



August 2020

Dear Fellow Investors,

The second quarter was a healthy period for markets as they began their recovery after bottoming in March. The funds that we are invested in followed a similar trajectory, generating an aggregate return of over 18% for the Greenhaven Road Partners Fund in the second quarter. The fund of funds remained down 9.4% for the year as of the end of June, though we estimate that ground has been made up with encouraging returns in July and month-to-date in August. Time will tell, but it has been a productive environment for stock picking.

While it seems like ages ago, Q2 included the meat of the “lockdowns” in the United States. For almost two months, my universe of in-person human interaction narrowed to my immediate family. This was a period of intense volatility in the markets and great uncertainty regarding the trajectory of the virus, the level of government response, and the health of the economy. Together, these factors created an interconnected mess with a very wide range of potential outcomes. In this period of isolation, I really wanted to convene the managers of the Partners Fund to discuss individual companies as well as the overall investing landscape. If I could have waived a wand, I would have brought everyone back to The Harvard Club for another decision-making workshop with Annie Duke, the author of *Thinking in Bets*. For a number of obvious reasons, that was just not possible, so I borrowed my wife’s Zoom account and hosted an online “happy hour” for all of the managers one Thursday after the market closed.

Convening a bunch of introverted and impassioned “value nerds” can have its moments of awkwardness, but I found our discussion to be a robust and informative comparison of notes on how managers I respect were navigating the markets. This energizing experience led to additional Thursday happy hours during which we continued our freewheeling conversation. While I thoroughly enjoyed the camaraderie and insight, I was also interested in digging deeper and putting more structure around these virtual gatherings, so I decided to modify the format a bit.

Concurrent with these Partners Fund happy hours, I was doing diligence on a single stock special purpose vehicle (SPV) set up by Connor Haley of Alta Fox Capital. Collectors Universe (CLCT) provides third-party authentication and grading services to dealers and collectors of trading cards and coins. This was already the largest position in Connor’s fund, he was raising additional capital to invest in the opportunity via the SPV, and he was considering an activist campaign to encourage changes he believed would create substantial value. Like many interesting investments, Connor’s thesis had layers that were not obvious from the company’s historical numbers or investor relations efforts. His materials were outstanding, and his knowledge was encyclopedic, creating an attractive set-up of a motivated manager, a variant perception, and a reasonable valuation. Unfortunately, given the tight time frame and existing capital commitments, there was no practical way for the Partners Fund to invest in the SPV. However, it seemed like a wasted opportunity to just pass, so I came to Connor with a proposal to join a happy hour as a guest presenter – pitching to a group of likeminded managers who would “get it” and who – if they bought in – would be far more supportive of his agenda than the Vanguard and Blackrock ETFs which buy and hold blindly. It was a good use of time for everyone.



We had a subsequent happy hour featuring a company of which ADW Capital/Adam Wyden owns just under 10 percent – RCI Hospitality (RICK). This ~\$150mm market cap upscale night club and restaurant operator had a very large short interest and simple bear case against it: in the middle of a pandemic, nobody wants to – or even can, in many cases – go to the venues. In fact, people like me would pay NOT to go in order to avoid potential Covid exposure. To complicate the story, RICK’s CEO has an unorthodox background, including a lack of traditional college degree. To say that RCI Hospitality was a contrarian idea during a pandemic would be an understatement. However, Adam’s logic was as follows: the environment has changed, but humans have not changed; this is temporary. The company has the balance sheet to survive this; it owns a ton of real estate, which can be monetized, if necessary. The stock trades at a 30%+ free cash flow yield on normalized earnings, and the CEO has proven himself to be a very good capital allocator. As often happens, Adam was right. The CEO, Eric Lanagan, joined our call and displayed an impressive command of the specifics of individual markets, unit economics, and their drivers, as well as how operating leverage would manifest itself in the cash flow statement. More importantly, he laid out strategies for dealing with Covid and how unit-level economics could be profitable at far lower capacities than traditional restaurants and clubs. The combination of Adam’s enthusiasm and management’s knowledge made it clear that RCI Hospitality should survive the pandemic, would be a major beneficiary of re-openings, and may, in fact, turn out to be a very painful short.

