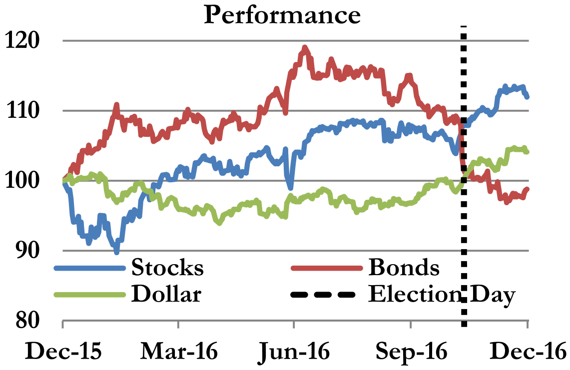
Seamans Capital Management – Q4 2016 Quarterly Report

GLOBAL BONDS and CURRENCIES

The 2016, U.S. presidential election was a major driver of market movements for the fourth quarter and will be an important factor for 2017. Trump's election sparked rises in the U.S. dollar (USD) and stocks and a selloff in bonds. Trump's policies suggest there will be less financial regulation and less central bank support for the bond market, which led to a sharp rise in interest rates. Treasury bond prices erased all the gains made over the first half of 2016.

Indexed U.S. Investment Performance



Source: Bloomberg

The bond market's post-election correction may have obscured a fundamental shift in dynamics, bringing an end to the 35-year bull market in long-term bonds. Central banks' quantitative easing programs have now bought more than $11.5 trillion in government bonds, lowering interest rates by 2% to 3% and stretching their balance sheets to unsustainable levels. While European and Asian central banks are still buying $175 to $200 billion in bonds every month, these programs are likely to be substantially reduced by 2018. This change will produce a steady rise in interest rates, until they reach levels where they are once again attractive to traditional investors.

While the Federal Reserve (Fed) started 2016 with plans to raise interest rates four times, it continually deferred taking action. The result was a weakening of the USD in the first part of 2016. Wider interest rate differentials began to support a stronger USD in the third quarter of 2016. It was not until December 2016 that the Fed announced it would raise the federal funds rate by 25 basis points, citing a strengthening labor market and increasing inflation. With higher interest rates, the USD continued to strengthen in the fourth quarter of 2016. The President's plan to increase economic growth and lower taxes led to a significant rise in the USD immediately after the election.

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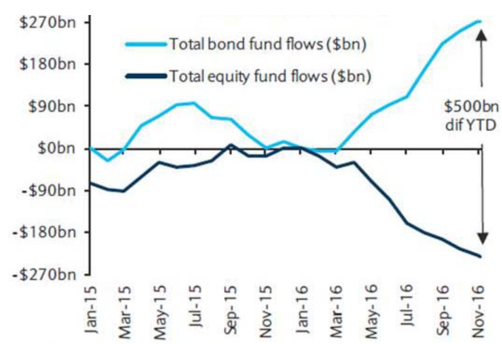
The prospect of lower taxes is expected to result in large repatriations of the $2.5 trillion in cash currently held offshore by U.S. companies. This repatriation will add to gains in the U.S. dollar index in 2017. Stocks may also benefit from the repatriation with expected increases in stock buybacks and more mergers and acquisitions.

2016 Fund Flow Rotation Out of Equities into Bonds: Cumulative Fund Flows

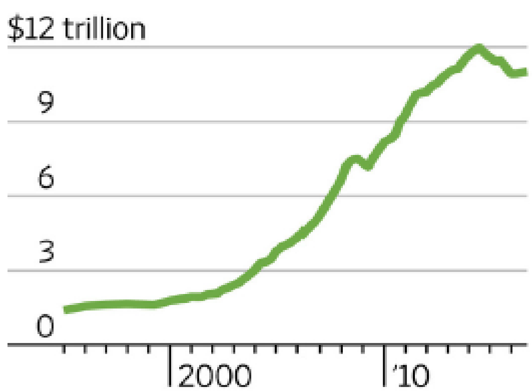


Source: EPFR, Haver Analytics, Barclays Research

Meanwhile, the U.S. stock market was beset by market uncertainties until after the U.S. presidential election. Investors, concerned about the outcome, moved $250 billion in assets out of stocks and into bonds in 2016 before the election. Trump's promises to reduce regulation and lower taxes gave stocks hope for stronger economic growth and improved earnings.

