Dear Partners,

YTD as of 3/31/2017, ACP was approximately flat on a net basis, compared to a ~+3% return for the benchmark S&P 1000 Total Return Index.

	YTD 2017	Since Inception on 2016-01-11 (Annualized)	Since Inception on 2016-01-11 (Cumulative)
Askeladden Capital Partners (Gross)	1%	+54%	+70%
Askeladden Capital Partners (Net)	0%	+45%	+57%
S&P 1000 Total Return Index	+3%	+28%	+35%
ACP Net +/- To SP1000 TR	-3%	+17%	+22%

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 or audited annual financials from Spicer Jeffries LLP 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. For YTD numbers, both are rounded to the nearest whole 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.

Dealing With Adversity | Behavioral Progress | Transcending "Grit"

(1) "I feel like we have two battles going on: One with the man across from you. The second with the man inside of you. I think once you control the one inside of you, the one across from you doesn't really matter. I think that's what we're all trying to do." - Tony Romo

(2) "It's not supposed to be easy. Anyone who finds it easy is stupid." - Charlie Munger

(3) "It's always darkest just before the dawn. So stay awake with me, let's prove them wrong." - Rise Against

If I were the kind of person who took the easy road, I could point to the quarter-end results, reiterate my excitement about the current portfolio (of which I have plenty), and say "nothing happened, catch ya in three months." However, that couldn't be farther from the truth: while we ended the quarter more or less flat to the beginning of the year, the road thereto was like I-35E in Dallas after a spring thunderstorm: that is to say, filled with gnarly potholes. I've spent much of this quarter thinking about the appropriate way to deal with adversity, because February and March were very frustrating months. Here are some of the challenges I was dealing with:

1. At one point, our portfolio was down as much as ~800 bps vs. the benchmark being up ~300 bps, despite our meaningful cash position (no lower than 15%), and our concentration in high-quality, strong-balance-sheet names. I made good decisions and fundamentals played out as expected, but until literally today, stock prices were largely uncooperative. ~1100 bps of underperformance in 2-3 months when you feel like you're doing your job well is nontrivial. Moreover, this occurred with a lot of new/recent capital inflows.

2. A market that failed to yield any new compelling opportunities (other than those already owned) despite lots of research.

3. Self-imposed pressure from the "Alexander-wept" phenomenon – after posting the best year I will likely ever see in my investment career, how do I follow that up and avoid looking like a one-hit wonder?

Six months ago, I told Zeke that I thought I was "six months away from putting it all together" – that is to say, getting to the point where I'd fully internalized my core framework for analysis and portfolio management, where rigorous decision-making became automatic and fluid rather than something I had to stop and think about. That prediction proved accurate, and I'm there now, but in the meanwhile I've discovered that there's another important issue that I didn't really experience much of last year given the rocket-ship performance: dealing with challenging market circumstances. (I had plenty of challenges, but performance / ideas weren't among them.)

The funny thing about value investing is that it's sort of trivial in theory: buy things for less than they're worth! Be fearful when others are greedy! Etc. I mean, who could mess that up? There's so much cloying *sameness* to a lot of value investing content that the first recommendation I usually give moderately-well-read aspiring investors is: *stop reading value investing stuff*. If you've read five books and ten blogs, the incremental payoff from one more is probably not *terribly* high at this point. Go read a book about something completely different, and/or go do some actual work, then you'll start to understand how the theory works in practice.

So it is with the behavioral elements: one of the most intriguing observations for me is the rather large discrepancy between many professional investors' public and private personas. Many publicly proclaim all the right things, but privately acknowledge (whether explicitly or implicitly) to living in a completely different reality than the one they outwardly present. But, they rationalize, asset management is a business like consulting: as much as the product (performance), you're selling *confidence*, so your investors can sleep well at night. Day to day, these asset managers may be pulling their hair out, but when they call LPs, everything's hunky-dory. They may say (or write) that they are long-term, volatility-agnostic investors, while in reality they're so addicted to watching stock prices that they can't take their eyes off their mobile Bloomberg long enough to pay attention to management in group meetings.

I'm different. I try to communicate with investors the same way I want management teams to communicate with me: forthrightly. It's not that I'm not confident – far from it; you can't take the sort of (sometimes extremely) concentrated positions I do without having unshakable confidence that you're right and the market is wrong. However, for both ethical and practical reasons, I'm not comfortable putting a positive spin on things when one isn't warranted. To the latter end: if you tell a lie enough times, it becomes your personal truth; if you walk around pretending you don't have a problem, that's when you have a real problem.

