October 21, 2014

Dear Limited Partners,

The fund had another positive quarterly performance, and is up 19.9% year to date after all fees and expenses. It is certainly easier to write the quarterly letters when returns are positive, but the real yard sticks will be our returns over five- and 10-year periods. Given the dramatic gains of last year and the continued strong performance this year, the question that is constantly running through my head is: Is this a business I want to own? Is it a high-quality business? Is there a special situation at play? Is there an angle? Is there a variant perception? Is there value? Cheap is not good enough and cheap is harder and harder to find. Each stock we own has a separate analysis – and a separate opportunity set. The flexibility in the fund provides the opportunity to buy more on any given day, convert existing shares to cash (sell), or even to go short. Given all of the permutations, perhaps it is understandable that my hair is falling out in places it shouldn't. In this letter I will try and highlight the rationale for several holdings as well as provide transparency into the process.

TOP 5 HOLDINGS

As painful as it is sometimes, I believe that inaction and patience are our best friends both in terms of absolute returns and tax adjusted returns. Two of the value investors I admire most have recently gone more than a year without purchasing a new stock. While I will never get to that level of inactivity, I do not believe we are going to day trade our way to superior returns.

Consistent with a low turnover strategy for core holdings, all of the top five holdings have appeared in previous letters. Of note, Fortress Investment Group, which is a day one holding, has "struggled" this year with shares down almost 10%. This, of course, is the challenge with selective short-term measurement; yes, the share price is down this year, but it is also up more than 100% since our initial purchase when dividends are factored in. I have actually been adding shares to the fund, particularly after the close of the quarter. The core business is strong. What is now a $6 stock has more than $3 per share in cash and investments and another $1 per share in unrealized incentive fees. Insiders continue to own more than 60% of the shares, so their personal capital is invested in the firm. The alignment is substantial, and there has been success

in raising additional funds. The good news is the fund has performed well, despite the short-term struggles of the largest position.

Company	Ticker	Description/Thesis
Straight Path	STRP	A spinoff from IDT with two distinct assets. Nationwide footprint of low frequency cellular spectrum and a patent portfolio related to internet enabled communications. The company has successfully negotiated agreements with Google and is currently suing Apple. All IP cases are on a contingency basis requiring very little corporate capital. With recent developments in "5G" technology it is possible the cellular spectrum could prove to be worth multiples of todays valuation .
Fortress Investment Group	FIG	The share price is more volatile than the underlying business. There is downside protection with more than $3 per share in cash and investments and a strong alignment of management interests with common shareholders because management owns more than 50% of the common shares. There is also significant upside from performance fees on the $62B in assets under management.
ChipMOS	IMOS	A semiconductor assembly and testing company that at the time of initial investment was trading at a trailing P/E of over 200 but less than 4 times cash flow. Overall the business is healthy with revenue growth y/y of 5%, expanding margins in their LCD business, a modest stock buy back, and capital expenditures in line with depreciation for the foreseeable future. The company completed the listing of its Thailin subsidiary on a Taiwan exchange to highlight the value of the holding. Over the next six months the company will attempt to further simplify the capital structure and focus on a Taiwan listing which should allow the company to be valued in line with its peers leading to multiple expansion and share appreciation.
Howard Hughes Corporation	HHC	Howard Hughes was a spinoff from General Growth Properties in 2010. The company owns in excess of 50 properties including 4 master-planned communities, 20 operating properties, 18 development opportunities, and 7 affiliated investments. Howard Hughes has significant upside potential with the recovery of the housing market and there is substantial downside protection given the quality of the assets and the non recourse nature of the company debt. In addition, HHC has a strong management team that has invested a significant portion of their net worth in HHC warrants aligning their interests with common shareholders. HHC is not a REIT but rather a C-Corp that allows it to retain earnings and invest in properties. Howard Hughes has significant exposure to the Las Vegas real estate market recovery and will create significant value through their projects at South Street Seaport (NYC), Hawaii, and Houston.
American International Group Equity and TARP Warrants	AIG	A leading insurance firm trading at 70% of a growing book value. If the company is able to continue to grow book value and the discount to book value diminishes with the passage of time this has the potential for a multi-bagger return without heroic execution required. The company sold its remaining stake in the Asian life insurer AIA and is in the majority of its airline leasing business. The net result is an overcapitalized company with the ability to further reduce debt, pay dividends, and repurchase shares significantly below book value.

