PROSPER

STARS & STRIPES

April 24. 2019

Dear Partners,

During the first quarter of 2019, Prosper Stars & Stripes Fund gained 4.8% compared to a return of 6.0% for the HFRX Equity Hedge Index (the "HFRX")[i] and 14.6% for the Russell 2000 Total Return Index (the "Russell")[ii]. Since the inception of the strategy on January 1, 2010, the Roubaix Fund Composite ("the Composite")[iii] has generated an annualized net return of 9.0% compared to 4.5% for the Equity Hedge (Total) Index ("the HFRI")[iv] and 11.7% for the Russell. The end of period net exposure was 37.7% compared to a 43.3% average since inception.

INVESTMENT PHILOSOPHY

Our investment philosophy is straight forward. We identify what we believe are the best long and short narratives in the small and mid cap universe of U.S. stocks and track them on a focus list. Our list is dynamic as we evaluate new companies entering our market cap range due to price changes, IPOs, spin-offs and any other developments. Likewise, we eliminate stocks from our focus list when the long thesis plays out and they become too large for our approach, or if the short thesis drives the stock price to a level at which it transforms into a special situation with vastly decreased liquidity and/or increased price volatility. Focus list stocks are valued using a two year forward outlook, while also taking into account longer term trends discounted back appropriately. We deploy capital when these differentiated narratives present themselves with a compelling risk/reward profile relative to our price targets.

We concentrate our efforts on smaller companies due to their inherent structural inefficiencies that enable higher alpha generation on both longs and shorts. Fundamentally, less diversified small businesses are more directly impacted by the factors that create or destroy equity value over time. We believe the most important of these drivers are the strength or weakness of the business model itself, the advantages or challenges created by the company's financial structure, and the quality of the fiduciaries involved. Importantly, we think these inefficiencies are not just persistent, but should actually move even more in our favor over time.

The investment landscape continues its trend of consolidating investment management and advice at ever larger financial institutions, which then requires greater liquidity. The cost benefit of increased scale has an inverse effect on the ability of investment managers to buy and sell smaller stocks when taking into account reasonable liquidity parameters. Further, the rapid growth in passive and quantitative investing is reducing the amount of competition from fundamentally driven active stock pickers overall. As an increasing share of daily trading volume shifts to passive from active mandates, there is even less economic benefit to sell side equity research. This in turn reduces the amount of published information, particularly in smaller stocks with lower trading volume.

Taken together, smaller companies are likely to remain a reliable source of mispriced investment opportunities that are either overlooked or are not practical investments for larger firms. We believe our structured fundamental investment process allows us to uncover such unique ideas and generate value through stock selection on both long and short investments over time. In particular, we will concentrate individual stock positions in 30-50 longs and 30-50 shorts to maximize the value of our work. Position level weights are optimized for exposure to changing fundamental factors, catalysts and risks. To manage overall portfolio risk, we generally avoid leverage and maintain consistent net exposure and discipline with our price targets and stop-loss levels.

ECONOMY & MARKETS

It was a dramatic conclusion to 2018 as markets declined steeply, with small cap stocks falling more than 25% from peak to trough. The severity and uniformity of the market sell-off had all the signs of trends we have been monitoring for some time, which is a greater influence of passive and quantitative investors on short-term market movements. The combination of weaker economic data and the outlook for tighter monetary policy all too predictably pointed to a decline in risk assets. The challenges that originated in consumer sectors such housing[1] and autos[2] permeated into the broader industrial economy. Results outside the U.S. showed similar, if not weaker, trends.[3] Bond yields declined worldwide yet again, and parts of the US yield curve ominously inverted.[4] Ironically, the very negative data itself became a positive catalyst.

As Fed officials often say, policy is not on a pre-set course and therein was the catalyst. The U.S. central bank pivoted away from both rate increases and quantitative tightening. Weakness in the data combined with the negative feedback from capital markets was enough to change the policy outlook. The new reality for the U.S. Fed is a policy that is concerned, if not fearful, of being blamed for the next downturn.[5] Instead of policy normalization on the back of record low unemployment, we again see the Fed reinforcing the idea that rates will remain extraordinarily low for an ever more extended period.

