August 10, 2016

"I count on the small cap universe being refreshed by hundreds of new companies - and new ideas - year after year…It is impossible for me to think that small caps aren't inefficient most of the time.

If the Standard & Poor's 500 were a single company, you could argue that you'd like to own it because there are big, successful companies that get chosen to be in the S&P 500...If the Russell were a company you wouldn't want to own it. But it is a wonderful space with plenty of opportunities."

Chuck Royce, Chairman and Portfolio Manager, the Royce Funds, *Barron's* July 25, 2016

Second Quarter 2016

	Q2 2016	YTD 2016	Since inception
The Spitfire Fund L.P.	**+1.9%**	**+3.4%**	**+154.2%**
Russell 2000	**+3.8%**	**+2.2%**	**+56.3%**
S&P 500	**+2.5%**	**+3.8%**	**+69.7%**

In the second quarter, The Spitfire Fund L.P. (the "Fund") was up +1.9% (net), compared to the Russell 2000 and S&P 500 which were up +3.8% and +2.5%, respectively. Through the first six months, the Fund was up +3.4% (net), compared to the Russell 2000 and S&P 500 which were up +2.2% and +3.8%, respectively. Since inception, the Fund has achieved a cumulative return of +154.2% (net) and has compounded capital at +10.9% (net) annually. Over the same period, the Russell 2000 and S&P 500 have achieved cumulative returns of +56.3% (+5.1% annualized) and +69.7% (+6.1% annualized), respectively.

GTT Communications, Inc. (NYSE: GTT), Crawford & Company (NYSE: CRD/A) and US Physical Therapy, Inc. (NYSE: USPH) were the main contributors in the quarter, with price changes of +12%, +27%, and +21%, respectively. Libbey, Inc. (NYSE:LBY), National Research Corporation (NASDAQ: NRCIA) and Franklin Covey Co. (NYSE: FC) were the laggards, with price changes of -15%, -12% and -13%, respectively. During the quarter, we received shares in Newell Brands, Inc. (NYSE: NWL) as partial consideration for the acquisition of Jarden Corporation (NYSE: JAH), which closed in April. We ended the quarter with gross and net long exposure of 81%.

The end of the second quarter marked the completion of the Fund's ninth year in operation. It has been a tumultuous period, incorporating the financial crisis, the Great Recession, the Eurozone debt crisis and, most recently, the British people's decision to exit the European Union. Generally, the ensuing volatility has provided opportunities for the Fund to acquire part interests in good companies at discounts to their intrinsic values. We have found that during times of

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market stress, the prices of smaller capitalization stocks are typically impacted by more than the diminution in intrinsic value that might result from the risk-off catalyst. We have therefore become increasingly comfortable holding a significant cash buffer in order to have dry powder to deploy during such periods.

Our investment approach is a blend of traditional value investing, public market investing and a "private equity approach." For us, the private equity approach has three related elements. Firstly, as we select companies, we look for niche market leadership, sustainable competitive advantage, opportunities to improve margins, high returns on invested capital and substantial free cash flow. Secondly, we adopt a "whole company" approach to our investment due diligence process. We meet with management. We talk to competitors, customers and suppliers. We visit trade shows. We benchmark key metrics across an industry. Finally, we apply the framework of the leveraged buyout model to analyze potential returns. We look for growing revenue and profitability to drive increasing enterprise value over our expected holding period. We look to drive faster growth in equity value through free cash flow applied to debt pay down, dividends, stock repurchases and tuck-in acquisitions. That 16 of our portfolio companies have been acquired by financial or strategic buyers over the last nine years validates our approach.

As we discussed in our first quarter update, movie theatre chain Carmike Cinemas, Inc. (NASDAQ: CKEC) agreed to be sold to AMC Entertainment Holdings, Inc. (NYSE: AMC) in early March for $30 in cash per share. On July 25th, having twice postponed the special shareholder meeting to approve the transaction and having failed to obtain support from either ISS or Glass Lewis, the proxy advisory firms, AMC increased its offer by 10% to $33.06 per share or 1.0819 AMC shares per Carmike share. The offer is subject to proration to achieve an aggregate consideration mix of 70% cash and 30% in shares of AMC stock. The offer represents an enterprise valuation of 9.2x Carmike's estimated 2016 EBITDA, or about 7.2x after $35 million in expected annual cost synergies. As a result of the transaction, AMC will also receive substantial additional value in the form of additional founder shares in National CineMedia, LLC, which will further depress its pro forma acquisition multiple. The transaction requires a shareholder vote and is subject to anti-trust review.

