ASKELADDEN
CAPITAL MANAGEMENT

February 2019

Important Disclaimer

DISCLAIMER: 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. 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, of the current year. 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 accounts 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.

This ain’t a pitchbook.

- **I’m an investor, not an asset gatherer.**
  Askeladden will close to new fee-paying AUM at $50 MM.

- To generate differentiated returns, you need to invest differently. Ironically, that often means appearing “uninvestable.”

- Askeladden is a fund for independent thinkers, outsiders, and nonconformists. We are different by design and may not be for everyone.

An optimal investment strategy in 3 easy steps… and why nobody follows it.

1. Eliminate your toughest competition.

   Focus on a niche, inefficient market typically off limits to larger investors.

   (In our case, the vast universe of small/micro-cap stocks.)

   Opportunity set is as important to returns as skillset.

2. Build a repeatable process to identify great ideas; size them accordingly.

   Truly great investment opportunities are rare. A concentrated portfolio of 10-15 names ensures we don't dilute our research efforts or diversify away our best ideas.

3. Be willing to limit assets under management (and your fees).

   This is the catch for most managers… In order to apply BOTH steps 1 & 2, you need to cap assets. **Askeladden closes to new FPAUM at $50M so we can invest how competitors can't.**

Our firm and strategy were designed to create, rather than extract, value.

- The majority of managers optimize for maximizing AUM or management company revenue rather than investor returns. Our small size and modest ambitions allow us to do just the opposite.

- We aren’t doing anything particularly unique, special, proprietary or exotic; small-cap alpha is well-understood, as are the many benefits of a concentrated portfolio.

- The challenge is sticking around to achieve it: most managers who earn excess returns by focusing on inefficient markets are flooded with capital and rapidly scale out of being able to take concentrated positions in the most attractively priced securities.

- While traditional allocators consider a small firm like ours to be “uninvestable,” our size and focus is precisely what makes us attractive to independent thinkers who understand **unconventional success rarely comes from conventional managers**.

Process matters.

- Over 15 years, Mensa's investment club underperformed the market by 13 percent annually. Clearly investment returns aren't purely a function of IQ…
- Most hedge funds attempt to gain an analytical edge via collecting the n + 1th data point. Their track record, in aggregate, is abysmal.
- Many value investors have style drifted into macro / market timing over the years. They were good at something, then started doing something else they *weren't* good at.
- **Consistently and repeatably making good decisions is very, very underrated.**
- Therefore, our process optimizes for consistently and repeatably making good decisions.

Process by inversion.

- Many investors search for answers to hard questions.
  Instead, we try to answer easy ones.

- Many investors spend each day looking for ideas.
  Instead, we wait for ideas to come to us.

- Many investors attempt to generate an analytical edge.
  We conduct extensive research, but believe our edge is behavioral, not analytical.
  Thinking you know everything, and not knowing the limits of knowledge, is dangerous.

"We have this investment discipline of waiting for a fat pitch…" - Charlie Munger

- **We wait for easy pitches. When one shows up on our watchlist, we swing… hard.**

Why don’t you look for new ideas?

- In our experience, constantly pursuing “new ideas” leads to behavioral biases subtly influencing the analysis in service of the goal, emphasizing price over quality or risk factors, providing an incentive to every so often put lipstick on a pig.

- Therefore, we don’t search for “new ideas” – we invert the process. Our goal, instead, is to **follow interesting companies and industries over time**, building a nuanced and *objective*, written, documented longitudinal understanding of the key drivers of value, that also allows us to look back and assess, without hindsight bias, the accuracy of our analysis.

- Here are actual examples of our research, including companies we’ve invested in and exited, companies we’ve invested in and still hold, and companies we’ve never owned.

- We tend to like: clean balance sheets, differentiated products, favorable industry dynamics, strong customer value proposition, good management, high margins, strong pre-growth cash conversion, and other “quality” factors.

Maintaining a watchlist.

- Our watchlist (135 names currently, targeting 300) allows us to compare our assessed valuation of all companies in our universe. No matter the market environment, *something's* always cheap; the watchlist allows us to find the best opportunities with one click:

