January 22, 2018

Dear Partners and Friends,

I'm pleased to report that the return of Maran Partners Fund, LP in 4Q 2017, net of all fees and expenses, was +10.5%[1]. For the full year 2017, the net return of the partnership was +23.9%. From inception in the summer of 2015 through year-end 2017, the partnership, net of all fees and expenses, was up 26.2%, a CAGR of 9.4%. The usual caveats apply: for the many partners that have elected to invest in share classes with longer commitments and lower fees, net returns are better. The timing of subscriptions also influences individual partner returns. Please review your account statements for details.

"If you can keep your head when all about you are losing theirs."

- Rudyard Kipling

There are elements of the market today that are reminiscent of the "dot com" bubble of the late '90s. In 1999, the announcement that a company was appending a ".com" to its name was often worth hundreds of percent of appreciation. Recently, announcements that a company is launching an "initial coin offering" or otherwise creating a blockchain have led to similar outcomes. For example, a few weeks ago, Ameri Holdings (AMRH) stock more than doubled the day it put out a press release titled "AMERI Holdings to expand offering with blockchain solutions to bring trust, transparency, and efficiency to customer supply chains." Separately, Kodak's (KODK) announcement of the launch of a cryptocurrency called "KodakCoin" sent the stock up over 200% in the following two days. How well thought out was this new venture? Kodak had only registered the kodakcoin.com domain in the week prior to the announcement.

With this as the backdrop, I am "keeping my head." Rudyard Kipling's *If* is frequently quoted by financial commentators during depressions, sell-offs, and busts; I think it is perhaps more important to heed its wisdom during periods of excess. As Buffett said, "be fearful when others are greedy." I'm doing just that. There is no *fear of missing out* on short-term speculative gains at Maran Capital right now.

If the market continues to march higher[2], our partnership certainly runs the risk of underperforming in the short term. I am cognizant of the elevated valuation of the broad market, but I spend no time trying

[1] Based on a hypothetical investor who invested at fund inception and is paying a 1% management fee and 20% incentive allocation. Individual partner returns may vary based on fee structure and timing of investments. Please see disclaimer on page 10 for important information.

[2] Jeremy Grantham, a level-headed and long-tenured student of the markets, makes a cogent argument for this possibility. In his recent missive, he wrote, "I find myself in an interesting position for an investor from the value school. I recognize on one hand that this is one of the highest-priced markets in US history. On the other hand, as a historian of the great equity bubbles, I also recognize that we are currently showing signs of entering the blow-off or melt-up phase of this very long bull market." His entire piece is worth reading, but his punchline is that he thinks a "melt-up" that could take the S&P 500 to a range of 3,400 to 3,700 (roughly +25% to +35% from here) is more likely than not (ie, odds over 50%). The froth in the market could get frothier.

to predict where it may move in the short term. The fund doesn't try to mimic the return of the market or track the indices.

Despite pockets of exuberance and an increasingly expensive broader market[3], my favored hunting grounds – small and micro-cap stocks and special situations – are as ripe as ever with value. By staying off of the beaten path, I continue to find what I think are high quality, well-run companies trading at large discounts to my conservative estimates of their intrinsic values.

One of the best hedges to a market sell-off is owning cheap stocks. Can a high quality company that is trading at 4x earnings with a good, aligned management team and strong net asset backing get cheaper in the short-run? Sure. But we are patient investors and I think that owning companies such as this minimize the risk of permanent capital loss, while giving us the best odds of compounding our capital over time, *regardless* of what the broader market does.

I am excited about the cheap stocks that make up our portfolio today, and remain optimistic about our partnership and its outlook over the coming years.

