SEAMANS CAPITAL MANAGEMENT, LLC

Seamans Capital Management – Q1 2019 Quarterly Report

STRONG QUARTER FOR THE U.S. AND U.S. EQUITIES

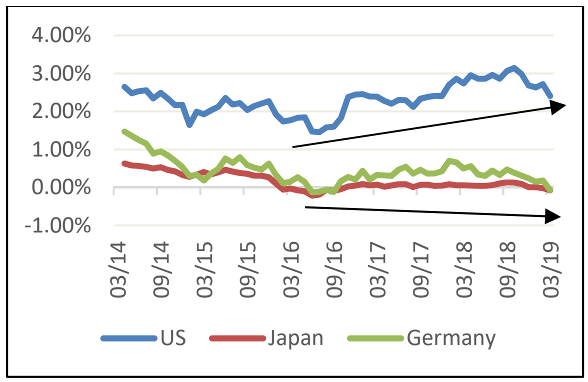
The U.S. economy continues to outperform the other global economies and remains the preferred safe harbor for foreign investors.

U.S. stocks rallied during the first quarter with the S&P 500 gaining 13.6% in the quarter after a sharp selloff in December. The broader market was led by 20% gains on the technology sector. Real gross domestic product (GDP) increased at an annual rate of 2.6% in the fourth quarter of 2018. Consumer spending remained robust as wage growth accelerated and workers benefited from lower tax rates. The labor market performed well, with the U.S. unemployment rate declining to 3.8% in February.

The most important factor in the stock market's rise was the inflow of foreign capital. The signs of progress in U.S.-China trade negotiations and confirmation by the Federal Reserve that interest rate increases were on hold also supported the financial markets. Issues around intellectual property, security and forced technology transfers remain to be fully resolved in the trade agreement between the two countries.

EUROPE SLOWDOWN AND POLITICAL UNCERTAINTIES

In Europe, declining economic growth and political uncertainty are the key financial challenges. Eurozone industrial production has fallen 2.5% since its peak in December 2017. The European Central Bank (ECB) kept its deposit rate steady at -0.4% well below the U.S. interest rate levels. The ECB's pleas may be behind the Fed's decision to defer further interest rate increases. The lower interest rate polices in Europe and Japan, as shown below, have reduced the liquidity in those bond markets and dwindled investors' confidence in those market. Nomura's CEO said "The fixed income market is dead due to zero interest rates."



Source: Bloomberg

The "Yellow Vests" entered their 19th straight week of protests in France. These protests, which began as a demand to roll back fuel tax increases have evolved into an expression of general discontent about the growing disparity between classes and the lack of economic progress for the broader society. The "Yellow Vests" are reported to have the support of 80% of the French voters.

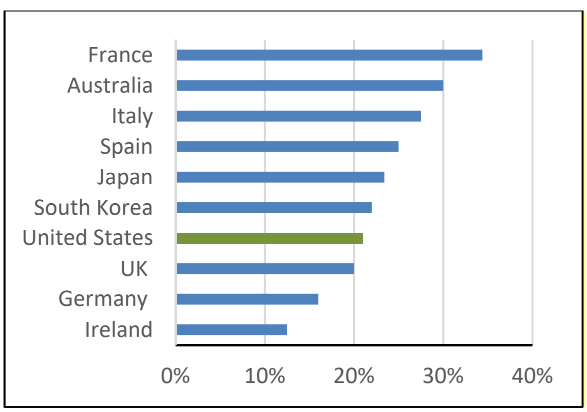
BREXIT AND THE EU ELECTIONS

Brexit's uncertainty continues to weigh on the European markets as Prime Minister Theresa May's exit plan was rejected for the third time. The rejection sets the UK on a path of either a hard Brexit or a further delay to Britain's departure from the EU. Britain's financial contributions are important for the economic stability of EU government. The country is also the second largest consumer of the German cars.

European elections in May could be a defining moment because the migrants from the Middle East have reshaped European politics in profound ways, strengthening the footprints of anti-EU parties.

TAX SHORTFALLS AND GIANT TECH FINES

European governments are seeking new strategies to increase their tax revenues to address growing government deficits. Higher taxes and stiffer regulations for tech companies are on the horizon as European officials begin to introduce digital taxes. Austria recently announced it would tax tech firms 3% of their advertising revenue within Austria. France, which has the highest corporate tax rate among the OECD countries as shown below, is also in the process of introducing its own national digital tax.



