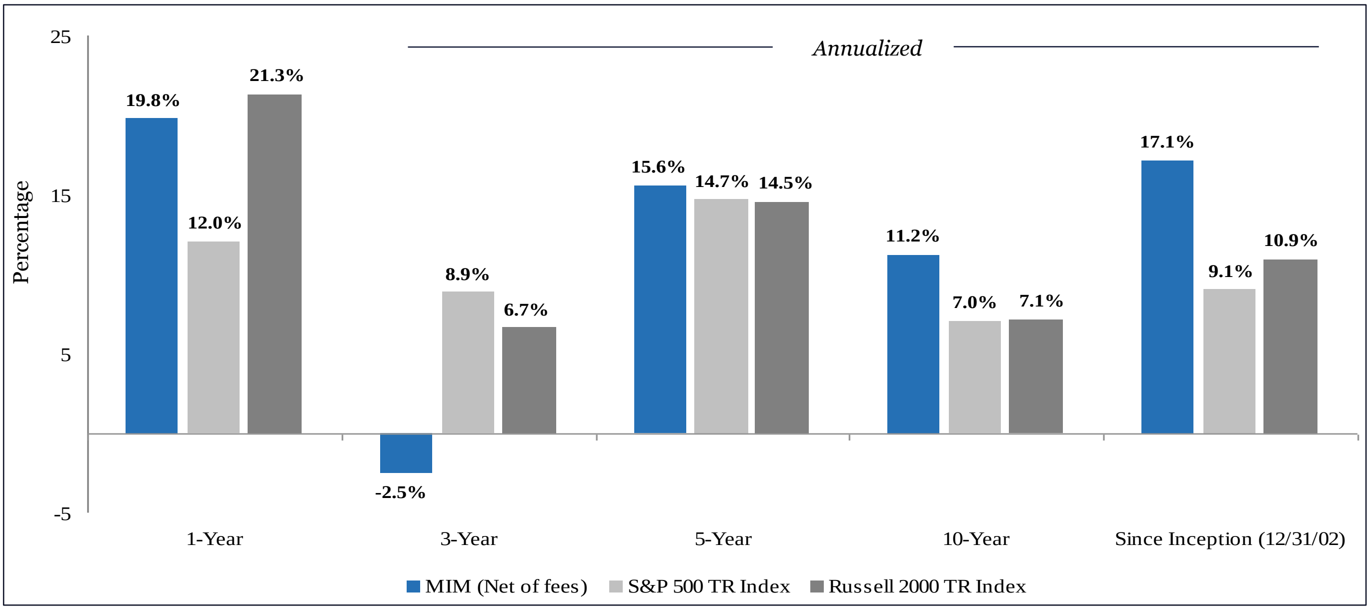
MITTLEMAN BROTHERS
INVESTMENT MANAGEMENT

Chief Investment Officer Commentary – 1/31/17

Mittleman Investment Management, LLC's composite dropped 1.1% net of fees in the fourth quarter of 2016, versus gains of 3.8% in the S&P 500 Total Return Index and 8.8% in the Russell 2000 Total Return Index. Longer-term results for our composite through 12/31/16 are presented below:



We underperformed the market significantly in Q4, primarily due to a particularly bad November for us when the U.S. Dollar and U.S. stocks soared after Trump's election victory, while our portfolio, with over 50% in foreign holdings, largely missed that party. Expensive U.S. stocks got more so, while our undervalued foreign stocks got more so as well, a fundamentally irrational divergence that is unlikely to persist indefinitely. Still, we significantly out-performed the S&P 500 for the year, while slightly under-performing the Russell 2000, in what was an encouraging rebound from our disappointing 2015 results. Momentum stocks beat value stocks in 2015, but the opposite was true in 2016. The pendulum appears to be swinging back in the direction of value-oriented strategies like ours, a tailwind that we hope will continue for some time after many years in which the money flows in general were going in the other direction:

Source: Schroders, Thomson Reuters Datastream

NOTE: Past performance is no guarantee of future results. Performance results presented are preliminary, net of fees and include the reinvestment of all income. Individual account returns may vary from those presented due to differences in the timing of contributions and withdrawals, and account start dates. Refer to the important disclosures on page 4.

