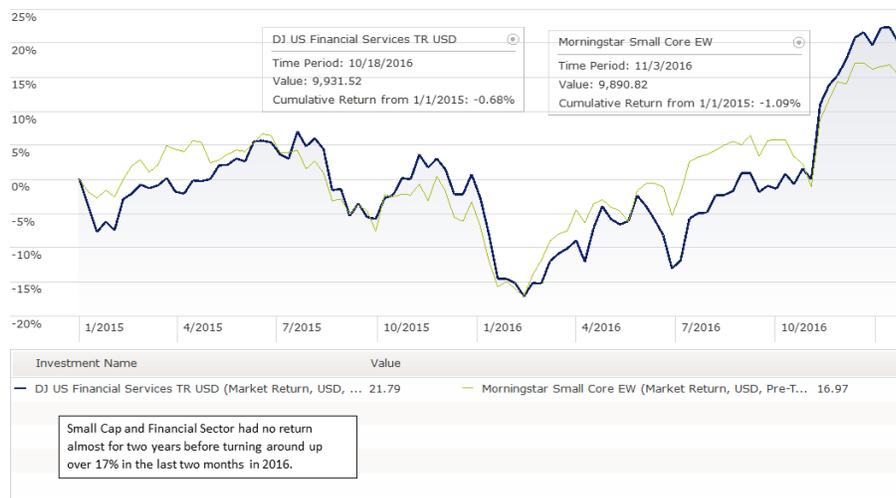




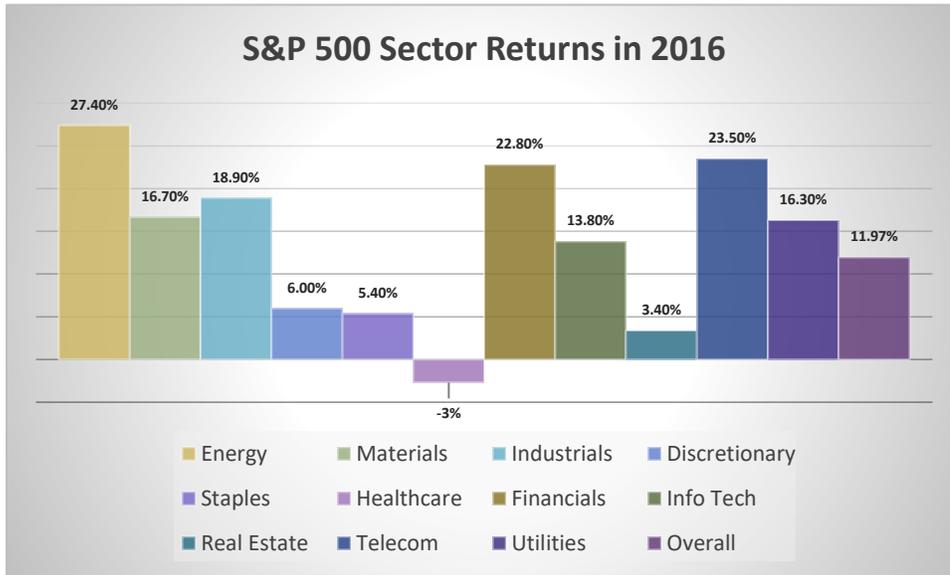
Songbird Capital Research
Yearend Market Commentary 2016

- **2016 Market Reviews:** The year started with challenges on multiple fronts: fear of China’s hard-landing, continuing decline in oil prices and rising concerns on US recession. Driven by these fears S&P 500 declined by 13.3% between 12/1/2015 and 2/11/2016, eventually fully recovered by mid-March. In late June, Brexit triggered global market reaction followed by a temporarily dip of 5.5% in global equities, which recovered within a week. However, British Pound fell to a 30-year low following Brexit, and further weakened through the end of the year. In November, Trump’s unconventional campaign won him the US presidential election. The GOP’s winning both houses brought enthusiasm for potential changes in tax code and fiscal policies. Both small cap and financial sector, which almost had no return in two years, rallied by over 16% in less than two months. Despite ups and downs of the market, as of 1/15/2017 S&P 500 has rebound by over 22% from its low one year before.



