LP
Livermore Partners

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2016 FOURTH QUARTER LIVERMORE PARTNERS PARTNER REPORT

January 16th, 2017

To: Partners:

I'm happy to be writing our Quarterly letter and closing out Livermore's best year on record. 2016 was without a doubt, volatile. Especially in terms of events causing sharp and sudden corrections, only to be followed with strong upward bursts. So instead of buying the dip, it was buy the panic.

Well, it worked. There were many dooms-dayers. Every market moving and very sharp sell-off presented a fantastic opportunity to get long equities. Whether it was the worst start to January on record to fears over China, to June's Brexit vote, or even our recent Presidential election (where many pundits believed a Trump victory spelled Armageddon for markets).

The one common theme: corrections consistently provided the ammunition to own equities.

Therefore, flat-footed investor were forced to chase. Which now continues as we start the new year. The Bulls are definitely out in force and charging hard, with much talk of renewed animal spirits.

Livermore is well-positioned for such a run. Given our event-drive nature and themes of energy, industrials, and financials, we should do well in the face of less regulation and a renewed drive towards GDP growth. This should continue to set equities up well for 2017 and beyond. I am cautiously optimistic.

2016 was very eventful for Livermore. We ran a number of activist processes and gained Board seats in two companies, which helped us work in the best interests of all shareholders and focus on value creation. The companies targeted for change have performed well in the year. With our Asian-focus oil company Mitra Energy (now rebranded as Jadestone Energy) up over 100 percent, Canadian and SCOOP-focused BNK Petroleum, up 50 percent, and even Peppa Pig creator Entertainment One (ETO.L) scoring over 35percent from our initial entry point back in January.

These opportunities as well as other one-off situations, such as short positions in Valeant, Alibaba, and Urban Outfitters led **Livermore Strategic Opportunities LP** to end the year with a very strong gain of **85%**.

To achieve this, we needed to witness large equity moves in concentrated situations, ones in which we saw real potential to re-rate dramatically higher. This was not typical hedge fund performance in today's world. So it's humbling and makes it all the more special.

We do feel 2017 will offer further volatility and opportunity to take advantage and gain a return, though most likely not as much in 2016. So today we are extremely focused and realistic in our approach.

As we closed the year and looked to 2017, Livermore took on several new investments, including a long position in Canadian gold producer Torex (TXG.TO). We felt gold's decent after the election was a great time to acquire the company's cheap shares, which hit $20 then below $18 before bottoming. Torex has a proven management team with a low cost structure derived in Mexican Pesos and strong free cash flow, even with bullion prices at $1100 an ounce. The Trump win actually set up this opportunity. We feel Torex will re-rate as its intrinsic value and cash metrics come to the surface and gold holds this new, yet lower range. To update, the new year has been a boon for TXG now as recent production results from their new Mexican mine was announced with solid results. The stock is now $27. Again, solid assets and strong management are key to building lasting shareholder value. And we have that with this $2B company. The opportunity was presented due to market fear within the underlying benchmark of the yellow metal. Such like our long Glencore PLC call back in late 2015 at its very low of 70 pence, Livermore pounced at the Torex opportunity and it too is already adding to performance. We hope this continues.

Additionally, and for the first time in years, we see opportunity to gain exposure to financials. With the path of interest rates on uptrend and potential change to a less restrictive Dodd-Frank regime, we are on the hunt for small community banks that are mismanaged or who's footprint and valuation needs expanding thru acquisition. Even after the run, there is a path forming for these small banks to consolidate and build some lasting scale. We won't disclose names today but we are investing...actively.

Industrials too are tempting. Given the proposed growth and infrastructure build we feel companies such as paper and packaging maker KapStone Paper (KS) could perform well. So we are buyers of this local Chicago based company, with Roger Stone, an icon in this sector, leading the Board.

I've never been a big fan of retail given my history of risk arbitrage back in the 1990's. Where we made solid IRR's on many retailers filing for Chapter 11. Our event-driven strategy successfully sold short soon to be worthless equity and to hedge, we acquired the underlying debt. Which in turn provided us entry as shareholders in the new reorganized entity. Only after the plan was confirmed by the courts. Braun's Fashion, Venture Stores, Merry Go Round, House of Fabrics, just to name a few. Being a part of those deals showed me just how tough the retail strategy is over the long term. To build a brand that must "ebb and flow" with the ever-changing consumer. Along with technology and the internet now taking center stage. Adding a further element to crush profits and marginalize the industry. Damn you Amazon!

Still, there will always be winners and losers and therefore opportunity. So specific specialty retail looks inviting. Those UK-based as well as in the US. We hope to get further invested before disclosing targets. Though in 2016, we have and continue to own shares in Burberry PLC of London. Livermore feels Brexit coupled with Sterling pound weakness and cost cutting initiatives set up well for Burberry to gravitate more fashion forward merchandise, all the while decreasing their physical footprint. New management must refocus efforts on sales per square foot to reflect the power of the Burberry brand and cash generating potential. If not, we feel Burberry is a prime target of industry consolidation.

In closing and as we look out into Q1 2017, we are witnessing an uptrend in interest rates and much discussion over protectionism. So unlike past years of easy money policy leading the market, it will be fundamentals taking center stage. With that and with our value investing mantra (Livermore's main focus), we feel great opportunities will be abound. I'm attracted to this new paradigm and hopeful the year will be rewarding. We have much to learn and plan to strive to be big a part of reshaping undervalued companies.

I also want to take this time to wish the best of luck to former Montreal Expos and my friend Tim "Rock" Raines. Tuesday is the annual Baseball Hall of Fame announcement for new entrees. I have known Tim since I was 11yrs old in search for an idol in the sport I love. Where my brother and I would journey to Wrigley Field many times over summer break as kids.
Over the next 35 years, Tim and I became lasting friends and created a true friendship and nice memories to boot. As I watched him on the field and off, he is reflective of a person I have great respect for. Given his personal struggles of substance abuse early in his career to nagging sports injuries, I have always witnessed the dedication of a man striving to succeed. We wish him well tomorrow. It would not only culminate a phenomenal baseball career that spanned 23yrs, 808 stolen bases, 2605 hits, a National League batting title, 7 time All Star, 3 World Series rings, but it would also take light of an 11 year- old Chicago kid he was thoughtful enough to take a real interest in.

Thank you all for the trust and support. Let's crush it this year!

Very truly yours,

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