Parliament Capital Management, LLC
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Burlington, KY 41005

To the Partners of Parliament Capital Management, LLC:

A few of you have expressed an interest in hearing from me more than once a year about our progress (or lack thereof). Perhaps it is a good idea that you know I have not fallen asleep at the wheel. However, our inaugural first half report comes with great hesitancy, as I believe 6 months is far too short a time-period to judge performance, good or bad. We need an absolute minimum of 3 years and in some situations, we need more. Incidentally, if we fail to outdo our benchmark in any 5-year period, this operation has no purpose and we will find an alternative use of our funds.

First Half Performance

During the first half of 2016, the S&P 500 produced a 2.7% return, including dividends and before taxes. PCM began the year with $151,692.47 in capital value, received new cash contributions in the amount of $32,408.99, no redemptions, and ended JUN 2016 with $302,211.39 in capital value - a 62.4% return on capital investment. As always, your individual return is dependent upon the timing of your contribution(s).

Since inception in MAR 2015, our overall gain on capital is 207%. At this pace, with no new cash contributions and no redemptions, our capital value would be just shy of $577 billion in 30 years. Certainly, we'd have a shot at keeping this pace if I were the likes of Bill Gates or Nostradamus. I regret to inform you that I have no breakthrough technology or psychic tendencies. In other words, I suggest we lower our expectations for the remainder of the year and beyond.

A Word on Our Benchmark

Prior to any undertaking, it is paramount to establish a yardstick to measure performance. Without a predetermined target, the leader of an operation can move the mark where they wish. I am wary of executives that alternate their benchmarks to conveniently hit bull's eye.

For Parliament Capital, I chose the S&P 500 Index ("the index", "S&P") as our competition. The expansion of the investment business has created numerous stock indices from which to choose. The S&P is one of the three best known, including the Dow Jones Industrial Average and the NASDAQ. Though all three tend to be correlative in nature, the DJIA is limited to just 30 stocks and the NASDAQ has less history, tends to be tech heavy, and more volatile; on the other hand, the S&P is broadly represented by 500 of the largest publicly traded companies in the U.S. - the ultimate conglomerate of American industry. For a nominal fee, anyone with a brokerage account can simply invest in a fund that tracks the index.

To be sure, we have a tough competitor in Mr. S&P 500. Had you invested $10,000 in 1928 and sat on your hands, you'd be sitting on around $26,855,198.59 (9.5% pre-tax, compounded return through 2015). There is an abundance of conflicting evidence as to how actively managed funds stack up versus passively investing in the index. However, it is evident that the S&P decidedly beats the majority of active investment managers. As for the actively managed funds that happen to outperform the index? On average, they're winning by less than 1 percentage point. Simply put, the S&P has proven to be the superior, accessible option for investors throughout the history of the U.S. stock market.

As a result of our concentrated portfolio, we are highly unlikely to beat the index in a straight line. I expect it to be difficult to keep up in rapidly advancing markets, but to do very well in flat or down years. Unfortunately, our holdings are inconsiderate of the calendar year. Any given day, month, or year, we may turn in unsatisfactory performance versus the index. I cannot determine ahead of time when that might happen. What I can control is the purchase of a quality business at a price that is significantly lower than it is intrinsically worth. Our ownership will yield a constant reevaluation of both the quantitative and qualitative characteristics of the business. If current market prices remain below my calculated intrinsic worth, we will continue to own the business and likely buy more. I am confident this method will result in a superior performance over 5+ year time horizons.

Our Activities

I realize most of you have entrusted me to manage your dollars because it is either foreign or you have no interest. I keep that in mind in our letters, while being as transparent as possible for those that may have an interest in our activities. I will never disclose our specific investments in securities, especially as we are buying; that would be akin to Asa Griggs Candler sharing the recipe for Coca-Cola Classic in its infancy. If I publicly announce what I'm buying, there is no purpose for our partnership.

Succinctly, we are in the business of buying other businesses, in whole or in part, for less than they're intrinsically worth. That means, our focus is not on how much of a business we own, but rather how much return we can get on our piece of invested capital with as little risk as possible. There are situations when owning 1.5% of a business will produce a far better return than owning 50% of another. In fact, we'd prefer to own .01% of a business that earns 20% on our invested share, rather than own ALL of a business with inferior returns. Therefore, we are flexible with the deployment of our capital.

