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Q3 2019 INVESTOR LETTER

October 25, 2019

Dear Investor,

The Q3 2019 net return for the fund was (0.63%). This compares to a return of (0.79%) for Equity Long Short Funds[1], (2.05%) for Fundamental Growth Hedge Funds[2] and 1.19% for the S&P 500.

Q3 was a frustrating quarter as strong gains in July and August, driven by solid earnings in two of our bigger bets, were wiped out in September as factor rotations[3] took hold of the market. Floor and Décor and Match Group jumped 20%+ following earnings announcements, putting the fund up 3.99% for the quarter heading into September compared to a range of 0% to (2.22%) for the benchmarks listed above. Factor rotations in September created sharp reversals and the fund ended the quarter essentially flat.

As we wrote in our Q1 and Q2 letters, we predicted that the current investing environment – one of speculative risk taking as evident by lofty valuations and momentum in many SaaS names, recent IPOs, and other highflyers – was not sustainable. We anticipated its eventual reversal[4], decreasing net exposure, adding two recent IPO shorts and reducing our exposure to "growth stocks" with a large growth index short. In September, despite big shifts underneath the surface, the growth index barely budged and we were hit on both sides of the portfolio. Frustrating because our head was in the right place but executed poorly neutralizing a potentially big quarter. That being said, we acknowledge we are our harshest critics and taken in whole the quarter was okay in absolute terms and decent relative to peers.

Looking forward, the tides seem to be starting to turn towards value, although too early to say definitively. That may mean increased choppiness ahead. Investor sentiment is fickle and preferences always changing, however, so timing is very, very difficult at a minimum. Thus, we are not able to guide investors on timing the appropriate entry point nor do we recommend attempting to time. In addition, we think it would prove foolish to chase factor trades – investing is about getting ahead of the market. What we can say is that current valuations, objectively, are as low as they have been in the portfolio since we launched three years ago and prospective returns promising in our view over a reasonable time frame.

			2019										
NET PERFORMANCE - FOUNDERS CLASS	**2017**	**2018**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Q3'19**	**Since Inception**
Blue Hawk Fundamental Growth Fund	22.05%	6.69%	3.33%	(1.53%)	1.11%	3.32%	(3.46%)	3.60%	0.81%	3.15%	(4.44%)	(0.63%)	37.55%
Barclay Equity Long Short Index	8.35%	(2.96%)	2.72%	0.24%	0.11%	0.52%	(0.45%)	0.87%	0.36%	(0.51%)	(0.64%)	(0.79%)	8.54%
HFRI EH: Fundamental Growth Index	18.87%	(9.70%)	5.00%	2.21%	1.16%	1.37%	(3.11%)	3.15%	(0.09%)	(2.13%)	0.17%	(2.05%)	15.64%
Barclay Hedge Fund Index	10.49%	(5.11%)	3.64%	1.25%	0.61%	1.15%	(1.72%)	2.11%	0.48%	(0.96%)	0.38%	(0.11%)	12.24%
S&P 500	19.42%	(6.24%)	7.87%	2.97%	1.79%	3.93%	(6.58%)	6.89%	1.31%	(1.81%)	1.72%	1.19%	32.97%
Fund v Barclay Equity Long Short Index	13.70%	9.65%	0.61%	(1.77%)	1.00%	2.80%	(3.01%)	2.73%	0.45%	3.69%	(4.18%)	0.16%	29.02%
Fund v HFRI EH: Fundamental Growth Index	3.18%	16.39%	(1.67%)	(3.74%)	(0.05%)	1.95%	(0.35%)	0.45%	0.90%	5.28%	(4.61%)	1.42%	21.91%
Fund v Barclay Hedge Fund Index	11.56%	11.80%	(0.31%)	(2.78%)	0.50%	2.17%	(1.74%)	1.49%	0.33%	4.11%	(4.82%)	(0.53%)	25.31%
Fund v S&P 500	2.63%	16.38%	(4.54%)	(4.50%)	(0.68%)	(0.61%)	3.12%	(3.29%)	(0.50%)	4.95%	(6.16%)	(1.83%)	4.59%

**Fund incepted 1/3/17*

[1] As measured by the BarclayHedge Equity Long Short Index
[2] As measured by HFRI EH: Fundamental Growth Index
[3] "Factor investing is an investment approach that involves targeting quantifiable firm characteristics or 'factors' that can explain differences in stock returns. {This} includes size, value, momentum, asset growth, profitability, leverage, term and carry." https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2472936
[4] The IPO short bets and decreased exposure was not due to a "macro call" or anything of that nature. Instead, it was the result of many individual decisions driven by bottom-up, fundamental analysis. The growth index short was added from a risk management lens due to a growing mismatch between our long and short book value/growth exposures.

