SOUTHPAW CAPITAL

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January 13, 2012

Dear Partners,

It is with great pleasure that I sit down today to author the Southpaw Value Fund's inaugural quarterly letter to Partners. As a believer in the power of written goals and priorities, at the beginning of 2011 (though the goal originated back much further) I wrote to myself: "What is the single most important goal you want to achieve in the next twelve months? Commit to it→ Having the hedge fund launched." So, I begin the letter with a heartfelt thank you to my operating partner, George, our earliest investors, and the many indispensable service providers that assisted me in making this goal realizable. It is said that concentrating all of your energies on a limited set of goals can add substantial power and achievement to your life; from here on out Southpaw will be the target of my (self-proclaimed) immense capacity for exertion and concentration.

Southpaw Value Fund, LP

ESTIMATED NET MONTHLY PERFORMANCE | 2011				
PERIOD	**SVF (Net)**	**SVF (Gross)**	**HFRX (Gross)**	**S&P 500**
JANUARY				
FEBRUARY				
MARCH				
1st QUARTER	**0.00%**	**0.00%**	**0.00%**	**0.00%**
APRIL				
MAY				
JUNE				
2nd QUARTER	**0.00%**	**0.00%**	**0.00%**	**0.00%**
JULY				
AUGUST				
SEPTEMBER				
3rd QUARTER	**0.00%**	**0.00%**	**0.00%**	**0.00%**
OCTOBER	1.51%	2.05%	0.81%	10.93%
NOVEMBER	-4.09%	-4.28%	-0.86%	-0.22%
DECEMBER	3.17%	3.45%	-0.42%	1.02%
4th QUARTER	**0.44%**	**1.05%**	**-0.48%**	**11.82%**
YEAR TO DATE	**0.44%**	**1.05%**	**-0.48%**	**11.82%**

Although the term launch to describe a hedge fund opening conjures up mental images of a space shuttle rapidly propelling towards the heavens, Southpaw's first quarter in business was regrettably anything but explosive. Judging by the global hedge fund indices, we have a considerable amount of company in booking a disappointingly flat Q4—though I am never one to find solace or comfort in being part of the crowd, quite the opposite, rather. As billionaire Ken Fisher is wont to remind investors, "Shun pride; accumulate regret." I can't seem to shake this phrase from my mind as I write this, as I have nothing but regret for the most part so far in terms of portfolio performance, but I take the view that our early errors serve as portals of discovery offering near constant opportunities for introspection and refinement of an optimal portfolio management strategy, as well as improvement of analysis techniques that I hope will benefit us for the next several decades. To point out the obvious, starting out flat footed with a 100% cash balance hindered our relative performance in the rip-roaring snapback rally in October. We ended the quarter with a 77.6% net long exposure; 84.3% gross long, 6.7% gross short. During an acquisition period, such as Q4 '11 and Q1 '12, our primary desire is that the stocks we want to own or are researching will stay flat or decline, rather than rocket higher in a short amount of time. In picking a poison, ours was to stick to our thorough diligence process and put cash to work slowly and run the risk of underperforming in the near term in an up-market. At any given time a large part of the fund--particularly when just starting out--will be in the fallow stage. This approach, while requiring patience, should help over the long term because as value investors, we typically buy too early, and thus usually scale into our core positions.

You know you truly love the process for its own sake when you find yourself somewhat resenting the fact that you need to spend precious time 'marketing,' when that time could be spent ripping through more SEC filings. Indeed, I feel compelled to actively seek new outside capital sources in the very near term, primarily in order to lower the abnormally high expense ratio for the current Limited Partners, myself included. One thing I am hyper-aware of is the need to provide a true economic benefit (e.g. positive absolute returns, outperform passive indices) in order to justify our fee structure and Southpaw's very existence as an entity (as audited returns and fund administration would not be necessary for a simple personal compounding vehicle), and keeping our expense ratio as low as possible is essential to maximizing our value proposition.

