January 29, 2021

Dear Partners and Friends,

Maran Partners Fund returned +14.8% in the fourth quarter, net of all fees and expenses, bringing its full year return for 2020 to +13.3% net.[1]

2020 marked the fifth full year of operation for Maran. When I launched the fund in 2015, I laid out some of the guiding principles of our partnership in my Founder's Letter. The letter remains an accurate reflection of my philosophy and approach. Guided by our core principles and structural advantages, Maran has compounded at a rate of 16.0% net over the last five years, slightly better than required for a "five-year double."[2]

Throughout our portfolio, I am trying to optimize risk-reward and tilt the odds in our favor. Our value creation strategies can be broken into three main categories:

1) Fundamental investments (primarily in undervalued small and microcap companies, with a preference for well-run potential "compounders" priced like "cigar butts").
2) Event-driven or special situation investments.
3) *Constructivism* / engagement.

There aren't always clear dividing lines between these categories. Special situations can create compelling entry points into core holdings (as in the case of spin-offs, post-bankruptcies, and broken deals)[3] as well as shorter-term arbitrage or arbitrage-like trade set-ups (such as merger arbs, tender arbs, share class arbs, reverse Morris trust rights offerings, and stub trades).

Additionally, one of the core principles I detailed in my founder's letter is "owning like an owner." I wrote:

> I take a business-like approach to investing in securities. I approach the purchase of a small fraction of a public company as if I were buying the entire thing. This speaks to the level of due diligence that I perform before buying a security, as well as the role I intend to take once we are partial owners of a business.
>
> Regardless of the size of our position, and thus our vote, I intend to be an involved, active shareholder. This may mean discussing with management ways to unlock value or properly allocate capital, voicing dissenting opinions in private or public, or taking a more active role in bringing about change.

When I launched Maran in 2015 with an initial investment of $500k, I realized we would not take a prominent role on any shareholder registries for some time. But I knew from the start that engaging with

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[1] Individual partner returns may vary based on fee structure and timing of investments. Please see disclaimer on page 7 for important information.

[2] I like to remind readers that the net returns discussed in these letters are for our most onerous fee share class, and that a distinct minority of investors are in that share class. The majority of our limited partners' returns, for 4Q 2020 as well as over the past five years (and all time periods), are better. As I discussed in my 2Q 2019 letter ("Three Year Doubles, Five Year Doubles," p5), while I aspire to do even better, and past performance is not indicative of future results, compounding at a rate of five-year doubles for long periods of time is powerful. For full monthly returns since inception, please see investor presentation.

[3] Consider a number of our core positions and the special situations that led our opportunities to purchase them at what I believe were attractive prices: CLAR – "broken" deal; TPB – "broken" IPO; AOUT – spinoff; FREE – "broken" SPAC.

companies would be an important element of our strategy. Maran has punched above its weight in terms of its influence on some of our holdings. From behind the scenes, we have helped shape strategy, capital allocation, shareholder communication, and governance at many our portfolio companies over the years, frequently becoming a trusted sounding board for management teams.

Maran took a step forward on this path in 2020 as we transitioned to a role in which we are in a better position to help create value in one of our large holdings. In 4Q, we raised our first co-investment SPV with several strategic investors to increase Maran's ownership of Scott's Liquid Gold[4] (SLGD) to approximately 13%.[5] This put us in a position to be a stronger advocate on behalf of shareholders. After significant engagement and dialogue, Maran and Scott's recently entered into an agreement to enhance Scott's Board of Directors. I have joined the board alongside Rimmy Malhotra and Tisha Pedrazzini.

Here is a link to the press release announcing the changes:

Scott's Liquid Gold-Inc. Announces Appointment of Three New Directors to Board of Directors

After years of investing in *buy and build* strategies, I'm excited to be in a position to help influence the continued transformation and development of a company on such a path. While I will be limited in what I can share publicly regarding this position, I will be working tirelessly with the new board to maximize the value of Scott's for all shareholders.

