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Full Year 2016 Letter to Investors

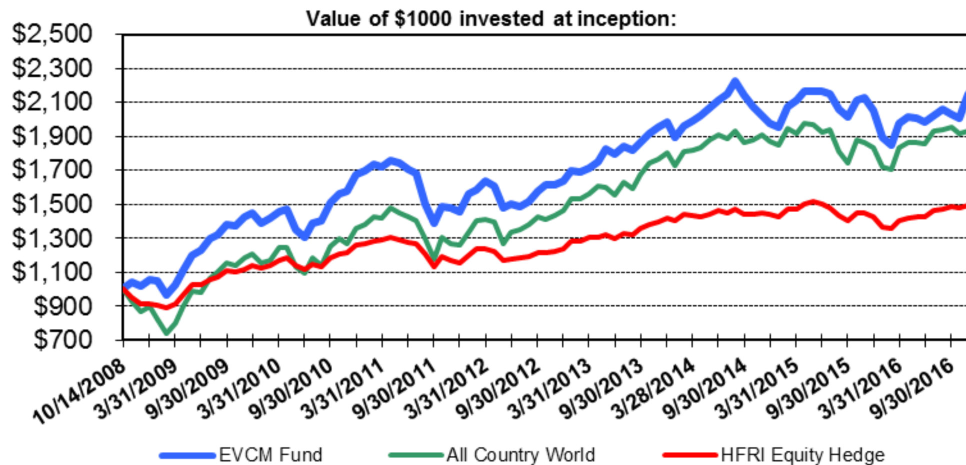
Dear Partners and Shareholders,

For 2016, EVCM fund returned an estimated +6.5% net to investors. Stock markets worldwide were up with the All Country World Index (ACWI) and the HFRI Equity Hedge Index up +7.9% and +5.4% respectively.

Fund Performance (Net to Investors)					
	December 2016	Q4 - 2016	Full Year 2016	Cumulative Since Inception (10/15/08)	Annualized IRR Since Inception (10/15/08)
EVCM Fund – Net to Investors	+1.6%	+7.7%	+6.5%	+118.6%	+10.0%
MSCI All Country World Index Net	+2.2%	+1.2%	+7.9%	+97.4%	+8.6%
HFRI Equity Hedge Index	+0.8%	+1.2%	+5.4%	+50.8%	+5.1%

** The 2016 results reported are unaudited estimates and may be subject to change.*
** Individual investor net returns will vary due to the timing of one's investment.*

Since inception (10/15/2008), EVCM Fund returned an estimated +118.6% (net to investors). During this same time period the MSCI All Country World Index (ACWI) and the HFRI Equity Hedge Index returned approximately +97.4% and +50.8% respectively.



2016 Overview:

2016 was marked by political turmoil. First the United Kingdom voted to leave the European Union (Brexit) and then Mr. Trump was unexpectedly elected to be president of the United States. EVCM fund performed reasonably well in this environment and kept up with global markets as the majority of the stocks that we own did well in 2016. Many of our portfolio companies, particularly financials, rose significantly following Trumps election and the stock market rally that ensued. We discuss this Trump rally in more detail below.

We made few changes to our portfolio in 2016 because we like what we own and did not find much that is better to buy. We did purchase new positions in Berkshire Hathaway, Goldman Sachs, Fortress Investment Group, Bank Leumi and Blackstone. All five new positions are good business that were trading at unjustifiably cheap valuations and are up nicely since we purchased them.

Top 10 longs and short

Top 10 Longs	As % NAV	Top 10 Shorts	As % NAV
Korea Preferred Stocks Basket	23.0%	TNA – ETF	4.7%
US Financials Basket	23.0%	XLU - ETF	2.2%
Howard Hughes Corp	5.5%	Caterpillar	1.8%
Amerco	5.1%	Salesforce	1.1%
Samsung Electronics	4.1%	USO – ETF	0.1%
Interactive Brokers	4.1%	Total	9.9%
Berkshire Hathaway	4.0%		
Discount Bank	4.0%		
Bank Leumi	3.8%		
Isras Investments	2.5%		
Total	79.1%		

Below, we will go into greater detail on some of these positions. For now, however, we think it is important to point out that our top 10 longs make up over 79% of our long exposure as we have increased the position sizes of our highest conviction ideas. As of year-end, we were 91% long and 10% short. Our overall net exposure level of 81% reflects the compelling bargains we are finding in global stock markets combined with a fairly small sized cash position (9%) that we will utilize to take advantage of any downside volatility.

