CURREEN CAPITAL

Quarterly Letter, July–September 2022

	Jul	Aug	Sep	Q3 2022	YTD	Since Inception	Annualized
Curreen Capital Partners LP	6.58%	-5.15%	-8.51%	-7.52%	-41.30%	131.3%	9.4%
S&P 500	9.22%	-4.08%	-9.21%	-4.88%	-23.87%	163.2%	10.9%
MSCI World (US Gross)	7.96%	-4.15%	-9.27%	-6.11%	-25.25%	97.6%	7.6%

Dear Partner,

Our fund was down 7.52% in the third quarter. We sold Wickes, Jackson and Truecaller. We sold a lot in the quarter, and in a change from our usual policy of being fully invested, we did not reinvest the proceeds in other opportunities. We are now sitting on a fair amount of cash, and this is intentional, driven by my analysis of inverted yield curves.

How does this fit in with our investment strategy?

Our investment strategy has evolved over time, and the key elements are:

Finding New Ideas - "Ugly Ducklings"
Focus on spinoffs and companies where directors/executives have bought stock

Evaluation - 3 Key Criteria
1) Excellent businesses
2) Strong management team
3) Favorable upside-to-downside ratio*

*Focus on criteria 1 & 2 with fast growing businesses

Portfolio Management
Water the flowers and cut the weeds

Our investing approach has always been informed by study and analysis of past financial history, sometimes going back 100+ years, and though the stock market goes up and down, I believe that the best policy is usually to be fully invested. But usually does not mean always, and I have developed three additional tenets that may come into play during financial market extremes. These three tools can suggest deviating from being fully invested, and are:

1. High aggregate director and executive share purchases suggest being aggressive
2. A surge in margin debt suggests being cautious
3. An inverted yield curve suggests being cautious

Most of the time, these tools are silent – aggregate director and executive share purchases seldom overwhelm sales, margin debt normally does not rise especially rapidly, and the yield curve generally slopes upward. So most of the time, we are fully invested in the best ugly ducklings that we can find. I only consider deviating from being fully invested if one of these unusual signals blinks on.

In the third quarter, one of these signals lit up: the yield curve inverted. (While there are many ways to measure yield curve inversion, my preference is to compare the monthly rates for 10 year and 6 month Treasuries.) As a result of this signal, I believe that we should be especially cautious right now, and that has led us to not be fully invested.

Wait, wait, wait – how do we square this with our investment strategy?

On the one hand, I have written in previous letters that I do not allow my feelings to guide our investments. They just do not lend themselves to data analysis. We have done well by ignoring them, simply buying the best investments we can find, staying fully invested, and moving money from one opportunity to another more attractive opportunity.

On the other hand, I am now saying that because of two numbers, we should be especially cautious. In August, the 6 month Treasury Bill rate was higher than the 10 Year Treasury Bond rate – and so that means we are supposed to be cautious about operating results and earnings multiples?

Yes. Because unlike my feelings, I can test the inverted yield curve.

My conclusion from analyzing inverted yield curves in the U.S. is that they are a signal to be very cautious in the stock market. They seem to be a symptom of a large problem in the U.S. economy. The stock market may not begin falling for many months (for example, after the 1927, 2006, and 2019 inversions), and it may not fall at all (it rose after the 1978 inversion… until the yield curve inverted again in 1980), but in nearly all cases, the stock market has ended up lower than when the inverted yield curve first signaled caution. An inverted yield curve is not a signal to short stocks, and it is not a signal that the stock market will immediately turn down, but it is a signal that something important is happening, and that the stock market is likely to suffer.

I take this signal seriously, and conclude that we should be more willing to sell and less willing to buy. I implement this by lowering my downside estimates of operating performance and making the earnings multiples in my valuations more conservative. The result is that we are more likely to sell our investments, and—because of our higher bar for purchases—less likely to reinvest the proceeds in new investments.

We sold Jackson in large part because the inverted yield curve signals that a weak stock market and high volatility are likely to continue. High volatility increases Jackson's cost of hedging the annuities that it has sold, and a weak stock market makes it difficult to sell new variable annuities. These operational headwinds make Jackson a weed. We sold at $31.11 per share.

We also sold Truecaller because of the caution signaled by the inverted yield curve. Truecaller is an excellent and well-managed business. Operating results show that it is a flower. But it is a richly valued fast growing company, and I do not want to own richly valued businesses right now. We sold at SEK 58.44 per share.

We sold Wickes before the yield curve signaled caution, because its operating results disappointed me. I thought that the company would benefit from cyclical tailwinds, but Wickes' trading update showed that the UK home renovation market continues to be weak. Despite its other advantages, this headwind makes the company a weed. We sold at £1.354 per share.

We continue to hold our positions in Nilorn and GetBusy. Both businesses have impressed me with excellent operating performance, and both are attractively priced. Though the inverted yield curve makes me especially cautious, I want to own ugly ducklings like these.

I continue to search for excellent ugly ducklings to add to our portfolio, though I have not yet found anything that we should buy. I am cautious, but I am looking, and we will find attractive opportunities and buy them.

One Last Thing
Historically, our portfolio of ugly ducklings has fallen hard during stock market declines, and roared back when the storm passed. The most recent example was Curreen's 220%+ gain in the 11 months after March 2020. I am confident that we will rebound as we have before. And while my analysis guides me to be cautious right now, I am excited by the prospect of buying outstanding businesses at exceptional prices. When I look at history, the downturns that followed inverted yield curves were some of the greatest buying opportunities of the past 100 years.

As always, thank you for your commitment to Curreen Capital, I am grateful that we are making this journey together.

I will write you again in January to discuss our activity in the fourth quarter and our results for the year. In the meantime, I enjoy chatting with current or prospective partners. I would love to talk if you have questions – please reach out.

Sincerely,

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

Appendix
Curreen Capital Investments

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 new products. 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%.

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