

November 26th, 2024

Dear Partners,

In Q3 2024, the Voss Value Fund, LP and the Voss Value Offshore Fund, Ltd., returned +7.6% and +7.4% to investors net of fees and expenses, respectively, compared to +9.3% total return for the Russell 2000, +10.2% total return for the Russell 2000 Value, and +5.9% total return for the S&P 500.

As of September 30th, 2024, the Voss Value Master Fund's total gross exposure stood at 184.5% and the net long exposure was 85.0%. The top 10 longs had a weight of 72.1%, and our top 10 shorts had a weight of -36.5%.*

Voss Value Master Fund assets under management stood at approximately \$313.6 million and Firm assets stood at approximately \$1.1 billion as of September 30th, 2024.

Voss Value Master Fund Complex

NET MONTHLY PERFORMANCE 2024					
PERIOD	Voss Value Fund	Voss Value Offshore Fund	Russell 2000 TR	Russell 2000 Value Index	S&P 500 TR
JANUARY	-2.6%	-2.8%	-3.9%	-4.5%	1.7%
FEBRUARY	9.3%	9.4%	5.7%	3.3%	5.3%
MARCH	2.6%	2.5%	3.6%	4.4%	3.2%
1st QUARTER	9.2%	9.0%	5.2%	2.9%	10.6%
APRIL	-8.1%	-8.1%	-7.0%	-6.4%	-4.1%
MAY	1.4%	1.3%	5.0%	4.7%	5.0%
JUNE	0.0%	-0.1%	-0.9%	-1.7%	3.6%
2nd QUARTER	-6.8%	-7.0%	-3.3%	-3.6%	4.3%
JULY	7.7%	7.7%	10.2%	12.2%	1.2%
AUGUST	1.8%	1.8%	-1.5%	-1.9%	2.4%
SEPTEMBER	-1.9%	-2.0%	0.7%	0.1%	2.1%
3rd QUARTER	7.6%	7.4%	9.3%	10.2%	5.9%
OCTOBER					
NOVEMBER					
DECEMBER					
4th QUARTER					
YEAR TO DATE	9.5%	8.9%	10.4%	9.2%	22.1%

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

Net Return Comparison as of September 30th, 2024								
	1 Month	3 Month	YTD	1-Year	Compound Annual Growth Rate			
					3-Year	5-Year	10-Year	ITD ⁽¹⁾
Voss Value Fund, LP	-1.9%	7.6%	9.5%	30.8%	13.3%	18.9%	17.3%	17.6%
Voss Value Offshore Fund, Ltd.	-2.0%	7.4%	8.9%	29.1%	13.5%	-	-	17.7%
S&P 500	2.1%	5.9%	22.1%	36.3%	11.9%	16.0%	13.4%	15.5%
Russell 2000	0.7%	9.3%	11.2%	26.8%	1.8%	9.4%	8.8%	11.5%
Russell 2000 Value	0.1%	10.1%	9.2%	25.9%	3.6%	6.7%	6.9%	9.9%
Russell 2000 Growth	1.3%	8.4%	13.2%	28.1%	0.1%	5.9%	7.5%	10.7%
HFRX Equity Hedge Index	0.0%	-1.6%	2.9%	6.6%	3.0%	5.3%	3.1%	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.

Fear and greed are two intertwined reciprocities in the marketplace that make their appearance in frustratingly unpredictable fashion, forever teetering back and forth like a seesaw, never quite finding the optimal equilibrium. Coming into the year, strategists' expectations for calendar year returns were the lowest on record.¹ Now after a 25% rally, they have gotten noticeably more rapturous about 2025's prospects.² The tremendous economic stability that we have been pounding the table on is now a clear consensus view. Real disposable income is up 3-4% across developed market economies over the last year as price inflation has fallen faster than wage inflation, providing a much-needed boost to consumer purchasing power. Aside from the prospects of more pronounced tariffs and supply chain uncertainty, strategists are running out of things to worry about, and complacency is near an all-time high, evidenced by credit spreads near all-time lows. Several retail trading favorites are up ~50%+ in the last month on little news, mirroring the speculative frenzy of 2021. Rolling three-month equity flows are knocking on new all-time records (set in 2021) in November and the percentage of US households expecting positive forward returns for US stocks is at a new all-time high.³

There has been a seductive stability of many momentum stocks recently as they rise bit-by-bit almost every single day in the last few weeks and months (momentum factor up ~70% YTD vs pure Value factor still down ~10%).⁴ However, we find most lack even a modicum of downside support based on valuation once the momentum cracks. The S&P 500 is in the ~97th percentile of historical valuations.⁵ What happens over the next year is anyone's guess, but the broader index returns over the next 5-10 years are unlikely to have the same magnitude of multiple expansion as they have had over the last 5-10 years (the S&P 500 going from ~14x earnings to ~23x) that has driven blistering equity returns, making security selection and valuation discipline even more paramount going forward.

