April 17, 2019

Dear Partners and Friends,

While the market spent the majority of the first quarter recapturing last year's losses, our fund, following our positive return last year, broke new ground. The return of Maran Partners Fund in 1Q 2019 was +15.8% net (for our highest-fee share class). From the beginning of 2018 through 1Q 2019, the Russell 2000 was up 2.0%, while our fund was up 17.8% net.[1]

I'll be the first to remind you that I think one quarter or five quarters is too short a period over which to judge results. The concentrated and idiosyncratic nature of our holdings means that at times we will have drawdowns or periods of underperformance that are out of sync with the market.[2] As I have written, we are seeking unconventional – *that is, superior* – results, so an unconventional approach (patient, concentrated, and therefore accepting of looking different in the short term) is required.

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"Newspapers should be of two-line length on some days, two hundred pages on others."

\- Nassim Taleb

There are well-documented psychological reasons to avoid checking one's portfolio too frequently (see the literature on Prospect Theory and Myopic Loss Aversion). Taleb reminds us that there is also "confusion which is not psychological at all, but inherent in the data itself":

> The more frequently you look at data, the more noise you are disproportionately likely to get (rather than the valuable part, called the signal); hence the higher the noise-to-signal ratio…Say you look at information on a yearly basis, for stock prices, or the fertilizer sales of your father-in-law's factory, or inflation numbers in Vladivostock. Assume further that for what you are observing, at a yearly frequency, the ratio of signal to noise is about one to one (half noise, half signal)…if you look at the very same data on a daily basis, the composition would change to 95% noise, 5% signal. And if you observe data on an hourly basis, as people immersed in the news and market price variations do, the split becomes 99.5 percent noise to 0.5 percent signal. [3]

No one has yet asked me for daily (let alone hourly!) results for the fund. In fact, the vast majority of our limited partners have joined our three- and five-year lock-up share classes; you are among good company with fellow long-term oriented investors. I even occasionally feel that quarterly is too frequent a period for detailed updates on our holdings. This letter is on the shorter side. Stay tuned for a more substantive discussion this summer.

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[1] Again, for our highest-fee share class (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 5 for important information.

[2] For proof of this, feel free to revisit my 4Q 2015 letter to partners.

[3] Nassim Taleb, *Antifragile: Things That Gain From Disorder*, p126-127.

Growth & Value

Twitter can be a great source of serendipity, non-consensus thought, and indeed of wisdom (and yes, lots and lots of noise, so tread carefully). Not long ago, an anonymous tweet highlighted the fact that buyers of private businesses generally don't label themselves as "growth" investors or "value" investors. They are simply investors looking to buy a business for a price that will generate an attractive return on the investment. This resonated with me.

Readers of these letters will know that I consider myself a "value" investor, but I hope that I have been clear that I mean this in the sense of the Charlie Munger quote that all sensible investing is value investing. Many of our best investments have been companies with solid growth. I just don't like paying a high price for growth. (As I discussed in my 4Q 2016 letter, my favorite type of idea is an unrecognized *compounder* priced like a *cigar butt*.)

I try to buy businesses at a price that is well less than intrinsic value, which thus contributes to an attractive margin of safety, no matter how fast said company might be growing. Growth is just one input that goes into valuing a company. Of course, faster growth doesn't necessarily mean more value-creation.[4] And price paid, while important, is obviously just one element of margin of safety. A second crucial factor, perhaps of greater importance, is business quality (which encapsulates elements of moat, growth, ROIC, margin, competitive landscape, etc).

Asymmetric risk/reward, numerous ways to win, large margins of safety, and capable, aligned management teams are better vectors along which to measure what I call my "value" approach than is the spectrum of lower growth to higher growth.

At the moment, many rapidly growing businesses (and some steady Eddies) that the market perceives as "high quality" are valued at astronomical valuations. I continue my hunt for growing, quality companies at bargain prices in off-the-beaten-path hunting grounds. Special situations, such as the required tender discussed last quarter, also continue to provide idiosyncratic, asymmetric sources of return.

