SEVEN SUMMITS CAPITAL

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DECEMBER 2014 INVESTMENT COMMENTARY

UKRAINE SANCTIONS/A WEAK EUROPEAN ECONOMY/PLUMMETING OIL PRICES

ONE OF THOSE RARE TIMES WHEN INTELLIGENT DIVERSIFICATION DOES NOT WORK

On December 4th, Ken Fisher, a high-profile money manager who owns Fisher Investments (the largest Registered Investment Advisor in the U.S.), was being interviewed on CNBC about this year's market environment. When reflecting on 2014, Mr. Fisher indicated that his firm was having a good year due to being positioned mostly in U.S. Mega-cap stocks. Mega-cap stocks are the largest of the large U.S. stocks and are represented by the major U.S. large-cap stock indices. This group of stocks, and a small number of industry sectors, such as healthcare and technology, are the only class of stocks working well this year. According to Mr. Fisher, "fewer and fewer stocks (are) leading the market this year" and that to be a successful investor this year, one does not want to "try to be too smart, you want to be stupid".

Mr. Fisher was not the only well-known investor who was discussing the peculiarities of today's markets on television recently. Jim Cramer, of CNBC's Mad Money show, recently began his show talking about "top-fishing" stocks. In other words, he was advocating buying only the stocks that have already performed very well this year. Those stocks would primarily be the mega-cap type of stocks that Mr. Fisher was discussing. To be fair to Mr. Cramer, he was only giving this advice in the context of picking stocks that he thought would do well through the end of the year. Therefore, this was Jim Cramer the short-term trader talking, not Jim Cramer the long-term investor who seeks out superior fundamentals.

Both Jim Cramer and Ken Fisher were eschewing market timing schemes. For Cramer it was just a short-term, jump on the winners and ride them to the end of the year type of strategy. However, with Mr. Fisher's investment strategy, his 2014 success followed a shift to large and mega-cap domestic stocks in 2012. Fisher Investments anticipated the market that we are now experiencing two years too soon. Although Fisher's prediction has finally become reality, his reasoning for the shift in investments is based on the idea that we are in the later stages of a bull market. Unlike Fisher, I do not see an aging bull-market driving the out-performance of U.S. mega-cap stocks but, instead, I see a global re-allocation. This reallocation can be traced back to March 2014 when Russia invaded the Crimea region of Ukraine and caused world stock markets to enter a "risk off" mode. At the beginning of April the U.S. stock market sold-off, with momentum stocks and small-cap stocks leading the way. This was the beginning of a relative strength shift that benefitted large-cap U.S. equities. In retrospect, an analysis of the Standard & Poor's chart (featured below) reveals how the S&P 500 has seemingly gained strength, hitting higher highs following every sell-off that occurred in 2014:

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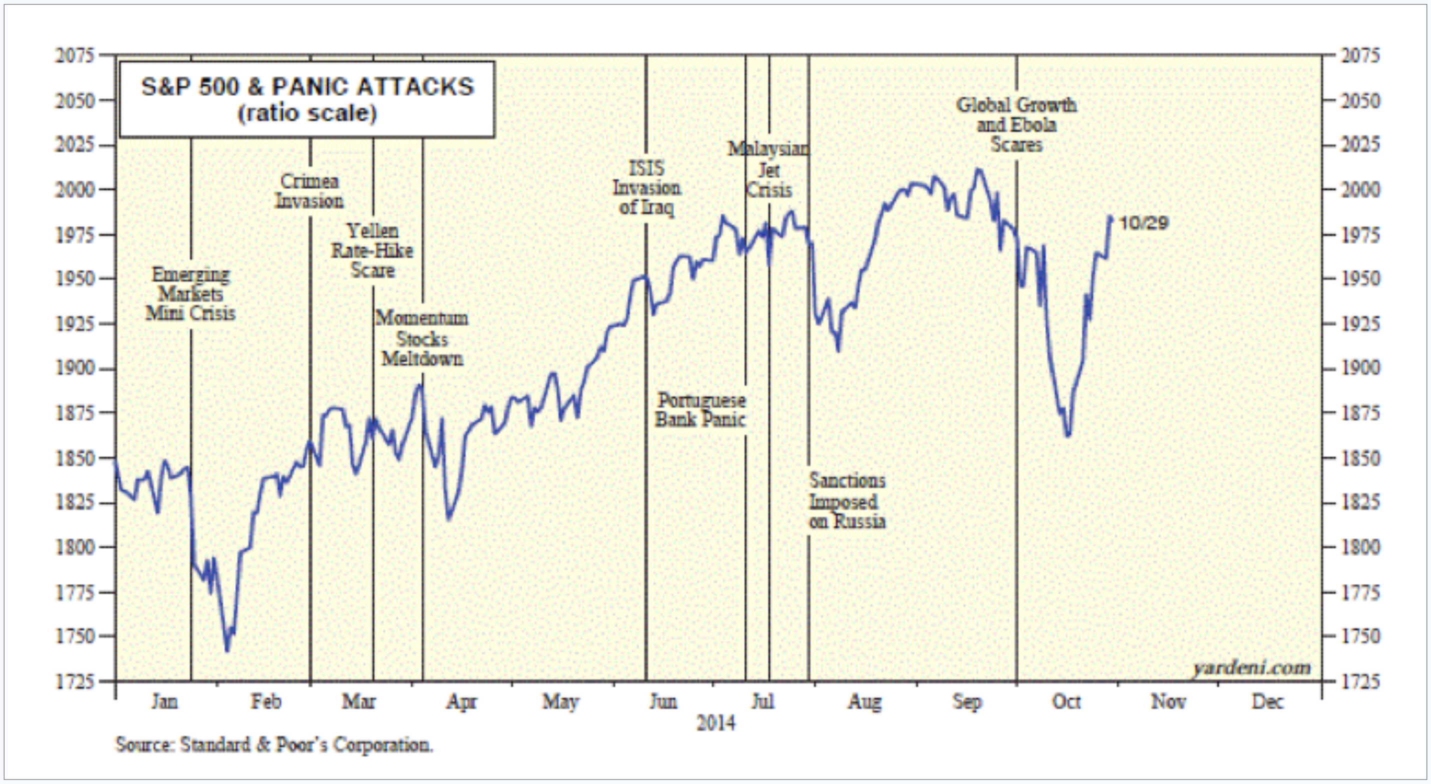