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Scheid Vineyards (SVIN)

> "Simply put, this is one of the most exciting investment opportunities I have come across in my ~15 years in the business."
>
> - Maran Partners Fund 2Q 2017 Letter to Partners

There is a website called Sum Zero (https://sumzero.com) which calls itself "the world's largest professional investor community." Investors, once registered, can post write-ups of investment ideas for fellow investors to consider. Hundreds, if not thousands, of ideas are posted to Sum Zero every year. Last summer, data scientist Luke Schiefelbein analyzed over 10,000 write-ups posted to Sum Zero over the last decade. He discussed one interesting finding in an August Forbes article: shorter write-ups tended to outperform longer write-ups. "Ideas with a higher than average word count return almost 10% less than ideas with a below-average word count," he wrote. This is obviously a broad generalization, and some complicated ideas will inherently demand more page space to describe than simpler ones. But I'm not surprised by the finding, and indeed have found that if I don't have the ability to explain an investment thesis in a concise manner, I probably need to enhance my understanding of it. Blaise Pascal's sentiment is apt: "I have made this longer than usual because I have not had time to make it shorter."

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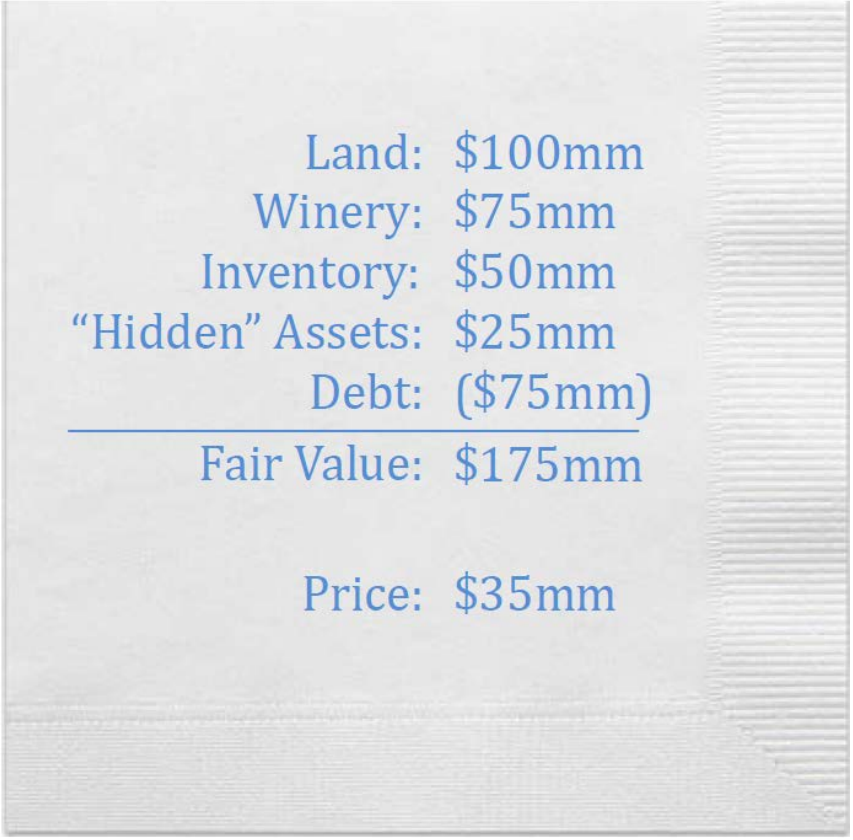
[3] Admittedly, the move in the market is at least partially underpinned by solid fundamentals. The economy is healthy (indeed, we may start to see inflation pick up), and the recent tax cuts give greater ownership of corporation's income streams to shareholders. Even blockchains may ultimately revolutionize *something*, just as the internet has incalculably changed the world over the last 20+ years. But investors need to be careful about taking good things too far. As Benjamin Graham is reported to have said, "You can get in a whole lot more trouble investing with a sound premise than with a false premise."

In aphorism form: a good thesis should be so concise that it fits on a cocktail napkin. Of course, there may be hundreds of pages read, scores of notes taken, numerous interviews conducted, and a plethora of additional materials collected supporting any given thesis, but I think it is best when an idea can be summarized in a straight-forward way.

