

October 3, 2017

September Performance Update for LRT Global Opportunities, LP and Ltd.

If you are an accredited investor, please contact us for performance information.

Virtually every component of the portfolio contributed positively to September performance. Our year to date performance is also the best in our history. While I am delighted about this, my message to you is the same as it was to Chicago Cubs fans last year: celebrate and don't expect a repeat.

Vigilantly, deploying our process to identify opportunities as well as threats, also enables us to avoid the noise within the markets. To be sure, noise can be entertaining but proves unprofitable. The investment media is full of noise. Bitcoin prices, the Mueller investigation and North Korea are harmful distractions. The prospect of tax reform is largely priced into the market today. At LRT we are not interested in trying to predict short term price movements. Trading in and out of stocks in anticipation of a stock market correction is like a hot dog eating contest – fun to watch but foolish to engage in.

At LRT we focus exclusively on companies with "moats", those that can sustain high profitability for longer than market participants estimate due to strong and growing competitive advantages, i.e. moats. Conversely, we are also intensely focused on avoiding situations where the market consensus calls for a very long period of supernatural profits based on a competitive advantage that is being eroded.

We currently see consumer staples – such as P&G, Colgate-Palmolive, and General Mills – as coming under increasing pressure that is not yet fully appreciated by other market participants. Companies in the consumer staples sector have long been heralded as having some of the strongest and deepest moats out there. Many investors have made their careers by investing in these great businesses. Consumer staples companies used to have many attributes of that afforded them a competitive advantage, but today, most of these have eroded or disappeared altogether. This fact has not yet been fully appreciated by market participants.

Over the past fifty years, consumer staples have had the highest annualized return of the ten S&P sectors, 13.33%, while simultaneously having the second lowest annualized volatility, 14.51%. In this consumer staples offered investors the Holy Grail – high returns with low risk.

History is interesting, but investing is about the future, not the past, and at LRT we believe that many consumer staple businesses are on verge of going from extraordinary to merely average. Most consumer staple businesses today trade at above average valuations making them very susceptible to a change in market sentiment. Investors who buy shares today are likely to suffer a double whammy: declining profitability and declining valuations.

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I hope you find my short note about the consumer staples sector informative. I intend to use this monthly email to you to share my thoughts on a broad array of investment topics in the months ahead. I look forward to hearing your feedback, especially as it relates to the length and depth of my message.

Your individual account statements will be distributed in approximately two weeks. As always, your questions are welcomed.

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