NOTABLE CHANGES TO THE PORTFOLIO – Q3’19[5]

On the long side, we selectively added to names that we like and were caught up in the volatility including **Netflix**, **Match Group,** and **Microsoft.** We added to three GARP stocks that have been staples of the portfolio – **Sherwin Williams, Electronic Arts,** and **Facebook.** We exited our position in **United Healthcare** and sold about half of our position in **Amazon**.

On the short side, we added four new positions - a growth index short, a Software and Services company, a Transportation short, and a Consumer Services company. In addition, we added two previously held positions – a Specialty Retailer and a Software and Services company. We exited two shorts – a Consumer Goods company and a Software and Services company.

Net exposure decreased by roughly 860 basis points over the quarter.

CONTRIBUTORS AND DETRACTORS – Q3’19

Q3'19 Contributors Detractors				
Contributors			**Detractors**	
Floor and Décor	1.46%		Netflix	(1.19%)
Match Group	0.84%		Stitch Fix	(1.17%)
Sherwin Williams	0.79%		GrubHub	(1.14%)
Microsoft	0.47%		IT Services - Short	(0.42%)
Teleperformance	0.46%		Payments - Short	(0.37%)
Constellation Brands	0.45%		Facebook	(0.36%)
Software and Services - Short	0.42%		Total above	(4.65%)
Consumer Services - Short	0.32%			
Consumer Goods - Short	0.25%			
Total above	5.46%			
*Represents contributors >25 basis points and detractors > 35 basis points				

Contributors

Floor and Décor (FND) - The leading contributor in the quarter was Floor and Décor, which returned 22% in the period. A better than expected earnings print into low investor expectations led to a one day jump of 21%. Comps came in at 5.5% on a normalized basis, revenue grew 20% y/y with operating leverage and operating profitability increased 33% y/y – strong numbers into what investors feared was a housing-related slowdown. Management increased full year guidance for comps, revenue, and EBITDA and laid out plans to reduce tariff exposure to China – from 50% of inventory sourced from China as of the day of the earnings report to mid-30s by end of year and a mid-single digit target over a multi-year horizon – assuaging investors’ most pressing concern. We continue to like this contrarian retail expansion play with best in class management and think the company’s best days lie ahead.

Match Group (MTCH) - Match Group was the second leading contributor in the period. We provide our updated thoughts below in the commentary section.

Detractors

Netflix (NFLX) – Netflix was the top detractor in the period. We provide our updated thoughts below in the commentary section as well.

[5] Note this is not a comprehensive presentation of changes to the portfolio. We aim at presenting a representative sample but will refrain from providing certain trades at times for competitive reasons.

Stitch Fix (SFIX) & Grubhub (GRUB) – Stitch Fix and Grubhub were top detractors in the quarter. We had not previously disclosed SFIX as we were building a position in the name. Since it was a top detractor in the period, we thought disclosure was prudent for the sake of transparency. GRUB sold off due to increasing fears over competitive threats in the industry and SFIX sold off due to tariff concerns and fears over an industry slowdown in apparel. We have a soft-spot for bootstrapped, founder-led companies with chips on their shoulders and these are two of the best. Both have the opportunity to become the leaders of tomorrow, although both operate in hyper-competitive industries and must navigate treacherous waters. We believe founder-led companies most effectively align incentives with shareholders and the structure provides the competitive advantage of being able to act nimbly and flexibly. In addition, bootstrapping, or minimal reliance on outside funding, frequently instills discipline in companies in our experience that becomes ingrained in their DNA. Like anyone who has struggled, toughness, resilience, and strength are the result when done right and we think applicable to Grubhub, Stitch Fix and their respective founders. In addition, bootstrapping typically leads to a leaner cost structure and fiscal discipline – a combination that gives us confidence the two companies will emerge from these competitive yet promising industries. For Grubhub, we think the VC community's pivot to emphasizing profitability, from growth at all costs, means the distortive effects of heavy discounting by competitors such as DoorDash will recede over time, and thus the food industry will return to rational competition to GRUB's benefit.

