PROSPER

STARS & STRIPES

January 11, 2022

Dear Partners,

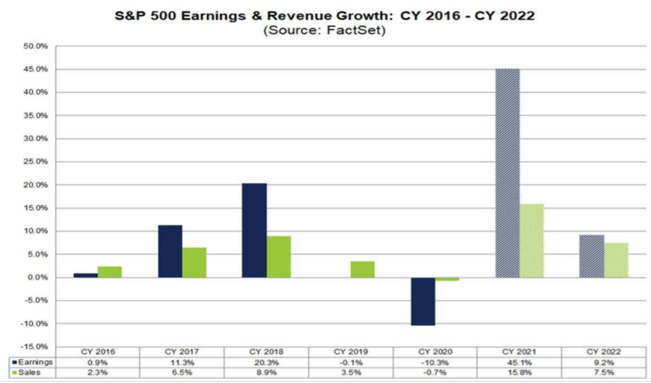
During the fourth quarter of 2021, Prosper Stars & Stripes gained +4.2% net compared to a total return of +2.1% for the long-only Russell 2000 Index (the "Russell")(i) and a return of +2.7% for our long/short equity peer group, represented by the HFRX Equity Hedge Index (the "HFRX")(ii).
Prosper Stars & Stripes is the UCITS Fund launched in May 2015 designed to run pari passu to the Roubaix Fund Composite (the Composite)(iii), launched in January 2010, where its long/short equity peer group is represented by the HFRI Equity Hedge (Total) Index (the "HFRI")(iv).The end of period net exposure was 42.8% compared to a 43.5% average since inception in January 2010.

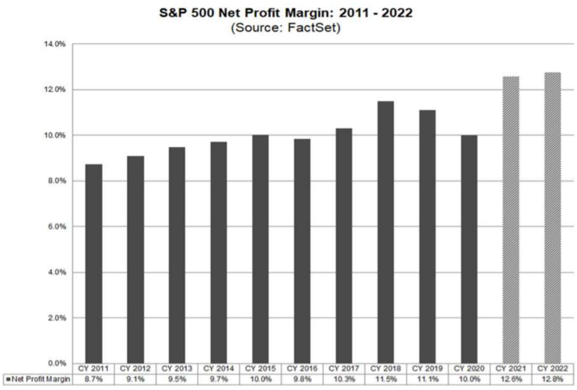
For the full year, in 2021 the Composite generated a net return of +14.4% compared to a Russell return of +14.8% and HFRI return of +12.0%. Net of all fees, the Composite generated alpha of 6.0% relative to the long-only Russell in 2021, which compares to annualized net alpha of 6.99% since inception in 2010. On a gross basis, the Composite's long book generated a 2021 total return of +32.9%, more than 2x the total return of the Russell. This drove +12.0% gross long alpha for the year relative to our long-only benchmark. This strong performance was partially offset by the short book, which detracted 3.5% alpha on a gross basis during 2021. All of the negative short alpha for the full year occurred in January 2021 amidst a market wide short squeeze, while the Composite generated positive short alpha for the balance of the year, including +2.0% short alpha during the fourth quarter.

As of December 31, 2021	Roubaix Composite	HFRI Equity Hedge Index	Russell 2000 Total Return
Quarter to Date	4.24%	0.91%	2.14%
Year to Date	14.36%	11.96%	14.82%
Trailing 1 Year	14.36%	11.96%	14.82%
Trailing 3 Years	19.90%	14.49%	20.00%
Trailing 5 Years	14.60%	9.56%	12.01%
Trailing 10 Years	12.14%	7.50%	13.23%
Since Inception (1/1/2010)	11.42%	6.32%	12.73%
Standard Deviation	8.52%	8.41%	18.81%
Sharpe Ratio	1.25	0.71	0.71
Downside Deviation	3.88%	5.54%	12.16%
Sortino Ratio	2.78	1.08	1.09
Maximum Drawdown	(9.89%)	(14.58%)	(32.17%)

ECONOMY & MARKETS

The fourth quarter had three primary narratives. Third quarter earnings season was strong as the economic and profit rebound that began over a year ago continued. During the pandemic, companies prepared for the worst. While the worst did in fact happen for certain sectors, such as travel & leisure and elective health care procedures, most areas of the market fared much better than feared. Spending in and around the home, online shopping, and modern communications all thrived. In all cases, companies focused on preserving profitability, and that either served them well in the areas where pressure was real or helped deliver larger profit growth in areas that benefited from changing spending patterns. As a result, Q3 profits and Q4 outlooks were almost universally strong. S&P 500 earnings growth for 2021 is expected to be an extraordinary 45%. For 2022, earnings growth is expected to increase at a more normalized level of ≈9%. It is remarkable that public companies will exit the pandemic cycle with record profit margins, reflecting just how much large businesses are able to continuously improve even in the face of extraordinary challenges.



