Peter Rabover
Portfolio Manager
Artko Capital LP

November 4, 2020

Dear Partner,

For the third calendar quarter of 2020, an average partnership interest in Artko Capital LP returned 22.0% net of fees. At the same time, investments in the most comparable market indexes—Russell 2000, Russell Microcap, and the S&P 500—were up 4.9%, 3.7%, and 8.9% respectively. For the first 9 months of calendar 2020, an average partnership interest in Artko Capital LP was down 32.4% net of fees, while investments in the aforementioned market indexes were down 8.7%, 7.9%, and up 5.6% respectively. Our detailed results and related footnotes are available in the table at the end of this letter. Our results this quarter came from a near tripling in Flotek as well as modest contributions from Gaia and HireQuest.

	3Q19	4Q19	1Q20	2Q20	3Q20	YTD	1 year	3 year	5 year	Inception 7/1/2015	Inception Annualized
Artko LP Net	7.9%	17.4%	-37.4%	-11.4%	22.0%	-32.4%	-20.6%	-2.5%	6.5%	36.5%	6.1%
Russell 2000 Index	-2.4%	9.9%	-30.6%	25.4%	4.9%	-8.7%	0.4%	1.8%	8.0%	29.5%	5.0%
Russell MicroCap Index	-5.5%	13.5%	-32.0%	30.5%	3.7%	-7.9%	4.4%	-0.1%	6.7%	19.3%	3.4%
S&P 500 Index	1.7%	9.1%	-19.6%	20.5%	8.9%	5.6%	15.2%	12.3%	14.2%	80.4%	11.9%

Turning A Cargo Ship and Inflection Points

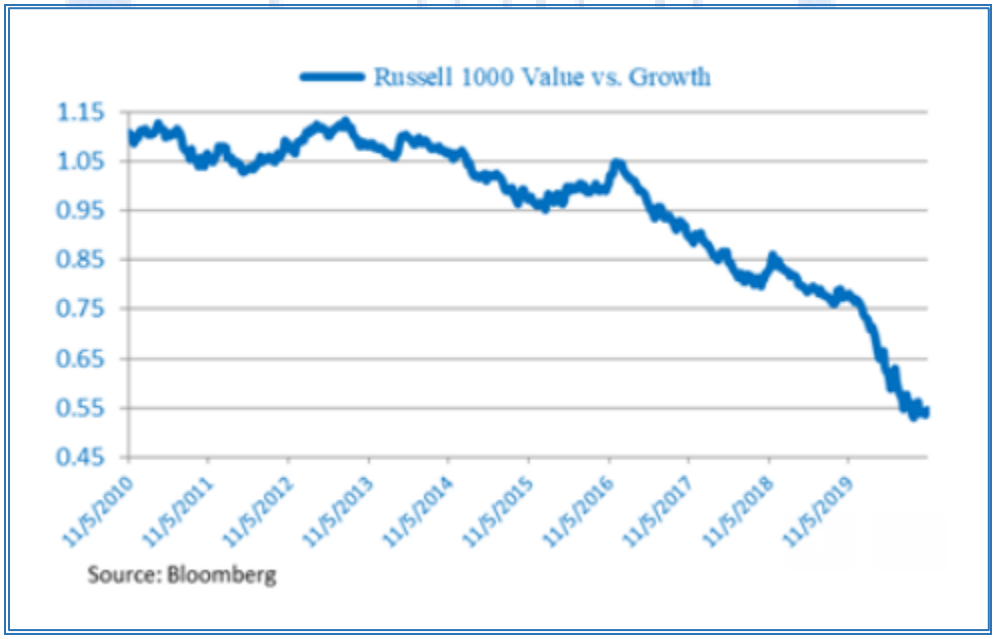
"A ship in port is safe, but that's not what ships are built for" – Grace Hopper