In good times, investors had extrapolated too rosy a picture for GRUB and SFIX and now the opposite is true. The reality lies somewhere in between. We try to look through the noise and concern ourselves with long-term value and for us that's focusing on what we believe the two firms will look like over the intermediate term (3-5 years) and beyond. In this pursuit, we attempt to break free of the manic/depressed swings of investors' moods towards the stocks and younger companies more broadly. The range of outcomes for the companies are wide, which is why investors' outlook, aka volatility, swings more for a GRUB or SFIX; thus, we typically maintain a smaller position size for these types of investments. That being said, we think the risk/reward is compelling and the positive tail risk more than compensates for the downside risk and expected volatility. As with every investment, the situation and industries are dynamic and thus we always maintain the right to incorporate new information and change our views when appropriate.

Please see the corresponding Exposure/Attribution report for further detail on performance attribution.

COMMENTARY

Match Group (MTCH) – Match Group had another excellent quarter surpassing investor expectations. Revenue jumped 18% year over year (y/y), 22% on an FX neutral basis, driven by acceleration in Tinder revenue growth from 38% in Q1'19 to 46% y/y in Q2. The main driver for Tinder was robust subscriber growth at 39% particularly internationally, with pricing a secondary driver at 6%. Better than expected results combined with a short interest of 50% of the float caused a short squeeze – sending the stock up 30% to an all-time high of $95 from $74 at the previous close. With an already full position pre-earnings, we took advantage of the squeeze to sell 871 shares at an average price of $91.12.

From August 7th to September 30th, the stock proceeded to dip 20% due to three factors in our view – (i) the factor rotation discussed above was the the main driver, (ii) fear over the public announcement of an FTC investigation that had been previously disclosed in the company's annual report with limited financial impact, and (iii) fear over Facebook entering the dating space, which we have previously addressed in letters here. After careful analysis, we took advantage of the weakness to buy 1,123 shares additional shares at an average price of $75.51. Overall, we sold 1,286 shares in total at an average price of $87.70 and purchased 3,098 shares for an average price of $73.40 over the course of the quarter.

Looking forward, Match continues to be one of our favorite ideas as we believe the stock remains significantly undervalued with near term catalysts on the horizon that should help unlock this value. We do not necessarily look for catalysts when investing but do enjoy them when present.

IAC Spinoff – IAC has submitted a proposal to spin off their 80.5% ownership stake in Match Group. While the commitment is not 100% ironclad, we believe the likelihood to occur is very high with a time frame of the next 12 to 24 months. Assuming IAC liquidates their position post-spinoff and distributes proceeds to shareholders, the spinoff will have the reverse characteristics of a typical spinoff. Specifically, the entity engaging in the spinoff (IAC) will be smaller than the company being spun off (MTCH) after completion and proceed distribution. Since Match's value makes up 87% of IAC's current market value, after IAC spins off Match and distributes the proceeds IAC will be a much smaller company and no longer a mid/large growth stock while Match will remain a mid/large growth stock. We anticipate that the institutional investors who pre-spin held IAC to gain exposure to the illiquid MTCH will buy the new MTCH spinoff directly and drive demand for the stock. Prior to the spinoff, the limited liquidity in MTCH with 80% of the float closely held prevented larger institutions from building a meaningful position in this unique growth asset.

Long IAC / Short MTCH & ANGI – In addition, the arbitrage play of buying IAC and shorting MTCH & ANGI to play the IAC holding company discount has been a popular trade. MTCH's short interest has been 50% of the float, a staggeringly high rate almost all of which we estimate to be due to the arbitrage trade. Once the spinoff occurs and the proceeds distributed, the long short trade will no longer include MTCH and shorts will cover their position – creating a one-time non-reverting squeeze. The additional liquidity from the spin-off will mitigate a portion of the squeeze but the effect will still be significant nonetheless in our view.

With multiple tailwinds coming together at the same time combined with our affinity for the business, we continue to swipe right on the stock.

