PROSPER

STARS & STRIPES

July 11, 2018

Dear Partners,

During the second quarter of 2018, Prosper Stars & Stripes Fund gained 2.1% after fees compared to a return of 0.2% for the HFRX Equity Hedge Index (the "HFRX")[(i)] and 7.8% for the Russell 2000 Total Return Index (the "Russell")[(ii)].
Over the past twelve months, Prosper Stars & Stripes Fund gained 12.1% net of fees compared to 6.3% for the HFRX and 17.6% for the Russell 2000.
Since the inception of the strategy on January 1, 2010, the Roubaix Fund Composite[(iii)] (the "Composite") has generated an annualized net return of 9.6% compared to just 5.0% for the HFRI[(iv)] and 13.6% for the Russell. The end of period net exposure was 39.2% compared to a 43.7% average since inception.

INVESTMENT PHILOSOPHY

Structural inefficiencies in small cap stocks - greater dispersion of returns, lower sell side coverage, limited buy side crowding - enable higher alpha generation on both the long and short sides of the portfolio. Less diversified small businesses are inherently more affected by the drivers that create or destroy equity value over the investment cycle. We believe the most important of these drivers are the strength or weakness of the business model itself, the quality of the fiduciaries, and the advantages or challenges created by the company's financial structure. We identify compelling long and short investment stories where these drivers are all moving towards either end of the quality spectrum.

We then analyze fundamental and market metrics to determine whether each long or short story is a viable stock investment. These include valuation versus history and peers, risk/reward profile relative to our price targets, investor sentiment, recent performance, and our assessment of short-term catalysts. We concentrate our positions in 30-50 longs and 30-50 shorts to maximize the value of our research and convictions, and likewise do not utilize ETFs or options to hedge. To manage risk, we generally maintain less than 50% net exposure, avoid leverage, invest across a broad set of industries, and remain disciplined with our price targets and stop-loss levels.

ECONOMY & MARKETS

The cornerstone of the current bull market in U.S. equities remains earnings growth. With second quarter earnings season about to get underway, the outlook continues to be strong. As measured by the S&P 500, earnings grew 24% in Q1, and analysts anticipate similar ~20% quarterly growth for the remainder of 2018.[1] These are remarkable results, which have been bolstered by U.S. tax reform.

Tax reform was not strictly limited to a lower corporate tax rate, but also included incentives to increase capital expenditures. As higher earnings drive a commensurate increase in cash flow throughout 2018, we expect companies to announce further expansion of their capex budgets. Such increased spending has the

[1] See Earnings Insights from Factset, July 6, 2018

ability to improve the domestic capital stock, and thereby increase productivity. Importantly, higher productivity would allow the late cycle stage of the current expansion to continue.[2]

On that topic, two of the historically accurate predictors of the economic cycle remain constructive. First, the yield curve has received plenty of attention as it has flattened. A negative yield curve "has predicted all nine U.S. recessions since 1955, with a lag of six to 24 months."[3] However, despite the recent publicity, the yield curve has not yet inverted. This would suggest that we can remain in the late cycle phase of the current recovery for a year or more. Similarly, the ratio of leading and coincident indicators has also been an accurate precursor to a recession, yet this ratio remains firmly in expansionary territory.[4]

Despite continued strong economic data, there are several clear risks as we move through the balance of 2018 and into 2019. Global central banks continue on the unprecedented path towards quantitative tightening from quantitative easing. While it is difficult to pinpoint the timing or magnitude of impact, it certainly implies a shift in the investment backdrop.[5] Additionally, the U.S. Fed is in the middle of a rate hike cycle, which has historically contributed to slower growth and increased risk aversion. The recent surge in energy prices has also served as a risk indicator for equity markets in the past. As we move to 2019, U.S. companies are not expected to receive any additional tax benefits, and the high level of 2018 growth will create a difficult comparison. Lastly, the potential for a trade war adds another layer of complexity with negative historical precedents.[6]

LONG POSITION HIGHLIGHTS

The best performing long position in the second quarter was Kemper (KMPR), a diversified insurance holding company. Historically, the Fund has added the most value from stock selection in the financial sector. In the case of KMPR, our investment was straightforward. KMPR announced the acquisition of Infinity Property and Casualty Corporation (IPCC), a peer in which we have previously invested and that has a unique asset for an insurance company. After the deal was announced, the market lost interest in the story and the ratio of risk to reward for the combined company skewed significantly in our favor. We

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[2] See "Game Changing Productivity Pick-Up: Sector Breakdown," Cornerstone Macro, June 11, 2018, where Nancy Lazar wrote, "A productivity pick-up means 1) unit labor costs will be restrained; 2) core inflation will stay lower, longer and 3) profit margins will stay higher, longer. Net, it increases the odds the next recession hits later, rather than sooner."

