August 31, 2018

A value index buys stocks that look cheap compared with fundamentals; and a momentum index captures the tendency of winning stocks to keep winning and losers to keep losing. Since the election, momentum has run away with it, beating value by 25 percentage points. The same contrast emerges when comparing growth (buying stocks with growing earnings) and value (buying cheap stocks). When times are bad growth is hard to come by and commands a premium. Times are good in the US. And yet growth is powering ahead of value. What is going on? The clearest answer is spelt FANG. They show both momentum and growth.

John Authers, *Smart Money*, Financial Times, July 24, 2018

Second Quarter 2018

	Q2 2018	**YTD 2018**	**Since inception**
The Spitfire Fund L.P.[1]	**-0.3%**	**-6.3%**	**+221.2%**
Russell 2000	**+7.8%**	**+7.7%**	**+129.5%**
S&P 500	**+3.4%**	**+2.6%**	**+128.7%**

In the second quarter, The Spitfire Fund L.P. (the "Fund") was down -0.3% (net), compared to the Russell 2000 and S&P 500 which were up +7.8% and +3.4%, respectively. For the first six months of the year, the Fund was down -6.3% (net), compared to the Russell 2000 and S&P 500 which were up +7.7% and +2.6%, respectively. In the eleven years since inception, the Fund has achieved a cumulative net return of +221.2%, representing a compound annual net return of +11.2%. Over the same period, the Russell 2000 and S&P 500 have achieved cumulative total returns of +129.5% and +128.7%, respectively, and compound annual returns of +7.8% and +7.8%, respectively.

Libbey Inc. (NYSE: LBY), National Research Corporation (NASDAQ: NRC) and Columbus McKinnon Corporation (NASDAQ: CMCO) were the main positive contributors in the quarter, with price changes of +66%, +28% and +21%, respectively. GTT Communications, Inc. (NYSE: GTT), Horizon Global Corporation (NYSE: HZN) and Owens-Illinois, Inc. (NYSE: OI) were the main laggards with price changes of -21%, -28% and -22%, respectively. During the quarter we exited one position and ended the quarter with gross and net long exposure of 85% and cash of 15%.

So far this year, we have initiated two new positions in Cision Limited (NYSE: CISN), a provider of technology and services to the corporate communications and public relations industries, and in Uni-Select Inc. (UNS.TO), a Canadian-listed distributor of refinish paint and parts to the auto

[1] The Spitfire Fund L.P. commenced operations on July 1, 2007. Performance data is through June 30, 2018. The Fund's returns are shown net of all fees and expenses. Index performance is presented on a total return basis assuming reinvestment of dividends.

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body repair industry. During the second quarter, we exited our position in Baker Hughes, a GE company (NYSE: BHGE). We initiated this position in the first quarter of 2015, during a period of dislocation in the oilfield services industry, following the crash in oil prices from over $100 to less than $50 per barrel. At the time, we sought a margin of safety in the Company's underleveraged balance sheet, positive free cash flow and agreement to merge with industry heavyweight Halliburton Company (NYSE: HAL). While our reasoning may have been sound, we have decided not to repeat our foray into such larger capitalization investments as were not able to underwrite our position with the same degree of end market, customer or management due diligence that our research process requires.

Our portfolio, with about 20 long positions and a significant allocation to cash, which has typically ranged from ten to twenty percent, does not resemble any of the public benchmarks. Our willingness to deviate from the indices in terms of concentration, sector weighting and market capitalization, provides us the with the opportunity to outperform over time but inevitably also leads to periods of underperformance, such as the 2007-2008 time frame, and the year to date period. We do not pursue investments in the less economically predictable technology or biotechnology industries that comprise a large proportion of the Russell 2000 index, nor do we chase momentum. Our performance will look relatively poor during periods in which such sectors outperform or when factors such as growth and momentum outstrip value. This confluence typically occurs during periods of concern over the economic outlook, reflecting investor preferences for companies perceived to offer above average revenue growth in a soft economic environment, and low interest rate environments that boost the present value of future cash flows, however distant they may be.

