HAYDEN CAPITAL

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Dear Partners and Friends,

The first quarter of 2016 was definitely an exciting period, with Hayden Capital slightly trailing the broader market at (0.23%) vs. 1.33% for the S&P 500. Over the first six weeks, the S&P 500 fell close to -12%. Concerns about tightening credit, slowing global growth and the possibility of oil prices declining further incited fear in the equity markets, and spurred nervous traders to seek safety elsewhere. Then just as quickly, the market rebounded the following six weeks to end the quarter flat. If you didn't pay close attention to the markets during these three months, it would have seemed like quite an uneventful quarter.

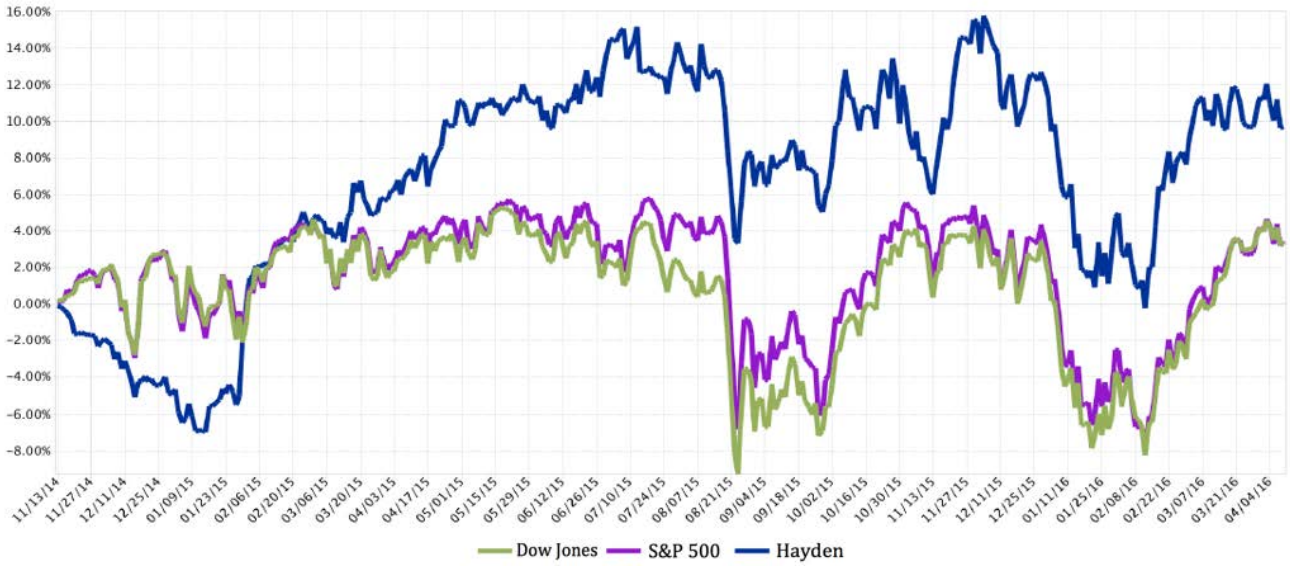
Notably, some in the media attributed this sudden recovery in part to Janet Yellen's remarks that the US and global economies were too weak to raise interest raises. We find this odd, as this is similar to a conspiring child celebrating not having to go to school, only because he has caught pneumonia and is too ill to do so. We don't think there is great reason to rejoice in either situation. However, evidently, the market disagrees with our sentiment.

We're excited by the advantage our large cash position has given us this quarter. By the end of February, our portfolio suffered only 67% of the decline that the broader market experienced. The portfolio did what it is supposed to in a downturn (i.e. protect capital). Additionally within this turmoil, we found many of the companies we have been following trading at significant discounts. We took advantage of this, established new positions in Baidu (BIDU) and Phillips 66 (PSX), and further increased our position in Cimpress (CMPR) near the market low. By mid-February, our cash position had reached a low of 15.7%.

Time Period	Hayden	S&P 500	Dow Jones	Relative Performance[1]	Avg. Cash %
		2014			
4th Quarter[2]	(4.92%)	1.33%	1.52%	(6.25%)	55.22%
		2015			
1st Quarter	11.16%	0.88%	0.33%	+10.28%	37.79%
2nd Quarter	6.70%	0.21%	(0.29%)	+6.49%	23.32%
3rd Quarter	(6.00%)	(6.42%)	(6.98%)	+0.42%	23.92%
4th Quarter	5.14%	7.03%	7.70%	(1.89%)	20.34%
FY 2015	**17.23%**	**1.25%**	**0.21%**	**+15.98%**	**26.31%**
		2016			
1st Quarter	(0.23%)	1.33%	2.20%	(1.56%)	22.53%
Total Return	**11.21%**	**3.96%**	**3.97%**	**+7.25%**	**28.46%**
Annualized Return	**7.59%**	**2.71%**	**2.72%**	**+4.88%**	**-**

[1] Relative performance compared to S&P 500 (Total Return). Hayden Capital returns are net of actual fees. Individual client performance may differ based on fee schedule and date of funding.
[2] Hayden Capital launched on November 13, 2014. Performance for both Hayden Capital and the S&P 500 reflects performance beginning on this date.

Since Inception



As the markets recovered, we sold off more fully-valued investments and raised cash back to our "normal" +25% levels. We believe these higher cash levels will continue to protect us against downside volatility.

