January 27, 2022

Dear Partners and Friends,

In the fourth quarter of 2021, Maran Partners Fund returned +3.3%, net of all fees and expenses; in full year 2021, the fund returned +53.2% net[1]. Over the past five years, the partnership has compounded at a rate of +22.3%, net.

We had an excellent year in 2021. More importantly, our results over longer time periods have been solid as well. Core positions contributed to last year's results, as did event-driven special situation trades, which tend to be less correlated with the market.

Our portfolio is comprised of businesses that are generally well managed, well capitalized, cash generative, growing, and inexpensive. We own some very strong brands with pricing power. Many of our holdings are returning capital via share buybacks at attractive valuations, and none of our holdings require access to the capital markets. We are partnered with many owner-operators with significant skin in the game.

Our returns were not generated by following the crowd into high-valuation tech stocks. Nor were they generated by taking excess risk, in my opinion. We didn't use leverage or options, and while I believe in a reasonable amount of concentration, position sizes never exceeded low teens at cost.

Of course, as I caution you in almost every letter, our concentrated approach means that we should expect volatility along the way. We have experienced four declines of greater than 10% over the life of the partnership, including our worst peak-to-valley drawdown of 18.2% in the first quarter of 2020 when Covid-19 hit. Volatility is part and parcel of a long-term investment program. Over the course of a multi-decade investment lifetime, we should expect numerous additional double-digit declines. Further, our worst future peak-to-valley decline is likely to be greater than 20%. We accept these downward deviations as part of what I hope is a path of long-term compounding of capital at attractive rates.

On January 1, an individual who is himself a fund manager invested in Maran Partners Fund as an LP. On the afternoon of the 3rd (the first trading day of the year), he sent me an email asking how we had done that day. The email was obviously a joke, as he is a thoughtful, longer-term investor who is a good fit for our partnership. He pointed out the absurdity of focusing on short time periods when measuring investment results, and he also, in a way, pointed out the importance of selecting the right partners for a partnership such as ours.

I have highlighted the importance of partnering with the right limited partners since our partnership's founding and still believe it is as critical as ever. I believe you are all in good company. The vast majority of limited partners have made a five-year commitment to the partnership, and I have received many comments along the lines of "it's for the next generation" or "it's for the grandkids." Having aligned partners in this enterprise makes my job easier. The ability to be thoughtful and level-headed during periods of volatility is a real structural advantage.

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[1] Net returns presented based on highest fee share class. Individual partner fund returns may vary based on share class and timing of investment, among other factors. Please refer to your individual account statements for more detail.

2022 has started off with a meaningful market sell-off. The Russell 2000 index of smaller cap stocks is down double digits, and many "growth," "tech," and "innovation" stocks are down by much more. While our fund has not been immune to the broader market drawdown this month, we have no reason to panic. I like what we own, and, as importantly, I know what we own. Further, we started the year with an approximate 20% cash hoard that has allowed me to be opportunistic rather than defensive.

I wrote in my founder's letter that I would rather live in a world of 80% annual peak-to-trough swings than 20% swings. Yes, the marks would be painful, but the opportunity to take advantage of such volatility would be incredible. In some of our positions, we've reached the point where I'm rooting for even more short-term pain because it would create even better long-term wealth creation possibilities.

Against this backdrop, what am I doing right now?

<u>I'm sticking to my principles.</u>

These include a focus on value; margin of safety; asymmetric risk-reward; conservative underwriting; thorough due diligence; the concept of investment as ownership in a piece of a business (stocks aren't just numbers that wiggle around on a screen based on sentiment); and alignment of interests.

<u>I'm staying focused on catalysts.</u>

I continue to believe that our value-with-a-catalyst (or event-driven, or special situation) approach will be an attractive strategy in most market conditions. I want to remain agnostic as to the direction of the broader market over the short to intermediate term.

Sample catalysts: positive surprises, including growth in revenue, cash flow, or earnings over and above expectations; value creation via return of capital/share buybacks or smart M&A; activism leading to change in strategy, leadership, or capital allocation philosophy; corporate actions such as spinoffs, rights offerings, tenders, or post-bankruptcy situations; asset sales or transactions that unlock value.

<u>I'm continuing to concentrate into my highest conviction ideas.</u>

I have high confidence in several positions that have declined significantly more than I believe their fundamentals warrant. They each have numerous catalysts I believe will become apparent as soon as this quarter. While many funds are selling stocks due to redemptions, fear, or a realization that they don't know their portfolio companies as well as they should, we have the opportunity to add to our holdings of companies we know well at very attractive prospective IRRs.

