Dear Friends / Clients / Investors:

Cumulative returns on accounts managed by Long Cast Advisers declined 1.3% in 1Q18, net of applicable fees. This was slightly worse than the various indices against which we benchmark ourselves. Since inception, we have returned a cumulative 74% net of fees, materially ahead of our benchmarks.

PERFORMANCE[1]

	LCALLC Gross*	LCALLC Net	R2000	S&P	Dow
	Annual Percentage Change				
2015 (2-mos)	12%	12%	-5%	-2%	-2%
2016	17%	16%	21%	12%	17%
1Q17	10%	10%	2%	6%	5%
2Q17	2%	2%	2%	3%	4%
3Q17	9%	8%	6%	4%	6%
4Q17	13%	12%	3%	7%	11%
2017	38%	36%	15%	22%	28%
1Q18	-1%	-1%	0%	-1%	-2%
Cumulative chg	78%	74%	32%	32%	43%

Returns for separate accounts managed by LCA ranged from -5% to +3% for the quarter. Timing (that is, when clients join LCA and we start investing for them) and Portfolio Management remain the biggest drivers of variances between accounts.

Contributors to returns in the quarter were CTEK and SIFY. Detractors were IVTY and QRHC.

For the first time since opening LCA, we took a permanent loss of capital on client accounts by selling our small position in ALJ Regional Holdings (ticker: ALJJ). The decision to sell - and do the one thing we hope to avoid at all costs - was driven by both financial and ethical considerations.

On the financial front, we were surprised to see debt continue to grow concurrent with underwhelming operating performance from the businesses. On the ethical front, there was a #metoo accusation against the Chairman.

Both of these together created risk around the company's ability to generate cash flow to fund new deals, the former because cash wasn't being generated and the latter due to the potential loss of access to new deals. We thought it best to move on.

[1] Assumes 1% management fee structure. Individual returns may vary. Returns are sourced from Interactive Brokers "Portfolio Analyst" tool and are unaudited.

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PORTFOLIO

We list below our top positions at quarter end, as well as a brief description of each business and where we see reasonable opportunities and risks (ie what we like and what concerns us most). Our effort is not to be comprehensive, but to provide our assessment as simply as possible "without having to surrender the adequate representation of a single datum of experience."

Cynergistek. A "good business inside a bad business" company. The "bad business" is the low growth, low margin Managed Print Services, which represents the bulk of revenues but a fraction of the CF. The good business is the high growth, high margin Cybersecurity Consulting and Staffing business, acquired in January 2017.

Why we think this works: CTEK trades at a discount to other companies in the consulting / staffing industry so if cash earnings grow with continued mix shift towards the high margin cybersecurity offering, investors should win on earnings growth, re-valuation and the value accruing to equity shareholders as debt is paid down. While the business is competitive, the company ranked highly for the 2nd year in a row as a healthcare focused cybersecurity vendor. Access to talent through military pipeline is a differentiating advantage.

Challenges to the thesis: The customer base – healthcare institutions and hospitals – doesn't have the fattest wallet. The sales cycle is long and slow. Customers tend towards smaller institutions which are potential consolidation candidates. We view the opportunity to expand into new markets (education / academia) as the biggest offset to these primary risks.

Quest Resources. For companies with multiple locations (restaurant franchises, supermarkets, auto repair and construction companies) Quest manages and tracks waste and matches haulers and destinations. In general, this business focuses on waste but is much more like an asset-lite logistics model and over time we believe it should operate like one, and be similarly valued.

Why we think this works: Two plus years ago Ray Hatch – an industry veteran - took over a broken high revenue / no profit business and has been delivering towards margins and cash flow generation. He's done this by focusing on his area of expertise – the mid-markets – and by surrounding himself with seasoned solid executives in business development (Ric Hobby) and operations (Dave Schweitzer). Our research indicates this is a strong team. This is a turnaround in progress and we expect the work he's done to date to finally start showing up with profitability and revenue growth in 2018.

Challenges to the thesis: This business requires a robust technology platform. In 2015 and 2016, the company spent nearly $2M on capitalized software, an amount that we are told should be enough to scale if it's properly implemented. However, SG&A remains highly variable. In theory, with automation, it should flatten. So if the technology is not operating as expected, SG&A will eat up the profit. We are focused on trying to independently assess this.

Envirostar. Distributor of commercial laundry equipment. This business resolves to regional duopolies and they are slowly rolling up regions. Compared to when we first bought it, the business is larger and the multiple is higher, but the reasons for owning haven't changed. Why this works. Challenges.

SIFY. This is an Indian ICT (Information and Communications Technology) provider. They own digital infrastructure and provide services around that infrastructure, which offsets risk of potential commoditization of fixed assets. The company "checks a lot of boxes" that we like to see in investments: A long-term plan successfully and patiently implemented in a cost and capital efficient manner that allows them to invest the proceeds in high return opportunities.

Why this works: We view this as a business that will benefit from growth in Indian digitization trends. It is a toll collector with fixed telecom and data centers in a market that should continue to experience material growth in Internet traffic over time.

Challenges to the thesis: Competition. Commoditization. The services component alleviates some of these concerns.

Invuity. This is a bet on a basket of new products that we hear terrific things about. The company makes lighted devices that illuminate surgical cavities in minimally invasive operations. In targeted markets (breast, gyn, thoracic and orthopedic) these products enable smaller incisions, reduce surgical times, reduce risks of infection and lower risks that patience need to return to hospitals for follow up.