Tckr	Name	Dyn 35	Dyn 20	3YR	Price	L FV E 35	L FV E 20	Last Updt	FV Age	FV Conf	MC	Avg Lqdt $MM	ACM Intst	Cryst	Dest Ctrl	Trkd Snc	Yrs
KVHI	KVH Industries	15%	-16%	16.39%	$11.39	$9.10	$12.50	'18-Apr	0.85	Med	$202	0.4	High	Med	Med	'17-Jul	1.65
EEX	Emerald Expositions	4%	-15%	15.75%	$12.85	$12.35	$15.00	'19-Feb	0.03	Med	$923	2.3	Very High	Med	High	'17-May	1.82
ISDR	Issuer Direct	-1%	-13%	15.00%	$12.85	$12.00	$13.60	'18-Apr	0.85	zero	$52	0.0	Med	Low	Med	'18-Apr	0.85
SFM	Sprouts Farmer's Market	5%	-11%	14.30%	$23.48	$22.18	$26.30	'19-Feb	0.06	med	$2,914	35.5	Extreme	High	Med	'19-Feb	0.06
AXTA	Axalta	-10%	-10%	13.88%	$27.05	$29.62	$29.62	'18-Dec	0.18	med	$6,673	53.4	Med	Med	Med	'17-Dec	1.16
LON:ITE	ITE Group	-10%	-10%	13.84%	£0.67	£0.74	£0.74	'19-Feb	0.06	med	£496	0.5	High	Med	Med	'19-Feb	0.06
TPIC	TPI Composites	-3%	-8%	13.11%	$31.76	$31.59	33.45	'18-Oct	0.37	zero	$1,096	8.2	Med	Low	Med	'18-Oct	0.37
PNTR	Pointer Telocation	-7%	-8%	13.04%	$14.82	$15.63	$15.85	'18-Dec	0.19	medium	$121	0.3	High	High	High	'18-Oct	0.40
PLAY	Dave & Busters	14%	-8%	12.86%	$50.73	$40.78	$50.50	'18-Apr	0.89	Med High	$1,960	37.5	Med High	Med	Med	'17-Sep	1.41
TREC	Trecora	3%	-8%	12.77%	$9.50	$9.00	$10.00	'18-Nov	0.28	Med High	$233	0.5	Med	Med	Med	'16-Oct	2.40
AL	Air Lease	-7%	-7%	12.50%	$38.23	$35.21	'00-Feb	'17-Jul	1.61	Med	$4,241	30.9	Med	Med	Low	'17-Jul	1.61
EPA:PAY	Payton Planar	-7%	-7%	12.40%	€7.30	€7.50	€7.50	'18-Sep	0.43	zero	€129.00	0.0	Med	Med	Low	'18-Sep	0.43
AZZ	AZZ	3%	-6%	12.15%	$47.51	$42.00	$46.00	'18-Mar	0.98	Med	$1,239	5.8	Med	Low	Med	'16-Jan	3.15
THR	Thermon	9%	-4%	11.46%	$25.16	$20.25	$23.00	'17-Oct	1.39	Med	$820	2.7	High	High	Med	'16-Feb	3.07
LNDC	Landec	10%	-4%	11.24%	$12.82	$10.56	$12.00	'18-Jan	1.08	Med-Low	$374	1.2	Medium	Low	Med	'15-Nov	3.32
CLCT	Collectors' Universe	15%	-3%	10.92%	$17.22	$13.54	$16.06	'18-Feb	1.03	Med High	$157	0.7	Med	High	Med	'16-Oct	2.40

- When something gets cheap, all we have to do is get current – having the vast majority of research already done allows decisions to be made in hours or days as opposed to weeks.

When do you invest in those companies?

- We usually invest when we believe a stock's current price implies forward **20%+ compounded annual returns over a ~3-year investment horizon** with limited risk of either:

  a) actual losses, or
  b) not earning a double digit annual return over the holding period.

- We're trying to make 80/20 bets, not 51/49 bets: we want a high hit rate.

- We tend to focus on the **often-underlooked sweet spot between "compounders" and "deep value"** – we have strong value sensibilities and rarely pay more than 17x EV/NOPAT, but we're also very focused on owning high-quality businesses that predictably and consistently create value.

We build mental models.

- Being multidisciplinary is very important.
- A working understanding of big concepts from engineering, history, psychology, and so on lends perspective that helps us make better decisions.
- I’ve created a latticework of mental models addressing 100+ important concepts. It spans ~half a million words, applying lessons from hundreds of category-defining books.
- You can check out Poor Ash’s Almanack at askeladdencapital.com.

… not financial models.

- Munger: *"Warren talks about these discounted cash flows. I've never seen him do one."* *"It's true,"* replied Buffett. *"If [the value of a company] doesn't just scream out at you, it's too close."*

- Everyone else tries to figure out valuation to the nth degree of decimal-point precision. We try to figure out the three factors that matter, and wait for a valuation that's slam-dunk obvious.

- **<u>Truly compelling investment opportunities never require a 3-statement DCF</u>**.

So how do you value those companies?

- Our primary valuation method is EV/NOPAT multiples, although we use other approaches (P/B – ROE model, multi-year explicit DCF) when the situation warrants it.