Compared to the Russell 2000 index, our portfolio is overweight the "producer durables" category which accounts for 39% of the Spitfire portfolio but only 14% of the Russell 2000 index. The producer durables category includes our investments in industrials such as Altra Industrial Motion Corp. (NASDAQ: AIMC), Blue Bird Corporation (NASDAQ: BLBD), Columbus McKinnon Corporation (NASDAQ: CMCO), SPX Flow, Inc. (NYSE: FLOW) and Valmont Industries, Inc. (NYSE: VMI). This category also includes housing-related distributors Beacon Roofing Supply, Inc. (NASDAQ: BECN) and Builders FirstSource, Inc. (NASDAQ: BLDR) which together comprise about 9% of the portfolio. Relative to the Russell 2000, the Fund is underweight financials (0% vs 25%), healthcare (5% vs 16%) and technology (10% vs 15%). Healthcare and technology have been the best performing segments of the Russell 2000 year to date, with performance of +17% and +13%, respectively. We summarize the different portfolio weights of the Spitfire Fund and the Russell 2000 and Russell 2000 Value Indices below.

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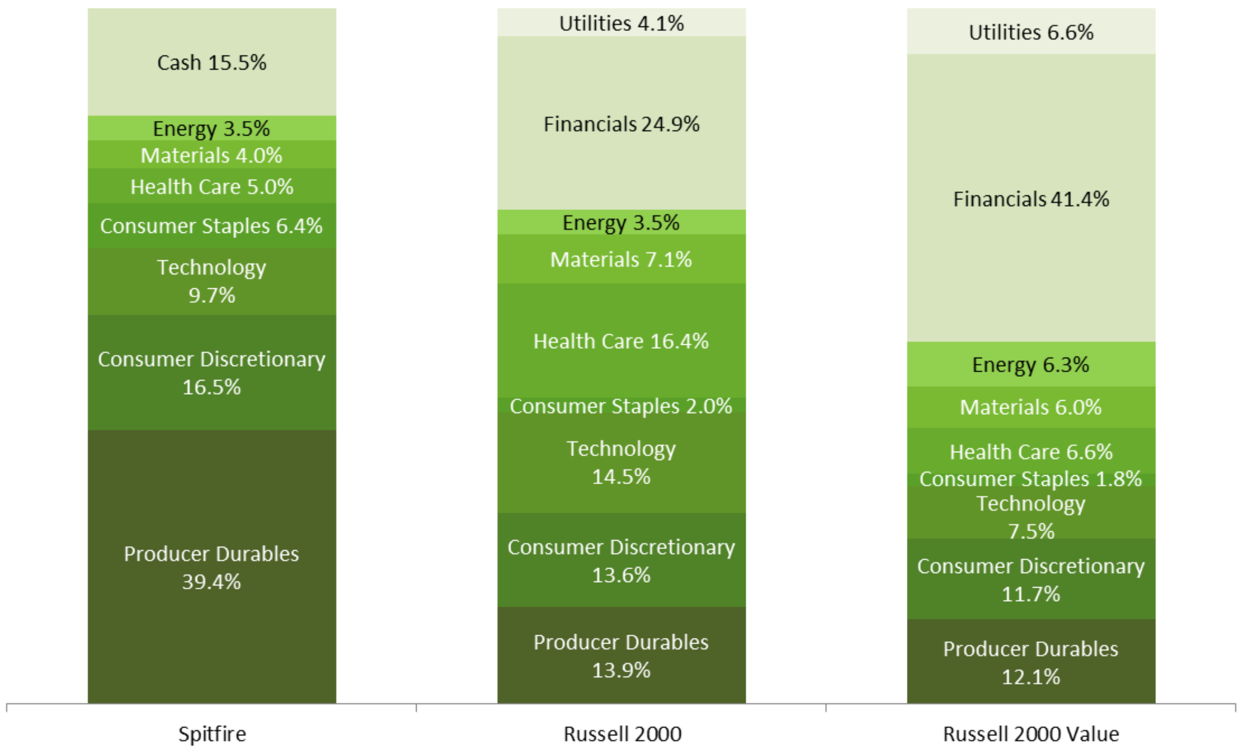
Relative to the Russell 2000 and Russell 2000 Value indices, the Fund is overweight producer durables and cash and underweight financials, healthcare and technology…



