



January 29, 2017

Dear Investor:

The Russell 2000 outperformed its larger peer for the second quarter in a row as investors' enthusiasm for President Trump's pro-business policies had a disproportionately positive impact on the more domestically-oriented small company index. A greater weighting in the financial services arena helped as well, sending the index up +8.8% for the quarter and finishing with a +21.3% gain for the year. The S&P 500 similarly bounced after the election, finishing up +3.8% for the quarter and moving to a gain of +12.0% for the year. The FDS portfolio, which has been renamed the Choice Equities Fund, LP (CEF), was up +9.4% and +9.1% on a gross and net basis, respectively, moving to +20.1% and +18.9% for the year.

EXECUTIVE SUMMARY

As is usual in our yearend letters, we will offer some comments on the portfolio and the current investment environment. In this edition, given recent organizational changes, we will provide an update on our current business arrangement and our plans going forward. Finally, we will take an in depth look at SITE, a distributor of landscape supplies and our most recent portfolio addition, where we draw a favorable comparison to two other companies we know well.

BUSINESS UPDATES

We are pleased to report significant progress on our initiative to transition the FDS product previously administered under the KDI umbrella to an independent and stand-alone operating company. MSIV Capital Management, LLC was formed in early January to oversee this event and serve as the management company for CEF. Accounts have been successfully transitioned on the TD Ameritrade platform with minimal disruption, and we have recently reengaged in trading activity. We believe it is important to remind investors that the CEF strategy will pursue the same investment approach and operate under the same philosophical guideposts as its predecessor. We offer a sincere thank you to our investors for their continued commitment to us and look forward to sharing more about our plans to grow the business in the near future.

MARKET COMMENTARY

Many will likely remember 2016 as the year forecasters failed. The Brexit vote and the Trump election win surprised the world and investors alike as markets originally tumbled on the news only to reverse quickly and surge to new highs. Investors shed fears of populist leadership and greeted pro-business agendas enthusiastically as a tone of optimism and hope returned to the markets for the first time since these seemingly never-ending electoral races began.

While the concerns around these regime-changing events have justifiably captured all the headlines and clearly carry their own investment implications, we believe a key element of the story for the market's seemingly bipolar behavior exhibited across 2016 has garnered much less fanfare. Entering 2016 it seemed all anyone could talk about was an earnings recession caused by energy and industrial weakness, a strong dollar and the potential for these factors to cascade into an actual, outright economy-wide recession. Exiting 2016 the environment appears quite changed with the S&P 500 back into the black on the score of earnings growth with an estimated +4% growth coming in 4Q 2016. This +4% figure looks quite different from the -6% number posted in 1Q 2016 in the nadir of our five quarter long earnings recession. While much of the change in mood is attributable to an environment perceived to be more business friendly, we should not overlook the earnings picture which now looks significantly better than

it did a year ago, a change that has occurred largely on its own course and before any potential economic benefits from a new administration.

When we review our yearend template to examine what drove the market return in 2016, it looks as though a change in sentiment drove a change in the multiple of earnings participants were willing to pay. While the change in multiple is both real and significant, we should note the annual figures below do not capture the change in earnings trend noted above. Even so, it is clear multiple expansion has again been a substantial factor driving market performance. Though some of this expansion may be warranted to discount the improved future earnings outlook, it compels one to wonder just how much more this lever can move the market moving forward.

Index	Average Dividend Yield	EPS Growth	PE Change	Total Return
S&P 500	2%	-3%	13%	12%
Russell 2000	1%	-5%	26%	21%

CEF COMMENTARY

The quarter's strong results were driven by 30%+ moves in shares of long time holding LAWS and recent new addition HDS. LAWS shares bounced back from a weak 3Q and reacted favorably to an acquisition the company announced as well as a recognition that the industrial recession that has hampered their growth plans has come to an end. HDS shares quickly recouped the losses incurred on the announcement of their 2Q results which created our buying opportunity as investors chose to focus more on a subsequent CEO buy and a positive mention on the cover of Barron's in late December. MCK shares contributed the biggest decline due to earnings weakness.

