Dear Partners,

On January 11, 2016, Askeladden Capital Partners LP placed its first trades with $25,000 of my own personal capital; I had another six figures of savings set aside to fund operations. I had no idea when my lawyers would get around to finalizing my registration paperwork, nor a clue if prospective investors would look past my age and unconventional background, and bore the sobering burden of knowing that my delayed circadian rhythm eliminated most white-collar jobs as "fallbacks" despite my repeatedly demonstrated motivation and accomplishment.[i] In other words, while my friends and colleagues praised me for some supposed bravery, in reality, launching Askeladden felt more like falling off a cliff without a parachute. (Or so I imagine – fortunately I've never fallen off a cliff!)

From inception through 12/31/2016, we found a parachute or three:

1. We returned ~+69% gross and ~+56% net of all fees without using any leverage and while maintaining a double-digit cash balance, compared to a ~+31% gain by the S&P 1000 Total Return Index. [1]
2. We secured our first 7-figure client, plus several tenured value investors as friends, investors, and mentors.
3. Most importantly of all, we refined and upgraded our process for identifying, analyzing, and tracking potential investment candidates, with a clearer understanding of the sorts of ideas we can evaluate well.

Looking forward to 2017 and beyond, we expect that:

1. We will likely never again achieve another year of absolute or relative returns remotely like those in 2016, as we were significantly benefited by a confluence of luck, favorable timing, trading nimbleness related to our small size, and an abundance of dramatically undervalued securities that fit our investment profile,
2. We will secure more clients big and small, on our path toward scaling to $50 million in FPAUM,
3. We will continue to improve our process and build additional mental models.

If you take away one thing from this letter – or from any of our conversations – I want it to be that I'm extremely focused on building a sustainable, repeatable investment process that allows us to achieve solid returns over the long-term without using leverage or bearing excess risk. There are many emerging investment managers who, due to factors similar to those described in (1) above, have one great year, then fizzle out. I do not intend to be one of those managers, and continue to strive toward a goal of achieving robust, 13-15%+ annualized long-term net returns[ii] for investors no matter when they join the fund. While there is obviously no guarantee that this is achievable, and this is at the very high end of reasonable expectations, such results would necessarily require consistent application of a rigorous process to identify high-quality, low-risk, high-return investment candidates. We continue to methodically build our database of interesting companies and patiently await opportunities to buy them at attractive prices.

<u>Portfolio Management</u>

Long-term, of course, does not mean quarter to quarter or year to year – and looking ahead to 2017, I would be remiss to not mention the dearth of opportunities currently available. While we remain confident that owning high-

[1] *DISCLAIMER: Data is estimated, unaudited, and provided for directional color only. Past performance is not a predictor of future results. We do not expect our future annualized returns to approximate our historical annualized returns due to factors including: worse luck, a larger asset base, elevated equity market valuations, fewer investment candidates that meet our qualitative and quantitative underwriting criteria, smaller position size limits than were in place during Askeladden's first year, and other miscellaneous items. Please consult your monthly statements from Fund Associates LLC for actual returns. For "Since Inception" numbers, Index performance is rounded to the nearest whole percentage point; ACP performance is rounded to the next lowest full percentage point. Decimal points have been excluded so as not to convey a level of precision that these estimates are not intended to convey. Net returns are calculated assuming a hypothetical investor paid the standard fee structure of a 1.5% annual management fee and 30% of the outperformance, if any, vs. the S&P 1000 Total Return index, which was chosen because it has historically outperformed the Russell 2000 and most accurately represents our typical investment universe of small and mid-capitalization U.S. equities (i.e., those with a market cap of $10 billion or less). Individual investors' returns may differ from those presented here due to their date of entry into the fund or their specific fee structure (for example, accredited but non-qualified clients may not, by law, be charged a performance allocation, so they are typically charged a higher, flat management fee). Annualized/cumulative returns are calculated assuming an investor joined on the date of inception; YTD returns are calculated assuming an investor joined on January 1, 2017. Results are presented only for Askeladden Capital Partners LP and not for any of the separately managed accounts which Askeladden Capital Management LLC (the investment advisor to Askeladden Capital Partners LP) also oversees. While separately managed accouts are generally allocated very similarly to the fund, SMA clients' performance may differ based on factors such as: timing of account opening, tax considerations, specific client instructions, and manager discretion; therefore, SMA clients should consult their Interactive Brokers statements for specific performance information for their account. This is not an offering of securities or solicitation thereof; any offering of securities would only be made to accredited investors via a Private Placement Memorandum under Rule 506(c) of Regulation D, and any prospective partners who did not have a pre-existing relationship with Askeladden as of 1/18/2017 would be required to verify their accredited status with relevant documentation. This requirement does not apply to separately managed accounts. As Askeladden Capital Partners decided to rely on 506(c) rather than 506(b) as of 1/18/2017, any documents prepared prior to that date were not intended for public distribution and should be read accordingly. Askeladden Capital Partners, and SMAs that mirror its strategy, should be considered high-risk investments suitable for only a small portion of an investor's overall portfolio, as they involve the risk of loss, including total loss. Specific risk factors are enumerated in our Form ADV.*

