MPE CAPITAL

Year	MPE Capital (qualified, net)	MPE Capital (non-qualified, net)	S&P 500 TR
2017	17.3%	18.2%	21.8%
2018 (H1)	4.0%	3.9%	2.6%

July 2, 2018

Dear Fellow Investors and Friends,

For the first six months of the year ended June 29th, 2018 we generated a gross return of 4.9%, compared to 2.6% for the S&P 500. Individual net returns and account balances will be provided in the statements emailed to you. The above net performance numbers assume you were a client from the beginning of the period.

As always, it's imperative that very little weight be placed on short-term results (anything under five years). Having a long-term outlook is a necessary prerequisite to achieving favorable investment results.

DEPLOYED SOME CAPITAL

I finally got a chance to put some of our idle cash to work, adding one position to our portfolio during the first half of the year. One benefit to operating with a low turnover approach is we only need one or two new ideas per year to achieve our long-term objectives. We also sold our small position in an industrial distributor serving mainly the oil and gas industry for a small gain, ending the quarter with a cash balance of about 35%.

Reiterating what I said in my previous letter, valuations have been pretty rich considering we are nearing a decade of economic expansion. Most people expecting market averages to deliver double digit returns at these valuations over the next five to ten years will surely be disappointed. As always, my objective is to allocate our capital in opportunities that present adequate returns coupled with a low probability of permanent capital loss.

IMPORTANCE OF HANGING ON

As I've stated in the past, I think one of my responsibilities as an investment advisor is to manage client expectations. Considering we have experienced nearly a decade of economic expansion, we have to brace ourselves for the inevitable economic contraction. I believe if your time horizon is more than five or ten years, you should have nearly all of your capital invested in stocks. Over long periods of time, stocks have outperformed nearly all other asset classes, as you can see on the "Value of $1" section of the MPE Capital website.

However, that doesn't mean investors in stocks will outperform all the alternatives every year in a smooth upward fashion, there will be the inevitable bumps along the way. Imagine you had invested in the S&P 500 in 1926 until 2015. You would have achieved, including the re-investment of dividends, about 10% per annum. Now during that same time period, we experienced World War II, numerous recessions including the depression of the 1930's, the dot-com bubble, and most recently the Great Recession in 2007. Despite all these negative events, a $10,000 investment made in the S&P 500 in 1926 would be worth nearly $50 million in 2015. This example shows the importance of hanging on, having a long-term time horizon, and paying little attention to the short-term vicissitudes of the market.

S&P 500: 1926-2015

Time Frame	Positive	Negative
Daily	54%	46%
Quarterly	68%	32%
One Year	74%	26%
5 Years	86%	14%
10 Years	94%	6%
20 Years	100%	0%

Source: Returns 2.0

The above table illustrates the relationship between time horizon and probability of permanent capital loss. As we can see there is an inverse correlation, as time horizon increases, probability of permanent capital loss decreases, all the way down to 0% probability for 20-year periods. Now it's important not to forget that this example is for the S&P 500 as a whole, individual managers will have returns that may vary significantly from the S&P 500. My objective over long periods of time is to add value over the S&P 500 by carefully concentrating our capital into stocks that on average should be of higher relative quality and lower relative valuation compared to the overall market.

In many ways we should welcome a recession because we will be able to deploy our nearly 35% cash position. Our portfolio will also probably increase in overall quality coming out of the recession as we can replace some current high quality holdings with even higher quality companies that will be potentially trading at lower relative valuations. The irrational buying and selling that sometimes goes on in the markets is very much our friend and not our enemy. We will take advantage of temporary market panic to intelligently allocate capital and we will take advantage of irrational exuberance to sell some holdings at much higher prices than their intrinsic values would suggest.

CONCLUDING THOUGHTS

I would like to once again thank you all for entrusting me with the allocation of your hard-earned capital. This is not a responsibility that I take lightly and it's a pleasure to have partners like yourselves. I hope over the next ten to twenty years we can all look back and be more than pleased with our results.

Also, if you can think of anyone whose investment objectives align with ours and feel would be a good fit, please feel free to send them my way, I would be more than appreciative.

I look forward to updating you on our full year performance in the next letter, and if you have any questions please feel free to call or email anytime.

Sincerely,

Michael P. Ershaghi

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Past performance is not indicative of future performance. Inherent in any investment is the possibility of loss.

Indices are provided as market indicators only. It should not be assumed that holdings, volatility or management style of any MPE Capital investment vehicle will, or is intended to, resemble that of the mentioned indices. The comparison of this performance data to a single market index or other index is imperfect because the former may contain options and other derivative securities, may include margin trading and other leverage, and may not be as diversified as the S&P 500 Index or other indices. Index returns supplied by various sources are believed to be accurate and reliable.