Southpaw Capital

800 Bering Drive, Suite #401 | Houston, TX | 77057
281.770.0379 | southpaw-capital.com

July 11th, 2013

Dear Partners,

We ended the second quarter of 2013 up 8.43% net of all fees and expenses. We finished with right at 53.7% net long exposure, 29.7% beta-adjusted long exposure, and our correlation to the S&P 500 (r^2) for the quarter was 0.35, resulting in a YTD Sharpe Ratio of 3.6 and YTD annualized alpha of 32.6%. In a market that is becoming increasingly defined by its aberrations, we were again fortunate enough to be able deliver solid risk-adjusted returns to Partners. Once more the Fed has wittingly and without hesitation paid the princely sum of a ransom to free animal spirits that have, until recently, been previously held hostage by three erratic vagabonds: Pragmatism, Prudence and Uncertainty. We personally adored such outcasts and only wish they possessed Kenyan-esque endurance or had quelled their nomadic tendencies a few months longer, but they are sure to come drifting back by sometime in the near future. The standard response when things go wrong in a circus is always to "send in the clowns." As soon as the market started to pull back the powers that be sent in the clowns, so to speak. Several Fed Governors immediately hit the air waves to continue talking up risk assets and to amuse and distract market participants with the equivalent of a clown act.

Southpaw Value Fund, LP

ESTIMATED NET MONTHLY PERFORMANCE | 2013

PERIOD	SVF (Net)	SVF (Gross)	HFRX Index	S&P 500 TR
JANUARY	7.22%	9.10%	1.96%	5.18%
FEBRUARY	-0.18%	-0.15%	0.43%	1.36%
MARCH	2.18%	2.76%	0.72%	3.75%
1st QUARTER	**9.36%**	**11.95%**	**3.13%**	**10.61%**
APRIL	-0.63%	-0.68%	0.67%	1.93%
MAY	8.80%	10.87%	1.16%	2.34%
JUNE	0.29%	0.42%	-1.89%	-1.34%
2nd QUARTER	**8.43%**	**10.58%**	**-0.10%**	**2.91%**
YEAR TO DATE	**18.58%**	**23.79%**		**13.82%**

All performance figures are unaudited, estimated, and may be subject to subsequent adjustment. A limited partner's actual returns may vary from published fund returns based on the timing of capital and fee arrangements. This statement represents information based on the policies of the fund's managers and general partner. Please contact Travis Cocke, Managing Partner of Southpaw Capital, LLC, with any inquiries.

After several years running portfolios professionally, I can now empathize with T.S. Elliot and his castigation of April as the cruelest month, but then again we are not through July yet. At the end of April I had not been that frustrated in quite some time which tends to happen right before good performance/reversion to the mean. Five shorts went against us 20% or more in a single day. One short was bought out at a valuation previously inconceivable to me. In many instances technical factors seemed to be overwhelming fundamental ones and we have been in too many crowded short trades. We need to transition our short book to look as eclectic and offbeat as our long book. In these high short interest companies it seems there are no reactions, only overreactions, either positive or negative.

From a short seller's perspective, the past quarter was The Great Humiliator's version of financial Chinese water torture. I would have liked to reduce short exposure on several names, but mistakenly anchored to the idea of covering on weakness, and since there were not many down days, we never covered much. The incessant grind higher reminded me of a Nike t-shirt I saw recently in the gym that simply said: "Every Damn Day." Even in the 5% correction, the most heavily shorted names held up the best[1]. The dip was bought aggressively as the fear of missing out remains strong.

One winner for the Fund has been ZipRealty (ZIPR). Based in Emeryville, CA the company was founded in 1999 and went public in late 2004. ZipRealty's glory days were right after its IPO when the shares traded for $19.20. Ever since then it has been a slow and steady grind…downward. This investment is a perfect example of how knowledge in the investment world is cumulative. Several years ago George had researched the company when he worked at another hedge fund. He knew of the company, its general business model, and position within the industry. At the time, ZIPR was focused on being a discount residential brokerage hoping it's superior web presence would usher in more leads and make their agents more efficient, thus allowing the company to pass along those savings to their clients. After almost a decade of constant losses, a new CEO took charge and began making some hard but necessary key decisions.

