July 2023

Dear Partners and Friends,

In the second quarter of 2023, Maran Partners Fund returned +0.9%, net of all fees and expenses; year to date, the fund returned +6.1%, net.[1] Over the past five years, the partnership compounded at a rate of approximately 12% per year, net (compared to approximately 4% for the Russell 2000).

Inflation has waned, and investors have begun looking to the end of this Federal Reserve rate-hike cycle. While it is unclear how long the fed funds rate may stay near current levels, the consensus expectation is that it won't move materially higher. This has caused animal spirits, at least in narrow pockets of the market, to reemerge. A handful of darling tech stocks and perceived "Artificial Intelligence" beneficiaries skyrocketed in the first half while most of the market treaded water.

Almost the entirety of the S&P 500's move in the first half was driven by eight stocks (and yes, they are the usual suspects: Facebook, Apple, Amazon, Netflix, Google, Microsoft, Tesla, and Nvidia). In other words, as some have joked, the "S&P 492" was approximately flat in the first half.

Should I have seen this coming and repositioned the fund into this FAANGMTN basket to capture its great first-half move? It would have been nice, but it is an unreasonable expectation. Attempting to make predictions about short-term stock price movements is not the foundation of a sound investment strategy.

As a reminder, to have results that are different (in other words: better) than those of the market, our portfolio must look different than the market. Our approach is to focus on a concentrated portfolio of companies we have researched deeply, which are typically smaller, off the beaten path, and generally less expensive than the market as a whole. We are seeking asymmetric risk-reward profiles with large margins of safety and catalysts—typically via special situations—where we can get them.

While there are times when our approach has been and will continue to be out of sync with the market, our idiosyncratic strategy has served us well over the long term. Since inception, our fund's alpha relative to the Russell 2000 is almost 7% annualized, and it is almost 3% annualized relative to the S&P 500.[2]

I have re-underwritten our portfolio, and I believe it is poised to deliver attractive results. We own many companies whose stock prices have not kept up with improving fundamentals, and for which I think it is only a matter of time before they catch up. I think we have a portfolio that fits my general underwriting target of being *three-year doubles* or better.

Peak on Peak and Trough on Trough

It should come as no surprise to you that momentum is a pervasive feature of the stock market. Frequently, investors linearly extrapolate recent trends or corporate performance. When things are good, they assume things will remain good or keep getting better. And when things are bad, they assume things

[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. Please see page 6 for important disclaimers, and our investor presentation for complete monthly results since inception.
[2] Annualized alpha since inception vs. Russell 2000: 6.71%; vs. S&P 500: 2.76%.

will remain bad or keep getting worse. This can lead to investors paying high multiples for companies when profits are abnormally high, and low multiples when profits are depressed.

At the extremes, investors have been known to pay peak multiples on what may be peak earnings, and conversely, trough multiples on trough earnings.

I have cautioned against simplistic first-order thinking in past letters (i.e., this is a good company so it must be a good stock *at any valuation*); the corollary applies with respect to valuations: low multiples alone don't necessarily mean something is a good investment. At times, I have bought stocks that appeared to be trading at infinity times earnings, because the cycle was terrible, and the companies weren't making any money. And then I have sold stocks at six- or eight-times earnings because it was the absolute peak of the cycle and things would never be that good again.

If simplistic valuation metrics aren't a reliable guide, where are we to turn? Of course, the answer is nuanced. Deep research and taking a multifaceted approach to valuation is critical. A few examples of additional valuation approaches, among many, that we may turn to are normalized earnings, asset value, replacement cost analysis, and private market value.

Is the market offering a world-class, brand-new semiconductor fabrication plant (that happens to not be profitable yet because it is just ramping up production) for half of what it cost to build? That's worth a look. What about a company trading at half of what private buyers would line up to pay tomorrow, but for which margins have been squeezed due to a temporary rise in input costs? Sure, let's dig in. Or a cyclically depressed company that is trading at a bargain on what the normalized earnings power of the business should be a few years out? Yes, let's investigate.

While these are hypothetical examples, they are indicative of some of the setups I try to seek out. I am generally looking for situations where things may not screen well, but when viewed through a different lens, opportunities are revealed that others have missed.

While maybe not completely "trough on trough," I believe investors are assuming challenges persist, and applying depressed valuation multiples as a result, in several of our core positions.