[3] "Fed Study Finds Inverted Yield Curve Still Good Recession Alert," Bloomberg, March 5, 2018

[4] "US Economic Indicators: Leading & Coincident Indicators," Yardeni Research, Inc., July 2, 2018, details the ratio of leading to coincident economic indicators that declines precipitously ahead of all prior recessions since 1955.

[5] "After Years of Easing, Meet Quantitative Tightening: Quick Take," Bloomberg July 8, 2018, the article highlights that "things look tighter down the road [as] net purchases for the three major central banks have already fallen and are projected to turn negative in 2019."

[6] See "Trade Wars Risk Sparking Mass Currency Devaluations – A global race to the bottom will likely be negative for asset valuations," Bloomberg July 9, 2018, which articulates some of the negative historical precedents in trade conflicts. To date, we have made modest adjustments in the portfolio by reducing some exposure to companies directly impacted by some of the changes. We have identified one long investment, Amber Road (AMBR), which sells software that provides cloud-based trade management solutions. See also, "Stocks Build on Gains After Strong Jobs Report," Wall Street Journal July 9, 2018, where we commented on this topic.

initiated a long position as we had confidence that the cost savings from the merger was a classic exercise in 'blocking & tackling.' The market recently came around to our view, KMPR appreciated to our price target, and we exited the stock.

The second best performing long position during the second quarter was USA Technologies (USAT), which we discussed in our last letter. Our next best performing position was Varonis (VRNS). The company's products allow enterprises to manage and secure unstructured data, including confidential customer data. VRNS revenue growth has been accelerating due to the rise of insider threats and the increasing urgency to protect consumer data, epitomized by the Snowden and Facebook scandals. We established a long position in the fourth quarter of last year when the stock was undiscovered and traded at a sizable discount to peers. We believe that the EU's implementation of General Data Protection Regulation (GDPR) in May, and the passing of the California Consumer Privacy Act of 2018 in June, signals a multi-year tailwind for Varonis. As our thesis plays out, we have reduced our weight but we maintain a position based on our expectation that industry drivers will persist.

The largest detractor in the long portfolio during the second quarter was Evoqua Water Technologies (AQUA). The company is a leading provider of products and services into the water infrastructure market. The business is stable and benefits from the need for clean water for food and beverage manufacturers, as well as municipalities. Results reported during the quarter missed elevated expectations, causing the stock to decline. We exited the stock due to our stop-loss discipline, but have since re-established a position as we believe AQUA again offers a compelling risk/reward profile.

SHORT POSITION HIGHLIGHTS

The best performing short position in the second quarter was HFF (HF), a provider of financial services to the commercial real estate market. The short was based on our view that commercial real estate has exhibited signs of peaking. The cycle had been very long and robust, and we believed that higher rates driven by Fed tightening would likely pressure valuations and transaction volumes. Among the publicly listed commercial real estate companies, HF is the most dependent on sales and leasing transactions, and yet was the most expensive on an earnings basis. We initiated a short position as structural business headwinds coincided with an unwarranted valuation. HF soon reported weaker than expected Q1 results and we subsequently closed our short position.

The second best short in the quarter was Legg Mason (LM). LM is an active asset manager primarily exposed to bond markets (55% of assets under management), and secondarily to high fee active equity (36%). One of the key drivers of idea generation for our short book is pricing pressure. Not only do long-only managers face the threat of a continued investor shift to low fee passive products due to their own lack of alpha generation, but those low fee products themselves are participating in their own race to the bottom on fees. Additionally, LM's significant bond market exposure poses risk from rising interest rates, both from investment performance and from the requisite investor flows out of the category. Lastly, LM is one of the few asset managers with significant debt, which could only compound the company's struggles with declining profitability. As we held our short position in LM through the second quarter, the underlying performance of its active managers weakened, and assets have declined. Despite beating expectations for Q1, AUM has continued to disappoint and the stock has seen further multiple compression. We continue to hold a smaller short position.

The largest detractor in the short portfolio during the first quarter was WideOpenWest (WOW). WOW was our best short last quarter. While we look for companies with pricing power on the long side, we look for those that lack it on the short side. WOW is running an old strategy of building out a secondary cable infrastructure to compete with the ever larger and more competitive legacy cable companies. The capital structure is also the weakest of any of its peers, so they do not have the means to invest in their infrastructure, customer service or content in any way that would allow them to effectively compete. We also saw the high level of executive turnover as a red flag. During the quarter, the stock rallied on more stable Q1 results and we exited our position. However, we expect competitive challenges to catch up to WOW and are closely monitoring the stock for a more opportunistic entry point.

