January 31, 2018

Dear Investor:

We are pleased to report strong absolute and relative performance for Choice Equities Fund, LP (CEF) for both the quarter and the year. CEF was up +10.7% and +8.6% on a gross and net basis for the quarter and finished the year up +27.8% and +21.5%, respectively. The Russell 2000 was up +3.3% in the quarter, moving to +14.7% for the year. The S&P 500 was +6.6% for the quarter, finishing the year up +21.8%. Together these results put our Small / Large Blended Benchmark up +4.2% for the quarter and +16.4% for the year.

EXECUTIVE SUMMARY

In this letter, we offer a business update for our investors and a brief look at things to come. As is customary in our yearend letters, we will offer some commentary on the year that was and examine the critical drivers of the market return. We will also provide an update on CEF performance and portfolio activity before finally offering up some brief thoughts on our outlook for 2018.

BUSINESS UPDATES

We look at a lot of spinouts. This corporate action where a large parent organization spins off an operating division or subsidiary into its own standalone entity has proven to be a consistent provider of outsized winners. Though not all spinoffs achieve great success, the fact that many do has made the area an attractive niche worthy of close investigation. The theory goes there are two dynamics at play that create the conditions for these superlative results. The first is short term in nature and largely stems from technical factors associated with the transaction as spinoff shareholders frequently sell the recently inherited shares because their original investment was motivated only by the parent company's investment merits. The greater and more lasting value creation stems from the newly freestanding company's actions itself and typically unfolds over a period of several years. Once the business becomes independent, management incentives, focus, accountability and responsibility become more closely tied to the success of the individual company. This improved alignment unleashes pent-up entrepreneurial forces, and significant and sustained success often follow. Core portfolio holding and former John Deere subsidiary SITE, up +125% since our original entry in late 2016, presents a successful case study of this theory in action.

As portfolio manager, I have come to view Choice Equities similarly. When I set up operations as an independent entity last year, I believed the portfolio could flourish from a wider investment universe and a few minor tweaks to the investment approach. Drawing from my experience as a junior partner in a startup fund from a prior endeavor, I likewise had a few initiatives at the management company level I was ready to implement. While I was thrilled to have the autonomy to devote 100% of my time and focus to the successful execution of this blueprint, I was also well aware 2017 would need to be a year of significant building.

The facts simply stated as a much. At this time a year ago, we only had five clients, an AUM of $1.2M and little in the way of established infrastructure. Since then we have added staff, built out back office functionalities and added new relationships to our client base. Counting commitments expected in by March, we expect an investor count near 30 and an AUM figure over $4M. We are also pleased to report early success from our expanded investment universe, as two of our first four investments in non-distribution companies have been meaningful contributors to 2017's positive performance.

With these building blocks in place, we envision 2018 to be a year of expansion. We look forward to continuing existing relationships and developing new ones. We also hope to offer up a Special Opportunity Fund (SOF) for our investors later this year. Stated briefly, our SOFs will typically be structured around a high conviction investment thesis and are likely to offer higher concentration levels than our current portfolio. Due to the high concentration levels of the expected portfolio, these SOFs will carry a different risk/reward profile than the more diversified CEF portfolio and offer the potential for outsized gains. We are currently evaluating a few candidates that could fit this description and look forward to keeping you updated on our progress.

MARKET COMMENTARY

2017 brought us one of the strongest markets in recent memory. While the double digit returns for both indices were notable, it is the complete absence of volatility that leads us to this characterization. After all, the large caps never once declined by more than 3% and did not even post a down month all year long. One must go back 22 years to 1995 to find another year that exhibited similar strength measured in terms of the shallowness of pullbacks.

These market conditions must assuredly be considered a great irony particularly considering the year began with the inauguration of a US president whose behavior some might describe as volatile. But markets price and reprice at the margin as they incorporate changing outlooks, so a steadily improving business climate and increasing earnings growth became the critical drivers that served to continue to push markets upwards. With 10% earnings growth for the year, we can now emphatically say that the earnings recession that agitated the market in 2015 and 2016 is assuredly over.

