PORTFOLIO AND PERFORMANCE REVIEW
SECOND QUARTER 2017

Performance*	Second Quarter	Year-To-Date	Since Inception**
FI Concentrated Value Composite (gross of mgmt fees)	**6.0%**	**9.9%**	**10.4%**
FI Concentrated Value Composite (net of mgmt fees)	**5.8%**	**9.6%**	**9.7%**
Russell 1000® Value Index (Benchmark)	1.3%	4.7%	6.8%

* Important performance disclosures are at the end of this letter.
** Annualized. Inception Date: August 1, 2006.

We outperformed our benchmark during the second quarter. Our current portfolio holds 23 companies in contrast to the nearly 700 companies that comprise our benchmark. Given this significant difference in composition, it is not unusual for the short-term performance of our portfolio and our benchmark to diverge meaningfully. We try not to place undue importance on quarterly performance and encourage our clients not to as well. Nonetheless, we admit that we prefer it when the divergence works in our favor as it did last quarter.

U.S. equity market valuations remain elevated and, in our opinion, subject investors to a heightened risk of permanent loss of capital. We take comfort in owning a portfolio of high-quality companies that, in aggregate, are moderately undervalued based on conservative estimates of their underlying business value. We believe the margin of safety reflected in our portfolio's current valuation provides a level of downside protection that is lacking in the overall U.S. equity market.

From an attribution perspective, our most recent quarterly performance benefited substantially from our significant overweighting in *Health Care*, the benchmark's best-performing sector, as well as from the relative outperformance of our holdings in the sector. We also benefited from our complete lack of exposure to *Energy* and *Telecommunication Services*, the benchmark's worst-performing sectors and the only two that generated negative returns for the quarter. In addition, our holdings in *Consumer Discretionary*, *Consumer Staples* and *Industrials* all outperformed their respective sector holdings in the benchmark, adding positively to our relative performance.

Our *Information Technology* holdings detracted from our relative performance, due entirely to our position in IBM. Our significant underweighting in *Financials*, the benchmark's second-best performing sector, also detracted modestly from our performance.

Turning to individual companies, McDonald's was the single largest positive contributor to our quarterly performance. McDonald's financial results continue to improve as a result of initiatives implemented under the leadership of Steve Easterbrook who became CEO in March 2015. These initiatives have focused on drawing more customers into McDonald's restaurants, improving relationships with franchisees, and optimizing the company's capital structure and cash flows.

Restaurant sales are improving as customers respond positively to improvements in food taste and quality, improved service times in restaurants and drive-throughs, and menu changes designed to convey a better perception of value. The company's relationship with franchisees has benefited from the success of the company's initiatives to improve sales as well as from management's more collaborative approach in working with franchisees, including soliciting ideas from them and sharing more in the cost of renovating and modernizing their restaurants.

Management's actions to optimize the company's capital structure and cash flows have been just as impressive as the recent operational improvements. During the past two years, management issued low-cost debt to fund the repurchase of significantly undervalued McDonald's stock, reducing shares outstanding by about 15%. Balance sheet leverage is up, but not excessively, and is now more appropriate for a company with McDonald's stable cash flows. The company also accelerated its refranchising efforts with the goal of having 95% of its global restaurant base operated by franchisees, up from roughly 81% when Mr. Easterbrook became CEO. Converting a restaurant from company-owned to franchisee-operated improves the stability of McDonald's cash flows and generally results in a better-managed, more profitable restaurant.

McDonald's financial results and consensus estimates for future earnings have steadily improved during the past two years. We have revised our financial modeling assumptions to reflect these improvements, and our estimated value for McDonald's has increased accordingly. However, McDonald's stock price has outpaced the growth in the company's intrinsic value. McDonald's remains undervalued, but less so now given its recent price appreciation, so we reduced our position during the quarter.

Aetna, Anthem and UnitedHealth all contributed nicely to our performance after reporting strong quarterly financial results and raising their EPS guidance for the current year. In addition, Anthem finally agreed to terminate its merger agreement with Cigna after receiving yet another court decision blocking the merger based on antitrust concerns. Aetna already called off its merger with Humana last February for similar reasons. We believe that Anthem management can now focus on growing its existing business and pursuing other growth opportunities without being distracted by its attempt to win court approval of the Cigna merger.

There continues to be considerable desire on the part of the Trump Administration to repeal, replace or somehow alter the Affordable Care Act (ACA). However, to date there has been a lack of consensus on what those changes should be and whether they are politically feasible.

