

Q4 2019 Alta Fox Opportunities Fund, L.P. Quarterly Letter

January 2020

Limited Partners,

In Q4 2019, the fund increased 9.96% gross and 8.29% net. The average net exposure during the quarter was 77.86%. For the full year of 2019, the fund returned 63.63% gross and 49.70% net with average net exposure of 80.84%. Since inception in April 2018, the fund has returned 78.57% gross and 59.68% net compared to 26.69% for the S&P 500, 11.79% for the Russell 2000, and 5.70% for the Russell Microcap Index. See the appendix for further details.

As always, I strive to ignore short-term fluctuations and instead focus on the intrinsic value growth in our portfolio holdings, which over the long-run should converge with portfolio performance. I encourage limited partners to do the same (both in times of outperformance and underperformance). I firmly believe that in the long-run, our strategy of buying high-quality and underfollowed businesses at cheap prices will deliver attractive absolute and relative returns. Most importantly, I expect our process to remain disciplined with strict risk controls, minimal to zero gross leverage, and a sound research process.

In this end of year update, I will briefly review results over the past year, discuss current portfolio positioning, and outline the fund's near-term priorities.

Review of 2019

2019 was a strong year for the fund with a net return of 49.70%. This was primarily attributable to our largest and highest conviction positions performing very well, which is an encouraging sign for our research process. In particular, PAYS, JYNT, and REPR, all of which I highlighted in past quarterly letters, appreciated in excess of 100% during the year. In fact, our strict risk discipline of having a maximum position size of 15% at cost hindered our performance from being even better during the year, given our highest conviction positions performed so well. However, my view has not wavered on sizing. We will eventually have a high conviction position go against us, and our risk discipline will be rewarded.

Our first stub year (April 2018-Dec 2018) and our first full year (2019) were very different market environments. While I am certainly proud of the fund's 2019 performance, I am equally if not more satisfied with the fact that we preserved and grew capital in a very difficult 2018 environment. We have also managed to outperform all major indices despite having a significant headwind from small and micro-caps broadly underperforming their larger peers. I continue to remain very downside focused in both my security selection and portfolio positioning.

Despite the fund's early success, I have made many mistakes which I have reflected on over the past few weeks as I reviewed every trade since inception of the fund. I published a 63-page slide deck on RMBL, which proved laughably inaccurate. I shorted a cult-like automotive technology stock. I sold a starter position at the worst possible time in a promising small-cap after a damning, but ultimately inaccurate short report. The list goes on of both errors of omission and commission. However, I have done a good job thus far of keeping our losses small and mitigating the damage. In RMBL, for example, new facts emerged literally just one week after I published the lengthy slide deck, which were thesis-breaking. I immediately sold the position and pulled my slide deck. That is a humbling thing to have to do, but proved to be the correct move. While I will never be able to fully

eliminate mistakes, I am constantly trying to improve my investment process and will never allow ego or fear of looking wrong prevent me from making the right decision. Since inception, we have had very few positions cost us more than 100 bps of gross negative performance with our absolute worst decision costing us less than 300 bps.

Tweaks to My Investment Process

After reviewing and reflecting on inception to date results, I identified three focus areas for improvement.

The first focus area for improvement is trading. I am an investor, not a professional trader. Until the beginning of 2020, I did all of the firm's trading through Interactive Brokers on my own. As the fund continues to grow, things like disguising order sizes, using the right trading algorithms, finding and securing private blocks of stock, and trading in other instruments (warrants, options, etc) have become more important. It was therefore a priority of mine to improve our trading capabilities. I interviewed many different prime brokers and ultimately selected BTIG to be our main prime broker, which includes having a dedicated trader with significant expertise in trading small-cap securities. I believe this change will improve our execution, allow us to source stock more efficiently, and free a significant amount of my time for core research.

The second focus area for improvement is increased research bandwidth. I found myself all of last year with far more names to look at than I had time. I had to make trade-offs between digging deeper into existing names or starting my research process in new ones. This was just a reality of being a one-person shop. I am happy to report that we recently doubled the size of the investment team (yes... from one to two) with the hiring of our first analyst, Garrett Finn. Garrett previously worked at American Century Investments in New York. He was a finalist in the 2018 Alta Fox Capital small-cap contest, graduated *summa cum laude* from Northeastern with a degree in finance where he also acted as portfolio manager of their student-run investment fund, and has passed levels 1 and 2 of the CFA exam. I am excited to welcome Garrett to the team as he is a talented analyst with a shared passion for investing and will increase my bandwidth so that we can search both wider and deeper for the world's highest quality and underfollowed businesses.

