To Our Esteemed Clients,

2018 marks the third year that Triple Summit Advisors has been in operation, and the second full calendar year of results. We take the new year as an opportunity to reflect and share our views in our annual letter to clients. The goal of these annual updates is to tell the story of significant holdings in Triple Summit's actively managed equity strategies and explain why certain investments performed the way they did. This past year, volatility returned after a relatively placid 2017, and we will discuss those market conditions in depth. We will also discuss an important financial planning topic, as we believe that investments, while important, are just one part of our financial lives. So without further ado, let's jump into a financial planning topic that is important to think about while the economy is strong, rather than when it's on the decline.

Emergency Funds

You may have heard that even during this current decade of economic growth, 47% of Americans can't come up with $400 to cover emergency and/or unexpected expenses.[1] Because so many Americans live paycheck to paycheck, even relatively small but unexpected expenses — car repairs, increased heating costs during an especially cold winter, etc. — are enough to derail their lives. This is sobering, and for that reason, we always recommend that all of our clients build an emergency fund.

An emergency fund serves first and foremost as a shield in the face of life's slings and arrows. This much is apparent from the statistics above — you become relatively immune to unexpected costs if you have enough of a cash cushion to pay for such surprises. Sometimes the surprises are relatively minor, but other times they can be life-altering events — the bankruptcy of your employer or the loss of a family member. An emergency fund doesn't solve these problems, but it helps to make us more resilient in the face of them.

A common criticism of emergency funds is that cash in these funds often does not earn an optimal financial return in the long run. We believe this criticism misses the point, as an emergency fund is not meant to be an investment vehicle. An emergency fund is there to prevent financial disaster, a risk too many overlook until it's too late. If an emergency fund successfully serves this purpose, then it is highly likely that the overall financial plan the fund helps to protect will also have been successful.

Global Compounding Value - Summary

For 2018, the Global Compounding Value ("GCV") strategy had an *unaudited* return of -4.45%, net of fees. Since inception (06/30/16), the GCV strategy has had an *unaudited* return of 32.01%, net of fees. Since inception, the GCV strategy has outperformed the S&P 500 Total

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[1] https://www.theatlantic.com/magazine/archive/2016/05/my-secret-shame/476415/

Return Index by 6.4%. For the past 12 months, the GCV strategy underperformed the S&P 500 Total Return Index by 0.07%. We note that these returns represent the composite of client accounts invested in this strategy, and that individual client accounts will have differing returns due to a number of factors, including the timing of investment contributions, as well as legacy positions held in certain accounts.

Top 3 Performers (2018 total return in parentheses):

- **TRIP (56.5%), IAC (49.7%), VRSN (29.6%)**

Top 3 Detractors (2018 total return in parentheses):

- **KHC (-42.2%), SYF (-28.9%), FB (-28.8%)**

Annual Portfolio Turnover Rate: 48%

% of Positions in the Portfolio with a Positive Return in 2018: 37.5%

You may note that the portfolio turnover rate was higher than last year's and, in general, higher than normal for a portfolio of long-term investments. This is because the volatility last year presented opportunities for tax-loss harvesting. These sales and eventual repurchases of positions we hold in the strategy show up accordingly in our portfolio turnover statistics.

GCV Performer Spotlight: VeriSign

Have you ever wondered what happens in the background when you type a website address in your browser and hit "Enter"? It may seem obvious, but how do you know you'll get to the site you want to go to? Well, that's because a company, VeriSign, acts as the plumbing and directory of the Internet. VeriSign (Ticker: VRSN) is the sole authorized registry for the .com and .net "top-level domains" (TLDs). This means that VeriSign directs people to the correct website when they put in any site that ends in .com or .net. Together, these domains represent roughly 43% of all registered websites globally. They remain the best-recognized and most coveted top-level domains among businesses and individual users alike. VeriSign also operates two of the thirteen global key root servers and ensures the root-zone for the Domain Name System (DNS) is functioning properly. Put simply, VeriSign makes sure the Internet is working. In a world where life, liberty, and access to the Internet are considered essential, it's easy to see how VeriSign is a mission critical "toll road" of the Internet.