Central banks continue to increase their stock investments and sell gold.

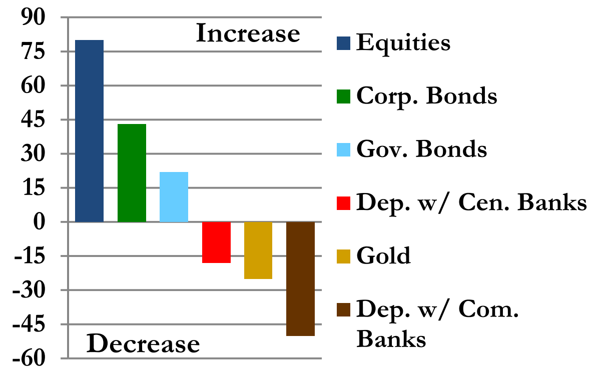
Central Banks' Foreign-Exchange Reserves



Source: Wall Street Journal and International Monetary Fund

Central banks have shown an increased interest in making stock investments with their burgeoning assets as shown in the graph above. The figures in the next graph reflect differences in percentage points of a sample of 14 central banks, surveyed in the first quarter of 2016, that expect to increase or decrease future allocations to each asset class. They are moving away from their traditional asset bases of short-term deposits and gold. It appears that even the central banks need higher returns and are not immune to the effects of their collective efforts to lower interest rates.

Central Bank Investment Preferences



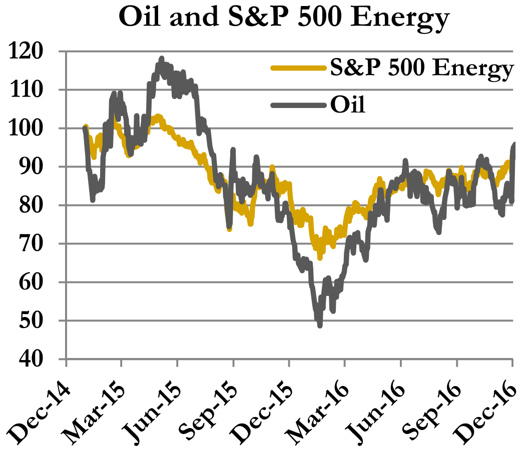
Source: Wall Street Journal and Invesco Ltd.

COMMODITIES

The price of WTI crude increased by 11.4% in the fourth quarter and oil prices finished the year 20.5% higher at $54 per barrel, double their $27 low in January 2016. Oil prices increased initially as companies curtailed new exploration and production projects. OPEC's announcement of a coordinated reduction in oil output has been the primary driver of the recent rise in oil prices. Saudi Arabia desperately needs to see higher oil prices to ensure a successful IPO of ARAMCO in 2018. Going into 2017, traders are watching to see if OPEC can deliver on its promises of lower oil supply.

Oil demand may peak within five years as the use of non-polluting vehicles rises.

Meanwhile, low oil prices led U.S. producers to squeeze well service costs and improve extraction methods, leading to lower oil production costs, particularly for the more prolific shale oil areas. Although oil prices may reach $60 in 2017, it is becoming increasingly clear that the long-term demand for oil is falling steadily. Total demand for oil may peak within five years, as auto miles per gallon increases and countries demand more non-polluting vehicles for use worldwide.



