Greenfield Seitz
CAPITAL MANAGEMENT

2017 Mid-Year Letter

July 25, 2017

Dear Investor,

The Greenfield Seitz Core Composite was up 8.2% (net-of-fees) for the first half of the year, versus 10.6% for the MSCI World index and 9.3% for the S&P 500 Index.[1]

Economic Update

Corporate earnings have started to grow again. The S&P 500 is expected to post 7% year-over-year growth in earnings for the second quarter.[2] Earnings have now grown for the past four quarters. Furthermore, earnings growth is expected to speed up over the next year. We are optimistic that earnings growth will begin to boost stock prices, rather than Fed stimulus. But we are cautious with expensive stock valuations.

FANG (Facebook, Amazon, Netflix, Google)

We have written about FANG before and will simply refer to this acronym as the symbol for the handful of high-flying tech stocks that are dominating the market. In the first half of the year, Apple, Google, Microsoft, Facebook and Amazon climbed an average of 20% and accounted for about a third of the entire S&P 500's gain.[3] Let that sink in, five stocks accounted for 1/3 of the total gains of the 500 stocks in the S&P 500 Index. The last time a handful of stocks dominated the market was 2000.

We have never followed the herd and avoid popular, high-valuation stocks. Avoiding these stocks has caused Greenfield Seitz to trail our benchmark in recent years. The last time this happened was 1997-1999 when we avoided the Dot-Com mania, which ultimately rewarded our investors. We believe today's popular stocks will end in disappointment as popular stocks have done throughout history.

We continue to avoid these stocks. Technology and consumer preferences change quickly and it is plausible that we will look back on Facebook and Netflix as fads. Further, the valuation of these stocks is extremely high with an average P/E of 84x.

This also questions the wisdom of passive investments like ETF's. Indexes such as the S&P 500 are simply forced to buy more FANG as those stocks rise. It looks like a huge momentum play as more investors plow money into the indexes via ETF's. It's just hard for us to believe that a social media company, Facebook, is the fourth largest company in U.S.

International Stocks

Last year, we made the case for owning international stocks and increased our international weightings. International stocks had underperformed the U.S. for seven straight years and seemed relatively cheap when compared to domestic stocks (P/E of 15x vs. 26x).

For the first half of the year, international stocks have significantly outperformed U.S. stocks (MSCI International Index was up 13% and FTSE Europe Index was up 21%). We have benefitted from this and it has allowed us to generate a nice return without owning FANG type stocks.

Over the long-term, it is proven that adding a mix of international stocks to a portfolio increases returns while lowering volatility.

Trump Election

Since Trump won the election, the S&P 500 is up 15%. This illustrates the return of animal spirits and confidence of businesses and consumers in his proposed changes. We initially cautioned that these changes would take time to get approved and implement. It now appears many of his policies may not even get passed. In March, the health care bill failed to get enough votes in Congress. In May, his travel ban was deemed unconstitutional. Now it appears his tax plan may be in jeopardy of not getting enough votes in congress. If the administration's business friendly policies don't get passed into law, we must question if the recent run-up in stocks is warranted.

Holdings Update:

Apache

Apache is one of the world's largest independent energy companies with exploration and production in the U.S., Canada, North Sea, and Egypt. Apache made a name for itself by buying forsaken oilfields and improving their production. This took the stock from $8 in 1999 to $130 in 2011. Eventually, Apache paid too much for properties and when oil declined the stock was hit hard. It is currently around $45.

In 2014, Apache changed management with a new CEO, John Christmann. Christmann cut production from 93 rigs to 4 in a massive cost savings effort. He also hired Steve Keenan, a geologist from EOG that was critical in developing the Eagle Ford shale. Keenan discovered oil and gas in Reeves county. Apache carefully bought 300,000 acres ($1,300/acre) before announcing the discovery. It believes its new "Alpine High" has 75 trillion cubic feet of gas and 3 billion barrels of oil. This 15 billion BOE equals 1/3 of the Marcellus shale and 2/3 of the Eagle Ford shale.[4]

After three years of losses, Apache is expected to earn $1.52 this year and $2.04 next year. Raymond James predicts tightening global oil supply/demand dynamics will support $70/bbl WTI by the end of 2017 (up 52% from $46 currently). Apache has excellent assets that should benefit from lower costs and a rebound in oil prices. For example, its legacy 1.3 million acres in the Permian Basin alone was valued at $20 billion by Harris Associates, which is more than the entire company's $19 billion value.

Snap-on

We have admired Snap-on Tools for more than 20 years as a well-run company, but have never owned it. Snap-on manufactures tools for professional users and you have surely seen their trucks around. The 97 year-old company is now expanding its military and oil & gas markets.

Snap-on has grown its sales about 4% annually over the last 5 years. Its earnings have done even better with a 5-yr growth rate of 14% annually and a 10-yr growth rate of 19%. The company has increased earnings every quarter for five years. Plus, it is a very profitable with a 21% return on equity and a 16% net margin. Snap-on has paid its dividend consistently since 1939. The stock recently dropped from $180 to $160 and we were able to buy some. At this price, we are getting an outstanding company at a P/E of just 16x.

