VOSS
CAPITAL

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

Dear Partners,

The Voss Value Fund, LP returned 8.04% net of fees for Q3 2016. This compares to the S&P 500's total return of 3.85%. Year to date we are +21.36% net compared to the S&P 500 at +7.84%. Our total gross exposure sits at 80.4%, with our beta-adjusted net long exposure at 46.3%. Longs added ~9.5% (gross) and shorts detracted ~0.7% from performance in Q3. Our top 10 longs comprise a 53.3% portfolio weighting and our top 10 shorts are -6.3%.

Voss Value Fund, LP

Estimated Net Monthly Performance | 2016			
Period	**VVF (Net)**	**VVF (Gross)**	**S&P 500 Total Return**
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	7.26%	8.92%	3.69%
August	1.86%	2.31%	0.14%
September	-1.12%	-1.26%	0.02%
3rd Quarter	**8.04%**	**10.03%**	**3.85%**
October			
November			
December			
4th Quarter			
Year to Date	**21.36%**	**27.60%**	**7.84%**

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%	7.26%	1.86%	-1.12%				**21.36%**

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, CIO of Voss Capital, LLC, with any inquiries.

Fear and greed. Greed and fear. They're instinctual and eternal. Whatever form our psychological weaknesses and biases take, the market will grant no mercy in rooting them out. After several months of having the feeling of being in harmonious cadence with the markets, any shred of confidence I had accumulated was viciously annihilated by September's whacky price action. With faithful regularity, I get the inkling that the market is one giant diabolical scheme out to conspire against us. Q3's heaping serving of humble pie came in many forms, not the least of which was many of our highest conviction short ideas showing enviable resilience and vigor. We had cut gross exposure and raised cash sufficiently to limit the damage of navigating with no working compass or discernible map of the investment terrain. Now, having had ample time to both lick our wounds and regain our bearings, we have the opportunity to scale back in to both longs and shorts at prices better than our existing cost basis—an uncomfortable, yet hopefully profitable reloading of the pipeline that will deliver our future alpha.

Voss remains a testament to the idea that in un-levered, diversified public equity investing you can make lots of errors and still come out okay. Fortunately, so far this year we have kept a fairly low error rate on the long side. We have had a few big losers and many laggards, but they have not been sized large enough to capsize us. The main mistakes we've made have come when we overrode our intuition of disliking management (as operators) and pulled the investment trigger due to the cheapness of the stocks. In a few situations, such as Bravo Brio Restaurant Group (BBRG), the fundamentals deteriorated rapidly, and when combined with operating leverage and even just a tad of financial leverage, a dangerous trifecta quickly emerges that can make a situation precarious. On multiple occasions, we've made a mistake of assuming that management teams (and/or Boards) will either act with a newfound sense of urgency or act in their own best interest (at least their best interest from our point of view/assessment). For example, we thought Patriot National's CEO would gladly accept an offer for a buyout from Ebix knowing that if he didn't, his stock and net worth would likely collapse ~50% back to a pre-deal low. In the majority of cases this assumption turns out to be wishful thinking. Lo and behold, stripes are rarely changed. If we sense any whiff of delusion or intellectual dishonesty from inside a company about their own operating performance or competitive situation, we must pay heed to the agonizing alarm bell buzzing deep within our well attuned amygdala. Change for the better is difficult and we must constantly be re-evaluating the risk/reward of a situation based on the probabilities—not the possibilities—of immediate change. Immediate change for the worse is a near constant threat for any business. Without turnover in top level personnel or an aggressive and well executed shareholder activism campaign, the probability of any sort of operational change or corporate turnaround is a low one.