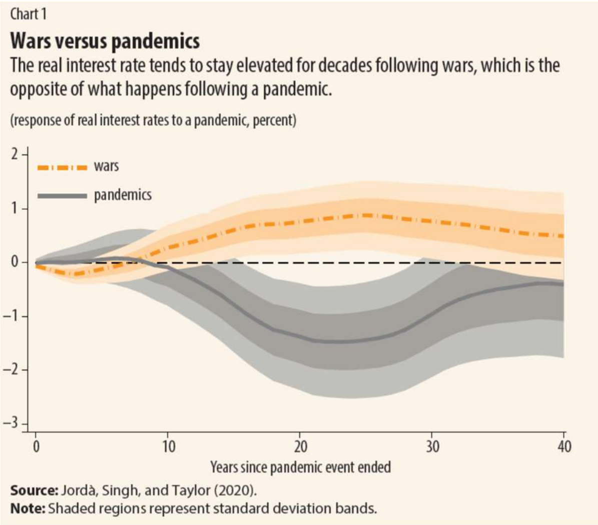


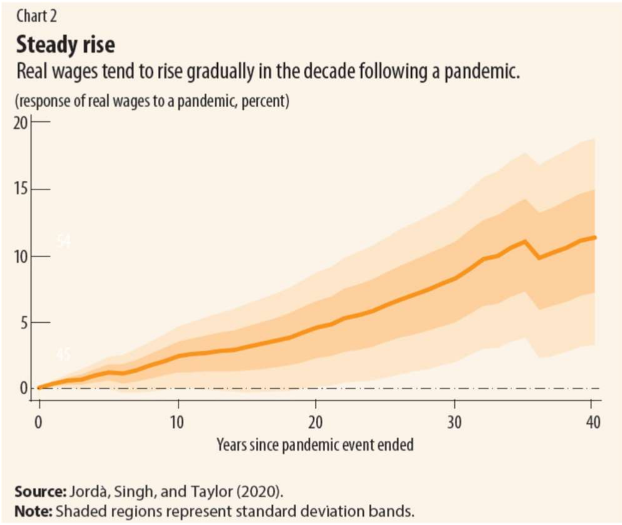
Source: Factset, Earnings Insight, December 17, 2021

The second driver of stocks during the quarter was the appearance of a new virus variant. Pandemics have historically gone through waves over the course of several years as the virus mutates against growing immunity in the population. Fortunately, the more contagious Omicron variant has been less virulent,[1] which is consistent with how viruses usually – though not always – adapt.[2] Of course, the damage to human life and well-being has been severe during the crisis. While it is hard to fathom, another wave from a different variant may yet come.[3] Against this, community immunity continues to build from both vaccines and infections, with recent research on t-cell immunity being very encouraging.[4] Therapeutics have also arrived that are highly effective, and they are a welcome tool to reduce the burden of the disease. At some point in the future when the waves of infection no longer burden society and the healthcare system, the virus will join many others as endemic.[5]

[1] 'Omicron Infections Seem to be Milder; Three Research Teams Report, NY Times, December 22, 2021
[2] 'Why the Coronavirus is Unlikely to Mutate into Something Deadlier, Salon, November 9, 2021, citing Monica Ghandi, "They want more baby virus copies of themselves; they don't usually evolve to kill their host more readily because that's actually not very smart."
[3] 'WHO Warns Vaccine Resistant Covid Variants Could Emerge' CNBC, December 29, 2021
[4] 'T-Cells Come to the Rescue as Studies Show They Fight Omicron, Bloomberg, December 30, 2021 citing this feed from The Virus Monologues with an excellent summary of the work saying, 'The limited effect of Omicron's mutations on the T cell response suggests that vaccination or prior infection may still provide protection from severe disease … The resilience of the T cell response demonstrated here also bodes well in the event that more highly mutated variants emerge in the future.'
[5] 'Accept It: COVID Will Be An Endemic Virus, Medpage Today, September 22, 2021

The dramatic phase of the pandemic is likely to conclude after the worldwide Omicron wave abates in the weeks ahead. That is not to discount the impact that will be felt for many more years. One estimate, that takes into account the loss of life, disabilities, and mental health put the global cost of the pandemic at $16 trillion.[6] Yet another immense cost to society is future earnings for younger generations due to the education lost during the pandemic,[7] which would be consistent with historical examples when schools closed for war and disease.[8] For markets, there are two takeaways from research on this topic that are relevant. These are that interest rates have generally remained low after pandemics and that wages generally have risen as fewer workers are able to command higher wages.[9] While each experience is unique, recent job market data is following this trajectory as there are more signs of full employment and rising wages.[10]

