American Fund

QUARTERLY UPDATE

Brown ADVISORY
Thoughtful Investing.

Fourth Quarter 2016

PERFORMANCE (%)

	RETURNS NET OF FEES*	RUSSELL 3000® INDEX
3 Mos.	4.39	4.21
1 YR	10.54	12.74
3 YR	3.61	8.43
5 YR	11.09	14.67
ITD	6.80	8.18

*American Fund B USD share class net of fees.

CHARACTERISTICS

	AMERICAN FUND	RUSSELL 3000® INDEX
Weighted Avg. Market Cap.	$119.9 B	$124.8 B
Weighted Median Market Cap.	$47.6 B	$55.7 B
Earnings Growth 3-5 Year Est.	11.2%	10.5%
P/E Ratio (FY2 Est.)	17.9x	17.1x
PEG Ratio	1.6x	1.6x

TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Berkshire Hathaway Inc. Class B	4.0
Visa Inc. Class A	3.6
Alphabet Inc. *	3.4
CarMax, Inc.	3.2
Wells Fargo & Company	3.2
Mastercard Incorporated Class A	2.7
Priceline Group Inc	2.7
Charles Schwab Corporation	2.5
Lowe's Companies, Inc.	2.3
JPMorgan Chase & Co.	2.3
TOTAL	**29.9**

*Alphabet Inc. represents a 1.9% holding in Class C shares, and a 1.5% holding in Class A shares.

Review & Outlook

The American Fund aims to achieve capital appreciation through a combination of Brown Advisory in-house U.S. equity strategies. For the quarter the Fund returned 4.4% vs. 4.2% for the Russell 3000 benchmark. On the 1st November, 2016 the Large-Cap Value and Large-Cap Growth strategies were removed from the Fund's asset allocation and replaced with the Flexible Equity strategy. The new strategy allocation for the Fund is a fixed apportionment of 75% to Flexible Equity and 25% to Small-Cap Blend.

U.S. FLEXIBLE EQUITY STRATEGY

For the quarter ended December 31, 2016, the Flexible Equity Strategy performed largely in line with the benchmark S&P 500® Index. For 2016, the Flexible Equity Strategy trailed the S&P 500 Index. The Flexible Equity Strategy results relative to the market were strong in the second half of the year after weak performance during the first half.

The surprise result of the U.S. elections with Donald Trump winning the Presidency and Republicans holding a majority in both houses of Congress has both stimulated and roiled investment markets since the 8th November. We view the new administration as being simultaneously pro-economic growth (lower taxes), pro-business (lower regulatory burden) and also pro-labor (trade protection). This unusual combination of expectations fits well with the most unpredictable president-elect in memory. The U.S. election result following the previous Brexit vote confirms the shifting relative balance among the forces of globalism nationalism, localism and individualism.

There are many possible changes that could happen in the next few years. Before the new administration takes office, investors are mostly projecting first-order effects of any potential change. After assuming office, we may see better the reality of an ecosystem where one can never change only one thing – each action or potential action creates reactions and further changes rippling through the system. In investment markets, prices change quickly with each iteration. Longer term, our baseline assumption for the U.S. system is economic and social progress over time where innovation, competition and democratic elections tend to foster what works and inhibit what does not. We believe this system works, even if unevenly and less than perfectly at times.

In our last review we discussed the potential for rising interest rates from historic lows and the benefit that should have for our financial holdings – a market event we have seen help our portfolio post-election. The action of potential faster economic growth creates the reaction of interest rates moving higher. With our financial holdings, both faster economic growth and higher interest rates are beneficial. If proposals lessening regulation and corporate taxes pass, there may be an extraordinary effect on financials. However interest rates moving substantially higher could limit overall equity market valuations which at some point naturally limits our enthusiasm for financials.

