



July 19, 2017

Dear Honeycomb Partners:

Below please find Honeycomb's Q2 2017, Year To Date (YTD), and Inception To Date (ITD) Fund performance since our July 2016 institutional launch.

2017 Performance – Gross and Net¹

	Q2 2017	Year To Date	Inception To Date (Last Twelve Months)
Honeycomb Class A (gross)	3.3%	15.3%	20.0%
Honeycomb Class A (net)	2.7%	12.2%	15.9%
Honeycomb Class B (gross)	3.3%	15.5%	20.5%
Honeycomb Class B (net)	2.7%	12.4%	16.3%

Internal capital anchored our June 2016 soft launch which also included select friends and family capital. The Fund's June 2016 net performance was -3.4% and -3.3% for classes A and B, respectively. Inception To Date net performance is +12.7% and +13.1% for classes A and B, respectively, including the June 2016 soft launch. Past performance is not indicative or a guarantee of future results.

Q2 2017 Performance and Portfolio Discussion

In the second quarter, we took the opportunity to be tactical around our fundamental investing process. In early May, we rotated the portfolio into value and media stocks. We reduced exposure to FANG as near-term price targets were achieved following a dramatic increase in the first four months of the year. However, our long media and broadcasting exposures negatively impacted our performance in May. From a lower gross position, we were able to take advantage of the June 9-12th NASDAQ sell-off and re-initiate these growth-oriented positions at what we believed were attractive risk-rewards at prices 5% to 10% lower. We finished June up slightly for the month and overall we had a good quarter.

Gross Long and Short Security Selection Contribution – Q2 2017*



*The security attribution above differs from the 2017 performance table as it does not take into account management fee, incentive allocation, forwards or Fund expenses. Past performance is not indicative or a guarantee of future results.

From a sector perspective, a significant portion of the portfolio's exposures for the quarter were in Information Technology and Consumer Discretionary, with positions in Information Technology driving our positive performance.

Exposures for Q2 averaged approximately 190% gross and 56% net, which compares to 222% gross and 53% net averages in Q1.

On the long side, Alibaba was our largest contributor and had been a top 5 position coming into the second quarter. Formula One Group (ticker: FWONK) also led our gains along with investments in Google and Charter Communications. These gains were offset by the losses in Fox, CBS and Sinclair Broadcasting.

On the short side we had two significant detractors of performance in the quarter. Short positions in a TV shopping network and a European internet company were the largest losses to performance. We benefited from our short positions in telecom service providers, advertising companies, and a large cap technology company (serving primarily as a hedge).

Thematic Introduction: OLED – Moving Beyond the TV

In past quarterly letters and discussions, we have highlighted our interest in artificial intelligence, machine learning, autonomous driving, and new technologies made possible by advances in digital computing. At the same time however, game-changing innovation is also happening in the physical world which we have been exploring more closely.

One such advancement already at the phase of commercial adoption is OLED technology. OLEDs are "Organic Light-Emitting Diodes" and their properties enable them to emit crystal clear images without a backlight, which is required by traditional displays, making them more power efficient. This means OLED screens are paper-thin, flexible, foldable and can be applied on any surface from plastic to glass. This goes beyond TVs. Imagine the ability to turn windows, walls, and even car tail lights into a working display. Smartphone and appliance manufacturers, auto OEMs, and industries of all kinds are already planning for a future where they can incorporate this technology into their products due to the improved performance and longer battery life. Goldman Sachs recently estimated that the OLED industry will triple to \$46bn from its current size by 2020. The applications for OLED are seemingly endless.

Potential OLED applications: Moving Beyond the TV



As we are beginning our work on this mega trend, we are exploring not only the OLED manufacturers but also their equipment suppliers. Applied Materials (ticker: AMAT), a current portfolio holding, is a supplier of semiconductor capital equipment and is a leading provider in the OLED space, a fact that is underappreciated by the market because OLED-related sales represent a minority of AMAT's revenues today. Despite its dominant position in a high-growth segment, AMAT trades as a semicap company for a cyclically low multiple of 14x forward P/E despite growing earnings more than 20%. As OLED-related sales become a more substantial part of AMAT's business and help smooth out the cyclicity of its earnings trajectory, we believe the stock will benefit from a multiple re-rating as well.

We are in the process of researching other ways to play this trend. While OLED has been around for a few years and the stocks involved may reflect the potential, the S-curve of mass adoption is now in sight and will take it to the next level of general awareness. We often find in technology the early bird doesn't get the worm, it eats dirt. The bird that comes after the early bird is the one that enjoys the fruits of that labor!

What does OLED mean for advertising?

The impact of OLED displays will extend far beyond the devices themselves. At Honeycomb we think about capturing the entire value chain of an idea and ask ourselves how might this trend impact other names in our portfolio. According to industry experts we have spoken to, by 2020 approximately 60% of smartphones will have OLED screens. Some of these screens can unfold and double the size of your display allowing you to browse the internet and watch videos more comfortably while keeping your current phone size unchanged.

Illustrative smartphone prototype with OLED display



We are thinking about what impact this may have on the consumption of YouTube, which already has 1.5 billion daily active users currently spending 40 minutes per day on the site, streaming a total of 1 billion hours per day. Netflix watchers are currently streaming 1 billion hours per week. Both platforms may see a significant increase in viewing hours in a world with bigger, foldable smartphone screens. Additionally, we are analyzing the potential for mobile video advertising to drive more ad dollars to companies like Google and Facebook. Historically, there was a negative impact on advertising rates and conversion from the desktop to mobile transition when screen sizes got smaller. OLED devices could reverse this trend by allowing more potential surface area to advertise. In this scenario, we believe consensus estimates are dramatically underestimating the potential for advertising revenue growth in the future especially given video advertising rates are much higher than click-through links.

Year in Review and Business Update

Over our first 12 months in business we reflect on what we did well and where we fell short. We did a good job of taking risk in our portfolio (which is the mantra of our shop) and delivering strong returns. Since launch, our gross exposure has averaged 209% with an average 51% net exposure.

When it came to hiring talent, however, we didn't take much risk. We interviewed over 100 candidates and probably should have pulled the trigger on more than one occasion. Our bar remains high as we seek professionals with a combination of raw intelligence, common sense, passion and cultural fit centered on creativity and resilience. Our idea flow remains strong and we look to better monetize this with additional bandwidth of added talent. Expect to hear progress on this front in the future.

In terms of asset raising, we are extremely proud of the methodical approach we have taken to build our firm. We have had inflows every month since launch and have diversified the partnership by investor type and geographic representation. We believe that our investor base is a strategic asset that has helped our performance. Your confidence in our investment process allows us to do our best work, especially in volatile times.



Closing Remarks

It is an exciting time to be a new hedge fund launch. Starting a business has been an incredibly rewarding experience for our team. It continues to be a learning opportunity that requires skill, strategy, preparation and patience. We will continue to grow our assets, talent, and industry knowledge while staying focused on our goal of generating excellent returns on your capital.

Best regards,

The Honeycomb Team

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Endnotes & Important Legal Disclosure

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