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To the Partners of Parliament Capital Management, LLC:

In the second half of 2017, a few stocks I've longed to own declined to what I considered a fair purchase price. Yes, I took full advantage and loaded up. And like a dummy, I reminded myself that dumping our stake in an exceptional business for a small, short-term profit is not an unusually good idea. We should all be about 20% wealthier right now. Rest assured, I'll make more errors, but, next time I find a best-in-class company at a reasonable price, I'll buy as much as we can, sit on my ass, and do nothing.

First Half Performance

PCM gained .003% on net assets while the S&P 500 added 1.67%. If it takes an extra decimal to denote our advance, you could say we failed to move the needle. I'll continue to function as a broken record: 6 months tells us nothing; it is entirely too brief a period to conclude we're better or worse off invested in Parliament Capital. My preferred time frame for conclusive judgment on our ability to outperform is any given 5 year window. Through the first 3.5 years in operation, we've outpaced our mark by a wide margin.

Chasing our benchmark 12 months at a time is a bit misleading when considering our long-term objectives. I give zero thought to producing a "smooth" rate of return. Our concentrated portfolio insists that we will have choppy short-term results. While most fund managers labor to show investors that they're winning month to month, quarter to quarter, or even year to year, I'm only focused on PCM's decade to decade results. Without your patient capital and understanding of our recipe, this long-term vision would not be possible.

I've organized Parliament Capital to function just as any other operating business should, focused on building an efficient operation to maximize the long-term intrinsic value per share. We just happen to produce income unconventionally, not through the sale of goods and services, but rather through the allocation of capital (investment). There are sure to be blips in time, such as now, that I report

to you a less than stellar rate of return. The productivity of our capital does not consider the calendar year.

Occasionally, the market price of our holdings will reflect zero progress, while much value is being built behind the scenes. For example, the price of our lone *private equity* investment hasn't budged this year, but the preparation to expand the business has been ongoing and persistent. It's only natural to cheer a quick advance in wealth, but an unusually spectacular year or two pales when compared to above average, lengthy, compounded results. Never get discouraged by a lackluster 6 or 12 month performance.

Asset Valuation Accounting Methods

Generally Accepted Accounting Principles (GAAP) are a common set of accounting standards and procedures that public companies must follow when they produce their financial statements. We don't comply with Generally Accepted Accounting Principles.

Private equities are valued at what I calculate to be a reasonable intrinsic value based on expected future cash flows, and then discounted using prevailing risk-free interest rates. On the contrary, GAAP demands privately-held positions to be marked at its original cost/investment to purchase the position. Many businesses when acquired sell for a price higher than book value. The purchase price in excess of book value lands on the new owner's balance sheet as *goodwill*, which is then expensed over a number of years as *amortization*, more or less suggesting that the *goodwill* acquired is sure to decline in value. While that may be true at times, some operations will improve the asset value of *goodwill*, most notably in the form of increased free cash flow. To force a decline in the value of an asset that has subsequently improved its cash production for its new owner is not commensurate with the underlying economic value of the business. I'm not suggesting our accounting methods are superior, but in my view, they depict something closer to reality.

PCM's *private equities* are valued at year-end. I make judgement based on historical performance and a conservative bet on future results. Momentarily, the marked value should not be of much importance as we focus on building our business and have no near-term desire to sell it. However, if the operation were to surprise in either direction, it could result in a significant mark up or down in the value of the asset. Further, though it's never our strategy, the option to sell is always on the table and could be executed at a price higher or lower than the most recently booked value. Because our *private equity* investment is currently a sizable position in our portfolio, I will include **Revenue** and **EBITDA** results indefinitely.

PCM PORTFOLIO

Private Equity

Grandview L.L.C (PCM 50% equity membership interest)

Grandview L.L.C. uses its current platform of resources to implement a strategy focused on the organic growth of **Grandview Tavern** and new investment opportunities. Grandview Tavern currently operates a full-service, casual upscale dining unit in Ft. Mitchell, KY. We've executed a LOI to lease space in Union, KY in preparation to design, construct, and operate a second unit.

Unit #1: Grandview Tavern & Grille, LLC (Ft. Mitchell, KY)

6 months ended June 30, 2018

Revenue	\$827,509
EBITDA	\$91,461

Not included in Grandview Tavern & Grille, LLC's operating results above are accounting & legal, marketing & advertising, and member compensation expenses recorded at the parent company level. These expenses are expected to average roughly \$25k annually and will decline substantially as a percentage of consolidated sales with the addition of new restaurants.

Unit #2: Grandview Tavern Union LLC (Union, KY)

6 months ended June 30, 2018

Not currently operating.

A conservative bet for annual per unit EBITDA would be to simply double the results above. However, it's worth mentioning, we implemented significant operational improvements in April, and have produced the bulk of those earnings since. I'd be shocked and disappointed if EBITDA is less than \$200k annually per unit as we look to the future.

Marketable Securities

We continue to build a sizable position in one stock that the professional investment community has almost certainly never entertained - it's where the fish are and the fisherman are not. I can't be sure of anything in this life, but I feel more certain regarding the long-term prospects of this business than any that I have studied. The company is a collection of a few disparate businesses earning high returns on tangible assets and they require very little capital to grow. The collection is expanding as

the mission is to make new acquisitions. The board has demonstrated integrity and designed a system to be focused on building long-term shareholder value. And the executive management team just so happens to be highly skilled in the arena of capital allocation.

In due time, I will disclose the position. In fact, I cannot wait to share with you what we own; however, sellers continue to offer shares at ridiculously undervalued prices and I do not want to disturb the opportunity. This is a long-term growth story selling in the open market for much less than it is intrinsically worth. We should root for the market price to go nowhere for the next several years so we can load up on as much of the company as we possibly can. I'm making a big bet this stock will be our darling for a long time to come.

Recent Developments & Miscellaneous

As mentioned, the work in expanding Grandview Tavern has been ongoing. Final lease negotiations are active and we hope to have that wrapped up soon. We expect to begin construction early 2019 and open for business roughly 3 months after construction begins. Of course, there are number of factors and risks that could alter these plans, but we are hopeful and confident things are moving in the right direction.

On the tax front, we are currently working with a realized gain and a profitable year in our private business, which would be passed through to you in the way of ordinary income. As always, I will use opportunities to limit our tax liability without sacrificing any potential after-tax return on our investment positions.

I'll have a letter out in November with tax guidance and/or any other administrative needs.

Please contact me at your convenience if I was unclear about anything.

Your Partner,



Timothy J. Grogan II