JUNIPER PEAK CAPITAL LLC

January 31, 2019

To Our Partners:

RE: Juniper Peak Capital Partners LP Update for the Fourth Quarter and Annual 2018

Investment Results

For the three months ended December 31, 2018 the Partnership's *net* performance was a *loss* of -33.2% versus a *loss* of -13.5% and -20.2% for the S&P 500 and Russell 2000, respectively. The Partnership's year-to-date net performance was a *loss* of -24.6% versus a *loss* of -4.4% and -11.0% for the S&P 500 and Russell 2000, respectively.

> "Every past decline looks like an opportunity, every future decline looks like a risk."[1]

Ironically, it is often when we believe we are adding the greatest value that the stock market implies we are destroying it instead. Selling one's shares when they are becoming cheaper relative to the value of the underlying business, just because everyone else is selling and driving share prices down irrespective of value, is generally not a profitable, long-term strategy; nor is it in keeping with our investment strategy or process.

This letter will explain why we chose to welcome the volatility of the most recent quarter reflected in the headline results, and why our largest concern is how the Fund's Limited Partners ("Limited Partners" or "LPs") are receiving the above and interpreting the below. Of the Fund's positions and their aggregated, underlying values we are confident. It is during market wipe-outs where we are most likely to take the actions which add the greatest value in the future.

That said the quarterly and annual results will naturally make our Limited Partners anxious. We understand this, and wish to summarize the following:

> Limited Partners should understand your General Partner ("General Partner" or "GP") views the aggregate unrealized loss, due to year-end mark-to-market reporting, to be of a temporary nature, and not reflective of a permanent loss of capital. In fact, the very nature of bargain purchases in existing positions, when paired with period end reporting required by Generally

[1] *When Things Get Wild* by Morgan Housel, November 5, 2018. See for example https://www.collaborativefund.com/blog/when-things-get-wild/

Accepted Accounting Principles ("GAAP"), will generally lead to this result, unless we are unusually fortunate.

Limited Partners should understand, as of the time of this writing, more than one-half of these temporary losses have reversed (even more quickly than we would have wished), and we continue to await catalysts in Q1 and Q2 where we expect to recoup the rest of what we are confident will be 'paper losses', in aggregate; to some degree irrespective of what the market does.

Further, we have in select instances taken the opportunity to greatly increase our positions at lower average cost bases. Therefore, it is important to note that once we recoup our temporary losses, we will be in a far more favorable position than we were at the end of Q3 2018, as we will own a greater number of shares of some of our favorite companies at a lower average cost basis.

As a show of confidence, in Q1 2019 your General Partner has made a six-figure capital contribution to its Limited Partnership interest and plans to make an additional six-figure capital contribution to the Fund in Q2 2019. We did this in order to allow the Partnership to more fully exploit the bargains made available by the Market as of January 1, 2019, and to even more closely align our interests with your own.

Lastly, we do not intend to make a habit of testing your vigilance in this manner; however, we are excited for you to test the results over the coming years.

This quarter demonstrates we mean what we write in these letters:

While the year-to-date absolute performance of the Fund is negative both in absolute terms <u>and</u> relative to the indices, just as we do when the relative performance is reversed, we caution you not to place undue emphasis on any one quarter's performance. Our strategic framework seeks to exploit volatility,[2] and our focus continues to be on the margin of safety in the assets of the underlying portfolio and on the long-term record, measured in terms of years and decades rather than months and quarters. In other words, our goal is to have long-term, above average returns on capital with minimum risk of <u>permanent</u> capital loss. So, while our 2018 annual results are decidedly unfavorable, we remain focused on strategies that will bring about the achievement of our long-term objectives.

The annual, quarterly, and cumulative partnership returns are reproduced and tracked each quarter, and subsequently, each year, in Appendix A. Please note the presentation of Limited Partner Results represents returns *assuming the management fee and incentive allocation were charged as laid out in the Limited Partnership Agreement*, which we believe is a better metric to be used by our limited partners for comparison with their individual statements as well as a better metric for prospective

[2] See *Investment Philosophy* below.

investors when reviewing our results. We invite you to review your individual quarterly statement, which you should receive on Thursday, January 31, 2019, for results specific to your individual account.

In light of the anxiety fluctuations of this magnitude are apt to produce, and without establishing a precedent for monthly reporting, you are invited to phone us next week if you wish to receive an update as to the performance of your account since January 1, 2019.