STRAIGHT PATH (STRP)

One of the primary reasons for the strong performance is Straight Path Technologies, which has gone “bonkers,” almost tripling this year. We received shares in Straight Path when it was spun off from IDT (a former holding). We purchased additional shares after the spinoff to increase the position size. We have a cost basis below $5.

The initial thesis on Straight Path was pretty straight forward. Straight Path had two distinct sets of assets that were not being valued when buried inside of IDT. The assets were an IP portfolio and spectrum assets. The IP portfolio had won settlements in court, attracted strong IP lawyers

to represent it on a contingency basis, and the IDT CEO took a year of his compensation in the form of a 10% economic interest in the IP. The company also has very large holdings in spectrum at 29 GHz and 38 GHz. Without getting too deep into how cell phones work, historically the lower frequencies have not been used for cell phones because there are issues with transmitting data over distances and through walls. As a consequence, the Straight Path spectrums have less value because they are primarily for short distance line of sight. The spectrum is currently not being used. The anticipated applications are really as supplemental capacity for existing networks. In the spectrum world, this is not choice real estate – it is North Dakota land (pre-fracking) – not Malibu beach front. The spectrum has also been difficult to value because there have been no recent transactions. So the bad news is the use case for the spectrum is currently limited – but at least Straight Path owns a ton of it. Straight Path holds more than four times the spectrum of Sprint and about eight times the amount held by Verizon or AT&T.

Straight Path's licenses cover virtually the entire United States. In a world with ever-increasing data consumption and more and more congested spectrum, Straight Path could have a potentially valuable asset in nationwide uncongested spectrum. There are also those who believe we can mine minerals on the moon, so that could be valuable real estate (I am not among that crowd). Spectrum in frequencies that are currently in use for 4G cellular (Malibu beach front) sell for $0.25 to more than $3.00 per MHz/POP. If Straight Path were to get $0.01 per MHz/POP, their spectrum would be valued at about $177 per share or more than eight times the current share price. At the time of our initial purchases, the market capitalization for Straight Path was less than $50M or $5 per share.

The quadrupling of IDT's share price since our purchase has coincided with positive developments on the potential use of the low-frequency spectrums and increased speculation that the Straight Path spectrum could be part of a 5G (next generation) cellular solution. In particular, Samsung and a research lab have been successful in a lab setting of using 28gz spectrum for 5G connections. The net result is that the expected value of the spectrum has increased dramatically as has the share price. We now have a happy problem that one of our asymmetric investments (small downside because it had a patent portfolio/large upside if the

spectrum becomes useful) has appreciated in value. The equation has changed as the downside at $20+ per share is no longer covered by the patent portfolio – this is really about the spectrum value at these prices. I sold a small portion of the investment, but think there is a chance to realize significantly more value. This is the type of stock that could easily add or subtract 5% of performance to the fund in a quarter. There will be short-term noise, but I believe it is still asymmetric with substantially more upside than downside.

RECENT EXITS

Despite a desire to be inactive, we did sell out of Micron Technologies, which was a special situation we bought based on their acquisition of a Japanese competitor (Elpida) at a remarkable valuation (almost free). Most of the benefits of the acquisition are now reflected in the financial performance of the company and, with our shares more than doubling in value, continuing to hold Micron shares was a bet on the future performance of the company. There is a very strong bull case for Micron - if the industry continues to limit supply and memory prices remain strong, we will have left a lot of money on the table. However, at the end of the day, I felt my ability to understand industry dynamics and even the product sets offered was too limited. My ability to predict how Asian competitors would react was nonexistent. Ultimately, I was no longer comfortable holding the shares so we took the profit.

RIGHTS OFFERINGS

We made one major purchase during the quarter, the Italian soccer team AS Roma. It is a name that we owned before in very small size. During July, the company had a rights offering which presented an interesting opportunity. There is a long analysis of the business at the end of the letter, but I think it is worth spending a minute on the concept of the rights offering, since it is the type of opportunity I target for the special situations in the fund. As a team, AS Roma had $100M in debt that management wanted to eliminate. One option would have been to have a "secondary" offering and sell shares to the public and repay the debt with those dollars. AS Roma's owners decided to do a rights offering instead.

