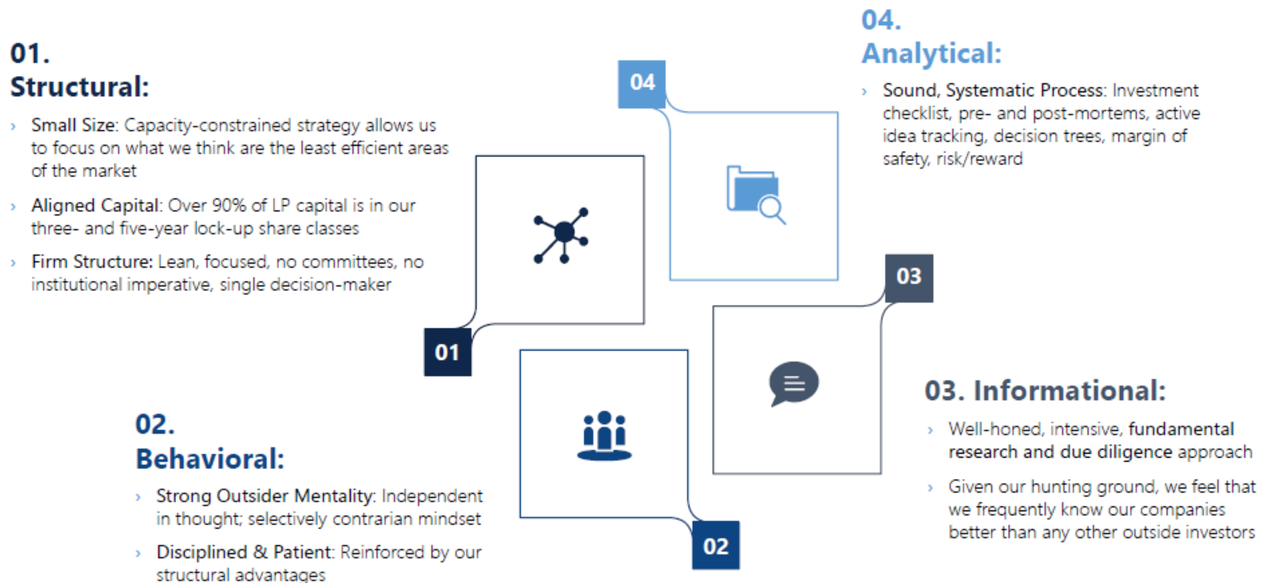
January 27, 2020

Dear Partners and Friends,

Maran Partners Fund returned 9.5% net of all fees and expenses in the fourth quarter, bringing the full-year 2019 return to 24.8% net.[1] I'm pleased with the results, and more importantly, the conservative way in which they were obtained[2]. Yet as I am always quick to remind readers and partners following both good quarters and bad, we shouldn't read too much into short-term results. I believe that our concentrated approach gives us the best chance of maximizing risk-adjusted results over the long term, despite its increased potential for day-to-day volatility.

Concentration is just one vector in which we take an uncommon approach to improve our odds of success. As I wrote in my founder's letter almost five years ago, "Maran Capital Management is an unconventional investment manager. I feel that it needs to be, as it is aiming for unconventional – that is, superior – results." I believe that our differentiated approach results in four areas of competitive advantage. I have written about these over the years, but they are worth highlighting again given how critical I believe they are to our success[3].



[1] These results are reported, as has been our approach since day one, net of our highest fee structure, even though a distinct minority of partners are in that share class. The vast majority of our limited partners is in the three- or five-year lockup share classes, which have lower fees and therefore higher net results. Individual results may vary based on timing of investment and share class/fees; please check your statements for individual results. Please see important disclaimers on page 8.

[2] The fund averaged 68% net long exposure over the course of the year, used no leverage, and focused on well-underwritten value investments (with generally clean balance sheets, run by aligned management teams) and uncorrelated special situations. Contrast this to the broader market, for which 92% of last year's return was driven by valuation multiple expansion (according to Goldman Sachs).

[3] The graphic comes from our investor presentation.

Maker's Schedule, Manager's Schedule

> While parents think about the word "fun" as something to do *after* the work is done…children use the word "fun" to mean they had been fully invested. "Fun" for children…means "caring," which leads to exertion.[4]

As many of you know, I studied computer science and electrical engineering as an undergraduate. I am forever grateful that I learned how to code, much more due to the thought processes required than any current day-to-day use of the skills. The process of implementing higher levels of abstraction via the concrete building blocks of short commands is a unique and valuable form of thinking. It is powerful, and it can be engrossing. Computer programming requires long blocks of deep, uninterrupted concentration. I spent many a night holed up in the engineering library writing code until dawn, scarcely noticing the hours passing.