Steering a giant cargo ship through narrow straights can be somewhat daunting. For example, a 500 foot, 8000-ton ship needs over a third of a mile to turn around and even larger ships may need 5-10 miles to turn. Moreover, once such a ship commits to a turn, it will not waiver. While the metaphor may be somewhat cheesy, steering an illiquid concentrated microcap portfolio through the straights of 2020 has, at times, felt similar. This year featured a global pandemic, a market crash, a recession, a tech fueled market rally with all the signs of a bubble and one of the most divisive elections in recent history. Our portfolio and our process are oriented toward multi year outcomes and given their liquidity profiles are fairly "committed to the turn;" where, often times, wavering or staying in port is not an option. As we are in our sixth year of running this partnership, and in the third decade of investing in the markets, we are more and more focused on business models that can withstand and recover from economic and societal shocks and less so on short term price fluctuations, especially given our investment strategy where stock liquidity profiles create performance short term performance volatility that is uncorrelated with the underlying company performances. While we may be unable or unwilling to pivot with the flavor du jour of the market, that does not mean we cannot make marginal adjustments to adjust the course of the portfolio while staying committed to reaching our destination. Given the pandemic we have gotten rid of our holdings in Viad (VVI) and Sharps Compliance (SMED), though obviously for different reasons, and began to add positions in companies that have been unfairly punished by the pandemic related selling and have the greatest opportunities to participate in an eventual economic cycle expansion such as last quarter's addition in Currency Exchange International (CURN) and this quarter's additions in Northern Technologies (NTIC) and Potbelly Corporation (PBPB), in addition to our economically sensitive holdings in US Ecology warrants (ECOLW), Hire Quest (HQI) and Shyft Group (SHYF).

More importantly, despite the economic turmoil, three of our biggest holdings, Research Solutions (RSSS); Gaia (GAIA); and Acorn Energy (ACFN) reached profitability inflection points last quarter. While the market

likes to give credit for potential future profitability and growth to the larger sized and more followed companies, the smaller companies do not get the same benefit of the doubt until the inflection points are reached and appear to be sustainable. Given the high quality, market favored subscription/recurring revenue based business models of the aforementioned three companies and with the expectation that the majority of the future top line growth would fall to the bottom line we expect the market to bid up the companies to their substantially higher fair values from today's levels. Of course, nothing is ever easy as a straight line, and given the significant near-term uncertainty and volatility we are optimistic on coming out in a significantly stronger position once the dust settles. This year we have had our positions in Sharps Compliance (SMED) and Flotek (FTK) deliver substantial triple digit returns, showing the potential upsides we expect out of all our positions.

The biggest impediment to reaching our goals sooner is the continued underperformance, and likely the perception of continuing to underperform, of "value oriented" stocks. In the last decade, the Russell 1000 Value index has underperformed its Growth counterpart by over 50%, with the significant majority of that under performance coming in the last few years. That is a hard psychological set up to overcome for the marginal market participant, especially when momentum-based investing seems to have generated such "easy returns". Making up metrics such as Enterprise Value to Total Addressable Market (EV/TAM) and the flood of speculative Special Purpose Acquisition Vehicles (SPAC) whose only rational purpose is to enrich the sponsors at the expense of future shareholders are all signs of speculative excesses that were seen both in 2000 and 2008 which did not end well for the speculators in similar investments.



This is of course not meant to be an excuse but more of an acknowledgement of a particularly strong headwind that may continually impede our goals in the near term but one we expect to reverse in the long term with a return of even a modicum of rationality to the markets. As we have continued to see time and time again, despite these headwinds, our investments have continually shown the ability to return high double or triple digit returns and while the strategy of patience with modest adjustments may not seem like the most ideal in the current momentum chasing environment we are highly confident in the long term success of the strategy. Staying in port is not an option given the relative attractiveness of the microcap space and we have made the needed adjustments this year to position our portfolio to reap the benefits of future economic growth and our investment theses and are back on course going "full steam ahead"!

Core Portfolio Additions

- Northern Technologies International (NTIC) - We added a 6% position to a $75mm market cap chemicals maker at an average price of $8.50 throughout 2019 and 2020. NTIC's chemical technologies deliver leading corrosion inhibiting products and services, as well as advanced bioplastic packaging solutions. What attracted us to this story, and why we have been patient in adding to our position is the company's somewhat hidden balance sheet with approximately $55mm in cash and net working capital and a Joint Venture (JV) oriented, globally diversified and capital light business model. The company controls 19 JVs and 9 subsidiaries where the company receives 7% of the revenues and 50% of the dividend distributions from the sales of its Zerust corrosion protection product that is widely used in global logistics industry. The company has almost 30% global market share in the ~$500mm product and is widely respected in the industry with 50 years of serving its industrial customers. The Zerust product is fairly cyclical with 40% of its revenues tied to the automotive market and a small Oil & Gas segment and one we expect to grow significantly in most non recessionary economic scenarios within our multi year holding period.