The current recovery has been long by historical standards. However, the adage that expansions do not die of old age has proven to be valid.[6] From the business perspective, profitability remains high. The corporate sector has generally been performing better than the overall economy for many years. This is a function of the inherent advantages that companies have in the economic system today. Businesses have more power than ever before. Variables that used to cause headwinds, such as labor costs, are now being addressed with technology and automation.[7] Financially, the recent tax cuts further enhanced corporate margins and cash flow, enabling more investments in capital and productivity. Altogether, the business world finds itself if an unusually strong position.

The discussion centers on how corporate profits evolve from here. The slowdown we have seen in the cyclical parts of the economy is a reason for some caution, along with rising input costs and wage pressure.

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[1] "Recently Hot Housing Markets Now See Biggest Sales Declines," Bloomberg April 22, 2019, citing 'Buyers are back but they're picky, in order to get to a balanced market, prices have to come down more.'
[2] "Top Auto Executives are Privately Very Worried About the State of Auto Sales," CNBC, April 22, 2019
[3] "German Manufacturing Slump Piques Fears Over Europe's Flagship Economy," Wall Street Journal, April 4, 2109 writing 'The steep slowdown in Germany is bad news for the rest of Europe. With Italy already in a recession and the French economy hit by protests … the Eurozone will find it hard to expand in the coming months. A slump would hit the continent as both its governments, with their high public debts, and the European Central Bank, after years of ultra-loose monetary policy, are reaching the limits of how they can support the economy.'
[4] "Treasuries Buying Wave Triggers First Curve Inversion Since 2007,"Bloomberg, March 22, 2019, thereby 'triggering the first reliable market signal of an impending recession and rate-cutting cycle.'
[5] "Fed Seems Resigned to Bubble Risk in Effort to Extend Expansion," Bloomberg, April 22, 2019
[6] The Federal Reserve Bank of St. Louis argued that after WWII, the odds of a recession don't materially change with time. This is a sharp contrast to the earlier period where length took recession odds up towards 20%, 'Is the U.S. Expansion Due to End?' St Louis Fed, March 4, 2019. In 'Do Economic Books Die of Old Age?' (January 10, 2019), Bloomberg explored the same topic providing a wide range of opinions. The article does not break new ground but does imply to this reader that a driver is needed to cause a recession.
[7]"A Future That Works: Automation, Employment and Productivity," McKinsey, January 2017 writing, '60% of all occupations have at least 30% technically automatable activities.'

Factset projects that earnings will decline in the first quarter of 2019. If this were to be the case, it would be the first decline in earnings since 2016. Analysis from Morgan Stanley is more pessimistic as they see an earnings recession as increasingly likely.[8] More structurally, high profit levels are becoming an increasingly tangible political symbol in the U.S and globally.[9] The structural issues in Europe of slow growth, high taxes and now more social unrest shine light on the debate. For the U.S., the staunchly pro-business political leadership will certainly face strident calls for change and reform. While the outcome is impossible to foresee, the fickle winds of politics cannot always be favorable for business.

LONG POSITION HIGHLIGHTS

The best performing long position during the first quarter was Rogers Corporation (ROG). One way our investment process drives long idea generation is to identify companies that benefit from secular trends. In the case of ROG, the company manufactures electric materials and components that are widely used in specialty applications. In particular, ROG has significant revenue content with customers that are directly involved in two powerful trends, 5G wireless infrastructure and electric vehicles (EVs). Our primary tenet on the long side is to invest in good businesses, and the easiest measure of a good business is typically margins. While investing heavily ahead of the revenue acceleration from 5G and EV demand, ROG is generating a high teens operating margin. We would expect that as revenues grow, margins will meet and then exceed 20%. While ROG has appreciated materially during the period, we believe an appropriately positive stance is warranted and we maintain a reduced position.