The market certainly feels more inefficient lately as ~50% of equity assets are passively indexed and an increasingly miniscule portion of capital allocated to public equities is value sensitive or even value aware. Certainty in markets is always an expensive illusion and especially so lately as the market may once again be overpaying for both near-term certainty (e.g., steady consumer staple WMT trades at >3.5 standard deviations expensive relative to its historical valuation) and long-term growth certainty (e.g., CAVA at ~50x 2032 EBITDA estimates as of mid-November that assume a 23% revenue CAGR with margin expansion).

There are many stocks with little growth that have sustainably held P/E ratios that are more than twice as high as the Nasdaq's P/E at the height of the internet bubble. The nosebleed valuations have gone on for so long that they are now entirely normalized and give investors the feeling of semi-permanence.

On the flip side, as the growth of some small cap stocks slows, valuation multiples often collapse, especially where there is low conviction in the management team's capital allocation abilities. Countless stocks are languishing below private market value and would be better off going private in our view. M&A as a percentage of GDP or market cap has been scraping a 30-year low for the last two years. With ~\$4 trillion of dry powder in traditional leveraged buyout funds looking for targets, we continue to expect a cyclical rebound and surge in small cap take-privates in the quarters ahead.

New core long: Phinia Inc (PHIN)

We are long shares of Phinia, Inc. A recent spin-off from Borg Warner (BWA), the company is an auto parts supplier that operates two distinct businesses – 1) Fuel Systems (original equipment manufacturer supplier) and 2) Aftermarket automotive products supplier.

The Fuels Systems business is uniquely positioned to capitalize on attractive competitive dynamics that we believe will allow the company to take gobs of market share in its niche markets over the coming years. As an internal combustion engine (ICE) parts supplier pure play, overly hyped expectations of electric vehicle (EV) penetration created an especially good long-term buying opportunity in PHIN earlier in the year.

We believe estimates will continue to prove too optimistic on battery electric vehicle (BEV) penetration as evidence is showing that the pure BEV market has already flatlined in the US and China and is declining rapidly across Europe. Consumer surveys around the world point to growing disinterest of BEVs leading to original equipment manufacturers (OEMs) and auto dealers to resort to substantial discounts on BEVs to get those units sold and work down already bloated inventory, with limited success. The decline of EV's auto share has come even before the incoming Trump administration's plan to repeal the \$7,500 EV tax credit and roll back onerous emission regulations.

We think PHIN benefits from the auto OEM strategy reversal as they de-emphasize pure BEVs and instead are focusing on hybrid EVs which still have a gasoline engine requiring PHIN fuel systems. We see commercial vehicle operators adopting BEV technology at an even slower pace as (despite endless hype from some part time CEOs) years are ticking by without material EV penetration into the commercial vehicle market. The market realization that BEVs are not ideal for towing heavy loads long distances would be a meaningful ballast for PHIN as ~30% of the Fuel Systems segment revenue is generated from commercial vehicles as of the most recent quarter.

PHIN's Gasoline Direct Injection (GDI) technology makes vehicles much more fuel efficient by injecting fuel directly into the combustion chamber at high pressure (up to 45,000 PSI and +/- 0.5-micron tolerance) which breaks the fuel down into smaller drops and increases surface area per unit of volume. As you may imagine, the GDI component is a highly engineered product and would require significant amounts of R&D spend by any potential competitors that wanted to try and break into the business. Globally, GDI penetration in ICE passenger vehicles is ~50% and PHIN has ~12% market share. We believe both the GDI penetration will rise dramatically in the next few years and PHIN will take substantial market share.

