February 22, 2017

Cable Car Capital LLC Q4 2016 Letter

Dear Friends,

The Cable Car Composite returned +14.8% in 2016 after a roughly flat fourth quarter. Alas, much as I would prefer to have been disproven, the sentiments expressed in my previous letter no longer seem particularly radical. Economic, security, and policy uncertainties of the new administration continue to loom large, but as promised this quarter's topics are more prosaic.

Performance

The Cable Car Composite returned +0.1% net of expenses and fees in the fourth quarter. Worldwide equity markets, as measured by the ACWI, returned +1.2% in the quarter and +7.9% for the full year.

CCC	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Year**	ACWI
2013											+4.2	(0.3)	**+3.8**	+3.9
2014	(3.3)	+3.9	+1.9	+1.6	+3.3	(0.5)	(1.6)	(0.5)	(6.2)	+4.7	(1.6)	+5.8	**+7.2**	+4.2
2015	(3.8)	(0.9)	+17.5	+4.6	+24.9	(6.1)	(2.9)	+4.5	(1.7)	+3.5	+1.9	(4.2)	**+38.4**	(2.4)
2016	(5.5)	+5.1	+0.9	+1.6	+5.1	(1.7)	+1.2	(0.7)	+8.5	(1.3)	+1.6	(0.1)	**+14.8**	+7.9
Annualized since inception (November 8, 2013)													**+19.9**	+4.2

Attribution

At year-end, the five largest long positions were Insignia Systems (ISIG), Retrophin (RTRX), Pangaea Logistics (PANL), NetDragon Websoft (777 HK), and Dell Technologies Class V (DVMT), which notionally tracks the performance of VMware (VMW). The largest performance impact by issuer for the representative account in Q4 was as follows, expressed in basis points (bps) on beginning-of-period assets:

Contributors		**Detractors**	
Position	*Performance (bps)*	*Position*	*Performance (bps)*
Long PANL	+398	Short WINS	(322)
Short PLUS LN*	+137	Long RTRX	(223)
Short BAS	+133	Long 777 HK	(209)
Short Company G	+90	Long DVAX	(118)
Long ISIG	+90	Short WRLD	(108)

*Denotes closed positions as of the date of this letter. Please see important disclosures on the last page of this letter. Attribution includes position-level negative rebate costs for short positions.

Note that the BAS attribution includes benefit from an untraded short warrant position which the custodian has marked to intrinsic value. If a market develops in the future, there may be a cost to closing the position because a theoretical model would assign greater value to the warrants.

Net exposure for the representative account at year-end was 69% long and 35% short.

Generalizations

Many short sellers are fond of black humor, which tends to pick up when price changes are not necessarily unfavorable, but have become perceptibly harder to rationalize. Subjectively, I have observed more situations of late where price reactions to events and fundamental changes have not matched expectations. What to make of share prices that increase after negative news and vice versa? That is a reality best mediated by a well-developed sense of irony and a redoubled focus on fundamental analysis, in the faith that it will eventually represent opportunity.

In recent months, friends have joked that the surest way to increase the price of a stock is to publish short-biased research about it. In the current environment, public short activism is practically an invitation for financial sponsors to start due diligence, lenders to recall shares, brokers to increase collateral requirements, and speculators to try to induce covering purchases. (Cable Car sizes short positions modestly in order to weather all of the above). That is not so much a comment on any particular situation as it is one explanation of why I have recently been quite chary about publicly advocating for any particular security to trade at a lower price. In any case, recent short positions have not been well-suited to discussion in a public forum for a variety of reasons.

Cable Car has been increasingly focused on behind-the-scenes forms of short activism, engaging more closely with exchanges, regulators, journalists, and issuers in an effort to encourage enforcement activity or broader dissemination of information in the public domain. I believe Cable Car's efforts in 2016 prompted at least two corrective disclosures and contributed meaningfully to one enforcement action and several ongoing investigations.