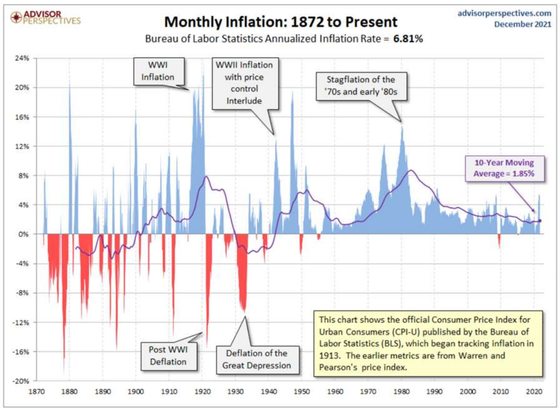


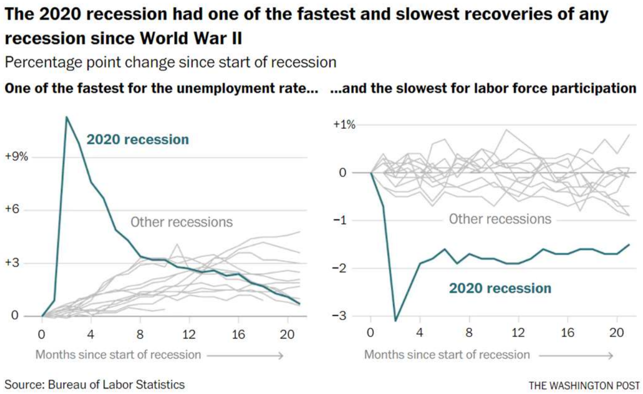


Source: The Long Economic Hangover of Pandemics, IMF, June 2020

The third driver of stocks during the fourth quarter was the U.S. Federal Reserve shifting policy. The Fed acknowledged that inflation is running higher than expected and that it may not be entirely caused by temporary forces. The other half of their stated dual mandate, full employment, has recovered on nearly all measures except the labor participation rate. To a certain extent, this is welcome. The primary goal has been to get inflation above the trend rate to avoid the onerous risks of deflation, and secondarily to shepherd the labor market back to full employment. Time will tell if in fact inflation can remain modestly positive as the Fed desires. High inflation rates in goods such as used cars and big-ticket consumer discretionary items do not appear to be sustainable. Such demand was artificially boosted by fiscal stimulus that has since concluded and supply problems that are being resolved.[11] Longer term, the forces of an ageing population in developed economies, higher debt levels, and the codependence of global sovereign bond markets are likely to exert downward pressure on yields. In 2022, the speed and breadth of the recovery cycle and impact of policy tightening on interest rates and inflation are key debates for the market that will be continually tested.

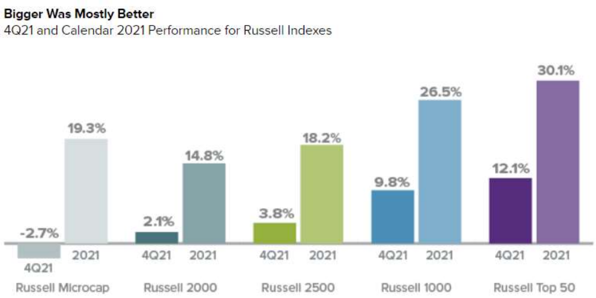
[6] The COVID-19 Pandemic and the $16 Trillion Virus, JAMA, October 12, 2020
[7] The State of the Global Education Crisis, UNESCO, UNICEF and World Bank, December 3, 2021
[8] From WWII to Ebola: What We Know About the Long-Term Effects of School Closures, The Conversation, September 20, 2020
[9] A good discussion of this pandemic, and how the phases play our from Nikolas Christakis are in this video, or for some summary points in a written form, This Plague Next Time: Public Health Scholar Nikolas Christakis on the Panemic's Harsh Lessons, Salon, June 28, 2021
[10] December Jobs Report: Weak Payroll but Impressive Wage Gains, Forbes January 7, 2022
[11] 'When It Comes To Inflation, I'm Still On Team Transitory, WSJ, December 29, 2021

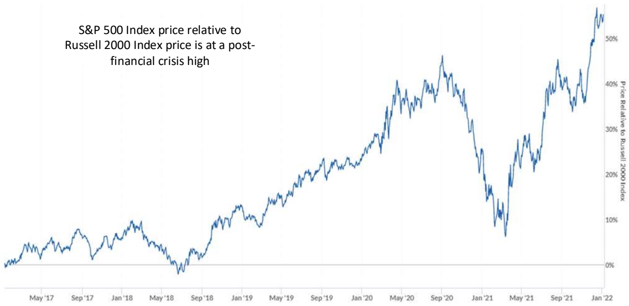




Sources: Long Term Look at the CPI, [Advisor Perspectives](), December 13, 2021; The Most Unusual Job Market in Modern History, Explained, Washington Post, December 29, 2021

Equity markets were strong during the fourth quarter and the full year. However, the dynamics underneath the surface were remarkably divergent. Large cap stocks measured by the S&P 500 rose 28.7%.[12] The returns were skewed by gains in a mega-cap stocks which have proven to be great businesses with strong growth and robust cash flow. Removing the largest 10 companies in the world, the 2021 S&P 500 total return falls to 18.2%. The divergences were even larger in small cap stocks. The Russell 2000 Index total return was 14.82% as small caps significantly underperformed their large cap peers. Further, 40% of the Russell 2000 Index finished the year in negative territory and a third of the index ended the year more than 40% off their highs. This factor drove the outperformance of the large cap S&P 500 versus the small cap Russell 2000 to a new post-financial crisis high. We believe these divergences create compelling opportunities for both small caps overall and our long/short equity strategy during 2022.

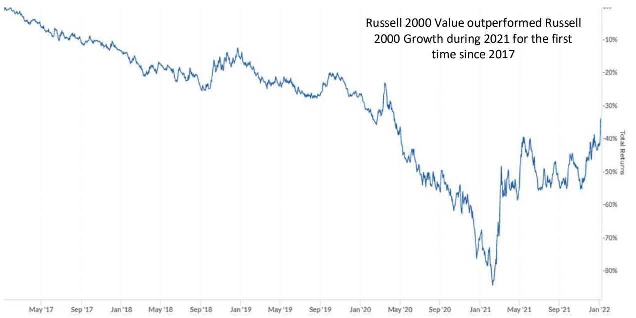




Source: 4Q21 Small-Cap Recap, [Royce Investment Partners](), January 3, 2022; Sentieo