We are optimistic about the value creation potential of our portfolio. Our investment process has not changed and our long term track record of outperformance validates our approach. Blue Bird, our largest position, continues to perform well. Our "problem children," Horizon Global Corporation and Libbey Inc. are demonstrating progress, and we believe that Beacon and Builders FirstSource, our homebuilding distributors, will deliver increased shareholder value, across a range of outcomes for the housing market, much of it through free cash flow generation. We discuss each in turn below.

Blue Bird continues to execute well. While school bus gross margins have been pressured in recent quarters by higher steel and logistics costs, management is implementing strategies to materially increase margins over the next two to three years. The key drivers of margin improvement include increasing bus prices in order to fully offset the impact of higher raw material expense; using the Company's increased scale to renegotiate supply agreements and reduce general and administrative expenses and investing in automation, particularly a new paint line which will become operational in early 2019. The new paint line should reduce labour hours per bus, improve throughput time and reduce rework and warranty expense. While some of these initiatives, particularly lower component pricing, will benefit the fiscal fourth quarter ending September 30, 2018, most savings will be realized in fiscal 2019. We anticipate that these initiatives could drive up to 200bps of margin improvement next year. With over $1 billion in

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annual revenue, each 100bps of margin impact is worth $10 million or about $2.75 per share when capitalized at an eight times multiple.

The outlook for school bus shipments also remains positive. 2019 volumes should benefit from the continued growth in alternative powertrains in which the Company maintains dominant market share. These include gasoline, propane and the Company's new all-electric school bus. Demand for Blue Bird's electric and propane offerings will also benefit from the pending allocation of Volkswagen Settlement funds towards purchases of zero emission and low nitrogen oxide (NOx) school buses.

Blue Bird will also generate significant free cash flow of about $50 million per year. The Company has largely paid down its pre-IPO debt and capital allocation has shifted towards stock repurchases. The Company has repurchased $19 million of stock so far this fiscal year and is launching a $50 million tender offer, at a premium to market, in September. While the stock price has reached the initial targets we presented in our letter to the Company's Board of Directors in August, 2016, in response to American Securities' low-ball offer to take the Company private, we believe that continued volume growth, significant margin expansion and free cash flow generation will continue to drive material share price appreciation from current levels.

<u>Our year to date performance has been impacted by execution issues at Horizon and our housing-related investments</u>[2]…

Company	Sector	Price	Contribution
Horizon Global	Consumer Discretionary	-58%	-3.32%
Beacon Roofing Supply	Producer Durables	-33%	-1.43%
Owens-Illinois	Materials	-24%	-1.05%
Builders FirstSource	Producer Durables	-16%	-0.90%
			-6.70%

As we discussed in our first quarter letter, Horizon has been plagued by poor execution since the acquisition of Westfalia in late 2016, particularly in the North America and Europe segments. During the second quarter, the Company's board of directors replaced CEO Mark Zeffiro with Carl Bizon as interim CEO. Before returning to Horizon in January, 2018 to lead the North America segment, Carl was CEO of Jayco Australia, the market share leading manufacturer of recreational vehicles in the antipodean market. Before joining Jayco, and prior to Horizon's spin out from TriMas Corporation (NASDAQ: TRS), Inc., Carl was President of Horizon's international businesses, including Europe and Asia Pacific. Since rejoining Horizon, Carl has largely addressed the manufacturing and supply chain issues which have plagued the North America segment, including completing the consolidation of manufacturing facilities in Reynosa, Mexico and fixing operational issues at the Company's new retail and aftermarket distribution center in Edgerton, Kansas.

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[2] Price and contribution metrics are year to date through June 30, 2018.

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In addition to progress against operational improvement milestones, Horizon has de-risked the balance sheet and increased liquidity to ensure financial flexibility through the turnaround period. In June, the Company terminated the Brink Group acquisition, which would have increased operational complexity and financial leverage at an inopportune time. After quarter end, the Company amended its credit agreement to provide covenant relief and increase liquidity.

