

Dear Fellow Partners:

The Summers Value Fund LP (“the Fund”) increased by 1.8% net<sup>1</sup> during the first half of 2020, outpacing the Russell 2000 Index return of -13.6% and the Russell Microcap Index return of -12.3%. In June, the Fund returned -2.9% net<sup>1</sup> relative to the Russell 2000 Index return of 3.4% and the Russell Microcap Index return of 5.5%. The Fund has generated a cumulative return of 10.3% net<sup>1</sup> since inception compared with the Russell 2000 Index return of -12.5% and the Russell Microcap Index return of -17.0% over the same period.

### **2Q20 Market Commentary**

The equity markets rebounded sharply in the second quarter as fears of an economic collapse from the coronavirus (COVID-19) pandemic subsided. The Federal Reserve’s unprecedented stimulus program along with COVID-19 scientific advancements gave investors’ confidence to buy stocks again. After outperforming markedly in the first quarter, our portfolio lagged the broader market during the recovery phase. Since inception, the Fund has consistently performed better in down markets than in up markets due to our value orientation and exposure to the defensively-positioned health care sector.

The small-cap indexes remain well below their highs with many stocks continuing to screen attractively on key valuation metrics. The Russell Microcap Index, for example, ended the second quarter trading at a 22% discount to the highs reached in 2018. Over the past five years, the index has generated a 2.8% total annual return. The Russell 2000 Index also trades at a meaningful discount to the highs reached in August of 2018, and its total return over the past five years is only 4.3% per year. The picture is bleaker for the Russell 2000 Value Index, which has only produced a total return of 1.2% per year over the past five years. If you compare these figures to the NASDAQ 100 Index, which has returned almost 20% per year for the past five years, it becomes clear that small-cap stocks are out of favor particularly in the value segment. Bottom line: the longer that small-cap stocks underperform, the more excited we become about the prospects for future returns.

### **2Q20 Portfolio Commentary**

We made money on the long side of the portfolio during the quarter but trailed the performance of the broader market. Our shorting activities proved unprofitable in the quarter, although our overall exposure was low. The biggest contributor in the quarter was Electromed (ELMD), which is the Fund’s largest position. As a respiratory product company, Electromed – recently added to the Russell 3000 Index – should be a beneficiary of COVID-19 over the long term. We remain bullish on Electromed shares given the profitable growth opportunity that exists for the company. The biggest detractor during the quarter was Assertio Holdings (ASRT), the Fund’s newest position. We began buying shares of Assertio in early June. We believe that Assertio is a misunderstood small-cap pharmaceutical company. After a series of transactions, the company has de-levered to the point of being net debt neutral with the expectation of achieving solid profitability and positive cash flow going forward. We believe the stock is meaningfully undervalued relative to industry peers trading at .75x enterprise value to sales and is poised to appreciate as the company’s new CEO delivers on expectations. Our price target is above \$2 per share.

We exited our position in Intersect ENT (XENT), a position we established in late March during the pandemic sell-off. We bought the stock at advantageous prices below \$7.50 per share and sold it for a

gain in the low-teens as the stock approached our price target. Intersect came to our attention several years ago when we were speaking to ENT (ear/nose/throat) physicians while researching our Optinose (OPTN) short position. While we were confident that Intersect's nasal stent technology was valuable, we could not justify buying the stock at that time based on its valuation. After the close of the quarter, Bloomberg reported that Medtronic (MDT) had made a bid for the company at \$18 per share. We were not surprised by Medtronic's strategic interest, but we are disappointed that we did not hold on for the announcement. We continue to hold our position in Envista (NVST), a position that we also established in late March with a cost basis of \$11.20. Envista is a dental products company that was spun out of Danaher in 2019. Our thesis on Envista is that dental volumes will revert back to their long-term mean over the next 12-18 months and the stock will appreciate to the low \$30s as a result.

We have found shorting to be difficult this year, and our exposure has been low as a result. We have not identified any trends or many individual stocks worth betting on. Year-to-date, we have shorted six stocks and have made money on three of them. However, we have lost money shorting this year in the aggregate after making money in 2018 and 2019. We are currently short one stock, and our plan is to patiently wait for better shorting opportunities to present themselves before getting more aggressive.