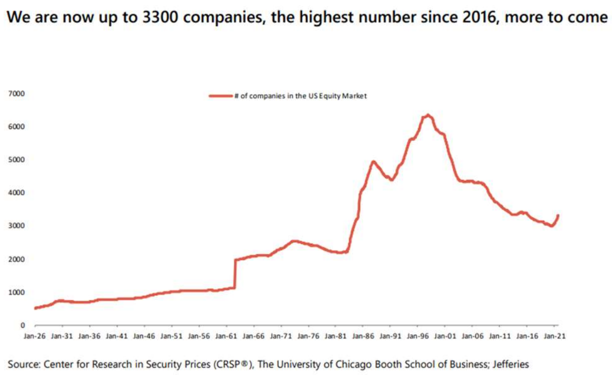
Another area where divergence was meaningful was between growth and value stocks. Since the financial crisis, growth has materially outperformed value. In 2021, that trend partially reversed in what was the second largest small cap value outperformance over small cap growth on record. With interest rates rising sharply thus far in 2022, this trend has continued. Generally, Roubaix tends to find more long opportunities in growth stocks and more shorts in the value bucket. While this bias was a consistent headwind last year for performance, superior stock selection allowed Roubaix to overcome this factor during 2021 as the Composite generated substantial alpha in the face of the value stock resurgence.

[12] 'U.S. Stocks End a Wild Year With Big Gains, [WSJ](), December 30, 2021



Source: 4Q21 Small-Cap Recap, Royce Investment Partners, January 3, 2022; Sentieo

Capital markets were wide open in 2021. Low rates and various other monetary easing measures ensured that markets remained open and asset prices elevated. Perhaps not surprisingly, both IPOs and M&A set records in 2021 as companies tried to take advantage of the dislocations.[13] Adding to the IPO boom was the highest ever year for the number and dollar amount of special purpose acquisition companies (SPACs), in a clear sign of risk taking and excess. The most surprising sign of excess during 2021 was the so-called meme stock rally early in the year that drove intense retail activity that was based more on sentiment than on fundamental analysis.[14] For the first time in years, the number of publicly listed stocks increased. For our fund, the proliferation in names combined with continued underlying volatility promises to offer us more opportunities to identify compelling longs and shorts in the upcoming year.



Sources: IPOs Had a Record 2021, Now They Are Selling Off Like Crazy, WSJ, 12,29, 2021; Jefferies, SMID-Cap Strategy – Fearless Forecast '22, December 2, 2021

[13] Companies Raise Over $12TR in Blockbuster Year for Global Capital Markets, FT, December 27, 2021 and Dealmaking Surges Past $5.8TR to Highest Levels on Record, FT, December 21, 2021

[14] There is a great summary of this experience from the Visual Capitalist and it does seem that some of the drivers of this – a large increase in free time and free money – will be less abundant in 2022. As a reminder, our process dictates that we endeavor to avoid stocks that we know are not driven by fundamentals.

LONG POSITION HIGHLIGHTS

	Roubaix Fund Composite – Gross Long Book				Russell 2000 Total Return Index
	Average Daily Exposure	Rate of Return	Total Contribution	Active Contribution[(iv)]	
Quarter to Date	88.87%	4.40%	4.00%	1.84%	2.14%
Year to Date	91.27%	32.93%	28.84%	14.80%	14.82%

The fund exhibited breadth across our long portfolio that drove outperformance both in Q4 and the full year 2021. The Fund had 152 long positions over the course of 2021 that generated a gross return of 28.8% and active contribution (alpha) of 14.8%. Of that total, 31 positions each generated gross contribution of more than 50 basis points across 8 different sectors. Further, this compares to just 8 long positions that generated a loss of more than 50 basis points during 2021. Lastly, the largest winner on the long side during 2021 contributed just 370 basis points to our total gross return. Such breadth is due to Roubaix's consistent investment process where our investment team continually seeks out specific types of investment stories that tend to look very similar, only with different tickers.

The largest contributor to fourth quarter and full year long performance was Kura Sushi (KRUS). We discussed KRUS in our Q2 letter when we had established a meaningful position. The company has a small footprint of just 33 sushi restaurants relative to the potential for at least 10x more locations over time. The offering is quality food at an affordable price combined with a unique experience. The food is delivered via a conveyor belt and plates are returned by the patrons to earn points. All of this reduces the need for table staff in the face of industry wide difficulty finding staff and rising wages. KRUS has already shown the ability to deliver excellent margins and increased scale from higher same store sales and should build on this encouraging track record over time. Lastly, we continue to deploy capital into areas of the economy and the market that have not fully recovered from the pandemic induced pressures. We see travel and leisure, including restaurants, as still having ground to recover to reach 2019 pre-pandemic levels. We remain enthusiastic for the company but exited our position as the recent price performance implied that this great story was no longer an attractive stock.

The second largest long contributor to fourth quarter performance was Materion (MTRN). The company fits into one our thematic areas of focus, investing in companies that enable increased efficiency across a broad spectrum of applications, in this case electric power. MTRN produces engineered materials that enable electronic, thermal and structural applications to run more efficiently in end markets such as semis, autos and defense. The management team has done an excellent job focusing its efforts on the higher growth and higher margin areas of the business. This is shown by the consistent sales growth before and during the pandemic. Further, the company's value-added sales margin has consistently increased and we anticipate further improvement with scale and continued emphasis on revenue opportunities where margins are higher. Thus, MTRN remains one of the Fund's largest positions.