At a recent price of $7.76, Horizon's stock is up 30% since quarter end. With a market value of less than $200 million and enterprise value of about $518 million, Horizon is valued at eight times our estimate of 2019 EBITDA, representing a ~10% free cash flow yield. We believe that the stock offers considerable upside as the Company regains lost market share in North America, improves profitability through its operational improvement initiatives and delevers the balance sheet through free cash flow generation. Estimated 3-year free cash flow of about $55 million represents about 30% of the Company's current market value. While we are pleased with the improved execution and outlook at Horizon, we believe that the Company's Board of Directors has not done enough to improve governance and oversight and intend to remain actively involved in the Director nominating process.

Libbey has also demonstrated significant improvement in operational and financial performance. Management, led by CEO Bill Foley, has been executing well in a difficult foodservice and retail environment by improving the new product development process, developing differentiated e-commerce capabilities and better aligning capacity and invested capital with demand. Libbey recently reported its third consecutive quarter of positive year over year organic growth and demonstrated progress in improving operating margins, particularly in Europe. As with Horizon, free cash flow will be a significant driver of equity value accretion. Estimated cumulative free cash flow of around $66 million represents over 25% of the Company's market value. With a market value of less than $250 million, the Company is valued at around seven time estimated 2019 EBITDA. At a recent price of $9.83, Libbey's stock is up 30% year to date.

Our housing-related distributors, Beacon Roofing Supply and Builders FirstSource, together comprise about 9% of the portfolio. Both companies have been leading the consolidation of their respective segments. Following the 2015 ProBuild acquisition, Builders FirstSource is now the second largest building products distributor. Following the 2018 Allied acquisition, Beacon is now number three.

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Source: ProSales 2018 Survey, Wall Street equity research (1) Full year 2016 pro Forma for notable acquisitions

Beacon is the leading distributor of residential and non-residential roofing materials including asphalt shingles used in single family housing and materials used in commercial roofing. Approximately 75% of Beacon's residential roofing demand relates to repair and remodeling rather than new construction. While repair and remodel demand is recurring and can cushion a downturn in new single family construction, quarterly volumes are impacted by the frequency, severity and geographical location of severe weather events which drive demand for roof repair and replacement. Residential volumes in the key summer months were down relative to 2017 as the U.S. has endured fewer extreme wind and hail events this year. The Company's poor year to date performance has also been caused by temporary margin pressure due to the time lag in passing through increased roofing shingle prices to contractors. While gross margins have improved year over year, progress has been slower than expected. We believe that both issues are temporary and are not indicative of underlying impairment.

As sentiment has soured towards homebuilding-related stocks, Beacon's forward enterprise value to EBITDA multiple has compressed to less than 9 times, based on consensus forecasts. We believe that a combination of modest volume growth, improving margins, driven primarily by the integration of the Allied acquisition, and the delevering of the balance sheet by over ~$250 million of annual free cash flow, will drive attractive equity returns. At a constant enterprise value and assuming no change in multiple, delevering of the balance sheet through free cash flow should drive ~40% equity appreciation, before any contribution from revenue growth or margin expansion Earlier this month, private equity firm Clayton Dubilier, which provided financing for the Allied transaction and is represented on the Company's board of directors, purchased stock in the open market at $38-$39. We have also been adding to our position.

Builders FirstSource is a leading distributor of lumber and value added building products, primarily to professional homebuilders. We initiated our position in the Company in February, 2016, in the midst of the previous recession scare, and after the acquisition of ProBuild, which had left the balance sheet with leverage of over six times. Management has executed well since then, with revenue growth and margin expansion of over 25% and 35% respectively, compared

