January 20th, 2017

Dear Partners:

The Fund finished 2016 with returns of 13.56%. Since inception (in May of 2014), the Fund has returned 47.75% - outperforming the S&P 500 Total Returns (our benchmark) by 21.91% as shown below:

	Q3 2016	Q4 2016	Full Year 2016	Since Inception
Fund[1]	5.75%	(1.19)%	13.56%	47.75%
S&P 500 Total Returns	3.85%	3.82%	11.96%	25.84%

During the second-half, the Fund:

- exited from Macy's (M) and Trinity Industries (TRN), booking gains of ~23% and ~43%, respectively,
- initiated and later exited our position in First Solar (FSLR), booking a loss of ~28%,
- added to our *existing* positions in Verisign (VRSN), Entravision (EVC), LSB Industries (LXU), and Quotient Technology (QUOT),
- initiated positions in Marchex (MCHX), Sprouts Farmers Market (SFM), and Viacom (VIAB), and
- finished the year with ~10.5% of the portfolio in cash.

All Aboard!

Like many others, we found ourselves fixated (or was it distracted?) by the circus that became of the US presidential election. The never-ending campaign brought back memories of the sort of drama/craziness that was a staple of the Jerry Springer-ish shows that used to fill daytime TV in our younger years. Viewers tuned in for the entertainment (a.k.a. guilty pleasure) of watching the show's guests lob accusations, fists, and chairs at each other. Regardless of how crazy things got, the shows always concluded with a calm lecture of sorts (the "final word") from Mr. Springer himself.

Unfortunately, there will be no final word on the Trump presidency (calm or otherwise) anytime soon. Instead, all those who had so confidently predicted Clinton's victory, now busy themselves trying to explain how they had been so wrong all along. Among their rationales, they now say Clinton was a failed candidate, hobbled by leaked emails and/or Russian hacking, and simply unrelatable to an electorate that was angry, broadly distrusting of all things Clinton, and in search of change from a reality of lost jobs and opioid addiction.[2]

Since this is our letter, we would be remiss to not add our own theory to the mix. Specifically, we believe much of the success behind the so-called "Trump Train" can be explained by the same age-old battle that is as relevant to politics, as it is to investing, and many other aspects of life:

the battle of ***substance*** vs ***narrative***.

[1] All performance numbers are calculated before allocation (no management fee, performance fee of ¼ of gains in excess of 6%) to the General Partner.

[2] 11.16.2016 Medium: The Oxy Electorate - A Scourge of Addiction and Death Siloed in Fly-Over Country

Trump offered nicknames, over-generalizations, and broad (often sloppy) dismissals of everything from foreign policy and trade deals, to immigration and others. Trump was the successful businessman, Clinton was the "crooked" boring politician. "They" *made* bad deals, Trump - despite various business blemishes - *makes* only great deals. As the protagonist of *his* own narrative, Trump consistently juxtaposed himself against his competitors as the sole savior against all that was wrong with the world (irrespective of the substance).

In hindsight, it is almost hard to believe how few (ourselves included) were able to forecast Trump as the last one standing. With the election settled, the Trump Train quickly jumped tracks from the campaign trail to the warm embraces of the financial markets. There, Trump's assumed low-tax/pro-business agenda quickly muted any number of otherwise substantive concerns - everything from the already full valuations of today's aging bull market, to the unknown implications of an often erratic, uninformed, and egocentric Tweeter-In-Chief. By year-end, the so-called "Trump Bump" would add nearly ~5% to the S&P 500.

Of course, narratives ***always*** trump substance . . . right up to the very point *when* - not *if* - substance prevails. As an (overly) positive narrative shifts to an (overly) negative narrative, substance stands as the ***sole*** place to attach your much-needed seat belt. This truism is not so much an anti-Trump statement, as it is a humble fact of the world in which we inhabit. While our experience with FSLR (detailed below) offers an investment example of the losses that result when a business narrative is not negative enough, we fear the losses are considerably more consequential/sobering when it comes to the business of running the nation.