***

Portfolio Update

At the end of the first quarter, our top five positions were API Group (APG), Cadre Holdings (CDRE), Clarus Corp (CLAR), Correios de Portugal (Euronext Lisbon: CTT), and Vistry Group (LSE: VTY).[3]

APi Group (APG)

APG has quietly quadrupled since our first purchase in April 2020, and doubled since we added to the position in September 2022, when we brought it into our top five positions. It has executed exceptionally well, demonstrating the quality of its business through Covid and since. Obviously, my mistake has been to have this position sized too small over our holding period.

[3] Listed alphabetically.

That said, I believe it can double again over the next few years. By 2026, with EBITDA at over $1 billion, a 15x multiple would take the enterprise value north of $15 billion and the market cap to around $13 billion, or about $55 per share.

Cadre Holdings (CDRE)

Cadre Holdings, which we purchased just under two years ago at its IPO, has continued to execute well. The business' "mission critical products with recurring demand characteristics" set the backdrop for the company to maintain a favorable price/cost spread; margins have expanded and should continue to do so. Cadre rhymes a bit with APG in that I think it can quietly generate exceptional returns as it steadily grows, expands margins, and executes accretive acquisitions.

Clarus (CLAR)

Clarus is an example of a situation in which I believe the market is incorrectly extrapolating recent challenging results far into the future. While perhaps not exactly trading at "trough on trough," the current approximate 7x EBITDA multiple on depressed earnings (in at least two of its three segments) puts it close. Black Diamond Equipment, Clarus' largest segment, may only generate $10-15 million of EBITDA this year, as the US wholesale market is soft (REI and its peers entered the year with too much inventory), but I believe its normalized earnings power is in the 10-16% EBITDA margin range on $250 million of normalized sales, or $25-40 million of normalized EBITDA.

I believe Clarus remains a highly asymmetric stock. Downside is perhaps around $7/sh, while upside could be to well over $20/sh over the next few years. I think you really have to make punitive assumptions to get to the current stock price, while reasonable assumptions about the value of the business yields upside of 50-100%+. Private market value, which I believe is a solid benchmark for valuation, is probably twice where the stock is trading.

I think Clarus' bullet business is worth $200-300 million. Rhino Rack and the overlanding businesses could be worth over $200 million. And Black Diamond is probably worth somewhere in the range of $250-$500 million. This gets us $600 million on the low end and $1 billion on the upper end, or $13 to $24 per share.

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

I wrote the following about CTT six months ago:

> CTT is our Portuguese conglomerate that owns the monopoly postal business in the country, a pan-Iberian parcels business, a growing, profitable bank, and a large portfolio of excess real estate. CTT started to monetize its non-core assets and repurchase stock with excess cash last year. During the fourth quarter, CTT announced that it sold a 10% stake in its bank at a valuation of €285mm, or 1.1x book. Many investors had feared that the bank might only be worth one half of book value or less, so this transaction went a long way towards removing those fears. CTT continues on its path towards real estate monetization via both a yield vehicle and a development vehicle (which together have book value of €135mm and market value well north of that, in my opinion).
>
> As I have discussed in recent letters, I think CTT's bank and excess real estate value more than cover its recent market capitalization (€450mm at year-end), while its core postal/parcels business more than covers it as well. As value is growing in each division, I believe this still sets up as a potential "three-year double."

> Yes, CTT is far off the beaten path, and I occasionally get questions about whether investors will ever start "to care" and give the business a more appropriate valuation. In other words, they ask, "isn't this a value trap?" While many sum-of-the-parts stories in smaller markets may be, I gain comfort in the aligned management team who have clearly demonstrated that they are doing the right things to unlock and grow value. Absent the plans to monetize the bank, monetize the real estate, buy back shares, cut costs, renegotiate the company's government postal contract to allow for inflation passthroughs and volume decline offsets, and commit to a long-term plan predicated on double digit EBIT growth, this could be a value trap. But given all of those catalysts in place, I'm not worried about this stock being ignored for too long.
>
> Yet while it continues to be ignored, the company will likely continue to utilize capital allocation as a tool to increase value per share. After repurchasing 5% of the shares outstanding last year, the company will likely continue to repurchase shares this year, as its balance sheet is clean.