When we review our yearend template to examine what drove the market return in 2017, we see both indices benefited from earnings growth, a real change from reports of the last three years where earnings were basically flat. We also see the market again benefited from multiple expansion with the large caps being the greater beneficiary. For the S&P 500, this now marks the fifth year in the last six to benefit from multiple expansion. Though we commented on this last year, with rates likely going up, one wonders just how much more multiple expansion can drive the market moving forward.

Index	Average Dividend Yield	EPS Growth	PE Change	Total Return
S&P 500	2%	10%	10%	22%
Russell 2000	1%	10%	5%	15%

CEF COMMENTARY

NOTABLE PORTFOLIO PERFORMANCE DRIVERS - For 4Q 2017 recent additions of non-distribution companies DS and SPWH were the biggest drivers to the quarter's +10% gross performance. DS contributed +5% to fund performance as shares spiked on sizeable insider purchases and new investors began to discover an intriguing long horizon growth opportunity. SPWH, our most recent portfolio addition which we will detail below, added +4% to the fund's return. BXC was the largest detractor for the quarter and subtracted -1% from fund performance.

BXC's share price traded in a wide range throughout the quarter, so a quick update on recent developments is worthwhile. In October, BXC's controlling shareholder announced they would exit their 51% position in a secondary share offering. Given limited investor relations activity to date from the company and the obvious questions that follow when a controlling shareholder exits a position at a discount, the secondary predictably priced sloppily. However, due to our familiarity and understanding of the situation, we viewed the event as a significant positive and a natural consequence of the shareholder's desire to close an already extended PE fund whose life had stretched to 14 years. The sale would also eliminate the controlled company discount and pave the way for a broader investor relations outreach effort from the company. With an expectation additional progress would soon follow on efforts to monetize pieces of the company's valuable real estate portfolio, we added to our position when shares declined in association with the offering. Some of these catalysts have begun to unfold early in 2018 and shares have recently responded favorably to these dynamics.

For the full year 2017, SITE, BXC and DS were the largest contributors to the fund's performance, adding +9%, +6% and +6% to the portfolio's annual return, respectively. HDS and VRTV were the fund's largest detractors, hurting performance by -3% and -2%, respectively. Shares of LAWS, our largest position for most of the year, finished the year basically flat and were not a material driver to fund performance. LAWS's underperformance relative to the market is disappointing, especially considering its size in the portfolio. Even so, we continue to like shares at these levels, particularly in the context of a recent accretive acquisition, and believe shares are positioned favorably heading into an improving operating environment in 2018.

4Q 2017 PORTFOLIO ACTIVITY – Given we currently have what we believe is a high bar for entry to the portfolio, we only added one new holding in the fourth quarter, though we did add to a couple positions as alluded to above. We pulled our single short position early in the quarter and lowered and in some cases removed existing market hedges in anticipation of tax reform's positive impact on market performance. Generally speaking, most of these portfolio adjustments have had a positive impact on portfolio performance.

It is not all good news however, as we exited our investment in VRTV and believe our thesis was either wrong or our trading strategy was very poorly timed. The thesis rested on the case that two segments of the business, one of which is a market leader by a wide margin, together were worth more than the entire company's valuation reflected. However, the poor results of the other two legacy segments in businesses that are in secular decline have overwhelmed the positive results from the better segments, and in total, company results have been disappointing. Insiders continue to show interest in the stock with some modest purchases, and we think the shares and particularly the market leading segment may one day prove attractive investments. Even so, we recognized elements of our thesis were not going as planned and exited our position relatively quickly.

This quick exit allowed us to minimize the loss to the portfolio, and equally importantly, also minimized our opportunity cost as we were able to quickly reallocate capital to better ideas. As our charge is to generate attractive and differentiated investment results, we know we must think and act differently. As in this case, this does not always mean we will think and act correctly. Quickly recognizing misjudgments and limiting their losses is the key. While we would prefer to have only winning investments, we recognize this is an unlikely outcome and an impractical goal that is unlikely to lead to lasting investment success. Accordingly, we exited the position with a loss which allowed us to generate another year of solid gains with a minimal tax bill.

