	2016 Return (Gross)	8 Year Annualized (Gross)	Value of $10M (Gross)	Correlation to the S&P 500	2016 Return (Net)	8 Year Annualized (Net)	Value of $10M (Net)
Prime Long Only Unlevered (100% Long)	8.60%	34.67%	$108.2M	0.53	7.83%	28.53%	$74.5M
Benchmark: **S&P 500 Total Return, w/ Dividends**	11.96%	15.31%	$31.3M	1.00	11.96%	15.31%	$31.3M
Prime Traditional Long/Short (125% Long, 60% Short)	0.16%	29.92%	$81.2M	.15	-0.91%	24.01%	$55.9M
Benchmark: **HFRX Equity Hedge Index**	n/a	n/a	n/a	0.81	0.10%	1.76%	$11.5M
Prime Ultra Hedged Unlevered (100% Long, 90% Short)	-6.43%	21.12%	$46.3M	-0.04	-6.80%	16.57%	$34.1M
Prime Ultra Hedged 50% Cash (50% Long, 40% Short)	-2.02%	13.97%	$28.5M	0.10	-2.02%	11.59%	$24.1M
Benchmark: **HFRX Market Neutral Index**	n/a	n/a	n/a	0.17	-5.08%	-0.62%	$9.50M

Figures as of December 31, 2016

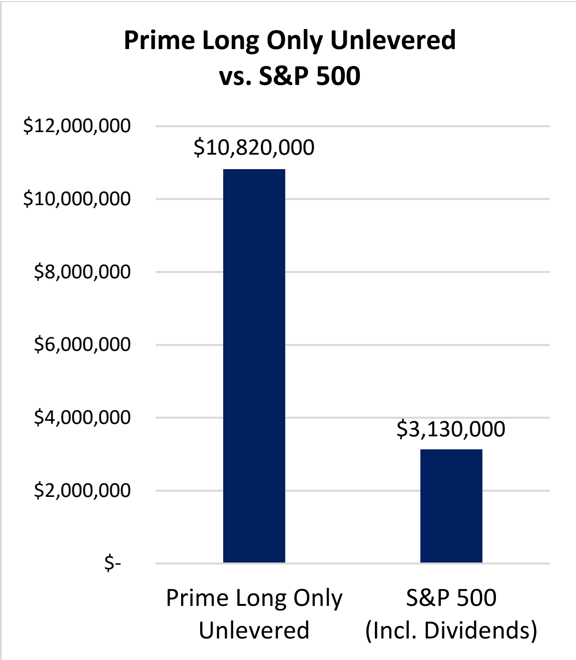
Dear Friends and Investors,

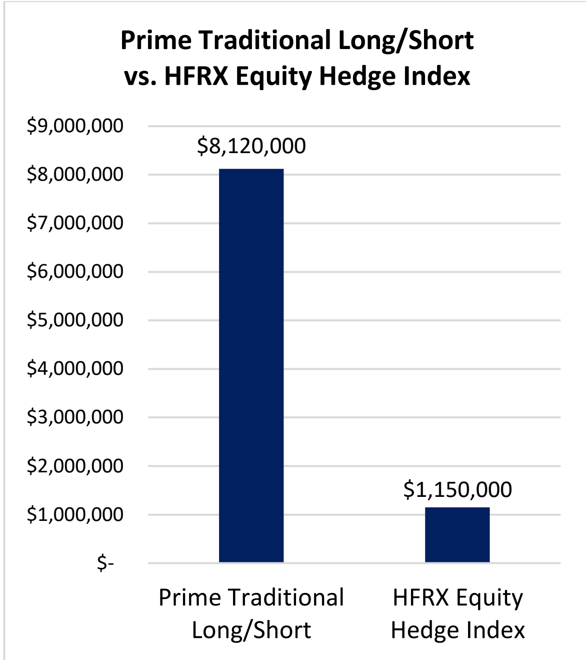
The first thing you will undoubtedly notice about this year's annual report is that it is considerably slimmer than last year's. For the past few years, I have tried to give you a taste of our "granular"-level thinking by digging down, in often-painstaking detail, into some of our key investments. That's because I felt that in order for you to appreciate the work we put into analyzing an opportunity from all sides, a high level of detail was required. This year, I thought it would make sense to step back, breathe deeply, and take more of a "big picture" look at where we stand, eight full years into our existence.

So there won't be any 40-page analyses of any particular company in this year's report. We will, however, do some "mid-range" updates on some of our main investments and themes, such as the concept of "China-proofing"—which is a truly massive consideration. We will briefly present some new information as well.

As you can see above, on a gross-of-fees basis Prime finished the year up 8.6% on our Long Only Unlevered product and up 0.16% on our Traditional Long/Short product. To give you more of a long-range perspective (as we always do), $1 million invested in our Long Only Unlevered product is now worth $10.82 million, and $1 million invested in our Traditional Long/Short product is now worth $8.12 million.

The benefits of compounding at high annual rates of returns might be best exemplified by looking at the total gain as compared to a benchmark, as you can see in the chart below. We used gross returns to exemplify the difference in our investments' appreciation relative to their respective benchmarks.





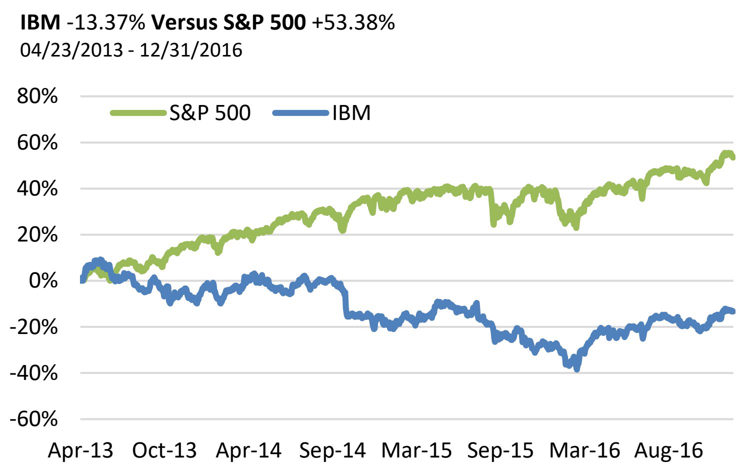
Some of the biggest winners on the long side, in 2016, were Virgin America (NASDAQ:VA), T-Mobile (NASDAQ:TMUS), Dave & Buster's (NASDAQ:PLAY), and Sprint (NYSE:S). And on the short side, we did well with Twitter (NYSE:TWTR), Salesforce (NYSE:CRM), Monster Beverage (NASDAQ:MNST), and Bed Bath & Beyond (NASDAQ:BBBY). In the interest of full disclosure, some of our losing positions include Mannkind (NASDAQ:MNKD) and Blackberry (NYSE:BBRY) on the long side, as well as Best Buy (NYSE: BBY) on the short side.

