Long Cast
ADVISERS LLC

Dear Friends / Clients / Investors

1Q17 was our sixth quarter in business.

Cumulative returns on accounts managed by Long Cast Advisers increased 10% in 1Q17, net of applicable fees. This was better than the various indices against which we benchmark ourselves. Since inception, we have returned a cumulative 42% net of fees, materially ahead of our benchmarks.

PERFORMANCE

	LCALLC Gross	LCALLC Net	R2000	S&P	Dow
	Annual Percentage Change				
2015 (2-mos)	12%	12%	-5%	-2%	-2%
2016	17%	16%	21%	12%	17%
1Q17	10%	10%	2%	6%	5%
Cumulative chg	44%	42%	18%	16%	20%

Returns for accounts managed by LCA ranged from 0% to 18% in 1Q17. These gains were determined on the basis of market values at the beginning and end of the period, adjusted for payments made to or contributions received from clients. It is not based on actual realized profits during the year, but is intended to measure the change in liquidating value for the period. Returns are reported net of fees and after commissions and costs paid to the brokers, which we do not receive.

Since we run a portfolio of separately managed accounts (SMA's) with irregular intake periods and varying client risk profiles, variances between account returns will continue. This would change if / when we transition to a partnership structure, but an SMA structure allows us to keep our administrative costs and your fees low. At some point however, it may become "penny wise, pound foolish" to continue a structure for the benefit of costs in exchange for the increased portfolio complexity that comes with a multitude of accounts. In the meantime, we continue to believe that our fee of 1% / year is an incredible value.

We invest with a long term time horizon and should be judged over three year periods, or as we call it, based on our 1,000 day portfolio. We are happy with the "headline number" (it's definitely better than the alternative) but the low base of capital and short operating history make all these figures somewhat irrelevant.

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PORTFOLIO

The top-five contributors to *firm wide account returns* in 1Q17 (individual accounts will have varying results) were:

Envirostar (EVI)
Sevcon (SEV)
Invuity (IVTY)
Sterling Construction (STRL). *We sold the entirety of our position in 1Q17 at an avg price of $9.40.*
CDI Corp (CDI)

The four companies in the above list that we continue to hold are also four of our largest five positions across the firm. One of our other large positions, ARIS, was down in the quarter.

All of these should be familiar names to those who have read our blog, though some are new additions to the portfolio.

CDI was added to our portfolios in the quarter. It is a staffing services company that I covered as a research associate at BMO from 2004-2006 so I know it well and for a long time.

I previously wrote about it (along with SEV) in regards to their activist situations. At the time I was sour on the company for a variety of reasons: Stale brands, perpetual under-investment, a new CEO with “pedigree” but no staffing industry experience, and skepticism about the board, which has not tended to the investment needs of the company nor to the return needs of its shareholders.

Three things changed my mind:

1. The interim CEO Mike Castleman seems truly engaged in the “puzzle” of turning around the stale brands, honest about its many needs, realistic about how much time / money it will take and experienced in successfully managing difficult endeavors given his prior work at Craftsman. His passion, honesty, integrity and experience appeal to us.

2. His efforts overlap with the needs seen by employees. A comment we heard from an employee resonated with us, about how “at long last” the company is investing in much needed technology that competitors have used for years and how excited they feel about Mike. I recognize the risk in taking a single comment and overweighting its importance, but in the staffing business, the biggest assets walk out the door every evening. If employees are excited and engaged after a long fallow period, that is a green shoot.

3. Board exploring a sale. This could just be lip service or an effort to get the activists off their back, but the board has been long resistant to considering a sale so this is a monumental change.

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Valuation is compelling. The median revenue multiple in the staffing sector is about 0.6x revenues. The most recent large staffing industry sale was Rand's purchase of Spherion for 0.4x revenues. If we "annualize" CDI's 4Q revenues of $183M, and pull this flat and forward for all of 2017, this implies $735M in 2017 sales, or a 0.2x multiple, half the value of the last large deal in the space (Spherion was in a lower level / lesser valued area of the staffing business).

For a company with no debt, an engaged CEO experienced with managing turnarounds, a long term plan in place, and newly invigorated staff, it seems not a lot needs to go right to get paid on this investment.

IN CLOSING

The investment management business is by nature a comparative one. Its greatest value is in comparing investment ideas in the efforts to direct capital towards its best and highest use. Its greatest liability is the tendency to compare our own self-regard to performance returns …

"for always there will be greater and lesser persons than yourself.
Enjoy your achievements as well as your plans."

… In all areas of life including investing, we must set our own expectations and operate against them versus the moving target of whatever anyone else is doing.

My goals and expectations for 2Q include updating client contracts into a "plain simple English" version, using Mailchimp more productively for better customer communication, continuing to learn about new businesses and industries, and adding clients who seek a differentiated investment experience.

I appreciate your trust in allowing me to allocate your capital, and the incredible responsibility I have in managing it. My line is always open to chat. I look forward to hearing from you

/ Avi
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Brooklyn NY

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