VOSS
CAPITAL

2365 Rice Blvd Suite #217 | Houston, TX | 77005 |713-328-1126 | t@vosscap.com

February 20th, 2016

Dear Partners,

The Voss Value Fund returned -0.74% net of all fees and expenses for the fourth quarter of 2015 and 5.69% for the full year. This compared to 1.38% total return for the S&P 500 and a -4.6% total return for the Russell 2000 for 2015. Annualized alpha on the year was 8.1% and is 15.8% since inception. The Value Fund's trailing 3-year annualized net return to Partners stands at 14.1%, compared to the S&P 500's 13.2%, and Russell 2000's 9.4%. The Fund's net exposure averaged 66.3% on the year. Our top 10 long positions make up 58.5% of the portfolio. Our top 10 short positions make up 19.7% of gross exposure. Contribution from the long book for the full year was ~0.67%. Shorting and hedging (includes bearish oriented options trades) contributed 7.50% to gross returns.

**Voss Value Fund, LP**

ESTIMATED NET MONTHLY PERFORMANCE | 2015

| PERIOD | VVF (Net) | VVF (Gross) | S&P 500 TR |
|---|---|---|---|
| JANUARY | -1.21% | -1.13% | -3.00% |
| FEBRUARY | 7.65% | 9.34% | 5.75% |
| MARCH | -1.15% | -1.34% | -1.58% |
| **1st QUARTER** | **5.13%** | **6.66%** | **0.95%** |
| APRIL | -0.49% | -0.52% | 0.96% |
| MAY | -0.12% | -0.07% | 1.29% |
| JUNE | -1.91% | -2.28% | -1.94% |
| **2nd QUARTER** | **-2.51%** | **-2.85%** | **0.28%** |
| JULY | -2.80% | -3.31% | 2.10% |
| AUGUST | 6.66% | 8.31% | -6.03% |
| SEPTEMBER | 0.22% | 0.35% | -2.47% |
| **3rd QUARTER** | **3.89%** | **5.09%** | **-6.44%** |
| OCTOBER | 7.58% | 9.42% | 8.44% |
| NOVEMBER | -5.97% | -7.16% | 0.30% |
| DECEMBER | -1.87% | -2.21% | -1.58% |
| **4th QUARTER** | **-0.74%** | **-0.66%** | **7.04%** |
| **YEAR TO DATE** | **5.69%** | **8.17%** | **1.38%** |

All YTD 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 Voss Capital, LLC, with any inquiries.

