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2019 Second Quarter Investor Letter

July 5th, 2019

Dear Investors;

We would like to begin by welcoming our new investors to our funds and thank our existing investors for their continued support. Despite the volatile gyrations in markets during the second quarter, Pelican Bay Capital Management continues to invest for the long-term and deliver on our investment mandates and objectives.

Our quarterly results for each portfolio and the S&P 500 are in the table below.

Portfolio	Q2 Return	YTD Return
Concentrated Value	1.34%	19.59%
Dynamic Income Allocation	1.91%	13.38%
Phoneix Fund	-7.70%	0.82%
S&P 500	4.30%	18.50%

The layout of this quarter's letter will again start with a general market commentary, followed by individual reviews and analysis of each of our portfolios including Concentrated Value, Dynamic Income Allocation, and the Phoenix Fund.

As always, if after finishing this letter you have any questions or would like to discuss any topics in greater detail, please don't hesitate to call us at 239-738-0384 or send us an e-mail at tyler@pelicanbaycap.com. We welcome your feedback and look forward to your correspondence. Additionally, we encourage you to share our letter with whomever you like.

Market Commentary

The second quarter can best be summed up by a single word - volatility. While volatility should be expected and has frankly been lower than average for several years, it appears as if asset classes are trying to overcompensate for years of calm waters with a swirling tempest in the second quarter.

The rally we saw in the beginning of the year came to a screeching halt in early May as US-China trade talks abruptly deteriorated when markets had all but priced in a détente between the two parties. President Trump poured gasoline on this fire a few weeks later threatening Mexico with punitive 25% tariffs, which we feel comfortable speculating that no one saw coming. These trade shocks resulted in the worst performance for equities in the month of May since 2010 with the S&P 500 declining -6.6%. Even more amazing, the 10-year US Treasury yield fell 42 basis points from 2.55% down to 2.13%; resulting in an inverted yield curve and calls for the Federal Reserve to cut as much as 50 basis points. Riskier assets fell particularly hard with small-caps, industrials and energy companies falling the most.

June proved to be the opposite with the S&P turning in one of its best performances historically for that month with a 6.9% return to new all-time highs. The bounce materialized after the Federal Reserve hinted that they would cut rates to "buy insurance" to support the already longest-lasting US expansion on record. Treasuries fell further with the US 10-year falling below 2% for the first time since Trump's election.

After all this volatility we are entering the third quarter with (a) asset prices that remain richly valued; (b) a deceleration in the global economy; and (c) elevated levels of uncertainty for investors. And to be clear, there is always uncertainty in the future. That is the very nature of any forward-looking forecast. However, we have several near-term binary events that have unknowable odds that could produce negative outcomes and have material impacts on asset prices. With economic growth clearly slowing (while not contracting yet), it none the less leads us to the key watchword for the next few months, and that word is CAUTION.

We none the less remain constructive in our investing and economic outlooks in which we see a slowdown but not a recession, and areas of the market that continue to offer favorable values. However, elevated valuations for many assets combined with the fragility of the slowing macro economy could result in an unfavorable environment for investors should a negative shock materialize.

For example: the China trade talks could deteriorate further; Trump could open a new front in the trade war with Europe; the Fed may decide they need to showcase their independence and choose not to cut rates in July or September; or the current industrial recession could spread to the consumer sectors of the economy resulting in deteriorating employment statistics and weakening retail sales. We believe the latter outcome carries the most risk as it could transform the current economic slowdown into something far less investor friendly; a US recession.

Should these events all play out favorably and no other unknowable black swans materialize, earnings should grow, companies should continue to buy back shares, investors should buy equities as interest rates stay low, and quantitative tightening should come to an end in September. The bull market will carry on and the current slowdown will pass, much as it did with similar economic slowdowns in 2011-2012 and 2015-2016 when the market outlook was eerily similar to todays. It is important to remember that not all slowdowns lead to recessions and their associated bear markets. It mostly happens when an existing slowdown develops concurrently with a large negative shock.

