Dear Partners,

Not all great years look the same on paper; 2017 was a great year (in many ways better for our long-term future than 2016), but the numbers don't reflect that. Our reported performance in 2017 was roughly –2% (negative two percent) gross and –4% (negative four percent) net, compared to a +15% (positive fifteen percent) return for our S&P 1000 Total Return benchmark. Although I don't want to get into the habit of discussing performance intra-quarter, let alone intra-month, I feel like recent circumstances make it important to offer a caveat.

In the ten days from the end of 2017 through the time of this writing (2018-01-10), ACP has returned a positive high-teens percentage on a gross basis, primarily due to the stellar fundamental and stock-price performance of our largest position, Franklin Covey (FC). Combined with full-year 2017 results, we are thus directionally somewhere in the neighborhood of the benchmark on a gross basis from 2017-01-01 through 2018-01-10, and modestly below it after fees, after outperforming the benchmark by roughly 25 percentage points (~2500 bps) net of all fees in 2016. For reasons I will discuss thoroughly in the next section, I have a high degree of confidence in our current portfolio positioning and am strongly optimistic about our outlook for the coming few years.

	Full Year 2017	2016-01-11 to 2017-12-31, Annualized	2016-01-11 to 2017-12-31, Cumulative	2016-01-11 to 2018-01-10, Annualized	2016-01-11 to 2018-01-10, Cumulative
Askeladden Capital Partners (Gross)	~ – 2%	~ + 29%	~ + 66%	~+37%	~+ 89%
Askeladden Capital Partners (Net)	~ – 4%	~ + 26%	~+ 57%	~ + 33%	~ + 78%
S&P 1000 Total Return Index	~ + 15%	~ + 23%	~ + 51%	~ + 23%	~ + 54%
ACP Net +/- To SP1000TR	~ – 19%	~ + 3%	~ + 6%	~ + 10%	~+ 24%

DISCLAIMER: Data is estimated, unaudited, and provided for directional color only. Past performance is not a predictor of future results. We do not expect our future returns to approximate our historical returns. Amounts may differ due to rounding. Please consult your monthly statements from Fund Associates LLC or audited annual financials from Spicer Jeffries LLP for actual returns. Net returns are calculated assuming a hypothetical investor paid the standard fee structure of a 1.5% annual management fee and 30% of the outperformance, if any, vs. the S&P 1000 Total Return index Data is presented only for Askeladden Capital Partners LP and not for any of the separately managed accounts which Askeladden Capital Management LLC (the investment advisor to Askeladden Capital Partners LP) also oversees. Please see additional important disclaimers in the appendix.

Trust the process.

It is an enduring trait of the human condition that we like to complain about our bosses. Purportedly self-employed investment managers are no different: a favorite pastime is expressing frustration (usually in nice words!) about the performance-chasing nature of current and prospective investors. Said differently, on top of the internal emotional challenges that a portfolio manager faces when good decisions aren't yielding short-term results, it can be challenging to deal with the reality that raising (or keeping) capital has a strong correlation with recent performance, notwithstanding extensive empirics indicating the pitfalls of performance-chasing behavior.

Such behavior isn't a surprise to anybody who spends a lot of time thinking about human psychology, specifically our tendencies to experience life as a series of moments (leading to hyperbolic discounting and difficulties with planning for the future), and our tendencies to "overrecognize" patterns and draw lines connecting the most recent data point to the rest of the world when, in fact, it may have no connection at all.

To continue the narrative thread from the Q3 2017 "Sam Hinkie" letter, the best hedge I can see against this natural, understandable tendency is to be extremely forthright about the Askeladden process, how the current portfolio reflects that process, and how current performance is (or is not) a reflection of that. During our stratospheric 2016, I tried to convey as clearly as I could that we had gotten extremely lucky, with revaluations that I had underwritten to take 2-3 years instead occurring over as many quarters; to drive the point home with a bit of helpful exaggeration, I stated in Q3 2016 that *"our performance YTD is unlikely to be repeated over multiple iterations of the universe."*

2017 was frustrating because I felt like my research, process, and decisions were, on the whole, *better rather than worse* than those of 2016, as you would expect given my focus on continuous improvement, and yet the short-term results from the market didn't reflect that (nor did the relative velocity of capital raising.) What I intend to do with the majority of this letter is highlight the three most impactful factors that contributed to our absolute and relative performance in 2017 (and YTD 2018), discuss how those relate – or don't relate – to underlying value, and what we expect moving forward. The Q3 letter was short because I had little to say; today's is long because I have a LOT.[i]

(1) *" 'cause all… I have… is patience."* - Tiny Moving Parts, "Caution"

The largest detractor from 2017 performance (and contributor to 2018 performance) was the recognition, or lack thereof, of the tremendous ongoing value creation at Franklin Covey (FC), which is still in early innings. If management executes on their opportunity, the stock should be worth 2-3x more over the next 3-5 years, even after the massive run to start 2018. I'm extremely proud of my evolution as an investor allowing me to make the right decisions on Franklin Covey throughout 2017; to the extent that I attributed much of our performance during 2016 to luck, I think I've earned the right to attribute this one entirely to skill, patience, and foresight.

