Sweetbay Capital Management, LLC

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The first half of 2017 was an unusually active period of capital deployment for Sweetbay. We are finding ample opportunities as, according to Thomson Reuters, global value stocks are as cheap relative to U.S. growth stocks as they were in the technology bubble of the late '90s. Our new investments are briefly described below. With the exception of TripAdvisor and Dollar Tree, they fall into two categories.

The first category contains companies based in Europe and Japan, where broad stock market valuations are 50-60% of U.S. stock market valuations. The relative cheapness of European and Japanese equities reflects economic factors such as higher unemployment and corporate profit margins that are weaker than historical norms. As it relates to our European investments, Barclays noted in 2016 that European net corporate profit margins were the lowest relative to those in the U.S. since 1990. An additional source of value stems from the benefit of investing with U.S. dollars, which, at the time of our purchases, had strengthened by more than 20% against the Euro in the last three years.

The second category contains resource stocks, which we believe represent good value as a broad array of commodities are trading for low prices relative to their production costs. In a white paper published last fall, Jeremy Grantham highlighted that, over ten-year periods since 1970, resource stocks have, on average, outperformed the rest of the S&P 500 with low to negative correlation to the rest of the S&P 500. To capitalize on what we perceive as value created by cyclical weakness, we have accumulated a basket of high market share companies with strong balance sheets across various resource markets including oil, natural gas, agriculture, and gold.

New Investments

TripAdvisor

TripAdvisor (TRIP) owns and operates a portfolio of leading online travel sites. The online travel market continues to take share from traditional travel agents, and is growing around 10% annually. TripAdvisor is a high quality and cash generative company with significant brand value and an entrenched competitive position. According to comScore, 50% of online travel researchers who completed a booking visited TripAdvisor at some point during their research, reinforcing the quality and importance of the brand. User engagement continues to grow, with reviews and opinions up 43% year-over-year in the first quarter to 500 million.

TripAdvisor’s stock has been under significant pressure over the last few years because the business is undergoing a transition from a review site to an end-to-end offering for online travel needs. Under the leadership of CEO Steve Kaufer, who co-founded the company in 2000, TripAdvisor has successfully navigated market transitions in the past. We have confidence in Kaufer and we value his unique willingness to sacrifice a few quarters of earnings in order to build

a stronger company over the long term. Being aligned with Liberty Media and its CEO Greg Maffei, TripAdvisor's largest shareholder and chairman, respectfully, adds to our confidence.

Guidance for 2017 calls for double-digit revenue growth and flat to down EBITDA as the company invests to move further down the travel funnel. The earnings power of the business is also currently obscured by losses from the non-hotel business, which is expected to reach profitability in 2017. The non-hotel segment includes bookings for attractions, restaurants, and vacation rentals, with the third largest vacation rental marketplace behind Airbnb and VRBO. TripAdvisor's shares are trading around 13.5x depressed EBITDA, or 9x net of our estimate of the non-hotel segment's private market value based on a significant discount to peer multiples. We believe consolidated EBITDA can double over the next several years, representing a compelling opportunity at the current share price.

Dollar Tree

Dollar Tree (DLTR) is a value-oriented retailer of everyday goods. Having acquired Family Dollar in 2015, Dollar Tree operates in a duopoly with Dollar General (DG). Dollar Tree offers greater convenience to customers with its smaller and more centrally located stores as compared to Walmart. It also competes well on price with Walmart, even with its smaller scale, because it sources far fewer SKUs. Since its founding 30 years ago, Dollar Tree has improved the quality of its merchandise while maintaining its $1 price point, despite the impact of inflation on the value of a dollar.

Concerns about the future of the retail industry have negatively impacted Dollar Tree's stock. Yet, the company continues to have positive same store sales growth, and has grown earnings 13% annually over the last five years, while other retailers have struggled to compete with the rising dominance of Amazon. Dollar Tree's $9.40 average ticket makes it less susceptible to competition from Amazon.