The Trump rally:

We have always been careful to avoid personal politics in these letters. Investing decisions should be objective, fact-based and as dispassionate as possible. Mixing in our personal political opinions is unlikely to add value to our portfolio or to improve our decision making process. Therefore, the following discussion will be as factual as possible.

Stock market investors clearly think president Trump is good for US stocks. They expect him to lower taxes, reduce burdensome regulations, increase infrastructure & military spending, unleash free market capitalism, create more jobs, foster a more pro-business environment and generally “make America great again”. Some commentators have even drawn an analogy to former president Reagan and the market rally that followed his election. We think this analogy is a stretch, particularly since when Reagan was elected, interest rates were high and stocks were cheap – the opposite of where they are today.

We do agree that a republican government is probably good news for financial companies, particularly since its inflationary policies are already leading to higher interest rates which help increase the net interest margins for banks and the return on float for insurance companies. Our financial stocks have rallied significantly since the election and we have begun trimming some of these positions. We also think a Trump presidency is good news for Israel, one of our favorite places to invest, which we discuss in more detail below.

Investing in times of global turmoil:

Since we started investing professionally in 1999, global investing has become much more popular. From a niche strategy for adventurous investors, global investing is now mainstream. This makes perfect sense when globalization, free trade, open borders and world peacefulness are all increasing. Yet in the last few years we are witnessing a partial reversal of these trends. Therefore, we think it is now more important than ever for global investors to carefully pick and choose which countries they wish to invest in.

At Emerging Value Fund we have always adhered to the idea of “researching the country, not just the company”. Our analysis has shown that many countries that, in the past, were viewed as attractive investment destination are now headed in the wrong direction. Despite offering cheap stocks, we are not currently investing in Russia, Turkey, Egypt, South Africa, Saudi Arabia, Venezuela, Brazil or China. We think that the macroeconomic and geopolitical risks for these countries are too extreme.

In contrast, we are certain that, despite occasional setbacks, the US, Israel, and South Korea are headed in the right direction and currently are among the best countries in which to invest our capital. These three countries are true capitalist democracies, enjoy favorable demographic trends, and are the world leaders in technological innovation – the driving force behind today’s economic growth. In our view, the age of energy has ended and the age of technological innovation has begun. With technology comprising an ever growing portion of the global economy and with more and more “old economy” sectors getting technologically disrupted, economic success in the future will be based on the ability to innovate and stay ahead of the advancing technological curve. Israel, South Korea, and the US are the best positioned countries to do so.

The following table shows how our capital is allocated among these countries.

Fund Exposure by Geography

	US	Europe	Asia (Korea)	Israel	LatAm	Global/ Mixed
Long	38.0%	0.0%	27.2%	11.6%	0.0%	14.5%
Short	8.2%	0.0%	0.0%	0.0%	0.0%	1.8%
Gross	46.2%	0.0%	27.2%	11.6%	0.0%	16.3%
Net	29.7%	0.0%	27.2%	11.6%	0.0%	12.7%

Our main contributors in 2016:
Main contributors to our returns in 2016 include: Samsung Electronics, Israel Discount Bank, Isras Investments, and our basket of large cap US Financials. Below is short discussion of these positions.

Basket of large cap US financials including TARP warrants
The large cap US financial companies in our basket increased significantly in 2016 following the presidential election results. The new Republican administration is expected to reduce corporate income taxes, roll back financial regulations and lead to higher interest rates. All three actions should increase the profitability of financial firms. As stock prices continue to increase, we have been trimming our basket and, on the margin, shifting capital from banks into asset managers.

For example, if in a few years interest rates are 2% - 3% higher than today and corporate taxes are 20% lower, then Citibank could earn a 12% - 14% ROE which could justify a 1.5 price to tangible book value multiple (currently under 1.0). Combined with 8% annual book value growth over the next 5 years, this scenario could result in Citibank's stock price more than doubling.

