

January 2024

Dear Partners and Friends,

In the fourth quarter, Maran Partners Fund returned +13.4%, net of all fees and expenses, bringing the fund's full-year 2023 return to +24.4%, net.¹ 2023 was a solid year for the partnership, but as I frequently like to remind you—following both good short-term results and bad—our concentrated approach means that we should expect volatility in our results. I remain focused on the long term and not on our results in any given month, quarter, or year.

Over the past five years, the partnership compounded at a rate of approximately 16% per year, net (slightly better than a five-year double). Since inception, we have generated +7.5% of annualized alpha vs. the Russell 2000, and we have outperformed it cumulatively by 45 percentage points over the last five years and by 38 percentage points over the last three years.

As I have written before, we typically try to underwrite for three-year doubles (26% compounded returns), realizing that this is a very high bar. If we miss this aggressive target but still achieve 20%+ gross returns, and therefore mid-to-high teens net returns (which represents five-year doubles), I'll be happy. As a reminder, thirty years of five-year doubles (six doublings) turns \$1 million into \$64 million. Tack on just three more years at that rate and we're at \$100 million. I'm pleased we have generated these kinds of results over the last five (and eight) years² despite the seemingly persistent headwind that small cap stocks and value stocks have faced. Should any of these headwinds turn into tailwinds in coming years, I believe we are well positioned to benefit further.

Our strategy is to invest in smaller cap stocks, off the beaten path companies, and special situations because we believe these are frequently less efficient corners of the market where we can find an edge. We are looking for mispricing—*value*—with some kind of event or catalyst that will rectify the mispricing. These catalysts come in the form of a variety of special situations, event-driven situations, or in companies otherwise undergoing various types of change. We prefer asymmetric set-ups where we see the potential for multi-fold returns on the upside and limited risk of permanent capital loss on the downside.

Our concentrated approach, in which large positions can comprise a mid-teens percentage of capital, allows us to reap the rewards of being correct (when we are correct), while also hopefully not jeopardizing the long-term performance of the partnership when we inevitably get some wrong. We accept volatility in our quest for superior long-term performance and have a patient and disciplined mindset. Good research—a practice that was drilled into me when I worked for both a "Tiger Cub" fund and a firm that was seeded by Steve Cohen (founder of SAC/Point72)—remains a bedrock of our investment process; simply put, I try to know our companies better than anyone else.

Our portfolio is full of companies with wide moats, strong balance sheets, low valuations, large share buybacks, high inside ownership, and numerous upcoming catalysts. Core holdings are complemented by a handful of special situations that I expect will resolve relatively quickly at high rates of return.

¹ Net returns based on the fund's highest fee share class. Individual partner returns may vary based on share class and timing of investment, among other factors. Please refer to individual account statements for more detail. Please see page 6 for important disclaimers, and our investor presentation for complete monthly results since inception.

² There have also been periods where our returns have been lower than this; as always, past performance is not indicative of future results.

Last quarter I wrote:

What I can opine on is the value and opportunity I see in our dozen or so core holdings and special situations....I frequently underwrite for three-year doubles, and right now I think our entire portfolio meets this bar, or indeed a higher one. I think some of our stocks could triple or even increase four to five times in the next few years...Looking out over a multiyear time horizon, I am as excited about our portfolio as I have been in quite some time.

This still holds true.

Value Investor Insight

Maran Capital was recently profiled in Value Investor Insight, a highly respected industry publication that was launched almost 20 years ago and is read by tens of thousands of investors. It was an honor to be asked to participate in a “Feature Interview” in the year-end 2023 edition. I discussed elements of our process and philosophy as well as the value that I see in our portfolio—not only in core positions Clarus, CTT, and Vistry, but also in our smaller holdings. Here is a link to the complete interview:

[Value Investor Insight](#)
[Through a Different Lens: Dan Roller of Maran Capital Management](#)

Portfolio Update

As of year-end, our top five positions were API Group (APG), Clarus Corp (CLAR), Correios de Portugal (Euronext Lisbon: CTT), Scott’s Liquid Gold-Inc. (SLGD), and Vistry Group (LSE: VTY).³ I discussed many of these companies in the aforementioned interview, so I have kept additional comments below brief.

Clarus (CLAR)

Following the offer that Clarus received from its chairman to purchase its Precision Sport segment for \$160 million, Clarus ran a formal sales process, which resulted in an even better price. In late December, it entered into a definitive agreement to sell the segment for \$175 million of gross cash proceeds to an unrelated financial buyer.

As a reminder, Clarus purchased the components of this segment for \$110 million (~\$80 million for Sierra in the summer of 2017 and ~\$30 million for Barnes in late 2020). These businesses then generated approximately that entire purchase price in cash flow since, and Clarus is now selling the brands for \$175 million. This was clearly a successful investment, with an IRR that we estimate was greater than 20% over six to seven years.

³ Listed alphabetically.

After the transaction closes, which it is expected to do this quarter, Clarus will have a completely de-risked balance sheet with net cash of perhaps \$1.35-1.50 per share (on a sub-\$6 stock).

I still believe the market is embedding low valuations on Clarus's remaining businesses. The pro forma enterprise value of Clarus is approximately \$170 million, and I think that its two primary brands, Black Diamond Equipment and Rhino Rack, are each worth more than that on their own. There are paths in which Clarus could double or triple in the next three to five years, and I believe there is an excellent margin of safety (especially with the de-risked balance sheet) at recent prices.