Operating margins for the Dollar Tree segment have been remarkably consistent over the last decade. Family Dollar's margins are one-third of Dollar Tree's. As the combined companies are integrated, and as management infuses its industry-leading operating processes on the Family Dollar stores, we believe the consolidated margin will rise. Management has identified $300 million of cost synergies, which equates to 18% of 2016 operating income for the consolidated company. The shares have historically traded for 18-22x earnings, reflecting the growth and quality of the business. We view the current 15x multiple of estimated 2017 earnings as a bargain, given the opportunity for continued top-line growth, as well as margin improvement potential from Family Dollar.

Sony

Sony (SNE) is a collection of high market share businesses with an unlevered balance sheet that is trading for a fraction of the multiples of its global peers. We purchased shares for 0.7x sales (versus 3.6x sales for global peers) and 6x fiscal 2017 estimated EBITDA, based on management's guidance of 500 billion yen of operating income for the fiscal year ending March 2018.

After years of restructurings, we believe Sony is finally turning a corner with a path to profitable growth under the leadership of CEO Kazuo Hirai and CFO Kenichiro Yoshida. Sony is more focused on creating shareholder value; it sold its money losing PC business, turned around its legacy TV and mobile phone businesses, and is focusing on its growth markets. While Japanese companies face structural cost challenges, we believe these strategic moves have laid the foundation for an improvement in Sony's current operating margin of 3.7%, which compares to an average of 16% for its global peer group.

Sony's legacy businesses, including home entertainment/sound and mobile, appear to have stabilized, and its music, pictures, and life insurance businesses represent steady profit generators and high-quality assets. Key growth assets include gaming (PlayStation) and image sensors, which are semiconductors used in cameras. The primary end market for image sensors has been smartphones, but future growth opportunities include applications for auto, medical, and security systems. We believe Sony's below-peer margins and valuation, dominant businesses, and pristine balance sheet combine for a compelling investment case.

Vivendi

Vivendi (VIVHY), based in Paris, is a global media conglomerate with content and distribution assets spanning music, television/film, and gaming markets. French billionaire activist Vincent Bolloré, who has a demonstrable track record of value creation through his holding company, Bolloré Group, has gained control of Vivendi in recent years. Vivendi has three primary assets: 1) Universal Music Group (UMG) is the world's largest music recording and publishing company with about one-third of the global market; 2) Canal+ Group is a film and television studio and pay-TV operator with over 14 million subscribers in France, Poland, Vietnam, and Africa; 3) Non-consolidated investments include material stakes in Telecom Italia, Mediaset, and Ubisoft.

We invested in Vivendi at an enterprise value of €20.7 billion. Based on peer multiples, we valued Canal+ Group at 1x revenue of €5 billion. The public market value of the non-consolidated investments is currently about €7.3 billion. That leaves a stub value of €8.4 billion for UMG. Subsequent to our investment, Vivendi's general counsel disclosed that, in 2015, the company received an indication of interest, rumored to be from John Malone's Liberty Media, of €13.5 billion for UMG. He also disclosed that investment bankers, in recent discussions with Vivendi about the possibility of a partial spin-off of UMG, valued that business at €20 billion. After a challenging period for the recorded music business, it is now benefiting from the growth of subscription streaming music. We are participating in this through both Vivendi (UMG) and Sony (Sony Music). Recently, this music distribution model, popularized by companies such as Spotify and Apple Music, has more than offset the negative effects on the music industry from declining physical album sales. This is evident in UMG's operating income growth of 34% over the last three years.

We believe the material discount to fair value reflected in the current share price can be closed either by a partial spin-off of UMG, a recovery in the depressed business fundamentals at Canal+ Group or Telecom Italia, or the execution of Bolloré's vision of a more integrated media empire.