Thus, I present my "cocktail napkin" thesis on Scheid Vineyards (SVIN) from when I began conducting my research last July[4]:



I first mentioned Scheid Vineyards (at a high level) in my 2Q letter to partners last year, as I was building the position. It is now a core position for the fund (our third largest as of year-end).

Scheid Vineyards is a vertically integrated winery company. They own ~2000 acres of vineyard land in Monterey County, CA, and lease another ~2000 acres. They own a world-class, 2mm case equivalent capacity winery. Over recent years they have grown the branded and cased-goods business to half a million cases, while the rest is still sold as bulk wine. In the coming years, they will likely continue to grow the branded/cased-goods portion of the business, which should drive revenue, margins, and the valuation multiple that the stock warrants. And best of all, the stock trades at a massive discount to my estimate of intrinsic value.

[4] Note the current "price," or market cap, is ~$65mm.

Scheid Vineyards has many of the characteristics that I look for in an investment.

- Off the beaten path; uncovered; unloved; unfollowed;
- Cheap valuation in relation to intrinsic value (at least partly attributable to the above);
- Aligned and high quality management team (55%+ insider ownership); key leaders have 20+ years with Scheid;
- Strong downside protection via cheap valuation and hard assets (land, winery, inventory, etc);
- Significant upside; liquidation value of the assets is around $200/sh and I think intrinsic value is higher still.

To avoid too much repetition, I direct those interested in the work behind the cocktail napkin thesis to my detailed write-up and presentation on SVIN.

Here is a link to my initial SVIN write-up from July 2017:

Maran Capital Scheid Vineyards Write Up – July 2017

And here is a link to a presentation that I created more recently, after additional due diligence on the company, including a two-day visit that included tours of the vineyards and winery facilities, and meetings with a number of senior executives (including the CEO, CFO, COO, CMO, etc):

Maran Capital Scheid Vineyards Presentation – January 2018

As I describe in the linked write-up, one of the reasons that Scheid is so far off the beaten path (and perhaps so cheap) is that the company is not registered with the SEC. While the stock is listed and trades on the OTC marketplace, it is effectively a private company. Entities such as this are colloquially known as "dark" companies. Unregistered securities are not an everyday occurrence for our fund, but I am comfortable with them, as many post-bankruptcy reorganized companies go through a period where the post-reorg equity trades on the OTC market prior to SEC registration. In fact, we own one such company right now (though in that case, a registration seems to be on the horizon, and could act as a catalyst this year).

Scheid has no explicit plans to register with the SEC (the added costs probably would not make it worthwhile for them), but they have started to come out of the "dark" in some ways, shining a light on their performance via public press releases, for starters. As Scheid moves toward providing investor information that is akin to that of many SEC-registered public companies, I think Scheid's discount to intrinsic value should narrow.

Scheid is a seasonal, cyclical, weather-influenced company, with fairly illiquid shares. Via our minority investment in the company, we are partnering with Scheid for the long term. My hope is that growth in intrinsic value dwarfs the narrowing of the valuation gap (between price paid and current intrinsic value) over our investment horizon.

My cocktail napkin thesis on SVIN is certainly shorter than any thesis ever posted to Sum Zero. Let's keep our fingers crossed that the correlation between thesis length and stock return holds!

Idea Generation

Many hedge funds or mutual funds will have a slide in their marketing decks that shows an idea "funnel." Well, we start with the universe of 8000 companies, they might say, and then we run a screen to narrow it down to the ones that have high returns and good balance sheets, for example, and then we narrow it down to the ones that are relatively cheaper on some quantitative valuation metrics, and then we apply some deep proprietary research (they would likely claim, at least), and we wind up with the 150 stocks that we own in our portfolio. It all sounds very scientific, and thus *repeatable*!

I must admit: while I believe that I will continue to find mispriced companies for our fund (there is enough inefficiency in certain corners of the market), my process of idea generation is considerably more haphazard than the example above. It consists of two key elements: reading a lot and talking to smart business people and fellow value investors.

