HAZELTON CAPITAL PARTNERS

"Simplicity is The Ultimate Sophistication"

To: Hazelton Capital Partners, LLC
From: Barry Pasikov, Managing Member
Date: January 24, 2017
Re: 4th Quarter 2016 Letter to Investors

Dear Partner,

Hazelton Capital Partners, LLC (the "Fund") gained 7.0% from October 1, 2016 through December 31, 2016, gained 23.1% year-to-date, and has returned 116.8% since its inception in August 2009. By comparison, the S&P 500 gained 3.8% in the same quarter, increased 12.0% year-to-date and has returned 141.6% since the Fund's inception.

The Year in Review – Position Updates

Hazelton Capital Partners ended the 4th quarter with a portfolio of 18 equity positions and a cash level equivalent to 20% of assets under management. The Fund's top five portfolio holdings, which are equal to slightly over 37% of the Fund's net assets, are: Western Digital (WDC), Micron Technology (MU), Apple Inc (AAPL), CUI Global (CUI) and USA Technologies (USAT). Except for pruning some positions and selling some upside calls over the past quarter, Hazelton Capital Partners' investing activities have been fairly quiet with no new companies added to the portfolio. Even with the Fund's cash position expanding from 10 to 20%, 2016 remained a strong year for the Fund.

At the end of 2016, Hazelton Capital Partners top two holding were Western Digital and Micron. Both of these positions focus on the digital storage industry. WDC is the leading manufacturer of Hard Disk Drives (HDD) with a 45% global market share, and recently acquired SanDisk and its 18% global market share in NAND flash storage. MU is the 3rd and 4th largest global manufacturer of DRAM memory and NAND flash storage, respectively.

The digital storage industry is at another inflection point. Until recently, HDD and NAND were seen as competing technologies to store data. When compared to HDD, NAND has a much smaller footprint, is mobile, energy efficient, and produces input/output speeds that are nearly 15x faster. However, all of these benefits come at a price that is still 10x more expensive per gigabyte than HDD and is only expected to decline to 6x over the next 5 years. Businesses are understanding that the value of data comes not only from storage but real time analytics, and they are recognizing that digital storage is a tradeoff between performance and capacity.

In 2015, it was estimated that 8 zettabytes (zb = ~8 billion terabytes) of data was produced globally and is expected to grow to 40 zb by 2020, as more consumer and industrial devices are being designed to capture data. By contrast, in 2015, only 0.65 zb of storage was shipped (0.56 zb of HDD and 0.09 zb of NAND) and that number is predicted to grow to 3 zb by 2020. Not all data is worth storing, but try telling that to teenagers and Millennials who commonly document every aspect of their lives with "selfies" and videos. Combined with overall growth in video creation, artificial intelligence, machine learning, and the internet of things (IoT) devices, one can quickly see how demand for storage will continue to outpace supply. But more importantly, not all data is of equal significance; being able to retrieve the data from an email dated six months ago is less critical than the current data generated from the sensor of an autonomous vehicle navigating a city street. Companies like Google that provide cloud storage and analytics integrate a two tier system for digital storage. Data that is readily needed for download or analytics will be stored on NAND, and data that is recalled less frequently is shifted to HDD. The decision of where to store data is left up to algorithms that are constantly transferring data from one storage format to another.

Investing in Western Digital and Micron carries the risk of an unforeseen, rapid technology disruption to the digital storage industry. However, this is unlikely due to the significant barriers to entry, both in terms of capital needed and intellectual property. The most recent technology pivot is the transition from 2D to 3D NAND. Global producers have invested tens of billions on R&D and retooling production, and this does not include the years of design and OEM vetting required before industry acceptance. Even though 3D NAND has been in production for the past 18 months, profitability is only expected by the end of 2017. WDC and MU are well positioned to take advantage of the robust digital storage demand, as each company begins to leverage its R&D and intellectual property, lower expenses, and improve profitability.

FMC Corp (FMC) – *Closed* **+70% Gain**

FMC is a diversified chemical company that operates in three business segments: Agricultural Solutions, Health and Nutrition, and Lithium. Agricultural Solutions produces insecticides, herbicides and fungicides to enhance agricultural crop output and is responsible for nearly 70% of the revenue and 62% of the company's profit. Crop protection is a very specialized business requiring different chemical formulas based on the crop, the region, and the yearly change in strains of insects, weeds, and disease. With 70% of global sales concentrated within the top five agricultural chemical companies, crop protection is a very sticky business with significant barriers to entry.