All in all, you could say that 2016 was a "ho-hum" year, but viewed from another perspective—i.e., that after and including 2016, we have been 19.36% above the S&P—even our ho-hum years are tolerable. The fact that after eight years we have not had a dramatic drop shows the resiliency and sustainability of our approach. We are able to limit our downside by employing substantial risk management, and even more importantly, by consistently identifying tremendously undervalued companies and exercising patience in waiting for them to reach their expected value.

Where We Left Off Last Year (and Since Inception)

Last year we sent you an 84-page annual report for 2015, with over 40 pages dedicated to Tesla alone. We also spent extensive time discussing why we exited our longstanding position in Chipotle. I even made the statement, "We think the stock can actually drop another 50%." After a bit of a bump in the spring of 2017, it did, in fact, continue to plummet for most of the remainder of the year—not down a full 50% from the time of my prediction, but definitely down more than 25%.

Our report for the year 2015 also went into considerable detail as to why we have done so well shorting IBM—and why we believed IBM would, and will, continue to go down!



And finally, our 2015 annual report dug into Dave & Buster's (PLAY)—and why we love it so much. By the way, D&B has done exceedingly well—returning 47% since we bought it. For the past several years, we've been giving you extensive details on some of our key individual investments. In 2014 we focused heavily on the airlines, in 2013 we spent a great deal of time on T-Mobile, and in 2012 we did our "deep dive" into Nokia and Amazon. We've also shared with you many of the prescient details of our founding letter to Warren Buffett, as well as close-up looks at our investment philosophy, risk management practices, and more.

We're not aware of many management firms whose analyses of the companies and industries they are invested in—both on the long and the short side—have been as accurate and detailed as ours have over the years. As part of these analyses, we have accurately predicted such things as the prolonged drop in oil prices, the "rebirth" of the airlines, the ongoing struggles of IBM, Tesla's attractive long-term prospects, and many other trends and developments. That accuracy, combined with the "proof in the pudding" of our performance, which on an unlevered gross basis is an unprecedented 19.36% above the S&P, provides plenty of evidentiary data that our performance is not only sustainable, but conservative. We are extremely pleased that we invested the time and effort in writing these detailed analyses—which sometimes required "going out on a limb" with against-the-grain opinions—as there is now a body of work to back up our track record and support our approach, as well as to demonstrate our deep level of understanding of these operating businesses.

Just to summarize, here are some of the reports we have released over the years:

1. Sound Investing in Uncertain Times (18 pages)
2. 2012 Year End Shareholder Letter (16 pages)

3. 2013 Year End Shareholder Letter (24 pages)
4. 2014 Year End Shareholder Letter (35 pages)
5. 2015 Year End Shareholder Letter (85 pages)

All of these reports, as well as others we've released, contain a great deal of material revealing the "real world" analysis, philosophical premises, and business understanding behind the numbers we have posted, for all to see.

How Good Is Our Track Record from a Purely Statistical Perspective?

To answer the above question, let's start with our Long Only Unlevered product. As we've pointed out in the past, this product is our best general performance gauge, as it compares most closely to the S&P 500. We believe it is legitimate to compare that product directly to the S&P, because:

- Both are unlevered.
- Both are highly liquid (with Prime's $50 billion+ in weighted average market cap).
- Both are diversified by position and sector.
- Prime doesn't use any options or derivatives.

Since inception, through 2016, this product has been averaging 34.67% per year in gross returns, and 28.53% net, with a correlation of only 0.53 with the S&P, which is averaging 15.31% over the same time period. Our Long Only product uses no leverage and, again, contains no hidden leverage from options/derivatives. On an apples-to-apples basis, we're outperforming the S&P by 19.36% a year (gross). You cannot achieve this kind of performance over eight-plus years simply by riding a bull market.

Here is a snapshot of how all of our products are doing.

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Prime Long Only Unlevered (100% Long)	8.60%	34.67%	$108.2M	0.53	7.83%	28.53%	$74.5M
Benchmark: **S&P 500 Total Return, w/ Dividends**	11.96%	15.31%	$31.3M	1.00	11.96%	15.31%	$31.3M
Prime Traditional Long/Short (125% Long, 60% Short)	0.16%	29.92%	$81.2M	.15	-0.91%	24.01%	$56.4M
Benchmark: **HFRX Equity Hedge Index**	n/a	n/a	n/a	0.81	0.10%	1.76%	$11.5M

Prime Ultra Hedged Unlevered (100% Long, 90% Short)	-6.43%	21.12%	$46.3M	-0.04	-6.80%	16.57%	34.1M
Prime Ultra Hedged 50% Cash (50% Long, 40% Short)	-2.02%	13.97%	$28.5M	0.10	-2.02%	11.59%	$24.1M
Benchmark: **HFRX Market Neutral Index**	n/a	n/a	n/a	0.17	-5.08%	-0.62%	$9.50M

Figures as of December 31, 2016

To recap and update last year's presentation on the statistical probability of attaining results like ours:

Once you have looked at a management firm's performance from a five-to-ten-year perspective, and have read all of its annual reports and other pertinent literature, there is another key way of telling whether the firm is truly creating alpha. And that is to look into the *statistical significance* of the manager's performance results.

Basically, you need to cut out the "noise" from the manager's portfolio and isolate the performance of their actual stock picks, and then weigh them on an unlevered basis of 100%. That means removing all of their options and derivatives and basing your math on an unlevered portfolio. Make the portfolio as equivalent to the S&P as possible.

Then look at the manager's performance over 5+ years, and their standard deviation, and calculate the statistical significance of what they've accomplished as compared to the S&P. By doing this, you cut through the smoke and mirrors and can assess a manager's true stock-picking ability.

The idea is that if you bought a random assortment of $50-billion-average-market-cap companies, stayed away from leverage including options and derivatives, and kept this portfolio diversified in terms of sectors, number of positions, and other factors, there is a high likelihood that your returns would mirror the S&P's over time.

So, what are the chances of *out*performing the S&P by 19.36% annualized for eight years, as Prime's Unlevered Long Only product has done? The answer: 14.7 million to 1—massively significant odds from a statistical perspective, especially for a hedge fund. (To calculate these odds, take Prime's 34.67% average annual gain since inception and subtract the S&P's 15.31%. This gives you an outperformance number of 19.36% gross annualized. That percentage number is 1.14 standard deviations from the S&P's historical standard deviation of 16.94%. So…12.71%^8 years = 0.00000681% or 14.7 million to 1).