On that note, here's to hoping President Trump proves the commentators (and us) wrong with less tweeting, more studying,[3] and more leading.

Not So Sunny After All

Given that we added and exited - at a loss - our FSLR position within the second-half, we thought it might be worth explaining what we were thinking when we first initiated the position and later decided to book the loss. Without further ado, FSLR:

- designs, manufactures, and sells solar modules to third parties,
- develops, builds, and sells large solar power systems, and
- has long distinguished itself as a steady - and profitable - operator in an industry characterized by intense competition and cyclicality.

As 2016 got started, FSLR's narrative was soon soured by concerns surrounding the broader solar industry, such as fears of a supply/demand imbalance, increased Chinese competition, accelerating pricing pressure, and low oil prices.[4] In addition to industry-wide headwinds, FSLR's systems business was facing the one-two punch of expected interest rate increases and the bottleneck created by the rush to bring systems online before the anticipated year-end expiration of the solar credit.[5]

At the heart of any solar company are the solar modules and the efficiency with which they capture the sun's energy. Unlike the conventional crystalline silicon modules used by the competition, FSLR uses a proprietary cadmium

[3] Per recent Axios interview: "Trump said he likes his briefings short, ideally one-page if it's in writing. 'I like bullets or I like as little as possible. I don't need, you know, 200-page reports on something that can be handled on a page. That I can tell you.'"

[4] Speaking of narratives, while oil is not widely used as a generation source (especially in FSLR's markets), FSLR's 10-K helpfully warns: "there can be an observed market correlation effect between declining oil prices and depressed equity valuations of solar companies."

[5] The eventual renewal was too late to avoid the resulting bottleneck, and is now uncertain (like most things) given broad regulatory uncertainty surrounding the incoming Trump administration.

telluride (CdTe) thin film technology for their solar modules. As explained in the 10-K: “CdTe has absorption properties that are matched to the solar spectrum and can deliver competitive conversion efficiencies . . .” Because what ultimately matters most to customers is the cost per unit of electricity, the conversion efficiency of the modules - in real world conditions - is a big deal. Again from the 10-K: “In many climates, First Solar’s CdTe modules provide a significant energy yield advantage over conventional crystalline silicon solar modules of equivalent efficiency rating. For example, in humid climates, our CdTe modules provide a superior spectral response, and in hot climates, our CdTe modules provide a superior temperature coefficient. As a result, at temperatures of 25℃ (standard test conditions), our CdTe modules produce more energy than competing conventional crystalline silicon modules with an equivalent efficiency rating. This advantage provides stronger system performance in high temperature climates, which is particularly advantageous as the vast majority of a system’s generation, on average (in typical high insolation climates), occurs when module temperatures are above 25℃.”

Because solar technology is ever-improving (and the competition is hardly standing still), it should come as no surprise that there is robust debate of which technology deserves bragging rights at any given time. Thus, it wasn’t the technical specifications of their solar modules that impressed us, but how those panels are used to enable FSLR’s systems business. Accounting for ~80-90% of net sales,[6] FSLR’s systems business takes on many of the early risks and upfront cost of systems planning and development for a roster of clients that includes utilities, commercial/industrial companies, and other system owners. Of particular importance, this business segment gives FSLR the ability to play a more active role in managing the demand for their solar modules than other module-only competitors.[7] Additionally, FSLR is able to capture cost reductions and efficiencies at each level of their involvement as producer, consumer, installer, maintainer, warranter, etc. Better yet, the contracts/economics for the systems business are signed sufficiently in advance to provide some buffer against future market pricing, and are of sufficient size and duration (20+ years) that the counterparties are likely to think twice before jumping in bed with the lowest bidder.