### **Position Updates**

*Emisphere Technologies (EMIS)*: We began purchasing shares of Emisphere in February 2019, and the Fund currently carries a loss in the position. We highlighted Emisphere as a key holding in our last quarterly update, and we believe our thesis has only strengthened since then. While the launch of Rybelsus (oral semaglutide), which can be used to control blood sugar in Type 2 diabetes patients, was temporarily curtailed due to the COVID-19 pandemic, it has more recently resumed an impressive uptrend. In the most recent week of data, total prescriptions approached the 10,000 mark, which equates to over \$250 million in annualized sales. As a reminder, Emisphere receives a 2.5% royalty on Rybelsus sales globally. We believe the growth of Rybelsus is in its infancy and that the drug will ultimately achieve global sales of \$10 billion or more.

Emisphere's commercial partner, Novo Nordisk, made two positive clinical trial announcements during the second quarter on Ozempic (injectable semaglutide). Novo first announced positive phase 2 data with Ozempic in NASH or fatty liver disease. In the 72-week trial, patients on the high dose showed 59% NASH resolution versus 17% in the control arm. The drug will be studied further in a large-scale phase 3 trial, but it looks to be a serious competitor for this metabolic disorder. Novo also announced positive results from a series of phase 3 trials of Ozempic in obesity (STEP 1-4). The STEP 4 trial was a real-world clinical trial with all patients starting on Ozempic and only a portion remaining on the drug for the entirety of the trial. The patients who stayed on the drug for all 68 weeks achieved weight loss of 18.2%. Those patients who dropped off the drug at week 48 regained 6.9% of their body weight. Based on the strength of the STEP trials, we believe that semaglutide is one of the best weight loss drugs in the world. Novo expects to file for an obesity indication later in 2020 and should receive approval next year. As an oral version of semaglutide, we expect Rybelsus to generate a lot of patient use before moving to the injectable version.

Rybelsus received Japanese regulatory approval in May, and Novo Nordisk will be launching the drug in that market with a partner during the third quarter. Japan has roughly 10 million diabetic patients and they overwhelmingly prefer oral therapies, which would appear to favor Rybelsus as the only oral option

in the GLP-1 class. Sales of diabetes drugs in Japan grew 5% in 2019 to over \$5 billion while sales of GLP-1 drugs increased by 20%. The Japanese approval follows on the heels of regulatory approvals in the U.S., Europe and Canada.

*Biospecifics Technologies (BSTC):* Biospecifics has been held in the Fund since inception. During the quarter, the company named Joe Truitt as its new CEO. Mr. Truitt was formerly the CEO of Achillion, which was sold to Alexion (ALXN) for \$1.2 billion in early 2020. We spoke to Mr. Truitt after the announcement and feel strongly that the company made the right decision by naming him as CEO. Mr. Truitt will be focused on expanding the intellectual property portfolio around Xiaflex, which should lead to a longer period of patent life and economic life for the company. He is also working to identify complementary assets to expand the company's pipeline.

In a separate piece of positive news, the company's marketing partner, Endo Pharmaceuticals (ENDP), received FDA approval for Xiaflex to treat cellulite in early July. Endo expects to launch Xiaflex into this new cash-pay indication in early 2021. The launch was delayed by several months due to the COVID-19 pandemic. We continue to be bullish on the commercial opportunity for Xiaflex as the only approved pharmacologic approach to treating cellulite. We highlighted the investment case for the cellulite indication at the Value x Vail conference last year and the presentation can be found [here](#).

### **The Last Dance**

I wrote in a past letter about my passion for the game of basketball, which I still play regularly to this day. Growing up, I idolized Michael Jordan (MJ) and watched as he transformed the game of basketball on his way to winning six NBA championships. In April, ESPN aired a documentary called "The Last Dance," which profiled MJ's illustrious career. The Last Dance highlighted the challenges and failures that defined MJ's early years along with the accomplishments that led to his enshrinement in the Naismith Memorial Basketball Hall of Fame. The ten-episode series became the most-watched documentary ever for the network in a time when it was starved for content. On a personal level, the documentary was a trip down memory lane and a reminder that MJ's game was truly transcendent. His competitiveness was legendary and was on full display in the documentary. Simply put, MJ hated to lose and accepted nothing less than 100% preparation and effort from his teammates and from himself. MJ's success came at a cost, but it was a price that he was very willing to pay.