quality businesses at attractive valuations is one of the best paths to generating wealth over the long term, in the short term, we aren't seeing many such businesses at attractive (or even remotely reasonable) prices. Since Election Day, the market is near-universally pricing in a lot of optimism and not a lot of risk. [iii]

You will remember that at the end of October, our cash levels were slightly below the low end of our target range, as we had very easy pitches on securities we were very comfortable with. A combination of good fundamental performance and the market rally has revalued these names materially higher, particularly executive search and talent consultancy Korn Ferry (KFY), which was a 10% position at around $20 (representing ~9x run-rate free cash flow with de minimis debt and no immediate existential risks) and is now a small, sub-3% position at $29+ (we value it at $30 - $31). The story with other names such as Liquidity Services (LQDT), Fogo de Chao (FOGO), and Franklin Covey (FC) is similar, albeit less dramatic, and all three have been trimmed significantly on recent price strength. These remain our #1, #2, and #4 positions, but position size is dictated by the attractiveness of their valuation.

As we have sold down these and other names, despite adding ~1000 bps of exposure to three new really under-the-radar companies, and bulking up our LGI Homes (LGIH) position (now #3) on non-fundamentally-driven price weakness, we are still left with plenty of dry powder – our cash position is currently in excess of 30%, well above our target range of 15 – 25% over time. As always, our cash position is not an explicit market timing move (that's not our style), but rather an acknowledgment of the paucity of opportunities available to us based on conservative, bottom-up underwriting. When excellent opportunities present themselves (as they did numerous times during 2016), we will willingly and aggressively deploy capital to create future returns. Indeed, as always, we are closely following interesting businesses that we believe might be actionable over the next twelve months, as well as building our broader long-term database. In the meanwhile, we will not loosen our underwriting standards and pretend risk doesn't exist just because others are doing so. After all…

[iv]

Updates to the Process

Earlier this year, I discussed my disappointment in my disorganization, which was leading to significant rework on names that we had previously reviewed, as well as missed opportunities to purchase securities that we were familiar with and were materially undervalued but simply fell off my radar amidst the day-to-day of research (ahh, Kadant below $37…). I also realized that while a constant idea-seeking process had significant behavioral risks, I needed to put more weight on working on securities that were closer to potentially being actionable than those that would likely not provide any opportunities for many years (due to excessive valuations, idiosyncratic business factors, and so on.) Without boring you with details[v], over the past few months, I have developed a series of tools that allows me to more clearly and consistently document our work on names and strike when the iron is hot without subjecting us to excessive, distracting noise. With these upgrades in place, more time can be spent on research, more effectively.

While I'd love to take credit for all this progress, most of it should go to my new friend Zeke Ashton, who has run a firm called Centaur Capital for the past 15 years and is a cult hero among value investors (though he's too modest to admit it). Zeke has consistently achieved strong returns on invested capital, delivering above-market returns over a full cycle with minimal drawdowns and substantially below-market risk. Over this time, Zeke has developed many of the tools that I was looking to build, and he has been generous enough to assist me with mine (including a position sizing and risk management framework that I hope to distribute in early 2017). We're also collaborating on mutually interesting ideas, which builds the "force multiplier" effect I have discussed previously (building our own proprietary "dealflow" of high quality investment ideas, without the costs or organizational dynamics of a salaried internal team.)