VeriSign makes money by collecting an annual fee of $7.85 for each registered .com domain name (it receives something similar for .net domain names as well). The margin on this recurring revenue is quite high: gross and operating margins for the last 12 months were 84.1% and 62.3%, respectively. There is also very little need for capital expenditure reinvestments (annual capital expenditures were only about 3.2% of revenue). The combination of recurring revenue, high margins, and low capital requirements lead to stable and predictable free cash

flow. VeriSign has used this free cash flow to buy back its stock, resulting in the shrinkage of its fully-diluted shares outstanding by 39% in the past 10 years.

VeriSign retains the rights for managing these domains through multiyear contracts with The Internet Corporation for Assigned Names and Numbers (ICANN), a nonprofit that coordinates and develops policy for the Internet's naming system. VeriSign's existing contracts for .net and .com run through 2023 and 2024, respectively. For more than 20 years, VeriSign has maintained 100% "up time" for the .com and .net domains. This track record, along with its root name server operations, entrenches the company as the vital backbone of the Internet's infrastructure. As such, we do not see much renewal risk for VeriSign when contract negotiations begin in 4 to 5 years. In November 2018, VeriSign and the Department of Commerce amended its existing contract to manage the .com registry. This amendment allows VeriSign to increase its prices by 7% annually in the last four years of its current six year .com registry agreement with ICANN. This is long overdue, as there had been a price freeze at $7.85 per .com domain for the past six years. The market for TLDs has become more competitive with significantly more TLDs becoming available, and this change is a return to a similar pricing structure that was in place before the 2012 price freeze. We see this as a significant win for VeriSign, as most of the price increase will flow straight down to the bottom line.

Shares of VeriSign delivered a total return of 29.6% in 2018, driven primarily by valuation multiple expansion (26.4%). Given VeriSign's operational record, mission critical stature, significant market share, and new opportunities for price increases, we think the company's business model and robust operating margins will remain intact for the foreseeable future.

GCV Detractor Spotlight: Facebook

Of the top ten most valuable companies in America in 2018, Facebook (Ticker: FB) arguably had the most tumultuous and controversial year. Between massive data breaches, questionable usage of customer data, fake accounts, and the executive team's often tone deaf responses to these issues, Facebook had more than its share of troubles. User and revenue growth also slowed, which is inevitable for a company with a market capitalization in the hundreds of billions of dollars. Given Facebook's dominant position in social media, many parties have also been pushing for greater government regulation of the company. The stock price last year reflected these concerns, with the company's shares falling almost 30%.

However, where there's an atmosphere of fear around a stock, there is often opportunity. Facebook's business model remains one of the most enviable in the world, generating double digit revenue growth and after-tax margins in the 40% range. Despite its protests to the contrary, Facebook is a media company, with its users serving as both the producers and consumers of the company's primary product. Facebook of course makes money from selling advertising and other related services. But fundamentally, Facebook has been hugely successful because it is the largest platform for user-generated content in the world, with over 2 billion users. This content is generated not only on Facebook's primary platform, but also on

WhatsApp, Instagram, and Messenger, which are all Facebook properties. In fact, four of the five most used mobile apps are these Facebook properties.[2] We believe that market participants, driven by headlines and fear, forgot this fundamental information in the sharp sell-off of Facebook stock.

Shares of Facebook fell to a mid-teens price-to-earnings valuation at its lowest price in late December 2018, which we view as unreasonably low. This valuation would be justified if going forward, Facebook had meaningfully slower growth and/or fundamental changes in its business model. We don't believe this will be the case. In fact, the company still has much runway to monetize its Instagram, Messenger, and WhatsApp platforms. (We are especially excited about what Facebook will do with WhatsApp, which has the company's second largest user base). We used the sell-off in Facebook shares in late 2018 to conduct some tax-loss harvesting where appropriate, but we retain a constructive long-term outlook on the company. The market may feel the same way, with the share price experiencing a strong recovery through mid-February 2019.

Global Opportunistic & Event-Driven - Summary

For 2018, the Global Opportunistic & Event-Driven ("GOED") strategy had an *unaudited* return of -16.69%, net of fees. Since inception (06/30/16), the GOED strategy has had an *unaudited* return of 2.15%, net of fees. Since inception and for the past 12 months, the GOED strategy has underperformed the S&P 500 Total Return Index by -23.45% and -12.31%, respectively. We note that these returns represent the composite of client accounts invested in this strategy, and that individual client accounts will have differing returns due to a number of factors, including the timing of investment contributions, as well as legacy positions held in certain accounts.