S&P Global predicts that ICE vehicle production will decline at a -4% CAGR through 2030 (revised upwards recently from -5%). Although our inclination would be to take the over and flip the negative to a positive growth rate, a successful outcome in PHIN from here does not require an ICE growth tailwind, but simply a slow transition of the existing car parc that needs maintenance and repair. There is an existing ICE fleet globally of >1.4 billion vehicles that we estimate will keep growing in absolute terms for a very long time, as each could require the non-discretionary parts that PHIN manufacturers to be replaced multiple times over the life of the vehicle. For example, on-highway heavy duty truck fuel injectors are typically replaced every ~500k miles driven, or once every 3-4 years.

In addition to what we believe is a variant macro view on ICE vs EV, we highlight additional idiosyncratic developments that contribute to our bullish outlook on the Fuel Systems business.

Strategic Withdrawal of Competitors:

Japanese competitor Denso has announced it will no longer invest in new GDI systems, effectively ceding market share as it pivots to next-generation components. This shift opens the door for Phinia, especially as it targets the growing Chinese OEM market. Furthermore, there has been chatter about Toyota being disappointed with Denso's lack of investment in their product and Toyota has reached out to Phinia to inquire about its capabilities, which could be a large growth opportunity in the longer term. PHIN CFO Chris Gropp recently mentioned at a conference:

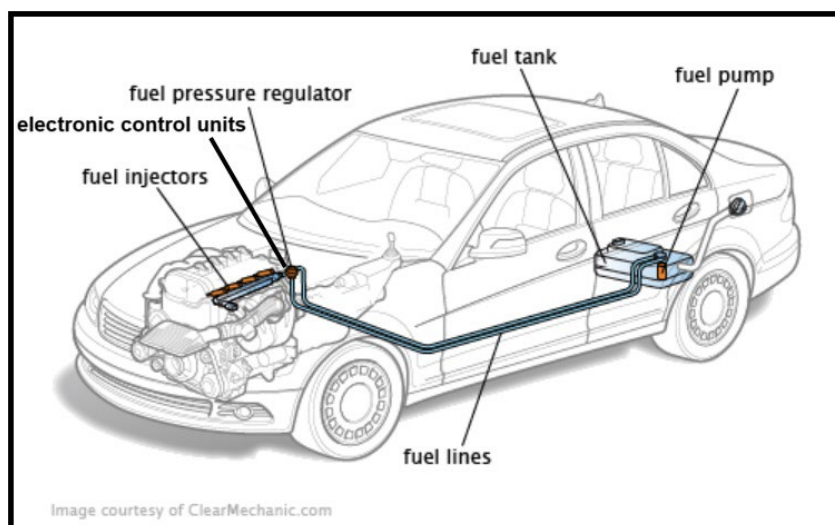
"From Japan. We've had inquiries coming out of Toyota. When they got the message and their engineers started hearing from DENSO that they didn't want to invest in the next generation of products then certainly, we got inquiries in. We've quoted, we've looked at some products. We've dealt with Toyota before. It's a long time for them to make a decision. You do a lot of quoting. You [have] a lot of discussions with them before you finally land anything..."

Supply Chain Consolidation:

As automotive manufacturers look to streamline their supply chains, they are increasingly requesting suppliers provide full fuel systems as well as the calibration and certification services related to the engine. As mentioned, Phinia has a 12% market share in the GDI portion of the fuel system, but less than 1% market share of electronic control units (ECU), which is another important component of the system. Management has communicated that it is a reasonable expectation that Phinia's market share in ECUs should increase to the level of the GDI product over time. The ECU component generates about the same revenue per vehicle for Phinia as the GDI component. We expect this trend of OEMs consolidating vendors and buying more fuel systems components from Phinia to be a tailwind over the coming decade, and we believe this dynamic is currently underappreciated by the market.

Here is the CEO Brady Ericson responding to a question related to Phinia's first full fuel system award on the Q2 call:

"I think it also really intertwines us into their business and makes us really a core partner to our customers. From the low-pressure pump in the fuel tank to the high-pressure pump to the high-pressure rail and the injectors, that's historically, customers would buy 1 or 2 components at a time. Now they're looking and saying, "Hey, we want the entire wet side system" that we'll design and develop for them. As we mentioned, we then kind of picked up the ECU as well."



Growing Demand from Chinese OEMs: Phinia has already established relationships with leading Chinese manufacturers such as BYD, Nio, and Li Auto. As Chinese share of PHEVs and ICE autos increases globally, Phinia stands to gain substantial market share.