AMC described the revised price as its "best and final" offer. We believe that a further increase is unlikely given AMC's recent £921 million acquisition of London-based Odeon & UCI Cinemas Group. The increased offer and stock alternative enhance the likelihood of obtaining shareholder approval. We believe that the standalone multiple is reasonable and intend to support the transaction. The transaction is expected to close before year end and will represent the 17th sale or take private of a Spitfire portfolio company.

We shared our enthusiasm for our investment in Blue Bird Corporation (NASDAQ: BLBD) in our third quarter 2015 letter. Blue Bird is one of the three domestic manufacturers of school buses and has been growing its market share through innovative powertrain offerings including propane and gasoline. American Securities, a New York-based private equity firm, appears to share our enthusiasm. On June 8th, American Securities acquired 12 million shares in Blue Bird, representing 57% of the Company's outstanding common stock, from controlling shareholder

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Cerberus Capital Management, L.P. On July 20th, American Securities presented a non-binding indication of interest to a Special Committee of the Board of Directors to acquire the remaining common shares of Blue Bird based on a per share valuation of between $12.80 and $13.10 per share.

We believe that the American Securities offer, which represents about seven times estimated fiscal 2016 EBITDA and six times estimated fiscal 2017 EBITDA, dramatically undervalues Blue Bird. The timing of the offer is opportunistic, coming ahead of second half results. Given the seasonality of the school bus industry, nearly two-thirds of buses are shipped in the April-September period, corresponding to the Company's fiscal third and fourth quarters. Revenue, profitability and free cash flow are much higher in the second half of the Company's fiscal year. Through the Spitfire funds, we own about 7.3% of the Company's outstanding common stock. We have filed a Schedule 13-D/A with the Securities and Exchange Commission indicating our intent to oppose the transaction and outlining a valuation range for the Company of between $21.85 to $27.60 per share, based on modest assumptions regarding revenue growth, margins, free cash flow and multiple[1].

In July, Andrew Lebovitz joined the Spitfire research team. Before joining Spitfire, Andrew spent a year with Pacific Creek Capital, a start-up equity long short hedge fund. Previously, Andrew spent three years with Watershed Asset Management, a San Francisco-based fixed income hedge fund. Andrew started his career in investment banking at Moelis & Company and is a graduate of the University of Michigan. We have been looking for a new analyst for our team for many months and are excited to have Andrew on board.

We are in London for a family vacation in late August. I am planning a trip to Chicago, Illinois and Elkhart, Indiana, capital of the domestic recreational vehicle industry, during the week of September 19th. I will also be back in New York in late October. Please let me know if you are available to meet. As ever, we are grateful for your interest and support.

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[1] Our Blue Bird filing can be found at https://www.sec.gov/Archives/edgar/data/1531064/000114420416115813/v445608_sc13d-a.htm.

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An investment in the Fund is speculative and involves a high degree of risk, including loss of principal, and is suitable only for sophisticated and qualified investors. Please see the Offering Documents for full details regarding the investment strategy, risk factors, liquidity terms, fees, expenses, conflicts of interest and minimum investment amounts.

Performance calculations are based on an investment made in the Fund on July 1, 2007. Fund performance is shown net of all fees and expenses and is unaudited. Returns may vary by limited partner depending on date of investment, high water mark if applicable, participation in new issues and differing management and incentive fees. Past performance is no guarantee of future results and there can be no assurance that the Fund will achieve comparable results in the future.

The Russell 2000 and S&P 500 are not directly comparable to the Fund's performance. The presentation of their returns does not reflect a belief by Spitfire Capital LLC that the Fund is an investment alternative to either index or is comparable to them in any way. The data is included only to provide some indication of the general performance of US equity markets during the periods for which the Fund's performance is presented. Index returns assume reinvestment of dividends.

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