Nestlé

Nestlé (NSRGY) is the largest food and beverage company in the world. Its portfolio includes over 2000 brands, from well-known global brands such as Nescafé, Nespresso, S. Pellegrino, Gerber, KitKat, and Purina, to regional favorites like Ninho and Maggi. Faced with slowing growth and increasing competition, consumer packaged goods companies have been realigning their cost structures. Unlike industry peers that have improved operating margins meaningfully over the last several years, Nestlé's margins have remained flat at about 15%. At the time of our investment, the forward earnings multiple had declined to a slight premium to that of the market, and the dividend yield was 3%. We believed that valuation did not reflect the quality and stability of Nestlé's aggregate businesses, as well as the opportunity for margin improvement. In addition, in light of our view that stock market risk is higher than average due to stretched broad market valuations, the defensive nature of Nestlé's business is appealing.

The company recently hired its first outside CEO in a century, and announced major efficiency initiatives that are expected to improve margins by 200 basis points by 2020. Subsequent to our investment, Third Point LLC, led by activist investor Dan Loeb, announced a $3.4 billion investment in Nestlé. Loeb called for further steps to improve margins, increased share repurchases, and the sale of non-core assets, such as its $27 billion stake in L'Oréal, a French cosmetics company. Nestlé later announced that it will repurchase $21 billion of shares, or about 8% of the company, over the next three years. We believe these share repurchases, together with management's efforts to streamline the business, will be positive catalysts for Nestlé's shares.

Total

France-based Total (TOT) is the world's fourth largest independent integrated oil and gas company. Depressed oil prices are feeding the narrative that a peak in oil demand is approaching. Just ten years ago, when oil prices were more than three times the current level, the general market concern was about a peak in oil *supply*. It's hard not to conclude that the price of oil affects the perception of the oil market.

So what are the facts? According to the International Energy Agency (IEA), transportation accounts for nearly two-thirds of global oil consumption. While electric vehicle penetration is increasing, they account for just 0.2% of vehicles on the road globally. Additionally, data from BP indicates that U.S. per capita oil consumption is 7x and 19x that of China and India, respectively. The rate of economic growth in these regions is triple that of the U.S., illustrating the potential demand growth from emerging markets. Given this backdrop, we believe risks to continued oil consumption growth appear far off, and well-financed energy companies have time to adapt to the evolving market. For example, Total has emphasized the development of its natural gas assets, which should benefit from growth in electricity consumption as electric cars eventually become mainstream.

Another major trend affecting the oil market is the development of U.S. shale, which now accounts for about 5% of global production. Baker Hughes rig count data shows that more than half of total U.S. onshore rigs drilling unconventional oil basins are in the Permian. This suggests that the opportunity to profitably extract oil from shale at current commodity prices is confined.

Total has the highest return on equity and the lowest production costs per barrel equivalent of oil compared to its global integrated peers. It also has the strongest balance sheet, with a net debt to EBITDA ratio of 1.2x, even after operating earnings have fallen 57% from the prior cycle peak. In comparison, operating earnings for its global peers have declined by an average of 62%, and net debt to EBITDA currently averages 1.9x. In addition, the majority of Total's debt is not due for at least five years. The shares yield 5.6% and trade for 11x 2017 earnings, a multiple that is 40% lower than its U.S. peers. The dividend is manageable at the current earnings rate. With the shares trading at a low multiple of depressed earnings, we believe the upside is attractive in an earnings recovery.

Sandstorm Gold

We believe gold is a sensible investment in light of the four-fold increase of the world's three largest central bank balance sheets since 2009. Additionally, a flood of gold supply appears unlikely as the quadrupling of the price of gold since 2000 has led to investment that produced just 1.5% annual growth in global production, according to the United States Geological Survey. The increased scarcity of large-scale, high-grade ore deposits has held supply in check despite increased investment.

Sandstorm Gold (SAND) provides financing to gold mining companies in the form of royalty or streaming agreements. Royalties entitle Sandstorm to a percent of a mine's revenues, while streaming agreements allow Sandstorm to purchase a percentage of the gold produced at a mine for a price well below production costs. Royalty and streaming agreements help protect Sandstorm from the high sustaining capital requirements and cost overruns that are common in the gold mining industry. Sandstorm's asset-light business model and the fixed terms of its streaming agreements provide a more effective inflation hedge than mine operators.