In what remains the largest agreement in the solar industry to provide clean energy to a commercial end user, one recent bedfellow - Apple - committed to purchase 25 years of electricity generated by FSLR’s California Flats solar project. Such commercial projects are motivated by the desire to diversify existing energy portfolios, reduce exposure to fuel price volatility, hedge against increased power costs in the future, and the desire to achieve goals/regulations set by corporations[8] as well as state and national governments. Regardless of the underlying motivation(s), FSLR stands out as much for the ability and expertise of their systems business, as for the financial credibility offered by the $1.3 billion in net cash (as of 9/30/2016) on their balance sheet.

Despite fears of rough sailing in the near-term, we believe the bullish case for solar remains alive and well in the long-term. Even so, we viewed FSLR’s $12.50 in net cash per share, and earnings per share of $3 (or more) in every year since 2008, as a bit of near-term downside protection should the future be *less* sunny than we originally expected. With that in mind, we added FSLR to the portfolio.

Unfortunately, there is no happy ending to this story. Soon after our investment, the narrative deteriorated further as management responded to competitive pressures by making the unexpected (by us at least) decision to skip an ***entire generation*** of their product in favor of accelerating the development and release of modules that are expected to be more competitive and profitable . . . upon release. Beyond the material financial impairment of this decision, management does not expect the new product to be ready for market until sometime in 2018.

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[6] 88.5%, 93.3%, 93.6%, and 82.8% for 2013, 2014, 2015, and the first 9 months of 2016, respectively. Note: these numbers *do* include sales of FSLR solar modules to FSLR’s services business.
[7] For example, just ~6.4% of 2015’s net sales were the result of module sales to third parties.
[8] 87 large companies have already committed to reaching 100% renewable energy as part of the RE100 initiative.

Upon further reflection, the strength we once saw in their proprietary technology had now become a considerable liability to our bullish thesis. Although the advantage of having a proprietary module technology meant FSLR *could be* different/better than competitors, the disadvantage now means FSLR is *solely* responsible for once again driving the ball ahead of the competition. Perhaps the systems business will continue to buffer FSLR from the competitive pressures of the broader industry, but it won't be easy. In the end, not even FSLR's strong balance sheet glosses over the herculean task ahead: selling - into a super competitive market by all accounts - for *all* of 2017 (and *some* of 2018) the *same* product they were offering in 2016! Accordingly, we concluded we were wrong, and exited the position.

One last thing to note: the inevitable result of this competition is better technology and lower prices. Thus, the near-term struggles of the solar industry perversely further strengthen the long-term bullish thesis for solar as a viable/affordable source of energy generation. Of course, the challenge will be getting to that point - we'll be watching from the sidelines to see if sunshine returns to FSLR's forecast.

Sprouts Farmers Market

First things first: there is an ongoing deflationary environment in the grocery industry. Simply put, this deflation results in an identical basket of groceries bringing in less revenue today than it did previously. This reality often translates into further price declines as grocers combat top-line declines with deeper promotions in the hopes of increasing traffic. Although this bleak state of affairs can go on for a while (several quarters historically), it eventually breaks due to some mix of promotional fatigue by the grocers and/or once abundant goods becoming less so amid declining prices. Either way, the hope is that some of the promotional "investments" made to acquire traffic, result in new customers sticking around long enough to boost sales when inflation returns again.

Long before the current deflationary environment soured market sentiment of all grocers, SFM's narrative was often muddied by comparisons to Whole Foods (WFM), or the efforts of much larger grocers (i.e., Walmart, Krogers, etc.) to make "organic" a growing part of their businesses. These narratives - and the issue of deflation - are succinctly captured in a recent Bloomberg[9] article regarding slowing sales growth at Kroger:

> "Still, everything in business is relative. Sinking food prices naturally affect America's largest grocers, Kroger and Walmart. But their heft will help them survive relatively unscathed, and they'll benefit when prices start rising again.
>
> The natural, organic, and better-for-you grocers such as Sprouts and Whole Foods won't fare as well. These specialty grocers thrived on the high food prices consumers reluctantly accepted in the first half of the decade. They could struggle to charge such premiums now that prices are falling hard everywhere else. That in turn, helps Kroger and Walmart, which are ramping up organic and natural offerings to lure customers away from higher-priced competitors. (Organic now makes up more than 10 percent of Kroger's business.)"

