



April 24, 2018

Dear Partners,

Rowan Street Capital gained +3.7% gross of fees and expenses in the first quarter of 2018 compared to a loss of -0.8% for the S&P 500. Following a sequence of strong earnings reports for our portfolio companies, our fund hit an all-time high in AUM (assets-under-management) in mid-February. Since then volatility returned to the market, as concerns about inflation, higher interest rates and a global trade war caused the S&P 500's returns to range from +8% to -4% during the quarter.

We have no idea what the market is going to do over the next quarter or the next year, and we make no attempt to make such predictions. There is nothing in our record that suggests that we can add any value by making those predictions and trying to time the market (in contrast to an inordinate amount of energy and resources that is spent on these activities on Wall Street). The following quotes from all-time greatest investors come to mind:

*"I can't recall ever once having seen the name of a market timer on Forbes' annual list of the richest people in the world. If it were truly possible to predict corrections, you'd think somebody would have made billions doing it." -- Peter Lynch*

*"The only value of stock forecasters is to make fortune tellers look good." -- Warren Buffett*

We remain focused on what we do well -- identifying high quality, well-run businesses that are likely to compound our capital at double-digit rates of return over the long run, and we try to acquire those opportunistically when Mr. Market offers us an attractive price. This approach has proved to be successful for us throughout our investment careers, and we will continue to focus on that because we think it's logical, repeatable, simple and straightforward.

### **Activity during the quarter**

We took advantage of higher volatility to increase exposure to a couple of our portfolio companies at more attractive prices. Additionally, we started three new 'seed' positions. We are particularly excited about these opportunities as these companies align perfectly with all of our investment criteria and have strong potential to compound our capital at attractive rates of return over the next 3-5 years. We will be looking to increase all three positions over the course of this year.

### **10-Player All-Star Team (sports analogy)**

I grew up playing ice-hockey competitively and often use sports analogies. We like to think of Rowan Street portfolio as a sports team made up of 10 best players we can draft, and we are lucky to have a huge universe of talent to pick from. We spend a lot of time and energy studying our “players” and understanding their game. We not only look for All-stars, but also the ones with highest potential to become All-stars down the road. Often times, these All-stars come with a hefty price tag since we are not the only ones that recognize how good they are, so we wait patiently for unique opportunities to acquire them for our Rowan team when they are available at reasonable prices (usually when they are injured or temporarily struggling in their current season).

We believe this 10-player mindset that we use in managing our portfolio forces us to be extremely disciplined and picky. If we find a new potential player that we really like, somebody from our current team (who we already know very well) has to be kicked out. It’s never an easy decision to get rid of someone that has been with you for years, and this forces us to build a strong conviction in the potential of a new incoming player before we are able to make the replacement.

We believe we can play the game with as few as 8 players and as many as 12. Sometimes, you like a few players enough to let them on your team, but you don’t know them or their game well enough to give them a lot of ice-time. So they become your temporary “benchwarmers”. You try them out, keep learning about them and how they complement your team, and if it all falls into place, they eventually become fully-fledged players on the Rowan team. If they don’t turn out to have the potential that we thought they had, we will let them go. For example, the 3 players (ideas) that we let on our team in 2018 all exhibit strong potential to become All-stars down the road. However, currently they are only benchwarmers (small weights) looking to get more ice-time (capital) as our confidence in their game grows over time. Hopefully, we did not confuse you too much with our sports analogies.

Thank you for your confidence and trust in our investment discipline. We will continue to invest with a long time horizon like it is our own money – because it is. We appreciate the opportunity to grow your family capital alongside ours. As always, should you have any questions or comments, we would be very happy to hear from you.

Sincerely,



Alex Kopelevich, CFA



Joe Maas, CFA

## APPENDIX

In 2017, we saw a large increase in the number of Rowan Street Capital partners. With all these newcomers, it is imperative that we write again (and again) about our distinctive governing principles that guide and define Rowan Street Capital' investment and business decisions. They reflect our commitment and partnership with our clients.

### **Our Guiding Principles**

AT ROWAN STREET WE:

- Eat our own cooking as we believe in having a sizable portion of our net worth invested in our fund. We want our partners' financial fortunes to move in lockstep with ours.
- Invest for the long term and look beyond the short-term volatility and market unpredictability.
- Think like owners of a business when making investment decisions.
- Choose each equity investment based on its discount from our appraisal of intrinsic value, its competitive position, its financial strength, quality of management, and our assessment of its future earnings potential.
- Focus our assets on our best ideas
- Stay within our circle of competence
- Always demand a margin of safety
- Be patient when selecting our investments. There are no called strikes in investing, so we can wait for the truly fat pitches right in our "sweet spot" before taking a swing.
- Maintain a culture that is conducive to rational thinking and discourage short-term speculators and market timers.
- Communicate with our investment partners as candidly as possible.
- Have a great time and enjoy what we do every step of the way (enjoy the journey).

## DISCLOSURES

*The information contained in this letter is provided for informational purposes only, is not complete, and does not contain certain material information about our Fund, including important disclosures relating to the risks, fees, expenses, liquidity restrictions and other terms of investing, and is subject to change without notice. The information contained herein does not take into account the particular investment objective or financial or other circumstances of any individual investor.*

*An investment in our fund is suitable only for qualified investors that fully understand the risks of such an investment. An investor should review thoroughly with his or her adviser the fund's definitive private placement memorandum before making an investment determination. Rowan Street is not acting as an investment adviser or otherwise making any recommendation as to an investor's decision to invest in our funds. This document does not constitute an offer of investment advisory services by Rowan Street, nor an offering of limited partnership interests our fund; any such offering will be made solely pursuant to the fund's private placement memorandum.*

*An investment in our fund will be subject to a variety of risks (which are described in the fund's definitive private placement memorandum), and there can be no assurance that the fund's investment objective will be met or that the fund will achieve results comparable to those described in this letter, or that the fund will make any profit or will be able to avoid incurring losses. As with any investment vehicle, past performance cannot assure any level of future results.*

*If applicable, fund performance information gives effect to any investments made by the fund in certain public offerings, participation in which may be restricted with respect to certain investors. As a result, performance for the specified periods with respect to any such restricted investors may differ materially from the performance of the fund. All performance information for the fund is stated net of all fees and expenses, reinvestment of interest and dividends and include allocation for incentive interest and have not been audited (except for certain year end numbers).*

*S&P 500 performance information is included as relative market performance for the periods indicated and not as a standard of comparison, as it depicts a basket of securities and is an unmanaged, broadly based index which differs in numerous respects from the portfolio composition of the fund. It is not a performance benchmark, but is being used to illustrate the concept of "absolute" performance during periods of weakness in the equity markets.*

*Index performance numbers reflected in this letter reflect reinvestment of dividends and interest (as applicable). Index information was compiled from sources that we believe to be reliable; however, we make no representations or guarantees with respect to the accuracy or completeness of such data.*