e: info@bluehawkinvestors.com
w: http://www.bluehawkinvestors.com

Q3 2020 INVESTOR LETTER

October 20, 2020

The Q3 2020 net return for the fund was 1.98%. This compares to a return of 8.47% for the S&P 500, 5.55% for our Net Exposure Adjusted Benchmark, and 4.43% and 6.73% for the hedge fund indices.[1] The long book contributed roughly 1,100 bps to performance, while the short book detracted roughly 800 bps, both on a gross return basis.

The YTD net return for the fund is 4.68%, compared to 4.09% for the S&P 500, 3.44% for our Net Exposure Adjusted Benchmark, and 1.70% and 4.83% for the hedge fund indices. Though our Q3 numbers lagged our benchmarks, our year-to-date numbers remain solid, and we remain pleased with our longer-term results.

				2020				
NET PERFORMANCE - FOUNDERS CLASS	**2017**	**2018**	**2019**	**Q1**	**Q2**	**Q3**	**YTD**	**Since Inception**
Blue Hawk Fundamental Growth Fund (net)	22.05%	6.69%	9.23%	(10.01%)	14.06%	1.98%	4.68%	48.88%
Blue Hawk Fundamental Growth Fund (gross)	28.44%	8.94%	11.96%	(9.78%)	14.86%	2.57%	6.29%	66.52%
Net Exposure Adjusted Benchmark*	12.60%	(3.23%)	19.10%	(13.09%)	12.77%	5.55%	3.44%	34.23%
S&P 500	19.42%	(6.24%)	28.88%	(20.00%)	19.95%	8.47%	4.09%	50.22%
Barclay Hedge Fund Index	10.36%	(5.23%)	10.64%	(11.90%)	10.54%	4.43%	1.70%	17.61%
HFRI EH: Fundamental Growth Index	18.86%	(9.87%)	13.22%	(14.93%)	15.47%	6.73%	4.83%	27.16%
Fund (net) v Net Exposure Adjusted Benchmark	9.45%	9.92%	(9.87%)	3.09%	1.29%	(3.57%)	1.23%	14.64%
Fund (net) v S&P 500	2.63%	12.92%	(19.65%)	9.99%	(5.89%)	(6.49%)	0.58%	(1.34%)
Fund (net) v Barclay Hedge Fund Index	11.69%	11.92%	(1.41%)	1.89%	3.52%	(2.45%)	2.98%	31.27%
Fund (net) v HFRI EH: Fundamental Growth Index	3.19%	16.56%	(3.99%)	4.92%	(1.41%)	(4.76%)	(0.16%)	21.72%

**Net Exposure Adjusted Benchmark is 65% S&P 500 and 35% S&P U.S. Treasury Bill 0-3 Month Index*
***Fund incepted 1/3/17*

2020 has been a volatile year in the markets, and near-term uncertainties suggest that this could continue. We are unlikely to call the daily fluctuations in the market, so we remain focused on how we can best generate exceptional returns for our investors – by finding and holding stocks that we believe will be the big winners over the next decade.

THE PORTFOLIO AND THE PANDEMIC

As we noted in our Q1 letter, our job as growth investors is to identify lasting shifts in behavior that will not revert to the mean. As the pandemic in the U.S. rages on into its eighth month, we believe that the likelihood is increasing that many new consumer behaviors will be long-lasting regardless of when a vaccine becomes available.

Since the pandemic began, our research efforts in the long book have been focused on (1) continually reevaluating our current holdings in light of a rapidly changing world and (2) looking for new stocks that are in the early stages of their own pandemic-catalyzed growth cycles, with a permanently changed trajectory that is only starting to be fully appreciated. We added three such stocks during the quarter – **Square**, **PayPal**, and **Peloton** – that we are very excited