Isras Investments
Isras is a leading real-estate development company with a valuable portfolio of retail, residential and office properties owned and under development all across Israel. Real estate prices in Israel continue to increase thanks to multiple favorable economic factors. The Israeli economy is strong and growing, the population growth rate in Israel is the highest among all developed countries, and supply of real estate is constrained by both regulatory bureaucracy and limited land area. We therefore expect Isra's high quality real estate assets to continue appreciating in value at a good pace.

Until two years ago, Isras was focused on extensive asset development and therefore re-invested all cash flows and did not pay dividends to shareholders. This resulted in the company being underfollowed and mostly neglected by investors that often view real-estate holding companies as proxies for bonds. We invested in Isras in 2014 right after management announced a new dividend policy where they will pay out an annual dividend equal to 35% of FFO (about 3% dividend yield). Last year's addition of Isras into the Tel-Aviv100 stock index helped push up the stock price as more investors became aware of the company and its cheapness. We took advantage of this price increase and recently sold our shares for over 100% profit.

Israel Discount Bank
Israel Discount Bank (IDB) increased about 13% in 2016 as it continued making slow progress with its multi-year strategic cost reduction program. Based on this program, 350 redundant employees have already retired from the bank and 650 additional employees should retire by 2021. Excluding certain non-recurring expenses, adjusted ROE was almost 7%. We always expected that the cost reduction measures would take a few years and do not share the markets disappointment with their slow and steady pace.

IDB is the third largest bank in Israel. Operationally, it is the least efficient major bank in Israel. Its employees belong to a fairly militant union and they make cost cutting and operational improvements an always difficult undertaking. As a result IDB suffers from a bloated cost structure and earns sub-par returns on equity. When we invested, sustainable ROE was below 6%. The market is well aware of these issues and therefore values IDB with a low price to tangible book ratio of only 0.65.

Three years ago IDB hired a new CEO, Ms. Lilach Topilsky. Previously, Topilsky led the operational turnaround in Bank Hapoalim (Israel's largest bank). Ms. Topilsky developed a strategic plan for the bank which mostly consisted of cost cutting and selling off non-core assets. Through natural attrition and early retirement programs, the plan is already cutting costs and IDB's sustainable ROE has increased to around 7%. We think that in time sustainable ROE will

reach 8% (or higher) which would warrant a 0.9 price to book multiple. Assuming this takes another 3 years and adding in 7% book value growth per year would result in a 70% return from the current price.

Samsung Electronics
Samsung Electronics, the world's largest integrated consumer electronics manufacturer, was up 40% in 2016 as investors put the Note 7 smartphone recall in the back mirror. Samsung continued benefiting from improved sales & margins in both consumer electronics and memory circuits as these recovered from low points.

While investors remain overly focused on smart-phones, we feel that they fail to notice Samsung's many other highly valuable business segments (DRAM, NAND, chipsets, displays, digital cameras, television sets, tablets, laptops, networking equipment and home appliances) as well as its competitive moat. Thanks to its size, Samsung enjoys low manufacturing costs (economies of scale) and high bargaining power with suppliers. To put its size in perspective, Samsung sells twice as many smartphones as Apple. Samsung gains additional competitive advantages from its vertical integration, with internal production of many of its own chipsets, memory circuits, and displays.

The consumer electronics space continues to expand with new product categories emerging that did not even exist a few years ago such as house cleaning robots, smart watches, virtual reality headsets, personal fitness trackers, personal health monitors, Internet connected home appliances and more. Samsung is already leveraging its size and competitive advantages to become a leading supplier in all of these categories. Needless to say, all these devices will also require chipsets and memory components that Samsung will supply. Over the years Samsung has created tremendous shareholder value and will continue to do so in the future.

Even after its strong performance in 2016, Samsung remains cheap by any valuation metric. It trades for 11x earnings and 3.5x EV to EBITDA based on our expected 2017 results. The recent arrest of Samsung's vice chairman, Jay Y. Lee, is likely to delay, but not cancel the expected group restructuring and corporate governance overhaul.