Computer programmer-cum-venture capitalist Paul Graham addressed this topic in a 2009 essay (which I reread occasionally and to which I continue to refer people; apparently the Lindy effect[5] even applies to blog posts), titled "Maker's Schedule, Manager's Schedule."[6]

He wrote:

> One reason programmers dislike meetings so much is that they're on a different type of schedule from other people. Meetings cost them more.
>
> There are two types of schedule, which I'll call the manager's schedule and the maker's schedule. The manager's schedule is for bosses. It's embodied in the traditional appointment book, with each day cut into one hour intervals. You can block off several hours for a single task if you need to, but by default you change what you're doing every hour.
>
> …But there's another way of using time that's common among people who make things, like programmers and writers. They generally prefer to use time in units of half a day at least. You can't write or program well in units of an hour. That's barely enough time to get started.
>
> When you're operating on the maker's schedule, meetings are a disaster. A single meeting can blow a whole afternoon, by breaking it into two pieces each too small to do anything hard in.

As a long-term, fundamental, bottoms-up investor, I too spend a lot of time in *maker* mode. Uninterrupted time for deep research and analysis, as well as good old-fashioned *thinking*, is necessary.

Graham's suggested solution to balancing the competing needs of makers and managers (for someone that needs to balance them) is office hours.[7] "Several times a week I set aside a chunk of time [for

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[4] Julie Bogart, *The Brave Learner*, p 206

[5] https://en.wikipedia.org/wiki/Lindy_effect

[6] http://www.paulgraham.com/makersschedule.html

[7] Mark Andreesen offers a slightly different solution to this problem: don't keep a schedule

meetings]…These chunks of time are at the end of my working day…[and are therefore] never an interruption." The rest of the week, he is free to get into a state of *flow*[8] as desired.

While I have not committed fully to the "office hours" or the "don't keep a schedule" approaches, I do build large blocks of unstructured time into my schedule (which is possible due to the structural advantage of running a firm that has no meetings). I try to spend as much time as possible in *maker* mode. If I want to read every 10-K of a company that went public in 1999, I can do it. If I need to quickly get up to speed on Swedish takeover law to evaluate a special situation, my schedule gives me that freedom.

I remain focused on investment results (rather than simply the gathering of assets under management, a goal that would require more time spent on marketing), and I structure my days to reflect this priority.

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Portfolio Update

I'm excited about our portfolio and the opportunities I'm seeing in certain corners of the market. At year-end, the top five positions in our portfolio were Clarus Corp (CLAR), Ranger Energy Services (RNGR; previously undisclosed), RCM Technologies (RCMT), Scott's Liquid Gold, Inc. (SLGD), and an undisclosed position (in alphabetical order). Over 95% of our long exposure is invested in companies with market caps under $1bn (we own only one mid-cap, a special situation, and one large-cap stock), and indeed over two-thirds of our portfolio is comprised of companies with market values under $300mm.

We remain concentrated in my favorite ideas; our top 10 positions accounted for over 90% of our net long exposure.

Clarus (CLAR)

Clarus has been a top position for over four years. While it has been a multi-bagger, when I re-underwrite the thesis today, I still conclude that it has the potential to be a multi-bagger going forward. Black Diamond Equipment is growing revenues and improving margins, and its still-small apparel and footwear segments provide significant upside optionality. Clarus has a venture capital-type investment in its authentic, organic skincare line (a potential 100-bagger in value creation over 5-10 years), and its Sierra Bullets segment is generating solid cashflow and growing through product extensions while waiting for the industry to recover from trough levels. The balance sheet is clean, and the aligned management team is comprised of great operators and skilled capital allocators. I believe fair value today is in the high teens; my five-year base-case valuation is $35/sh, and my five-year upside case is $45/sh.

Ranger Energy Services (RNGR)

Ranger has been a top five holding for the last two quarters, though was previously undisclosed.