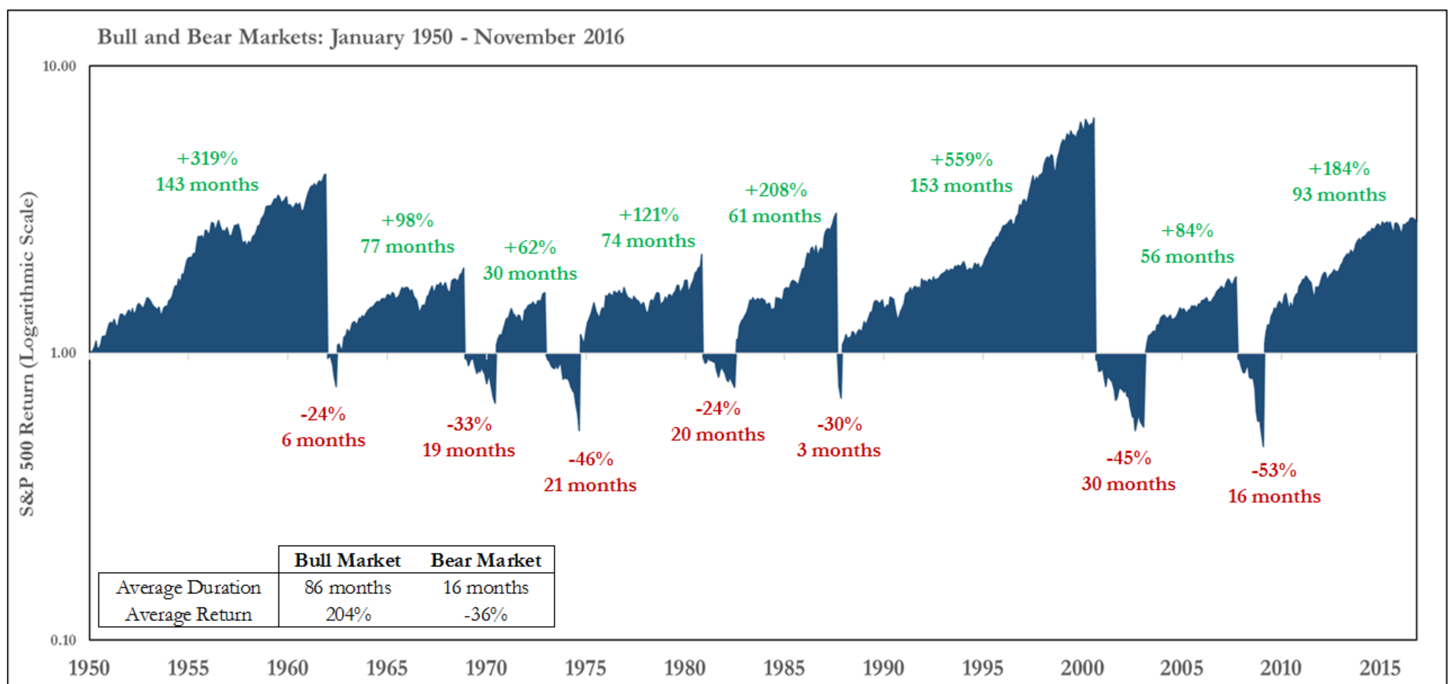
I sit writing this on the eve of the US presidential election. Staying politically agnostic is a core Voss investment tenet to help us avoid major biases that could lead to poor portfolio management decisions. It's important to analyze the policies, not the party or politician. It's also important to remember that campaign promises rarely become reality.

> "The bearish crowd is so noisy right now, let's examine its premises. 1) The past few years have been so great that the party must be over. 2) P/Es and the like are so high that stocks must fall far to get back to a normal range. 3) We are at or near a bottom for interest rates. 4) The coming decade will be a slow-growth decade on Main Street, tied to debt, deficits, taxes, and a tapped-out consumer. 5) Clinton."

The above quote is from Ken Fisher summarizing bearish investors' views in a Forbes article titled "Stay Bullish" dated August 2nd, 1993. If reading old financial articles just before elections, it can be difficult to discern which election cycle the article is from. That is to say, many of the worries we have today are not novel phenomenon nor uniquely new troubles. No matter how uncertain and scary a pending event or economic environment seems in the moment, the market has been through something similar many times before, and to think any differently is to lack proper historical context. Short-term volatility, such as that experienced around a major election, can be irrational, is mostly unpredictable and follows no set pattern. We do not position portfolios too differently if we are expecting the