Netflix (NFLX) – Netflix was the top detractor in the quarter as the stock dipped 29% during the period. The selloff was driven by two factors – management's overly optimistic guidance for subscriber additions for a quarter with price increases and increasing investor uncertainty caused by new streaming service rollouts. I will address piece by piece.

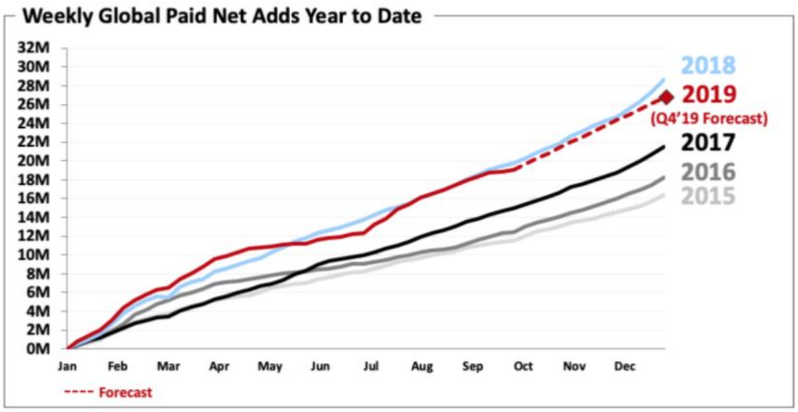
Q2'19 Sub Miss – Netflix reported a solid Q2'19 overall with revenue growing 26% y/y, operating margin improving 410 bps and 2.7 million subscriber additions while growing operating income at a 52.8% clip, very impressive numbers. The issue, however, was that management had forecasted net additions of 5 million, disappointing investors due to the *miss*. Management attributed the miss to increased churn due to price hikes. Deja vu all over again, I went back through my notes as I knew I had seen this exact same script play out before. *From my notes:*

> NFLX Q2'16 Earnings – Across the board miss due to higher churn from price increases.
>
> My take: Stock sold off 14% after the print. The quarter is not nearly as bad as the market's reaction. Revenue still grew 28% y/y, net subs were positive q over q despite price increases, and EPS grew 50% y/y. The mistake NFLX made was guiding way too aggressively, setting expectations too high. $10 a month is expensive relative to $8 a month, but not compared to Comcast's $100+ a month. I view this qtr's churn in y=mx+b terms as a change in b, not m. Price increases will continue this qtr as well so I'm sitting tight for now but am more likely to buy than sell. No change in terminal value in my view.

Our conclusion is the same this quarter as it was Q2'16, Q1'17, and Q2'18. While we think Netflix management should maybe increase caution in projections for quarters with price increases, management is unapologetic about setting aggressive targets and they have earned the right at this point. But transitory increases in churn during quarters with price increases does not affect the slope of subscriber additions, and thus just increases quarterly noise without affecting long-term earnings power.

(continue to next page)

Exhibit: Netflix Global Subscriber Additions



Source: Netflix Q3'19 Shareholder Letter

Operating Leverage - We believe investors significantly underestimate NFLX's pricing power and operating leverage in the model. HBO currently charges $15 a subscription, a very realistic 3 year target for Netflix in our view, which would be a 17% premium to the average Netflix subscriber monthly cost in the US and a 58% increase for the average subscriber internationally (with a 5-7 year time horizon target for the international segment). To illustrate how much operating leverage is in the model and how critics are missing the forest from the trees, let's assume Netflix can charge $15 for a subscription in the US and Internationally, in line with HBO and significantly less than the average cable package >$100. Average Selling Price (ASP) of $15 would increase '20 estimated operating income by ~ $7.0B to $11.0B based off our estimates or a 175% increase from $4B operating income projected by the Street for 2020. Since costs do not increase when revenue growth is driven by price, the additional revenue flows straight through to the bottom line. *Placing a SP500 market multiple '19E EV/EBIT of 17.5x leads to a $185 stock or +58% increase from current levels.* The exercise uses a 2020 subscriber base and a market multiple, both overly conservative assumptions in our view. The point is that there is significant room for upside in the stock.

We are also aware of the cash flow argument against Netflix, which we address briefly here. We view this as a timing related issue caused by Netflix's growth. Free cash flow will approach Income Statement earnings as the company matures, which we hope is many years away. Free cash flow will turn positive over the next 3 years based off our estimates, which will reduce reliance on outside funding. The majority of debt repayments are not due until 2024 for reference.