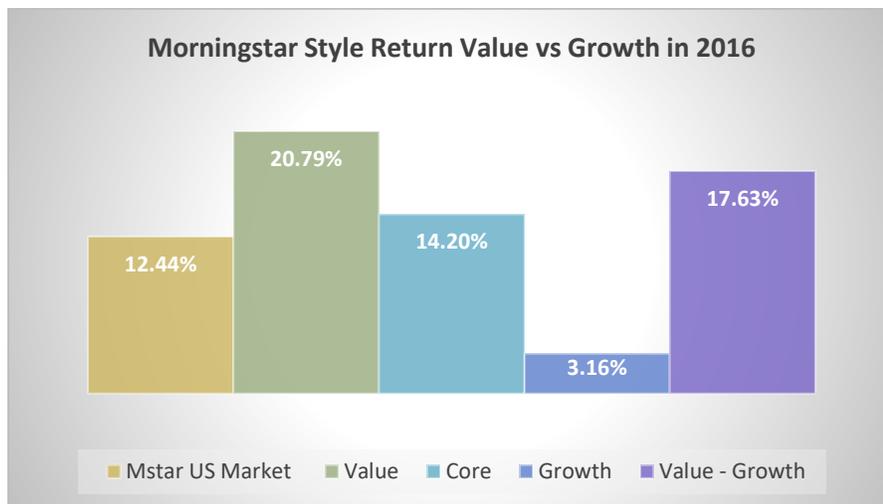
Source: Morningstar, Songbird Capital

- The S&P 500 index gained 9.84% with a total return of 11.96% for the year. Within the S&P sectors, Financial and Energy led the charge, returning 22.8% and 27.4% respectively for the year. Healthcare and Real Estate sectors lagged the performance with returns of -2.7% and 3.4% respectively.



Source: Standard & Poor's, JP Morgan AM and Songbird Capital

- Morningstar style performances indicate abnormally wide divergence between value and growth stocks across all caps with value outperforming growth by over 17% for the year. To put this into prospective, in the past 3-year and 5-year periods, the annualized dispersion between Value and Growth is 2% and 0.5% respectively. Given that growth is the only category in US equities that is still below its historical fair value and market tendency of regression to its mean, there is a high probability that growth stocks may outperform value stocks in the coming year(s).



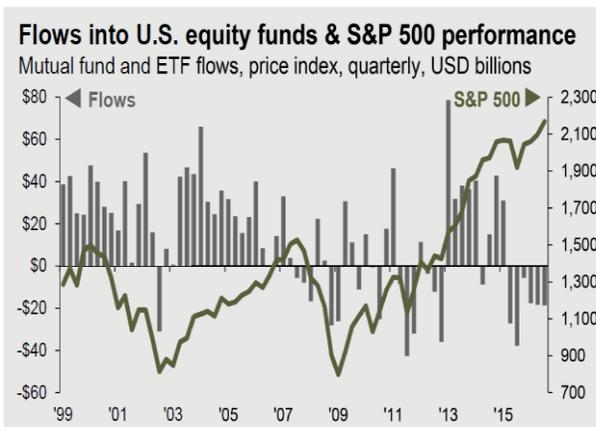
Source: Morningstar, Songbird Capital

- In global equity markets, non-US world equities returned 4.8%, EM equities returned 11.6%, Europe ex-UK 0.3% and UK equities are flat (all in dollar terms). Despite relative cheapness presented in EM and European stocks, the continued structural changes required in EM countries, sluggish recovery in Europe and uncertainties stemming from Trump administration's trade policies imply that potential return may come along with high volatility. The bright spot is the Asia-ex Japan region, which is becoming consumer driven and more integrated market compared with other EM countries.
- The nominal interest rate has been declining since its peak in 1981 at 15.8% driven by falling inflation and real interest rates. It is a global phenomenon as the world has witnessed G7 real interest rates decline and converge in the past decade. Global fixed income investments delivered meager returns in 2016, up merely 3%. Credit investments are the exception as US high yield, EM Sovereign/Corporate debt, delivered double digit returns. US high yield investments generated 17% returns as credit spread compressed by over 450bps from the beginning of 2016 driven by recovery in energy high yield issuers along with energy price rebound.