Though we are sometimes asked how we are positioning our portfolio for various events or environments in the market, economy or world, positioning for scenarios is generally not how we invest. Rather we search for investment bargains, particularly among long-term attractive businesses with shareholder-oriented management. These businesses typically have competitive advantages producing better-than-average economic results, management that allocates capital well and capacity to adjust to changes in the world – these businesses tend to grow in value over time. Bargains in the stocks of these businesses can arise for many reasons, but are often due to short-term investor perceptions, temporary business challenges that will improve, or as yet undiscovered or unrecognized opportunities and changes for the better. We are optimistic about the long-term outlook for equities of good companies purchased at reasonable prices and our ability to find them.

U.S. SMALL-CAP GROWTH STRATEGY

The portfolio performed quite well for the first 10+ months of the year due largely to stock-specific performance. However, the rest of 2016, in the wake of the U.S. presidential election, was a challenging period for the strategy, leading to underperformance for the quarter and erasing our relative gains in 2016. While a couple of specific stocks certainly detracted from fourth-quarter results, the dominant factor weighing on the portfolio was the political "regime change" and subsequent shift in sentiment driven by speculation about the incoming Trump administration. The market events of the past few months have consumed our thinking and the remainder of this commentary largely attempts to share some of our thinking on the subject.

We can now begin to discuss two highly distinct periods with regard to the economy and stock markets: pre-Trump and post-Trump. Prior to the election, the world was a familiar one. The U.S. economy was growing consistently, albeit at a lackluster rate – a feat nonetheless envied by other developed economies. This growth was powered by the service sector, while industrial markets remained mired in recessionary conditions. Tailwind growth was scarce and interest rates were low, so companies with a strong ability to create their own growth commanded a scarcity premium vs. companies more dependent on cyclical shifts. Then, Donald Trump was elected President, and seemingly overnight the world changed.

On the Monday prior to the election, the market rallied on weekend polls showing Hillary Clinton with a sizable electoral lead. A Hillary win meant the status quo—we would avoid the large uncertainty stemming from a Trump presidency. On election night, exit polls showed Mr. Trump doing better than expected in some key states, and market futures moved to lock limit down as this progressed during the evening. (We spent the night and the early morning constructing a purchase list should a "Brexit" moment materialize in U.S. markets.) The anticipated sell-off did not occur and, as the markets held their ground, a new speculative consensus formed. Below is our attempt to summarize the historic post election (small-cap) market move, and the sentiment/belief driving these events.

What happened	What the market seems to be thinking
U.S. equity market rose to near-record high	*A Republican sweep ends gridlock, potentially setting the stage for dramatic pro-growth and capital-friendly legislation*
Small-cap stocks demonstrated their best performance since 2009	*If U.S. reduces corporate taxes, it would benefit small caps with primarily domestic revenue* *If overseas cash is repatriated, we may see a renewed wave of M&A activity*
Within small-caps, value dramatically outperformed growth	*Potential for renewed stimulus may spur inflation and a rise in rates, coupled with a steepening of the yield curve; small value stocks tend to be more closely aligned with these drivers. (For example, yield curve may drive bank stocks; fiscal stimulus may drive infrastructure-adjacent companies)*

This investment narrative quickly drove speculation and a sizable sector rotation in the market. In order to gain exposure to the themes noted above, many investors utilized ETFs, eschewing bottom-up analysis in favor of top-down allocation. For the year, approximately $17 billion poured into small-cap ETFs, with the vast majority of that figure coming in the last few weeks of the year. By 2016's conclusion, the Russell 2000® Value Index reached an all-time high, and the broader Russell 2000 ® Index was trading at a lofty 21 times earnings. The key takeaways for us were that this speculative move was quite large, and appeared to have lacked idiosyncratic discernment for many investors.

Currently the small-cap market appears to be fairly valued—so long as economic growth does in fact materialize as the market is projecting, and corporate tax relief does in fact come to pass. It may be fully valued if some of the potential positives mentioned earlier fail to materialize. We are encouraged by an apparent improvement in small-cap earnings growth and an emerging relative opportunity in our favored "compounders"—in other words, firms that can consistently reap the rewards of capital allocation at or above their cost of capital, leading to attractive and durable growth over time.

