Greenfield Seitz
CAPITAL MANAGEMENT

2016 Annual Letter

January 25, 2017

Dear Investor,

The Greenfield Seitz Core Composite was up 10.4% (net-of-fees) for the year, versus 5.3% for the MSCI World index (12.0% for the S&P 500 Index and 3.3% for the MSCI International Index).[1]

Economic Update

Corporate earnings continue to be weak. The S&P 500 is expected to post 3% growth in earnings for the fourth quarter.[2] After five consecutive quarters of declining earnings, the S&P will now have positive earnings growth in the 3rd and 4th quarters. However, the global economy continues to be in a slow growth environment, despite unprecedented stimulus.

We have been concerned that corporate profit margins may decline from record highs. Profit margins in the U.S. averaged 10% the past few years, versus a historical average of just 6%.[3] This was due to many short-term factors such as: 1) reduced headcount from 08-09 recession; 2) historically low interest costs; and 3) offshoring production/services to low cost countries. Recently, corporate profit margins have fallen under 9% and tend to be mean reverting.

Oil has rebounded to $53/bbl from hitting a 13-year low in February of $26/bbl. Lower rig counts and reduced production in many foreign countries helped increase prices. Raymond James predicts "tightening global oil supply/demand dynamics will support $80/bbl WTI by the end of 2017."[4]

Trump Election

In a similar fashion to the UK's surprise Brexit vote, the U.S. elected Donald Trump president. This was a shock to almost everyone. Following the election, stock indexes exploded to record highs. Investors believe Trump's policies are bullish for stocks. The Trump administration's plans include: 1) lowering taxes; 2) increasing infrastructure and defense spending; 3) allowing corporations to repatriate foreign profits (cash); 4) imposing regulations/tariffs to make U.S. businesses more competitive; 5) lowering healthcare costs for businesses by repealing the ACA; and 6) increasing employment in the U.S.

Frankly, we are surprised by the jump in stock prices as these policies were known before the election and may take some time to implement. In addition to government bureaucracy, these projects will take time to get planned, approved, financed, etc. before companies see any boost in sales. But there is no doubt that Trump has boosted consumer and business confidence, which is evidenced by the surge in recent sentiment indexes. It is hard to quantify the return of "animal spirits" to the economy (Keynes defined as "a spontaneous urge to action rather than inaction").

While the election has boosted stocks, it has punished bonds with the expectation of rising inflation. In addition to the Fed starting to tighten, the Tax Policy Center estimates Trump's plan will increase debt by more than $6 trillion over ten years. Fiscal stimulus typically increases inflation. The 30-yr treasury bond has declined roughly 9% since the election and many are concerned the 35-year bull market in bonds may be ending.

The idea of higher interest rates has propelled financial stocks higher. With higher interest rates, banks are able to make a higher net-interest-margin spread between borrowing and lending. The S&P Bank index is up 25% since the election. For example, Bank of the Ozarks' stock has increased 40% since the election.

International Stocks

One of the knee-jerk reactions to the recently stronger dollar (up 4% post Trump) is that international stocks have sold off. Since the election, international stocks (ACWX) are flat while the S&P 500 is up 5%. The reason is that many foreign stocks trade on exchanges that use non-U.S. Dollar currencies and when that is translated back to ADR's denominated in U.S. Dollars, the price is lower (takes fewer dollars to equal foreign currency).

But we think this is missing the bigger picture. International companies with significant sales in the U.S. will get a bump in sales when they are translated back to local reporting currency (each dollar of sales translates to more of the weaker local currency). For example, Nestle and L'Oreal both get roughly 30% of their sales from the U.S.[5] All else being equal, this means the 30% of revenues in the U.S. should increase 4% purely due to currency effect. That ~1.2% increase may not seem like much but on Nestle's $95 billion in total sales it is over $1 billion. Plus, Nestle only grows sales around 3% annually, so every little bit helps.

International and U.S. stocks tend to outperform in cycles over time. On average, the cycle has been seven years. Interestingly, international stocks have trailed U.S. stocks each of the last seven years. Foreign stocks seem relatively cheap to domestic stocks (P/E of 15x vs. 26x) and the strong dollar could be the catalyst to reverse the cycle of outperformance. It is proven that over the long-term adding a mix of international stocks to a portfolio increases returns while lowering volatility. At year end, our portfolios had an average international/U.S. weighting of 45%/55%.

Source: Factset. MSCI EAFE vs. S&P 500 Total Return

Merger Arbitrage

The definition of "merger arbitrage" is the pursuit of profits from an announced corporate event such as a sale of the company, merger, etc. 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 when the market looks expensive. We have used merger arbitrage as a way to make attractive risk-adjusted returns in a low interest rate environment. The Raymond James Bank money market currently pays rates starting at 0.02% annually. Arbitrage offers much greater returns than cash and helps limit any temptation to relax our standards for long-term equity investments. The major risk is that the announced event won't happen. We like arbitrage situations because we reduce "market risk" and replace it with "deal risk." In theory, if the stock market declines, our merger arbitrage position would still make money so long as the deal closes.