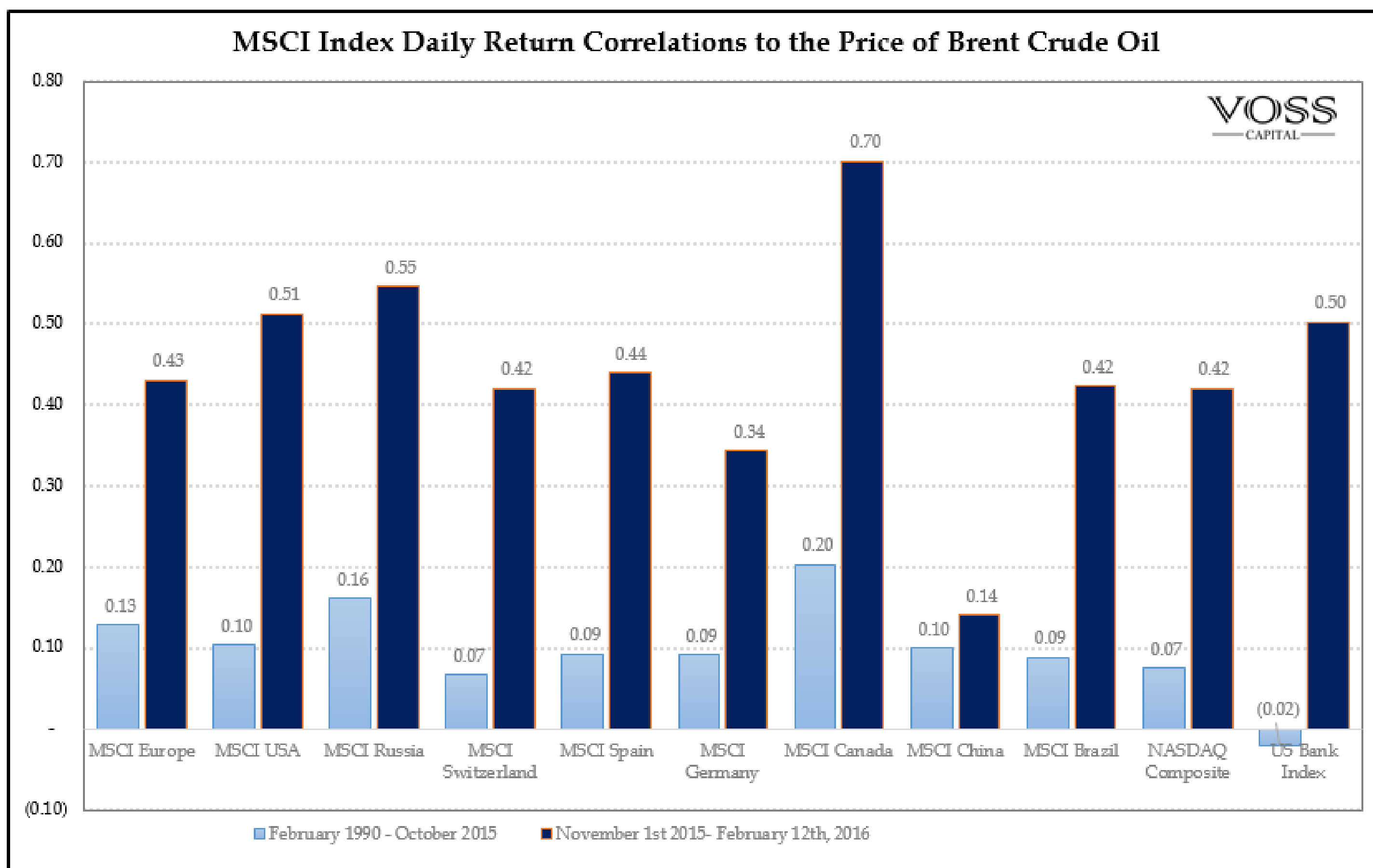
We've witnessed a pattern of complacency morphing slowly into denial, and then quickly into panic at the bottom. This has created ideal conditions for mean reversion for our investment style as we scale into beaten down value stocks. In the last several months, it appeared as though money had simply been shifting from one group of stocks to another (often from small caps to a few mega caps). When there are no net inflows into stocks capable of sustaining a rise, a rise can't endure for very long. Because of this, we have been in a bear market in small cap stocks for quite some time now. The Russell Microcap Value Index was recently sitting 25% below its June 2015 peak, at the same level as it was in March 2013. In other words, including dividends, microcap stocks have flat three year returns.

A few weeks ago valuations and investment narratives, depending on the stock, the industry, or the market cap and trading liquidity could be juxtaposed simultaneously with those from 1998 or 2008, with nary a trace of anachronism. Strangely, we found sentiment falling on the spectrum (simultaneously) from ebullience and euphoria, to abhorrence and anxiety. Now, after months of declines, we are in a black hole of negativity, yet many large cap valuations remain 1+ standard deviations away from their long term averages while small caps by the hundreds languish at record low valuations.

With unlimited data sets globally to choose from, the market allows you to confirm whatever you believe if your mind does not remain open and your viewpoints coldly objective. Today in the market's Rorschach test we identify shades of the 1997 market correction surrounding the Asian Contagion, reflections of the 2000 Venture Capital bubble, parallels to the 1980 energy sector bust, echoes with the 2H 2011 correction, fears of the 2009 crash due to European bank stocks collapsing and financial contagion, etc., all simultaneously.

People are extraordinarily gloomy relative to the mediocre economic and positive corporate earnings data. It feels as though to argue an optimistic case for stocks at this juncture is to risk castigation from all social circles. The worry du jour mutates day to day, covering all the bases imaginable, leaving little that is new and not priced in for us to worry about.