As we level our thoughts, we begin 2017 with cautious optimism. We are hopeful, and acknowledge that the long-term impacts of the policy directives of the incoming administration may be demonstrably positive. However, great uncertainty clouds the year to come, and the speculative gyrations we have seen in the market so far may not fully account for the complexities of the political process that lies ahead.

We are thus preparing for greater volatility by bolstering our research into economic segments where we currently have low relative exposure. For example, our team prioritized the consumer sector in 2016 and changed a sizable underweight to a modest overweight over a multi-quarter period, without bending our investment philosophy nor venturing into the subsectors we have traditionally viewed as secularly disadvantaged. Sentiment shifts may present some compelling values in new areas as we progress through 2017.

Additionally, given the advanced age of the current bull market and economic recovery, we are highly focused on quality and downside protection in the portfolio—factors that matter less and may even hurt us during robust periods, but certainly pay handsome dividends when markets sour. With recent adjustments we are emphasizing high conviction and high durability, as we stress test our investment logic and earnings forecasts going into a new year. Encouragingly, we have seen signs that sector correlations continue to move lower. We have bemoaned the lack of differentiated returns in our market in recent commentaries, as it is challenging for us as bottom-up investors who, by definition, look for outsized progress in one name vs. another. Some environments are conducive to idiosyncratic portfolio structure and others are not.

The value of the portfolio has marched higher over the last several years. Recently, we have had M&A activity in the portfolio, some of our names have reached our targets for them, and some have seen a few mistakes play out—all of this has generated more transactional activity than is typical for us. However, due to the growth and increased productivity of the investment team dedicated to this strategy, we have been able to efficiently reinvest the cash generated from these transactions, even in a market with elevated valuations. As always, our goal is to patiently drive the most favorable portfolio upside/downside possible without sacrificing overall diversification.

CONTINUED

The philosophy of our investment team has not changed and we are pleased with the historical evidence of its effectiveness. We practice a bottom-up, long-term, disciplined approach to finding, owning and closely monitoring a diverse collection of businesses with the potential to compound from small- to mid- to large-cap status. In order to raise the probability of our companies making this journey, we seek out businesses that possess what we call "3G" characteristics: durable Growth, sound Governance and scalable Go-to-market strategies. This results in a quality-focused portfolio with very high active share vs. our benchmark. Our goal is to keep up during robust market periods through thoughtful decisions and appropriate weighting of individual holdings, while mitigating downside risk through careful portfolio construction. We acknowledge that with more capital flowing into small-cap indices and ETFs since the end of the Great Recession, this philosophy appears to be producing modestly higher short-run variance vs. our Russell 2000® Growth Index benchmark. However, we still believe the path we are on is the right one to producing our desired risk-adjusted absolute and relative returns over a full market cycle, assuming strong execution against the process. Our team will continue to work hard to make sure the portfolio can weather whatever we face on the road ahead.

U.S. SMALL-CAP VALUE STRATEGY

Small-cap stocks ended 2016 in a dramatic fashion. Share prices appreciated rapidly after the election on the belief that small-caps would benefit from several themes that investors anticipate from the incoming administration. For one, smaller companies may benefit disproportionately from potential tax cuts, as they pay a higher tax rate relative to many larger firms. Secondly, a significant infrastructure program could boost the revenues of many small domestic cyclical companies. Finally, pro-growth policies and a reduced regulatory burden may serve to re-accelerate economic growth. While we have no idea if any of these will or will not come to pass, or under what terms, investors looked to the small-cap value sector to express their optimism. Even after falling during October, the Russell 2000® Value Index, the strategy's benchmark, ended the quarter up 14.1%, well ahead of the S&P 500® Index which was up 3.8% for the quarter and even the Russell 2000® Growth Index which was up 3.6%. ETF activity was particularly high with nearly $14 billion going into small-cap ETFs during the quarter which was a substantial portion of the 2016 activity, mostly occurring after the election.