SPWH – Sportsman's Warehouse is a retailer of outdoor sporting goods supplies. Along with most other retailers, SPWH shares sold off for most of the year as investors showed complete disdain for anything that might lay in Amazon's path. Many retailers began trading at multiyear lows this summer. When Amazon announced their purchase of Whole Foods this summer, retailers sold off further, leading us on a search for a bargain in the rubble. Our search brought us to SPWH, who is not just a retailer, but also a retailer of guns. Gun stocks were also very unloved in 2017 given declining year-over-year growth rates due to a surge of gun buying in 2016 on expectations of a Democratic Presidential win. Given the multiyear lows most gun stocks themselves were similarly trading at this year, this put SPWH in a very out of favor cohort.

Some of this treatment is justifiable as the company has had difficulty showing consistent same-store sales growth, a critical metric for any retailer. But as we looked closer, we saw good reasons for the same-store sales inconsistency and a number of favorable company attributes. Thirty percent of the sales mix is driven by guns and ammunition purchasing and is thus resistant to online encroachment. Guns and ammunition sales are also a driver of walk-in traffic and spur sales of other consumable items. The store model and general business strategy is appropriately driven by a focus on returns on capital. This is reflected in the stores' "no-frills" inventory approach and everyday low pricing model which has eliminated fluff at the gross margin line and made the company price competitive with online and brick and mortar peers since day one. The company has also proven it can generate attractive returns with a smaller store footprint where its larger peers have not. This means the company can be successful in smaller metro areas and provides it a greater runway for new store growth.

We began buying around the $4 level on November 1st with shares trading around 7x FY2017 EPS. We started in November on a hunch that some of the selling from mutual funds who had just turned the corner on their tax year may subside. With the anniversary of the election nearby, we also thought we may be nearing an inflection point in year-over-year growth in gun sales. Finally, tax reform was right around the corner and set to provide a meaningful earnings boost to a full corporate tax payer. Gun sales will be volatile and somewhat unpredictable in the short term. In the long term, gun sales become more predictable and are likely to again show year-over-year growth. Company same-store sales growth will likely follow this trajectory as the two items have proven highly correlated to one another in the past. In the event the company again begins posting same-store sales growth, we believe a rerating of shares to its historic, low double-digit PE multiple seems likely.

2018 OUTLOOK

As the calendar flips to 2018, many of the investment themes of 2017 discussed in prior letters look set to continue. A pro-business economic environment continues to emerge on the back of lighter regulation while investors and citizens alike warm up to the prospects of recent tax cuts. Earnings growth was strong throughout 2017 and is accelerating into 2018. Broad market valuations continue to look to be skewed toward the full side of fair and are reflective of currently low levels of inflation. The domestic economy is growing and also receiving a boost from abroad to create one of the most globally synchronized periods of growth in many years.

Our base case suggests 2018 is likely to see many elements of 2017 repeat, although we find it hard to believe the complete absence of market volatility will persist. Several of the critical pillars of the domestic financial picture seem likely to move higher. Among these we count earnings growth, equity markets, inflation, interest rates and volatility. It seems after nine years of mostly subpar and muddled growth in the aftermath of the Great Recession, animal spirits may be reawakening, and a real business cycle could be set to emerge. While the economic outlook appears bright, market participants have noticed, and valuations are likely to remain on the full side of the fair. Were such conditions to emerge, past precedent suggests we should no longer count on multiple expansion as a driver of equity returns and could in fact see some multiple compression follow. Still, mid-teens earnings growth for the S&P 500, accelerating from last year's 10% growth and a dramatic contrast to the basically flat earnings level for the three years ending in 2016, should continue to provide a positive backdrop for equities.

These would be welcome developments for equities investors, and particularly active managers, who have historically tended to fare better in periods of rising rates. Regardless of the direction of the tides, we are more enthused with the prospects of the companies in our portfolio and expect our returns to be driven more by the business performance of our companies than by general market movements. This is by design of course and precisely the reason we choose to run a concentrated portfolio that is intended to capture the benefits of ownership in 10 to 15 well-managed, growing companies.