Syngenta

In the first half of the year, ChemChina successfully closed its acquisition of Syngenta (a Swiss agri-chemical producer). ChemChina made the $94/share offer over a year ago and there was serious concern that the deal would be blocked. At one point, Syngenta shares fell to $75 representing a 25% discount to the $94 buyout offer. With the deal closed, we were paid and received a nice return which was also uncorrelated to the broader stock market.

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. The S&P 500 is now trading at 22x trailing earnings (vs. historical average P/E of 17x). We are cognizant that high valuations reduce long-term returns, but we believe the earnings growth can support further gains in stocks. As such, we continue to avoid speculative stocks, favor international stocks, and keep investing in great businesses with excellent management.

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 and Standard & Poors. June 30, 2017.

2 Factset. July 14, 2017.

3 S&P Dow Jones Indices. May 30, 2017.

4 Houston Chronicle. David Hunn. September 7, 2016.

GREENFIELD SEITZ CAPITAL MANAGEMENT

Core Composite Returns

Net-of-Fees

Year	Total Return	MSCI World Index %	S&P 500 %	Number of Portfolios	Dispersion %	Total Composite Assets (millions)	Total Firm Assets End of Period	3-Yr Ex-Post Standard Deviation	3-Yr Ex-Post Standard Deviation	3-Yr Ex-Post Standard Deviation
1997	17.10%	15.76%	33.36%	22	6.14	$43.80	$138.69			
1998	8.94%	24.33%	28.58%	22	7.66	$42.99	$165.11			
1999	15.15%	24.94%	21.04%	24	6.61	$50.65	$179.31			
2000	14.81%	-13.18%	-9.11%	32	5.10	$63.92	$194.67			
2001	3.68%	-16.82%	-11.88%	36	4.53	$70.85	$201.94			
2002	-14.32%	-19.89%	-22.10%	37	4.25	$64.62	$172.01			
2003	28.77%	33.11%	28.68%	38	6.04	$76.22	$200.36			
2004	14.79%	14.72%	10.88%	45	3.59	$100.21	$231.78			
2005	16.62%	9.49%	4.90%	55	4.77	$123.77	$226.25			
2006	18.85%	20.07%	15.79%	61	2.94	$150.21	$267.49			
2007	7.22%	9.03%	5.50%	63	2.74	$149.20	$273.20			
2008	-34.43%	-40.71%	-37.00%	60	3.75	$97.13	$186.79			
2009	29.17%	29.99%	26.46%	55	6.15	$103.07	$197.42			
2010	14.81%	11.76%	15.06%	52	3.59	$116.64	$220.98			
2011	-6.97%	-5.54%	2.11%	62	4.60	$229.41	$308.02	15.96%	18.70%	20.59
2012	11.46%	15.85%	15.99%	53	2.05	$250.49	$335.13	13.37%	15.09%	17.15
2013	18.90%	26.67%	32.40%	61	2.73	$240.21	$386.47	11.92%	11.94%	14.50
2014	6.09%	4.94%	13.69%	60	2.14	$228.27	$355.34	9.27%	8.98%	11.73
2015	-1.90%	-0.89%	1.41%	67	1.65	$221.46	$329.66	8.74%	9.10%	10.47
2016	10.37%	7.50%	11.98%	74	3.00	$246.27	$366.49	8.70%	10.59%	11.08
6/30/2017	8.24%	10.65%	9.35%	73	n/a	$256.04	$330.86	n/a	n/a	n/a

Cumulative Return	353.20%	203.97%	339.40%

Annualized Rate Return:	GSCM %	WORLD %	S&P 500
Since Inception (12/31/96)	7.85%	5.72%	7.68%
10 Years	3.97%	3.82%	6.95%
5 Years	8.77%	10.41%	14.67%
3 Years	4.73%	3.79%	8.89%
Worst 3-yr Period	-16.44%	-42.15%	-37.61%

*Past performance is no guarantee of future results. Annualized and cumulative returns are as of 12/31/2016. See important disclosures and information on following pages.

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. A complete list and description of all firm composites is available upon request from GSCM by calling 800-301-8849. 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 December 31, 1996 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 and the MSCI World Index, which is a large cap representation across 23 developed countries. Accounts are removed on a monthly basis from the composite when assets fall below 70% of the minimum or cash increases to more than 35%. 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 aggregated 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. 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. 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

Compliance Statement: Greenfield Seitz Capital Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. GSCM has been independently verified for the periods January 1, 1997 – December 31, 2016. The verification report(s) is/are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Zero Fee Accounts: GSCM's Core Composite has 4 accounts with zero fees, which make up 2.13% of the total composite assets as of 12/31/2016. Of the 4 accounts in the composite, the first entered in 2011. Following are the number of accounts and percentage of composite assets since any non-fee paying accounts has entered the composite: 2011 - 1 account, 0.40%; 2012 - 1 account, 0.42%; 2013 - 3 accounts, 1.47%; 2014 - 3 accounts, 1.66%; 2015 - 4 accounts, 1.99%.

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. 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. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. You should consider our investment objectives, risks, and fees carefully before you invest.

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