VOSS CAPITAL

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Dear Partners,

In Q2 2018 the Voss Value Fund, LP returned 10.22% to investors net of fees and expenses, compared to a 7.75% total return for the Russell 2000 and a 3.43% total return for the S&P 500. The Fund's total gross exposure stands at 124% and the beta-adjusted net long exposure is 26%. Our top 10 longs have a 72% weighting and our top 10 shorts have a gross weight of -10%.

Voss Value Fund, LP

ESTIMATED NET MONTHLY PERFORMANCE | 2018

PERIOD	VVF (Net)	VVF (Gross)	Russell 2000 TR	S&P 500 TR
JANUARY	0.61%	0.85%	2.61%	5.73%
FEBRUARY	1.49%	1.94%	-3.87%	-3.69%
MARCH	1.84%	2.37%	1.29%	-2.54%
1st QUARTER	**3.99%**	**5.25%**	**-0.08%**	**-0.76%**
APRIL	0.67%	0.91%	0.86%	0.38%
MAY	3.40%	4.28%	6.07%	2.41%
JUNE	5.90%	7.32%	0.72%	0.62%
2nd QUARTER	**10.22%**	**12.93%**	**7.75%**	**3.43%**
JULY				
AUGUST				
SEPTEMBER				
3rd QUARTER	**0.00%**	**0.00%**	**0.00%**	**0.00%**
OCTOBER				
NOVEMBER				
DECEMBER				
4th QUARTER	**0.00%**	**0.00%**	**0.00%**	**0.00%**
YEAR TO DATE	**14.62%**	**18.86%**	**7.66%**	**2.65%**

The table below shows the Voss Value Fund's Net Returns compared to some of the relevant indices over various time frames:

Net Return Comparison as of June 30th, 2018

					Compound Annual Growth Rate		
	1 Month	3 Month	YTD	1-Year	3-Year	5-Year	ITD
Voss Value Fund, LP	**5.9%**	**10.2%**	**14.6%**	**17.3%**	**17.7%**	**16.4%**	**18.1%**
S&P 500	0.6%	3.4%	2.6%	14.4%	11.9%	13.4%	16.3%
Russell 2000	0.7%	7.8%	7.7%	17.6%	11.0%	12.5%	16.5%
Russell 2000 Growth	0.8%	7.2%	9.7%	21.9%	10.6%	13.6%	17.3%
Russell 2000 Value	0.6%	8.3%	5.4%	13.1%	11.2%	11.2%	15.6%
HFRI Equity Hedge Index	-0.7%	-0.2%	0.6%	7.7%	4.7%	5.7%	6.4%

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 Kelli Walter, Chief Operating Officer of Voss Capital, LLC, with any inquiries.

Like Chevy Chase announcing each week in the 1970s on his SNL news update that Spain's former dictator Francisco Franco is *still* dead, here we are again repeating that the market is *still* inefficient (thankfully). While our progress in compounding your capital can often feel "like eating soup with a knife"[1]--difficult and slow--this quarter we were fortunate to take a drink from the bowl of alpha as we had a period of relatively few mistakes. Our returns were achieved with a low net exposure and a very diversified portfolio. During the quarter we averaged only 32% beta-adjusted net long exposure and had only one long position that averaged over an 8% portfolio weighting and only one short that was sized above 1%. With a median market cap on all positions of $2+ billion, our portfolio is also highly liquid and scalable. We believe we continue to generate our returns in a risk-controlled fashion.

