January 19, 2020

Dear Partners:

The Fund returned ~68.6% in 2019. Since the Fund’s inception in May of 2014, our portfolio has returned ~152% compared to the ~93% delivered by the S&P 500 Total Returns (our benchmark) as shown below:

<table>
<thead>
<tr>
<th></th>
<th>1H 2019</th>
<th>Q3 2019</th>
<th>Q4 2019</th>
<th>FY 2019</th>
<th>Since Inception (5/1/14)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund:¹</td>
<td>43.34%</td>
<td>-7.56%</td>
<td>27.27%</td>
<td>68.64%</td>
<td>152.02%</td>
</tr>
<tr>
<td>S&amp;P 500 TR:</td>
<td>18.54%</td>
<td>1.70%</td>
<td>9.07%</td>
<td>31.49%</td>
<td>92.73%</td>
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During the second half, the Fund:

- Initiated positions in both Tivity Health (TVTY) and ViacomCBS (VIAC),
- Added to our existing positions in Under Armour (UA), Quotient Technology (QUOT), and 1347 Property Insurance Holdings (PIH),
- Trimmed our positions in both Apple (AAPL) and Verisign (VRSN), and
- Exited our positions in Viacom (VIAB), Southwest Airlines (LUV), and Credible Labs (ASX:CRD).

The Fund began 2020 with ~20% of the portfolio in cash.

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2019 was a good year for equities generally, and an even better year for our portfolio specifically. Less evident from the scoreboard, but no less relevant to our portfolio performance, is the fact that much of our success in 2019 was the result of, rather than a contrast to, our bruising finish to 2018.

That our largest (and only) full year loss in 2018, was followed by our largest full-year gain in 2019, reaffirms a well-known reality:

In investing, as in life, progress is neither immediate nor linear.

For those of us aiming to outperform over time, rather than all of the time, this truism has important implications for how we think about - and benefit from - volatility. Sometimes volatility impacts the broader market; other times, a specific stock/industry. But it is those infrequent times when volatility impacts both at once, that the blessings can be particularly notable.

As the portfolio’s uncontested MVP in 2019, AAPL offers an illustrative (and recent) example of one such blessing.

¹ All performance numbers are presented before allocation to the General Partner.
Don’t-Cha-Know?

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Apple

Amid AAPL’s dismal finish to 2018, a long-time friend called to lecture: “Don't-cha-know the smartphone market is saturated, iPhone growth is stalling, and Apple is too large and well-followed to be materially misvalued anyways?”

Indeed.

But then again, as my grandfather used to caution: “Ask a silly question, get a silly answer.”

With silly questions about AAPL’s next quarter resulting in silly answers, the peanut gallery was soon in hysterics that AAPL’s best days were surely a thing of the past. Undeterred by the absence of any indication of long-term impairment to the durability of AAPL’s competitive position . . . the don’t-cha-knowers were soon skedaddling for the exits. And what a skedaddle it was - more than ~$400 billion evaporated from AAPL's market value in Q4 2018 alone!

This excessive spectacle brought to mind an observation from our first-half 2017 letter:

“...AAPL [is] a classic (albeit high profile) example of how sloppy logic, hot air, and short-termism can obscure the substantial long-term strengths of a best-in-class business. Even more interesting, AAPL's size and prominence only seem to amplify the volume and uniformity of the distortion working against it.”

Recognizing a blessing when we see one, and determined to capitalize accordingly, we increased our AAPL exposure materially in Q4 2018, and again in Q1 2019.

As it turned out, iPhone sales did slump as the market widely feared. Nonetheless, AAPL managed to book ~$84 billion of sales in that quarter alone, and the sun has continued to rise anyway. After appreciating ~86% in 2019, AAPL offers a potent reminder that some of the biggest and best companies can - and do - become mispriced.

One last thing. As those of you who have (graciously) read previous letters already know, AAPL has been a core position since the Fund’s inception. Over the course of our ownership, Apple has been religiously dismissed as unimaginative by the investment cognoscenti and their army of spreadsheet warriors. While nobody ever wins an originality trophy for an idea as large, prominent, and booooring as AAPL, I’m happy to report that we’ve survived - and prospered - just the same.

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Although there is ample credence to the notion that size and prominence should mitigate such AAPL-like opportunities, even the best companies eventually find themselves unable - even temporarily - to continue
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feeding the market’s preferred narrative. In such situations, a well-worn playbook is especially useful for identifying company-specific opportunities made possible by near-term volatility:

The market starts fearing current concerns (whatever they may be) might be indicative of bigger problems,

Such fears are seemingly validated by an echo chamber dominated by press reports and/or falling price “targets,”

With investors uncertain whether optimism or skepticism should be the primary driver of their valuations, volatility ensues.