While I certainly had plenty of thoughtful friends to bounce the idea off, Franklin Covey is an idea that I sourced, analyzed, and crystallized on my own – *twice* – with more jeers than cheers from fellow investors with whom I discussed it. (Notable exceptions who figured out what was going on include Travis Wiedower of Wiedower Capital and my former intern Bryan Wagman of Bentley University; please note that Bryan is extremely talented, about to graduate, and open to opportunities.)

This isn't a slight against anyone; most of the people with whom I've disagreed on Franklin Covey are people for whom I have tremendous respect, and there are certainly plenty of great ideas that others have shown me that I just wasn't smart or thoughtful enough to wrap my head around (IBKR being a prime example). Nonetheless, I took a lot of flak from other investors for my views on FC, and view it as a major success that I had the confidence to do something that I almost certainly wouldn't have done during 2016 (and, in fact, almost didn't do during 2017).

Here's a brief but comprehensive review of our history with FC. In 2014 or 2015, in my life prior to Askeladden as an analyst for another fund, I met FC via a non-deal roadshow. I very much liked the business, the balance sheet, and the management team, so I began following the company.

Within a few months of launching Askeladden in 2016, Franklin Covey reported results that the market took negatively, but I saw some positives, particularly their introduction of a subscription product called "All Access Pass (AAP)," which is the equivalent of a Six Flags season ticket – pay the same price as you would have for one course, and instead you get access all of their content, however often you want it, in whatever format you want it, for free. The value proposition to customers was obvious, and the economic value proposition to Franklin Covey was, while initially somewhat less obvious, still seemingly positive.

But nobody was paying attention – the company invited investors to a webcast to learn about the new product, and extremely few showed up. The way I viewed it during early to mid-2016, FC was trading cheaply relative to the historical performance and future potential of its existing business, and AAP represented a source of optionality which I wasn't paying for. Eventually, FC became a double digit position, and I harvested gains from it as it rallied strongly in the latter portion of 2016.

All things considered, FC was around a ~6% position at the start of 2017, and if I wasn't growing as an investor, it might've stayed that way, or exited the portfolio entirely. To take a brief detour, I have, over time, moved from being very valuation-focused to being more focused on quality, to the extent that there are a lot of companies I won't buy no matter what the price. But I've still struggled with moving away from the *tangible* margin of safety inherent in buying (or holding) businesses trading at high multiples of current cash flow or other tangible value

drivers, even though I know – from personal experience as well as decades of experience from great investors – that it's often far better to pay a fair price for a great company than it is to pay a cheap price for an okay company.

What I recognized with Franklin Covey in early 2017 is that it was going from, with all apologies to Jim Collins, good to great, and if I was even *directionally* right about where it would end up, current valuation (and for that matter, current revenue and cash flow) were almost totally irrelevant. Most investors were overly focused on near-term results and trying to compare FC to peers within the corporate training industry; I was thinking much bigger.

It was clear to me at this time that All Access Pass was a runaway success with customers, and that at some point in the relatively near future, the company would be a subscription-as-a-service (SaaS) company in the business services space, retaining 90%+ of its previous years' revenue prior to making new sales, rather than starting each year from zero and having to make discrete sales to meet targets. I had encountered some such businesses before (Corporate Executive Board, CoStar, REIS, etc) but redoubled my efforts to identify and study companies with this business model, independent of those companies' individual prospects as investment candidates, to better understand where Franklin Covey is going. (Investing via the windshield rather than the rearview mirror).

Here's what I learned. Unsurprisingly, it's *really really nice* to wake up on January 1st and know that, with very little effort, 80 – 90% of last year's sales are in the bank. Even when these companies are managed in a way that actively alienates customers (Forrester Research) or run into inexplicable problems (CEB), they tend to have a hard time actually showing sales declines, and trade at very high multiples (CEB via IT acquisition, REIS in public markets for inexplicable reasons). When these companies are actually managed well (Gartner), they usually deliver tremendous shareholder value over the long term, from a combination of strong (often high single to mid double digit) revenue growth and strong cash flow generation that can be deployed thoughtfully for extra accretion.

