Bumbershoot Holdings LP
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February-2016

Bumbershoot Holdings L.P.

Q4-2015 Performance

		S&P [1]	Russell [2]	FTSE [3]	Barclay [4]
Q4-2015	**1.36%**	7.16%	3.59%	3.79%	1.60%
YTD-2015	**N/A**	1.38%	-4.41%	-0.54%	0.07%
Inception	**1.36%**	7.16%	3.59%	3.79%	1.60%

Dear Partners,

I am excited to deliver my first quarterly letter.

The notion of "firsts" has been a recurring theme the past few months. It started with our partnership's first day of operation on Oct-1st. We initiated our first investment that morning which helped lead to our first positive day. This was of course predictably followed by our first negative day only a couple of days later. Such is life. I've come to accept this inevitability and just hope to always take a few steps forward before (and after) each step back.

A handful of down days could not stop us from completing our first positive month; and a challenging final two days of the year would not hold us back from concluding our first positive quarter and fiscal year.

Overall, *Bumbershoot Holdings L.P.* posted a positive gross return of approximately 1.36% for Q4-2015. Given our launch on Oct-1st, 2015, the quarterly result also represents our return for the partial-year FY'15, as well as our cumulative total since inception.

On an annualized basis, our gross return since inception is equivalent to 5.46%.

Performance

Looking at the quarterly performance in more detail, our underlying returns were solid, particularly given the "choppy" market conditions that persisted for most of the quarter.

On a relative basis, we trailed the major "benchmark" indexes. However, this was almost entirely related to the first week of October. From Oct-1st to Oct-8th the global equity markets experienced a sharp recovery in value that we had no chance of matching given that we were starting off entirely in cash. I discussed this issue of "cash drag" in more detail in a letter titled *October Post-Mortem* that was distributed with the initial monthly statements. For the bulk of the quarter though, we held our own and modestly outperformed in November and December.

By Month:		S&P [1]	Russell [2]	FTSE [3]	Barclay [4]
Oct-2015	0.62%	8.44%	5.63%	5.17%	2.22%
Nov-2015	0.77%	0.30%	3.25%	0.33%	0.22%
Dec-2015	-0.02%	-1.58%	-5.02%	-1.71%	-0.84%
Q4-2015	1.36%	7.16%	3.86%	3.79%	1.60%

Categorizing our investment activity into five major segments: *Core*, *Micro*, *Value*, *Special Situation*, and *Discretionary*. The majority of our gains came in core holdings; and I am happy to report that long & short core positions both contributed positively to results. Overall, our returns remained relatively consistent throughout the quarter and we experienced fairly minimal volatility on a daily basis.

By Category:	
Core	1.46%
Core - Long	*1.40%*
Core - Short	*0.06%*
Micro	-0.07%
Value	0.06%
Special Situation	-0.05%
Discretionary	0.06%
Fx.	-0.11%
Misc.	0.01%
Q4-2015	1.36%

By Market Cap:	
Large	0.10%
Mid	-0.08%
Small	1.09%
Micro	0.36%
Fx	-0.11%
Misc	0.01%
Q4-2015	1.36%

At a company-specific level, our top-5 contributors were as follows:

iRobot (*IRBT:NGS*) produced the largest gain, benefiting from a sharp increase in price towards the end of the year. I published Part-I of a write-up titled *Anatomy of a vSLAM-Dunk Investment* in Dec-2015 which details our investment thesis on the business. The company is a leader in the robotics industry and appears well positioned for future growth. It remains

Top Contributors to Performance for Q4'15							
Company Name	**Ticker**	**Exchange**	**Category**	**L/S**	**Asset Class**	**Mkt Cap**	**Impact**
iRobot	IRBT	NGS	Core	Long	Equity, Option	Small	0.814%
Cascade Microtech	CSCD	NGM	Core	Long	Equity	Micro	0.375%
Plum Creek / Weyerh.	PCL/WY	NYSE	Core	Long	Equity, Option	Mid	0.282%
Kinder Morgan	KMI	NYSE	Core	Short	Equity, Option, Pref.	Large	0.145%
*Financial-A**	-	NGS	Core	Short	Equity	Mid	0.131%
							1.75%

one of our top positions and I have high expectations for the company going forward.

Cascade Microtech (*CSCD:NGM*) was our second largest contributor during the quarter. The company reported record results in late Oct-2015, which helped drive a sustained improvement in the share price. Cascade is a manufacturer of test & measurement equipment for the semiconductor industry, with a particular focus on radio-frequency (RF) applications. It ended the quarter as our single largest position at approximately 6.05% of assets; and I plan to discuss it in significantly more detail at a later date.