Here's how Prime stacks up against the top 15 HFR funds, and five other notable top funds, for the past eight years that Prime has been in existence:

PRIME
OPPORTUNITIES
INVESTMENT GROUP, LLC

Prime vs. the Largest Long/Short Funds in the World

Sorted by Best Net Performance

Prime vs. HFR Top 15	8 Year Cumul. (Net)	Overall Rank	# Years Outper-formed S&P	Corre-lation	2009	2010	2011	2012	2013	2014	2015	2016
Prime Traditional Long/Short	**459%**	**1**	**6/8**	**0.15**	**41%**	**96%**	**18%**	**16%**	**57%**	**-7%**	**2%**	**-1%**
Russian Prosperity Fund	281%	2	4/8	0.61	195%	48%	-18%	20%	3%	-44%	-3%	59%
Renaissance Inst. Equities	258%	3	5/8	0.26	-5%	17%	38%	11%	20%	17%	20%	24%
Advisory Research MLP Equity	234%	4	4/8	0.57	80%	37%	13%	4%	28%	10%	-35%	27%
Discovery Global Opportunity	205%	5	3/8	0.29	65%	17%	4%	15%	28%	-3%	0%	8%
Value Prtnrs High Div. Stocks	189%	6	3/8	0.59	83%	26%	-12%	25%	8%	10%	-4%	-4%
Luminus Energy Prtnrs Master	185%	7	5/8	0.30	36%	21%	4%	7%	12%	23%	3%	9%
Bay Resource Prtnrs Offshore	180%	8	3/8	0.85	60%	17%	-7%	9%	22%	6%	-1%	15%
ZP Master Utility Fund	178%	9	5/8	0.28	11%	4%	13%	7%	35%	23%	4%	16%
BP L/S Research Equity Fund	101%	10	2/8	0.93	17%	8%	4%	13%	18%	7%	2%	4%
Lansdowne Developed Mkts	90%	11	3/8	0.48	27%	9%	-20%	18%	33%	11%	17%	-15%
AllianceBernstein Select US	63%	12	0/8	0.87	10%	8%	1%	7%	18%	3%	0%	4%
Man GLG European Equity L/S	58%	13	2/8	0.20	19%	8%	7%	6%	7%	-5%	8%	-1%
Scopia PX International Lmtd.	57%	14	1/8	0.03	14%	2%	12%	2%	11%	12%	-1%	-3%
Calamos Mkt Neut. Income	48%	15	1/8	0.95	14%	5%	2%	6%	6%	2%	1%	5%
Orbis Optimal	17%	16	0/8	0.41	10%	-4%	-2%	4%	11%	-8%	0%	8%
Other Notable Funds												
Berkshire Hathaway	144%		2/8		20%	13%	5%	14%	18%	8%	6%	11%
Pershing Square	132%		3/8		41%	30%	-1%	13%	10%	37%	-16%	-10%
Millennium USA	130%		2/8		17%	13%	9%	7%	14%	12%	13%	4%
King Street Capital	70%		0/8		20%	6%	0%	9%	12%	6%	-2%	5%
Bridgewater Pure Alpha 12%	63%		3/8		2%	27%	16%	1%	3%	2%	3%	2%
S&P 500, Including Dividends	213%			1.00	34%	15%	2%	16%	32%	14%	1%	12%
HFRX Equity Hedge Index	15%		0/8	0.81	13%	9%	-19%	5%	11%	1%	-2%	0%

We know there's never a perfect comparison, but we have simply taken the top 15 largest funds in the Hedge Fund Research database (HFR) and ordered them by performance, while adding 5 other notable funds most investors are familiar with. We believe this is a fair reference basis for Prime because Prime is as liquid, if not more so, than most of these managers. Prime's portfolio has the following attributes:

As Liquid.

- $50B weighted avg. market cap.
- Only highly liquid, publicly traded stocks.
- No options or derivatives.
- Monthly liquidity and no lockup.

Lower Correlation.

- Low correlation of 0.15 vs 0.81 for the HFRX Equity Hedge Index.
- Up 17 of 31 months that the S&P has been down since our inception, versus 2 of 31 for the HFRX Equity Hedge Index.

Better Performance.

- Best overall performance: 711.80% gross, 459.16% net through 2016.
- More consistent returns: outperformed the S&P 6 of 8 years.

We think our long-term numbers hold up to rigorous evaluation from any angle, and we believe you should not be paying substantial fees to managers whose numbers cannot withstand this type of analysis over a period of 5-10 years.

Will We Continue to Perform?

While we are not in the business of reading tarot cards, we are as confident as we've ever been—even more so, really—about our approach, our analyses, and the opportunities we are seeing out there. Since we started Prime, we have been identifying companies that scream off the page in terms of being mispriced—often by multiples of several-fold! And when we find such opportunities and vet them thoroughly, we invest in them with conviction. We continue to find precious gems all over the market, and so our enthusiasm continues unabated. Here are some of our more recent holdings that have performed well, along with their respective 2016 returns (simple returns, dividends not included):

- Dave & Buster's Entertainment (NASDAQ: PLAY), 36.95%
- Mattress Firm Holding (NASDAQ: MFRM), 44.88%
- SolarCity (NASDAQ: SCTY), 21.03%
- Sprint (NYSE: S), 151.98%
- Virgin America (NASDAQ: VA), 54.33%

Of course, it is perfectly understandable for you to ask us a couple of questions at this point: Is it possible to continue finding these types of companies or did you just "luck into" a few isolated successes? And why are your results not more consistent?

In last year's report, we described an 83-year study that holds the answers to both of these questions. What this study showed is that the "Efficient Market Theory" that is taught in academia today doesn't hold water. This well-known theory states that since the market is efficient, you cannot outperform it. Therefore, following this logic, there are no truly underpriced stocks. Thus, no investment strategy or technique really works any better, over time, than the market's average behavior.

However, the 83-year study shows that the market is actually fundamentally *in*efficient. That is, even if you held the fifty top-performing S&P stocks in your portfolio for five-year periods, you would still experience drawdowns similar to the rest of the S&P. Inefficiency is real, and it's wonderful. Inefficiency opens up a whole world of possibilities for the wise investor. It tells us that there will always be underpriced gems out there for those with the discerning eye to spot them. And so we can give a resounding "yes" to the question, "Do we believe we can continue to find undervalued companies?"

As to the second question—why have our results not been more consistent—the study answers that one too. The answer is that the top performers *do* eventually bear great fruit, but they take time and patience to get there. The study showed that the top 10% of performers, held over the 83-year period, had an average return of 28.89% annually! Huge. By contrast, over the same period, the entire S&P had only 9.63% annual returns.

