

July 26, 2022

Dear Partners and Friends,

In the second quarter of 2022, Maran Partners Fund returned -15.7%, net of all fees and expenses, bringing our year-to-date performance to -25.3%. Over the past five years, the partnership has compounded at a rate of approximately 14%, net.¹

Back when I was training for Ironman triathlons, I used to ride my bike 100 to 150 miles on most Saturdays—call it six to ten hours in the saddle. When the training was going well, and the weather perfect, and my nutrition dialed in, I might finish one of these rides strong, flying down New York’s West Side Highway bike path feeling invigorated.

But that is not how these rides always wrapped up. Sometimes I’d be exhausted, and it might have started sleeting, and I might have gotten a flat tire, and I might still be 15 or 20 miles from home. We used to call these days “character-builders.” Give up and call someone for a ride home? Or change the flat with numb hands, take a deep breath, and get on with it?

The last six months have been a character-builder of a market. The cheap has gotten cheaper, and the expensive has gotten destroyed. The broader stock market, as measured by the S&P500 index, just had its worst first half since 1970, falling over 20% (the Russell 2000 and Nasdaq are down even more—the latter approximately 30%).

The economic backdrop is undeniably worse than it was a few quarters ago. Jamie Dimon, CEO of J.P. Morgan, summarized the environment in his recent earnings release:

In our global economy, we are dealing with two conflicting factors, operating on different timetables. The U.S. economy continues to grow and both the job market and consumer spending, and their ability to spend, remain healthy. But geopolitical tension, high inflation, waning consumer confidence, the uncertainty about how high rates have to go and the never-before-seen quantitative tightening and their effects on global liquidity, combined with the war in Ukraine and its harmful effect on global energy and food prices, are very likely to have negative consequences on the global economy sometime down the road.

He's generally accurate, but the negative consequences for the global economy have already started to emerge. While parts of the economy remain strong, other components have started to slow and even contract.

So, you may ask, given a slowing economy and potential recession, why own any stocks at all? The answer is fairly simple: market timing is difficult to impossible, and not a game that we are trying to play. Additionally, with a nod toward second-order thinking, sentiment is terrible right now. A recession is already priced into many stocks.

¹ Individual partner returns may vary based on share class and timing of investment, among other factors. Please refer to individual account statements for more detail.

Drawdowns are an unfortunate but normal element of investing in stocks, and I think we can do well over time while accepting volatility along the way. Warren Buffett once said he would rather have a lumpy 15% than a smooth 12%. But there aren't any smooth twelves (if someone is trying to sell you one, run). Still, I'd rather a lumpy 15%+ than a lumpy 12%, and I think that my philosophy and approach and our partnership's structure give us the best chance of achieving it. Given inevitable drawdowns in equity investing, how should we structure our investment approach?

My answers to this question shouldn't surprise you: We should do good research and know what we own. We should care a lot about valuation in all parts of the cycle. We should concentrate into our best ideas where we have conviction while remaining humble enough to accept that we are sometimes going to get some wrong. We should seek out special situations that create asymmetric upside and provide catalysts. We should have a long time horizon and align with patient capital, so that we aren't forced to sell during the inevitable declines.

As Jamie Dimon continued, "I always remind myself, the economy will be a lot bigger in 10 years." More than likely, it will be bigger in just two or three years. (For context, GDP was setting new highs by 2010 after the financial crisis, and the longest recessions since the Great Depression have been no longer than 18 months.) And as I always remind myself, there will be companies that grow and thrive during periods of broader economic contraction.

We want to avoid letting price action color our analysis of companies and the world. It is critical to stay rational while the market is emotional (in both directions). Markets are forward-looking but tend to overshoot. As usual, considering our companies through the lens of outright ownership is a useful, though incomplete, framework. Many of you reading this—LPs and others with whom my approach resonates—are business owners yourselves. You understand that businesses rarely grow in a straight line, and the paths to value creation can be nonlinear.

In general, our companies are well-capitalized and don't require access to the capital markets. This creates flexibility and puts them in a position to take advantage of the environment, rather than be at its mercy. I think we generally own companies for which we are more likely to wake up to a positive surprise than a negative one—the announcement of a smart deal; a new customer win; or a value-unlocking event.

I have re-underwritten our holdings, carefully checking my theses in light of the current economic backdrop. I have spent time with the management teams of many of our holdings. I've attended trade shows, capital markets days, and done checks with industry participants. During each of these touchpoints, I'm asking myself where and how my thesis on each holding could be wrong. I'm checking each data point as it comes in against my priors. I'm comparing management behavior to what I would be doing if I were in their shoes.

For the most part, our companies are tracking to my theses, both in terms of performance and behavior. Sure, there are some new headwinds and puts and takes, but in general I believe our portfolio companies are going to continue to compound in value through this period. The primary exception is our position in Countryside Partnerships, where progress on improving corporate governance and sensible decision making has stalled (more on which below).

Portfolio Update

At quarter-end, our top five positions were Cadre Holdings (CDRE), Clarus (CLAR), Correios de Portugal (Euronext Lisbon: CTT), Countryside Partnerships (LSE: CSP), and Pure Cycle (PCYO).² Net exposure is approximately 75%, with several small hedges related primarily to our European exposure.

Cadre Holdings (CDRE)

As a reminder, Cadre primarily sells holsters, bulletproof vests, and bomb disposal suits. It has an entrenched position with many customers and is fairly recession-resistant, selling into government law enforcement budgets. The world is a dangerous place, and the pendulum is swinging back from calls to defund the police to requests to re-fund the police. The operating performance of the business has been strong. Management is top-notch, and the company has a large pipeline of accretive M&A opportunities in front of it. My base-case thesis is that it should grow earnings by double digits organically, getting EBTIDA margins to 20% over the next few years, and then add to that growth by making smart deals.