Franklin Covey ticked all of these boxes, with the additional "juice" of multiple expansion – even after the stock's big run to start 2018, it trades at a meaningful discount to well-managed subscription companies on an EV/Revenue or EV/EBITDA (at scale) basis. I've historically been leery of DCFs because of the "garbage in, garbage out" phenomenon, but it seemed to be the most appropriate way to judge value on the other side of the transition, given the noisiness of near-term results and the attendant difficulty in near-term multiples to NOPAT or free cash flow. Even conservative long-term projections suggested to me throughout 2017 that Franklin Covey was unconscionably undervalued – which it remains today, as the company's progress (the latest highlights being customers beginning to sign multi-year contracts, on top of the company reporting 20% revenue growth in Q1 on its way to guided teens revenue growth in 2018) has caused me to meaningfully raise my fair value estimate each quarter.

Yet amidst all this, I was fighting my own historical tendencies to focus on near-term valuation, as well as the constant stream of negative feedback from the market and from other investors (which intensified after SumZero, astonishingly, named a methodologically flawed short report on Franklin Covey their "Idea of the Week.") What did I do? I kept buying – and mostly resisted the temptation to sell on strength. The reward for this decision has started to materialize, and from my study of numerous other peers, there's plenty more to follow.

To help you understand how I'm thinking through our position in FC, the universal equation of investing returns roughly works out to:

$\underline{R = Y + G +/- M}$. R = return, Y = free cash flow yield, G = growth, M = multiple expansion or contraction.

In the case of Franklin Covey, the long-term top-line growth algorithm here should be high single to low double digits; the company's model also has strong operating leverage (given that they're selling electrons.) As such, over the medium to long term, cash flow growth should be into the teens. Meanwhile, looking out to 2019 once we're on the other side of this transition (which has led to meaningful, although completely discretionary, investment in customer relationship specialists who will drive the long-term renewal value that makes this model tick), the

company should also be generating free cash flow in the neighborhood of 4-5% of its current market cap. Finally, as the company comes through its transition and starts reporting the sort of steady, predictable growth that is a hallmark of subscription companies with large end-markets, I believe the multiple (on an EV/rev basis) should expand to somewhere in the neighborhood of 2.5 – 3.0x on the basis of reasonable NOPAT/FCF multiples, if not even higher on the basis of how other similar businesses are valued. Taking the low end, that should add another ~5% to annual returns over the next 3 – 5 years.

Putting it all together, our annual "return equation" over the next five years looks something like this:

R (FC) = Y (4 – 5%) + G (12%+) + M (5%+) = 20%, potentially ++

In terms of stock price, there will be volatility from here to there, and returns will certainly be "lumpy" – but regardless, it is highly likely that, at a minimum, Franklin Covey will deliver double-digit intrinsic value returns over the next three to five years.

The beautiful thing is that the stock still isn't at a valuation where, if for some reason our thesis doesn't play out, we're looking at a lot of downside – the valuation is completely defensible on the basis of a more modest long-term outlook. And execution and macro risks are hedged by the subscription nature of the business.

As such, Franklin Covey remains roughly ~37% of our portfolio as of 2018-01-10 (down from ~40% at the start of the year – I've made modest trims to keep exposure stable as the stock price has skyrocketed.) It took a lot of growth as an investor to get to this point – and it takes more to stay at this point (given my strong historical tendency to sell on strength – see section 3). However, the only thing standing between us and continued strong returns here is patience… so I intend to be patient. A similar story actually played out with several other portfolio names, though of course to a much lesser degree in intensity as well as position sizing.

(2) *"We don't want to report results that are 'except for, except for.'"* - Steve Young (CFO of Franklin Covey)

For quite a while, Franklin Covey was reporting results that, for one reason or another (mostly outside of their control), were somewhat short of their original guidance. In a conversation with CFO Steve Young a few years ago, he mentioned to me that they didn't want to be the sort of company that reported results "except for, except for." I thought it was a powerful quote – it's always amusing (and sometimes frustrating) to see companies that habitually use excuses to justify poor performance: *"shoppers would've bought our coats/food/etc, but it rained too much in the quarter."* As I've said in other letters, well, newsflash, retailers of America, it's always raining somewhere.

