October 27, 2021

Dear Partners and Friends,

In the third quarter of 2021, Maran Partners Fund returned -3.1%, net of all fees and expenses, which brings the year-to-date return to +48.3%, net.[1] Over the past five years, the fund has compounded at the annualized rate of +22.2%, net of all fees and expenses.

When people hear what I do for a living, I am frequently asked, "so, what do you think about the market right now?" My answer is consistent, and probably generally disappointing to my inquisitors: I don't know. I don't think much about it. I don't have a view on "the market." Many stocks are overvalued today, and the entire market may also be overvalued (again, *I don't know*?), but I focus my attention on members of and candidates for our concentrated portfolio. Even against a backdrop of many expensive stocks, there will likely always be a handful of fantastic businesses run by great people available at attractive valuations that can compound at above-average rates over the long term. It is this handful of opportunities that I seek.

Our performance year-to-date has been solid, but I don't believe that it has diminished our go-forward prospects. The outlook for some of our core, long-held positions is as good as ever, and as I discussed last quarter, a confluence of events over the summer (including the $40/sh special dividend from CRSS) led to a large cash position in the fund. This provided a natural opportunity to "reset" the portfolio and reallocate capital into my best ideas as they stand now. I have been doing just that. While our top handful of positions are familiar names, I have re-underwritten each of them and have taken advantage of recent opportunities to meaningfully increase our holdings of some of these positions. I have also been adding to two newer positions (one a special situation I hinted at last quarter) and expect to disclose a new top-five position next quarter, more on which below.

Our approach is concentrated and idiosyncratic. It will yield lumpy short-term results that will frequently deviate dramatically – in both directions – from the market. But I believe this approach is optimal for long-term compounding. Our fabulous group of limited partners, who share my long-term orientation, are a key competitive advantage of this partnership.

Closing of Founder's Share Class Fee Structures

For those who are not yet a part of this great group of limited partners, a reminder: Our founder's share class fee structures will be closing at year end. If you are interested in joining the partnership with a 1% management fee and 10% incentive allocation fee structure, please get in touch.

Portfolio Update

At the end of the third quarter, our top five positions were, in alphabetical order, Clarus Corp (CLAR), Correios de Portugal, S.A. (Euronext Lisbon: CTT), Pure Cycle Corp (PCYO), Scott's Liquid Gold (SLGD), and Turning Point Brands (TPB). Crossroads Systems (CRSS) remains a core position, but it fell out of our top

[1] Based on our standard fee share class (1% management fee and 20% incentive allocation). Individual partner returns may vary. Please check your account statements.

five following the payment of its large special dividend. Additional disclosed positions outside of the top five include American Outdoor Brands (AOUT) and Whole Earth Brands (FREE).

Clarus (CLAR)

In my 2Q 2018 letter, I shared my (then) perspective on Clarus's potential. The stock was trading at approximately $8 per share, and I laid out a potential path to $35 per share. Careful readers may recall the math:

15 + 5 + 5 + 3 + 7 = $35

I have written occasionally about the importance of continually re-underwriting theses given changing information – of frequently checking one's hypothesis, in a Bayesian-Laplacian manner, against new data. Had I put a firm "price target" of $35 on Clarus three years ago, perhaps I would consider trimming or selling the stock as it approaches that level.

Instead, given a recent detailed re-underwriting of the company, I have updated my opinion about Clarus's potential value several years out. Given meaningful progress on apparel, footwear, retail stores, the company's sporting segment, and capital allocation (including the recent acquisition of Rhino-Rack, with more to come), I now believe the stock could climb above $60 per share over the next three years.

Here's the updated math:

25 + 15 + 10 + 10 = $60

- Black Diamond could be worth approximately $1bn, or **$25+ per share**, on $400mm+ of sales at a 15% EBITDA margin. 2.5x sales would not be particularly aggressive for a business of this caliber.
- Rhino-Rack could grow to approximately $500mm+ of value, or **$15 per share**, as EBITDA doubles over the next few years to $40mm+.
- Sierra + Barnes: $350mm+, or **$10 per share**, of potential intrinsic value on $125mm+ of high-margin revenue.
- Free cash flow generation and capital allocation could create another **$10 per share** of value over the next several years.

This week, Clarus conducted a secondary offering to raise additional capital to invest in further growth and M&A. While the share count will grow by ~8%, I believe the capital will be put to accretive use in short order. Clarus has been an extraordinary steward of capital and deserves the benefit of the doubt with respect to capital allocation decisions.

The secondary offering caused the stock to pull back by over 15% from recent highs. We used this volatility to add meaningfully to our already large position. Near-term catalysts include the 3Q earnings call (results, already pre-announced, were fantastic), the potential announcement of additional accretive acquisitions (one of the stated uses of capital raised in the secondary), and perhaps additional sell-side research coverage (as two banks that don't yet cover the stock assisted on the secondary). I believe there is a long runway for Clarus results to continue to "meet or exceed" expectations and that its growth prospects are far better than what the current valuation implies. Management remains aligned with shareholders via its ~20% equity ownership position.

