January 26, 2018

Dear Partners:

The Fund finished 2017 with returns of 27.38%. Since inception (in May of 2014), the Fund has returned 88.16% vs 53.30% delivered by the S&P 500 Total Returns (our benchmark) as shown below:

	Q3 2017	Q4 2017	Full Year 2017	Since Inception
Fund[1]	2.10%	7.71%	27.38%	88.16%
S&P 500 Total Returns	4.48%	6.64%	21.82%	53.30%

During the second-half, we:

- Initiated positions in Under Armour,
- Increased our *existing* positions in both Entravision (EVC) and Sprouts Farmers Market,
- Harvested our losses by exiting our positions in Viacom, and
- Finished the year with ~11% of the portfolio in cash.

In his book, *Adventure Capitalist*, seasoned vagabond and renowned investor Jim Rogers details his 3-year travels through 116 countries in a customized - and yellow - convertible/SUV Mercedes contraption. Along the way, Rogers mixes political/social commentary with the sort of economic/investment wisdom for which he is well known. While the book is a compelling read, one quote in particular - from his stop in Las Vegas, of all places - has long stood out:

> *"I should start by pointing out that Las Vegas is not my kind of town. In the first place, I do not gamble . . . I do not take risks with my money. Ever. The way of the successful investor is normally to do nothing - not until you see money lying there, somewhere over in the corner, and all that is left for you to do is go over and pick it up. That is how you invest."*

Money in Entravision's Corner:

By late 2016, it was increasingly hard to miss the money in EVC's corner, and you can be sure we got busy picking it up: increasing our position by 2x in November of 2016, and another 7x by year-end 2017.

When we first wrote about EVC in 2014, the market was decidedly unimpressed with their leverage, exposure to fluctuations in ad spending (especially automotive), and lumpy track record in the (unsexy) business of Spanish-language broadcasting. We saw things a bit differently. Leverage was indeed higher than we would have preferred, but still seemed manageable nonetheless. More importantly, we viewed EVC's stronghold with Spanish-speakers as the sort of audience marketers can ill-afford to ignore: an audience growing in population, spending power, and political importance. Better yet, the low carrying

[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.

value of EVC's broadcasting assets offered an additional margin of safety to our EVC thesis. Here is how we concluded our initial write-up in 2014:

> *"Even if you remain unconvinced of growth within the Hispanic community, unimpressed by EVC's media assets and partnership with Univision, or simply don't believe EVC will be able to capitalize on an improving advertising environment, consider this:*
>
> - *EVC's broadcasting assets are currently carried on the balance sheet at values* *<u>below</u>* *- some far below - current market prices due to a more favorable marketing environment and those deep impairment charges of 2006-2008.*[2] *While these impairments may have been justified when they were made, they are almost certainly not an accurate reflection of current asset values, and - per accounting rules - can only be revalued if/when the assets are either further impaired or offered for sale. Thus, absent a sale, these assets will remain on EVC's books at values reflecting the turmoil of 2006-2008. Needless to say, with an enterprise value just over $700 million, we remain confident there is much more value here than first meets the eye."*

As the presidential election concluded, it was clear our bullishness for EVC's audience had incorrectly assessed the impact of candidate Trump on political ad spending. Despite this disappointment, we remained as bullish on EVC's audience as before - ultimately concluding that Trump's novel approach of tweeted insults was unlikely to become the preferred marketing strategy for most aspiring politicians.[3] Accordingly, on election day (November 8, 2016) we voted with our wallet, and doubled our EVC position. After all, the presidential election was only part of EVC's story, and the least interesting part at that.

Running parallel with the presidential election was the "incentive auction" started by the Federal Communication Commission (FCC) in mid-2016. Designed as a two-part process, the auction consisted of a "reverse auction" in which broadcasters could voluntarily offer up broadcasting spectrum, and a "forward auction" for mobile broadband providers to bid on purchasing this spectrum. While it was clear EVC (and other broadcasters) could utilize this auction to monetize excess broadcasting spectrum, it was unclear if they would choose to do so. Unsurprisingly, the many moving parts of the auction process, combined with management's silence (as mandated by the FCC), resulted in a wide variation of auction proceed (gu)estimates.

Beyond this speculation, only two questions mattered: might this be the "catalyst" to unlock hidden value in EVC's broadcasting assets, and if so, what might the proceeds be? EVC ended the suspense in March of 2017, by announcing:

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[2] As footnoted in the Q3 letter: "Per the 2013 10-K, EVC management estimates that fair values exceeded carrying values by the following amounts: 215% for the TV reporting unit, 35% for the radio reporting unit, between 50% and 500% for their TV FCC licenses, and between 26% and 75% for their radio FCC licenses."