As investors in the health care sector, we have a vested interest in monitoring potential changes to the ACA, especially if they negatively affect our view of the investment merits and intrinsic values of the companies we own. Fortunately, to date none of the proposed or publicly discussed changes have caused us too much concern, and we remain very comfortable with the health care companies we own and our overall weighting in the sector.

Among the proposed changes, attempts to reduce Medicaid funding have garnered most of our attention. All of the managed care companies we own provide Medicaid coverage, so any reduced funding would impact them to varying degrees. This is one of the most contentious issues currently being discussed, and any changes would most likely need to be phased-in over time, helping mitigate their impact on our companies.

There also have been proposals that would affect the ACA mandated health insurance exchanges, ranging from stabilizing them to doing away with them entirely. Either outcome would most likely benefit our companies since they currently operate at a loss in the exchanges. However, our companies have largely exited the exchanges, so the impact would be modest.

Taking steps to limit or reduce prescription drug prices is not really part of ACA reform, but it is part of the broader discussion surrounding health care costs. Proponents of drug price controls often focus on high-priced specialty drugs that are expensive to manufacture and distribute, and "orphan" drugs that have limited patient populations and face little to no competition. Proposals to reduce drug costs include simple price controls; allowing importation of drugs from overseas where they are generally much cheaper; shortening the FDA approval process to allow competing drugs to come to market quicker; and giving the federal government more leeway in negotiating prices.

There clearly have been abuses in drug pricing as evidenced by Mylan's well-publicized 400% price increase for EpiPens since acquiring the rights for the product in 2007. However, we believe most major pharmaceutical companies, including Johnson & Johnson (J&J) which we own, have been far more responsible in setting drug prices. It is also common knowledge that discovering and developing new drugs and getting FDA approval is an extremely long and expensive process. For example, J&J spent $7 billion (21% of sales) on R&D in its pharmaceutical business in 2016. The U.S. is generally considered the leader in drug innovation, in large part based on U.S. drug companies' ability to fund such substantial investments in R&D.

Concerns over stifling new drug discovery and industry lobbying efforts stopped past efforts to control drug prices, and we suspect they will continue to do so. If we are wrong, J&J is the only company in our portfolio that would be directly affected. J&J generates about 60% of its total profits from pharmaceuticals, but a number of the company's drugs already face significant competition and pricing pressure. We believe any actions to limit drug pricing will be manageable by J&J, and we remain comfortable with our position in the company.

Our financial companies turned in mixed performance, with American Express, JPMorgan and Morgan Stanley all reporting better than expected quarterly financial results, while results for Goldman Sachs and Wells Fargo were disappointing.

In contrast to its peers, Goldman reported weak trading results. Goldman attributed the weakness to the nature of its client base and the inherent volatility in the business. Both explanations seem reasonable to us. We remain comfortable with our Goldman position and consider it to be one of the more undervalued companies in our portfolio.

Wells Fargo's quarterly results disappointed investors as asset growth and net interest income came in lower than expected, while operating expenses came in higher. These unfavorable trends primarily reflect continued fallout from the company's misguided retail sales practices that resulted in opening millions of unauthorized customer accounts. At the company's recent Investor Day, management laid out aggressive plans to restore customer trust, resume asset growth and reduce operating expenses to get the company's earnings back on track. We have confidence that management is taking the appropriate steps and believe Wells Fargo remains undervalued.

In June, the Federal Reserve released its stress test results, in which our companies were all found to be adequately capitalized and received approval for their capital plans for the next twelve months. After receiving approval, American Express, JPMorgan, Morgan Stanley and Wells Fargo all announced dividend increases and increased share repurchase programs. Consistent with prior years, Goldman Sachs did not immediately release details of its approved capital plan. However, Goldman already announced a dividend increase earlier in the quarter, and we have no doubt the company will continue its past policy of significant share repurchases.

IBM was our worst performer and biggest detractor from performance. The company's recently reported adjusted operating EPS beat expectations, but the quality of earnings was low. Revenues were weaker than expected, and the EPS beat was driven by higher intellectual property income and one-time tax benefits. On a positive note, the company's strategic initiatives are generating healthy growth, but off of a relatively modest base. Capital allocation remains shareholder-friendly as management continues to repurchase stock and recently announced a 7% dividend increase.