The third area I identified as a focus for improvement is eliminating "unforced errors" in starter positions. When reviewing performance, it was clear that the performance for stocks that I knew very well and in which I had significant conviction performed considerably better than my smaller starter positions. It is always a difficult balance to know how much work is sufficient before allocating capital to an idea. My solution thus far has been to allow small starter positions in stocks I find interesting, but have not quite been able to fully diligence, while reserving large positions for fully vetted and high conviction positions. I am moving away from the "starter position" mentality. Though this means that I may occasionally have a potentially interesting security appreciate beyond my target price before I can fully do diligence, I think the benefit of staying focused on fully vetted ideas is worth that cost.

Current Portfolio and Positioning

As usual, I do not have a bold market call. To the extent my portfolio positioning changes, it is mostly a result of my bottom-up investment process and the areas in which I am finding more opportunities. At the moment, the portfolio has a greater concentration of special situation

investments than in the past. We have meaningful positions in several catalyst driven names including: a parent of a recent spinoff, whose excellent economics will be apparent after shedding a money-losing and distracting asset; a regional casino that is an extremely cheap and subtle way to benefit from the legalization of online gambling in various states; and a small-cap liquidation that is likely to result in a very strong IRR with completely uncorrelated results from the market.

I firmly believe that small and micro-cap stocks should be a fertile hunting ground for alpha over the next several years—even beyond the traditional reasons of structural inefficiencies. Sell-side research has been cut to the bone at most banks due to both regulation and cost pressures. As a result, analyst coverage, which was already weak in small and micro-caps, has been dealt another blow. This is a positive development for our strategy. Moreover, it has been a “rich get richer” environment among asset managers, which has led to fewer quality funds in the smaller areas of the market that we favor.

Conclusion

I am proud of the process and results of the fund thus far. While the fund has grown faster than expected since launch, we are still well below any capacity constraints for our strategy. Importantly, the majority of our incremental investors have come from inbound inquiries, allowing me to focus nearly all of my attention on the portfolio rather than traveling and actively marketing the fund.

Our next capital opening will be March 1st. If you are not a current LP, but are interested in more information about the fund, please email: info@altafoxcapital.com. We welcome referrals for long-term oriented investors interested in our strategy. Investors can sign up for our email distribution list for all future updates and publicly posted ideas here: <https://www.altafoxcapital.com/contact/>.