The strategy had a strong quarter on an absolute basis, but trailed its benchmark. Given the rapid rise in the market, we were pleased to participate as meaningfully in the rally as we did. During October, as the markets fell, we outperformed on a relative basis. It was during the post-election period in November, when the benchmark made its major move upward, that the strategy saw the bulk of its underperformance for the quarter. The strategy trailed on a relative basis going into the quarter, so the fourth quarter's results expanded the relative underperformance for the year.

As noted, it will be some time before the new administration begins to actually implement policy, but already we have seen several tangible macroeconomic factors begin to impact current financial performance of small-cap companies. The first is a steepened yield curve, which bodes well for bank net interest margins generally. The financial sector was the strongest performing sector for the quarter. As part of our investment process we intentionally do not try to invest in companies that are reliant on rate increases to generate increased profitability. So while our financial investments were up materially, they did not keep pace with the broader financial sector and especially those companies with highly asset-sensitive balance sheets. The second-best sector performance came from the energy sector, as oil prices recovered from the rapid decline over the past year. Even though energy constitutes only 5.1% of the benchmark's Index, energy proved to be our largest detractor for the year and the second largest detractor for the quarter.

Our underweight in utilities and our investments in the real estate segment were our strongest relative contributors. In addition, many of our smaller, less-liquid investments appreciated meaningfully during the quarter. Our 10 best-performing stocks appreciated an average of 37% for the quarter, and eight of these are small positions (less than 1% of the portfolio) due to their lower level of liquidity.

Trading activity was fairly high during the quarter, with respect to new investments as well as existing holdings. We made five new investments in the quarter—three consumer discretionary names, one industrial company and one real estate company. The total was higher than normal due to the sharp rise in a number of previous investments that moved upward before we could establish full positions. Trading activity was also high as we sought to reallocate capital within the portfolio.

As discussed in earlier updates, the portfolio saw a high level of deal activity in 2016. During December, Destination Maternity finally announced the terms of its merger with Orchestra Prémaman. We were disappointed in the final terms, which were materially below initial expectations, and we sold our investment. In early January, we anticipate that both the American Capital sale to Ares Capital and the tri-party merger of Northstar Asset Management and Northstar Realty Finance with Colony Capital will be completed. Given the rapid rise in the markets, these represented a drag on performance, but we were pleased to be able to capture the meaningful remaining spread embedded in the transactions. Given the high level of trading activity, our cash position came down from the end of the third quarter, but we expect it to rise again in early January with the closing of these transactions (which include a cash component).

We were cautious with regard to our universe's prospects coming into 2016, and we continue to be cautious leaving the year. In particular, we note a number of risks that emerged during the quarter. First, there is a natural skepticism surrounding the ability of the new administration to deliver on its economic promises. Given the rise of small-cap shares and the continued expansion of valuations, any delay or reset of expectations will likely add significant downside pressure to share prices. Second, while small-cap companies are focused on domestic markets, they are not immune to a strengthening dollar. During the rapid decline in small-cap shares in the first quarter, a strong U.S. dollar was highlighted by a number of small-cap cyclical companies as a major headwind given its positive impact for international competitors. We have already heard of some situations where the strong U.S. dollar is negatively impacting business results. Finally, the flows into ETFs are troubling. We do not think it is a coincidence that some of our smallest, most illiquid investments experienced such strong price appreciation during the quarter. Market commentators have highlighted that some 90% of all new investment flows since the election have come through either ETF vehicles or some variation of a risk-parity strategy. Given the tight trading spreads of ETFs (especially relative to their underlying investments), there seems to be the implication that liquidity will be available given a downward price adjustment. Given the recent flows, ETFs clearly increase the potential to exacerbate any downside movement.

2016 was a tumultuous year. It year started with extreme pessimism and fear among investors, and ended with unbridled optimism. This year, just like in years past, we will continue to do what we believe will work over the long run: find underappreciated companies generating consistent cash flows trading at attractive valuations.

Sector Diversification

- Our consumer discretionary weighting has expanded into an overweight position with our new investment in Chipotle Mexican Grill.
- Strong price appreciation in financial stocks and additions to several of the holdings resulted in a higher sector weighting.
- Our trim of Express Scripts and stock price declines in Edwards Lifesciences and Teva Pharmaceutical resulted in a lower weighting in health care.
- Our allocation to industrials rose during the quarter with initiating a new position in Continental Building Products.
- The information technology weighting declined as stocks in the sector underperformed others in the portfolio.

