VOSS CAPITAL

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February 27th, 2024

Dear Partners,

In Q4 2023, the Voss Value Fund, LP and the Voss Value Offshore Fund, Ltd., returned 19.4% and 18.6% to investors net of fees and expenses, respectively, compared to 14.0% total return for the Russell 2000, 15.3% total return for the Russell 2000 Value, and 11.7% total return for the S&P 500. As of December 31st, 2023, the Voss Value Master Fund's total gross exposure stood at 177.8% and the net long exposure was 80.4%.

The top 10 longs had a weight of 90.8%, and our top 10 shorts had a weight of 39.0%. Voss Value Master Fund assets under management stood at approximately $275.1 million and Firm assets stood at approximately $889.3 million as of December 31st, 2023.

Voss Value Master Fund Complex

NET MONTHLY PERFORMANCE | 2023

PERIOD	Voss Value Fund, LP	Voss Value Offshore Fund, Ltd.	Russell 2000 TR	Russell 2000 Value Index	S&P 500 TR
JANUARY	9.2%	9.2%	9.7%	9.5%	6.3%
FEBRUARY	-1.7%	-1.7%	-1.7%	-2.3%	-2.4%
MARCH	-5.5%	-5.5%	-4.8%	-7.2%	3.7%
1st QUARTER	**1.5%**	**1.5%**	**2.7%**	**-0.7%**	**7.5%**
APRIL	-1.9%	-1.9%	-1.8%	-2.5%	1.6%
MAY	0.5%	0.1%	-0.9%	-2.0%	0.4%
JUNE	8.8%	8.8%	8.1%	7.9%	6.6%
2nd QUARTER	**7.2%**	**6.8%**	**5.2%**	**3.2%**	**8.7%**
JULY	0.2%	0.2%	6.1%	7.5%	3.2%
AUGUST	-2.1%	-2.4%	-5.0%	-4.8%	-1.6%
SEPTEMBER	-6.5%	-6.8%	-5.9%	-5.2%	-4.8%
3rd QUARTER	**-8.3%**	**-8.9%**	**-5.1%**	**-3.0%**	**-3.3%**
OCTOBER	-5.8%	-5.9%	-7.7%	-6.0%	-2.1%
NOVEMBER	10.1%	9.5%	10.0%	9.0%	9.1%
DECEMBER	15.2%	15.1%	12.2%	12.4%	4.5%
4th QUARTER	**19.4%**	**18.6%**	**14.0%**	**15.3%**	**11.7%**
YEAR TO DATE	**19.2%**	**17.1%**	**16.9%**	**14.6%**	**26.3%**

The table below shows the Voss Value feeder fund returns compared to some of the relevant indices:

Net Return Comparison as of December 31st, 2023					Compound Annual Growth Rate			
	1 Month	3 Month	YTD	1-Year	3-Year	5-Year	10-Year	ITD[(1)]
Voss Value Fund, LP	**15.2%**	**19.4%**	**19.2%**	**19.2%**	**18.7%**	**20.2%**	**16.6%**	**18.1%**
Voss Value Offshore Fund, Ltd.	**15.1%**	**18.6%**	**17.1%**	**17.1%**	**17.4%**	**-**	**-**	**18.8%**
S&P 500	4.5%	11.7%	26.3%	26.3%	10.0%	15.7%	12.0%	14.7%
Russell 2000	12.2%	14.0%	16.9%	16.9%	2.2%	10.0%	7.2%	11.3%
Russell 2000 Value	12.4%	15.3%	14.6%	14.6%	7.9%	10.0%	6.8%	10.9%
Russell 2000 Growth	12.0%	12.7%	18.7%	18.7%	-3.5%	9.3%	7.2%	11.5%
HFRX Equity Hedge Index	1.6%	3.6%	6.9%	6.9%	5.1%	6.3%	3.0%	3.6%

(1) Inception to Date measures the time period from Voss Value Fund, LP's inception date of October 1st, 2011, and from Voss Value Offshore Fund, Ltd's inception date of January 1st, 2020.