Our main detractors in 2016:
The only significant detractor from fund performance in 2016 was our basket of Korean Preference Shares.

Basket of Korean Preference Shares
After earnings strong returns since 2013, our basket of Korean Preference shares declined about 13% in 2016 and reduced our full year fund returns by about 3%. Declines were caused by a combination of political turmoil in Korea, a slowdown in China and some company specific issues. We do not see any fundamental change to our investment thesis as the underlying value of the companies in our basket continues, on average, to increase. Recall that when we purchased our basket, many of them were trading at 60% - 70% price discounts to their respective common stocks. The current price discount in our basket has narrowed to about 50%, which is still extremely high. We think there is another 100% upside remaining for this basket investment.

A year ago, the management of Samsung Electronics, confirmed our investment thesis in their Q3 comments to investors. They said: "…many shareholders have expressed a view that buying back and cancelling preferred shares, which are traded at a discount to common shares is a more efficient use of capital as we can buy and cancel more number of shares with the same amount of money, thus increasing the effectiveness of any future capital return to the remaining shareholders. The company shares the same view. Therefore, we plan to increase the portion of preferred shares for repurchase and cancellation under this buyback program, as long as the price discount to common share is greater than 10%". Please note that they view any price

discount above 10% to be a buying opportunity. For reference, our basket trades at an average price discount greater than 50%, confirming that huge upside remains.

Recently reestablished position:

Short USO (Oil ETF)
United States Oil Fund (Ticker: USO) is an ETF that is supposed to track the price of a barrel of oil (WTI - west Texas intermediate oil). In theory, it is an interesting financial product that allows investors to easily invest in (or bet against) the future price of oil. It is mostly owned by retail investors that view it as a proxy for directly owning barrels of oil.

Like many Wall-Street “products”, USO is a wolf in sheep’s clothing. USO does not own any oil directly. Instead, it uses futures contracts to gain exposure to the price of oil. Because these futures contracts are usually in contango (front months cheaper than later months), USO suffers from “roll decay” which makes it lose value over time. Every month, USO needs to sell the front month futures contracts that it owns and replace them with futures contracts that are one month further out, and therefore more expensive. As the month goes by, the newly purchased futures contracts become the front month futures contracts and the process repeats again, every month, forever. This can be summarized as “buy high, sell low, repeat every month forever”. Simply put, USO does not accurately track the price of oil and is likely to cause large losses over time to its investors.

We have been short USO on and off in the past and it served us well, especially towards the end of 2014 and again in 2015 as the price of oil fell sharply. We closed out most of the position at a nice profit at the end of 2015. With WTI Oil prices up about 45% in 2016, we think it is shocking that USO was up only about 7%, lagging by almost 38%. WTI Oil now trades around $54 per barrel, so we think USO is once again an attractive short and we recently we re-established a large short position. Over the years, shorting USO has proven to be the gift that keeps on giving and we fully expect this to continue in the future.

Concluding Remarks:
The expected return for our portfolio companies (difference between market prices and our estimate of intrinsic business values) is high. In addition, we have transitioned our portfolio into mostly high quality companies located in mostly high quality economies (US, Israel, South Korea) which should help protect our capital if markets decline.

We do not know how much longer the stock market rally will continue. Either way, we feel confident that our investment portfolio is in excellent shape, will realize its potential, and will perform very well over the long run. Meanwhile our businesses continue to grow their intrinsic values by increasing revenues, widening their moats, generating cash flows and buying back their own shares.

Thank you, our investors and shareholders, for your continued trust and support of EVCM fund. I continue to work tirelessly to protect and grow your capital and look forward to reporting continued strong positive returns in the future.

Happy, healthy and prosperous 2017!

Sincerely Yours,
Ori Eyal
Managing Partner

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An investment in the Fund may be deemed speculative and is not intended as a complete investment program. It is designed only for sophisticated persons who are able to bear the risk of the substantial impairment or loss of their investment in the Fund. The Fund is designed for investors who do not require regular current income and who can accept a high degree of risk in their investments. Prospective investors should carefully consider the risk factors specified in the Offering Memorandum before making a decision to invest in the Fund.