January 2023

Dear Partners and Friends,

In the fourth quarter of 2022, Maran Partners Fund returned +1.6%, net of all fees and expenses, bringing full year performance to -24.2%.[1] Over the past five years, the partnership compounded at a rate of approximately 11% per year, net.[2]

Grooves

I was recently asked by a prospective limited partner if he should wait to invest until I got back into my groove. I told him that I didn't think our 2022 results were reflective of my having lost my *groove*. Sure, it was our first down year since 2015, but my process, philosophy, and approach in 2022 were consistent with that of 2021 and the prior half decade. I believe the core tenets of our strategy—deep research, investing in value-with-a-catalyst and special situations, requiring a margin of safety, concentrating into our best ideas, choosing an attractive hunting ground (small and microcap stocks)—are timeless and have been tested by numerous market environments.

I certainly made mistakes last year, but then again, I make mistakes every year. Our results in 2021 (+54% net) overstate my skill, while I believe our results in 2022 understate it. As usual, I think that it is appropriate to evaluate results over longer timeframes.

In looking back at our track record since inception (91 months, for those counting), we have had months that were as bad as -16% (March 2020) and months that were as good as +17%. We have years that were as bad as -24%, and years that were as good as +54%. We have had three-year periods that were as bad as +28% (+9% CAGR), and three-year periods that were as good as +118% (+30% CAGR), and we have had five-year periods that were as bad as +38% (+7% CAGR), and five-year periods that were as good as +223% (+26% CAGR).

A couple of comments. First, if we compound in the mid-to-high single digits during our worst three- and five-year periods, that isn't terrible. Second, if we can continue to outperform the relevant indices meaningfully over long periods of time and continue to have some faster three- and five-year CAGR periods combined with some slower ones, I believe the long-term results will be more than satisfactory.

Over the last five years, we have beaten the Russell 2000 by 6.8 percentage points, net, per year. Given the power of compounding, our profit over that timeframe is greater than three times that of the Russell.

In a multi-decade investing career, especially when utilizing a concentrated small and micro-cap approach such as ours, volatility, including some down years, is to be expected. While it is frustrating when drawdowns occur, I still believe our approach gives us the best chance of generating, as I wrote in my Founder's letter, "*unconventional*—that is, superior" results over the long term.

[1] Individual partner returns may vary based on share class and timing of investment, among other factors. Please refer to individual account statements for more detail. Please see page 7 for important disclaimers, and our investor presentation for complete monthly results since inception.
[2] This compares favorably to the Russell 2000 index, which compounded at a rate of 4.1% over the last five years.

Tweaks

If we aren't relying on my getting back into a groove and we believe my process, philosophy, and approach are sound, surely there must still be some lessons learned from a year like 2022, and some tweaks to my approach that I can make in response.

Special situations, especially the more event-driven or trade-oriented ones (meaning situations that have firm expected catalysts in relatively short periods of time), have proven to be our best risk-adjusted sources of return. They are also typically uncorrelated to the broader market. Historically, these situations have been as much as 20% or so of our portfolio, but there are stretches of time when we don't hold any. As with all investment ideas, you can't force special sits—good ones only crop up occasionally. That said, I believe that it would be beneficial to dedicate a larger portion of our book to these special situations, so I have redoubled my efforts to seek them out and analyze them.

On the flip side, 2022 taught me that I must be careful not to overstay my welcome in special situations that work out. Two examples are American Outdoor Brands (AOUT) and Whole Earth Brands (FREE). AOUT was a spin-off while FREE was a busted SPAC. In each case, the thesis behind the special situation worked. But also in each case, I clearly gave the management teams too much leash. I thought that each team had the potential to be good capital allocators that could turn the stocks into "buy and build" platform companies. While it may still be too early to judge, neither seems to be well on their way down that path.

I will attempt to be extra judicious in allowing a special situation thesis to drift into a "this could be a long-term compounder" thesis in the future. That said, we have had special situations serve as entries into great long-term holdings, so a blanket rule is not appropriate. I will exercise judgement on a case-by-case basis in the future but will not forget the lessons of 2022.

Beyond these tweaks, I will of course continue to focus on the fundamentals and work to avoid preventable errors.