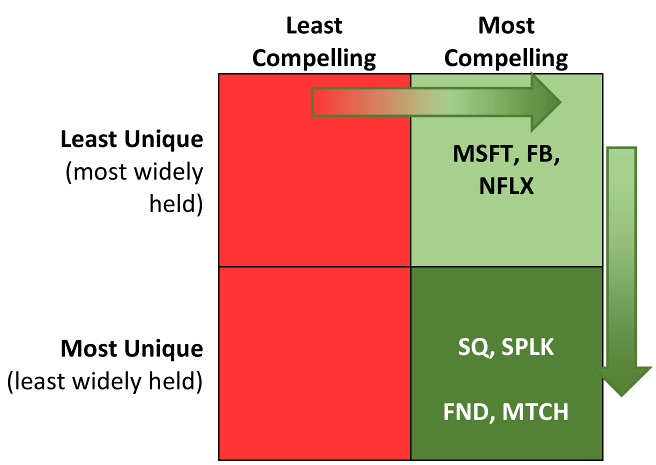
[1] The Barclay Hedge Fund Index and the HFRI EH: Fundamental Growth Index, respectively

about. We have remained disciplined in our pursuit of an attractive hurdle rate for our core holdings (typically 20% or above), and we believe that our portfolio is as attractive as it has ever been.

Growth Investing at Blue Hawk

Our focus remains on the long-term, and we are looking beyond short-term fluctuations in market prices based on factors like vaccine progress, election probabilities, or cases of COVID-19. We believe that identifying the big winners of the next five to ten years and concentrating in those stocks is the best way to generate outstanding returns – a "strong link" view of investing that we have been espousing since our inception. Said another way, we want to invest in FAANG[2] before it is "FAANG" – the companies that we believe will be the leaders of tomorrow. We believe that our growth investing pedigree makes us well-suited to execute this strategy and add significant value to investors over the long-term.

What is unique to Blue Hawk compared to larger and better-known growth investing firms is that we can build our portfolio with both (1) the most attractive investments and (2) under-owned and unique stocks where our small fund size enables us to build a big position where larger funds cannot. Holding exclusively the most widely held names and holding unique names just to be unique are both flawed (although the latter is more damaging than the former), so we aim to hold the most compelling investments first and foremost, with a secondary goal of identifying the truly under-owned names. The best – and usually biggest – holdings are those that check both boxes. The following 2x2 matrix shows a simplified version of this the way we look at potential investments.



Our results over time in **Match Group** have been a perfect illustration of our ability to add value in unique names: while the float was low, we went big into the stock, and it has been our top contributor since inception. Our second largest position – **Floor & Decor** – also falls into this category today, as do former holdings **SodaStream** and **Blue Buffalo** (which were both acquired). Of course, we are not reliant on finding these off-the-beaten-path opportunities; other top holdings and contributors over time have included well-owned stocks like **Microsoft**, **Facebook**, **Netflix**, and **Visa**. The portfolio today has a healthy balance of unique and under-owned stocks mixed in with more well-known names, but the common thread is that we believe that all of them will deliver substantial long-term returns from their current prices. We pride ourselves on independent thought, rather than being dogmatically contrarian or overly concerned with consensus.

---

[2] "FAANG" is a common acronym for Facebook, Amazon, Apple, Netflix, and Google

Typically, our focus on the long-term leads to low turnover in our core holdings. However, as much change has happened in the last six months as might typically happen in five years, creating an environment where old assumptions need to be constantly challenged, the line between news and noise blurs, and the relative attractiveness of valuations changes rapidly. Even though our focus has remained on finding the best stocks for the long-term, our view of which stocks are positioned best for the next 5-10 years – and our conviction in that – has shifted more than it typically does in a short period of time. As a result, we have made some significant changes to the portfolio over the last quarter, which we explore in the following section.

In the rest of the letter, we will discuss: (1) notable changes to the portfolio during Q3, (2) top contributors and detractors, and (3) updates on select holdings.

NOTABLE CHANGES TO THE PORTFOLIO – Q3'20[3]

Q3 was an active quarter for us, and we added three new positions that we believe are poised to be big winners coming out of the pandemic: **Square**, **PayPal**, and **Peloton**. We also increased our holdings in **Floor & Decor**, **Facebook**, **ServiceNow**, **Splunk**, and **Charter Communications**, a group of companies where the pandemic has accelerated positive long-term trends. As we continue to strive to keep the portfolio concentrated in our best ideas and remain disciplined in pursuit of a 20% IRR hurdle rate, we sold two long-term holdings where we believe the growth profile compared to other holdings no longer warrants the level of conviction that we once held – **Constellation Brands** and **Visa**. Additionally, the high level of volatility caused the stock prices of some of our non-core holdings to run up significantly, and as these stocks hit their target prices, we felt that the risk/reward profiles no longer warranted inclusion in the portfolio relative to other names where we had stronger conviction at current prices. To that end, we exited **Teleperformance**, **Intuitive Surgical**, **Lululemon**, and **New York Times**. We also trimmed our positions in **Netflix**, **Electronic Arts**, and **Intuit**. *For more detail on new and exited core positions, please see the Commentary section later in the letter.*