	Avg Annual Return (1927-2009)	$1 Million Invested Over a 20 Yr Period
S&P's Top 50 Stocks	28.89%	$160.1M
S&P 500	9.63%	$6.3M

So, if you could have identified the best stocks *and had been patient with them instead of reacting to their short-term movements*, your overall return would have been an incredible 28.89% annualized, as opposed to 9.63% for the general S&P 500 over the 83-year period studied. *But patience is the key.* Over five-year periods there *will* be substantial ups and downs. Consistent, steady growth, on a year-to-year basis, is simply not the nature of the beast. The best stock opportunities often fluctuate considerably on their way to living up to their promise.

We have always believed that there are *tremendous* opportunities in the market. What this study shows is that these opportunities are not flukes, but are a consistent phenomenon over an 83-year period. That's a long enough time frame to demonstrate that there are *always* mispriced assets out there, and likely always will be. And that is why we remain confident that we can continue finding companies that, over the next few years, will be worth several times what their current market cap is.

How Does Risk Management Factor In?

Now you may be asking the next logical question: "If the market is irrational, can it stay irrational longer than I can stay solvent?"

Answer: not the way we are investing.

We can't tame or control the market's irrationality and volatility—but we can plan for it and adjust accordingly. The reason we can and must do that is precisely *because* we recognize that the market—as demonstrated by the 83-year study—is crazy over the short term.

Since we first started writing to you, our valued investors, we have discussed the importance of risk management—objective, conservative, and transparent risk management. Our performance has been a testament to that. Even though we have achieved 34.7% returns overall, and have outperformed the S&P by 19.4%, we have never had a down year on a gross return basis on our most transparent, long only, unlevered product.

We have described our risk management philosophy and practices in detail in past annual reports, as well as in other Prime documents, so we won't expound on those topics too much here. We'll only summarize in this way:

If you *know* the market is crazy in the short term, you must put yourself in a defensive position so as to be able to handle the inevitable (and potentially damaging) emotions that are triggered when down times occur.

For that reason, we remain very conservative in our investment approach. We don't buy options or derivatives. We invest only in highly liquid, publicly traded companies—mostly mid- to large-cap. We maintain a weighted average market cap of over $50 billion. And we keep a manageable number of positions, on both the long and the short side (about 25 on each side, in 6-8 sectors), so that we stay well diversified but are not spread too thin.

We also, as you may know, strictly limit the relative size of each investment within our total portfolio, and enforce minimum market caps (a company must be at $500 million for us to even consider it as an investment).

By operating under such strict parameters, our aim is to vastly reduce the idiosyncratic risk—to limit the downside while still retaining the potential for multifold increase. And remember this: by far our most effective "risk management" strategy is the ongoing research and monitoring that we put into each of our investments. Though we believe strongly in long-term patience, we are not blind "buy and hold" investors. We keep a constant close eye on each of our companies as well as on their respective industries and the other interrelated industries that affect them. Anytime we see a new development that affects one or more of our long-term premises about that investment, we adjust our position up or down—or exit it—accordingly.

Risk-management-wise, it was another good year for us as we demonstrated once again that we are creating an environment where our downside is substantially offset by a sustainable risk management approach.

Information Overload?

As I noted up front, this year's report is considerably slimmer than last year's. Intentionally so. You see, when it comes to sharing detailed analyses of individual companies, I've always been of two minds. On one hand, I want you to see the kind of thinking that goes into picking each and every investment in our portfolio; on the other hand, I want to strongly emphasize that no single investment is of make-or-break importance to us. In fact, our whole investment approach is designed to prevent any one position from sinking our ship or substantially slowing it down. For that reason, you needn't concern yourself with whether you agree with us on each and every position.

In the past few annual reports, we erred on the side of sharing what might be considered too much detail. Frankly, I am glad we did, though. We put a tremendous amount of effort into "showing our work" on several of the companies we have entered into, and by doing so we have gone on record with our concerns, opinions, and expectations. And the predictions and analyses we made in those past reports have been coming to fruition—with a very high degree of accuracy in many cases, and with a huge upside. Overall, we believe we have shown a remarkable degree of prescience in understanding these operating businesses—and we believe our ability to understand other operating businesses, both now and in the future, can and will lead to sustainable investment returns.

What makes this business difficult is that if you miss one premise among dozens, it can take you in the wrong direction—meaning you could lose a lot of money. In order to get an investment right, you must carefully evaluate each and every one of the company's practices and decisions, and how it will "play" against all of its other practices and decisions, as well as against trends and events in the industry. If you do that right, you can accurately draw a conclusion as to what will happen down the road. Our ability to do that successfully, we believe, is a wide differentiator between us and many others in this field. But to make such a claim is one thing; to put your money where your mouth is, is another. And that is why we have made the effort in recent years to give you a first-hand look at some of our detailed analyses.

But again, even if you pick all the right companies and all of your premises are spot-on, you will still experience stagnant or retrograde periods. (Remember that even if you had a crystal ball over the past 83 years and picked all the top performers, you would still have experienced the same drawdown as the S&P over five-year periods—but, importantly, you would have triumphed in the end.) Paying too much attention to the fine details can often cause you to lose the big-picture perspective you need for successful investing.

All of that is our way of saying that perhaps we have occasionally gone into too much detail in the past. With that in mind, here are some "quick," big-picture updates…

China Proof

As many of you know, we coined the phrase "China Proof" and have written extensively about this concept as it relates to our investments. (See our last two annual reports, for example.) Ever since our inception nine years ago, we have had our eyes cast steadily eastward—i.e., toward China. In short, China is a huge and growing everyday factor in our competitive analyses of companies. China currently operates with a number of monstrous competitive advantages—such as a huge (1.3 *billion* to be exact), energetic, hard-working, and smart population that works for cents on the dollar as compared to other labor pools (especially America's), and a government that sets policy to give its domestic companies and industries a huge leg up via vast subsidies, policy incentives, and a strong tendency to discourage or prevent foreign competitors from entering its markets. I'm not pointing this out from an emotional perspective, but from a business perspective—China is doing many things right to help its domestic market, and we want our long positions to be "China Proof"; i.e., impervious to the advantages China has created for itself. We also want our short positions to be those exact companies that are likely to be negatively affected by China's dominance over the long run.

China's rise, even since our last annual report, continues to be spectacular and unprecedented. Of *Fortune*'s Global 500 companies, 109 are now Chinese, making China second only to the United States, which has now has 132 companies on the list, down two from the previous year. The gap between our two nations is closing rapidly. As recently as 2010, China had just 46 companies on the list, and as recently as 2000, it had only 10! Remarkable. And less than a quarter of the 109 Chinese companies on the Global 500 list are private; the rest are State Owned Enterprises (SOEs).

Tencent has become China's most valuable company, with a market cap of over $300 billion (that was in 2016; it's now over $500 billion!), placing it in the top ten list of most valuable companies worldwide and earning it a nod from Boston Consulting Group as one of the most innovative companies in the world. Tencent is NOT government owned, but "word on the street" is that the Chinese government is heavily involved with everything the company does—from calling the shots on bank loans to approving major investments.