  What impressed us more, however, was the management team, with close to 15% ownership, having launched the compostable bioplastics compounds NatureTec product line, used in sustainable packaging applications. This is a product line that did not exist less than 5 years ago and that now accounts for over 30% of the company's revenues, participating in a $1 billion market that is growing at high double digits. While this is not a smooth line earnings and cash flow growth story we are strong believer that the company has substantial tailwinds to make over $1.00 per share in earnings and cash flow in the next few years and to trade at 100%+ from today's price. We believe the market currently underappreciates both the balance sheet and the operating leverage inherent in the company's "franchise like" JV business model that will become apparent as the global economy eventually rebounds over the next 18 to 24 months. Ideally, we would like to make this a bigger position, though we have been patient over the last year or so, adding only at prices where we felt we had a balance sheet based margin of safety and will continue to do so.

Enhanced Portfolio Additions

- Potbelly Corporation (PBPB) - We added a 4% position to the Enhanced Portfolio in the stock of Potbelly Corp at an average price of $3.80. This $80mm market cap company, with a post rationalization, 350 locations of which 95%+ are owned, with one of the more recognizable and valuable restaurant brand names in the United States. Potbelly is certainly one of the "Covid Orphans" that were left out in the cold by changing nature of the work from home American eater with a pretty significant drop in same store sales and profitability in the first 6 months of the year. However, through adding dinner and pantry menu options, an obvious significant pick up in the delivery business, and a rebound in the economy the company should be back on track to at least company level break even by year end.

  What attracted us to this story however is a combination of what one might consider "strategic clues" about the future direction of the company. In the last year, the company has hired a number of top executives, including the former Chief Operating Officer of Wendy's as CEO and a former Global VP of Strategy at McDonalds as CFO. What those companies have in common with each other and not with Potbelly is that they are mostly franchise-based operations. One of our favorite themes over the last two decades has been a conversion of owned assets into a franchise business model, not unlike our current investment in HireQuest and past investment in Joint Chiropractic. Often times the market

misses the optionality of both, the cash inflows from the conversion as well as the high double-digit multiple rerating that franchise operators sport relative to their "ownership" based counterparts. An interesting case analysis of a similar situation was the Popeyes story ten years ago where even getting rid of a few "ownership" laggards immediately turned the company into a high Return on Invested Capital (ROIC) and Free Cash Flow generating machine. While we do not expect every single location to be sold off to future franchisees, Potbelly is considered a premium brand which can sport high six figure price tags per franchise. A conversion of even one of third of the restaurants would easily cover the entire market cap today.

On the other hand, a decently clean balance sheet, and ownership of said restaurants during a turnaround is more desirable than running a franchise as systemwide decisions can be implemented significantly faster. A spread of the business from a lunch time, people facing operation, to a delivery/pick up and all day based operation is more desirable and should result in significant labor cost efficiencies, and mitigating political minimum wage increased based risk. Ideally we would like to make this a bigger, possibly Core Portfolio type of position, as we see the upside in many multiples of today's price, regardless whether operations get franchised or continue to be owned, however until the strategic plan is more clear we are comfortable with the current position size and look forward to seeing what the new management team can do with the company.

Other Portfolio Updates

- Flotek (FTK) – Our biggest contributor to our performance this quarter has been our position in Flotek. While our original thesis last year was based on a market cap significantly below cash cheapness as well as optionality on recovery of oil services or liquidation, with the double whammy of the pandemic and a collapse of the oil markets the stock fell to below $0.70 or 40% of its liquidation value in March 2020. While March was a scary time to put money to work in most of our names, we felt confident with our margin of safety in Flotek and added heavily to our position to make it around 11% of the portfolio and lower our dollar cost average price to around $1.65.

