SEVEN SUMMITS CAPITAL

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JANUARY 2016 INVESTMENT COMMENTARY

WHILE MARKETS HAVE STRUGGLED, SEVEN SUMMITS CAPITAL FINDS WAYS TO IMPROVE ON PROCESS, INVESTMENT OPPORTUNITIES & AREAS OF EXPERTISE

As we start 2015, following a flat to down year for most stock markets around the world, investors are faced with many “known unknowns”. There are known economic unknowns, that include the ramifications of divergent monetary policies between the U.S. Federal Reserve and other advanced countries’ central banks, as well a new phase of the Chinese capitalism experiment. China is attempting to forcefully transition its economy away from being led by manufacturing and exports to focusing on services and domestic consumption; while also loosening the reigns on its stock market. These economic and capital market “known unknowns” are joined by known geopolitical unknowns, such as terrorism risk, smoldering Middle Eastern tensions, and the reemergence of Russian aggression. We also are in the midst of the U.S. Presidential election cycle that inherently introduces uncertainty. With all of these concerns overhanging the capital markets, as well as the constant risk of an unexpected economic shock or world crisis, investors are understandably very cautious.

Below, are four market observations that encapsulate the 2015 capital markets:

1. Within the U.S. markets, flat to down performances were posted by broad stock, bond, and cash indices.
2. Internationally, emerging market stocks and bonds experienced material losses.
3. The MSCI All-Cap World Index, minus the U.S., posted a loss of 3.37%.
4. The vast majority of stocks within the S&P 500 fell in price during 2015 as evidenced by the negative -1.90% return of the Guggenheim Equal Weight S&P 500 ETF (RSP) versus the positive 1.38% total return of the market cap weighted S&P 500 index.

It was not surprising to us that 2015 market returns were generally down as measured by most broad indices. I wrote about unusual market action beginning in 2014 and warned about worrisome imbalances at the beginning of 2015. On a couple of occasions throughout last year, I expressed concerns about implications of narrowing market breadth. The most recent period of narrow stock market breadth can be traced back to the end of the second quarter of 2014. During the second half of 2014, both high yield defensive stocks and high momentum growth stocks became the beneficiaries of money fleeing from energy related securities and any other companies experiencing short-term issues. This market rotation marked the beginning of a stock market environment that was largely driven by a counter-intuitive combination of both fear and momentum. For most of 2015, the markets appeared reasonably tame, except for several brief bouts of extreme day-to-day volatility between mid-August and mid-October. However, the relatively flat stock market indices masked the shrinking market leadership, where several very large high momentum stocks advances offset significant downtrends among the majority of stocks. Major financial news networks began to characterize the market as FANG, which stands for Facebook, Amazon, and Netflix & Google. For 2015, the stocks of these four very large/mega-cap companies rose on average of 83.23% and, at the end of the year, these companies represented approximately 15% of the total $7.8 trillion market cap of all S&P 500 companies.

For the most part, the average Seven Summits Capital equity-oriented portfolio performed within one or two percent in either direction compared to the broad MSCI All-Cap World Index, which ended the year down 2.37%. However, our concentrated biotech portfolios and some client portfolios that were less diversified, yet more growth company oriented, eked out a positive low-to-mid single digit return for 2015.

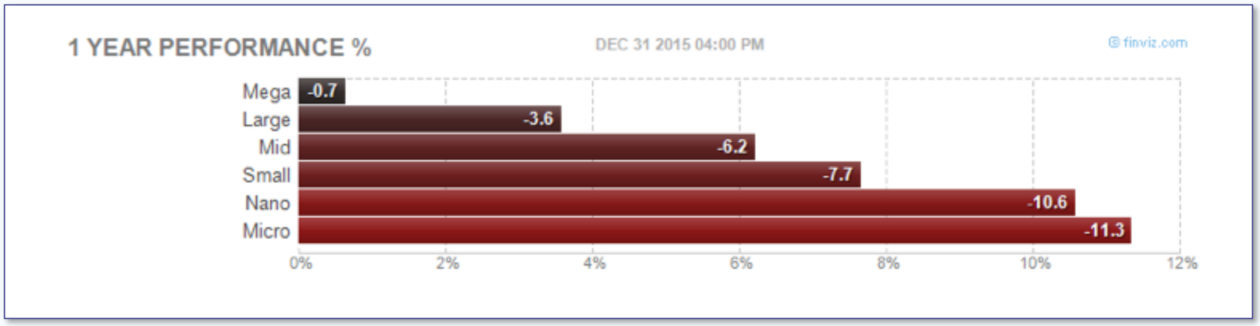
During a year such as 2015, where market breadth became increasingly narrow and led by high momentum large or mega-cap stocks, a core strategy that is diversified and valuation-oriented has a difficult time generating positive returns. A stark reminder of how even the very highest quality companies that do not belong to the high momentum growth contingent of the market were cast aside in 2015 is Warren Buffet's Berkshire Hathaway (BRK.B), which dropped by 12.06% in 2015. Further illustrating the narrowness of the U.S. stock market in 2015 are the mutual fund category returns from Morningstar listed below from best to worst performing:

Stock Fund Category	2015 Category Average Total Return
Large-Cap Growth	3.60%
Mid-Cap Growth	-0.95%
Small-Cap Growth	-2.42%
Large-Cap Value	-4.04%
Mid-Cap Value	-5.40%
Small-Cap Value	-6.70%