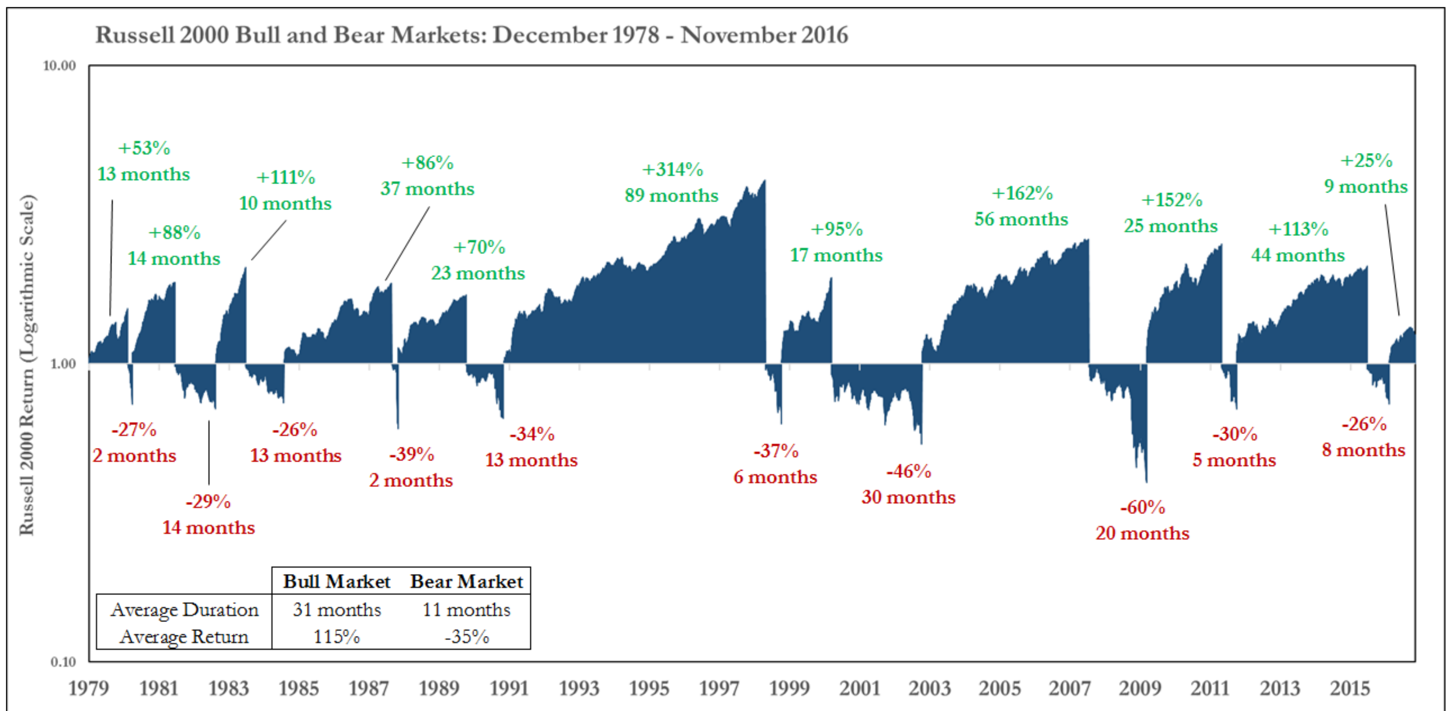
market to be down just a little. Riding out such shallow corrections is the price we must pay for capturing large upswings and achieving higher rates of long term compounding.

Stocks overall seem "fairly valued" to "fully valued" and, to state the obvious, a key driver of returns will be the earnings multiples assigned going forward. Recall that when Federal Reserve Chairman Alan Greenspan uttered the famous phrase "irrational exuberance" it was as far back as December 5th, 1996. At the time the US was already 69 months into economic expansion (the last official recession had ended in March of 1991) and the trailing P/E ratio was a hefty 19.0x. Compare this to today's equally beefy trailing P/E ratio of 19.9x, and 16.6x using consensus estimates for the next twelve months[1]. Despite the economic and market cycle being incredibly long in the tooth by December '96, the S&P 500's earnings went on to grow another ~40% cumulatively over the next three years before the market ultimately peaked. Furthermore, the trailing P/E ratio got as high as 29.9x in Q2 1999. The extreme multiple expansion combined with the earnings growth lead the S&P 500 to a total return of 107.4% over the subsequent three year timeframe from Greenspan's remark (27.5% annualized). The market did not peak until one quarter later, a full 39 months after his speech. The NASDAQ Composite's total return was a more blistering 218.7%, or 47.2% annualized. The trailing P/E ratio on the S&P 500 did not go back below 17.0x (using quarter-end closing prices) until Q4 2005. This was an extreme period and one of the greatest equity bubbles of all time and I am cherry-picking a date near the top of the market as an arbitrary cut-off. I point this out, however, to show that there is a lot of room between fairly valued and overvalued and long term average valuations do not act as some magical magnet that stocks hover around or immediately snap back to in any reasonable timeframe.