Whenever the avoidance of near-term volatility becomes the market’s priority, ownership eventually transfers from speculators to investors. Amidst this transition, fortune favors those who are willing - and able - to employ a different perspective, a different time frame, or both. Since there is no use preaching to the converted on that dynamic, let’s look at the opportunity present in UA.

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**Under Armour**

UA’s founder, Kevin Plank, likes to say that the key to UA’s success was never focusing on the many reasons it “couldn’t” happen in the first place. Instead, Plank not only embraced the doubts, but used them to create - weaponize even - the underdog identity that has propelled UA from his grandmother’s garage to today’s well-known, and global, company.

From its humble start in 1996, UA has benefited from a combination of lucky breaks, savvy media placements, and positive word of mouth among the athletic community. With growing consumer interest in “performance apparel” as its potent tailwind, UA dazzled investors with uninterrupted growth in the decade that followed its IPO.

All good things must come to an end, and UA’s impressive track record was no exception. When UA’s growth started to sputter in mid 2016 / early 2017, UA’s “breather” soon followed:

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</thead>
<tbody>
<tr>
<td>Sales:</td>
<td>$1,064</td>
<td>$1,473</td>
<td>$1,835</td>
<td>$2,332</td>
<td>$3,084</td>
<td>$3,963</td>
<td>$4,825</td>
<td>$4,977</td>
<td>$5,193</td>
<td>$5,300</td>
<td>$5,550</td>
</tr>
<tr>
<td>Δ (%)</td>
<td>24.2%</td>
<td>38.4%</td>
<td>24.6%</td>
<td>27.1%</td>
<td>32.3%</td>
<td>28.5%</td>
<td>21.7%</td>
<td>3.1%</td>
<td>4.4%</td>
<td>2.1%</td>
<td>4.7%</td>
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<tr>
<td>EPS:</td>
<td>$0.17</td>
<td>$0.23</td>
<td>$0.30</td>
<td>$0.38</td>
<td>$0.48</td>
<td>$0.53</td>
<td>$0.45</td>
<td>$0.19</td>
<td>$0.27</td>
<td>$0.33</td>
<td>$0.50</td>
</tr>
<tr>
<td>Δ (%)</td>
<td>41.7%</td>
<td>35.3%</td>
<td>30.4%</td>
<td>26.7%</td>
<td>26.3%</td>
<td>10.4%</td>
<td>-15.1%</td>
<td>-57.8%</td>
<td>42.1%</td>
<td>22.2%</td>
<td>51.5%</td>
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2 Source: Value Line - EPS excludes nonrecurring gains / (losses) of $0.14 in 2016, ($0.30) in 2017, and ($0.37) in 2018.
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As UA’s growth narrative transitioned from abundant to uncertain, it has been a volatile few years for UA and its shareholders:

With growth no longer a viable part of UA’s storyline, one unfavorable news report after another has dominated the echo chamber over the last several years. Among the most substantive (and recent) of such reports:

- In late October of 2019, Mr. Plank surprised investors with the announcement that he would step aside from daily management of the company and thereafter assume the dual role of Chief Brand Officer and Executive Chairman.
- In November of 2019, one day before UA’s Q3 2019 earnings call, the WSJ reported that: “Federal authorities are investigating Under Armour’s accounting practices in a probe examining whether the sportswear maker shifted sales from quarter to quarter to appear healthier . . .”

As case studies go, UA’s last few years offer an especially bleak view of what happens when a company’s narrative - and its share price - gets ahead of itself. With management guiding for anemic top-line growth of just ~2% for full-year 2019, and shares trading hands at ~37x estimated forward earnings . . . today’s valuation looks compelling only if you believe UA’s growth engine will soon get restarted. Add to this equation the one-two punch of musical chairs within UA’s top management, and the unwelcome stench of investigations and/or possible wrongdoing . . . and you can start to understand why there are plenty of empty seats in UA’s cheering section.

But here’s the thing: UA’s current “breather” is not really about their product portfolio, or the consumer demand for those products. There’s ample room for improvement on those fronts, of course, but that will always be the case. Instead, the blame for UA’s current predicament lies primarily with management’s previous - and misguided - efforts to deliver the sort of linear progress so celebrated by the investment community.