China is also making strong moves toward reducing its reliance on foreign products. As the *New York Times* reported earlier this year, "China has charted out a $300 billion plan to become nearly self-sufficient by 2025 in a range of important industries, from planes to computer chips to electric cars, as it looks to kick-start its next stage of economic development… But big companies in the rest of the world worry that it is more than that: an unfair advantage in China's home court, and perhaps elsewhere."

This so-called "Made in China 2025" program calls for the Chinese government to bolster ten industries, a move that would squeeze out competitors from abroad and create government-subsidized global players that would now own an unfair market advantage. Under the government's plan, the affected Chinese industries will likely own as much as 80 percent of their home market in less than a decade.

Another way that China is buttressing its internal strength is by clamping down on foreign investments. Government statistics reveal that China's foreign direct investment is down over 40 percent this year. As an example of the micro-level of the Chinese government's involvement in private businesses, Chinese financial regulators have ordered the country's largest banks to stop making loans to Dalian Wanda to finance foreign entertainment acquisitions. This is reportedly part of an effort to crack down on "irrational" foreign investments, while also ramping up investments in technology.

What are we saying here? We're saying China has put together the right package to disrupt many companies and industries, and we are keenly aware of that. And this awareness has helped us pick the right companies to invest in.

The “last frontier” of doubt, among many, was China’s ability to grow its consumer base strong enough so that it would become a must-have for companies around the world. Well… our prediction about the consumer base moving into China’s backyard has been coming true in blazing color. The last advantage we had is gone; large companies now *have* to sell into China’s home territory. When it comes to consumers, it’s not all the US anymore—China has surpassed the US to become the world’s largest retail market with total sales of $4.886 trillion, as compared to $4.823 trillion in the US. China will continue to see massive gains in retail e-commerce market over the next few years, with sales expected to top $899.09 billion this year, representing almost half (47.0%) of digital retail sales worldwide. In other words, Chinas’ e-commerce market is now bigger than those of the US, UK, Japan, Germany, France, and South Korea…combined! And with 67% of China’s 731 million internet users using mobile-payment technology in 2016, expect those numbers, and China’s importance, to keep rising fast.

As Shen Jianguang, chief Asia economist for Mizuho Securities Asia Ltd., said in a September 5, 2016 article in *The Business Times*, “China’s economic restructuring is happening faster than many have expected.” That—I think we can all agree—is a monumental understatement.

People often ask how we have been able to perform so strongly, and why can we do what others generally cannot do from a performance perspective. The answer is that we conceptually understand both the micro and the macro forces (such as China) at play in the world, and we study the interrelationships between all of them in order to anticipate what will happen in businesses over the next three to five years. Understanding businesses and envisioning what will happen down the line is our secret sauce—and for the most part, it is not something that can be taught. It is a function of extensive research, real-world business experience, and a conceptual ability to envision how things are going to play out. We recognized the importance of being China Proof nine years ago when we launched, and we have been putting that knowledge into effect in both our long and short investments since that time. That’s just one example of how we have been able to think ahead of the pack.

Now let’s touch upon a few companies in our current mix...

A Few of Our Longs: Amazon, Google, and Tesla

At Berkshire Hathaway’s annual shareholders meeting in May of 2017, Warren Buffett admitted that he had made a mistake not buying Amazon and Google shares. He said he should have understood that Google had a strong advertising model years earlier, when Berkshire Hathaway’s own Geico insurance company was paying Google $10 or $11 per advertising click.

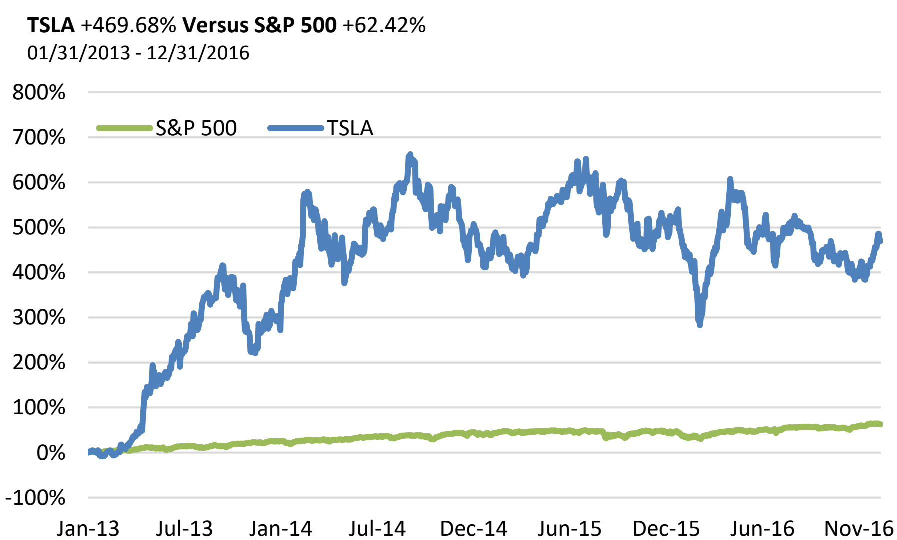
And as to why he did not buy Amazon, Buffett explained, "I was impressed with Jeff [Bezos] early, [but] I never expected he could pull off what he did ... on the scale that it happened. At the same time he's shaking up the whole retail world, he's also shaking up the IT world simultaneously. These are powerful, powerful ideas with big potential, and he's executed."

At Prime, on the other hand, we *did* buy Amazon and Google—Tesla too (in December 2009, October 2011, and January 2013, respectively). We're not trying to suggest that we're smarter than Warren Buffett, but we are saying that we believe we have an uncanny ability to spot companies and investments before others do, including (often) the "best in the business." We have repeatedly been able to target companies whose values have gone up 200 percent and much more. We've had screamers in food (CMG), telecom (T-Mobile), and other sectors. Some of the investments we've made that have gone up over 100 percent include:

- Activision Blizzard (NASDAQ: ATVI), purchased 12/28/12, up 243.33%
- Amazon.com (NASDAQ: AMZN), purchased 12/31/09, up 465.62%
- Chipotle Mexican Grill (NYSE: CMG), purchased 1/21/09, up 731.17%
- Qihoo 360 (NYSE: QIHU), purchased 12/28/12, up 181.58%
- Tesla (NASDAQ: TSLA), purchased 1/31/13, up 479.12%
- T-Mobile (NASDAQ: TMUS), purchased 5/14/13, up 206.14%

The combination of so many correct picks has been a major reason for our outperformance thus far.

