



## Q1 2020 INVESTOR LETTER

April 7, 2020

*Before we begin, we want to acknowledge that COVID-19 has turned the world upside down. We thank those on the front lines of the fight against this virus, and we hope that this letter can provide some form of escape. Please stay safe, and remain home if you can.*

The Q1 2020 net return for the fund was (-10.01%). This compares to a return of (-7.14%) for Equity Long Short Funds,<sup>1</sup> (-12.15%) for Fundamental Growth Hedge Funds,<sup>2</sup> and (-20.00%) for the S&P 500. Before fees, the long book detracted 1300 bps from performance, while the short book added roughly 350 bps (450 bps when excluding an index hedge, described later in the letter).

2020								
NET PERFORMANCE - FOUNDERS CLASS	2017	2018	2019	Jan	Feb	Mar	YTD	Since Inception
Blue Hawk Fundamental Growth Fund	22.05%	6.69%	9.23%	0.98%	(4.68%)	(6.51%)	(10.01%)	27.99%
Barclay Equity Long Short Index	8.35%	(2.96%)	6.57%	(0.67%)	(2.21%)	(4.40%)	(7.14%)	4.05%
HFRI EH: Fundamental Growth Index	18.87%	(9.70%)	13.23%	(0.24%)	(2.91%)	(9.30%)	(12.15%)	6.77%
Barclay Hedge Fund Index	10.49%	(5.11%)	10.64%	(0.18%)	(2.88%)	(8.06%)	(10.87%)	3.39%
S&P 500	19.42%	(6.24%)	28.87%	(0.16%)	(8.41%)	(12.51%)	(20.00%)	15.45%
Fund v Barclay Equity Long Short Index	13.70%	9.65%	2.66%	1.65%	(2.47%)	(2.11%)	(2.87%)	23.94%
Fund v HFRI EH: Fundamental Growth Index	3.18%	16.39%	(4.00%)	1.22%	(1.77%)	2.79%	2.14%	21.22%
Fund v Barclay Hedge Fund Index	11.56%	11.80%	(1.41%)	1.16%	(1.80%)	1.55%	0.86%	24.60%
Fund v S&P 500	2.63%	12.92%	(19.65%)	1.14%	3.73%	6.00%	9.99%	12.55%

\*Fund inception 1/3/17

As we sit down to write this, we cannot help but feel like we spent a few rounds in the ring with a boxing heavyweight. *March has felt like the longest year in quite some time.* Uncertainty and stress create anxiety and shift time horizon to a much shorter perspective, without active effort. This is human, and every investor is grappling with this as they evaluate difficult questions. Will the recession be prolonged, and how deep? Or will Fed intervention and government stimulus bridge the gap until life normalizes again? Unfortunately, the answers to these questions are unknowable – and paralyzing when fixated upon. We certainly have opinions when pressed – as does every other investor. But relying on these opinions and becoming overly focused on these questions is not conducive to successful investing.

To get our usual perspective back, we first recommend spending a few minutes turning inward. Identify how you're feeling – anxious, unsure, worried – acknowledge it, and accept it. As we do this, our mind starts to ease, the haze clears some, and our thinking sharpens. We can resume thinking about each business and its positioning within the

<sup>1</sup> As measured by the BarclayHedge Equity Long Short Index

<sup>2</sup> As measured by HFRI EH: Fundamental Growth Index



current environment and as the recovery begins, whenever that may be. We spent the back half of March doing exactly this, which we present in the following section.

Overall, we found ourselves very encouraged about our companies after the exercise. Will the environment be challenging over the next couple quarters? Certainly, but we do not think this is the right question. We think the better question is: in three years-time, will we look back and say that this was a great time to have invested in these companies (acknowledging nobody ever sells at the top and buys at the bottom)? We think the answer will be unequivocally yes.