On the short side, we added two new positions in the **Food Products** and **Automobile** industries and exited seven shorts that we held at the end of Q2 – mostly in companies that benefitted from the economy reopening. Some of these companies delivered better results than we expected, while others saw new narratives emerge that drove stock price increases, and we no longer considered these stocks high enough conviction to continue to hold. As the environment has normalized, we have concentrated our short book on the positions that we see as the most attractive, and the number of holdings in the short book fell from eighteen to twelve over the course of the quarter.

By virtue of these changes, our net exposure has increased from 64% at the end of Q2 to 82% at the end of Q3. As a reminder, this is not us becoming more bullish on "the market" as a whole; this is a fallout of the bottom-up opportunities that we are finding and the portfolio construction that we believe will enable the best returns going forward. While stock prices seem to be driven more by macro factors than usual at the moment – and we are of course cognizant of these factors – we react to macro changes only to the extent that they inform our bottom-up view of each individual opportunity.

CONTRIBUTORS AND DETRACTORS – Q2'20

The long book contributed approximately 1,100 bps to gross performance, while the short book detracted roughly 800 bps.

[3] Excludes ETFs and purchases/sales less than 50 basis points

Q3'20 Top Contributors & Detractors				
Contributors			**Detractors**	
Floor & Decor	1.96%		Specialty Retail – Short	(2.22%)
Teleperformance	1.18%		Index ETF – Short	(1.30%)
Charter Communications	1.15%		Entertainment – Short	(1.06%)
Peloton	1.10%		Automobiles – Short	(0.76%)
ServiceNow	0.98%		Automobiles – Short	(0.76%)
Square	0.88%		Specialty Retail – Short	(0.67%)
Netflix	0.84%		Entertainment – Short	(0.58%)
Intuitive Surgical	0.80%		Splunk	(0.50%)
Intuit	0.79%		**Total above**	**(7.85%)**
Total above	**9.67%**			
*Represents contributors >75 basis points and detractors >50 basis points				

Source: Interactive Brokers, Blue Hawk analysis

Top Contributors

Our top contributors came from the long book, led by **Floor & Decor**, **Teleperformance** (since sold), **Charter Communications**, **ServiceNow**, and new holdings **Peloton** and **Square**. Notably, **Floor & Decor** was our top detractor in Q1, but a significant rebound and our decision to increase the holding size in Q3 has made it a top contributor year-to-date.

Top Detractors

Our top detractors came from the short book, as the strong market rally continued, and the environment remained difficult for shorting. Most of the shorts that hurt us the most were levered to the economy reopening, including two retailers, two entertainment companies, and two companies in the automobile space (in addition to an index ETF).[4] Our long holding **Splunk** was a modest detractor after being a top contributor in Q1 and Q2, but it is still our fourth largest contributor year-to-date.

Evaluating Our Short Book

We plan to evaluate our performance and drivers thoroughly at year-end, but we will address our short book briefly here. As a long/short fund, we aim to generate attractive returns in many different market environments. We believe predicting where the market and economy will go is a fool's errand. As we said in March, we believed the Fed would move in a big way and buoy markets – creating a big opportunity for investors. So should we have loaded up on risk and bet the farm on this? With so many unknowns at the time, we are not convinced this was the prudent move, even in hindsight. Tilting the portfolio to benefit incrementally more from the Fed's actions aligns more with our approach and is what we did.