[3] Incidentally, the ongoing exodus of Puerto Ricans to the mainland could prove especially interesting for political advertising. As residents of the island, Puerto Ricans *can* vote in presidential primaries, but *cannot* elect voting members of the House or Senate, and do *not* get any electoral votes. That changes when Puerto Ricans move to the mainland, as many have done post hurricane Maria.

- they would sell excess spectrum on 4 stations,
- for proceeds of ~$264 million, and
- did ***not*** expect this transaction to "result in a material change in the operations or results of the Company."

Since the best part of any transaction isn't what you *give*, it's what your *receive* in return, EVC shareholders had ~$264 million reasons to celebrate. With ~$241 million in net debt,[4] and a equity market value of ~$500 million, the proceeds were sufficient to retire *all* of EVC's existing debts. These proceeds were as real as they were substantial - amounting to a whopping discount of more than ~35% to EVC's preannouncement enterprise value as shown below:

	Market Value	**+ Obligations**	**- Cash (& Proceeds)**	**=**	**Enterprise Value**
Before Proceeds	~$500	~$311	~$70	=	~$741
After Proceeds	~$500	~$311	**~$334**	=	**~$477**
				Discount →	**35.6%**

Of course, more important than knowing something is discounted, is correctly assessing how much of that discount is merited by impairments to asset value and/or earnings capacity. On the earnings front, the news was favorable: improvements in broadcasting technology enabled EVC to sell this spectrum *without* any "material change" in "operations or results." In terms of asset value, there was no disputing that this spectrum sale *did* impair the value of EVC's affected four stations. Even so, keep in mind that the ~$264 million in proceeds came out of a larger portfolio of both radio and TV spectrum assets with a carrying value of just ~$221 million.[5] Accordingly, with just 4 of EVC's 54 TV stations affected, this transaction leaves little doubt of the untapped substantial value of EVC's remaining spectrum assets.

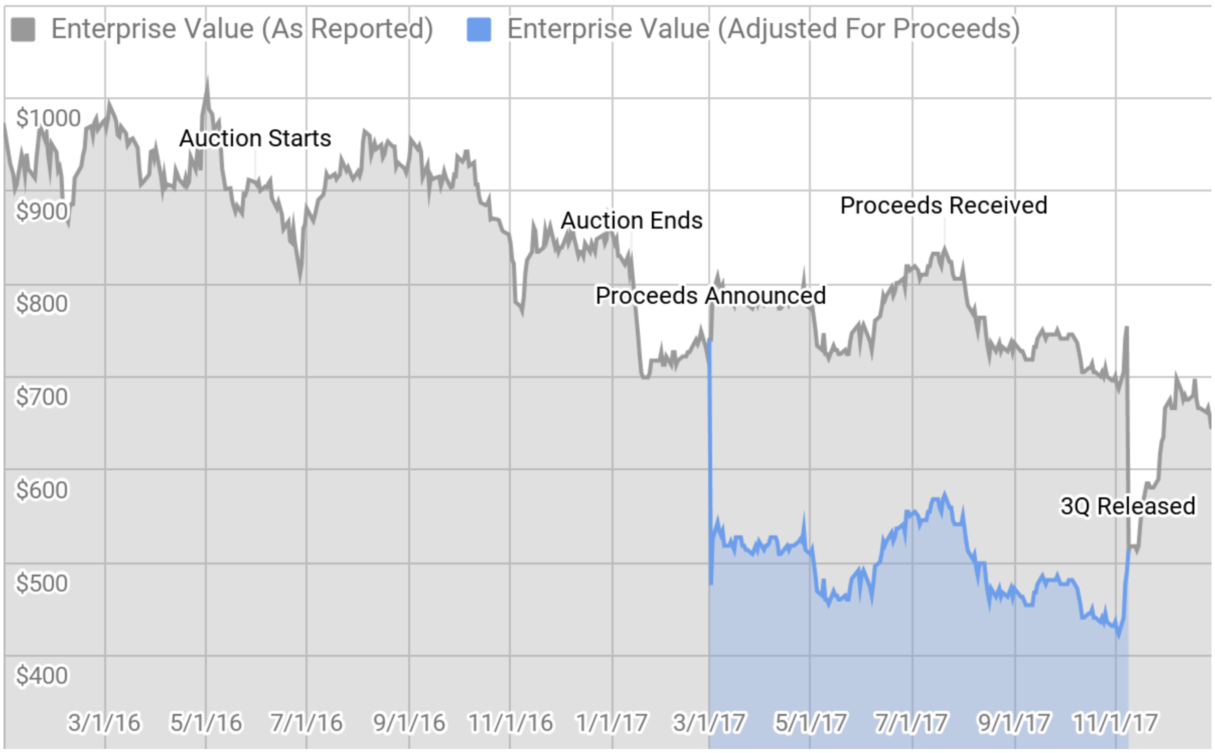
On the whole, it was clear this transaction produced a material reduction in price *without* a corresponding material reduction in earnings. The implications of this "have your cake and eat it too" scenario, were quickly apparent in EVC's enterprise multiples,[6] as shown in the table below:

	9/1/16	**1/3/17**	**3/2/17**	**5/1/17**	**7/21/17**	**9/1/17**	**11/1/17**	**11/8/17**
As Reported	13.51x	12.19x	10.69x	11.17x	12.09x	10.64x	10.12x	10.90x
Adj for Spectrum Proceeds →			**6.88x**	**7.36x**	**8.28x**	**6.83x**	**6.31x**	**7.09x**

From where we sat, EVC's earnings capacity and underlying value remained mostly unchanged. In fact, the only substantive change at EVC was its price - a material *improvement* courtesy of its newly-bulging cash register. To the extent our assessment was correct (or even in the right ballpark), EVC's market

[4] While net debt was actually even *lower* (~$230 million), the reduction in debt was not reported until YE 2016 financials were released on 3/10/2017 - *after* the proceed announcement.
[5] As of YE 2016
[6] Enterprise Multiple = (Enterprise Value / EBITDA).

price *should* soon increase to more accurately align with the *unchanged* underlying value of its business. To our surprise, what should have happened in theory, didn't happen in reality . . . for more than nine long months. The resulting disconnect between reported and adjusted enterprise valuations (area between the grey and blue sections) would persist throughout much of 2017 as shown in the chart below:



Given the size (~$264 million) and duration (~9 months) of this gap, there was one thing of which we were certain: someone had missed something substantial. As you might imagine, considerable time/effort was spent throughout 2017 to make sure it wasn't us doing the missing. No matter how we sliced the EVC thesis, it was hard to substantiate any scenario - based on the facts as we knew them - that merited a ~35% discount. That said, one possibility - a suspicion of sorts - intrigued us: perhaps EVC's proceeds simply were not (*yet*) fully appreciated by the market.

Admittedly, it seemed laughably simplistic (dangerous even) to assume a mostly efficient market simply didn't know about EVC's spectrum proceeds. Nonetheless, when one looked at the details of when EVC would receive - *and report* - their proceeds, a few quirks were quickly evident. For starters, EVC wouldn't actually receive their proceeds until July 21, 2017 - more than four months *after* EVC first publicly announced the details of their proceeds. Even worse, the July arrival of these proceeds meant the money would hide in plain sight for nearly nine months before these proceeds would officially be reflected as part of EVC's third quarter financials.

Right on schedule, things started to get interesting (as shown in the above chart) when EVC initially announced (but did *not* report) their spectrum proceeds in early March of 2017. Investors remained interested until July 21st, when EVC actually received (but still did *not* report) the proceeds. Nine long months after EVC first announced their spectrum proceeds, theory and reality finally converged when EVC's third quarter financials were published and the proceeds were reported for the *first* time on November 9th.

Although the "money in the corner" is often more *figural* than *literal*, according to Rogers, the key is:

> *"You wait until you see, or find, or stumble upon, or dig up by way of research something you think is a sure thing . . ."*

Investors who relied on a data source such as Bloomberg[7] for their financial information arrived at an enterprise value ~35% *higher* than an investor who read past the first page of EVC's annual report, and knew better. While we never know it all, we believe the effort expended in trying is the foundation of a disciplined investment approach, and precisely the type of analysis most investors ardently avoid. In markets where change is quick, the rewards for completing your homework are often considerable (even if only collectable many years later). In the case of EVC, we finished 2017 with gains of 26.82% on our full position.

In Closing

The Fund continues to seek investments in companies we understand at prices below our best estimate of intrinsic value. Simply put, if we are more right than we are wrong, the Fund's performance should be very satisfactory over the long-term . . . but it almost certainly won't be as timely (or painless) as it has been to date.

May 1st will mark the four year anniversary of the Fund, and we remain grateful for all the trust and encouragement from those who have supported us along the way. As always, please feel free to email or call with any questions or concerns.

"If you always do what interests you, at least one person is pleased."
Katharine Hepburn

[7] Or any other data provider reliant on SEC-published financial statements (as they all are).

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