MASSIFCAPITAL

October 12th, 2017

Dear Friends and Investors,

I will forgo my usual habit of discussing the state of the world in this letter in favor of a more in-depth review of each position held in the portfolio. I do this because my analysis provides no constructive value add at this time. There are many conflicting business/economic data points that on their own make no sense (for example European High Yield Bonds trading at lower rates than US Treasuries) and when assessed altogether present a world that is conflicted with itself in dramatic ways.

For example, as Jim Grant recently stated, "we have depression level interest rates and boom time equity values and real estate cap rates, how does that work?" As his interviewer insightfully responded, the only way it works is that it does until it doesn't, but it can't work forever. To this, I would add that the current state of economic incongruence would seem to work until it doesn't because interest rates and the prices affected by them convey information, but manipulated interest rates convey only misinformation. Decisions made on the basis of false information always have an expiration date.

For the quarter ending September 30, 2017, the core portfolio was up 1.59% net of all fees and expenses compared to a gain of 5.08% for the MSCI All Cap World Index. Year-to-date (through 10/04/2017) the core portfolio is down 1.66% net of all fees and expenses compared to a gain of 18.29% for the MSCI All Cap World Index. Since inception in June 2016 through the end of the third quarter 2017, the core portfolio has returned 15.6% net of all fees and expenses compared to 25.84% for the MSCI All Cap World Index. Returns in separately managed accounts may differ from the core portfolio based on initial investment date. For the quarter ended June 30, 2017, all accounts, when viewed as a single portfolio, were up a combined 1.36%, YTD all accounts are down 0.10%, and since inception, all accounts are up 12.06%.

Portfolio Review

At the current time, the core portfolio is 73.7% invested with 26.2% of the portfolio held in a mixture of cash and US Government T-Bills. For most investors, accounts are invested at levels between 55% and 60% invested, with the largest difference from the core portfolio being a single position in CNX Coal Resources which unfortunately made a significant move higher shortly after purchase, preventing its inclusion in many separately managed accounts.

The core portfolio holds equities and options traded on Exchanges in the US, France, Singapore, and Canada. The portfolio is principally invested in the United States with 36.2% of the portfolio assets allocated to companies that in my judgment derive their value from US-based operations. The remainder of the portfolio is comprised of businesses that generate their value in Africa (12.0% of the portfolio), Europe (7.6%), Asia (5.9%) and from global operations (11.7%). The global nature of the portfolio means we also hold positions in a multitude of currencies including US Dollars, Canadian Dollars, Euros and Singapore Dollars. The FX exposure has been a positive for the portfolio, but only in a very small way. I am cognizant of our unhedged FX exposure and am always thinking about its positive and negative attributes, at the current time though I see no reason to hedge away the risk. From an industry perspective, the core portfolio is 25.3% invested in energy, 12.1% mining, 10.0% financials, 18.8% in diversified conglomerates and 7.3% in consumer cyclical's, with an average position size of 7.3%.

In keeping with my preference for buying real assets cheaply, the portfolio has a simple weighted average Price to Tangible Book value of 0.73 suggesting we are paying roughly $0.73 per $1.00 of real assets (all of which are cash flow generating). Given the companies I am investing in it is likely unsurprising to hear that the fund's Price to Book Value, meaning the ratio of price to the value of all assets, real or intangible, is roughly the same as the Price to Tangible Book Value. If one were to purchase the iShares MSCI ACWI ETF (the ETF vehicle for the fund's benchmark index), you would be paying $2.30 for every $1.00 of assets (not just tangible assets but all assets, including goodwill and intangibles). In addition to acquiring assets at more favorable prices then the benchmark, the core portfolio has a significantly higher dividend yield over the last twelve months: 4.0% vs. 2.44%.

Individual Positions

At the current time, the portfolio is made up of ten equity positions, two small options positions, cash and US T-Bills.

Equity Positions

	% of Portfolio	Unrealized P&L		% of Portfolio	Unrealized P&L
BNED	6.98%	-24.70%	**H02**	3.63%	11.10%
BOL	7.81%	16.20%	**LUC**	5.50%	-14.90%
CNXC	13.62%	63.00%	**NSU**	6.61%	-16.10%
DO	12.37%	5.60%	**OZM**	7.19%	16.50%
MC0	2.41%	1.80%	**SPLP**	7.58%	27.10%

Data as of 10/10/2017

Barnes and Nobles Education (BNED): BNED is a 2015 spin-off from Barnes and Nobles focused on an attractive niche retail segment - university and college bookstores. Barnes and Nobles is the funds only investment in a business focused exclusively on the US consumer. The core brick and mortar business is cash flow positive with strong and unique barriers to entry in the form of long-term relationships with school administrations. In the long-term, I expect the multi-decade trend of schools outsourcing non-core activities (running the cafeteria, the bookstore, managing parking facilities, etc.) to continue. The constructive view on the trend is supported by a continued decline in state and federal funding for postsecondary educational institutions, declining returns on endowments and the potentially lucrative nature of long-term outsourcing contracts for schools. Management has made a strong effort to diversify the firm's core activities via a series of immediately accretive bolt-on acquisitions within the educational technology space. A recent research report on BNED can be found here.

