

Limited Partners,

In Q2 2020, the fund increased 66.7% gross and 60.5% net. This brought the YTD gross return to 22.0% and YTD net return to 17.2%. The average net exposure during the quarter was 75.2%. Since inception in April 2018, the fund has returned 117.9% gross and 87.1% net compared to 22.8% for the S&P 500, a decline of 12.9% for the Russell 2000, and a decline of 11.2% for the Russell Microcap Index. See the below table and appendix for further details.

	Alta Fox Returns		Benchmark Returns		
	Gross Return	Net Return	S&P 500 (SPY)	Russell 2000 (IWM)	Russell Microcap (IWC)
Q2 2020	66.7%	60.5%	20.5%	25.4%	30.5%
YTD	22.0%	17.2%	-3.1%	-12.9%	-11.2%
Since Inception	117.9%	87.1%	22.8%	-2.7%	-6.2%
Annualized	41.4%	32.1%	9.6%	-1.2%	-2.8%

As always, I strive to ignore short-term fluctuations and instead focus on the intrinsic value growth in our portfolio holdings, which over the long run should converge with portfolio performance. I encourage limited partners to do the same (both in times of outperformance and underperformance). I firmly believe that in the long-run, our strategy of buying high-quality and underfollowed businesses at cheap prices will deliver attractive absolute and relative returns. Most importantly, our process will remain disciplined with strict risk controls, minimal gross leverage, and a sound research process.

Reflections on the Alta Fox Research Process Amid Historical Volatility in 1H 2020

In the fund's [very first quarterly letter \(Q2 2018\)](#), I outlined my view that while Mr. Market's general valuation method of forecasting financials for one to two years out and applying an earnings or EBITDA multiple based on comparable companies tends to be fairly efficient, this technique often is poorly suited for:

“analyzing companies undergoing significant and rapid change, companies the market has not had a long time to analyze, companies without any good publicly traded comparables, companies that are poorly followed without good (or any) consensus estimates, highly cyclical companies with multi-year cycles, and finally, companies with unusually long and profitable growth runways due to significant and enduring competitive advantages.”

Alta Fox has been structured to specifically take advantage of these niche opportunities. What was so unique about the first half of 2020 was that the market's traditional mechanism for valuation began to fail for nearly the entire market because it was difficult to develop conviction in earnings forecasts even one year out due to the uncertainty introduced by COVID-19. This led to widespread panic and significant buying opportunities for the nimble and focused investor.

The game plan we articulated for Alta Fox in Q1 2020 was to shift the portfolio into the small subset of companies in which we could have conviction in our medium to long-term forecasts. This positioned our portfolio in companies that had strong balance sheets, good cash flow dynamics, and were neutral to positive beneficiaries of COVID even though Mr. Market was punishing them along with nearly every company in the market amid widespread market panic.

The three companies I specifically highlighted in the Q1 2020 letter were: GAN Limited (“GAN”), Evolution Gaming Group AB (“EVO”), and MamaMancini’s Holdings, Inc. (“MMMB”). Since the Q1 letter, our stake in those companies appreciated approximately 230%, 60%, and 100%, respectively. While there were certainly many bargains in March, what I am most satisfied about is that our process did not result in taking unnecessary risks amid extreme macro uncertainty. We were investing with disciplined position sizing in good businesses with strong balance sheets that were structural winners. While I am pleased with our results YTD, I am even more proud that we stuck to our disciplined process in a difficult and stressful environment. Our process was made easier by having supportive and long-term focused limited partners-- many of whom added near the market lows.

Alta Fox enjoys many structural advantages relative to the majority of institutional capital. It is worth highlighting two specific advantages which greatly contributed to our success during the market’s recent volatility.

- 1) We are more nimble than the average fund. Many large funds have investment committees and red tape that prevent quick and decisive actions. Alta Fox has an investment committee of one and I was able to quickly exit our most vulnerable positions while simultaneously initiating and adding to long positions in which we had deep conviction.
- 2) Alta Fox is less constrained and has a greater investable universe than most funds with strict mandates and larger assets. Two specific examples from the first half of 2020 are worth mentioning.