Investment Philosophy

In our Q2 2018 Partner Letter we discussed several of the contributions of Benjamin Graham to investment analysis which we will summarize again here:

> Graham's *Big Idea* was that shares of stock represent undivided interests in the assets and cash-flows of the underlying business. Although *prices* of stock certificates may temporarily fluctuate in value based on technical factors (i.e. *supply and demand* forces in the shares themselves) and stock market sentiment broadly (i.e. whether the public believes the stock market, or economy, is headed higher or lower in general), in the long-run stock prices should approximately reflect the intrinsic values of the underlying businesses.
>
> The *Margin of Safety* principle requires one to estimate the *intrinsic value* of that underlying business and insists that one only purchase shares in that business at a significant discount to that estimated value. This discount provides a margin for error in the investor's valuation estimate, as well as margin for error in the operations of the business before the investor's capital will become permanently impaired.
>
> The concept of *Mr. Market* is based on the view that humans are often irrational, and the aggregate decision making of stock market participants often causes prices in individual companies to be either wildly overstated or widely understated. The intelligent investor may take advantage of Mr. Market's volatile nature by purchasing shares in quality businesses when they are selling at a significant discount from their intrinsic values, and conversely, selling those same shares when they are selling at or above their intrinsic values.

Benjamin Graham wrote:

> "Basically, price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal…"[3]

[3] Benjamin Graham, The Intelligent Investor, Harper Business, 4th Revised Edition, Chapter 8: The Investor and Market Fluctuations, p 109.

Peter Lynch, of Fidelity Magellan fame, said the following:

> "You should study history. History is the important thing you learn from. What you learn from history is the market goes down. It goes down a lot. That's all you need to know. You need to know the market's going to go down some time. *If you're not ready for that, you shouldn't own stocks. And it's good when it happens.* If you like a stock at $14 and it goes to $6, that's great. You understand the company, you look at the balance sheet, and they're doing fine. And you're hoping to get to $22 with it, $14 to $22 is terrific, $6 to $22 is exceptional. So you take advantage of these declines. They're going to happen. No one knows when they're going to happen… So you can take advantage of the volatility in the market if you understand what you own. So I think that's the key element."[4] (Emphasis added)

Benjamin Graham also stated:

> "The investor with a portfolio of sound stocks should expect their prices to fluctuate and should neither be concerned by sizable declines nor become excited by sizable advances. He should always remember that market quotations are there for his convenience, either to be taken advantage of or to be ignored. He should never buy a stock *because* it has gone up or sell one *because* it has gone down. He would not be far wrong if this motto read more simply: 'Never buy a stock immediately after a substantial rise or sell one immediately after a substantial drop.'"[5]

Therefore, if we have managed and arranged our portfolio and assets appropriately, as investors we should look forward to, rather than fear, volatility in our investment holdings. Why? Because when our shares depreciate substantially, we should welcome the opportunity to buy additional shares at a lower average cost, and if our shares appreciate substantially, we should capitalize on the opportunity to sell (some or all of) our shares above their intrinsic value; or disregard the price movements entirely.

We will not always be perfectly successful in this pursuit. As certain events will remain outside our control and as we are prone to human error, we will sometimes make mistakes in estimating value, but in aggregate we are confident in the Fund's processes and investment philosophy to minimize these risks and in our ability to execute thereon. In addition, we will continue to refine and enhance the Fund's processes as well as seek to identify and attract like-minded investors with time horizons and perspectives conducive to this philosophy and strategy.

[4] Peter Lynch Speech, National Press Club, October 8, 1994.

[5] Benjamin Graham, The Intelligent Investor, Harper Business, 4th Revised Edition, Chapter 8: The Investor and Market Fluctuations, p 110.

Portfolio

In this section we seek to highlight positions reflecting our investment strategies. It is generally a key part of our investment strategy not to disclose positions in which we are currently active unless and until we are required to do so.

We closed out a *short-term*, special situation investment in Revlon, Inc. ("REV") early in Q4.

Often when entering into long-term investments where the bargain purchase itself acts as a margin of safety against the permanent loss of capital, and where we would welcome a subsequent decline in the price of the shares, we will enter the position without a direct hedge; hence much of the Q4 results. Ultimately, we are relying on the underlying intrinsic value and market efficiency to bring prices back into equilibrium.

In other instances, particularly certain special situations, we often take considerable care in designing the investment to avoid losses altogether. Often, we hedge these because the company is burdened with excessive debt, lacks an adequate margin of safety, or is exposed to any number of other risks where we believe we need to guard against a permanent loss of capital within our investment horizon, and not just temporary price fluctuations. REVLON is indicative of the latter situation so we thought it would be appropriate to highlight here.