The mechanics of the rights offering are such that every shareholder would receive the right to buy more shares at a discount; this right is transferable, so shareholders who did not want to

increase their investment could sell this right. Management, which owned more than 50% of the company, said they would participate in and backstop the rights offering; in this case, if there was not enough demand from existing shareholders and rights were not transferred/expired worthless, management would buy those shares as well. In essence, the backstopped rights offering is a doubling down by existing owners, which by itself is a positive indicator. There can also be a disproportionate amount of positive news after a rights offering is completed. Think about the incentives: If you are a majority owner and operator of a business and know you are going to be increasing your investment through a rights offering, would you announce good news before or after? Would you finalize negotiations on something that increases value before or after the rights offering? This is not to say that no good news will come before a rights offering, but I spend a lot of time trying to position the fund so that our incentives are aligned with management's. When large shareholders such as management are in a position of influence– and they propose a rights offering and they propose backstopping it – it is time to roll up the sleeves.

SHORT SIDE

The short side remained an area with limited activity focused primarily on indices. We remain short a technology company facing virtual obsolescence and a web-based business with a structurally flawed business model that loses more money with each additional customer. We remain short a very highly valued slow, growth organic supermarket chain (not Whole Foods) that has been modestly profitable. We initiated a short position in an English Soccer club with a demanding valuation and middling performance that makes it unlikely to reach the Champion's League, which has revenue and sponsorship implications. The individual short positions remain very small, with no single short position being larger than 2% of the overall portfolio.

OUTLOOK

The macro picture in many ways remains as muddled as ever, with the news industry desperately trying to generate one crisis and then another. Guessing the market reactions to the Fed's musings is a folly I will leave to others as I look for just a couple of really good ideas each year. I continue to believe the U.S. economy will grow slowly and is the best house in a mediocre neighborhood, but between special situations (rights offerings/spin offs/mergers/ acquisitions)

and misunderstood companies, opportunities remain plentiful. We will have down quarters and years, but I remain optimistic. The fund remains by far my largest personal holding, so I am eating my own cooking every single day. Thank you for the opportunity to manage your assets alongside mine and my family's.

Sincerely,

Scott Miller

AS ROMA (COST BASIS €.45)

Current shares were purchased at the end of a rights offering where there appeared to be a downward change in price to an undemanding valuation for a strengthening business.

HISTORY

There are five major European soccer leagues. In the 1990s, the Italian league was considered one of the top two leagues, but after two decades of mismanagement and cheating scandals, it is now considered one of the bottom two. The Italian sports market is interesting in that soccer is by far the dominant sport. For U.S.-based investors, it is helpful to understand that there is no NBA, NFL, MLB, or NCAA. Think about a New York resident with a reasonable cable package: On any given Saturday between college and professional sports, there are literally dozens of games to watch. The Italian sports landscape is far sparser – and soccer is at the top of the pyramid.

Within the Italian league, Juventus has been the strongest team historically. After Juventus, there is a second tier of teams which includes AS Roma, which, as you might have guessed, is Rome's premier team. The team was established in 1927. A visit to Rome is quite a treat, but a visit to an AS Roma game is not such a great fan experience. To start, buying tickets is a hassle. You have to go in person to a retail store with a passport or other identification. The larger hassles come with getting to the game. AS Roma plays in Stadio Olympico, which is on the outskirts of Rome, and public transportation lets you off about three-quarters of a mile from the actual stadium. The stadium itself was built in the 1920s for the Olympics. There is a huge running track around the field which places the fans far from the action. There is no retail at the stadium at all. You literally cannot buy an AS Roma jersey or even a keychain at the stadium. The food concessions are almost nonexistent. Relative to an American sports experience, AS Roma is literally on another continent but feels even further away. The game experience is not as good as it could be, and the team is certainly not maximizing the revenue per attendee. The team has been run as if it is in the soccer business – not the entertainment business.