The largest detractor in the long portfolio during the fourth quarter was WalkMe (WKME). The shares were pressured into year-end as investors moved capital out of software stocks. We believe this has created an attractive entry point and we built a larger position during the quarter. The company's software addresses a growing need for enterprises due to the rapid escalation of the use of software across a business. The phrase 'software is eating the world'[15] has come true, which in turn has created a different challenge. Most large businesses have multiple software suites with a multitude of applications and use cases. The resulting complexity has become one of the gating factors to getting the most out of software platforms. WKME solves for this issue by giving users step-by-step guidance on how to properly follow protocols while at the same time providing the CIO and business leadership detailed information on how well the software is being used. This is a new application category altogether pioneered by WKME. While this creates some hesitancy to adopt, the addressable market is very large and there is a visible need for tools that optimize the return on a large category of investment and potential productivity. The shares trade a reasonable multiple of sales and we anticipate that continued execution will lead to a re-rating of the stock to a higher price in 2022.

SHORT POSITION HIGHLIGHTS

	Roubaix Fund Composite – Gross Short Book				Russell 2000 Total Return Index
	Average Daily Exposure	Rate of Return	Gross Contribution	Active Contribution	
Quarter to Date	-42.19%	-3.95%	0.64%	2.04%	2.14%
Year to Date	-45.32%	17.83%	-10.81%	-2.50%	14.82%

Short performance was quite strong for the Composite during Q4, as it was for most of the year. In late January 2021, the meme stock driven short squeeze caused a short-term spike in all U.S. stocks with more than 10% short interest. While we were not involved in any of the headline grabbing stocks with more than 25% short interest due to our risk discipline, we were negatively affected at the margin during the month of January, which drove all our negative short alpha for the full year. If January performance is excluded, the balance of the year saw a Russell 2000 Index total return of +9.3% while the Composite's short book rate of return was just +7.5%, driving positive alpha due to our stock selection. Like the long book, the short book exhibited depth in what was a largely bullish market in 2021. Out of 258 individual short positions throughout the year, the fund generated a positive absolute return on 92 positions in the face of rising markets, and positive alpha on 131 positions, or more than half of our total short positions.

The best performing short position in the fourth quarter was TPI Composites (TPIC), a manufacturer of wind turbines. While we see positive trends for green energy to increase market share, enthusiasm for this thematic trend extended TPIC to a high level relative to the quality of the business. All manufacturers of big ticket capital goods must invest in capacity. This makes generating consistent free cash flow difficult over the lifecycle of the product as demand is often unpredictable and inconsistent. Secondly, TPIC has very few customers. This creates a difficult situation where the company has customer concentration that makes their negotiating position unfavorable. For these reasons we were negative on the stock. When the company needed to raise capital during Q4 to pursue their growth plans, it was dilutive to shareholders and the stock fell proportionately. We exited the position to redeploy into more favorable investments.

The second best short in the quarter was Sono Group NV (SEV), one of many initial public offerings in 2021. As we detailed earlier, it was a record year for new both IPOs and SPACs. As a result, we believe many companies came public that normally would not, creating a deeper opportunity set of potential short investments. This includes

[15] Why Software Is Eating the World,' WSJ August 20, 2011

companies like SEV with a sub $1 billion market cap that have more of an idea or an ambition rather than a concrete business that is ready for the scrutiny of the public markets. SEV plans to manufacture generic (one trim, black only) electric vehicles that include solar panels to aid in recharging and to extend range. This makes SEV yet another one of many electric vehicle companies trying to benefit from the rapid increase in EV adoption. However, the competition is stiff. Tesla is the market leader with substantial resources afforded by its $1T market cap. Following Tesla are well capitalized EV startups such as Rivian (RIVN) and a material effort from the established auto OEMs including Volkswagen, Ford and General Motors.[16] As a result, the competitive outlook for a small company with no sales is not great. Further, the company's key differentiator is using solar panels on the outside of the vehicles. However, this does not even make the car competitive with the existing and coming products from the established EV makers in terms of range or performance on any measure. We expect the forecasted losses for the company to exceed estimates and for production goals to also prove overly optimistic. As a result, we expect to see further downside for the stock and thus we remain short.

The largest detractor in the short portfolio during the fourth quarter was The Container Store (TCS). Many retailers benefited greatly from the pandemic. At the start of the pandemic, demand was expected to fall as consumers were expected to retrench. Instead, demand ended up being a substantial positive surprise, particularly in areas related to investing in and working from home. For retailers, this change was quite welcome. With inventories lean and demand high there was little need for discounting, so margins were abnormally strong. We anticipate this one dimensional story for a mature industry like brick and mortar retail will not last. There is no secular growth story nor a material change in the competitive landscape. Further, we expect that spending in and around the home will need to pause as the benefits of a recovering economy are more than offset by the lack of fiscal stimulus and now rising interest rates. We also expect that consumers will shift spending towards services and away from durable goods. But as strong trends continued in the third quarter, the short did not work out and we covered as part of our discipline on stop-losses but continue to monitor the stock for a more attractive entry point.

