IRON BAY CAPITAL

Iron Bay Fund, LP

Robert Bolton, Portfolio Manager

February 2020

MONTHLY PERFORMANCE, ***NET OF FEES***

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	(7.28)	(8.74)	--	--	--	--	--	--	--	--	--	--	**(15.39)**
2019	8.16	4.01	(5.55)	3.79	(4.79)	4.89	2.52	(6.57)	5.10	2.97	4.57	3.10	**23.09**
2018	1.13	(1.62)	1.28	.22	3.73	(.22)	(1.36)	.61	(3.10)	(10.40)	1.26	(14.87)	**(22.36)**
2017	1.64	2.13	(.06)	.20	(2.50)	3.19	(.14)	(1.09)	6.06	.65	2.82	(1.88)	**11.26**
2016	(7.38)	(3.72)	4.99	4.91	1.37	(1.60)	3.82	3.93	(.19)	(.09)	12.18	7.51	**27.14**
2015	(6.42)	4.57	6.43	(.79)	.27	3.23	2.19	1.66	1.61	3.54	4.42	.39	**22.54**
2014	(.43)	1.34	1.31	(3.39)	.85	1.52	(3.59)	1.08	(2.75)	8.94	(.52)	5.22	**9.27**
2013	4.58	.74	1.62	(1.65)	1.62	2.45	5.99	(2.10)	2.30	1.38	4.20	1.12	**24.30**
2012	2.42	.57	3.09	(1.01)	(2.59)	2.59	.06	1.98	3.12	.37	(.91)	2.49	**12.67**
2011	--	--	--	--	--	--	--	--	(.64)	3.05	.91	1.66	**5.04**

OVERVIEW:

In February, the COVID-19 virus, also known as coronavirus, took over the headlines and became the main focus for investors. Fear and confusion over the near- and long-term effects of the virus on global economic growth, caused a dramatic shift from risk and into safety, predominantly U.S. Treasuries. By the end of the month, both 10-year and 30-year yields stood at all-time lows. No asset classes were spared in the downturn and falling yields were of greater consequence to the banking sector.

The Markets:

Gains earlier in the month, fueled by better than expected fourth quarter earnings and solid economic data, were quickly overshadowed by fears of a global economic slowdown due to the coronavirus and the inability to forecast the capability of countries to get a handle on containment. The markets suffered the fastest entry into correction territory witnessed in the past 70 years. Machine driven/program trading has added an additional layer of downward pressure to an already stressed market. There is currently a proliferation of the virus in the U.S. and many are challenged with how to interpret everything from supply-chain disruptions, to how the overall trickle-down will impact the domestic economy.

The Economy:

As stated, risk aversion hit all asset classes and sectors of the major indices. Oil prices fell over 12%, bringing the year to date decline to over -25%. Global oil prices below $50 a barrel, sends deflationary signals to the economy; deflation is a greater concern to market onlookers than inflation. Many are now viewing investment prospects on a “wait and see” basis. Hospitality, aviation, travel, retail, manufacturing; all sectors- are currently on hold. This has been a broad-based sell-off, versus a sector rotation. As of the writing of this letter, backward looking data suggests that we have a U.S. economy that still exhibits signs of strength with a strong housing market and better than anticipated jobs data.

(continued)

The Fed:
The situation remains fluid and as we write, the Fed announced an off-calendar rate cut of 50 bps. The decision was met with a great amount of surprise and consternation and at present only served to further "spook" the market. We feel the Fed attempted to get ahead of what potentially could be a longer-term effect on what was potentially a slowing economy. It is expected the Fed will continue to be accommodative, which could result in further rate cuts until we have more clarity around the extent of disruption created from the spread of the virus and falling oil prices.

Banks:
At a time when we felt bank net interest margins were finally stabilizing, we now recognize the current rate environment will continue to keep margins under pressure. However, banks have many levers to generate revenue and while the market has painted a dooms day scenario, we have to sift through the noise and acknowledge banks have come a long way from the financial crisis. Loan spreads are still positive, and quality of loans is high. To date, other than one-off instances, no overall credit issues have surfaced. We expect loan origination and refinancing to accelerate which will create another avenue for fee income.

Wealth management and investment banking can and will contribute to a greater extent as an alternative source of income. Most importantly, banks are entering this period with fortress balance sheets that are stress tested annually to ensure functionality in the most adverse conditions. They are well capitalized and can strategically use capital to increase repurchasing activity and increase dividends, which in general offer favorable yields when compared to U.S. treasuries. Last but not least, valuations are very low and do not take into account how strong this sector has become. Barring an unexpected credit disruption, we feel the severity of the downdraft is unwarranted.

M&A:
Pacific Premier Bancorp (PPBI, a fund holding) entered into an agreement to acquire Opus Bank (OPB, also a fund holding) for $974 million in stock. Under the terms of the deal, OPB shareholders will receive .9 shares of PPBI. The deal was priced at 1.38x tangible book value and 8.7x 2021 EPS. The deal builds scale in California and offers an opportunity to do more in the Pacific NW down the line.

Conclusion:
We need to emphasize that "Black Swan" events have historically responded with sizable market recoveries and corrections. It is during times like these, that we need to remain calm, and not paint every investment with the same broad brush. We are aware that in the chaos we will find opportunities and acknowledge some of the weaker financial companies could be at risk. Our portfolio is positioned defensively, and we are actively responding to changing dynamics as it relates to protecting the portfolio.

