the GIPS standards. It is ACA's opinion that Greenfield Seitz has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis. Furthermore, it is ACA's opinion that Greenfield Seitz's policies and procedures were designed to calculate and present performance results in compliance with the GIPS standards for the period January 1, 1997 through June 30, 2014.

In performing the firm-wide verification addressed above, it is not ACA's responsibility to express an opinion on any particular composite presentation nor does verification ensure the accuracy of any specific composite presentation. Greenfield Seitz is responsible for the production and distribution of materials presented in conformity with the GIPS standards.

ACA Performance Services, LLC

ACA Performance Services, LLC

Core Composite Returns (accounts over $1 million)
Net-of-Fees

Year	Total Return	S&P 500 %	Number of Portfolios	Dispersion %	Total Composite Assets (millions)	Total Firm Assets End of Period (millions)	Percentage of Firm Assets %	3-Yr Ex-Post Standard Deviation GSCM	3-Yr Ex-Post Standard Deviation S&P 500
1997	17.10%	33.36%	22	6.14	$43.80	$138.69	31.6%		
1998	8.94%	28.58%	22	7.66	$42.99	$165.11	26.0%		
1999	15.15%	21.04%	24	6.61	$50.65	$179.31	28.2%		
2000	14.81%	-9.11%	32	5.10	$63.92	$194.67	32.8%		
2001	3.68%	-11.88%	36	4.53	$70.85	$201.94	35.1%		
2002	-14.32%	-22.10%	37	4.25	$64.62	$172.01	37.6%		
2003	28.77%	28.68%	38	6.04	$76.22	$200.36	38.0%		
2004	14.79%	10.88%	45	3.59	$100.21	$231.78	43.2%		
2005	16.62%	4.90%	55	4.77	$123.77	$226.25	54.7%		
2006	18.85%	15.79%	61	2.94	$150.21	$267.49	56.2%		
2007	7.22%	5.50%	63	2.74	$149.20	$273.20	54.6%		
2008	-34.43%	-37.00%	60	3.75	$97.13	$186.79	52.0%		
2009	29.17%	26.46%	55	6.15	$103.07	$197.42	52.2%		
2010	14.81%	15.06%	52	3.59	$116.64	$220.98	52.8%		
2011	-6.97%	2.11%	62	4.60	$229.41	$308.02	74.5%	15.96	18.7
2012	11.46%	15.99%	53	2.05	$250.49	$335.13	74.7%	13.37	15.09
2013	18.90%	32.40%	61	2.73	$240.21	$386.47	62.2%	11.9224	11.9366
06/30/14	6.99%	7.14%	61	n/a	$231.39	$389.63	59.4%	n/a	n/a

Cumulative Return	294.55%	240.34%

Annualized Rate Return:	GSCM %	S&P 500
Since Inception (12/31/96)	8.96%	7.96%
10 Years	7.42%	7.40%
5 Years	12.83%	17.94%
3 Years	7.23%	16.18%
Worst 3-yr Period	-9.19%	-37.61%

*Past performance is no guarantee of future results. Annualized and cumulative returns are as of 12/31/2013. See important disclosures and information at www.gscapital.net.