First, when we originally invested in GAN, it traded on the AIM market, which is market-maker driven and has poor liquidity. Many funds are not allowed to trade on that type of exchange or are too large to have it be worthwhile to invest in such a small security. Alta Fox was able to establish a meaningful position in the company ahead of its pending uplisting to the Nasdaq. Moreover, we were able to leverage our good relationship with management and deep fundamental research to get a small piece of an equity offering as part of the uplisting at a very attractive price. Retail investors do not have a realistic opportunity to participate in that type of deal. Alta Fox is therefore specifically exploiting niche opportunities where our size gives us significant advantages over large and less nimble investment funds, but also institutional advantages over the large retail investor. There is a significant sweet spot in this niche and we plan to continue to capitalize on it for our investors.

Second, Alta Fox has a very broad mandate and the flexibility to invest wherever we identify the greatest opportunities. This is important because many small-cap funds are not allowed or are heavily disincentivized to invest in companies above a specified market cap threshold. In fact, institutional allocators will occasionally remark to me something along the lines of “I understand your competitive advantage in small-caps, but why are you ever investing in large-caps where you have no competitive advantage?” The answer is that I occasionally invest in

large-caps when I see great opportunities in fantastic businesses and I am not going to ignore them just because they do not fit a marketing narrative. Evolution Gaming (“EVO”) is a great example. It had a \$5B+ USD-equivalent market cap when we first invested. That is well outside of micro-cap land and a solid mid-cap by most definitions. However, I developed significant conviction that EVO was one of the highest quality gaming assets in the world and significantly undervalued. Moreover, despite the company being larger than most of our traditional holdings, it was somewhat “small-cap like” in its lack of U.S. research coverage. While the company was well covered by research analysts in Europe, zero U.S. analysts covered the business at the time of our original investment. When the market gave us an opportunity to purchase shares at a significantly reduced price due to COVID-19 panic selling, we took advantage because I had a high degree of confidence that the fundamentals were accelerating. Far too many funds have ignored the “obvious winners” over the last 5+ years because they wanted to emphasize their “uniqueness” as a marketing point. I have 80%+ of my net worth invested in Alta Fox and I am going to invest where I see the greatest opportunities irrespective of any marketing narrative. More often than not, I find the most attractive risk/reward bets in underfollowed small and micro-cap securities, but I am not afraid to exploit exceptional opportunities in other segments of the market.

Finally, it is important to note that we did not get significantly more or less aggressive during the market pullback and recovery. I do not claim to have any specific edge in forecasting overall market direction. As a result, we did not whip around our net exposure in a meaningful way. Instead, we stuck to good old-fashioned, bottom-up stock-picking and focused on our own estimates of fundamentals and intrinsic value for businesses we could understand and reasonably forecast. Even though the next downturn is unlikely to be exactly the same as the precipitous drop in March of this year, we will utilize the same principles and process to optimize for long-term success.

Alta Fox View on Common Share Ownership

I believe that owning common shares in a business represents part ownership in that business and therefore reject being a “passive” shareholder in the traditional sense. I like to talk to management teams, visit stores (if applicable), test products, and generally get my hands dirty when researching an industry and potential investment. I have personally consumed more [MamaMancini’s meatballs](#) over the last few months than I am willing to admit after bulk ordering the product in the name of research. In the mostly small-cap companies in which we operate, the upper-level management teams typically consist of just a few individuals and they have to perform multiple functions at the company. As a result, when we spend a significant amount of time and resources conducting diligence on a business and industry, we occasionally develop insights that can be helpful to a management team, which we are always happy to pass along if appropriate. Past examples of this include introducing our portfolio companies to third-party investor relations firms, sharing customer feedback from our own diligence process, and providing our views on the best use of capital allocation. Historically, we have always done this in a very friendly way with management teams and have developed good relationships with companies that are generally appreciative of any small ways we can add value.

