July 24, 2018

Dear Partners,

We are happy to report that Rowan Street Capital (RSC) had a very successful first half of 2018. As of June 30, our fund gained 26% (before fees) versus 2.7% for the S&P 500. We are thrilled with this result (hopefully you are too), yet it's akin to birdieing a hole in golf: it's nice, but the 18-hole scorecard is what really matters.

Our longer-term scorecard is also satisfying: over the past 3+ years since Rowan Street was founded, the fund has gained 51.7% (before fees) versus 38.5% for the S&P 500. On an annualized basis, Rowan Street has compounded at 13.3% per annum (before fees) since inception versus 10.3% for the S&P 500. Although we provide SP500 returns in our letters for comparison purposes, we would like to remind you that RSC makes no attempt to track the indices, and thus our performance will frequently diverge, sometimes to our benefit and sometimes to our detriment. Our portfolio is focused, currently owning just 10 positions, and thus can be volatile over the short run. What matters to us the most though, is delivering on our goal of double-digit annual returns over a long time horizon. We are delighted and grateful that we have been able to deliver on that thus far. Please note that annual double-digit returns are an aspiration and by no means a guarantee.

Under Armour (UA) - from the biggest contributor to underperformance in 2017 to the biggest contributor to outperformance in 2018

Our investment in Under Armour in 2017 provides a great example of how we approach investing at Rowan Street. In our Q4 2017 letter we laid out our investment thesis for UA. It will be worth your while to review what we wrote:

> Under Armour (UA) caused a great deal of volatility in 2017 and detracted significantly from our performance. I am sure all of you are aware of this athletic brand, and some probably own their apparel and shoes. Under Armour was founded by an exceptional entrepreneur, Kevin Plank, in 1995 with one simple insight: The cotton undershirts football players wore under their pads slowed them down when they became soaked with sweat. After prototyping a moisture-wicking, formfitting alternative--made of fabric for women's undergarments--and testing it on ex-teammates, Plank set up shop in his grandmother's basement and, just before he went broke, scored his first big sale, to Georgia Tech. The company went on to create a whole new market for performance apparel, IPO'd in 2005, and now sponsors some of the world's greatest athletes, including Tom Brady, Jordan Spieth, Stephen Curry, Lindsey Vonn, and celebrities like Dwayne Johnson (The Rock).

When Under Armour went public in 2005, its sales were $281 million. By 2010, sales grew to over $1 billion despite the 2008/09 crisis. By 2016, their revenues grew to $4.8 billion, posting 26% annual sales growth over a 10 year period (Nike grew at 8% and Adidas grew at 5% over the same time period). The company snapped its streak of 20 straight quarters of sales rising by 20% or more, and over that time period investors couldn't get enough of the stock. Investors' optimism peaked in 2015, as they were willing to pay 60-80x earnings for the stock that was supposed to grow at 20+% forever. Well, things don't grow forever to the sky and even the best companies experience challenges and struggles from time to time. In Q4 of 2016, their growth sputtered as the North American retail environment had become challenged with many sporting goods stores bankruptcies (e.g. Sports Authority) and UA was much more leveraged to the North American market than their competitors. The stock closed 2016 at $28, dropping from a peak of $54 per share in 2015, as expectations came down significantly. Then, in January of 2017, the stock plunged nearly 25% as the company delivered a tri-fecta of bad news (1) reported sales and earnings that missed forecasts (2) said revenues for 2017 would be lower than what Wall Street expected (3) CFO was stepping down for "personal reasons". And in March of 2017, we started slowly accumulating shares of UA as the stock dropped to $17 per share (for class C).

We believe that UA is a "pitch right in our sweet spot." It's a great athletic brand that was built by a very talented entrepreneur, Kevin Plank, who is still the CEO and a major shareholder. Even though UA is undergoing some temporary growing pains and a shift in retail landscape in N. America, we believe they will adapt, evolve and emerge a much stronger company that has a potential to grow into a $10+ billion business.

What happened on Halloween 2017?

After reporting its Q3 earnings, UA stock plunged 21% in one day as reported results fueled fears that UA's best years are behind it. Quarterly revenue was down 5% as N. America challenges impacted results (NA revenue down 12%). The company updated its 2017 full year outlook and now expects revenues to be up in low-single-digits and took down their margin and earnings expectations. Despite N. America recent struggles, their international business is growing 35% with Asia Pacific growing 52%. Since international sales are still only 22% of overall, they are not big enough to offset NA weakness in a meaningful way (Yet!). As is almost always the case, Wall Street analysts and "investors" cannot see past the next couple of quarters, driving valuations of UA to completely unreasonable levels, in our view. Paralyzed by fear, UA is now valued at just over $5 billion and nobody wants it, in contrast to its peak valuation of $22 billion in 2015, when investors couldn't get enough of the stock and analysts couldn't praise the company enough.

How this affects Rowan Street Capital?

