April 24, 2017

Dear Partner,

The return of Maran Partners Fund, LP in 1Q 2017, net of all fees and expenses, was +1.6%[1].

Bets, Games, and Hunting Grounds

The most widely circulated segment of Warren Buffett's annual letter was the section titled "The Bet." In it, he outlined his bet against Ted Seides, in which Buffett bet that a Vanguard S&P 500 index fund would outperform a basket of five hedge funds, to be chosen by Seides, over a ten-year period. Buffett stacked the bet in his favor by making Seides choose fund-of-funds, rather than individual hedge funds. In total, the fund-of-funds held over 100 hedge funds, and it is likely that each hedge fund owned dozens (if not hundreds) of securities. On a "look-through" basis, Buffett was betting against a portfolio that likely contained thousands of underlying securities (and, of course, two layers of fees).

A portfolio of thousands of securities, even if chosen by brilliant hedge fund managers, starts to resemble a widely diversified portfolio of US securities – in other words, the index itself. I too would have sided with Buffett on this bet against diversified fund-of-funds. A low cost-index versus a widely diversified basket of securities with high fees is an easy choice. With enough diversification, a portfolio's returns are likely to resemble those of the broader market, *before fees*.

In order to have a reasonable chance of beating an index (especially after fees), it is critical not to look too much like that index.

Michael Mauboussin, Head of Global Financial Strategies at Credit Suisse, wrote a great essay last fall reminiscing on his 30 years on Wall Street, sub-titled "Reflections on the Ten Attributes of Great Investors."[2] Mauboussin concludes with an admonition to active managers:

> Consider carefully where your skill will be most valuable. More than 25 years ago, Richard Grinold spelled out the "fundamental law of active management." The non-technical interpretation says that excess returns equal skill times opportunity. All the skill in the world is for naught unless you have an opportunity to apply it. Before figuring out how you will win the game, figure out which game to play.

This wise advice is rarely followed. The amount of intellectual intensity focused on the universe of well-covered, large-cap stocks is staggering. In the US alone, there are over 10,000 listed companies, yet the vast majority of funds spend their energy on the largest 500-1,000 companies. Using Mauboussin's construction, most funds choose to "play" in the most competitive game possible.

I take a different approach than the masses. In this fund, our "game" is small and micro-cap stocks and special situations. As I've written numerous times, I think this is a less efficient corner of the market – an

[1] Based on a hypothetical investor who invested at fund inception and is paying a 1% management fee and 20% incentive allocation. Individual partner returns may vary based on fee structure and timing of investments. Please see disclaimer on page 4 for important information.

[2] Michael Mauboussin, *Thirty Years: Reflections on the Ten Attributes of Great Investors*, 14. See https://goo.gl/bGcZx0.

attractive hunting ground for value. There are fewer funds looking at these stocks, less research coverage, and, frequently, institutional restrictions against owning them. They may be less liquid and more volatile, but this volatility – for a fund with the right structure – can create compelling opportunities.

Many view smaller companies as riskier. This is an ill-founded conception. Small size (even if accompanied by greater volatility and reduced liquidity) does not equal risk. Risk is much more likely to be correlated to financial leverage, operating leverage, cyclicality, and management quality, than absolute size. Most importantly, investment risk is correlated to the price paid for a business.

Which is riskier? A *large* but highly-levered roll-up in a cyclical industry with untrustworthy management that is absolutely loved by Wall Street and the consensus (and thus highly priced); or a *small,* unloved, uncovered (and thus cheap) company with a 50+ year history of consistent (if lumpy) growth, a balance sheet with no debt and a significant net cash position run by a trustworthy, skilled capital allocator with significant personal ownership in the business?

Even a large, non-cyclical, growing, and well-run business may be a risky investment at too high of a price. Investors frequently pay huge prices for a cheery consensus. Many investors can't take standing out (or periods of short term under-performance vs. the market), so they wind up "closet-indexing" and owning popular companies at any valuation.

The stocks that we own in this fund are frequently obscure; they are not what I call "cocktail party" companies. Yet in my preferred hunting ground – the "game" in which I choose to play – I have been able to find solid businesses that generally have clean balance sheets and trade at what I think are very cheap prices relative to intrinsic value. I believe these companies give us the best chance of meeting my goal of protecting principal – always the primary consideration – and positioning for attractive returns over time.