SECTOR	AMERICAN FUND (%)	RUSSELL 3000® INDEX (%)	DIFFERENCE (%)	AMERICAN FUND (%)	
	Q4 '16	Q4 '16	Q4 '16	Q3 '16	Q4 '15
Consumer Discretionary	17.73	12.45	5.28	14.55	12.64
Consumer Staples	1.54	8.30	-6.77	6.47	6.27
Energy	4.05	6.97	-2.92	2.79	4.48
Financials	23.13	15.49	7.65	15.83	16.97
Health Care	10.78	13.00	-2.22	13.95	16.50
Industrials	10.04	10.89	-0.85	8.97	8.54
Information Technology	28.40	19.93	8.46	30.78	29.35
Materials	1.03	3.36	-2.32	2.38	2.23
Real Estate	2.33	4.02	-1.69	2.68	2.26
Telecom. Services	0.91	2.45	-1.54	1.58	0.77
Utilities	0.06	3.14	-3.08	0.03	--

Sector diversification excludes cash and cash equivalents.

Quarterly Attribution Detail by Sector

- Our holdings in consumer discretionary, financials, industrials, materials, telecommunication services and utilities outperformed the benchmark during the quarter, with financials contributing the most of any sector.
- Health care was a detractor, driven by Teva Pharmaceutical Industries, our biggest detractor during the quarter.

SECTOR	AMERICAN FUND		RUSSELL 3000® INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Consumer Discretionary	16.74	5.38	12.63	3.03	-0.06	0.43	0.38
Consumer Staples	3.20	-5.89	8.50	-1.62	0.51	-0.23	0.28
Energy	3.75	6.23	6.81	7.47	-0.05	-0.17	-0.22
Financials	19.96	22.35	14.60	20.63	0.82	0.35	1.17
Health Care	11.85	-5.64	13.48	-4.28	0.09	-0.16	-0.07
Industrials	9.91	11.57	10.76	8.09	-0.00	0.37	0.37
Information Technology	29.59	-2.00	20.38	1.22	-0.29	-0.96	-1.25
Materials	1.50	13.70	3.32	5.63	-0.04	-0.02	-0.06
Real Estate	2.32	-4.57	4.03	-2.98	0.14	-0.03	0.11
Telecom. Services	1.12	17.24	2.34	5.28	-0.04	0.15	0.11
Utilities	0.06	12.69	3.16	0.79	0.11	0.01	0.12
Total	**100.00**	**5.13**	**100.00**	**4.21**	**1.22**	**-0.30**	**0.92**

Sector attribution excludes cash and cash equivalents.

Year-to-Date Attribution Detail by Sector

- The strong results among financials were driven by Wells Fargo, Berkshire Hathaway, J.P. Morgan and Regions Financial Corp, four of our top five contributors in 2016.
- The health care sector was the largest detractor to the portfolio during the year. The sector return was impacted by the share price decline in two holdings, Edwards Lifesciences and Teva Pharmaceutical. The information technology investments increased for the year but their return overall was less than the sector return in the S&P 500 Index. In technology, we tend toward recurring revenue and profit business models versus more capital intensive and cyclical areas that had stronger performance recently.

SECTOR	AMERICAN FUND		RUSSELL 3000® INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Consumer Discretionary	14.81	13.00	13.03	7.29	-0.10	0.94	0.84
Consumer Staples	5.80	-0.93	8.98	6.02	0.49	-0.37	0.13
Energy	3.18	5.17	6.45	27.17	-0.41	-0.82	-1.23
Financials	16.75	26.56	13.65	22.66	0.58	0.59	1.17
Health Care	14.22	-7.55	14.17	-3.11	0.04	-0.70	-0.66
Industrials	9.29	26.14	10.58	20.16	-0.02	0.53	0.51
Information Technology	29.72	11.70	19.91	13.72	0.15	-0.44	-0.29
Materials	2.13	34.65	3.24	21.67	-0.10	0.06	-0.04
Real Estate	2.74	7.16	4.19	8.17	0.12	0.01	0.13
Telecom. Services	1.33	23.09	2.43	23.90	-0.22	0.03	-0.18
Utilities	0.02	22.60	3.38	17.32	-0.17	0.02	-0.15
Total	**100.00**	**12.97**	**100.00**	**12.73**	**0.41**	**-0.17**	**0.24**

Sector attribution excludes cash and cash equivalents.