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Portfolio Update

At year-end, our top five positions were API Group (APG), Clarus Corp (CLAR), Correios de Portugal (Euronext Lisbon: CTT), Vistry Group (LSE: VTY), and an undisclosed position.[3]

Our largest positions tend to be in the mid-teens as a percent of capital, most of the time. Our top five positions have typically represented 50-75% of our long equity exposure (ex-cash), and we have typically held 10-20 positions, with the bottom handful perhaps on their way in, or on their way out, or representing a basket approach to a theme or special situation. Eight to twelve positions typically move the needle.

On the one hand, we need conviction to take large positions—to believe that we are right and the market is wrong. On the other hand, we need a fair amount of humility in this endeavor. We're definitely going to get some wrong along the way. If it were easy to outperform the markets, everyone would be doing it.

[3] Listed alphabetically.

Only rarely have we had positions exceed 20% of capital. Starting out, I might have expected to have more 20-25%+ positions. But I have come to believe that mid-teens position sizes at the top of our portfolio allow us to reap the rewards of concentration when we are right while also limiting damage to acceptable levels when we are wrong.

Approximately two thirds of our mark-to-market decline in 2022 was a result of declines in three positions: Clarus, CTT, and Countryside Partnerships (which merged into Vistry in November). We don't have to try to make back any mark-to-market losses in the same securities that created the losses, but in the case of these three positions, I believe we can. I still have conviction in these stocks and believe each will do well from recent levels.

Clarus (CLAR)

While Clarus wound up being a meaningful detractor to performance last year, it could have been much worse. We have held Clarus in various position sizes for seven years, and the company has performed well for us. With this history, it would have been easy to fall in love with the stock. But I try to remain rational and level-headed with respect to all of our positions, even those that we have grown to know very well.

As changing tides in August lifted the stock for seemingly non-fundamental reasons, I took advantage of the upward volatility to sell the majority of our position. Of course, I should have sold all of our position in mid-August rather than just most of it (another lesson from 2022), but hindsight is 20/20 and I never would have expected the stock to fall as far is it ultimately did.

Following the options-fueled squeeze higher and then rapid sell-off over the summer, shares fell further in November as Clarus reported that it would likely not grow EBITDA y/y in 2022 as previously expected. Clarus' direct-to-consumer business remains strong, but inventory destocking by large-format outdoor retailers led to a slowdown in orders over recent months. While the near-term outlook is somewhat cloudy, investors seem to be pricing Clarus as if it will never grow again. This is myopic. Outdoor activities, climbing, and overlanding are all secular growth categories, even if Covid pulled forward demand in some of them. I think each of Clarus' businesses will be larger several years from now.

Last autumn's sell-off in Clarus' stock reminds me of when we first made Clarus a large position, in 2015. Clarus had announced the exploration of strategic alternatives, which many traders took to mean that Clarus was attempting to sell itself. When Clarus only sold two of its divisions, rather than the whole company, arbitrageurs and short-term traders dumped the stock, and it went far lower than I would have thought reasonable—falling by two thirds. While painful at the time, that overreaction set up a multi-year period in which Clarus would appreciate more than 8x from lows to highs.

This time around, the stock fell 75% from prior highs on both non-fundamental and transitory reasons. Expectations are very low, and the valuation is attractive. I believe Clarus could sell its brands for more than twice where the stock has recently traded. There are even some "hidden lottery tickets" in the current setup. While patience may be required, I'm again very excited about the forward compounding prospects of this position, to which I added in November.

Correios de Portugal, S.A. (Euronext Lisbon: CTT)

CTT is our Portuguese conglomerate that owns the monopoly postal business in the country, a pan-Iberian parcels business, a growing, profitable bank, and a large portfolio of excess real estate. CTT started to monetize its non-core assets and repurchase stock with excess cash last year. During the fourth quarter, CTT announced that it sold a 10% stake in its bank at a valuation of €285mm, or 1.1x book. Many investors had feared that the bank might only be worth one half of book value or less, so this transaction went a long way towards removing those fears. CTT continues on its path towards real estate monetization via both a yield vehicle and a development vehicle (which together have book value of €135mm and market value well north of that, in my opinion).

As I have discussed in recent letters, I think CTT's bank and excess real estate value more than cover its recent market capitalization (€450mm at year-end), while its core postal/parcels business more than covers it as well. As value is growing in each division, I believe this still sets up as a potential "three-year double."