- We value companies on an absolute rather than relative basis – we almost always assume a 10% equity discount rate. We typically focus on EV/NOPAT rather than P/FCF to ensure we're investing in cheap enterprises, rather than stocks that are cheap only because of leverage. We treat stock comp and many other "adjustments" as real costs.

- We use conservative projections and usually don't underwrite more than mid-single-digit growth. We love high single digit or double digit growth when we can get it… we're usually just not willing to pay up for it. We strongly prefer < 2.5x net debt / EBITDA and view balance sheets at/above this level as an independent risk factor.

- We've found over time that we strongly prefer companies with a high ongoing positive carry (growth and/or cash flow) – providing a steady source of returns – rather than relying entirely on rerating or some future monetization event.

Isn’t your process overly prescriptive?

- Of course it is. Perhaps there’s plenty of money to be made in dead-money land development plays, binary litigation outcomes, highly-levered cyclicals, macro prediction or market timing, and so on… just not by us.

- A strategy is only as good as your ability to execute it. “More” isn’t always “better” – there are opportunity costs and signal-to-noise problems.

- We are very confident within our narrow circle of competence, but it would be hubristic to assume we’re all things to all people.

- <u>**We do what we’re well-suited to do. No more, no less.**</u>

Portfolio Construction

- **We're unlevered, long-only.** Plain vanilla. We have not historically invested in any type of derivatives such as options or swaps. We would be willing to invest in warrants, but would size them on a risk-adjusted basis. Conversely, we're also willing to hold significant cash if we don't see attractive opportunities.

- **Target is 10 – 15 names**, typically a barbell approach with <10 names making up the majority of the book. Focused portfolios benefit from focused attention.

- We are willing to take **concentrated** positions in exceptional ideas.

- We don't care about vol, monthly/quarterly/annual returns, or Sharpe ratios. We're optimizing for one thing only: maximizing long-term returns to investors.

Position Sizing + Risk Management

- Larger positions tend to have a combination of:
  - Better price
  - Fewer risk factors

- Correlated risk factors (leverage, cyclicality, etc.) tracked top-down.
  - Don’t want too much of portfolio exposed to any one macro factor – U.S. SAAR, oil prices, interest rates, etc.
  - We focus on “destiny control” – to what extent are a company’s results a product of its own actions, vs. uncontrollable external factors?

- “Familiarity” risk also evaluated – we tend to scale into new ideas over time.
  - For new names, typically no more than 200 – 300 bps / qtr until position is fully sized.
  - Willing to go bigger faster on businesses which we’ve followed for a longer time.

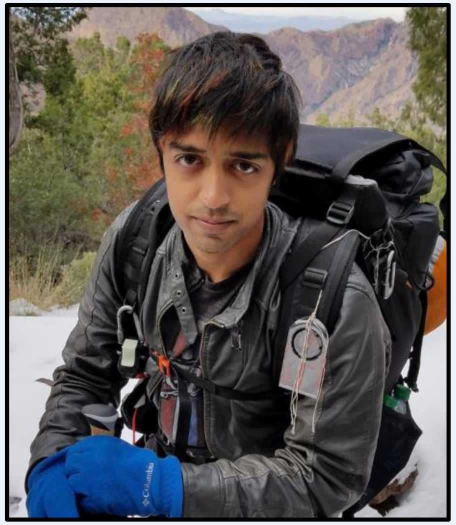
Terms

- Most Askeladden clients invest via a separately managed account (SMA) in which the client retains control of the assets and receives statements directly from Interactive Brokers. Unless otherwise specified, SMAs are allocated pro rata to Askeladden Capital Partners using Interactive Brokers' trade aggregation / allocation function, with immaterial tracking error. SMAs open to all investors.
  - SMAs available for wide variety of account types – individual, joint, organization, trust, traditional or Roth IRA.
  - Investment in Askeladden Capital Partners LP is available if needed, limited to accredited investors.

- Standard fee structure for qualified investors: 1.5% management fee & 30% allocation of **outperformance** vs S&P 1000 Total Return Index (calculated every three years).
  - **All expenses other than bank fees / trade commissions borne by MANAGER, not client.** What you see is what you get – no nickel and diming; no misaligned incentives to fly first class or rent a swanky office at client expense.
  - High water mark: the higher of strategy performance or index performance.
  - If index performance is negative over a three-year period, zero (0%) is substituted as the hurdle rate. Any underperformance vs. index carried forward against future performance fee calculations. Underperformance on one tranche of capital is offset against outperformance on any other tranche.
  - Non-qualified (incl. non-accredited) clients pay 1.95% flat mgmt. fee with no performance fee.

- We're flexible with everything except our core strategy. Our goal is to have happy, long-term investors who we consider partners. The substantial majority of my family's net worth is invested alongside you.

Who am I anyway?



