VOSS
CAPITAL
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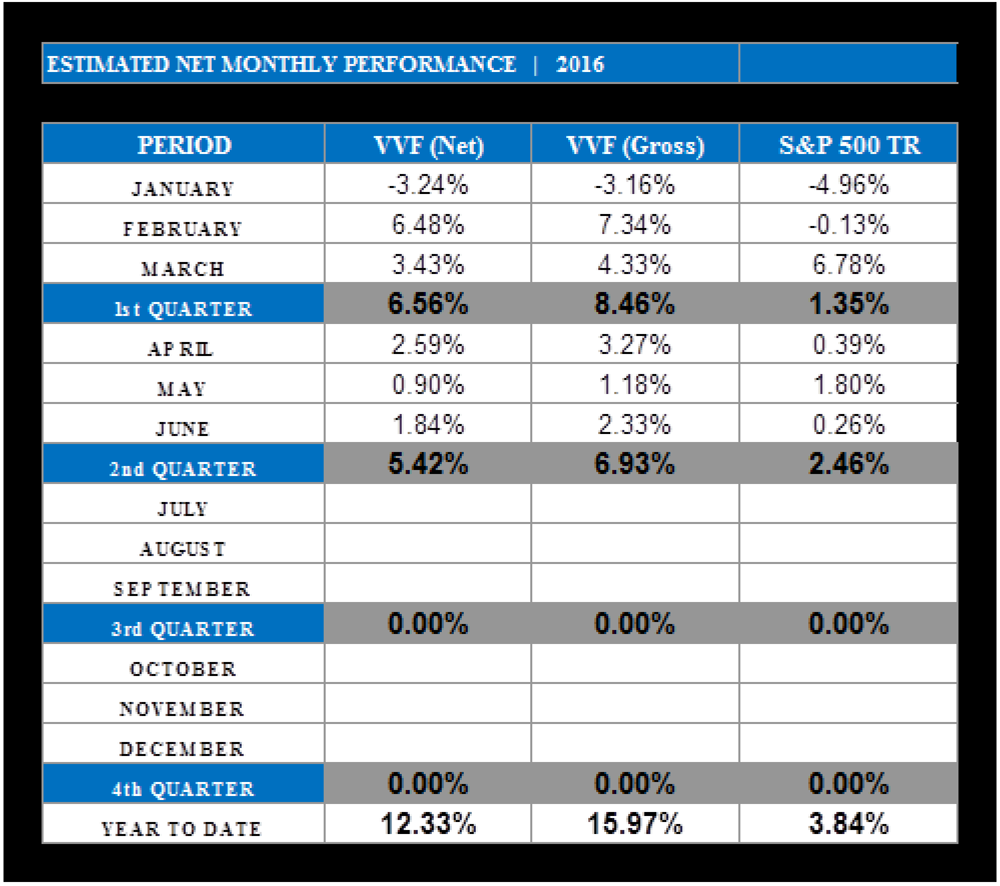
Dear Partners,

The Voss Value Fund, LP returned 5.42% net of fees for Q2 2016. This compares to the S&P 500's total return of 2.46% and the Russell 2000's 3.40%. Year to date we are +12.33% net compared to the S&P 500 at +3.84% and the Russell 2000 at +1.41%. Our total gross exposure sits at 122.9%, with beta-adjusted net long exposure at 69.1%. Longs added ~10.8% (gross) and shorts detracted ~3.9% from performance in Q2.

**Voss Value Fund, LP**



**ESTIMATED NET MONTHLY PERFORMANCE | 2016**

| PERIOD | VVF (Net) | VVF (Gross) | S&P 500 TR |
|---|---|---|---|
| JANUARY | -3.24% | -3.16% | -4.96% |
| FEBRUARY | 6.48% | 7.34% | -0.13% |
| MARCH | 3.43% | 4.33% | 6.78% |
| 1st QUARTER | **6.56%** | **8.46%** | **1.35%** |
| APRIL | 2.59% | 3.27% | 0.39% |
| MAY | 0.90% | 1.18% | 1.80% |
| JUNE | 1.84% | 2.33% | 0.26% |
| 2nd QUARTER | **5.42%** | **6.93%** | **2.46%** |
| JULY | | | |
| AUGUST | | | |
| SEPTEMBER | | | |
| 3rd QUARTER | **0.00%** | **0.00%** | **0.00%** |
| OCTOBER | | | |
| NOVEMBER | | | |
| DECEMBER | | | |
| 4th QUARTER | **0.00%** | **0.00%** | **0.00%** |
| YEAR TO DATE | **12.33%** | **15.97%** | **3.84%** |

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 Bryan Sweeney, CFO of Voss Capital, LLC, with any inquiries.