The second best long position in the first quarter was Pegasystems (PEGA), which similarly has been driven by powerful industry trends. PEGA is a leading provider of intelligent business process management (iBPMS) and CRM software. PEGA delivers the software tools that enterprises use to automate and simplify business processes, power analytics, and implement layers of artificial intelligence. As automation increases, PEGA's software is increasingly important to its customers, which we have seen in the business they book quarterly. Businesses are also always looking to reduce costs, particularly when there is an opportunity to use automation to reduce human capital needs. We have also been pleased to see PEGA successfully transition to a "software as a service" (SaaS) model. Success here is driven both by execution and the underlying demand that is unlocked when customers can consume a productive tool such as this on a monthly basis, rather than the legacy model of costly up front licensing. As this transition is largely completed in 2019, the underlying profitability of the company should become more evident to the broader investment community. In particular, we believe margins will expand quite meaningfully from mid-single digits today to ~20% in the long run. In addition to the growing financial strength of the P&L, PEGA has significant inside ownership which we see as a good sign on the fiduciaries.

The largest detractor in the long portfolio during the first quarter was Enersys (ENS), a manufacturer of industrial battery systems. We see in ENS a combination of two drivers. First, the company has been working on improving its manufacturing efficiency plans. We believe that changes underway will be further delineated during a 2019 analyst day will show a significant margin improvement. Second, ENS is poised to see a revenue growth cycle on the back of 5G wireless deployments, which expect to pick up in cadence

[8] "Weekly Warm Up: Earnings Recession is Here," Morgan Stanley, February 11, 2019

[9] "Make No Mistake, Davos, the Fat Cat Backlash is Coming," Bloomberg, January 21, 2019, citing that corporate profits have never so persistently outpaced employee compensation.

and size as we exit 2019 and enter 2020. With an undemanding valuation compared to its history and peers, we see an opportunity for ENS to appreciate meaningfully. While we have not made changes to our position, we are near levels where our stop-loss discipline may dictate a change.

SHORT POSITION HIGHLIGHTS

The best performing short position in the first quarter was Healthcare Services Group (HCSG). Like many of our shorts, HSCG came into our purview because it faces price pressure, one of our key short signals. As a service provider to the US health care system which itself faces constant pressure to reduce costs, HCSG faces continuous price pressure. Further, the company has grown via acquisitions, a way that draws our skepticism since acquisitions for the sake of scale rarely go smoothly. In this case, the added leverage combined with serving customers who are also facing price pressure is a double negative. As our thesis played out, we exited our short. We continue to track potential shorts in this industry as we anticipate the structural pressures to persist.

The second best short in the quarter was El Pollo Loco Holdings (LOCO). We seek shorts ideas from competitive industries, and restaurants are a great example where the business is constantly challenged by too many choices, aggressive pricing, cost pressures, and modest margins even when successful. In the case of LOCO, we also saw turnover in the executive suite and lawsuits from franchisees as indicators that the business was not healthy. The combination of the industry forces and company specific issues came to bear on the stock with a lower forward outlook on revenue and profitability. As our near term thesis played out, we exited the short and continue to monitor this hyper-competitive industry with low returns for future short opportunities.

The largest detractor in the short portfolio during the first quarter was Compass Minerals (CMP). We continue to be skeptical of CMP but exited our short as the stock worked against us. Winter weather conditions benefited CMP's core business of deicing salt. While weather was a benefit this year, it has been a challenge in years past as generally warmer temperatures has reduced demand. Our hook in shorting CMP, however, was more around the concerning strategic moves made by the former CEO. The company made a large acquisition in Brazil to grow its relatively small fertilizer business. We saw this as a reach too far for the company as it fully deployed its balance sheet. We then saw the CEO's departure as a clear red flag that his strategic decision was putting the company at risk. Our best short ideas usually have a strong component of this type of fiduciary errors that result in a challenging capital structure. We did exit our short with a gain, albeit much less than it was. We continue to monitor CMP as we think it may present itself again as an attractive short as none of the risks have been addressed.