Portfolio Update

At year-end, our top five positions were, in alphabetical order, Clarus (CLAR), Pure Cycle (PCYO), Scott's Liquid Gold (SLGD), Turning Point Brands (TPB), and one position that remains undisclosed. 78% of our long exposure was concentrated in our top 10 positions (with another 10%+ held in special situations, more on which below).

Discussions of select positions are included in the Appendix.

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Special Situations

As highlighted above, event-driven and special situation investing is a core part of our strategy. Over the past year, we were involved in the parent-daughter capital structure simplification arbitrage in SDI and TPB, the IAC/InterActiveCorp spinoff of Match.com stub trade, long several tender or merger situations in which the risk of deal break was small and the chance of an enhanced bid was reasonable, short several merger situations at tight spreads in which the chance of an enhanced bid was low and the odds of a deal break were reasonable, several spinoffs, and a bankruptcy/post-emergence, to name a few.

[4] Scott's Liquid Gold owns a collection of branded consumer products, including Prell Shampoo (the top-selling shampoo brand in the U.S. in the '70s), Denorex (a dandruff shampoo), Alpha Skincare (an alpha hydroxy skincare line), Kids N Pets (cleaning and stain removal), Biz Stain Fighter, Dryel (at-home dry cleaning), and the namesake Scott's Liquid Gold furniture polish and household cleaner lines. The company recently transitioned to an asset-light model with the sale of its manufacturing facilities.

[5] Between Maran Partners Fund and the SPV.

I believe the special situation element of our strategy has provided our best risk-adjusted returns, and I continue to make it a priority without *forcing it*. Good set-ups are unfortunately somewhat rare, so I pass on dozens of potential special situations for each one that I execute.

Special (Purpose Acquisition Company) **Situations – SPACs**

For most of the last 15 years, SPACs were viewed as a backwater. Investors' impressions seemed to be that SPACs were reserved for low-quality sponsors, low-quality targets, low-quality deals, and poor returns for investors. In the last year or so, perceptions changed, and SPACs have proliferated. There are currently over 300 SPACs representing over $100bn of equity seeking targets. A number of these will end badly, destroying capital. Others will execute successful mergers that create tremendous value for shareholders.

When 300 IPOs representing over 900 securities[6] price in a short period of time, there is bound to be inefficiency. Inefficiency creates opportunity. Our fund's small size and flexible mandate gives us the nimbleness to *go anywhere* to attempt to capitalize on these opportunities. Lately, I have found this hunting ground extremely attractive.

At year-end, we had over 10% of our long exposure in a few highly asymmetric SPAC units that I think limit risk of permanent capital loss[7] while providing multi-bagger potential upside (and a firm time catalyst). I have taken a selective approach based on fundamental diligence on team, strategy, structure, and eventually, target–we only want to partner with the best. I believe these investments offer tremendous risk-reward and are an efficient use of capital.

Operations Update

We are in the process of changing fund administrators to NAV Consulting. NAV was founded in 1991 by Nav Gupta, and, bucking the trend of industry consolidation, it has remained independent and grown organically mostly via client referrals. NAV is known for their use of technology to maintain accuracy, improve speed, provide great service, and reduce cost. We are hiring NAV just as they have surpassed the 1,000 client and $100bn of assets under administration milestones.

NAV has been performing complete redundant accounting for our fund for the last three months and is set to officially take over as our fund administrator in February. Expect to start seeing emails from NAV soon.

The partnership's annual tax preparation and audit is underway. We expect, as in years past, for K-1s to be available in a timely manner.

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[6] Most SPACs contain unit, common share, and warrant components.

[7] Recall a key element of SPAC units is the option to redeem the common share component for $10 rather than roll into a deal (while keeping the warrant component regardless). No SPAC has ever defaulted on cash in trust.