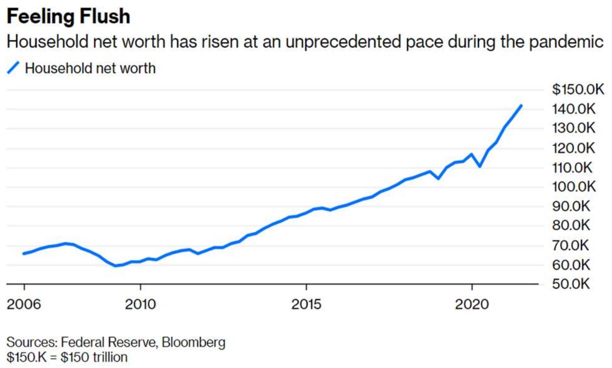
OUTLOOK

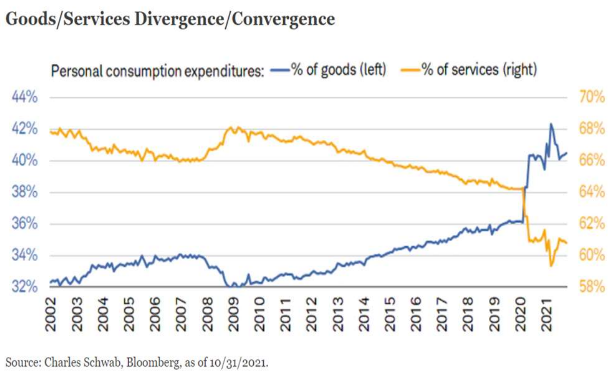
The outlook for 2022 is very different from what we have experienced over last two years. While markets continue to have solid fundamentals on corporate earnings growth and a healthy consumer, the backdrop is going to be less dramatic as the health crisis wanes and monetary and fiscal policy normalize in 2022. The Covid-19 seroprevalence in the United States must be reaching an extremely high rate, particularly as the Omicron wave adds to the total.[17] This means that nearly all the population has, or will soon have, immunity from severe disease from a combination of vaccination and previous infection. This combined with a shifting perspective on how to handle the virus will mark the movement from a pandemic to an endemic status.[18] We anticipate that the waning impact of the pandemic will be a positive for the areas of the economy that remain pressured by constraints caused by the health crisis.

Despite health crisis, the consumer remains in good shape. The wealth effect from rising real estate and financial asset prices has continued to benefit households. The savings rate, while down from the very high levels seen over the past 12 months, remains supportive. Wages are also rising, and based on a survey from The Conference Board, they will increase at the fastest pace since 2008 in 2022.[19] Unemployment remains historically low even if there are

[16] Electric-Vehicle Race Heats Up as Detroit Makes Its Move, WSJ, January 9, 2020
[17] Seroprevalence was over 90% when the data based on CDC was updated in early December before the full impact of Delta and the Omicron waves
[18] 'Covid-19 Marches Towards Endemic Status in U.S. as Omicron Spreads, WSJ, December 23, 2021
[19] '2022 Salary Increases Are The Highest Since 2008,' The Conference Board, December 7, 2021

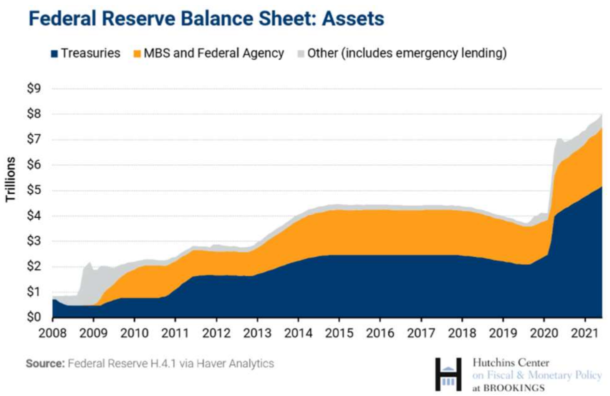
still millions of workers who have not re-entered the labor market. Taken together, the consumer remains strong but the opportunity for material improvement is now diminished. We expect that certain consumer facing durable goods businesses that saw a boost during the health crisis will face a more challenging 2022 whereas service areas continue to have room for recovery.





Sources: The Most Important Number of the Week is $142 Trillion, Bloomberg, September 25, 2021; 2022 US Market Outlook, Schwab, November 29, 2021

As the health crisis recedes and the economy has recovered, markets now face tightening monetary policy for the first time in many years. Tightening began with the Federal Reserve reducing the size of the quantitative easing (QE) program. This policy has been controversial[20] and the impact of QE is still debated.[21] However, it is hard to ignore that QE has accompanied higher asset prices. That said, long term inflation expectations represented by the 10 year breakeven rate have remained within their historical range despite the massive QE programs, zero percent interest rates, historically large fiscal policy, and now a recovering economy. Market expectations and Fed member estimates anticipate multiple interest rate hikes in 2022 and 2023. Already at the end of 2021, the prospect of higher interest rates has been given credit for a decline in stocks with high valuation and no profits on the premise that these are the stocks most impacted by higher discount rates. We expect the market will remain skeptical of companies that are not profitable in the year ahead.