Why are we encouraged? From a high level, there are four reasons: (1) We believe that this extended period of Work from Home (WFH) and social distancing will create some lasting changes in behavior after the dust settles, including the acceleration of trends in ecommerce, online dating, digital video games, streaming services, cloud software, and other geographic-neutral professional tools – these are all secular themes that greatly benefit the companies in our portfolio. (2) Our quality bias and emphasis on balance sheets (strong in the long book and weak in the short book) means we can remain aggressive and look to be long-term liquidity providers when short-term liquidity needs of other investors create dislocations (opportunities) in the market. (3) We have been finding some wonderful bargains in this environment – in both new and existing holdings. (4) The bucket of potential short selling opportunities has significantly expanded, as an economic shock has led to insolvency becoming the most likely result for a growing list of companies after years of overreliance on debt, lack of financial discipline, and excessive risk taking.

The format of the letter is as follows: **(1) We go stock by stock evaluating the portfolio through the lens of where we see the puck going, the new environment shaped by the COVID-19**, followed by **(2) Portfolio changes and (3) Contributors and detractors in Q1'20**. Next, we discuss **(4) When the right time to invest is** and **(5) Evaluate the broad investing opportunity set and pound the table for our strategy in 2020**. The letter concludes with **(6) Presenting the case for why institutions need to invest in the next generation of investment managers**.

## THE PORTFOLIO AND THE CHANGING ENVIRONMENT

*Returns, valuations, and other stock data as of March 31<sup>st</sup>.*

We have noticed many investors focusing on forecasting future infection numbers to drive their investment decisions, but we do not think this is the right place to look. **What's important to the health of the economy is individuals' perceptions of their external environment – their perceived safety**. And until there is a vaccine or other form of mass containment, we find it hard to believe life will fully resume to a pre-COVID 19 environment in the next 12 months, even if new cases slow drastically.

As growth investors, **our job is to identify shifts in behavior that will not revert to the mean – that are lasting**. Human behavior tends to be sticky due to habits and patterns of behavior, so we think it's vital for every investor to go through their portfolio and evaluate how their investments are positioned for the current and post-COVID-19 environment. The longer social distancing/WFH is in effect, the greater the likelihood certain behaviors will become habits. This is especially true in situations in which the forced behavior leads to a new behavior where the previous reason for non-adoption was inertia or some other form of high upfront cost (think new technology, ecommerce, etc.). **Some behaviors will revert once social distancing is lifted while others will not, and we think correctly identifying the "reverters" and "non-reverters" will determine some of the big winners and losers in the investing space over the next 3-5 years**.



*All positive*

**Microsoft** should be one of the big winners of the new normal. Their PC business has been the one drag on their growth, and we think there will be a surge in laptop demand as corporations better equip their employees for WFH, and schools ensure all students have laptops. This will doubly benefit Microsoft through increasing demand for their Office-based products. In addition, a more permanent WFH strategy reduces the need for in-house IT infrastructure, accelerating the shift to cloud computing and Software as a Service (SaaS). At 20x our '21 GAAP EPS estimate and \$8.50 a share in net cash on the balance sheet, we are very bullish on the stock.

Large congregations of people will most likely be viewed with trepidation for the foreseeable future. This means there will likely be big changes to sporting events, concerts, and the bar scene. This is bad news for singles looking to meet people offline. But their *drive* to meet other singles is not going anywhere, which is good news for **Match Group** and their online dating funnel. Match Group noted in a press release on March 31 that conversations and engagement on Tinder and Hinge – Match's two most popular apps – have increased between 10-30% in countries affected by the outbreak, which only reinforces our view that Match should be thought of as a social network, not a dating business. They noted that in countries with strong containment efforts, business has remained largely intact. They did note new user growth has slowed in areas most affected by the outbreak, noting New York, Italy, and Spain, and adding this is particularly true for users over 30 years of age. These dynamics are far from surprising given people have bigger issues to deal with in these areas. Overall, this release was a strong positive in our view indicating business as usual in areas with containment, and Match is additionally pushing forward improvements in video dating. The company also maintained the lower end of guidance, which we would estimate maybe 10% of public companies have done, and the stock proceeded to sell off 7.5% the following day to our surprise. Once people start online dating, the behavior is remarkably sticky. The impetus to stop is usually their future spouse. At 20x '21 EV/FCF for one of the best combinations of growth, margins, and free cash flow generation, we think Match makes one heck of a bargain and we believe social distancing will only accelerate adoption as containment improves. In addition, we believe the pending spin-off has created an overhang for the stock, which we expect to pass within the next quarter or two.