Why we think this works: The company trades for less than 2x revenues in an industry where takeout valuations tend towards +2x-10x range. The company also has a new CEO focused on capital allocation. Despite the negatives (see below), the company continues to grow unit sales and accounts. We believe the company has opportunity under the new CEO, to market, distribute and sell in a much more capital efficient manner than his predecessor.

Challenges to the thesis: Cash flow negative. Some products have experienced manufacturing variances. Products are expensive to the doctors and not reimbursable. They haven't figured out the right "go-to-market" strategy, but new CEO is testing many low-cost solutions.

Passur Aerospace. The company is the only independent collector and analyzer of decades of airspace and airport patterns. Over the course of this tiny company's history, it has moved closer and closer to the customer, from selling a product, to leasing the product and selling data, to analyzing the data to now "offering information as a solution". It owns valuable space – brand space, airport space, enterprise space – and provides a niche service helping airports and airlines better manage their logistics and assets.

Why we think this works: They are finally getting a return on recent SG&A investments. Deferred revenues as of F1Q18 was at all-time highs, meaning revenue growth and profitability is returning, plus the new contract announcements implies potential continued growth in deferred revenues. Chairman owns +50% and is a source of permanent capital. He is in his late 70's and while still young at heart and quick of mind, clearly wants to see a return on his investment sooner rather than later.

Challenges to the thesis: It could be too small to succeed in an industry that is very difficult for small players. They love of their own independence and this might obstruct a potential "monetizing event."

ON TESTING AN INVESTMENT HYPOTHESIS

I like to make as few decisions as possible and react as little as possible to short-term changes in price. However, as the largest single client in the firm, I definitely feel it when stock prices go down. And when they do, as they will inevitably, I increase my research to try to better test the hypothesis, because I want to make sure I'm not missing anything while taking advantage of the opportunity to buy more.

Thinking about this, I'm reminded of a wonderful article I recently read in my alumni magazine about the physicist Andrew Ewald's work on metastasized cancers. I recommend the entire article but this paragraph alone blew me away. It speaks to the amount of time, effort and experimentation involved in simply tracking information that *might* be useful:

> "He reconfigured his microscopes to image hundreds of positions in quick succession while staying in perfect focus. And he replaced the light filters. Microscope designers typically enhance their instruments' resolution by blasting a sample with as much light as possible. But light that bright kills cells. "Bringing in more light looks fantastic for a few images," Ewald says. "Then the sample dies." He took a different tack: He carefully guided the scope's light beams to make each photon do more work. He managed to supercharge his resolution while keeping light levels low enough for cells to survive indefinitely. He wrote software that made the microscope take a picture every 10 to 20 minutes for up to 100 hours. He calls the technique 4-D confocal microscopy—the fourth dimension being time. He calibrated his equipment to collect not just images but numbers—quantitative measures of cells' positions, velocities, and trajectories."

What an intense and extraordinary amount of work first identifying a problem then testing different solutions. It got me thinking about how investors test a hypothesis related to an investment idea.

All public investors have access to self-reported financial information published quarterly; macro-economic information published regularly by the government (and supplemented by private sector service providers); and their own abilities to reason. These are good primary sources to help form a hypothesis.

We also have access through Seeking Alpha, Sumzero, VIC, et al. to other people's views on a stock. And of course, the most expedient piece of information is the stock price, which is essentially the aggregate of what everyone thinks.

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There is value to knowing what everyone else thinks, but it often serves more as a "bias creating machine" than a "hypothesis testing machine".

I recently met a PhD psychology student at Stanford who told me: "There's lots of human error out there, that's for sure," which is a nice way of saying something a lot of us probably wonder from time to time. It gets to the heart of my belief that the markets, theorized as an efficient method of price discovery just as often amplifies human error.

If you want to do better than the crowd, you have to do different. With nearly two decades of investment experience, and a foundation of healthy skepticism, a little irreverence and a lot of humility, I think it is possible to sustainably and repeatedly do better than the crowd. The question is: How?

Part of my work, which was informed by my brief experience in 1996 working as a PI for BackTrack Reports, involves interviewing people. Without care, interviews can lend towards biases (small sample sizes, weak connections, etc) but a good source (customers, executives' former colleagues, competitors who always love to dish dirt, experts in certain fields) asked the right open-ended questions can add value that is not otherwise available elsewhere. It is a sharp relief from talking with other investors who more often than not don't want to hear or haven't considered the bad news. *The best ones do, and most likely already know it.*

I know I'm not the only investor who interviews people and I know that as a "hypothesis testing machine" it is imperfect. But I think marrying the quantitative analysis of financial statements with the qualitative aspects of "walking around and talking to people" helps reduce some errors.

Whatever the favored method is, the key is to first figure out what we're looking for, then try to figure out how to find it. It's hard and it's time consuming and you never know if what you're going to find will add value. I start with asking "where am I wrong" in order to seek out what I don't know so I can find ways to disprove the hypothesis. Asking the right questions is one of the hardest parts to solving any problem, investing included.

There's no one answer and we can all find our paths to success. But following a scientific method has tremendous value. I realize that comparing the humble and greedy aspects of business valuations and investing doesn't hold a candle to cancer research, but in taking a professional and scientific approach to the work, at least we can match the integrity of it.

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