The Great Humiliator has sprung forth from beneath an avalanche of nebulous repudiations heaped upon it this time last year. As the year wore on, Voss highlighted that market strategists and participants appeared overly focused on increasingly less dependable survey data, the weak manufacturing data (which comprises only ~1/7th of the total economic output as Services), and overestimating the impact of higher short-term rates on consumer spending—while underestimating a bevy of positives such as government fiscal stimulus and robust job growth. Real economic growth was in the 96th percentile in Q3 and 72nd percentile in Q4, relative to the last 20 years, excluding the wackiness of 2020 and 2021. Our positive view of economic growth played a factor in our decision to remain heavily net long small cap cyclicals including areas like homebuilders, construction materials, and heavy construction equipment.

Our portfolio was well positioned late in the year although arguably for the wrong reasons. At the end of October 2023, the Russell 2000 began one of its best two-month rallies in many decades on the back of a drop in forward rate expectations, as opposed to rallying from investors suddenly realizing how good economic growth had become and earnings had remained.

Is it any wonder then that with WSJ headlines like "Data Show the Economy is Booming" to kick off 2024, small cap value has once again been lubricated with molasses in the relative return race? With a swift ~9% correction in small caps to start the year, rate cut expectations clearly got too far ahead of themselves and rates are still in the driver's seat.[1] The primacy of mega cap tech stocks has been mostly justified by earnings revisions. "Winners win things," is an adage that comes to mind and has been reinforced by the "momentum" factor within Tech experiencing a 26% vertical rally to start 2024.[2] We would prefer some breathers, choppier factor performance, and more frequent bouts of mean reversion.

After such a historic market rally, ordinary market concepts like bullish or bearish are much too rigid to be useful descriptions of our current views. The reason being that under the surface, the market still seems split between two ghosts of past extremes: the bubbly euphoria of 2021 and the more distant despondency of say, 2009 perhaps – or some other era that had comparatively little in common with a garden variety economic downturn. While there are large pockets of the market exhibiting late-stage bull market behavior with nosebleed valuations, one also need not delve deep into the remote nooks and crannies of the market to find compelling value, thus we resist the reductionism of the statements that the market is "all Mag-7" and nothing else. It is precisely this return dispersion at the extremes that makes this a terrific stock picking environment in theory.

The median forecast of 53 market forecasters that published a 2024 S&P 500 price target was 1.4%, the lowest assumed return in at least 20+ years (note: the S&P 500 is already up ~7% YTD). Valuations start from an undeniably elevated perch so only two brave souls were undaunted by an innate acrophobia and predicted a return of greater than 10%.[3] Surely the surly sentiment from last year isn't another early presentiment?[*]

Speaking of being early, we are still calling for the scales of the "weighing machine" to tip in favor of small cap value relative returns going forward, as they remain at a low percentile of historical valuations compared to large caps based on forward earnings yields. Small caps are also expected to grow earnings much faster this year, with ~24% EPS growth estimated in 2024 for the Russell 2000 versus 11.4% for the Russell 1000.[4] Judging from past cycles, we think small caps should also benefit disproportionately if consumers take their money out of money market funds (MMF) on the back of Fed funds rate cuts and shift further into FOMO mode.[5] However, with greater than 50% of all equity assets in passive ETFs now, it is possible that MMF outflows just further exacerbate the current record-wide large/small spread.

