

Dear Friends:

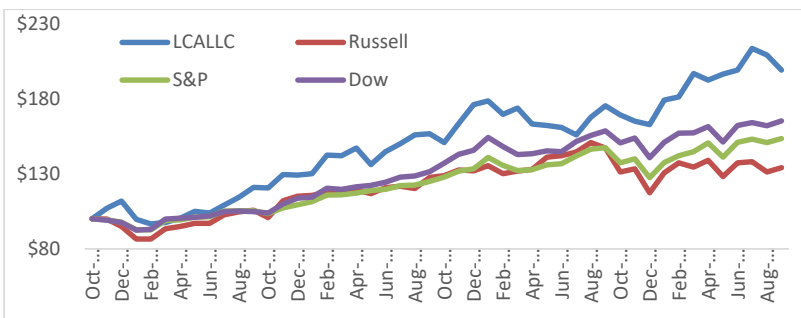
Cumulative returns on accounts managed by Long Cast Advisers were flat in 3Q19, net of applicable fees. This was mixed compared to the baseline market indices. Returns for separate accounts managed by LCA ranged from -3% to +6% for the quarter.

YTD through quarter end 3Q19, accounts managed by LCA have returned 22%, better than the baseline market indices (the S&P is up nearly as much). Since inception through quarter end 3Q19, LCA has returned a cumulative 99% net of fees, or 19% CAGR, ahead of the baseline market indices. *Past performance is no guarantee of future results.*

Because our portfolio is comprised of just a handful of typically small “off the beaten path” businesses that we tend to own for long periods, it is expected that returns will vary considerably from the baseline. As a reminder, LCA will not invest in companies exposed to the hydrocarbon or defense industries, a small effort to align capital growth, business ownership and personal ethics.

PERFORMANCE / PORTFOLIO HOLDINGS

	Long Cast	R2000	S&P	Dow
	Percentage Change			
2015 (2-mos)	12%	-5%	-2%	-2%
2016	16%	21%	12%	17%
2017	36%	15%	22%	28%
2018	-8%	-11%	-4%	-3%
1Q19	21%	15%	14%	12%
2Q19	1%	2%	4%	3%
3Q19	0%	-2%	2%	2%
YTD to 6/30/19	22%	14%	21%	17%
Cumulative chg	99%	34%	54%	65%
CAGR	19%	8%	12%	14%
LTM	14%	-9%	4%	4%



Quarterly returns benefited from growth in INS and some of our new newer & smaller additions to the portfolio offset by a large decline in CTEK, a significant holding focused on IT & Cybersecurity Services.

It is fair to say that **INS** benefits from its relationship with Goldman Sachs and the Apple Card and the likely recognition of an initial software license fee (possibly in 3Q19). It is also fair to say that the valuation benefits from high expectations around the card’s launch.

I’ve asked many people to try to guess how many Apple cards will be issued and many do the basic math of # of iPhone users X some presumed uptake rate and get to an extraordinary number. This method however ignores baserates.

Credit card industry monthly active accounts follows a pareto curve (no surprise) with the top five issuers owning the bulk of the share. Capital One is the largest with about 50M monthly active accounts. JP Morgan Chase #2 with about 40M. BofA is #4 with 30M. AMEX has about 25M monthly

active accounts. Beyond that, the numbers fall off sharply so that by #10, we are looking at an issuer with *well below 10M monthly active accounts*.

I think the base rate calls for less sanguine expectations than the math. If Apple continues to promote the card, add features and it grows monthly active users, then INS would recognize add'l license fees as certain hurdles are met. And I reckon it could grow into a top-10 c/c. But even as a top-10 US issuer, that's fewer than 10M active monthly accounts.

Still, evidence exists of other large potential new customers awaiting in the wings, some said to be interested in the company's newer processing solution, which many investors refer to as "recurring revenues". Despite expected near term volatility, I think the long term opportunity remains compelling.

I think the long-term opportunity for **CTEK** also remains compelling even though the stock's decline in 3Q19 wiped out our gains elsewhere. The company is in a space with a lot of demand, with a new CEO Caleb Barlow from IBM who has significant experience in the industry and I think in a private takeout could sell for +\$8 / share.

The stock declined however, quite simply b/c this is a growth company that isn't growing. On the 2Q19 conf call, the outgoing CEO indicated 2H19 total revenues would be down vs 2H18 on hard comps in the lumpy and transactional remediation business.

I think investors should focus on results in – and hopefully continued growth of - the recurring "managed services" segment. This is the relational area of the business that matters most as it is sticky, long term and reflects market share in the hard to penetrate healthcare space. That business has been growing at a mid-teens rate and is much more indicative of the long term health of the business.

Also critical to the long-term health of the business, and something I would very much like to see, is a better Board. To its credit, the current Board changed the wheels while speeding down the road, but only in response to losing its own way. An improved, experienced and capable Board can nurture and mentor Barlow, help him shape and articulate a strategy, provide KPI's and accountability, and should offer aligned ownership as well. Finally, given how poorly prior acquisitions have fared, I would much rather see an outright sale of the company than attempts to goose growth with "bolt on acquisitions".