New Product Development: Although historically focused on on-highway applications, Phinia is now expanding into new off-highway products. Recent contracts, such as the one with Kohler engines, demonstrate this commitment to customer demands for enhanced fuel efficiency in construction equipment and will be a growing emphasis for PHIN's diversification efforts.

The other leg of the thesis is that PHIN should start to get recognition as a majority after-market supplier. PHIN's after-market business is comprised of three well-known brands: Delphi, Delco Remy, and Hartridge. The after-market business is steadier through an economic cycle, has higher margins, is growing faster, and now comprises just over 50% of the company's operating profit. There is a noticeable valuation premium for companies that serve the auto aftermarket versus

those that remain mostly reliant on cyclical auto production, yet the market has not yet caught on to the mix-shift and PHIN is still valued more as an OEM pure play. The company's Aftermarkets business enjoys 18%+ EBITDA margins and mid-single digit organic revenue growth – clearly superior financial traits than Phinia's overall 5.6x forward EBITDA multiple would suggest.

		EV/EBITDA		P/E	
		2024	2025	2024	2025
OEM Suppliers	Ticker				
Cummins Inc	CMI	10.8x	10.4x	17.6x	16.5x
Aptiv Plc	APTIV	6.8x	6.5x	8.6x	7.4x
Visteon Corporation	VC	5.2x	5.0x	10.7x	10.0x
BorgWarner	BWA	5.2x	4.9x	8.2x	7.5x
Lear Corporation	LEA	4.8x	4.5x	7.9x	7.0x
Adient Plc	ADNT	4.1x	3.8x	11.8x	7.7x
Magna International	MG	5.0x	4.8x	8.3x	7.3x
Average		6.0x	5.7x	10.4x	9.1x
Aftermarket Suppliers					
Dorman Products	DORM	12.8x	12.0x	19.4x	17.8x
Donaldson Company	DCI	14.1x	13.5x	22.5x	20.4x
Atmus Filtration	ATMU	12.3x	11.8x	17.6x	16.9x
Average		13.1x	12.4x	19.8x	18.4x
Phinia	PHIN	5.8x	5.6x	13.6x	11.3x

PHIN's aftermarket products include batteries, brake pads, air conditioning compressors, fuel pumps, gasoline direct injection systems, commercial vehicle starters and alternators under the Delco Remy brand, diesel fuel systems (injectors, pumps, filtration), braking, steering and suspension parts (ball joints, control arms, steering rods, sway bar links), and diagnostic tools for auto repair shops.

In addition to the business dynamics, we like the capital allocation priorities of the management team. The company has been very aggressive with share repurchases since being spun off, as evidenced by the 11%+ reduction in share count in the first year since being a stand-alone public company. Phinia has stated that significant M&A doesn't make sense in the context of the low valuation of their own stock. We think this is still an underfollowed name with narrow sell side coverage that should expand over time.

Assuming 6.0x forward EBITDA for the Fuel Systems business and 9.0x forward EBITDA for the Aftermarket business (a conservative 25% discount to comps), the company's enterprise value would be ~\$3.8B by the end of 2025. Assuming the company continues to repurchase shares aggressively, this would equate to an equity value of ~\$3.1B and a per share value of ~\$79, a double from our cost basis within two years.

At the heart of our investment philosophy is the belief that surprises relative to expectations can significantly drive stock performance. Given Phinia's strategic positioning with competitors/supply withdrawing from the market, improving aftermarket dynamics and mix, and growth prospects in emerging product lines, we anticipate a long-term series of positive revisions and surprises that could lead to meaningful value creation.

Conclusion

We are geared to only hold one philosophy or view in our minds at a time, so for the market to adopt a new narrative, more and more people must tend towards closure of one view for another as they diverge from the consensus path. Sir John Templeton said that “Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria.” We’re encountering very little fresh proof of anxiety on the investment trail lately and the optimism phase was traversed quickly. Now signposts of entering the elevated promontory of euphoria are becoming more evident. We must be willing to seize chunks of alpha of all sizes as its availability noticeably thins out at these lofty levels. Persistence of outperformance will continue to be difficult, but we see no reason ours can’t continue with valuation discipline and healthy paranoia.