- I'm Samir Patel. Likes: books, dogs, camping, cooking, the NFL. Dislikes: mornings, rush hour, anywhere crowded or noisy.
- B.S. Biochemistry (magna cum laude) at 19. MBA (4.0 GPA) at 20. Six years of investing-related experience – 1 year Senior Editor for Seeking Alpha Pro, 2 years Analyst at a small/micro-cap fund, 3 years PM at Askeladden.
- Since Askeladden's inception, I've collaborated on research with three managers who've run $100MM+ funds, including a former consulting arrangement with Centaur Capital Partners (Zeke Ashton).
- Accolades: 770 GMAT (99th percentile), 2013 Atlas Shrugged Essay Contest winner, top score worldwide on the Bloomberg Aptitude Test, started college at 13, that kid from the spelling bee.
- Analytical capability is just a prerequisite – **process** is what matters.

Why am I doing this?

- Incentives matter. I like to be transparent about **<u>why</u>** I'm running a fund.
- Empirical research consistently demonstrates that time, not money, drives happiness.
- This is a lifestyle business. My personal utility function is as follows:
  - Beyond a mid-six-figure threshold, increased income holds very little value for me.
  - Control over my time and location holds very high value for me. It allows me to prioritize my health, invest in relationships with friends and family, and pursue personal interests.
  - I enjoy long-term, qualitatively-oriented investment research.
  - I don't enjoy admin / operations and outsource these functions to the extent possible to my fund administrator, auditors, and compliance consultant.
- I've learned from every fund-manager mentor I've ever had that running a large ($300MM+) fund would wreck my utility function by providing things I don't need or want (money) while demanding things I do need and want (my time).

Performance

3-Year Performance	2016-2018, Annualized	2016-2018 Cumulative	2016	2017	2018
Askeladden Capital Partners - Gross	**26.5%**	**102.6%**	**69.5%**	**-1.8%**	**21.7%**
Askeladden Capital Partners - Seminet (Gross Less Management Fee)	24.6%	93.3%	67.0%	-3.5%	19.9%
S&P 1000 Total Return	10.7%	35.8%	31.2%	15.3%	-10.3%
ACP Seminet +/– S&P 1000 Total Return	13.9%	57.5%	35.8%	-18.8%	30.2%
3-Year Outperformance Allocation (30% above benchmark)	3.9%	17.3%	10.7%	0.0%	6.0%
Askeladden Capital Partners - Net of All Fees	**20.7%**	**76.0%**	**56.3%**	**-3.5%**	**13.9%**
Askeladden Capital Partners Net Outperformance vs. S&P 1000 Total Return	**10.0%**	**40.2%**	**25.1%**	**-18.8%**	**24.2%**

DISCLAIMER: 2018 returns are unaudited. Past performance is not a predictor of future results. We do not expect our future returns to approximate our historical returns. Amounts may differ due to rounding. Cumulative/annualized multi-year results may differ from individual year results given carry-forward provisions. Please consult your monthly statements from Fund Associates LLC or audited annual financials from Spicer Jeffries LLP for actual returns. Cumulative net returns are calculated assuming a hypothetical investor joined on the date of inception (2016-01-08) and paid the standard fee structure. Individual-year net returns are calculated assuming a hypothetical investor joined at the beginning of the single year, and redeemed at the end of the same year. Data is 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. Please see additional important disclaimers at the beginning of this document.

Why “Askeladden?”

- From Wikipedia:

“In many folk tales, the Ash Lad is looked down upon as a seemingly drowsy ne'er do well, perhaps even as a loner or misunderstood eccentric, who spends too much time sitting by the fireplace lost in thought as he is poking the ashes.

As the typical story unfolds, the older brothers, tied to conventional thinking, typically fall flat on their faces. In contrast, it is the Ash Lad who comes up with creative solutions. He is smarter, more tactical, more receptive and more aware of the needs of others. He outwits trolls… [and] ultimately saves the princess.”

“In modern parlance, the Ash Lad is an individualist, free-thinker, and nonconformist who is capable of deep abstract, analytical thinking "outside the box," or who can create a scientific paradigm shift. He is capable of acting as visionary or innovative early adopter.”

Questions?

- If you were introduced to Askeladden by Maury McCoy of McCoy Associates (my third-party marketer), he can follow up on most initial questions and due diligence:
    - maury@mccoy-associates.com
    - (512) 775-0944

- Otherwise, please reach out to me directly:
    - samir@askeladdencapital.com
    - I don’t take unsolicited phone calls because they disrupt my workflow, but we can schedule a time to chat if appropriate.

- Reference: Zeke Ashton, who managed Centaur Capital Partners LP for 15+ years with an annualized return on invested capital that substantially exceeded relevant benchmarks.
    - zashton@centaurcapital.com
    - Additional references available upon request.

Westward on.