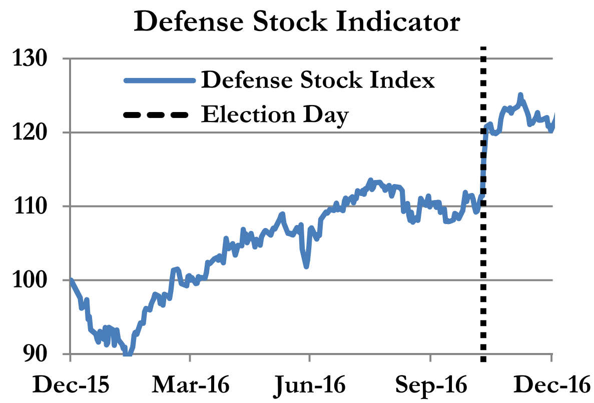
Source: Bloomberg

India is leading the war on cash and gold.

The price of gold rebounded from an oversold low of $1,050 in December 2015 to a peak of $1,375 in July 2016. Prices retreated to $1,125 in December 2016, as the USD strengthened and governments imposed new controls to limit cash and gold as long-term stores of value. India, initiated its war on cash and physical gold, by first eliminating 86% of its physical currency. It declared the 500 and 1000 rupiah notes worthless for transactions in 2017. They followed this move with new legislation limiting the amount of physical gold that can be held by individuals. India's gold demand halved after the new restrictions were imposed. China also restricted the conversion of cash to gold in order to stem capital outflows. India and China have historically accounted for 70% of worldwide gold demand.

DEFENSE STOCKS

The Middle East continues to be affected by rising conflicts, volatile oil prices and shifting political alliances. Russia is looking to establish a strong political presence in the Middle East to protect and enhance its own oil and gas interests. China's creation and defense of its new man-made islands in the South China Sea are all about controlling their oil interests in the region. All of these activities suggest worldwide tensions are increasing, which is positive for defense stocks. Defense stocks jumped following Election Day in anticipation of increasing U.S. involvement in the Middle East.



Source: Bloomberg

CLEAN TRANSPORTATION

The demand for electric vehicles (EVs) has continued to grow, as have related technologies. Bloomberg expects that as many as 35% of vehicle sales will be electric by 2040. The lithium-ion battery market is expected to increase threefold to 180 GWH by 2020. By 2030, EVs alone may account for as much as 715 GWH of battery demand.

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One of the key technologies that will drive the future of renewable energy is battery storage. Demand for lithium-ion batteries increased by

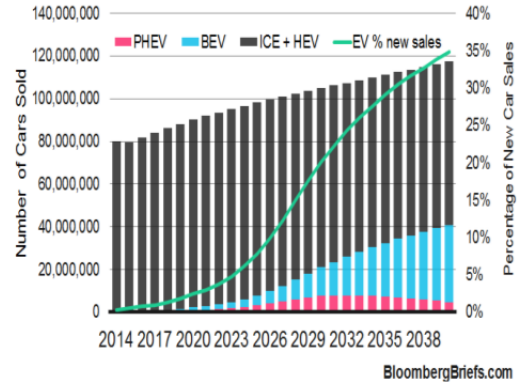
58% over the past year, as the prices of EV batteries dropped more than 20%. While the battery prices declined, the limited production of lithium hydroxide, coupled with increasing demand for lithium-ion batteries, caused lithium prices to nearly triple from 2015 to 2016. Some analysts are expecting lithium shortages to continue into 2020. End-users, sensing the potential shortages, have begun to fund one of the largest, lowest-cost, near-term developments for lithium production in exchange for financing and off-take agreements. This will ensure them a supply equivalent to 85% of the lithium production at prevailing market prices.

Autonomous EVs are a product that embodies a blend of technology, long-term focus, improved safety, efficiency and sustainability. Their development is being driven by auto manufacturers who are focused on the higher performance of electric vehicles and government regulations mandating lower vehicle pollution levels. Ride-sharing companies are pushing for the development of self-driving systems to reduce costs and increase their market share.

We believe the best investment opportunities are in the systems and software integral to the development of self-driving cars.