Given our interpretation of the current environment, our emphasis in managing the Firm's investment operations at Pelican Bay Capital Management will consist of an abundance of caution and prudence overlaid with a constructive view of markets. We will discuss some of the actions we are taking in the portfolio commentary below. For example, we are shifting the target allocation of the Dynamic Income Allocation Portfolio.

In our view, elevated equity values and low interest rates suggest that long term investment returns from current levels could be as low as 3-5%; much less than the 15% annualized we achieved over the last 10 years. Given these low expectations, we believe the opportunity to produce superior returns in both the near-term and over the next decade lies in owning value stocks vs growth stocks, and securities with higher dividend yields, as income will make up a much larger portion of total returns from here. Our portfolios are positioned well for this long-run outcome.

Concentrated Value

After the strong start to the year, we were not surprised to see the Concentrated Value fund give back some of the outperformance relative to the S&P 500. But surprisingly the underperformance came almost entirely from our overweight exposure to energy securities.

If you recall from last quarter's Investor Letter, we thought the odds of energy outperforming the next few quarters would provide a nice tailwind for the portfolio as energy equities had lagged the strong gains in oil prices during the first quarter. It obviously didn't play out this way as oil prices fell on trade worries; the global economy slowed down (which would negatively impact oil demand); and there was a surprising build in US crude oil inventories in the second quarter after only a very small inventory build occurred in the first quarter when demand is seasonally weaker and inventories usually build the most.

While energy stocks didn't participate in the upward bounce of oil prices in the first quarter, they participated whole-hardily in oil's fall during the second quarter. Overall our energy names were a 2.4% drag on our returns, representing most of the gap by which we trailed the index. Our largest loser was Occidental Petroleum that fell almost 22% following their "winning" a takeover battel for Anadarko. We have maintained our position in Occidental despite the recent M&A activity as the company remains highly undervalued and has only increased their industry leading position in the Permian. Not everything in Energy went awry. Hess was up 6% in the quarter and just missed making in to our top 5 contributors list.

Top 5 Contributors

Name	Absolute Return	Contribution to Portfolio
Air Lease	20.71%	1.08%
Ford	18.33%	0.81%
LyondellBasell	3.84%	0.41%
Celenase	9.97%	0.37%
Invesco	7.60%	0.34%

Bottom 5 Contributors

Name	Absolute Return	Contribution to Portfolio
Occidental Petroleum	-21.91%	-0.96%
Glencore	-14.78%	-0.84%
Devon Energy	-9.35%	-0.68%
Kraft Heinz	-4.93%	-0.23%
Schlumberger	-7.68%	-0.20%

On a more positive note, we generated strong returns in our Air Lease and Ford investments. Air Lease benefited from a shrinking discount to their book value and higher commercial airplane lease rates following the grounding of the Boeing 737 Max. We bought this stock as it had been trading at a wide discount to book value. We believe this discount is unjustified given their industry leading management team and penchant for shrewdly growing book value much faster than their peers. In our view, Air Lease should be trading at 1.2-1.3x book value. But even with this quarter's gain, Air Lease stubbornly remains at a discount, registering a 0.9x price-to-book value today (so don't be surprised to see this name show up on the Top 5 Contributors list a few more times).

As we mentioned in our last letter, we had the pleasure of Newmont Mining acquiring our position in Gold Corp. We used the majority of the proceeds to open a new position in Kraft Heinz (keeping the portfolio at its twenty-position limit). We also added incrementally to some other existing holdings as they experienced weakness during the quarter including Occidental, Glencore, and Lyondell (which subsequently rebounded after buying back 10% of their shares in a Dutch Auction).

Pelican Bay Capital Management became interested in Kraft after the stock fell by a third in February. The company was forced to materially lower guidance and write off a substantial portion of the goodwill they generated over their acquisition spree that culminated with Kraft acquiring Heinz two years ago.