ENTER THE AMERICANS

In the wake of the great recession, European UniCredit found itself the unwitting owner of AS Roma, since the controlling family defaulted on its loans. Like most banks, UniCredit is neither in the business of running sports teams, nor is it particularly adept at running sports teams. There is a group of investors in Boston that has done quite well on and off the field. Both the Boston Red Sox and the Boston Celtics have been profitable financial investments that have also performed well in their respective leagues. In 2011, a small group of Italian American investors led by Thomas Benedito made a minority investment in AS Roma. Included in the initial investor group was James Pallotta. His name may be familiar to investors since he made his

money as a portfolio manager for Tudor Investments, where he compounded capital at 14% a year from 1993 through 2008 and was managing more than $9 billion when he left. He now has his own investment firm called Raptor Investments. James Pallotta is a minority investor in the Boston Celtics. Last year, he became the lead investor in AS Roma, and has been increasing his investment over the course of the year. Here is how he described his investment, "Unless you get into the 21st century in terms of a stadium, social media, branding, sponsorships, all that type of stuff, you're never going to compete at those top levels. You're just not. I think Roma is the most undervalued sports team and brand in the world. If we do it right, Roma is worth multi-billions with the whole thing we want to put together. It's an incredible opportunity."

Liverpool is an English soccer team, owned by Americans/Boston Red Sox investors. If you follow the ownership of the Red Sox, Liverpool, and the Celtics, they are all trying to win both on the field and financially. The financial component is important: It is not a success for these groups if the business aspect does not work. The same philosophy is being brought to AS Roma: slow, methodical creation of value.

RIGHTS OFFERING/INCREASED OWNERSHIP

This past July, the team completed a rights offering, which had the short-term impact of driving down the share price. The rights offering was a mechanism for Pallotta and company to convert their €80M debt into equity. In addition, after the rights offering was completed in August, Pallotta and company bought out UniCredit, which owned 24% of the team (31% of holding company, which owned 78%). In the last two months, a sophisticated investor has converted this debt into equity, and increased their ownership through the buyout of a minority partner. Pallotta and partners now own 78% of the team with the balance trading on the Italian stock exchange. The total enterprise value for the team is €250M. Now that Pallotta and company have made their desired adjustments to the capital structure, taken out UniCredit, and own as much equity as they realistically can without going private, it is an opportune time to make any positive announcements. I believe in the short term we are likely to see positive developments; longer term, there are fundamental changes afoot that should increase the value of the franchise.

FAN ENGAGEMENT

The American investor group has been actively trying to improve the value of the franchise, making small and large changes. A wildly unpopular change was to change the team logo to clearly show that it was a Roman team. For the diehard fans, this was heresy, but if you want to build a global sports brand targeted at people with Italian heritage, making the Rome connection stronger and clearer is a good place to start. When the American owners arrived, not surprisingly, UniCredit was doing nothing to engage fans. For example, there was no social media strategy to build engagement. The team began using social media such as Twitter to

actively engage its fan base. They now have more than half a million Twitter followers, which is more than some NFL teams (the Buffalo Bills, for example, have 235K). The team produces a high-quality Twitter feed in English and Italian that fosters the building of relationships. It is possible to follow the team without speaking a word of Italian. The team has also started using YouTube to broadcast games outside of Italy. Roma launched an internet-based radio station and a modest internet television broadcasting effort. Finally, the team is starting to actively sell tickets to tourists at major tourist destinations. With more than 30 million visitors a year, Rome clearly offers an opportunity to build a fan base, sell tickets, and hawk merchandise. The results of all of these initiatives should lead to a growing fan base, although it is difficult to parse out the increases in attendance from fan engagement versus improved performance on the field. Fundamentally, there are operational changes to nurture a neglected asset.

MAJOR PARTNERSHIPS

The new ownership group has also been active in building partnerships with other companies dedicated to further growth for AS Roma. For example, the team has done summer tours of the United States, playing friendly matches with other European teams as well as playing against U.S. Major League Soccer teams (MLS); they also signed a multiyear deal with ESPN's Wide World of Sports Complex at the Walt Disney World Resort near Orlando, Fla., to be the official professional football club of the renowned amateur and pro sports complex. The team signed an apparel deal with Nike that will provide broader distribution of team gear. Roma is now one of less than 10 featured soccer clubs by Nike. Most importantly, the team is partnering with the real estate development firm Starwood to develop a new stadium (more below) – a pretty impressive and active two-plus years. Perhaps all but the stadium were lower hanging fruit, but clearly this is an ownership group focused on increasing name recognition, fan engagement, reach, and ultimately the value of the brand/franchise

