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Dear Investors and Friends,

Worch Capital Partners, LP finished 2015 down 4.8% on a net basis. This marks the first negative year for the fund since our 2008 inception and the large majority of the blame can be assigned to the fund's December performance where we dropped 4.6%. The fund has returned 10.3% net of all fees and expenses on an annualized basis since our October 2008 launch date. This figure is in line with the S&P 500's 10.4% return however WCP's returns have been achieved at a fraction of the risk and volatility (WCP historical standard deviation of 10 vs S&P's of 16.2).

We are incredibly disappointed to be reporting a negative annual number to our partners for the first time and, as we do every year, have gone about stripping down the year trade-by-trade to specifically understand what factors influenced our performance. We will spend a portion of this letter sharing our findings. Hopefully this exercise will help to explain why 2015 (specifically Q4) turned out to be so challenging for the strategy.

To back up and look at things from a macro perspective, it was a difficult year regardless of what market you were invested in. According to mutualfundobserver.com, investors saw losses in:

- 8 of 9 domestic equity categories, excluding large growth
- 17 of 17 asset allocation categories, from retirement income to tactical allocation
- 8 of 15 international stock categories
- 14 of 15 taxable bond categories and
- 6 of 6 alternative/hedge fund categories

It simply wasn't easy out there in 2015 and we know that all too intimately. After having the good fortune of sidestepping the August-September swoon and ending the 3rd quarter with 800 basis points of year-to-date relative outperformance on the S&P 500 and 400bps against the HFRI Equity Hedge Index, we failed to capitalize on the powerful October rally that lifted the S&P by 8%. The extremely choppy (we're really sick of using that word) market action at the time left our indicators in a defensive posture for much of October and we ended the month with basically flat performance. November was a wash as the market was almost exactly flat for the month while the fund lost 70 basis points. As mentioned above, essentially all of our underperformance came with December's 4.6% loss. The reasons for the tough month are several but to put it simply, the market had separate drops of 4.2% and 3.5% with each instance being resolved with quick

snapback rallies. As is the methodology at the core of our strategy, we were quick to lighten up on long exposure when certain downside targets were being violated and then rather deliberate to reallocate to longs when the market would abruptly turn higher. In a trendless, indecisive market like this our strategy is susceptible to facing headwinds in the form of our buy/sell signals being sensitive.

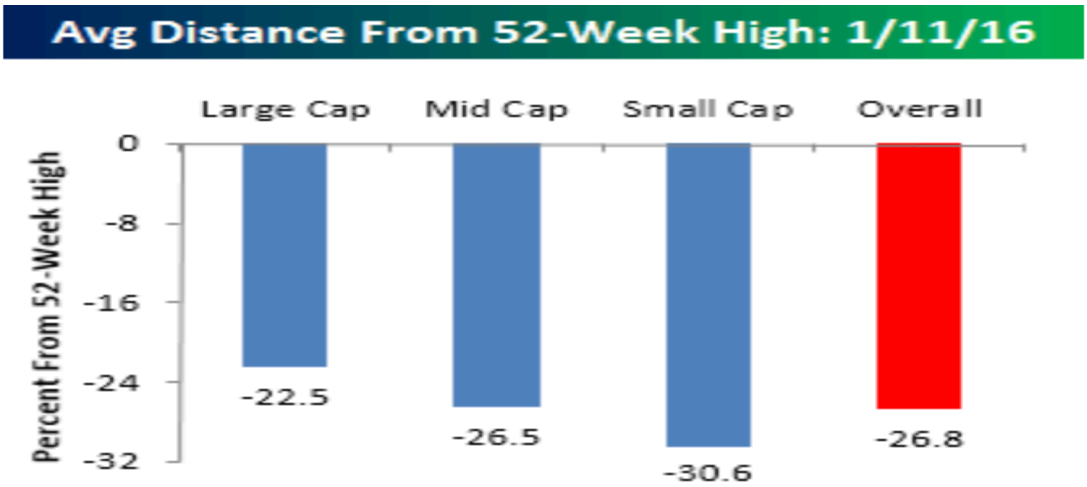
For a moment, we'd like to go "under the hood" of our trading statistics in 2015 and share how they stack up to our historical averages. A few measures in particular help to sum up the year and offer explanation for the underperformance. First, the fund's winning trade/losing trade ratio was at a historical low in 2015. Over the life of the strategy, just over 36% of our trades have been "winners." But in 2015 that number dropped to 30%. You're probably asking, then how do we make money if only 36% of our trades are winners? Well, since inception the fund's average winning trade has been 2.7X the size of our average loss. In 2015, that number dropped to 2.3X. To add to that, our historical average winning trade as a % of total equity has run at about 0.53%. Last year, that number figure dropped to just 0.33%. And even though our average loss per trade was also smaller, we ultimately could not overcome the sum of these deviations from our historical averages. Going forward, there will always be years where we overshoot our historical averages and, like 2015, years where we undershoot. Yet if we can manage to maintain our averages over the long-term, then we've laid out a pretty good recipe for success as our annualized results go to prove.