IBM's efforts to focus on its faster growing markets are beginning to bear fruit, albeit slowly, and management has made good progress in reducing operating expenses. Nonetheless, we thought it was prudent to reduce our estimate of IBM's intrinsic value to reflect the challenging business trends reflected in the company's most recent results. We trimmed our IBM position to reflect the company's less attractive price/value ratio.

We added a new position in CBS to our portfolio. CBS is a diversified media and entertainment company best known for its CBS Television Network. CBS also owns a premium subscription program service (Showtime Networks), a publishing business (including Simon & Schuster), television and radio stations, and it produces television programming and theatrical films.

Similar to Time Warner which we added to our portfolio last year, CBS has benefited from the increasing consumption of media content. CBS generates moderate revenue growth, with strong operating margins and significant excess cash flow. Revenue growth during the past few years has been masked as the company exited non-strategic businesses. Later this year, CBS plans to dispose of its radio business, which should complete the intended asset disposals.

Based on the company's strong cash flows combined with proceeds from asset sales, management has reduced shares outstanding by nearly 40% during the past 5 years through share repurchases, while consistently increasing the annual dividend. We expect this shareholder-friendly capital allocation policy to continue.

The company's current valuation reflects legitimate concerns about changes in consumer viewing habits and increased viewing options. Consumers, especially Millennials and younger viewers, are increasingly watching video content on PCs and mobile devices. This content may come from traditional sources like CBS, or from new programming entrants such as Netflix or Amazon that offer monthly subscriptions that are much cheaper than subscriptions offered by traditional multichannel video programming distributors (MVPDs). MVPDs include cable television operators, direct broadcast satellite operators and telephone companies.

As a result, MVPD subscriber levels plateaued several years ago in the U.S. and have been declining by roughly 1-2% annually. An added concern is that MVPDs, in an effort to compete with these less expensive services, will offer "skinny" bundles with fewer channels or allow subscribers to create "à la carte" bundles consisting only of the channels they wish to receive. To the extent that these trends reduce viewership of networks such as CBS, advertising revenues and the fees received from MVPDs for access to the networks' programming may decline.

However, as with Time Warner, CBS is moving aggressively to capitalize on these changing viewing habits by developing new services that deliver its programming directly to consumers without requiring a traditional MVPD subscription. CBS is also distributing its programming by partnering with nontraditional video delivery services such as Hulu, YouTube TV, Sling TV, etc.

As viewership becomes increasingly splintered by the proliferation of alternative programming sources, the three major television networks (ABC, CBS and NBC) should continue to profit handsomely from their unique ability to provide advertisers with large-scale audiences. We also expect CBS to develop additional services and partnerships to monetize the value of its popular, high-quality video content. While we acknowledge that CBS faces headwinds as the video marketplace evolves, we believe the company is well-positioned to meet these challenges.

CBS was the only addition to our portfolio during the quarter. In addition to the modest reductions in our McDonald's and IBM positions previously discussed, we also trimmed our positions in 3M and Microsoft as the companies' share prices continued to rise. We also completed the sale of Bed Bath & Beyond that we initiated at the end of last quarter. There was no other significant activity in our portfolio.

We recently said goodbye to Lauren Warsavsky, our investment analyst, who is moving back to New York to attend Columbia Business School. We enjoyed working with Lauren and wish her well. We are happy to announce that Jake Wheelock, a recent UCLA graduate with a distinguished academic record and demonstrated passion for investing, will be joining us as our new investment analyst in early August.

As always, our commitment to our clients is unchanged: we will remain rational, disciplined investors as we search for opportunities to preserve and compound the capital entrusted to us. We also will maintain a significant portion of our own net worth invested alongside our clients, thereby "eating our own cooking".

Thank you for your continued interest in Focused Investors.

Bruce G. Veaco
Partner and
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Nugroho (Dédé) Soeharto
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Performance Disclosures

Founded in 2006, Focused Investors LLC ("FI") is an independent investment management firm registered as an investment adviser with the U.S. Securities and Exchange Commission. Registration with the U.S. Securities and Exchange Commission does not imply a certain level of skill or training. FI is a value driven investment manager specializing in a concentrated portfolio strategy.

The FI Concentrated Value Composite was created on August 1, 2006, and contains all fully discretionary, fee-paying accounts that are managed according to FI's concentrated value strategy. FI's concentrated value strategy seeks to invest client assets primarily in common stocks of companies that are trading at prices significantly below FI's estimate of their intrinsic values at the time of initial purchase. Accounts that participate in the composite can be separately managed institutional accounts or pooled investment vehicles.