Bollore (BOL): BOL is a complex family-owned European conglomerate with significant investments in global logistics (freight forwarding and port operations) and significant European Media and Advertising businesses. The big news for Bollore this year was the sale of 59% of Havas, the sixth largest advertising firm in the world to 20% controlled media conglomerate Vivendi. Also, due to the level of control Bollore has over Vivendi, the media firm's financial results will be fully consolidated with the rest of Bollore going forward. The sale of Havas gives Bollore cash to either pay down debt or buy back shares. Results from the group's transportation segment (principally West African ports and global freight forwarding) have been flat or slightly down from last year. The growth of the West Africa port business continued despite flat financial results via the signing of a 25-year concession to operate the new container terminal in Kribi Cameroon and winning regulatory approval for the acquisition of the West and Central African assets of Necotrans. The acquisition of Necotrans assets leaves Bollore without any significant competition when it comes to port operations on the West Coast of Africa.

CNXC Coal Resources (CNXC): CNXC is a thermal and metallurgical coal master limited partnership spun off from natural gas-focused CONSOL Energy. Despite lots of talk out of DC about the coal industry not much has changed over the course of the last twelve months and the long-term outlook for the industry is grim. Nevertheless, the death of coal is still many years off even under the most optimistic of scenarios. CNXC remains one of the industry's most efficient producers, maintaining strong relationships with financial sound coal-burning utilities and a debt lite balance sheet. This combination of factors makes for success, regardless of the long-term industry trend. There is little to report on the company's operations since the fund first invested; the business is relatively dull. Longwall mining operations continue, and the forward sold coal position remains strong. If presented with the opportunity to add CNXC to separately managed accounts that do not currently have it, I would take the opportunity.

Diamond Offshore (DO): DO is the owner and operator of the youngest, most conservatively financed offshore drilling fleet currently operating. DO management continues to impress me with both capital discipline, operational excellence and creativity (both financially, extending its nearest maturity debt at reasonable interest rates this past quarter, and operationally). The firms fleet is the youngest in the industry, its balance sheet is the strongest, and it is pushing the industry to innovate, through both creative partnerships with oil equipment manufactures and through high tech automation. The firm is one of the only offshore operators to generate true free cash flow and has among the highest contract coverage rates through 2019 of any company in the business. This combination should see it through any oil market volatility in the near term (next 2-3 years). The uptick in oil prices and offshore activity in recent months have created a good environment for DO stock, which has rallied more than 30% since its low earlier this year. The sell-off allowed me to add to our position, reducing our average cost by $2 a share and the subsequent rally has put the position back in the black. There is some expectation that DO will announce it is moving forward with its next-generation floating factory concept (a first of a kind highly automated drillship that looks to reduce well drilling time by 15% to 30%) in the 3rd or 4th quarter of the year. If they do so it will likely be with the ships, two newbuilds are rumored, already contracted.

Global Logistics Properties (MC0): Global Logistics Properties is a real estate operating company based in Singapore that owns and controls leading industrial real estate platforms (warehouses) in China, Japan and Brazil. Although the company's business had been performing well in the recent years, GLPs stock price never seemed to recover from the market dislocations experienced in the region in late 2015. As a result, the company's largest shareholder (the Sovereign Wealth Fund of Singapore, GIC) urged the Board to undertake a strategic review process to seek out transactions that would maximize value for shareholders. In mid-July, GLP announced that it had agreed to sell the company to a consortium of management and Asian-based buyers for $3.38 per share, a 25% premium to prevailing market prices. The company was not on my radar until after the deal was announced but I did manage to buy a small position before the spread between the buy-out price and the price in the market closed. The deal is expected to close before April of next year, netting a 5% return in less than 12 months.