Our Recently Announced Activist Position—Collectors Universe Inc. (“CLCT”)

We spent significant resources and time speaking with customers, competitors, and other industry participants while conducting diligence on Collectors Universe. We ultimately came to the conclusion that the business is significantly undervalued in its current state, but that with greater ambition and better capital allocation, the business could potentially be worth multiples of its current price. We compiled a short presentation in which we summarized some of our work and key conclusions. It was the type of analysis the company might have paid a consulting firm significant fees to compile over a long period of time, but we were offering it for free to the management and Board of Directors as an aligned stakeholder in the business.

We presented a subset of our findings to the CEO of CLCT and had several amicable conversations with him in which he validated many of the points we raised and seemed to agree with most of our conclusions. However, we were told there was no timetable for implementing any of the digital initiatives. This led us to raise the issue to the Chairman of the Board. Unfortunately, he was unwilling to even discuss our proposed methods for value creation and quickly dismissed the results of six months of work from one of his largest shareholders.

At this point, we had several options. We could do nothing, hold our shares, and likely earn a reasonably attractive (given the dominant moat of the current business) but unexceptional return (given the company’s poor capital allocation strategy) over time. Our second option was we could sell our shares, move on, and avoid the headache of an entrenched Board of Directors whose actions over the last decade suggest they are not solely focused or properly aligned with common shareholders. The third option was to exercise our right as a common shareholder to push for change. This is the decision we came to after very careful consideration. Ultimately, we concluded that this was an extraordinarily rare opportunity to potentially earn a multiple of our capital in a strong business. To unlock this higher return potential, however, it required Alta Fox to go activist and push for a new Board of Directors. You can read our initial letter to shareholders [here](#).

We are limited in what we can say at this juncture. However, we continue to have strong conviction that our strategy is the value-maximizing path and that if push comes to shove, we have a winning hand and can create significant value for common shareholders. We are excited to share additional materials on our plan and the need for change at the appropriate time. Stay tuned.

Finally, I have no desire to be a full-time activist investor. I enjoy interacting with management teams and have developed many great relationships over time, but these have always been friendly and amicable. In fact, I would wager that if you spoke to some of the management teams in which we have been significant investors, they would comment that we have been among their most knowledgeable and helpful shareholders. We went to great lengths to work cooperatively with CLCT to strive for value creation, but were forced down this path. While activism is not a path we will actively pursue, we are willing and able to do whatever legally necessary to protect our LP’s investments if an entrenched Board of Directors is not acting in the best interest of shareholders.

Introducing A New Idea—Enlabs AB (“NLAB”)

We have spent a lot of time studying the online gambling industry given its strong secular growth. Thus far, we have preferred to be invested in B2B operators (such as GAN and EVO) that provide services to casinos rather than the B2C companies. One of the main reasons we have avoided B2C companies to date is that there is typically fierce competitive rivalry among B2C players, which raises customer acquisition costs and leads to significant upfront cash burn. In our view, it is difficult to underwrite most of these businesses because it is very hard to control your own fate: your outcome is largely dependent on how hard your many well-funded competitors choose to fight over each customer.

Our recent investment in Enlabs is a notable exception to the fierce B2C competition seen throughout most of the world. Enlabs is an online B2C gambling operator that operates the Optibet brand in the Baltic countries in Europe (Latvia, Estonia, Lithuania). The Baltic states have some of the most restrictive laws in the world when it comes to gambling advertising. For example, in Latvia it is illegal to advertise gambling outside of a gambling venue (designated sports bars/betting shops), legislation requires players to set their own stake limits which are not easily changed, it is forbidden to play for free money (restricting bonusing options) and player self-exclusion is easily accessible. Optibet was the first gambling brand licensed in Latvia (in 2003) giving them a significant first mover advantage. The combination of a strong regulatory environment in Latvia that hinders effective advertising for potential new entrants along with a niche market that is not worth fighting over by the larger and most well capitalized players has led to an extremely favorable competitive environment for the few licensed operators. Furthermore, Enlabs has cemented its dominance in the Baltics through a variety of important local sponsorships including the Latvian Football (soccer) & Hockey leagues and for the national Men’s & Women’s Football (soccer) teams in Latvia and Lithuania. As a result, Enlabs has 50%+ market share in Latvia, 20% in Estonia, and ~5% but growing in Lithuania. Enlabs’ favorable market positions have resulted in very profitable and rapid growth. Over the last five years, Enlabs’ revenue has seen an organic CAGR of 41%, EBITDA has gone from ~0 to 11.6M EUR, and total shareholder return has had a CAGR of ~46% (a ~550% total return). This has easily made it one of the best performing small caps over this period and we think the future could be just as bright.