OUTLOOK

The current backdrop consists of the familiarity of low interest rates, healthy credit markets and solid corporate profitability. This combination has the power to extend the current cycle even farther. Based on estimates from JP Morgan, this and other factors may lead to a 4-5% upward earnings surprise as strong revenues and better than feared margins drive corporate earnings.[10] To date, the market has consistently underestimated the strength and resiliency of corporate America, and perhaps that remains the case. Working against the backdrop are familiar concerns on cyclically maturing areas of the U.S. economy, slowing international growth, and the valuation questions that accompany strong market rallies. If anything, recent periods have shown how challenging it can be to take a top down view and apply it to a portfolio. In our fund, the majority of outperformance has been generated by stock specific factors, rather than broad changes to gross or net exposure. With that in mind, here are positions worth highlighting as 2019 progresses.

One of our largest long positions is Forrester Research (FORR). We have kept track of FORR for a number of years on the premise that their information and analytics catering to the IT ecosystem will increase in value. Businesses continuously require feedback about the best products and services in the industry, as well as the changing demands of their own customers. FORR's products sit at the center of this ecosystem and their recent acquisition of SiriusDecisions broadened their product offerings and customer reach. We believe the current executive team brings the right approach to driving revenue growth, and more importantly, increasing profitability. With material margin expansion expected in the years ahead, we expect FORR to drive significant earnings growth. As a relatively underfollowed stock that has finally found its cadence, we expect more investor attention and higher margins to drive up the shares.

Our long position in Park Electrochemical (PKE) is a great example of the advantage of investing in small cap stocks. The stock is relatively unknown with no sell side analyst coverage. Over the course of our investment in the stock, the company has undergone a transformative change from an electronics manufacturer to an aerospace supplier. Recognizing the volatility and low margins of the legacy electronics business, management diversified into aerospace manufacturing many years ago. Over time, the aerospace division developed to the point where the company could sell its low margin electronics segment, which it completed in December 2018. PKE is now the only small cap pure play composite supplier to the aerospace industry, with resulting strong growth and high margins. We keep a focus on the aerospace supply chain since once business is won, the revenue streams last decades and the profitability for value added components is high. At PKE, the margin profile is already strong at more than 20%, and the company projects operating margin to exceed 25% based upon visibility into bookings. PKE has also been an unusually good steward of capital, marked by a history of dividend payments that approach $25 in comparison to the current share price of ~$16. Taken together, we continue to see material upside in the stock.

We also continue to see opportunities in the marketplace for short investments. In many cases, stocks that we track on our short focus list have participated in the strong rally, and are once again attractive short candidates. For example, we recently re-shorted Retail Opportunity Investments (ROIC) as the demand for retail square footage remains under intense pressure.[11] The costs of owning and operating a store have only continued to rise, while every day the convenience, efficiency and cost competitiveness of online and

10 "Above Trend Revenue Growth, Better than Expected Margins and Record Buybacks," JP Morgan, April 24, 2019
11 "U.S. Retail Stores' Planned Closings Already Exceed 2018 Total," NY Times, April 12, 2019

direct delivery grows. This, in turn, puts incremental pressure on companies to cut prices at stores, which further erodes the value of retail real estate. We think stocks such as ROIC benefited from the reset to lower rates, but we expect the deteriorating business fundamentals to again drive the stock price in future periods.

The macro backdrop always offers puts and takes. Different parts of the economy expand and contract and can add incremental reasons for us to invest in particular stocks. Overall, we remain focused on our process of identifying the unique longs and short narratives in our small company niche, and investing when we see an unusually favorable risk/return profile. Lastly, we are encouraged to see the industry trends that have supported our meaningful alpha generation not only remain intact, but appear to be growing stronger in the years ahead.

Thank you for your ongoing support,

Christopher E.Hillary

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All figures are unaudited. These figures are based upon estimates. Estimates are subject to change. Historical results are not indicative of future performance.

[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 Total Return 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 Total Return 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 1.15% annual management fee, 15% annual 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 March 31, 2019 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.

[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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