

Dear Partners,

During Q2 2017, Class B investors of Rhizome Partners experienced a 2.8% net gain versus 3.1% for the S&P 500. Price gains associated with FRP Holdings and the West Coast Self-Storage Company attributed for roughly 3% and 1% gross gain respectively.

	S&P 500 ¹	Rhizome Partners Class B Net Return ²
April 10th thru Dec 31, 2013	18.2%	19.5%
Full Year 2014	13.7%	19.2%
Full Year 2015	1.4%	-5.8%
Full Year 2016	12.0%	11.5%
Q1 2017	6.1%	1.4%
Q2 2017	3.1%	2.8%
Cumulative Return Since Inception	66.8%	56.0%
Annualized Return Since Inception	12.9%	11.1%

1. S&P 500 returns include dividend reinvestments

2. Net return is net of operating expenses and incentive allocation for Class B. Individual partners may experience returns that are different than the Class B return.

3. Rhizome Partners Class B Net Return is accomplished while holding roughly 40% cash and cash-like instruments

Organizational Updates

My wife Jocelyn and I are excited to announce the newest addition to the Rhizome franchise - our son Kong Bin “Ethan” Chen 陈孔斌. The word Bin 斌 is the combination of the Chinese words 文 and 武 which stand for literary and martial respectively. The closest Western counterpart is the Rhodes Scholar who is chosen based on the merits of his/her athletic and scholarly accomplishments. I think Jocelyn picked an amazing name for our son to aspire. We look forward to molding Kong Bin into a well-rounded and kind-hearted young man in the future. While staying close to our roots, we also added Ethan as a middle name. Kong Bin has already surpassed his father in one area, market timing. After holding out for years, he announced his intention to join the Chen family within days of the Rhizome franchise dramatically increasing its assets under management in late 2016.

Jocelyn picked Kong Bin’s name partially because she noticed how sports in my high school years have molded my character. She has even attributed the mental resolve that I developed through athletics as an important reason for the success of Rhizome Partners. In the next few quarters, we will share a series of essays on team culture, talent acquisition, and strategy that draw inspirations from my athletic career. We hope that these essays will help current/future investors and prospective team members to better understand the Rhizome franchise.

Investment Updates

New Investments

With the help of our analyst and two summer interns, we have been actively researching new companies. So far, 2017 has been the most productive year since inception in terms of idea generation, research, and due diligence. This is slowly starting to manifest itself in new positions in our portfolio. However, we are mindful of the historical level that the market is currently trading at. Hence, we will be vigilante in allocating to ideas that exceed our high hurdle. We have allocated smaller positions to a handful of ideas that could potentially grow larger overtime. We are also populating our wish list with names that we would love to buy at lower prices.

West Coast Self-Storage

Overview – We built a 6% position in a West Coast Self-Storage Company trading at roughly 13x funds from operation (FFO) and an 8% cap rate. We believe we are invested in an undervalued, under-levered and growing self storage company with an owner-operator at the helm. In short, we paid \$100 per share for a collection of assets that is worth roughly \$150 and growing over time. We will also receive a 4% cash distribution per year and we may re-invest in the company if prices remain low. When we allocate capital, we like to stress test our investments by analyzing how the companies performed during the Great Recession of 2008/2009. Our self storage company's revenue and FFO decreased by less than 7% during that time period. Like many of our portfolio companies, there is minimal debt on the balance sheet.

Q2 2017 Updates – We recently created a presentation for the West Coast Self Storage Company. If you would like a copy, please e-mail bill@rhizomepartners.com. Since the company only provides detailed annual updates, we will provide updates on an annual basis going forward.

FRPH Holdings

Overview – FRP Holdings owns a collection of income producing real estate assets, royalty streams, and valuable land parcels. The land parcels provide an organic growth pathway in the next 5-10 years. We believe that we purchased the security at less than 60 cents on the dollar. Due to a low debt-to-capital ratio, we believe downside risks due to interest rate movements or error in our analysis will be dampened. We believe that management is conservative and shareholder-friendly. This is evidenced by our phone conversations as well as their historical capital allocation decisions. Prior to building our sizable position, we conducted a 3,000-mile road trip up and down the East Coast to visit buildings and sites of the company.