And the truth is that I discovered this quarter that while I have complete confidence in the current portfolio and my analytical / portfolio management approach, there is more work to be done on the behavioral side, which – as I have stated and will continue to state until I think my point is made – I believe to be the far more difficult and important part of the investing endeavor (listen to Zeke's take here in a very thoughtful podcast interview). Simply put, I feel like I could have done a much better job of responding to the adversity during the quarter.

Here is the good news: I don't feel like the challenging circumstances had any negative impact on the way I managed the portfolio. The bad news: that took up all the emotional bandwidth I had, leaving me frustrated and demotivated, leading to less research than I would have liked, as well as less big-picture reading (the importance of which I have stressed previously). In and of itself, this wouldn't be a major problem – a few weeks of less-than-optimal productivity doesn't mean much in the grand scheme of things. But with a statistical / "base rates" view of the world, this was a relatively placid quarter, and if I allow frustrations to get to me in an environment like this, what will happen in an *extended* environment of much *higher* stress (which, if you could graph emotion, tends to be an exponential rather than linear function)? Historical examples would be the late '90s or 2008, both times when – for opposite reasons – the world was an extremely unfriendly place for value investors for a meaningful length of time.

I strongly believe that it is important to solve these problems sooner rather than later, for the simple reason that behavioral research indicates that when we are in "cold" emotional states – that is to say, detached from the situation – we consistently underestimate how much we will be affected when we're in "hot" emotional states, which are defined as things like frustration or hunger or disappointment. This is why if you go shop at Costco when you're hungry, you'll come home with boxes and boxes of frozen goodies that you later discover you never actually want to eat… and yet armed with years or even decades of that experience, you still keep doing it. ;)

To some degree, practice makes perfect and these things get easier with time. However, from a more active standpoint, there are two possible approaches: the first is the brute-force "try harder" approach, which has recently, pseudoscientifically been renamed "grit." For reasons I discuss in a recent blog post – "Grit is Overrated" – and a podcast interview with John Mihaljevic of the Manual of Ideas (should be posted soon), I think this is not the ideal approach. Summarily, if you're already the sort of person who has a "try-hard" approach to life, there is nothing left in the tank. You're not really keeping anything in reserve. You can't just willpower your way through problems.

Using the technique of inversion, a much more sensible solution is to restructure the problem (or at least your perspective on it) to require less effort and engender less frustration. On the mark-to-market volatility, for example, I had long ago removed moment-to-moment flashing PnL data from my trading interface because it had a negative rather than positive utility. More recently, I've removed benchmark comparison data from my primary spreadsheet that I use to monitor the portfolio, and have moved portfolio-level mark-to-market performance out of sight, preferring to focus only on individual stock price movements to the extent that I can take advantage of volatility to modify position sizing. More broadly, given the exponential nature of stress, removing other sources of stress (such as stress from an inefficient workflow or personal challenges) can actually have a meaningful impact on ability to deal with a given challenge, simply by freeing up emotional bandwidth that's no longer being consumed elsewhere. (As an analogy – will a flat tire annoy you more on a leisurely Sunday drive, or on your way to work during Monday morning rush hour? If you can manage to reset your context from Monday to Sunday, all of a sudden the same problem becomes much less vexing; this is part of why I am so focused on not sacrificing sleep / workouts / etc – being in optimal physical condition is one of the easiest ways to maintain behavioral centeredness.)

The bigger challenge is honestly on the research side – it's no fun putting together ten-page-document after ten-page-document when the answer is consistently the same: "not even close to obviously actionable." One of my biggest struggles this quarter was feeling like I was spinning my wheels – that after a lot of research on an individual company, I wouldn't come to what Zeke and I call "crystallization" – that moment where all the pieces fit together and you have a clear, semi-finalized interpretation of the situation and you fully understand where you stand on it (which, for those who don't do this for a living, is often substantively harder than it sounds).

What I realized after thinking about it for a little while is that the majority of my struggle was actually driven by external/noncontrollable factors. I think this is easiest to illustrate using a tangible example. Take Korn Ferry, the leading executive search firm, which you may remember was a meaningfully sized position for us during the latter half of last year. Korn Ferry was, at the trough, trading at under 10 times free cash flow, with de minimis debt on the balance sheet. As such, unless you believed that the business was both in secular decline and at a cyclical peak, it was pretty obvious that there was meaningful upside to be had if you were simply patient.

