Jan-2019

Bumbershoot Holdings LP
363A 5th St., Fl. 3
Brooklyn, NY 11215

Dear Partners,

Bumbershoot Holdings completed its third full year of operation. Despite a depressing final quarter, we still managed to clutch to a solid overall result for the year. The fund's annual gross return of +10% exceeded that of the major benchmarks.

The key messages of the past few years remain largely unchanged. We have benefited to a great degree from company-specific, stock selection; and have dealt with the effects of being underinvested—a consequence of my view that things are (still) crazy.

While I have previously expressed frustration on both fronts, taking a more diplomatic (and less *Eeyore-ish*) perspective, I am incredibly proud of all that's been accomplished.

There are many different ways to look at the last three years, but the most telling measure of early success is in keeping true to my word. I set out to offer people an attractive alternative within asset management. A new approach for how to treat people, their money, and risk differently.

As I laid out in the original letter to potential partners, the fund would target a compound growth rate of 15% per year; and should generally be expected to hold to that when measured over any reasonable time scale.

So far, I believe we are on the right track and doing it the right way.

By Month:	**Bumber**	**S&P [1]**	**Russell [2]**	**FTSE [3]**	**Barclay [4]**
Jan-2018	2.82%	5.62%	2.57%	-2.01%	2.07%
Feb-2018	-1.10%	-3.89%	-3.97%	-4.00%	-1.52%
Mar-2018	-2.14%	-2.69%	1.12%	-2.42%	-0.72%
Apr-2018	0.56%	0.27%	0.81%	6.42%	0.45%
May-2018	12.36%	2.16%	5.95%	2.25%	0.74%
Jun-2018	0.00%	0.48%	0.58%	-0.54%	-0.47%
Jul-2018	1.25%	3.60%	1.69%	1.46%	0.62%
Aug-2018	2.24%	3.03%	4.19%	-4.08%	0.13%
Sep-2018	4.41%	0.43%	-2.54%	1.05%	-0.09%
Oct-2018	-0.84%	-6.94%	-10.91%	-5.09%	-3.30%
Nov-2018	-1.40%	1.79%	1.45%	-2.07%	-0.40%
Dec-2018	-7.44%	-9.18%	-12.05%	-3.61%	-2.63%

Bumbershoot Holdings L.P.

2018 Performance

		S&P [1]	**Russell [2]**	**FTSE [3]**	**Barclay [4]**
FY-2018	**9.98%**	-4.38%	-11.01%	-12.48%	-5.11%
Inception	**46.81%**	39.77%	28.20%	16.44%	13.04%

Nobody reads me, anyway.

Performance

Bumbershoot Holdings L.P. generated a positive gross return of 9.98% for the full-year 2018.

The partnership has a *cumulative* total gross return of 46.81% since inception in Oct-2015.

Looking at performance in more detail, our monthly returns were directionally correlated with the market indices. We maintained a slightly higher net leverage ratio, at an average of ~0.55x for the year. This led to markedly higher daily volatility, primarily as a result of our position in development-stage biotech, **Viking Therapeutics** (*VKTX:NCM*).

Our position in *Viking* expanded dramatically in size as the stock moved higher; and the big jump in May coincided with a positive news announcement from its closest competitor/peer, detailed in an article titled, *Hallmark Moment*.

After a total of just three days during all of 2017 with greater than 1%-percentage point moves, up-or-down —this year bore more than 40, including 18 since the beginning of October alone.

From an investment perspective, gains were driven by positions in **Viking Therap.** (*VKTX:NCM*), **Electro Scientific Industries** (*ESIO:NGS*), **Drax Group** (*DRX:LSE*), **Carmanah Technologies** (*CMH:TSX*), as well as various short exposure.