Cadre announced a secondary offering of stock in June (to facilitate the exit of a private equity firm that still owned shares after Cadre's IPO), which led to weakness in the shares (and contributed to our weak 2Q performance). In the long term, Cadre's outlook remains bright; we added to our position during June.

Clarus (CLAR)

"We believe our portfolio of Super Fan brands has us well positioned to continue our market momentum. Our activity-based brands have demonstrated strong resistance to recent economic headwinds, while outdoorism continues to fuel demand for the outdoor activities that we serve. As a result, we believe that we are well positioned for another record setting year in 2022. "

– Clarus President, John Walbrecht

Clarus has continued to perform well and beat expectations. The company will benefit from a number of tailwinds over the next year, primarily related to its recent acquisition of Rhino Rack. These include the lapping of severe flooding and strict Covid lockdowns in Australia, as well as the easing of global supply chain and logistics challenges.

The euro has weakened, so the translation of European profits back to USD has caused me to reduce my profit expectations slightly in the near term, but I am still forecasting better results than the market seems to be implying over the coming quarters and years.

Smart capital allocation, in this "buy and build" strategy, remains an additional lever for value creation.

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

"We see excess cash to be further enhanced with opportunities that we want to materialize still this year...The bank's strategic partnership and real estate optimization...to be used in potential M&A and to reinforce shareholder remuneration with opportunistic share buybacks programs."

- CTT CFO, Guy Pacecho

² Listed alphabetically.

CTT is our Iberian mail/parcel carrier, bank and real estate conglomerate. The stock fell 30% in the first half of the year, with most of the declines coming in May and June, as funds positioned for a weakening European economy. We believe funds selling or shorting CTT on European macro fears are myopic, as the company is on the cusp of beginning its multi-pronged value-unlocking strategy (and operating performance has continued to hold in).

CTT held its first capital markets day in several years last month in Lisbon. The three most important takeaways: the company reiterated its intention to monetize its bank, the company reiterated its intention to monetize its real estate, and the company reiterated its 2022 guidance and established a long-term growth framework well above market expectations.

Together, I think that the bank and the real estate more than cover the entire enterprise value of the company at its current stock price (around €400mm). This means investors are getting the rest of the company, with its ~€50mm+ of EBIT (after adjusting out the bank and real estate), for free. Valued at 10x EBIT, the core business might be worth €3-4 per share, and I believe this value will grow over time. The company has made a number of structural improvements this year, cementing a new mail pricing contract with the government while also removing fixed costs from the business and making its cost structure more variable.

So, we have a stock trading at just over €3 with €3+ of value covered by real estate and a bank that the company will begin to monetize this year, and another €3+ (and growing) of value covered by the core business. I believe risk-reward is amply skewed in our favor.

Despite a challenging operating environment, CTT is generating meaningful free cash flow. And what is it doing with this excess cash? It is buying back lots of stock. The longer CTT shares remain depressed, the more value will accrue to long-term shareholders.

Countryside Partnerships (LSE: CSP)

CSP was a special-situation investment that I thought had created an entry point into what could become a long-term holding. After three activist investors acquired over 25% of the company, CSP started to refresh its board and improve corporate governance, and it announced a strategy change to focus on its high-return partnerships business. Signs were generally pointing in the right direction: a new board chair, an activist taking a board seat, the decision to put the legacy homebuilding business into runoff, excess capital being deployed to repurchase shares.

But during 2Q, the thesis started to unravel. It became clear that the activists were not aligned with respect to strategy. One activist made an opportunistic hostile bid for the company, essentially putting the company “in play” at just about the worse time imaginable: before recent restructuring actions began to flow through the numbers, before retiring significantly more shares at cheap prices, and against a weak capital markets backdrop. Rather than ignore the bid and continue to execute and buy back shares, the company agreed to run a strategic alternatives process. The outcomes at this point are a potential sale of the business for what will likely be a disappointing price (though still likely higher than the stock is currently trading), some kind of merger or other deal that keeps the company public but changes its composition dramatically (this could help lever fixed costs and increase scale, while also solving CSP’s management issue), or a failed sale process and continuation on the prior path (hopefully with a new

board and a concurrent large share buyback announcement, using proceeds from the homebuilding business run-off).

CSP has detracted from our results by approximately 3% year-to-date. I decreased our position size following the bid for the company, as it was clear my thesis had changed. The stock remains cheap, both relative to the bid it received as well as on a multi-year basis, but I believe it warrants a smaller size in the portfolio given the recent events, pending further evaluation of the company's actions.

Conclusion

I avoid making forecasts about the near-term trajectory of the stock market, but I am excited about the current opportunity given a long time horizon. Sentiment is terrible. Many stocks are getting cheaper and cheaper. And our portfolio is comprised of generally off-the-beaten-path, inexpensive stocks with solid management teams and numerous catalysts.

I have received some questions about dollar-cost averaging into the partnership during this period of market weakness. It is welcomed. For existing partners, we can accept additional investments in increments of \$25,000. The minimum investment for new partners is \$250,000, but we can accept this amount spread out over several months.

Thanks for your continued trust. I continue to have the majority of my family's capital invested in the partnership alongside yours. Please don't hesitate to reach out if you have questions about any aspect of the partnership.

Sincerely,



Dan Roller

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In 2Q 2022, the total return of the S&P 500 was -16.1%, and the total return of the Russell 2000 was -17.2%. Year-to-date through June 30, 2022, the total return of the S&P500 was -20.0%, and the total return of the Russell 2000 was -23.4%. 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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