At the end of 2014 and well into 2015, FMC continuously lowered its revenue and margin guidance as a combination of reduced agricultural demand, high levels of unused inventory and a Latin American currency crisis negatively impacted its earnings. In the agriculture industry, manufactures, like FMC, provide its product to farmers before the planting season and receive payment after the harvest when the farmers are flush with cash. Because of a combination of lower yields and demand, farmers were unable to readily pay for their products and FMC's account receivables began to balloon in both size and percentage of revenue. Lower agricultural demand also led to reduced planting acreage adding to the growing industry oversupply. To make matters worse, Latin American, which generates 40% of FMC's Agricultural revenue, was experiencing a currency crisis highlighted by the Brazilian Real. The money that FMC was able to collect in Latin America was losing its value on a daily basis.

Beginning in the first quarter of 2015, shares of FMC plunged as the company began to miss its already lowered earnings guidance. In the second half of 2015, Hazelton Capital Partners began researching FMC, and by the third quarter, we initiated a position. We were not attempting to pick the bottom in the market and given the initial size of our investment, we fully expected FMC's share price to continue lower. Our research indicated that FMC's business and products were sound, and even though a number of macro events were negatively impacting its revenues and profitability, FMC maintained a competitive edge in a very concentrated market. At the beginning of 2016, things began to improve for FMC Corp; the company was able to meet its lowered earnings expectations and did not have to lower future guidance.

Towards the end of the 4th quarter of 2016, Hazelton Capital Partners sold out of its FMC position. While we felt that the company and its fundamentals were improving with additional upside opportunity, there remained a large headwind impacting FMC and the rest of the industry. In 2016, global food prices hit their lowest levels since 2009 when the full impact of the financial crisis was felt by the economy. Analysts credited the current food deflation to lower demand from countries like China that had been a steady importer of grains and other agricultural products. Lower demand led to lower price on agricultural products, price deflation in the grocery stores, and lower crop acreage planted. The food industry is driven by volume. If and when commodity prices begin to show strength, farmers will actively increase their planting acreage to capture a higher payout. This, in turn, will produce a slow price recovery for agricultural products and could very easily delay FMC's revenue and margin recovery. Given the quick rise in the share price and continued macro challenges facing the crop protection industry, Hazelton Capital Partners decided to close out of our FMC position.

"Dewey Defeats Truman" - The Wisdom of Crowds

In the days leading up to the 1948 Presidential Election, all of the polls, political analyst, and media predicted that Republican Governor, Thomas Dewey, would easily defeat incumbent Democratic President, Harry S. Truman. In fact, the Chicago Tribune was so confident in the outcome, it printed its first edition (150,000 copies) with the now famous headline: "Dewey Defeats Truman." As history has taught us, never pop the champagne bottle until the final votes have been tallied. Now, nearly 70 years later, Americans were treated to another "Dewey" moment when Donald Trump defeated Hillary Clinton, recording the biggest political upset in our nation's history.

Say what you will about 2016, it was anything but boring, especially when it came to US politics. Virtually no media outlet, political analyst/insider, or statistician could create a scenario in which Clinton would not become our nation's 45th President. Even Nate Silver, the statistician who correctly predicted the presidential outcome in 49 out of 50 and 50 out of 50 states in 2008 and 2012 respectively, had the probability of a Clinton win at a conservative 72% the day of the election. This conventional wisdom was also reflected in the stock market. The final two days before the election, after Clinton's email investigation was once again closed, the S&P 500 index rallied over 2.5%. Tuesday night, as the election results began to filter in and a Clinton Presidency began to fade, the S&P 500 index collapsed, the futures indicating a 6% decline by the open on Wednesday morning. That, too, proved inaccurate, as the S&P 500 had not only fully recovered, but even posted a 1% gain by the close of trading on Wednesday afternoon.

Now, more than ever, we live in a world where data is constantly collected and analyzed. When you get into your car, your phone, more often than not, predicts the time to your expected destination based on previous driving habits and your calendar. Open your email and Amazon has sent you a list of products you "need." And then there is the famous story of an infuriated father screaming at the manager of his local Target store because his teenage daughter was receiving coupons for pregnancy and baby items. His daughter received these coupons because her purchasing patterns were similar to women who were or became pregnant. It turns out that Target knew the man's daughter was pregnant before she admitted it to her father. So, how is it that Target can know that a random teenage girl is pregnant but the pollsters, political forecasters, and the media can get the election results so terribly wrong?

The Wisdom of Crowds

In James Surowiecki's book, *The Wisdom of Crowds*, Surowiecki explains how a group's predictive ability can be far superior to nearly all of the collective individuals' estimates. The power of crowdsourcing (harnessing a collective's input) has been successfully demonstrated in marketing campaigns, beta testing, funding creative projects, and even predicting the outcome of elections. However, what Surowiecki also discovered was that as powerful and accurate a tool crowdsourcing can be, it is also very susceptible to biases. One of the biggest biases impacting collective predictions is independence. Studies have shown that when a collective's estimates are made public, it will influence future estimates and negatively impact the group's predictive ability. We are all familiar with peer pressure and have at some point succumbed to its influence. Our primordial brains have been hardwired to seek out the protection of the pack as a survival mechanism; distancing yourself from the collective is not only dangerous but socially alienating.