I have written before at length about my favored "hunting grounds" – primarily small and micro cap stocks and special situations (see my 1Q 2017 letter, for example). I read extensively, with an eye towards tracking a number of special situations categories (at risk of beating a dead horse: spin-offs, post-bankruptcy emergence, rights offerings, broken IPOs, SPACs and broken SPACs, M&A transactions, activism, management change, strategy change, change in shareholder base, NOL shells, broken deals, negative enterprise values, SOTP discounts, forced sellers, to name a few). As for screening, everyone has access to computers and databases these days. I'm generally trying to find situations that may not screen as cheap – whether it is because they are not in databases (such as Scheid) or don't appear cheap based on earnings or book value (due to under-earning, or having hidden assets). The areas where I have generally found the most mispriced securities are areas where one has to do real digging to uncover them.

In addition to reading broadly with a (mental, not silicon-based) filter for situations that may be the cause of a mispricing in a company's stock, my network – especially a group of smart, like-minded fellow value investors – is another great source of ideas. The great thing about ideas that come from this group is that they have been pre-screened, in a sense. I'm not starting from scratch when I hear about an idea that another portfolio manager has as one of his top holdings.

Of course, you can borrow an idea but you can't borrow conviction. I have to do the work on every idea that goes into the fund, regardless of its source. Even the smartest investors sometimes err; still, I would rather start with an idea pitched by a smart value-investor friend with skin in the game than from scratch.

In looking back at the fund's core positions over time, I think that I have sourced roughly half of the ideas independently (ie, through my reading and tracking of special situations), while roughly half have come from my network. I've been following CLAR and BH for over a decade, and primarily sourced those ideas independently (that said, it was through my network that I was first introduced to Warren Kanders, the Chairman of CLAR, in 2001, so perhaps that one is a hybrid). TPB, on the other hand, was pitched at an idea dinner in Denver that I attended last year. The pitch was compelling enough that I commenced due diligence and later made the company a core position in our fund.

It would be fun if the source of the Scheid Vineyards idea were a true Peter Lynch-style *scuttlebutt* idea: that I tried a new wine at a restaurant, looked up who made it, and then started researching the company

and discovered how cheap it was. But that is not the case. Instead, an introduction to the company came from my network. (While perhaps less fun, the source of the idea made it even more valuable, since I didn't have to start from scratch in the research process.) My close friend, Aaron Edelheit, founder of Mindset Capital, who is a very successful real estate investor, suggested I look at SVIN. He knew the company well, and was a shareholder. His description of the business and associated land and asset holdings quickly piqued my interest. It was clear he was onto something compelling.

Of course, the fact that the idea came from a trusted friend didn't diminish the vigor with which I approached the due diligence. I dove into proving out the landholdings and asset values and understanding the operations and strategy. Ultimately, I came to the same conclusion as Aaron – that Scheid was a well-run company with strong asset-backing trading at a very cheap price in relation to conservatively estimated intrinsic value.

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Portfolio Update

At year-end, our exposure was roughly 97% long by 4% short. The top five positions were Clarus Corp (CLAR), Turning Point Brands (TPB), Scheid Vineyards (SVIN), Biglari Holdings (BH), and Atento (ATTO).

Clarus Corp (CLAR)

Clarus Corp, parent company of Black Diamond Equipment and Sierra Bullets, has been a core position for over two years, and remains our largest position. The company continues to execute well. 3Q sales grew high single digits in the core Black Diamond business, driven by particular strength in apparel (+70% y/y for "in-line" merchandise) and the climbing category (+17% y/y aided by the launch of climbing shoes). The balance sheet remains fairly unlevered, and the company has significant NOLs to shield taxes over the next several years.

I continue to believe that CLAR is meaningfully under-valued; the stock still fits my framework of being a potential "three-year double." I believe meaningful value creation has occurred over the last year or two (as evidenced by new product launches, accretive M&A, and significant sales and margin improvement), yet the stock continues to trade for less than which I think the company could have sold itself in the summer of 2015, when the company last explored strategic alternatives.

