



Quarterly Letter, October - December 2018

	Oct 2018	Nov 2018	Dec 2018	Q4 2018	2018	Since Inception	Annualized
Curreen Capital Partners LP	-17.70%	-5.10%	-4.83%	-25.67%	-22.32%	73.4%	10.4%
S&P 500	-6.84%	2.04%	-9.03%	-13.52%	-4.38%	72.5%	10.3%
MSCI World (US Gross)	-7.32%	1.18%	-7.58%	-13.33%	-8.40%	45.2%	6.9%

Dear Partner,

2018 was a painful year. Our fund was down 25.7% in the fourth quarter, and down 22.3% for the year. We lost money, we underperformed the alternatives, and I made mistakes that are responsible for a portion of our losses.

There may be other ways to write this letter, but I want to give you a fair and honest report, and I think that you can handle the truth. Also, I have complete confidence that Curreen Capital will recover from 2018, and I want this to be a record of how we handled a difficult time. There's a Dean Mathey quote that has stuck with me: "We all look good when we are winning - it's how we look when we are losing that counts."

Downturns shine a harsh light on past decisions. Bad decisions look terrible and even good decisions look questionable. But harshly or not, decisions are illuminated. While I do not want to throw the baby out with the bathwater, this is an excellent time to review our actions and strategy to see what happened, and what I should change.

There were three main reasons for Curreen Capital's poor performance in 2018. First, we own small companies and spinoffs, which generally fell much more than the S&P 500 and MSCI World indices. Second, I made the mistake of buying and then adding to Socket Mobile. Third, I chose a very unfortunate time to test borrowing on margin to invest in cash management trades.

Smaller Companies and Spinoffs Underperformed

On the first point, we own Topbuild, Kopparbergs Bryggeri, Nilorn and Garrett Motion (a recent purchase). All fell double-digits during the year (in US dollars, the first three dropped 40.6%, 21.7% and 18.6% during the year, and Garrett fell 20.1% from our purchase price). These are all excellent, well managed businesses that are now selling at extremely attractive prices. They may get cheaper still—that is how down markets work—but I am not embarrassed to own good investments that are sold by other investors. And that is all that has happened with these investments - their prices dropped in 2018. This hurt our performance, and makes owning them now even more attractive.

The image I have in my mind is of someone submerging a life-preserver - it does not matter how long they hold it underwater and how far down they push it. The life-preserver is going to rise to the surface.

Socket Mobile Was A Mistake

Socket Mobile is different - here I made a mistake and should not have invested our money. I initially bought Socket after seeing several years of growth in what looked like an emerging excellent business, and I was impressed that management was buying back stock. In my optimism, I saw an investment that met our



three key criteria - a great business with a management team operating and allocating capital well, selling at an attractive price.

I was wrong.

Socket Mobile soon reported weak results, which I accepted - after all, business is lumpy, and weak quarters happen. With the benefit of hindsight, it is now clear that the weak results were a sign that the entire year would be at a lower level. In the face of this weakness, management continued to be upbeat about the future, which meant that costs remained elevated, and profits collapsed. I missed the implication of the negative news—that I was wrong about the quality of the business and management—and compounded my error by adding to our investment in Socket. Nearly a year later, my optimism is gone, and the facts support a less-positive view of the company: we have an ok business, management that has a long track record of not-quite achieving escape velocity, selling at a very low valuation. At the current stock price I have no interest in selling, but buying Socket Mobile, and especially adding to it later, was a mistake that lowered our performance for the year by almost 8% points.

A Hard Look at Our Microcap Investments

If there is a silver lining to Socket it is that it nudged me to review our investments over the past 5 ½ years. As part of that review, I analyzed our performance by investment category. The numbers were clear - Curreen Capital should not invest in microcaps.

In theory, our strategy should work regardless of whether an investment has a market cap below \$50m, above \$100B, or anywhere in between. Regardless of its market capitalization, an excellent business with good management, purchased at an attractive upside-to-downside ratio should be a good investment.

In practice, I should not buy stocks that have a market capitalization below \$50m. The combination of my innate optimism, desire to root for the little guy, and the difficulty in selling an illiquid position when I change my mind are the main reasons that investing in microcap stocks have been a mistake for us. We are far more successful with “normal” businesses, and our returns from spinoffs are better still.