Sincerely,



Connor Haley

Appendix

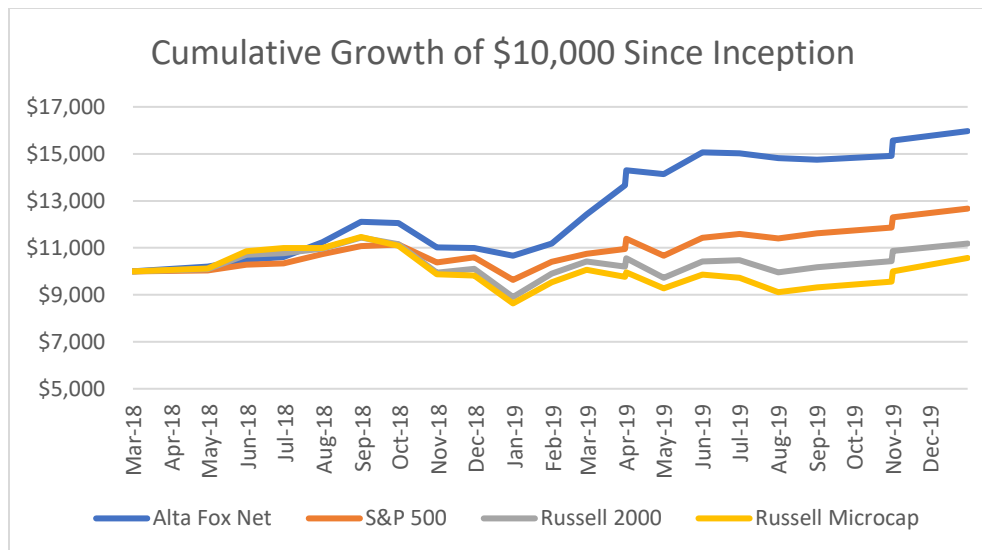
Monthly and Quarterly Fund Returns

	Alta Fox Gross	Alta Fox Net	Alta Fox Net Exposure	S&P 500	Russell 2000	Russell Microcap
Apr-18	2.63%	2.03%	50.24%	0.38%	0.86%	1.25%
May-18	3.56%	2.80%	96.39%	2.41%	6.07%	7.22%
Jun-18	1.45%	1.11%	91.32%	0.62%	0.72%	1.30%
Q2-2018	7.82%	6.05%	79.31%	3.43%	7.75%	9.97%
Jul-18	7.36%	5.91%	80.92%	3.72%	1.74%	-0.07%
Aug-18	9.53%	7.77%	81.12%	3.26%	4.31%	4.30%
Sep-18	-0.41%	-0.40%	94.28%	0.57%	-2.41%	-3.26%
Q3-2018	17.12%	13.68%	85.44%	7.71%	3.58%	0.83%
Oct-18	-10.16%	-8.55%	83.03%	-6.84%	-10.86%	-10.90%
Nov-18	-0.22%	-0.25%	71.48%	2.04%	1.59%	-0.64%
Dec-18	-3.59%	-3.01%	77.19%	-9.03%	-11.88%	-12.05%
Q4-2018	-13.57%	-11.52%	77.23%	-13.52%	-20.20%	-22.14%
2018	9.13%	6.67%	80.66%	-3.65%	-10.94%	-13.67%
Jan-19	6.16%	4.86%	76.97%	8.01%	11.25%	10.49%
Feb-19	13.77%	11.08%	82.10%	3.21%	5.20%	5.48%
Mar-19	12.11%	9.97%	89.95%	1.94%	-2.09%	-2.95%
Q1-2019	35.41%	28.10%	83.00%	13.65%	14.58%	13.10%
Apr-19	5.62%	4.67%	87.00%	4.05%	3.40%	1.91%
May-19	-1.27%	-1.14%	82.29%	-6.35%	-7.78%	-6.74%
Jun-19	7.77%	6.53%	81.06%	7.05%	7.07%	6.19%
Q2-2019	12.39%	10.23%	83.45%	4.30%	2.10%	0.92%
Jul-19	-0.20%	-0.24%	78.51%	1.44%	0.51%	-1.36%
Aug-19	-1.47%	-1.33%	80.76%	-1.58%	-4.88%	-6.29%
Sep-19	-0.55%	-0.54%	77.94%	1.87%	2.08%	2.28%
Q3-2019	-2.21%	-2.10%	79.07%	1.70%	-2.40%	-5.45%
Oct-19	1.41%	1.13%	77.72%	2.17%	2.63%	2.57%
Nov-19	5.20%	4.38%	82.55%	3.63%	4.12%	4.64%
Dec-19	3.07%	2.59%	73.32%	3.02%	2.88%	5.70%
Q4-2019	9.96%	8.29%	77.86%	9.07%	9.94%	13.45%
2019	63.63%	49.70%	80.84%	31.49%	25.52%	22.43%
Since Inception	78.57%	59.68%	80.77%	26.69%	11.79%	5.70%
Annualized	39.26%	30.65%		14.47%	6.58%	3.22%

Growth of \$10,000 Since Inception

	<u>Alta Fox Net</u>	<u>S&P 500</u>	<u>Russell 2000</u>	<u>Russell Microcap</u>
Mar-18	\$10,000	\$10,000	\$10,000	\$10,000
Apr-18	\$10,203	\$10,038	\$10,086	\$10,125
May-18	\$10,489	\$10,280	\$10,699	\$10,856
Jun-18	\$10,605	\$10,344	\$10,775	\$10,997
Jul-18	\$11,232	\$10,728	\$10,963	\$10,990
Aug-18	\$12,105	\$11,078	\$11,436	\$11,462
Sep-18	\$12,056	\$11,141	\$11,161	\$11,089
Oct-18	\$11,025	\$10,379	\$9,948	\$9,879
Nov-18	\$10,998	\$10,591	\$10,107	\$9,816
Dec-18	\$10,667	\$9,635	\$8,906	\$8,633
Jan-19	\$11,185	\$10,407	\$9,908	\$9,539
Feb-19	\$12,424	\$10,741	\$10,423	\$10,061
Mar-19	\$13,663	\$10,950	\$10,205	\$9,764
Apr-19	\$14,301	\$11,393	\$10,552	\$9,951
May-19	\$14,138	\$10,670	\$9,731	\$9,280
Jun-19	\$15,061	\$11,422	\$10,419	\$9,855
Jul-19	\$15,025	\$11,586	\$10,472	\$9,720
Aug-19	\$14,825	\$11,402	\$9,961	\$9,109
Sep-19	\$14,745	\$11,615	\$10,169	\$9,317
Oct-19	\$14,912	\$11,867	\$10,436	\$9,556
Nov-19	\$15,565	\$12,298	\$10,866	\$10,000
Dec-19	\$15,968	\$12,669	\$11,179	\$10,570

Cumulative Return	59.68%	26.69%	11.79%	5.70%
Annualized	30.65%	14.47%	6.58%	3.22%



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