	Bull Market	Bear Market
Average Duration	86 months	16 months
Average Return	204%	-36%

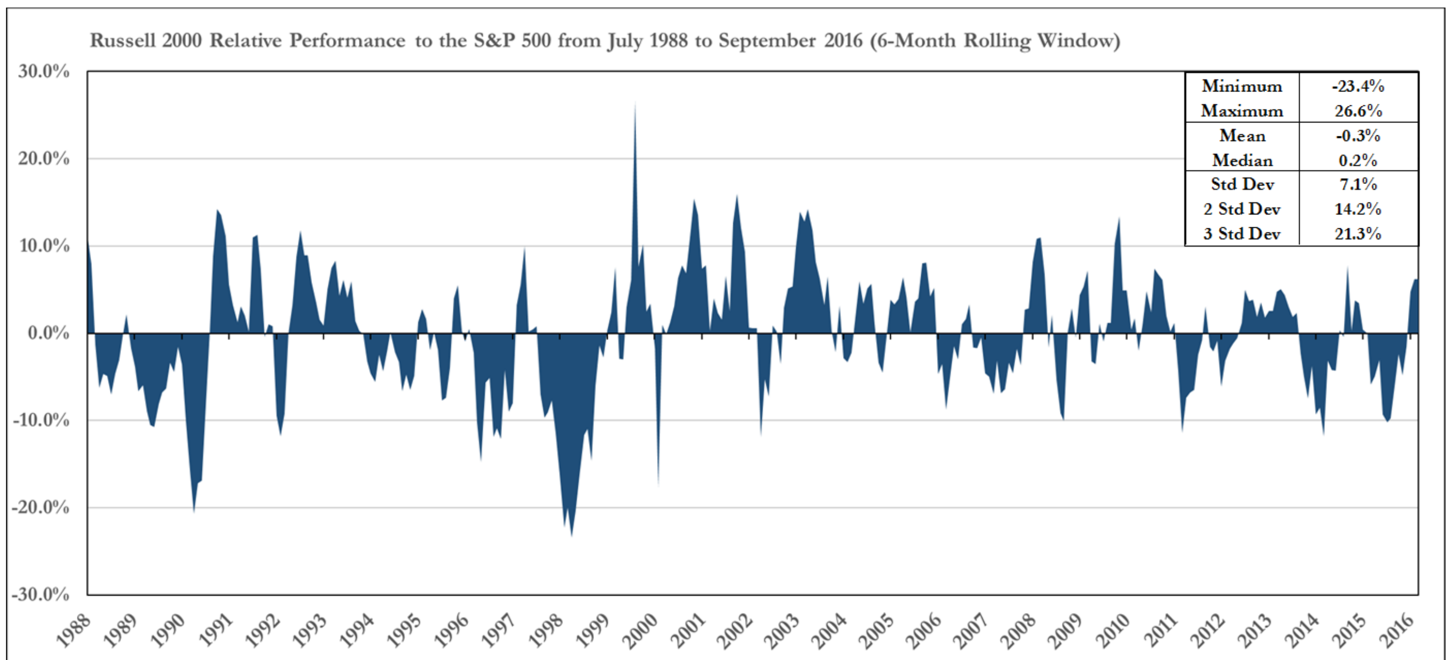
This chart shows historical bull and bear markets (defined as a decline of 20% or more) for the S&P 500 going back to 1950. Similar to that late 90's era mentioned above, the length (93 months and counting) and sustained high valuations of our current bull market is confounding many.