There are three main reasons why we are so optimistic about Enlabs’ future growth prospects. First, online gambling in the Baltics is growing rapidly (20%+ per year) with a long runway for growth. Online gambling market share (vs retail betting) is still just ~20% of total gambling spend in the Baltics. Furthermore, of the online gambling spend, ~25% is still spent on unlicensed operators, which are being cracked down on by the government. That crackdown should enable the best licensed operators (like Enlabs) to grow even faster. Second, Enlabs is likely to enter new geographies with 5-10x the collective online gambling TAM of the Baltics. Countries such as Belarus, Ukraine, Finland, and others have similarities to their existing Baltic footprint and should be attractive markets for the Optibet brand. Enlabs’ strong technology platform, disciplined management team, and historical track record give us confidence that this expansion will be successful. Third, we are very bullish on the company’s recent purchase of a 29.9% stake in Global Gaming (GLOBAL SS). This is likely the first step in acquiring the entire asset, which our research suggests would be extremely accretive. We do not believe the market has fully realized the extent of potential synergies between these two businesses, but that when it does, the stock will be

significantly higher. Enlabs trades at 7.5x what we believe are conservative estimates for 2023 earnings and an even more staggering 3.8x earnings ex-cash. We believe shares of Enlabs are conservatively worth 100%+ higher than current prices and that the company has several realistic call options that could lead to significantly greater upside over the next five years. You can find our full detailed write-up here: www.altafoxcapital.com/research.

Conclusion

My goal for Alta Fox is to create a world-class investment firm that can compound capital for like-minded limited partners at attractive risk-adjusted rates. I am proud of the progress we have made in just a couple of years. Despite the research budget increasing significantly (along with assets) since the fund's inception, I still have been paying some out of pocket costs from the GP in most months. This is because the volume and pace of research activity has significantly increased, which is obviously a great thing for our process. I continue to find more attractive opportunities to pursue than I have hours in a day and you should expect me to continue to reinvest the management fee into the business in the pursuit of building a world-class research firm. I continue to have the vast majority of my net worth compounding alongside your own capital.

My high expectations for Alta Fox extend beyond the research process to the back office as well. On that front, I am currently recruiting for a COO. If you know an outstanding candidate that you think would be a good fit for this DFW-based role, please send resumes to: info@altafoxcapital.com.

Our next capital opening will be September 1st. If you are not a current LP, but are interested in more information about the fund, please email: info@altafoxcapital.com. We welcome referrals for long-term oriented investors interested in our strategy. Investors can sign up for our email distribution list for all future updates and publicly posted ideas here: <https://www.altafoxcapital.com/contact/>.