The top three contributors to our Q4 2016 performance were **Sberbank of Russia (SBRCY)**: $9.42 to $11.58 (+22.9%), **Rallye SA (RAL FP)**: $16.39 to $19.43 (+18.6%), and **Carmike Cinemas (CKEC)**: $32.69 to $34.09 (4.3%).

The three most impactful detractors from our Q4 2016 performance were **Revlon (REV)**: $36.78 to $29.15 (-20.7%), **KT Corp. (KT)**: $16.05 to $14.09 (-12.2%), and **Intralot SA (INLOT GA)**: $1.17 to $1.07 (-8.6%).

Attached to the email which delivered this letter to you is an updated version of "What We Own, and Why" providing a one-page summary of the investment rationale for each of our 18 holdings as of 12/31/16. So rather than go over all of that again for the stocks mentioned above, we will just touch on them briefly below.

Sberbank's stock price is rebounding as its earnings are rebounding, as Russia slowly emerges from two years in recession. One year ago, in our Investment Review letter for year-end 2015, we noted that Sberbank's stock at $5.79 on 12/31/15, up from $3.87 on 12/31/14, appeared to be worth at least $10.00, which would be 12.5x the $0.80 in EPS they appeared likely to produce in 2016, and 1.7x their book value of $5.88, also noting that any gain in the Ruble (RUB/USD was 76 on 01/29/16) would boost that fair value target. Since then the Ruble has gained 23.5% versus the USD to 61.54 as of 12/31/16, but Sberbank's earnings have been much stronger than expectations one year ago, with estimates for 2016 now at $1.55 EPS, nearly double the $0.80 consensus expectations of one year ago. We are now targeting fair value at $17.20 per share, a P/E multiple of 10x estimated 2017 EPS of $1.72, and 1.8x book value of $9.60 (assuming a RUB/USD exchange rate of 60). While the Sberbank position is now at a decent gain from our average cost of $8.01 per share, our initial purchases at $10 in June of 2014 were clearly not well-timed, as the stock plummeted to a low of $3.08 in December 2014, before rebounding to $11.58 on 12/31/16. Still we've done much better with Sberbank since June 2014 than we would have had we picked a much "safer" European bank like Deutsche Bank (DB) in Germany, which is still down from $38 to $18 over the same time frame. This highlights again how wrong consensus thinking can be at any given time and on any given subject.

Rallye SA was also in rebound mode in Q4 2016 and for the full year, as concerns abated about the effects a severe recession still underway in Brazil would have on their substantial grocery and retail holdings in the region. Also a group of short sellers who had loudly denounced Rallye and its main holding, Casino Guichard in France, as untenably over-leveraged in a report issued on December 17, 2015, seem to have covered their short positions in Rallye and moved on to other targets, at least according to public filings in France disclosing directly held short positions. We obviously disagreed with the short thesis on Rallye and used the price weakness their report created to buy more shares. Casino Guichard sold assets in Thailand and Vietnam for over $4B in proceeds in 2016 at very attractive valuations, dramatically reducing leverage for the group. We continue to have faith in Rallye's controlling shareholder, Jean-Charles Naouri, the French billionaire who owns 55.3% of Rallye's stock, as he has an excellent, decades-long track record of buying low and selling high with supermarkets around the world, and the real estate he develops around them. Annual dividends paid by Casino Guichard have grown from €2.08 per share (€233M) in 2005 to €3.12 per share (€353M) in 2016, while Rallye's dividend has grown from €1.68 per share (€65M) in 2005 to €1.83 per share (€89M) in 2016. At 12/31/16 stock price of $19.43, the dividend yield on Rallye's stock is 9.9%. So, while the holding company structure is confusing to some, and the leverage is significant (albeit much reduced), we take comfort in the long history of free cash flow generation and cash dividends representing almost all of it going to shareholders.

Carmike Cinemas exited our portfolio on 12/22/16, when AMC Entertainment Holdings (AMC) closed their acquisition of Carmike for cash and stock worth $34.09, thus ending just over a nine year investment that produced an outstanding return. The stock fell from our Q3 2007 entry at around $16 to a low of $1.00 in March 2009, enabling us to lower our average cost then to about $7. The business was much better than the volatile stock price implied, as patient investors ultimately enjoyed.

