

October 3, 2017

September 2017 - Performance Update

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.

* * *

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.

This memorandum and the information included herein is confidential and is intended solely for the information and exclusive use of the person to whom it has been provided. It is not to be reproduced or transmitted, in whole or in part, to any other person. Each recipient of this memorandum agrees to treat the memorandum and the information included herein as confidential and further agrees not to transmit, reproduce, or make available to anyone, in whole or in part, any of the information included herein. Each person who receives a copy of this memorandum is deemed to have agreed to return this memorandum to the General Partner upon request.

Investment in the Fund involves significant risks, including but not limited to the risks that the indices within the Fund perform unfavorably, there are disruption of the orderly markets of the securities traded in the Fund, trading errors occur, and the computer software and hardware on which the General Partner relies experiences technical issues. All investing involves risk of loss, including the possible loss of all amounts invested. Past performance is not indicative or a guarantee of future performance. We do not provide tax, accounting, or legal advice to our clients, and all investors are advised to consult with their tax, accounting, or legal advisers regarding any potential investment. For a more detailed explanation of risks relating to an investment, please review the Fund's Private Placement Memorandum, Limited Partnership Agreement, and Subscription Documents (Offering Documents).

This memorandum is for general information purposes only, and should not be regarded as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be in violation of any local laws. All persons interested in subscribing to the Fund should first review the Fund's Offering Documents, copies of which are available upon request. The information contained herein has been prepared by the General Partner and is current as of the date of transmission. Such information is subject to change. Any statements or facts contained herein derived from third-party sources are believed to be reliable but are not guaranteed as to their accuracy or completeness. Investment in the Fund is permitted only by "accredited investors" as defined in the Securities Act of 1933, as amended. These requirements are set forth in detail in the Offering Documents.

LRT Capital Management, LLC
401 Congress Street, Suite 1540
Austin, TX 78701
Office: +1 512 852 4320
www.lrtcapital.com