	Bull Market	Bear Market
Average Duration	31 months	11 months
Average Return	115%	-35%

Above is the same chart showing bull and bear markets, but using the Russell 2000. The timeframe shown is shorter, starting from 1979 as opposed to 1950 for the S&P 500. You will notice that from 1979 onwards, the Russell 2000 has had 10 official bear markets while the S&P 500 had only four—and Russell's peak-to-trough declines were much worse, to boot. It is worth pointing out that over this latest bull market, the Russell 2000 and smaller capitalization stocks have technically had two bear markets and two renewed bull market while the S&P has been more stable.

As you may know by now, the Voss Value Fund's returns in the short term relative to the passive benchmarks will be wildly variable, as we have near zero correlation to the indices on a daily or weekly basis (0.11 daily return correlation to S&P 500 for Q3). As shown in the two charts above, small caps are much more volatile than large caps and the style factors and leadership underlying stock market returns are inherently volatile. The style factor of growth versus value is wildly variable and the short term performance difference between small and large caps (as measured in this chart by Russell 2000 and S&P 500) is even more variable.



Minimum	-23.4%
Maximum	26.6%
Mean	-0.3%
Median	0.2%
Std Dev	7.1%
2 Std Dev	14.2%
3 Std Dev	21.3%

The previous chart shows the cumulative performance differences between the Russell 2000 and S&P 500 over rolling 6-month periods. If taking micro caps and the largest 100 stocks within the S&P 500, the standard deviation of six-month relative performance becomes even larger. Six months is a fairly short timeframe and that is the point. As you can see, 10%+ differences in performance between small caps and large caps is quite common over such a short timescale with the differences being as large as -23% to +26%. As of the end of October 2016, small caps have outperformed larger peers over the last six months by 6.2% and just this slight positive deviation has provided a major boost to our relative performance. Our style bias towards small cap value is a tailwind now, but it hurt badly in 2014 and 2015 and remains a strong potential influence on our short term relative performance.

Even perfect secondhand familiarity with all of history's market cycles, as well as the intricate life-long study of the capricious and paradoxical human psychology that drives the cycles provides little reassurance that we are fully inoculated and will navigate them unscathed. We understand that fundamentally there is a wide range of reasonable outcomes for the equity markets based on how sentiment, earnings, and style or factor preferences evolve from here and we are mentally prepared for a variety of potential market environments. This uncertainty is both normal and necessary, and without it, our process of finding and exploiting severely mispriced securities, both long and short, would be much more difficult.

We continue to think that experiential and differentiated specialty retail concepts remain an area of opportunity in the market due to ongoing fears about Amazon killing off all brick & mortar shopping. As such, we continue hold Build-A-Bear (BBW) as our fourth largest long position. We were encouraged by the company's positive and upbeat Q4 guidance and believe the Board's strategic review process to auction the company is ongoing. With so many growth irons in the fire, we are holding BBW a while longer at an undemanding valuation of ~4.8x forward EBITDA in anticipation of a strong Q4 retail environment or potential buyout.

One new top ten long position initiated in the Fund this quarter is Dave & Buster's (PLAY). Dave & Buster's is a differentiated and experiential restaurant concept that derives just over half of its revenue from high margin games (88% Gross margins LTM). Alongside of Fogo de Chao (FOGO), we believe PLAY has the best unit economics and business model in the entire restaurant industry. For the last twelve months FOGO's restaurants have tallied 30.4% restaurant-level EBITDA margins and PLAY's have done 30.5%, with total YTD EBITDA growth of 28.5% for PLAY year-over-year. In a weak economic period, we believe PLAY will hold up better than other casual diners, as they continue to grow store level margins and benefit from an ongoing revenue mix-shift to Amusement/Games. PLAY has a long runway for unit growth, both domestically and internationally, but if they were to stop opening new units at our purchase price we paid <10x a discretionary free cash flow multiple. We made PLAY a 3% position at $40, ~7.25x our 2017 EBITDA estimates, and sold January and April 2017 $40 strike puts for a potential further 2.5% position addition at an effective purchase price of <$37, or under 7x forward EBITDA and 8.8x discretionary FCF.