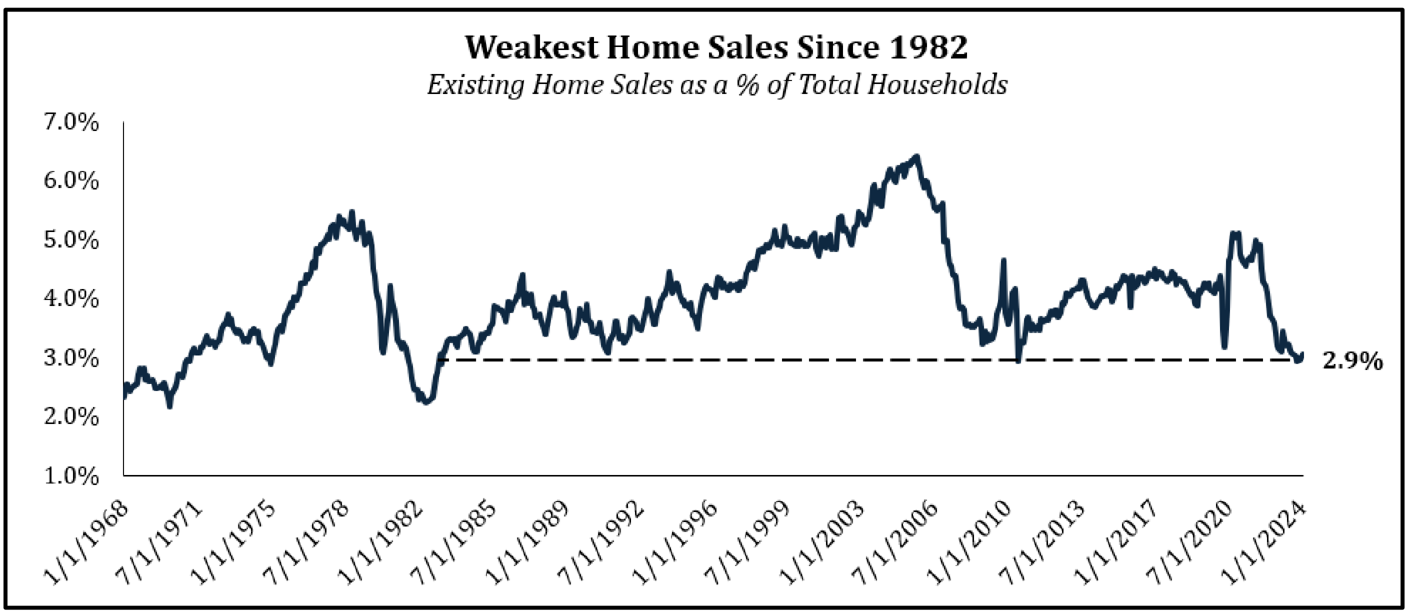
After strong real growth for three quarters in a row, skepticism remains healthy, and it seems investors are still not yet extrapolating it or believing it even though high-frequency industrial data points are turning up globally. For example, freight demand is at a 17-month high, and the change in forward-looking indicators such as the US ISM Manufacturing New Orders component are seeing their largest increases in several years. With such a long-running anticipation of recession in the US, the build-up of excess capacity has likely been limited and potentially resulted in deferred capex that will further boost economic growth throughout this year.

Inflation

US CPI ex-shelter has been below 2% year-over-year for seven months in a row and 46% of the 74 CPI components are already below 2%. The Manheim Used Car Price Index shows a decline of that key component might be in the bag, and more importantly, the shelter component is poised to plunge from its lofty 6%+ as evidenced by asking rents on Apartment List & Zillow. With this disinflation over the last several months, the breadth of real wage growth has hit a level not witnessed in the US since the late 1990s. In Q2 2022, 54% of working Americans had wage growth that was not keeping pace with inflation. As of November 2023, this had fallen to 43%.[6] When adjusting the CPI rate for the majority of Americans who own their home and have a fixed (or no) monthly payment, the percentage of inflation-laggards drops even more precipitously. Overall, real disposable income growth accelerated to +4.1% y/y in December, further enhancing consumer buying power while balance sheets remain healthy by historical standards.[7] Recall last quarter we predicted strategists may begin to describe the economic backdrop as "Goldilocks" and this increasingly is the case.

US Housing

Another recent theme that we believe will carry over this year is the ongoing shortage of available affordable US housing inventory. The velocity of transactions of existing homes, measured as a percent of total households, has been hitting 40-year lows thanks to the lock-in effect of low mortgage rates and the overall affordable housing inventory crisis. We think housing prices and new construction starts will remain resilient in 2024 and turnover will improve. Thus, associated typical large ticket discretionary purchases (e.g., furniture, building products for R&R, etc.) could be an area of positive surprise relative to expectations.

