April 2018

Dear Partners and Friends,

Through the three months ended March 31st, 2018, Hypotenuse Capital Partners, LP lost (8.7%) and (9.1%) on a gross and net basis, respectively. These losses were primarily concentrated amongst four of our largest positions which each lost 200 basis points or more during the quarter. Altogether, these four positions comprised 59% of the Fund's net assets at quarter end.

I want to pause for a moment to discuss our methodology for valuing the securities in our portfolio. Many of our holdings are liquid securities that are actively traded on major exchanges. In these cases, valuation is a simple exercise of observing the last trade price for the security. On the other hand, a few of our investments are significantly less liquid securities that trade very thinly, sometimes on an over-the-counter or "pink sheets" basis. In these cases, it is not unusual for such a security to go days or weeks without a single share changing hands. When this happens, it is commonplace in the investment industry to value an illiquid holding at the midpoint of the "bid" (i.e., the price at which the market is willing to buy the security) and the "ask" (i.e., the price at which the market is willing to sell the security). However, in our Partnership, conservatism is a core value and we therefore take the view that an investment we **own** should be valued at the price it can be **sold**, not the midpoint of where it could be **sold or bought**. While the latter approach would make our returns look better, the former is more conservative, practical and, frankly, *the right thing to do.* Note that this policy is stipulated in the Fund's Limited Partnership Agreement and therefore is a matter of contractual obligation, not subjective discretion on my or anyone else's part.

Normally I would not bother taking up your time to explore such minutiae but this particular valuation policy had an unusually large impact on our Partnership's stated results this past quarter. I believe it important to highlight this so that you can better understand what transpires in the Fund. One of our larger investments is Itasca Capital Ltd.; it was 13% of the Fund's assets at the beginning of the first quarter. You may recall that Itasca has no business operations of its own but it does own a small portfolio of cash and investments which are worth approximately C$1.05 per share. As I write to you, the bid for Itasca's shares is C$0.62 and the ask is C$0.72 with no shares traded yet today. In fact, no shares have traded for Itasca all of this week. The last trade for Itasca's shares was on April 4th when 6,000 shares traded for C$0.65. Meanwhile, no shares traded on March 31st but on March 28th there was a trade for 12 shares at C$0.67. Since there were no trades on the last day of March, we valued our Itasca investment at the bid for that day which was C$0.52. Again, the bid as of the time I write this is C$0.62. You can imagine that a 20% difference in price on a position that makes up 13% of our portfolio can have a rather dramatic impact on our reported results, one way or the other.

It is more than likely that Itasca will continue to be illiquid and thinly traded for the foreseeable future and the bid price may continue to fluctuate significantly. Therefore, it is prudent to continue to expect that nuances in how Itasca prices in the market on any given day can have an unusually large impact on what our accountants tell us our portfolio is worth. That said, I also remind you that the cash and securities that Itasca hold are worth C$1.05 per share and so while the C$0.10 difference between where we marked our Itasca investment and where it is bid today may seem large, it pales in comparison to the ~C$0.50 difference between where we marked our investment and what Itasca would be worth if it sold all of its assets and distributed the proceeds to shareholders. Recall that Itasca has considerable deferred tax assets which would minimize any taxes payable upon liquidation of its investments (however, such a move would involve some transaction fees that might amount to a few cents per share). I am not suggesting that such an outcome will come to pass anytime soon, but I hope this illustrates that the near-term pain we presently endure is not without expectation of some future gain. In this case the potential for future gain is substantial although the timing is completely uncertain.

Unusual bid pricing of Itasca aside, other investments in our portfolio significantly impacted the Fund's returns during the quarter. Total Energy's share price declined during the quarter even though oil and gas prices have generally risen. This divergence is difficult to explain other than to note that it occurred against a backdrop of tariff announcements from the White House and greater volatility in the equity markets as a whole. As I wrote in my previous letter, a short seller published a negative thesis on Tucows Inc. which significantly impacted the price of its stock. In my opinion, the short thesis on Tucows is poorly formed but it will take some time for the value of our investment to recover nonetheless. Meanwhile, "Supernova", our industrial parts manufacturer, issued new equity during the quarter to fund a newly announced acquisition. Supernova is buying a good business; the new company has significant growth opportunities and is a very logical fit to Supernova's existing businesses. However, the share offering put some downward pressure on the share price and consequently the value of our investment has taken a step backward for the time being. These three companies have strong operating teams that generate meaningful cash flow that they reinvest in their businesses thereby compounding value for their shareholders. They remain important holdings for our Partnership.

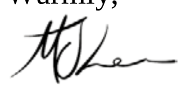
In my last letter on January 23rd I advised that it would be wise for Partners to be prepared for an uptick in market volatility. The S&P 500 Index reached a record high a few days later on January 26th and has since entered into a decidedly more volatile environment, falling by roughly 8% from the peak to the end of the first quarter. Our Fund has used this drawback in the market to opportunistically add exposure to a few issues, mostly through writing put options. Volatility is a major factor in option pricing models and so writing such options when volatility is high is advantageous to sellers of options like us as we receive higher premiums for these contracts than we would if volatility were low. That said, the pullback in the markets so far is still modest by historical standards and so we have not yet "backed up the truck" to fully deploy our capital. I continue to hold a significant portion of our portfolio in cash in case truly unique and rare opportunities to buy great businesses at bargain prices present themselves in the future. I think we've seen a few hints of rain but the deluge hasn't begun in earnest yet.

Over the past few months a few Partners have elected to contribute additional capital to the Partnership. Once again, I am ever grateful that you have taken the step to entrust me with your assets without the need for a “hard sell” process. This has allowed me to focus most of my time on finding and researching the best opportunities in which to deploy our capital intelligently so that we can enable our aspirations. Thank you for your trust and support.

We are currently open to admitting new Partners, but such will not be the case indefinitely. Our capacity to do so will ultimately be limited by operational and regulatory constraints. If you or someone you know would be interested in securing one of the remaining spots in the Fund, please reach out to me directly for subscription information. As a reminder, all Partners must be accredited U.S. investors. We also continue to welcome self-directed retirement account investments through our relationship with Midland IRA. Please inquire with me further if you would like to learn more.

I remain committed to enabling our aspirations while protecting and growing our capital over the years to come. Should you have any questions concerning the Partnership’s activities or your account, please do not hesitate to reach out to me.

Warmly,



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