The company has publicly stated that their objective is to convert excess land into income-producing assets via internal build outs. In instances where they sell land parcels, they will use 1031 exchanges to swap into income-producing assets in order to defer taxes. We believe that the management team has the correct strategy in place to create shareholder value in the long run. Rhizome Partners has created an investment presentation detailing our analysis. If you would like a copy, please e-mail bill@rhizomepartners.com.

Q2 2017 Updates – We recently attended a real estate conference in Washington DC that featured the Navy Yard. We also took advantage of the opportunity to visit The Salt Line, the seafood restaurant at Dock79. It



was extremely busy on a Tuesday night and the waterfront views are phenomenal. The strategic waterfront location will likely enable Dock79 to charge premium rent and keep occupancy high. With our recent capital raise and some minor trimming, FRP Holdings is now a roughly 15% position in the fund.

Subsequent to the end of Q2, The Company reported drops in occupancy rates in their warehouse portfolio and drops in royalty income of the aggregate business. Management has indicated that this is temporary and the warehouse occupancy is already back to 90%. We expect aggregate royalty revenue to increase in the coming quarters. Per our previous prediction, The Company stated it will consolidate the Dock79 results in Q3 2017 as the asset is now stabilized. We believe that this will make it easier for the rest of market to value FRP Holdings as a company. The Company also confirmed our prediction that it will own roughly two-thirds of the equity in Dock79 upon adjusting for their JV Partner's promote. Regarding REIT conversion, management indicated that the cash portion of the distribution will be roughly \$24 million or \$2.40 per share if they elect to convert. We have been very impressed by the value creation in the last few years despite having a conservative balance sheet.

Macy's

Overview - Macy's owns and operates via long-term leases a large collection of anchor stores in Class A malls throughout the US. When added together, Macy's trophy buildings and their Class A mall real estate is roughly equal to Macy's entire enterprise value at our cost. We get Macy's retail operation and credit card processing business for free. Thus, Macy's is worth substantially more than our cost basis. We do acknowledge that Macy's retail business is challenging in the age of fast fashion and Amazon. But we believe that Terry Lundgren is one of the best department store CEOs and Macy's will continue to generate substantial free cash flow for the next 10 years. Macy's has been allocating its free cash flow towards dividend payments and share buybacks. The presence of Starboard Value and Greenlight will ensure that Macy's thoroughly considers its real estate options. We believe that Macy's will announce its strategic decision regarding its real estate portfolio during the first half of 2016. This may cause a significant re-rating of Macy's shares in the short term.

Q2 2017 – Per our commentary in the previous letter, we believe our original thesis is broken. In addition to last quarter's commentary, we have discovered that average asking rent in the Herald Square area in New York City has declined from \$890 to \$734 per square foot year over year. Most retail corridors in New York City have seen declines in average asking rents in the mid-single digits to low teens. In addition, I have noticed that Jocelyn and I concentrated our spending for our newborn baby on Amazon.com purchases. This motivated me to investigate the matter which led to some rather concerning revelations. It is well known that purchasing patterns are hard to change. Childbirth is one of the few times in one's life when purchasing habits are changed. We believe that childbirth is hastening the conversion of brick and mortar shoppers into Amazon.com shoppers. Given that our thesis is broken, our objective now is to trade out of our position the best that we can. Since inception, the impact of Macy's to Rhizome Partners is a roughly 1% gross loss. Our losses were partially mitigated by the dividends received and the use of put protection. We will no longer update Macy's going forward.