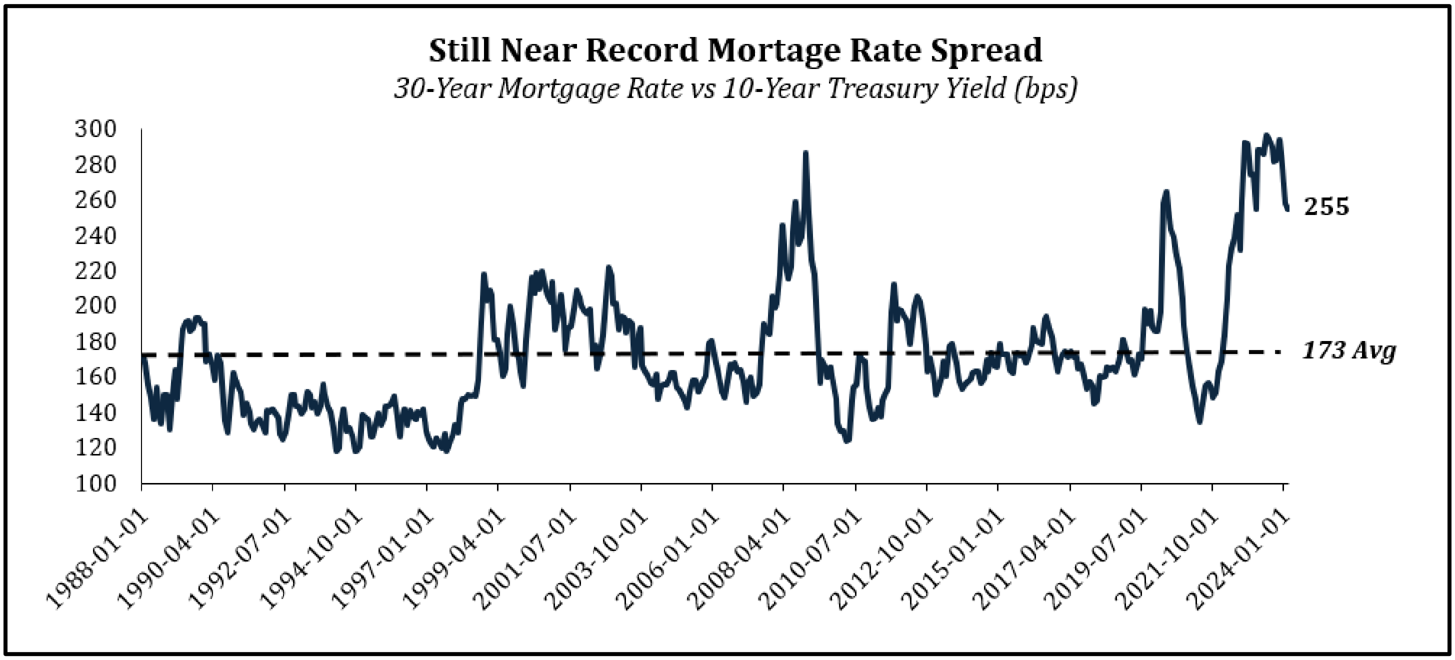


Source: National Association of Realtors, St. Louis Fed

Housing starts exceeded expectations for 2023 but it was a tale of two halves. 1H saw a 15% decline in starts y/y growth and 2H saw 2% increase y/y. While housing starts marginally exceeded household formations for nine years in a row from 2003-2011, they have now lagged household formations by a much greater magnitude every year for the last 10 years (2013-2023).[8] Ages 33-35 are the peak first-time homebuying years and around 4.2 million Americans turned 33 last year versus only 3 million in 2008. In conjunction with favorable demographics for housing demand, the existing stock of homes has grown older than ever which will continue to drive structurally elevated

R&R spend. R&R spend has already gone through a bit of an Armageddon scenario due to higher rates and the 40+ year low in housing turnover yet remained fairly resilient and historically has most highly correlated to real disposable income growth and home price appreciation, both of which are exhibiting solid growth rates once again.