But the essence of what we do at Prime is probably best *exemplified* in Amazon and Tesla (about which we wrote 50 pages in last year's report). We have held Amazon for the past eight and a half years and got into it at $135.51 per share because we saw the writing on the wall from a mile away. Same thing with Tesla. This is a position we entered five and a half years ago, when the company was at a $5 billion market cap. And we and started writing about Tesla almost nine years ago. Tesla's market cap, as you may know, is now around $60 billion.



Amazon and Tesla are perfect examples of hard-to-understand companies that we got a deep insight into early in the game, and that we fought through the naysaying and nonsense in order to buy and hold onto long enough to maximize earnings.

The moats and separation these companies have created, as well as their management teams' ability to perform, has been well documented by us. We touted these winners with fervor well before their ascension, and have been long-term investors in them. Amazon and Tesla have been two of the best performing companies over the past five to ten years, and our largest positions.

With each passing day, more and more of our premises about these companies are playing out in real time. Amazon's amazing CEO has shown that he has the vision to get into the right industries, master each structure and industry that he attacks, and just generally be at the right place at the right time. Amazon began its peaceful "coup" of the retail industry by delivering to the US market initially, then learning from that experience and taking those lessons abroad. In the process, Bezos has made Amazon China Proof. Even more than this, Amazon is now expanding dramatically *into* China, a challenge that would have eaten lesser companies alive, and has invested billions to become the top e-commerce player in India. In China, Amazon is leasing ships in order to master the logistics of delivering into that country. It is also taking low-cost goods directly from Chinese manufacturers and creating the same bulk practices it has perfected for its domestic products and sellers, such as capturing the eyeballs of millions of online users, putting ratings on products, making them searchable, and then delivering them in the US, straight to each household's door. In the process, it is cutting out all the typical middle men—and widening the separation between Amazon and its competitors.

One more reason that we love Amazon? It turns all of the other retailers into perfect candidates for our shorting investment list, as we wrote about in the mid-year letter to our investors, "Long Airlines, Short Walmart." There is obviously a lot more to the story of Amazon, as we've discussed at length in the past and will likely discuss again in the future.

As for Tesla, one of our main points about the company last year was that Tesla is light years ahead of its competition and has created a huge barrier to entry, both technology-wise and in terms of its manufacturing infrastructure—a double whammy. A recent *WSJ* article, for example, describes Ford Motors' chairman, Bill Ford, leading a management shakeup to shift more quickly into electric vehicles, self-driving cars, and a future that incudes ride-sharing—the type of thinking Tesla was doing a decade ago. A sense of "Is this too little, too late?" pervades Ford's efforts, which include rolling out a "shot clock" policy to implement changes more quickly and buying an autonomous technology company for over a billion dollars… so as to catch up. "The role we're in now requires us to stick our necks out," said Mr. Ford. "We've got to place bets. We've got to have a point of view about the future." Yes, Bill, but Ford—and most other car companies—should have been saying this years ago.

In the current automotive climate, does it really matter whether Elon Musk meets his ambitious stretch goals on time or whether they come to pass six months later? Not really.

While orders for Tesla's Model 3 have been coming in at 1,800 a day, most other car companies' green-car sales have been lagging, according to an Autoblog article of August 3, 2017. Toyota's sales in this market were down almost 10 percent during the first half of the year, then dropped 17 percent in July, with a 26 percent decline in demand for the four Prius variants.

Another point we wrote about last year is that Tesla can raise money very easily. It has done so twice already this year, for around $3 billion, and its stock didn't dilute much—in fact, the stock actually went up in the most recent transaction because Tesla was able to borrow the money so cheaply—under 5 percent—without having to give up any equity.

Also, Tesla is China Proof, at least for the immediate future. Remember, China, because of its critical air pollution problem—which we described last year (ten times the acceptable pollution level in the US)—is in desperate need of electric cars. Why? Because all the people with money want to leave China and because pollution is seriously affecting both the length and quality of life for Chinese citizens. So, because Tesla is geared up to deliver EVs fast, China is behind Tesla. In fact, with the support of the Chinese government, Tencent, the large Chinese company mentioned above, recently bought 5 percent of Tesla for well over $2 Billion. If you can't beat 'em, buy 'em.

"This is probably the best I've ever felt about Tesla," said Elon Musk recently.

Amazon and Tesla are so far ahead of the competition that the distance is *increasing* day by day, not shrinking. Amazon's competitors, and Tesla's to a lesser extent, have realized of late that it is virtually impossible to catch up with these leaders from a time, money, and intelligence perspective. This is why we believe that three years from now, the discussion about these two companies, their moats, their CEOs, and their infrastructure will be more of the same—perhaps even at an accelerated pace. We have already written so much about these companies that we feel our case is made.

With companies such as these on our team—as well as the ten to twelve new investments we've found in the past year and a half—and with our ability to separate the winning strategies, businesses, and managers from the "fluff," we think we can serve our investors extremely well.

The main point we want to emphasize is that these companies keep changing and so you have to get the bigger picture right—and then the smaller picture, and then all the details in between. That is why we have invested so much ink talking about key individual companies in past years.

Bottom line: Companies change daily, the ability to understand them does not.

It was our ability to understand companies, industries, and global trends that prompted us, for example, to get into T-Mobile back in May, 2013.

Update on T-Mobile

About four years ago, when T-Mobile was trading at a $13 billion market cap, we got into this company and claimed it would be worth $45 billion in a few years…

From our 2013 Annual Report:

> An essential part of our analysis was that we thought TMUS could reach at least $45 billion in market cap—that it could essentially triple in size—without fully provoking the ire of the two giants and prompting them to launch aggressive counter-offensives. Sure, AT&T and Verizon might make some early noise in the media, but their actual changes would be relatively minor, we believed, until this $45 billion point was reached. The reason? The big boys were at a combined $356 billion and TMUS was at $13 billion.

Fast forward a few years, T-Mobile is worth $58 billion… and still growing. That's nearly a five-fold increase. Talk about hitting it big with an undervalued company!

Our thesis fully came true, and then some, because it was based on a solid understanding of the core of the business, an insistence on checking and rechecking each premise, and a strong effort to eliminate blind spots. T-Mobile continues to lead the industry in both customer and financial growth.

For the third year in a row, the company added more than 8 million total customers and captured all of the industry's postpaid phone growth by adding 3.3 million branded postpaid phone customers in 2016. In prepaid, the Company has added more than 5 million net users over the past three years, including 2.5 million in 2016.

At the end of 2016, T-Mobile had had fifteen consecutive quarters in which it generated more than 1 million total net customer additions. T-Mobile is now the third-largest national wireless operator in the US.