Much has been written about real estate brokers and whether they serve a purpose in the whole residential real estate eco-system. Many residential home sellers and buyers would like to think they do not need a real estate agent when in fact a vast majority of individuals do need one as their guide. George, a licensed real-estate agent in Texas and member of Houston Association of Realtors, knows that he offers a few key value propositions to home buyers/sellers such as access to homes, no fees for buyer-representation (85% of ZIPR's business is representing buyers), help with other necessities like title insurance and home inspections, contract assistance and modification, and negotiation.

We do not doubt that the Internet and a constantly evolving market place will create some changes for the real estate brokerage business-- there will be winners and losers. However, the notion that the need for real estate agents will never rebound seemed a pretty low likelihood from our perspective.

Since launching the Fund, we have held a constructive view on housing. We felt the industry was in a period of repair and the turn was in sight. As we studied ZipRealty, we noticed the following attributes[2]:

- A potentially lucrative business model that fell within our circle of competence.
- Senior Management changes as a potential positive catalyst: On October 2, 2010 the Company announced Lanny Baker as the new CEO. He had been the CFO and replaced the prior CEO. Within 25 days, Mr. Baker appointed a CFO and a new VP of Operations. Meanwhile the VP of Marketing and EVP of Operations and Business development resigned.
- As of December 31st, 2010 the Company had 3,403 agents. For the entirety of 2010 the Company did $118.6 million in revenue and generated negative $9.9 million in Adjusted EBITDA. The company ended the year with $32.3 million in cash and no debt. For the year, the Company facilitated $4.9 billion in transactions. Given the revenue level and volume, the potential for profitability was clearly there.
- On January 10th, 2011 the Company made two key announcements. First, they would open up their web site to the public ending a prior policy of forcing all visitors to create a user name before they could access the listings. Second, they unveiled their Powered by Zip (PBZ) program along with its first partner. The PBZ program is where ZipRealty.com will send warm leads to partners in other markets. For every lead that turns into a commission, ZipRealty receives 35% of the commissions earned. The referral model is common within the real estate brokerage industry and we saw this as a very efficient way for ZipRealty to grow.

- Also on January 10th, the Company announced a reduction in the field sales support workforce by roughly 35% and was reorganizing local management responsibilities to achieve greater efficiency and local autonomy. They also said they were reducing the corporate sales support and administrative workforce by roughly 25% and eliminating infrastructure and costs associated with the Company's legacy employee-agent business model. The Company's 1/10/2011 press release said:

> *ZipRealty expects to achieve annualized operating expense savings, excluding cost of revenue,* ***in excess of $20 million*** *once all of the programs announced today have been fully implemented. The eleven markets ZipRealty intends to close accounted for approximately 13% of Company net revenue in 2010 and* ***did not contribute positively to Company profitability****. ZipRealty expects to incur restructuring charges of approximately $3 million related primarily to severance and other exit costs in the first quarter of 2011.*

- Based on client feedback, the company launched a new website design on January 29th, 2011.
- By January 31st, 2011 the company transitioned their entire agent base to being independent contractors.
- Effective July 15th, 2011 the Company announced a series of changes including the cancellation of buyer rebates. ZipRealty was moving away from being a discount broker.
- On March 6th, 2012 the Company reported their full year and 4Q11 results. This is when we began researching the company and took note of all of the changes in the prior 12+ months. In this earnings release, the CEO announced another series of cost cutting. He reduced field sales support workforce by 16%, reduced corporate staff by 20%, and reorganized the product and marketing departments. All in, he expected this to shave $7 million off their operating expenses once fully implemented.
- For 2011, total revenues declined to $85.1mm (a 28% decline YoY); however, Adjusted EBITDA also improved to a negative $2.98mm. The Company ended the year with 1,701 agents and facilitated $3.3 billion in transactions. By getting smaller, profits were beginning to move in the right direction. Considering all of the changes, we were fairly impressed with the progress.
- We began buying ZipRealty shares in May of 2012 with most of our purchases in the $1.40 range.
- Based on our average cost, we viewed this as the opportunity to purchase the entire company for $28.8 million (the current market capitalization then). Since the Company had $22.1 million in cash and no debt, the Enterprise Value was $6.75 million. A wildcard in our analysis was some litigation with the State of California regarding improper pay to their agents since they were not always classified as independent contractors. We pegged this as a $4 million potential liability, thus our Adjusted Enterprise Value was $10.75 million. Our range of values was $6.75- $10.75 million.
- While ZipRealty had shrunk itself meaningfully, in 2010 was it was considered the fifth largest broker in the U.S. and their website was listed as the ninth most-trafficked real estate web site according to Experian Hitwise. With an agent pool north of 1,500, billions in yearly transactions, and a popular web site we believe the company had real tangible value. The CEO had lowered the company’s fixed costs so any additional revenues should fall to the bottom line. The housing market was beginning to heat up. The question was whether the new CEO could eventually generate profits.
- On August 8th, 2012 the Company released their 2Q12 results and almost two years of work had finally shown up in the numbers. Revenues for the quarter were $20.28 million, Operating Expenses were $19.97 million, EBIT was $309k, and Adjusted EBITDA was $1.1 million. The Company was profitable on both an EBIT and Adjusted EBITDA basis. The quarter ended with 1,508 agents who completed $734mm in transactions.
- The day before earnings the stock ended at $1.55 and on August 9th and 10th the stocked closed at $1.61 and $1.60. It took a few days for the market to realize that ZipRealty had finally turned the corner and so we continued to buy shares (such is the benefit of trolling in underfollowed names).
- By May 2013 we began selling our shares in the $3.20 range yielding a total return of 129%. On future strength, we will sell the rest of our position.