  In the six months since, the company's CEO, John Gibson, has righted the ship by significantly cutting the fixed cost base and acquiring a petrochemical data services company JP3. Additionally, with the oil services chemical business remaining a shadow of its former self the company has been able to pivot its production facilities to making … hand sanitizer. With the excitement of the new, reputable CEO; a successful transaction and a small rebound in oil production in the 3rd quarter of 2020 the company's insiders have begun to purchase significant quantities of shares on the open market with the euphoria sending the shares to over $3.00 or 330% from the stocks' March lows and over 80% since our purchase a year ago. While we remain significant fans of Mr. Gibson, his direction as well as his compensation plan which mostly kicks in above $7.00 per share, having a 20%+ position in a single name oil services firm was significantly above our internal risk management threshold and we sold close to 2/3 of our position at an average price of $2.85 in the 3rd quarter and October 2020 booking a 70% realized profit and reducing the position to around 7% of the portfolio at the writing of this letter.

Partnership Updates

We welcomed one new partner to the partnership this quarter, bringing our total to 44 at the end of September. While we still have not made the decision, we are unlikely to have an in-person partnership event in 2021 and will either postpone to a later date or end up having a virtual one early next year.

Despite the current economic challenges we are excited about the continued growth in partners and assets under management and, as always, are thankful for your business.

Next Fund Opening

Our next partnership openings will be December 1, 2020. Please reach out for updated offering documents and presentations at info@artkocapital.com or 415.531.2699.

Appendix A: Performance Statistics Table

	Artko LP Gross	Artko LP Net	Russell 2000 Index	Russell MicroCap Index	S&P 500 Index
YTD	-32.0%	-32.4%	-8.7%	-7.9%	5.6%
1 Year	-27.2%	-29.8%	0.4%	4.4%	15.2%
3 Year	0.5%	-2.6%	1.8%	-0.1%	12.3%
5 Year	10.9%	6.5%	8.0%	6.7%	14.2%
Inception 7/1/2015	67.8%	36.5%	29.5%	19.4%	81.4%
Inception Annualized	10.4%	6.1%	5.0%	3.4%	12.0%
Monthly Average	1.1%	0.7%	0.6%	0.5%	1.0%
Monthly St Deviation	7.0%	6.6%	5.7%	6.1%	4.3%
Correlation w Net	-	1.00	0.74	0.70	0.70

Legal Disclosure

The Partnership's performance is based on operations during a period of general market growth and extraordinary market volatility during part of the period, and is not necessarily indicative of results the Partnership may achieve in the future. In addition, the results are based on the periods as a whole, but results for individual months or quarters within each period have been more favorable or less favorable than the average, as the case may be. The foregoing data have been prepared by the General Partner and have not been compiled, reviewed or audited by an independent accountant and non-year end results are subject to adjustment.

The results portrayed are for an investor since inception in the Partnership and the results reflect the reinvestment of dividends and other earnings and the deduction of costs, the management fees charged to the Partnership and a pro forma reduction of the General Partner's special profit allocation, if applicable. The General Partner believes that the comparison of Partnership performance to any single market index is inappropriate. The Partnership's portfolio may contain options and other derivative securities, fixed income investments, may include short sales of securities and margin trading and is not as diversified as the indices, shown. The Standard & Poor's 500 Index contains 500 industrial, transportation, utility and financial companies and is generally representative of the large capitalization US stock market. The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index and is generally representative of the small capitalization U.S. stock market. The Russell Microcap Index is comprised of the smallest 1,000 securities in the Russell 2000 Index plus the next 1,000 securities (traded on national exchanges). The Russell Microcap is generally representative of the microcap segment of the U.S. stock market. All of the indices are unmanaged, market weighted and reflect the reinvestment of dividends. Due to the differences among the Partnership's portfolio and the performance of the equity market indices shown above, however, the General Partner cautions potential investors that no such index is directly comparable to the investment strategy of the Partnership.

While the General Partner believes that to date the Partnership has been managed with an investment philosophy and methodology similar to that described in the Partnership's Offering Circular and to that which will be used to manage the Partnership in the future, future investments will be made under different economic conditions and in different securities. Further, the performance discussed herein does not reflect the General Partner's performance in all different economic cycles. It should not be assumed that investors will experience returns in the future, if any, comparable to those discussed above. The information given above is historic and should not be taken as any indication of future performance. It should not be assumed that recommendations made in the future will be profitable, or will equal, the performance of the securities discussed in this material. Upon request, the General Partner will provide to you a list of all the recommendations made by it within the past year.

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