Sources: What Does the Federal Reserve Mean When It Talks About Tapering, Brookings Institute, July 15, 2021; St. Louis Fed, 10 year break-even rate

[20] 'The Fed's Doomsday Prophet Has a Dire Warning About Where We're Headed' Politico 12, 28, 2021
[21] Quantitative Easing: How Well Does This Tool Work, St. Louis Fed, August 18, 2017

There are several other drivers and risks worth discussing for 2022. At the same time monetary policy is tightening, fiscal stimulus is also over. The pandemic stimulus plans have ended and the Build Back Better bill failed to advance. Mid-term elections are coming and with the negative impact of the pandemic, the lack of additional fiscal spending, and the typical loss of seats from incumbents during mid-terms means that democrats are likely to lose their narrow majority, making further legislative progress less likely. Supply chains have been another issue. These are likely to improve as higher prices encourage investments across the board from semiconductors to transportation. That said, the recent increase in Covid cases in China is a concern for a population where immunity is not as high due to less effective vaccines and a zero Covid policy. China is also managing a debt crisis from decades of construction driven growth. Geopolitical risks, such as China's attitudes towards Hong Kong and Taiwan and Russia's militaristic approach to Eastern Europe are also variables that may impact risk appetite. While all these factors are risks worth watching, we expect stocks to be primarily driven by the interaction between earnings growth and interest rates in 2022.

At an index level, S&P 500 earnings are expected to grow a respectable 9% in 2022 while the small cap S&P 600 Index earnings are expected to grow by 16%.[22] Well capitalized public companies can perform at a higher level than the overall economy, and this will be the case again in 2022 with consensus GDP growth estimates at around 3.5%. The recent crisis steeled the resolve of businesses to continue to invest in productivity-enhancing measures. In fact, some of the pressures caused by the pandemic, such as the necessity at times to work remotely, are likely to lead to lower costs for office space while also broadening the potential pool of available talent. Along similar lines, labor pressures have put more emphasis on finding ways to increase automation with fewer staff members, which should also drive higher profit margins during this cycle. While the earnings growth will not be anywhere near as high as it was in 2021, we see potential for positive earnings revisions to support stocks in 2022. Lastly, the underperformance of small caps relative to large caps has persisted. With small cap earnings growth poised to outpace large, there are reasons to be optimistic that small caps can outperform in 2022.

Within this backdrop we see several attractive investment opportunities in 2022. On the long side, we anticipate the elective surgery market to be particularly appealing. Medical device companies fit well within our process. These companies create healthy ecosystems by making products that improve patient's lives, can save money for the payors, and create business opportunities for physicians. During the pandemic, elective surgeries have been repeatedly delayed as the healthcare system conserved resources to fight Covid-19. The pandemic resulted in the cancellation or deferment of over 1 million joint and spine surgeries in the United States[23] and over 28 million worldwide.[24] Joint and spine pain are material problems for patients and treatment delays have many negative consequences. Setting aside deferments for the most serious diseases, osteoarthritis alone affects 250 million people and ranks in the top 10 most disabling diseases in high-income countries, negatively impacting daily activities and increasing the risk of substance abuse and mental health problems.[25] Or, as another article put it more bluntly, at a certain point non-urgent surgeries become urgent.[26] We expect this industry to recover in 2022 and beyond as patients probably value their health more than ever and as a result we have increased our investments in several unique companies.

[22] Valuation Handbook, Jefferies Equity Research, January 3, 2022
[23] SARS-CoV-2 Impact on Elective Orthopaedic Surgery, Journal of Bone & Joint Surgery, July 1, 2020
[24] 28 Million Elective Surgeries May Be Cancelled Worldwide: How non-COVID-19 Medical Care is Suffering, World Economic Forum, May 27, 2020
[25] Too Long to Wait: The Impact of COVID-19 on Elective Surgery, The Lancet Rheumatology, February 2021
[26] What It Really Means to Cancel Elective Surgeries, The Atlantic, March 17, 2020

The Fund's largest position within this industry is Treace Medical (TMCI). The company is applying a 3D solution to bunion surgery compared to the traditional 2D approach. This Lapiplasty procedure has resulted in fewer complications that require revisions since the surgery corrects the deformity in a more complete way. The recurrence when the 3D approach is used is estimated to be 10-12x less than the current standard of care.[27] With single digit market share and many patients choosing not to have surgery due to the relatively poor outcomes of the current standard of care, TMCI has a long runway to take share and broaden out the market by making surgery a more viable option. The company was still able to grow at an impressive rate recently, posting over 50% sales growth in the third quarter with the annual guidance implying growth around 60%. We expect the more benign operating environment to allow Treace to continue to grow over 30% in 2022 and 2023 and for the company to be EBITDA breakeven by 2023. With impressive growth rates, high gross margins (~80%) and what will be a compelling long term profit model at scale, we anticipate the market will again assign a high single digit sales multiple to the stock, creating a favorable investment prospect for the Fund. In addition to TMCI we maintain positions in Si-Bone (SIBN) and Paragon 18 (FNA) for their respective positions in spine and orthopedics, as well as Stereotaxis (STXS) for its advanced robotic magnetic navigation surgical suite. We are pleased to note that TMCI, SIBN and FNA all announced on January 10th that their 4th quarter revenues exceeded analyst estimates, suggesting our views are fundamentally on track.