These assumptions are just an exercise unless we can get comfortable that Netflix will be a long-term winner, a qualitative endeavor, and where we believe our edge lies.

Competition aka Streaming Wars – Over the next 12 to 24 months, the Streaming Wars will heat up. Disney will launch Disney+ and Apple will launch Apple TV+ both next month, AT&T will roll out HBO Max in Spring 2020, and NBC/Comcast will roll out Peacock (I didn't name it) April 2020 to join existing competing services from Hulu and Amazon. This increasing competition has spooked Netflix investors, worrying them about the effect on Netflix's future growth and pricing power. While the stock may experience some choppiness in the near term, which we have started to see already, we agree with the assessment by Barry Diller, the chairman of IAC and a brilliant media/tech investor when he said,

> "No one is going to compete with Netflix in gross subscribers. I believe they have won the game...There's nothing I can see that's going to dislodge them." [6]

This is a content game – who can offer content that people want. With linear-tv, the technical description of pre-TIVO television in which shows could only be watched live, stations were limited in what they could show. Viewers could only watch one show at a time and with limited time slots for viewing, different stations were needed to cater to differing viewing interests. For

[6] https://www.cnbc.com/2019/07/10/barry-diller-netflix-has-won-streaming-wars.html

example, a family of four may watch television nightly from 8 – 10 pm. The daughter watches wrestling, the son watches a drama series, and mom and dad watch the news. Different stations existed because viewers were limited by available time slots and viewers had and have varying tastes.

Streaming Video on Demand (SVOD) changes this dynamic. Because time slots are no longer an issue for non-live content, one service can in theory dominate the market if they own and offer content that is sufficient both in volume and diversity. In reality, it is most likely impossible to satisfy every niche, but the point here is that the dynamics of competition have changed due to the change in technology. In this new dynamic, demand will flow to wherever valuable content is offered and willingness to pay (price) will coincide with value derived from a service. While not necessarily a winner-take-all game, underneath the service it becomes clear that scale is a huge advantage.

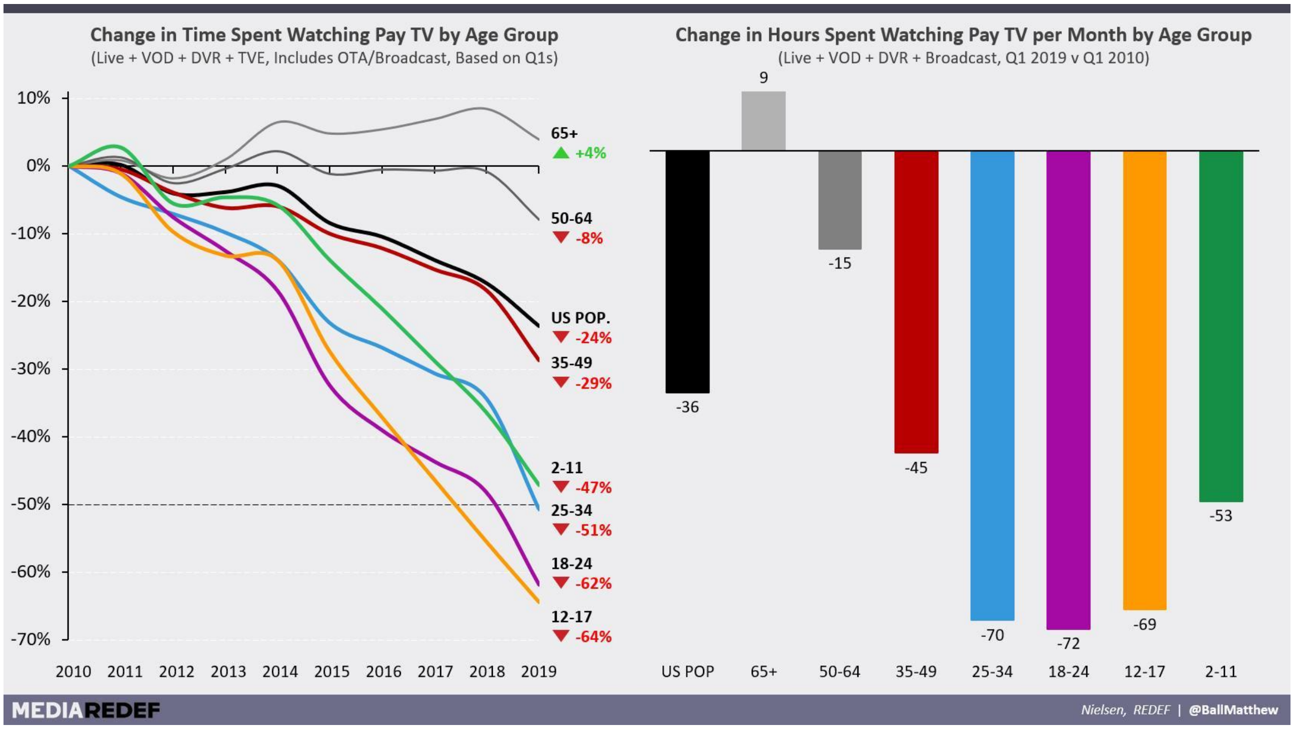
Similar to producing movies, producing differentiated content for the most part is correlated with budget and skill. Again, for the most part the content market is mostly efficiently competitive – the popularity of new shows with particular audiences can be predicted with some levels of precision. Low budget shows are possible, but it becomes very difficult to develop a repeatable business with these constraints. In addition, producers show no allegiances to a particular platform – they sell their content to the highest bidder – and the amount of "quality content" is limited in the sense that supply is not infinite. These dynamics create an auction-type industry where SVOD platforms bid against each other and the highest bidder gets the content. Thus, being able to offer enough content on a SVOD platform requires achieving enough scale to outbid other SVOD services or owning a robust content catalogue already.

