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“A MAJOR CAUSE OF HIGHER PRICES is higher prices; but when the trend is reversed, then lower prices lead to still lower prices. To buy when others are despondently selling and to sell when others are avidly buying requires the greatest fortitude and pays the greatest ultimate rewards.”

Sir John Templeton
“Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria. The time of maximum pessimism is the best time to buy and the time of maximum optimism is the best time to sell.”

Sir John Templeton
“PEOPLE ARE ALWAYS ASKING ME where the outlook is good, but that’s the wrong question. The right question is: Where is the outlook most miserable?”

Sir John Templeton
“If you want to have a better performance than the crowd, you must do things differently from the crowd.”

Sir John Templeton
20 Year Annualized Returns by Asset (1995-2014)

Sources: Blackrock, Bloomberg, Informa, Dalbar
Characteristics of a Successful Investor

1. Humility
2. Delayed Gratification
3. Thought Control
4. Calculated Risk Taker
5. Patience
6. Future Mindedness
7. Capacity to Suffer
8. Flexibility
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</thead>
<tbody>
<tr>
<td>Return</td>
<td>30.4%</td>
<td>7.6%</td>
<td>10.1%</td>
<td>1.3%</td>
<td>37.5%</td>
<td>23.0%</td>
<td>33.4%</td>
<td>28.6%</td>
<td>21.0%</td>
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### Current Consecutive Positive Calendar Year Returns - S&P 500

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</thead>
<tbody>
<tr>
<td>Return</td>
<td>26.4%</td>
<td>15.1%</td>
<td>2.1%</td>
<td>16.0%</td>
<td>32.4%</td>
<td>13.7%</td>
<td>1.4%</td>
<td>12.0%</td>
<td>6.1%</td>
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</table>
United States
S&P 500 Value relative to Growth

Sources: Advisor Perspectives, GaveKal Capital
VALUE INVESTING CONFERENCE

Source: LCG
Active vs. Passive Management ~ Rolling 5-Year Periods

Ranking of Rolling Five Year Returns
Domestic Equity Universe

Recent: 90th Percentile

Average: 54th Percentile

Source: LCG
“As they say in poker, ‘If you’ve been in the game 30 minutes and you don’t know who the patsy is, you’re the patsy.’”

Warren E. Buffett

Source: Simfund.
Exhibit 1: Flows from Active to Passive Funds in U.S. Equities

Source: Investment Company Institute; Simfund; Credit Suisse.
Note: U.S. domestic equity funds; 2016 figure as of 11/30/16.
Exhibit 9: Assets Under Management of Exchange-Traded Funds, U.S. Domestic Equity

Source: Simfund.
Note: U.S. domiciled equity funds; includes traditional, smart beta, and active ETFs; 2016 figure as of 11/30/16.
Follow up studies showed that children who passed the original marshmallow tests:

- Scored higher on the SAT
- Registered lower levels of substance abuse
- Registered lower instances of obesity
## Current Landscape

<table>
<thead>
<tr>
<th>Index</th>
<th>Current</th>
<th>LT Avg.</th>
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</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>17.8x</td>
<td>16.9x</td>
</tr>
<tr>
<td>MSCI ACWI P/E</td>
<td>16.1x</td>
<td>16.6x</td>
</tr>
<tr>
<td>MSCI ACWI Ex-USA P/E</td>
<td>14.3x</td>
<td>17.3x</td>
</tr>
<tr>
<td>MSCI Europe P/E</td>
<td>15.5x</td>
<td>18.6x</td>
</tr>
<tr>
<td>MSCI Emerging Markets P/E</td>
<td>12.4x</td>
<td>13.1x</td>
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<tr>
<td>10 Year Treasury Yield</td>
<td>2.28%</td>
<td>6.52%</td>
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<tr>
<td>U.S. High Yield - Treasury Yield</td>
<td>3.37%</td>
<td>5.22%</td>
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Today’s Market Conundrum

Simple Equity / Bond Portfolio

<table>
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<th>Est. Ret.</th>
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<tr>
<td>S&amp;P 500 with 18.5x P/E</td>
<td>5.41%</td>
</tr>
<tr>
<td>10 Year U.S. Treasury</td>
<td>2.33%</td>
</tr>
</tbody>
</table>

Weighted Average 3.87%

Needed for 4% Rule 5.50%

Sources: Bloomberg, Templeton and Phillips
Valuations Will Need Support from Growth in Order to Sustain at These Levels

\[ \frac{P}{E} = \left( \frac{\text{Payout Ratio}}{\text{Ke} - g} \right) \left( 1 + g \right) \]

\[ g = 6.7\% \]

S&P 500 P/E = 17.8x = \[ \frac{38.4\%}{1 + g} \]

9% - g

S&P 500 Annualized EPS Growth
Since 1979 = 5.5%
Since 2000 = 4.6%
Last 5 Years = 2.7%
2015 (ex-energy) = 0.2%
Reaching for Yield in 50-100 Year Bond Issues

Source: Bloomberg

Past performance is not indicative of future results. This is not a recommendation to buy or sell any particular security or invest in a particular sector or industry. Please refer to the disclosure page at the end of this document.
High Yield Credit Markets Remain Inflated

High Yield Bond Issuance

Source: Bloomberg

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High Yield Credit Markets Remain Inflated

Source: Bloomberg
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Source: Morningstar
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Out of Sync
The iShares Select Dividend ETF, or DVY, dropped much more at its low point on Aug. 24 than any of its individual stocks.

