MARAN CAPITAL MANAGEMENT

April 30, 2021

Holmes:	*What do you think of my theory?*
Watson:	*It is all surmise.*
Holmes:	*But at least it covers the facts. When new facts come to our knowledge which cannot be covered by it, it will be time enough to reconsider it.*[1]

Dear Partners and Friends,

In the first quarter of 2021, Maran Partners Fund returned +22.5%, net of all fees and expenses.[2] Over the past five years, the partnership has compounded at a rate of +19.8%, net.[3]

First quarter results were driven by each of our value creation strategies: fundamental investments, event driven / special situations, and *constructivism* / engagement.

- A number of core holdings appreciated on the heels of strong fourth quarter results and growing business momentum in early 2021. Many are firing on all cylinders; I expect continued "beats" and "raises" as the year unfolds.
- We capitalized on special situations, including our SPAC unit strategy.
- After several years of patience, we took advantage of strength in one of our core (though below the top five) positions, exiting as it reached my estimate of intrinsic value.
- I have been working diligently to attempt to unlock and create value in Scott's Liquid Gold (SLGD). After joining the Board in January, I was named Board Chair earlier this week.[4]

As I discussed in my second quarter 2019 letter ("The Most Important Mental Model"), the scientific method mandates that we consider our beliefs about the world to be our current best theories rather than ironclad "laws" or "facts." Sherlock Holmes, as above, would concur. "Thesis creep" is welcome and in fact required. Considered by many to be a flaw, changing a thesis (a theory) when facts change is a critical component of open-minded, rational analysis.

If we go into an investment with a firm price target or only one conception of how it might play out, we may close our minds to additional sources of upside that manifest over time. The thesis that moves a stock from $5 to $10 can be quite different than the one that moves it from $10 to $20.

Given the rapid changes across many sectors of the economy – reopening, changing consumer habits, challenged supply chains, inflationary pressures – and ever-present stock market volatility, we must continue to attempt to disprove (and update if necessary) our theories considering evolving fact patterns.

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[1] Doyle, A. C. "The Yellow Face." *The Memoirs of Sherlock Holmes.*

[2] Based on our standard fee share class (1% management fee and 20% incentive allocation). For those in our Founder's share classes – the majority of you – returns were better. Please check your account statements for individual performance.

[3] Through 3/31/2021; based on our standard fee share class.

[4] Given this, I will remain limited in what I can discuss regarding Scott's in this forum.

Against this backdrop, I have recently re-underwritten our entire portfolio and many companies in our on-deck list. I have rotated a portion of our portfolio (using proceeds from one outright sale as well as the unwinding of several special situation trades) into fresh ideas with what I believe are excellent risk-reward ratios. There are strong momentum and near-term catalysts at many of our core holdings. Bottom line, I continue to see meaningful value-creation potential in our portfolio.

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To thrive, one must first survive.

Leverage

There were several high-profile hedge fund blow ups in the first quarter of 2021. One large fund is reported to have lost half of its value in a month on levered short bets gone awry. Another[5] destroyed 100% of its own capital and an additional $5bn to $10bn of its Wall Street counterparties' capital in a matter of days.

The common denominator: leverage.

For a fund running 6x gross levered (300% long by 300% short, for example), a 10% decline in gross wipes out 60% of capital. A 17% decline? Well, you can do the math. While leverage can obviously magnify returns when things go according to plan, things *don't* always go according to plan. With too much leverage, even a modicum of bad luck can create an existential crisis.

Cognizant of this, I have attempted to structure our partnership to be robust. The majority of my family's net worth is invested in the fund, so I have a firmly vested interest in minimizing the risk of permanent capital loss.

Risk management is first and foremost a mindset. It is certainly not a committee or a spreadsheet. Risk models filled with false precision can be dangerous. They can lull. I tend to ignore traditional measures of risk such as historical covariance or "value at risk." Common sense, good judgement, and *skin in the game* are paramount. For me, disciplined underwriting and research at the individual security level – asking the right questions and doing the necessary digging to answer them – are key components in the reduction of risk.

But so is portfolio construction. Here at Maran, I have shunned leverage. Our average gross exposure since inception has been 93%. While this may have served as a slight headwind to returns over time, our results have been satisfactory to me and I have slept well at night given this positioning.

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[5] Yes, you sticklers, this was a "family office" and not a "hedge fund."

Portfolio Update

At the end of the first quarter, our top five positions were, in alphabetical order, Clarus Corp, Pure Cycle, Scott's Liquid Gold, Turning Point Brands, and one undisclosed position. Our top five positions amounted to just under 50% of partnership capital. American Outdoor Brands and Whole Earth Brands, which I discussed in recent letters, remain core positions, each just outside of the top five.

Below are quick updates on some of these disclosed core positions.

American Outdoor Brands (AOUT) –Trends remain strong in the outdoor industry. Over the past two quarters, AOUT has raised its FY EBITDA guidance from $20mm to $44mm! Valuation remains undemanding.

Clarus (CLAR) – As with AOUT, channel checks reveal continued strength across all of Clarus' segments. Sell side estimates appear too low.

Pure Cycle (PCYO) – PCYO's scarce land and water assets continue to appreciate, and the pace of monetization is accelerating. PCYO continues to execute on delivering affordable lots into the tight Denver real estate market, which is marked by an acute shortage of entry-level homes.

Turning Point Brands (TPB) – Organic sales growth has accelerated to double digits in the last few quarters. TPB's Zig Zag brand is in an excellent position to take advantage of changing habits and laws surrounding the use of cannabis products.

Whole Earth Brands (FREE) – Whole Earth Brands raised its long-term organic growth guidance in the first quarter and continues to work on integrating two recent acquisitions. On 2022 estimates, after which the hard work of integration will be mostly behind it, FREE continues to trade at a very attractive multiple.

Special Situations

Our special situation SPAC strategy (a basket of SPAC units purchased at ~$10/unit) contributed nicely to our first quarter results. The asymmetric nature of this trade played out. We captured upside in various positions both pre- and post-merger announcement, but even as the SPAC market cooled towards the end of the quarter, downside was limited by each units' $10/sh of cash in trust.

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Conclusion

During the quarter, I had the pleasure of being a guest on Daniel Scrivener's *Outliers* podcast. Our conversation ranged widely. We discussed Maran's structural advantages, "buy and build" investments, special situations (including SPACs), the growth vs. value debate (that shouldn't be a debate), the selection of attractive investment hunting grounds, and much more. Here is a link to the episode.

I also very much enjoyed giving a guest lecture on special situations investing to group of business students at the University of Colorado. Taking a similar undergraduate investment class and helping to manage the Duke University Investment Club were formative experiences for me, so it was fun to put myself back in the shoes of a college student seeking to learn about investing and to share a few of the tools that have been an invaluable part of my toolkit over the years.

Maran Capital turns six years old next month, and our assets under management (AUM) have grown to just shy of $25mm. I believe we are reaping the benefits of scale yet remain far below the level at which too large of a capital base could become a headwind. The minimum investment in the partnership is $250,000, and we continue to have capacity for retirement and IRA capital. The founder's share class fee structures remain available to new investors. Our "one and ten" fee structure[6] with a five-year lockup is by far our most common share class. I'm honored and humbled to have a such a thoughtful and aligned group of investors in this partnership. You make my job easier. Thank you.

I look forward to providing another update in July. Until then, enjoy the warm weather and don't hesitate to reach out if you have any questions or if you would like to catch up and talk stocks!

Sincerely,

Dan Roller

[6] 1% management fee and 10% incentive allocation, with a high-water mark.

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