Top 3 Performers (2018 total return in parentheses):

- **DVMT (34.3%), ADES (21.3%), RADH.SS (15.5%)**

Top 3 Detractors (2018 total return in parentheses):

- **DSKEW (-92.2%), LMBHW (-81.4%), PRPLW (-81.2%)**

Annual Portfolio Turnover Rate: 64.5%

% of the Positions in the Portfolio with a Positive Return in 2018: 41%

GOED Detractor Spotlight: Warrants

[2] https://www.l2inc.com/daily-insights/no-mercy-no-malice/favorite-number

The second half of 2018 saw the return of volatility and the disappearance of liquidity in the domestic equity markets. This dual effect was especially pronounced in the nano- and micro-cap space, which are the usual hunting grounds for the GOED strategy. The Russell 2000 and Russell Microcap Indexes were down over 20% during the 4th quarter of 2018, and close to 30% from their September 2018 highs. While our broader portfolio was impacted as well, it disproportionately affected the warrants we owned for certain small-cap companies.

For those who are unfamiliar, a warrant is similar to an option: a derivative instrument that gives the holder the right, but not the obligation, to buy an underlying security at a certain price and quantity over a certain period of time (usually 3-5 years). Unlike an option, warrants are issued by the company itself (whereas options are offered by independent market participants and traded on a central exchange, such as the CBOE). The security represented by the warrants are usually newly created shares delivered by the issuing company. Companies, especially new arrivals in the equity market via IPO, often include warrants as sweeteners to entice investors into buying the new security. Without getting too much into the specifics of option pricing theory, suffice it to say, warrants typically generate potentially larger capital gains and losses due to the effects of leverage and gearing. Let's look at a simplified hypothetical example. Say that ABC shares currently trade at $5.00. Warrants on ABC shares with a strike price of $5.00 are currently trading at $0.30. When ABC stock increases from $5.00 to $5.30, it generates a gain of 6%. At the same time, the warrants increase in value from $0.30 to $0.60, representing a gain of 100%. In other words, warrants tend to have an exaggerated percentage change movement compared to share price. We can see the real impact of this double-edged sword on our warrants below:

		Price			% Change	
Company	Ticker	12/29/17	09/30/18	12/31/18	2018	4Q'18
Hostess Brands	TWNK	14.81	11.07	10.94	-26.1%	-1.2%
Hostess Warrants	TWNKW	2.33	1.06	0.93	-60.1%	-12.3%
Daseke	DSKE	14.29	8.02	3.68	-74.2%	-54.1%
Daseke Warrants	DSKEW	2.04	0.80	0.16	-92.2%	-80.0%
Lazydays	LAZY	10.30	7.55	5.40	-47.6%	-28.5%
Lazydays Warrants	LAZYW	1.88	1.53	0.83	-56.1%	-46.1%
Limbach	LMB	13.83	11.27	3.92	-71.7%	-65.2%
Limbach Warrants	LMBHW	2.15	1.85	0.40	-81.4%	-78.4%
Rosehill Resources	ROSE	7.86	6.10	2.23	-71.6%	-63.4%
Rosehill Warrants	ROSEW	0.99	1.15	0.36	-63.6%	-68.7%

Source: NASDAQ

There were many reasons for this drawdown in the 4th quarter of 2018. For companies in the nano- and micro-cap space, the disappearance of liquidity is usually the biggest culprit for large drawdowns. For a well known stock like Apple, the bid-ask spread may only be $0.01 or $0.02, which represents 0.0006% to 0.0012% of the stock price. This bid-ask spread might increase 10x (to $0.10 to $0.20) during times of volatility. For a stock in the micro-cap space, however, the bid-ask spread can widen to the price of the stock itself (imagine a stock trading at $0.15

with a bid / ask of $0.05 / $0.25, meaning a bid-ask spread of $0.20). All it takes is one seller "hitting the bid," and you book a mark-to-market loss of 66.7%. A little panic selling begets more panic selling, which begets more panic selling, and pretty soon investors pull a record $46 billion from US equity funds in a week.[3] Relative to a stock's intrinsic value, an individual stock's market price often overshoots to both the upside and the downside. With concerns about trade wars, potential near-term recession, rising interest rates, oil price declines, and effects of the government shutdown, there were no places to hide in the markets. Tax loss selling and fund redemptions contributed to the violent selloff during the 4th quarter. However, we still believe in the fundamentals of these companies, and we are optimistic that our patience will be rewarded in time.