Scale -> More Content -> More Users -> More $ -> More Content

In this race, Netflix's massive scale advantage gives them a huge lead and leg up in buying (funding) all the best content. As is, the biggest complaint said about Netflix is that there is *not enough content* on their platform. And they spend $15 billion a year on content. That's 3x what the entire Disney company spent on cap ex in 2018, which includes their theme park business, media business, and broadcasting business. None of these services rolling out are going to be able to spend anywhere close to the levels Netflix can due to Netflix's 150 million user install base, the advantage we have seen Amazon execute to perfection over the last 10 years. We do believe there's room for niche players in this industry if they are careful and spend wisely, similar to HBO's niche today. We think Disney's extensive kids' catalogue will allow them to gain traction here, however, we believe other SVOD services will not have the appetite, investor base, and/nor funds to spend what it takes to become a global mass-market SVOD provider like Netflix. We believe they will operate on a scale that dwarfs what other services are able to achieve.

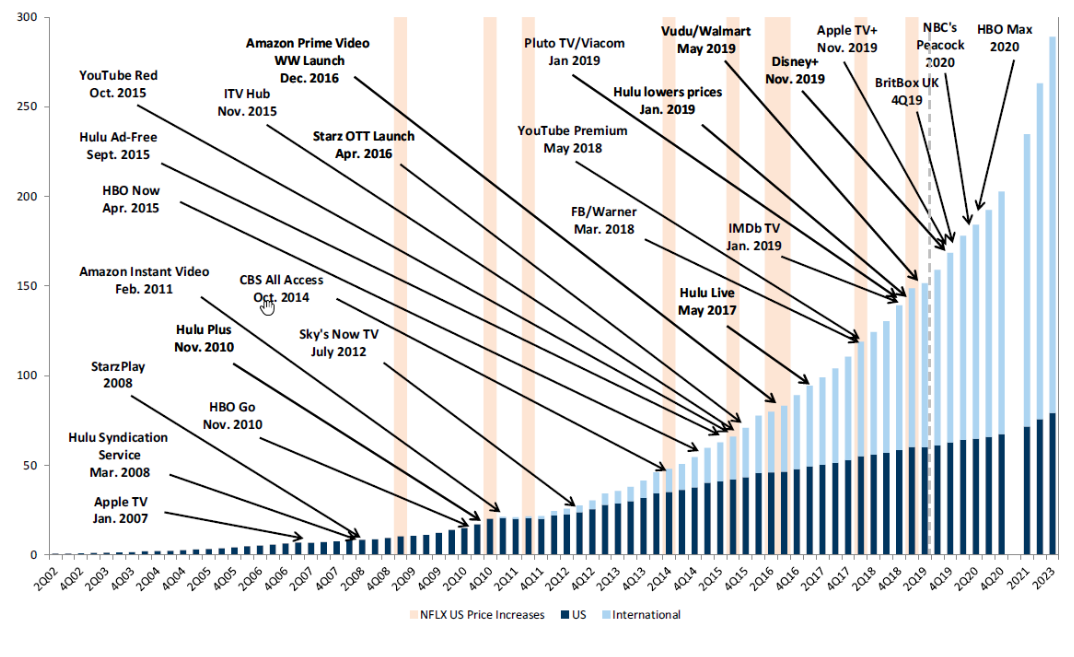
The Stock – We have been buyers of Netflix and will continue to be on weakness. The influx of competition may cause near-term choppiness, but Netflix has proven to play the long game and we do not see any players yet who materially threaten their long-term growth and terminal value. Currently priced below the $15 HBO add-on service, we still believe they have substantial pricing power and think 250 million subscribers is probably conservative over a 5-year time horizon. Crunching the numbers, we believe the stock is significantly undervalued for long-term, patient investors. We will gladly trade short-term volatility for long-term wealth creation.