In 2010, I was presented with the opportunity to attend MJ's adult basketball camp in Las Vegas called the "Senior Flight School." I didn't know it at the time, but 2010 was the last year that the camp was to be held as MJ had become the majority owner of the Charlotte Hornets basketball team in March of that year. Spending three days with the best coaches that the NBA and the college ranks had to offer was thrilling. The main event, of course, was the opportunity to interact with MJ himself. One lucky camper was given the chance to play one on one with him in front of all the other campers and coaches. I was happy to NOT be chosen as the lucky camper as MJ's talent, skill and competitiveness became evident as soon as he stepped onto the court. The poor camper didn't have a chance. Even against a middle-aged man yearning for basketball glory, Michael was ruthless and unwilling to cede points much less the game. MJ made quick work of the over-matched camper, but for me, watching him up close was exhilarating. The basketball camp turned out to be one of the best experiences of my life.

*“Be true to the game because the game will be true to you. If you try to shortcut the game, then the game will try to shortcut you. If you put forth the effort, good things will be bestowed upon you. That is truly about the game, and in some ways that is about life too.” – Michael Jordan*

Valuable lessons can be derived from Michael’s basketball career and many of them can be applied to the investing world. For starters, MJ was relentless in his preparation and practice. To achieve investing success, hours upon hours of preparation are required to build knowledge at the company and sector level. Investors should never stop learning, improving or being curious about the world. Like the NBA, the investing business is highly competitive and demanding. There are many smart investors in the world who are trying to get an edge and generate attractive returns for their clients. It is important to stay focused and engaged with an eye on the long term. Michael Jordan exhibited mental toughness throughout his career such as when he persevered following three consecutive conference finals losses to the Detroit Pistons in 1988, 1989 and 1990. Similarly, persistence is a trait that is required in the investing business to get through the hard times, which every investor will inevitably encounter. It is also important to stay calm during periods of market stress and to act decisively when opportunities are presented by the market. MJ never shied away from playing the game that fit his talents to drive his success. In the investing business, daring to be different and sticking with your convictions requires extreme self-confidence and a willingness to be wrong. Developing a circle of competence and staying within it can be a key driver of long-term performance.

### **In Closing**

The Fund celebrated its two-year anniversary in June, and we are incredibly grateful for the limited partners who have joined us on this journey. Our goal from the very beginning has been to help our clients achieve their long-term financial goals, and we remain steadfastly committed to this ideal. My family remains the largest investor in the partnership, and we are humbled to be invested alongside you.

We see many attractive opportunities for capital deployment across the small and micro-cap healthcare universe – almost entirely on the long side. The number of off-the-beaten-path stocks that meet our valuation hurdles has grown markedly since the pandemic started. The strategy continues to have ample capacity, and we seek like-minded individuals to join the partnership. Interested parties can reach out to me directly at [andy@summersvalue.com](mailto:andy@summersvalue.com).

Please stay healthy and safe.

