MountainWorks, LLC
info@mountainworksllc.com

April 15th, 2016

Dear Member:

The first quarter of 2016 has been adventurous for us, to say the least. Towards the end of 2015, I personally entered into some bad positions using derivative contracts that did not pan out. I am not alone in this regard, considering 2015 was one of the worst performing years for hedge funds since the Great Recession. Before the end of 2015, Third Point Offshore was down 4.4%, Greenlight Capital was down 16.88%, and Pershing Square Holdings was down 9.6%, (by the end of 2015 Bill Ackman's fund had lost over 20%), to name a few. However, my goal for the fund is not to compare against competitors or market indices like the S&P 500, but to achieve returns greater than the Risk Free Interest Rate. Therefore, I alone am responsible for any losses, and have incurred those losses personally before MountainWorks was created. The fund has only begun incubating in February 2016, therefore no member assets are subject to negative returns as a result of previous experiences. Using a Time Weighted Return (TWR) calculation, in February the fund lost 4.4% - due in large part to the expiration of derivative contracts I entered into at the end of 2015 - and in March the fund returned 14.6%, as a strategy change in derivatives has resulted in more streamlined positive returns.

By employing a value-based strategy to derivative positions, we have been able to "back-door" enter into securities that trade at discounts. Although hard to find, these positions can prove to be significantly worthwhile, as in the case of Pepco Holdings, Inc. (to be discussed shortly). Along with our derivative action plan, we continue to engage in strategies involving long equity, distressed debt, and merger arbitrage. Specifically, BGC Partners continues to be a long-term position, Transocean corporate bonds remain suppressed amidst the collapse in oil prices, and Pepco Holdings provided a short term boost in returns as their merger with Exelon was approved by the Washington, D.C. Public Service Commission.

Long Equity. While the macro-economic backdrop for the United States economy remains in a cycle of slow growth, as evidenced by the Federal Reserve Open Market Committee re-hashing their plan to raise interest rates in 2016, we believe that BGC Partners as an Interdealer Broker represents an attractive investment both in the face of volatility and as a possible candidate for a spin-off. BGC Partners operates in two business segments - financial products and commercial real estate (through its Newmark, Grubb, Knight, and Frank subsidiary). The financial segment of the company clears contracts in Forex, Interest Rates, Commodities, and Equities. Any volatility in the markets - similar to what we experienced in early 2016 - correspondingly results in more volume of contracts traded, which benefits BGC Partners. As far as the real estate segment, management has hinted at a possible spin-off of NGKF down the road in order to unlock shareholder value. With potential for future catalysts, we see BGC Partners has a long term play on rising interest rates, volatility, and real estate.

Distressed Debt. The collapse in oil that began in late 2014 has caused stocks of related companies to drop precipitously. One of the first industries to be hit by the price drop was the offshore oil and gas drilling business. In addition to the common stock price drop there was also a concurrent fall in corporate bond prices. Over a two year period Transocean stock prices have dropped from $48 per share down to $9 per share, and the corporate bonds have traded from $120 down to $60. In August of 2015, news broke of Transocean suspending dividend payments to its common stock. While these developments have not been enticing to buyers of the common, the corporate bonds still pay annual interest. Depending on the bond under inspection, the yields have increased from 7.5% to in some cases over 18% annually. Admittedly, because I purchased some of these corporate bonds in 2015 and Transocean's bond prices have fallen even further, my timing was not ideal and the position is currently standing at a loss. However, I believe the bonds will recover over the long term and result in positive returns to the fund.

Merger Arbitrage. Pepco Holdings, Inc. - a public utility company - received a buyout offer for $6.8 billion nearly two years ago from Exelon Corporation. In that time period Pepco common stock traded near the buyout price of $27.25 per share. Four state Public Service Commissions - New Jersey, Maryland, Virginia, and Delaware - and the Federal Energy Regulatory Commission approved the merger. The only Commission left was Washington D.C. Early this year the D.C. Mayor and People's Counsel both rejected the merger, crying foul that a $78 million fund set aside to prevent rate hikes to D.C. customers was not enough. As a result of the news, the stock plummeted to pre-deal prices, largely due to investor fear of a deal-break. In our humble opinion, the $78 million cog was a surmountable obstacle considering it was such a small portion of the $6.8 billion merger. Therefore, in late March we entered a position in Pepco at $22.50, and in less than a week the merger was summarily approved by the D.C. Public Service Commission. The stock price jumped to over $27, and we exited the position at $27.13.

Work in Progress. There are other opportunities that we continue to flesh out. In Merger Arbitrage, there are attainable prospects in the Staples acquisition of Office Depot, which is currently being contested in court by the Federal Trade Commission. Similarly, the mega-merger between Halliburton and Baker Hughes in the oil services sector has been intensely debated by both the U.S. Department of Justice and the European Commission on Antitrust. In other M&A news, the Pinnacle Entertainment merger with Gaming and Leisure Properties has been consummated by shareholders. The deal is expected to close this year. In Equities, Aralez Pharmaceuticals is a small Canadian-based company that is awaiting FDA approval of Yosprala, an aspirin/proton pump inhibitor combo-drug. Hydrogenics is a Canadian-based alternative energy company that specializes in Hydrogen Systems. Finally, Chicago Mercantile Exchange Group is a company that runs four exchanges - CME, CBOT, NYMEX, and COMEX - and is primarily a derivatives marketplace where businesses buy and sell contracts of various types. We continue to monitor not only current investment positions, but also prospective investments in order to stay flexible across diverse opportunities in the market.

While I do not expect every investment to turn out successful in such a short amount of time, as was the case with Pepco, I do expect to make valuable connections between businesses, the macro economic environment, and security prices in order to generate positive returns. Not every investment I have made in the past has been successful, but I consider the experiences invaluable toward my continual improvement as a manager. The only outcome I like more than a successful investment is one that does not fail. I take full responsibility for any failed investments I have made in the past, and I will use that experience and knowledge to become better. In this way, the fund will continue to be nimble, swift, employ multiple strategies, and strive for success through connections. I will keep working hard, and I look forward to our next correspondence in the second quarter.

Best,

Justin Polce

Managing Member

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