Even though, the recovery in our portfolio has been less pronounced than the broader market over the last few weeks, we're confident this will prove to be temporary and revert over the next few months. More importantly, this period of turmoil allowed us to "upgrade" the quality of our portfolio, while ending with the same cash levels as we started with. We're extremely happy with our new purchases this quarter, and expect this higher-quality portfolio will provide greater benefits over the next several years.

The "Watch List" & Idea Generation

One of the hardest aspects of the investment management business is identifying promising businesses, and having the courage to act at the right time. The former is relatively straightforward. But it's the latter that separates exceptional investors from the pack. Last quarter was a great example of this.

The optimal time to purchase securities is during periods of market collapse – when Mr. Market indiscriminately offers discounts on great and poor businesses alike. Unfortunately, it's during these same periods that fear tends to cause an investor's confidence to fall just as quickly as their portfolio value. Luckily, for the astute investor, the simple prescription is knowledge. The more knowledge an individual has about a situation and the drivers causing it, the more confident they will be in their derived conclusions. Conducting months of research certainly makes it much easier to have conviction in an idea – especially when the world is seemingly going off the hinges.

But there's an issue: market turmoil is frequently short-lived. By the time investors have conducted adequate research to gain confidence in an idea, the market has usually regained its senses and the opportunity has passed. So what is an investor to do? This is where the "watch list" comes into play.

Watch lists are a "shopping list" of exceptional businesses that we would like to own if valuations allowed it. We are continually adding to and refining this list, while we advance our understanding of these businesses and industries in which they operate. Some have been on it for only a few months, and others we have followed for years. Over time, there will eventually be new developments within the list, which cause us to take a fresh look at certain stocks for intensified consideration in the portfolio. These

developments may take the form of negative short-term news, favorable industry developments, or our further due diligence leading to a breakthrough insight. If we had not pre-studied these businesses and been monitoring them, we may not be able to act on these generous prices in a timely manner.

Our new position in Baidu (BIDU) is one example of a stock that was originally on our watch list for an extended period before purchase. Due to the aforementioned process, when BIDU fell to attractive valuations, we were able to pounce on this opportunity.

Baidu (BIDU) is the leading internet search provider in China, often called the "Google of China." The online search industry exhibits strong "winner-takes-all" economics, where there are substantial economic moats afforded to the largest player. In China, BIDU has already emerged as the clear victor. The stock has been under pressure over the last year, as margins have been compressed while the company aggressively invests in its Online-to-Offline ("O2O") business.

However, we believe the market is missing the "forest for the trees". Despite the margin pressure, O2O is still a relatively small part of its revenue stream. More important is the core search business that makes up 83% of total revenues. Only ~52% China's population uses the internet, compared to 88% in the USA, 80% in Europe, 91% in Japan, and 86% in South Korea. This represents a significant opportunity. As the Chinese population grows wealthier, the rural to urban migration continues, and infrastructure becomes more developed, we expect China to approach the penetration levels of its peers. We believe this to be an eventuality, and simply a matter of "when".

Looking at BIDU's market position, it is certainly impressive. For instance, the company has over 80% market share in China, or a virtual monopoly. This even exceeds Google's US market share, at only 67%. With a superior market position and substantial opportunity for internet penetration growth, one would expect the company to trade at a premium to its more mature peers.

The swoon in the market in the early part of the quarter (which was also partly attributed to fears of a China growth slowdown), gave us a rare opportunity to purchase shares at a multiple significantly below these developed market peers. We believe the higher potential growth rate, margin expansion opportunity, superior market position, and attractive purchase price will make this a very attractive investment over the next several years. We began establishing positions at $158.70.

Another notable change this quarter was the sizable increase in our **Cimpress (CMPR)** position. Likewise, the company was also on our watch list for well over a year before our initial purchase last August. We shared our thesis for this investment with investors last month, so we won't reiterate the investment case again here (please contact us if you did not receive a copy of the presentation).

Despite already having a sizable position in the company, the market downturn in the beginning of the year presented us with prices that were too good to pass up. In January, we added to our position by over 40% between $72-77; a level we deem presents a highly attractive risk-reward profile. We are confident these purchases will prove highly accretive to our portfolio over the next few years as well.

Hayden Capital Commentary

Lastly, I would like to touch on a few business related items. First, I'd like to welcome our newest member of the Hayden Capital team, Justin Yoo. He will be a research intern, assisting with research on new ideas, finding companies that meet our stringent criteria, as well as ongoing due diligence of our existing investments. Justin graduated cum laude from University of California Riverside, majoring in finance and minoring in pre-medicine. Additionally, he'll be taking the Level III of the CFA Program this summer, and is well on his way to completing this rigorous program. Justin is one of the most driven individuals I have met, and we welcome him to the Hayden Capital family.

From May 19 – June 14, I will also be traveling for several weeks throughout Asia and California. During this time, I'll be conducting some on-the-ground diligence on our current and potential Chinese investments, as well as gain a deeper appreciation of the trends that drive this diverse market. If you will be in China, Hong Kong, Singapore, San Francisco, or Los Angeles during this period, I would love to meet and share a meal together.

We're excited for the prospects for our Partnership. While our short-term results will be volatile, we're confident our profits over time will be worth the volatility. Consistent with this view, my family and I continue to have virtually all our investable net worth invested in Hayden Capital. We hope to have the privilege of compounding our wealth alongside yours for many years to come.

We'd also like to thank our investors for their continued support and trust for managing their hard-earned assets. As a reminder, we are open to new investors and introductions to potential investors who may appreciate our investment philosophy.

As always, please feel free to call or visit the office if you'd like to chat.

Sincerely,

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