GOED Case Study: DVMT / DELL

2018 was not a year without a single victory for the GOED portfolio, but unfortunately even the victories were bittersweet. Here is the story of Dell's VMware tracking stock, DVMT.

DVMT was initially issued as a part of the Dell / EMC merger that took place in September of 2016. At a high level, DVMT tracking stock represented 53% economic ownership of VMware (Ticker: VMW), and each DVMT share was roughly equal to the value of one VMW share. Since the trackers were created, Dell had used most of its free cash flow to pay down debt, reducing the credit risk embedded within the DVMT tracking stock (in a bankruptcy scenario, Dell's ownership of VMware would be first used to satisfy Dell's secured and unsecured creditors). At the same time, Dell had been repurchasing DVMT stock on the open market. At the beginning of 2018, we expected that Dell would continue to pay down its debt and repurchase shares throughout the year. This would continue to add value for DVMT shareholders due to the disconnect in value between DVMT and VMW (DVMT closed at $81.28 on 12/31/17, whereas VMW closed at $125.32, representing a 35% discount). The catalyst for unlocking value would occur in 2021 when Dell would be eligible to spin out VMW shares to DVMT shareholders in a tax-free transaction, thus eliminating the discount.

Fast forward to July 2, 2018, when Dell announced an agreement for a reverse merger so that the entirety of Dell could go public.[4] The stated takeout price for DVMT was $109 per share, but only a portion would be paid out in cash. Before the deal was announced, VMW was trading at $146.97. This meant that close to $38 per share of value would be stripped from DVMT shareholders and instead accrue to Dell itself. This was such a blatant attempt to steal from DVMT shareholders that we'd find the whole situation comical if it wasn't also legal. At that point, various activist shareholders stepped in to negotiate a better deal with Dell. An agreement was reached on November 15, 2018, where the stated takeout price was increased

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[3] https://www.cnbc.com/2018/12/14/record-46-bln-pulled-from-us-based-stock-funds-in-a-week-lipper.html

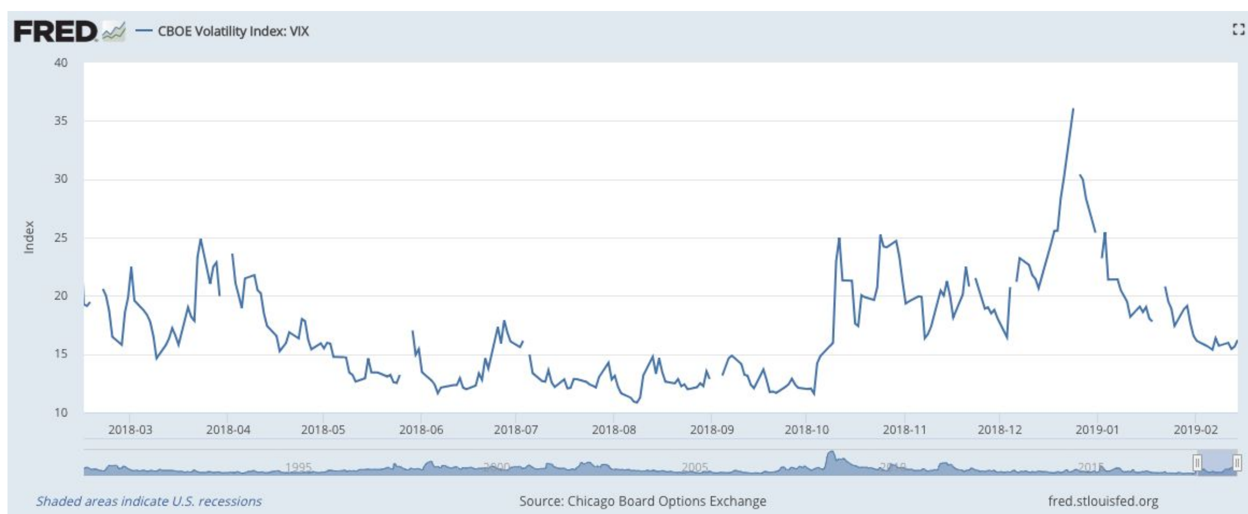
[4] https://investors.delltechnologies.com/news-releases/news-release-details/dell-technologies-concludes-strategic-review-and-reaches

to $120, and the majority of the proceeds would be paid out in cash.[5] However, even at $120, the price represented a 24% discount to VMW's trading price of $157.73 that day. This transaction was completed on December 27, 2018.