CHAMPIONS LEAGUE

On the field, the team has also had success under the new ownership. Last season, after replacing their manager, the team went on a 10-game winning streak and came in second in the Italian league (Serie A). This is significant because the top two teams in the league qualify for UEFA Champions League, which has significant television revenue implications. Last year, the two Italian teams that made the Champion's League each realized more than €40M in additional television fees. Additionally, depending on how far the team progresses in the competition, there are additional gate revenues; we can use €40M as a place holder. Champion's League will not be an every-year occurrence, but if you add €40M for Champion's League revenue with basically the same cost structure (35% revenue increase), 2014 starts to look attractive for a business with an enterprise value of €250M.

NEW STADIUM

'Roma has partnered with Barry Sternlicht's Starwood to build a new stadium in Rome to improve the match-day experience. The final economics of the stadium have not been disclosed. The plans are for a more central stadium where the old horse racing track is in Rome. Starwood will invest in both transportation infrastructure as well as commercial spaces. Taxpayers are not expected to contribute to this investment. There is a risk that the team will suffer from increased stadium rents, but it seems like Pallotta's interest in the team at 78% will presumably be greater than any interest in the stadium. Further, the commercial investments will do better if the team is financially healthy, which is in everyone's interests, including the common equity holders of AS Roma to have a fair to favorable stadium deal. New development in Rome is notoriously difficult, and the team has developed a large public relations campaign to that end. Just after the completion of the secondary offering, the city council approved the building of the stadium. This was a major, but not final, hurdle for the approval of the construction of the stadium. To understand the potential economic impact of the stadium on the team, when Juventus built its new stadium, it led to a tripling of match-day revenue. This would imply an additional €40M in match-day revenue for Roma – for a team that had total 2013 revenue of €124M. To be conservative, assuming a smaller increase in attendance and higher costs for facility rental, the new stadium would appear to be a clear path to an additional €10M-€15M in contribution. The team has stated the stadium will be ready in 2016, which may be aggressive, but in the relatively near term, there could be a material increase in match-day revenue.

NEAR-TERM CATALYSTS

Roma is a soccer team in transition that should grow in value over the coming years. For investors with a shorter time horizon, there may be some post rights offering positive news flow. In addition to the final approval of the new stadium, a second major announcement the team could make is that of a corporate sponsor. The majority of European teams have corporate logos of companies such as Samsung or Jeep splashed prominently across their jerseys. In some instances, there are also stadium naming rights that go to the corporate sponsors. Currently AS Roma does not have a major corporate sponsor. An Italian blogger at ASRoma360.com articulates in some detail why Eitad airlines may be the perfect corporate sponsor. Eitad airlines currently sponsors Manchester City for €40M Euros a year in a deal that covers jerseys, stadium naming rights, and campus naming rights. Eitad has just taken over the Italian airline, Al Italia, and is in the process of making Rome its major European hub. For a team with revenue of €124 Euros last year, clearly a major corporate sponsor deal, even at a fraction of Manchester City's €40 M, would be material. At this point, Roma is the exception, not having a corporate sponsor. The team has engaged the American firm Creative Artists Agency's (CAA) sports division for the stadium naming. Roma has indicated that they are waiting for the right deal on the jersey side, although it is not surprising that nothing was done before the recapitalization and the

increase in Pallotta's stake. Time will tell here. In a league where even the referees have advertisements on their jerseys (EA Sports), it appears highly likely that the team can secure an eight-figure sponsorship deal with virtually 100% margins. A third incremental catalyst would be the sale of Kevin Strootman in the January transfer window (see below), a fourth would be continued strength in Roma attendance, which is far below stadium capacity but still an improvement of 10% over the 2013 season.