Portfolio Entries & Exits – We initiated a position in SITE in the low \$30s in early December when shares from their exiting private equity sponsors hit the market as the sponsors continued the position unwind they began with the company's IPO earlier this spring. This is an event we had positioned ourselves for, so when the transaction was announced and shares temporarily declined, we moved quickly. A few days later the CEO made a purchase of his own. This now marks the second consecutive position initiation that was followed a few days later by a purchase from the CEO. We wish this was a process we knew how to repeat. But for now, we take comfort in the notion that these signs suggest we are buying in the right places. SITE is a company we like for a number of reasons, most noteworthy being its similarity to younger versions of POOL and WSO, companies where we have made prior profitable investments. Given the exceptional long-term performance of these two companies in the category most important to us - total shareholder return - we thought we would take a closer look at all three as young companies to draw informed conclusions about SITE's potential. Please find a case study of the comparison in the appendix.

We sold MCK shortly after the company announced disappointing earnings in October. We had no great expectations for near term earnings given the clear deterioration in the company's operating environment. However, we thought this was likely baked into the price given the company's low trading multiple. Unfortunately, further earnings weakness materialized as the company announced that competitive pressures among the three-member oligopoly of drug distributors had intensified. The rising competitive intensity and associated loss of pricing discipline was not in our original investment thesis, so we exited the position and sought a more compelling use of capital. Fortunately, it had never been a large position for us, so the negative impact to the portfolio was relatively modest.

2017 OUTLOOK

Current consensus views seem to anchor around a notion that the market on the whole does not present a compelling bargain and that our economy continues to demonstrate remarkable resilience eight years after the Great Recession. Many believe a change in business climate and new pro-growth initiatives from the incoming administration may finally spur a release of animal spirits and contribute a further boost to the economy. While we are still evaluating policies that have yet to be agreed upon, our take is fairly similar and remains consistent with recent missives when we have affirmed our view of a steady economy and characterized the market as fair to fully valued. Given the recent bounce in the market multiple, perhaps it is fair for us to shift our categorization more to the fully valued camp. This leaves us with no great argument against the consensus outlook as most data points we monitor point us to a similar conclusion.

As we anticipate potential near-term outcomes by assessing our current environment, we should note that the full market multiple is juxtaposed against a Fed that finally seems intent on normalizing monetary policy and raising rates. In past cycles, rate increases have been associated with a little more volatility and moderate pressure on market multiples, but we offer the caveat that they are nearly always a symptom of stronger economic growth. Putting these factors together as we make our best attempt to forecast the unforecastable, our base case suggests the market is likely to offer a return in line with earnings growth given moderate room for further expansion of the market multiple.

This would not be an altogether unhappy result. But we can strive to do better. Our concentrated portfolio construction is designed to offer us a return more in line with our companies' business performance. Given these current conditions, we remain enthused about the business prospects for the companies in our portfolio and view their valuations as attractive against this outlook.

CONCLUSION

As always, we are happy to discuss any portfolio holdings or our investment outlook with you at any time. Please simply contact us at your convenience. In closing, we are honored and privileged to have the responsibility you have entrusted in us in managing your capital, and we look forward to continuing our relationship further into the future.

Best regards,



Mitchell Scott, CFA
Portfolio Manager

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1. All market and company data is sourced from Factset and company filings and is current as of 12/31/16.
 2. CEF uses the S&P 500, Russell 2000, a custom Blended Small/Large Benchmark and the Barclays Hedged Long/Short indices as its primary benchmarks. The S&P 500 and Russell 2000 are common large and small cap US equities-based indices. The custom Blended Small/Large Benchmark is provided to capture a larger proportion of small cap performance versus large cap performance (at a 3:1 ratio) due to the similarly high proportion of small caps found in on the Good Businesses Focus List as well as the strategy's general preference of having an investment mix more heavily weighted towards investment in small caps. The Barclays Hedged Long/Short index (an index of equities-based hedge funds) serves as an appropriate benchmark over the long term given the index has a similar long-term goal of capital appreciation through equities investing.
 3. CEF Net Returns reported here for 2013, 2014, 2015 and 2016 are hypothetical results that are calculated consistent with the 1% management fee and 18% performance fee offered to clients.