The primary issue at Kraft Heinz was a culture created by a Brazilian investment company called 3G Capital that emphasizes extreme cost cuts utilizing a much ballyhooed (and since maligned) strategy called zero-based budgeting; where every cost must be justified with a strong return on investment or otherwise abandoned. Unfortunately, the impacts of some costs such as marketing and branding can be tough to calculate using traditional accounting math. But these expenditures are very necessary if you are competing in the consumer products industry that emphasizes brand and promotional prowess. It appears Kraft simply cut marketing to the bone and sacrificed growth in the process. Kraft's inability to acquire more growth and instill their zero-based cost cutting regime at further acquired companies was the lynchpin that finally exposed the flaw in their strategy.

Another 3G Capital led company called AB InBev (think Budweiser) faced a similar dilemma a couple of years ago and was able to reverse course recently by reinvesting in the business and returning to profitable growth. We think the base case at Kraft Heinz is a similar path of action. Other large consumer staples companies that had stumbled of late including Hershey, General Mills, Campbells, and Proctor & Gamble have gotten their mojo back and now trade at healthy 18-20x EPS multiples. Kraft is currently trading for just 10x EPS giving us plenty of upside opportunity if management can fix their business. In the end of the day they own strong brands and should be able to figure out a plan to return to growth. We believe the odds of a positive outcome are in our favor.

Lastly, we wanted to revisit the Investment Philosophy of the Concentrated Value Portfolio. We utilize a value investment strategy that seeks out companies for investment which the Portfolio Manager deems to be high quality companies. Quality is defined by possessing business operations with durable competitive advantages that allow for high returns and growing cash flows streams. We want these high-quality companies to also have solid balance sheets, preferably with a net cash position. We also prefer that their management teams make decisions with an emphasis on maximizing shareholder returns.

Once we find these high-quality companies we generally only invest in their stock if they trade at a steep discount to our estimate of their intrinsic value. This is necessary to provide our investors the opportunity to generate an above market return and protect capital. This discipline creates a wide margin of safety if an undesirable scenario plays out in the future. Pelican Bay Capital Management believes that identifying a significant difference between the daily market value of a security and the intrinsic value of that security is what defines an investment opportunity.

Dynamic Income Allocation

The Dynamic Income Allocation Portfolio (DIAP) continues to generate a good risk adjusted return in the current market and was very stable despite the market's turbulence. The DIAP retuned 1.91% in the quarter after fees and stayed within a band of -1% and up 2% during the duration of the quarter. While the portfolio is constructed to provide stability, its lack of volatility is none the less remarkable given the wild swings in stock prices. For example, in the month of May the DIAP only fell 1% compared to nearly a 7% drop for the S&P 500 and just 0.26% gain for Bonds.

We like to compare the returns of the DIAP against the typical 60/40 stock/bond portfolio that is often recommended as a default by Investment Advisors. We believe that exposure to additional asset classes beyond the typical 60/40 portfolio combined with a preference for income and the utilization of a tactical value overlay should produce superior investment returns with less risk.

We narrowly missed our goal this quarter but remain ahead for the year. In the second quarter the DIAP generated a 1.91% return after fees trailing the no-fee 60/40 benchmark by 1.76%. The total returns of the SPY and AGG ETFs were 4.23% and 2.82% respectively in Q2, resulting in a benchmark return of 3.67%.

Looking at the table below, the underperformance in the DIAP relative to the 60/40 benchmark was primarily driven by weakness in MLP's which produced a negative return in the quarter. We continue to believe that MLP's remain tremendously undervalued. Their value is depressed because the group continues to get lumped in with traditional energy stocks by most investors. As oil prices fell in Q2, MLP's declined in tandem due to this misplaced view.

The reality is that MLP's have business models that more closely resemble toll roads, as they primarily benefit from increasing oil and gas volumes, rather than changes in commodity prices. With the explosion of US shale growth, the industry is growing pipeline capacity at elevated levels and higher pricing that will ultimately lead to higher investor distributions. In most markets there is a shortage of pipeline capacity resulting in pricing power for MLP's.

At some point, MLP's generous yields and potential for dividend growth will force investors to rethink their historical framework for valuing these companies. MLP's correlation with energy prices will decline and ultimately reflect the stable toll roads they have become.