A general market observation that we deduced during the quarter was the increasing prevalence of companies to miss earnings estimates, guide Q2 earnings lower, yet maintain their full year guidance, implying a massive second half ramp. Sure enough, as of 6/27/13, the EPS growth rate for small caps for Q2 was expected to be +4.4% year-over-year, and +22.1% for Q4. Exactly one month prior the Q2 estimated growth rate was +10.3% and Q4’s was +23.4%[3]. As you can see Q2 estimates have come down dramatically but hopes remain high for the back half of the year. Within the sell-side community, estimate hikes are still matching estimate cuts for the rest of the year on a one-to-one ratio, but at the company level guidance cuts are outpacing guidance hikes at over five to one. Additionally, the consensus bottom-up view is that every single sector will experience margin expansion in 2013 and again 2014[4]. Checking Bloomberg, it appears this has never been done before, going back to at least 1993. In 2014 an astronomical 89% of the top 1500 US stocks are expected to increase net margins year-over-year. The historical maximum is right at 60% and has only been reached five times in the last 40+ years[5].

Stocks with negative earnings as a group have been the best performers YTD. The reason the best returns are often coming from those stocks with the weakest fundamentals is fairly straightforward. The upside of companies with steady cash flow are typically easy to value, whereas money losers are entirely dependent on a future growth ramp or series of chained and transformative events, which are not being greeted with much skepticism in the current environment. There are fewer beacons of logic visible within the rising sea of absurdity. One such curious practice coming out of Wall Street this past quarter is the use of Amazon.com and Salesforce.com as direct trading comps for Tesla to come up with its valuation range. Amazon.com is an online retailer at 45x trailing EBITDA and 176x free cash flow. Imagine the reaction you would see on Wall Street if a report was published using a mature retailer and mature auto manufacturer as trading comps, e.g. Target and General Motors. Instead of being ostracized, the authors of the sell-side initiation report using AMZN as a TSLA's main comp has instead been rewarded by the market with the personal satisfaction of being the most accurate in their price target forecast so far. It is as if market participants are extremely well informed but have caught some kind of disease that has made it so they cannot think particularly clearly. People's learned ability to think clearly and process information sensibly has been warped by feeding junk into the mind. Given that most people only seek out information that confirms their beliefs, increasing the frequency, availability and amount of data will only increase the cacophony of sounding brass and tinkling cymbals as the bulls and bears alike twist the data to fit their pre-conceived notions.

After pulling every accounting gimmick in the book possible to try and show a Q1 "profit", including reversing a warrant charge, booking a Forex gain, and selling a record amount of $68 million in Zero Emission Vehicle credits, Tesla guided for a Q2 loss. This is a company lead by Silicon Valley deity Elon Musk that narrowly escaped default as recently as September 2012. Musk did not once publicly acknowledge that the Q1 profit was based purely on accounting flukes but instead played it up with almost daily public appearances. At the time of this writing TSLA is trading at a fully diluted enterprise valuation of over $16.3 billion. After taking orders for several quarters, Tesla was able to produce a whopping total of 4,591 units in Q4 2012 after guiding for 5,000+. In September 2012, Musk promised that the company would be cash flow positive by the following month. This could perhaps could have been true, if like at his sister company, SolarCity (SCTY) TSLA was somehow able to get away with counting debt issuance as a source of positive cash flow.