We previously shared a full investment memo on Fiesta Restaurant Group (FRGI) on August 1st when the stock price was ~$22. Since then, an activist group with substantial restaurant experience and expertise filed a 13-D on September 19th seeking Board changes. The previous CEO has retired, the COO of Pollo Tropical was promoted to interim CEO and the company announced they were scrapping plans to spin-off Taco Cabana (we thought they might announce the sale of it). They also recently announced the shuttering of 10 underperforming Pollo Tropical locations and have cut back unit expansion plans and cap-ex guidance substantially. The stock is up to around $26 and has been a good IRR so far. It was rumored that they had hired an investment bank to shop the company, in which case we believe they would fetch at least a 9-10x EBITDA multiple, or $28-31/share. The risk/reward is clearly not as great now at $26 as it was at $22 and it is no longer our favorite restaurant investment, but we are retaining FRGI as a top 10 long position while the activist group pushes for positive changes to drive shareholder returns.

Our largest position by a wide margin remains Quorum Information Technologies (QIS CN). Management at QIS continues to execute superbly on their clearly articulated growth plans. We applaud the steps they've recently taken to more actively engage with the institutional investor community by hiring an investor relations consultant and commencing quarterly earnings conference calls starting with Q4 results early in 2017. Quorum has a long runway to continue profitably growing their SaaS recurring revenues at 20% or more and the shares still offer asymmetric and multi-bagger upside potential at ~2x our 2017 recurring revenue forecast, a multiple usually reserved for declining or cash burning software companies.

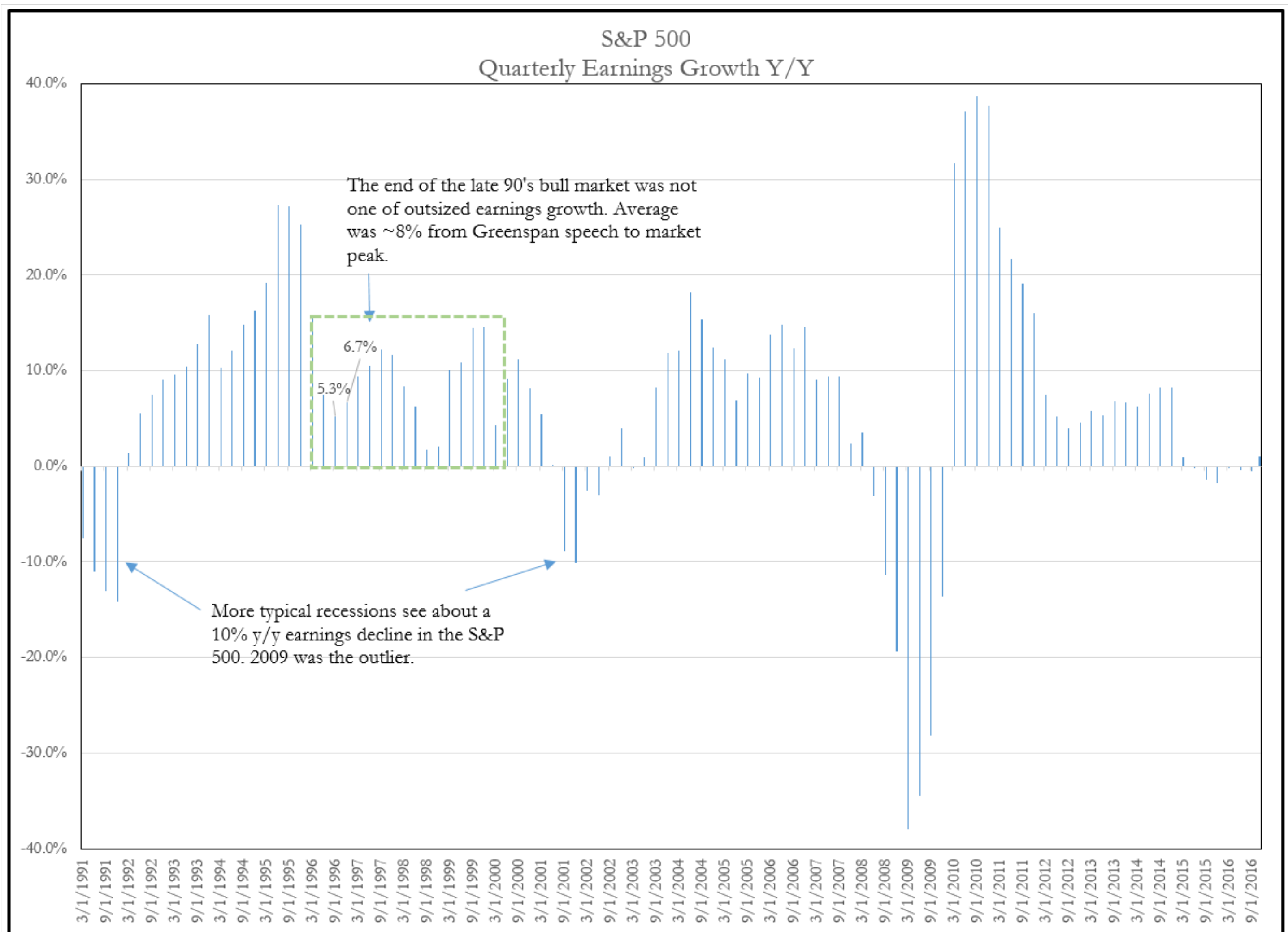
We are beating the market by a substantial margin this year so far, but rest assured there is zero let-up in our sense of urgency, intensity and all-consuming paranoia. Our focus on our process is unwavering and as we continue to systematically rake through the market for bargains, we find ourselves inundated with quality ideas to pursue.