Yes, CTT is far off the beaten path, and I occasionally get questions about whether investors will ever start "to care" and give the business a more appropriate valuation. In other words, they ask, "isn't this a value trap?" While many sum-of-the-parts stories in smaller markets may be, I gain comfort in the aligned management team who have clearly demonstrated that they are doing the right things to unlock and grow value. Absent the plans to monetize the bank, monetize the real estate, buy back shares, cut costs, renegotiate the company's government postal contract to allow for inflation passthroughs and volume decline offsets, and commit to a long-term plan predicated on double digit EBIT growth, this could be a value trap. But given all of those catalysts in place, I'm not worried about this stock being ignored for too long.

Yet while it continues to be ignored, the company will likely continue to utilize capital allocation as a tool to increase value per share. After repurchasing 5% of the shares outstanding last year, the company will likely continue to repurchase shares this year, as its balance sheet is clean.

Vistry Group PLC (LSE: VTY)

> *We're delighted with the acquisition of Countryside; three months in, it looks even better than it did at the time of the acquisition. We think the prospects of bringing together and having a huge exposure in the growth market of Partnerships is going to be great, and we believe that the synergies on an ongoing basis and in 2023 will be greater [than previously forecast]…You can see we've got a great deal of forward visibility and are in pretty good shape.*
>
> \- Greg Fitzgerald, CEO

Vistry is a top-five UK homebuilder. It was formed in early 2020 following the acquisitions of Linden Homes and Galliford Try Partnerships by Bovis Homes under the leadership of Greg Fitzgerald. Last November, Vistry merged with Countryside Partnerships, a company in which we had a position. Countryside had a valuable hidden asset in its partnerships business but a disjointed board that required activist intervention. The merger with Vistry solved Countryside's management problem and created an even

more attractive investment opportunity. The combined company has meaningful scale in both homebuilding and partnerships; significant synergy opportunities; and a clean, net-cash balance sheet.

Vistry's enterprise value is approximately £2.5bn. On a combined, normalized basis, I believe the company is capable of generating £800mm of EBIT, putting the business at approximately a 3x multiple—very cheap, even for a homebuilder. But Vistry isn't just another homebuilder. Its partnerships business is an asset-light gem of a business with solid growth prospects, which deserves a much higher multiple.

Given Vistry's clean balance sheet and cash flow generation potential, it too can and likely will continue to buy back shares to enhance per-share value.

Beyond the Top Five

I discussed a number of smaller positions and special situations over the course of 2022. We still hold several. I also changed my mind on a few of them.

- We still own our insurance demutualization position that I discussed last April. It is trading at a very large discount to book value, as the company is still unknown and illiquid. Eventually, this should change.
- I have continued to add to our "picks and shovels" energy industry position. This company should pay off all its debt in the next few months and then be in a position to start buying back shares.
- I recently put on a special situation trade in a technology company and bought shares in another energy company that has an imminent catalyst (expected in the next two months).

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Administrative

As usual, we expect tax forms and our year-end audit to be completed in a timely manner. Please keep an eye out for communications from our audit and tax firm, Spicer Jeffries, and our fund administrator, NAV Consulting.

Conclusion

Always, but especially this time of year, people in the investment industry spend time and effort making predictions about the year ahead. Where will the S&P 500 end the year? What will the ten-year interest rate be six months from now? Generally, those making these guesses lack skin in the game and are making them for the purposes of selling something.

I do not believe that making predictions such as these is helpful in generating long-term investment returns.

Rather than making macroeconomic predictions or guesses about the short-term direction of the markets, the question I ask myself is: Can I find a handful of companies that I can buy for far less than they are worth that will grow to be much more valuable a number of years into the future? That's really it. The vast majority of my energy goes into this one task.

I'm excited about our current handful. I believe they are generally inexpensive, growing, and well-capitalized. I like that many of our holdings are run by owner-operators with skin in the game. And I see numerous potential catalysts across our portfolio over the coming months and quarters.

I continue to have the majority of my family's investment capital invested in the fund alongside yours. I am working diligently to protect it and grow it.

As always, please don't hesitate to reach out if you have any questions.

Thanks,

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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Prices for securities discussed are closing prices as of January 27, 2023 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 4Q 2022, the return of the S&P 500 was 7.6%, and the return of the Russell 2000 was 6.2%. In 2022, the return of the S&P500 was -18.1%, and the return of the Russell 2000 was -20.4%. 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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