Exhibit: Shifts in Viewing Habits



Source: REDEF

Exhibit: Netflix Subscriber Additions and Price Increases with Competitive Launches



Source: Press reports, Company data, Goldman Sachs Global Investment Research

Source: Goldman Sachs

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

Sincerely,

Jake DuBois, Managing Member

APPENDIX

TERMS

FOUNDERS CLASS*	*EXPIRES 12/31/19*
Minimum	$5 million
Management Fee	1% AUM monthly*
Performance Fee	15% yearly*
High Water Mark	Yes
Lockup	3 year hard lockup
Redemptions	30-day notice
Gate	None
Eligibility	Until AUM reaches $25 million

CLASS A	
Minimum	$250,000
Management Fee	1.5% AUM monthly
Performance Fee	15% yearly
High Water Mark	Yes
Lockup	1-year soft lockup
Redemptions	30-day notice
Gate	None

*All future subscriptions will be granted founders share as well, locking in 1% and 15% terms

OUR PERFORMANCE GOALS AND HOW WE EVALUATE OUR PERFORMANCE

We have received a fair amount of investor questions about this topic, enough that we think additional investors may have similar questions. We have 3 distinct goals we aim to achieve regarding performance.

1) Over the short-run, measured in annual intervals, we aim to deliver excellent risk-adjusted returns. To evaluate, we place emphasis on the Sortino Ratio.
2) Over the long-run as measured by a full market cycle, we aim to keep pace with the S&P 500 with less risk especially on the downside. In absolute terms, we aim to deliver annualized gross returns of 8-10%.
3) While there will be quarter to quarter drawdowns at times, our goal for capital preservation is over the intermediate term (1-3 years) and our confidence to achieve this goal grows as we approach the latter half of the time horizon.

Regarding benchmarks, we evaluate ourselves against (1) Peer Groups and (2) Market Indices. We use the Barclay Long Short Index as our primary peer group index and the HFRI EH: Fundamental Growth Fund Index as our secondary peer group index. An adjusted version of the S&P 500 is our primary market index. Over the short run, we look at the performance of the S&P500 * 70% due to our target exposure of 70%. Over a full market cycle, we compare ourselves to the S&P 500 without adjustments for exposure as "Beta" becomes less of a factor when comparing across market cycles. We acknowledge these methods have flaws and we conduct more sophisticated analysis as well, but for the scope of this forum we think these methods best balance accuracy with understandability and simplicity.

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.

Downside deviation is a value representing the potential loss that may arise from risk as measured against a minimum acceptable return, by isolating the negative portion of the volatility. It is thus similar to standard deviation but considers only returns that fall below the minimum acceptable return.

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. The ratio helps to make the performance of one portfolio comparable to that of another portfolio by making an adjustment for risk.

Sortino Ratio, a variation of the Sharpe ratio, differentiates harmful volatility from volatility in general by using a value for downside deviation. The Sortino ratio is the excess return over the risk-free rate divided by the downside semi-variance, and so it measures the return to "bad" volatility.

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. We believe 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. Please see the Private Placement Memorandum for a full list of disclosures.

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