We have stated in the past that we thought we would perform better on a relative basis in a choppier market and that's what we've had this year. The S&P 500 rallied 8% in the first three weeks of the year, corrected by 12% in a short period (~2 weeks), rallied 11%, then fell 9% and has rallied back a bit again. The realized volatility this year is actually in line with the market's average since 1990. Swings like this create more opportunities for us, as does small caps outperforming large caps. Growth however as a factor is whooping value across every market cap bucket. This is mostly explained by sector performance, with Financials only up ~1% YTD (through July 27th) and Information Technology up ~17% YTD. The Russell 1000 Value Index has sector weightings of 29% Financials and 9% Technology, versus 12% Financials and 35% Technology for the Russell 1000 Growth Index. We have a weighting in Financials of 34%. This is a large weighting relative to our history (27% average gross long exposure to Financials since inception) and is due to heavy concentration in alternative asset managers and retail REITs. Our Technology weighting is also high at 41% (versus historical average of 26% gross long), and is mostly comprised of core sized small cap software stocks, many of which have a high likelihood of being takeover targets or have some special situation aspect. The best performing factors YTD have been high operating leverage, high revenue growth, and strong balance sheets—all of which have favored larger cap tech.[4] Cyclicals have hit their cheapest level since at least 1980 relative to the broader S&P 500 on a forward Price to Earnings basis.[4] Earnings growth has been brisk and broad-based with growth across all 11 sectors. So far, in the aggregate, S&P 500 companies that have reported Q2 earnings are blowing out estimates on both EPS (4.5% above consensus estimates so far) and revenue (beating consensus by 1.4%).[3] The blended year-over-year sales growth rate for Q2 is a vigorous 9.0%[3], so the EPS growth is not just coming from lower taxes. The year-over-year revenue growth for the median S&P 500 company has also accelerated in each of the last four quarters (from 6.3%, to 7.7%, to 8.7%, to 9.1%).[10] EPS growth is on pace to exceed 20% for the second quarter in a row, margins are hitting all-time highs for the second quarter in a row, and ex-financials the return on equity is hitting an all-time high. Even excluding FANGMAN* stocks, the earnings growth rate is around 20%[8]. In Q3, for first time since 2014, S&P 500 earnings ex-Tech sector are estimated to grow faster than Tech's growth rate. Suffice to say, the economy appears to be chugging along with consumer balance sheets in great shape, and corporate earnings reflecting the robust growth.

A constantly rising market and widely positive fundamentals, however, can act like a hypnotic, swinging pocket watch on the collective intellect of investors, potentially increasing complacency at just the wrong time. In the noisy nexus of news nowadays, emotion and volume can almost always defeat reason and substance, thus passionate shareholders build echo chambers and fortresses around themselves that no intellectual argument can hope to breach. Currently it seems the last few disciplined value investors are surly hermits and hold-outs who refuse to come outside and play in the intoxicating "growth at any price" sunshine of the post-ZIRP[9] era. To be shorting lately based on the specific fundamental details is to be fighting a rising tide, Canute like.[2] But, even with everything seemingly hunky-dory, now is not the time for "a farewell to arms" and to give up shorting. On the contrary, the shorting opportunities remain generational in nature and we must manage our risks on this side of the book through prudent position sizing and avoiding overly crowded ideas. Paradoxically, if a company has such an "obviously" flawed business model or is "obviously" at an unwarranted value premium that is unmoored from economic reality, it can become too crowded on the short side and keep bubbling ever higher due more to technical reasons. The obvious rarely helps gets you get ahead in the stock market.

In the aggregate, it is nearly impossible to pin down a timeframe, specific event, or valuation range that will flip a switch and catalyze an investor behavioral change and reverse speculative fund flows. When the market environment does inevitably become more turbulent, we believe we will do well on a relative basis as our conservatism and low beta flip into becoming a virtue instead of an impediment.

Old and widely circulated arguments should lose their market moving power over time. Stocks move on surprises and the gap between expectations and reality. One extensively discussed worry is bilateral trade tariffs being enacted or threatened to be implemented, mostly between the US and China. Of the 683 companies with a market cap greater than $1 billion that have held a Q2 conference call in July, 255 of the companies, or 37%, have mentioned tariffs on the calls. This means the impacts are already largely known and well-priced in to the market.[5] One third of those companies discussing or being asked about tariffs are in the Industrials sector (which equate to 64% of all Industrials), which we are net short. The Tariff Act of 1930 (Smoot-Hawley) raised tariffs across the entire US economy while the world was already in an economic depression. With Smoot-Hawley, duties on total US imports were raised from 13.7% to 19.8%. Compare this to 1.5% on total imports for consumption today.[6] The proposed tariffs would raise the current 1.5% to the ~2.0% range. The 6%+ increase with Smoot-Hawley was 12x larger and started from a base nearly 10x higher. Targeted tariffs at "substitutable goods" are a common occurrence in the US and in recent history Obama, George W. Bush, Clinton, and George H.W. Bush all engaged in some form of tariffs to try and protect the US steel industry (among others).[7] Obama implemented steel tariffs twice--both in 2014 and 2016. Right now, we believe the scope and scale of the implemented and proposed tariffs are simply too miniscule to move markets, outside of dinging sentiment in the near term due to uncertainty over increasing trade protectionism disrupting global commerce. Any worst-case scenario from extrapolation remains highly improbable and is a false fear.

