April 27, 2022

Dear Partners and Friends,

In the first quarter of 2022, Maran Partners Fund returned -11.2%, net of all fees and expenses. While our year-to-date result is disappointing, the partnership is up double digits over the past year, and more over longer timeframes. As usual, I will be quick to remind you that volatility is part and parcel of a concentrated equity investing approach, and I recommend not reading too much into shorter-term results (whether they are bad or good). Over the past five years, a more meaningful timeframe, the partnership has compounded at a rate of approximately 19%, net.[1]

In my second quarter 2019 letter I discussed the concept of fallibilism—that is, the philosophy that knowledge is always incomplete and can therefore always be improved—championed by Karl Popper, physicist David Deutsch, and others. Italian physicist Carlo Rovelli, another proponent of fallibilism whom I also quoted in that letter, addresses the themes of epistemology and the advancement of knowledge (and the small matters of quantum theory and the true nature of the physical universe) in his latest book, *Helgoland*.

The following excerpt resonates:

> I believe that one of the greatest mistakes made by human beings is to want certainties when trying to understand something. The search for knowledge is not nourished by certainty: it is nourished by a radical absence of certainty. Thanks to the acute awareness of our ignorance, we are open to doubt and can continue to learn and to learn better. This has always been the strength of scientific thinking – thinking born of curiosity, revolt, change. There is no cardinal or final fixed point, philosophical or methodological, with which to anchor the adventure of knowledge.[2]

An acknowledgement that certainty is an elusive target is not an excuse to stop trying to improve. Indeed, as Rovelli highlights, it should be exactly the opposite—it should serve as a fire lit under us, spurring us to continue the quest for better understanding.

As investors, we may desire and aspire to certainty, but this is a false idol. We must be comfortable making decisions in light of unknowns, uncertainty, and ignorance, while constantly striving to learn and improve.

Right now, it feels like the range of potential macroeconomic outcomes is unusually wide. The world is awash with problems: war, pandemic, inflation, and the knock-on effects of each. Inflation is the US stock market's most acute fear right now, and the war in Europe and the lingering effects of the pandemic (including China's current policy response) continue to feed this panic. Supply chain disruptions are ongoing, and freight rates and diesel prices are high. These factors will continue to normalize over the next year or two, bringing inflation down with them. We may be at or close to the peak of the inflation *rate*.

[1] Net returns presented based on highest fee share class. Individual partner returns may vary based on share class and timing of investment, among other factors. Please refer to investor presentation and individual account statements for more detail.
[2] Helgoland, p 156

Of course, the US is also experiencing the aftermath of a period of extremely accommodative monetary and fiscal policy, ranging from 0% rates to massive stimulus in the face of Covid. The Fed will likely remain hawkish in the near term, using various policy tools as well as the bully pulpit to attempt to keep inflation expectations reigned in. The market is already discounting a significant number of rate hikes over the next 18 months.

But we must remember that the range of potential macroeconomic outcomes is always wide.[3] And there are always fears. In my 4Q 2018 letter, I highlighted the fears du jour, including "rates, China's economic slowdown, trade wars, US Politics, etc." Today's list is slightly different, and many fears are justified, but whatever the economy is going through right now, it is unlikely to be a repeat of the great financial crisis. The possibility that the economy may dip into a recession (or is already in one) is not a reason for us to sell our stocks and allocate to cash under the mattress. If the ~$20 trillion US economy shrinks a little bit in aggregate on a year-over-year basis, there will still be plenty of companies that grow and flourish. The stock market is not the economy. And notably, a select handful of stocks (i.e., our portfolio) is not the stock market.

It is frequently instructive to frame stock investing through the lens of outright ownership of businesses. If you owned 100% of an excellent business, you likely wouldn't rush to sell it right now just because the world was experiencing a bout of inflation or there was a chance of a recession.

The best way to protect and grow capital through periods of inflation is to own good businesses at good prices that will grow to be much more valuable several years in the future. This is also the best way to protect and grow capital during periods of benign inflation. As this is a core element of our partnership's approach, we don't need a wholesale shift in strategy to succeed in this environment. This is especially true because in addition to owning core holdings with multi-year horizons, I attempt to further tilt the odds in our favor where I can via my value-with-a-catalyst strategy focused on special situations and events.

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Portfolio Update

At quarter-end, our top five positions were Cadre Holdings (CDRE), Clarus (CLAR), Correios de Portugal (Euronext Lisbon: CTT), Countryside Partnerships (LSE: CSP), and Pure Cycle (PCYO).[4]

There is an old joke that circulates on Wall Street trading floors:

> "Last night I was out on a date, and the guy asked me what I would do if I had ten million dollars.
>
> "I told him I would wonder where the rest of my money had gone."