But the temptation is real personally: oh, I didn't get what I wanted to get done today *because XYZ happened unexpectedly*; I didn't make it to the gym yesterday because *ABC came up*. The truth is that just as you can't push happiness over the cognitive horizon, you can't run your life assuming that every day will go perfectly according to plan – things always come up, and realistic plans will account for that eventuality.

As an investment manager, I can't allow similar thinking to distort investor communication, pointing out how good of a year we would've had if it weren't for those pesky stocks that *didn't* go up and to the right. So, I'm putting this out there to encourage you to call me out if I ever slip into that practice on a habitual basis.

With that said, I think the confluence of challenges we faced in 2017 was unusual enough to deserve mention. Specifically, it was extremely surprising (to me as well as to other knowledgeable shareholders) that online liquidation platform Liquidity Services (LQDT), our largest position at the start of 2017 and our second-largest position at the current time, declined ~50% during the course of 2017, despite fundamental performance that was modestly disappointing but not terrible, and a cash-rich balance sheet that leaves its current enterprise value looking more like a call option than a stock. For some context on how this affected our performance, to the best of my knowledge, LQDT has been a 20%+ holding for substantially all of that time, and given that the gap between the market price and a reasonably conservative intrinsic valuation widened to nonsensical levels over the course of the

year, I of course bought more. You can do the mental math and figure out that this had a double-digit impact on reported performance in 2017, and unlike Franklin Covey, LQDT hasn't skyrocketed in the first 10 days of 2018.

This position inspired a lot of soul-searching on my part; I re-underwrote it in August, *re*-re-underwrote it in November, spent days thinking about it, spent days *not* thinking about it, talked to people about it, *didn't* talk to people about it, came back to it and spent days thinking about it *again*… and for better or worse, I keep coming to the same conclusion, which is: there's no reasonable way to justify the stock price performance in 2017. If you ascribe a reasonable valuation to their crown jewel, GovDeals, then assign no value to the rest of the business, and pro-forma their cash balance for the rest of the transformation, you still end up with a value that exceeds the current market price by a wide margin. If you assume that their retail business (which is back to double-digit organic growth) is a worth a little bit of something and that their Capital Assets platforms are worth even less of something after the benefits of LiquidityOne begin to accrue, you come up with a value that is so far in excess of the current market price (i.e. double) that you have to do a cartoon-style rapid-blink double-take.

As such, I would certainly hope, and to a large degree expect, that over the next few years we will at least recover most of our mark-to-market losses in LQDT (if not eventually generating a meaningful profit from the position, although at the current time, let's not even cross that bridge yet.) The company's transformation should be largely complete by this time next year, with results in calendar 2019 providing insight into whether or not it worked, and – setting aside the sunk cost (portfolio performance, and more importantly, emotional trauma) – there's not much to do here except sit, wait, and manage the position as is reasonable based on incremental insights gleaned from new data points. Even modest revaluation would lead to substantial gains for us. But notwithstanding the eventual ultimate outcome at LQDT, given our focus on businesses with strong competitive advantages and strong balance sheets, I certainly don't think that these sorts of severe negative outcomes are likely to recur (even on a temporary basis), and at the very least, it's close to unthinkable (given the company's valuation is a stone's throw from its balance sheet value) that we would face a similar drag on performance in 2018 and beyond.

(3) *"KODAKCoin allows participating photographers to take part in a new economy…"* - Kodak, 2018[ii]

I didn't think "new economy" had been used non-sarcastically since the year 1999, but Kodak, yes Kodak, of film-camera fame, recently released this (apparently non-sarcastic) announcement:

> The KODAKOne image rights management platform will create an encrypted, digital edger of rights ownership for photographers to register both new and archive work that hey can then license within the platform. KODAKCoin allows participating photographers to take part in a new economy for photography, receive payment for icensing their work immediately upon sale, and sell their work confidently on a secure blockchain platform.

I, wait, I'm sorry, what? Kodak stock, naturally, skyrocketed, because it's 2018 and that kind of stuff happens now. Apparently. For the sake of argument, let's assume for a moment (I am not qualified to hold an opinion either way) that cryptocurrency/blockchain/etc is indeed a technology, like the Internet, with meaningful potential to fundamentally reshape commerce. Even with this generous assumption, Kodak has no proprietary technology whatsoever in that arena. It is difficult to see how Kodak, which missed the digital photography wave, limped into bankruptcy, and then monetized the technology patents that it held, is the natural congregation point for talented techie types who would be able to create and maintain such a cutting-edge platform.