Sincerely,

Voss Team

Appendix:

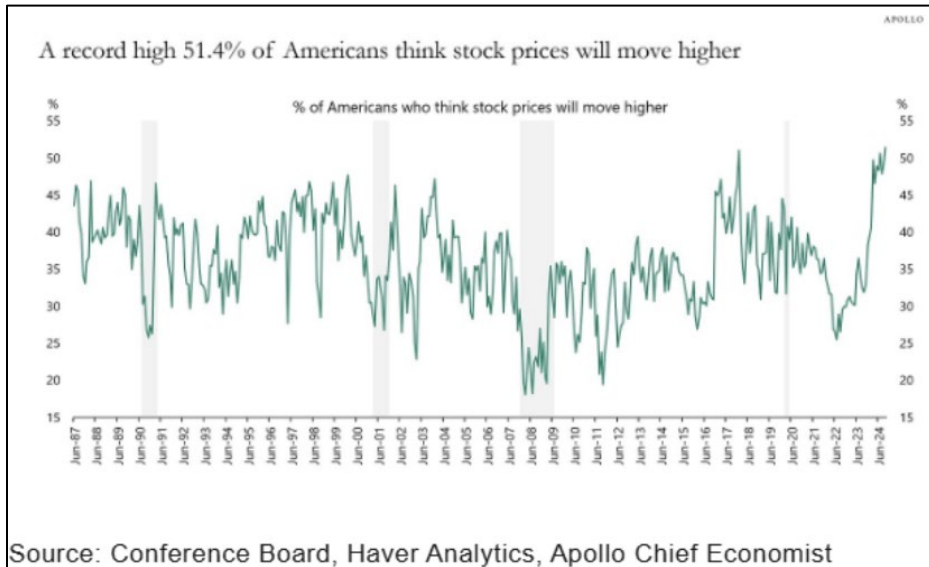
¹ Source: Historical data from Fisher Investment research. Using published strategist's forecasts, expected returns for 2024 were ~1%.

² Goldman Sachs research piece calling for stocks to continue "surging" as well as articles stating strategists are "uniformly bullish" on 2025's prospects. <https://www.thestreet.com/investing/goldman-sachs-analyst-sees-starting-point-for-year-end-s-p-500-rally>

³ Source: Goldman Sachs, Apollo, Conference Board, Haver Analytics.

⁴ Source: Morgan Stanley Quant team

⁵ Source: Goldman Sachs



Inflow superlatives

Scott Rubner sums it up:

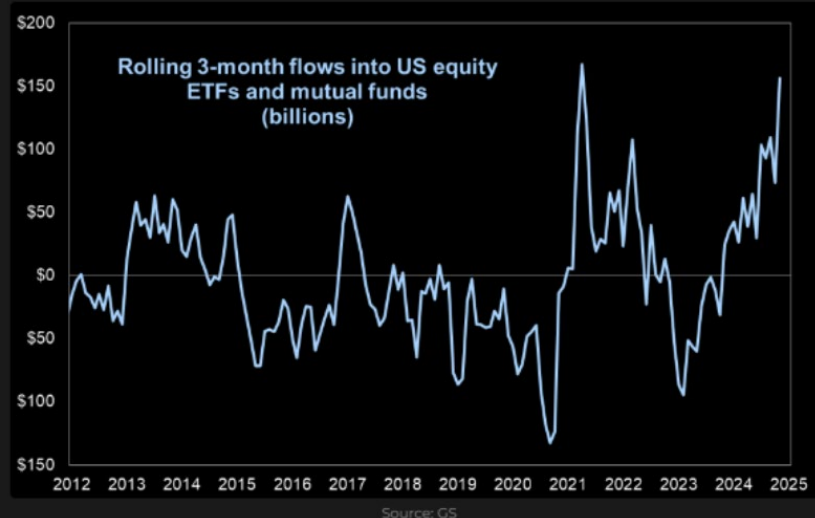
1. This Week: US equities gained +\$16.41B, while other assets lost -\$1.97B.