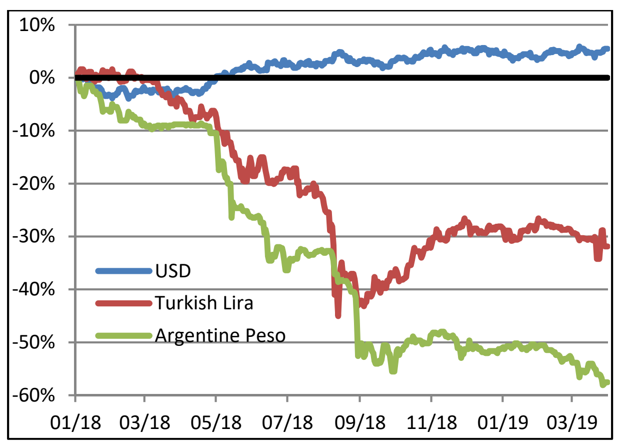
Source: OECD (2018), Revenue Statistics 2018

In March, EU regulators fined Google $1.7 billion for abusing its dominant role in online advertising. The company was accused of monopolizing the online search advertisement through its anti-competitive behavior. With this latest judgement, the EU commission has now levied almost $10 billion in fines on Google's various businesses.

DOLLAR STRENGTH AND THE EM CRISIS

The U.S. dollar continues to be the best-performing currency as international investors have flocked to dollar assets for the strength and stability of the U.S. economy.

The dollar's strength is weighing on emerging market countries, particularly Turkey and Argentina. The Turkish government recently increased overnight interest rates from 23% to 1,200% in an effort to punish "speculators" shorting its currency. This dubious policy is creating concern on the part of investors, who are taking money out of those markets to invest in U.S.-dollar-denominated assets.



Source: Bloomberg

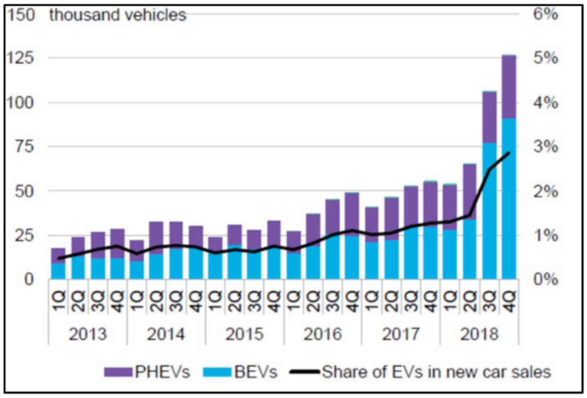
CHANGING AUTO INDUSTRY LANDSCAPE

The U.S. auto industry's revenue dropped significantly in Q1, with almost every major auto producer reporting year-over-year declines. Carmakers are struggling with the capital costs of adapting to a global market that is rapidly evolving to an electric or a hybrid standard. Carmakers are forming joint ventures to pool manufacturing platforms and modular designs that can minimize the costs of developing new vehicles. Collaboration is especially important in the face of the triple threat from development in electric vehicles, autonomous driving and shared mobility. This approach is evident in the €1 billion partnership between BMW and Daimler as well as the alliance between Renault, Nissan and Mitsubishi and this alliance's potential merger with Fiat Chrysler.

Lyft, a pioneer in the ride-sharing industry and a major disruptor in the transportation market, had its initial public offering (IPO) at the end of March valuing the company at $22 billion. It kicked off what investment bankers hope will be a big year for some tech unicorns, including Uber, Slack, Pinterest and Airbnb. For most of those companies, the development costs substantially exceed revenues, leaving investors concerned about how much cash these companies will burn before becoming profitable. For Uber and Lyft, losses could continue at least until 2025, when driverless cars are expected to be broadly available.