In 2016, we invested in three separate acquisition targets: C1 Financial, Virgin America, and Syngenta.

We bought C1 Financial after Bank of the Ozarks announced formal plans to acquire the company for $25/share. We have owned Bank of the Ozarks for more than 20 years and were confident they were a credible buyer. Despite the high likelihood of closing, C1 shares fell below $22 after the deal was announced. This represented a 14% potential return in less than six months.

In a similar fashion, Alaska Airlines announced plans to acquire Virgin America for $57/share. There were some anti-trust issues about this merger becoming the 5th largest airline in the U.S. These concerns caused Virgin America to drop below $52/share less than two months before closing. We thought the DOJ already approved United/Continental, American/US Airways, and Southwest/Airtran so it would be hard to deny this. In fact, you could argue that a more competitive Alaska Airlines could help consumers. This represented a 10% spread in just two months.

Finally, we have followed Swiss Agri-Chemical maker, Syngenta, for many years. In February, ChemChina made an offer to buy Syngenta for $93/share plus a $3/share dividend ($96 total). Despite this, Syngenta shares fell to $75 representing a 28% spread from the $96/share buyout offer. The key concern was that the U.S. would not allow a Chinese company to make such a large acquisition of an agricultural business for reasons of national security. The deal has yet to close, but in August the Committee on Foreign Investment in the U.S. approved the deal.

Outlook

Trump has brought a sense of optimism to consumers and businesses alike. Along with this optimism, we have reached new all-time highs in the stock market. Our concern is that the market is over-reacting and many of these pro-business changes will not take place soon. The S&P 500 is now trading at 26x trailing earnings (vs. historical average P/E of 15.5x). In fact, the S&P 500 is now trading at its highest multiple to sales (2.0x) ever! We are concerned that investors are chasing this bull market (2nd longest ever) without regard for earnings growth or record high valuations. This is why we continue to avoid speculative stocks, favor international stocks, and keep higher levels of cash in reserve.

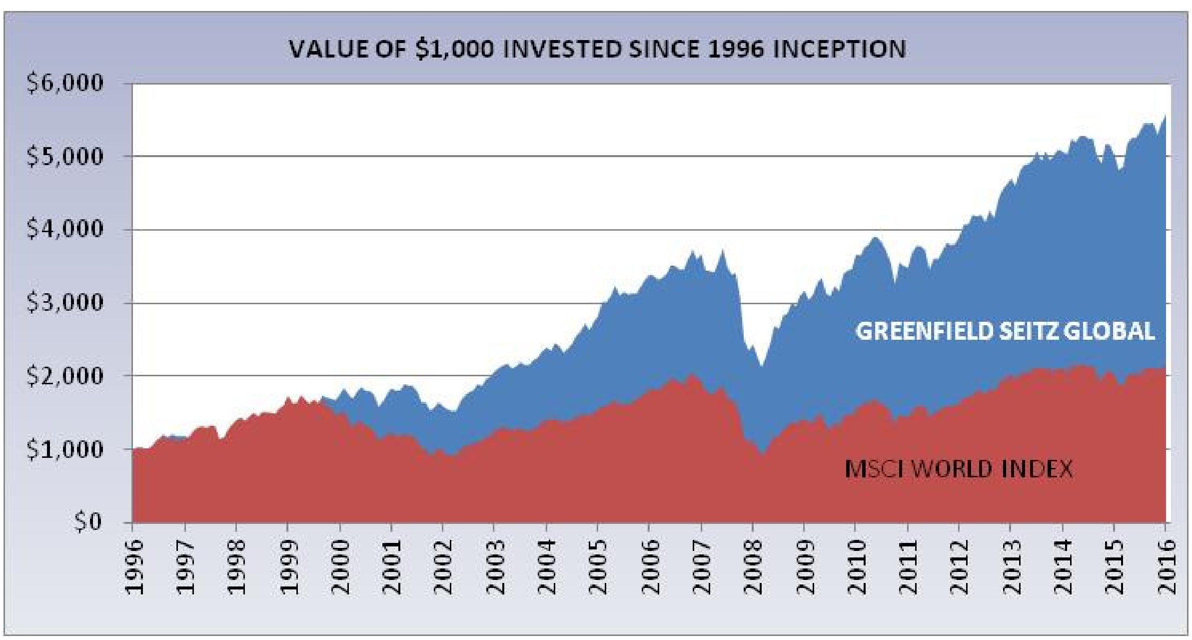
As always, we continue to hold a mix of U.S. and international stocks that have a demonstrated history of earnings growth and a healthy outlook for future growth.

