CURREEN CAPITAL

Quarterly Letter, July–September 2021

	Jul	Aug	Sep	Q3 2021	YTD	Since Inception	Annualized
Curreen Capital Partners LP	-2.68%	0.39%	-2.91%	**-5.15%**	31.52%	243.9%	16.0%
S&P 500	2.38%	3.04%	-4.65%	0.58%	15.93%	211.3%	14.6%
MSCI World (US Gross)	1.81%	2.52%	-4.13%	0.06%	13.27%	145.1%	11.4%

Dear Partner,

Our fund was down 5.15% in the third quarter. We sold four investments in the quarter, and bought positions in a spinoff and a company that is liquidating. We also added to several of our existing investments.

We Bought a Cheap Spinoff

Jackson Financial is one of our new positions, it spun out of Prudential Plc on September 20th. Prudential is a London-listed insurance company that now focuses on growing its insurance businesses in emerging markets. Jackson is based in Michigan, trades on the NYSE, and is the largest seller of retail variable annuities in the U.S.

That was enough to pique my interest – a U.S.-listed company spinning out of a U.K.-listed company, and in a business with a bad reputation. If Prudential shareholders wanted reasons to sell the stock without looking at Jackson's business, they had plenty. In addition to being a cross-border spinoff, the ratio was one share of Jackson for every 40 shares of Prudential, anyone with less than ~$200,000 invested in Prudential stock could have the company sell their shares for them, and the spinoff had been delayed by three months. It almost felt like Jackson was a burden that Prudential was foisting upon its shareholders.

I worked through Jackson's financials before trading began, and decided that I would be interested below $40 per share. The stock began trading between $25 and $30.

The bad news is that Jackson's prior management team was fired in early 2021, and the new management is untested – both operationally and in terms of capital allocation. The company's risks are the black-box of derivatives that it uses to offset the promises that it makes to annuity buyers, and its ability to distribute cash to shareholders depends on how state insurance regulators assess its financial strength (they do not use GAAP). This makes the company's financial statements less helpful than they are in many other industries. Jackson also issued surprisingly short-term debt before the spinoff, and will need to deal with some of that within the next year.

The good news is that Jackson sells for less than 1/3 of book value (even lower than its peers), the company should be able to distribute somewhere between $4-9/share per year (likely as a mix of dividends and share repurchases), and I believe that it will continue to grow its market-leading variable annuities business.

We purchased our position in Jackson at an average price of $24.97/share.

We Bought a Liquidation Stub

I watched the wind-up of Macquarie Infrastructure over the past few months with increasing interest. Last December, the company had sold off one business and distributed the proceeds to shareholders. In June 2021 the company announced the sale of its two remaining businesses. One would be sold in Q4 2021 (later fast-tracked and completed in Q3), with a distribution to shareholders of about $37.35. The other sale is expected by the end of Q2 2022, which should deliver a second payment to shareholders of $3.83.

The larger first payment in Q3 or Q4 of 2021 would be accompanied by a reorganization of the company into a partnership. The partnership would then allocate the gain from the first sale (maybe $30/share of long term gains) to shareholders.

To me, this looked like a carrot and a stick. At stock price between $38 and $40, the IRR on owning Macquarie Infrastructure was above 20%. That high IRR was the carrot. The stick was that we would have to buy the stock for ~$40, wait a few weeks to receive ~$37.35, and only earn a very fine return over 6-to-9 months on the $2-to-$3/share stub that remained. And we would be allocated some portion of the ~$30 in capital gains.

I really wanted to own the carrot/stub, but I wanted to avoid the stick. I eventually realized that we could "create" that stub by buying call options.

We bought calls that expired in the middle of October and later. These gave us the right to buy Macquarie Infrastructure shares at an all-in price of $40.20-40.50 – above the market price at the time, but <u>after</u> the date that I expected the reorganization and initial distribution to be made. As I expected, our options were adjusted to account for the distribution. For example, the calls that we bought with a strike price of $37.50 were ultimately adjusted so that we would pay $37.50/share to exercise, and then receive $37.3868/share and a share of Macquarie Infrastructure (the actual distribution was a bit above the company's $37.35 estimate). Buying calls allowed us to create the post-reorganization Macquarie Infrastructure stub at a known price several weeks before the reorganization occurred. We also avoided the tax consequences of the reorganization, and we did not have to invest $40/share upfront.

By buying call options, we created a position in the post-reorganization Macquaire Infrastructure liquidation stub of a bit over 13% of the fund at a cost of $2.991/share. This allowed us to earn an excellent IRR, while avoiding the downsides that would have come with owning the stock.

In the middle of October we exercised the calls, and sold our shares for $3.747/share.

Watering the Flowers

We added to several of our existing positions after I was positively impressed by developments at each company. We added to Conduent, GetBusy, and Wickes.