We loved TMUS four years ago, and continue to love it (read our 2013 annual report). What's to not love? The company is China Proof, since no Chinese companies will enter the US telecom space. It has wide moats, with only four players in the game and no others in sight due to lack of bandwidth. It's also a business that I can understand—what could be simpler than using phones in the US? And it is an industry that is not only extremely stable—people need their phones—but also has room to grow substantially.

From a business perspective, John Legere did what I would have done: lowered T-Mobile's prices to compete with the two big carriers, AT&T and VZ. Most of Wall Street thought this would set off an unproductive price war. I disagreed, for all the reasons outlined a few years ago. Rather, I thought the landscape would remain rational, with prices remaining flat until T-Mobile reached a larger size. And then all four carriers would work together to raise prices. This seemed to me to be the business logic that would play out if I were operating each of the companies. Cut to the present: TMUS recently raised the price of its best unlimited data plan, One Plus, from $5 to $10 a month. A single line of T-Mobile One Plus now costs $80 a month, which is in line with Verizon—TMUS called it the end of its promo program. T-Mobile is now becoming more reluctant to play the pricing card, as I had predicted it would.

Quarterly net income for TMUS more than doubled year-over-year to $581 million, while adjusted EBITDA margins rose to 40 percent at beginning of this year, compared to 37 percent in early 2016.

Also, "T-Mobile is opening stores at a breakneck pace," according to Nasdaq.com (July 13, 2017).

> At the beginning of the year, T-Mobile (NASDAQ:TMUS) said it planned to open 1,000 new T-Mobile stores, expanding its retail footprint to catch up with its network expansion. T-Mobile had to update its outlook to 1,500 T-Mobile stores. T-Mobile's VP of Sales Jon Freier tweeted this week the company has opened 1,000 stores already this year, surpassing its original goal.
>
> The footprint expansion represents a huge opportunity for T-Mobile. While the company has been able to continue stealing away customers from Verizon Communications (NYSE:VZ) and AT&T (NYSE:T), expanding its footprint outside of major metro areas presents additional upside for the wireless carrier.

The above article also reports that T-Mobile expects its new stores to handle 30 to 40 million new customers, and that the competition in these new locations is much lower than in the metro areas where TMUS currently operates, which should give the company an opportunity to take even more market share.

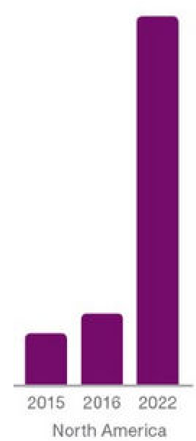
> T-Mobile already has strong brand recognition in these markets thanks to its national advertising campaigns, so it should be able to quickly capture market share. CFO Braxton Carter said a market share in the teens is achievable within a five-year time frame. That could mean an additional 5 million customers or so over the next five years just from the stores it's opening this year.

In terms of spectrum—the "life blood" of mobile communications—T-Mobile says it won 45 percent of all spectrum sold. The carrier spent almost $8 billion to acquire more than 1,500 wireless licenses that span across the United States. The licenses are for spectrum in the 600MHz range, which, in terms of spectrum, is seriously high-grade stuff. It's at a relatively low frequency, which means it's good at traveling long distances and penetrating walls—attributes that make for a stronger network, one that can possibly overtake AT&T and Verizon over time.

And maybe even sooner than expected. According to a recent article by Anders Bylund (https://www.fool.com/investing/2017/05/08), "The self-proclaimed Un-carrier beat Verizon's average 4G download speeds last August by 2%. Their speeds were within the margin of error in February, after substantial upgrades from both Verizon and T-Mobile. And in terms of the older 3G network standard, T-Mobile won both tests by a crushing margin."

The article goes on to report, "T-Mobile's recent rise in the speed rankings comes from the use of 700 MHz radio spectrum licenses, acquired from Verizon in a $2.4 billion deal three years ago. …That's a sharp break from T-Mobile's former reliance on lower-quality signals in frequency bands near 1.8 GHz and 2.2 GHz. The 700 MHz band is where AT&T and Verizon built their empires."

T-Mobile provides 65% more bandwidth per subscriber than AT&T and VZ. And the overall need for bandwidth, industry-wide, is growing. By 2021, mobile data traffic should represent 20 percent of total IP traffic, according to the Cisco Visual Networking Index (VNI) Global Mobile Data Traffic Forecast. That's up from 8 percent in 2016. It's also 122 times more than all global mobile traffic generated in 2011 (as I said, growing bandwidth). North America will have fivefold growth in this area, the report says.

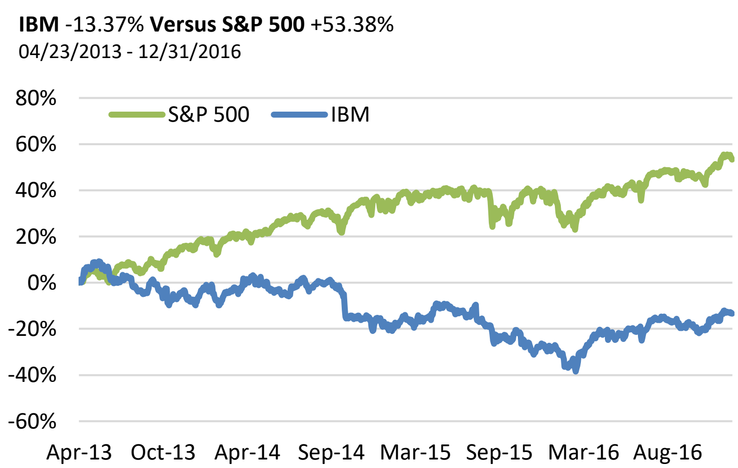


All of these signs point to continued growth for TMUS, one of our favorite stocks.

Meanwhile, on the Short Side…

Our biggest short in 2016 continued to be IBM. It has been our biggest short position for the past three years, and IBM is still failing, still falling.

We have written extensively on IBM over the last few years, and almost everything we've anticipated has indeed played out.



There are hundreds of moving parts to evaluate when it comes to IBM, and we encourage you to read what we have written in the past—borne out in 20 quarters of declining revenue for Big Blue and profit margins narrowing across all of its business segments. Or read the *WSJ* article, “IBM Revenue Decline Continues to Pressure Bottom Line” (July 18). The article describes, among other things, how the Watson AI gamble has failed to bear good fruit—just as we predicted it would—and how IBM’s quarterly profits were down yet again, by 6.9 percent.

Ms. Rometty is now in year seven as CEO and since she took office IBM's stock has fallen about 17 percent—while the market has been up 65 percent. Rometty recently lost some support from Warren Buffett, chairman of Berkshire Hathaway, which had been IBM's largest investor, when Buffett revealed that he had sold about a third of Berkshire's shares in Big Blue.