Though the massive rally we have seen is a positive for the overall portfolio, it has made our shorting look very poor. However, this is not how we evaluate ourselves and our short book. Instead, we ask ourselves what have been the underlying drivers? Is it beta – a fancy way of saying are our stocks simply reacting to the overall change in risk preference/price level of the overall market? Or did we miss something specific to the underlying companies that led to justified price appreciation? These questions are more art than science and require disciplined intellectual

[4] As a reminder, if we exit multiple shorts in a period or for other reasons have significant turnover in the short book, we may use ETFs in the near-term until we find additional single name shorts we find compelling.

honesty. Overall, we would say there is some of both factors at play with our short performance, and we will address this in depth – including commentary on individual short detractors – in our year-end letter.

COMMENTARY: UPDATES ON PORTFOLIO HOLDINGS

We swapped our existing **Visa** position into new holdings **Square** and **PayPal**, which we believe have similar exposures but superior return profiles going forward. These companies first piqued our interest in the summer of 2019, when our Mayo Fellow/Summer Intern Church covered the payments industry, and we have been following them ever since. **Square (SQ)** is best known for its mobile and tablet credit card reader inserts used by many small businesses, but it has grown to become much more. The company's culture of innovation – led by founder/chairman/CEO/president Jack Dorsey (also the founder of Twitter) – is a strong competitive advantage and is what really attracted us to the firm. The company used its card reader as a tool to develop relationships with small and medium sized businesses (SMBs) and learn in-depth these SMBs' needs, wants, pain-points, and concerns. SQ has used this information to develop a comprehensive suite of digital tools to help SMB owners run their businesses effectively – online and offline – in essence greatly reducing the friction and barriers to starting and running a business. In addition to continual innovation in the SMB side of the business, SQ has further innovated in building out a second ecosystem with the wildly successful Cash App centering around consumers, and the firm recently received a banking charter.[5] We believe SQ – as constituted today, but especially when considering future innovations – has created an entrenched, highly defensible business model with robust growth opportunities ahead, and it is positioned well to benefit from the ongoing shift to ecommerce. We believe that SQ can achieve a 25-30% revenue compound annual growth rate for several years, with impressive free cash flow generation – a growth profile not much different from Wall Street darling Shopify, but at a significant valuation discount. We made Square a top five holding at an average price of just above $150.

PayPal (PYPL) is the leader in the digital payments industry and runs a two-sided network with strong network effects – connecting peer to peer and peer to merchant. Its two best-known products are Venmo and PayPal, and its network processed $800B in total payment volume over the last twelve months, with 346 million active users on the platform – staggeringly large numbers. The large financial institutions have historically been the dominant players in the payments space, but their positioning and defensibility continue to worsen, driven by heavy regulation, bloated balance sheets, and comparatively inferior digital offerings. While the banks are dealing with these issues, PYPL is investing in growth, playing offense, and taking significant share. PYPL is poised to be a big winner from the pandemic for two reasons. First, the forced mass adoption of ecommerce has shifted tens of millions of additional users online, where PYPL has a dominant position (and PYPL added a massive 41.5 million new users in the first six months of 2020). Second (and what really drew us to PYPL), the comparative advantage in flexibility that PYPL has over the large banks it is disrupting has greatly increased. Balance sheets are everything for financial institutions, and the pandemic has worsened and placed maximum stress on the legacy banks' already deteriorating balance sheets due to widespread mortgage forbearance and souring commercial loans, among other issues. While the stock has run up, PYPL remains significantly undervalued in our view, trading at 25x '22E Street EV/FCF for a company with years of 20%+ FCF growth ahead. This is an example of the perils of focusing on a company's stock chart when making an investment decision instead of on the changing fundamental picture and where the current stock price sits compared to the company's underlying intrinsic value. We purchased a roughly 4.5% position at an average price of $182.

Arguably the largest beneficiary of the pandemic, **Peloton (PTON)** is an at-home fitness platform famous for its Peloton bikes (and it also recently began offering treadmills). The business model is unique and disruptive,

[5] https://squareup.com/us/en/press/ilc-update

incorporating the lessons from the mistakes of past hardware companies and focusing on the services/software side of the equation. The company sells its hardware at breakeven, with fitness class subscriptions driving profits and providing stickiness and recurring revenue. The business also has social aspects and growing network effects around its community of riders and instructors. We were intrigued, yet skeptical, when we started to dig into the stock, but our research process uncovered a stock that checked pretty much all our boxes:

- Leader in a promising business space with an attractive potential profit pool
- Disruptive business model with highly recurring revenue and large, fragmented addressable market
- Unique company culture and consumers who rave about the product
- Innovative management team with the determination to develop new products/services to further increase the total sales potential of the organization

In addition, we are very attracted to companies that become synonymous with words ("Netflix" for streaming, "Google" for search, Match/Tinder essentially owning the word "swipe") as this is free, viral, word-of mouth marketing and very difficult for competition to overcome, and we believe Peloton has reached this point – imagine consumers referring to your non-Peloton bike as a Peloton. We became familiar with the at-home fitness market from our ownership of **Lululemon (LULU)** and its acquisition of Mirror. Mirror is LULU's foray into the industry and attempt to compete with Peloton. When it became clear to us that Mirror would struggle to compete with PTON's dominant position, our last step was to determine what we believed PTON was worth. We used a customer lifetime value approach and determined the risk-reward tradeoff was strongly skewed to the positive. We rolled our LULU position into PTON, purchasing a 3% position at an average price of $72. The stock price quickly increased, making it a top contributor for the quarter.

During the quarter, we made **Floor & Decor (FND)** a top five holding in the portfolio. We had previously been cautious on the position sizing due to the company's heavy macroeconomic exposure, but highly accommodative policy and record low rates – guided to remain low until at least 2024 – mitigates our macroeconomic concern enough to significantly increase our conviction in FND. We believe it has many years of 20%+ top line growth ahead of it, and we plan to maintain it as a core holding for many years. We believe this company is early days **Home Depot** – a comparison we do not throw around lightly. We believe the stock to be right in our wheelhouse, as an extremely compelling opportunity that is under-owned by other growth investors by virtue of liquidity, its brick and mortar business model, and smaller size.

Charter Communications (CHTR) has executed tremendously during the pandemic, adding record numbers of new customers. CHTR's broadband speed advantage over direct competitors (DSL/telecom providers) positioned it well to benefit from consumers spending more time at home – both working and consuming media over the internet – and its decision to offer free internet for sixty days to non-customer households with students or educators has been a boon as well. As of the end of Q2, CHTR had added 1.4 million net new internet customers YTD (including 450,000 customers added under the sixty days free offer), more than double the customers added in the first two quarters of 2019 – which were considered good quarters at the time. All indications and statistics around disconnects (or lack thereof) thus far suggest that this new cohort should be sticky and stay with CHTR long after the pandemic is over. CHTR has very low incremental expenses related to these customers – with the cable build well-suited to support this increased usage after a big upgrade completed in 2019 – and the new relationships added in 2020 should add substantially to CHTR's profits and free cash flow over the long-term. We continue to like CHTR's setup for 20%+ FCF/share growth annually over the next five years, and we added to the position in Q3 as our conviction grew.

Constellation Brands (STZ) was a top holding at the close of Q2, after we were aggressive in adding to the stock at low prices in March through May. As we have continually reevaluated our holdings during this period of rapid change, we have found ourselves less bullish on the long-term growth story relative to our other holdings, and we sold out of our position during Q3. We believe that STZ is likely to remain a steady but unspectacular grower in the 8-10% range, but we do not have the conviction that it can provide us with a 20% annual return from here. We also held STZ in part to provide a cushion for the portfolio in risk-off markets, but we have now observed that it did not provide these protective put characteristics in the pandemic-driven downturn in March, and we have less confidence that it will protect in future down markets. We believe other holdings in the portfolio are more likely to protect well on the downside while providing more attractive growth profiles in all markets. Though the stock price was down ~5% YTD when we made our final sale, our decision to add to the stock at substantially lower levels in Q1 and Q2 led to the stock contributing a positive 59 bps to our 2020 performance.

GOING FORWARD

We are very excited about the portfolio today. Though this letter is focused more on the long book, we still believe that there are substantial risks in the market and opportunity in the short book as well, and we see the potential for great dispersion of returns going forward. We are concentrated in stocks in both the long and short book that we believe will give the portfolio the best long-term risk-adjusted return. While we believe the fund is positioned well and do not anticipate the same level of activity in Q4 as we had in Q3, if the environment changes significantly, we will not hesitate to make changes that reflect the new reality. We are disciplined in finding and holding names that will be big long-term winners and meet our IRR hurdle, not in dogmatically defending our holdings in the face of big changes. When the world is changing as much as it has in 2020, it is very likely that our portfolio will change somewhat to match the new reality. We are energized by this time of great change, and we are finding very attractive investment opportunities. We hope to get the chance to discuss them with you soon.