All told, while we're utterly disappointed with our 2015 results we can assure our partners that we did not deviate from our discipline in any way. Perhaps some could interpret that statement as too stubborn or robotic. However we know that with more than a decade of implementation experience and many more years of backtesting data at our disposal, this strategy works over the long-term and we'd bet that it will continue to do so. We cannot allow a 3, 6 or 12-month out-of-favor cycle to sway us from our approach. We believe that maintaining a proper dedication to our time-tested methodology will result in the attractive long-term risk adjusted results that our partners seek.

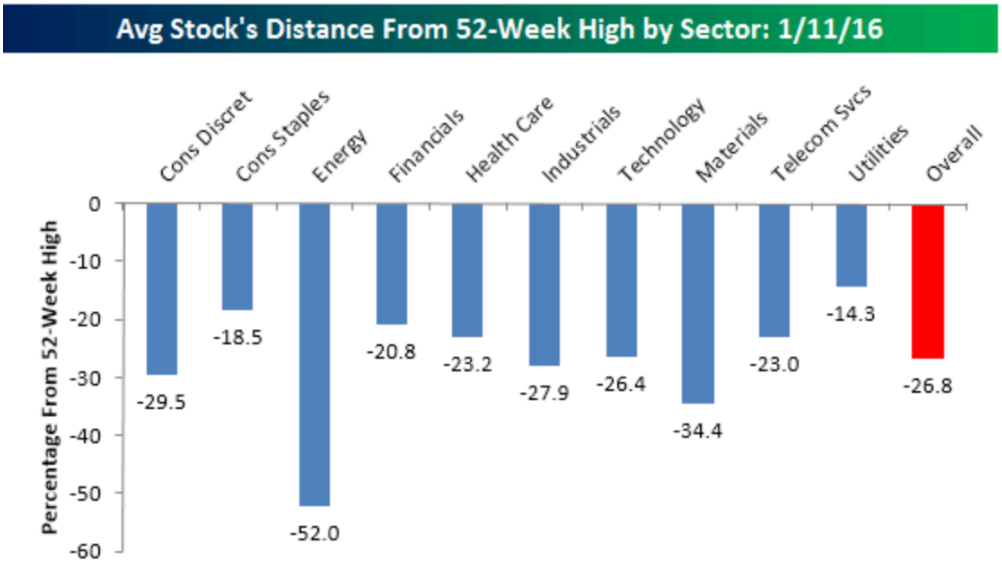
Looking quickly at the year that was, it was tough sledding out there for diversified investors. Unless your money was in very specific pockets of the market it's likely that your portfolio was undercut by negative returns across basically all asset classes. The Nasdaq turned out to be the only safe haven within the US Equity space as sectors like Health Care and Technology held up well throughout the year. Looking beyond US stocks, it was really an investing minefield. International markets save for Japan and a few others were down across the board. Emerging markets and commodities were bludgeoned and lost well into the double digits depending on the region/sector. And most bond sectors hovered within a few percentage points of flat.

The reasons for the market's indecisive mood swings throughout the year were many and we covered most of them in this space on a monthly basis. To recap some the major events and themes: the first half of the year was dominated by yet another debt crisis in Greece. While the country was ultimately extended another bailout, it wasn't before the damage had been done. By the end of 2015, the Greek stock market had fallen roughly 70% from its peak and was down 25% for the year. Investors were then met with a confluence of events in the 2nd half of the year that really coincided with the jump in volatility. There was the crush of oil/energy prices that wreaked havoc on energy related stocks, emerging market economies and parts of the bond market. The strength of the US Dollar was a problem for foreign economies and large multi-nationals. China's decision to devalue the yuan and their slowing growth appeared to be what kicked off the August-September market swoon. Geopolitical tensions and terrorist activity were a constant presence throughout the year. And lastly of course, was the years long speculation over when and how the Federal Reserve would move on interest rates. They ultimately instituted the first rate hike in nearly a decade in mid-December and the market's behavior leading up to and after that decision has served as anything but validation.