One of the major worries currently is the falling price of oil. Everyone has become an oil market prognosticator and its fluctuations dominate financial chatter. The entire premise of the price of oil suddenly being a leading economic indicator or a coincident financial stress indicator is a deeply flawed narrative and false fear that we can exploit to make money. The oil price drop creates winners and losers. It creates more net winners than losers globally, as 5+ billion people around the world are net importers of oil, including the US.




The chart above shows the daily return correlations of various equity indexes around the world to the price of Brent crude oil. The lighter blue bars depict the daily correlations for the last 25 years, from February 1990 through October, 2015 (slightly shorter time spans if the data was not available). The darker blue shows correlations for the last three months, from November 1st, 2015 through February 12th, 2016. As you can see, in some cases the correlations have risen by a factor of 6x due to historically low correlations. While it is true that correlations of all assets rocket towards 1.0 in a market collapse, the chart above proves these intervals of increased correlations are always a temporary phenomenon as the last 25 years encapsulate many bear markets and periods of investor panic and yet overall long term correlation remains insignificant.

After peaking at a 10.9% weighting in June 2014, the Energy sector now comprises only 6.5% of the S&P 500. Energy extraction contributes roughly 1.7% to US GDP. Energy sector jobs are a rounding error in the deep and diversified US economy, approximating 0.1% of total employment. Energy jobs and all their related service providers combine to less than 1/5th of manufacturing jobs, and less than 1/40th that of the total US services sector, both of which benefit from lower oil prices. Oil imports into China continue to grow on a volume basis (e.g. demand), though the growth looks negative when measured in dollars due to the price collapse. Looking at energy loans across the four largest banks (which dominate the US financial sector) we find that exposure ranges from only 1.9-3.5% of total assets, a manageable exposure.

*Market participants have forgotten that it is possible to have a garden variety recession without systemic collapse on the scale of 2008/2009.* I do not believe we face the same systemic risk concerns today as we did in 2008. At the time, many large financial institutions were reliant almost exclusively on short term funding. In 2005 US banks owned more than $1 trillion of Fannie/Freddie securities, accounting for 11% of their total assets and 150% of Tier 1 capital. The government moved to place the GSEs into conservatorship, wiping out the value of their common and preferred stock, leaving gaping holes in bank and insurance company balance sheets.