Although the chart above ends on October 29th, the S&P 500 continued to gain even more strength after the global growth scare and Ebola sell-off, thus allowing it to close on December 5th at 2,075. Additionally, the following chart illustrates indices representing large cap, mid cap, small cap, and international stocks during 2014:

S&P 500 (red/black candle line) S&P 400 Mid cap (blue) S&P 600 Small cap (orange) MSCI EAFE (green)

In the above chart, one can clearly see where the S&P 600 Small Cap index (orange line) began under-performing, following the Crimea invasion in March. The other asset classes continued to perform reasonably well, including the international stocks (green line), until late June when ISIS was propelled into the headlines after surprisingly successful military victories in Iraq. At this moment, all major equity asset classes corrected sharply, with the exception of the S&P 500. In fact, by referring to the above chart, it appears that after every sharp sell-off, first among small cap stocks and then with mid cap and international equities, the S&P 500's relative performance strengthened. The strengthening of the S&P 500 has become a prominent trend as 2014 has progressed, in our opinion due, to it being viewed as a proxy in the minds of most investors for the relative safety of the U.S. economy.

This is why Ken Fisher, along with Jim Cramer are promoting the idea of riding the large-cap stock momentum. Unlike Fisher, who is trying to time market cycle rotations, for Cramer it is a short-term trade through the end of the year. At Seven Summits Capital, this type of short-termism and market timing troubles us. For most investors, the major U.S. large-cap indices are the "market", and for most investors looking at only these major U.S. indices, the market has deceptively looked very buoyant throughout the year. Because of more and more investors becoming monolithic in the way they look at the market, there is a crowding effect that has happened. Basically one equity asset class, at the expense of all others, becomes the market of choice, thus distorting the price movement and valuation of individual stocks relative to their fundamental underpinnings. On November 7th, Andrew Kassen published an online article titled "S&P 500 Breadth: New Highs, Falling Participation", where he discussed the internal characteristics of the S&P 500 during a year like 2014. In this article he said that an investor should think about the S&P 500 as an index "that is hollowing out from the inside. The structure of leading stocks in leading sectors is still there, but tiring; meanwhile less conspicuous constituents are plateauing or even selling off". Thus, the internal dynamics of indexes, such as the S&P 500, present a story that does not accurately represent the common presumption equity markets are healthy overall.

At Seven Summits Capital, we do not shift investment strategies or make tactical allocation changes based upon short-term market dynamics. Therefore, we did not make any significant investment changes in the face of the shifting market leadership. We do however monitor valuation variances that occur between individual stocks and particular areas of the equity market. For instance, as we enter 2015, the valuation gap between large-cap U.S. companies and non-U.S. companies has widened significantly. This does not necessarily mean that we will suddenly feel compelled to begin lowering our U.S. stock allocation in favor of a larger allocation to international stocks. Our process is substantially bottom-up, meaning that we also have to find compelling individual stocks that meet both our valuation parameters and that possess a reasonably well defined set of catalysts which can move the stock in a meaningful manner over an 18-24 month time frame.

