Dear Investor,

Please find the Blue Hawk Fundamental Growth Q1 2017 Investor Letter. The letter is organized as follows: (1) Overview of Q1 Performance (2) Quarterly Performance Drivers and (3) Current Investing Environment.

Overview of Q1 Performance

The Fund returned 5.22% net of fees. Long positions returned 6.02% net of fees for the quarter compared to 5.53% for the S&P 500, an outperformance of 49 basis points. The short only portion of the portfolio returned (-2.86%) compared to a loss of (-5.73%) for the ProShares Short S&P 500 ETF, an outperformance of 2.87%. The average exposure of the Fund was 128% gross and 72% net for the period. Non-US stocks contributed .79% to performance for the quarter, averaging between 8% and 9% weighting for the period split between Europe and Hong Kong.

Alpha for the quarter was 4.98%[1]. This is a raw alpha score and would be annualized by multiplying by 4. The quarterly Sharpe ratio was 4.37[2]. The quarterly Sharpe ratio is annualized by multiplying by the square root of 4 (2). The beta for the quarter was .22 and the correlation was .34.

The top 5 positions represent 48% of the portfolio and the top 10 positions represent 71% of the portfolio as of March 31, 2017.

Quarterly Performance Drivers

Sector

The Fund returned 5.22% net of fees for the quarter. Technology was the biggest contributor to performance at 3.3%[3] with an ending net weight[4] of 33% and long only ending weight of 37%. Consumer was the second biggest contributor adding 2.5% for the period with an ending net weight of 27% and long only ending weight of 41%. The lone detractor from absolute performance was Industrials at (-.2%) with an ending net weight of (-2.0%) and ending long only weight of 3.0%.

Securities

The top 5 positions by ending market value contributed 84% of the total performance. The two largest positions, EA and FB, were the two top contributors for the quarter. As a reminder, 12% is the maximum position size[5] for the Fund. Other notable contributors for the period were Constellation Brands and Tencent, contributing .42% and .63% respectively. The biggest detractor for the period was a short position in Oracle, detracting 75bps for the period. We exited the position during the period as the company has repositioned its cloud offering through several strategic acquisitions, most notably, Netsuite, and started to gain traction as evident by the recent strong quarter.

Monthly Net Returns – Founders Class 1% AUM and 15% Incentive Fee

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	2.95%	1.47%	0.73%										5.22%
2018													
2019													
2020													
2021													

Data provided by Convergex FixQ and S&P Dow Jones Indices LLC. Comparisons are to the S&P 500 and the 13 week Treasury Bill. For more information on calculation methodology, please contact info@bluehawkinvestors.com.

[1] Gross of fees with trading expenses deducted
[2] Gross of fees with trading expenses deducted
[3] All performance figures are quarterly figures net of fees unless otherwise indicated
[4] All ending weights are provided as of 3/31/17 and are presented as a % of the NAV of the portfolio
[5] At time of purchase

3100 Clarendon Blvd, Suite 200, Arlington, VA, 22201 I Tel. 571 - 317 - 1143

Current Investing Environment

Economic Outlook

A brief look at the US Economy tells two distinct stories. On the positive side, Real GDP is growing 1.5% this year and projected to grow 2% new year, unemployment is below 5% closer to 4.5%, inflation is hovering around 1 to 2%, and consumer confidence is improving. On the negative side, income inequality is at the worst levels since the Great Depression, political and policy promises are evolving into investor uncertainty, and economic nationalism, the potentially most damaging risk of them all, sits as an elephant in the room that nobody will acknowledge.

Risk/Reward – Positive, Negative, or Balanced?

As of the date of this letter, the S&P 500 is trading at 18.0x forecasted earnings. To put that in perspective, the average forward price to earnings for the S&P 500 is 13.8x[6,7]. Over the last 80 years, the 15 year average S&P 500 forward price to earnings ranges from 10.1x to 20.3x[8]. Both averages would place equities on the more expensive side. But relying on a simplified metric to gauge value removes all context and nuance from the analysis. Specifically, it doesn't address the effect of interest rates on multiples. In addition, the analysis relies on a behavior bias that Tversky and Kahneman have written about at length – prospect theory. To oversimplify, it says that humans tend to think in terms of relativity - better and worse - rather than absolute – good or bad. At 18.0x, the S&P 500 is more expensive than average yes. But is it expensive? Does the fact that government rates 10 year rates are at 2.39% compared to the 65 year average of 5.9% (yes it does)? I'll explore this question using a supply and demand model.

Would you be willing to sell part of your stock portfolio to invest in government securities if they yielded 5% risk free in a low inflation environment? How about 10%? Of course you would. And this tells us there is an inverse relationship between demand for equities and interest rates. To take this one step further, lower demand for equities means people will pay less per dollar of earnings (or free cash flow) and thus the price to earnings multiple will decrease.

Conclusion

Factoring in historically low interest rates, stocks are not as expensive as generally accepted. The economy is improving and pro-business policies could be a further catalyst, though policy execution risks, structural issues, and economic nationalism should give pause. All and all, our view is that multiples are biased flat to moderately down and correlations should decrease causing individual security selection to drive returns in the short to medium turn. This environment is optimal for long short funds.