Back in May 2011 sell-side consensus EPS for TSLA in 2013 were $2.15 and two years later the current estimate now stands at negative 29 cents, so the company is technically speaking missing original estimates by greater than 100%. The bullish estimates from the sell-side are modeling in 81,000 Model S sales by 2015 with an ASP exceeding $101,000, along with 2,500 Roadsters, and 11,250 Model X shipments. Given that sales usually peak within six quarters of the release date for any given high-end vehicle and TSLA is 3+ quarters into the Model S launch, it is curious that analysts are modeling in a 30x increase a full 15 quarters from now, and are likely greatly underestimating the necessary R&D expenses to release new iterations. The logistics of selling and servicing hundreds of thousands of cars without a dealership network may prove to be an insurmountable physical feat, or at least only a marginally profitable one, at best (if perusing their website there is only one official Tesla service provider and that is way outside the loop in the Houston metro area-- we are the 4th largest city in the nation, after all). If there are so many Teslas on the road in four years from now, they can't possibly all fuel up at the three-dock Supercharger stations scattered about in the Chili's parking lots and such. TSLA was essentially running at full run-rate production levels in Q1 and yet if you back out the ZEV credits, they had a quarterly operating loss exceeding $70 million. Volvo was sold in 2010 to a Chinese company for $1.8 billion at just

4.9x their 2010 EBIT. TSLA is now worth over 9x what Volvo was valued at then when they did $370 million in EBIT that year.

Global auto manufacturers currently have an average price/trailing sales ratio of 0.47x; TSLA is ascribed a 2.4x P/S multiple based on 2015 projected sales. In what is incontrovertibly both a cyclical and capital intensive industry, Partners won't be surprised to know that auto makers possess a mediocre average Return on Invested Capital of 7.0%; sell side predicts TSLA's ROIC will exceed 48% in 2015[6]. Auto makers currently trade at average and median Forward P/E ratios of ~10x; TSLA trades at 29x 2015 EPS estimates. Sell-side appears to assume 345,000/year Gen 3 unit sales for the years beyond 2017 (a prototype of the car does not even exist yet), and a million plus units of an even cheaper model shortly thereafter. The numbers being thrown around for the even cheaper model would be the equivalent of outselling Infiniti, Audi, and BMW's US sales combined, plus Porsche's global sales, plus another 159,000 cars/year. Compare this to the 27,181 total plug-in Toyota Prius sales in all of 2012, which has a massive dealer network and is available in 80 countries. The logic of taking a niche, $100,000 ultra-luxury car and cutting the cost in half and that alone leading to a sales increase of at least 10x as many units is akin to asking why doesn't Porsche sell a $45,000 car and allow themselves the potential to put one in the driveway of every Joe Sixpack? Porsche does indeed already have a ~$48,000 model called the Boxster and it only sold 10,126 units globally last year. Porsche's total unit sales in 2012 were 143,096 (a record setting year) and they have five unique models, with many variations of each, e.g. a full **12** different types of Porsche 911s. By the looks of it, the market is estimating that TSLA's pure EV line-up will not only outsell Porsche by several multiples within five years from today, but will do so with operating margins several percent higher than existing auto makers, and for this hyper-growth feat deserves to garner a price that values them not only as if all of the above is a foregone conclusion, but also quadruples the relevant ratios as compared to peers for good measure based on that certain future profitability and industry leading 48% ROIC.

Observe that General Motors sold 9.36 million vehicles in the last twelve months and has an Enterprise Value of roughly $40 billion, compared to TSLA's sales of 9,701 cars and EV of over $16 billion. TSLA raised $830 million (net to the company) dollars in a recent follow on equity offering and Convertible Note issuance. Proceeds were used to repay a DOE loan facility early that only charged interest rates of ~1.0% (substituting cheap financing for more expensive capital). Elon Musk took down almost $100 million of the most recent equity offering. When looking closer one realizes he did not actually come out of pocket with any cash personally for the shares, but instead took out an additional $150 million loan from the underwriters Goldman Sachs and Morgan Stanley, with his shares in the company as collateral (a la Aubrey McClendon), to buy the additional $100 million worth of shares, i.e. he actually cashed out $50 million. Note the circular reference of borrowing money secured by stock to buy more of that stock to support the price and how that resembles Chinese copper financing schemes (detailed by Southpaw's managing partners as far back as 2011) more than the prudent actions of world class CEOs. He has done a great job of taunting the shorts via an endless stream of Tweets, buying himself time with capital raises, luring in retail investors and achieving the market cap goals necessary to exercise his Goliath-sized options package of another 5.27 million shares well ahead of the Board's envisioned schedule. Incentives being the cornerstone of modern life that they are, we were compelled to analyze Musk's option package and it would appear he is incented to issue as much equity as possible and produce as many cars as possible with no regard for cash flow or profitability.