Taking a long term view provides us a distinct competitive advantage over most associated with Wall Street. The reasons are manifold. It does not take a particularly keen observer to notice that the playing field for longer term investing, or stock picking at all, is becoming less crowded, creating opportunities to buy certain great long duration assets at bargain prices. In recent weeks it was not uncommon to see sell-side analysts have optimistic comments and price objectives for stocks they cover with the caveat that they--and by extension their clients--are cautious, due to the fact that the equities "may get even cheaper." Our guiding focus remains to invest in high quality companies at good prices whose management is incentivized and focused on long term value creation.

George and I asked ourselves when establishing operating and investment parameters: If there were zero outside partners, what would we do differently? The only acceptable answer, we've decided, is nothing. No one likes to wait to get paid, us included, but, fortunately (and partly by design) we are able to have Partners that can take a long term view and believe in our strategy and philosophies.

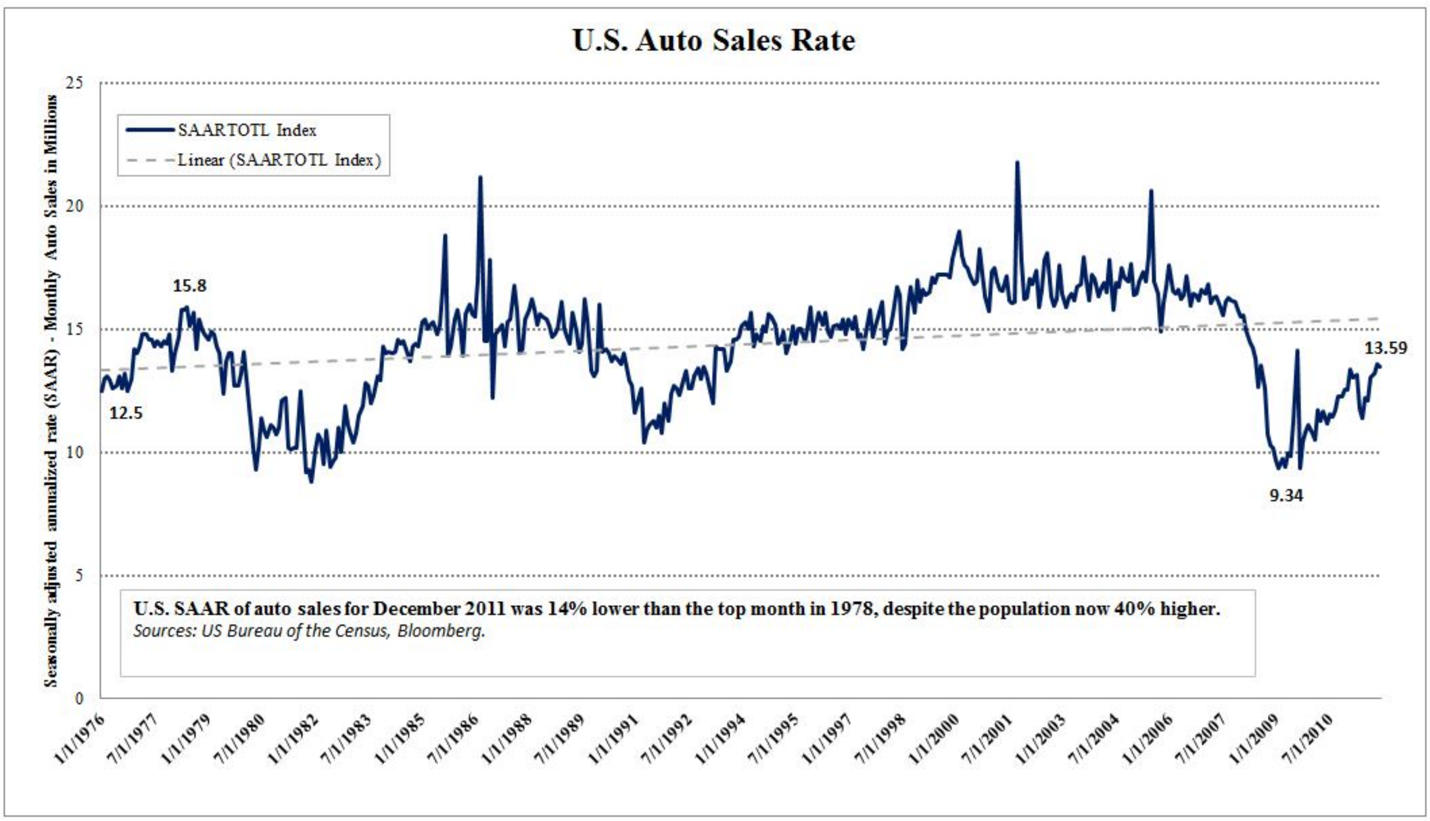
In the modern times of incessant news flow filled with hyperbole and sensationalism, listening to the news or economic commentators could be akin to stumbling into an orchestra pit while the string and brass sections tune up. You are hit with a tumultuous wave of discordant sounds, but within the cacophony there is likely a logic to be gleaned from the different patterns and scales of the bedlam for the proficient ear to perceive. I never did have an ear for music and am admittedly tone deaf. To be clear, ignoring such macro commentary and high frequency news and economic data points entirely would be fiduciary negligence in today's world, but at Southpaw we practice cultivating a selective ignorance-- that is ignoring most mainstream news articles on a daily basis, instead focusing our time on collection of bottom-up analyses. There is a quickly diminishing return when reading multiple articles and reports on the same topics as the data usually overlaps greatly and so Pareto's principle about 80/20 is appropriate when checking the news. We aim to get an edge from instead focusing on consuming first hand data—as we do not believe most people are capable of competently drawing the correct conclusions from the data (especially financial journalists), both micro and macro, and how it will affect capital markets' pricing. This isn't to say we do not respect media power and crowd psychology—which would also be especially dangerous when self-fulfilling prophecies are the norm.

