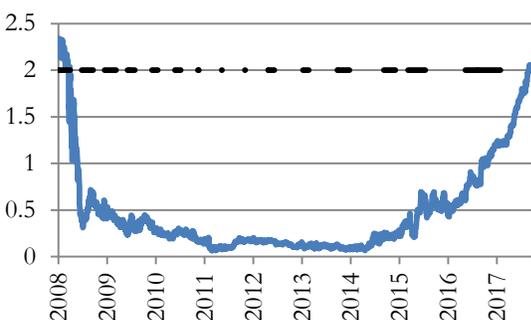


Seamans Capital Management – Q1 2018 Quarterly Report

GLOBAL BONDS AND CURRENCIES

The first quarter of 2018 saw a surge of volatility across the financial markets. Jerome Powell became the Chair of the Federal Reserve and reaffirmed the Fed's plan to continue Quantitative Tightening. Various tariff proposals by both the U.S. and China raised concerns about a potential trade war, which led to increased volatility in the global stock and currency markets, and rising interest rates.

One Year U.S. Treasury Yields



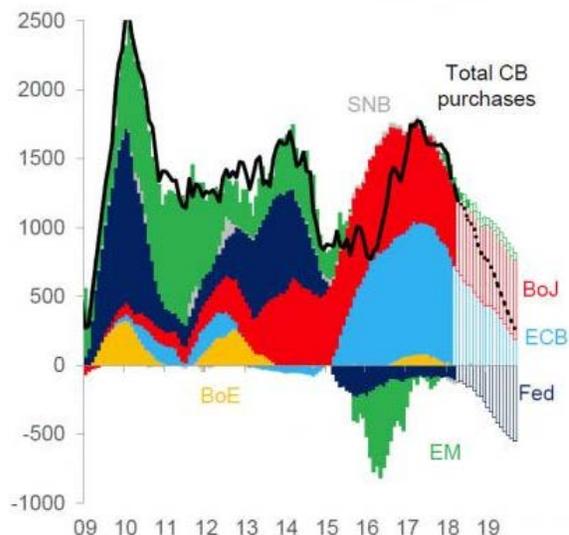
Source: Bloomberg

One year Treasury yields exceeded 2% by the end of the first quarter for the first time since 2008. Artificially low yields, the product of government bond purchases, are quickly rising to their pre-financial crisis levels, as the Fed pursues Quantitative Tightening.

Lower corporate tax rates make the U.S. more attractive to both American and foreign investors.

Other central banks have been slower than the Federal Reserve to raise interest rates. The ECB raised rates once and is electing not to make any further increases at this time. The chart in the next column shows the ECB's reduction in QE while the Bank of Japan policy has remained unchanged.

Central Bank Purchasing Activity



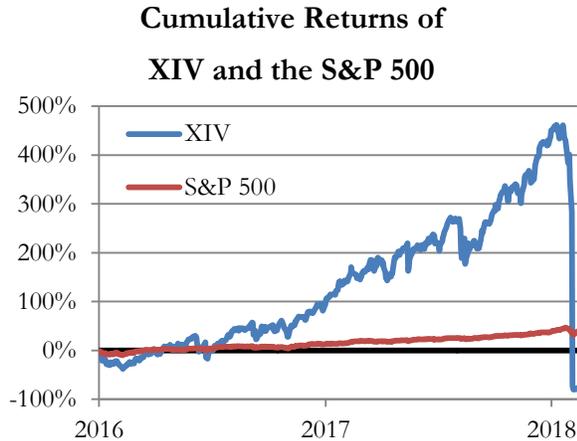
Source: Citi Research, National Central Banks

U.S. tax reform is pressuring European countries to reduce their taxes at a time when rising government budget deficits would ordinarily call for increased taxes. The overarching goal of U.S. tax reform was to offer lower corporate tax rates to make the U.S. more attractive to both American and foreign investors. The EU faces a difficult choice with rising pressure among its 28 member countries to reach an agreement on how to respond to U.S. corporate tax reform.

GLOBAL STOCKS

A remarkable streak of low stock market volatility throughout 2017 came to an end in January. An esoteric trade strategy that involved betting that the markets would remain calm (also known as “shorting volatility”) provided strong and consistent returns over the past two years. The success of this trade spawned an estimated \$2 trillion in products based on the short-volatility concept, until the trade collapsed and created significant losses, which we avoided. Credit

Suisse's XIV short-volatility product, shown in the graph below, lost 96% of its value over the course of five trading days and was subsequently liquidated.