Small cap stocks went through a sizeable yet stealthy bear market that very few people acknowledge due to the fact that the S&P 500 did not decline by nearly as much (-12.3% peak-to-trough, 7/17/15 - 2/12/16). The Russell 2000 peaked on June 23rd, 2015 and fell 25.7% through February 11th, 2016. The Russell Microcap Index fared worse at -27.2%. The median price decline within the Russell 2000 universe of stocks approached 40%. From February 11th through the end of Q2, the Russell 2000 rebounded 19.5%. The Fund has had either zero or negative net exposure to each of the top five performing industries YTD: Materials, Utilities, Telecom, REITs, Consumer Staples. Despite getting this sector positioning massively wrong, we have still been able to outperform the indices by a decent margin.

Value as a style has led growth in all market cap size segments YTD. The Russell 2000 Value index (+6.1% through end of Q2) is the best performing US index YTD with a sizeable spread over the Russell 2000 Growth index (-1.6%) and large cap growth proxy, the Nasdaq Composite (-2.7%). This style leadership transition has given us a tailwind the last few months and provided a fairly ideal market environment for value oriented stock pickers, with what can be characterized by most measures as a pretty "normal" year (outside, of course, the ~$10 trillion in negative yielding bonds globally). The temporary market volatility surrounding the Brexit vote is the type of sentiment driven move that sharp bull market corrections are made of. To be sure, the rally in the majority of stocks is worthy of doubt and hesitation as both "low quality" and "high quality" stocks have surged while starting from full valuations.

Small-cap stock valuations are roughly in-line with the median of the last 5 years on an EV/EBITDA basis, at 11.7x. The forward P/E for small caps stands at 16.3x, about 6% above the average since 1985 and down from 19.3x in 2013. The long-term average is a 15.6x forward P/E[3], so the current market in small caps is fairly typical.

Large cap multiples, however, continue to rise. The small cap premium relative to large is at the lowest since 2003. The long-term median valuation premium for small over large is ~14.5%, but small caps are currently at a slight discount.

A large risk for us is the continuation of the "barbell of froth" that we highlighted in Q1 2015. This has been ongoing as large cap consumer staples and defensive stocks are pricey and staying that way as long as rates remain low. While on the other end of the barbell, many cash-burning story stocks are taking flight again. In other words, securities with predictable cash flows and yields are overpriced in most instances, as well as the highly speculative stocks that are perceived to have large upside if their fairytales pan out. All hope is not lost. We can still invest in compelling value opportunities and special situations that are idiosyncratic, while controlling risk.

| S&P 500 Valuation | Aggregate Index | | Median Stock | |
|---|---|---|---|---|
| Metric | Current | Historical Percentile (Since 1976) | Current | Historical Percentile (Since 1976) |
| EV/Sales | 2.0x | 92 | 2.4x | **99** |
| EV/EBITDA | 10.9x | 86 | 11.2x | **99** |
| Forward P/E | 16.8x | 86 | 17.6x | **96** |
| Price/Book | 2.8x | 66 | 2.9x | **83** |
| PEG Ratio | 1.4x | 88 | 1.8x | **100** |

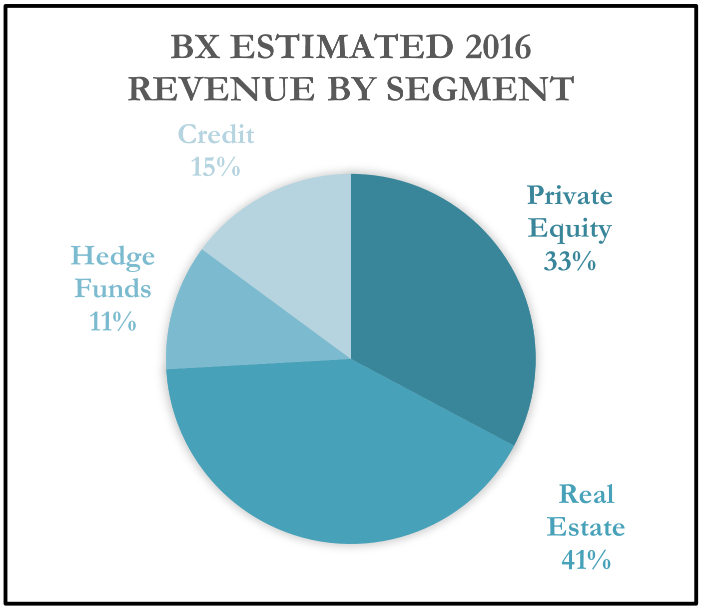
*PEG is since 1982. Data as at May 16, 2016. Source: KKR, Goldman Sachs Research, Standard & Poor's, Bloomberg.

