



Quarterly Letter, January–March 2020

	Jan	Feb	Mar	Q1 2020	Since Inception	Annualized
Curreen Capital Partners LP	-4.04%	-13.39%	-33.16%	-44.45%	17.6%	2.4%
S&P 500	-0.04%	-8.23%	-12.35%	-19.60%	82.4%	9.2%
MSCI World (US Gross)	-0.59%	-8.42%	-13.20%	-20.97%	47.0%	5.8%

Dear Partner,

During the quarter the fund was down 44.4%. It was an especially painful quarter, with the stock market dropping into a bear market. This hurt us on the way down, as the smaller, indebted, and generally out-of-favor businesses that we own suffered particularly large price declines.

Historical Context

I am sure that you are well aware of the coronavirus, the economic toll of lockdowns, and the extraordinary actions by governments and central banks to mitigate that toll. To these well-worn topics I offer the following: in terms of the speed and volatility of the stock market drop and recovery, we are dealing with an extraordinary event. Since 1885, U.S. stock markets have only experienced similar moves during the 2008 global banking crisis, the 1987 crash, and the 1929–1930s crash and Depression.

That is to say - we are living through an extraordinary time. Right now.

In terms of the economic conditions leading up to it, its economic impact, and the ongoing policy responses - this crisis is what you would read about in the book “This Time is Different”. Though triggered by a virus, it is developing as a global banking crisis.

This description says nothing about where the stock market will go in the future. I have analyzed the data (oh, have I analyzed), and there is no discernable difference between the end of a bear market and a so-called “bear rally”. Both rise rapidly, both experience reduced volatility, both get close to prior highs... then the former goes on to new highs and the latter sinks back into a bear market.

We cannot predict where the market will go in normal times, and as comforting as it would be, we cannot predict it in these unusual times.

Focus on Our Goal

Our portfolio has been hit very hard, but trying to re-do the last three months is not an option. We have to continue to move forward.

The way forward—and what we should do in times of extreme stress—is to stick with our core beliefs and long-term strategy. For Curreen Capital, that means analyzing and valuing businesses using reasonable and downside scenarios, and buying shares of excellent, well-managed businesses when they are particularly undervalued.



For a short time in March and April, I attempted to hedge the value of our portfolio, by shorting an S&P ETF. This “worked” as planned, in that it kept our portfolio from moving very much, but it became increasingly painful when the stock market rose rapidly. This hedge was a mistake.

Hedging to reduce our portfolio’s volatility was a mistake because our goal is not to have a smooth ride. Our goal is to buy attractive assets when they are undervalued – and portfolio volatility does not detract from achieving that goal. Hedging the portfolio, aka “protecting” it in the short term, solves the wrong problem.

What’s Next

We cannot predict where the stock market will go, and we will not hedge the portfolio to reduce its ups and downs... so what will we do? We will continue to look for and buy attractively priced businesses that meet our three key criteria. We will continue to focus on special situations where there is a meaningful change in the business and the shareholders who own it – especially recent spinoffs.

We have not purchased any new investments in 2020. My pessimistic downside-scenario valuations have led me to demand very low purchase prices, and the stock market has not offered prices that low. We also have not sold any of our investments – some face serious difficulties, but their stock prices are extremely cheap. When a business has been taken to the woodshed in a major market downturn, then I am typically more interested in buying than selling.

This was an extremely painful quarter, and I can imagine how frustrated you must be. While these are exceptional times and no one knows what will happen next, nor where the stock market will go, I will do all that I can for you and your investment.

Thank you, I hope that you and your family are well, and I deeply appreciate your commitment to Curreen Capital.

Sincerely,

A handwritten signature in black ink, appearing to read "CHRISTIAN RYTER".

Christian Ryther

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Appendix Curreen Capital Investments

Garrett Motion (GTX)

Garrett designs and delivers advanced turbochargers for automobile OEMs, primarily in Europe and China. The company operates in a duopoly with BorgWarner, and Garrett's returns on capital exceed 100%. Garrett spun out of Honeywell in October 2018. Garrett is an "ick" stock, with debt, an obligation to pay a portion of Honeywell's asbestos liabilities, exposure to both European and Chinese auto sales, and the threat of the internal combustion engine's obsolescence. Management uses free cash flow to reduce debt. Garrett has an extremely attractive upside-to-downside ratio.

GetBusy (GETB:GB)

GetBusy provides online document exchange systems, primarily for accountants in the U.K., and its Australia/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 a new product. The underlying businesses are profitable and sustainable in the UK, and potentially in the U.S. and Australia/New Zealand.

Kontoor (KTB)

Kontoor designs inexpensive jeans, primarily for North American consumers. Kontoor spun out of VF Corp in May 2019. Kontoor does not grow, and its returns on capital are about 20%. Management uses free cash flow to repay debt. Kontoor currently trades at an extremely attractive upside-to-downside ratio.

Kopparbergs Bryggeri (KOB:SS)

Kopparbergs manufactures and markets alcoholic pear cider, primarily in the UK and Sweden. Kopparbergs generates returns on capital around 20%, and management uses free cash flow to grow the business, launch new products and pay a dividend. Kopparbergs is managed and controlled by its founders, who have a long track record of successfully building the business. Kopparbergs is an excellent business with exceptional management, selling at a reasonable price.

Micro Focus (MFGP, MCRO:LN)

Micro Focus acquires and manages declining software businesses. Management buys businesses from disappointed and pessimistic sellers, and then maximizes the cash flows from these acquisitions. Management uses free cash flow to buy other business, or distributes it to shareholders through dividends, special distributions and share repurchases. Micro Focus has an extremely attractive upside-to-downside ratio.

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%. Nilorn has an extremely attractive upside-to-downside ratio.

TopBuild (BLD)

The largest installer and distributor of insulation in the U.S., the business is driven by housing starts. TopBuild spun out of Masco in July 2015, and has been growing revenues and profits ever since. Management uses free cash flow to acquire related businesses and to repurchase stock at good prices. The company's returns on tangible capital exceed 30%. I believe that housing starts remain well below what 330 million US residents require, which gives TopBuild plenty of runway for further growth.



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