Zeke insists on calling us peers, but I'll call it for what it is – he is a valuable mentor. Even within the context of value investing, it is rare to find someone with whom I share so much in common – while Zeke and I run our portfolios in very different ways (diversified all-cap long-biased vs. concentrated small-cap long-only), we share a strong sense of fiduciary duty, a drive to be great, an intense focus on process, a relatively similar underwriting framework, deep self-awareness and a growth mindset, and most importantly, a love of big fluffy dogs and an insatiable appetite for Tex-Mex. Zeke is even paying me a nominal amount to assist him with projects I'd work on for free for the sake of learning – which boosts my expected 2017 cash flow into the green after all fund and personal expenses, assuming no incremental AUM. Last but not least, Zeke has generously offered to serve as a reference for prospective Askeladden investors who desire a tenured professional's assessment of my approach, so please tell your friends to call him!

Business Updates

If experience is what you get when you don't get what you wanted, then we got loads of, uh, "experience" from our erstwhile relationship with our initial legal counsel. We decided on Andrew Rosell of Winstead PC as our new counsel after extensive vetting; we are confident Andrew will provide a higher service level, and at his recommendation, are deciding between two Texas-based compliance consultancies for routine filings work. With our "infrastructure" fully in place, we will spend 2017 fully focused on the fun stuff.

After refraining from business development for the last quarter of the year to focus on research and process, I will return to strategically posting thoughtful whitepapers and sourcing interviews, speaking engagements, and so on to raise Askeladden's profile and add to our pipeline of inbound inquiries.[vi] Given that our strategy benefits from small size, my current plan is to *close Askeladden to new investors at $50 million in fee-paying AUM*, and perhaps to begin returning capital just shy of the $100MM mark. While this may seem like a far cry from our current level of AUM, the reality is that a few serious investors could get us there, and we are in conversations with several. Stay tuned.

Our intern Bryan Wagman will likely be leaving us this summer for someone who can actually afford to pay him. His support work on Franklin Covey this summer helped a great deal, and his independent work (especially management interviews) yielded several other prospects and a small position. While we will miss him greatly, we look forward to continuing to collaborate with him as he progresses in his career. Meanwhile, we have a new intern named Matthias Herskind (Matt for short), an *extremely* bright high school senior from Denmark who has somehow managed to read more pages of value investing material than me (props)[vii]. Matt, a fellow INTJ and Deadpool admirer, provided valuable editorial suggestions on this letter and has already helped me vet some potentially interesting companies. I remain the sole decision-maker, but I find that talking through my ideas with other smart people versed in the Askeladden framework helps me prevent potential oversights and avoid the echo chamber / "tunnel vision" effect. In addition to Matt and Bryan (and of course Zeke), we often collaborate with a select group of smart investors – from known fund managers to off-the-radar individuals – who provide fresh perspectives and insights.

As always, we are grateful for your investment and remain committed to doing our absolute best for you. (And for ourselves – for those who care, over $100,000, or the majority of my personal capital, is now invested directly in the fund, and three-quarters of my father's retirement assets are co-invested alongside in an SMA.)

Westward on! =)

Samir

[i] I've opened up about this in a previous letter or two, but in hindsight, it's hard to overstate just how personally traumatic this realization was (and I've dealt with what feels like more than my fair share of adversity.) To go from being the kid for whom the sky was the limit to realizing that 90% of professional employment is off-limits because you're physically incapable of falling asleep before 2 or 3 in the morning without sleep aids – that's paradigm-altering stuff that completely shifts your conception of who you are and what your future looks like. On top of successfully handling the normal new-entrepreneur challenges, I had to get my own professional confidence back and prove to myself that notwithstanding what inside-the-box professional employers might think, I had the capability to deliver unique value in a working environment that allowed me to not be permanently sleep-deprived. Let's just say it's nice to be on the other side of that chasm.

[ii] I am legally obligated to mention that this is, of course, not a guarantee. It's just what I'm targeting – mathematically speaking, if you assume high teens gross returns (slightly below our 20% underwriting hurdle), then apply our standard management fee (1.5%) and performance allocation (30% of outperformance above the index assessed every three years), assuming a 10% annualized return for the index, you get to roughly that range: (18% gross – 1.5% mgmt fee) – (0.3 x (18% – 1.5% – 10% index performance)) = 16.5 – ~2 = 14.5% (note that this is obviously a very rough approximation). I would of course like to do better than this, but simply achieving this would be a significant feat in and of itself, and given historical precedent for other fund managers and current market valuations, this range is likely at the high end of what is achievable long-term.