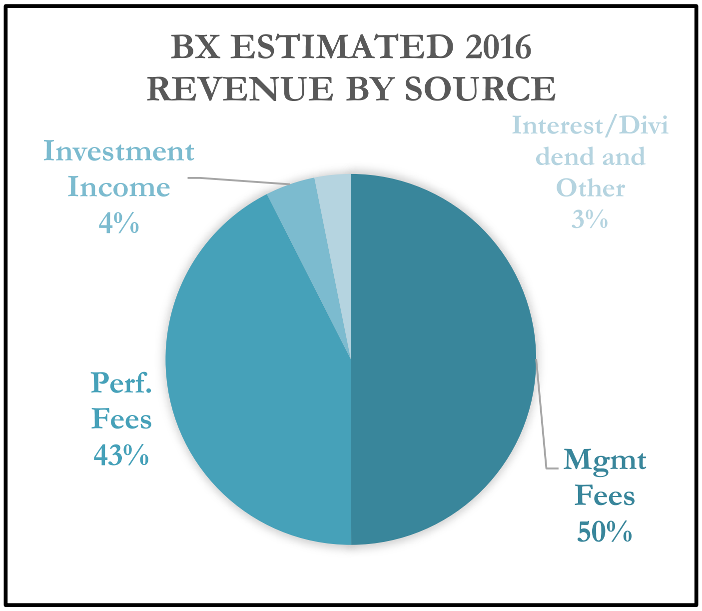
Extreme positive breadth has made shorting extra difficult lately as a rising tide has lifted most boats, be they mighty mega yachts or dinged-up dinghies. Given that median valuations are at all-time highs (shown in the table above) it may appear as though one could easily pick from a plethora of easy shorts. In reality it is a dangerous shorting environment as there are endless erratic upside moves. Shorting late in a bull market presents us with a great challenge and frustrating paradox--it is simultaneously the best and worst time to short individual stocks. What I mean by this is that the fundamental long term downside for many stocks is as great as it has been in years. We are seven years into a bull market, valuations seem stretched, and leverage is at a new cycle high. However, the short term upside may also be greatest due to the risk of parabolic blow-offs from unsophisticated price momentum chasing, or the possibility of getting burned by shorts that get acquired at excessive valuations by desperate executives. To thwart these risks we have increased our focus on using options to hedge as opposed to increasing our gross short exposure more broadly. What is more important for our risk-adjusted returns now (and always) is to truly emphasize longs with limited fundamental downside, defined as some combination of non-cyclical, low/no leverage, recurring revenue, low valuations, liquid tangible assets in place, and consistent free cash flow generation.

Interestingly, capital expenditures for the Russell 2000 in the first half of 2016 were down ~11% year-over-year. This is a dramatic fall off in cap-ex and could be perceived as good or bad. It could be viewed as good if it means spending has simply been delayed and companies need to play catch up on deferred maintenance. It could be bad if it continues and companies geared towards business spending are in for more tough times. In part due to our uncertainty of where we are in the cap-ex cycle, we continue to favor companies geared towards consumer spending, which does not fluctuate all that much. If consumer spending were -11% in a year it's likely we would be in the middle of a depression. We believe most of the main macro worries in the world at present reside outside of the US, which hopefully makes our domestically oriented small caps more insulated from the most feared macro shocks. For example, in terms of Brexit fears, the Russell 2000 companies derive only ~2% of sales from the UK and ~7% from the European Union as a whole.

