



Bumbershoot  
Holdings

Bumbershoot Holdings LP  
17 E. 96<sup>th</sup> St., Unit #8c  
New York, NY 10128

Feb-2017

Dear Partners,

I am happy to report that our partnership finished the year on a high note.

It was an exciting year and I am proud of all that was accomplished. When I started in late 2015, there were three questions in my head:

*Will I enjoy it?*

*Can I raise money?*

*And can I make money for investors?*

The first question was answered almost immediately as I love what I am doing every day. The other two are longer term questions that will take time to prove out. So far though, I raised a little more than \$5m and was up nearly +8.8% for the year. While neither figure is obviously where it needs to be longer term, it is a start and I feel confident about our trajectory.

With that said, this past year was also incredibly frustrating, mostly because it could have been truly transformative. Our partnership identified some major “winners” in the market in 2016... yet it did not benefit nearly as much as it could (or should) have.

*This is on me.*

There are many scenarios under which Bumbershoot could have been up a *multiple* of what it was last year. And it is not by chance that it didn't happen. It was by mistake, as I learned that stock selection and capital allocation are two distinctly different skills. I worked all year to try to put us in the right place at the right time... but then was way too conservative in the instances in which we found ourselves there. It is a missed opportunity that will not necessarily be made up for in future years. For that I am sorry.

Overall though, I did what I set out to do in Year-1. Despite tremendous levels of volatility earlier in the year, I took a conservative approach to investing and managed your money as if it were my own.

**Bumbershoot Holdings L.P.**

**Q4-2016 Performance**

		S&P <sup>1</sup>	Russell <sup>2</sup>	FTSE <sup>3</sup>	Barclay <sup>4</sup>
<b>Q4-2016</b>	<b>6.06%</b>	3.86%	8.43%	4.30%	1.76%
<b>YTD-2016</b>	<b>8.76%</b>	11.96%	19.48%	19.10%	6.21%
<b>Inception</b>	<b>10.24%</b>	19.12%	23.07%	22.89%	7.81%

I will take the lessons of the past year—good and bad—and look to build off them in the present one.

*Onward ho!*

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Performance

*Bumbershoot Holdings L.P.* posted a positive gross return of approximately 6.06% in Q4-2016.

The partnership returned 8.76% for the full-year; and has a cumulative total return of approximately 10.24% since inception in Oct-2015.

Looking at quarterly performance in more detail, our monthly returns directionally tracked with the major benchmarks. October was challenged by a muddled Q3 earnings season and heightened levels of political uncertainty; while returns in Nov-Dec benefited from renewed expectations for higher growth following results of the U.S. Presidential election. Despite being “caught” underinvested, Bumbershoot was generally able to hold its own as a result of favorable selection.

Our investment activity is categorized into five major segments: *Core, Micro, Value, Special Situation, and Discretionary.*

Despite remaining below targeted gross/net exposure levels, our *Core* category investments delivered solid performance as a result of favorable underlying stock selection on both sides of the long/short book.

<i>By Month:</i>		S&P <sup>1</sup>	Russell <sup>2</sup>	FTSE <sup>3</sup>	Barclay <sup>4</sup>
Oct-2016	-0.48%	-1.82%	-4.75%	1.03%	-0.31%
Nov-2016	2.75%	3.70%	11.15%	-2.15%	0.84%
Dec-2016	3.72%	1.98%	2.80%	5.40%	1.23%

By Category:		By Market Cap:	
Core	3.60%	Large	0.06%
Core - Long	3.39%	Mid	1.53%
Core - Short	0.21%	Small	2.36%
Micro	-0.01%	Micro	2.46%
Value	0.05%	Fx	-0.33%
Special Situation	2.35%	Misc	-0.01%
Discretionary	0.41%	Q4-2016	6.06%
Fx.	-0.33%		
Misc.	-0.01%		
Q4-2016	6.06%		

Shares in **iRobot** (*IRBT:NGS*) remained on a tear for the second straight quarter; and it has now effectively doubled since publishing Part I of the article [Anatomy of a vSLAM-Dunk Investment](#) in Dec-2015. Newer positions in **Korn/Ferry** (*KFY:NYSE*) and **T. Rowe Price Group** (*TROW:NGS*) were also significant contributors after being added/expanded during the summer months.