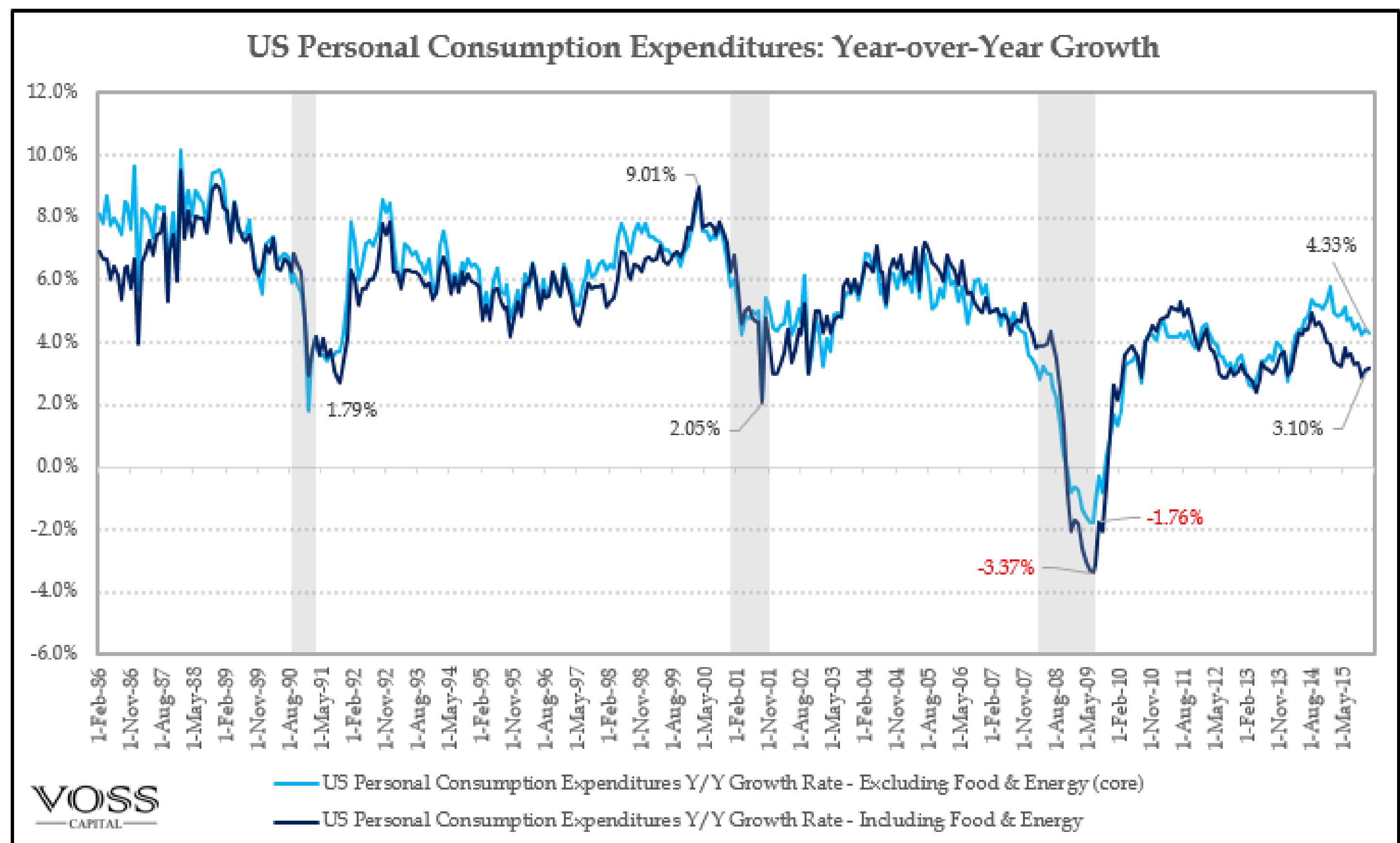
Shown below are a few other data points highlighting stark differences between 2008/2009 and now:

| | 2015 | 2009 | Historical Avg. |
|---|---|---|---|
| Unemployment Rate | 5.3% | 9.3% | 5.8% |
| Net job creation (in millions) | 2.44 | -4.70 | - |
| Consumer Debt Burden Ratio | 10.0% | 12.3% | 11.4% |
| Non-Performing Loans to Total Loans | 1.7% | 4.7% | 2.2% |
| US Bank Leverage as a % of GDP | 73.5% | 104.2% | 35.9% |
| Consumer Credit Growth Y/Y | 6.9% | -4.0% | - |
| S&P 500 EBIT Growth Y/Y | -5.2% | -27.6% | - |
| S&P 500 Capex Growth Y/Y | 6.0% | -20.7% | - |

Sources: Federal Reserve Bank of St. Louis, Factset.

In the above table, S&P 500 EBIT growth in 2015 would be highly positive if we excluded the energy sector as it detracted about 10% (due to -100% growth). Operating income for the S&P 500 excluding the energy sector was +8.3% in Q4 2015 and is expected to be +1.6% in Q1 2016. This undeniably weak growth, but underappreciated growth nonetheless. The growth is not uniform across all sectors, but investors are anchoring to the biggest negative.

Recall that the market bottomed in March 2009 while the economy continued to deteriorate and shed millions of jobs for many months with breathtaking speed. Household net worth declined by >$17 trillion from Q1 2007 to Q1 2009, which was >116% of 2008 GDP. $5.6 trillion of this decline was from home prices declining 32% on average nationwide from their 2006 peak, which combined with the largest S&P 500 decline since 1974. The S&P 500 collapsed 39.7% in a 3-month period (September 19th to November 20th). At its absolute worse point, consumer spending only fell by a 3.5% annualized rate during the second half of 2008 due to all of the aforementioned reasons.