Growth Specific Outlook

Historically growth stocks have traded at a 40%[9] premium to value stocks. Currently the Russell 1000 Growth trades at 20.2x and the Russell 1000 Value trades at 16.7x, a 21% premium to value. Again, this historical comparison assumes average rates and we are in a low rate environment. To the right is a Discounted Cash Flow sensitivity analysis. Cost of capital is on the horizontal axis and growth rate is on the vertical axis and valuation is in the middle. The lower the cost of capital, the more the change in the growth rate changes the multiple. For example, at 6% cost of capital – moving from a growth rate of 2% to 2.5% increases the multiple from 25.5x to 29.3x, a change of 3.8x turns. At 8% cost of capital, that same increase from 2% to 2.5% growth rate increases the multiple from 17.0x to 18.6x, an increase of only 1.6x and so on. Growth becomes more valuable the lower the discount rate.

			Firm Value as a Multiple of EV/FCF			
				Cost of Capital		
		6.0%	7.0%	8.0%	9.0%	10.0%
	1.5%	22.6x	18.5x	15.6x	13.5x	11.9x
	2.0%	25.5x	20.4x	17.0x	14.6x	12.8x
Growth	2.5%	29.3x	22.8x	18.6x	15.8x	13.7x
	3.0%	34.3x	25.8x	20.6x	17.2x	14.7x
	3.5%	41.4x	29.6x	23.0x	18.8x	15.9x

6 http://marketintelligence.spglobal.com/blog/s-p-500-valuation-a-15x-to-16x-forward-price-earnings-valuation-looks-attractive

7 Representing the years from 1978 to 2017

8 Yardeni

9 Factset from 1978 to 2016

Growth Conclusion

Growth stocks are inexpensive in historical context and even cheaper when you factor in the low interest rate environment. We favor good companies trading at reasonable valuations that can grow in good cycles as well as bad. We view the current environment as one favorable to growth investing.

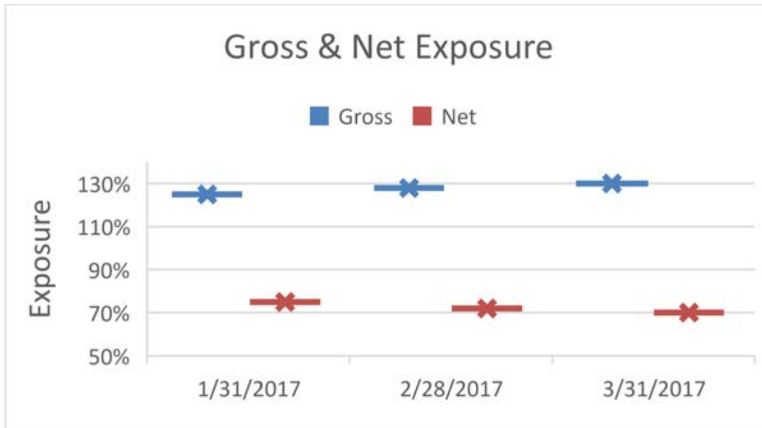
To conclude, we thank our investors for their support. Please reach out with any questions.

Sincerely,

Jake DuBois

Appendix

Historical Gross and Net Exposure



Alpha is a measure of the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta

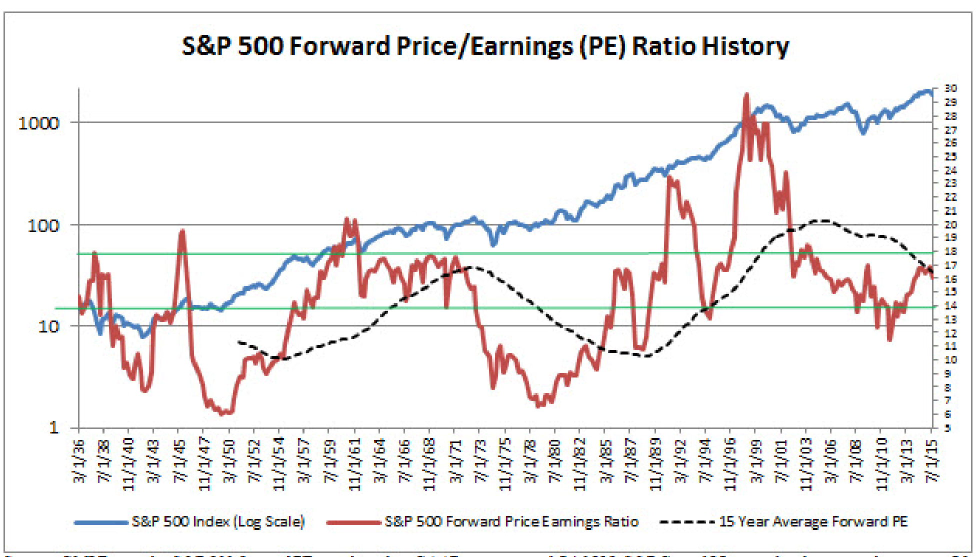
Beta is a measure of a fund's sensitivity to market movements.

Net asset value (NAV) - a fund's net asset value (NAV) represents its per-share price. A fund's NAV is derived by dividing the total net assets of the fund, less fees and expenses, by the number of shares outstanding

Sharpe Ratio is the average return earned in excess of the risk-free rate per unit of volatility or total risk.

Source: Morningstar

S&P 500 Price to Earnings Historically



Source: GMI Research - S&P 500 forward PE ratio based on GAAP earnings until Q4 1999, S&P Capital IQ normalized earnings beginning Q1 2000, consensus expectations starting with Q3 2015.

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