Rather than think in terms of proper scale and perspective, in true hypochondriacal fashion, most capital markets participants prefer to worry in a factual vacuum. Our assessment of the data and company specific outlooks leads us to a moderately more optimistic prognosis for society (particularly the United States)—with two key caveats; avoid excessive European exposure due to more uncertain outcomes from severe government austerity in conjunction with a bevy of new or increasing taxes, secondly and especially avoid direct exposure to China, as we are convinced they're in the early innings of a tremendous credit bubble unwind, and growth there will disappoint to the downside for some time. In sum, we favor unlevered, domestically focused small and micro cap equities, particularly those in consumer facing industries with hard value creating catalyst(s), where possible.

There is no need to rehash major macro events of late and the impending doom, as countless other fund managers and commentators have done so with an undoubtedly more informed view and can articulate those views much more eloquently than we can. There are always problems in the world (as if you need proof, for historical context, see table at the end of this letter). We believe the world will continue to make secular progress amid a cyclical roller coaster. In fact, our preference is that sentiment remains dour and equity markets retain their choppy bias, because almost all of our investors are relatively young and have other income, and thus will be net savers over the coming years. Also that is the type of environment that I believe would best demonstrate our value-add capability and conservatism.

Eventually people reach a point of negativity fatigue and the market climbs a wall of worry, as seen over the last few months. Great past historical examples are after WWII when troop demobilization sparked fears of another Great Depression. And before that in the fall of 1914 when WWI broke out in Europe and caused regulators to shut down the NYSE for several months on fears of depression in the US. Remarkably, the near exact opposite occurred, and the war in Europe expedited America's rise to becoming an industrial powerhouse on the global stage. In aggregate, leverage of US corporations at the present moment, as measured by debt-to-EBITDA, is the lowest in 25 years for non-financial companies. The S&P 500 dividend payout ratio is at an all-time low, and the S&P 500 share count is back to 2001 levels, just to mention a few broad-based positives from an equity holder's point of view. In general we find that the market has underestimated the magnitude of both financial and operational restructuring that has occurred in corporate America during the Great Recession (I wish the same could be said for the Federal government), which has led to record earnings despite continued economic sluggishness, and has caused people to not clearly delineate the necessary distinction between the stock market and economy.

