Quarterly Letter, July–September 2020

	Jul	Aug	Sep	Q3 2020	YTD	Since Inception	Annualized
Curreen Capital Partners LP	4.50%	8.27%	-1.17%	11.82%	-17.47%	74.7%	7.9%
S&P 500	5.64%	7.19%	-3.80%	8.93%	5.57%	139.5%	12.6%
MSCI World (US Gross)	4.81%	6.72%	-3.43%	8.02%	1.98%	89.7%	9.1%

Dear Partner,

During the third quarter our fund was up 11.8%. During the quarter we twice bought shares of Conduent, first using cash, later selling some of our position in TopBuild.

Ugly Duckling Stocks
Curreen Capital buys ugly duckling stocks. These are outstanding investments that are underestimated and unappreciated in the stock market. They are great businesses, run by solid management teams that do what is right for the business and shareholders, but for one reason or another, they are out of favor and sell at attractive prices. Our opportunity is to recognize these ugly ducklings for the swans that they are, and buy them. Over time, the market comes to appreciate their fine qualities, and their stock prices rise.

As a result of the dislocations of 2020, I think that the stock market is underestimating many swans, and Conduent is one of them.

Buying Conduent – Again
We owned shares of Conduent from January 2017 (after its spinoff from Xerox) to October 2018. It was a fine business then, though it did not succeed in restarting the growth that had characterized the company before Xerox acquired it. After we sold, the business struggled, and there was a soap-opera-style drama between the CEO and chairman and the company's largest shareholder – Carl Icahn's organization. An Icahn-selected board member resigned in April 2019, with a letter angrily complaining about the CEO and chairman – both of whom left the business within five months.

With lame-duck management, unpredictable drama, and continued operating weakness, there was little demand for the stock – which dropped from $13+ in April 2019 to $1.54 at its low in March 2020.

Clifford Skelton became COO in June 2019, interim CEO in August 2020, and CEO in February 2020. He has quietly worked to address Conduent's key issues – weak sales being the most visible and pressing. Skelton hired Lou Keys, who reorganized Conduent's sales force and began driving results. Q1 2020 earnings showed improved new business sales, with continued weakness in renewals. Skelton, the general counsel, and a director all bought stock a week after Q1 results were released. Q2 2020 earnings showed further improvement, with signings up 89% year-over-year.

Conduent's business has had a rough time, but for the first time in years, operations are showing signs of sales growth. Successfully restarting the company's sales engine would drive many benefits – especially as operating leverage would (finally!) start to work in Conduent's favor and propel earnings higher. This would also do wonders for the stock, which currently trades at an extremely attractive upside-to-downside ratio.

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The information we have now is that Conduent's sales are improving—a key factor for their turnaround to be successful—and that several insiders put up their own money to buy shares. These are positive signs, but risks remain and I am monitoring the business with cautious optimism. Key factors to watch are continued sales growth, and sales translating into revenues and improving operating profit.

We bought shares of Conduent in early August at $4.06/share. The stock then fell – with no new information. I added to our position at $3.59/share, using the proceeds from selling some of our shares in TopBuild (we received $155.64 for our shares).

Testing Fast Growers

During the quarter I spent time researching fast growing companies. Fast growers have performed very well in the stock market, and rather than dismiss them as temporarily in fashion, I have tried to put myself in the shoes of a growth investor.

As Peter Lynch defines them, fast growers are companies that can grow earnings at 20%+ for many years. Curreen Capital is not averse to fast growers (we own GetBusy, for example), but our investment strategy tends to discard them. I believe the future is unpredictable, and my conservative downside valuations tend to give fast growers unattractive upside-to-downside ratios. Said differently, fast growers are more likely to be "this beautiful duck is even more amazing than everyone realizes", rather than the ugly ducklings that we buy.

According to Peter Lynch, fast growers should be treated differently than the turnarounds, cyclicals and stalwarts that we tend to buy at Curreen Capital. The focus with fast growers is less on valuation, and more on whether the conditions for growth remain intact and that the company is executing on its potential. I have been testing this approach, looking at faster growing businesses that I might otherwise dismiss as too expensive. I have bought small stakes in two businesses that fit my requirements.

My goal is to learn from fast growers—which are a different animal and have different rules—and see what I can apply within our investment framework. I have allocated a small amount of money to this fast grower test—less than 2% of our fund—because I want to keep the cost of unknown unknowns low. So far, the test has increased my appreciation for the advantages of fast growing businesses.

That said, I think that our usual targets—ugly ducklings—are so indiscriminately bombed out that they are by far the better investments right now.

Thank you for your commitment to Curreen Capital. 2020 has not been kind to ugly duckling stocks, and I believe that this has created opportunities for us. The more the market turns a blind eye, the easier it is for us to buy outstanding but underappreciated businesses – at very attractive prices.

Sincerely,

Christian Ryther
646-535-8573
cryther@curreencapital.com

Appendix
Curreen Capital Investments

Conduent (CNDT)
Conduent is a business process services company. It handles transaction intensive processing for government and commercial customers. After years of weak sales, declining profits, conflict with its largest shareholder (Carl Icahn), and the loss of its CEO – the company is turning around. Conduent's new CEO is addressing the company's key problems and is driving sales growth. Conduent currently trades at 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 attractive upside-to-downside ratio.

Kopparbergs Bryggeri (KOBRB:SS)
Kopparbargs 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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