Short positions contributed modestly to results. This was led by **Financial-B**, the large-cap real-estate investment trust (REIT) that was introduced in last year's letter. The stock had declined by roughly 15% during the quarter before partially covering. Overall, shares declined by nearly 10% on an absolute basis for the full-year, substantially underperforming its sector, as well as the broader market. Our partnership also benefited, to a lesser extent, from a short position against **Herbalife** (*HLF:NYSE*). While the position was under-sized for various reasons, it had decreased significantly during the quarter prior to covering. I had previously published an article on the company in late July titled [Let's Not Use Labels](#) following its settlement with the FTC.

Investments within the *Special Situation* category had an outstanding period, once again led by our position in potassium miner, **Intrepid Potash** (*IPI:NYSE*). I published a follow-up article on the company in late September titled [Betting on Joe!](#)

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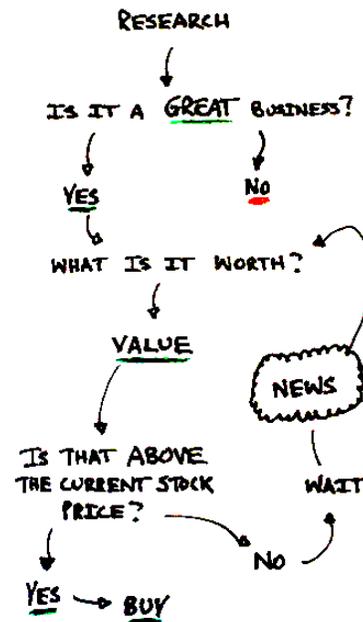
### Investment Outlook

While at the risk of sounding like a "broken record" the outlook for this year remains uncertain. This is in part because expectations of corporate earnings have moved higher at a time when policy of all types (fiscal, monetary, regulatory, judiciary, etc.) have seemingly never been more fluid and undefined.

As it pertains more specifically to equities though, not a lot has changed, at least in the short term. Stock prices are at record high levels, but so are corporate earnings. Multiples are elevated relative to historic standards, but this may be justified by sustained lower interest rates and/or higher earnings growth.

From my perspective, this just means continuing the process of identifying secular themes and discovering high-quality companies within those areas that are in control of their own destiny.

For our *Core* investments, this process takes the form of a relatively simple heuristic model...



...and while it is frustrating that a growing number of companies seem to be stuck in the middle iteration—that will not always be the case. We will have many chances and I am convinced that long-term success is largely just a function of staying disciplined to that process.

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### Administrative

Not much has changed on the administrative front.

The vast majority of my time is still spent researching potential investment ideas as the fund builds towards being fully invested.

While this limited any marketing effort, assets under management (AUM) have continued to grow reaching over \$5m. Most notably, the partnership received an investment late last year from Chuck Royce. Chuck is a legend within the small-cap investment community and I am absolutely thrilled to have him involved.

The meeting with Chuck was set up by a mentor and key member of the fund's Advisory Board; and while it is still unclear whether I can name him due to internal compliance reasons, I appreciate it more than he can imagine.

I am looking to make a concerted effort to market the fund in 2017. Any introductions to potential capital partners are greatly appreciated!

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#### Taxes

Also, a quick note about taxes. Schedule K-1 forms for LPs should be prepared by the end of February.

As a reminder, we operated this year on a mark-to-market basis, an election under section 475(f) of the tax code. I am monitoring closely whether this will be an efficient tax structure for the partnership going forward, particularly given potential changes in the tax code under a new administration.

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Our first full year is officially in the books!

With that I'd like to remind all partners that the focus of *Bumbershoot Holdings* is on long-term investment returns. This objective is based on a "quality over quantity" approach to investing which relies on deep fundamental analysis. Patience and discipline remain the cornerstones to our success.

I am incredibly grateful for the opportunity to manage your money. I take that responsibility extraordinarily seriously; and continue to have the vast majority of my personal net worth co-invested in the partnership. I am proud of what we've accomplished to date and am excited to see what the future holds!

Sincerely,



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<sup>1</sup> S&P 500 Index --  
<http://us.spindices.com/indices/equity/sp-500>

<sup>2</sup> Russell 2000 Index --  
<https://www.russell.com/indexes/americas/tools-resources/index-performance-calculator.page>

<sup>3</sup> FTSE 100 Index --  
<http://www.ftse.com/analytics/factsheets/Home/HistoricIndexValues> \*\*\*\* Monthly returns estimated for Nov-Dec.

<sup>4</sup> BarclayHedge Hedge Fund Index --  
<http://www.barclayhedge.com/research/indices/ghs/HedgeFundIndex.html>