In the past (prior to the Fund opening), we've held differing (and some profitable) views on certain sectors or themes, such as Chinese equities (bearish) and municipals (bullish), that we could easily articulate. Not too unlike the scientific method, we work to develop, research, and confirm or dis-confirm an investment thesis, and then we allocate capital to positions accordingly. We would like for our theses to work immediately after we've built a position, but the brute demoralizer known as the stock market rarely works that way, so we leave a few quarters to monitor a thesis and allow it to be proven correctly. If given the chance, would you buy a group of companies that can be purchased (fractional interest, at least) at mid-single digit multiples of current earnings, with little to no net leverage, that earn 20%+ returns on invested capital despite being in a cyclically depressed industry? Pessimism is certainly justified in lots of areas, but not so in others, such as the afore-described autos and auto parts suppliers. In recent months, the auto parts suppliers have been priced for another nasty cyclical slump, when our assessment of the data points us to the exact opposite conclusion—a powerful cyclical upswing, thus making the decline in the stocks unwarranted by the circumstances. If we were forced to ascribe a theme to the current portfolio or lump our holdings into themed "buckets," North American-centric autos would make up the largest bucket at around 18% of the fund's available assets.



Another advantage that we hope becomes evident over the long term and manifested in our exceptional return profile, is that looking at and evaluating private companies helps us think like both owners and operators of the underlying businesses, as opposed to just trading slips of paper. In approaching investments with this mindset, the task of managing money should more resemble something like three-dimensional chess or monopoly even, instead of a flashy, random-prone gambling machine such as the Pachinko.

In addition to the various light vehicle parts suppliers we are making investments in, one of the fund's largest positions is Accuride Corp, a heavy duty truck parts supplier. George can personally attest to the necessity of the medium and heavy duty truck replacement cycle and the fact that old trucks break down and have real economic costs and consequences for small business owners. When a truck is broken down on the side of the road, customers get upset about missed deadlines and the business owner, in this case Accent Sign & Awning, is stuck paying two employees $20 an hour to sit and wait for a tow truck to show up. The nation's truck fleet will only last about half as long as the light vehicle fleet due to several reasons including more exposure to wear and tear from constant usage and the truck driver is rarely the owner, and we know how people tend to treat things that they don't have ownership in. The current heavy duty truck replacement cycle likely has several years of tailwinds before reaching a cyclical peak, and replacements should occur almost regardless of the economic environment due to the already incredible delays in necessary purchases by fleet owners. Accuride, a competitively entrenched, oligopolistic business with a new management team leading a credible turnaround, will be a big beneficiary of this trend as they have a leading market share in OEM and replacement wheels, among other things. Unlike the majority of the companies we are naturally drawn to, Accuride's balance sheet is not to be confused with the Rock of Gibraltar, but it is in considerably better shape after de-levering some in bankruptcy. Interesting factoid-- Accuride was purchased and built up by Bain Capital in 1986 under Mitt Romney's leadership, and eventually did go bankrupt, although about 12 years after he left (they still employ over 3,100 people).

Accuride Net Debt	**2009**	**2011**
Term Facility-Non-Related Parties	224.6	0
Term Facility-Related Party Last Out	79.5	0
Senior Subordinated Notes	275	0
Revolving Credit Facility	71.6	0
Term Facility Discount	-3.2	0
DIP Facility	25	0
Senior Secured Notes	0	322.56
Gross Debt	672.5	322.56
Less Cash	56.5	35.06
Net Debt	**616**	**287.5**
Debt to LTM Adjusted EBITDA	*26.0x*	*4.0x*

The new CEO struggled to keep the stock up right out of the gate as his turnaround succumbed to what should be a corollary of Murphy's Law—Turnarounds will take longer and cost more than expected. We purchased the shares at under 3.0x our 2013 EBITDA estimates and believe they offer tremendous upside from our cost basis over the next 18 months.

We also have what we would classify as a pure event driven workout the fund currently that may offer ~50% annualized returns. A workout can be described as an investment that is dependent on a specific corporate action and distribution of cash for its profit, rather than a general advance of the price of the stock. We hope to uncover more of these market-neutral types of trades in the coming year. Luckily with over 8,000 listed equities in the United States alone, there are always company specific events occurring that make for good investments, be they long or short, regardless of the market environment.