Ms. Rometty turned 60 in July of last year, which, notably, is the same age at which both Samuel Palmisano and Louis Gerstner, her two predecessors, retired. But with or without Rometty, IBM’s fate was sealed. There are very, very few CEOs out there who have the vision and intellect to overcome the kinds of obstacles IBM has been facing. Rometty, alas, is evidently not one of them, and her successor, in all likelihood, will not be one of them either. The business waves that have been hammering this company—many of them in the form of cloud computing—are proving too large to overcome. The world has changed dramatically since the days when IBM could walk into a client company and confidently charge high prices for its long-term-contracted services. And IBM doesn’t have the answers as to what it will take to regain its position as the tech giant its massive payroll indicates it should be.

Again, I could talk *ad nauseam* about IBM’s continuing fall, but I have already done so in the past. The year 2016 wasn’t a surprise on the IBM front; it was more of a confirmation of what we’ve been talking about and predicting for the past few years.

In Conclusion

Last year’s report was so long that when I finished writing it, I told my staff, “Next year, all I’m going to say is, ‘I’ve already said it all before, so just go read our past annual reports.’” Our operations officer, Mariana, who knows me very well and has been working with me since inception, said, “Don’t worry, by the time next year rolls around, you ‘ll have plenty of new things you’ll want to talk about.”

Well, as usual, she was right. But I stuck to my instincts and kept it short this year—well, shorter than usual, anyway. I’ll save the new ideas I’ve got percolating for next year’s report. This seems like a good time on our journey together to stop, take a breather, and go back and read over our numerous pages of predictions and assessments from past years. Look at what we said would happen and then look at where the respective companies are now. You will see that the important thing is not the individual company analyses, but the logic we use. We haven’t gotten every last detail correct—we don’t claim to be soothsayers—but we believe we are doing an exceptional job of seeing what is going to happen three to five years down the line. And that accuracy is not company-dependent, but rather, thoughtdependent. After all, it's not just one company in one sector that we've been able to understand, but a wide range of companies and sectors from food to retail to technology to energy to telecom, and more. It's all about understanding business and making conceptual correlations. The work we do is both an art and a science.

And so, we encourage you to invest. We hate to see you missing out on an opportunity to avail yourself of a manageable downside combined with what we believe to be an outstanding upside: $1 million invested with us at inception has now turned into $10.82 million gross, as opposed to $3.13 million for the S&P. And we continue to see the same kinds of opportunities looking forward. We have a tendency to make very strong points in our annual reports, admittedly. Some of that may be due to the fact that I don't come from Wall Street and have a bit of a chip on my shoulder about "conventional wisdom." But I truly believe we offer a great investment here, and because of that I feel motivated to be as emphatic as I can.

To put it in terms of unemotional numbers, the following chart shows our weighted average market cap and our expected market cap. In other words, this is the expected growth on our long positions. That means we see good prospects ahead for continued high returns in the future.

Current Weighted Avg. Market Cap (Billions)	3 Year Target Weighted Avg. Market Cap (Billions)
76.36	**204.93**

That's all I'll say for now. So please, review all our previous annual reports, letters, videos, and special documents, and make your own assessment. In our opinion, you will get a higher upside and lower downside by investing with Prime. All that's required of you is time and patience. But, of course, as we all know, there are no guarantees, and past performance is no indicator of future performance. Each investor has to make his or her own informed assessment. We hope we've given you enough information to make yours.

We're grateful for your continued participation and look forward to talking with you in the months and years ahead.

All the best,

Pouya David Yadegar

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PERFORMANCE AND PORTFOLIO: Prime Opportunities Long/Short Composite performance results reflect time-weighted rates of return, the reinvestment of dividends and other account earnings, and are net of applicable account transaction and custodial charges, and Prime’s performance based allocation. The reinvestment of dividends and other earnings may have a material impact on overall returns. Valuation is computed and performance is reported in U.S. dollars. All Prime products are subsets of a single core portfolio, with the same securities. Returns for Ultra Hedged Levered portfolio reflect the performance of the Prime Opportunities Long/Short Composite. “Long Only Unlevered,” “Long Only,” “Traditional Long/Short,” “Ultra Hedged Unlevered,” and “Ultra Hedged 50% Cash Unlevered” performance represent the stock performance of Prime Opportunities Long/Short Composite, adjusted based on each portfolio's level of hedging and leverage. Prime has never used options on our long positions. Options on our short positions were used in the past on two securities, but have not been purchased for four years, and when bought were limited to Deep-in-the-Money LEAP puts for tax efficiency. Prime does not anticipate any use of options going forward.

Returns for Prime’s Ultra Hedged Levered portfolio reflect the performance of the Prime Opportunities Long/Short Composite. Returns for subset products "Traditional Long/Short", "Ultra Hedged Unlevered", "Ultra Hedged 50% Cash Unlevered", "Long-only", "Unlevered Long-Only“ are illustrated net of fees and subject to a high water mark, and do not include cash or cash equivalents. Actual long exposure of the Prime

Opportunities Long/Short Composite used for all products, with the following maximums: Ultra Hedged Unlevered and Long-Only Unlevered: 100% long exposure; Ultra Hedged 50% Cash Unlevered: 50% long exposure; Traditional Long/Short: 125% long exposure. Actual net exposures of the Prime Opportunities Long/Short Composite used for all Long/Short products with the following exception: Returns for Traditional Long/Short are illustrated using actual net exposures of the Prime Opportunities Long/Short Composite through July 2010, with 125% long exposure and 60% short exposure thereafter; the Prime Opportunities Long/Short Composite first surpassed 125% long exposure in July 2010. Floor for all products: 0% short exposure. Gross returns for subset products were calculated on a monthly basis using figures from the Composite as follows: ((Product long exposure / Composite long exposure) * Composite long contribution)) + ((Product short exposure /Composite short exposure) * Composite short contribution)). Net returns of subset products represent actual fees of the Prime Opportunities Long/Short Composite product, and were calculated using the Prime Opportunities Long/Short Composite gross return to net return ratio.

"Long-only performance" as illustrated in this report represents the long only stock performance of the Prime Opportunities Long/Short Composite. Returns were reduced by a simulated incentive fee of 20% of all profits, charged quarterly through 12/31/13, represent actual fees of the Prime Opportunities Long/Short Composite through 12/31/14, and represent actual product fees thereafter.

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COMPOSITE DEFINITION AND RISKS: The Prime Opportunities Long/Short composite includes U.S. and international securities which utilizes a fundamental stock selection process. This process is combined with rigorous risk control to create an attractive return/risk product. The portfolio's value added is a function of the return spread between the long and short portfolios with the goal of providing long-term capital growth from a well-hedged strategy. Positions in the underlying portfolios are leveraged at a ratio up to, but not limited to, 2:1 for long positions and 2:1 for short positions.

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