

Long Cast

ADVISERS L.L.C.

Dear Friends / Clients / Investors

2Q17 was our seventh quarter in business. Cumulative returns on accounts managed by Long Cast Advisers increased 2% in 2Q17, net of applicable fees. This was worse than the various indices against which we benchmark ourselves. Since inception, we have returned a cumulative 45% net of fees, materially ahead of our benchmarks.

PERFORMANCE

	LCALLC Gross	LCALLC Net	R2000	S&P	Dow
	Annual Percentage Change				
2015 (2-mos)	12%	12%	-5%	-2%	-2%
2016	17%	16%	21%	12%	17%
1Q17	10%	10%	2%	6%	5%
2Q17	2%	2%	2%	3%	4%
Cumulative chg	47%	45%	21%	20%	24%

Returns for separate accounts managed by LCA ranged from -7% to +12% in 2Q17. These gains were determined on the basis of market values at the beginning and end of the period, adjusted for payments made to or contributions received from clients. It is not based on actual realized profits during the year, but is intended to measure the change in liquidating value for the period. Returns are reported net of fees and after commissions and costs paid to the brokers, which we do not receive.

Since we run a portfolio of separately managed accounts (SMA's) with irregular intake periods and varying client risk profiles, variances between account returns will continue. This would change if / when we transition to a partnership structure, but an SMA structure allows us to keep our administrative costs and your fees low. We believe it to be a wonderful deal for our clients.

LCA invests with a long term time horizon and should be judged over three year periods, or as we call it, based on our 1,000 Day Portfolio. We have been remiss to not emphasize that LCA does not invest in companies that participate in the production of weapons or hydrocarbons.

BRIEF NOTE

This letter is remarkably belated and it bears an explanation. For two months over this summer I ran the woodworking shop at a sleepaway camp in upstate New York (Camp Ramah in the Berkshires). I anticipated that the diversion from reading public filings and computer time would prove healthy for future idea generation, provide perspective for new ideas, and offer some qt with my kids. I believe it was a success in all of these regards. Certainly the inactivity proved somewhat worthwhile as three LCA positions announced takeouts this summer, though their benefits will primarily impact 3Q17.

PORTFOLIO

In 2Q17, holdings that we've owned the longest - Envirostar (EVI) and ARI Network Services (ARIS) - were the biggest contributors to performance. Part of this performance is attributable to the late June announcement that ARIS would be acquired for \$7.10 / share. We are unhappy with this takeout. Though it juiced quarterly returns, the price is not reflective of the long term opportunity and terminates prematurely the benefits of long term compounding. I wrote a [letter to management](#) expressing our disappointment with the deal but am otherwise resigned to its closure.

The gains in stocks we've held the longest were offset by declines in the stocks we most recently added to the portfolio, leading to our subpar returns in 2Q17. Of the top-five *detractors from firm wide account returns* in 2Q17 (individual accounts will have varying results) four of them were all stocks we recently added to the portfolio:

Quest Resources (QRHC)

Invuity (IVTY)

Rubicon (RBCN)

IZEA (IZEA)

CDI Corp (CDI)* - announced in 3Q17 that it would be acquired for \$8.25 / share.

One other newer stock – AUXO – was also a drag on performance.

Most of these new additions to the portfolio are services businesses with low barriers to entry that don't normally screen for strong investment consideration.

However, they are businesses that when well run should generate cash with little capital intensity. They are all in turnaround or transition managed by executives with material and successful experience running businesses of these types for profit and cash flow.

These executives have articulated sound, reasonable and realistic plans towards cash flow and profitability and also have shown progress towards affecting those plans, with early evidence of success and potentially a wider pathway going forward of more to come, even while the stocks trade at discounts to what I perceive to be the opportunity.

Unfortunately in 2Q17, those discounts widened and in some cases, in 3Q17, the discounts have widened further. I will write more about these companies in the future, explaining in more detail why we own these.

We believe the key is patience, not judging the stocks on a quarter by quarter basis but with a time horizon over the course of three years. If the businesses we own continue to improve – and we have seen no evidence that they aren't – and customers continue to entrust these businesses to solve their problems, then they should become attractive assets over time.

IN CONCLUSION

I had two ideas going into the summer about how I could impact the arc of the camper's experiences and they offer analogs to how I hope to impact the arc of your experience as a client, beyond just growing your capital.

First, I wanted the kids to experience a moment of respite from the hectic activity-oriented pace of camp life. The shop would be a place where things slowed down, in the effort not only towards safety but also planning and learning.

Second, I wanted the kids to experience the surprising and counter intuitive benefits of putting less effort into the work. Just about every child when holding tools for the first time gripped them with such intensity that their fingernails turned white. Few could turn off that reflex even when shown the benefits of a balanced and relaxed posture, even after seeing how a saw held true (no roll, pitch and yaw) proved to cut faster and more evenly than one gripped tightly with an excessive effort towards a higher stroke rate; or that a hammer held properly and guided square to the nailhead drove faster and more accurately than one used more intensely, etc.

Although woodworking and investing are wholly different exercises – with investing we have limited control over the outcomes - there is overlap in how I embrace the intentions for my erstwhile students and current clients.

At LCA we are slow investors. We have low turnover. We observe and study for long periods. We invest at a pace wholly divorced from the one encouraged by the 24x7 bizertainment complex. And while I work hard, I aim to avoid the excessive effort that often seems designed simply to signal prestige or importance.

The overused phrase “continuous learning” comes to mind as the kind of experience I'd choose to avoid. It rings to me like the eyelid scene in “A Clockwork Orange”. I have always experienced learning as a step function, or perhaps a “misstep function” is more appropriate, but leave it to Wall Street to turn even learning into a competitive sport. Rest and reflection are as integral to learning as reading and engagement. Or as Neil Young sings: “There's a lot to learn from wasting time.”

I appreciate your trust in allowing me to allocate your capital, and the incredible responsibility I have in managing it. My line is always open to chat. I look forward to hearing from you.

/ Avi
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Brooklyn NY