Quarterly Contribution to Return

- **CarMax** posted good business results and its share price continued to recover from its prior lows.

- Financial holdings **Wells Fargo**, **Charles Schwab** and **J.P. Morgan** were among the top contributors to performance in the quarter. We expect that most U.S. financial companies will benefit from reduced regulation and lower corporate taxes—both of which are anticipated policy outcomes of the incoming Trump administration. Financials would also benefit if interest rates lift meaningfully from their historic lows during the years since the 2008-09 financial crisis. The Federal Reserve increased the Federal Funds rate by 25 basis points in December; long-term rates have moved higher since the election.

- Several issues impacted the share price of **Teva Pharmaceutical** including concerns that patent protection will end earlier than anticipated for Copaxone, one of its key products and the unexpected departure of the head of their global generics business. Our investment thesis is based on the efficiencies to be gained in its merger with Actavis, further diversification in its product line, the potential for its drugs under development and its low valuation. Despite initial gains in 2014, recent disappointments have brought the value back to initial levels. We still believe Teva has the potential to recover to previous high valuations.

- **Visa's** share price fell modestly in the quarter despite good business results.

AMERICAN FUND TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
KMX	CarMax, Inc.	2.47	20.69	0.69
WFC	Wells Fargo & Company	2.56	25.50	0.67
SCHW	Charles Schwab Corporation	2.09	25.28	0.58
BRK.B	Berkshire Hathaway Inc. Class B	2.70	13.47	0.54
JPM	JPMorgan Chase & Co.	1.90	30.52	0.53
AMERICAN FUND BOTTOM FIVE CONTRIBUTORS				
TEVA	Teva Pharmaceutical Industries Limited	1.67	-20.59	-0.44
ABBV	AbbVie, Inc.	0.62	-9.66	-0.19
V	Visa Inc. Class A	3.11	-5.46	-0.19
N	NetSuite Inc.	0.29	-18.69	-0.18
EBAY	eBay Inc.	1.11	-9.76	-0.17

Year-to-Date Contribution to Return

- **Berkshire Hathaway**, the portfolio's second largest holding, increased in value reflecting better business results in 2016 for some of their segments, a higher valuation for financials and an optimistic outlook for economic growth since the presidential election.

- We exited **Oceaneering International** when oil prices were lower because of our revised outlook for offshore oil drilling. The technology gains in onshore oil production from U.S. shale make offshore development less competitive, even with a rebound in oil prices.

AMERICAN FUND TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
KMX	CarMax, Inc.	1.38	35.10	0.86
WFC	Wells Fargo & Company	1.02	14.41	0.57
BRK.B	Berkshire Hathaway Inc. Class B	0.68	13.47	0.54
JPM	JPMorgan Chase & Co.	1.72	34.57	0.53
RF	Regions Financial Corporation	1.30	53.40	0.53
AMERICAN FUND BOTTOM FIVE CONTRIBUTORS				
TEVA	Teva Pharmaceutical Industries Limited	1.39	-43.44	-0.99
TRIP	TripAdvisor, Inc.	0.81	-25.55	-0.36
ALXN	Alexion Pharmaceuticals, Inc.	0.70	-31.59	-0.30
OII	Oceaneering International, Inc.	0.09	-25.21	-0.26
NTRS	Northern Trust Corporation	0.07	-15.04	-0.25