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 Factset.
3 Bureau of Economic Analysis. Yardini Research
4 Raymond James Equity Research. 2016
5 Company Reports.

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.

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 – December 31, 2016 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. 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.

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

ACA
COMPLIANCE GROUP
PERFORMANCE SERVICES

Verification Report

Greenfield Seitz Capital Management, LLC
2100 McKinney Avenue, Suite 1420
Dallas, TX 75201

We have verified whether Greenfield Seitz Capital Management, LLC (the Firm) (1) complied with all the composite construction requirements of the Global Investment Performance Standards (GIPS®) on a firm-wide basis for the periods from January 1, 1997 through December 31, 2016, and (2) designed its policies and procedures to calculate and present performance in compliance with the GIPS standards as of December 31, 2016. The Firm's management is responsible for compliance with the GIPS standards and the design of its policies and procedures. Our responsibility is to express an opinion based on our verification. We conducted this verification in accordance with the required verification procedures of the GIPS standards. We also conducted such other procedures as we considered necessary in the circumstances.

In our opinion, the Firm has, in all material respects:

- Complied with all the composite construction requirements of the GIPS standards on a firm-wide basis for the periods from January 1, 1997 through December 31, 2016; and
- Designed its policies and procedures to calculate and present performance in compliance with the GIPS standards as of December 31, 2016.

This report does not relate to or provide assurance on any composite compliant presentation of the Firm and does not ensure the accuracy of any specific composite compliant presentation.

ACA Performance Services, LLC

ACA Performance Services, LLC
January 25, 2017

GREENFIELD SEITZ CAPITAL MANAGEMENT

Core Composite Returns (accounts over $1 million)

Net-of-Fees

Year	Total Return	MSCI World Index %	S&P 500 Index %	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	WORLD	S&P500
1997	17.10%	16.23%	33.36%	22	6.14	$43.80	$138.69	31.6%			
1998	8.94%	24.80%	28.58%	22	7.66	$42.99	$165.11	26.0%			
1999	15.15%	25.34%	21.04%	24	6.61	$50.65	$179.31	28.2%			
2000	14.81%	-12.92%	-9.11%	32	5.10	$63.92	$194.67	32.8%			
2001	3.68%	-16.52%	-11.88%	36	4.53	$70.85	$201.94	35.1%			
2002	-14.32%	-19.54%	-22.10%	37	4.25	$64.62	$172.01	37.6%			
2003	28.77%	33.76%	28.68%	38	6.04	$76.22	$200.36	38.0%			
2004	14.79%	15.25%	10.88%	45	3.59	$100.21	$231.78	43.2%			
2005	16.62%	10.02%	4.90%	55	4.77	$123.77	$226.25	54.7%			
2006	18.85%	20.65%	15.79%	61	2.94	$150.21	$267.49	56.2%			
2007	7.22%	9.57%	5.50%	63	2.74	$149.20	$273.20	54.6%			
2008	-34.43%	-40.33%	-37.00%	60	3.75	$97.13	$186.79	52.0%			
2009	29.17%	30.79%	26.46%	55	6.15	$103.07	$197.42	52.2%			
2010	14.81%	9.55%	15.06%	52	3.59	$116.64	$220.98	52.8%			
2011	-6.97%	-7.61%	2.11%	62	4.60	$229.41	$308.02	74.5%	15.96	20.59	18.70
2012	11.46%	13.18%	15.99%	53	2.05	$250.49	$335.13	74.7%	13.37	17.15	15.09
2013	18.90%	24.10%	32.40%	61	2.73	$240.21	$386.47	62.2%	11.92	14.50	11.94
2014	6.24%	2.93%	13.69%	60	2.14	$228.27	$355.34	64.2%	9.27	11.73	8.98
2015	-1.90%	-1.94%	1.38%	67	1.65	$221.46	$329.66	67.2%	8.74	10.47	9.10
2016	10.37%	5.32%	11.98%	74	3.00	$246.27	$366.49	67.2%	8.70	10.59	11.08

Cumulative Return	353.85%	181.20%	339.27%

Annualized Return:	GSCM	WORLD %	S&P 500
Since Incep (1996)	7.86%	5.31%	7.68%
10 Years	3.99%	2.60%	6.95%
5 Years	8.80%	8.35%	14.66%
3 Years	4.78%	2.06%	8.88%
Worst 3-yr Period	-9.19%	-41.51%	-37.61%

*Past performance is no guarantee of future results. Annualized and cumulative returns are as of 12/31/2015. See important disclosures and information at www.gscapital.net.