Another potential positive for housing just around the corner is the end of the Fed's QT, which may have contributed to the unusually outsized spread between the 30-year fixed rate mortgage rate and the 10-year treasury yield. If this spread reverted to its historical average it would provide a boon to housing even if the Fed does not trim short-term rates from here (average spread 173 bps since 1988 versus 255 bps today).



Source: Bankrate.com, US Treasury

One additional theme we think is already emerging for markets in 2024 is a surge in pent-up M&A as private equity unleashes its ~$4 trillion of dry powder and corporate boards get confident in rate stability once again. Through mid-February, M&A in the US is already up about 55% year-over-year with the CEO of investment bank Moelis stating their deal pipeline is "at the highest level ever."[9] Given the nature of our portfolio comprised of what we believe are undervalued companies, many of which are strategically important businesses, we hope to sufficiently capitalize on this trend and at the very least believe it should crank up the animal spirits in small cap land.

Update on Griffon Corp. (GFF)

We recently sold just over half of our outsized position in Griffon Corp. for portfolio risk management purposes. In conjunction with stepping off the Board, the company bought 1.5 million shares from Voss, which we believe is a win/win for our investors and GFF shareholders. During our holding period and time engaging with the company, one non-core segment was sold at a high multiple, a thorough strategic review for the rest of the business was conducted, corporate governance improved at the margin, management bonus metrics were changed to incentivize ROI, and the company bought back over 14% of the shares outstanding while also paying $4 of special dividends. The total shareholder return has exceeded 200% since we first wrote a public letter in November 2021 while the Russell 2000 has had a negative return over that time. The market is waking up to the unmatched quality of GFF's garage door segment as it has become one of the highest EBITDA margin building products companies in the public market.

We believe there remains substantial upside in the stock as any of the following play out: 1) the HBP segment garners an EBITDA multiple that is simply in line with much lower margin building product peers, in the 11.5-12.0x range 2) the CPP initiative to move to a more flexible contract manufacturing base bears fruit in 2025 and beyond, and 3) ongoing aggressive returns of capital to shareholders. As stated above, we remain as optimistic as ever on repair and remodeling spending, which includes garage doors.

New core sized long: R1 (RCM)

R1 is a top player in outsourced Revenue Cycle Management for large hospitals and physician groups. Outsourced revenue cycle management is still in the early innings with only about 30% penetration, and we believe R1 has the most complete and scalable independent (i.e., not affiliated with an insurance company) solution in the marketplace, in what could prove to be a "winner take most" industry. With hospital profitability under pressure and coding and regulatory complexity ever increasing, R1 offers substantial savings via regional labor arbitrage and automation technology to customers through more efficient revenue collection.

The current management team came from Cloudmed, which R1 acquired very recently in June of 2022, and has undertaken the challenging task of cultural and technological integration while being relative public market newcomers under immense scrutiny. Cloudmed offers modular or single-point RCM solutions as opposed to a full end-to-end offering, and it counts 95 out of the top 100 hospitals in the US as customers. Cloudmed is a solid business with upwards of 40% EBITDA margins and 117% net revenue retention, and we think they can achieve a mid-teens revenue CAGR over the next few years while opening the door to upselling R1's more robust service offering across the broader customer base.

We believe with Cloudmed's technological focus and vast access to data (they touch over $900 billion of Net Patient Revenue across all hospital EMRs), a bit of a network effect is likely to take hold, as R1's army of engineers (most of their $100 million+ in capex is directed towards software development) are utilizing Machine Learning and, yes, AI, to automate processes to drive further efficiency of economics to be shared with customers. The company recently announced a collaboration with Microsoft to improve billing coding productivity. We believe there is a significant opportunity to both expand margins and expand their technological leadership. The CEO has a technology-oriented background and has been very consistent and outspoken since becoming CEO about the long-term margin enhancing opportunities that Machine Learning and AI could generate for the company.