CONCLUSION

As always, we are happy to discuss any portfolio holdings or our investment outlook with you at any time. Please simply reach out to us at your convenience. In closing, we are honored and privileged to have the responsibility you have entrusted in us in managing your capital, and we look forward to continuing our relationship further into the future.

Best regards,

Mitchell Scott, CFA
Portfolio Manager

1. All market and company data is sourced from Factset and company filings and is current as of 12/31/17.
2. CEF uses the S&P 500, Russell 2000, a custom Blended Small/Large Benchmark and the Barclays Hedged Long/Short indices as its primary benchmarks. The S&P 500 and Russell 2000 are common large and small cap US equities-based indices. The custom Blended Small/Large Benchmark is provided to capture a larger proportion of small cap performance versus large cap performance (at a 3:1 ratio) due to the similarly high proportion of small caps found on the Good Businesses Focus List as well as the strategy's general preference of having an investment mix more heavily weighted towards investment in small caps. The Barclays Hedged Long/Short index (an index of equities-based hedge funds) serves as an appropriate benchmark over the long-term given the index has a similar long-term goal of capital appreciation through equities investing.
3. CEF Net Returns are hypothetical results calculated from actual gross results in a manner consistent with the 1% management fee and 18% performance fee offered to clients.

APPENDIX

CEF GOALS, PHILOSOPHY, APPROACH AND ALIGNMENT

GOALS – We seek to generate market-beating returns over any rolling multiyear investment horizon while minimizing the risk of permanent impairment of capital. Additionally, we seek to communicate with our investors in a transparent and straightforward manner and ask only that they accept investment risks that we ourselves are willing to take. *Given the majority of our investable capital is invested alongside theirs, we invest our limited partners' capital as if it were our own, because it is.*

PHILOSOPHY - We approach investing in public equities as an opportunistic businessman would. We spend most of our time studying businesses and building circles of competence in areas likely to offer attractive investment prospects and invest in only our most compelling opportunities. We view risk primarily as the likelihood of a permanent impairment of capital and pursue a carefully balanced willingness to trade some short-term portfolio fluctuations for the opportunity to earn higher returns over the long-term. We focus on growing, understandable businesses and seek to buy them at a substantial discount to our estimate of their intrinsic value. When we find them trading at attractive prices, we often act in size and weight our best ideas accordingly. And all things being equal, we prefer to devote more of our efforts to small stocks where we believe greater price/informational inefficiencies can often be found.

APPROACH – We invest via a long-bias hedge fund structure and concentrate our long investments in our best 10 to 15 ideas. Our work begins with a two or three-year outlook, and we only pursue investments we believe are likely to offer us a reasonable chance to generate an annualized return of 20% or better. While we pursue long-term oriented investments and seek to compound capital in a tax efficient manner, we readily acknowledge the often-turbulent markets do not always fit neatly into this framework and know some trading activity is sure to follow as a result. In the short book, we seek to generate absolute profits in a few stocks where we have uncovered a company entering financial duress or an excessively optimistic valuation where we feel their earnings outlook is likely to worsen materially. We will also use industry or market specific ETFs to mitigate market risk and will look to employ options and other opportunistic hedges when conditions appear favorable.

ALIGNMENT – We believe appropriate alignment of interests is the bedrock upon which all successful partnerships are built. Our primary means of ensuring proper incentive alignment is through significant co-investment of our personal wealth alongside our limited partners. Secondarily, we offer an investor friendly fee structure. We charge a modest management fee to support investment operations and charge an annual incentive fee on new profits only. Finally, commensurate with our fee structure which is intentionally structured such that the majority of fund earnings will be earned only if we generate compelling investment results, we commit to operating the fund as a boutique shop with a limited asset size. As many of our best investments often come from small stocks, we believe it is important to preserve our ability to take concentrated positions in our best ideas. Our size and structure ensure we are incentivized to generate compelling returns, not gather assets.

Think of it this way. *On the one hand, we are incentivized to generate the best investment results possible. On the other hand, we are unwilling to invest in a way we feel is likely to result in a meaningful loss of our own investment capital. What more could one want from an investment manager?*