BOXWOOD

CAPITAL MANAGEMENT, LLC

This quarter marked the first time since inception where we initiated a sell of one of our long positions. As we have discussed many times in the past, this is a hedge fund with a long term focus, designed to offer managed risk to a select group of qualified clients. As such, we do not try to time the markets by trading into and out of positions. Our positions are formed, and informed, based upon an investment thesis that may take time to deliver the ultimate results. We allow that thesis to play out regardless of market turmoil. BUT, when the facts change, we change our mind. Companies that shift their fundamental strategy need to be reassessed and evaluated as to whether they still fit the investment thesis. We do not and will not hold, simply for the sake of holding.

On Tuesday, June 21st, $TSLA announced their desire to purchase $SCTY. The deal would be valued close to $3B, a roughly 30% premium to the value on the day of the announcement, and financed with the issuance of $TSLA stock.

Our complete position was closed within the week.

I don't know whether that was a good decision or not. Time will tell. This may be another brilliant Musk Moment. If so, we may miss out. What I do know is that if the transaction goes through, the company on the other side will be far different than the company we initially invested in and bought shares for.

Musk is undoubtedly a brilliant mind. He is among the likes of Sergey and Larry, Zuck, and Bezos, a group that is able to channel their genius, form great companies surrounded by the best and brightest, and are able to mark our day-to-day lives. Their companies are those we like to invest in.

It isn't just the company's leadership that is a deciding factor for investment. We support, believe in, and ultimately invest in the mission and vision of the company. Prior to the $SCTY announcement, there wasn't any doubt that upon the delivery of the Model 3, Tesla was going to disrupt the automobile industry (if not already with the Model S and X). Tesla has such first mover advantage in the EV space. From the outset this young Silcon Valley company had engineering on par (probably superior) with the dinosaurs from Detroit (and all others). Model S is one of the safest cars on the road, if not the safest. Model S scored the highest rating ever in Consumer Reports. In fact, the S shattered Consumer Reports' scale with an overall score over 100. AuotPilot!* Who doesn't want to "Summon" their car for the most convenient pickup from the house? We want our investing dollars in spaces like that.

With a long term perspective, it is reasonable to expect $TSLA to have losses and burn cash. The cap ex needed to scale up production of such a technologically advanced product is large. You can understand that building out a production line for the anticipation of 500,000 deliveries, in a timeline that almost all analysist predict is unreasonable, will have a drain on resources. Autonomous anything cannot be easy, let alone vehicles. The GigaFactory will immediately produce the same amount of battery power as the rest of the whole world combined. That doesn't sound cheap.

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The high valuation as a result of the need for stock dilution, capital raising, cash burn, income losses seemed willing to take, for the ultimate outcome of being a part of such a disruptive company. Buying a solar panel company puts all of that in jeopardy. If there weren't enough challenges already? $SCTY burns more cash than $TSLA and has substantial losses. $SCTY has comparatively diminished prospects. The combined entity will be even more cash flow negative and have even more losses than $TSLA the EV and battery technology company itself. Doesn't an acquisition of this magnitude add substantial distraction to the execution that has proven to be difficult to date? Musk asked for patience in the scale up of the EV business. Musk says this transaction is a "no brainer". Maybe for him, not for us.

The proposed purchase also seems like corporate governance gone wrong. Elon Musk is the largest shareholder and chairman in both companies. His cousin is the CEO of $SCTY. According to CNBC, "Five of $SCTY's board of directors work at Tesla, are on Tesla's board of directors, or are related to someone who is." That leaves three other directors. Two of which will form the committee set out to determine whether the board will support the acquisition bid, as the third recused himself too!

The announcement of the proposed acquisition raised too many questions for me to justify our capital allocation in that position. Again, this may be another genius move by Musk, but at this time, there are plenty of other companies we can reside in while the uncertainty of that move plays out. Too much uncertainty in an environment with such opportunity.

On #Brexit:

The winning 'Leave' vote from the UK's referendum ballot question seems to have more political implications than economic. It certainly doesn't look financial. The surprise decision caused panicked equity selling the Friday after the count and then followed on Monday, only to have the US markets recoup the losses by the end of the week. Some are making comparisons to the Lehman Moment. I am not so sure. The financial collapse in the fall of 2008 led also to an economic collapse. The political and #Brexit uncertainty will have consequences for the economy, but not outright collapse. The Lehman Brothers' bankruptcy was a shock to the system. The International Payments System almost ceased up. Banks would not lend to each other, not even overnight. Nobody knew who had what on their balance sheets. A large money market fund "broke the buck". The whole of the US mortgage guarantee market had to be put (and still is!) in the government's receivership. All of which had a calamitous and immediate impact on the economy.

I don't believe we have that today. By definition there will be less movement of capital, product, services, and people between the second largest economy in Europe and the rest of the union. Hard to see how that is growth positive. The uncertainty of how and when the negotiations of the many treaties underpinning the 40-year-old relationship is unsettling. It is difficult to imagine a company today easily deciding to invest in people, plant, and equipment with so many unanswered questions. Having a cooling effect on growth and adding uncertainty to an already uncertain time. The second and third knockoff effects are difficult to know – the so called, unknown unknowns are the things to watch out for if they emerge. On net, I suspect, #Brexit will be neutral to negative on growth, playing out over the years, carrying volatility and uncertainty along the way.

Unfortunately, we weren't able to carry our perfect streak of outperforming the benchmark this quarter. We went into #Brexit "risk on". $AAPL continues to way negatively. Expect to receive statements momentarily. The uncertainty in the markets and the lower NAV of the fund offer a good time to enter or add to positions.

Until next time,

Todd Shorb

*As of the writing, federal regulators are investing the death of a Model S driver using AutoPilot. It is worth noting there is an automobile related death for approx. every 90MM miles driven on US roads. AutoPilot has logged approx. 130MM miles driven and this is the first death. Statistical averages would have predicted a death under AutoPilot about 40MM miles earlier. This accident had another rare occurrence in that the driver's window struck the other vehicle (trailer of an 18-wheeler) and not the body of the S. The driver would have probably survived had the body of the S hit the other vehicle at the same speed and collision, as other drivers have in the past.