As a reminder, I categorize our investment activity in five buckets: *Core*, *Micro*, *Value*, *Special Situation*, and *Discretionary*—although as noted last year, it has become increasingly difficult to attribute the specific P/L of individual companies as market-capitalizations adjust, balance sheets expand, and conviction levels change. This line has most noticeably blurred between the *Core* and *Micro* sections, but our best estimate for category performance in 2018 is as follows:

By Category:	
Core	15.7%
Core - Long	*14.2%*
Core - Short	*1.5%*
Micro	0.8%
Value	0.3%
Special Situation	-3.2%
Discretionary	-2.2%
Fx.	-0.5%
Misc.	-0.9%
FY-2018	10.0%

By Market Cap:	
Large	0.8%
Mid	-1.1%
Small	11.1%
Micro	0.6%
Fx	-0.5%
Misc	-0.9%
FY-2018	10.0%

In general, the *Core* category remains below our target exposure level, while *Non-core* categories each remain at-or-above a target weighting of ~5%+ AUM.

Case Study – Carmanah Technologies

In a departure from the previous year-end letters, in which I purposefully did not discuss any of the fund's positions in significantly greater detail, I'd like to take this opportunity to provide partners with a case study about one investment from the past year: **Carmanah Technologies** (*CMH:TSX*).

While not previously cited, *Carmanah*, perhaps more than any other investment, is a textbook example of what we look to find.

At its heart, *Carmanah* is a "blinking light" company.

The company is a niche, Canadian designer, developer and distributor of specialized LED signals & beacons.

It combines technical expertise in LED-lighting, solar-panel technology, and durable casings—and integrates them into critical products that *flash* for long periods of time. These are used in infrastructure, across varied markets such as airfield ground lighting, marine aids-to-navigation/buoys, obstruction/warning marks, etc.

A simpler way to understand the company's products is to watch this overly dramatic (yet very entertaining) product video for the [M660 Self-Contained Lantern](#).

(The video has less than 3,000 views… and probably at least 50+ of them came from me).

The company is a gem.

It is small. It has remained completely off-the-radar of institutional investors. It has a reputation for quality products. It maintains a strong financial profile with excellent fundamentals; and perhaps most important, has gone through a significant transformation which has masked all the positive change underway–keeping it's valuation down.

Carmanah has been on my radar for a couple of years. I always liked the *Signals* segment, but thought it was complicated by multiple business lines. It cleaned it up by divesting the underperforming subsidiaries; and recycled the capital into a few bolt-on acquisitions in *Signals*—specifically adding *Sabik Group*, *EKTA*, and *Vega* during the 2015 to 2017 timeframe. These deals provided scale & allowed it to become the consolidator in its largest and most attractive market/division.

Bumbershoot initially invested in *Carmanah* in 2016, establishing a "bookmark" position of less than 5bps. The position was expanded throughout 2017 amid the change in capital structure and acquisitions; and then was more dramatically increased in mid-2018.

All told, we built up a moderate position at an average price of ~C$4.25, allocated to the *Micro* category.

The company recently announced, in Dec-2018, that it had reached an agreement to sell a significant portion of its assets (*Signals* division) to infrastructure expert, ***SPX*** (SPXC:NYSE) for USD$77m—an amount greater than the market-capitalization of the entire company (approximately ~C$100m vs. ~C$65m).

As to be expected, shares traded materially higher on the news; and with shares now trading ~C$6.25, we've realized roughly a 50% gain from our starting point.

While technically billed as *Carmanah* being *acquired*, since the deal constitutes a sale of substantially all the assets as defined under the *Business Corporations Act* of British Columbia—its not exactly dead yet. After the transaction, *Carmanah* will still retain four operating divisions. This includes a *Traffic* segment which sells flashing crosswalk/school zone signs, as well as radar-aware speed signs that post a vehicle's speed as it goes by the system. It also includes a solar street-lamp firm named *Sol*, which is at an interesting juncture with its *EverGen* product lifecycle as it reaches lumen/capital cost parity vs. grid lighting. As well as *Sabik Offshore*, the company's wind farm company, which was carved out from the rest of the *Signals* division. Lastly, it also kept its exciting *Telematics* business, which supplies satellite-connected, solar-powered tracking devices to ***Globalstar*** (GSAT:NYSE-Am), which it remarkets to its customers that can take advantage of its low-orbit satellite network for M2M/IoT applications.

Pro-forma following the sale, *Carmanah* is projected to have a net cash balance of nearly USD$90m. Given a market cap of ~C$120m, this means that the leftover businesses are being valued for *free*.