[iii] Like everyone, I have political views – I have publicly described myself as a pragmatic and somewhat moderate/open-minded libertarian who believes decisions should be based on facts and logic rather than blind partisan ideology – but I find that mixing politics and investing is dangerous. My job as an investor is to invest in the world that *is*, not to pine for the world that *should be*; I don't spend much time thinking about politics except insofar as it might directly impact our portfolio, and it is wholly irrelevant for our purposes whether I *like* or *agree with* a specific politician or their specific policies. As such, you should assume that any commentary I make now or in the future on the potential impact of a political event on the investing world is based not on my personal opinions or conjectures, but rather on impartial business logic, as well as commentary I am hearing from the corporate executives I read about or interview every month – i.e., how they are responding to changes in the political landscape (and/or how they would respond to potential changes.)

As for election commentary, which I originally included in the body of the letter but took out because it's mostly pointless and "not my game" as a bottom-up value investor - suffice it to say that we believe a modest portion of the post-election rally could be justified by potentially lower corporate tax rates and more business-friendly regulations (particularly in specific sectors like financials), but there are also significantly elevated macro risks related to the incoming administration that offset these, such as the potentially damaging ramifications of protectionist/anti-trade policy and the strong likelihood of general unpredictability/impulsiveness of its decision-making. Overall, we're at a complete loss to explain the market's unbridled optimism, particularly given that the fullness of valuations prior to the election was already generally agreed upon, and (absent tax rates) the outlook for businesses and growth has generally gotten worse rather than better under the specter of populist anti-free-trade rhetoric both here and abroad.

Nonetheless, we are not macro forecasters nor political pundits, and as always, will stick to our knitting and only focus on political developments to the extent that they might interfere with our companies' businesses. For example, we would not particularly want to own companies relying on Chinese or Mexican manufacturing for their margins; we also slightly reduced our position in TIER REIT as it is unclear what short-term impact a NAFTA repeal might have on the Texas economy – and more specifically, the already-oversupplied Houston Class A office market, where TIER has a material concentration of properties. Other than small and prudent changes around the edges to avoid bearing political risk that we don't have a rational framework for pricing, we do not expect this or any other political environment to have a material impact on the way we analyze or invest in companies – we are firmly ensconced in the bottom-up rather than top-down camp.

[iv] If you like the cartoon, then know that I made it (the thought bubble anyway, Schultz is responsible for the rest.) If you don't like it, then, uh, let's blame it on the intern – it was Matt's idea!

[v] Details: I have a dedicated spreadsheet in Google Drive in which I list all the investable companies I have worked on in a sufficient degree of depth to be familiar, and a rough estimate of their fair value, alongside a dynamically-updating price that allows me to sort them by how far above or below that fair value estimate they are. It is based on this spreadsheet that I make the comments about general small-cap valuations – prior to the elections, there were plenty of companies within 10% or so of my fair value estimate; today there are few enough to count on my hands. Anyway, additional columns allow me to quantify additional factors about the company as well as note when I last reviewed it and how fresh my valuation / qualitative analysis is. Each company has a dedicated folder where I house notes, relevant documents, along with memos/journal entries from every time I review the company. IR and research tool alerts on companies that are in the portfolio or close to being actionable allows me to keep up with important developments in real time, while those that are farther away from being actionable are reviewed on a more infrequent basis (or when their price drops closer to being actionable). Potential candidates to dive into deeply on are prioritized by their potential actionability combined with their ease of diligence (i.e., those that are closer to things I already know are done first). While there's more work to do here, my return on research time is easily 2-3x what it was earlier in the year, simply because I'm retaining more important information in a framework that allows me to do something with it rather than jumbled, scattered, ad-hoc notes.

[vi] If you have any friends who would be interested in investing, or if you know of any such speaking/interview opportunities, please do shoot me a note at your soonest convenience.

[vii] Even more impressive than all the reading Matt has done is the fact that he has somehow *not gotten tired of me yet*. This makes him either brilliant or crazy. We'll see…