Ticker	Name	Contribution to Portfolio	Absolute Return	Target Weight
VCIT	VANGUARD INT-TERM CORPORATE	0.66%	4.41%	15.0%
PFF	ISHARES US PREFERRED STOCK	0.44%	2.20%	20.0%
VYM	VANGUARD HIGH DVD YIELD ETF	0.36%	2.47%	15.0%
VPU	VANGUARD UTILITIES ETF	0.33%	3.35%	10.0%
VNQ	VANGUARD REAL ESTATE ETF	0.22%	1.74%	10.0%
SJNK	SPDR BBG BARC ST HIGH YIELD	0.06%	1.28%	5.0%
AMLP	ALERIAN MLP ETF	-0.06%	-0.34%	25.0%

Junk Bonds and Real Estate were the other areas of underperformance versus our benchmark. Despite falling treasury yields, the spreads of Junk Bonds widened on worries of economic weakness and a general de-risking by investors. This underperformance may prove to be justified, but the current spread of 3.8% warrants the continuation of our small position. If spreads widened to 5%, we would consider increasing our exposure in the portfolio. REITs on the other hand trailed as they had a very strong performance in the first quarter. We believe that REITs are on the high-end of fair value, but we very much like their stability and downside protection.

The top contributor to the fund this quarter was our Investment-Grade Corporate Bond ETF (VCIT). It had an outstanding 4.4% return as interest rates fell and corporate bond spreads contracted. Corporate bonds remain fairly valued and represent a good opportunity for further outperformance in the coming quarters as we believe that investors will search for higher yields now that US Treasuries are currently paying less than 2%.

Utilities continued to perform well and have reached the point of being too overvalued. We will address this further below where we discuss changes to our target allocation for the DIAP that were put in place subsequent to the quarters end on July 3rd, 2019 when we did our normal quarterly rebalancing.

Turning to our emphasis on income generation, the current yield on the DIAP as of July 5, 2019 is 5.0% annualized. The current investments have dividend yields ranging from 2.84% to 7.82%, compared to the S&P 500 dividend yield of 1.92% and 10-Year US treasury of 2.06%.

Ticker	Curent yield	Portfolio Yield
AMLP	7.82%	1.95%
PFF	5.26%	1.05%
VCIT	3.51%	0.70%
VYM	2.84%	0.28%
VNQ	3.67%	0.37%
VPU	2.90%	0.15%
SJNK	5.58%	0.28%
EFAV	3.81%	0.19%
Total Portfolio		**4.97%**

The big news for the DIAP this quarter is that we are adjusting our target allocations and we have included a new asset class in the portfolio. A table showing the old allocation and new allocation can be seen below.

Ticker	Name	New	Old	Change
AMLP	ALERIAN MLP ETF	25.0%	25.0%	0.00%
PFF	ISHARES US PREFERRED STOCK	20.0%	20.0%	0.00%
VCIT	VANGUARD INT-TERM CORPORATE	20.0%	15.0%	5.00%
VYM	VANGUARD HIGH DVD YIELD ETF	10.0%	15.0%	-5.00%
VNQ	VANGUARD REAL ESTATE ETF	10.0%	10.0%	0.00%
VPU	VANGUARD UTILITIES ETF	5.0%	10.0%	-5.00%
SJNK	SPDR BBG BARC ST HIGH YIELD	5.0%	5.0%	0.00%
EFAV	ISHARES MSCI MIN VOL EAFE ETF	5.0%	0.00%	5.00%

We are essentially making two swaps that impact the target weights of four asset classes. The first adjustment is decreasing our exposure to utilities. We did have a 10% weighting to the VPU Utility ETF, but utilities have performed very well and now appear to be overvalued. The utility index currently trades for a 19.5x p/e ratio which is the highest in over a decade and represents a 1.6x premium to the S&P 500 which trades for a 17.9x p/e ratio. This is the widest premium that utilities have traded for since 2011. Even the dividend yield for the sector is now below 3%, which is the lowest rate in over a decade. None the less, utilities are still a good investment in absolute terms, but they are no longer being fairly valued. The prudent stance is to reduce the weight to our 5% lower bound.