We expect a pick-up in M&A as corporations are coming under increasing pressure to either unlock value or acquire growth in this slow growth environment. One investment we've made recently that is a beneficiary of any uptick in M&A, as well as a potentially improving IPO market, is The Blackstone Group (BX). Blackstone is a global behemoth in the alternative asset management space with $356 billion of AUM. BX has many of the business model characteristics we seek in our longs due to their recurring management fees on locked-up capital (9-year lock-ups, on average) providing a stable income base, with potential performance fees offering asymmetric optionality to the upside. BX has been raising a variety of new funds and in the past year has raised about as much capital as their next four largest private equity competitors combined. They're now sitting on $98 billion in dry powder.

In innumerable ways, BX reminds me of my favorite animal, the octopus. They're both extremely opportunistic and thrive in a variety of environments. Studies have shown that across a huge range of ocean depths and marine habitats, octopus adapt to eating whatever is most readily available where they live (eating up to 75 different animal species). Octopuses have the ability to regrow severed arms within 100 days, as well as move in any direction, change color, shape, and texture in a fraction of a second. Similarly, if one door closes for BX, they will tactically shift depending upon the global opportunity set and capitalize new money making vehicles organically to replace what is lost. Or, they may simply acquire or partner with another specialized firm and continue pumping out high returns should new asset class displacements and market panics occur. One example of this is their recently launched public CLO vehicle listed under BGLF on the London Stock Exchange that manages >$20 billion of CLOs. Additionally, they launched a large BDC complex with a partner, Franklin Square. Over $15 billion of assets within their GSO credit division's $85 billion are from retail investors and they have only just recently begun going after this retail distribution.





BX's earnings fluctuate wildly quarter-to-quarter due to Performance Fees making up approximately 43% of total revenue and this bothers many investors. Our viewpoint on this is: it's not *if* you get the performance fees with BX, but only a matter of *when*. If we can't compete with them (in fundraising, at least), why not join alongside them at a single digit multiple of growing, albeit lumpy, earnings?

A recurring theme for the Voss team these last few months has been about trying to root out and eliminate our dogma. Those who peddle one dogmatic investment ideology have trouble admitting when they are wrong, and it could perpetually cloud their investment judgment.

> "In all sports, all coaches overuse strategies that give them the illusion of control. Calling copious amounts of plays and timeouts at the slightest hint of trouble are hallmarks of this illusion. Coaches who have real control of their team have put in countless hours of practice and embrace the beauty of chaos during games." – Bill James, baseball historian and statistician.

In a lot of sports, the coach's attempt to control the game from the sidelines is an illusion because decisions ultimately depend on the defense, the location, the current score, and other factors out of their control. Most team sports are fluid and dynamic. The best teams *adjust, adapt, and exploit* opponent's weaknesses as they arise. Execution in chaotic situations and complex adaptive systems (such as team sports and the capital markets) cannot simply be memorized. If a player in sports only memorizes set plays with no flexibility to adapt as plays unfold, they stop thinking. If they stop thinking, they stop changing.

Bill Belichick, the fascinating coach of the New England Patriots with four championship rings, appears to have limited dogma. He exhibits extreme adaptability (much like BX and octopuses), changing his game plan week-to-week to aggressively exploit opponents' weaknesses. For example, in 2012 the Patriots completely changed their offensive strategy against the Colts in the playoffs. The Patriots led the league in number of plays during the season, with passing plays outnumbering running plays by a wide margin. To exploit a weak Colts rush defense, the Pats completely reversed their pass/rush ratio and ran 46 running plays, and only 25 passing plays. They scored six rushing touchdowns and easily won the game. In another instance, despite having just won the Super Bowl in February 2015, the Patriots spent the 2015 off-season completely retooling their defensive schemes. The Patriots have allowed the 3rd fewest points in the entire league since Belichick took over as head coach.[4] This feat has been accomplished despite consistently evolving over time and having vastly differing personnel on the field. Time and time again with what appears to be no hesitation or emotional attachment, Belichick's plan of attack evolves. His greatness has never stemmed from one big idea, "unless that big idea is the relentless application of many little ideas."[2] His greatness is his octopus-like versatility and fluidity in his game plans.

We want to strive for that same mentality for optimal portfolio management. If we can minimize our dogma and have a flexible mindset we can more consistently be taking what the market gives us, thereby repeatedly turning a series of small advantages into a potentially large cumulative advantage. We believe it is both possible and reasonable to embrace the chaos of the market by dynamically adjusting our tactics, while remaining solidly rooted in certain high level fundamental principles. We relish the choppy and chaotic markets as they seem to give us a slight advantage. Being marginally more adaptable than the crowd in these environments will compound over time and pay off for our Partners.