CTT has made additional progress on many fronts this year. In May, it announced solid 1Q results well ahead of expectations and raised its full-year guidance. 1Q EBITDA was €40 million, and full-year guidance, which appears conservative, implies EBITDA of €140 million. Again, this EBITDA compares to a roughly €500 million market cap, and enterprise value, adjusting for the bank and real estate, of close to zero. Also in May, CTT formalized its real estate monetization plan, entering into a series of agreements to sell assets. It started by announcing a €40 million-plus asset sale at valuations in line with my estimates for the portfolio (€200 million).

In June, CTT announced the resumption of its share buyback program. CTT has been buying back approximately 10% of the daily trading volume in its stock, every day, since then. The company has also seen recent insider buying.

And just this week, it announced another solid earnings report in which it announced that first half EBITDA came in at €80 million and first half free cash flow was approximately €50 million. Yes, this company is trading at around a 10% free cash flow yield on just <u>first half</u> results! And that is despite having almost all of its market cap covered by its real estate and bank holdings.

CTT is making progress executing on its operating and capital allocation plans, yet the market seems to be snoozing. Ongoing buybacks, the closing of the first real estate transaction, and continued operating improvements are all potential catalysts for the stock in the second half of the year.

Vistry Group PLC (LSE: VTY)

The entire UK homebuilder sector has been very out of favor, as stubbornly high inflation readings gave rise to fears of continued high interest rates and suppressed homebuyer activity. Despite evidence that inflation had subsided in most of the world, investors were once again linearly extrapolating the recent past in the UK through June. Since mid-year, inflation readings in the UK have declined, and homebuilders, Vistry included, have started to rebound.

Vistry has had industry-best performance, showing growth where most competitors have seen significant declines. Its partnerships business is the key driver of this, which remains a relatively hidden gem of a business. I believe the stock price is certainly not giving it credit for the business' quality (asset light, long growth runway, recession resistant).

The company recently added Jeff Ubben, of Inclusive Capital, an activist investment firm, to its board, as well as Paul Whetsell, who was previously on the board of US homebuilder NVR. NVR is notable for its tremendous long-term stock price return as well as its savvy capital allocation (capital light growth and meaningful share buybacks).

Vistry should see 20%-plus annual profit growth over the next few years; its trading multiple could expand (and still be very cheap); and its share count could shrink meaningfully as it applies excess free cash flow to share buybacks. This could set up for a multifold increase in the stock price over our investment horizon.

***

Conclusion

We're off to a solid start in the third quarter, and I look forward to writing to you again in the fall. Thank you for your continued trust. I have the majority of my family's investment capital invested in the fund alongside yours. I continue to believe our contrarian and idiosyncratic approach will serve us well over the long term.

As always, please don't hesitate to reach out if you have any questions or if you would like to discuss the fund in more detail.

Thanks,

Dan Roller

Disclaimer

This document is not an offer to sell or a solicitation to buy any interests in any fund managed by Maran Capital Management, LLC ("MCM"). Any such offering will be made only in accordance with the Fund's Confidential Offering Memorandum (the "Offering Memorandum"). The Fund may not be eligible for sale in some states or countries, nor suitable for all types of investors.

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.

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.

This document and information contained herein reflects various assumptions, opinions, and projections of MCM which is subject to change at any time. MCM does not represent that any opinion or projection will be realized.

The analyses, conclusions, and opinions presented in this document are the views of MCM and not those of any third party. The analyses and conclusions of MCM contained in this document are based on publicly available information. MCM recognizes there may be public or non-public information available that could lead others, including the companies discussed herein, to disagree with MCM's analyses, conclusions, and opinions.

Funds managed by MCM may have an investment in the companies discussed in this document. It is possible that MCM may change its opinion regarding the companies at any time for any or no reason. MCM may buy, sell, sell short, cover, change the form of its investment, or completely exit from its investment in the companies at any time for any or no reason. MCM hereby disclaims any duty to provide updates or changes to the analyses contained herein including, without limitation, the manner or type of any MCM investment.

Prices for securities discussed are closing prices as of July 26, 2023 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 2Q 2023, the return of the S&P 500 was 8.7%, and the return of the Russell 2000 was 5.2%. 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.

None of the information contained herein has been filed with the U.S. Securities and Exchange Commission, any securities administrator under any state securities laws, or any other U.S. or non-U.S. governmental or self-regulatory authority. No governmental authority has passed on the merits of this offering or the adequacy of the information contained herein. Any representation to the contrary is unlawful.

Copyright Maran Capital Management, LLC 2023. This information is strictly confidential and may not be reproduced or redistributed in whole or in part.