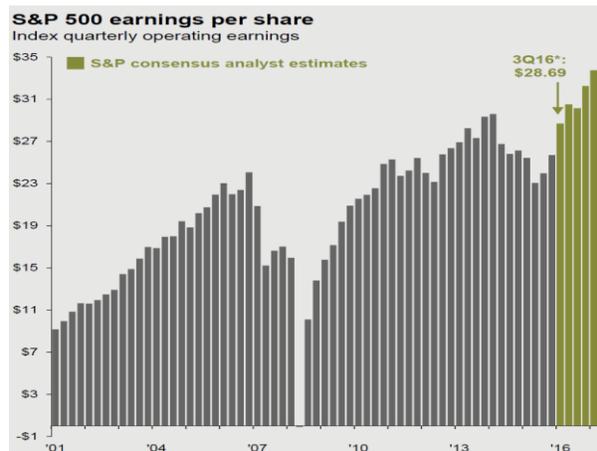


Source: BofA Merrill Lynch, fred.stlouisfed.org, Songbird Capital

- **Market Timing Is a Daunting Task:** US equities returned double digits in 2016. However, the fund flow data shows that capital has flown out of US equities for the past 6 consecutive quarters, coinciding with negative earnings growth during the period. The increasing downside volatility induced by unexpected political events further drove capital outflows, leaving investors out of US equity market precisely at the time when US equity market turned around, becoming one of the most profitable market in the world for 2016 (see the charts below). Once again we see that market timing is not a repeatable investment strategy for long term investors.



Source: JP Morgan, Strategic Insight, Simfund.



Source: Standard & Poor's and JP Morgan

- **Investment Outlook:** The global economy is strengthening as S&P 500 earnings per share growth turned positive on year over year basis in the 3rd quarter of 2016 and the positive trend seems to be continuing in 2017 (see chart above). The commodity cycle has turned, assisting the recovery of commodity driven economies in emerging markets. The global Purchasing Managers' Index in October also just reached the highest level in 2 years trending upward. In the United States, market expects corporate income tax cuts may potentially benefit corporates and further drive equity returns in 2017.

However, uncertainties abound as how the new administration will implement the policies and deliver results. In recent years, volatility has become the norm, and diversification is key to constructing a portfolio to weather volatile periods and keep returns on target.

Songbird Company Updates

I am pleased to announce some of Songbird's initiatives and developments:

- 1) After one year process, Songbird's name and its logo become registered trademarks in June;
- 2) Songbird also set up a charitable fund within Schwab Charitable to help local non-profits. In January of 2017, Songbird Charitable made grants to five non-profit organizations. This is just a beginning as Songbird commits to invest % of revenue to help other social entrepreneurs' projects through Songbird Charitable. It may start small, but it will grow as Songbird grows.

I believe that the world has never been as closely connected as today. There will be more businesses that choose to invest in the communities they serve and social causes that benefit society as a whole.

- 3) Songbird Capital Services, a separate entity is expected to launch in February. Unlike Songbird Capital which solely focus on advising and managing clients' assets, Songbird Services intends to provide solutions to streamline financial affairs for individuals, small businesses and nonprofits including accounting and tax planning services. We will provide details soon.

Thank you for your continued support. Your trust has sustained Songbird through the challenges over the years. I am looking forward to the journey together in the coming years. If you feel that Songbird can be help for your friends and families, please spread the words and pass along our information.

Sincerely Yours,

Jie Hayes / Principal of Songbird Capital

Disclaimer:

The views expressed reflect the current views of Jie Hayes as of date of hereof. Neither Songbird Capital LLC nor Jie Hayes will inform you the change in views expressed herein. This letter does not constitute an offer to sell any securities or the solicitation of an offer to purchase any securities nor a portfolio proposal. Such offer or proposal can only be made after assessing individual's financial conditions and considering return objective and proper risk tolerance level.