To all investors,

The end of the first quarter of 2018 brought an important milestone in the young history of BHILL Capital. We were able to fully recover (and then some) from our disappointing end of 2017, as well as nearly double our total capital under management. It was also the 1 year mark since we started investing. The progress and growth we've experienced since inception is extremely encouraging and has surpassed our expectations.

For our first full year, we were able to generate a return of 25.64%. In comparison, the Dow Jones returned 16.68%, the S&P 500 8.54%, and the Nasdaq 20.11% for the same time period. Using the Dow as a comparison, the company was able to outperform the market by 8.96%. We were able to grow our total capital under management by over 1500%, which was above our initial target, and is a testament to our loyal initial investors.

Looking at Q1 of 2018, we vastly outperformed the market, as our return actually exceeded the 25.64%. A lot of this was due to our underperformance and poor timing to end 2017. It is still, however, a really strong performance for the quarter, as the Dow and S&P fell (2.8)% and (2.2)% respectively, while the Nasdaq edged up 0.6%. This is extremely encouraging as we believe our strategy and execution is succeeding in a challenging market place.

It has been a pretty wild 2018 so far in the markets. After one of its smoothest, best performing stretches in history during 2016 and 2017, 2018 has seen volatility return in a major fashion. The political drama, from tariffs and trade war fears, to rising interest rates and rising inflation fears, has really driven the market over companies' fundamentals and performance. While some of these political movements are certainly cause to be slightly concerned, we believe a lot of the trade war fears and looming doomsday predictions by some are overblown. That being said, the future of the markets and political actions are extremely unpredictable and we feel that the volatility may continue in the near future. Due to these factors, now is the time for active managers to really shine and outperform the market indexes (Dow, S&P, Nasdaq). Throughout the quarter, we increased our cash balance, hedged at opportune times, and used certain down periods to buy selected companies at a cheaper price. All in all, we believe our investments and strategy will pay off handsomely in the long run, even if there are tough stretches in the near term.

Before I provide some minor color on some of our positions in Q1, I would like to thank all of you for believing in us, trusting us, and helping us launch and grow the company. You've all been very supportive and understanding throughout the rough patches, which we greatly appreciate. Our earliest investors have seen a growth of just over 14% since the end of September, which is an impressive feat in six months. We couldn't have asked for a better group of early investors. You guys have made our jobs a whole lot easier, and we hope to have you all as part of the company for a very long time.

Now, on to some of our notable positions for the quarter.
Open Positions

Amazon

Amazon experienced amazing growth throughout the quarter. The company temporarily became the second largest U.S. company by market cap, and continues to innovate and expand at an impressive pace. The stock's rapid growth in the quarter was, in our view, slightly overblown due to investor sentiment over company performance. Because of this we sold off a bit of our position in order to lock in some profits. Despite dropping recently due to a series of Trump Tweets, we believe the company is only scratching the surface of its true potential. So even though we trimmed our position, we have no intentions of selling our current stake anytime soon and foresee it being a staple of our portfolio for a very long time.

MGM Resorts

MGM had a relatively flat quarter performance wise, largely driven by the market as it is quite correlated with it, unlike some of our other positions. The company finally opened its second casino in Macau in February, and early reviews of it have been extremely positive. The Macau gaming industry is rapidly growing, and a second presence in the region should help boost the company's performance going forward. MGM's unique portfolio of destination resorts is very attractive and safe, as long as the economy is in a solid and decent shape, which we believe it is.

Tesla

We had a relatively flat quarterly performance on Tesla as well, despite the stocks plunge at the end of the quarter. This is due to some trading and a lower overall position than in the past. While we do focus on long-term investments, it makes sense to trade and use the price swings to our advantage, especially in this volatile market and on such a polarizing company such as Tesla. Although there are a multitude of negative articles surrounding the company, it is pretty clear that the demand for their vehicles and energy products are stronger than they have ever been. Furthermore, production ramp of the Model 3, albeit behind our initial target, is beginning to ramp up nicely. We still remain confident that many analysts aren't realizing the impact on cash flow that the Model 3 and energy products will have on the company once fully ramped. I think in a few years we will all look back at the current price and realize how cheap it actually was.

First National

First National was slightly down throughout the quarter, although the dividends received cancelled out the slight dip. First National is a great value, and its $100 B servicing portfolio will continue to provide a steady stream of cash flows over a long period. The security remains severely undervalued, and is a nice buffer to our growth companies in the portfolio. It also gives us some exposure to the Canadian market.

Apple

We took a position in Apple after the early February market sell-off. We believe concerns over the company's new iPhones are vastly overblown, and also believe the high price tag will probably
come down over time (as all the other ones do). Apple's amazing financials and brand loyalty make it one of the safest investments in the market. Furthermore, its plethora of cash (now in the US and not abroad) should lead to share repurchases and potential dividend increases, which will be beneficial to us and to other shareholders.

**Corning**

Corning is a world leader in materials science, producing specialty glasses, ceramics, and other materials. The company's main business involves producing glass for LCDs used in TVs, smartphones, and laptops. The company's Gorilla Glass product for smartphones is the most durable and widely used in the industry. Corning had a rough quarter, mainly due to its higher manufacturing costs reported in their Q4 report. However, the company has a distinct competitive advantage, great innovation, and an extremely strong balance sheet. While the company's recent performance has been disappointing, we strongly believe that over time, Corning will continue to lead the way and produce great results, amid a market that has and will have a high demand and need for their services.

**Closed Positions**

**Facebook**

Despite closing our position and the recent data privacy scandal, Facebook was still a profitable investment for us. We had already started reducing our stake before the scandal broke out, mainly due to what we thought was a saturated market and potentially slower growth going forward. We still believe in Facebook. It has absolutely fantastic financials and great brand loyalty (mainly with Instagram). However, until all the privacy concerns pass, we simply believe that holding cash or investing in some of our other positions is a more sound investment.

**Macy's short**

Our Macy's short was closed during the sell-off in early February, which allowed us to recoup some of our losses. I fully take the blame for this position, and admittedly I was too pessimistic about the company's future as well as the future of traditional retailers. What I didn't anticipate was the extremely favourable investor optimism due to tax cuts and strong holiday spending, which boosted the entire sector. While Macy's still faces a ton of headwinds, including declining sales and increasing costs per revenue, we feel it is best to move on and direct our capital elsewhere. The short position was a solid learning lesson and one that we will not forget.

**DJX puts**

We started using puts on the Dow Jones Index to hedge our long exposure to the market. The DJX options are 1/100th of the Dow, which allows smaller investors like us to sufficiently hedge or trade options on the index. We will sometimes buy put options before certain economic events that could negatively affect the market. The reason the Dow is our chosen index to hedge is due to the large swings it has recently experienced. This allows us to effectively hedge with slightly out of the money options that can quickly become in the money and pay off handsomely in a market downturn. The point of these are to hedge, so effectively when we profit off these puts, we end
up incurring loses on our long positions. Our timing and use of these puts has allowed us to have a strong quarter in what was a disappointing quarter for markets on the whole.

Final Thoughts

We are very proud of what we have built so far. Albeit a strong quarter in both performance and growth, we are always striving to do better and more. We believe our current positions and strategy will lead to a great 2018 and beyond.

Sincerely,
Spencer Ayre
CEO, CIO