Rounding out other large holdings in the portfolio:

QRHC's [new contract with Buffalo Wild Wings](#) offers tremendous opportunity *if* the company has implemented a back-office technology solution that will enable them to service, deliver and scale it up. I wish management and the Board would address this technology issue sooner rather than later.

Speaking of technology, I recently attended **TBTC's** shareholder meeting outside Minneapolis. This ~\$15M mkt cap company run by a software engineer develops and provides casino management software. The company installs hardware at the customer site (basically a server plus boxes on each game at a venue, including table games) that captures accounting and player data used for financial audit and marketing.

They are one of the only pure play CMS on the market. Most other solutions come from larger providers (Bally, Konami, Aristocrat, IGT, etc) who bundle the software with the games, offer it at an initial discount then increase price over time.

TBTC offers a simple product at a low price designed for back office use by accountants and marketing analysts. It recently launched a new dashboard that provide up to the minute KPI's on the status of a casino. That's an incremental upsell opportunity within the existing customer base. Concurrently, the company continues to add customers as it deepens its penetration into [the mid-sized casino market](#).

I also recently attended **SIFY's** analyst day in New York. It is a great little business that is incredibly undervalued, but since the Chairman owns 85% and has no desire to sell at current prices, it's essentially "family owned" and therefore the valuation gap may persist indefinitely. That's fine; this is a small position that I expect to own for a long time as a bookmark for exposure to internet penetration in Indian.

Of our other large holdings, it seems worth mentioning some of the changes going on at **PSSR**, which I have mentioned in recent letters. I "pitched" the company 18-months ago at the inaugural Greenhaven Partners Fund dinner and the stock is since down ~40%. I provided an update on the idea at Greenhaven's most recent Partners dinner and I'll share some of those comments here.

PSSR fits many of the attributes I look for in a company: Small and focused, solves an understandable problem for their customers, with managers who have a sound history of capital allocation and own a bit of their own cooking.

Chairman Beck Gilbert, owns 50% of the company and has lent an additional \$7M in debt to fund investments towards the next leg of growth and on the face of it, it's nice to have that kind of owner. But in this case, the high insider ownership, so often a feature, has also been a bug. As I have come to learn over the years, I think the Chairman, partially as a result of his magnanimity, crowds out other voices in the room, which has led some (including me) to perceive an endeavor that appears too much like a hobby and less like a business, at least in the way it tolerates inefficiencies.

Whether or not that perception had any basis in reality, something has materially changed.

Beck still owns 50% of the company and is still committed to funding growth through his personal loans, but he has stepped aside from his operational role and has been [replaced by Executive Vice Chairman John Thomas](#), a long time aviation insider, formerly the head of Virgin Australia and famous as "[the man who invented baggage fees](#)."

Thomas has joined— with options that vest at \$1.45, \$2.45 and \$3.45 – to monetize the company's ample consulting and software assets. His strategy is to pivot to international growth, where the TAM is larger, the airports are P&L focused and the market is less solution-saturated.

The company has already announced four contracts with international airports ([Toronto](#), [Lisbon](#), [Mexico City](#) and most recently [Bogota](#), as a partner to Accenture). Some of these are for software sales while others are for consulting services that will hopefully lead to larger software sales down the road. The increasing activity on the sales front is a long overdue source of optimism. Aviation is an unusual

beast, and I expect having an industry veteran at the helm will weigh the odds more favorably towards a positive outcome.

In search of new ideas, I recently attended four investor conferences - The Microcap Conference, Sidoti, Microcap Leadership Forum and LD Micro - to see a variety of companies, talk with other investors and hear what's out there.

Subsequently, I am digging into two companies that I think might be inexpensive and promising and we have slowly started to buy shares of one of them, a company in the nuclear remediation services space.

The business was mismanaged for decades under the leadership of its founder, but two years ago, the first outside CEO was installed and we are starting to see the fruits of the changes he's implemented. It's an industry I know well from my time covering Engineering & Construction companies at BMO in a space where a variety of changes are happening.

New investments like this one remain quite small. For example, **SCND** has already doubled in value (we most assuredly did not move the stock) but the difficulty in buying it kept it as a small position. I will have more to report on these ideas soon enough.

CONCLUDING THOUGHTS: MAYBE WE'LL LOOK BACK ON THIS AND LAUGH SOMEDAY

The market functions as a discounting mechanism. So even as California burns, and Brexit looms, and we read about near daily shootings, and the President faces impeachment, etc uncertainty ad absurdum, it makes sense that the markets shrug, and go up, discounting as it does incremental news that's no worse than the last.

But with the Yankees out of the playoffs, it is reason for pause. Just as the market functions as a discounting mechanism, so do the Yankees function as a team designed to win the World Series. But they didn't. Not this year at least. [And not once in the last ten¹](#).

This note isn't so much an effort to remind Yankee fans that they haven't won the World Series in the last ten years² but rather to question if maybe, just like the Yankees aren't functioning the way they're supposed, the market isn't either, and maybe low discount rates are inappropriate in what feels like a highly uncertain environment.

