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I am pleased to report that the Blue Tower Global Value strategy composite has returned 9.84% gross of fees (9.63% net) in Q1 2015 as compared to the US stock market return of 1.81% (CRSP Total Market TR)¹. This has been our best quarter yet on both an absolute and relative basis. This performance has been achieved without the use of leverage since the strategy's inception. It is my hope that the managed accounts in our strategy continue to experience excellent outperformance in the future, but I also acknowledge that there will be some periods of poor performance and ask for your patience during those times.

Hindsight and Egocentric Biases

While many social and economic theories have been based on the assumption of rational human behavior, the truth is that people suffer from varying degrees of irrational behavioral biases when making economic decisions². The field of behavioral finance, the study of how behavioral and cognitive biases affect individuals' economic decisions, has attracted increasing attention from both academic economists and the financial world over the past few years. It is important to keep an awareness of these human biases in the back of one's mind in order to resist the enticement of irrational behavior during decision-making. Two of these biases are the hindsight bias and the egocentric bias. The hindsight bias is how people often see past events as being more predictable than they were at the given time, and the egocentric bias is how people often remember past events in a self-serving manner (for example, forgetting foolish decisions and exaggerating the favorable outcomes of good decisions). I believe many investors lose sight of their original reason for entering into a position after their original investment thesis is disproven by newly available information. This can lead them to come up with new assumptions and rationalizations to convince themselves that entering their original position was not a mistake. This then leads to impaired performance of a portfolio by leading investors not to liquidate their position after their original investment thesis has been disproved. To counteract this, I believe value investors should, at the time of initial investment, write out the reasoning for the attractiveness of an investment as well as the valuation where they would consider liquidating the position as opposed to simply keeping this information at the back of one's mind. Not only does this written record give a more accurate recollection of the past, but it also improves decision making for the future.

¹ the CRSP Total Market TR is a float-adjusted, market-cap-based, total-return index of all investable US equities, see crsp.com for more details

² a fairly comprehensive listing of many of these can be found on the Wikipedia article, "List of cognitive biases" - <http://goo.gl/I31GHZ>

Both Blue Tower Asset Management as a firm and myself as an individual participate in SumZero, an online community of professional analysts and portfolio managers employed at hedge funds, mutual funds, prop trading desks, private equity, and managed account firms. The main purpose of the community is for professional investors to collaborate with each other by sharing their research on their investment positions. Membership in this group is exclusive (about 75% of applications are rejected)³ and requires the submission of at least two investment write-ups per year. To meet this requirement, I take the aforementioned written investment theses for the Global Value strategy, flesh out the narrative of the investment in greater detail, and submit it to the site. This offers several benefits: SumZero's database of investment research is a useful tool in building an understanding of companies being vetted for investment; errors in Blue Tower's analysis could be revealed by other skilled investors, and the reputation of Blue Tower is enhanced through increased exposure of our insights.

Ebix

The biggest contributor to Blue Tower's Q1 2015 was Ebix which added 6.81% to performance. Coincidentally, my submission to SumZero on November 3rd, 2014 was about Ebix. The submission describes my thoughts on the investment at the time I built up the position for Blue Tower's investors:

November 3rd, 2014

I believe the current valuation of Ebix to be extremely cheap for this type of fast-growing, asset-light franchise. There is also a near-term catalyst in the form of a short squeeze.

Ebix is a B2B enterprise software company that has grown by acquiring businesses that have established customer bases and are capable of generating significant free cash flows with minimal future capital investment. After purchasing the company, they often lay off many of the employees and move the operations to India to take advantage of the lower labor costs. The CEO of Ebix is Robin Raina who is a frugal cost cutting manager. He has been very successful at growing the business through efficient capital allocation and acquisitions since he took over in 1999. Over the past 5 years, FCF has been growing at a rate of over 16% per year.

With their P&C insurance back-end software (combination of email systems, data archive, brokerage, and human resources), they realized that there is a significant runway for future growth if they can make a software system based on a standardized set of modules which are activated and deactivated for every insurance market. Very large insurance companies are sometimes using >50 different types of back-end software. A unified replacement for all of these functions would be a big improvement.

³ <http://www.wsj.com/articles/SB10000872396390444433504577651750662070974>

This business has a very powerful economic moat due to the network effect of the intermediary systems they have set up. In certain niche insurance markets, they have such a monopolistic power that some customers have complained that they feel forced to use Ebix's products to even be active in the market. (<http://www.insurancenews.com.au/local/ebix-monopoly-comes-under-fire>)

A short-seller report from Gotham City Research made inflated claims of accounting fraud and tax avoidance which has provided the near-term value opportunity. Gotham City Research has made other research reports that I find equally without merit such as their piece on Blucora. A full year after these allegations started (and continued), Ebix was able to secure a \$150 million 5-year credit facility with the option to increase to \$350 million after an exhaustive due diligence investigation of their financials by a consortium of banks. The banks felt that Ebix was so low of a credit risk that they set the terms at LIBOR +1.75%. Ebix has stated that they intend to use this large sum (equal to 65% of their market cap at the time) to buy back shares and make further acquisitions. Just this morning, Ebix announced the acquisition of VERTEX, a management consulting practice for the insurance, healthcare, and financial industries which they predict will add 10 to 15 cents to EPS.

With 46.7% of Ebix's float being short, a short squeeze seems imminent. The shares are becoming difficult to borrow. I checked the SLB rates on my Interactive Brokers workstation for Ebix and it is currently listed at a borrowing cost of 7.12%. EBIX also pays a \$0.075 quarterly dividend (2.0% yield) which adds to the cost of carry for short sellers.

The credit facility was announced on August 6th 2014. On August 25th, Ebix announced their goal of buying back up to \$80 million of stock over the next twelve months (assuming that the price stays near current levels). Today (October 16th), Ebix announced that as part of reaching that goal, it had bought back 1.64 million shares since August 1st which I believe demonstrates that they are truly committed to the \$80 million goal. It appears that Robin Raina has found his next brilliant acquisition; his own company's stock.

During the five-month period after the publishing of the write-up to the end of Q1, Ebix rose from a share price of \$14.67 to \$30.38, a 107% gain. In this period, Ebix won several new software development contracts, bought back a significant amount of stock at depressed prices, had an activist hedge fund join its board of directors, and had the IRS investigation completed with only a minor tax debt due. Currently, 35.50% of the float remains shorted and the borrowing cost of shares is at 5.08%. If the short sellers cover their position by buying back stock, their action could still act as a catalyst to further increase share price. I believe Ebix is still a good investment at the current valuation. However, after the close of the last quarter, I

have scaled back the Ebix position and reallocated some of the capital to other attractive opportunities.

I hope this update has provided insight to Blue Tower's investors regarding my investment philosophy. I thank you all for your continued trust.

Sincerely,

Andrew Oskoui
Portfolio Manager

Disclaimer: This commentary does not represent a recommendation to trade any particular security, but is intended to illustrate Blue Tower's investment approach. This commentary may include "forward looking statements" which may or may not be accurate in the future. Past performance is no guarantee of future results.