Dear Investor,

We're excited to report a great third quarter. Strength was broad based across the portfolio as we delivered alpha within both the long and short books. At nine months from launch, we feel like we've begun to hit our stride and settle into a nice rhythm. The format of the letter is as follows: I begin with a summary of the highlights for the quarter, followed by an overview of the investing backdrop, changes we made to the portfolio, drivers and detractors of fund performance and I conclude with a commentary in which I dive into why investors love to hate Facebook.

Q3'17 Highlights

- The fund returned 5.92% for the period compared to 3.96% for the S&P 500, an outperformance of 1.96%.
- Year to date, the fund has returned 17.90% compared to 12.53% for the S&P 500, an outperformance of 5.37%.
- Year to date, the fund has returned alpha of 20.0% with a Sharpe Ratio of 4.17. Correlation and beta to the S&P 500 are both 0 over the same time period.

Investing Backdrop - S&P 500 Market Performance by Sector

10 of 11 sectors in the S&P 500 showed positive returns for the quarter led by Information Technology (8.3%), Energy (6.0%), Materials (5.5%), Telecom (5.5%) and Financials (4.7%). The lone decliner was Consumer Staples returning (-2.0%). Earnings growth was stronger than expected in 6 of the 11 sectors, with particular strength in Utilities, Health Care, Information Technology, and Industrials. Consumer Discretionary, Energy, Materials, and Consumer Staples showed weaker than expected earnings growth.

(%) denotes quarterly performance

Purchases and Sales – Q3'17

We continue to like how we're positioned across the portfolio. In the quarter, we pressed some of our shorts in consumer staples, leaned into some of the strength in tech, and added a few small short positions. On the long side, we sold some Amazon to swap into Alibaba as we continued to build our position in the name. At today's valuations, we believe Alibaba presents a better risk reward trade off. On the short side, we pressed our "big food product" short by adding a second position in the industry. "Big Food" is in a tough spot as consumers are shifting to healthier foods on the high end and grocery stores are launching cheaper store brands, squeezing them on the low end. Valuations remain stretched due to perceived quality, ETF flows, and high dividends, but the underlying deterioration in fundamentals is becoming tougher and tougher to hide.

Contributors and Detractors – Q3'17

Information Technology and Consumer Discretionary were the largest contributors, accounting for close to 80% of the Fund's performance. Additionally, Consumer Staples and Financials contributed positively in the period. Dissecting by industry, Software and Services led the way followed by Entertainment and Leisure, Internet & Direct Marketing Retail, and Pet Food. Healthcare and Telecom were detractors for the quarter, although very modestly. Within Healthcare, Pharmaceuticals drove the negative performance for the sector, mitigated by strength in Healthcare Providers and Services.

By individual holding, performance was broad based as 8 positions contributed at least 50 basis points to performance, 5 names contributed at least 75 bps, and 3 contributed at least 100 bps. **Blue Buffalo and Teleperformance** returned 23.4% and 16.5% respectively as the market began to reward these high quality, undercovered names. **Facebook** and **Electronic Arts**, the two largest positions, were the top two contributors in the period. I write at length below about how impressive Facebook is as a company, how and why it remains undervalued, and I attempt to explain why it's always been a stock investors love to hate.

Allergan and **Cree** were two of the top detractors in the period. After falling 8% in August, Cree (short position) jumped 17% in September as the market viewed the leadership change as a potential catalyst. For reasons written about in previous letters, we remain bearish on the prospects of the lightning company as the leadership shuffle does not change the competitive positioning of the company. They remain in a very tough spot, although we will monitor the company more closely focusing on any changes in strategic direction.

Commentary

With Facebook being a largest holding and consistently a largest contributor in the Fund, I looked back through the investor letters to see if I've written about the name at all. I was surprised to see that I hadn't. I spent some time thinking about why I haven't written about it yet, and I realized that I've been conditioned over the years to avoid talking about Facebook as an investment. Why? I thought about the times I've brought up the name, and the reaction has been very similar – investors love to hate Facebook and they're quick to dismiss it. Whether it's leftover from when everyone thought social media was a fad, or we don't like to admit how ingrained Facebook is in our lives, the reason is anyone's best guess.

I decide to take this aversion to Facebook head on and explain why I believe Facebook will continue to be a leading stock for years to come.