The effect on **Netflix's** business is fairly straightforward, assuming that most of the readers of this are currently stuck at home with plenty of time to watch *Tiger King* and *Love is Blind* (hit shows on Netflix), so we won't spend too much time here. Investors expected relatively flat US subscriber (sub) growth for 2020 as recently as a month ago, and those estimates will have to be significantly increased. Since the epidemic is global, the same dynamics are occurring worldwide, a boon for their international business. Additionally, studios are being forced to halt production of new content, which disproportionately hurts Netflix's rivals due to Netflix's enormous current library content advantage. Lastly, the lack of sports on television is another strong positive. We've seen over and over that once subscribers enter the Netflix funnel, the service is very sticky.

Anyone who has a kid does not need me to tell them that video game stocks are positioned well (and these trends are exciting), but more germane to this exercise is the balance of video game sales between digital and physical channels. For every video game that a gamer digitally purchases/downloads (think iTunes versus CDs), **Electronic Arts** makes 20%-25% more profit due to the absence of manufacturing costs and inventory costs. We estimate the current mix is still about 60% physical disc and we believe the current environment will accelerate this one-way shift. Just as people will not start buying CDs again, this behavior is unlikely to revert. At 16.5x Fiscal Year +1 EV/FCF and 16% of the market cap in net cash on the balance sheet, we think EA is in for a big year.



### *Mixed*

**Intuit** has a couple moving parts but overall should experience a tailwind. Their Small Business (QuickBooks) segment could experience some attrition if the stimulus is not effective enough, although our surveying has indicated that QuickBooks is the last expense a small or medium-sized business (SMB) would cut prior to shutting down. We believe that potential weakness in SMB will be outweighed by tailwinds in the Consumer (TurboTax) segment. Shutdown of retail will (unfairly) hurt rival H&R Block and will accelerate the shift to online tax preparation software. Once a filer's information and filing are saved in the software, users are much more likely to reuse the software the next year as the friction is removed.

When news of voluntary procedure delays at hospitals was announced, **Intuitive Surgical** proceeded to drop 40% from its peak. Investors feared hospitals' budgets could be overrun by the pandemic, limiting ISRG's future growth. The stimulus bill provided relief to hospitals, alleviating our concern on future demand. We had a conversation with a Healthcare analyst peer, and we discussed recession-proof names that could potentially snap back as the market panic cleared. With a \$3 billion net cash position on the balance sheet, we put Intuitive Surgical at the top of that list. We bought 75 shares at \$365 during the month and hold a 5-6% position in the name.

**Visa** will face some near-term choppiness as discretionary spending continues to slow. On March 30<sup>th</sup>, the company revised current quarter guidance to "high end of mid-single digits" for currency neutral revenue growth and EPS growth, from "low double-digit" and "mid-teens" respectively two months ago. They also provided March (through March 30<sup>th</sup>) results via a press release: payments volumes of -4%, processed transactions of -2% and cross-border volume of -19%. For reference, these numbers were 8%, 11%, and 9% the previous quarter. Weakness in cross-border volumes is not surprising due to the travel bans. In addition, we think the March numbers understate the impact of the COVID-19 shutdowns as the more extreme government measures have been a more recent event – even if it does not feel that way. The silver lining for Visa is that the mix between cash and online/card spending should shift significantly towards online/card, which should mitigate some of the overall spending weakness, although the magnitude of this shift should be somewhat temporary. Our long-term view of Visa has not changed, but we think the near-term outlook is clouded and near-term upside limited, and thus we have written calls against about half our position.

Traffic to **Facebook** and its related properties has exploded of late, surprising nobody. This seems like it would be a boon for the stock, but Facebook makes money through advertising, and we anticipate spending will be down due to the cyclical nature of advertising and slowdowns in various industries, such as travel and retail, that typically are material spenders on the platform (we estimate that these two industries represented between one quarter and one third of digital advertising in 2019). On balance, we have used Facebook as a source of cash to fund new ideas, but we still own a material position and believe it's a mistake to sell secular winners for cyclical reasons – as long as the balance sheet is strong. With an eye-popping \$55 billion in net cash, Facebook has a fortress of a balance sheet. Down 33% from highs and trading at a very reasonable mid-cycle normalized multiple, we think Facebook is one of the safest long-term bets out there.