[One may reasonably ask *Why not structure all investments in such a way as to minimize even temporary losses?* This is a good question with a number of potential answers. First, it either isn't possible, or we would be making only 1-2 investments at a time and we would be even more concentrated than we already are. Warren Buffett and Charlie Munger did that successfully for a while but we're not them. Also, many very attractive situations cannot be so hedged, at least directly, so we would be artificially disqualifying some of the most attractive investments. In other instances where direct hedges are available, some of these are prohibitively expensive. Thus, we establish processes for various investment types.]

Please refer to Appendix B for a summary of the investment in REVLON.

Conclusion

In Conclusion, we wish to reiterate that we viewed the fourth quarter of 2018 as an opportunity. Did we see the wipe-out in micro-capitalized stocks of Q4 coming? No. We noted valuations were stretched in the market as a whole in September 2018 but were confident in the value of our securities. Whereas we were more conservatively positioned in Q1 and Q2, the nature of our positions in Revlon and Renewable Energy Group, Inc. and a new position we put on in the last week of Q3 left us particularly exposed to the volatility. Our decision to cover the Revlon position and our subsequent decisions to buy into the correction left us with the headline results reported here. Given the values underlying our portfolio holdings we were more excited than concerned. We were, and remain, confident the values will soon again begin to be reflected in the share prices as rationality continues to return to the equity markets, and we are excited about the potential set-up for the coming quarters and years.

Administrative Note

Following the end of the calendar year the Partnership had its annual audit by the accounting firm Spicer Jeffries, LLP. The audit has now been completed and pursuant to the Private Placement Memorandum, you are being furnished a copy of the audited financial statements concurrent with this annual letter. Additionally, the federal tax information will be prepared by Spicer Jeffries, LLP as well. Please note that we will work diligently with our service providers to ensure timely completion and delivery of said documents. Please do not hesitate to contact us with any questions or concerns.

We wish to welcome the new Limited Partners who have chosen to participate with us and express our sincere appreciation to both new and existing Limited Partners. We recognize the significance and importance of our responsibility to manage a portion of your overall investment portfolios. We strive to remain worthy of your trust and we will continue to work diligently so that all may be successful.

If anything in this letter is unclear, or if you have any questions or concerns not specifically addressed in either this letter or in your annual partnership statement or the annual report and financial statements, please do not hesitate to contact either Robert Stewart (435-720-7943 and rstewart@juniperpeak.com) or Mike Seeley (801-674-8696 and mseeley@juniperpeak.com) at your convenience.

Best Regards,

Juniper Peak Capital LLC

Juniper Peak Capital LLC
General Partner

APPENDIX A

Juniper Peak Capital LLC has chosen to use as relative benchmarks the S&P 500 and Russell 2000 Indices; not because either index reflects the investment strategy nor approximates the types of securities held in Juniper Peak Capital Partners LP, but because these two indices have demonstrated the ability to outperform the majority of asset managers, net of fees, and as such, they serve as stable, long-term alternatives for the capital which our Limited Partners have chosen to deploy in the Partnership. Actual returns are reproduced below both on a periodic and on a cumulative basis.

PERIODIC RETURNS (YEAR-TO-DATE)

INVESTMENT RETURNS FOR JUNIPER PEAK CAPITAL PARTNERS LP
FROM INCEPTION (4/1/2018) THROUGH 12/31/2018

Period	S&P 500	Russell 2000	Gross Partnership Results (1)	Net Partnership Results (2)
2017 (9mo)	14.9%	11.9%	26.1%	18.4%
2018 (12mo)	-4.4%	-11.0%	-19.8%	-24.6%

(1) Consists of gross fund level results for the period noted before expenses and allocations to the General Partner.

(2) Computed on basis of preceding column of partnership results after expenses and allowing for any allocations to the General Partner based upon the general terms of the Limited Partnership Agreement. Net results to individual Limited Partners will depend on the specific partnership agreement they have selected.

PERIODIC RETURNS (QUARTERLY)

INVESTMENT RETURNS FOR JUNIPER PEAK CAPITAL PARTNERS LP
FROM 04/01/2017 THROUGH 12/31/2018

Period	S&P 500	Russell 2000	Net Partnership Results (1)
Q2 2017	3.1%	2.5%	6.7%
Q3 2017	4.5%	5.7%	8.7%
Q4 2017	6.6%	3.3%	2.1%
Q1 2018	-0.8%	-0.1%	0.1%
Q2 2018	3.4%	7.8%	-3.3%
Q3 2018	7.7%	3.6%	16.5%
Q4 2018	-13.5%	-20.2%	-33.2%

(1) Limited Partner Results are net results after expenses and allowing for any allocations to the General Partner based upon the general terms of the Limited Partnership Agreement. Net results to individual Limited Partners will depend on the specific partnership agreement they have selected.