In fact, I don't think Kodak is even the natural congregation point for *photographers*; thinking about my range of hobbyist to professional photographer friends, I can think of a dozen other companies (such as Canon, or

Facebook-owned Instagram) that would be far better positioned to benefit from blockchain (or some other new technology) transforming the way the photography industry works. I know Silicon Valley (both the geographical location and the show) may make it look easy, but tech innovation is actually really hard.

As an example, we could look at a fellow "dinosaur" that might be a good comp for Kodak's cryptocurrency endeavor – mail-meter company Pitney Bowes has tried really hard for about half a decade (with what, from a distance, looks like not a lot of success) to build a modern technology-oriented business; this effort included lots of acquisitions, years' worth of internal initiatives, etc etc. Notwithstanding the hard "facts" such as these, Kodak's stock has skyrocketed off little more than a press release.

While none of our investments have anything to do whatsoever with bitcoin, I spent time explaining this analogy because I think it's emblematic of some of the exuberance that I've observed in a decent number of stocks in 2017. David Einhorn, cautioning short-sellers, once said something along the lines of "twice a silly price isn't twice as silly; it's still just silly." Well, in that case, I've seen some stock price movements in 2017 that were just plain silly, even *excluding* all of the ones related to bitcoin, and one of the factors that negatively impacted our performance on a relative basis was my discipline in selling positions when they reached or exceeded our internal fair value estimates.

In some cases, stocks that we sold are now trading for meaningful premiums to the price at which we sold – 80% in one case, though that's the extreme one. More typical are stocks trading, say, 20 – 40% above reasonably conservative estimates of what we think they're worth despite a lack of any visible inflection in business performance, although my watchlist certainly contains plenty trading at even higher premiums.

Now, it should be noted that I am typically conservative in the way that I value companies, and also that I have had, like many value investors, a tendency to sell too early. I do think that in many cases I've been too anchored to my initial valuation when the company's results have improved, and in other cases, I've failed to appreciate the ease with which others with less conservative valuation approaches can justify meaningfully higher prices than I do. To the extent that I believe it is prudent to approach this more thoughtfully, I've begun to do so. However, it remains a core tenet of our strategy that we don't own stocks trading for more than we think they're reasonably worth: I've certainly evolved in the way that I define value, and that will continue, but I'm never going to own an overvalued stock on the basis of hope that someone else will pay more for it than the current price.

What that means on a relative-performance basis is that during periods of exuberance, we're not going to "keep dancing while the music's playing" (as one financial executive said prior to the housing crash; you know how that story ends.) It bears reiterating that as of today, our cash balance represents over 12% of our portfolio; the cash balance dipped into single digit territory for the first time (to my recollection) in the latter half of 2017, although this was driven by idiosyncratic opportunities to purchase specific securities we knew well rather than by any reflection of the general opportunity set available. Now, given the increasing opportunity set that we have here at Askeladden *specifically* given our ever-broadening list of followed companies, I think that our average cash balance is likely to be lower than the 15 – 25% bracket that I originally anticipated – perhaps more like 10 – 20%, and hopefully toward the lower half of that range. Nonetheless, I remain comfortable with holding quite substantial cash balances if I don't see opportunities to deploy capital at acceptable rates of return.

To the extent that this leads to some relative underperformance when the market's excited, that's okay with me, and if it's not okay with you, then this isn't the right home for your capital. I do view it as my job to beat the benchmark over the long term; given the essentially costless nature of index investing, I don't personally see a way to justify charging fees otherwise. However, a tautology that is true is that what cannot go on forever will not go on forever, and to return to my "universal returns equation" earlier, note that when you get excess returns from multiple expansion, you're necessarily lowering your future return potential because your yield shrinks. As such, at some point, you reach a point where heroic results are required simply to justify (let alone continue to expand) the

valuation multiple for which companies trade, and unless we stop having weather, heroic results are out of reach for most companies – which means returns must increasingly be driven by fundamental performance.

To the extent that I believe we today own a collection of better businesses, at *much* better prices, with better balance sheets than the market, and on top of that we have a "call option" on future attractive opportunities in the form of our cash balances, I have a high degree of confidence and optimism that our future results will reflect the positive combination of our attractive current positioning and my continued development as an investor.

Askeladden 3.0.