While there is something to be said for never letting the truth get in the way of a good story, SFM's continued growth suggests there might be more to the story than the article suggests. The natural starting point is the persistent SFM vs WFM comparison. Both SFM and WFM do emphasize healthy eating (i.e., neither sell Doritos), and both do sell organic food. But that is where the similarities end. WFM remains the only national "Certified Organic Retailer," and has a long (and extensive) list of required quality standards and prohibited ingredients. For example, WFM promises no artificial preservatives, sweeteners, flavors, or colors in *anything* they sell. WFM's

[9] 9.9.2016 Bloomberg: Kroger Lowers Its Own Bar

devotion to all things organic, often results in a particularly “yuge”[10] difference at the cash register. Thus, their infamous moniker “Whole Paycheck.”

In contrast to WFM’s (expensive) devotion to all things organic, SFM offers “fresh, natural, *and* organic” products in a strategy they describe as “Healthy Living for Less.” This more flexible approach enables SFM to sell all sorts of perishables (50%+ of their sales), even if such products aren’t necessarily grown 100% organically. More importantly, the “for Less” part of the strategy materializes into management’s ongoing goal to offer produce at a 20-25% discount relative to other grocers in the market. In fact, discounted produce is a fundamental piece of their customer acquisition strategy (from the 10-K): “We believe the majority of our customers are initially attracted to our stores by our fresh produce, which we offer at prices we believe are significantly below those of conventional food retailers and even further below high-end natural and organic food retailers.” In other words, SFM’s prices (especially for produce) are not just lower than those offered at WFM, but are often below comparable prices at both Walmart and Kroger. Although this reality may not register for those in the New York City echo chamber, it is well known among SFM’s shoppers (us included).

But what about the competition - especially competition from larger grocers such as Walmart and Kroger? As alluded to in the Bloomberg article, the prevailing narrative seems to suggest anyone can just plop more “natural” food in the corner, hang a sign labeled “farmer’s corner,” and use their “heft” to put SFM out of business. This narrative omits the inconvenient reality that other grocers *can* and *have* competed from the start. Yet, SFM’s growth continues unabated. Thus, it remains an open question (at best) whether traditional grocers can dim SFM’s future growth by adopting an SFM-like format for just *part* of their store(s), rather than *all* of their store(s). Case in point, organic has been a trend on Walmart’s radar since at least 2006.[11] Nonetheless, for most customers, the real world perception of Walmart (more than 10 years later) is one of dirty stores, long lines, and high crime.[12] In other words, Walmart is not exactly the sort of place that shoppers looking for “fresh, natural, and organic” food are likely to flock to anytime soon - especially given SFM’s competitive prices.

Ultimately, we believe SFM’s winning formula presents a compelling choice for many customers. We expect SFM’s formula of unprocessed food at low prices to fuel continued growth irrespective of competitors with higher prices, “organic” *offerings* (i.e., the organic apples can be found to the left of the Doritos . . .), or both. With strong operating cash flows and low debt levels, SFM is well positioned to self-fund management’s goal of a 14% annual growth rate in new store openings.

In Closing

The Fund continues to seek investments in companies we understand and at prices we believe are below our best estimate of intrinsic value. Simply put, if we are more right than we are wrong, the performance of the Fund should be very satisfactory over the long-term.

Lastly, thank you for entrusting us with your investment. Please feel free to email or call with any questions or concerns.

[10] As President Trump would say
[11] 5.12.2006 NYT: Wal-Mart Eyes Organic Foods
[12] 8.17.2016 Bloomberg Businessweek: Walmart’s Out-of-Control Crime Problem is Driving Police Crazy

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