Conclusion

This letter goes to press against a backdrop of volatility marked by fear of missing out, pockets of euphoria, short squeezes, and the de-grossing of "market neutral" hedge funds. There is nothing particularly unusual about recent events–no, five- to 10-sigma events don't happen every year or two as the financial press might have you believe. Squeezes in highly shorted stocks are not Black Swan events and should be expected in the complex adaptive system that is the stock market. While we occasionally short stocks as part of a special situations trade (to create a "stub" or as part of an arbitrage, for example), we currently have no short positions nor have we year-to-date.

Index, quant, passive, high frequency trading, momentum, and other non-fundamental funds have been estimated to make up 85-90% of the market. In looking under the hood at what we own vs. what one might own in one of these non-fundamental strategies, including many popular index funds that hold large numbers of seemingly very expensive stocks, I'm much happier with what I see over here in our well-researched, fundamentally driven, selective portfolio.

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I am 100% focused on returns and not on asset-gathering. As such, I plan to close the partnership when size becomes a hindrance. That said, the partnership remains well below the size at which I think incremental capital would become a headwind. In fact, I believe incremental scale will be a tailwind for the foreseeable future. I continue to have the majority of my family's capital invested in the partnership alongside yours. Thank you, as always, for your trust, support, ideas, feedback, and pushback.

Sincerely,

Dan Roller

Appendix – Select Position Updates

Clarus Corp (CLAR)

Our long-time holding Clarus is set to have a banner year in 2021, as both of its segments should be firing on all cylinders. 20%+ owner Warren Kanders (supported by a team of skilled operators led by CEO John Walbrecht and CFO Aaron Kuehne) has continued to execute his "Buy and Build" strategy, most recently with the fantastic (and fantastically cheap) acquisition of Barnes out of the Remington bankruptcy.

Pure Cycle (PCYO)

Pure Cycle is the Denver land development and water company that I first wrote about last quarter. The Denver housing market remains strong – the number of listings on its MLS is at all-time lows. The shortage of entry-level homes (Pure Cycle's market) is particularly acute.

The strength of the Denver housing market is evident in PCYO's lot price acceleration. As a reminder, PCYO's Sky Ranch development in Denver has approximately 5,000 single family lot equivalents (SFEs). In Phase One of the development (which spanned the last two years), PCYO sold lots for ~$72k on average. In Phase Two, which is now underway, the company has contracted to sell lots for ~$102k – a 40% increase. Assuming no future appreciation, the value of the remaining 4,500 SFEs is ~$450mm. Net of future development costs (which will be partly offset by reimbursements), ignoring the potential valuation boost of selling some of the land as commercial, and discounted back to today at a high (i.e., conservative) discount rate, I value PCYO's land portfolio at ~$250mm, or $10-11/sh.

In addition to its land and lots, PCYO owns over 10k acre-feet of water rights and a water utility and associated infrastructure that is carried on the books for $55mm. The company can accommodate ~60k SFEs with its water portfolio, and it sells water and sewer tap hook-ups for ~$30k/SFE. This implies $1.8bn of future revenue associated with the water assets (before considering the monthly fees for water that PCYO will earn in its role as the utility). I believe PCYO's water assets are worth at least $250mm (another $10-11/sh) on a net-present-value basis (using a high and thus conservative 10% discount rate), but in water-short Colorado, these are scarce assets that could be valued by an infrastructure fund or other investor at a much lower discount rate (and thus much higher price).

I estimate that PCYO's NAV is north of $20/sh and therefore that PCYO is a "fifty-cent dollar," for which the value of the dollar is growing. PCYO fits my underwriting standards: it's potentially a three-year double with limited risk of permanent capital loss. With savvy capital allocation (the balance sheet has ~$20mm of net cash, no debt, and an additional "hidden" ~$20mm reimbursement receivable), value creation could be meaningfully higher.