2. Last Week: US equities saw +\$55.78B inflows; others lost -\$2.62B.

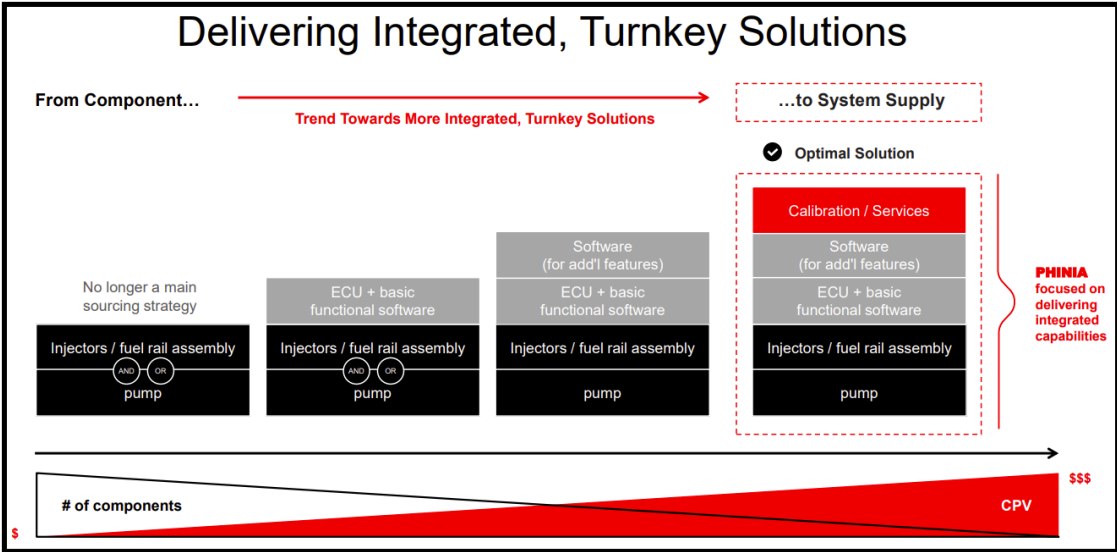
3. Two Weeks Ago: US equities gained +\$32.75B, with other assets netting +\$3.33B.

Trend: Largest 3-month inflows into US equities since 2021, possibly record-breaking monthly inflows.

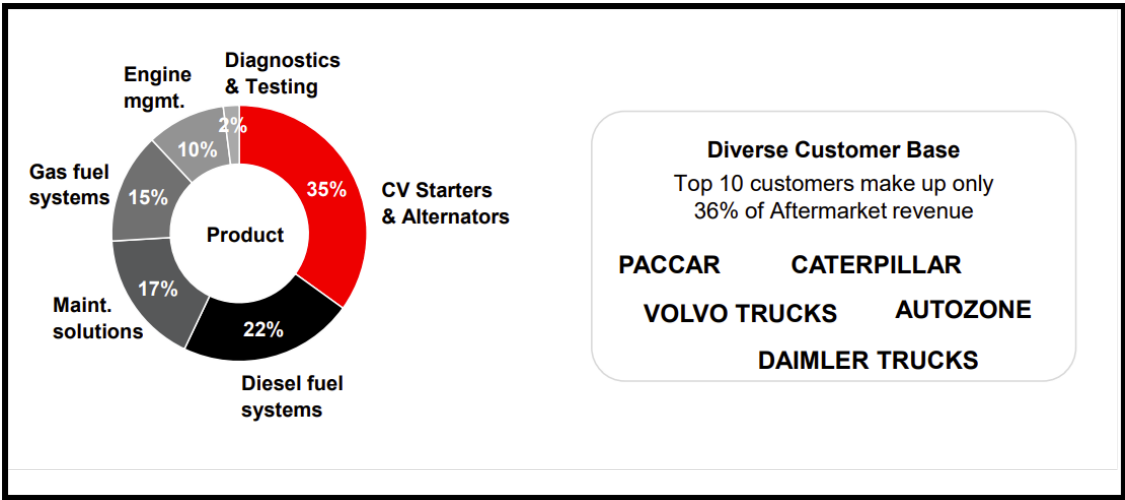
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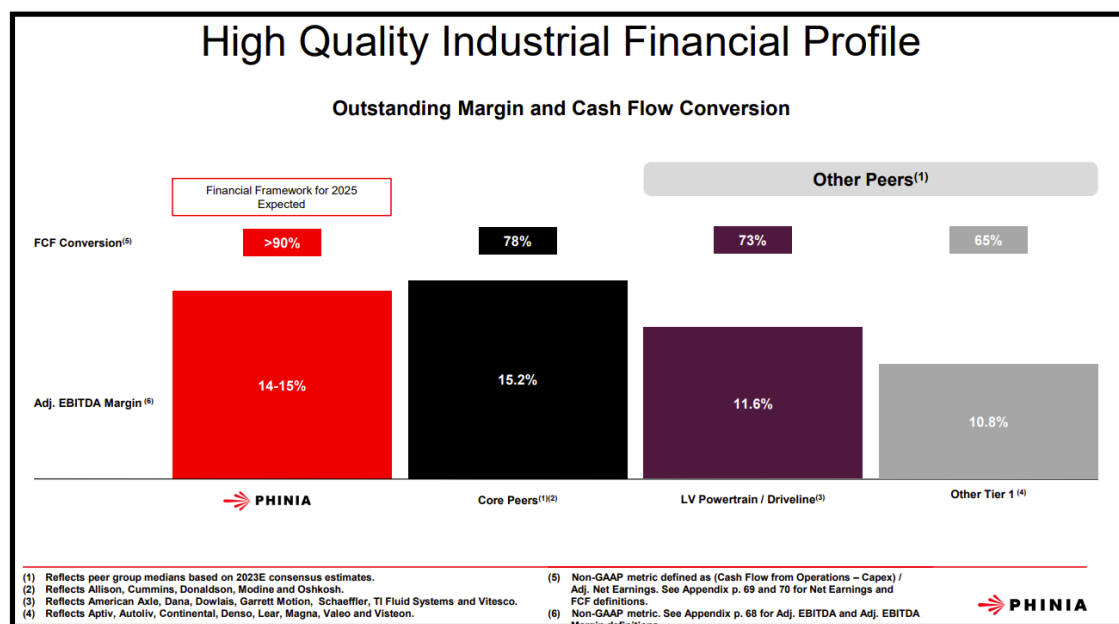