The FI Concentrated Value Composite is the firm's only composite at this time. A complete description of the composite and additional information regarding policies for valuing portfolios, calculating performance, and preparing the compliant presentation is available upon request.

The composite's benchmark is the Russell 1000® Value Index and is provided to represent the investment environment existing during the time periods shown. The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower than expected growth values. The Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics. For comparison purposes, the Russell 1000® Value Index returns do not reflect transaction costs, management fees, or other expenses that would be incurred in managing an account. While FI's objective is to outperform its benchmark, this does not imply that FI's portfolio strategy will share or track the same or similar characteristics as the benchmark. In addition, there can be no guarantee that FI will achieve its objective. The index returns are not covered by the report of independent verifiers.

Performance for the composite and the benchmark is calculated on a total return basis, which includes reinvestment of all income, plus realized and unrealized gains and/or losses. Individual account performance will vary depending upon, among other things, timing of transactions and market conditions at the time of investment. Returns are stated in U.S. dollars.

Because FI's portfolios are relatively concentrated, the performance of each holding will have a greater impact on an account's total return and may make the return more volatile than a more diversified portfolio. In addition, while FI believes that the portfolio holdings are value stocks, there can be no assurance that others will consider them as such. *Past performance does not guarantee future results. As with any investment vehicle, there is always the potential for gain as well as the possibility of loss.*

Gross-of-fees performance returns are presented before management and custodial fees but after all trading expenses. Prior to January 1, 2010, net-of-fees performance returns were calculated by deducting one-twelfth of the highest management fee borne by any account in the composite (1%) from the monthly gross composite return. In 2010 and 2011, subsequent net-of-fees performance returns are calculated by applying the standard management fee schedule for separately managed accounts, including tiers, to all accounts in the composite. Beginning January 1, 2012, FI began using actual fees to compute net-of-fees performance returns. Actual fees vary. FI's standard management fee schedule for institutional separately managed accounts is as follows: 90 bps on the first $10 million of assets under management, 70 bps on the next $10 million of assets under management, 50 bps on the next $80 million of assets under management, 45 bps on the next $100 million of assets under management, 40 bps on all assets under management in excess of $200 million and 35 bps on all assets under management in excess of $400 million. Based on this fee schedule, accounts of the following varying sizes would pay an effective annual fee of:

Account Size (millions)	$100	$200	$300	$400	$500
Effective Annual Fee (bps)	56	51	47	45	43

FI's management fees are more fully described in Form ADV Part II, which is available upon request.

The composite includes a pooled investment vehicle in which certain participants do not pay a management fee.

As of December 31	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
% of Non-Fee Paying Accounts	2.6	2.3	2.1	1.9	2.1	2.5	3.9	8.8	35.0	53.2	77.5

No measure of dispersion is presented for periods where there are less than five accounts in the composite for the full year as it is not considered meaningful. Internal dispersion is calculated using the asset-weighted standard deviation of annual gross-of-fees returns of those portfolios that were included in the composite for the entire year.

The three-year annualized ex-post standard deviation measures the variability of the composite (using gross returns) and the benchmark for the 36-month period ended on the following dates:

	June 30,	December 31,					
	2017	2016	2015	2014	2013	2012	2011
Composite	9.2%	9.6%	9.7%	8.4%	9.7%	10.8%	15.5%
Benchmark	10.5%	10.9%	10.8%	9.3%	12.9%	15.7%	21.0%

Forward-Looking Statements

As investment managers, one of our responsibilities is to communicate with our investors in an open and direct manner. Insofar as some of our opinions and comments in our letters are based on current management expectations, they are considered "forward-looking statements" which may or may not be accurate over the long-term. While we believe we have a reasonable basis for our comments and we have confidence in our opinions, actual results may differ materially from those we anticipate. You can identify forward-looking statements by words such as "believe," "expect," "may," "anticipate," and other similar expressions when discussing prospects for particular portfolio holdings and/or the markets, generally. We cannot, however, assure future results and disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events, or otherwise. Further, information provided in this letter should not be considered a recommendation to purchase or sell any particular security.

Form ADV

Our most recent Form ADV (Parts I and II) is available at http://www.adviserinfo.sec.gov. If you would like to receive a printed copy of either, please contact us.