A CONTINUATION OF THE DISCUSSION OF LONG-TERM SECULAR THEMES

On the subject of compelling opportunities, Seven Summits Capital invested in NXP Semiconductor earlier this year. NXP Semiconductor is a company based in the Netherlands that is a worldwide leader in the design and manufacturing of near-field communications (NFC) semiconductor chips. These chips are commonly utilized in credit cards and smartphones to enable easier and more secure payment processing. With the introduction of the Apple Pay function on the new Apple iPhone 6, which uses

NXP's (NFC) chips, along with the U.S. requirement that all U.S. bank-issued credit cards include a (NFC) chip by the end of 2015, NXP Semiconductor is very well positioned. Digital payment technology is a transformational technology that we identified late last year (and mentioned in last month's commentary) as one of our investable secular themes. Once we identify a theme, we utilize traditional equity screening to focus on certain relative valuation metrics in an attempt to narrow our investment possibilities down to two or three candidates. NXP Semiconductor's market leadership in NFC chips and the company's under-appreciated growth drivers made this stock our first investment choice within the fast growing digital payment industry.

When we first purchased NXPI stock, it was trading around $46 and had a 1-year forward P/E of just 10, compared to a five year expected EPS growth rate in excess of 20%. This relationship between valuation and expected growth provided a compelling valuation. As of November 28th, NXPI was trading at $77.81, which was 69% above our initial purchase level. We continue to hold NXPI stock. Based upon our current assessment, its valuation, is still very attractive.

We continue to view digital payment technology as a very attractive secular trend that will undoubtedly create additional investment opportunities among other hardware, software, and emerging payment technology companies, such as Bitcoin. We are watching Bitcoin technology closely and view it as the first of a new type of digital money that has the potential to disrupt the business models of traditional financial services companies.

COMMENT ON CRUDE OIL PRICES

Energy-related equities have experienced the sharpest correction I have seen during my career, excluding the indiscriminate equity sell-off that occurred in late 2008 and early 2009. As a manager of diversified portfolios, we naturally have energy company exposure. With oil prices dropping from over $100 per barrel, to less than $60 per barrel over the last 5 months, no company that is directly or indirectly associated with the oil and gas industry has been spared. Although this stock sell-off has been extraordinary, we have been investing in commodity driven stocks for two decades and realize that oil, as a global commodity, is subject to extreme volatility that can occur when adjusting to changing supply and demand dynamics. We are certain that the current volatility will reduce and prices will find equilibrium. In other words, market forces will prevail and prices will find a level where demand can be met with prices that allow for profitable exploration, extraction and refining.

In the meantime, insider buying by the executives of oil and gas companies has increased substantially within the last month. In fact, on December 8th, Bloomberg contributors Lu Wang and Oliver Renick published an article titled "Energy Insiders See 'Fire Sale,' Buy Most Shares Since 2012". In this article, the authors interviewed several oil executives, including Archie Dunham, the former CEO of ConocoPhillips and the current Chairman of Chesapeake Energy. Recounting his recent purchase of 500,000 shares of Chesapeake Energy stock, Mr. Durham states that, and is quoted as saying "I'm very optimistic medium and long-term that the industry will persevere through another one of these cycles, it's just a matter of time to get supply balanced with demand." I highlight this article because this sentiment reflects our viewpoint regarding the recent sharp drop in crude oil prices and the price volatility among the energy company stocks. Energy stocks should be expected to go through volatile periods due to their commodity underpinning. However, investors in properly chosen energy stocks can be substantially rewarded over time for tolerating such occasional volatility.

A good example of a volatile, yet rewarding a stock is National Oilwell Varco (NOV), an oil & gas drilling services company that has experienced five separate 30% plus corrections over the past 10 years, including a 2008 sell-off of almost 80%. However, over the same 10-year period, this company's stock has also outperformed the S&P 500 by a cumulative 240%.

CONCLUSION

2014 is shaping up to be the type of year in the markets that tests the discipline and resolve of long-term oriented investors who value the time-tested benefits of diversification and value. Whether one is investing in a traditional value stock that is currently unloved or an under-appreciated growth company that has a long-term secular trend behind its growth, each opportunity requires research, conviction, and patience. At Seven Summits Capital, we do not know of any other method of investing that can stand the test of time. Therefore, we continue to research new opportunities and reassess existing investments regardless of what market turmoil is dominating the headlines.

Finally, I would like to wish everyone a very a wonderful holiday season and a happy new year!

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