Ryan Worch
Worch Capital, LLC
Managing Director
Tel 301.202.8916
rworch@worchcapital.com

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Dear Investors and Friends,

Worch Capital Partners, LP (WCP) finished the second quarter of 2017 with a net return of +5.44%. The strategy's year-to-date 2017 return through June 30th sits at 12.02%. This compares favorably to the year-to-date returns for the HFRI Equity Hedge Index (+6.25%) and S&P 500 Index (+8.24%). After a relatively flat April, the strategy posted strong gains in May (+2.73%) and June (+2.78%) to wrap up Q2 with some really attractive absolute and relative performance. Growth and momentum were big winners in the first half and that served as a tailwind for WCP's strategy. The action so far in 2017 has been the polar opposite of what investors experienced in 2015 and 2016 where the trendless environment prevented many sectors and individual names from decoupling from the overall market.

As we touched on in our first quarter letter, 2017 has continued to stand out as a historical anomaly in terms of volatility, or lack thereof. In that letter we suggested that it would be reasonable to expect multiple bouts of heightened volatility over the remainder of the year. Well, we'll have to rely on the back half of the year for that prediction to play out because the second quarter failed to deliver much of anything in the way of volatility. While the NASDAQ did have a quick 4.5% pullback over the course of two days in early June, the S&P 500's max drawdown for all of 2017 so far is just 2.8%.

Looking back over the last century only 1995 made it through the entire year with a smaller max pullback. Further, the S&P also just set a new post-financial crisis mark for days without a 5% decline. The previous record, set in 2014, was a span of 157 days. The current streak now sits at 167 days (as of July 7th). *See chart above*.

The 167-day streak is the longest since a 173-day span over the course of 2006-2007 when the index went without a 5% fall. Beyond that, there was also a massive 296-day stretch during 1995-1996 (not surprising considering the prior 1995 statistic referenced above). One more nugget for you, via market ace Ryan Detrick of LPL, the S&P has not seen a weekly drop of 2% or more since last September. In fact, that instance is the only 2% weekly fall for the index since the February 2016 lows. That amounts to 72 weeks! Any way you slice it, the first six months of 2017 have been remarkably calm and void of any real trouble. And while we consider ourselves to have a fairly bullish opinion on how the remainder of the year plays out, we absolutely expect to see risk come back into the market at some point in the 2nd half.

So what will bring about the potential for "risk"? To our eye, it's the usual platter of worries just at a different stage in the game. Earnings season is on deck and we believe a number of sectors will continue to impress with solid growth numbers. That said, it's about time to be a bit more aware of trading multiples and valuations. The argument can be made that parts of the market are past the point of looking expensive which would usher in the need for greater diligence when parsing sectors for individual stock ideas.

Looking at the broader economy, there continues to be signs of expansion albeit at a slower pace than probably anticipated. While inflation remains muted the Federal Reserve, as expected, raised its target range for the federal funds rate on June 14th, to 1.00-1.25%. Despite the softer than projected growth, Fed officials continue to expect their longer-term inflation expectations (2%) to be met. Combine that with robust job market conditions and other factors like strong home sales numbers and it seems likely that we'll see gradual rate increases in the quarters ahead.

The angst and lack of coordination coming out of Washington continues to be discussed non-stop. However, for all the agitation, it's had little impact on the market thus far. Clearly, healthcare is the policy topic at front and center right now and current indications suggest conservatives will be hard pressed to get a bill passed through in its current form. That impasse stands in the way of broader tax reform being accomplished so we'll just have to wait and see how those dominos fall and if the market has any type of notable response.

We can't discuss the potential for near-term "risk" without addressing the idea of "black swans". We'll leave international affairs predictions to the experts but the primary "black swan" candidate has to be any type of military action in the brinksmanship game with

North Korea. We're not saying such an event would have a lasting negative impact on the market but it would absolutely bring about some flashes of volatility.

Please don't confuse our lack of vigor on where the next "risk" event might come from as a sign of complacency. We view this phase of the market cycle as a time for portfolio managers and investors to stay dedicated to their process and resist the temptation to be a gunslinger. We are bullish on the market over the remainder of the year for a number of reasons but our risk management rules are always pre-set to take over during times of increased volatility.