A number of catalysts remain:

- Clarus has a history of opportunistic share repurchases. Once the Precision Sport sale closes, I would not be surprised to see the company take advantage of the current stock price by repurchasing shares.
- Clarus continues to pursue claims against HAP Trading. I don't think the market is currently ascribing any value to this, but if the effort is successful, Clarus could recover tens of millions of dollars (perhaps over \$1/sh).
- Clarus has discussed hosting an analyst day this year in which it is expected to introduce the new operating leadership team and update the market on its multiyear plan. I believe that as investors start to look out beyond the next quarter or two, they will see significantly more opportunity.

Correios De Portugal, S.A. (Euronext Lisbon: CTT)

Our Portuguese conglomerate. I believe the real estate is worth €200+ million and is actively being monetized (the first €32 million of proceeds have been received); the bank is worth €250+ million; and the core business is worth €500+ million (and growing) on €60+ million of forward operating profit (with a path to €100+ million in the next few years). All in, fair value is at least twice the current €500 million market cap, and the company keeps unlocking value and buying back shares every day (recently, it has increased its pace of buybacks to one million shares per month, on a base of approximately 140 million shares).

Scott's Liquid Gold-Inc. (OTC: SLGD; "Scott's")

As you may recall, I joined the board of Scott's in early 2021 and became its chairman in May of that year. Since then, Scott's has sold the majority of its brands (eight out of ten), taking the company's balance sheet from levered to one with a net cash position.

Last month, Scott's announced it was embarking on a new strategic direction and entered into a definitive merger agreement with Horizon Kinetics LLC, a privately owned investment management company led by Murray Stahl. Once the merger closes, the pro forma combined company is expected to have hundreds of millions of net tangible assets on its own balance sheet and an asset management business with approximately \$6-\$7 billion of assets under management (AUM). We are thrilled to be partnering with Murray Stahl and the Horizon Kinetics team on this transaction.

For more information on this transaction, please see the [press release](#) and [form 8-K](#) filed in late December.

Vistry Group PLC (LSE: VTY)

Our U.K. housebuilding partnerships business. Over the next few years, operating profit (“EBIT”) should double from ~£400+ million to £800+ million, and the multiple could double from ~5-6x EBIT to 10-12x EBIT (on a pro forma enterprise value basis). That’s how we could get a 4x or greater return in the share price from here. The company is actively monetizing its legacy homebuilding assets and has been buying back shares every day.

Special Situations

We have a few special situations in the portfolio right now, including a delisting and an uplisting.

The delisting:

- Some investors were forced to sell ahead of the delisting because they can’t or don’t want to own OTC stocks.
- We believe the company has the intention of unlocking the significant hidden value on its balance sheet in the coming years.

The uplisting:

- A security that we believe is likely to uplist to a national exchange this year, which could increase investor awareness, liquidity, and the valuation.

Operational Matters

As usual, we expect to have K-1s prepared and distributed by the end of March and the partnership’s annual audit to be completed shortly thereafter.

Conclusion

Music producer Rick Rubin⁴ has talked about the idea that “the audience comes last.” In his domain, he urges musicians to write first and foremost for themselves and not worry about how the audience will react to the work. Steve Jobs had a similar philosophy when it came to design; he eschewed focus groups and market research and instead set out to design the best products he could from the ground up.

“We think the Mac will sell zillions,” he once said, “but we didn’t build the Mac for anybody else. We built it for ourselves. We were the group of people who were going to judge whether it was great or not. We weren’t going to go out and do market research. We just wanted to build the best thing we could build.”⁵

⁴ According to Wikipedia, Rubin has produced for bands as diverse as the Beastie Boys, Run-DMC, LL Cool J, Metallica, Red Hot Chili Peppers, the Strokes, Weezer, Aerosmith, and Johnny Cash, among many others.

⁵ The source of this quote is this [article](#), which also contains a few other great quotes from Jobs, including the fantastic, though possibly apocryphal, “Our task is to read things that are not yet on the page.”

A similar philosophy has guided my approach with Maran. Many in the investment industry start with a purely commercial approach, thinking first about what is marketable; about what *product* allocators may be looking for; or what *style box* they will target. Unfortunately, little thought is given to maximizing risk-adjusted returns in many of these approaches.

In contrast, I have focused exclusively on creating a structure that I believe will allow us to have the best odds of generating the best returns over the long term. This has included decisions on choosing our “hunting ground,” on creating alignment with our investors, and on our approach to research, portfolio management, fund size, managing (and accepting) volatility, and numerous other factors.

Essentially, I built Maran to manage capital the way I would want my own capital to be managed—after all, the majority of my family’s investment capital is invested in our partnership. I expected that over time a like-minded “audience” would find our approach attractive and join us for the ride. Thanks to those of you that have done so, and I welcome anyone else for whom the approach resonates to get in touch.

Sincerely,

Dan Roller

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This document is not an offer to sell or a solicitation to buy any interests in any partnership (“Fund”) managed by Maran Capital Management, LLC (“MCM”). Any such offering will be made only in accordance with the Fund’s Confidential Offering Memorandum (the “Offering Memorandum”). The Fund may not be eligible for sale in some states or countries, nor suitable for all types of investors.

Prior to investing, investors are strongly urged to review carefully the Offering Memorandum and related documents, including the risks described therein associated with investing in the Fund, to ask additional questions and discuss any prospective investment with their own advisers. Additional information, including detailed Fund performance report, will be provided upon request.

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In 4Q 2023, the return of the S&P 500 was +12.0%, and the return of the Russell 2000 was +14.0%. For the full year 2023, the return of the S&P 500 was 26.6%, and the return of the Russell 2000 was 16.9%. 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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