Source: Bloomberg

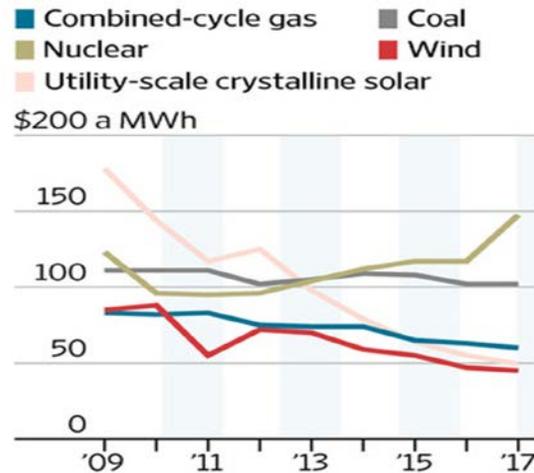
Technology stocks dragged down the broad market indices as popular social media stocks, including Facebook, Twitter and Snapchat, came under pressure at the end of the quarter, following news that Cambridge Analytica had violated its agreement with Facebook. The company collected far more information from its users than was authorized, and did not delete the information as requested. It appears that Facebook is using personal data to profile users to help its advertisers target likely customers. Data privacy has become a growing government concern. The European Union is implementing a new general Data Protection Regulation on May 25 to address this issue.

Credit Suisse's XIV short-volatility product lost 96% of its value over the course of five trading days.

S&P 500 companies have seized the opportunity to increase their share buybacks fivefold on market corrections. Managements are using funds they are repatriating from overseas under the new corporate tax regime to fund their share repurchases.

RENEWABLE POWER

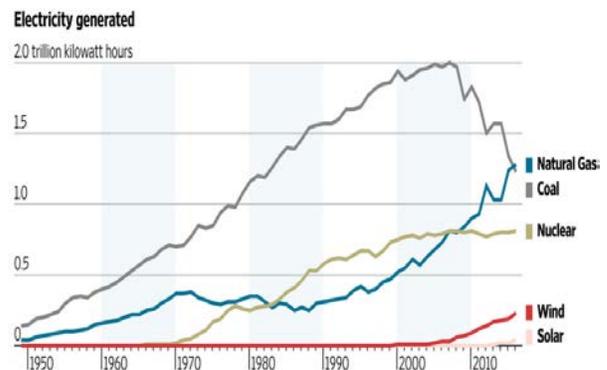
Cost of Power Sources



Source: The Wall Street Journal

The chart above shows the change in power generating costs from 2009 to 2017. The cost of nuclear power has risen to almost \$150/MWh. Natural gas at \$60/MWh is \$40/MWh below the cost of coal power. This cost difference is the reason for the market's shift from coal to gas over the past 10 years, as shown in the chart below. Wind and solar at \$45/MWh and \$50/MWh respectively are the least expensive, which accounts for their rapid adoption.

U.S. Electricity Generation



Source: The Wall Street Journal

The competition from fossil fuel power is deteriorating rapidly as solar, wind and battery costs plunge.

Xcel Energy received bids to provide renewable power in 2023; solar plus battery storage was offered at \$36/MWh and wind plus battery storage was priced at \$21/MWh. These prices are 30% to 60% below current average wholesale power costs. By 2025, four-hour battery energy storage is expected to be competitive with gas plants in providing power on demand.

Solar and wind power with battery backup are being offered at 30% to 60% below current wholesale prices for delivery in 2023.

Royal Dutch Shell is on an acquisition spree, pursuing small but strategic acquisitions in the power sector, a recognition that the fossil fuel era is ending. Acquisitions include a utility, an electric-car charging business and a stake in a solar-power company. These are elements of a long-term plan to use the company’s huge natural-gas reserves to provide electric power. Shell is planning to produce electricity for homes, businesses and electric-vehicle charging stations—a model similar to its oil-rig-to-gas-station petroleum business. Shell expects to spend up to \$2 billion a year in what it calls its “New Energies” division through 2020.

In the first quarter, Softbank Group and Saudi Arabia’s Crown Prince Mohammed bin Salman announced a plan for a \$200 billion solar power development. The goal of the project, which is 100 times larger than any other such project, is to produce 200 GW of power by 2030 in order to free up oil for export.