In addition to figuring out which "game" to play, a key consideration is of course how to play it. If bringing my strong analytical research skills to an attractive hunting ground is one competitive advantage, a number of other competitive advantages reside in my approach: concentration, an unwavering discipline with respect to valuation, a small fund size (with a commitment to remain so), and a long time horizon with an ownership approach.

The ability to utilize this unconventional approach is facilitated by our wonderful group of partners, who share my belief that this approach gives us the best chance of creating attractive long-term results.

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Portfolio Update

At quarter-end, the fund was 102% long by 11% short. Gross exposure was 113%, and net long exposure was 91%. The fund remains concentrated; the top 10 longs accounted for 86% of the total long exposure.

Following a series of calls and/or meetings with the management teams of each of our core positions, I remain excited about our portfolio and the opportunity I believe it presents over the coming quarters and years.

Given the concentrated nature of my approach, I don't need to come up with great new ideas every month, or even every quarter. My bar is high for new positions. In the first quarter, I added one new core position to the portfolio.

The company is an undiscovered, high-quality, branded consumer goods company with accelerating growth. It has enviable financial returns (50%+ return on tangible capital) and was purchased at what I believe is a compelling valuation. With industry peers trading at FCF multiples in the low-20s, we paid about 10x FCF. Insiders own over 70% of the company and were significant net purchasers of the IPO last year. I generally try to underwrite for three-year doubles (or "fifty cent dollars") with limited risk of permanent capital impairment. I think this fits that bill.

I'd like to keep adding to the position, so I would be doing our partnership a disservice by shining a spotlight on the company at this time. I'll share my write-up on the company at a later date.

Real Estate

As careful readers of these letters will recall, I started purchasing a basket of real estate-related equities in the first quarter of last year. The business models ranged from land development to homebuilding to the ownership and renting of single family homes, but what the stocks had in common was my belief that they were trading at large discounts to intrinsic/liquidation values, with minimal risk of permanent capital loss (given conservative balance sheets, free cash flow generation, and significant hard asset value underpinning the valuations). The basket ultimately contained positions in five companies.

With the announced acquisitions earlier this month of two more of our real estate positions, three of the five companies in the basket have now been acquired. Given the concentrated nature of our portfolio overall, and the fact that our real estate basket contained only five stocks, I believe this is a fairly good hit rate on acquisitions.

Conclusion

Thank you for giving me the opportunity to invest your family's capital alongside that of mine. I have high conviction in our current portfolio as well as the soundness of my concentrated, value-driven approach over the long term. Please don't hesitate to give me a call if you have any questions about our fund.

Sincerely,

Dan Roller

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The statements of the investment objectives are statements of objectives only. They are not projections of expected performance nor guarantees of anticipated investment results. Actual performance and results may vary substantially from the stated objectives. Performance returns are estimated pending the year-end audit.

An investment in the Partnership involves a high degree of risk and is suitable only for sophisticated and accredited investors. Investors should be prepared to suffer losses of their entire investments. The Offering Memorandum contains brief descriptions of certain of the risks associated with investing in the Fund.

Certain information contained in this document constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "target," "intend," "continue" or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of the Partnership described herein may differ materially from those reflected or contemplated in such forward-looking statements.

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The top five positions of the fund as of March 31, 2017 were Black Diamond (BDE), Biglari Holdings (BH), Undisclosed (Company A), CafePress (PRSS), and Owens Realty Mortgage (ORM). Prices for securities discussed are closing prices as of April 21, 2017 unless otherwise noted, and are not representative of the prices paid by the fund for those securities. Positions reflected in this letter do not represent all of the positions held, purchased, and/or sold, and may represent a small percentage of holdings and/or activity.

In Q1 2017, the total return of the S&P 500 in was 6.1%, and the total return of the Russell 2000 was 2.5%. The S&P 500 and Russell 2000 are indices of US equities. They are included for information purposes only and may not be representative of the type of investments made by the fund. The fund's investments differ materially from these indices. The fund is concentrated in a small number of positions while the indices are diversified. The fund return data provided is unaudited and subject to revision.

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