Leading up to the Presidential Election, I was part of the general consensus that believed that a Hillary Clinton Presidency was all but a certainty. I only knew of two people that would openly admit that they were voting for Trump. Of course, I live in Illinois where it has been rumored (but never proven) that the state legislature is considering reducing election costs by only listing the Democratic candidates on the ballots. But even friends and colleagues outside Illinois did not show any support for Donald Trump. Of course, my informal poll was not diverse or expansive enough to represent the zeitgeist of the nation. Polls and surveys are biased and inherently unreliable. They are dependent on a number of factors in order to be accurate: Sampling diversity, non-conformity, accurate reporting, and honesty. It is believed that the reason the 2016 election polls and results were so divergent was mostly because people would not admit to be voting for Trump because of the social stigma attached to their decision. Without accurate data, polls are worthless. But how does this explain the market's overreaction Tuesday night?

Over the past 15-20 years, Business News Networks have created a niche segment within the news industry by providing real-time market quotes, business news stories, and investing strategies. Unlike conventional news, which reports on the events that are occurring at the moment, business news focus on the future expectations of a company's share price. To help in their reporting, the networks invite "experts" to share investing insights. Leading up to the election, nearly every market pundit who took to the airwaves warned of the dire market outcome if Donald Trump were to miraculously win the election. Because these "market experts" shared the same general consensus, the investing public took these insight to be highly probable.

In the short-run, markets are surveys. They are the aggregate predictions of investors. It is widely believed that markets are efficient because they distill all news and information available. But even though mathematics is involved in determining the price of a stock, investing is not a science. Just like election polling, markets are very susceptible to biases, including investor emotions of fear and greed. On election night, investors disbelief turned to terror as a Donald Trump became the presumptive winner. The market's short-term sell-off was an emotional and Pavlovian response to an impossible outcome, and therefore, the market swoon was believed to be a self-fulfilling prophecy. But in the long-run, markets, and more importantly, a company's share price, will ultimately reflect the fundamental strength or weakness of a company. For the long-term, patient investor who was feeling the same political distress, the market swoon was an investing opportunity.

Opportunity always comes gift wrapped in a fog of uncertainty. And given the "Trump Tweets" that we have witnessed so far, the next four years promise to be very unpredictable. There are numerous unknowns about a Donald Trump Presidency and the future of the economy. Many people believe that Trump's desire to lower corporate taxes will be a boon to corporate profits. Or that his promise to revamp Dodd Frank will lead to less regulation and benefit the financial sector. And just as many people are fearful that a Trump Presidency will lead to tariffs, trade wars, alienating countries, and political unrest. But mostly, we have no idea what he is going to do or "Tweet" about next. Just as the market got it wrong on election night, the year end rally could easily have been an overreaction leading to a "Trump Dump," or the beginning of another extension to the ongoing bull market leading to a "Trump Bump." Those who pretend to know are either very lucky or trying to sell you something.

Hazelton Capital Partners is not in the prediction business. We are not trying to outsmart the investing collective. We focus on our competitive advantage: Ignoring the "sound and fury, signifying nothing," and instead, continuously search for our next investment opportunity where the price paid for an asset is significantly lower than its expected future value, ultimately leading to long-term success.

Administrative

My Pledge

From my years of experience in business and investing, I have come to learn that trust is earned, not bestowed. It takes years of hard work to earn someone's trust, but only a few seconds to destroy it. I do not take your trust in me lightly and pledge to continue to go beyond what is required to meet your expectations. The goal of Hazelton Capital Partners is to repay your trust with returns that will outperform the market.

Investing in Hazelton Capital Partners

Hazelton Capital Partners was created as an investment vehicle, allowing those interested in long-term exposure to the equity market to invest along-side me. With a substantial portion of my own capital in the fund, I manage Hazelton Capital Partners assets in the same manner in which I manage my own capital. The best source of introduction to potential investors in the Fund has come from those that have invested or followed Hazelton Capital Partners progress over the years. Introductions are both welcome and appreciated.

If you are interested in making or increasing your contribution to Hazelton Capital Partners or just learning more about The Fund, please feel free to contact me.

Please do not hesitate to call me at (312) 970-9202 or email me bpasikov@hazeltoncapital.com with any questions or concerns.

Warm Regards,

Barry Pasikov
Managing Member