Turning Point Brands (TPB)

Turning Point Brands, a branded consumer products company executing a *buy and build* strategy, has been a holding of the partnership on and off for the past four years. TPB is focused on "active ingredients," such as nicotine (including tobacco-based and non-tobacco variants, but not cigarettes), caffeine, CBD, and more. Their Zig Zag brand dates back over 150 years and is the top-selling rolling paper brand globally. I don't believe we are paying anything for the option, but if cannabis is legalized at the federal level in the US, Zig Zag could see a step-change in its growth. I love these types of situations. I've underwritten TPB based on its "boring" legacy businesses, but there is a lot of upside in its "new gen" segment (vaping, CBD, other active ingredients), as well as the potential for a real acceleration in Zig Zag's growth under various scenarios.

A few months ago, I had the pleasure of interviewing Larry Wexler and Bobby Lavan, the CEO and CFO of Turning Point Brands, respectively, at the Casulo *Buyside Fireside*, hosted by Shai Dardashti. We discussed why they are so excited about the opportunities ahead at TPB, the significant optionality embedded in the company, the fact that the company was one of the few to increase its share buyback authorization last March (and act on it), how management targets a 17.5%+ ROIC on all capital allocation decisions, and the growth prospects across all three of the company's major portfolio segments.

Enclosed is a copy of the interview for all partners.

Beyond the Top Five

American Outdoor Brands (AOUT)

In my last letter, I hinted at a new position: a cash-rich (although one had to scrutinize the footnotes to comprehend the balance sheet), growing consumer products company engaged in a *buy and build* strategy with insider buying that, as I wrote last quarter, "I believe has guided conservatively out of the gate." The company is American Outdoor Brands (AOUT). Little did I know just how conservatively the company had indeed guided. Upon reporting its second fiscal quarter last month, AOUT raised its F21 guidance by 75% (!), from $20mm to $35mm of EBITDA.

At the recent price of $19/sh, its enterprise value is $250mm. This means the business is trading at ~7x EBITDA. AOUT is asset-light and requires little capex, pays no interest expense, and has some tax shields in place, so its free cash flow conversion is very high.

RCM Technologies (RCMT)

We have held a position in RCMT for several years. While I added to the position last year, it remains outside of our top five (and a net detractor from fund performance to date). I laid out my thesis in my 3Q 2019 letter, and, despite Covid's negative effects on RCMT's nurse-staffing business (whose primary customers are school districts), my thesis (based on normalized levels of sales and profitability) is still intact. Despite the Covid-related headwinds, RCMT pulled a number of value-creation levers last year, including meaningful cash generation and the repurchase of a significant amount of stock at a very attractive price.

Through the first nine months of 2020, RCMT generated over $20mm of net cash, or ~$1.75/sh, while also reducing the share count by over 12% (RCMT repurchased 1.9mm shares).

When I discussed RCMT in the fall of 2019, I estimated that the three segments were together worth $125mm based on normalized levels of segment sales and profitability. Net of debt and on the share count at the time, this implied $8.50/sh of value for the stock. Updated for the meaningful share count reduction, this would now imply a fair value of $10/sh.

Whole Earth Brands (FREE)

Whole Earth Brands announced two acquisitions during the fourth quarter, furthering its *buy and build* strategy. I continue to believe FREE is very inexpensive at ~8x EBITDA (pro forma for the acquisitions) in a world in which many packaged food peers (including those with low/no growth) trade for 12-16x multiples. Whole Earth Brands is aligned with the mega consumer trend of health and wellness and is growing across its portfolio. I think eventually the market will take notice.

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Prior to investing, investors are strongly urged to review carefully the Offering Memorandum and related documents, including the risks described therein associated with investing in the Fund, to ask additional questions and discuss any prospective investment with their own advisers. Additional information will be provided upon request.

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.

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In 4Q 2020, the total return of the S&P 500 was +12.15%, and the total return of the Russell 2000 was +31.4%. Full year 2020, the total return of the S&P 500 was +18.4% and the total return of the Russell 2000 was 20.0%. The S&P 500 and Russell 2000 are indices of US equities. They are included for information purposes only and are not 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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