



Bumbershoot
Holdings

Bumbershoot Holdings LP
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Bumbershoot Holdings L.P.

2017 Performance

		S&P ¹	Russell ²	FTSE ³	Barclay ⁴
FY-2017	21.09%	21.83%	14.65%	7.63%	10.51%
Inception	33.49%	46.17%	44.06%	33.05%	19.13%

Dear Partners,

Our second full year is in the books and I am happy to report that the campaign was a successful one. While starting off slowly, we built up momentum throughout the year; and our gross return of approximately 21.1% held up well against the major benchmarks.

Beneath the surface, though, is a tale of stark contrast between *Stock Selection* and *Capital Allocation*.

In terms of selection, the past year was extraordinary. We published research on two healthcare investments, **Portola Pharmaceuticals** (*PTLA:NGS*) and **Viking Therapeutics** (*VKTX:NCM*), which both climbed by more than 100%+ since distribution. **Intrepid Potash** (*IPI:NYSE*), our chief *Special Situation* play from last year, similarly more than doubled throughout the year; and previously named *Core* category positions such as **FormFactor** (*FORM:NGS*), **Korn/Ferry Internat.** (*KFY:NYSE*), and **T. Rowe Price** (*TROW:NGS*) all registered gains of roughly 40% apiece. We also made a small investment in circuit-machinery manufacturer **Electro Scientific Industries** (*ESIO:NGS*) that saw an increase of 250%+ during the year for a meaningful contribution to performance.

In terms of allocation, it was a clear disappointment. The fund ran with an average net leverage ratio of less than 0.45x during the year; and it's been a continual challenge to increase exposure since launching. The issue is a combination of factors, the first being that I am cautious... and that things are crazy right now—don't have anyone convince you otherwise. Businesses are performing well, but the rise of a “new economy” and the reemergence of greed as a de-facto *culture* is alarming, to say the least. For better/worse, I manage the entire fund as if it were my own money and that's led to a high percentage of cash. The second key factor is “return on time” as we face a bandwidth constraint. I spend a significant amount of time researching every idea that reaches the portfolio; and realistically there is just a limit to the number of companies I'm able to evaluate in that level of detail. This has been frustrating and is something I think about a lot as we continue to

build out a process that will be scalable and repeatable at increasing amounts of capital under management.

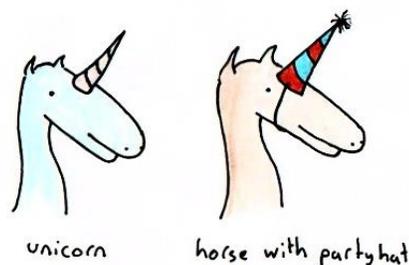
While we certainly made our fair share of mistakes—in particular, the number of potential investments from off the “watchlist” that increased significantly in price prior to completing any extensive diligence—we also took some tremendous strides. We published research that adds to a growing library of quality work; assets continued to expand; and we topped the \$1m mark in *cumulative gains* for LP investors over the summer. It could have been a more transformational year, but I am happy with how it turned out and incredibly proud of all that we've accomplished to date.

One year isn't a career, though, and I would just repeat something I wrote earlier:

“the ability to repeatedly find idiosyncratic risk/reward [...] through fundamental research is the unicorn of active management. It is the proof of market inefficiency; and it is worth its weight in gold.

The problem for most active managers stems from only being a horse with a party hat on, casting a favorable shadow in the right light for a couple of years.

My own classification will be borne out in the years to come.”



So far, so good.

We're only just getting started and I can't wait to see where we go from here...

Performance

Bumbershoot Holdings L.P. generated a positive gross return of 21.09% for the full-year 2017.

Since inception in Oct-2015, the partnership has had a cumulative total gross return of 33.49%.

Looking at our performance in more detail, monthly returns were solid. The year started off at a slow rate, but it began to pick up pace towards the middle of the summer as a result of company-specific gains within a handful of our larger investments. The profile of our returns showed minor correlation with the various key indexes; and we experienced minimal daily volatility as a result of being underweight beta. We had a total of just three days with a greater than 1% moves up-or-down, compared with nine for the *S&P 500* and 45 for the *Russell*. This amounted to a Sharpe ratio above 4.0 and a Sortino ratio of greater than 5.0. I am not a huge believer in the modern portfolio theory, but translated into plain English, it means that our returns marched higher along a *deliberate path* throughout the year.

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

Attribution of the *Core* category was relatively muted as it accounts for the bulk of our below target exposure level. Quality does not come cheap in today's market... or even at a reasonable price for that matter, which has limited selection. The dividing line between categories has also blurred somewhat, particularly between *Core*, *Micro*, and *Discretionary* as certain investments have started to straddle the line in terms of either position sizing or quality characteristics. The *Core* investments we did keep performed admirably, though, helping to absorb the exposure impact on the long side.