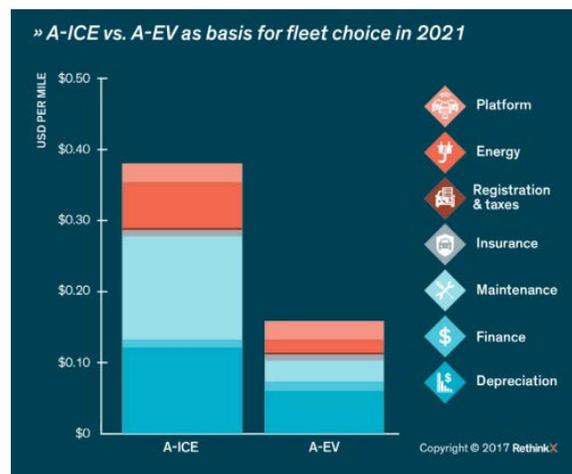
In a blow to nuclear power, France’s largest electric utility, EDF, announced plans to spend €25 billion on solar power over the next 15 years.

A 750 MW wind farm project under development in the Netherlands will be the first to be built without government subsidies. This is a major milestone for this type of renewable energy, showing how far costs have fallen.

CLEAN TRANSPORTATION – ELECTRIC VEHICLES

Electric vehicles offer a compelling economic advantage. A vehicle powered by an internal combustion engine costs approximately 38 cents per mile to operate. A vehicle powered by electricity with simpler motors and fewer parts costs approximately 15 cents per mile to operate. The most significant savings are in maintenance, fuel and depreciation, as shown in the chart below. These costs are 50% to 80% below those for conventional cars.

ICE vs EV Cost Comparison



Source: RethinkX, *Rethinking Transportation*

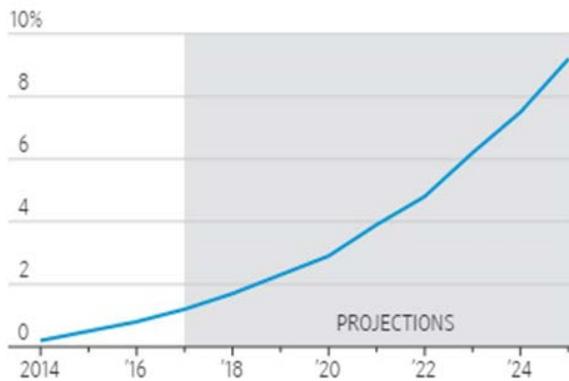
Electric vehicles are growing as a percentage of total vehicles sold as shown in the graph on the next page. Today’s electric cars are all based on lithium ion batteries, which require growing supplies of both lithium and cobalt (10 kg per car). Lithium is relatively abundant, but lithium-production projects take 3 to 5 years to develop. The majority of the world’s cobalt comes from the Democratic Republic

of Congo (DRC), a challenging mining environment we have chosen to avoid. Despite its rich deposits, Glencore is struggling to make a profit in the DRC after the recent tax increases.

TaaS will allow people to travel 6 trillion passenger miles by 2030 at a lower total cost than the 4 trillion miles driven today.

Cobalt demand for electric-vehicle batteries is expected to grow from 11,000 tons in 2018 to 62,000 tons in 2025. Prices have spiked on future expectations, roughly doubling in the past year.

Electric Vehicles as a Percentage of all Vehicle Sales



Note: 2017 through 2025 are projections.

Source: Wall Street Journal

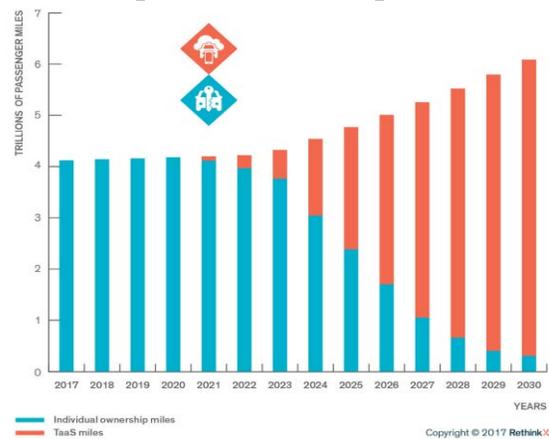
Lithium also remains as a critical clean commodity. China's top producer of lithium, Ganfeng Lithium Co., is planning to list on Hong Kong's stock market and use the proceeds to expand its mining projects in Ireland and Australia. Toyota preemptively took on a 15% stake of the lithium miner Orocobre in order to lock in some of its supply for its future hybrid and electric car production.