Occasionally cyclical industries that are out of favor can yield interesting opportunities. Ranger is an off the beaten path domestic energy services company trading at a very cheap price. It is illiquid, small cap,

[8] Csikszentmihalyi's *Flow: The Psychology of Optimal Experience* is worth mentioning as it relates, and as it is worth revisiting. I liked it better the second time around than the first. May we all be lifelong amateurs, dilettantes, and philosophers (see ch. 6, The Flow of Thought).

and a "broken" IPO, yet has high insider ownership (60%+), is well run, taking share, gushing cash, and buying back stock.

Against its ~$110mm market cap and ~$40mm of debt, the company is run-rating ~$50mm of EBITDA and ~$35mm of FCF (it generated $19mm of FCF in seasonally strong 3Q alone), putting the valuation at ~3x EBITDA and a 30%+ FCF yield to the equity. It trades at ~0.5x tangible book. I do not believe these are "peak" results; management sees growth in 2020 over 2019.

Ranger is taking share given its new, best-in-class equipment and strong financial position (many competitors have aging rigs and too much debt). In the past few quarters, Ranger has won new multi-year contracts with oil majors such as Chevron and Conoco. I believe upside is 100% to 300% under various scenarios and that risk of permanent capital loss is limited.

I believe the company has been buying back the maximum number of shares allowed in the open market for the last two quarters, which is the single most value-accretive use of capital possible for them.

Scott's Liquid Gold, Inc. (SLGD)

Maran Capital Management filed a 13D on Scott's Liquid Gold, Inc., on November 14th, 2019 (and an amended 13D/A on December 13th, 2019).

I look forward to sharing additional thoughts on this position over time.

Beyond the Top Five Positions

An example of a smaller position to which I have been adding over the last few months: a high-quality small company with good corporate governance that I believe can grow earnings at 20%+ compounded over many years, yet which trades at pro forma ~8x P/E, and has several catalysts in place in 2020.

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Special Situations

Luck Favors the Prepared: Turning Point Brands and Standard Diversified, Redux

For most of our core, long-term positions, I am looking for potential multi-baggers with limited risk of permanent capital loss. I generally intend to hold these over a time horizon of at least several years (you'll recall I tend to describe underwriting for "three-year doubles" or better). Our special situations positions, on the other hand, tend to have lower absolute return expectations yet highly asymmetric risk-reward profiles and shorter holding periods, with firm catalysts in place.

Special situations encompass a large bucket of potential trade setups that, for us, have included discretionary tenders, mandatory tenders, share class arbitrage, "stub" trade arbitrage, reverse Morris trust rights offerings, de-listings, re-listings, and more.

I'm always tracking a few dozen special situations and am constantly filtering headlines and company filings for new prospects. My network is a great source of ideas as well. But it is especially serendipitous when a former core holding becomes a special situation trade idea.

Long-time readers will recall that we owned Turning Point Brands in 2017-2019 (I discussed the company in the appendix to my 2017 Q3 letter, and I presented Turning Point Brands, as well as its parent company, Standard Diversified, Inc, at the June 2018 Wide Moat Investing Summit hosted by MOI Global). TPB reached what I thought was fair value last year, so we moved on. But I didn't completely forget it or its parent.

Standard Diversified (SDI) is a simple company. It is a holding company whose core asset is TPB shares – just under 10mm of them. SDI, like many holding companies, has traded at a wide discount to its net asset value (based on the value of those TPB shares) for its entire life as a company. This is neither surprising nor uncommon. But recently, its management (and controlling shareholder) announced that it intends to collapse the structure to eliminate the discount. Despite this, the discount is *still* wide.

On November 18, SDI announced that it was seeking a merger with TPB that would essentially have the effect of liquidating SDI and unlocking its NAV. Now, given that I owned both TPB and SDI over the years and maintained a current valuation model on SDI, I believe I was in a fairly unique position to be decisive in putting this trade on following the announcement.[9]

Our trade involves buying SDI and simultaneously selling its exposure to TPB (SDI owns ~0.584 shares of TPB for each share of SDI outstanding). While not risk-free, this arbitrage focuses our exposure solely on the spread between the value of the two companies, rather than on any of the fundamentals of Turning Point Brands. I believe this trade should have no correlation with the broader stock market.