R1 currently has terrible negative sentiment as evidenced by a massive multiple de-rating and 18% short interest. It is getting hit by both stylistic (floating debt, healthcare IT, SMID) and idiosyncratic factors (accounting concerns, customer loss/bankruptcy, negative estimate revisions). While we cannot dismiss all these negatives as "nothing," it is our variant view that under the covers things at the company are much better than they appear at first glance and most of the bearish arguments miss the forest for the trees.

The level of risk of an investment is in part a function of the valuation paid relative to many outcomes. Waiting for perfect near-term clarity on a situation like RCM would be costly and could negate any chance at outsized alpha. Where we have had big winners is not where we prioritize near-term clarity, but rather precise downside valuation protection under a variety of normal economic outcomes. R1 certainly fits the bill here, with investors overly focused on guidance for the next three months while we are focused on getting comfortable with the cash flow dynamics three years out. We believe there is limited downside over the next few years as there is still latent profitability building that will show up from maturing customers and ongoing Modular (Cloudmed) growth.

Twelve months from now, we think the investment narrative will have transformed significantly as management signs new customers without "paying to play", earnings quality improves substantially, deleveraging begins in earnest, and hospitals become incrementally healthier, leading to what will be viewed as a scarce, high quality healthcare IT asset that could be trading closer to fair value which we peg at 15x 2026 FCF, ~100% higher over the next two years. Although this is certainly an execution story, these numbers do not require much new business to be won as most of the FCF in our Base Case comes from ramping up already signed customers, along with some margin expansion from their AI/Machine learning initiatives. If the "network effect" we are predicting takes hold, we believe the Bull Case below is achievable.

2026 Estimates

Case Summary	EBITDA-Capex	FCF	Multiple	Price	Up/Down	Implied EBITDA-Capex
Bear	**$725**	**$475**	**10x**	**$9.63**	**-10%**	**8.5x**
Base	**$949**	**$666**	**15x**	**$21.05**	**97%**	**12.2x**
Bull	**$1,155**	**$821**	**20x**	**$34.58**	**224%**	**15.6x**

Conclusion

If a map detailed every little landmark and trivial wiggle in the path along the way, its users would get bogged down, confused, and stray from the intended route and never make it to their destination. A map is usually helpful because it does not contain too much information. Similarly, always succumbing to the nagging compulsion to accumulate incremental information will not necessarily lead to more alpha and can be detrimental to optimal portfolio-level decision making. We must frequently zoom out on our investment journey and be careful not to lose the forest for the trees of the noisy market in real time. A robust process of information gathering to gain conviction in our ideas must be balanced with a careful study of history and an uncomfortable look back at our own laundry list of losers—an aide-memoire guaranteed to stave off illusions of certainty in the present.

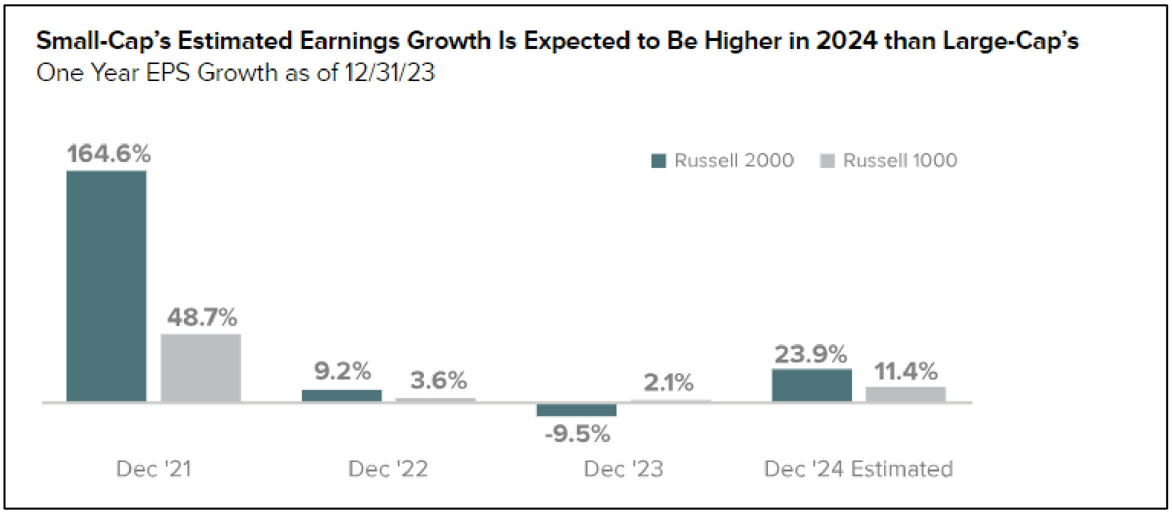
As is the case often, 2023's main challenge was remaining optimistic and steadfast in our net long positioning amidst pervasive negativity. This year's denouement remains TBD, but as we continue navigating through the Great Humiliator's endless hall of mirrors, we will proceed thoughtfully as we always have by tactically adapting within a strict principled framework and focusing our attention on finding attractive value-oriented special situations that embed a margin of uncertainty.