CLEAN TRANSPORTATION – SHARED SERVICE

New technology platforms are providing asset owners the opportunity to reduce their costs by sharing with others. Airbnb has been a long-time proponent of this “sharing economy” model, facilitating communication between homeowners and renters looking for short-term accommodations.

There are significant opportunities within the transportation sector. In the U.S., Uber and Lyft are examples of this trend, known as Transportation as a Service (TaaS). Baidu, Alibaba and Tencent are positioning themselves for a shift from selling cars to selling subscriptions to internet-equipped autonomous cars. These companies have started exploring EV startups, smart car software and online retail channels. Alphabet's Waymo is developing its own self-driving vehicles. This trend is expected to accelerate, beginning in 2021, as shown in the chart below. TaaS will make it easier and less expensive for people to travel, allowing 6 trillion passenger miles by 2030 at a lower total cost than the 4 trillion miles driven by car owners today.

Speed of TaaS Adoption



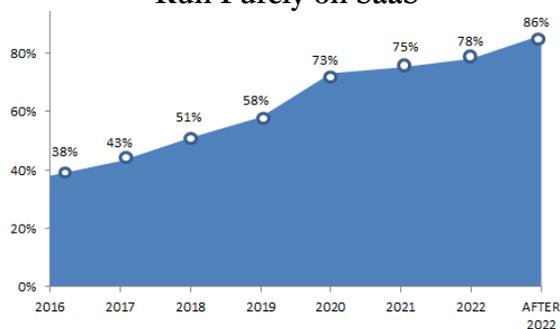
Source: RethinkX, *Rethinking Transportation*

ENERGY EFFICIENCY, CLOUD COMPUTING AND SAAS

Cloud computing is an important part of the global move to energy-efficient solutions. Specialized servers hosting software means that companies no longer need to buy and maintain their own servers. The cost savings on electricity and computer usage can be as much as 80% of those for owning and operating an on-site system.

Software as a Service (SaaS) enables cloud computing by transferring the processing and storage of information from a local computer or server onto a specialized cloud server. SaaS applications are designed to be easy to use, thereby reducing training costs. It is estimated that 43% of companies are using SaaS alone for their computing. This number is expected to reach 86% of companies by 2022, as shown in the chart below. Currently, a company is spending on average more than \$125,000 per year for SaaS applications, up from \$15,000 per year five years ago.

Percentage of Companies Estimated to Run Purely on SaaS



Source: Financeonline

Worldwide spending on the cloud reached \$125 billion in 2017, a 24.8% increase over 2016. IDC forecasts that overall public cloud spending will grow 22% annually through 2021, which implies that worldwide sales will top \$277 billion in three years.

CYBERSECURITY

Cybersecurity is increasingly important to internet connectivity in an IoT world. Governments around the world understand the importance of securing their own information and infrastructures. While infrastructure has historically been off-limits, there was a recent breach that exposed part of the U.S. electric grid, some water processing plants and airports, suggesting that some foreign governments may be testing their offensive capabilities.

Spending on cybersecurity is on track to exceed \$1 trillion over the next 3 years.

The U.S. government increased cybersecurity spending from \$7.5 billion in 2007 to \$28 billion in 2016. The current administration understands the importance of maintaining the U.S. technological lead. It blocked ZTE, a Chinese company, from purchasing any 5G communication-related technologies.

The damage caused by and frequency of worldwide cyberattacks has risen significantly. Roughly 86% of U.K. executives reported being the target of at least one cyberattack. The FBI also reports that the cost of cybercrime damages rose from \$18 million in 2001 to \$1.3 billion in 2016.

According to Cybersecurity Ventures, global spending on cybersecurity products and services is growing 12% to 15% annually and will exceed \$1 trillion cumulatively from 2018 to 2021.