APPENDIX

POOL and WSO are companies worthy of study and for good reason. They have dramatically outperformed the market indices over most every time period of significance since they came public. Both rank in the top 12% of all companies in the Russell 3000 in terms of total shareholder return over the last 15 years, with each more than doubling the indices' returns on an annual basis. And this really adds up over time. Since the beginning of 2002, \$1 invested into the S&P 500, Russell 2000, POOL and WSO would have grown to \$1.97, \$2.82, \$11.18 and \$17.28, respectively, by the end of 2016.

Company	15Y TSR	\$1 in 2002 Today
S&P 500	5%	\$1.97
Russell 2000	7%	\$2.82
Pool Corp.	17%	\$11.18
Watsco, Inc.	21%	\$17.28

When SITE came public this past spring and we began to examine the company, we were struck by the similarities it shared with these other two great businesses. Accordingly, to gain a glimpse into what the future may hold for SITE, we thought it would be a good exercise to take a deep dive into each company in their early days and identify what characteristics were then present that set the stage for their prolonged success. The below table highlights a few relevant financial statistics that point to a few commonalities.

Company	2001 Sales	Beginning Share	CY2016E Sales	LTM Share
Watsco, Inc.	\$1.2B	<10%	\$4.3B	~15%
Pool Corp.	\$.9B	<10%	\$2.6B	~40%
SiteOne Landscape Supplies	n/a	~9%	\$1.6B	~10%

Each company has an interesting story of how it came to focus its efforts exclusively on consolidating their respective distribution markets. Watsco was actually a manufacturer of HVAC/R equipment until 1989 when still-current CEO Al Nahmad eschewed the manufacturing business to focus the company's attention solely on distribution operations. His CFO at the time liked the move to distribution so much that he left and bought a small distributor of pool supplies. In 1995 he took that company public and used the equity capital to apply the same rollup playbook to the pool industry where he ultimately grew that business into the industry behemoth we know today as Pool Corp. SITE's move to a standalone distribution company seems to have occurred in reverse. Their distribution operations were largely an afterthought inside of parent company John Deere where management was focused on manufacturing products suited to larger markets that spanned the globe. Recognizing a valuable asset, PE sponsors purchased the distribution arm of the company in late 2013 and then installed an experienced management team well-schooled in the industry and rollup game.

When we look at POOL and WSO in their infancies, we identify four common attributes that created the preconditions necessary for their sustained success. The four categories are management, purchasing dynamics, distribution hourglass at infancy and capital allocation, each of which we highlight in the table below before a brief discussion.

Company	Management	Purchasing Dynamics	Distribution Hourglass at Infancy	Capital Allocation
Watsco Inc.	<ul style="list-style-type: none"> - Insiders owns ~20% of the company, many shares don't vest until retirement - CEO chose distribution over manufacturing operations 	<ul style="list-style-type: none"> - Installed base of HVAC/R units has increased every year - Business is ~75 - 85% repair or replacement driven 	<ul style="list-style-type: none"> - Originally a small player with low market share in a very fragmented market - Highly fragmented HVAC/R contractor customer base serving residential homeowners - Supplier base of HVAC/R manufacturers moderately consolidated 	<ul style="list-style-type: none"> - M&A in early years - Favors dividends with sporadic repurchases thereafter
Pool Corp. Inc.	<ul style="list-style-type: none"> - Insiders own ~5% of the company - CEO learned distribution from HVAC/R distribution background 	<ul style="list-style-type: none"> - Installed base of pools has grown every year including during the recession - ~60% of pool supply spend supports maintenance needs 	<ul style="list-style-type: none"> - Originally a small player with low market share in a very fragmented market - Highly fragmented pool contractor customer base serving residential homeowners - Minimal supplier concentration due to broad assortment of product offering 	<ul style="list-style-type: none"> - M&A in early years - Mix of dividends and repurchases thereafter
SiteOne Landscape Supply	<ul style="list-style-type: none"> - Insiders have significant equity stakes as a result of grants with long term horizon - CEO learned distribution from roofing distribution background 	<ul style="list-style-type: none"> - Installed base of homes and commercial properties grows consistently over time - ~50%+ of landscape supply spend supports maintenance needs 	<ul style="list-style-type: none"> - Originally a small player with low market share in a very fragmented market - Highly fragmented private landscape contractor customer base serving residential and commercial customers - Minimal supplier concentration due to broad assortment of product offering 	<ul style="list-style-type: none"> - Expected focus on M&A to gain access to markets with no current presence

Management The principle qualities we look for in a management team include integrity, business acumen and long-term focus. We also like to feel we are on equal footing with our management partners and see them behave as owners. Their possession of a meaningful equity stake in the business ensures our incentives match.