Sincerely,



Connor Haley

Appendix

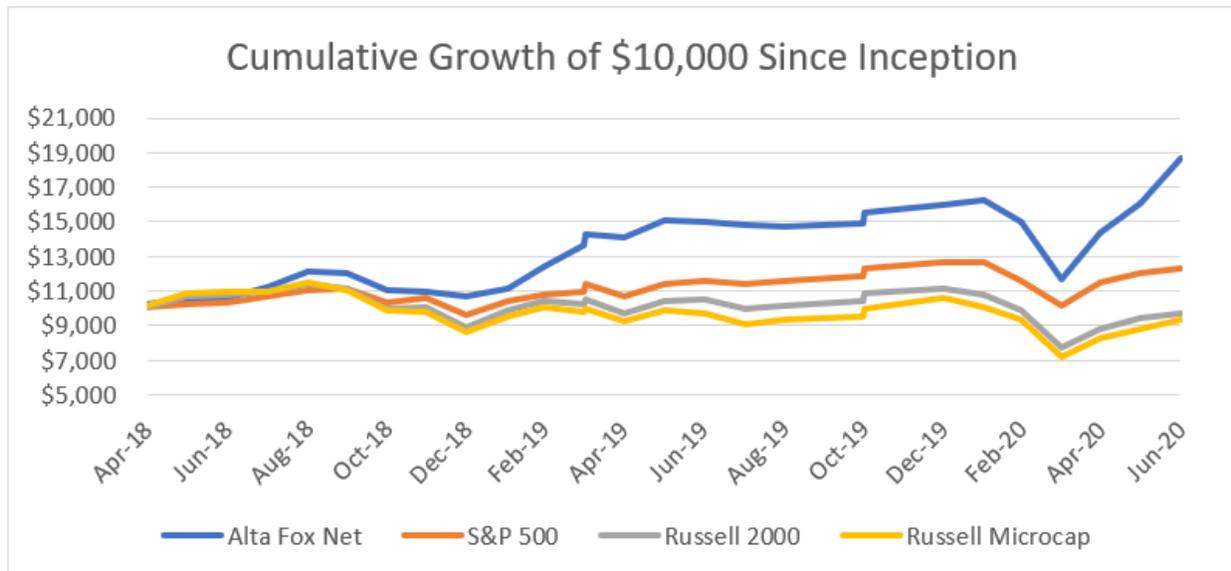
Monthly and Quarterly Fund Returns

	Alta Fox Gross	Alta Fox Net	Alta Fox Net Exposure	S&P 500	Russell 2000	Russell Microcap
Apr-18	2.63%	2.03%	50.24%	0.38%	0.86%	1.25%
May-18	3.56%	2.80%	96.39%	2.41%	6.07%	7.22%
Jun-18	1.45%	1.11%	91.32%	0.62%	0.72%	1.30%
Q2-2018	7.82%	6.05%	79.31%	3.43%	7.75%	9.97%
Jul-18	7.36%	5.91%	80.92%	3.72%	1.74%	-0.07%
Aug-18	9.53%	7.77%	81.12%	3.26%	4.31%	4.30%
Sep-18	-0.41%	-0.40%	94.28%	0.57%	-2.41%	-3.26%
Q3-2018	17.12%	13.68%	85.44%	7.71%	3.58%	0.83%
Oct-18	-10.16%	-8.55%	83.03%	-6.84%	-10.86%	-10.90%
Nov-18	-0.22%	-0.25%	71.48%	2.04%	1.59%	-0.64%
Dec-18	-3.59%	-3.01%	77.19%	-9.03%	-11.88%	-12.05%
Q4-2018	-13.57%	-11.52%	77.23%	-13.52%	-20.20%	-22.14%
2018	9.13%	6.67%	80.66%	-3.65%	-10.94%	-13.67%
Jan-19	6.16%	4.86%	76.97%	8.01%	11.25%	10.49%
Feb-19	13.77%	11.08%	82.10%	3.21%	5.20%	5.48%
Mar-19	12.11%	9.97%	89.95%	1.94%	-2.09%	-2.95%
Q1-2019	35.41%	28.10%	83.00%	13.65%	14.58%	13.10%
Apr-19	5.62%	4.67%	87.00%	4.05%	3.40%	1.91%
May-19	-1.27%	-1.14%	82.29%	-6.35%	-7.78%	-6.74%
Jun-19	7.77%	6.53%	81.06%	7.05%	7.07%	6.19%
Q2-2019	12.39%	10.23%	83.45%	4.30%	2.10%	0.92%
Jul-19	-0.20%	-0.24%	78.51%	1.44%	0.51%	-1.36%
Aug-19	-1.47%	-1.33%	80.76%	-1.58%	-4.88%	-6.29%
Sep-19	-0.55%	-0.54%	77.94%	1.87%	2.08%	2.28%
Q3-2019	-2.21%	-2.10%	79.07%	1.70%	-2.40%	-5.45%
Oct-19	1.41%	1.13%	77.72%	2.17%	2.63%	2.57%
Nov-19	5.20%	4.38%	82.55%	3.63%	4.12%	4.64%
Dec-19	3.07%	2.59%	73.32%	3.02%	2.88%	5.70%
Q4-2019	9.96%	8.29%	77.86%	9.07%	9.94%	13.45%
2019	63.63%	49.70%	80.84%	31.49%	25.52%	22.43%
Jan-20	2.50%	1.93%	79.92%	-0.04%	-3.21%	-4.66%
Feb-20	-8.04%	-7.68%	77.99%	-8.23%	-8.42%	-6.84%
Mar-20	-22.31%	-22.40%	67.45%	-12.35%	-21.73%	-23.43%
Q1-2020	-26.77%	-26.98%	75.12%	-19.60%	-30.61%	-31.99%
Apr-20	23.18%	23.10%	73.33%	12.82%	13.74%	15.23%
May-20	12.21%	11.97%	74.97%	4.76%	6.51%	6.63%
Jun-20	20.56%	16.43%	77.21%	1.99%	3.53%	6.25%
Q2-2020	66.65%	60.47%	75.17%	20.54%	25.42%	30.54%
2020 YTD	22.03%	17.18%	74.61%	-3.08%	-12.98%	-11.21%
Since Inception	117.90%	87.13%	79.60%	22.79%	-2.71%	-6.15%
Annualized	41.38%	32.13%		9.56%	-1.22%	-2.78%