Durability of Earnings

Facebook is an example of a stock in which the market has and continues to underestimate the durability of a company's earnings growth. In the past, the market looked at Facebook as a social media fad, one that wasn't sustainable. That view has changed to a degree, but still the market vastly underestimates the earnings power of the company. Facebook trades around 25x P/E, which considering its growth profile, it means the market is saying we don't believe Facebook can continue to sustain its growth.

Facebook has revolutionized the advertising industry. They are able to reach 2 to 3 billion people, granularly segment the market, target specific audiences, and track conversion seamlessly. Imagine you're a global company like Nike and you want to reach all 26-year-old males in the world. You have 2 choices – contact hundreds of tv networks, figure out when you think 26-year-old males in *each region* are the most likely to watch television, and then launch ads and pay by the total audience numbers for each advertisement even though let's say only 10% of the audience is your target (26-year-old males). Or you can call Facebook and send out a campaign tomorrow and reach as few as 10 people or as many as a couple billion. Think about that. That should blow your mind.

But isn't the market efficient? Isn't that priced in? No, and the reason I believe is not that audiences aren't receptive - it's that advertisers have been slow to evolve. Inertia causes behavior is sticky. Advertisers are used to advertising a certain way and they are resistant to change especially in big companies – the companies that control most of the advertising dollars. But over time, the conversation in these companies goes from "we should put more resources into social media advertising" to "if we don't put more into social media advertising, we're going to be in trouble" and lastly "we should have put more money into social media advertising".

We are somewhere between the second and third conversations. Just look at the election. No matter your political affiliation, the current political conversations should show you just how powerful Facebook ads can be. Yes Facebook may have to deal with increased regulation, but don't fall into the trap of thinking regulation and opportunity offset each other. Increased regulation will cost Facebook in the millions while their opportunity is in the tens of billions.

Compounding of Earnings

Jeremy Grantham likes to say that people are not very good at intuitively understanding compounding of earnings and I couldn't agree more. When pitching Facebook, the common reaction is for investors to look at the chart and assume the stock is expensive due to its rapid appreciation.

There's a million reasons for this bias – belief in reversion to the mean, conflating multiple expansion and earnings growth, recency bias (tech bubble), availability bias (intensity of emotions causes you to remember painful events as being more frequent), etc.

The chart about shows an 800% appreciation, but what it doesn't show is that Facebook has also increased their earnings 8x over the same time horizon, from $.53 to $4.23 in EPS. And that's not a mistake. 68% growth over 4 years doesn't equal 272% growth, which is what your brain wants to say. It equals 700% growth, due to the compounding of earnings.

Performance and Portfolio Statistics

The fund returned 5.92% for the quarter compared to 3.96% for the S&P 500 and 2.98% for the Barclay Hedge Fund Index, an outperformance of 1.96% and 2.94% respectively. Year to date, the fund has returned 17.90% compared to 12.53% for the S&P 500 and 7.44% for the Barclay Hedge Fund Index, an outperformance of 5.37% and 10.46% respectively.

The portfolio has returned alpha of 20.0% with a Sharpe Ratio of 4.17 year to date. Correlation and beta are exactly 0 over that time period.

Note: A Sharpe Ratio > 1 is considered good, >2 is considered very good and >3 is considered excellent. Please see the definitions section f

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

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	2.95%	1.47%	0.73%	3.20%	2.96%	-0.43%	3.55%	3.20%	-0.88%				17.90%
2018													
2019													
2020													
2021													

Data provided by Convergex FixQ and S&P Dow Jones Indices LLC. For more information on calculation methodology, please contact info@bluehawkinvestors.com.

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

Sincerely,

Jake DuBois

Appendix

Definitions

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

Disclosures

Performance Calculations
Valuations and returns are stated in US Dollars.

The calculation of gross-of-fees returns reflects the aggregate performance of all investors minus trading commissions.

The calculation of net-of-fees returns reflects the aggregate performance of all un-affiliated investors. This specific share class is subject to the deduction of a 1% management fee and 15% incentive fee with a high-water mark. Net returns are also net of operating expenses, which includes an administration fee, audit fee, and other miscellaneous operating expenses. Blue Hawk Investors believes that this return best reflects the performance a typical investor would have achieved. Please refer to the Private Placement Memorandum for a full list of operating expenses.

Past performance does not guarantee future results.

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