Based on our deep research on the company, we had built a conviction in its positive long term prospects. Thus, we took advantage of extreme fear and rapidly declining valuations for UA in 2017 to build a 20% position in the company. We have been accumulating shares since March of 2017 with average cost basis of approximately $15.40 per share. As the stock plunged on October 31, it detracted about 6% from our portfolio performance (sacrificing short-term results for long term gains). We view this

> decline in market price as temporary and believe current valuations are extremely attractive for a long term investor.
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> If we were a private equity fund and came to Kevin Plank today, offering to buy his whole business for only $5 billion, he would laugh in our faces. He knows that the long term value of his company is multiples of that. The beauty of the public markets is that, from time to time, Mr. Market does not mind selling us his share in good businesses at completely foolish prices. Our job, as stewards of your capital as well as our own, is to take advantage of him (Mr. Market) and not to be influenced by his "incurable emotional problems."
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> We believe that any good businessman would take a short term impact to performance in order to gain over the long run, and would gladly jump at the opportunity to purchase a high-quality business for $5 billion, when there is a high probability of this business being valued at $15-20 billion in a few years. Yet, most participants in the marketplace do not behave like businessmen. Why? It is simply human nature. It is extremely difficult psychologically to go against the crowd – to buy when everyone else is selling, to buy when things look the darkest, to buy when so many experts are telling you that this particular company is risky right now. But, this is exactly what produces outsized investment results over the long run.
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> Being able to take advantage of these kind of opportunities when they arise and to take the long term view, to manage money prudently for our investors with the lack of concern for "conventional wisdom" is the primary reason why we started Rowan Street.

"Patience is not the ability to wait, but the ability to keep a good attitude while waiting. The "good attitude" is to focus on what's happening to the company, not the stock."

- François Rochon, Giverny Capital

UA has quickly become our largest position in the fund as we took advantage of the big sell-off in 2017. We kept our patience (although it was not always easy, especially when the stock price dropped to as low as $10.36 in November of 2017) as we focused on the long term earnings power of the company. In 2018, the stock rebounded strongly doubling from its lows of November and gaining 52% since the beginning of the year in response to two solid quarterly reports, new product unveilings, and some positive changes to the company's management structure. The two quarterly reports published by Under Armour in 2018 showed a return to sales growth and painted the picture of a stabilizing business in the U.S. market as well as continuation of the robust international growth. We are holding on to our shares as we believe UA is still in the very early stages of its turnaround.

This is a great example of how imperative it is to be able to sacrifice short term performance (2017) in order to achieve the long term gains – something very few market participants are willing and able to do. Because of the inordinate amount of energy and resources within the world of professional money management is focused on asset gathering (not investment), short term relative performance is an anathema because it precipitates retail client defections. **At the risk of pointing out the obvious, if one is to perform better than average, one must, more than occasionally, stand apart from what all others are doing**. But this behavior invites periods of underperformance which can be disastrous to the retention of client assets. *"Worldly wisdom teaches that it is better for a reputation to fail conventionally than to succeed unconventionally", John Maynard Keynes*. So the average money manager attempts to engineer a portfolio to retain clients and, of course, mediocrity is the result. We are very grateful to all of you (our partners) for your patience and your long term focus, which allows us to put our *business owners' hats* on and to focus on the long term fundamentals of the business rather than on short term fluctuations of the stock. We cannot emphasize this point enough as we believe it is one of the key ingredients in the long term success of Rowan Street!

TripAdvisor (TRIP) and Chipotle (CMG)

We have probably exhausted all your attention span by now (or maybe it was two pages ago), so will just mention a couple things about these two. We started purchasing stock in these two companies in the second half of 2017, which had also contributed to the underperformance last year. Similar to the UA situation, these companies were out of favor with Wall Street as they had hit a temporary "speed bump", but our deep research showed that their competitive moats are still intact and their intrinsic values are significantly higher than what they were trading for at the time. Their fortunes have turned around in 2018 and these two stocks are also big contributors to our outperformance in 2018. TRIP and CMG are up +75% and +58% respectively in 2018 as of this writing. Patience pays!

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

Over the past 12 months, 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:

(1) Think like business owners
The over-arching principle of our investment discipline is to approach buying stock as though we were buying the whole business outright and retaining management.

(2) Think long term
When making investment decisions we focus on the long term prospects of the business and look beyond the short-term volatility and market unpredictability. We let volatility work to our advantage as we don't believe volatility equates to risk. On average, individual stock prices fluctuate more than 75% in a 52-week period. We welcome volatility as volatile markets occasionally offer extraordinary opportunities.

(3) Think independently
We do our own original deep research and believe that independence of thought is key to long term investment success. We also believe relying on other's analysis results in paralysis or panic under volatile conditions. Groups (groupthink) have a tendency to reinforce preconceptions and suppress critical thinking.

(4) Stay within our circle of competence
We only focus on businesses that we thoroughly understand. We try not to fool ourselves and are not afraid to put an idea in a "too hard" pile.

(5) Always demand a margin of safety
When analyzing a business, we strive to be conservative and realistic in our assumptions. We are disciplined investors, and purchase stocks only when favorably priced, which protects us from permanent loss of capital.

(6) Avoid leverage
We like to sleep well at night. Leverage can enhance returns, but it can also lead to huge losses of capital from which it can be impossible to recover. You can't win a

race if you don't finish, and too much debt can take you out of the game at the worst possible time.

(7) Exercise patience and discipline to only invest in exceptional opportunities
There are no called strikes in investing, so we can wait patiently for the truly fat pitches right in our “sweet spot” before taking a swing. Once an exceptional opportunity is identified, we will make bold rather than timid decisions (meaningful bets) where we see high probability of above average returns.

(8) Do a lot of reading and thinking and not a lot of acting
In that we are sort of the polar opposites to a lot of investors. Many investors do a lot of acting, and not a lot of thinking. We believe that activity is the enemy of returns, and we are quite comfortable doing nothing until there is something to do. *“All of humanity’s problems stem from man’s inability to sit quietly in a room alone” – Blaise Pascal.*

(9) Eat our own cooking
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.

(10) Communicate with our investment partners as candidly as possible
Our guideline is to tell you the business facts that we would want to know if our positions were reversed.

(11) Have a great time and 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 funds 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.