I gave a presentation on CLAR earlier this month at the Best Ideas 2018 Conference, Hosted by Manual of Ideas. A copy of the slides can be found here, and a transcript of the talk should be available shortly.

Turning Point Brands (TPB)

Sometimes smaller-cap and less liquid stocks behave in unexpected ways (which is part of their appeal to me – one seller wanting to exit a position can trump fundamentals in the short term, creating opportunities). This seemed to be the case with TPB following its 3Q earnings release. I believed the results, including the initiation of a dividend, were positive. Despite this, the stock sold off in the days following the release of results, to a low of ~$15.50/sh (perhaps one seller just wanted out). Regardless of the cause of the weakness, I took advantage, and added to the position during this period. Again, this is somewhat illiquid, so any subsequent strength into year-end could easily be attributed to "one buyer

wanting to get in." Short-term aberrations in either direction aside, I believe that TPB increased in value over the course of 2017, and is likely to continue to compound at acceptable rates over the long term. As a reminder, my 2020 price target range is $30-40/sh.

Scheid Vineyards (SVIN)

Discussed above and in linked write-up and presentation.

Biglari Holdings (BH)

BH fell from just under $400 in late July to a low of just under $300 in August/September. As I indicated in my 3Q letter, I thought the sell-off provided a compelling opportunity to add to the position, which I did (nearly doubling the position size between September 1 and November 30, to over 20% of the partnership's capital). We were buying shares at less than the value of the company's cash and securities, and getting all of the fully-owned business for free. The extreme mispricing of the security abated over the course of December, and I have since reduced the size of the position. BH remains a core holding.

Atento (ATTO)

As you know, I look at a number of special situations categories in my constant search for value. One category is equity capital markets activity – in this case, the sale of blocks of stock in secondary transactions.

Atento is a company that I have followed for several years, since its IPO in 2014. It is the number one business process outsourcing firm in Latin America. Their primary business is the somewhat low margin (EBITDA margins have averaged about 12-13% over the last few years) but also fairly sticky business of outsourcing call centers (with an increased push of late to offer additional value-added solutions).

Atento has had its share of headwinds over the past few years (currency, political instability in Brazil). But over the last year or so, business has improved. The company has reduced leverage, improved margins, and started growing again. The market didn't miss this, and the stock appreciated from under $8/sh to $12.50/sh over the year through November, 2017. With that as the backdrop, Bain, the largest owner, decided to sell just under a quarter of their position (about 19% of the company) in November (they continue to own roughly two thirds of the shares). Rather than a slight discount to last trade ($12 say, vs. the last trade of $12.50), the secondary offering was priced at $9/sh, nearly 30% lower than the unaffected price. Yes, this is the very same company that the market was willing to pay $12.50/sh for the week prior. (*And they say the markets are efficient!*)

I think the risk/reward in ATTO is fairly compelling. The company is trading for under 5x 2018E EBITDA, about 0.5x sales, and at a double digit FCF yield. Comparable companies in the US trade for over twice the valuation. Granted, there is more political and currency risk in Brazil, but also better growth prospects. I think intrinsic value is high-teens per share. This would be a logical target for private equity or a US business process outsourcing firm looking to diversify globally, should Bain decide to completely exit from their position (especially after they saw how the market treated their minor divestiture this time around).

Arbitrage, Redux

Careful readers of these letters will recall the share class arbitrage trade that I executed in the fourth quarter of 2016 (the markets took their eye off the ball Thanksgiving week and gave us a 30% spread in

two shares classes of one company – with the same economic and *de facto* voting interests). The spread closed fairly rapidly leading to a nice, quick, profitable, low-risk trade. Arbitrage is not a core strategy of the fund, but it is a special situation category that I keep my eye on. While less tax-efficient than my typical approach, when the chance to make super-normal profits in what I consider a very low-risk and capital-efficient manner comes along, I'll take it.