We will be reallocating this 5% to our Corporate Bond ETF (VCIT) bringing its allocation to 20% in the DIAP model. Corporate bonds offer a higher yield than utilities with VCIT currently paying 3.51% vs 2.90% for utilities (VPU). That wide gap in yields is attractive when you consider that corporate bonds (VCIT) have less volatility, less downside risk, and a lower correlation to the remainder of the portfolio when compared to utilities (VPU). If markets remain choppy or a less favorable economic environment does emerge, the shift from VPU to VCIT will prove to be prudent and beneficial. Remember, “caution” is the word of the day.

At the very least, our analysis of current valuations, yields and other characteristics of both asset classes, lead us to conclude that the probability is favorable that VCIT outperforms VPU over the next 2-5 years. We are also pleased that the total equity exposure in the portfolio shifts from 60% down to 55% with this reallocation.

The second allocation change is driven by our inclusion of a new asset class to our portfolio model. Since 2016, the valuation gap between international companies in developed markets compared to US listed stocks has widened considerably. Since the beginning of 2016, US stocks have outpaced International stocks by 4.75% annually with VYM returning 11.6% versus just 6.9% for EFAV. US stocks currently trade for an 18x P/E ratio and International stocks trade for just under 14x. While some premium for US stocks is certainly justified, this is far too wide a gap and represents a good investment opportunity.

To take advantage of this gap, we are going to shift 5% of our high-dividend paying US stocks (VYM) to high-dividend paying, low volatility European and Asian stocks (EFAV). EFAV is the ticker for the iShares-Edge MSCI minimum volatility Europe-Africa-Far-East (EAFE) Exchange Traded Fund. There is no direct international peer to VYM that is a pure high-yield dividend ETF. But EFAV has a high dividend yield because it is designed to focus on low volatility stocks, which by their nature tend to be large companies with higher dividend yields.

The bottom line is that EFAV will give the portfolio the international exposure we are seeking. EFAV comes with an added benefit in that it historically experiences lower volatility that will result in more downside protection if markets weaken again. The EFAV has a lower beta than our existing portfolio and a lower correlation with our existing holdings. All of which are beneficial for increasing the return profile of the DIAP while simultaneously lowering our volatility.

With both of these two shifts in the DIAP allocation model, we are increasing the yield on the portfolio while at the same time reducing our volatility and downside risk. Given our view in the market commentary section above, we believe this is the appropriate adjustment to the current investment climate.

Lastly, it is important to reiterate the investment philosophy of the Dynamic Income Allocation Portfolio. The DIAP is designed to function as the core foundation of an investor's portfolio by operating with the dual mandate of generating the highest current income possible while preserving capital.

Pelican Bay Capital Management attempts to achieve this dual mandate by only investing in asset classes that by themselves offer a current dividend yield that is greater than either the dividend yield of the S&P 500 or 10-year U.S. Treasury. In our view, elevated income can add stability to a portfolio and maximize the benefits of compounding through reinvestment.

We then construct a portfolio of these high-yielding asset classes with an emphasis on minimizing correlation of the overall portfolio and maximizing its diversification beyond the typical 60/40 stock/bond portfolio. We finally add a valuation overlay that we utilize across all our portfolios. We allocate a larger position weighting to the most undervalued and attractive investment opportunities, while avoiding owning overpriced assets.

Phoenix Fund

Please note: The Phoenix Portfolio is only available to "Qualified Clients" pursuant to section 205(e) of the Investment Advisors Act of 1940 and section 418 of the Dodd-Frank Act.

The Phoenix Fund kicked off the second quarter with strong results in April. We became more encouraged after a healthy portion of our companies reported good first quarter results. However, this progress reversed in May following the resumption of trade disputes and what seemed to be a unilateral move to de-risk by other investors.

Many of the gains we saw immediately following earnings announcements quickly eroded as the market mood turned bearish. In fact, many of our holdings jumped 10% or more on the day of their earnings announcements. For example, GoGo wireless jumped from $5 to $6 per share in early May after reporting strong results. But the stock subsequently fell to a low of $4 per share by mid-June with absolutely no incremental news or reports.