To continued alpha,

Travis & the Voss team

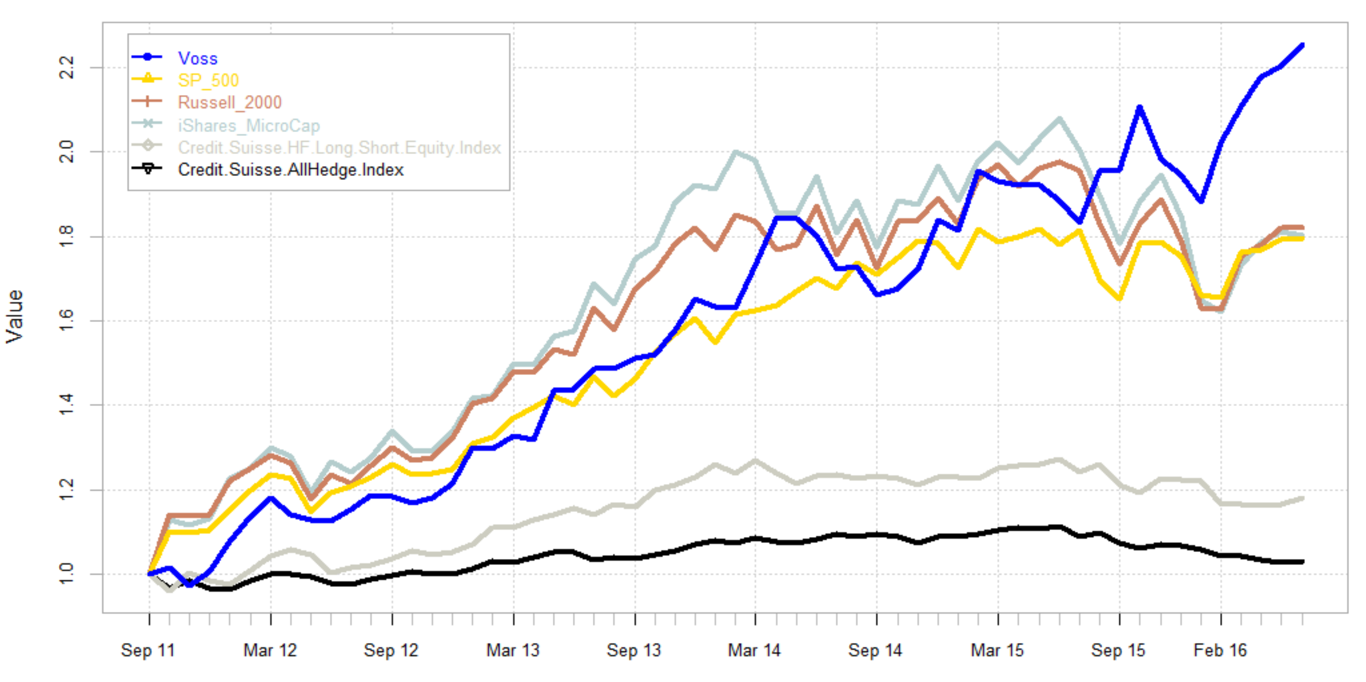
**Voss Value Fund Monthly Net Returns Since Inception**

| | **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% | 7.72% | -5.97% | -1.87% | **5.69%** |
| **2016** | -3.24% | 6.48% | 3.43% | 2.59% | 0.90% | 1.84% | | | | | | | **12.33%** |

