

August 2016 Report

FUND: Sententia Group L.P.

Firm: **Sententia Capital Management, LLC**

This Monthly Report sets forth a snapshot of fund information. Fiscal year 2016 is unaudited and monthly returns in between quarters are approximate and have not been confirmed via the fund administrator. For further details of the Fund, Key Personnel, Risk Factors, etc. investors should, before investment, refer to the website of Sententia, www.sententiacapital.com and Sententia offering documents.



Sententia Group, LP. Monthly Net Returns (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2016*	performance data restricted to private network												
2015													
2014													
2013													

*Fiscal year 2016 is unaudited.

**Approximate gross returns, subject to adjustments from quarterly administrator reports.

Fund Details

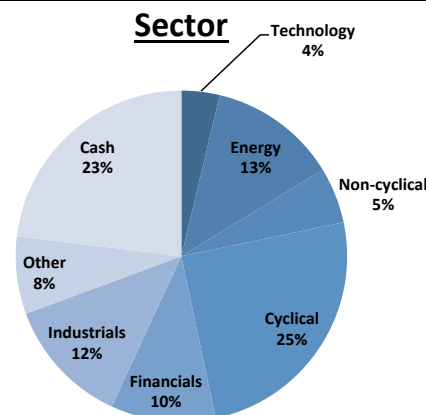
Value Segments

Core	53.2%	Large (>\$8b)	10.8%
Turnaround	9.6%	Medium (\$2b-\$8b)	7.9%
Special Situations	17.6%	Small (\$500m - \$2b)	26.8%
Cash	24.1%	Micro (<\$500m)	29.4%
Total	104.5%	Total	74.9%

Size

Large (>\$8b)	10.8%
Medium (\$2b-\$8b)	7.9%
Small (\$500m - \$2b)	26.8%
Micro (<\$500m)	29.4%
Total	74.9%

Sector



*Portfolio breakdowns may not add up due to rounding and/or hedging applications. Further, they are fluid and may adjust daily based on various fund, macro and market factors.

Fund Overview

Launched in 2013, Sententia is a value investing based capital management firm. The firm manages a long centric, concentrated equities fund with an opportunistic mindset to manage short-medium term volatility while capitalizing on long-term appreciation.

Michael Zapata is founder and portfolio manager. Mr. Zapata has eight years investment experience. He received his B.S. from Texas A&M University and was commissioned in the Navy in May of 2001. Michael served as a Navy SEAL with multiple deployments during the Global War on Terrorism. Mr. Zapata has an M.B.A. from Columbia, where he was selected for the Graham and Dodd Value Investing Program.

Investment Objective

The Fund's objective is to preserve capital and grow generational wealth. We aim to outperform equity markets over an entire market cycle.

Risk Management

We institute a disciplined and persistent approach to risk analysis and portfolio controls. Normal entry point is 2% AUM, growth to 15% max.

Summary of Terms

Fund Manager:	Sententia Capital Management, LLC
Style/Strategy:	Value, fundamental analysis
Issuer	Sententia Group LP (The "FUND")
Fund Size:	US\$ \$2.5mm
Minimum Investment	\$1mm USD
Lock-up Period:	1 year soft lock
Liquidity:	Quarterly, 30 days notice
Fund Structure:	Limited Partnership
Fee Structure:	Founders Series: 1% management / 15% performance (available up to \$25mm)
High Water Mark:	Yes
Fund Domicile:	United States
Prime Broker:	Cowen Capital, Pershing custodian
Auditor:	Summit LLC
Legal Advisor:	Capital Management Services Group, Inc.
Administrator:	Highlands CPA

Firm Information

Firm:	Sententia Capital Management, LLC
Role:	Fund Manager
Web	www.sententiacapital.com
Site:	
Address:	667 Madison Ave, 25 th Floor
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Thoughts:

The goal for this page is to capture broad thoughts on a range of topics. The comments may not be specific to the portfolio or specific investments and should not be considered advice or tied to our portfolio.

Flowers Foods

Flowers Foods (NYSE: FLO) is one of the largest producers of bakery foods in the United States, servicing 80% of the population. There is a strong possibility that you have one of their brands in your home, including the #1 best seller, Natures Own.

The company is a \$3.1 billion dollar market cap with an enterprise value of \$4.2 billion. EBITDA is \$450 million with LFCF at \$240 million, paying a 4% dividend.

On the surface, this is a solid company that would fit nicely in a dividend portfolio. As the company is near a 52-week low with a 9.5x EV/EBITDA valuation, it could be tempting to take a stake.

As we see it though, there is a strong possibility that they will hit some speed bumps, in the form of their independent drivers.

To date, Flowers has categorized their 5,100 drivers as independent, saving a decent amount of expenses vs full time employees. This hasn't been an issue, until recently.

Last year, 15 lawsuits were brought against the company to dispute this independent-driver categorization. In 2016, an additional 8, up to June, have been added. Most of these cases are Class Actions.

The Department of Labor (DOL) is also conducting a review of the company under the Fair Labor Standards Act (FASA).

FEDEX had a similar issue, to the tune of a \$240 million settlement. They did have twice as many drivers though. AB Construction also had an FLSA issue, to the tune of \$5,000 per worker. \$5k-25k per worker, it's a wide range.

Other potential issues pending litigation outcomes: \$20 million of interest income from financing distribution routes, likely gone; \$175 million of distribution rights notes receivables, potentially paid back; and increased expenses as they re-categorize the drivers to employees.

A positive point is the company's liquidity availability. They have an untapped \$400 million revolver that would help take the blow of any

potential settlement or restructuring charges. They also have a strong cash flow, although they are paying out a much higher percentage for the dividend this year.

Fundamentally, there appears to be secular pressure. Flower has been acquiring over the years, but pricing pressure persists and their EBITDA and FCF has compressed over the years.

There is a range of outcomes, and this isn't exactly a house of cards, but it could cascade down if management isn't able to navigate the roads ahead. If they are able to keep the dividend in the face of mounting pressure, I anticipate a base downside of 35%.

Should the company announce a charge or a reserve for litigation, it could act as a positive or negative catalyst, depending on the size.

How confident is management? Well, they've sold about \$25 million of stock over the past two years, with a director recently triggering and selling options that expire in four months. Granted, he still has 2 million shares, so no clear sign there. But is there ever a clear sign?

"Mindset," by Carol S. Dweck, Ph.D.

This is a fantastic book that discusses the differences of fixed and growth mindset.

If you are fixed, you are who you are and there is little ability to change, be that smarts or personality. Growth is the understanding that change is possible, regardless of your baseline.

For the fixed mindset, you are smart, or a natural, or not. Refinement is a desire, but we are mainly categorized, or categorize others, as one thing or another. If you were smart, or a natural, trying is not needed. We also avoid mistakes as they challenge the smart notion.

For the growth mindset, you are not 'smart', but a diligent worker. You are not a 'natural', but listen well and apply what you learn. Mistakes are opportunities to learn and grow.

The preferred mindset should be evident as no one is 'smart' enough to come out of the womb and walk, or tie their shoes- that takes time and practice. But who doesn't want to be smart?
MRZ