It's hard to believe, but the conclusion of this quarter marked our fifth full year in business. I want to thank our indispensable service providers, Jon and Taylor for their dedication and tireless hard work, and our Partners, for their continued support and investment in Voss. Please reach out if we can be of any assistance.

To alpha,

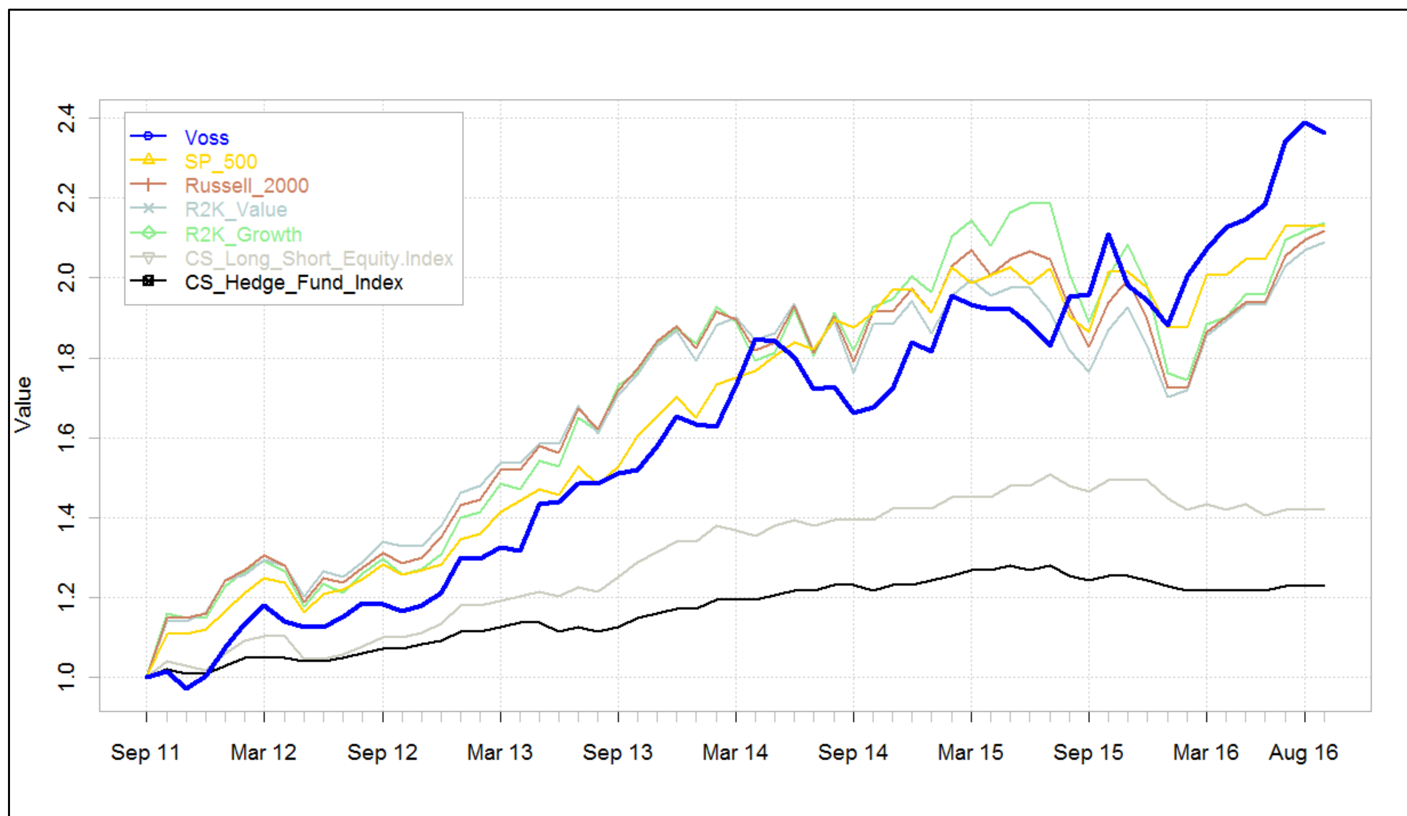
Voss

Appendix:



Earnings over that late 90's to 2001 recession cycle declined only a maximum 13.2% peak-to-trough. With 88% of S&P 500 companies having reported at the time of this writing, the blended Q3 EPS growth rate is 2.88%, with the Energy sector detracting 2.98% from this, so Q3 earnings growth ex-Energy has returned to a healthy growth of +5.86%. Q4 EPS growth is expected to be in the range of +3.23%, with expected EBIT growth a more brisk +16.01%. Since Q1 2015, S&P 500 earnings have essentially been flat, a rare circumstance historically speaking and hence why it is important to watch which direction the earnings growth breaks. Source: Factset's Earnings Scorecard.

Voss Value Fund Cumulative Performance Chart Since Inception



Here is a table comparing our performance to various equity indices, the Credit Suisse Long/Short Hedge Fund Index, and the Credit Suisse Hedge Fund Index. Voss shows superior returns, low correlation, negative Beta on down days in the market, and a Sharpe Ratio vastly superior to that of the broader L/S hedge fund index.

Performance Metrics (October 2011 - September 2016)

	Voss	Russell 2000	Russell 2000 Value	Russell 2000 Growth	Credit Suisse Hedge Fund L/S Index	Credit Suisse Hedge Fund Index