"I'm growing past who I used to be." - "Short Song" by Real Friends

"She said I dig you baby, but I got to keep movin'… on. Keep movin' on." - "Mary Jane's Last Dance" Tom Petty and the Heartbreakers

I've previously discussed (in a joking, self-deprecating way, but also seriously) the "perpetual beta" nature of Askeladden – while I'm extremely process focused, I think that process is to some degree a product of circumstance, and as an investor, you are thus underwriting more than the current manifestation of the process. Any reasonable process has to adapt to changing circumstances. One of the books I read and loved this year was *The Great A&P*, about the dominant retailer of the late 1800s and early 1900s… as much as we may think the present is a time of rapid change, in some ways those decades dealt with a new Internet or e-commerce-like disruption all the time: refrigeration, urbanization, and transcontinental railroads meant that "old" business models (and we're talking less than 5-10 years sometimes) had to be ripped up and started anew.

Of course, one would hope that I don't have to rip up my process, but the point is that as an investor in a manager or a company, you're not buying the tactics – you're buying the thought process (whether individual or organizational) behind the tactics. So as an example, at a high-quality industrial, you're not buying a specific footprint of plants laid out in a certain way, so much as you are an organization capable of effectively deploying the right footprint of plants, laid out in the right way, as a function of new technologies and business opportunities.

As it relates to me, that constellation of thoughts sparks a few conclusions. First, I've been thinking for a while now that as I move into my next phase as an investor and as a business, I need to provide some clarifications on my thinking regarding specific "tactics," which I will do below. The second is that I need to provide deeper insight into the process by which I come up with the process that I'm actually implementing; i.e. the behind the scenes look into how the gears in my brain turn. This latter bit is well beyond the scope of this or any letter, but I'm working on a project (and have been for some time) which will, all at once, sharpen and accelerate my own personal development, help current and prospective investors understand how I think, and expand our network of thoughtful and talented thinkers to bounce ideas off. It's big. Hopefully released concurrently with the Q2 or Q3 letter. Stay tuned…

In terms of investment philosophy, two things that have been said about me with relative frequency by those who know me well (and whom I respect) are that I'm an extremely concentrated investor and that I focus on businesses in transition. I don't think either of those are necessarily true existentially so much as they are temporally, and I want to discuss each in turn.

Concentration

Right now, our portfolio roughly looks like 37% FC, 23% LQDT, and then a bunch of other stuff that maxes out at 7-8%. During 2016, we had more LQDT and less FC, but still big positions in both, with a few other positions typically maxing out around 10%. This has, understandably, led to some degree of perception that my ideal portfolio has no more than six stocks, or even more strongly, the Charlie Munger ideal of three or four great ideas being all you need in a portfolio. That isn't actually how I aim to run my portfolio.

Here's an analogy to illustrate how I think about concentration. One of my best friends has a stepmom who is a wonderful cook and is kind enough to invite me over to dinner from time to time. Imagine if she were to hold a potluck with dishes furnished by friends of hers who were equally talented cooks: setting aside the vicissitudes of personal taste, I would likely end up consuming a roughly equal proportion of each person's food.

Now imagine that the ever-jovial Dean Fearing (one of the best chefs in Dallas) showed up with his own smorgasbord of samples… well, you might imagine that the majority of my plate (and stomach) would be filled with stuff made by Dean. I'm not going to a neighborhood potluck *expecting* Dean Fearing to show up, nor am I specifically out looking for potlucks where Dean or Stephan Pyles or etc are going to be providing the food. However, when I happen to come across them, I'm happy to partake.

That's essentially my approach to the more extreme end of concentration: in an ideal world, maybe I'd have 15% cash and 85% long exposure spread across ten or twelve companies, none of which were bigger than say 12% positions. I don't go "elephant-hunting" nor does every position merit even a "conviction" high single or low double digit size – in many cases, what I view as an appropriate maximum doesn't even reach high single digits. For example, we currently have investments in companies that sell automotive components and oilfield products. Right now, these are both sub-450 bps positions. While we think these are both great companies with strong products, solid management teams, attractive valuations, and (it goes without saying) strong balance sheets, the idiosyncratic risks associated with their end-markets limits the amount of capital I feel comfortable deploying into the ideas, and almost no matter the valuation, I wouldn't want one to be more than ~5% and the other to be more than ~6-7% of our portfolio, nor would I simultaneously want to own positions in other companies with exposure to similar end-markets. Similarly, we just yesterday passed on a potentially interesting opportunity in the restaurant space – it's not better than FOGO and I don't want more exposure to the restaurant sector than the current 7-8% via FOGO.