I was recently having a conversation with some fellow portfolio managers, and the topic of the macroeconomic environment and inflation came up. Someone raised the prospect of significant multiple

[3] Consider the range of possibilities in late 2019, for example. It was wide, even if we might not have acknowledged the probability of a pandemic in the ensuing months.
[4] Listed alphabetically.

contraction – what if valuation multiples reset to 10x P/E across the board? I laughed as I thought of that joke: I would be happy, as it would mean some pretty substantial appreciation for many of our holdings.

I say this somewhat tongue in cheek, as not all of our positions are trading at single digit earnings multiples right now (though quite a few are on 2023 and 2024 earnings). Some of our positions are asset-heavy and have lower current earnings, such as Pure Cycle. Some have a number of assets outside of the core business ready to be unlocked, such as CTT. But in aggregate, and especially looking out over the medium term (my typical three-year-plus underwriting horizon), I think our portfolio is high quality and attractively priced.

Of course, stocks could decline further in the short term, but we are positioned to take advantage of additional volatility, as are many of our portfolio companies (through buybacks). Our portfolio's net and gross exposures are in the high 70% range. Despite everything to be fearful about, the opportunity set in the market is improving; I am seeing numerous undervalued small cap equities.

Though many of our core holdings have gotten cheaper this year, the longer-term thesis on each is relatively unchanged. Given that I have written about each at length in recent quarters, I'll forgo detailed updates this quarter and will share additional color after mid-year.

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Special Situations

In the first quarter, we invested in two tender arbitrages, event-driven situations that had attractive risk-rewards and defined durations. While neither led to a bump or topping bid that would have increased the attractiveness of the trades, our positions were each moderately profitable.

We also invested in a new type of special situation for Maran during the quarter – an insurance demutualization. Frequently in an IPO, the prior owners/insiders sell stock, or at the very least are diluted at the IPO price. While there are a number of factors at play in setting an IPO price, the issuer would typically prefer to sell stock for a higher price, not a lower one.

In a demutualization, there are no shareholders prior to the offering (just policyholders with certain governance rights and rights to participate in extraordinary transactions), so these dynamics do not exist. As a result, all conversion-offering investors, including management and insiders (and policyholders), have alignment – everyone wants valuation to be lower rather than higher.

The valuation in a conversion offering is not market-based, as is the case in a traditional IPO. Instead, an independent appraiser is utilized, who establishes a valuation that may include discounts to make the issue attractive to priority subscribers (i.e., the policyholders) but also to everyone else that subscribes.

Imagine you (and by "you," I do not mean *you*, savvy investor who shares in my love of the hunt for obscure and off-the-beaten-path, highly compelling investment opportunities, but rather "you," carpenter, taxi driver, student, or clerk at the local dollar store, who just needed some good auto insurance at a fair price) have a policy with a small, local insurance company. One day, you get a proxy statement and dense prospectus in the mail offering the chance to subscribe to securities in the parent company of your insurer. Are you going to request the stock order form and whip out your checkbook? Perhaps not.

This leaves capacity for insiders and others to subscribe at that same "discounted" price. In this case of our investment, the valuation was approximately 50% of book value, with book value conservatively calculated given some long-held real estate investments carried at the lower of cost and market. Comparable small insurance companies typically trade for 1x book or higher.

Insiders, directors, and affiliates invested fresh capital to buy 70% of the conversion shares not taken up by policyholders, leaving a small number of shares available for investors such ourselves. You can't get much better alignment than that.

The management team is impressive and highly aligned. Valuation is attractive. Book value and earnings should compound over time. I expect this to be a special situation that creates an entry into a long-term holding, rather than a shorter-term "event-driven" set-up that leads to a quick trade. It certainly meets my criteria of having the potential to be a "three-year double" with limited risk of permanent capital loss.

The shares will be illiquid for the foreseeable future and will trade on the OTC Pink Marketplace. I look forward to sharing more about this investment in the coming quarters.

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Administrative

K1s were distributed in early March, and the partnership's audited financial statements were distributed last week.

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Conclusion

I recently had the pleasure of participating in Edwin Dorsey's *Sunday Idea Brunch*, a "weekly interview series with underfollowed investors and emerging managers." We covered my background, the launch of Maran, my philosophy and approach, and a few of our holdings. Here is a link to the interview.

I continue to have the majority of my family's capital invested in the partnership alongside yours. Please don't hesitate to reach out if you have questions about any aspect of the partnership.

Thanks for your continued trust.

Sincerely,

Dan Roller

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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.

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In 1Q 2022, the total return of the S&P 500 was -4.6%, and the total return of the Russell 2000 was -7.5%. 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.

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