On a personal level, the regulatory aspect of my work is highly motivating, sustaining during otherwise frustrating times, and consistent with the values I aspire for Cable Car to represent. However, in retrospect, very few such activities have directly contributed to returns. Short sellers cannot always rely on a timely regulatory catalyst, and in some cases short positions have experienced price increases despite one. Other interactions have not directly impacted an investment, meaning that however worthwhile, they carry an opportunity cost. Positions that developed as hoped often would have done so anyway, though I attribute behavioral benefits and higher conviction to the forcing mechanism of documenting a thesis for others.

I mention these drawbacks as a caution to clients that Cable Car sometimes engages in business activities that may not have an immediately obvious impact on the portfolio. I typically have at least one minor crusade ongoing at any given time. These quiet battles improve my industry knowledge and relationships, but may or may not prove to be productive for the portfolio in the short run. There is also a potential conflict of interest from the possibility of whistleblower compensation, however unlikely. Ultimately, I think that any activity that helps me better understand the contours of securities law and become a more effective short seller will benefit Cable Car and clients over time.

That said, as with all strategies employed by Cable Car, the relative emphasis I place on any particular approach is likely to vary with market cycle and unfortunately the political environment as well. I was dismayed by news of a recent decision by Acting SEC Chairman Michael Piwowar to rescind subpoena power from senior regional enforcement attorneys, potentially slowing the already drawn-out enforcement process. It remains to be seen to what extent the balance between so-called "access to capital" and enforcement will change under the new administration.

You wins some, you lose some

Turning to particulars, I had originally planned to write a long disquisition on Wins Finance (WINS), which on a mark-to-market basis is currently Cable Car's worst-performing short position since inception. For reasons just alluded to, it would be premature to discuss at this time. Clients who would like to hear more about Cable Car's risk management decisions with respect to the position should reach out directly. Importantly, it is distinguishable from the KBIO mistake last year, where analytical error and a large price increase were accompanied by a change in the fundamental circumstances of the company. Unlike KBIO, there is not even a hypothetical fundamental case for WINS at its current valuation. Technical factors including potential wrongdoing have led to shares being temporarily mismarked, in my view.

The Company G short position, on the other hand, is among Cable Car's best-performing short positions since inception. I reduced our exposure this month after a significant price decline occasioned by the bank's recognition that it will be required to take a valuation allowance on its deferred tax assets, as a short activist had suggested. However, Cable Car's position was also predicated on independently sourced evidence of other, unrelated improprieties that has not yet been discussed in a public forum. Therefore, the position remains active.

Perceptive readers will notice an asterisk next to Plus500 in the attribution table above. Plus500 declined in the fourth quarter due to the market's belated recognition of forthcoming regulatory changes under MiFID II. There are other reasons for the change in positioning, however. The broader online binary options, CFD, and FX brokerage industry remains a quixotic focus. My view on Plus500 is largely unchanged, and I expect that you have not heard the last from me on the topic.

SpareHire

In 2016, Cable Car made its first private investment. Lest it appear that your self-described value investor has consumed the Silicon Valley Kool-Aid (*kombucha*, perhaps?) and started investing willy-nilly in start-ups, a quick word on my early-stage investment philosophy is in order. Whether it's a public microcap company or a privately financed venture, I prefer to invest in businesses with easily understood value propositions and a concrete rationale for raising capital, positive cash flow or a clear path to break-even, and proven business models with addressable markets that can be analyzed. With proper attention to valuation, future capital needs, and perhaps additional attention to management's execution abilities, early-stage companies can be evaluated alongside any other equity investment.

In principle, Cable Car can advise on any investment, but in practice it is and will remain primarily focused on public markets. Cable Car advises separate accounts, which cannot easily accommodate most private investments, and not all clients are accredited investors. Consequently, I do not direct clients to invest in private transactions. Instead, my policy is that if something is sufficiently compelling for me to make a personal investment, whenever possible I will extend the same opportunity to eligible clients, at their option.

Several clients joined me in a seed round for SpareHire (www.sparehire.com), an online talent marketplace that matches businesses with temporary staffing needs to freelancers. I was impressed by the depth of SpareHire's network and the convenience of its online platform. SpareHire is led by Columbia alumni I knew personally, and I became interested in supporting its growth after a client had a positive experience hiring through the site. Another aspect of early-stage investing is that you'll have to forgive me a quick plug: if you're reading this letter, there's a very good chance you either have a business need that could benefit from SpareHire's network, which is particularly strong in finance, or you have a skillset that might match one of those needs. Please give it a try!