### *Unaffected or temporarily affected and cheaper price*

**Charter Communications** is the second largest cable operator in the U.S. (and a late 2019 buy that we had not previously disclosed). Current conditions should accelerate the trend of cord cutting, as consumers face an uncertain period with no live sports, but this alone is unlikely to materially impact Charter's overall profitability – video margins are thin, and internet revenue increases when not bundling with video. But Charter is poised to benefit from the second-order effects of this move toward consuming media over the internet. The large cable companies recently



completed a massive network upgrade to accommodate significantly higher speeds – critical for consumers that are streaming and gaming more over the internet (and connecting more devices) as they spend more time at home. Customers getting their internet from DSL/telecom providers are likely to find their speeds unacceptable in this new normal, and Charter is poised to benefit from its speed advantage over its direct competitors (since cable companies rarely compete directly in the same localities). Charter’s price fell over 30% from the high in February to the low in March, before bouncing back 17% over the last two weeks of the quarter. We added to the position as the price fell.

The Russell 2000 Index (a proxy for small companies in the US) is down 30% year to date, indicating the investor pessimism for smaller/younger companies in the current environment. **Floor and Décor** has shared in this pain, down 35% on the year. We think some of this price action is warranted as housing-related businesses may come under pressure over the next couple quarters if the recession is prolonged. That said, Floor and Décor has no debt on its balance sheet, and ultra-low interest rates should create a very constructive environment longer-term for housing-related stocks as the world settles. To be clear, this is a bet on an excellent company and not its industry. Trading at its 2017 IPO price, we think it is a great bargain.

**Constellation Brands** is a slow and steady grower and one of the rare growth stories in Consumer Staples, meant to provide a cushion for the portfolio in more defensive markets. Plain and simple, people drink more beer in downturns, and Constellation Brands has some very positive longer-term demographic tailwinds driving long-term growth. Mid-month, when we provided our performance update, the stock was down 40%, very concerning to us given its role in the portfolio. We dove deep to determine what was driving the decline, and we could find nothing fundamental that meaningfully changed our estimate of long-term value. With our conviction intact, we bought more in the month, and the stock has bounced back about 40% since then, although it is still down 22% on the year. STZ is still significantly undervalued in our view, especially in this environment, and we believe it is positioned very well over the near, intermediate, and longer terms.

STZ’s P/E NTM:<sup>3</sup> July 2015: 22.6x July 2016: 25.2x July 2017: 22.9x July 2018: 23.2x Today: 16.7x

**Teleperformance** is the leading publicly traded outsourced customer management provider (basically a modern-day call center with chat, back-office processing, translation services, etc.). They are based in France, but the US dollar is their largest revenue currency exposure. Between February 26 and March 3, we sold 265 of our 1,425 shares as the valuation started to get ahead of the growth profile. The stock since dipped about 35% from highs but has bounced back and is now down low teens on the year. The business is relatively insulated from exposure to COVID-19 (<10% of their revenue is derived from government visa-related issuance, which will face pressure) and cyclical factors (grew revenue 12.0%, 3.5%, and 11.4% in 2007-2009). Valuation has become much more reasonable again and we’re very comfortable with our 500-600 bps position.

#### NOTABLE CHANGES TO THE PORTFOLIO – Q1’20

We were quite active during the quarter, especially during March, and on both the long and short sides. We bought new long positions in **Lululemon**, **ServiceNow**, **New York Times**, and **Splunk**. We exited **Sherwin Williams** and the remaining small position we had in **GrubHub**, and we trimmed our positions in **Visa**, **Intuit**, **Facebook**, **Microsoft**, and **Teleperformance** although all remain sizeable positions. We added to positions in **Constellation Brands**,