Looking at the market purely from the perspective of market capitalization shows the aforementioned contrast between the small contingent of mega-cap stocks and the rest of the market:

Seven Summits Capital equity portfolios are historically concentrated in companies whose stocks present attractive relative valuation and easy to understand business models. These characteristics have historically led us to the lower end of the large-cap scale, as well as companies at the larger end of the mid-cap category. In spite of how market returns were unevenly distributed between growth and value and between market capitalization categories, we were able to navigate 2015 with portfolio returns generally in line with the broad indices. We achieved this relatively inline performance by only having broad exposure to one of the stellar performing mega-cap, high momentum growth stocks during 2015. This stock was Facebook, which was originally purchased in the spring of 2014 at around $26 per share. At the time of the purchase, Facebook's stock qualified under our flexible definition of relative value as a compelling "growth at a reasonable price" opportunity. Facebook's growth and strategy execution since purchase has allowed its fundamental relative valuation to keep up with its spectacular stock appreciation, thus allowing us to maintain it within portfolios with only minimal profit-taking along the way. A small number of accounts that opened well after the original Facebook purchase, which did not hold Facebook, benefited from allocations to Google and/or Amazon at much lower prices than these stocks sit at today.

Seven Summits Capital's investment discipline can produce early purchases of companies, such as Facebook. However, many times this same discipline compels us to exit those types of stocks too early. A good example of this was the widespread purchase of Tesla Motors in 2014 at the same time that we purchased Facebook. The Tesla purchase occurred when the stock was trading in the mid-40's per share. Over the following six months, Tesla's stock more than doubled and we deemed that it had overshot its fundamental relative valuation, thus resulting in a full



sale of the position for a short-term return approximating 100%. Today, Tesla's stock is trading north of $230 per share. Due to the fact that we have not historically included any technical momentum indicators within our process, our portfolios missed out on an additional 270% appreciation in a company that we continue to admire.

Recognizing that one of the weaknesses to our discipline is the lack of any technical analysis with which to counterbalance our fundamental relative valuation process, we have been evaluating a proven research process that has successfully married both fundamental valuation and technical momentum indicators. After more than six months of evaluating this research process, we will be incorporating several aspects of it into our buy/sell decision-making process. We expect that this additional layer of research will help inform us on positive share price momentum in order to attempt to avoid another missed opportunity, such as the one that occurred with Tesla.

Another area that plagues many money managers is the ability to access dividend coverage sustainability analysis. Our record in this area has shown mixed results in the past. The new research that will inform us on price momentum indicators also, on the fundamental side, has shown itself to be very adept at spotting trouble relating to dividend coverage issues. One of the successes that we had during 2015, while testing this new research data, was an early warning about potential dividend coverage issues with Kinder Morgan, when the stock was trading around $39 per share in late July. This warning led us to sell out of this widely held stock at that time. This sale occurred two months prior to many Wall Street research reports warning about Kinder Morgan's cash flow issues. Today, Kinder Morgan's stock is trading below $15 per share, as a result of what are now well known issues with debt and operating cash flow levels at the company. Our sale decision was a non-consensus decision at the time, however over the following three months the consensus opinion regarding this company reflected our assessment.

We are continually looking for ways to improve our process and delivery of service. Being a successful money manager requires a balance between stubbornly sticking to certain fundamental, time-tested, methods even when they are not producing immediate results and recognizing the need to improve in other areas. We believe that by incorporating the aforementioned new research capabilities into our process, our buy and sell decision-making will be enhanced, thus leading to better portfolio management decision-making.

While research and process enhancements are subject to ongoing improvement, every so often it becomes necessary to think outside the box in regard to the type of investments that we utilize within portfolios. Over the last several years, we have identified a need to deliver a broader array of asset classes due to anticipating stretched equity valuations and a very protracted, challenging fixed income environment. Since then, we have been incorporating private equity, private real estate, and non-public strategic debt strategies into our clients' portfolios. These alternative private market investments have provided a level of diversification as well as income and capital appreciation potential that we would not have been able to find within the public markets at this point in the market cycle.

In last month's commentary, we introduced a diagram that was designed to illustrate the core competencies of Seven Summits Capital, as well as the expertise that our clients can access through collaborative relationships that we have formed with other trusted regional advisory firms. These collaborative relationships enable our clients to be able to access a much wider breadth of wealth management services beyond our traditional asset management capabilities. These collaborative relationships are with firms that adhere to the same ethical and objective business practices that clients have come to expect from Seven Summits Capital.

I am very excited to begin 2016 with the process enhancements that are taking place. As always I expect that the market will be unpredictable, therefore predicting market action year-to-year is not something that I will do. The challenging market environment of 2014 and 2015 has meant that portfolios are mostly flat to modestly positive over the last 18 months or so. These sideways periods in the market typically conceal significant price dislocation at the stock and sector level. This time is no different and such dislocations have created many compelling opportunities for the long-term investor. Beyond the public market opportunities, I also am looking forward to introducing additional private market investments to our clients as well. Lastly, Seven Summits Capital's collaborative relationships will increase the value that we can extend to our clients.

No matter what the markets have in store for investors this year, during those times that the market turns its focus to fear instead of reality, I will, without hesitation, be seeking opportunities for long-term wealth creation.

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