Sandstorm's portfolio consists of 143 streams and royalties, with 21 producing stable cash flows. Adjusted for the value of non-core investments, we purchased the shares for about 13x 2017 cash flow, a discount to peers. We believe the shares should appreciate at least in-line with an anticipated mid-teens rate of cash flow growth for the next several years as more of its development-stage mines reach production. We assume a flat gold price, which currently trades 35% below its 2012 peak price. Gold price appreciation would lead to higher cash flows for Sandstorm, and would likely cause the market to pay a higher multiple of cash flow. We believe Sandstorm is an attractive investment in the current market environment, but it also should provide protection if market volatility, currently at historical lows, increases.

CF Industries

CF Industries (CF) is a global leader in nitrogen fertilizer manufacturing and distribution, and the largest nitrogen producer in North America. Agriculture is an area that intrigues us due to the long-term trends for global population growth and diminishing arable land. Unlike other fertilizers (phosphate and potash), nitrogen must be applied annually to sustain crop yields. Global demand for nitrogen is expected to continue to grow at a rate of approximately 2% per year. CF is well-positioned longer term as the low-cost producer globally with a solid financial position. CF's

primary input is North American natural gas, which is lower cost and more reliable than gas in other parts of the world. China producers use coal or higher cost gas, and are subject to high logistics costs.

In recent years, nitrogen prices have been negatively impacted by excess supply, particularly out of China, and weak crop prices weighing on farmer demand. North America continues to be dependent on imports, which account for 30% of the market. Because Chinese producers are operating below cash costs, total urea (a primary nitrogen fertilizer product) exports from China are expected to be down 44% in 2017 compared to 2016, with many of the plant closures permanent. Expected net new capacity additions are expected to be significantly below demand post 2017.

We think CF's dividend yield of 4.3% is well-covered, and the company is committed to its investment grade credit rating. At current levels, the stock is trading around 11x current EBITDA, 5x peak EPS, and a discount to our estimate of replacement cost.

Fluor

Fluor (FLR) is one of the world's largest providers of engineering and construction services across a number of industries including oil and gas, petrochemicals, mining and metals, transportation, power, life sciences, and advanced manufacturing. It designs and builds everything from highways, bridges, and railways to power plants, pipelines, refineries, and LNG terminals. The massive scale of these projects limits counterparty risk; its two largest customers are the U.S. government and ExxonMobil. A second benefit of the scale and complexity of Fluor's projects is limited competition. Bidders typically number fewer than five, which tends to keep pricing rational. That's one contributing factor to Fluor's high-teens average return on equity, despite an unlevered balance sheet.

Fluor's earnings have fallen by half since the energy recession began, but it has continued to generate positive free cash flow. The last time there was an energy recession at the same time the stock market was reaching new highs ('99/'00), it was a great entry point for Fluor's shares, especially in comparison to the overall market. We believe this will again be proven out over the next few years. The shares trade for 10x prior cycle peak earnings. Given our view on the stability of energy consumption growth and the need for increased infrastructure spending, we believe future earnings will ultimately exceed past peak earnings. With a strong market position, and its fate tied to the ever-increasing strains on the backbone of global commerce, we view Fluor as an attractive investment at what appears to be the valley of its earnings cycle.

As always, please reach out to us with any questions or comments.

Sweetbay Capital Management

Important Disclosures:

The views expressed are those of Sweetbay Capital Management, LLC as of July 2017, and are subject to change at any time based on market and other conditions. This is not an offer or solicitation for the purchase or sale of any security. While the information presented herein is believed to be reliable, no representation or warranty is made concerning its accuracy.

Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable. The New Investments section describes each new security in which we initiated a position during the referenced six-month period. Every security may not have been purchased for each client based on the timing of a particular account opening, or based on assessed needs of a particular account.

Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that the future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended by the adviser) will be profitable or equal to past performance levels.