The complete risk off-mode that commandeered the markets after Trump's trade spats spared none of our names except for Turkcell, which was our only stock that increased during the month of May.

On a positive note we believe the portfolio is poised to bounce back strong in Q3 as we get further updates on results from our companies. GoGo Wireless, Maxar Technologies, Asure Software, NN Inc and Hovnanian have already made good strides in turning their companies around and we wouldn't be surprised if they produced large gains this quarter.

The most important takeaway is that much of the negative stock movements we saw in the second quarter are short-term in nature and reflect some of the risks the portfolio is taking when market sentiment deteriorates. The market action in May reminded us of the difficult markets we saw last November and December. As you recall, that period of market turbulence resulted in a sharp recovery in risk assets in the subsequent months.

Portfolio Structure Adjustments

Before we dive into a more detailed discussion of our results, we want to address some changes we have made in managing the portfolio. The selloff in May gave us an excellent opportunity to refine our portfolio construction methodology.

Since launching the Phoenix fund last November, we have observed that winners weren't having the impact we desired. We were over diversified with 25-30 stocks and too much of our risk was concentrated in the top end of the portfolio. Both of these influences were dragging down the performance. We realized it was necessary to adjust our initial process for selecting position sizing and weighting.

The Phoenix Fund portfolio was constructed knowing full well that investing in low-priced levered stocks is a high-risk endeavor. There would be situations where we overestimate the ability of a company to recover or avoid bankruptcy. To mitigate this risk, a few real big winners is necessary to offset these losses. We thought the best way to accomplish this was solely through diversification and placing as many bets as possible. We also gave larger position weights to those ideas that had the greatest upside, since we needed the real big winners to be higher in the portfolio to have their needed impact.

But our analysis of the first 6 months of operating the portfolio proved this was not the case in practice. This weighting scheme resulted in the portfolio manager deploying a larger portion of the fund in riskier ideas by weighting positions on upside potential, irrespective of leverage characteristics or recovery time. This is because in most cases the valuation discount is often wider for levered companies with more difficult problems to solve. We didn't give enough consideration to the fact that companies' challenges have different levels of severity and recover times. We omitted consideration for any near-term catalysts or recent stock price performance.

We have corrected this issue by implementing a more methodical position sizing strategy that better accounts for balance sheet risk and each company's position in their path to recovery. Portfolio weighting is no longer solely predicated on potential upside. We believe this adjustment will boost risk-adjusted returns and allow the portfolio to behave as we originally intended. The improved position sizing method will rely on dividing the portfolio into two buckets referred to as Tier 1 and Tier 2.

Tier 1 will consist of our ideas that we believe have a catalyst in place or signs of near-term recovery. This should offer us a higher probability of realizing a stock price rebound in the near-term. At the same time, stocks that make the cut to be included in the Tier 1 basket can't be burdened by excessive leverage. If our determination of bankruptcy risk is too high, we will not place the stock into the Tier 1 bucket, even if the upside is 300% or greater. Our riskiest investments will no longer make it to the top of the portfolio just because the upside is the greatest. To be clear, we do find names that have huge upside with limited bankruptcy risk, and we won't hesitate to put them in Tier 1.

The Tier 1 bucket will be limited to 5 names. The cumulative weight of these 5 stocks will represent 36-44% of the portfolio. If the Tier 1 basket exceeds 44% of the portfolio, we will trim our biggest holdings. Similarly, if the basket falls below 36%, we will use cash to raise our holdings of the lower weighted names. Names that enter Tier 1 will be added with an initial 8% individual weighting.

The Tier 2 bucket will have a limit of 12 names. An opening position size will be 4% and that stock will only be allowed to fluctuate between 3-5%. There are no cumulative weight restrictions for the Tier 2 bucket. The size of each name will be managed independently based on the permitted range. Thus, the weighting of the Tier 2 bucket would be anywhere between 36%-60% if all 12 stocks moved to either end of the range simultaneously.