We have experienced tough market conditions before. We believe the preparation and testing that has been the norm throughout the years following the financial crisis, has given us more confidence in the banking sector in all types of environments. If you would like to arrange a call to further discuss our outlook, please contact us.

Iron Bay Fund, LP

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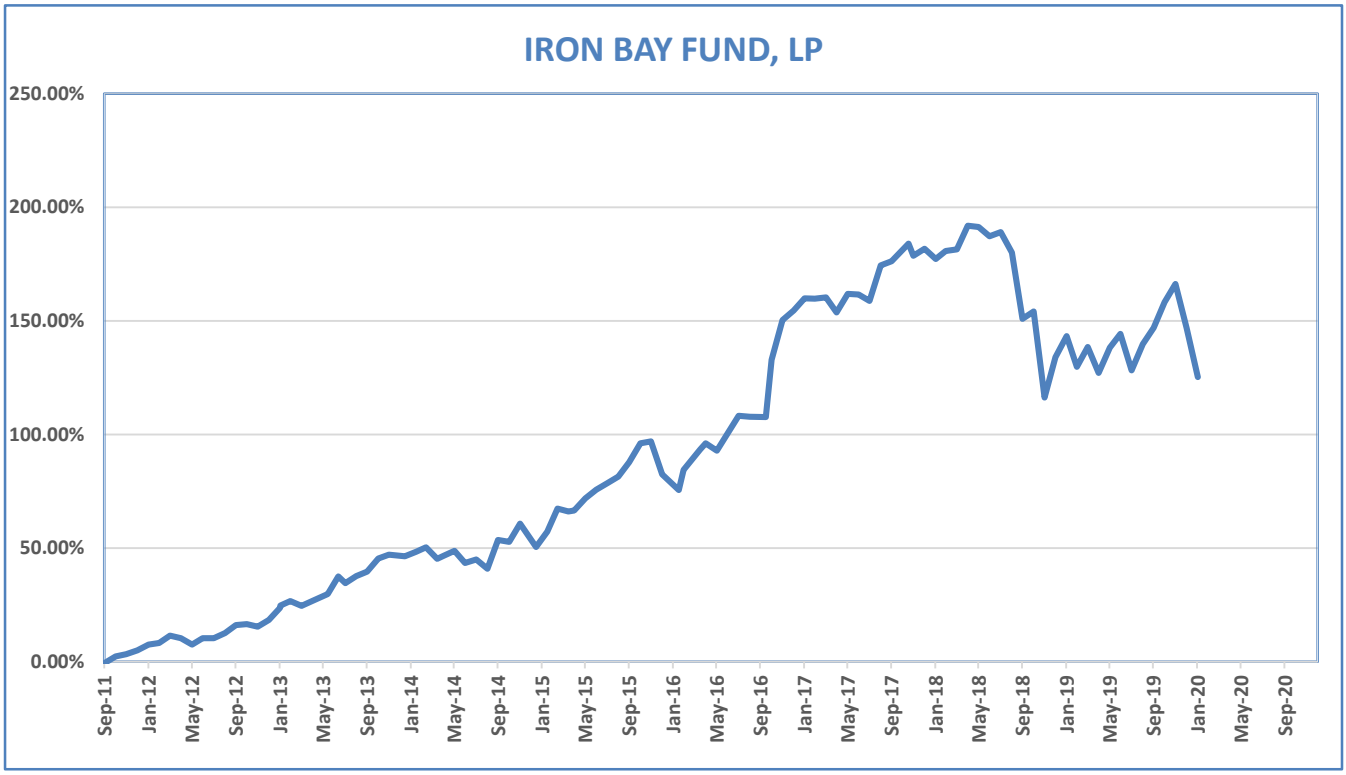
GRAPH:



RETURN DATA:

Total Return Since Inception	125.23%
Annualized Return from Inception	10.02%
Average Monthly Return	.88%
Std. Deviation of Monthly Return	3.96%
Sharpe Ratio Since Inception	.68
Beta Since Inception vs. S&P 500	.62

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RETURN DATA:

	IRON BAY FUND, LP	NASDAQ BANK INDEX	RUSSELL 2000
February 2020	(8.74%)	(11.15%)	(8.53%)
YTD	(15.38%)	(16.66%)	(11.51%)
Last 12M	(7.42%)	(13.93%)	(6.29%)
Last 3Y (Annualized)	(4.66%)	(5.21%)	2.11%
Last 5Y (Annualized)	7.44%	4.82%	3.66%
Inception (Annualized)	10.02%	9.42%	8.71%

SERVICE PROVIDERS & INVESTMENT TERMS	
Fund Manager	Robert Bolton
Management Fee	1.75%
Performance Fee	20%
Lock Up	None
Redemptions	Quarterly with 60 Days Notice
Administrator	Virtus Partners
Auditor	KPMG
Prime / Custodian	TD Securities
Legal	Woods Oviatt Gilman, LLP

**All reported Iron Bay Fund, LP returns are NET OF FEES.*

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Partnership Overview: Iron Bay Fund, LP is a limited partnership that focuses on investing in the securities of US domiciled, publicly traded financial services companies, particularly community banks. The Partnership has the ability to sell short securities and may utilize moderate leverage in an effort to enhance returns. Iron Bay Fund, LP seeks to invest in companies that have attractive valuations based on fundamentals, merger and acquisition opportunities, increasing dividend payouts and above average capital deployment opportunities. Investments are selected using in-depth fundamental research, supported by robust trading discipline and risk management techniques.