*Note: On Feb-4th 2016, Cascade announced it entered a definitive agreement with **FormFactor** (FORM:NGS) to be acquired as part of a cash and stock transaction valuing the business at just over $350m.*

Weyerhaeuser (*WY:NYSE*) and **Plum Creek Timber** (*PCL:NYSE*) announced a stock-for-stock merger on Nov-8th, 2015. While we held minor equity positions in both companies at various times throughout the quarter, the majority of our gain related to a small, long-dated option position in Plum Creek which increased substantially in value on a percentage basis upon the announcement. We subsequently hedged most of the value through the sale of similarly struck (deal-adjusted) Weyerhaeuser options against our position; and re-entered an equity holding. The combined company will create a leading timber, land, and forest products business with more than 13 million acres of timberland in the U.S.

Kinder Morgan (*KMI:NYSE*)(*KMI-PA:NYSE*) had a positive impact on performance as our short position benefited from a substantial decline in the stock price. The company is a "midstream" energy business which owns and operates natural gas pipelines and various other energy infrastructure. I published an investment write-up in late Oct-2015 titled *The Story of Icarus* which questioned the company's financial strength and the viability of its capital allocation policy. Since writing the article, the company has made a concerted effort to shore up its capital structure, which included reducing its dividend by approximately 75%. While I still believe that the company will face significant challenges going forward from its sizable debt burden, we substantially reduced our position prior to the company reporting Q4'15 results in late Jan-2016.

Financial-A was a short position of a business within the financial sector which we initiated and exited in Dec-2015. While shares have continued to decline further, I would likely re-enter the position to the extent it could recover to previous price levels.

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On the other side of the ledger, the top-5 detractors to our performance in the quarter were as follows:

Top Detractors from Performance							
Company Name	**Ticker**	**Exchange**	**Category**	**L/S**	**Asset Class**	**Mkt Cap**	**Impact**
Chicago Bridge & Iron	CBI	NYSE	Core	Long	Equity, Option	Mid	-0.234%
Urban Outfitters	URBN	NGS	Core	Long	Equity, Option	Mid	-0.087%
Technology-A	-	NGS	Core	Short	Equity, Option	Mid	-0.083%
K+S	SDF	XETR	Core	Long	Equity	Mid	-0.067%
Financial-B	-	NYSE	Core	Short	Equity, Option	Large	-0.058%
							-0.53%

Chicago Bridge & Iron (*CBI:NYSE*) accounted for the largest negative impact. This was particularly disappointing since I had published an investment write-up titled *The Two Sweetest Words* in Nov-2015 which detailed the positive implications from the divestiture of its challenged nuclear construction business. Overall, Chicago Bridge is a well-regarded engineering & construction (E&C) services company and I remain convinced in the long-term value of the company. I expect this to prove out over time through cash flow generation of the remaining business units; and the company is scheduled to hold an Investor Day in NYC on Feb-9th, which should help start to bridge the gap in valuation.

Our investment in **Urban Outfitters** (URBN:NGS) was negatively impacted by a broad-based decline in the retail sector in Nov-2015. I believe the company is highly misunderstood from an investment perspective as it has been executing on a turnaround strategy in its core *Urban Outfitters* stores since early 2012. In addition to its namesake line, it also owns the *Anthropologie* and *Free People* brands, both of which have interesting growth prospects on their own. Anthropologie in particular is making a push into the home furnishings business, which is a sizable market opportunity; and it also continues to expand its store-within-a-store concept called *BHLDN* (pronounced "Beholden") that focuses on wedding and bridesmaid dresses. Overall, I see significant long-term value in the company's leading "lifestyle" brands and omni-channel sales approach. It continues to deliver at record sales levels while maintaining healthy profitability, along with a net cash balance sheet. Management retains significant insider ownership and the company has been committed to its capital allocation policy. These are all factors which should be viewed favorably for long term shareholders.

Technology-A is an active short position in a mid-size technology company. The negative investment thesis is predicated on a variety of factors, but it centers on what I believe to be a flawed interpretation of non-GAAP accounting. The company was formed as a "roll-up" in the software industry and it generates cash flow from intangible assets (customer contracts) with a finite life. Meanwhile, its core technology offering appears to be increasingly outdated and irrelevant. Coupled with high levels of debt, insider sales, excessive executive compensation and limited prospects for future growth (by any means other than acquisition) it could lead to a significant decline in market value over time.