Compare this to Team Inc., a leading provider of nondestructive testing services for refineries and other process industries. I've looked at Team two or three times over the course of the past year, and recently went back for a deeper dive, along with work on peer Mistras. At the end of all that work, my conclusion was that the range of potential scenarios was too wide to call the situation accurately, as Team could be reasonably worth anywhere between \$20 per share to \$30+ per share over the next couple years depending on how the end market plays out, in addition to internal execution. At a price in the mid-\$20s, Team was non-obvious to me.

In truth, Korn Ferry actually could have ended up with a similar analysis. There were meaningful questions that I never really answered around issues like:

1. Will LinkedIn and other developments pressure the revenues and margins of the executive search business over time? Meanwhile, where are we in the executive search cycle?
2. Will Hay Group reach targeted growth levels?
3. Will FutureStep continue to grow at double digits? Will its margins be pressured over time?

Indeed, depending on how you answered some these questions, Korn Ferry could reasonably have been worth anywhere from the high \$20s per share to the high \$30s per share – a broad range. However, the key difference is that when I analyzed Korn Ferry, it was so cheap that all of those questions were, to some degree, rendered meaningless – even if all of them ended up working out badly, the stock was still pretty cheap. With no debt on the balance sheet, there wasn't a lot of risk. Compare this to Team, which has meaningful debt on the balance sheet, and isn't cheap enough such that the questions are rendered irrelevant. This is merely one illustrative example.

However, the broader point is that most businesses now trade at valuations such that the bar for questions that need to be answered to justify an investment, or at least the degree of precision to which those questions must be answered, is meaningfully higher than it was at any point last year. As you know, my process is to not try to answer the hard questions, but instead to wait patiently and underwrite only situations that are obvious enough that the answers to the hard questions don't really matter all that much. This is the case with current portfolio companies like Liquidity Services or Franklin Covey, and as recently as December I found two new small companies that fit this bill. To the extent that I continue to have a high degree of confidence in my process, what I've realized is that I need to take a step back every so often and remind myself of what it is that I'm actually trying to accomplish here. As an overachiever with unfortunate tendencies towards perfectionism, I can occasionally be extremely hard on myself for doing good work when the results of that work are not good enough for reasons beyond my control – but at the end of the day, as long as I'm following the right process, which I know I am, the results will necessarily follow over time, even if that doesn't occur in a precisely linear fashion.

Portfolio Updates, Etc

At the beginning of the year, I noted that our cash balance was in excess of 30%. While I have not found any new investment ideas, we have gotten materially more favorable prices on many existing ideas, and I have deployed additional capital into these companies to the extent that I thought was prudent. As it stands today, we have a roughly 18% cash position and believe our portfolio is constructed to deliver solid results notwithstanding whatever may happen macroeconomically (whether positive or negative).

Franklin Covey in particular has become the largest position in our portfolio (and the largest by a factor of ~2X if you net out the embedded cash on Liquidity Services' balance sheet). The company continues to execute on everything that it promised it would, and having done additional research on peers with similar B2B annual recurring subscription productized service business models such as CEB, The Advisory Board, Gartner, Forrester, CoStar, and REIS, I've developed a great deal of confidence that Franklin Covey's new All Access Pass business model sets up an extremely favorable long-term outlook (double-digit annualized free cash flow growth). Management rocks and the balance sheet is clean, yet FC traded at a mid-to-high-teens EV/NOPAT multiple for much of Q1. I didn't sell a single share on the 25% pop today – the stock is easily worth $25 by year-end with the potential to deliver long-term compounding from there at a low-mid teens rate depending how AAP plays out.

On the flip side, Fogo de Chao has approached our intrinsic value estimate, and despite our long-term optimism on the business, the inherent operational leverage combined with the 2x debt-to-EBITDA on their balance sheet means that we need to be relatively valuation sensitive. Therefore, that position has been trimmed meaningfully, although we are still happy to hold a more modest stake until such time as we have somewhere better to deploy the capital.

In addition to the various operational and process improvements I discussed in the last letter, as well as the workflow improvements I discuss in the linked blog, I want to give credit where credit is due – one of our clients provided some extremely useful advice during the quarter as it relates to utilizing trading algorithms within Interactive Brokers. While I was initially resistant, using algos rather than manually entering orders has resulted in meaningfully less time and stress spent trading, and while it's difficult to determine with any degree of precision how much execution has improved, I do think it will be a small but important cost efficiency over the long run.

As always, I'm extremely grateful for your investment, and remain committed to doing everything I can to deliver superior long-term results. I am now actively seeking to raise capital, and any referrals are appreciated.

Westward on,
Samir