By Month:	Bumber	S&P ¹	Russell ²	FTSE ³	Barclay ⁴
Jan-2017	0.72%	1.79%	0.35%	-0.61%	1.34%
Feb-2017	0.92%	3.72%	1.83%	2.31%	1.11%
Mar-2017	-0.07%	-0.04%	-0.06%	0.82%	0.51%
Apr-2017	0.51%	0.91%	1.05%	-1.62%	0.59%
May-2017	1.55%	1.16%	-2.16%	4.39%	0.34%
Jun-2017	0.98%	0.48%	3.30%	-2.76%	0.37%
Jul-2017	2.58%	1.93%	0.69%	0.81%	1.08%
Aug-2017	2.89%	0.05%	-1.39%	0.80%	0.63%
Sep-2017	4.21%	1.93%	6.09%	-0.78%	1.03%
Oct-2017	0.34%	2.22%	0.80%	1.63%	1.08%
Nov-2017	2.70%	2.81%	2.75%	-2.22%	0.65%
Dec-2017	2.04%	0.98%	-0.56%	4.93%	1.29%

As noted earlier, *Core* performance was driven by our investments in **T. Rowe Price Group** (*TROW:NGS*), **FormFactor** (*FORM:NGS*), **Korn/Ferry Internat.** (*KFY:NYSE*), and **Electro Scientific** (*ESIO:NGS*).

On the short side, losses predominantly related to our positions against large-cap, **Technology-B**, as well as **Chemours** (*CC:NYSE*). Share price of both increased materially during the year; and overall, it was a brutal environment to be short *anything* in 2017.

By Category:		By Market Cap:	
Core	8.1%	Large	0.2%
Core - Long	10.3%	Mid	3.7%
Core - Short	-2.2%	Small	9.5%
Micro	6.2%	Micro	6.4%
Value	-0.4%	Fx	0.8%
Special Situation	4.6%	Misc	0.5%
Discretionary	1.3%	FY-2017	21.1%
Fx.	0.8%		
Misc.	0.5%		
FY-2017	21.1%		

The *Micro* and *Special Situation* categories registered outstanding years. *Micro* is the result of our position in development-stage biotech, **Viking Therapeutics** (*VKTX:NCM*). I published a detailed report in October titled [Welcome to The Glorious House of Gains](#), as well as a follow up article later in November called [Buy The Rumor, Buy The News](#) following positive Phase II data on its lead molecular candidate known as *VK5211*. *Special Situation* was led by our position in potassium miner, **Intrepid Potash** (*IP:NYSE*) which remained on a strong upward trajectory throughout the year.

Performance in *Discretionary* was lifted by **Portola Pharmaceuticals** (*PTLA:NGS*). I published a report on the company back in January titled [Bleeding Out](#). The article discussed prospects for its lead candidate, a drug known as *AndexXa* that acts as a reversal agent for the new-class of blood thinners called *direct factor Xa* (FXa) inhibitors, which are replacing warfarin.

Non-core categories were each generally at-or-above a target weighting of 5%+ AUM for most of the year.

Investment Outlook

The investment outlook for the current year is not overly complicated. There is a lot of excitement bubbling up with respect to the U.S. economy.

Some of this enthusiasm, I share.
Some of it, I do not.

That simple statement could launch into a much more detailed discussion, but in a broader sense, the macro economic outlook is of little relevance to what we are trying to accomplish in 2018. Our investment process is company-specific based on the unique, fundamental characteristics of underlying businesses. These traits can then be applied to fit more broad, secular themes.

Evidence seems to suggest this process is working, as it has yielded a handful of substantial outperformers; and our return this year should continue to be driven by the fund's largest investments, as well as our ability to source new ideas.

I won't reproduce the "fancy" heuristic from last year, but to that end, I have a very clear sense of what we're looking for and am increasingly confident that I know it when I see it.

Bottom line is to clearly keep doing what we're doing, we just need to swing harder.

Administrative

From an administrative perspective, there have been relatively minimal changes. We recently upgraded the *Wordpress* account for our website... exciting stuff.

On a more serious note, though, I intended to make a more "concerted effort" to market the fund last year. This turned out to be a notable failure as I still spent the vast majority of my time focused on research. This is in no way a bad thing, but it has resulted in the fund not yet reaching my goal of \$10m AUM.

I intend to hit that milestone this year and would ask for any help from current LPs to introduce the fund to new capital partners. Referrals are the lifeblood of this industry and your support is greatly appreciated.

Taxes

Schedule K-1 forms for all LPs should be prepared by the end of February.

As a reminder, we have operated on a mark-to-market basis, an election under section 475(f) of the tax code. Going forward, though, we will be creating a "master-feeder" structure to efficiently pass through long-term gains, given results of the newly finalized tax bill.

Summary

With that, I'd just remind all partners that the focus of *Bumbershoot Holdings* is on maximizing long-term returns. This objective is based around a "quality over quantity" philosophy 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'm proud of everything that we've accomplished and look forward to big things in 2018!

Sincerely,



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¹ S&P 500 Index --
https://ycharts.com/indicators/sandp_500_total_return_annual

² Russell 2000 Index --<http://www.ftserussell.com/index-series/index-tools/russell-index-performance-calculator>

³ FTSE 100 Index --
<http://performance.morningstar.com/Performance/index-c/performance-return.action?t=UKX®ion=gbr&culture=en-US>

⁴ BarclayHedge Hedge Fund Index --
http://www.barclayhedge.com/research/indices/ghs/Hedge_Fund_Index.html

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*Disclosure:
Long PTLA, VKTX, IPI, FORM, KFY, TROW, ESIO
Short CC*