NONTRADITIONAL ASSET

Unlike in the American sports system where the value accrues to the player, significant value can be realized when players are sold through a rights transfer process. Player rights appear on the balance sheet as historical costs – not market value – similar to the way real estate is treated. Players can be sold for surprisingly large figures. As case in point, Christian Bale was sold for more than €100M. In the transfer market, there is far more talk than actual action. This past transfer window period, Roma sold a defensive player to Bayern Munich for €30M Euro – to put this in context, that was more than 10% of the team's current enterprise value. To be fair, in aggregate they ended up spending as much as they received buying other players in this summer's transfer window. The potentially most valuable player under contract for Roma is a Dutch midfielder named Kevin Strootman, who has been injured but is coveted by the new and struggling Dutch coach of Manchester United. It was rumored that Roma's price for Strootman was between €60M €80M – which would be almost 30% of the value of the entire team. While no transfer was made, the transfer window reopens in January; if Strootman is healthy and Manchester is still struggling, it will be interesting to watch. Is Strootman really worth €80M? Not to me, and probably not to Manchester United. The point here is that there is actually significant value in the player rights, particularly relative to the current enterprise value of the team.

In the past, Pallotta has articulated the opportunity to pursue a money ball type strategy that involves developing talented players and selling them off. To that end, the team has just started its own academy structure to develop players. This will not yield any return in the short term – in fact, it will be a cost center. The team has had some success in buying, developing, and selling players. Recent successes have included the sale of a defender Benetia for €26M or a profit of €12.5M. Even better was the sale of Marquinhos for €35M or a €30M profit. Of course, perpetually selling off strong players can be a profitable strategy, but it is at odds with winning the Champions League, which is also a stated goal.

CHANGING ECONOMICS

At its core, a soccer team is a pretty simple business. There are three major sources of revenue for the team: ticket sales, sponsorship/advertising, and television revenues. In 2013, Roma's

revenue was €124M. Ticket sales were 17% or 21M, television revenue was €66M or 55%, and €37M sponsorship/advertising/other accounted for the remaining 28%. In 2013, the team had €-2M in EBITDA. Soccer team economics can be skewed by the accounting for player transfer fees. Even though they are paid up front, they are recognized over the lifetime of the contract. After the amortization of player signing fees, taxes, and depreciation, the net income was -€40M in 2013. On a historical basis, this is not very interesting. Let's make a couple of adjustments. Increased ticket sales at the new stadium (+€20M) plus a corporate sponsor (+€15M) would create a healthy and sustainable core business with a recurring revenue stream from season tickets and contracted broadcasting rights. In years where the team made the Champion's League, you could add another €40M+ in revenue. There is also the potential for one-off player sales such as Kevin Stoonan. Was Pallotta the fool for buying UniCredit's 24% stake in August?

FAIR PLAY

Are sports teams just toys for rich guys? Aren't you always at risk of Russian billionaires and other price-insensitive owners just trying to spend their way to a championship without regard for team profitability? In many leagues like the NHL, the ownership model has been to buy a team, suffer operating losses, and then sell the team for more than you paid plus operating losses. This is not a great model for a public company because it implies constant capital raises. Also, given Roma's current stadium attendance and television deals, the team will not be able to outspend the Manchester Uniteds and Real Madrids of the world, and certainly not able to outspend the Roman Abromovichs of the world. Fortunately, UEFA, the ruling body for the Champions League, which is the biggest prize in European soccer, has instituted financial fair play rules, which could also be called non-billionaire minority shareholders rights. The financial fair play rules are designed to only allow financially responsible teams to participate and win the Champions League. As described by Wikipedia, "Only a club's outgoings in transfers, employee benefits (including wages), amortization of transfers, finance costs and dividends will be counted over income from gate receipts, TV revenue, advertising, merchandising, disposal of tangible fixed assets, finance, sales of players and prize money. Any money spent on infrastructure, training facilities or youth development will not be included. The legislation currently allows for eight separate punishments to be taken against clubs transgressing the rules, based in order of severity: Reprimand/warning, fines, points deduction, withholding of revenue from a UEFA competition, prohibition to register new players for UEFA competitions, restrictions on how many players a club can register for UEFA competitions, disqualification from a competition in progress, and exclusion from future competitions." The point is that the landscape appears to be shifting to favor the Roma ownership orientation wherein a team has to be successful both on and off the field. The primary question is: Will this change the race to the bottom economics of owning a team? Given the large financial rewards for owners when qualifying for Champion's

League and the prestige of winning Champion's League, the incentives for even wealthy owners are changing. The definition of winning is evolving in ways that encourage fiscal responsibility and sustainability.