A fund manager recently told me that low bond yields indicated a healthy macro environment. Diversity of opinion is a hallmark of healthy markets, but I nearly spit out my coffee. I suggested that maybe bond market signals were skewed by external factors like politically enforced easing designed to stave off recession and a world awash in hoarded capital seeking a place to go, so that traditional inferences typically drawn from low bond yields might be misplaced.

¹ My wife, a lifelong Mets fan, proposed the topic of this brief commentary

² My wife wishes to remind everyone that the Yankees haven't won the World Series in the last ten years

Equally misplaced to me is Government's efforts to control the business cycle through endless easing, as well as loosening regulations and lax tax policies, efforts so clamored for by Business and her lobbyists who declaim regulations and taxes as the end of free enterprise.

Business will exist under any situation regardless of interest rate policies or regulations. I have long argued that regulations and taxes aren't impediments to business so much as the whipsaw nature of legislation changing every four years. The lack of visibility is far worse than the burden created by any regulation itself. How can a company invest in long term fixed capital assets under leadership conditions bereft of long term planning? (I keep an old political cartoon in my office of Uncle Sam wearing a t-shirt that says "I survived the 1973 oil embargo and I still don't have an energy policy.")

I am not worried about business or markets. I am however worried about the impairment of the intangible assets – visibility, stability, a sense of calm and community, credibility of currency and political capital - that has endowed business and markets in this country for most of my life, with only occasional spasms of abnormality.

These intangible assets offer "the shopkeeper" a sense of certainty that their windows won't be smashed in the morning, that the power will work, that the government will function, that come opening time, neighbors could shop alongside neighbors without disputes ripping through their stores.

These intangible assets are unfortunately at risk. There's a [bank in Brooklyn Heights built in the 1910's](#), when such buildings were cathedrals of safety and permanence. Inside the bank, carved into the granite above the north entrance it reads ...

"Commerce defies every wind, outrides every tempest, and invades every zone"

... and above the south entrance it reads ...

"Society is based on trust, and confidence in one another's integrity"

Each message alone is hopeful and true but taken together, for the reader willing to fill in the blanks, there is a tension and conflict. The tempest arises where trust and confidence erodes, but business endures.

I attribute some impairment risk to failures of long-term planning in our national leadership, across the aisle, up and down the board, compounded by short term ideologically driven changes every few years. But there is more.

Just as the printing press impaired intangible assets of its day, so has (and will) the new media now running in the background of our lives impair the prevailing assets of our times. The printing press spawned new religions, new ideas and new lands (and in the process a great deal of violence). We remain in the early innings of this current iteration and it may take decades until it all shakes out, potentially concurrent with food supply disruptions and mass migration.

Through this lens, today's spasms of abnormality seem the new / old / new / old / new / old norm. History is like a virus. If you haven't been inoculated against it through education, or experienced it

yourself, the mistakes of prior generations are lost. Whether its measles, inflation, fascism or world war, issues unseen for generations and unprovoked by availability lead to fatigue and forgetfulness.

“Sad,” to quote our Commander in Chief. Old tropes are returning. Things I once laughed at seem present and dreadful. The “Colbert Report” doesn’t seem so funny as much as prescient. I’m reminded for the first time in many years of the mantra that got me through hard times as an adolescent: “Maybe we’ll look back on this and laugh someday.”

It will be hard to laugh however if the tide turns on index funds and ETF’s, vehicles for savings for many Americans, whose valuations seem driven more by low rate infused fund flows than fundamentals.

Murray Stahl was widely derided for [his 2Q19 note](#) that essentially said earnings multiples for the leading tech companies infer elevated and increasing growth rates even as the comps get harder due to industry maturation. He argues that investors aren’t properly discounting slowing growth rates for the companies that comprise the bulk of index returns. His is an unpopular opinion, and I’m sure I don’t completely agree with it, but [Mary Meeker’s Internet Trends presentation](#) seems to support at least some of his views.

I don’t know the future and I generally try to avoid macro-economic commentary – the opiate of the investment masses I like to say – but this has been weighing on my mind.

I can’t say for certain that the companies in our portfolio are better alternatives to the mass indexation approach but it is assuredly different. Evidence and reason both suggest that investing in small individual companies with discrete opportunity pathways that can be researched, analyzed, tested and observed, and whose shares can be acquired at discounts to their future cash flows, offers a better and safer alternative to compound capital faster than the rate of inflation, after tax, than the mass index fund approach.

I dated and married in the ‘99-’02 era, a period of Yankee dominance (and it should be said, an NBA Finals appearance by my Sixers). It creates a buzz in town, an intangible asset conferred on the city by the team, fertile ground for people to stay out later, spend more and have fun.

That they’re not in the World Series and haven’t been in a decade is a reminder that fortune and luck need also be aligned for success. It is as true for the baseball team as it is for the investor, except the investor with permanent capital who is wise with their money and eschews margin debt should enjoy an endless season.

As always, I appreciate your entrusting me with your capital and the responsibility associated with being its steward. If you have any comments or questions, please don’t hesitate to write.

Sincerely / Avi
October 2019
Brooklyn, NY