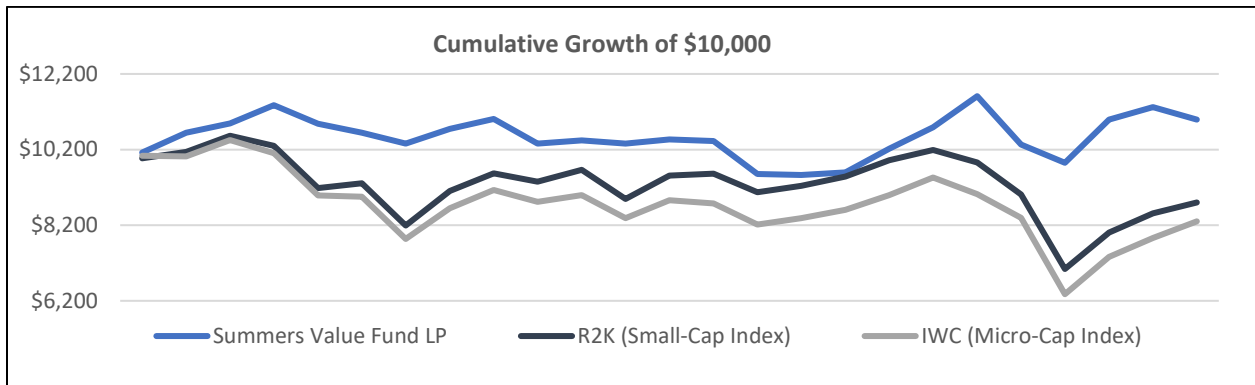
Sincerely,



Andrew Summers, CFA  
Managing Partner

MONTHLY FUND PERFORMANCE*													ANNUAL		
YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND	IWM	IWC
2018						1.2%	5.2%	2.3%	4.4%	-4.3%	-2.2%	-2.7%	3.5%	-18.2%	-21.6%
2019	3.8%	2.4%	-5.9%	0.8%	-0.8%	1.1%	-0.4%	-8.4%	-0.3%	0.7%	6.5%	5.6%	4.6%	23.7%	20.7%
2020	7.6%	-11.0%	-4.7%	11.6%	3.0%	-2.9%							1.8%	-13.6%	-12.3%
* since June 4, 2018											CUMULATIVE	10.3%	-12.5%	-17.0%	
											ANNUALIZED	4.6%	-6.2%	-8.6%	
PORTFOLIO CHARACTERISTICS															
# Longs:	11	Long Exposure:	97.2%	Gross Exposure:	99.6%	US Exposure:	87.3%	Largest Long:	34.1%	Top 3:	59.9%				
# Shorts:	1	Short Exposure:	2.4%	Net Exposure:	94.9%	Intl Exposure:	12.2%	Largest Short:	2.4%	Top 5:	78.1%				

Trailing Period Returns	Summers Value Fund <sup>1</sup>	Russell 2000 Index	Russell Micro-Cap Index
3 Months	11.6%	25.0%	30.2%
6 Months	1.9%	-13.6%	-12.3%
12 Months	5.0%	-8.0%	-6.4%
Since Inception <sup>2</sup>	10.3%	-12.5%	-17.0%



<sup>1</sup>Summers Value Fund LP net return is the unaudited, net return, based on a hypothetical investor who invested at fund inception and pays a management fee and incentive allocation applicable to Class B Interests (1.25% management fee; 20% incentive fee above a 6% annual cumulative hurdle rate). Net return is not necessarily indicative of any single investor's performance. An investor's return may vary from the results shown based on different fee structures and fund-level expenses. The performance information given is historic and should not be considered as an indication of future performance. Performance reflects the reinvestment of dividends and income.

**Definitions:**

**Indexes:** The performance of market indexes is being provided for the purpose of making general market data available as a point of reference only. These indexes are widely recognized by investors, followed by the investment industry and readily available to the investing public. The indexes do not reflect fees and expenses associated with the active management of portfolios. Furthermore, it should be noted that investors may not be able to invest directly in the indexes. The performance returns of the indexes were obtained from recognized statistical sources and include the reinvestment of earnings. Although Summers Value Partners LLC believes these sources to be reliable, it is not responsible for errors or omissions from these sources.

**Russell 2000 Index:** An index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small-cap stocks in the United States.

**Russell Micro-Cap Index:** An index measuring the performance of 1393 small-cap and micro-cap stocks that captures the smallest 1000 companies in the Russell 2000 plus 393 smaller U.S. – based listed stocks. The broad index represents the smallest tradable securities that still meet exchange listing requirements, so OTC stocks and pink sheet securities are excluded.

**Enterprise Value (EV): Market Capitalization – Cash + Debt = EV**

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The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security.

Prior to investing, investors should carefully review the offering memorandum and related documents, including the risks described therein associated with investing in the Fund. Potential investors are also encouraged to ask questions to Summers Value Partners LLC to ensure they understand many of the risks associated with investing. Additional information can be available upon request.