"If you are on the right path, the only thing that is left to do is to keep walking."
– Buddhist wisdom

February 18, 2018

Dear Partners,

For the year ended December 31, 2017, Rowan Street Capital (RSC) returned 8.4% gross of fees and expenses. Of course, net numbers are what matter to limited partners, so please check your individual statements. The S&P 500 Index returned 21.8% including dividends in 2017. 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 concentrated, currently owning just 10 positions, and thus volatile by design. Over longer periods of time the relevance of month to month, quarter to quarter, and even year to year fluctuations will diminish as it's the growth in economic value of our portfolio companies that will prevail. Since inception in March 2015, RSC returned 20.3% cumulatively gross of fees and expenses.

We had made a lot of progress towards building long term value for RSC in 2017. We were very fortunate to raise a lot of new capital throughout the year, which is great news for our fund and for all its partners. In fact, we closed the year with 2.4x more capital than we started with, which we are more than pleased with. It so happened that the bulk of new capital came in the summer months, at which time we had opportunistically deployed the new funds into new ideas that, in our view, present significant long term value. As such, these new investments represented over 40% of our entire portfolio and are still in early stages of our investment cycle, thus they have not had the time to contribute to our returns yet, at least not by December 31st *(investment performance of companies often does not correlate with calendar year end*). Therefore, we would caution our investors against extrapolating any significant meaning from the year end reported number as it says very little about the fundamental value of our portfolio companies today. In fact, our portfolio returns were "shifted" into 2018 as the market started to recognize the value in our new investments following their latest quarterly earnings reports in February 2018. As we are writing this letter, our year-to-date portfolio return was over +8% and most of this return came in just three trading days. This is just an example how, over the short term, the stock market can be irrational and very unpredictable (though some may think otherwise). Over the long term, however, the market should adequately reflect the intrinsic value of our companies.

We firmly believe that if the stock selection process is sound and rational, investment returns will eventually follow. Although, the primary objective of our annual letter is to discuss the results of our portfolio companies over the course of the prior year, more importantly, the goal of our letters is to explain in detail the long-term investment philosophy behind the selection process for the companies in our portfolio. Our wish is for our partners to fully understand the nature of our investment process since long-term portfolio returns are the fruits of this philosophy. You will hopefully notice that we are transparent and comprehensive in our discussion. The reason for this is very simple: we treat you the way we would want to be treated if our roles were reversed.

Relative-performance vs. Absolute-performance orientation

At Rowan Street, our strategy is such that we are not likely to chase returns in order to keep up with the raging bull markets at any price, but we are far more likely to fair well during periods of market weakness due to our value-orientation and strict price discipline that we employ. We would like to use an expert from the *Margin of Safety* book (selling for over $1,000 online) written by a very successful investor *Seth Klarman,* since it is very applicable to the current situation. "Most institutions and many individual investors have adopted a relative-performance orientation. They invest with the goal of outperforming either the market, other investors, or both and are apparently indifferent as to whether the results achieved represent an absolute gain or loss." We believe a lot of this has to do with the current compensation system employed on Wall Street where they get paid a management fee, regardless, based on the level of the assets that they manage. This is in contrast to the compensation system that we had set-up at Rowan Street, which rewards only absolute performance. "When you are absolute-performance-oriented, you are only interested in returns only insofar as they relate to the achievement of your own investment goals, not how they compare with the way that overall market or other investors are faring. Absolute-performance-oriented investors usually take the longer-term perspective than relative-performance-oriented investors. A relative-performance-oriented investor is generally unwilling or unable to tolerate long periods of underperformance and therefore invests in whatever is currently popular. To do otherwise would jeopardize near-term results. Relative-performance-oriented investors may actually shun situations that clearly offer attractive absolute returns over the long run if making them would risk near-term underperformance." In contract, RSC as an absolute-performance-investor, is likely to prefer out-of-favor holdings that may take longer to come to fruition but also carry less risk of loss. This is in fact what we had done in 2017, as we avoided many situations that were widely popular with Wall Street with prices attached to them that provided little-to-no margin of safety and a high probability of future permanent loss of capital, even though adding them to our portfolio would have been enormously beneficial to our short-term performance. Again, we believe that maintaining our strict discipline and patience, especially during "frothy markets" will service us well towards achieving our long term investment goals.

Healthcare investments in 2016

We invested a big chunk of our portfolio into Health Care ideas at the end of 2016, as these quality companies became out-of-favor with Wall Street and prices declined. So far, these proved to be very profitable investments that had produced a significant portion of our gains in 2017.

Positions sold:

- Akorn Pharma (AKRX): company was acquired by a German pharma company and we sold at a 66% gain after only a 4 months holding period.
- Novo Nordisk (NVO): sold at a 49% gain after 10 months holding period; invested the proceeds into another idea with higher expected returns.
- Teva Pharma (TEVA): sold due to deteriorating fundamentals in the company; took a 9% loss; had we held until today our loss would have widened to 41% *(good decision)*

Under Armour (UA)

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.

"I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful" - Warren Buffett

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.

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."

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.

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.

Current Portfolio

We are currently fully invested, with the cash position making up less than 1% of our portfolio. Our current portfolio boasts substantial upside potential over the next 3-5 years. Given the opportunities that Mr. Market has presented us with late in 2016 and in 2017, we were able to put together a portfolio of 10 solid companies with favorable long term prospects selling at low valuations in relation to their intrinsic values. In fact, we estimate that our portfolio companies should be able to compound capital at double digit annual returns over the next 5 years. If any of you have additional capital that you are looking to put to work, this would be an opportune time to do so, as we are aiming to opportunistically add to our existing ideas while they still present good value.

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 Mass, 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

WE WILL:

- 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 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.