People generally neglect future competition when crafting bull theses that venture out several years, be it for Biotech companies with their nascent drug pipelines, new Gluten free food products available on the grocery store shelves, or in this case electric vehicles. The Chevy Volt (previous winner of European Car of the Year and Motor Trend's "Car of the Year" accolades) and Nissan Leaf are not selling so well despite being at low and rapidly falling price points. Through the first six months of the year, annualized sales for the Volt, the top selling EV in the world, are 19,710 units. Time will tell if the cool factor of Tesla is enough to drive sales of a $40,000 EV to be >17x that of the Nissan Leaf (which cost half as much currently at as little as $21,300 after the $7,500 federal tax credit), Honda FIT or Chevy Volt. The Chevy Volt is estimated to cost $75,000 to build, yet retail MSRP is down to ~$30,000. The CEO of Fiat has publicly confirmed that the company will lose at least $10,000 for each sale of the 500e model EVs it just brought to market. 25%

gross margins were a target previously promised by Musk that would be reached at the end of 2012 and has since been pushed back and enthusiastically restated for the end of 2013. Musk has not exactly been a McLuhanite with open and honest communication. If examined with any scrutiny at all his record reveals an unmistakable of pattern frequently over promising and spewing fundamentally misleading statements. Other risk factors and competition for Tesla vehicles include unforeseen technologies, Hydrogen powered cars (due out from Toyota and already out from Honda in SoCal), high efficiency diesels with competitive fuel efficiency and cost of ownership, the 100+ hybrids already available, the 30 other EVs currently already available and the few dozen more that are likely to hit the market within the next few years including the new higher-end Cadillac ELR and BMW i-series which are both due out in within months, not to mention the potential for declining gasoline costs over the coming years from all of this demand destruction. Total EV unit sales, divvied up among 31 different makes/models, in 2012 were estimated to be 139,973[7] globally. TSLA not only needs the total EV market to increase 5-10 fold within four years to hit consensus projections, but they'd also then need to maintain a 29-58% market share of the overall EV market and go from negative gross margins to positive 12.5% EBIT margins in the process. In the words of that ugly Albanian guy who kidnapped Liam Neeson's fictional daughter, "Good luck." Having already rambled and ranted on far too much, for those few still reading we will leave out discussions on economic and logistical difficulties of the free charging for life network, the lack of available charging infrastructure for most people in big cities who park on the street or in parking garages, the battery swapping scheme, the Musk personally guaranteed Model S re-sale values, the lease financing deal and all of the subsequent liabilities and accounting obfuscations that each of these will cause.

Shorting TSLA thus far has been a mistake and cost the fund over 1.5% in unrealized losses YTD. It is a mistake to short stocks where dreamers can apply nearly unlimited growth prospects to a company, which currently applies to almost everything. Even with such grave mistakes, we have managed to outperform the market on a gross basis by close to 1,000 basis points despite having only 50% net market exposure and below average concentration for a hedge fund. There are quite literally hundreds of other seemingly absurd situations out there that price in a lot of future growth (many much worse, obviously) and if we are to get involved in such situations we strive to try and use options to hedge and limit potential losses. At least in Tesla's case the company is sustainable and its products are quite viable, it is just the stock price that may not be. We have viewed this short as a small off-setting pair trade against a much larger basket of auto parts suppliers, for which we are up an average of 81%. The biggest risk in the near term is the company crushing unit expectations and prolonging the hype-cycle until economic reality eventually sets in. This is proving to be yet another quintessential case study on reflexivity in the public equity arena.

The long picks we highlighted in the two most recent quarterly letters have played out nicely. Noble Roman's is up from \$0.77 to ~\$1.30, contributing meaningfully to our recent outperformance, and Overhill Farms was highlighted at \$4.00 and one month later received a buyout offer for \$5.00.