As the mounting macro news gave the market the proper amount of "headline" worry to stir uncertainty, the number of individual stocks that were keeping the market propped up continued to fade as the year wore on. We shared a number of stats that spoke to this issue of narrow leadership during the year. For example, in mid-December we noted that the 10 largest stocks in the S&P 500 were up an average of 21% year-to-date while the remaining 490 were down an average of 2.5%. The largest such spread since the tech-boom bubble 15 years ago. This story/problem has only grown since we've moved into 2016. Bespoke Group noted last week that the average US stock is already in a "bear" market (typically defined as a 20% or greater drop from a recent peak). They looked at where stocks were in relation to their 52-week highs. The average large cap stock is down 22.5% from its respective 52-week peak while small and mid-cap stocks have been hit even harder.

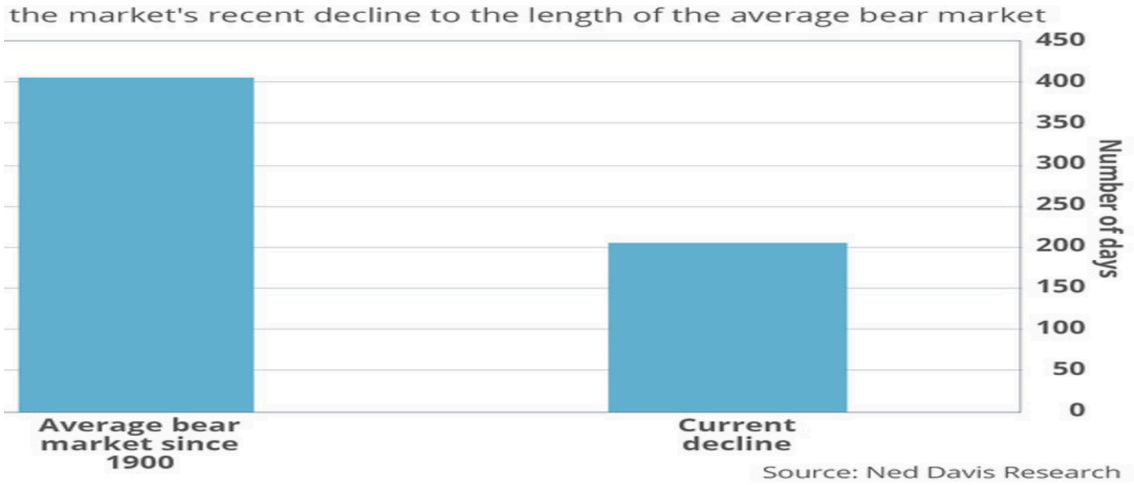


They also looked at this from a sector perspective and while it's no surprise that Energy is the big loser here, there's a fair amount of carnage spread throughout.



As it stands today, the combination of such weak breadth/participation and a steady stream of macro headline news has made for a turbulent first couple weeks of 2016. As of January 15th, the S&P 500 was down 8% year-to-date which represents the worst opening 10-day stretch in market history. It does not appear that this ramp in volatility will be subsiding any time soon and this has us mindful of our capital preservation tenets. The S&P closed last Friday just about 12% below its record high set early last summer. While several benchmarks (Russell 2000, Dow Transports) have already entered bear market territory, the S&P still sits a good distance away from hitting that threshold.

However, an interesting note from Mark Hulbert at MarketWatch over the weekend highlights that if the index does indeed venture into bear territory in 2016, history suggests that it may not stay there for very long. According to his data there have been 35 bear markets since 1900 and, on average, they have lasted 403 days. The S&P 500 hit its most recent peak on June 23, 2015 or 206 calendar days ago. So if we are in fact watching a bear market unfold, it may be that we're already past the halfway point of the process.



We're always fond of seasonality studies if for no other reason than they offer some insight on investor sentiment and how they venture into the fascinating realm of behavioral finance. While we haven't found much in the way of actionable data based on seasonality, there was one study we came across last year that really grabbed us in terms of its success rate.

The study is called the TOY (Turn of the Year) Barometer and was created by quant analyst, Wayne Whaley. In Whaley's words:

"I implored my computer to take a few seconds to exhaustively study S&P performance over every time period of the year and determine which time frame's behavior was proprietor of the highest correlation coefficient relative to the following year's performance."