Growth of \$10,000 Since Inception

	<u>Alta Fox Net</u>	<u>S&P 500</u>	<u>Russell 2000</u>	<u>Russell Microcap</u>
Mar-18	\$10,000	\$10,000	\$10,000	\$10,000
Apr-18	\$10,203	\$10,038	\$10,086	\$10,125
May-18	\$10,489	\$10,280	\$10,699	\$10,856
Jun-18	\$10,605	\$10,344	\$10,775	\$10,997
Jul-18	\$11,232	\$10,728	\$10,963	\$10,990
Aug-18	\$12,105	\$11,078	\$11,436	\$11,462
Sep-18	\$12,056	\$11,141	\$11,161	\$11,089
Oct-18	\$11,025	\$10,379	\$9,948	\$9,879
Nov-18	\$10,998	\$10,591	\$10,107	\$9,816
Dec-18	\$10,667	\$9,635	\$8,906	\$8,633
Jan-19	\$11,185	\$10,407	\$9,908	\$9,539
Feb-19	\$12,424	\$10,741	\$10,423	\$10,061
Mar-19	\$13,663	\$10,950	\$10,205	\$9,764
Apr-19	\$14,301	\$11,393	\$10,552	\$9,951
May-19	\$14,138	\$10,670	\$9,731	\$9,280
Jun-19	\$15,061	\$11,422	\$10,419	\$9,855
Jul-19	\$15,025	\$11,586	\$10,472	\$9,720
Aug-19	\$14,825	\$11,402	\$9,961	\$9,109
Sep-19	\$14,745	\$11,615	\$10,169	\$9,317
Oct-19	\$14,912	\$11,867	\$10,436	\$9,556
Nov-19	\$15,565	\$12,298	\$10,866	\$10,000
Dec-19	\$15,968	\$12,669	\$11,179	\$10,570
Jan-20	\$16,277	\$12,664	\$10,821	\$10,077
Feb-20	\$15,026	\$11,622	\$9,910	\$9,389
Mar-20	\$11,661	\$10,186	\$7,757	\$7,189
Apr-20	\$14,354	\$11,492	\$8,822	\$8,284
May-20	\$16,072	\$12,039	\$9,396	\$8,833
Jun-20	\$18,713	\$12,279	\$9,729	\$9,385

	Alta Fox Net	S&P 500	Russell 2000	Russell Microcap
Cumulative Return	87.13%	22.79%	-2.71%	-6.15%
Annualized	32.13%	9.56%	-1.22%	-2.78%



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