VALUATION

Valuing sports teams is a difficult task, since inevitably it is a function of what somebody is willing to pay. Before Steve Ballmer paid €2B for the Los Angeles Clippers, virtually nobody said they were worth €2B. A very informative overview of the soccer landscape is provided by Deloitte. This data was used as the basis for Forbes magazine's valuation report, which values Roma at an EV of €236 M, in line with today's enterprise value. It should be noted that the valuation work predates qualifying for Champion's League, the most recent stadium approvals, and does not contemplate any additional sponsorship deals. Perhaps the purest comparable would be Inter Milan, which was sold in a private market transaction in 2013. An Indonesian businessman bought 70% of Inter Milan for €250M. In addition to Roma, there are two other publicly traded teams which are also modestly valued. Roma is the most interesting because of the quality of ownership and improving economics, but Juventus and SS Lazio are interesting as well. Juventus was valued by Forbes at more than two times its current EV, and it historically has had a healthier revenue profile than Roma with substantially higher sponsorship revenue of €38M and broadcasting revenue of over €150M in years they participate in the Champions League. In 2013, Juventus, with a current market capitalization of €220M (and €200M in debt), generated cash from operations of €48M, but all of that and more was invested in new players through transfer fees. The biggest drawback of being a minority shareholder of Juventus is the ownership. The Agnelli family, which also controls Fiat, controls the team. They have done a great job of building a winning team and a strong brand/franchise (they are most popular team in Italy). The team appears to be, in part, a civic project of the Agnelli family, which implies a low likelihood of significant dividends or the outright sale of the team. While there are few catalysts on the horizon, Juventus is a relative value for the best team in Italy.

Another publicly traded soccer team is Manchester United, which is valued at approximately 10 times AS Roma with negligible earnings, limited upside on increased sponsorship, limited ability to increase matchday revenue as all matches are already sold out and revenues of less than 3X AS Roma's 2014 revenues. As a result, a portion of our long position in AS Roma is offset by a short position in Manchester United.

RISKS

- **Stadium deal falls apart –** Development in Italy is notoriously difficult. The team has received approvals from the Mayor and City Council, which can be major barriers to development, but delays are probable. The team has also indicated that the property will be privately financed, but has not indicated how it will be financed. The presumption is

that Starwood will provide the financing, but the ultimate economics are unknown to the minority equity holders (us).

- **Value to accrue to majority owners/not minority investors –** Between media rights, licensing, and property development, there is likely an opportunity for Pallotta and company to capture a disproportionate percentage of the economics, shortchanging the minority investors. To date, the ownership appears to have been fair in all dealings, but with UniCredit out of the picture, the opportunity for financial shenanigans increases. There is some solace in the fact that a portion of Pallotta's holdings are through his private equity firm Raptor. Presumably for these investments, a robust share price is advantageous for both earning fees as well as raising future funds.

- **Security is delisted** – There are football teams such as the Tottenham Hotspurs that have been delisted. The company does very little to communicate with the investor community – and has recently stopped translating financial documents.

- **Multiple contraction in a downturn** – TV revenues are contracted, and there is a core base of season ticket holders who provide some downside protection on revenues, but in a severe market correction, thinly traded Italian sports teams will undoubtedly trade down as well.

- **Poor performance on the field** – Roma had an unprecedented 10-game winning streak to start the 2013 season, which put them in a position to finish in second place, thus qualifying for the Champions League and building its season ticket holder base. This success is by no means guaranteed.

- **Television revenue declines** – In general, sports television rights have been increasing in value since they are one of the primary reasons consumers retain their subscribers. In the last round of negotiations, the Serie A League received no increase on its larger contract and a 35% increase for its smaller rights package. Television rights will be renewed in 2016. Since television revenues are the major source of revenues for the team, a significant reduction would be meaningful.

- **Pallotta publicly identified with the investment –** Pallotta is publicly identified with Roma, and is clearly investing time and energy into the success of the team. It remains a small portion of his overall net worth**.** He would not be the first businessman to sacrifice the business economics in the pursuit of a championship. The fair play rules are meant to mitigate against this, but there is clearly a risk here.

SUPPPORTING DOCUMENTS AND TRANSLATED DOCUMENTS

http://www.forbes.com/soccer-valuations/list/

http://www.si.com/soccer/2013/08/12/roma-american-owner-james-pallotta

http://www.bbc.com/news/business-26351331

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