Percentage change at intraday low from previous close

DVY fell as much as 35%

Notes: Excludes AGI. Resources, which is to be acquired by Southern; figures are rounded.

Source: FactSet, THE WALL STREET JOURNAL.

Source: WSJ

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Failure to Prepare is Preparing to Fail

1. Research opportunities in distressed debt.
2. Allocate to active managers with good downside capture ratios and do not hug the benchmark.
3. Be ready to exploit liquidity problems.

Source: Morningstar
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Past performance is not indicative of future results. This is not a recommendation to buy or sell any particular security or invest in a particular sector or industry. Please refer to the disclosure page at the end of this document.
Lauren C. Templeton is the founder and president of Templeton & Phillips Capital Management, LLC; a value investing boutique located in Chattanooga, Tennessee.

Ms. Templeton received a B.A. in Economics from the University of the South. She is the president and founder of the Southeastern Hedge Fund Association, Inc. (www.sehfa.com) based in Atlanta, Georgia. In addition to these responsibilities Ms. Templeton also currently serves the following organizations: the Board of Trustees at the Baylor School, the Pre-business Advisory Council at the University of the South, Sewanee (Board Member) and, the Finance Advisory Board of the University of Tennessee Chattanooga.

Ms. Templeton is also an active member of Rotary International. She serves on the investment committee of Chattanooga Rotary Club 103 and the investment committee of Rotary International.

Lauren is the great niece of Sir John M. Templeton and is a current member of the John M. Templeton Foundation. The John Templeton Foundation was established in 1987 by renowned international investor, Sir John Templeton.

Templeton and Phillips began investing as a child under the heavy influence of her father as well as her late great-uncle, Sir John Templeton. Lauren began her professional career working with managed portfolios and investments in 1998, beginning as a junior associate at the financial advisor Homrich and Berg and later the hedge fund management company New Providence Advisors both of Atlanta. In 2001, Lauren founded Templeton and Phillips Capital Management, LLC which dedicates its efforts to the practice of value investing across the global markets using the same methods learned from her great-uncle, Sir John Templeton. Ms. Templeton is also the co-author of, Investing the Templeton Way: The Market Beating Strategies of Value Investing Legendary Bargain Hunter, 2007, McGraw Hill, which has been translated into nine languages.
Scott Phillips

Scott Phillips is portfolio manager and head of research at Templeton & Phillips Capital Management, LLC. Prior to working with Templeton & Phillips Capital Management, LLC, Scott Phillips founded Cumberland Capital Corp, located in Chattanooga, TN. Founded in June 2004, Cumberland Capital provided equity research services to Green Cay Asset Management, a hedge fund management company located in Nassau, Bahamas. In this capacity with Cumberland Capital, Scott was the lead research analyst on the Siebels Hard Asset Fund a long/short equity fund managed by Green Cay Asset Management. In addition to consulting on this fund Scott also provided equity recommendations for the Green Cay Emerging Markets Fund.

Prior to consulting Green Cay’s funds Scott was employed as a research analyst with Green Cay beginning in January of 2004. Before joining Green Cay, Scott was an equity research associate analyst with SunTrust Robinson Humphrey (including its predecessor companies) in Atlanta GA from January of 1999 to December of 2003.


Scott received his B.A. from the University of the South.
DISCLOSURES

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Fund Performance presented is that of the Templeton and Phillips Capital Management, LLC Global Maximum Pessimism Fund Offshore Founders Class Shares. The Founders Class is generally not available to most potential investors, but is presented because it represents the largest share class in the Fund. Other share classes have differing expense structures and their performance would be expected to be lower. Please read the Offering Memorandum for additional information.

Separately Managed Account performance information presented is based on a representative separately managed account in our Global Long Only Strategy. This account was selected as a representative account because it has the longest track record in our Global Long Only Strategy. Not every client's account will have these exact characteristics or the same performance. The actual characteristics and performance with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) timing of investment, (iii) investment restrictions applicable to the account, if any; and (iv) market exigencies at the time of investment. It cannot be assumed that another account would have the same performance or holdings even if following the same strategy.

Returns are presented net of investment advisory fees and include the reinvestment of all income. Net returns may be reduced by additional fees (outside of investment advisory fees) such as performance fees or transaction costs.

The comparative benchmarks represent past performance and are utilized on the statement solely for comparative purposes and are not indicative of future results. The MSCI ACWI (All Country World Index) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The Hedge Fund Research Global Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry. The volatility of these indices could be materially different from your portfolio. The indices do not reflect fees and expenses and they are not available for direct investment.

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