Sincerely,

Voss Team

Appendix:

[1] WSJ: https://www.wsj.com/economy/united-states-economy-data-experts-soft-landing-1f23b1a5
[2] Bloomberg, Goldman Sachs Momentum Index GSTMTMOM
[3] Fisher Investments Research
* https://www.youtube.com/watch?v=ixljWVyPby0
[4] Source: Factset



[5] The S&P 600 small cap index has the highest negative correlation of major indices to y/y changes in MMF balances as a percentage of household net worth
[6] DallasFed.org | More workers find their wages falling even further behind inflation - Dallasfed.org
[7] Goldman Sachs equity research
[8] National Association of Realtors
[9] Bloomberg: https://www.bloomberg.com/news/articles/2023-12-06/moelis-sees-huge-backlog-of-deals-after-fed-s-rate-hike-regime

Common Terms:

CAGR – Compound Annual Growth Rate	*IRR – Internal Rate of Return*
CAPEX – Capital Expenditures	*LTM – Last Twelve Months*
COGS – Cost of Goods Sold	*M&A – Mergers and Acquisitions*
DCF – Discounted Cash Flow	*NTM – Next Twelve Months*
EBIT – Earnings Before Interest and Taxes	*OPEX – Operating Expenses*
EBITDA – Earnings Before Interest, Taxes, Depreciation & Amortization	*P/E – Price to Earnings*
EPS – Earnings per Share	*P&L – Profit and Loss Statement*
EV – Enterprise Value	*P&S – Parts and Service*
FCF – Free Cash Flow	*SG&A – Selling, General and Administrative Expenses*
GDP – Gross Domestic Product	*YTD – Year to Date*

Disclosures and Notices:

Beginning January 1, 2020, all investment activity is conducted by the Voss Value Master Fund, LP (the "Master Fund"), which has two feeder funds, and therefore performance figures from January 1, 2020, onward are calculated based on the Master Fund. All limited partners invest in the Fund through one or more of the following feeder funds: Voss Value Offshore Fund, Ltd. (the "Offshore Fund") and Voss Value Fund, LP (the "Predecessor Fund"), each a "Feeder Fund". Performance figures for the Predecessor Fund are contributable to Travis Cocke as sole portfolio manager. Mr. Cocke maintains the same the position with the Fund and the Fund will employ a similar strategy as the Predecessor Fund. Actual returns are specific to each investor investing through a Feeder Fund. Each Feeder Fund was established at different times and has varying subsets of investors who may have had different fee structures than those currently being offered. As a result of differing fee structures, differing tax impact on onshore and offshore investors, the timing of subscriptions and redemptions, and other factors, the actual performance experienced by an investor may differ materially from the performance reported above. Portfolio statistics shown are inclusive of the Predecessor Fund and the Offshore Fund. Net results are presented after deduction of all operational expenses (including brokerage commissions), 1% per annum management fee, and 20% performance allocation. Prior to Q1 2023, 2022, and 2023 net results were presented at the Fund/feeder level but were subsequently updated to match the method of presentation used for the Fund's 2022 Audited Financial Statements. A full chart is available upon request.

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