The two-tiered bucket strategy accomplishes two objectives. First, it creates a double tournament structure as it limits both Tiers to a total of 17 stocks. Stocks will need to compete to be included in both the portfolio and the more concentrated Tier 1 bucket. Then only our best ideas with near-term catalysts will percolate to the top of the portfolio. The result will be that companies with more uncertain recovery time frames or higher debt levels will make up a much smaller portion of the portfolio.

Secondly, the weighting bands for Tier 1 and Tier 2 will make us more disciplined in our sell strategy. We will be quicker to sell companies if they spike on positive news. At the same time, we would add to an existing position if its shares fell but the company still warrants a place in the portfolio. Additionally, if a stock isn't progressing, we will be quicker to replace it as most times we anticipate there will be a suitable investment on deck.

While it has only been a little more than a month, the changes we have made in our portfolio allocation strategy appear to be working. The portfolio is more reactive to our better ideas. We have already deployed the automatic trimming mechanism built into the portfolio weighting scheme, and it is working as planned.

Discussion of Performance

Despite the difficulty we experienced in May there were a lot of positive outcomes in the remainder of the quarter. Asure Software and Maxar Technologies were big winners. Maxar almost doubled in the quarter, returning 97%. Asure had a smaller gain of almost 25%. Asure was in our Tier 1 bucket for most of its bounce which explains its large impact to the portfolio, despite its smaller absolute price increase relative to Maxar.

NN Inc also advanced on a continuation of the recovery that we saw in prior quarters. The gain in the stock price was much larger following their Q1 results. Unfortunately, like some of our other names, NN Inc forfeited most of its post-earnings pop throughout the month of May. If NN Inc's recovery continues as expected, we could be in a position to sell the name soon. It has recovered nicely from its bottom and is about halfway to our estimate of its intrinsic value ($12-$16 per share). We bought our shares at $6 per share.

Top 5 Contributors

Name	Absolute Return	Contribution to Portfolio
Maxar Technologies	97.42%	2.65%
Asure Software	24.54%	1.61%
Caesar's Entertainment	35.75%	1.12%
NN Inc	31.46%	0.95%
Sprint Corp	34.31%	0.69%

Bottom 5 Contributors

Name	Absolute Return	Contribution to Portfolio
Denbury	-38.47%	-3.43%
Gran Tierra Energy	-29.67%	-2.59%
Atento	-30.58%	-1.23%
GoGo Wireless	-12.08%	-1.15%
Hovnanian	-30.91%	-1.07%

Energy companies continued to struggle as oil retraced and there appears to be a total lack of any investor interest in small or mid-cap E&Ps. They haven't been participating in days when energy prices go up, but have no problem following oil prices when they fall. Two of our energy names (Denbury and Gran Tierra Energy) now trade for less than 2x forward EPS. These valuations are so low it's hard to fathom, but it demonstrates how neglected this sector is. These two companies alone were responsible for slightly more than 6% of the portfolio's 7.7% decline in Q2.

Too much weight on the probability of a more meaningful recovery in energy prices this summer. Unfortunately, worries about the slowing global economy and its shrinking thirst for oil has weighed heavily on the supply/demand outlook. This has caused oil prices to fall back to $52 from $65 in late April. However, US inventories have started falling and supply disruptions appear to be getting worse. The odds of a recovery in oil remain better than 50/50 in our estimation. Low $50 oil doesn't work for shale producers, and we have seen US onshore rig count fall from 888 to 788 in the last few months. At some point soon it is likely that US production will slow due to sustained low oil prices. This is not anticipated by many market participants.

Our trading bucket did very well this quarter contributing 1.69% to our return. We got lucky with a quick gain in Sprint after the Federal Communications Commission (FCC) said they would approve their merger with T-Mobile. We held the shares for less than two weeks and made a quick 34%.

As we discussed last quarter, the rumors that Caesars Entertainment could be sold to El Dorado turned out to be true. We sold our stake in Caesars for an average price of $11 after buying last November at $8. It took longer than anticipated for this deal to materialize, but it was worth the wait as the fund recognized a 35% gain this quarter. In total, the trading bucket generated 1.69% of the return this quarter.