ESSENTIAL TECHNOLOGIES - SEMICONDUCTORS

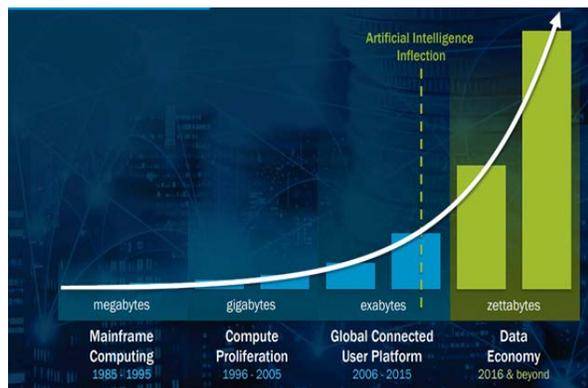
Global semiconductor revenues have soared, topping \$420 billion in 2017 as demand for memory and processing power increases. The development of artificial intelligence and 5G

communication systems will further increase demand.

The digital universe is expected to grow to 160 zettabytes by 2025, a 30-fold increase in raw data collection, storage and processing.

Lam Research reported that the digital universe collected 5 zettabytes (10 to the 21st power in bytes) of usable data in 2013. That number is expected to grow to 160 zettabytes in 2025, a 30-fold increase in data collection, storage and processing. The new 5G network will provide a tenfold increase in speed. Hardware and chip makers are investing heavily to meet this growing demand. Samsung announced that it would invest \$28 billion in its Pyeongtaek factory by 2021 to expand its capacity.

The Rising Data Economy



Source: Lam Research

DEFENSE

While global tensions with North Korea appear to be quieting down, tensions in the Middle East are escalating again. The recent events in Syria are straining the U.S. relationship with Russia. The U.S. has begun to position ships in the Mediterranean near Syria and off the coast of China in a show of force. These developments suggest that defense spending will continue to rise.

PRIVATE EQUITIES

Following the same standards and guidelines used for our public investments, we have invested in two private companies, EMOH and Braidy Industries, for some growth-oriented clients and products.

EMOH is a disruptive water-reclamation technology company with a near-term path to profitability. It sells a proprietary device for water remediation. California recently enacted regulations requiring dairy farmers to clean up the methane coming from their ponds. EMOH turns anaerobic ponds into aerobic ponds, eliminating methane at less than 20% of the cost of the anaerobic digesters currently in use. The patented technology is based on Nikola Tesla’s unpublished notes and has a number of applications that offer significant expansion opportunities in the U.S. and globally.

Veloxint products parts that are stronger (2x to 5x) and lighter (<50%) than traditional steel, aluminum and titanium parts.

Braidy Industries is a holding company with a 100% stake in Veloxint and a 20% stake in Braidy Mills (“BML”). Veloxint, which was incubated at MIT, is a manufacturer of ultra-high-strength lightweight metal parts. Veloxint produces parts that are stronger (2x to 5x) and lighter (<50%) than traditional steel, aluminum, magnesium and titanium parts. Its game-changing technology is expected to revolutionize a number of end markets. BML is the first state-of-the-art aluminum mill to be built in the U.S. in more than 30 years. It is positioned to capitalize on the key light-weighting trends in the auto and aerospace industries. BML will have the lowest cost structure in the world because of advantages in its energy costs, labor, logistics and tax incentives.

CONCLUSION

After a strong return in 2017, the stock market stumbled in late January, leading to a 1.6% loss on the S&P 500 in the first quarter. The catalyst for the sell-off was the collapse of the “short volatility” equity market strategy. The correction had the greatest impact on technology stocks. The bond market was also under pressure as the U.S. raised short-term interest rates as part of its plan to normalize interest yields through Quantitative Tightening. While the currency market was buffeted by trade tariff proposals, the proposals appear to be part of a negotiation strategy. The markets may remain more volatile, but we believe this creates opportunities for investors. Corporate earnings are on track to rise by more than 20% in the first quarter of 2018.

Looking forward, the U.S. appears to be best positioned among developed markets for economic growth and investment. Rising U.S. interest rates and lower corporate taxes are expected to attract increased foreign investment and support a rising U.S. dollar. Corporate repatriation of offshore funds will support mergers and acquisitions, stock buybacks and capital investments. Equities are expected to significantly outperform bonds and real estate over the next year, in a rising interest-rate environment.

Technologies are transforming broad sectors of the economy. We remain focused on those opportunities created by essential technologies and essential services in both our public and private investment portfolios, in the belief that they will provide strong returns and stability in these uncertain times.

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