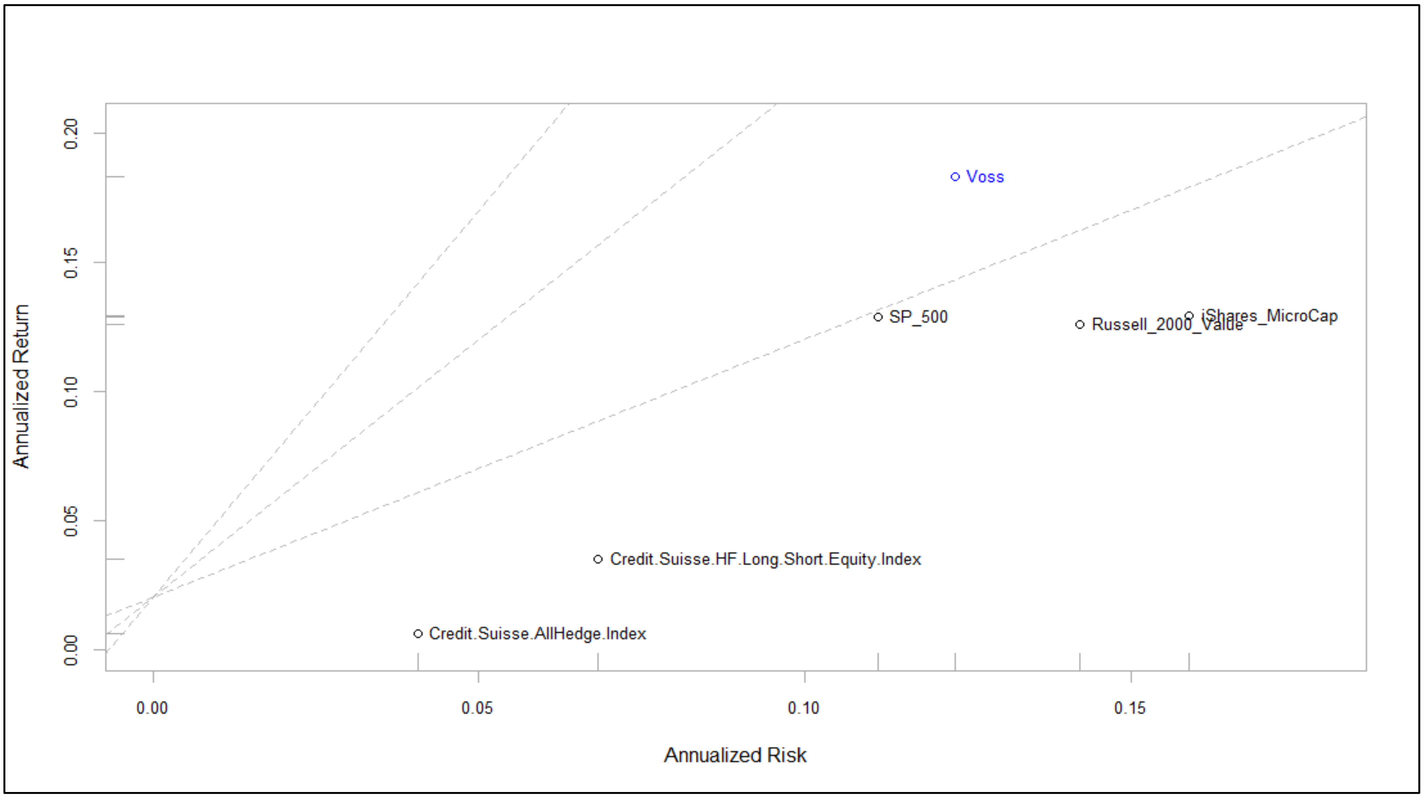
## Performance Metrics (October 2011 - June 2016)

| | Russell 2000 | Russell 2000 Value | iShares MicroCap | Credit Suisse HF L/S Index | Credit Suisse AllHedge Index | Voss |
|---|---|---|---|---|---|---|
| **Annualized Alpha** | -0.01 | -0.01 | -0.01 | 0.05 | 0.02 | **0.13** |
| **Beta** | 1.16 | 1.09 | 1.13 | -0.12 | -0.07 | **0.44** |
| **Beta +** | 1.19 | 1.09 | 1.15 | -0.29 | -0.17 | **0.45** |
| **Beta -** | 1.17 | 1.00 | 1.15 | 0.08 | 0.09 | **-0.12** |
| **R-squared** | 0.75 | 0.73 | 0.63 | 0.04 | 0.04 | **0.16** |
| **Correlation to S&P 500** | 0.86 | 0.85 | 0.79 | -0.20 | -0.20 | **0.40** |
| **Active Premium** | 0.00 | 0.00 | 0.00 | -0.09 | -0.12 | **0.05** |
| **Information Ratio** | 0.04 | -0.04 | 0.01 | -0.66 | -0.97 | **0.42** |
| **Annualized Sharpe Ratio** | 0.73 | 0.73 | 0.67 | 0.21 | -0.34 | **1.30** |