We welcome a few new Partners that have committed to joining us in Q1 and sincerely thank them for trusting us to roll their snowball up the mountain (translation: *attempt to* compound their capital—what can I say, I just got home from a short snowboarding trip and snow, mountains, etc. are fresh on my mind). Looking ahead we are encouraged by the moderating correlations of stocks and the growing divergence among valuations, which equates to more fresh powder for us to work with. No doubt, there is lots of tough snowboar—err, sledding ahead, especially to close the relative performance gap within a reasonable timeframe. As if it were any consolation in this business, my passion and determination are commensurate with—or rather, greatly exceed—the task at hand and I look forward to working hard for you.

Please contact us with questions on anything pertaining to investments or the fund.

Cordially,

Southpaw Capital

It takes a lot to cause a major down year; the world just does not end that often.

Year	Events	S&P 500	30 Yr Tsy Yld	30 Yr Tsy Return
1953	Russia explodes H-Bomb; Economists predict depression in 1954	-1.0%	n/a	n/a
1969	Money tightens, markets fall; Prime Rate at record high	-8.5%	n/a	n/a
1970	Vietnam War spreads; money supply declines; Penn Central goes bankrupt	4.0%	n/a	n/a
1971	Wage price freeze; U.S. dollar devalued	14.3%	n/a	n/a
1972	Largest U.S. trade deficit in history; U.S. mines Vietnamese ports	19.0%	n/a	n/a
1975	New York City declares bankruptcy; very clouded economic picture	37.2%	n/a	n/a
1976	Economic recovery slows; OPEC raises oil prices	23.8%	n/a	n/a
1977	Steep market slump; social security taxes raised	-7.2%	7.8%	n/a
1978	Rising interest rates	6.6%	8.5%	n/a
1979	Oil prices skyrocket; Three Mile Island nuclear disaster; Iran seizes U.S. embassy	18.4%	9.3%	12.8%
1980	All time high int. rates; Health hazards in NY; Carter stops grain exports to USSR	32.4%	11.3%	18.4%
1981	Steep recession begins; Reagan shot; Energy sector begins collapse; AIDS breakout	-4.9%	13.5%	13.9%
1982	Worst recession in 40 years- profits plummet, unemployment spikes	21.4%	12.8%	-23.5%
1983	U.S. invades Grenada; U.S. embassy bombed in Beirut; Biggest muni default in history	22.5%	11.2%	13.8%
1984	Record deficit; FDIC bailout of Continental Illinois; AT&T monopoly broken up	6.3%	12.4%	-2.9%
1985	Soviet Union arms race; Ohio banks close to stop run; U.S. becomes largest debtor nation	32.2%	10.8%	-19.6%
1993	Taxes increase; economic uncertainty and fears of double dip recession dominate headlines	10.0%	6.6%	-14.2%
1995	Weak dollar panic	37.5%	6.9%	-24.5%
1996	Fears of rampant inflation	22.9%	6.7%	11.7%
1997	Tech mini-crash in October; Pacific Rim crisis	33.3%	6.6%	-10.8%
1998	Russian Ruble crisis; Asian Flu scare; Long Term Capital Management debacle	28.6%	5.6%	-14.0%

Sources: Multiple news sources, returns via Bloomberg.

Disclosures and Notices

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Past performance does not guarantee future results. There is a possibility for loss as well as the potential for profit when investing in the funds described herein. Performance of the Southpaw Value Fund is presented on both a net and gross basis. Performance information labeled (Net) is net of all fees and expenses and includes the reinvestment of dividends and other income. Performance information labeled as (Gross) does not reflect the deduction of fees or expenses. The deduction of expenses will reduce this performance as shown. Gross numbers include the reinvestment of dividends and other income.

Portfolio characteristics and other information are provided as of the dates set forth herein. Current or future characteristics and other information may vary significantly from those provided herein and the firm undertakes no obligation to notify the recipient of any such variances.

Indexes are unmanaged and have no fees or expenses. An investment cannot be made directly in an index. The funds consist of securities which vary significantly from those in the benchmark indexes listed above and performance calculation methods may not be entirely comparable. Accordingly, comparing results shown to those of such indexes may be of limited use.

The S&P 500 Index™ is an unmanaged index and a market-capitalization-weighted index of 500 stocks designed to be a broad measure of United States stock market.

The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe.

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