As stay-at-home orders have been lifted, the happy hours have been less frequent, but there is a camaraderie and cooperation among several managers that I think is constructive. For example, I have participated in several “red teams” for managers where they invite the rest of us to attempt to shred their investment thesis. The team’s role is to ignore any positives of the opportunity and attempt to highlight every clear and potential weakness. For a manager who is an “investment committee of one,” this type of review can be helpful in exposing blind spots. We also continue to have Zoom meetings that focus on individual companies as opportunities arise, since it has been an excellent use of managers’ and company management time.

While the main indexes and large companies have posted strong recovery numbers, there many other areas of the market that remain behind and companies that have been ignored or misunderstood, offering a still-ripe environment for stock-picking opportunity. For what it is worth, my wife added to her investment last quarter and will do so again before the year ends.

As I have said at the end of every letter, our fund of funds is going to be different. It will be smaller, the underlying holdings will be more esoteric, and I hope the managers will continue to collaborate more over time. I believe that it will all be *good different*, but only time will tell. Thank you for joining me on this journey. I will work hard to grow your family capital alongside mine.

Sincerely,

Scott Miller



Disclaimer:

This document, which is being provided on a confidential basis, shall not constitute an offer to sell or the solicitation of any offer to buy which may only be made at the time a qualified offeree receives a confidential private placement memorandum (“PPM”), which contains important information (including investment objective, policies, risk factors, fees, tax implications and relevant qualifications), and only in those jurisdictions where permitted by law. In the case of any inconsistency between the descriptions or terms in this document and the PPM, the PPM shall control. These securities shall not be offered or sold in any jurisdiction in which such offer, solicitation or sale would be unlawful until the requirements of the laws of such jurisdiction have been satisfied. This document is not intended for public use or distribution. While all the information prepared in this document is believed to be accurate, Greenhaven Road Capital Partners Fund LP and MVM Funds LLC makes no express warranty as to the completeness or accuracy, nor can it accept responsibility for errors, appearing in the document.

An investment in the fund/partnership is speculative and involves a high degree of risk. Opportunities for withdrawal/redemption and transferability of interests are restricted, so investors may not have access to capital when it is needed. There is no secondary market for the interests, and none is expected to develop. The portfolio is under the sole investment authority of the general partner/investment manager. A portion of the underlying trades executed may take place on non-U.S. exchanges. Leverage may be employed in the portfolio, which can make investment performance volatile. An investor should not make an investment, unless it is prepared to lose all or a substantial portion of its investment. The fees and expenses charged in connection with this investment may be higher than the fees and expenses of other investment alternatives and may offset profits.

There is no guarantee that the investment objective will be achieved. Moreover, the past performance of the investment team should not be construed as an indicator of future performance. Any projections, market outlooks or estimates in this document are forward-looking statements and are based upon certain assumptions. Other events which were not taken into account may occur and may significantly affect the returns or performance of the fund/partnership. Any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur.

The enclosed material is confidential and not to be reproduced or redistributed in whole or in part without the prior written consent of Greenhaven Road Capital Partners Fund LP and MVM Funds LLC. The information in this material is only current as of the date indicated, and may be superseded by subsequent market events or for other reasons. Statements concerning financial market trends are based on current market conditions, which will fluctuate. Any statements of opinion constitute only current opinions of Greenhaven Road Capital Partners Fund LP and MVM Funds LLC, which are subject to change and which Greenhaven Road Capital Partners Fund LP and MVM Funds LLC do not undertake to update. Due to, among other things, the volatile nature of the markets, and an investment in the fund/partnership may only be suitable for certain investors. Parties should independently investigate any investment strategy or manager, and should consult with qualified investment, legal and tax professionals before making any investment.

The fund/partnership is not registered under the investment company act of 1940, as amended, in reliance on an exemption thereunder. Interests in the fund/partnership have not been registered under the securities act of 1933, as amended, or the securities laws of any state and are being offered and sold in reliance on exemptions from the registration requirements of said act and laws.