With the one exception of excellent businesses where the management team has a long track record of making money for shareholders, I have been unable to effectively execute our investment strategy with microcaps. Factors that logic would say should work—strong incentives, insider ownership, etc...—have not translated into strong investment results for us.

What do we do with this knowledge? Going forward, Curreen Capital will only invest in stocks whose market capitalization is below \$50m if it meets our three key criteria, and the existing management team as a long record of making money for shareholders. This is a high bar, and in practice means that I will spend very little time looking at microcaps, and we are unlikely to buy any. Instead, I am focusing my efforts and our money on larger businesses (generally with market caps in the hundreds of millions and single-digit billions) and especially on spinoffs - areas where we have been far more successful.

Margin and Cash Management Trades Do Not Mix

The third source of losses in 2018 was cash management. After making a little money from these trades during the first three quarters of the year, we lost heavily in Q4. We were fully invested in Q4, and our cash



management losses were the result of my ill-timed decision to borrow money on margin to invest in cash management trades. Adding insult to injury, several of these cash management trades performed exceptionally poorly. I eliminated our margin debt in early December—which put a temporary end to our cash management activities—but not until after Curreen Capital lost about 5% points. I view this as a “when it rains it pours” hit to our performance. Good long-term strategies will occasionally have runs of losses, sometimes losses will be painful, and sometimes I test things that do not work out. We got all three in Q4.

Going forward, we will continue to make cash management trades, but only when we have uninvested cash on hand. Not all cash management trades make money, and this downside risk is acceptable when we have more money than good investments to put that money into. When we have more great investment opportunities than money—as we do now—the downside risk of losing on cash management trades is not worth taking.

Our New Investment

Though most of this letter is focused on what went wrong in 2018, I also want to tell you about Garrett Motion - which we bought in Q4 and is now our largest investment. Garrett spun out of Honeywell on October 1st.

First the bad news. Garrett is an auto supplier with a large debt burden, and responsibility for a large portion of Honeywell’s asbestos liabilities for the next 30 years.

When I see a company with pension liabilities, my heart usually sinks - I just know that most other investors will be more optimistic than I am about how much shareholder cash the pension will absorb. GAAP can be misleading on pensions, and most investors do not seem to care.

Asbestos liabilities are worse than pensions.

As another negative, auto suppliers are a miserable industry for shareholders. It is a hunting ground for distressed investors, where companies file for bankruptcy so often that they sometimes call it “Chapter 22”. Add in the cyclical nature of the industry (and we are not at the bottom), and you may be wondering why I have put so much of our money into Garrett.

On its surface, everything about Garrett says “run away!” But after looking more closely, I think that Garrett is a gem.

Garrett Motion is the #1 or #2 (with Borg Warner for automobiles and Cummins for off-road commercial vehicles) turbocharger manufacturer worldwide in an industry with economies of scale. Turbochargers are the least-expensive way for automobile manufacturers to meet stringent emissions standards without sacrificing engine horsepower. Turbo manufacturers with the scale and experience to have the best R&D, are able to design turbochargers that maximize engine horsepower and fuel efficiency, while minimizing emissions. So even though automobile OEMs want to follow their well-honed strategy of playing suppliers off each other, they want their engines to have high horsepower and low emissions even more. And to achieve that they buy from Garrett and Borg Warner.



About a decade ago, automobile OEMs encouraged Bosch to enter the turbocharger industry, which it did through a joint venture called Bosch-Mahle. Bosch is a very successful automobile supplier, and after a decade of trying, they threw in the towel on turbochargers, and Bosch-Mahle was sold to a Hong Kong PE fund. This is a demonstration of what happens when capable competitors backed by powerful customers enter the turbocharger market - Garrett and Borg Warner keep developing new and better turbochargers, and the entrants bow out. For companies with scale, turbochargers are one of the few profitable niches in the automotive supplier industry. You can see this in Garrett's return on tangible capital, which is well above 50%.

While the automotive industry has been cyclical for at least a century, turbochargers continue to benefit from increasing adoption. OEMs are working to meet both stringent emissions standards and customers' desire for horsepower, and are achieving this by incorporating turbochargers into more and more of their engines. No longer just a component on diesel engines, highly engineered turbochargers are being added to gasoline engines. Turbocharger penetration was 47% of vehicles in 2017, and is expected to rise to 59% in 2022 (and forecasts are believable because automobile designs—particularly for integral components like engines—are set years in advance). Steadily increasing turbocharger penetration is one reason why Borg Warner's turbocharger sales were down 15% in 2009 and up 37% in 2010 - hitting new highs just one year after one of the worst years for automotive sales in decades (I do not have Garrett's historical information, but Garrett's figures are likely similar to Borg Warner's). Not only will increasing penetration lessen the blow of the next downturn in automobile sales, but Garrett will also benefit from its growing market share in gasoline turbochargers.