Quarterly Portfolio Activity

- We added **Agios Pharmaceuticals**, taking advantage of price weakness in this relatively stable biotech firm.
- **Carriage Services** is the fourth-largest funeral home and cemetery consolidator in a highly fragmented death care industry. CSV currently operates 167 funeral homes in 27 states and 32 cemeteries in 11 states. The funeral home and cemetery businesses are both high-margin businesses, with average "field level" EBITDA margins above 40%, strong pricing power and barriers to entry. Carriage generates strong levels of free cash flow that is set to spike as the company is rolling off a heavy capex cycle from the past two years. Further, management has proven to be a strong steward of capital that has been able to supplement its organic growth with reasonably priced and accretive acquisitions, and has bought back close to 30% of the company's shares since 2008.
- We believe that **Catalent's** fundamentals should improve as internal headwinds negate.
- We initiated a new investment in **Chipotle Mexican Grill** roughly a year after highly publicized food-borne illness outbreaks at some of its stores caused a steep drop in sales across the chain. The share price declined meaningfully from its prior high presenting a bargain opportunity. We expect that the share price will recover to prior levels as store-level results improve. Company management has been keenly focused on overhauling its food handling and preparation procedures over the past year and we believe that customers are now starting to revisit the stores. Prior to the incidents, Chipotle enjoyed the best unit economics of any restaurant chain and we believe it can return to near those levels as customers come back. Chipotle also has excellent store expansion potential with roughly 2,000 stores in the U.S. but the potential for several thousand more locations in the U.S. and beyond.
- **Continental Building Products** is a leading producer of gypsum wallboard and complementary finishing products in the United States and Canada. The company is the #5 player nationally (10% share) but given wallboard's high "weight to value" ratio the industry operates more at the local level. CBPX is a market leader east of the Mississippi with an estimated 30-35% in some key major metropolitan markets. Former parent company Lafarge built the business through acquisitions and greenfield expansion, spending over $575m in capex over its 17 years of ownership before selling it to private equity in 2013. That capital spend has left CBPX with some of the newest and most cost-efficient capacity in the industry that requires very little in terms of sustaining capex (2% of sales) going forward. With EBITDA margins near 30%, we expect free cash flow conversion to remain high for the foreseeable future. The stock currently trades at a discount to the rest of the building products group and has a 10% FCF yield. Finally subsequent to Q2 16 results, CBPX refinanced its $275 million senior secured term loan, lowering its interest rate and pushing the maturity out to 2023. We believe that with net debt / EBITDA now below 2x, minimal capex needs for the foreseeable future, and very little appetite for M&A, the vast majority of FCF should be returned to shareholders through buybacks going forward.
- We believe that **KEYW Holding Corp** is exposed to the right areas with defense and intelligence spending, and that its new management team and sales organization can accelerate growth over the next two years.
- **Liberty Interactive** should see expanding free cash flow of its underlying media assets against a relatively low valuation, driving a higher per-share value over time.
- **Loral Space and Communications** consists of a majority economic stake in Telesat, the fourth largest global satellite operator. We believe Telesat will generate stable EBITDA and improving cash flow between now and 2018, with >50% of Telesat's revenue locked up in long-term contracts and declining expected capital requirements in 2017/2018. In addition, both Telesat and Loral have a history of special dividends with a planned 1Q17 dividend that equates to over $8 per LORL share (>20% yield). We believe that through Loral, we are purchasing Telesat at ~7x EBITDA, a discount to satellite peers.
- **MakeMyTrip** effectively consolidated the India online travel agency market, and its near-monopoly position should make it a strategic asset and one that will be able to take advantage of the inherent high growth in its end markets.
- **Xenia Hotels & Resorts** is a lodging REIT that owns a portfolio of 46 hotels across 17 states, operated mostly by large independent management companies such as Marriott, Kimpton and Hilton. For over a year, Xenia's stock has been hit by concerns of broader RevPAR (revenue per available room) deceleration in the U.S., and specifically its outsized (11%) exposure to the Houston market. As such, Xenia now trades at what we think is near a trough multiple; said differently, we think we are paying an attractive price for the company and getting its Houston assets essentially for free. Further, the company has a strong track record of capital allocation, having sold some hotel assets for attractive multiples and using proceeds to repurchase stock at a discount to NAV. We believe that our downside is protected by low leverage, management's capital allocation track record, and the steep disconnect between intrinsic value and stock price.
- **Advisory Board**, **CEB** and **Omeros** were eliminated as we lost conviction on the names, while **Press Ganey** and **Interactive Intelligence Group** were take-outs during the quarter.