Composite update

Although private investments are considered part of Cable Car's assets under management for regulatory purposes, they are not held within client accounts, are not fully discretionary, and are therefore not included within the Cable Car Composite. As a reminder, the Composite contains all fully discretionary accounts managed by Cable Car, which excludes two passively managed accounts for an ERISA client. If private investments were to become a significant part of Cable Car's business in the future, then I would evaluate constructing a separate composite to track the performance of private investments. Otherwise, I'll just plan to share what I can publicly about how things turn out with SpareHire or any future investment.

In the disclosures on the next page, you'll see new notes regarding 2016's internal dispersion within the composite along with the standard deviation of monthly returns, which GIPS requires after a track record reaches three years. Unsurprisingly, the Composite was more volatile than the more diversified index, and it again exhibited significant internal dispersion, with net returns ranging from 11-29%. IRAs performed better than taxable accounts in 2016, as they cannot short stocks but can hold put options, from which they benefitted disproportionately. (Company G and BAS were expressed partly with put options; WINS was not!). IRAs currently represent only about 6.5% of the Composite. The range was otherwise attributable to the differences arising from management versus incentive fee arrangements, performance from legacy positions not held by all clients, and the timing of client deposits.

Thank you as always for your readership.

Jacob Ma-Weaver, CFA

Important advertising disclosures

Please be aware that because this letter is shared with non-clients, it may be considered an advertisement under Rule 206(4) of the Advisers Act. It is therefore subject to GIPS guidelines regarding advertising disclosure and SEC guidelines regarding references to past specific recommendations.

The SEC requires that references to past specific recommendations, including attribution calculations, be based on a reference account and that at least ten holdings be disclosed. Cable Car's largest account serves as the reference account. Detailed computation methodology and a list of all holdings' contribution to the account's performance are available upon request. The holdings identified in this letter do not represent all securities purchased or sold for advisory clients, and past performance is no guarantee of future results.

Please note that Cable Car maintains a selective public disclosure policy regarding positions that may be competitively sensitive, difficult to borrow, or otherwise unlikely to benefit from publicity. Clients retain full portfolio transparency, and Cable Car will generally disclose subject securities to non-clients upon request.

Cable Car Capital LLC ("Cable Car" or the "firm") is a limited liability company with principal place of business in San Francisco, CA. The Cable Car Composite reflects the performance of the firm's concentrated, hedged value investing strategy. The composite contains all fully discretionary accounts managed by the firm, and it is the firm's only composite. Cable Car claims compliance with the Global Investment Performance Standards (GIPS). To obtain a compliant performance presentation and composite description, contact Jacob Ma-Weaver at jacob@cablecarcapital.com or (415)857-1965. Verification and performance examination reports are also available upon request.

ACWI is a trademark of MSCI, Inc. "The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets." ACWI total returns are presented including dividends net of withholding taxes. Composite returns are presented net of all expenses and fees, including accrued but unpaid performance fees. Returns are expressed in USD.

Cable Car implements its strategy in part through short sales and makes limited use of derivatives and leverage. Gross exposure is limited to 200% and portfolios maintain a net long bias. Additional disclosures regarding the risks associated with the firm's investment approach are contained in the firm's brochure on Form ADV. The firm's list of composite descriptions and additional information regarding valuation policies, performance calculation, and performance presentation is available upon request.

The performance of individual client accounts can vary significantly from the performance of the composite, particularly due to the inclusion of retirement accounts which cannot accommodate short sales. The timing of cash flows, type of account, base currency, fee arrangement, and the availability of investment opportunities for each account may lead to significant divergence from composite returns. In 2014, net returns of accounts funded for the full year ranged from 6-10%. The range was 22-55% in 2015 and 11-29% in 2016. For the three-year period from 2014-2016, the annualized monthly standard deviation of the composite was 20.9% versus 11.2% for the ACWI. While the composite is benchmarked against the ACWI in order to compare performance to broad market equity returns, client portfolios are not managed to any particular benchmark, and performance is likely to vary from the performance of any given index.