So of course, there have to be sensible risk limits, and I'm not just throwing myself into huge positions willy-nilly. It's not just "oh wow, I really like the look of that" – you have to layer in other factors. (Does the food smell bad or have fungus growing on it? Then I won't eat it. Does Dean Fearing have an evil grin and a movie-villain cackle? No? Then hopefully he isn't trying to poison me.) As an example, while Valeant (VRX) wreaked havoc on a lot of concentrated funds with historically great track records (Sequoia, Pershing Square, etc), there are layers upon layers of red flags such that even if I had ever been interested in the company (to be clear, I wasn't), I would never have made it a major position – risk factors ranged from the highly levered balance sheet, black box nature of the business model, industry subject to regulations and political pressures, etc.

Anyway, at the end of the day, on the rare occasion that a world-class chef shows up at your block party, it seems like it would be pretty ridiculous to pass up that fare in favor of another one of your neighbor's hot dogs. The chef's masterpiece could turn out to be ordinary food, or even bad food… and sometimes that will happen and I'll get a particularly gnarly case of food poisoning, but when I die and look back on my life I will, in total, have had far superior culinary experiences than if I refused to pile up my plate with world-class food when it showed up.

Over the past few years, FC and LQDT at rock-bottom valuations have been the equivalent of those – there was nothing that looked remotely like FC at $18 (or $16, or $20, it didn't really matter.) There's still nothing that looks like FC at $30. It seems unlikely to me ex ante that I will have two 20%+ positions during all or even most years over the course of ACM's history – but I am also totally willing to do so if and when I deem it appropriate.

Finally, it's worth noting that I bear the brunt of concentration risk and investors get the majority of the potential upside (in my view). Why? Well, in addition to the majority of my net worth, and obviously the future of my livelihood, being invested in Askeladden, the substantial majority of my retired parents' net worth is managed alongside the fund and, if anything, sometimes ends up more concentrated than it. On the other hand, I try to make it extremely clear in my Form ADV and other investor-facing materials that this is the farthest thing from an

appropriate approach for any potential clients. So in contrast, Askeladden clients invest a very modest percentage of their net worth, such that a double-digit exposure (even a very large one) for the fund turns into little more than a low to maybe mid single digit percentage of their overall net worth.

To the extent that you're going to take on the benchmark risk of hiring an active manager, you might as well hire one with high active share, and I certainly don't personally feel like, as a one-man shop, I have the bandwidth to have differentiated views on tons of securities at once. Some view it as arrogant to think you can know any situation well enough to justify a huge position; I view it as arrogant to think that I (and here I am being specific – I'm referring solely to my limited skillset, not that of others with different strategies) am capable of having a differentiated enough view on 20 or more securities at once. There's a very small Venn diagram of truly awesome investment opportunities overlapped with the limited scope of things I'm actually capable of understanding and underwriting. So those are my current thoughts on concentration, for the record.

The "Sweet Spot"

My largest two positions have led to some perceiving my "sweet spot" as being businesses in transition. That's not how I view myself either. My historical sweet spot as I describe it to people is – assuming (as always) a clean balance sheet, I want to buy companies worth 15 – 16x FCF trading for 10 – 12x, or businesses worth 18 – 20x+ trading for 15-16x. Over time, this has perhaps expanded to include paying higher multiples for businesses that are truly great (worth more than 20x current free cash flow… i.e. something like an Ansys or Cognex), and I've perhaps abandoned some of the bottom end (i.e. there are a handful of names I would have looked at or considered owning in 2016 that no longer meet my minimum quality threshold.)

By virtue of them being the largest, in fact, FC and LQDT are not "typical" positions for me – typical positions, in my view, look much more like buying a Charles River Associates, Korn Ferry, Fogo de Chao, or other perfectly acceptable business at a rock-bottom valuation, or buying somewhat better businesses like CSW Industrials, Franklin Covey (the first time around), etc at modestly higher but still quite reasonable valuations. Other holdings like LGI Homes, MiX Telematics, and so on have largely fallen in this spectrum.

The underlying thought pattern behind this sweet spot was pretty much "keep it simple" while I recovered from being pulled in too many directions at once as an analyst in a shop whose strategy didn't suit me, with a mentor outside of work whose strategy didn't suit me either. However, over time, as I've reached my target of having a very high hit rate on investments within my "sweet spot," I've started to look more at the missed opportunities – companies like KMG and BOOM – examples of where my mostly-linear focus failed me, where I failed to account for value creation that didn't fit into the box I was used to trying to fit it into, even though I foresaw great results.

One of the things I'm cautious around is the tendency of investors to look at "greats" and lionize their track records or processes to the extent of trying to clone them – because circumstances change. When you look at investment case studies from previous eras, or even stock write-ups from the late '90s and early 2000s, the world was littered with solid businesses with solid balance sheets growing at a nice clip and trading at a single-digit multiple of free cash flow. Whether due to interest rates, more people in the industry, more access to data, or whatever, those opportunities don't exist anymore – so it's the job of the investment manager to be a little more creative.