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Portfolio Update

At quarter-end, our top five positions were Clarus Corp (CLAR), Biglari Holdings (BH), Spark Networks (LOV), Atento (ATTO), and Scheid Vineyards (SVIN). The fund ended the first quarter 85% long by 5% short, for gross exposure of 90% and net long exposure of 81%. We remain concentrated: our top ten longs accounted for 94% of our long exposure.

[4] Just ask Moviepass, which was able to grow from 20k subscribers to over 3mm subscribers in a matter of months when it started selling its product at a massively negative gross margin. HMNY, Moviepass' parent company, now trades at a stock price of less than one penny per share.

Clarus (CLAR)

Clarus remains our largest position. It is in the midst of a multi-year growth acceleration with commensurate margin expansion. The 2020 revenue growth rate should exceed that of 2019, which in turn should exceed that of 2018, while EBITDA margins should expand by several hundred basis points over this time period. The "buy and build" strategy of "super fan" brands, backed by a management team with significant skin in the game, continues. The business is tracking ahead of the upside case I laid out in my memo last summer.

Biglari Holdings (BH)

At recent prices, BH continues to trade at around half of liquidation value, assuming Steak n Shake, the largest fully-owned subsidiary, is worth nothing (which is hopefully conservative). I believe there is a large margin of safety in the current share price, and that Steak n Shake's refranchising effort (taking a page out of the Chik-fil-A playbook) is a sensible strategy to maximize the value of that business.

Spark Networks (LOV)

In my 4Q letter, I mentioned that I had found a handful of compelling opportunities to which I was adding. In addition to the homebuilder discussed last quarter, Spark Networks was one such idea.

Spark was (and still is) very far off the beaten path. The company underwent a dramatic transformation in 4Q 2017 when it merged with Affinitas. This merger provided scale, profitability, and an aligned, entrepreneurial management team. I underwrote LOV on what I thought was earnings power of $2+ per share by 2020/2021 (thus providing the potential for this to be, roughly, a "three-year double" – I didn't think 10-12x was an unreasonable target multiple).

In March, continuing their buy and build strategy, Spark announced their intent to acquire Zoosk, a large, primarily domestic, online dating platform. The market reacted favorably to this announcement, though information is still somewhat lacking about the combined company. This suits me fine – at the moment, there is limited awareness of the company and deal, very little sell-side research, and few details provided by the company. There is no one holding investors' hands, which creates an opportunity for intrepid investors to do their own work and come to their own conclusions – before the company starts roadshows, sell-side analysts launch coverage, and the story becomes more widely understood.

Atento (ATTO)

In its 4Q release and associated conference call, Atento did three things short-term investors hate: declined to give 2019 guidance, hinted at a back-half-weighted year, and paused the share buyback. Each of these perceived "issues" should be rectified in the next few months. A new CEO was named late last year, and they are giving him a few extra months to get his bearings before he outlines his plan, provides 2019 guidance (expected in May), and potentially resumes the buyback. I believe the business is very cheap, trading for around 3x trailing EBITDA, and that fair value is several multiples of the current stock price. The stock may be "dead money" for the next few months, but I still think it will very much be "alive money" over the next few years.

Scheid Vineyards (SVIN)

Scheid continues to trade at around 40% of my conservative estimate of private market value. Importantly, they continue to make progress on building their branded wine business, which is the key catalyst for both value creation and value realization over the next few years.

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Conclusion

I look forward to spending time with friends, existing and prospective LPs, and the management teams of several of our holdings in New York City (April 23-25) and Omaha (May 3-4) in the coming weeks. If any prospective partners would like to meet, please let me know.

In Omaha, I will be participating in a panel discussion hosted by Willow Oak Asset Management titled "Value Investing in a Volatile Environment." If you are interested in attending, you can get more information or sign up here.

As always, thank you for your trust and support. Please don't hesitate to reach out if you have any questions.

Sincerely,

Dan Roller

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In Q1 2019, the total return of the S&P 500 was +13.7%, and the total return of the Russell 2000 was +14.6%. 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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