Like Carmike, **Revlon** also has a volatile stock price that belies a much more stable business underneath. That excess volatility in the share price is partially due to a limited float (Ron Perelman owns 77.5% of the shares, leaving only 22.5% for the rest of us), but also due to a highly leveraged balance sheet, which amplifies small changes in the total enterprise value to large changes in the equity value. So while Revlon was our worst performer in Q4 2016, it was our best performer in Q3 2016, our worst performer in Q2 2016, and our best performer in Q1 2016. Over the long-term, since we started buying the stock at $10 in December of 2010, the performance has been very good, even at the recently marked down price of $29.15 on 12/31/16. The ostensible reason for the drop in Q4 2016 we think was disappointment with their Q3 report of weak sales in their consumer business in North America, -5.3%, but that was substantially mitigated by a 5.1% increase (+9.7% ex-currency effects) in their international consumer business. Overall, total company sales were +1.0% in Q3 (+2.5% ex-FX). That compares well against their larger and more highly valued competitor Coty (COTY) which was -3.0% (-2% ex-FX) in Q3. So we think the sell-off in Revlon's stock price in Q4 was an over-reaction. Shortly after our initial purchases in December 2010, Revlon reported sales of $1.32B, EBITDA of $257M, and FCF of $82M in 2010. They are on track to report 2016 results soon which should be about $2B in sales, EBITDA of $400M , and FCF of $125M. And in 2017, with the recently closed Elizabeth Arden acquisition contributing, we estimate sales of $3B, EBITDA of $500M, and FCF of $175M, all before non-recurring restructuring charges. Maybelline was bought out by L'Oreal in 1996 for 14.7x EBITDA, L'Oreal (OR FP €173) currently trades at 14.9x EBITDA (2017 estimated). Coty recently paid 13.5x EBITDA (pre-synergies) to buy Cover Girl and other beauty brands from Procter & Gamble. Revlon at $29.15 only trades at 8.75x our $500M EBITDA estimate for 2017, with a market cap. of $1.53B that's only 8.75x our $175M FCF normalized estimate. We think fair value is $76, or 13.5x EBITDA and 23x FCF, more in-line with their peer group. In a recent interview with Bloomberg, Revlon's new CEO, Fabian Garcia, former COO of Colgate-Palmolive (CL), declared an ambitious goal of growing the company from $3B in sales in 2017 to $5B in 2022, a 10.7% CAGR over five years. If they can do even half of that top-line growth rate over the next five years, while maintaining recent EBITDA margin, the stock price should significantly exceed our current fair value estimate during that time frame.

KT Corp., our second worst performer in Q4, was down due to concerns that their CEO might have to step down because he was somehow accommodating to some corruption-related requests made either by the President of South Korea, or those close to her. We don't know exactly how this will play out, and we do like the current CEO who has cut costs and reduced leverage by selling non-core assets, but changing the CEO doesn't change the value of the business so dramatically, especially for this well-established telecom and media business (#1 broadband provider in South Korea, with 1Gigabit speed, #2 cell phone service (31% market share)). So we believe the sell-off was an over-reaction, and if the CEO has to step down at some point, that shouldn't derail the stock price from attaining fair value in the longer-term. We think fair value is $20.50, up 45% from 12/31/16 price of $14.09, at target multiples of 4x estimated 2017 EBITDA of $4.2B, and 10.7x FCF of $1B.

The 8.6% decline in **Intralot SA** during Q4 was almost all due to the weakening of the Euro, which dropped 6.4% during Q4, largely caused by the surge in the USD against most of the world's currencies as investors bet that stronger growth, higher inflation, and higher rates are coming under a Trump administration which will supposedly drive the USD ever higher. We'd take the under on that bet, given the growth-limiting effects of our country's debt and aging demographic profile will not likely be overcome by the "animal spirits" stirred up by a less taxed and less regulated corporate sector. Regardless, Intralot gets 24% of their EBITDA from servicing lotteries in the U.S., so they have a substantial USD revenue cushion / hedge against the possibility that the consensus call for a persistently higher USD turns out to be correct. We think Intralot, the second largest lottery systems company in the world, is worth nearly triple the year-end 2016 price of $1.07. Our estimate of intrinsic value for Intralot is $3.00 (7x EBITDA). See "What We Own, and Why" for more details on our investment thesis.