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3 2019.11.3 WSJ: Under Armour Is Subject Of Federal Accounting Probes
4 2019 full-year results are scheduled to be released on 2/11/2020
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Whether UA, or any other company, you’ve seen the show before, and the plot line is always the same. As expectations grow, so do the contortions required to “beat” them. ⇒ With each earnings “beat” delivering an ever-higher stock price, managers and analysts are unbothered by a few contortions here and there. ⇒ That works swell, until it stops working at all. The long and the short of it: They did it, they should’ve known better, and the hangover has been long and costly.

Now for what happens next. From my seat, there are more reasons for cheer than most seem to appreciate. For one, the bill for management’s previous stupidity was no doubt substantial, but pity the poor shareholders before us - they got stuck with the tab. And, it is worth noting, no shareholder got a bigger bill than the fellow with ~34.7 million shares to his name - Mr. Kevin Plank himself. Good news indeed, but well short of what really gets me reaching for the pompoms:

The ultimate judge and jury (e.g., the consumers themselves) don’t give two hoots about the status of UA’s growth “narrative.”

In fact, consumer apathy regarding UA’s ongoing investment “breather” is plainly evident to anyone who has recently ventured to a gym, a college campus, an airport, or just about anywhere else under the sun. Yes, I know such anecdotal observations carry little weight among the investment sophisticates currently soured on UA’s investment narrative, but that’s their loss. Afterall, UA’s future success will depend on their ability to make, and sell, an ever growing assortment of products to an ever expanding number of consumers. That’s no small feat for sure, but a feat made much more plausible by all those consumers already walking around in their UA apparel.

Good luck convincing the peanut gallery of that! They’re still stuck on the same question from years ago: Don't-ch-a-know you can’t just hustle your way into relevance against the likes of Nike and Adidas?

Yep.

But then again, the fact that UA has already managed to do just that, speaks volumes to the scrappiness - and chutzpah - that constitutes the company’s cultural core. Although compelling products have certainly been a critical part of UA’s growth and success, quality products alone won’t take you from $0 to ~$5+ billion in annual sales. Growth like that requires mighty sharp elbows too.

While such bravado was surely useful for motivating the faithful in UA’s early days, recent reports of investigations into UA’s sales practices do necessitate some caution. Amid this investigative uncertainty, the critical question going forward is whether the competitive energy that was once UA’s most potent asset might have morphed into a liability at some point along the way. Without access to the specifics of the investigation, it is hard to fully assess with any certainty. Nonetheless, the main qualitative considerations, as I see them, are as follows:

- Competition was certainly a key motivator within UA generally, and with Plank specifically. That said, the possibility that such corporate “rah rah” led to outright wrongdoing is especially
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hard to square with Plank’s enduring emphasis on playing the long game. That doesn’t mean it
didn’t happen, but it surely means it would be solidly out of character if it did.

- Even though these investigations are newly reported, they aren’t very new at all. With the
investigations first initiated ~2.5 years ago, it seems plausible - albeit optimistic - to conclude that
whatever problematic behavior might have once existed, should have ceased several years ago.
- UA has had some turnover within its CFO role. Whether such turnover indicates a warning sign,
or no sign at all, remains to be seen.

Despite the risks inherent with any sort of investigative uncertainty, our UA investment is premised on the
belief that the issues underlying the reported investigations are more likely to be examples of competition
run amok than outright fraud. Given that Plank used to enjoy boasting that “Winning is a part of our
culture - it’s who we are,” our bet is the last few years of not winning have been an especially sobering -
and costly - reminder to Plank (and everyone else) to refocus their efforts on building a company that
deserves to win over the long-term.

On that front, you should be encouraged that all of the required ingredients for UA’s future success
already seem to be in place. In combining the maturity/discipline that has been forced upon UA during
their current slump, with the same hustle and product-focus that propelled them from obscurity in the first
place . . . the bet here is that UA is uniquely positioned to regain their mojo and start growing again. If
so, UA’s current pause - and the resulting volatility - will surely prove to be a fortuitous chance to catch
an underdog just as it gets ready to once again give the big-boys a run for their money.

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In Closing

With long-term outperformance as our founding goal, the Fund continues to employ an ownership
mindset to assemble a portfolio of businesses we understand, want to own, and believe can be purchased
for a fair price. The desired result is a portfolio of 8-15 investments - concentrated according to
conviction, underlying value, and return potential.

To each of you who have supported me along the way, a sincere thanks for your continued trust and
encouragement. While I hope the last 5+ years have affirmed that your trust is well-placed, 2019 was
perhaps the clearest example yet of why such trust is as critical as it is beneficial.

If you, or someone you know, might be interested in joining the Fund, please feel free to email or call.

“Yesterday’s home runs don't win today’s game.”

Babe Ruth
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