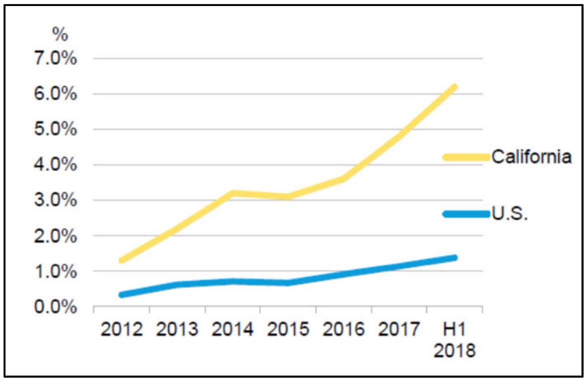
ELECTRIFICATION OF VEHICLES

The chart below shows the rise in sales of electric vehicles (EVs) and fuel cell vehicles (FCVs) in the U.S. Sales of EVs – a category that includes battery electric vehicles (BEVs) and plug-in hybrid electric vehicles (PHEVs), increased about 80% last year, jumping from about 194,000 units in 2017 to over 355,000 units in 2018. EV adoption is also supported by declining lithium-ion battery prices, which have fallen 85% since 2010, to $176/kWh in 2018. These prices are expected to decline further to $100/kWh by 2025, which will support widespread EV adoption.



Source: J.P. Morgan, Bloomberg New Energy Finance

California has long been the pacesetter in the U.S. for EV sales, as shown below, because it offers the highest rebates and incentives of any state. California has about 50% of all U.S. EV sales, which is more than 6% of the total demand.

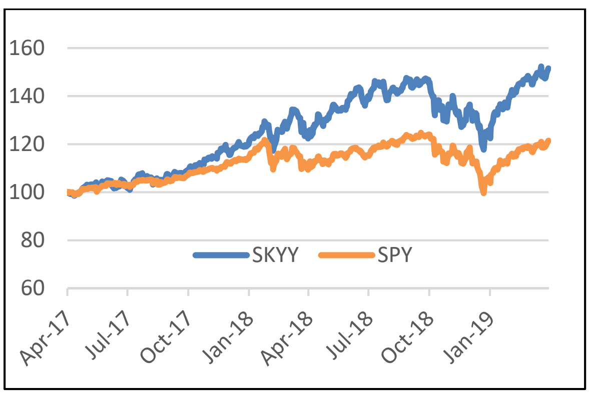


Source: Bloomberg New Energy Finance

Norway is leading the sales of EV in Europe, with almost 60% of all new cars sold being electric. The country is targeting the end of fossil-fueled vehicles sales by 2025. Consistent with this plan, Norway has also began selling of fossil fuel stocks from its $1 trillion sovereign wealth fund.

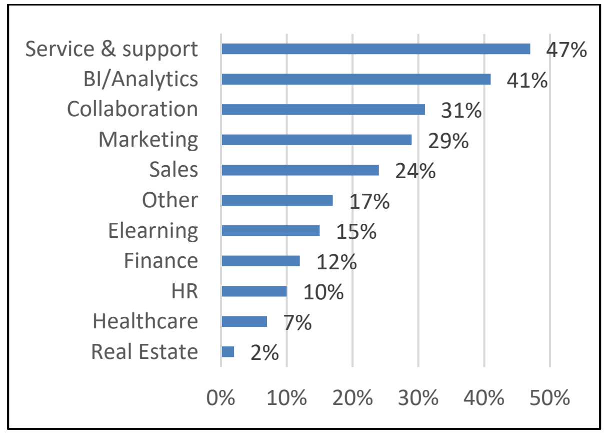
SOFTWARE SECTOR OUTPERFORMANCE AND GROWTH POTENTIAL

Enterprises continues to shift their business models from capital expenditure (CAPEX) to operational expenditure (OPEX), in order to reduce cost and gain efficiency. They have increased their IT budgets for cloud-based solutions to improve infrastructure flexibility and reduce computing and storage costs. The global enterprise cloud services market for Software as a Service (SaaS), valued at $17.3 billion in 2015, is expected to reach $50 billion by 2020, a compounded annual growth rate of 23%. The software ETF (SKYY), led by SaaS companies, has outperformed the broader market index (SPY) by 30% over the past two years, as shown below.