SDI SOTP

TPB Shares Owned	9.84		
TPB Share Price	**25.76**	SDI Price	**13.31**
Value of TPB position	254	Market Cap	**224**
Cash & Securities	6	% of SOTP Value	88.9%
Other Investments	17		
Debt	-24	Discount	-11.1%
SOTP Value	**252**	Upside	12.5%
SDI Sharecount	16.9		
Fair Value Per Share	**14.98**	**Delta in $mms**	28

[9] I say unique because the SDI financials are somewhat impenetrable, as SDI consolidates not only the complete financial statements of TPB, but also an insurance company and various other assets. I don't believe that a generalist who saw the SDI/TPB announcement would have been able to pull up the latest SDI 10-Q and quickly figure out its NAV. Further, the SDI/TPB "arbitrage" is not listed on Bloomberg's compilation of merger arbitrage situations, as it is technically a "statutory merger implemented via Delaware law" and a "tax-free downstream reorganization for U.S. federal income tax purposes." When I say that I am filtering headlines and corporate filings for potential special situation trades, I mean that I – a human being sitting on a chair – am doing it, not a computer program or other screening tool. I want to find the special situation trade setups that the computers and screeners miss.

At recent trading prices, and given various assumptions,[10] the spread is in the double digits. The 12.5% spread implies a ~25% annualized return assuming six months to close (which I believe is conservative: regulatory risk and shareholder approval risk are both very low, and a recent press release by SDI indicates that it expects to hold a shareholder meeting to vote on the merger in "the next several months"). If the merger closes in four months, that would take the annualized return to ~37%. In a world of 0% interest rates, that doesn't seem so bad.

Standard General, a New York City-based hedge fund, controls and owns over 80% of Standard Diversified and is orchestrating this merger to eliminate SDI's discount. At recent trading prices of TPB and SDI, there is ~$28mm laying on the sidewalk, ~$23mm of which can be put into Standard General's pocket.

They plan to pick it up.

Additional Special Situations

We are currently involved in three additional special situation positions. Each have asymmetric risk-reward ratios and near-term catalysts; they should all be uncorrelated to the market. The pipeline of interesting opportunities in this vein remains full.

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Operational Matters

Preparations are underway for the 2019 audit and tax filings. We expect K-1s to be distributed by the end of March. Please don't hesitate to reach out if you have any questions about this process.

The fund continues to have some limited capacity to accept ERISA (Benefit Plan, IRA, Roth IRA, etc.) assets into the fund (due to various regulations, they can't be more than 25% of fund capital) via various custodians (Schwab is a popular option).

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[10] Additional wrinkles and risks: SDI has what I estimate is ~$17mm of "other investments" – namely a small insurance company I value at $0 and a billboard company I value at its carrying value, $17mm. SDI plans to dispose of these prior to merging with TPB. It could realize values that are higher or lower than my estimate of $17mm (and it could take longer than expected to dispose of them). Note the insurance company is distressed and is in the process of being liquidated. I believe it is walled off and should not be worth less than $0, but there is always risk. See recent company 8-Ks for more. Estimates of the current cash and debt balances are also required.
On the flip side, there is some question about whether this transaction will occur at par, or whether SDI may perhaps get a slight premium to the value of its TPB shares for giving up control of TPB, as in the Harbinger Group / Spectrum Brands "merger." Regardless, I believe the SDI/TPB spread is too wide even assuming it is done at par (my base-case assumption); any small premium would only yield additional upside.

Conclusion

We welcomed a handful of new limited partners in the fourth quarter, and I continue to be honored by the quality of our LP base. The fund is small, but I think we punch above our weight in terms of the quality of our partners. Our group includes entrepreneurs and business owners, a large handful of fellow money managers, several board members of large-cap public companies, a value-oriented fund of funds, an insurance company, family offices, doctors, technology entrepreneurs, and a number of friends and former colleagues. Among us are domain experts in real estate, tech, financials, chemicals, insurance, consumer products, manufacturing, and healthcare.

In our ~4.5 years of existence, we have not had a single partner redeem from the partnership. Many have added capital over time. And none have called me in a panic during our periodic drawdowns. (Of course, feel free to call me any time!)

Maran remains “open for business” as the fund is still small relative to the opportunity set. I intend to close the fund before size becomes a headwind. In the meantime, I appreciate your referrals to like-minded, long-term investors.

I am truly humbled and grateful to count you all as partners. Thank you for your continued trust and support.

Sincerely,

Dan Roller

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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.

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In 4Q 2019, the total return of the S&P 500 was 9.9%, and the total return of the Russell 2000 was 9.1%. in 2019, the total return of the S&P500 was 31.5%, and the total return of the Russell 2000 was 25.5%. 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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