In search of inspiration for a planned overnight sailing excursion along the Texas coastline, I was compelled to read Peter Nichol's *A Voyage for Madmen*. It's a story about nine men who set out to sail solo non-stop around the world in 1968 in a famous contest dubbed the "Golden Globe Race" by the British newspaper the Sunday Times. The danger of such a journey at the time, an era before GPS and more technologically advanced boats, cannot begin to be overemphasized. One of the younger entrants, John Ridgway, a 29 year old Army officer, was hit by a camera crew boat almost immediately upon leaving his mooring when heading for the open ocean through the English Channel. The damage to his 30' fiberglass bilge keeler was purely superficial, but it might as well have sprung a leak as it allowed self-doubt to creep in and mental defeat flooded the young sailor's conscience. There is a telling line about Ridgway when he is described as "...a deeply introspective man" -- this we have in common, though the comparison stops there -- "and was acutely aware of his tendencies toward weakness and softness." There were other ominous signs at the start of his treacherous journey. His hand cranked Lifeline Radio had stopped working only two weeks into the trip. His loneliness was intense and he quickly lost his appetite.

> "A seaman is not made by simply going to sea. He must also find in himself a love for it. Ridgway was not engaged by the sea. He had no feelings for it, no love of its literature, no sea heroes to emulate. As with his transatlantic row, the sea was simply a hostile environment to be survived, the voyage of an ordeal to be endured…His heart was no longer in [it]." - *A Voyage for Madmen*, Nichols, page 67

John was craving a wild adventure and intense personal challenge. There are myriad ways, some as equally life-threatening, to satisfy such a longing, like climbing Mount Everest for example. In what was to be a 10-12 month endeavor entirely enveloped in isolation, John dropped out of the race within a few weeks. Much like the numerous adventures available to assuage an adventurous appetite, many are attracted to capital markets and portfolio management based on desires that can be fulfilled elsewhere, be it potential financial reward, intellectual challenges or something else altogether. In equity investing, what we consider a similarly solo sport, you must possess an intense passion and love for the medium or else when you hit your first set of adverse conditions you may begin to pay an increasingly large psychological toll and end up like Ridgway- quickly losing your appetite if your heart and soul are not in it. Despite our abhorrence and frustration with short term market aberrations, such inefficiencies are enabled and exacerbated by more excitable participants and/or institutional imperatives that we lack and entirely disregard. Thus, they are absolutely necessary and wholeheartedly welcomed for us to have any chance at sustainable long term outperformance. Please rest assured, we cherish the medium dearly.

Let us know if we can be of any assistance to you.

Until next time,

Southpaw Capital, LLC

Disclosures and Notices

The information contained herein reflects the opinions and projections of Southpaw Capital, LLC ("Southpaw") as of the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Southpaw does not represent that any opinion or projection will be realized. All information provided is for informational purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data presented. This communication is confidential and may not be reproduced or distributed without prior written permission from Southpaw. This confidential report is only intended for the recipient and may not be redistributed without the prior written consent of Southpaw Capital, LLC. This report is provided for informational purposes only and does not constitute an offer or a solicitation to buy, hold, or sell an interest in any Southpaw Value Funds or any other security. An investment in any Southpaw Value Fund is speculative and involves substantial risks. Additional information regarding the Southpaw Value Funds listed herein, including fees, expenses and risks of investment, is contained in the offering memorandum and related documents, and should be carefully reviewed. An offer or solicitation of an investment in any Southpaw Value Funds will only be made pursuant to an offering memorandum. There can be no guarantee that any Southpaw Value Fund will achieve its investment objectives.

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. 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.

THIS SHALL NOT CONSTITUTE AND OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY INTEREST IN ANY FUND MANAGED BY SOUTHPAW. SUCH AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY INTEREST MAY ONLY BE MADE PURSUANT TO DEFINITIVE SUBSCRIPTION DOCUMENTS BETWEEN A FUND AND AN INVESTOR.

Citations and Sources:

1. Source: Bespoke Investment Group article, *Most Short Sellers Can't Catch a Break*
2. ZipRealty's press releases, company website, SEC filings and conference call transcripts
3. Source: Bank of America Merrill Lynch research report, June 27th, 2013
4. Source: Morgan Stanley report, US Equity Strategy, The State of US Corporate Profitability, May 20th, 2013
5. Source: Morgan Stanley Research, Factset
6. Barclays Equity Research estimates
7. InsideEVs.com: World's Most Comprehensive 2012 Global Plug-In Vehicle Sales List