Both POOL and WSO score exceptionally well on this metric. WSO CEO Al Namhed has created a strong culture with a major emphasis on long term success by granting executives restricted shares that often do not vest until their retirement. POOL abides by a similar philosophy where the overwhelming majority of executive officer pay comes in the form of long term equity incentives. While there is less history available to evaluate, the SITE team looks to have great experience, with the CEO Doug Black coming to the company after an 18 year career at OldCastle where he began their roofing distribution operations in 1996. It also looks like the right incentives are in place with a compensation structure that has meaningful equity incentives for senior officers.

Purchasing Dynamics We are enthused when we see steadily expanding markets that offer a reliable stream of consistent demand. When the products sold bring a dynamic that makes them a necessity that often carry a sense of urgency, it is all the better.

For both POOL and WSO, the installed base of pool and HVAC/R units has grown every year as a result of our country's slow and steady population growth. And when a pool or HVAC/R unit breaks or needs repairs as they often do, the consumer often has little choice but to make the necessary repairs. They often want to act quickly too. Consider for a minute a Floridian in July with a broken AC unit. Or the constant

chemical treatment a pool requires to maintain clean and sanitary operations. These dynamics often afford the seller a premium for the convenience of fulfilling the need. SITE too appears to share similar dynamics as the total number of lawns and property care sites continues to grow with the population while lawn maintenance is a need that never seems to go away.

Distribution Hourglass We have frequently used this term in analysis of the competitive set of distributors given their role as middlemen where they are flanked by buyers/customers on one side and vendors/suppliers on the other side. The preferred industry shape is the classic so-called “many to many” structure, where the distributor has scale advantages over fragmented bases of smaller customers and suppliers. As a distributor grows in size, it gains clout in purchasing negotiations and often achieves favored-nation status for vendors who seek access to markets for their products. Its greater size also enables the distributor to offer more attractive pricing to their customers and creates a virtuous cycle that enables them to purchase at more favorable terms. Additionally, once a winner emerges from the playing field of competing distributors, they can be exceptionally difficult to uproot given these inherent scale advantages grow naturally over time.

All three of these advantaged companies were larger than their fellow peers when they began their rollup strategies, and all have very fragmented customer bases. WSO’s supplier base is a bit more concentrated, but their manufacturing partners have proven to value the access to the channel the company has provided over time. In regards to pool services and maintenance, a broad assortment of products from a wide range of suppliers are needed to meet the diverse needs of pool servicing contractors which deters any substantial power accruing to individual suppliers. SITE shares similar dynamics given a similar broad breadth of products that property care maintenance providers need.

Capital Allocation We like to see management teams that demonstrate a proficiency in capital allocation. Operators with a knack for smart deals that know how and when to use equity have a tremendous asset at their disposal for creating shareholder value. And if there is excess cash flow available beyond the company’s growth needs, investors can be rewarded by the return of cash via share repurchases or dividends.

In their early years, both WSO and POOL focused their efforts on seizing market share in their local markets with sound on-the-ground execution and aggressive expansion into new markets by buying up hundreds of smaller independent operators. As the companies have matured, both continue to generate strong free cash flow, though the opportunities for acquisitions that move the needle have become scarce. Accordingly, each has moved their capital allocation strategies to return greater levels of cash to their shareholders. WSO sustains a dividend that typically carries around a 3% yield while POOL favors shrinking their share count by around 2% a year. SITE is still a company in its early days, so it is appropriately devoting their cash to gaining market share through acquisition. As the largest player in a highly-fragmented market (it is nearly four times the size of the number two player but still only has 10% of the market), it has a long runway ahead to consolidate the independent dealer channel of this industry.

Summary In distilling our review down to its essence, we draw one important conclusion. The consolidators win. Given the similarities among the three companies in their early years on four critical success factors, we believe SITE is very well positioned for the future. While we are certainly not banking on such an outstanding result, we believe the necessary preconditions for success are present. We look forward to watching the company closely as we evaluate their progress in consolidating the landscape supply business.