In our Investment Review letter for year-end 2015, one year ago, we cautioned against allowing the advice of Mr. Macro and all of his pontificating disciples to influence one's decision making when it comes to investing. Sadly, we know of a few investors, both amateur and professional, who fell victim to the endlessly recycling myth that market timing is even remotely possible with any useful degree of precision. So in early 2016, as Mr. Macro was practically screaming about an impending global recession about to begin thanks to weakening economic statistics coming from China, the S&P 500 dropped from 2,044 on 12/31/15 to 1,810 on 02/11/16, an 11.5% drop into which many who should have known better simply panicked and sold anyway. The S&P 500 fully recouped that loss just over one month later, and ended the year +11.95% for the full year, and +24.77% from the 02/11/16 low. How many embraced the contrarian reflex to add rather than to sell in periods of extreme price weakness? We can count those precious few rational souls on one hand.

Likewise, we know of others who sold most or all of their stocks before the U.S. Presidential election in early November as the risks of a Trump win appeared to be rising and everyone suspected that a Trump win would crash the markets. Well it did, at least for a few hours on the night of the election, as Dow futures dropped 800 points briefly, but the market actually ended the next day up, beginning a huge rally to year-end and into the new year.

As previously mentioned, our portfolio did not participate in the post-election euphoria because of our heavy positioning in foreign and particularly emerging markets. But that is where we see the best values currently, and value is usually expressed in share prices with some fairness over longer periods of time. And yet we still out-performed the S&P 500 significantly in 2016 despite that post-election rally we missed The point we come back to again and again is that as investors we will not make wholesale portfolio changes in reaction to panicked perceptions of impending doom or euphoric expectations of a new paradigm unfolding. What will happen next, in the short term, is simply unpredictable. Our focus remains on the fundamentals of the businesses in which we have invested and their long-term potential for producing superior total returns.

We encourage you to review our updated "What We Own, and Why" report to become more familiarized with our investment rationale for the 18 companies in which we've chosen to invest. The portfolio in the aggregate, on a weighted average basis, appears to have 83% potential upside between year-end 2016 prices and our concept of fair value. Another time we perceived such a gap between market price and estimated intrinsic value in our portfolio as a whole was year-end 2011, which preceded two consecutive years of our composite returns (net of fees) just over 49% in both 2012 and 2013. Obviously past performance is never any guarantee or indication of future results, but we do find that data point encouraging.

Sincerely,

Christopher P. Mittleman
Managing Partner, Chief Investment Officer

NOTE: Performance results presented are preliminary, net of fees and include the reinvestment of all income. Individual account returns may vary from those presented due to differences in the timing of contributions and withdrawals, and account start dates.

IMPORTANT DISCLOSURE

Mittleman Investment Management, LLC ("MIM") claims compliance with the Global Investment Performance Standards (GIPS®). MIM is an SEC-registered investment adviser. The composite includes all fully discretionary separately managed accounts which follow the firm's investment strategy, including those accounts no longer with the firm. MIM's value-oriented strategy is to invest in a concentrated portfolio (usually holding between 10 to 20 securities) of primarily common stocks, unrestricted as to market capitalization, of both domestic and international companies. The U.S. Dollar is the currency used to express performance. Performance presented prior to January 2006 occurred while the Portfolio Manager was affiliated with a prior firm and the Portfolio Manager was the only individual responsible for selecting the securities to buy and sell. Past performance is not a guarantee of future results. Margin is not an active part of the management of the accounts but may be used on an opportunistic basis if permitted by the client. Investments made by MIM for its clients differ significantly in comparison to the referenced indexes in terms of security holdings, industry weightings, and asset allocations. Accordingly, investment results and volatility will differ from those of the benchmarks. For more information or for a copy of the firm's fully compliant presentation and the firm's list of composite descriptions, please contact us at (516) 686-6200.