So, despite its relatively diminutive weighting, it was a solid contributor to 2018 performance; and one that I believe can continue to be going forward.

Investment Outlook

The investment outlook for the coming year is much more subdued than one just finished.

There is a host of economic fears to contend with such as the scarcity of growth, international tensions, trade wars/tariffs, government shutdown, etc.

But before taking it a step further… I'd offer a quote. It is an excerpt from *The Great Crash of 1929*, written by famed economist John Kenneth Galbraith:

> *"In the autumn of 1929 the NY Stock Exchange […] was 112 years old. During this lifetime it had seen some difficult days. […]*
>
> *A common feature of all these earlier troubles was that having happened they were over. The worst was reasonably recognizable as such.*
>
> *The singular feature of the great crash of 1929 was that the worst continued to worsen. What looked one day like the end proved on the next day to have been only the beginning. Nothing could have been more ingeniously designed to maximize the suffering, and also to insure that as few as possible escaped the common misfortune.*
>
> *The fortunate speculator who had funds to answer the first margin call presently got another and equally urgent one, and if he met that there would still be another. In the end all the money he had was extracted from him and lost.*
>
> *The man with the smart money, who was safely out of the market when the first crash came, naturally went back in to pick up bargains […] [which] then suffered a ruinous fall.*
>
> *Even the man who waited out all of October and all of November, who saw the volume of trading return to normal and saw Wall Street become as placid as a produce market, and who then bought common stocks would see their value drop to a third or a fourth of the purchase price in the next twenty-four months.*
>
> *The Coolidge bull market was a remarkable phenomenon. The ruthlessness of its liquidation was, in its own way, equally remarkable."* [5]

Oh, bother.

It is easy to feel down in today's environment. And yet while the parallels are inescapable—the obvious follow up question is whether I'd actually expect this to be a repeat of 1929/2008? The answer is *no*. I don't believe that is what lies ahead for the economy. This is not the time to be pessimistic.

To be sure, it certainly feels at times as though we are hurtling down just a dreadful path. Human suffering associated with disease and poverty. Income disparity and the student debt crisis. Climate change.

But if 2018 taught anything, it's that it's never too late. Researchers at the Gladstone Institutes identified a fix to a genetic risk factor for Alzheimer's. A high-school senior in North Carolina was awarded more than $4m in college scholarship offers; and the world watched in awe as rescue divers literally turned back the tide to save a boys soccer team trapped in a cave in Thailand.

There is no limit to the capacity for human progress when people truly come together.

But don't confuse progress and the economy with the stock market. It may not be the time to be pessimistic, but it is time to remain cautious.

There is an implication that buying opportunities are everywhere simply because of a minor "correction." That is not the case. It will not be shooting fish in a barrel. The majority of securities still have many years of growth embedded into expectations/valuations.

This makes it important as ever to stick to a process.

Our investment process is company-specific based on the unique, fundamental characteristics of underlying businesses. These traits can then be applied to match more broad, secular themes.

I like how we are positioned heading into 2019; and I believe that whatever the year brings, we are invested in businesses that will continue to perform well.

Administrative

From an administrative perspective, it's been much of the same story for a while. No major changes.

From a marketing position, we welcomed a few new partners into the fund. This will be a pivotal year and I intend to make a more concerted effort to promote the fund… the same thing I've said the past two years, but this time I mean it.

Referrals are the lifeblood of this industry; and your support to introduce the fund to new potential capital partners is greatly appreciated.

Taxes

Schedule K-1 forms for all LPs are being prepared by our Administrator and should be ready by the end of February.

As a reminder, since inception the fund has operated on a mark-to-market basis, an election under section 475(f) of the tax code. This has not been advantageous given our long-term strategy; and going forward it will be changed through use of a "master-feeder" structure to more efficiently pass through long-term gains.

Summary

To conclude, 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 great things in 2019!

Sincerely,

Jason Ursaner
Managing Member
Bumbershoot Holdings

Email - Jason@BumbershootHoldings.com
Phone - (914) 837-0396

[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&region=gbr&culture=en-US

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

[5] John Kenneth Galbraith – The Great Crash 1929 (1954)

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Disclosure:
Long VKTX, ESIO, DRX.l, CMH.ca, GSAT