The chart above shows US PCE's monthly year-over-year growth for the last 30 years. The shaded grey areas show official US recessions. Personal consumption expenditures encompasses consumer spending on both goods *and services*

and remains on solid footing. Only 11 out of the 360 months shown had negative growth (lowest negative reading for Core PCE was only -1.76%)-each month from November 2008 to September 2009. This negative growth period perfectly coincided with the mass wealth evaporation and job losses highlighted above. The key takeaway is that consumer spending is resilient.

Many value investment ideas are being categorically dismissed with a snarky disgust and no regard for the numbers. As this is becoming more and more evident we think we are closer to reaching a long term bottom in many microcap value stocks, though they can certainly languish for a long time before garnering meaningful investor interest and positive fund flows again. Now is a time we feel an investor will be rewarded for taking liquidity risk in microcap stocks. Throughout our history we've focused on exploiting situations where investors are less informed and are taking a more emotional (and less empirical) approach to their investments. Emotion and reason operate within the mind like a see-saw. The higher the emotion, the lower the reasoning and the harder it is to think objectively. There is certainly no shortage of this now which we believe we can aggressively exploit.

We share with our Partners an acute awareness of industry transformations that are happening swiftly right under our feet, but the market has a long history of over-extrapolating obvious trends in both directions. One such transformation that is vastly overstated in the minds of investors (and thus valuations) is the death of brick and mortar retail stores. This is allowing us to purchase several profitable retailers that are comping positively at low single digit multiples of EBIT or FCF. In a few cases, they are also trading at a fraction of net current asset value, colloquially labeled by Benjamin Graham as net/nets. We have taken our industry weighting in retail up to our maximum internal risk limit of ~20% at cost, spread across several niche specialty retailers that we feel are insulated from price wars with Amazon. Just as in 2009, same store sales comps can turn negative and operating margins can decline for many quarters and yet the stocks could still rally strongly as negative expectations get more than priced in many months in advance. The thick and pervasive pessimism surrounding the industry give us confidence the fundamentals are generally being ignored in favor of a thematic categorical dismissal regardless of the company specific situations.

To conclude, we think we are in the middle of a shallow, sentiment driven bear market, exacerbated by the biotech and energy/high yield meltdowns, manufacturing slow-down, and pricey large cap valuations. Due to the ongoing valuation and return disparities, we continue to favor small cap value stocks with strong balance sheets over large cap growth stocks and are positioned as such.

We've sidestepped a big swath of the market downturn the last several months, protecting Partner's capital while not taking any undue concentration risk in either direction (long or short). Our incremental progress is hard to detect on a month-to-month basis, but many years from now our faster compounding will have a remarkable effect on the Partnership's returns.

We look forward to a great environment for bargain hunting in 2016 and will announce several updates on the business and operational front shortly.

Thank you for your continued trust and for the opportunity to serve you.

To Continued Alpha,

Travis

| Voss Value Fund Monthly Net Returns Since Inception | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Jan.** | **Feb.** | **March** | **April** | **May** | **June** | **July** | **Aug.** | **Sep.** | **Oct.** | **Nov.** | **Dec.** | **Year** |
| **2011** | | | | | | | | | | 1.51% | -4.09% | 3.17% | **0.44%** |
| **2012** | 7.04% | 5.72% | 3.90% | -3.44% | -1.13% | -0.21% | 2.26% | 3.04% | -0.07% | -1.49% | 1.17% | 2.68% | **20.87%** |
| **2013** | 7.22% | -0.18% | 2.18% | -0.63% | 8.80% | 0.29% | 3.32% | 0.02% | 1.55% | 0.70% | 3.87% | 4.64% | **36.21%** |
| **2014** | -1.24% | -0.16% | 6.16% | 6.70% | -0.20% | -2.20% | -4.47% | 0.43% | -3.82% | 0.94% | 2.69% | 6.69% | **11.25%** |
| **2015** | -1.21% | 7.65% | -1.15% | -0.49% | -0.12% | -1.91% | -2.80% | 6.66% | 0.22% | 7.58% | -5.97% | -1.87% | **5.69%** |

## Disclosures and Notices

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