On average, Triple Summit clients made 34% based on the combination of cash received and Dell's trading price at the end of the year. We can certainly appreciate the meaning of the phrase "A bird in the hand is worth two in the bush," but when you are forced to accept half of a bird by a conglomerate bird catching company with a net over the entire bush, it just doesn't have the same ring to it. As a side note, even with its dubious origin story, the newly public Dell is trading at a very attractive level, and we remain holders of Dell after the reverse merger (if you can't beat them…).

The Price of Admission

The fourth quarter of 2018 saw a return of intraday volatility that the markets hadn't experienced since at least 2011.[6] The VIX (more formally known as the CBOE Volatility Index, a popular measure of the stock market's expectation of volatility) tripled from a low of approximately 12 to a high of approximately 36:[7]



After a relatively calm 2017, market participants were jolted by the sudden rise in volatility. However, the old Wall Street saying rings true here: the market takes the stairs up and the elevator down. Market participants tend to panic when markets take a sudden dip, often leading to sharp sell-offs and even meltdowns. The fact that volatility had been relatively low prior to

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[5] https://www.sec.gov/Archives/edgar/data/1571996/000119312518327222/d647449dex991.htm

[6] https://www.bloomberg.com/news/articles/2018-12-21/wild-days-return-to-stock-market-as-vix-surges-like-never-before

[7] https://fred.stlouisfed.org/series/VIXCLS

late last year only exacerbated the panic and decline. Selling leads to more selling, which creates an environment of fear. So what is a prudent investor to do in times like these?

As Mark Twain said, history doesn't repeat itself, but it often rhymes. As a long-term investor, it pays to heed the lessons of history while also paying attention to signs of potential paradigm changes in the present. History tells us that human psychology — the ultimate driving force behind short-term market fluctuations — does not change. Volatility, sudden price declines, and bear markets will also be constants. We just have to be prepared to deal with them and, even better, profit from them. As it turns out, while volatility in 2018 felt abnormal, it was anything but. The annualized daily volatility of the S&P 500 in 2018 was 17.1%, which is *below* the long term historical average of about 19%.[8] Knowing this, the best plan is to be prepared for the inevitability of volatility, not to try to avoid it. Bearing volatility is the price of admission we all have to pay if we want to be successful long term investors. If we can keep this in mind — especially during a sharp decline when it's difficult to do so — we can live up to Warren Buffett's maxim to be fearful when others are greedy and greedy when others are fearful.

The Economic Cycle and the Road Ahead

Despite the volatility at the end of last year, our view on the economic cycle remains unchanged. That is, we believe we are in the late stages of an expansion, with a Federal Reserve-induced recession likely to occur at some point in the next few years. The exact timing of the recession is impossible to predict. However, as we discussed in our annual letter last year, an increase in short-term interest rates above long-term rates has been a useful signal since World War II that a near-term recession is likely. We are closer today than we were when we wrote our letter last year, but we believe the conditions still have not arrived. The Fed has said that it is slowing down the rate at which it had been raising short-term interest rates. We believe this development will likely lengthen our economic cycle and delay the onset of a cyclical recession. We continue to pay close attention to interest rates, economic activity, and market activity to try to help us determine where we are in the cycle and to prepare for whatever may come next, even if we cannot predict exactly when a downturn will happen.

Overall, 2018 was a mixed year for our investment strategies relative to the S&P 500. As we noted in last year's annual letter, we did not expect 2017's relatively strong performance to continue. Sadly, we were more accurate than we expected. However, we take some comfort in knowing that there will always be ups and downs in the market, and that we are constantly preparing for them, rather than reacting rashly in a way that could derail our clients' carefully constructed long-term plans. Indeed, as this letter goes to print, those who have taken the long-term outlook with respect to equity markets have seen a strong recovery in early 2019.

We remain deeply grateful for your continued trust in us. We look forward to staying in touch this year and providing a formal update in our letter next year. If we can ever do anything to be

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[8] https://awealthofcommonsense.com/2019/01/2017-vs-2018-in-the-stock-market/

helpful in any way, please do not hesitate to let us know. We look forward to serving as your trusted advisors for many years to come.

Sincerely,
Wei & Dan
February 21, 2019

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