As a reminder, we keep each of our trading positions at just 2% each. We will participate in merger arbitrage and other macro influenced trades from time to time when we believe the odds of success are heavily in our favor. They are typically more speculative bets with binary short-term outcomes. Under our new position sizing methodology, any names in the trading portfolio will be separate from the Tier 1 or 2 buckets and will be deployed from excess cash.

The change in our portfolio strategy created many transactions in the quarter. We had several sales as we trimmed the number of names in our portfolio to 17 stocks. During the transition we exited Trivago, Tile Shoppe, Orion Marine, Laredo Petroleum, AK Steel, and Deutsche Bank as these companies didn't make the cut on our concentrated roster.

Prior to the portfolio transition, we completed our exit of Diebold Nixdorf after realizing a 300% return on our investment.

After the portfolio transition we sold Kinross Gold for a gain as we replaced it with Roan Resources in the Tier 2 bucket. We believe that Roan offered a superior opportunity for investments gains relative to Kinross. Roan is an oil and gas company based in the oily shale section of Oklahoma called the Scoop/STACK shale play. They are a small company that sits in the middle of the play and emerged as a public company following the bankruptcy of its old parent Linn Energy. Four large holders including Activist Elliott Management and Fir Tree own 70% of the company. Roan is in the process of selling itself after receiving multiple unsolicited offers to buy the company.

Earlier this year there were rumors that Roan had received unsolicited takeover offers. Despite this news, shares fell sharply after Roan released poor Q1 results. A few days later, Roan confirmed they would sell the company and have hired Citi and Jeffries to be their bankers. We believe there is a high likelihood that they can strike a deal for a large premium to the current share price of $2. The PV-10 which is a SEC required valuation of their oil & gas reserves last stood at $8 per share. Several net asset value (NAV) calculations for Roan that have been published by Wall Street Analysts conclude that their NAV is in a range of $9-15 per share. However, if a transaction doesn't materialize, the firm appears to be very undervalued and the balance sheet is in good shape after Roan emerged from bankruptcy. We believe these factors create limited downside risk from here.

We also initiated a new position in Asure Software that we put in place before we did the portfolio transition. Asure is a cloud-based human resources software company. The stock trades for just 12x earnings which is very low for a cloud software company. The business has been growing and their subscription revenues continue to climb. They seem to be well on their way to recovery after navigating the transition to a subscription-based revenue model that had negatively affected short-term accounting results. We bought our position at $7 per share and sold half of our shares subsequent to the end of the second quarter for $10 per share.

Finally, we wanted to revisit the investment philosophy of the Phoenix Fund. The portfolio takes advantage of structural biases against institutional ownership of financially levered companies with low-stock prices. We seek companies that have had their stock prices fall 70% or more in the last two years and are priced below $10 dollars per share. This outcome typically leads to forced selling from their institutional shareholders, creating the opportunity to make outstanding investments for less constrained investors.

Generally, these companies are under distress from poor performance caused by what we believe are temporary factors. These companies typically have elevated levels of debt, and any prolonged period of business stress could cause stockholders to endure substantial losses. The Phoenix Fund is a high-risk, high-return investment strategy. Please see the Risk of Loss Section of Part 2A of Form ADV referenced below.

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In closing, we would like to again thank our investors for their continued support during our inaugural year of operations at Pelican Bay Capital Management. Overall, we are very happy with the results for the first half of the year.

The adjustments made to the Phoenix Fund have addressed the challenges we faced in realizing better participation from our successful ideas and managing risks. The underlying fundamentals of the investment philosophy employed by the Phoenix Fund are sound. The modification to our portfolio construction should drive improved performance in line with the returns we expect to generate utilizing this investment strategy.

We are looking forward to the future and achieving your investing goals with integrity and discipline.

Warm regards,

Tyler Hardt, CFA

For more information please see Part 2A of our Form ADV available on the SEC's website at www.adviserinfo.sec.gov. You may also request a copy from Pelican Bay Capital Management by e-mailing us at info@pelicanbaycap.com.

Additional information about Pelican Bay Capital Management, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.