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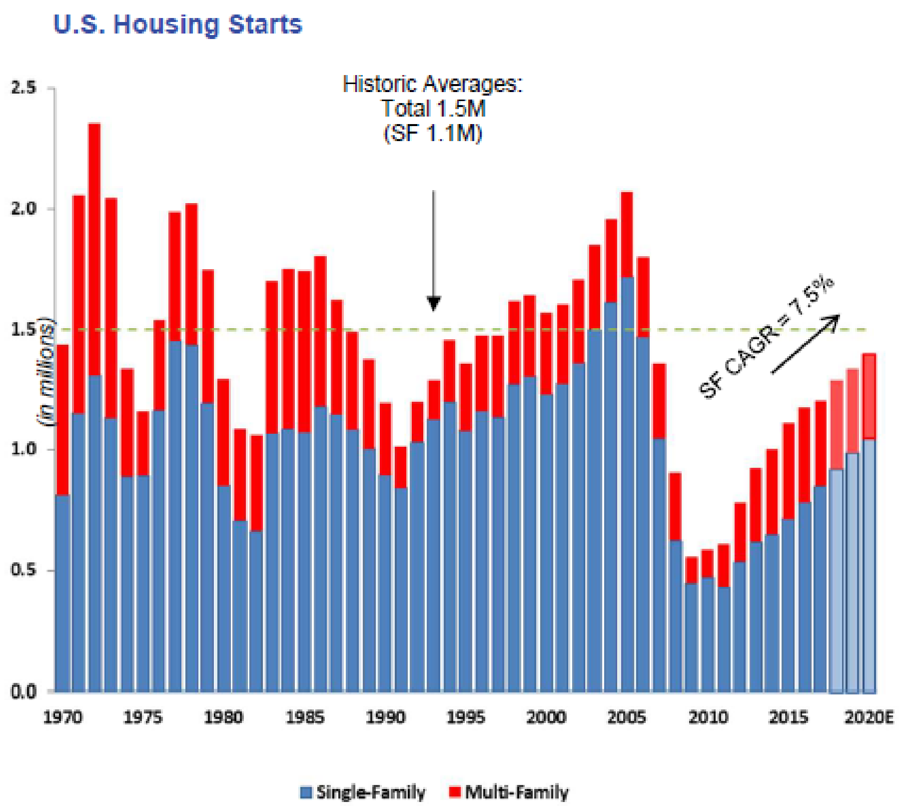
with pro forma combined 2015 results. The balance sheet has also been de-risked with net leverage expected to drop to about 3.5 times by calendar year end.

With approximately 70% of revenue tied to new single family construction, Builders is levered to continued recovery in the housing industry. While higher home prices and increasing interest rates are pressuring affordability, the industry remains below the long term average of around one million single family housing starts.

<u>U.S. housing starts, while well off the 2009 low, remain below the long term average of around ~1 million annual housing starts.</u>



Source: US Census, National Association of Home Builders. Estimates (2017 – 2020) wall street and economic research

Builders will drive growth and margins through further increasing market share and shifting mix towards higher margin value-added products such as prefabricated components, windows, doors and millwork. Margins will also expand through increasing delivery and back office efficiency. As investor concerns have mounted regarding the U.S. housing market, Builders' forward multiple has also compressed to about 7 times. We believe that today's price discounts a mild housing recession sometime over the next two to four years and offers an asymmetric return proposition for a longer term investor. The Company's debt load is manageable and does not pose an existential threat in a stress scenario. As with our other companies, estimated cumulative free cash flow of around $700 million equates to approximately 40% of the Company's current market value, underpinning our conservative underwriting case.

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While we remain very optimistic about the value creation potential of our portfolio, our underperformance this year has clearly required us to re-evaluate the portfolio, our security selection process and our portfolio construction parameters. Our security selection criteria and research process have not changed. Indeed, as we have incorporated lessons learned over the past eleven years, our investment process is more robust than ever. We look forward to reporting improved results over the coming quarters.

In late July, we moved in to our permanent office space, located at Two Belvedere Place, Suite 310, Mill Valley, California. We are located about 15 minutes north of the Golden Gate Bridge and welcome visitors at any time. Please let us know if you have plans to be in the area. As ever, we are grateful for your interest and support.

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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 since inception calculations are based on an investment made in the Fund at inception 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 an 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.

Any reference to "margin of safety" does not imply that investments made by the Fund are safe. "Margin of safety" is an investment term that refers to the difference between the intrinsic value of a security and its market price.

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