Additionally, my "on-deck" list of attractive potential opportunities has expanded as the market has declined. Several of these are more event-driven types of special situations, which have historically been among the partnership's best risk-adjusted sources of return.

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**Portfolio Update**

As of the end of 2021, our top five positions were, in alphabetical order, Cadre Holdings (CDRE), Clarus Corp (CLAR), Correios de Portugal, S.A. (Euronext Lisbon: CTT), Countryside Partnerships (LSE: CSP), and Pure Cycle Corp (PCYO). Additional disclosed positions outside of the top five include American Outdoor Brands (AOUT), Crossroads Systems (CRSS), Scott's Liquid Gold (SLGD), Turning Point Brands (TPB), and Whole Earth Brands (FREE).

| TOP 5 LONG POSITIONS (ALPHABETICAL ORDER) | MARKET CAP |
|---|---|
| Cadre Holdings (CDRE) | $700mm |
| Clarus Corp (CLAR) | $700mm |
| Correios de Portugal S.A. (CTT.PT) | €600mm |
| Countryside Partnerships (CSP.LN) | £1.5bn |
| Pure Cycle Corp (PCYO) | $300mm |

Approximately 90% of our long exposure is in companies with market caps under $1 billion. Our current sweet spot is companies with market caps of $200 million to $700 million. I love finding companies with market caps of several hundred million that I think can grow to multi-billion-dollar companies over time.

In my recent 3Q 2021 letter to partners, I mentioned that I had been working on a new position that I expected would become a top five position in the portfolio. We did indeed establish this position during the fourth quarter. The company is Cadre Holdings (CDRE).

And last summer, in my 2Q 2021 letter to partners, I disclosed that I was starting to build a position in a "catalyst-rich situation involving a company shedding a mediocre business to focus exclusively on an excellent business while concurrently returning capital via sizeable share repurchases." We continued to build this position in Q4, and it edged into our top five near year-end. This company is Countryside Partnerships (LSE: CSP).

**Cadre Holdings (CDRE)**

Please see the appendix for a brief write-up of Cadre.

**Countryside Partnerships (CSP.LN)**

Countryside is in the midst of an activist-driven turnaround and strategic shift. The business has two pieces: a homebuilder and what the company refers to as its "partnerships business." The partnerships business redevelops housing projects owned by local housing authorities, eliminating the need for CSP to buy land on its own. This business has better growth prospects, better visibility, lower capital intensity, and higher returns on capital employed than the traditional homebuilding business. It is deserving of a much higher valuation in the market.

Countryside is in the process of exiting and monetizing its traditional low-return home-building business to focus exclusively on the capital-light and high-return partnerships business. The company has been undergoing a significant amount of change:

- New board chair appointed (who was previously CEO of Ferguson plc);
- new business model (monetize home building to focus exclusively on partnerships);
- dividend eliminated (leading to forced selling by income funds);
- massive share repurchases announced (one third of the current market cap);
- activist shareholder appointed to the board (from 10%+ owner, Browning West); and
- CEO ousted (with a replacement to be named by the new board).

All of this change, as well as a weak quarter (the business is volatile, and Q4 2021 results were poor), has caused a significant fall in the price of the stock.

At recent prices, the company's market cap is approximately £1.5 billion. The company has line of sight to over £400 million of asset sales from its legacy home building segment, and a share buyback authorization for that entire amount. The effective enterprise value is therefore £1.1 billion. Against this enterprise value, the company recently reduced its net income guidance to £225 million in 2024. Therefore, the company is trading at less than five times its 2024 earnings guidance.

Three activist investors together own over 20% of the company and have been aggressively buying more shares at recent prices. Of note, Browning West recently increased its position to just under 12.5% of shares outstanding, and both Jeff Ubben's Inclusive Capital and Adam Patinkin's David Capital recently crossed the 5% threshold.

So, you have three large holders in control of almost 25% of the shares (worth just under £400 million at recent prices), all of whom have been adding. The company has a £400 million share buyback authorization – another 25% of the shares at recent prices – and I believe many of the legacy income funds holding the stock have completed their exits.

2024 earnings per share should be north of £0.50. If the stock traded at 20x EPS, reflective of its high returns on capital and growth outlook, it would be a triple. Regardless, I think this is very conservatively a "three-year double," and if the stock continues to languish, the buyback will be even more value accretive.