AMERICAN FUND PORTFOLIO ACTIVITY

ADDITIONS		SECTOR
AGIO	Agios Pharmaceuticals, Inc.	Health Care
CSV	Carriage Services Inc.	Consumer Discretionary
CTLT	Catalent Inc	Health Care
CMG	Chipotle Mexican Grill, Inc.	Consumer Discretionary
CBPX	Continental Building Products, Inc.	Industrials
KEYW	KEYW Holding Corporation	Industrials
LVNTA	Liberty Interactive Corporation Ventures Series A	Consumer Discretionary
LORL	Loral Space & Communications Inc.	Consumer Discretionary
MMYT	MakeMyTrip Ltd.	Consumer Discretionary
XHR	Xenia Hotels & Resorts, Inc.	Real Estate
DELETIONS		**SECTOR**
ABCO	Advisory Board Company	Industrials
CEB	CEB Inc.	Industrials
ININ	Interactive Intelligence Group, Inc.	Information Technology
OMER	Omeros Corporation	Health Care
PGND	Press Ganey Holdings, Inc.	Information Technology

Disclosures

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Terms and Definitions for Representative Account Calculations

All financial statistics and ratios are calculated using information from FactSet as of the report date unless otherwise noted. **Market Capitalization** refers to the aggregate value of a company's publicly-traded stock. Statistics are calculated as follows: **Weighted Average:** equals the average of each holding's market cap, weighted by its relative position size in the portfolio (in such a weighting scheme, larger positions have a greater influence on the calculation). **Weighted Median**: the value at which half the portfolio's market capitalization weight falls above and half falls below. **Earnings Growth 3-5 Year Estimate** is the average predicted annual earnings growth over the next three to five years based on estimates provided to FactSet by various outside brokers, calculated according to each broker's methodology. **Price-Earnings Ratio (P/E Ratio)** is the ratio of the share of a company's stock compared to its per-share earnings. P/E calculations presented use FY2 earnings estimates; FY1 estimates refer to the next unreported fiscal year, and FY2 estimates refer to the fiscal year following FY1. **P/E / Growth Ratio, or PEG Ratio,** is the ratio of a portfolio's P/E Ratio divided by its Est. 3-5 Yr. EPS Growth rate. All of the above ratios for a portfolio are expressed as a weighted average of the relevant ratios of each portfolio holding, EXCEPT for P/E ratios, which are expressed as a weighted harmonic average. **Portfolio Turnover (3 yr. avg.)** is the ratio of the lesser of the portfolio's aggregate purchases or sales during a given period, divided by the average value of the portfolio during that period, calculated on a monthly basis. The **Average Weight** of a position or sector refers to the daily average for the period covered in this report of a stock's value as a percentage of the portfolio. The **Total Return** of an equity security is the sum of the return from price movement and the return due to dividend payments or other sources of income. Standard benchmark-, sector- and portfolio-level returns are the sums of the weights of each security multiplied by its return, summed and calculated daily and summed over the period covered by the report or by an otherwise-noted period. **Allocation Effect** measures the impact of the decision to allocate assets differently than those in the benchmark. **Selection and Interaction Effect** reflects the combination of selection effect and interaction effect. Selection effect measures the effect of choosing securities that may or may not outperform those of the benchmark. Interaction effect measures the effect of allocation and selection decisions (i.e., did we overweight the sectors in which we underperformed). **Total Effect** reflects the combination of Allocation, Selection and Interaction effects. Totals may not equal due to rounding. **Contribution To Return** is calculated by multiplying a security's beginning weight as a percentage of a portfolio by that security's return for the period covered in the report.