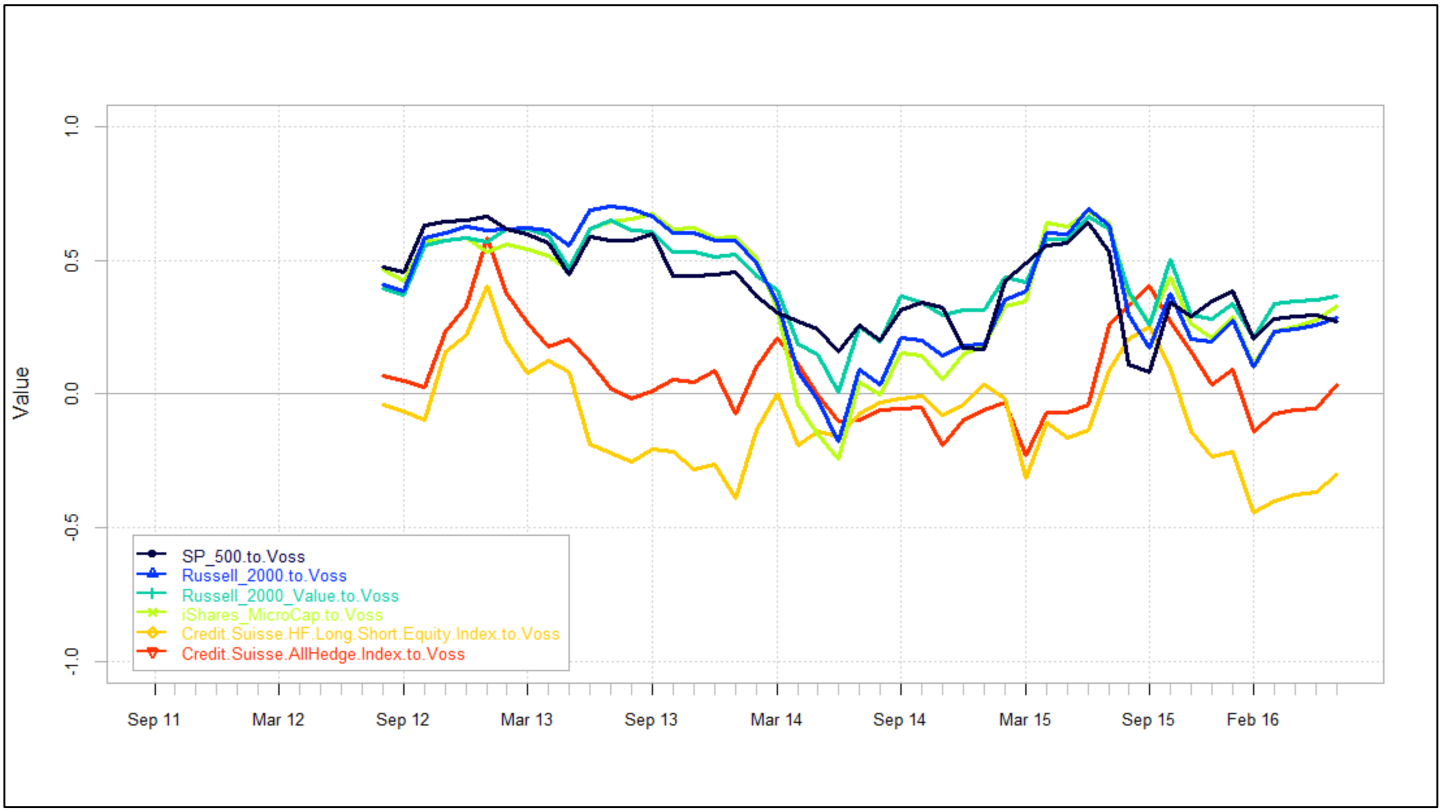
Graph of Cumulative Net Performance Since Inception:



Risk-Adjusted Return Comparison:



Voss Value Fund Rolling Correlation to Indices:



Sources:

1: Goldman Sachs US Weekly Kickstart Portfolio Strategy Research report, July 15th, 2016.
2: *Strategy Concepts of Bill Belichick*: Leadership Case Studies 2015
3: Jefferies equity strategy report, July 6th, 2015
4: Behind only the Ravens and Steelers, http://www.patspulpit.com/2016/6/26/12032914/i-think-the-patriots-defense-under-hc-bill-belichick-is-wildly-underrated
5: Bank of America Merrill Lynch report, July 6th, 2016, *"Will Brexit Make its way into Corporate America?"*

## Disclosures and Notices:

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