Haw Par Corporation (H02): Haw Par was one of two new Singapore investments made in the third quarter of this year. The firm is a deeply undervalued consumer healthcare business with significant international growth potential. It has a fortress-like balance sheet with a portfolio of investments, real estate and net cash that is valued at more than the total market capitalization of the company. The consumer healthcare business is focused on the sale of Tiger Balm, a well-known cream used for sore muscles. It is currently sold in 100 countries and management believes significant expansion is possible. Over the last five years, management has improved return on assets employed in the healthcare business from 17.4% to 63.8%. The groups real estate operations are comprised of 45,399 square meters of commercial and industrial space in Singapore and Malaysia. Haw Par Group also has three significant equity positions in blue-chip Singapore stocks: a 4.4% stake in UOB (the third largest bank in Southeast Asia by assets), a 5.6% stake in UOL Group (a residential, commercial and hospitality focused property developer) and a 4.9% stake in United Industrial Corporation (a commercial/retail and residential-focused property developer that is 45% owned by UOL Group).

Lucara Diamond (LUC): LUC is a diamond miner with a single operating mine in Botswana focused on the production of exceptional rough diamonds (10.8+ carats). In recent months Lucara has completed the final stages of is capital expenditures geared towards improving recovery at the mine and sold the 1,109-carat Lesedi La Rona for $53 million. With the completion of capex and the sale of the Lesedi, management finds itself with more than $100 million in cash, no debt, and yearly maintenance capital expenditures of between $7 and $9 million a year for the next eight and half years of open pit operations. Over the last quarter, LUC has traded down and settled at a price between 10% and 12% off our average purchase price. I will be using this opportunity to add to our position in the coming weeks ahead of 3rd quarter results and am optimistic that management may pay a special dividend, like that paid last year. It is also worth noting that although rough diamond prices have held up this year much of the sector has been plagued by political risks and operational struggles, and as a result, the industry has traded down, on average more than 30%.

Nevsun Resources (NSU): NSU is a mid-tier Copper-Zinc miner with one operating mine in Eritrea, Africa and a world-class copper development project in Serbia (Timok). Nevsun is the fund's most tortured and difficult position. I initially invested in the company based on the excellent management of a complex and difficult asset. Unfortunately, the complexity of the asset finally caught up with management and has impacted results ever since the initial purchase. Because of the complex metallurgy at Nevsun’s Eritrean mine, management has decided to scale back the mine plan and focus on its high-value Timok Copper-Gold project in Serbia. I will be going to Serbia to visit the mine site with management in November. I will provide an update on the business at that point.

Och-Ziff (OZM): OZM remains one of our most contrarian portfolio positions as the firm is an actively managed long-short equity hedge fund. The stock sold off significantly in recent years due to a combination of bad press related to a bribery scandal in Africa, and the general shift of investors away from active management towards passive management. Additionally, the firm has suffered significant withdrawals of capital from investors that appears negative but only returns the firm's assets under management (AUM) to a level (around $30 billion) that the company had in 2012. In recent months, the AUM bleeding has stopped, and on a month to month basis AUM is little changed in one direction or another. Performance is also returning with a close to 10% return on the master fund this year and 18.5% return from the real estate fund. Management has increased the dividend two quarters in a row and will hopefully continue the trend as distributable cash flow continues to grow and stabilize.

Steel Partners (SPLP): SPLP is an industrial conglomerate run by former hedge fund manager Warren Lichtenstein. Management has continued to simplify the businesses, with the most significant move this year being the acquisition of the 30% of Handy and Harman that the company did not already own. When completed later this year the consolidation of disparate industrial operations (focused principally on the manufacture of various small miscellaneous items necessary for the production of capital goods: metal tubing, joining materials, carbon fiber sheets, components for electrical power systems, etc.) will be mostly complete. The highly successful lending operations of the WebBank subsidiary continue, but the potential for increased regulatory scrutiny within the consumer lending space that WebBank primarily services remains high. Further simplification of the business is possible, and will likely unlock further value. The remaining noteworthy opportunities and catalysts for value creation are the tax loss carryforwards held by subsidiary ModusLink and recognition by the market of the value of the 6.5% stake of Aerojet Rocketdyne which is up 94.0% this year.

Final Notes

Investors can now access their accounts via a link on the fund's website. See the Client Log In button on the navigation bar at www.massifcap.com. Additionally, investors are encouraged to check out the growing library of research on the website. This quarter much of my reading focused on trying to gain a deeper understanding of China, as such I strongly recommend the three-volume series on China from the end of WW2 to 1976 written by Frank Dikotter, it presents a detailed history of events that most people in the West are at best only vaguely familiar with. Given the role China is playing in the world, I believe a deep understanding of the country's history seems a necessity for all investors.

Best Regards,

Will Thomson