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JULY 2015 INVESTMENT COMMENTARY

DON'T LET THE MARKETS PLAY YOU

This year I have written recently about the broad market, valuation issues, and long-term performance expectations. This subject matter is of less importance to the day-to-day task of portfolio management and security selection than it is to the psyche of investors. A value seeking process, such as is employed at Seven Summits Capital, will gravitate to under-valued securities within and outside the public markets regardless of broad valuation measures. The aforementioned diminishing returns available in the broad markets are largely inconsequential to our security selection process, with the possible exception of the relative weighting of non-public investments.

With that being said, albeit the last week of June, the broad U.S. equity markets have been remarkably calm so far in 2015, given the negative GDP growth reported for the first quarter, a persistently strong U.S. dollar that has held down the profits of multinational U.S. companies, rising interest rates, and concerns over the possible implications of a disorderly outcome from the Greek debt negotiations. The relative calm in the U.S. equity markets during the first five and half months of the year has not dissuaded us from our normal level of caution when it comes to security selection. In fact, we believe that at this point in the market cycle selective risk taking requires a heightened level of prudence. To Seven Summits Capital, selective risk taking has nothing to do with market timing, but instead requires us to become even more critical of our investment choices pertaining to valuation, earnings quality considerations, and future growth and profit margin assumptions.

For the most part, our clients expect a continual process of risk management to occur within their portfolios. Risk management can be a subjective term and for new clients our process of risk management necessitates explanation. Over the last year we have been busy bringing in new clients. When it comes to new clients, a period of unlearning old habits and ineffective conventions requires diligent expectation-setting on our part, as well as continual reinforcement of the tenants of our process.

Working with a brand new client is extremely rewarding not only because someone has chosen Seven Summits Capital to be the steward of a substantial amount accumulated wealth, but because we also get the pleasure of opening this person's eyes to the difference between playing the markets and investing.

Almost all of the readily available media coverage of the financial markets is geared towards playing the markets. Furthermore, in order to be fair and balanced, the financial media will tend to focus on investment strategists and traders who have opposing views, usually the views that are presented are bold and sensational. A discussion about one company having a superior return on invested

cash flow would not be headline grabbing. However, making bold market calls in the context of a discussion of Greece being kicked out of the European Union garners higher viewership and thus more advertising dollars. This hyper-focus on the market's every move and the tendency to put a bull or bear spin on every geopolitical event, Federal Reserve meeting, or monthly economic statistic release, only reinforces the idea that investors should pay attention to these things and react accordingly. Thus, all of these occurrences move the markets and tempt market participants to become "risk on" or risk off" investors, which ultimately puts the market in control of investor behavior.

At Seven Summits Capital, we are investors. We are neither traders nor asset allocators and we are definitely not inclined to passively watch our clients' wealth fluctuate with the unpredictable currents associated with the broad market. Instead, we strive to identify investments that will help accomplish a preset investment objective for a given client's portfolio by seeking out superior risk adjusted return opportunities. We do not allow the market to play us.

Frequently, new clients remark that they see their portfolio(s) take shape very differently from what they were previously accustomed to. Instead of seeing ten to twenty different mutual funds and ETF's, they now see individual companies, individual bonds, and non-traded private placements in their portfolios. For most new clients, this Seven Summits Capital relationship is the first time a client has ever been in a position to directly communicate with the portfolio manager responsible for the investment decisions made on their behalf.

The Seven Summits Capital approach is very simple, we evaluate a client's investment needs on an individual basis and select securities only when we understand how to value them. We in turn avoid those investments where complexity or uncertainty obscures the ability to form a valuation opinion. Investments are continually monitored and changes that may affect our assumptions are factored into our assessment regarding growth, profitability, capital allocation, and, ultimately, target price.

We factor into our decisions a myriad of disparate factors that range from quantifying management's ability to create value for shareholders and assessing competitive advantages versus competitive risks. What is usually the most significant change that new clients have to become comfortable with is our conviction, which is our willingness to give our investments the necessary time to play out. This means that during the early stages of portfolio construction, many new positions may remain relatively flat or trade at lower prices due to each individual position's thesis not having time to play out. Once a new portfolio is fully positioned our investment strategy begins to flourish and over time our research and patience begins to produce the desired results. Once an investment thesis begins to play out with a given investment, many positive actions tend to occur, such as rising share prices, improved market sentiment surrounding the investment, and favorable forecasts with higher target prices that are assigned by analysts.

When it comes to sell decisions, a sometimes difficult concept for new clients to understand is our rational of reducing exposure to an investment once it garners a significant amount of positive attention in relation to its improved results. This decision is not simply based upon the premise of "buy low, sell high". Instead we believe that this rational makes a lot of sense because the valuation gap between market price and fair value has narrowed. Essentially, when an investment is underappreciated, the pricing of the investment is more inefficient (cheaper) than when it becomes a Wall Street favorite. From our vantage point, the risk/return relationship is much more favorable when prices are low and sentiment is weak. Once a large gain occurs in one of our investments, market price becomes a lot closer to our target value and often prompts

us to take some profits. However, if due to growth and profitability improvement share price and valuation fundamentals rise together, we will likely continue to hold the investment until it becomes too overpriced.

In summary, as stated in previous commentaries this year, we are not overly concerned about an equity market bubble or a looming economic recession. Instead we simply recognize that the fundamental underpinnings of the broad U.S. equity markets have deteriorated to the point where future returns over the next several years are likely to disappoint. This type of environment can be very uncomfortable for many market-oriented investors. However, by not being a market-oriented investor and by having navigated other high valuation markets over the past eighteen years, I know that opportunities are always present. In order to uncover opportunities, one needs to avoid fixating on the broad market and, instead, utilize a time-tested repeatable process in order to successfully identify value. At Seven Summits Capital, we are well practiced with executing such a value-seeking process because it is what we confidently do every day, no matter the period of a market cycle we find ourselves. If the market volatility that manifested itself in the markets toward the end of June persists, or becomes heightened in July, we will not be dissuaded from our focus on identifying value opportunities.

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