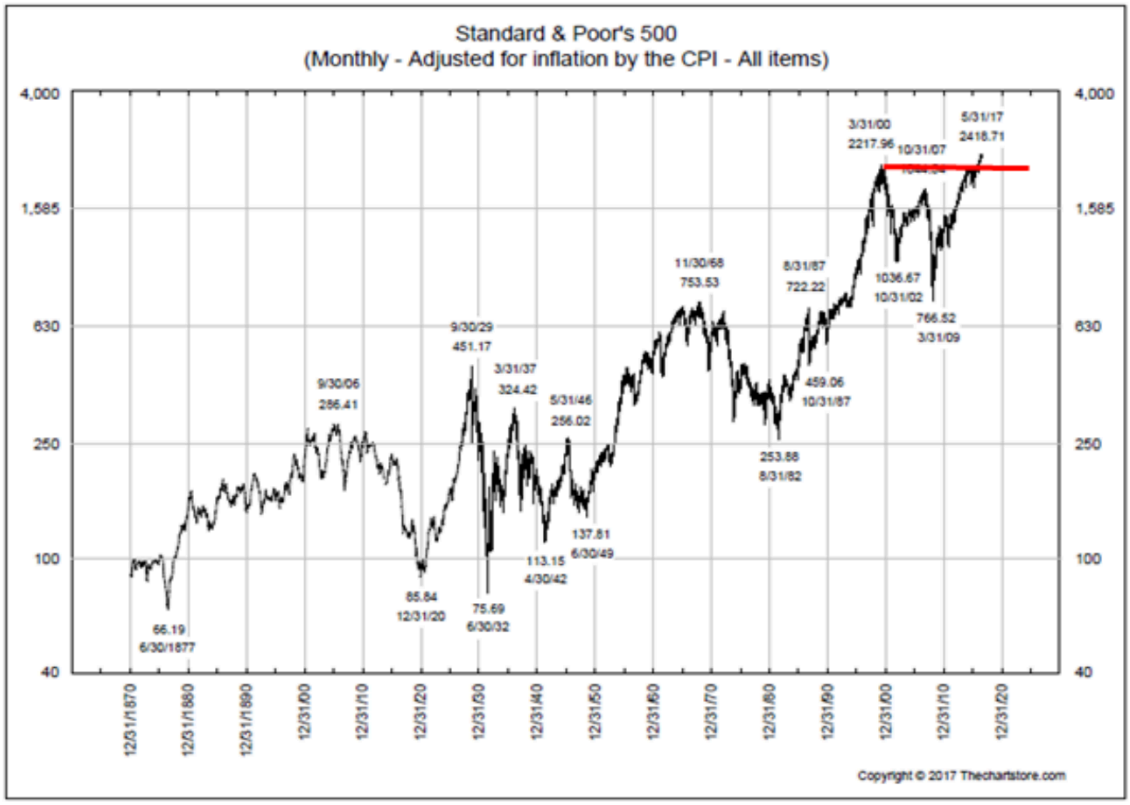
From a historical perspective, the table is set for July through December to offer equity investors further gains. According to our data, if the S&P is up greater than 8% in the first 6 months of the year (as in 2017), the index has never finished negative for the full year in 24 instances. The average gain for the full year is 23.43% with an average gain of 7.36% in the 2nd half.

Year	July Return	YTD Return Jan - June	Full year return (when Jan-June > 8%)	Return July-Dec (when Jan-June > 8%)
1954	5.72%	17.73%	45.02%	23.18%
1955	6.07%	14.04%	26.40%	10.85%
1958	4.31%	13.13%	38.06%	22.04%
1961	3.28%	11.24%	23.13%	10.69%
1963	-0.35%	9.94%	18.89%	8.14%
1964	1.82%	8.89%	12.97%	3.75%
1967	4.53%	12.83%	20.09%	6.43%
1975	-6.77%	38.84%	31.55%	-5.25%
1976	-0.81%	15.62%	19.15%	3.05%
1983	-3.03%	19.20%	17.27%	-1.62%
1985	-0.48%	14.72%	26.33%	10.13%
1986	-5.87%	18.72%	14.62%	-3.46%
1987	4.82%	25.53%	2.03%	-18.72%
1988	-0.54%	10.69%	12.40%	1.54%
1989	8.84%	14.50%	27.25%	11.14%
1991	4.49%	12.40%	26.31%	12.37%
1995	3.18%	18.61%	34.11%	13.07%
1996	-4.57%	8.88%	20.26%	10.45%
1997	7.81%	19.49%	31.01%	9.64%
1998	-1.16%	16.84%	26.67%	8.41%
1999	-3.20%	11.67%	19.53%	7.03%
2003	1.62%	10.76%	26.38%	14.10%
2012	1.26%	8.31%	13.41%	4.70%
2013	4.95%	12.63%	29.60%	15.07%
Average	**1.50%**	**15.22%**	**23.43%**	**7.36%**

It doesn't get much more optimistic than that so allow us to throw some water on that fire by sharing that July-September is the calendar's worst rolling 3-month period over the last 20 years.

The fund has enjoyed a positive start to 2017 and it comes as a welcome respite from the sluggish performance of 2015 & 2016. However, if there's one thing that I can assure my investors it's that my process has not changed. As difficult as the trek through the last two years has been at times, I never questioned our approach, rules or methodology. Yes, of course, we are always seeking to evolve and fine-tune but we did not look to completely overhaul our philosophy. Further, I sought to be blatantly upfront and transparent as possible in terms sharing how and why the strategy was not "meshing" with the market at a given moment in time. Yet still, I also knew from experience that our strategy would eventually rotate back into favor. In fact, at the end of 2016 we shared in a letter to investors and friends that we were starting to observe signs of that rotation back into favor taking hold and so far it's been proven out. And while the recent success is certainly a breath of fresh air, the same rules apply as they did on the downside: we will not under any circumstance be abandoning our discipline in hopes of reaching for additional gains. We will continue to buy and sell positions as warranted by our investment criteria.

The S&P 500, on an inflation-adjusted basis, has only just recently taken out its highs set back in 2000 and we remain firm in the belief that the market is in the early-to-mid stages of a long-term secular bull market.



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If accurate, that offers investors the potential for fantastic gains over the next decade or so. However, we'd caution that within powerful secular bulls there can and will be the occasional correction and, *gasp*, even a cyclical bear market. We are firm believers that these pullbacks can and should be navigated with some level of focus on risk management. I am extremely confident that our strategy offers a solution to that need and, because of it, our investors will benefit greatly in the coming years.

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 our strategy, please feel free to make the introduction. Please do not hesitate to call us with any questions or comments.

Kind Regards,

Ryan Worch

[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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