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**Conclusion**

I named our fund Maran *Partners* Fund for a reason; I really do view it as a partnership and am grateful for each of you that have joined me on this journey. I continue to have the majority of my family's capital invested in the partnership alongside yours.

Thank you for your continued trust.

Sincerely,

Dan Roller

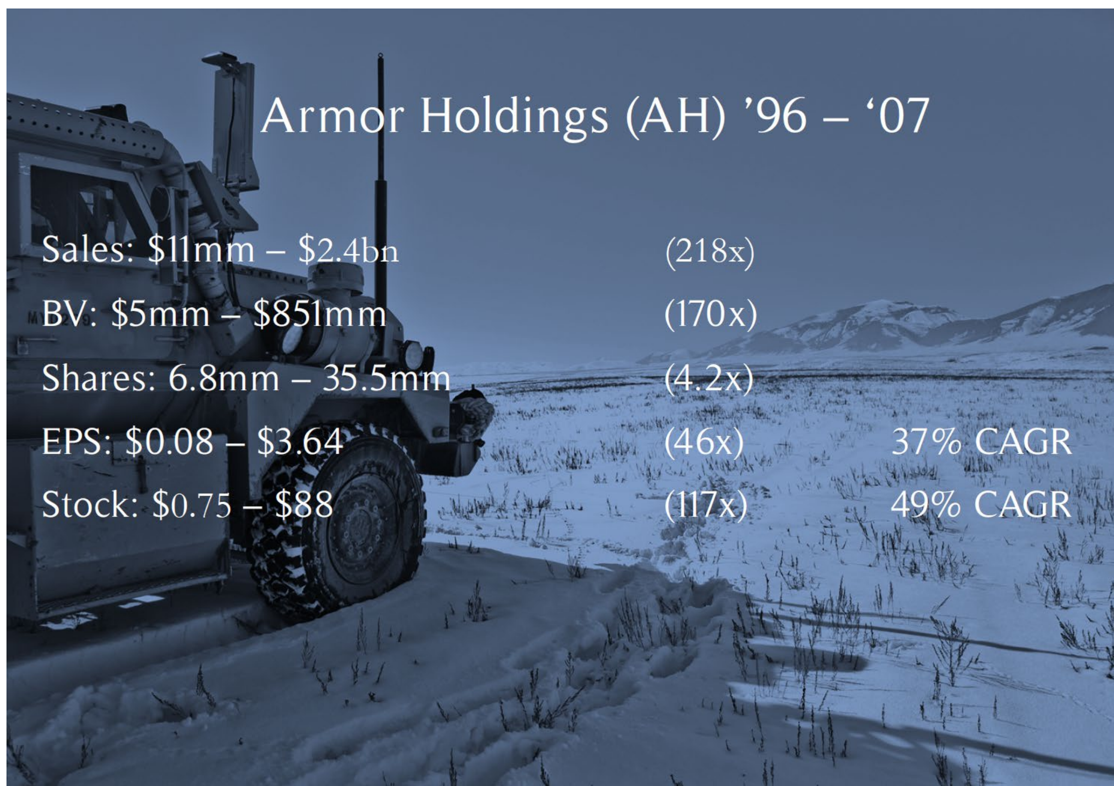
**Appendix – Cadre Holdings**

As you know, we have been invested in Clarus Corp for over five years, and it has been a tremendous performer for our partnership. I have a lot of respect for Clarus' Executive Chairman, Warren Kanders. He has done a great job building the company organically as well as by making good acquisitions.

Prior to Clarus, Kanders built Armor Holdings from a small, sleepy bulletproof vest manufacturer into a global defense conglomerate. In 1996, he took control of what was then called American Body Armor, which had book value of five million dollars and was generating $11 million in sales. It generated approximately half a million dollars of earnings that year. This was a very small business – subscale, an improbable company to be public at all.

Yet Kanders had a vision that the company could grow to be much larger. In his initial Form 13-D filed in January 1996, he described his buy-and-build strategy: "…continue to grow its existing business base and actively pursue industry consolidation through corporate acquisitions."

Over the subsequent 11 years (including the dot-com bust of 2000), the business grew, organically and through acquisitions, to have sales of almost $2.5 billion and net income of over $100 million. The stock price increased from $0.75/sh to $88/sh upon its sale to the British defense contractor, BAE Systems. Any 100-bagger in investing is remarkable, but to create a 100-bagger in 12 years is something else entirely.



[2]

After selling Armor Holdings in 2007, Kanders began building Clarus – a cash and NOL shell – into what it is today. I think you are all familiar with that story.