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<sup>3</sup> FactSet

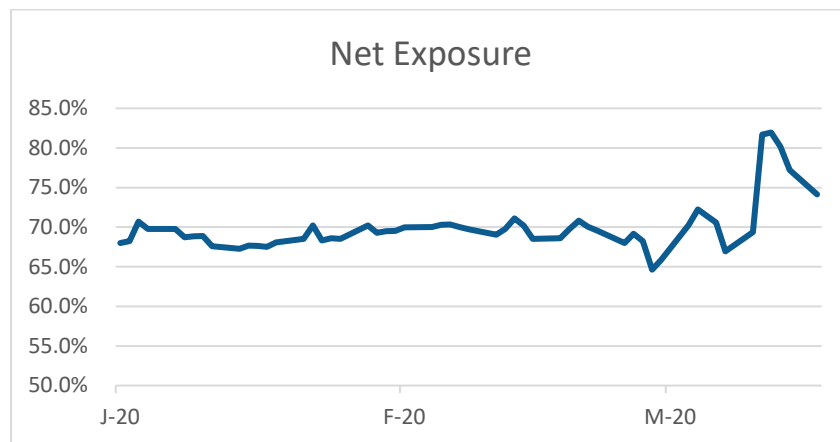


**Intuitive Surgical, Floor and Décor, Match Group**, and previously undisclosed holding **Charter Communications** during March on weakness.

On the short side we stayed very nimble. In mid-March, we exited our two Consumer Staples shorts and added five new Consumer shorts with high fixed costs, high leverage, and waning demand. We also reupped some of our other existing short positions as the position size decreased with market prices, and we purchased an index put. On the March 24<sup>th</sup>, we exited three of the shorts and reduced our position in a few others as we wanted to avoid the short squeeze that can occur as holders of popular shorts all race for the door – a lesson we learned in the beginning of 2018 – while holding onto the put. We preferred to use the index put at that point to hedge and allow our exposure to drift upwards.

The result is that the put appears to be a primary detractor to performance, but that’s not how we think about it. It allowed our exposure to move up to the 75-80% mark to capture more of the late March run up, avoid the short squeeze as we highlighted above, while maintaining the option adjusted exposure in the 50% to 60% range and maintaining downside protection.

A chart of our net exposure from the middle of January through the end of March is included below. Note, the chart does not include options, and we do not currently own the index put option, although we may buy it back in the future if a similar situation arises.



#### *New Purchases*

**New York Times Company** is in the midst of a transition from a newspaper for the New York region to a digital news resource for the entire world. NYT saw the shifting tides in the industry earlier than most and has built up a digital subscriber base that is greater than that of The Washington Post, The Wall Street Journal, and the 250 local Gannett papers combined. NYT is thus building its resources while small competitors stagger toward bankruptcy. With the deepest pockets (and a great reputation) come great journalists and editors, who create great content, which drives virality of stories and subscriber growth in general, which garners NYT more money and a better reputation. While this flywheel is moving, it creates adjacent opportunities too, and NYT is in the early stages of building its media portfolio (including the very popular podcast *The Daily* and the new television series *The Weekly*) to further acquire customers. The NYT of 2025 is likely to be a media company that uses its best-in-class journalism and editing capabilities to create a variety of different products, services, and stories to appeal to more and more customers – much different from the NYT of 2015. While the transition is underway – and the stock price had come up substantially before a recent pullback – investors still do not appear to appreciate the long-term strength of this



flywheel and what it implies for future growth and profitability. Further, this current period of intense focus on high-quality journalism (and the sense that those following the news were better prepared for the pandemic) is likely to accelerate digital subscribers and accelerate the path toward bankruptcy for small local papers. The new environment will likely hurt NYT's already-declining advertising business, but the balance sheet is strong, and we believe that the long-term strength of the digital business outweighs this near-term weakness.

**Splunk** first came onto our radar in summer 2018, when our now-analyst Mike covered the Cybersecurity industry for his summer project (it isn't a pure cybersecurity company, though it has key use cases in cybersecurity). Splunk's software is used for monitoring, searching, analyzing, and visualizing unstructured machine data<sup>4</sup> in real time and at massive scale. The company has generated impressive growth over many years and has built up deep relationships with a largely enterprise customer base, while making tangential acquisitions that enhance its offering. We really liked the company at the time, but we didn't like the valuation, so we waited for a better entry point. After a particularly good quarterly report in November – including details about its business model transition to the cloud – the market got extremely excited about Splunk and bid up the stock price even higher. We thought we had missed the boat, but the price fell precipitously during the market downturn, and we took advantage of what we believed to be a very attractive entry point in mid-March – at a price that was 40% lower than a month earlier. The stock price subsequently bounced off this near-bottom, and it ended the quarter as one of our top contributors. We think Splunk will be a long-term winner in the data space and we're excited about our entry point.