Source: Bloomberg

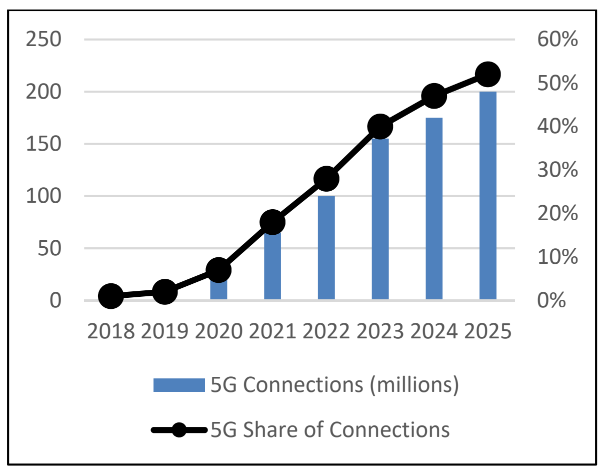
As more and more industries see the benefits of this technology, SaaS adoption appears robust with a long growth runway of underserved sectors, as shown in the chart at the right. Service and support, business intelligence, marketing, and sales are leading in this ever-growing trend.



Source: Akamai

5G ADOPTION READY TO DRIVE DIGITALIZATION

GSMA, a trade body that represents the interests of mobile network operators worldwide, expects the number of 5G connections in the U.S. to reach 191M, just less than half of total mobile connections, by 2025, as shown in the graph below.



Source: GSMA Intelligence

5G offers more than 10x improvement in smartphone download data speeds. It is expected to usher in a new wave of innovations in the automotive, manufacturing, healthcare and wearables sectors. The increased speed will enable faster, more reliable communication between connected devices, leading to accelerated growth in the implementation of smart infrastructure.

CASH FLOW IN PUBLIC MARKETS

We continue to look at the New Era Technology Income (NETI) and Growth (NETG) equities through a lens of the companies' abilities to generate cash and sustain that cash flow. We believe that one of the best measures of financial strength is free cash flow after all expenses have been paid. On this measure, our average NETI company that provides essential services or essential technologies produced a 3.7% free cash flow yield on enterprise value, which is estimated to grow at 33% this year. This is the equivalent of a bond with a 3.7% coupon that is doubling every two and a half years.

PRIVATE EQUITY UPDATE

We continue to look at the private equities in our portfolio through a lens of the companies' ability to impact social and environmental sustainability in profound ways and provide sustainable financial returns. We look at the innovative products that are simple, scalable across multiple sectors, with strong management team and a clear path to positive net cash flow in near term. Our focus is on agriculture, water, smart infrastructure, cloud computing, and transportation innovations.

Braidy Industries produced a 61% net return since our Q1 2018 initial Series A investment.

Aequion, formerly known as EMOH Company, produced a 156% net return for investors in our Q1 2018 Series A investment.

We have identified several promising private equity opportunities, which are under review. These include a company that is developing software that provides an immersive audio experience through directionality of sound origination by using AI and machine leaning. We are reviewing a smart infrastructure company that is developing a real-time traffic management system. We are also monitoring the development of a company with blood purifying technology.

Braidy Industries Update

Braidy Industries is a multi-material company that is targeting the auto, aerospace, tool and defense industries to fulfill the requirements for lighter and stronger materials through its two subsidiaries, Braidy Atlas and Veloxint.

Braidy Industries is now raising a $500M Series B round to increase its ownership of Braidy Atlas to 100%. The company has secured $200M in equity financing as part of a strategic partnership with aluminum supplier Rusal.

First revenues from Veloxint are expected in 2020. Braidy Atlas expects its first revenues in 2021.

Aequion Update

Aequion provides water solutions for agriculture, aquaculture, dairy and water cleanup. It uses proprietary technology involving magnetic fields to break down water clusters and infuse them with oxygen to deliver multiple water solutions to multiple sectors.

The company is testing its products for use in feeding dairy, livestock and chickens, which has the potential to open new markets for the company beyond water scarcity and air and water pollution.

CONCLUSION

We are in a time of radical transformation, which requires companies to adapt their business models to remain relevant. Amazon is leading the disruption of the retail sector; solar and wind power have disrupted the electric power generation and Uber is disrupting the taxi and automotive markets.

In Europe, the anti-EU and pro-Brexit parties are gaining strength threatening incumbent politicians and their policies. These geopolitical concerns suggest that market volatility will continue to be a significant factor moving forward. European and emerging market investors are expected to continue moving into the US stocks and bonds as a safeguard against these uncertainties.

Our focus remains on the essential technologies and services that will serve the planet for future generations and provides sustainable financial returns. We believe that these companies will provide the strong returns and stability investors seek in a dynamic financial environment. As we continue to parse the details of specific investments and match them to larger patterns identified in our macro work, we remain confident of a brighter future.