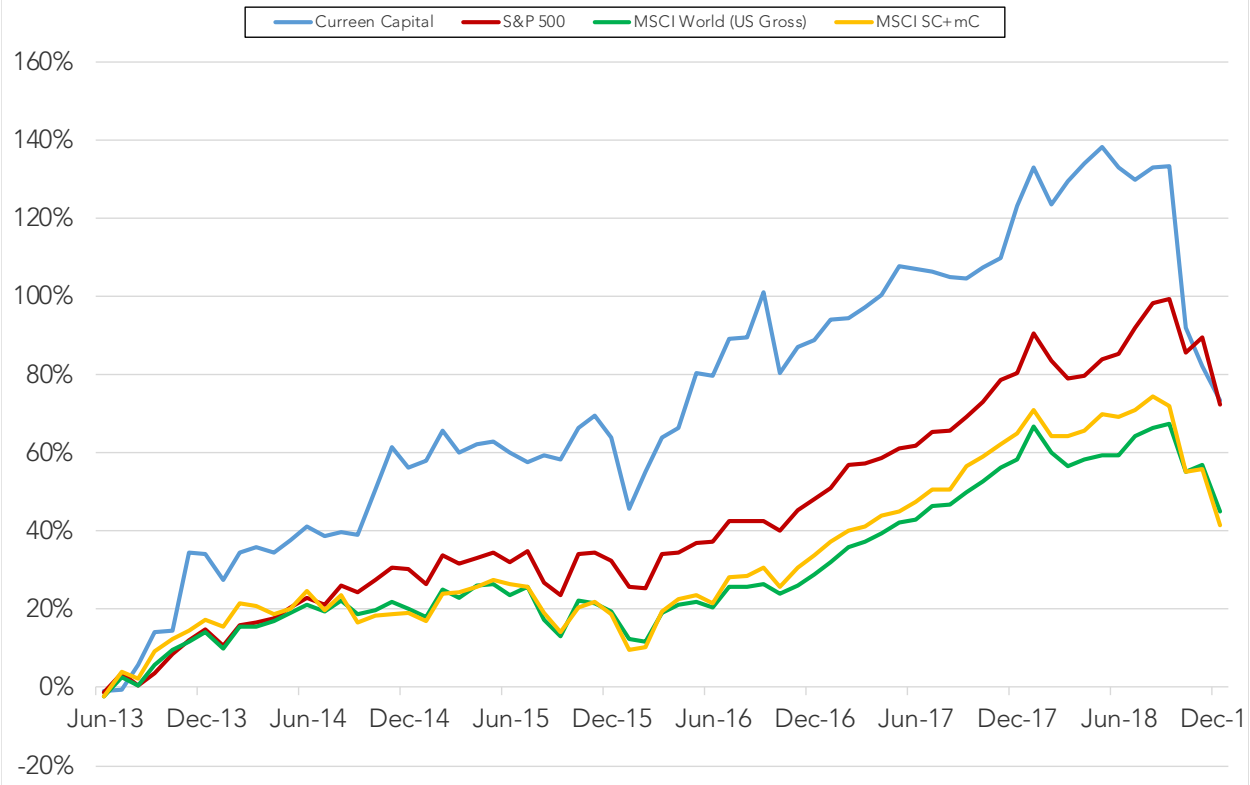
So we have an outstanding business, gaining market share in a growing industry - providing a tailwind in the face of a potential cyclical downturn. What about the debt and asbestos liabilities? The asbestos liability is capped at just under €150m per year, so even if Honeywell's legal expenses rise, Garrett is protected. Garrett's asbestos liability is a burden, but it is not the ever growing hole that other asbestos liabilities seem to be. On the inflow side, Garrett gushes cash and management intends to use it to pay down debt.

All in, I believe that Garrett Motion is a beautiful business, run by good management, selling at an extremely attractive upside-to-downside ratio. It has been completely abandoned in the stock market, as the usual spinoff dynamics of a small and ugly-looking business spun out of a behemoth like Honeywell were magnified by a selloff that has been especially intense for spinoffs (some examples off the top of my head are: Adient, Delphi Technologies, frontdoor and Welbilt).