K+S (SDF:XETR) is one of the world's leading suppliers of potassium fertilizer (known as "potash"). Potash is one of the "big three" agriculture nutrients for healthy plant growth and it has no substitute. K+S is also the largest global producer of salt through its ownership of *esco* (Europe) and *Morton Salt* (U.S.). In addition to food preparation, salt is also (primarily) used for chemical processing, highway deicing, and various industrial practices. The company is located in Germany and trades on the Xetra exchange as part of the DAX index. We initiated a position of approx. 1.25% in Oct-2015 after an unsolicited proposal by *Potash of Saskatchewan* (POT:TSE) to acquire the company at €41/share was rejected. While we held off from adding to our stake due to the downdraft in commodities pricing, I am actively looking to add to the investment over time; and I plan to discuss it in more detail at a later date.

Financial-B represents an active short position in a large-cap financial sector business. The company is a real-estate investment trust (REIT) which owns and manages various commercial properties. The short thesis is predicated on three main factors: a heavy reliance on non-GAAP accounting, a high valuation multiple of adjusted earnings, and secular risk in its core end market which could lead to long term challenges in rent prices & tenant renewals.

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Investment Outlook

The investment outlook for equities remains clouded as monetary policy continues to dominate the global financial markets. The extremely "loose" policy that has collectively been implemented by various reserve banks around the world is merely a reaction to the symptoms of long-run trends such as technological change, demographics, and globalization. These act as a deflationary pull on the broader economy, which challenges growth and has made it more difficult for certain industries to sustain profitability.

This dynamic seems unlikely to change in the near future. While focus is slowly shifting back to company fundamentals, investors will still need to navigate the ebbs and flows of liquidity to the best of their ability. This is reinforced by the traditional macro-economic outlook for the business, credit, and valuation cycles. As I wrote in the *October Post-Mortem* in Nov-2015:

> "Economic data in the U.S. has also continued to deteriorate, with the weakness being relatively pervasive. It can be seen through domestic readings of GDP, consumer spending, industrial production, air freight, semiconductors, etc.
>
> While the "market" has largely brushed this data aside, it does shape our view for the next 6-12 months."

This view is largely unchanged; and so it fashions us with a foundation of caution. There is an incredible amount riding on the U.S. economy in 2016, and the American consumer in particular. It is too early to tell if that faith is warranted. The deflationary pulls which result in a lack of natural growth remain a weight on that traditional macro-economic outlook and an attack on the "old guard." However, it is also a beacon for progress, innovation and change.

Great companies will always find ways to adapt. To reinvent themselves in order to take advantage of seminal shifts in how their industry functions on a daily basis. I continue to seek out these businesses, while remaining disciplined to valuation.

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Administrative

On the administrative front, there is no major news to report. Working hard. Avoiding the swings of the "24-hour news cycle" to remain focused on finding high-quality, long term investment ideas.

While I have spent minimal time marketing, the fund is open and I am actively looking to increase assets under management (AUM) to try to scale into a more sustainable business model. Any potential leads on new capital partners would be much appreciated.

I have also started the process of forming an Advisory Board; and I've informally approached a few people about having a role. I hope to have more to say about this next quarter.

Our administrator, *International Fund Management*, is working to prepare Schedule K-1 documents for the 2015 tax year. These will be distributed to partners as soon as they become available. As a reminder, the fund has elected to use mark-to-market accounting, which means that annual gains/losses flow through to limited partners as ordinary income. If you have any questions regarding this aspect, please let me know.

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While the new year has brought with it unprecedented levels of volatility, we are navigating through it well. I'd like to remind partners that I am focused on long-term investment returns, which are a journey rather than a race. *Bumbershoot Holdings* takes a "quality over quantity" approach to investing that relies on deep fundamental analysis. Patience and discipline will remain key aspects to our success.

I am grateful for the opportunity to manage your capital; and the substantial majority of my personal net worth also remains co-invested in the partnership. I am excited by our future prospects!

Sincerely,

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Managing Member
Bumbershoot Holdings

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[1] S&P 500 Index -- http://us.spindices.com/indices/equity/sp-500

[2] Russell 2000 Index -- https://www.russell.com/indexes/americas/tools-resources/index-performance-calculator.page

[3] FTSE 100 Index -- http://www.ftse.com/analytics/factsheets/Home/HistoricIndexValues

[4] BarclayHedge Hedge Fund Index -- http://www.barclayhedge.com/research/indices/ghs/Hedge_Fund_Index.html