**Lululemon**, in our view, has become the model for where Retail is going. New-age Retail - pure direct to consumer (DTC) ecommerce brands (think of Casper) without a physical presence - has proven to be a tough model to maintain due to the prohibitive costs of repeatedly acquiring the same customer before building enough brand awareness to become a front-of-mind destination. Legacy retail and apparel, relying on wholesale distribution partners, has had even bigger struggles (e.g. Under Armour) due to the slow death of malls and reliance on external distribution. Lululemon has cracked the code, with a hyper-loyal following, a strong DTC offering, and a strategic physical presence. Their DTC business is why we own the stock, with operating margins above 40% and growing revenue over 25% annually. We estimate this will drive normalized operating income growth of 30% annually over the next 3-5 years excluding, 2020. Nike has proven this can be an attractive industry if done right, and we believe the company is just scratching the surface of what the brand will become. This stock should do well on the other side of the recovery, earning \$1.5 billion in operating income by 2023. With \$1 billion in net cash on the balance sheet and very strong brand loyalty, we see a very low risk for permanent loss of capital.

## **CONTRIBUTORS AND DETRACTORS – Q1'20**

The long book detracted 1300 bps from gross performance, while the short book added roughly 350 bps, 450 bps when excluding hedges described below.

(continued on next page)

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<sup>4</sup> Wikipedia defines machine data as "information automatically generated by a computer process, application, or other mechanism without the active intervention of a human." This includes application logs, IT router information, GPS and sensor data, security data, and more.





Q1'20 Top Contributors & Detractors			
Contributors		Detractors	
Automobiles - Short	1.75%	Floor and Décor	(3.31%)
Netflix	1.16%	Match Group	(2.15%)
Consumer Services - Short	1.12%	Constellation Brands	(1.52%)
Payments - Short	0.83%	Facebook	(1.28%)
Machinery - Short	0.64%	Intuit	(0.95%)
Splunk	0.62%	S&P 500 Puts	(0.94%)
Microsoft	0.51%	Lululemon	(0.88%)
Total above	6.64%	Teleperformance	(0.85%)
		Total above	(11.88%)
*Represents contributors > 50 basis points and detractors > 85 basis points			

### Top Contributors

Four of our top five contributors were shorts as the short book provided a nice cushion for the portfolio. These shorts detracted meaningfully from 2019 performance, but this quarter made up for that and more. An **Automobiles** short added 175 bps to performance, a **Consumer Services** short added 112 bps, and **Payments** and **Machinery** shorts added 83 bps and 64 bps respectively. **Netflix**, **Splunk**, and **Microsoft** were the top contributors on the long side, adding between 51 and 116 bps each.

### Top Detractors

**Floor and Décor**, **Match Group**, and **Constellation Brands** were the top three detractors at 331 bps, 215 bps, and 152 bps respectively. **Facebook**, **Intuit**, **Lululemon**, and **Teleperformance** were top detractors as well, detracting between 85 bps to 128 bps each. The index puts round out the top detractors, discussed in the previous section.

## LOOKING AHEAD

We said in our mid-month note that the government needed to act in a big way, and it did. The Fed, Congress, and the President have sent a clear message that they're planning on doing whatever it takes. They are backstopping the economy (as they have historically done), the fixed income markets, and increasingly the equity markets (a relatively new precedent). We believe that they have in essence removed the doomsday scenario from the markets, or at least that seems to have been their aim. Unemployment will spike, but the market will look through this as long as investors view it as temporary and not structural.

But where do things go from here? As we said previously, we believe a generational buying opportunity has been presented. Nobody knows if the payoff comes in one month, six months, or multiple years. What we do know is that we are seeing wonderful opportunities in our niche to deploy capital, and we have been selectively, patiently, yet aggressively taking advantage of perceived opportunities.

**We have received the question multiple times when the right time is to invest. We think the answer to this question is dependent on personal investing styles and ability to weather volatility. Will there be better opportunities?** Possibly. But the answer could also be no. We think the current investing opportunity is great, but scary. Investors can try to time the entry point if they prefer, but we're not able to guide this. If worried about volatility, spreading out an investment over a period of time is a great way to mitigate this.