To that end, I often like to spend research hours on businesses with no immediate payoff (i.e. I know I'm not going to invest in the near to medium term future), but where I can learn something as a case study – Gartner and Ansys being fantastic examples. I've slowly started to dip my toe into actually transforming some of this "case study" work into actual portfolio positions that are halfway between my traditional sweet spot and new areas that I'm trying to add to my circle of competence; the idea is that if I fall off the rock-climbing wall, I want a safety net beneath me (i.e. modest positions, still mostly backstopped by things I've historically been good at underwriting, etc.)

Lest anyone think this is a case of dramatic style drift, it's not – it's really just learning to expand the kind of value that I'm capable of identifying and underwriting, so that I have a higher probability of being able to deliver the results I want to in a variety of different environments. In my estimation, Zeke has done and continues to do this particularly well, slowly identifying and building out various "niches" where he can apply his skill-set, to allow him to continue to generate strong risk-adjusted returns even when the wells he usually likes to fish in have run dry. While I don't ever intend to have the same breadth as he does, I've certainly thought about areas where I can internalize that approach in a way that's still consistent with my skillsets, interests, and overall philosophy.

Conclusions

I think in my effort to avoid brashness and convey humility, I've perhaps gone overboard in previous letters; this time, I hope you take away my strong sense of confidence and optimism for 2018 and beyond.

January 11th, 2016 was ACP's first day of trading, and in the ensuing two years, I've met a lot of amazing people, some of whom even decided to take a chance on a suburbs kid with an internet connection and a drive to understand how the world works (and find some profitable investments along the way.)

I appreciate the support – whether emotional, financial, or otherwise – from clients, friends, and mentors alike, and I look forward to returning the favor by providing increasing value to you over time.

Backpacking in the unexpectedly snowy Chisos Mountains in Big Bend (west Texas). Photo credit: Matt Herskind

Westward on,

Samir

Appendix

DISCLAIMER: Data is estimated, unaudited, and provided for directional color only. Past performance is not a predictor of future results. We do not expect our future returns to approximate our historical returns. Amounts may differ due to rounding. Please consult your monthly statements from Fund Associates LLC or audited annual financials from Spicer Jeffries LLP for actual returns. Decimal points have been excluded so as not to convey a level of precision that these estimates are not intended to convey. Net returns are calculated assuming a hypothetical investor paid the standard fee structure of a 1.5% annual management fee and 30% of the outperformance, if any, vs. the S&P 1000 Total Return index, which was chosen because it has historically outperformed the Russell 2000 and most accurately represents our typical investment universe of small and mid-capitalization U.S. equities (i.e., those with a market cap of $10 billion or less). We may invest outside this universe (for example, in U.S. large caps or international small caps.) Individual investors' returns may differ from those presented here due to their date of entry into the fund or their specific fee structure (for example, accredited but non-qualified clients may not, by law, be charged a performance allocation, so they are typically charged a higher, flat management fee). Results are presented only for Askeladden Capital Partners LP and not for any of the separately managed accounts which Askeladden Capital Management LLC (the investment advisor to Askeladden Capital Partners LP) also oversees. While separately managed accouts are generally allocated very similarly to the fund, SMA clients' performance may differ based on factors such as: timing of account opening, tax considerations, specific client instructions, and manager discretion; therefore, SMA clients should consult their Interactive Brokers statements for specific performance information for their account. This is not an offering of securities or solicitation thereof; any offering of securities would only be made to accredited investors via a Private Placement Memorandum under Rule 506(c) of Regulation D, and any prospective partners who did not have a pre-existing relationship with Askeladden as of 1/18/2017 would be required to verify their accredited status with relevant documentation. This requirement does not apply to separately managed accounts. Any documents prepared prior to 2017-01-18 were not intended for public distribution and should be read accordingly. Askeladden Capital Partners, and SMAs that mirror its strategy, should be considered high-risk investments suitable for only a small portion of an investor's overall portfolio, as they involve the risk of loss, including total loss. Specific risk factors are enumerated in our Form ADV.

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[i] (That's like a three-way pun, although only like two of my friends will get it fully… a few more will get half of it.)

[ii] See also Matt Levine's take on KodakCoin (of course Matt Levine has a take): https://www.bloomberg.com/view/articles/2018-01-10/good-luck-spending-your-kodakcoins