[2] Maran Capital Management analysis

But behind the scenes, Kanders had the opportunity to reacquire a small piece of the Armor Holdings portfolio. In 2012, Kanders privately purchased the original core of Armor Holdings, called Safariland – a collection of law enforcement accessory businesses focused on bulletproof vests and duty gear (holsters, etc). In 2012, Safariland was generating EBITDA of approximately eight million dollars. Since then, Using Kanders' prototypical buy-and-build playbook, Safariland has grown EBITDA from that initial eight million dollasr in 2012 to what should be north of $70 million this year, a 27% CAGR. It is this business, renamed Cadre Holdings, that Kanders brought public earlier last quarter and that we invested in.

Cadre has a strong market position, great brands, a strong team and culture, and a few free hidden options.

Here are some of the highlights of my thesis:

**Mission-Driven**

> "Since I've been involved in the business, just on this product line, nonmilitary, we've saved about 2,050 lives…Every time that happens, in all of our factories, we stop the plants and we stop the presses. Everybody gets together and one employee is selected to read the narrative about what happened to the particular officer and the surrounding circumstances, so that our employees can connect with the reasons they go to work every day."
>
> "If we didn't come to work every day, [our husbands, sons, and friends] wouldn't have the armor they need to protect their families and their friends' families."

**Technology-Focused**

> "We focused on making products that are highly engineered; we focused on the safety and survivability of individuals…These products can't fail."

Cadre's products are highly engineered and precision manufactured. As with many of Black Diamond Equipment's products, these are products to which people trust their lives. You don't want to buy a cut-rate, off-brand climbing harness to save a few bucks; the same goes for a bulletproof vest or explosive ordinance disposal (EOD) suit.

**Market Tailwinds: "Refund the Police"**

Following calls over the last year or two to defund the police, the pendulum seems to be swinging back towards the realization that most cities want well-funded police forces. Here are a few representative headlines from the press:

> "New York pivoted from slashing almost $1B in police funds last year to adding $200M"
>
> "Mayor Lightfoot's [of Chicago] 2022 budget also boosts police spending to $1.9B, up from $1.7B in 2021"
>
> "Mayor Bowser [Washington, D.C.] and many other Democratic city leaders are scrambling to boost police budgets"

**Strong and Aligned Leadership**

Warren Kanders remains highly aligned via his almost 50% ownership of Cadre. I'm happy to be invested alongside of him. Further, the operating management team are incredibly sharp. The CEO and CFO have backgrounds from Danaher and IDEX Corporation, which are known for operational excellence.

**Free Options**

Cadre has a number of what I call free options, or upside shots on goal. The most notable is the potential to win a large military contract for blast sensor technology, which is likely to be a sole source, multiyear contract that has the potential to generate meaningful sales and profits that I am not counting on in my base case.

**Set-Up and Valuation**

Cadre initially intended to hold its initial public offering (IPO) in August 2021, but it wound up postponing the deal by a few months. When the deal did come, it did so with a very abbreviated marketing schedule. The deal was announced on a Friday and priced the following Wednesday. While already a smaller and more off-the-beaten-path company, I believe this path to the public markets exacerbated the potential mispricing out of the gate.

At recent prices, Cadre is valued at ~10x EBITDA and less than 14x cash earnings. I think this is cheap given the quality of the company.

Looking out three years, EBITDA should grow to ~$100 million organically, but the company could acquire another $25 million of EBITDA over that time period without increasing leverage. At a very conservative 10-12x EBITDA multiple, this would imply the business is worth $1.1-1.3 billion in 2024, which gets us to $30-38/sh for the equity. I would argue 12-14x is a more appropriate valuation range, which puts upside into the mid-$40s per share.

Cadre has aggressive aspirational goals that the market clearly doesn't believe. The company hopes to double sales over the next four years while increasing EBITDA margins to 20%. This would take EBITDA to $160mm and likely create multi-bagger returns on the upside. Meanwhile, I believe that downside is limited by the company's strong brands and entrenched market position, stable end-market profile, strong and aligned management team, and cheap valuation.

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In 4Q 2021, the total return of the S&P 500 was +11.0%, and the total return of the Russell 2000 was +2.1%. In 2021, the total return of the S&P 500 was +28.7% and the total return of the Russell 2000 was +14.8%. The S&P 500 and Russell 2000 are indices of US equities. They are included for information purposes only and are not representative of the type of investments made by the fund. The fund's investments differ materially from these indices. The fund is concentrated in a small number of positions while the indices are diversified. The fund return data provided is unaudited and subject to revision.

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