Annualized Alpha	**0.10**	-0.02	-0.01	-0.03	-0.01	-0.01
Beta	**0.46**	1.16	1.07	1.24	0.42	0.21
Beta +	**0.33**	1.26	1.16	1.35	0.32	0.15
Beta -	**-0.03**	1.35	1.23	1.44	0.38	0.15
R-squared	**0.17**	0.73	0.71	0.71	0.61	0.48
Correlation to S&P 500	**0.41**	0.85	0.84	0.85	0.78	0.69
Active Premium	**0.02**	0.00	0.00	0.00	-0.09	-0.12
Information Ratio	**0.19**	-0.02	-0.05	0.01	-1.20	-1.31
Annualized Sharpe Ratio	**1.32**	0.91	0.95	0.85	0.84	0.63

Top Ten Longs (in order of weight): QIS, PAR, BX, BBW, MRLN, SSNC, FRGI, IRG CN, PLAY, FOGO

Sources:

1: Bloomberg, Consensus Best EPS Estimates

Disclosures and Notices: The information contained herein reflects the opinions and projections of Voss Capital, LLC ("Voss") as of the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Voss 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 Voss. This confidential report is only intended for the recipient and may not be redistributed without the prior written consent of Voss 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 Voss Value Funds or any other security. An investment in any Voss Value Fund is speculative and involves substantial risks. Additional information regarding the Voss 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 Voss Value Funds will only be made pursuant to an offering memorandum. There can be no guarantee that any Voss 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 Voss 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 VOSS. 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.