OUTLOOK

We see the rest of the year and 2019 continuing to weigh on the length of the late cycle stage of the recovery against the mounting risks that we discussed earlier: the flip from QE to QT, lapping the tax cuts, rising energy costs and the outcome of the trade disagreements. We expect this to create challenges, but as an active manager we expect to continue to identify longs that can endure top-down concerns and shorts whose fundamental weakness will be even more apparent amidst market volatility. We continue to adhere to our philosophy of identifying unique businesses where the management teams and financial profiles create very favorable long and short opportunities over the medium term. Our disciplined investment process allows us to be patient with our entry points so we are putting capital to work when the risk/reward profile of each investment is skewed significantly in our favor. While short term market gyrations are unavoidable, we take a longer term view with our research and analysis, while remaining attuned to the realities of the market.[7]

One of the ways we generate long and short investment ideas is by identifying high and low quality fiduciaries. As passive and quantitative investing take ever more share of trading volume, we believe evaluating the people involved in a company is an area where active managers can add value and differentiation. We carefully monitor changes at the top, particularly at the CEO level for long investments, and the CEO, CFO, COO and head of sales for short positions. One of our largest long positions remains Albany International (AIN). The previous CEO did an excellent job in turning AIN into a high value aerospace supplier anchored by its woven composites that are used to make fan blades for today's most advanced jet engines. But, as the company has grown its composites business to a larger scale, it was time to add an executive with extensive aerospace experience and they did just that. As a result, we have renewed confidence in the medium-term story at AIN.

Another typical fiduciary story is the introduction of a new management team into a previously under-managed company. This often occurs when a founder serves more as a visionary or builder of the company, but then finds that execution at a larger scale is challenging. This is the case at Columbus McKinnon (CMCO), a position we have discussed in the past, and a more recent long, Luxfer Holdings (LXFR). LXFR grew via acquisitions over many years, and like CMCO, found itself with an inefficient manufacturing footprint. Both companies have vastly upgraded the management team and have a line of sight to drastically improve their cost structure, thereby driving higher margins and potentially higher valuations.

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[7] This topic gained some attention during the quarter and we shared some of our thoughts on how short termism comes into play here, "Here's a Good Reason to End Quarterly Guidance, It Doesn't Work," Bloomberg June 7, 2018

On the other end of the spectrum, we initiated a short position in Chart Industries (GTLS). The company just completed a highly unusual front office turnover. They originally hired an executive to be the COO and CEO heir apparent, and as expected he was then appointed CEO. He moved the company's headquarters, which is typically quite disruptive, recruited a former co-worker to be the new CFO as part of his new team, and was then nominated to the additional role of Chairman. The vote passed and two weeks later he presented the medium term strategy at an analyst day. A week later he was fired, and the CFO, who has no operating experience, was promoted to replace him. Perhaps nothing is wrong here and it is a mere coincidence; however, that appears very unlikely. While the business has certain merits, it has debt and substantial operations in China, which may be caught up in the tariff battle that is underway. The company's business is quite cyclical and the current valuation is at the high end of its historical range. Taken together, we expect downside in the shares.

Thank you for your ongoing support,

Christopher E. Hillary

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i. HFRX Equity Hedge Index : Equity Hedge strategies maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Equity Hedgemanagers would typically maintain at least 50%, and may in some cases be substantially entirely invested in equities, both long and short. Hedge Fund Research, Inc. (HFR) utilizes a UCITSIII compliant methodology to construct the HFRX Hedge Fund Indices. HFRX Equity Hedge Index is rebalanced on a quarterly basis and is composed of funds that have at least USD 50 million under management and have been actively trading for at least twenty four months.

ii. The Russell 2000 Index is Russell Investments' Composite Index of 2000 small cap stocks, a widely recognized, unmanaged index of common stock prices. The benchmark index may or may not hold substantially similar securities to those held by the Composite, and thus little correlation may exist between the Composite returns and that of the Index. The Index is not available for direct investments; therefore its performance does not reflect the expenses associated with active management of an actual portfolio. The return for the Index includes gross dividends reinvested into the index. You cannot directly invest in the Russell 2000 Index.

iii. The performance referenced in this letter shows the historical performance of the Roubaix Fund Composite (the "Composite"), unless otherwise noted. The accounts in the Composite have investment objectives, policies and strategies that are substantially similar. Net Performance for the typical investor reflects the deduction of management fees, incentive allocation and other expenses, and includes gross dividends and other income reinvested in the portfolio. The performance for an individual investor may vary based upon the investor's eligibility to participate in new issues. As of December 31, 2016 the Composite consisted of two advisory accounts, one of which is a separate account. Fees for separate accounts may vary based on negotiated terms. Fee schedule can be found in Form ADV, Part 2A. You cannot invest directly in the Composite. Individual account performance may differ from the performance of the Composite. Please note that Roubaix Fund, L.P. began offering the fund to external investors on February 1, 2014. Prior to that date, no fees or expenses were deducted from this account.

iv. The HFRI Equity Hedge (Total) Index tracks funds that maintain positions both long and short in primarily equity and equity derivative securities. Equity hedge managers would typically maintain at least 50% exposure, and may in some cases be entirely invested in, equities-both long and short. HFRI Equity Hedge (Total) is a fund weighted index and reflects monthly returns, net of all fees, of funds that have at least $50 million under management or have been actively trading for at least twelve months. The Index is not available for direct investment.

More frequent performance information is available upon request.

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