There are certainly downside risks - in the medium term, a severe decline in automobile production could cause Garrett to trip debt covenants, and in the longer term, weakening automobile emissions standards or mass adoption of all-electric vehicles would impair the business. Despite these risks, I felt that the upside-to-downside ratio justified making Garrett our largest position. We first bought Garrett in early October (paying \$16.25/share), and added to our stake in early November (paying \$13.82/share).



Cumulative Performance June 2013 - December 2018



Curreen Capital Partners LP Returns After Fees													Alternatives				
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Full Period	S&P 500	MSCI World	MSCI SC+mC	
2013						-1.01%	0.59%	6.09%	8.22%	0.28%	17.46%	-0.27%	34.3%	14.8%	14.1%	16.4%	
2014	-5.09%	5.56%	1.13%	-1.19%	2.47%	2.45%	-1.76%	0.86%	-0.62%	8.40%	7.23%	-3.37%	16.3%	13.7%	5.3%	1.6%	
2015	1.26%	4.80%	-3.27%	1.24%	0.38%	-1.70%	-1.59%	1.19%	-0.57%	4.89%	2.08%	-3.37%	5.1%	1.4%	-0.5%	-0.2%	
2016	-11.21%	6.63%	5.53%	1.56%	8.42%	-0.42%	5.22%	0.17%	6.15%	-10.23%	3.71%	0.87%	15.1%	12.0%	7.9%	12.7%	
2017	2.72%	0.27%	1.38%	1.71%	3.55%	-0.36%	-0.20%	-0.74%	-0.14%	1.30%	1.26%	6.29%	18.2%	21.8%	22.8%	23.2%	
2018	4.45%	-4.10%	2.73%	1.85%	1.84%	-2.18%	-1.42%	1.47%	0.07%	-17.70%	-5.10%	-4.83%	-22.3%	-4.4%	-8.4%	-14.2%	
													Cumulative	73.4%	72.5%	45.2%	41.5%
													Annualized	10.4%	10.3%	6.9%	6.4%

Below is a snapshot of our portfolio at year-end:

Position	Portfolio %
Garrett Motion	23.6%
Nilorn	23.1%
TopBuild	16.7%
Micro Focus	15.0%
GetBusy	8.9%
Socket Mobile	7.0%
Kopparbergs Bryggeri	5.7%
Cash Management	0%



When You Are Going Through Hell - Keep Going!

2018 was the worst year that Curreen Capital has experienced, and I compounded the effects of a weak stock market by buying and adding to Socket Mobile, and choosing a particularly unfortunate time to test using margin debt on cash management trades. The S&P 500 flirted with a bear market, and other indices fell even more. I do not know whether this pressure has abated, nor how far the stock market will ultimately fall. After all, you can hold a life-preserver underwater for a long time.

I do know that we own excellent businesses with great management teams. Our investments were very attractively priced several months ago, and have only become more attractive as their stock prices have fallen. We will continue to own a portfolio of the most attractive investments that I can find - regardless of how long other investors choose to sell them at cheap prices.

You may recall that I have run ultramarathons, and took second place in the Black Hills 100 mile ultramarathon. Eleven months earlier I had dropped out of the Vermont 100 at mile 83, injured, despondent and in a great deal of pain. It took me weeks to recover, process my mistakes, and begin to run again. It took many more before I was ready to race.

I tell this story for a few reasons. For one thing, I voluntarily undertake long, lonely, painful journeys through the wilderness. For another, I have a Lakota bison skull on my wall (my Black Hills 100 trophy) that reminds me not only how far we can get by putting one foot in front of the other, but also - what we can achieve after working back from a very painful experience. In some ways, losing money for you is worse than the physical pain of manhandling my body - you trust me with your money and I take that very seriously. But I am just as confident as I was after the Vermont 100 - we have great returns ahead of us. We have a sound strategy and an outstanding investment portfolio. Eventually the stock market will stop falling and we will make serious money.

Until then - thank you. I appreciate your investment in Curreen Capital, and take great pride in earning your trust and being a steward of your capital.

Sincerely,

A handwritten signature in black ink, appearing to read "CHRISTIAN RYTHER".

Christian Ryther
646-535-8573
cryther@curreencapital.com



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