Recently, I entered into another arbitrage trade, which in many ways *rhymes* with our previous excursion into the strategy. While not a share class arbitrage this time, it is again in a large-cap, liquid, US-based company with good corporate governance. The company is well-run, aware of the arbitrage opportunity, and actively utilizing its tools – both the bully pulpit as well as the more direct mechanism of buying back the discounted security – to help close the valuation discrepancy. We're buying a pile of dollars for around 80c, and selling what I think is essentially that same pile of dollars for about $1. If the arbitrage completely closes, we'll make around 25% on our gross long exposure (20c on 80c), all while having limited net exposure. The borrow on the short side of the trade is cheap and readily available, and there are several catalysts that I expect to occur this year that should help close the gap.

Given the high liquidity of the securities involved, if any partners would like to discuss this trade in more detail, I'd be happy to chat about it.

Additional Positions

Despite the pockets of speculation and overvaluation in the market discussed above, I am still finding numerous compelling ideas in my off-the-beaten-path, small cap, and special situations hunting grounds. They include:

- A debt-free, post-bankruptcy reorganization oil services company trading at ~20% of replacement cost.
- A building products distributor that, like Atento, was subject to a secondary equity transaction far below the then-current trading value. It is trading at less than liquidation value and just 3-4x the earnings power of the business in 2020.
- A foreign basic materials company with a net cash balance sheet that is trading at less than 1x P/E.
- A post-bankruptcy and (like Scheid Vineyards) unregistered basic materials company that is trading at less than 3x FCF based on current product prices and at roughly 5-6x FCF on normalized prices. The company recently paid a special dividend of almost 20% of the market cap and bought back 5% of the company in a Dutch tender in the fourth quarter.

Stay tuned.

Operations Update

The preparation for the 2017 audit is underway. Limited partners should expect to hear from Spicer Jeffries, the fund tax accountant and auditor, in the coming weeks. The audit should be completed by the end of April. K-1s should be available to partners before April 15.

As has been the case since fund inception, the General Partner will continue to reimburse the fund for the majority of fund operating expenses, the largest of which are fund administration and tax/audit expenses.

2018 partnership expenses (excluding trading commissions) paid by the partnership will be capped at 0.5% (50 bps) of total capital.

I am excited to announce the launch of Maran's new website: https://marancapital.com. There you can access past investor letters as well as additional materials such as case studies, presentations, and write-ups (see the Insights tab). For fun, I have included a fairly comprehensive list of the books in my library. In need of a recommendation? My favorite among the 30-odd books that I read last year was *The Beginning of Infinity*, by physicist David Deutsch. I had to resist starting over on page one immediately after finishing it.

Conclusion

Our partnership continues to welcome new partners, including several institutional investors. In addition to two large family offices that became partners over the last year, we were recently joined by our first fund-of-funds investor. In general, I don't think that Maran is a good fit for most fund-of-funds. But this investor is not your ordinary fund of funds. First of all, it is run by a like-minded value investor who I am fully confident understands my philosophy and approach. I met him in the summer of 2015, just weeks after launching Maran, and we have shared numerous investment ideas and indeed have traveled to research companies together in the ensuing years. He has effectively been doing due diligence on me and Maran for over two years (and, of course, the converse is also true). I am honored to be included in their portfolio of funds; it is a very impressive group!

Despite the growth in what I think are very high quality, long-term oriented, and like-minded partners, the scale of our partnership remains well below the level at which I believe additional capital would become a hindrance to results. Feel free pass along my contact information to folks for whom you think we would be a good fit, or to get in touch if you are interested in investing.

I remain the largest investor in the fund, and continue to have the vast majority of my family's capital invested in it. Thank you for your continued trust and support.

Sincerely,

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 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.

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Prices for securities discussed are closing prices as of January 19, 2018 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 Q4 2017, and FY 2017, respectively, the total return of the S&P 500 was 6.6% and 21.8%, and the total return of the Russell 2000 was 3.3% and 14.7%. The S&P 500 and Russell 2000 are indices of US equities. They are included for information purposes only and may not be 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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