We recognize that manufacturing EVs will be very competitive and that profits may be elusive. We believe the best investment opportunities are in the systems and software that are integral in supporting the development of self-driving cars, which will be required by all auto manufacturers, and are produced by only a few companies. Experts have suggested that up to 15% of passenger vehicles sold worldwide will be fully autonomous by 2030.

Projected EV sales



Some companies have technological advantages. One company is developing visual aids that assist drivers by providing warnings and other information. The company has strong operating margins, is tightly managed and has more than 20 years of development experience. It has relationships with many major global OEMs and is a potential takeover candidate. Further up the supply chain is another company that designs, develops, manufactures and markets semiconductor circuits, a key component for auto-detection systems.

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A third company specializes in the production of graphics-based processors and has found new applications for its technologies. The firm plans to incorporate its processors into Tesla's self-driving technologies under a recently announced partnership agreement.

NEW ERA TECHNOLOGIES

As SCM continues to explore renewable energy-related companies, we are finding more companies focused on creating new technologies that support environmental and sustainability goals. Because of the broader scope of our investments, we are rebranding our Clean Energy strategies as the New Era Technology strategies.

As the name suggests, we are focusing on companies that have a meaningful place in the new era ahead. Our core focus has remained the same. We continue to focus on companies that offer positive cash flows and fundamental growth opportunities, creating stable portfolios that offer income and capital appreciation.

Energy efficiency continues to be an important component in the clean energy sector. While many gains in efficiency come from improved processes, technology has also been a crucial driver. One company in this sector is a global vendor that aims to modernize the delivery and usage of electricity, gas and water, by providing intelligent monitoring and control systems.

WIND AND SOLAR

Trump's election was quickly followed with promises of regulatory reforms for the financial, health care and energy sectors. His promise to "Make America Great Again" envisions reducing environmental restrictions and increasing U.S. energy production. Trump's stated intention to cancel the Clean Power Plan regulations led to a sell-off of many clean energy-related stocks. This represents an opportunity for investors. The long-term prospects for clean energy are not politically driven, but rather are economically driven. Advancements in technology have made renewable energy the most cost effective in many areas. Most data server centers, which account for 10% of U.S. electricity demand, are already powered by wind or utility-scale solar power. While the transition may appear slow, clean energy technologies are growing rapidly from a small base and will continue to thrive on free market forces. Electric utility demands may well rise with the increased use of battery charging stations for hybrid cars and EVs.

The solar industry continues to move toward commoditization. Costs have plummeted and Chinese companies continue to overproduce. They are now manufacturing and selling their modules at a cost of 36 cents per watt. While China set a very high goal for solar power in 2020, it recently lowered its target because their grid infrastructure needs further development to handle the growth necessary to meet the renewable energy goals they envision.

CONCLUSIONS

Trump's election has created some major shifts in the markets and is expected to drive rotations into and out of certain sectors. His proposed reductions in regulations will lead to increased corporate efficiencies and higher earnings. Higher interest rates will lead to a stronger USD. Lower taxes will boost both corporate income and USD repatriation.

We expect that investors who have moved into the bond market since the 2008 financial crisis will soon find that there is more risk in bonds, particularly municipal bonds with large unfunded pension liabilities, than there is in stocks. A rising USD will naturally attract foreign investors and favor domestic-focused companies. Companies sensitive to interest rates, particularly companies in real estate, are likely to underperform, as the bond market adjusts to a withdrawal of central bank bond purchases and an interest rate reset. Companies that depend on a high level of exports may suffer from a rising USD. Rising minimum wages will adversely affect companies that depend on low-cost workers.

Pharmaceutical companies may struggle if their drug price increases are challenged.

While some clean energy-related stocks have suffered from investor apprehensions in the period immediately following the election, most will prosper because of their competitive economic advantages. We expect that technological developments, particularly in software and related systems, will continue to drive economic advantages for their business users. We remain focused on companies with strong fundamentals, seasoned leaders and sound financials in the renewable energy and related industries, which we believe will reward investors with strong returns over the next few years.