Another area of the economy that has not fully recovered is travel. The ongoing waves of the pandemic have kept leisure travel below the pre-pandemic level and business travel far below where it was in 2019. In our last letter, we discussed our positive bias towards travel stocks, particularly those with a high mix of consumer leisure travel and we maintain positions in Travel & Leisure (TNL) and Membership Collective Group (MCG). Overall, consumer driven domestic travel has shown signs of strength with one major hotel executive already seeing a record for leisure stays.[28] This is likely a sign of things to come as consumers shift spending from goods back to services such as travel. The initial response is already occurring, and if looking at past experiences can be a guide, it may set the stage for several years of above average spending.[29]

Related to travel demand is commercial aerospace production. The industry has been under pressure for several years. The issue began when Boeing had to stop production of its highest volume plane, the 737 MAX, due to tragic accidents. This was then followed by the initial outbreak of Covid-19 halting global travel and forcing Boeing and Airbus to further reduce production. With the current fast-moving Omicron variant burning quickly through South Africa and the UK, the paradigm is there for this variant to run its course rapidly in early 2022, allowing normal activity to resume. For the commercial aerospace stocks, such as Allegheny Technologies (ATI) and Park Aerospace (PKE), this is welcome news. After years of disruptions and reductions in production schedules, these companies now face years of production increases. Both companies managed to execute well during the downturn, took market share from competitors and laid the groundwork for materially higher profit margins. Both have had plans to do so before the disruptions and had shown initial progress that was only delayed by the pandemic. PKE can earn up to $1.00 in the medium term and has $5.00 in cash per share. Assuming a multiple in the mid to high teens plus the value of the cash we see the opportunity for the stock to appreciate into the high teens to low $20s. We believe ATI has similar upside based on its reasonable long term targets. The company is exiting its lowest margin business

[27] See page 1 of the Treace Medical S-1 from their SEC Filings

[28] Leisure Travel Rebounds as Delta Variant Fades – Vacationers are on the Road Again,' WSJ, November 5, 2021, where the CEO of Hyatt said revenue from short leisure stays at its America's resorts were 25% above 2019 levels.

[29] What Caused the Roaring Twenties? Not the End of the Pandemic (Probably), Smithsonian Magazine, May 3, 2021, notes that, 'People will relentlessly seek out social interactions in nightclubs, in restaurants, in bars, in sporting events and musical concerts and political rallies.'

and any cash proceeds from that sale will accelerate deleveraging. We expect ATI's multiple to move higher and discount future earnings of ~$1.50-$2.00 in the medium term driving the stock price significantly higher.
While our long positions have clear drivers and good valuation support, we see these very things lacking in several of our shorts. As we discussed earlier, generous capital raising allowed many companies to enter the public equity market in 2021 without a substantive business. This is not to say that some of these companies cannot develop into viable commercial enterprises but count us as skeptical on several of them. Many have simply attached themselves to an exciting trend and presented forecasts or created unrealistic expectations that we believe will succumb to a pattern of disappointing public market shareholders. In fact, the SEC has sent a warning to SPACs stating that it is likely to take a more aggressive stance in 2022 due to questionable disclosure rules.[30]

Along these lines, we see several stocks that have similar ambitions to Sono Group (SEV) but also remain subject to intensely competitive markets that carry low margins and a high degree capital investment. A few examples are EVgo (EVGO), Hyliion Holdings (HYLN) and Arrival (ARVL). Along similar lines, we believe many technology companies are overvalued due to the positive halo created by the success of mega-cap tech names that have created so much value in the large cap market. We are short small-cap technology stocks that we believe will fail to deliver the level of margin and cash flow that characterize these leaders, and instead must invest very heavily with an unclear long term model of profitability such as Backblaze (BLZE), Stem (STEM) and Couchbase (BASE). Overall, we continue to identify many compelling opportunities for the short side of our investments that complement and balance the attractive investments in our long portfolio.

INVESTMENT PHILOSOPHY

We believe the most important drivers of equity value over time are the strength or weakness of a company's business model, the advantages or challenges created by their financial structure, and the quality of the fiduciaries involved. 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 other corporate 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. Base, bull and bear case price targets are derived from two year forward valuation, while also considering longer term trends discounted back appropriately. We deploy capital when these differentiated narratives present themselves with a compelling risk/reward profile relative to other stocks in our portfolio.

We concentrate our efforts on smaller companies due to their inherent structural inefficiencies that drive greater price dispersion, in turn enabling higher alpha generation on both longs and shorts. The investment landscape continues its trend of consolidating investment management and advice at ever larger financial institutions. The cost benefit of increased scale has an inverse effect on the ability of investment managers to buy and sell smaller stocks when considering 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. Importantly, we think these inefficiencies are not just persistent, but should move even more in our favor over time.

[30] Gensler Warns Executives Against Using SPACs to Shirk U.S. Rules, Bloomberg, December 7, 2021

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. We tend to concentrate individual stock positions in 30-50 longs and 30-50 shorts to maximize the value of our research, and likewise do not utilize ETFs or options to hedge. Position level weights are optimized for exposure to changing fundamental factors, catalysts and risks. To manage overall portfolio risk, we avoid leverage on the long side, maintain consistent net exposure, and remain disciplined with our price targets and stop-loss levels. We believe our strategy is amongst the leaders in small cap l/s equity with a decade of compelling net returns, low volatility, and consistent capital preservation in weak markets.

Thank you for your ongoing support,

Christopher E. Hillary

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i. 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.

ii. 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 Hedge managers 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.

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. The Composite consisted of two advisory accounts until February 29, 2020. Accounts contained in the Composite are actively managed and characteristics may vary. 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. Net performance figures reflect performance for a typical investor in the portfolio who invested at the beginning of the period and remained invested throughout the period. The performance for an individual investor may vary based upon various investor-specific factors including, without limitation, the investor’s eligibility to participate in new issues. Advisory fees are deducted monthly while incentive fees are deducted annually and over time each will reduce the net return on a compounded basis. A fee schedule can be found on Form ADV, Part 2A for Roubaix Capital, LLC.

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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