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

Jake DuBois, Managing Member

Michael Kellett, CFA, Research Analyst

Michael Kellett

Appendix: Holdings as of 9/30/2020

Holding	Weight
Match Group, Inc.	14.5%
Floor & Decor Holdings, Inc. Class A	12.4%
Square, Inc. Class A	10.3%
Microsoft Corporation	10.2%
Facebook, Inc. Class A	9.6%
Splunk Inc.	9.6%
ServiceNow, Inc.	8.2%
Charter Communications, Inc. Class A	7.4%
Electronic Arts Inc.	6.1%
Intuit Inc.	5.8%
Netflix, Inc.	5.1%
PayPal Holdings Inc	5.1%
Peloton Interactive, Inc. Class A	3.6%
Other	3.4%
Total Long	**111.3%**
Total Short	**(29.0%)**
Total Net	**82.3%**

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.

Blue Hawk Investment Group, LLC ("the General Partner") is not registered as an investment adviser with the Securities and Exchange Commission or any state's securities commission. The limited partnership interests (the "Interests") in Blue Hawk Fundamental Growth Fund, LP (the "Fund") are offered under a separate private placement memorandum (the "PPM"), have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any State's securities laws, and are sold for investment only pursuant to an exemption from registration with the SEC and in compliance with any applicable state or other securities laws. Interests are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws. Investors should be aware that they could be required to bear the financial risks of this investment for an indefinite period of time. A prospective investor should only commit to an investment in the Fund if such prospective investor understands the nature of the investment and can bear the economic risk of such investment. The Fund is speculative and involves a high degree of risk. The Fund may lack diversification, thereby increasing the risk of loss. The Fund's performance may be volatile. There can be no guarantee that the Fund's investment objectives will be achieved, and the investment results may vary substantially from year to year or even from month to month. As a result, an investor could lose all or a substantial amount of its investment. In addition, the Fund's fees and expenses may offset its profits. There are restrictions on withdrawing and transferring interests from the Fund. In making an investment decision, you must rely on your own examination of the Fund and the terms of the PPM. The information herein is not intended to provide, and should not be relied upon for, accounting, legal, or tax advice or investment recommendations. You should consult your tax, legal, accounting, or other advisors about the matters discussed herein. The Fund's ability to achieve its investment objectives may be affected by a variety of risks not discussed herein. Please refer to the PPM and related documents for additional information regarding risks and conflicts of interest. Past performance is not indicative or a guarantee of future results. No representations or warranties of any kind are made or intended, and none should be inferred, with respect to the economic return or the tax consequences from an investment in the Fund. No assurance can be given that existing laws will not be changed or interpreted adversely. Prospective investors are not to construe this presentation as legal or tax advice. Each investor should consult his or its own counsel and accountant for advice concerning the various legal, tax, ERISA and economic matters concerning his or its investment. No person other than the General Partner has been authorized to make representations, or give any information, with respect to these membership interests, except the information contained herein, and any information or representation not expressly contained herein or otherwise supplied by the manager in writing must not be relied upon as having been authorized by the company or any of its members. Any further distribution or reproduction of this document, in whole or in part, or the divulgence of any of its contents, is prohibited. Any reproduction or distribution of this document or accompanying materials, if any, in whole or in part, or the divulgence of any of its contents is prohibited. The information set forth herein does not purport to be complete and no obligation to update or otherwise revise such information is being assumed. It is meant to be read in conjunction with the Fund's PPM prepared in connection herewith, and does not constitute an offer to sell, or a solicitation of an offer to buy, by anyone in any jurisdiction in which such an offer or solicitation is not authorized or in which the making of such an offer or solicitation would be unlawful. The information contained herein does not purport to contain all of the information that may be required to evaluate an investment in the Fund. The information herein is qualified in its entirety by reference to the PPM, including, without limitation, the risk factors therein.