DISCLAIMER: Periodic and Cumulative Returns is an historical measure of past performance and is not intended to indicate future performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more, or less, than their original cost.

APPENDIX B

REVLON INC. ("REVLON", "the Company", or "REV")

[We owe credit for much of the groundwork here to Mittleman Brothers Investment Management ("Mittleman").[6] We invested alongside Mittleman in a previous investment, and have gained a great deal of respect for their vigilance and activism. Shortly after establishing the Fund in 2017 we commenced a small position in REVLON, but the shares appreciated before we could build a sizeable position. We continued monitoring the situation for almost a year before we decided to initiate a three-month, special situation investment in its shares and derivatives.]

Summary Thesis

We commenced our investment in REVLON during Q3 2018. The investment thesis was that REVLON shares were trading at multi-year lows in the \$15-\$17 range in the early summer of 2018 while intrinsic value was estimated to be greater than \$50 long-term, with a potential take-private catalyst to unlock value in the near-term, perhaps as high as \$30-\$40; though shares needn't reach anywhere near those levels for us to profit from the situation.

Consensus View

Revenue and earnings had been declining since 2015. The short interest was up 150% since fall 2017 and equated to over 100% of the free float. The smart money appeared to believe the Company was heading towards a recapitalization in the late spring and early summer of 2018, taking its cues from bond price movements, or it believed the 85% majority owner, Ronald Perelman, was going to utilize loopholes in the loan covenant to shift assets away from creditors ahead of a take-private transaction. Indeed, Perelman initially underwrote this perception by making a capital infusion in spring 2018. The market seemed to just be pegging the shares in the mid-teens as it awaited a conclusion.

Variant Perception

The Elizabeth Arden acquisition was a bargain at less than 1x EV/Rev and the brand was growing. The turnaround seemed to be working. The *stand-still agreement* extracted from the Board by Mittleman in fall 2017 expired September 15, 2018. If Perelman was going to take-out Revlon 'on the cheap' there appeared no better time as the shares were trading at multi-year lows.

Trigger / Catalysts

- A take private tender offer by Perelman in late Q3 or early Q4 2018
- Debt recapitalization by Perelman dilutes equity
- Short-form merger post-September 15, 2018 increases the share price drastically, or not
- A Q2 2018 earnings beat or insider buying would cause a short squeeze and could cause shares to rally significantly
- A 'kitchen sink' quarter could send shares down significantly

[6] We also, through a Mittleman blog post, became aware of a blog post by moxreports.com where we found some very helpful information.

Risks

There are a number of risks here we do not wish to go into for reasons involving sensitivity; however, they all boiled down to the risk that we either fail to adequately protect the downside or the risk that we fail to hold to maturity. When we use the term *risk* here we are referencing a risk of loss of capital and not the risk of incurring volatility which we viewed as a given. Thus structuring the investment to take volatility into account would be critical.

<u>Conclusion</u>

We initiated a 10% core position in the common shares at an average price of $15.50/share. We then straddled this core position with out-of-the-money call and put options. The put options had a strike price of $12.50/share. The call options had various strike prices of $17.50, $20.00, and $22.50 with expiration dates of August, September, October, and November. We structured the positions such that if the shares went down *a lot* we wouldn't lose *any* money. If the shares went down *a little,* we <u>might</u> lose *a little* money, but not much. We believed the likelihood of this happening was low because when the shares moved, whichever direction, they were going to move *a lot*. If the shares went up we would make money. If the shares went up significantly we would make a lot of money.

So what happened? The Company reported a kitchen sink quarter and the shares moved down to $14. Then Ron Perelman began buying stock and the shares headed up, reaching roughly $25 in short order. We sold a third of our common after the shares appreciated 50%, bringing the equity position back to the original 10%. We took gains on some of our call options and layered on additional put options. That is roughly where we ended Q3.

Ron Perelman extended his standstill agreement for another year; though he continues buying shares in the open market to this day. Our options were going to expire shortly so we chose to cash them in (early) and take the gain and we closed out the equity position at the same time, as it was never intended to be a long-term position. Both proved to be profitable, but hindsight is often cruel.

We would have been far better off from a temporary results standpoint had we kept the position as it has subsequently been bouncing between $22 and $29 per share, but that is what behavioral psychologists call *resulting*. Ultimately, we designed what we felt was a good investment with extraordinary upside, very little downside, and followed our investment thesis. Our original investment thesis did allow us to extend the holding period if everything was working as planned, which it certainly was, but we had already made a large realized gain.