In sum, we plan to use the volatility in our favor over the near term as the market searches for direction. Over a reasonable time period, we think this is a great opportunity, and the fund is well positioned to take advantage. This is not a call on the overall market – there are a lot of landmines out there – but we are finding some great opportunity to deploy capital. **This is us pounding the table. We strongly believe 2020 is the year to think about investing in the strategy if there is ever a time.** Though there will be volatility, we have the benefit of being able to use to our advantage being long/short, and we believe both relative and absolute returns from today will be strong.

## WHERE WE GO FROM HERE

As we look out the next few years, we think this is the time to invest in long/short mid/large quality growth, or as our analyst Mike likes to call quality growth “modern value.” Obviously, we have biases, but this is the first time we are pounding the table saying now is the time to invest. Why? When we look at the opportunity set, we think typical “value” sectors (Financials, Cyclical, Energy, Materials) will be under pressure for some time, driven by oil, potential recessionary pressures, and potentially weaker housing. Smaller companies will face challenges in these tough times due to comparatively fewer resources and less access to funding, hurting Small Caps, VC, and potentially a portion of Emerging SaaS.<sup>5</sup> Heavily indebted companies with demand issues will struggle to stay solvent after years of cheap debt fueled a debt binge with the bill finally coming due, there is a bigger opportunity set for short selling and major headaches for Private Equity. And ultra-low rates combined with increased credit risk potentially calls into question the risk/reward tradeoff of investing the incremental dollar in Fixed Income, although there certainly will be opportunities there.

We think by and large, that Quality Growth stocks have the cleanest balance sheets, fewest demand questions, and attractive risk/reward propositions at current valuations – although landmines still exist that need to be avoided. In addition, on the other side of the coin, the opportunities for short selling have greatly increased – yielding a more conducive environment for the long/short strategy. The next several quarters may be choppy, but that should not distract from the longer-term robust opportunity. **Nobody knows what’s going to happen in the stock market in the near term. But that’s not what’s important. In 3 to 5 years’ time, you are not going to look back at your investment and say, “Ahh I should have waited longer. I could have gotten in 5% lower.” The goal is to just to make sure the opportunity is attractive in an absolute sense, rather than aiming for the perfect time in a relative sense.**

## A GLIMPSE INTO THE FUTURE

Before the government stepped in with the stimulus bill, we briefly were given a glimpse into what the world could look like in a year – **Walmart, Amazon, Target, Costco**, and a few grocery stores standing with the rest of Retail dying. Fortunately, the government acted. **What gets much less attention with similar dynamics is the investment industry – the big keep getting bigger at the expense of the boutique firms. There are a lot of dynamics at play here as to why, but what I will say is there are a handful of great, young investors that I believe deserve a shot on goal.** George Livadas at Upslope Capital and Dan Rasmussen at Verdad Capital are two that come to mind – I have

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<sup>5</sup> Historically in times of slowdowns, Emerging Software as a Service (SaaS) companies’ customers have used their comparative size advantage to extract better terms in their contracts and new orders – elongating time to pay and slowing down new orders and bookings. In addition, travel bans will likely have an effect on new bookings. Being valued on a FCF basis with aggressive growth targets priced in, we expect some near-term pressure on these stocks.



not met either of them, neither know I'm writing this, and I have no affiliation with either. I have just followed their work from afar and have been impressed.

Our ask is for every \$100 check an institution writes to a large-scale fund, invest \$1 or \$0.50 in the next generation of managers. I can assure you that from experience that the challenges in the industry mean any young investor who lasts long enough to start building a track record has to want it as badly as anyone out there – that's how challenging it is. Many of the greats started just like we did, Buffett, Ackman, Marks, etc. – just an investor and a Bloomberg/FactSet subscription (or pen and paper). If the dynamics continue to play out how they have been, that avenue will disappear, which will be a disservice to the industry in our opinion. This includes their investor letters, thought pieces, and contributions to the investing community, unless institutions step up and place bets on the next generation.

As always, we thank our investors for their continued support. Please feel free to reach out with any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "JD", is written in a cursive style.

Jake DuBois, Managing Member



## 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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