October 31, 2017

In today's low-return world, it's clear that institutional investors needing 7-8% a year aren't likely to get it from Treasurys yielding 1-2%, high grades at 3-4%, or mainstream stocks that most people expect to return 5-6%.

Since essentially no public "beta" markets offer the returns institutions need, many have turned instead to so-called "alpha strategies," where skillful, active management has the potential to augment market returns, producing what's needed.

Howard Marks, *There They Go Again…Again*, July 2017

Third Quarter 2017

	Q3 2017	YTD 2017	Since inception
The Spitfire Fund L.P.[1]	**+8.5%**	**+9.5%**	**+233.8%**
Russell 2000	**+5.7%**	**+10.9%**	**+105.7%**
S&P 500	**+4.5%**	**+14.2%**	**+108.9%**

In the third quarter, The Spitfire Fund L.P. (the "Fund") was up +8.5% (net), compared to the Russell 2000 and S&P 500 which were up +5.7% and +4.5%, respectively. Through the first nine months of the year, the Fund was up +9.5% (net), compared to the Russell 2000 and S&P 500 which were up +10.9% and +14.2%, respectively. Since inception in July 2007, the Fund has achieved a cumulative net return of +233.8%, representing a compound annual net return of +12.5%. Over the same period, the Russell 2000 and S&P 500 have achieved cumulative total returns of +105.7% and +108.9%, respectively, representing compound annual returns of +7.3% and +7.5%, respectively.

Blue Bird Corporation (NASDAQ: BLBD), Columbus McKinnon Corporation (NASDAQ: CMCO) and National Research Corporation (NASDAQ: NRCIA) were the main contributors to performance in the quarter, with price changes of +21%, +49% and +40%, respectively. Newell Brands Inc. (NYSE: NWL) was the primary laggard, with a price change of -20%. During the quarter we initiated one new position and ended with gross and net long exposure of 87%.

Our portfolio benefited from a strong second quarter earnings season, particularly from our portfolio of cyclical industrial companies. These include: Altra Industrial Motion Corporation (NASDAQ: AIMC), which is benefiting from recovery in the oil and gas and mining end-markets; Blue Bird, which is benefiting from growth in the domestic school bus industry and market share gains resulting from the Company's leadership position in alternative-fueled buses;

[1] The Spitfire Fund L.P. commenced operations on July 1, 2007. Performance data is through September 30, 2017. 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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Builders FirstSource, Inc. (NASDAQ: BLDR), a distributor of building products, which is benefiting from growth in the single family new construction market; and Columbus McKinnon, which is demonstrating accelerating organic growth driven by the improving construction, utility and entertainment industries.

The performance of our industrials portfolio also illustrates the different stages of recovery in our companies' respective end markets. Certain end markets, including energy and mining, are in the early stages of recovery. Others, including the domestic single family new construction end market are in the mid-cycle of their recoveries; while others including the light auto and recreational vehicle markets have fully recovered relative to their pre-crisis peaks, having benefitted from strong consumer demand and the availability of generous consumer financing. We believe that our assessment of intrinsic value needs to incorporate a perspective on the stage of recovery of each end market and the appropriate base case multiple to use. We don't want to pay a peak multiple for a company operating near a cyclical peak.

While we believe that market timing is impossible, it feels as if we should proceed with caution, maintaining a high bar for new positions and operating with plenty of dry powder in our portfolio. Stock market valuations are elevated, as measured by various metrics including the Shiller CAPE (cyclically-adjusted PE ratio)[2] and the ratio of stock market capitalization to GDP[3]. While such multiples may be justified in a low interest rate environment, it is getting harder to find "bargains," or situations where we feel the price does not already reflect a good outcome.

Elevated multiples also likely indicate more modest expected future returns from stocks. As such, we feel that we should maintain our focus on out of favor stocks where the good news is not already priced in and sellers are not basing decisions on a rational assessment of intrinsic value. This means that we will retain our bias towards smaller, underfollowed stocks; to recent spin outs; to companies that came public through mergers with SPACS (special purpose acquisition corporations); and industries such as school buses where the attractions (such as low capital intensity, strong free cash flow and market share trends) are not immediately obvious.

At the end of the quarter, Peter van Roden left Spitfire to move his family back to the East coast. Peter joined Spitfire in March, 2013 and has been a valued member of the research team. We wish Peter all the best in his new endeavors. Peter is replaced by Ram Nair, who joined Spitfire in July. Before joining Spitfire, Ram spent four years with Gryphon Investors, a San Francisco-based middle market private equity firm, in their business services and operations consulting groups. Ram then helped launch a private equity consulting practice at E&Y. Ram started his career in the investment banking group at J.P. Morgan Securities and holds an M.B.A. from The Wharton School and a B.A. from The University of Chicago. He can be reached at (415) 424-4226 or at Ram@spitfirecap.com.

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[2] The CAPE ratio is currently 31.2. Source: http://www.econ.yale.edu/~shiller/data.htm.

[3] Source: https://fred.stlouisfed.org.

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As ever, we are grateful for your interest and support.

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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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