Cutting the Weeds

During the quarter we sold our positions in CDON, Credit Acceptance, Kontoor and Kopparbergs. We sold CDON, Credit Acceptance and Kopparbergs for a similar reason – the story had changed, and not in a good way.

To my eyes, CDON no longer resembled the fast-growing business with excellent operating momentum that we bought last fall. Instead, CDON looked like a turnaround. The CEO and CFO both quit, revenue growth collapsed, and the company appeared to be running out of cash. I am happy to invest in turnarounds that fit my criteria—I want management in place who are successfully driving the business forward, and a price that does not reflect that progress—but CDON was not there. We received SEK 429.69/share.

For Credit Acceptance and other subprime auto lenders, the past year has been the best of times, and the worst of times. It is a great time to own subprime auto loans, as a strong labor market, stimulus payments, and high prices for used cars mean that customers are more likely to pay their car loans, and the collateral is more valuable in the cases where customers default. On the other hand, it is difficult to make new subprime automobile loans, because subprime customers with the best credit may now be able to get prime loans, and the cars that are available to buy are more expensive. Subprime auto lenders are now left with the choice of lending more money per car to the least-creditworthy subprime customers, or letting their new loan volume collapse. In the first case, your loan losses may be very high in a few years, and in the second case, your loan book will shrink, and then shrink some more.

Credit Acceptance has opted for the second choice, and its new loan originations are well below last year's. This shows discipline from management, but it will eventually make it hard for the company to drive earnings growth. In the absence of that earnings growth, I do not want to own Credit Acceptance. We sold our position for $522.71/share.

With Kopparbergs Bryggeri, the company's operating results disappointed me for another quarter. I aim to cut the weeds, which means that we sell businesses that disappoint. We received SEK 159.36/share.

With Kontoor, we sold our position despite positive operating results. I do not want to cut the flowers, but with a slow-growing business like Kontoor, even excellent operating momentum can be relatively unattractively priced. When I wanted to buy Jackson in September, Kontoor appeared to be our least attractive investment. It is an excellent and well managed business, but the upside-to-downside was not as attractive as Jackson's. We received $54.88/share.

Until Next Quarter

Thank you for your commitment to Curreen Capital. I continue to search for outstanding ugly duckling investments that belong in our portfolio – whether they are fast growers, turnarounds, cheap spinoffs, or simply attractive opportunities like Macquarie Infrastructure. We buy what others misunderstand, ignore, and underestimate.

I will write you again in January to discuss our activity in Q4, and review our performance during 2021. In the meantime, I am happy to chat with current or prospective partners – please reach out.

Sincerely,

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Appendix
Curreen Capital Investments

American Outdoor (AOUT)
American Outdoor builds brands in the firearms, hunting, and camping accessories markets. American Outdoor spun out of Smith & Wesson in August 2020. The business outpaces the competition, taking share in a large, fragmented and attractive market. Management reinvests free cash flow into growing the business.

Jackson Financial (JXN)
Jackson is the largest seller of retail annuities in the U.S. The company focuses on variable annuities, and benefits from a strong distribution network and economies of scale in customer service. Jackson spun out of Prudential Plc in September 2021. Jackson trades at an extremely attractive upside-to-downside ratio.

Conduent (CNDT)
Conduent is a business process services company. It handles transaction intensive processing for government and commercial customers. After years of weak sales, declining profits, conflict with its largest shareholder (Carl Icahn), and the loss of its CEO – the company is turning around. Conduent's new CEO is addressing the company's key problems and is driving sales growth. Conduent currently trades at an attractive upside-to-downside ratio.

GetBusy (GETB:GB)
GetBusy provides online document exchange systems—primarily for accountants in the U.K.—and its Australian/New Zealand and U.S. business are growing well. GetBusy spun out of Reckon in August 2017, and has continued to grow since then. GetBusy does not earn money, investing through higher expenses to grow its existing businesses and attempting to launch a new product. The underlying businesses are profitable and sustainable in the U.K., and potentially in the U.S. and Australia/New Zealand.

Nilörn Group (NILB:SS)
Nilorn designs and delivers tags and labels for European clothing brands. The company combines just-in-time delivery with quality design that can elevate the customer's products in the eyes of the end consumer. Management uses free cash flow to grow the business and pay a dividend. The company's returns on capital are about 30%. Nilorn trades at an attractive upside-to-downside ratio.

Wickes (WIX:GB)
Wickes is a U.K. retail chain focused on home repair and remodeling. The business currently benefits from strong industry tailwinds. The company spun out of Travis Perkins in April 2021 with excess cash and no financial debt. The business does not grow, and management uses free cash flow to pay a dividend. Wickes trades at an attractive upside-to-downside ratio.

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