His findings were pretty remarkable. Per Whaley's interviewer, Steve Deppe:

"What he found was that the performance of the S&P 500 Index over the two-month time period from November 19th to January 19th was remarkably effective in predicting the forward looking twelve month returns for the index, specifically from January 19th to the following January 19th. Wayne decided, "Since this two-month time period (Nov19-Jan19) extends across the Turn of the Year (TOY) and encompasses the gift giving season, I have coined it the 'TOY Barometer'..."

Whaley found that since 1950 there have been 33 cases of "bullish" TOY Barometers where the S&P's return from November 19th to January 19th of the following year was 3% or greater. The market went on to have positive gains for the next 12 months in 32 of the 33 years, a 97% success rate. The average return over the following 12 months in "bullish" instances was more than 15%. Whaley considers "neutral" cases to be any November-January period where the S&P returned between 0-3%. He observed 19 such instances since 1950 and the results are very mixed. 12 of the 19 instances resulted in positive performance over the next 12 months, only a 63% win rate. And the average

return drops to 6%. Lastly, any November-January return below 0% fell into Whaley's "bearish" scenario. There have been 14 such cases for the S&P since 1950 and the stats show that only 4 of them resulted in positive returns for the following 12 months. The average return for the 14 instances is decidedly negative at -7.38%.

The most recent TOY Barometer (which was bearish) closed on January 19th, 2015 where the S&P fell 1.43% from November 2014 to January 2015. Coincidentally, today (January 19th, 2016) marks the closing of the following 12-month window. The historical average loss for the bearish scenarios (-7.38%) suggests that the market should close at 1,870 today. It closed at 1,880 on Friday. Pretty impressive stuff. Further, the November 2015 – January 2016 Barometer window is set to close today as well and it will be a very bearish number. The index closed at 2,081 on November 19th, 2015 so we'll be looking at a 2-month decline of about 9% at today's close. We'll see how the next 12-months fits into Whaley's model.

Again, this type of study isn't entirely actionable within our strategy but if we were a diversified investor with some type of "tactical" bucket, we might consider shifting some amount of our US stock exposure in accordance with these yearly outcomes. The consistency is really neat to observe.

Looking at January so far and our current positioning, our market indicator turned defensive at the end of December. This has allowed us to miss nearly the entirety of the market's almost double-digit decline. While we're pretty certain there will be one, if not several, strong bounces here in the near-term the market is without a doubt under increased pressure. Whether a sustained downtrend forms is anyone's guess but we will be patient in reallocating capital to the long-side and will continue to play "small" until we see some lasting conviction from buyers. We are confident that the market will give us multiple trending opportunities to exploit over the course of 2016 and we will be vigilant in our efforts to gravitate back to our historical portfolio management averages.

Again, it's with extreme disappointment that we report 2015's performance numbers to our partners. However, we still fully believe in our process and remain humbled by your partnership. As legendary investor Peter Lynch was once quoted:

"After 28 years at this post and 22 years before this in money management, I can sum up whatever wisdom I have accumulated this way: The trick is not to be the hottest stock-picker, the winning forecaster, or the developer of the neatest model; such victories are transient. The trick is to survive. Performing that trick requires a strong stomach for being wrong, because we are all going to be wrong more often than we expect. The future is not ours to know. But it helps to know that being wrong is inevitable and normal, not some terrible tragedy, not some awful failing in reasoning, not even bad luck in most instances. Being wrong comes with the franchise of an activity whose outcome depends on an unknown future…Look around at the long-term survivors at this business and think

of the much larger number of colorful characters who were once in the headlines, but who have since disappeared from the scene."

We are always available to discuss our approach or if you wish to inquire about a possible investment in WCP. Additionally, if you know of anyone who might be interested in WCP's approach, please feel free to make the introduction. Please do not hesitate to call us with any questions or comments.

Kind Regards,

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[1] Individual Accounts will vary

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The performance data represents the performance of Worch Capital Partners, LP ("WCP"). The results reflect the deduction of: (i) an annual asset management fee of 1.0%, charged quarterly; (ii) a performance allocation of 20%, taken annually, subject to a high water mark; and (iii) transaction fees and other expenses incurred by WCP. During the time period shown, WCP used only those investment strategies disclosed in its Private Placement Memorandum. Results are compared to the performance of the S&P 500 Index (excluding dividends) for informational purposes only. WCP's investment program does not mirror the S&P 500 Index and the volatility of WCP's investment program may be materially different. The performance figures include the reinvestment of any dividends and other earnings, as appropriate. All investments involve risk, including the loss of principal.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

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