Correios de Portugal, S.A. (Euronext Lisbon: CTT)

CTT remains a top position in the fund. I continue to love the setup, as it has elements of both fundamental growth and special situation/event-driven opportunity. Earnings should double over the next few years, driven by growth in parcels and a rational pricing mechanism in mail. "Hidden" assets such as real estate and the bank should have their values unlocked. Various embedded "start-ups" including dott.pt, fulfillment, and the payments business should continue to grow and be recognized by investors. The previously loss-making Spanish segment should swing to meaningful profitability. And excess capital should be used to invest in the business, engage in M&A, and repurchase stock at attractive valuations.

With CTT, we have many ways to win and a board and management team that "gets it." I think the best is yet to come.

Turning Point Brands (TPB)

At Turning Point Brands, the tail is wagging the dog. TPB has three segments, Zig Zag rolling papers, Stokers smokeless tobacco, and "New Gen," a collection of investments in vaping and other alternative products. Zig Zag and Stokers are both performing very well, together run-rating approximately $100mm of annual EBITDA. Zig Zag is benefitting from the ongoing trend of cannabis legalization, and Stokers is a low-cost, high-quality competitor in its niche, taking share and operating under a pricing umbrella.

New Gen, though, is struggling and operating at close to break-even levels. It is this third segment that investors seem to be focused on. The stock is cheap even assuming New Gen is worth nothing, and I believe risk-reward is asymmetrically skewed to the upside.

Crossroads Systems (CRSS)

I discussed CRSS last quarter, a core holding turned special situation as the company paid out a $40/sh special dividend. Our investment in the company was predicated on a strong niche business and a highly aligned management team and board, coupled with an attractive valuation.

The company's entrée into small business lending via the PPP program fundamentally changed the business. CRSS's success in the first half of 2021 laid the groundwork for it to reposition itself with a broader mandate.

Crossroads remains an ESG-friendly Community Development Financial Institution (CDFI) but now has greater resources and reach. It also has approximately 500,000 new customer relationships with small businesses and sole proprietors that it obtained through its participation in the PPP program.

During the quarter, CRSS announced a partnership with Enhanced Capital Group, a "socially responsible" asset manager focused on underserved businesses which will expand CRSS's credit assets. CRSS also announced the acquisition of Rise Line Credit, an asset-based lending firm. I believe the company's aspirations are higher still, and that these developments are just the beginning of CRSS's ongoing transformation. I'm excited to go along for the ride with the CRSS team on the company's next chapter.

American Outdoor Brands (AOUT)

American Outdoor Brands has continued to execute and demonstrate operational savvy. Its direct-to-consumer (DTC) reach is best-in-class, and it has managed the recent supply chain backdrop well. The company has built brands and grown brands.

Despite impressive operating performance, AOUT remains a “show-me” story in the eyes of investors on the capital allocation front. I’m pleased that the company has been patient and has not overpaid for acquisitions, but I believe the opportunity exists to create significant value via capital allocation.

With $4/sh of net cash and a decent chance of generating another $2/sh of cash over the next year (against a $22 stock price), AOUT may want to consider taking a page out of the Clarus playbook. (Recall, Clarus repurchased 10% of its shares outstanding at an average price of $4.40 per share in 2015 and 2016 when it was out of favor with investors.) AOUT could repurchase up to 10% of its shares now, and after gaining recognition from the market for being strong stewards of capital, would always have the option of using their shares as currency for future M&A.

Partly because of the uncertainty regarding AOUT’s capital allocation philosophy and strategy, the stock trades at around 5x EBITDA, far below my estimate of intrinsic value. The company can both take advantage of its depressed valuation and eliminate the capital allocation uncertainty in one fell swoop. The value-creation potential is tremendous.

Special Situations and New Positions

For the last few months, I have been working on a holding I expect to become a meaningful new position. I have known the business and management team for a long time, and I think the setup and valuation are attractive. I wouldn’t be surprised if this position winds up in our top five at year end, so – fingers crossed – more to come in January.

Conclusion

The leaves are falling here in Colorado, and Thanksgiving is around the corner and on my mind. I’m grateful for my immediate and extended family, especially my wife and daughters (and dogs). Joy, wonder, curiosity, laughter, and a grounding force (and a good excuse for lots of long walks) are a wonderful backdrop for this line of work. I’m also grateful for all of my investor friends, many of whom I’ve been able to see over the past few months in Denver, NYC, Vail, and Rhode Island. Your thoughts, ideas, and constructive criticism certainly make me a better investor. And I’m grateful for our limited partners, whose patience and alignment allow me to invest in what I believe is the manner that will allow us to maximize returns over the long term. Thanks.

One of the great things about the partnership model is that our group is small enough that I am still able to interact one-on-one with all of our partners. Don’t hesitate to reach out if you have any questions or would like to catch up about the portfolio.

Sincerely,

Dan Roller

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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, including detailed fund performance report, 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.

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.

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Prices for securities discussed are closing prices as of October 27, 2021 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 3Q 2021, the return of the S&P 500 was +0.6%, and the return of the Russell 2000 was -4.4%. Year to date, the return of the S&P 500 was +15.9% and the return of the Russell 2000 was +12.4%. 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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