As we continue collecting a variety of independent, bottom-up ideas, we can't help but notice several themes have emerged within the portfolio this year, almost all of which have contributed to returns, including:

- Shorting of cyclical, levered Industrial companies making acquisitions with poor quality of earnings and stretched valuations.
- Consumer Packaged Goods shorts that have high leverage, negative organic growth and face secular headwinds due increased private label penetration and competitive pressure from digitally native start-ups.
- Branch-lite banks that are growing 2x the industry rate, have superior credit quality, better profitability and are at substantial P/E and ROTE-adjusted P/B discounts to bank trading comps.
- Retail REITs at large discounts to private market liquidation value despite showing consistent and robust growth with clean balance sheets.
- Special situation small cap software companies that are growing organically, cash flow positive and trading below 2x-3x recurring revenue, with lots of M&A upside optionality.
- Alternative asset managers with locked up capital and superior long term investment track records, growing faster than the industry and selling at low multiples of distributable earnings.
- Shorting of Medical Equipment companies with aggressive revenue recognition and potential margin headwinds, in poor competitive positions at bubble valuations.
- Unpopular stocks of good companies--high margin, free cash flow generative, non-cyclical companies with dominant market shares in oligopolistic industries.
- Shorting statistically expensive, mischaracterized growth stocks that incinerate cash that we think can go down 50-80% in a bear market to reach fair value.
- A few small biotech longs for upside optionality and a hedge in a market bubble blow-off scenario.

The market, much like life, is a perpetual stream of unfolding possibilities and opportunities. Sometimes this stream slowly meanders and stagnates and other times its swiftness is overwhelming. We feel now is a time of the latter and we have a healthy pipeline of early stage ideas, both long and short, that we are diligently working on. A key for us, as usual, is to remain mentally flexible and open to unforeseen opportunities and act on them as they arise, and more importantly be willing to change our minds should the fundamental picture change. Our strategy and guiding principle of prioritizing capital preservation is rigid; our tactics to generate returns over the long term are fluid. We do not know which industries and companies will be out of favor over the coming quarters; we will simply aim to keep exploiting exuberant extrapolators and strain out whichever hodgepodge of inefficiencies The Great Humiliator cooks up. No doubt, the portfolio could look drastically different in one year, one month, even potentially one week from now as we constantly rebalance into what we think is an optimized collection of asymmetric bets.

Southpaw Isaac Newton was at a dinner party sitting next to a young woman who asked him, "Sir Isaac, however did you discover the law of universal gravitation?" "By thinking about it constantly, Madam." he is said to have replied. Our goal is to safely compound Partner's capital over the long term at an exceptional rate via the disciplined and consistent application of value investing principles. Succeed or fail at this in any given quarter or year, rest assured, we are thinking about it constantly.

To continued alpha,

Voss

Sources:

1: Quote originally from a T. E. Lawrence's aphorism that "Making war upon rebellion is messy and slow, like **eating soup with a knife**" is difficult to fully appreciate until you have done it.
2: Allusion to: https://en.wikipedia.org/wiki/King_Canute_and_the_tide
3: Factset Earnings Insight, July 20th, 2018
4: Goldman Sachs Research: US Weekly Kickstart July 27th, 2018
5: Sentieo conference call transcript search as of July 30th, 2018
6: US International Trade Commission
7: National Bureau of Economic Research
8: Goldman Sachs Investment Strategy Group – "Midyear Outlook 2018" – *Stocks included in FANG bucket are FB, AAPL, NFLX, GOOGL, MSFT, AMZN, NVDA.
9: ZIRP stands for Zero Interest Rate Policy
10: Factset

Disclosures and Notices:

The S&P 500 Total Return Index is a market cap weighted index of 500 widely held stocks often used as a proxy for the overall U.S. equity market. The Russell 2000 index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index. The Russell 2000 serves as a benchmark for small-cap stocks in the United States. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price/book ratios and higher predicted and historical growth rates. The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower expected and historical growth values. Using only liquid securities, the Credit Suisse Long/Short Liquid Index seeks to reflect the return of hedge funds as represented by the Long/Short Equity sector of the Credit Suisse Hedge Fund Index. The Credit Suisse Hedge Fund Index is compiled by Credit Suisse Hedge Index LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The index uses the Credit Suisse Hedge Fund Database, which tracks approximately 9,000 funds and consists only of funds with a minimum of US $50 million under management, a 12-month track record, and audited financial statements.

Past performance does not guarantee future results.