Of our three investment categories, one will not necessarily be more profitable than the other. However, it is a pleasure to create economic value in more ways than simply making money on money. Also, it is my belief that our leadership can be influential to management executives and hence more productive for our partnership. Therefore, I lean toward the opportunity to own a controlling interest or whole business, if our capital and the asking price allows. The following three categories briefly sum up our investment activities:

1. *Marketable Securities* are minority positions in public stocks that are considered relatively liquid, or trade frequently. In other words, we could sell quickly at or near the current market price in exchange for cash. Our mindset when buying *marketable securitie*s is no different than if we owned the

entire company. In fact, our hope is that we can acquire as much of the company as possible at attractive price levels. However, gains in market prices could materialize quicker than we can accumulate capital to deploy.

2. *Non-marketable Securities* are passive, minority positions in private or public stock that is illiquid, or trades infrequently. The bid/ask spread is often very wide. If forced to sell quickly, we could suffer big losses. Generally, these are small, obscure companies that are owned by a handful of shareholders (we like when management has skin in the game). Our intent is to buy a large percentage of the shares outstanding. We expect *non-marketable securities* to take years to materialize.

3. *Operating Subsidiaries* are control positions or wholly owned private companies. They could start as one of the other two. Our intent is to buy companies in lasting industries with promising management teams so that we can remain passive and hold on to the business forever. However, this may not always be the case and we will become active in a business, if need be. We don't consider ourselves liquidators. In other words, we aren't planning an exit strategy to sell the asset for a quick profit. Rather, we intend to own *operating subsidiaries* forever. We will use the excess cash not needed for reinvestment at the subsidiary level to reinvest in other suitable assets at the parent company level (Parliament Capital). Our efforts are strictly focused on capital allocation, corporate governance, and supporting our *operating subsidiaries* efforts to continuously increase their earnings.

Basically, our mindset is the same when buying any of our three categories. We want to purchase a quality asset at less than the calculated intrinsic value. The distinction we consider is: *marketable securities* come with a "for sale" sign attached everyday; the others do not. Occasionally, the "for sale" price of *marketable securities* is marked down so that we can begin to buy fractional ownership at ridiculously undervalued prices. If the price stays around or below the levels we consider to be attractive, we will continue to chip away at shares with the income stream from our *operating subsidiaries*. In the unfortunate event that the market price climbs, we have a gain on our investment - I know you're all disappointed to hear that.

Compound Interest

Hypothetical $10,000 investment:
(From 1928 - 2015, the S&P 500 averaged 9.5%)

$10,000 Investment	5 years	10 years	15 years	20 years
4 %	$12,166.53	$14,802.44	$18,009.44	$21,911.23
8 %	$14,693.28	$21,589.25	$31,721.69	$46,609.57
12%	$17,623.42	$31,058.48	$54,735.66	$96,462.93

"Money makes money. And the money that money makes, makes money." - Ben Franklin's words of simple, yet extraordinary wisdom. I threw this in as a reminder of the time value of our money. Generally, there are two routes to build wealth: 1) inherit a substantial sum or 2) live a very long time. In my view, there is no get-rich quick scheme that is not fraudulent. Individuals that earned substantial amounts early in life, either dedicated the vast majority of their available time to the cause, or they inherited a unique opportunity.

Corporations are no different. In their infancy, it is possible for some to compound *earnings* or *return on equity* at astronomical rates. By and large, these outsized returns are fueled by costly research & development or leverage (borrowed money). They won't last forever. I am interested in businesses that are interested in compounding at moderate rates for eternity. Our table decidedly portrays the impact of just a few percentage points over time. Hence my focus on being patient and beating par. Some of you may be interested in this vehicle for 5 years and others may have 20 or more. I encourage you to view our partnership as an enduring enterprise.

Audit & Taxes

In the Federalist Papers, James Madison cautioned, "No man should be allowed to be a judge in his own cause." Respectfully, I am in search of an independent, third-party audit committee to verify our performance. To this point, I have not considered the cost of an audit to be a productive use of capital for our group of close-knit family and friends; however, as we seek to add partners, an audit is the most demonstrable manner of trust I have to offer. Family or not, you and any future partners deserve a third-party verification of your stated capital value. I intend to kick it off in 2017.

For your taxes, the most prudent course of action is to estimate based on last year's results. If you do this, you will avoid interest and penalties. Estimated payments are not necessary if your liability was less than $1k. For new partners in 2016, estimated payments are not relevant.

I'll have a letter out in November with your 2016 tax estimates, notable developments, and other administrative demands.

Meanwhile, write, call or stop by if I was unclear about anything.

Your Partner,

Timothy J. Grogan II
07-07-2016