We will analyze what went wrong with Macy's and how we can avoid similar mistakes in the future. First, we underestimated the customer concentration risk of owning Macy's as a proxy for owning all the associated real estate. This is perhaps our biggest mistake. The single tenant concentration risk made it too risky for us to add to our position as the business deteriorated and share prices declined. In hindsight, an astute private real estate investor will be very reluctant to invest in a portfolio that is entirely leased to Macy's. In the future, we will generally view real estate owned as a supplement rather than the core of our thesis. We will avoid investing in operating companies as a proxy for owning the real estate except for extraordinary circumstances. These exceptions will include robust operating fundamentals concurrent with publicly announced plans to unlock real estate value. The other exception will involve companies that can be quickly liquidated for its real estate value and still return proceeds that far exceeds our purchase price.

Second, we underestimated the structural deterioration of the department store business. Macy's has the wrong retail offering and was losing customers to both the brick and mortar competitors such as TJ Maxx and fast fashion and to online retailers like Amazon.com. This is compounded by Macy's size as it is incredibly difficult to change Macy's strategy due to their immense retail square footage. To avoid this mistake in the future, we have become more focused on investing in higher quality companies with shareholder friendly management teams rather than lower quality companies trading at cheaper multiples. Third, we overestimated Macy's ability and willingness to monetize real estate assets. While we think that Macy's still owns some incredible assets, it will take a very long time to monetize them. In the future, we will carefully assess whether our target company is willing and able to monetize assets. We will also prefer turnaround/restructuring situations that resemble tugboats rather than tankers.

TerraForm Power

Overview – TerraForm Power (TERP) is a renewable energy yieldco that is similar in structure to REITs and MLPs in that it is meant for investors who seek growing distributions over time. SunEdison is the sponsor of TERP and its bankruptcy filing has forced TERP to suspend its dividend and delayed the filing of its financials as SunEdison and TERP both share the same financial reporting system. We believe that TERP sold off because 1) the natural shareholder base of TERP demands consistent and growing distributions and 2) the market was afraid that the SunEdison bankruptcy will drag TERP into a messy restructuring.

Q2 2017 updates – Terraform Power filed its 2016 10-K on July 21st. The Brookfield restructuring should occur by year end. The wind and solar assets generated \$515mm of EBITDA and \$170mm of CAFD in 2016. We believe that we are six months away from Terraform Power fully catching up with its SEC filings. The Company should start paying a small initial dividend in early 2018. Share prices have responded favorably after the quarter which is not reflected in this quarter's results.

Please feel free to contact me anytime, by phone at (347) 688-8056 or by email at bill@rhizomepartners.com.

Regards,

Chong Tong "Bill" Chen

Important Disclosures

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The Fund commenced operations in April 2013 and has limited performance history. All performance of the Fund shown is from inception, net of applicable fees and expenses, presumes reinvestment of income and reflects the performance of the Class B Interests with a 1% Management Fee and a 15% Performance Allocation. The performance of Class A, which is also currently being offered and charges a 2% Management Fee and a 20% Performance Allocation, is not shown but is available upon request. Past performance is not indicative of future results. No representation is made that the Fund will or is likely to achieve its objectives, that the Investment Manager’s investment process or risk management will be successful, or that any investor will make any profit or will not sustain losses.

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Targeted returns are used for measurement or comparison purposes and only as a guideline for prospective investors to evaluate the Fund’s investment strategy and performance. Target returns shown reflect the Investment Manager’s subjective view based on a variety of factors including, among others, investment strategy and prior performance of products pursuing similar strategies and market conditions. Targeted returns should be evaluated over the time period indicated and not over shorter periods.

Any statements regarding market events, future events or other similar statements constitute only subjective views, are based upon expectations or beliefs, should not be relied on, are subject to change due to a variety of factors, including fluctuating market conditions, and involve inherent risks and uncertainties, both general and specific, many of which cannot be predicted or quantified and are beyond the Fund’s or the Investment Manager’s control. Future evidence and actual results could differ materially from those set forth in, contemplated by, or underlying these statements. In light of these risks and uncertainties, there can be no assurance that these statements are now or will prove to be accurate or complete in any way. The Investment Manager undertakes no responsibility or obligation to revise or update such statements.

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