Phinia: Consolidation of suppliers:



Phinia: Aftermarket products by category:





Common Terms:

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

Disclosures and Notices:

*Exposures adjusted to exclude R1 RCM, Inc (NASDAQ: RCM) in expectation of the announced acquisition of all outstanding common shares at \$14.30 per share in cash. RCM gross exposure stood at 9.37% as of 9/30/2024.

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

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.

This letter is provided by Voss Capital, LP (“Voss”, “the Firm”, “the Voss Team”, “us”, “we”, and “our team”) for informational purposes only and does not constitute an offer or a solicitation to buy, hold, or sell an interest in the Voss Value Fund, LP (the “Fund”) or any other security. An investment in the Fund is speculative and involves substantial risks. Additional information regarding the Fund, including fees, expenses and risks of investment, is contained in the offering memorandum and related documents, and should be carefully reviewed. An offer or solicitation of an investment in the Fund will only be made pursuant to an offering memorandum. This communication is confidential and may not be reproduced or distributed without prior written permission from Voss. This confidential report is only intended for the recipient and may not be redistributed without the prior written consent of Voss. The information contained herein reflects the opinions and projections of Voss as of the date of publication, which are subject to change without notice at any time subsequent to the date of issue. All information provided is for informational purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. Data included in this letter comes from company filings and presentations, analyst reports and Voss’ estimates. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data presented. Certain information contained in this letter constitutes “forward-looking statements” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “attempt,” “anticipate,” “project,” “estimate, or “seek” or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results in the actual performance of the Fund may differ materially from those reflected or contemplated in such forward-looking statements. There can be no guarantee that the Fund will achieve its investment objectives and Voss does not represent that any opinion or projection will be realized. The securities contained within the benchmark indices highlighted herein do not necessarily correspond to investments and exposures that will be held by the Fund and are therefore of limited use in predicting future performance of the fund. Indexes are unmanaged and have no fees or expenses. An investment cannot be made directly in an index. The Fund consists of securities which vary significantly from those in the benchmark indexes listed below. Accordingly, comparing results shown to those of such indexes may be of limited use. The S&P 500 Total Return Index is a market cap weighted index of 500 widely held stocks often used as a proxy for the overall U.S. equity market. The Russell 2000 index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index. The Russell 2000 serves as a benchmark for small-cap stocks in the United States. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price/book ratios and higher predicted and historical growth rates. The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower expected and historical growth values. HFRX Equity Hedge Index consist of Equity Hedge strategies which maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. The strategy utilized by Voss has a high tolerance for uncertainty. Different types of investments involve varying degrees of risk. Therefore, it should not be assumed that future performance of any specific investment or investment strategy will be profitable. Asset allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss. **Past performance does not guarantee future results.**