October 2020

	MRCM Long Short Small Cap	IWM (Russell 2000)	Barclay Hedge Fund Index
Annualized Since Inception	**19.5%**	**7.8%**	**5.0%**
Q3 2020	**12.2%**	**5.0%**	**4.0%**
2020 YTD	**16.1%**	**(8.6%)**	**1.3%**
2019	17.9%	25.4%	10.7%
2018	15.7%	(11.1%)	(5.2%)
2017	34.8%	14.6%	10.3%
2016 (Jul-Dec)	1.3%	18.7%	5.4%

	MRCM Long Only Large Cap	SPY (S&P 500)
Annualized Since Inception	**15.7%**	**10.1%**
Q3 2020	**14.9%**	**9.0%**
2020 YTD	**28.0%**	**5.5%**
2019	25.0%	31.2%
2018	(5.6%)	(4.6%)
Dec 18 - Dec 31	0.1%	(0.5%)

Note: All returns are net of management and performance fees. Past performance is not indicative of future results.
Prior year returns for the Long Short portfolio have been restated to reflect a new fee structure.

Our Long Only portfolio returned 14.9% during the quarter and is up 28.0% for the year to date period.

During the quarter I built a meaningful position in Ferguson PLC ("FERGY"). Ferguson is a plumbing and heating products distributor serving both the residential and commercial markets. As the #1 or #2 operator in most of their segments, FERGY has significant scale advantages. For instance, their vast product range of 1 million different units allows them to meet the specific needs of any given task. Furthermore, their procurement volume results in cost savings that can be passed through to their customer. Housing the entire operation under one roof affords synergies in distribution and corporate functions. FERGY has been able to reinvest its cashflow back into the business to enter new markets, provide innovative services, and enhance their digital presence. These investments lead to improved customer satisfaction, market share, and operating efficiencies. From a financial perspective, they are attractive too as the company achieves a 25% annual return on invested capital.

While FERGY is a large entity, it operates in a very regional business. With 1,500 branches FERGY provides small contractors quick access to products and access to knowledgeable store associates. The company states that contractors may visit a store 3-4 times a week and that most product is shipped within 20 miles. Additionally, 50% of their revenue comes from contractors who are tendering for new work. This relationship embeds their value proposition with their customer and makes the business hard to displace.

The industry has historically grown in the low-single digit range while FERGY has surpassed these levels as they have taken market share. Adding in a few percentage points from M&A I believe the business can grow revenue in the mid to high single digits, with earnings exceeding this level due to fixed cost leverage. At current prices we can buy FERGY at about 18x cash flow, an attractive price given the business quality and growth trajectory.

The icing on the cake, however, relates to several notable changes that are ongoing. Firstly, the company has gone through significant restructuring in exiting sub-scale, non-core markets. Once the UK separation is complete, 95% of their revenue will come from the US; nonetheless they are still listed in

the UK, a holdover from prior years. The company recognizes that this structure does not make sense as foreign investors are likely not interested in a US focused entity and US investors want to buy stocks listed on a domestic exchange. The company is in the process of moving their primary listing to the US. This will open them up to a new group of investors and allow for inclusion in US indices, which should lead to passive buying. The company has recently refreshed its leadership team, highlighted by their new chairman, Geoff Drabble. Mr. Drabble was the former CEO of Ashtead, an incredibly well-run industrial equipment organization, during which time he created significant shareholder value. FERGY also replaced their CEO with Kevin Murphy, their prior COO. Mr. Murphy is a US national who had sold his family's piping distribution company to FERGY many years ago. I am hopeful that these changes will allow the company to achieve upside to historical performance.

The Long Short portfolio returned 12.2% during the quarter and is up 16.1% for the year to date period. Our beta adjusted net exposure (i.e. market exposure) was 47% and 38%, respectively, for these periods. While our exposure has increased during the year quantitatively, numbers do not always tell the whole story. Our position beta is based on trailing twelve-month prices; the volatility seen earlier this year led to a spike in correlations, which may not persist going forward. Furthermore, about 3% of the portfolio is in a merger arb position which will move independently of the market.

In July I began researching Tuesday Morning ("TUESQ"), an off-price retailer of home goods that entered bankruptcy in May. While I do not invest in many bankruptcies, what piqued my interest was the strong Q2 performance reported by similar companies as they benefited from the lifting of lock-downs and pent up consumer demand. My initial review of TUESQ was encouraging. Prior to entering bankruptcy, the company had $3.00/share in tangible book value. They reported strong July monthly operating numbers with cash generation from both positive EBITDA and inventory unwind. At that point they were in the process of exiting about 20% of their underperforming stores and were in negotiations with their landlords on another 15%. What kept me on the sideline, however, was the fact that the judge had denied the formation of an equity committee, despite multiple requests. An equity committee is critical as it ensures that someone is at the table fighting for the rights of equity holders.

This all changed at the end of September as the judge changed his ruling based on recent developments. Notably, the creditors committee had received multiple acquisition offers during the months of July and August and at least one proposal would result in an "extremely favorable" return for unsecured creditors. Given this interest, the company had begun a sales process in which 40 potential acquirors had signed an NDA. According to the judge, the interest shown and quality of offers made, prior to any formal process, gave him greater confidence that there is "a substantial likelihood that equity will receive a meaningful distribution in these cases." Having already done the work on the name I was able to digest this information quickly and acquire the bulk of our holdings below $0.50.

Since then the company reported another good month of performance and provided a three-year operating forecast, with EBITDA growing from $41mm to $53mm. While it is logical to question this figure since it is more than double the level reported in prior years, there are a few reasons to be optimistic. Firstly, the company is exiting about 30% of its underperforming stores which could have been loss making. Secondly, they are in the process of amending the leases on almost 80% of the remaining store base which could bring down lease expense even further. For instance, in Q1 they reported $30mm of lease expense which equates to $10.0mm a month. In August that figure was just $5.4mm, a 46% reduction. Lastly, these figures will likely be used for future incentive hurdles; it would be in management's best interest not to be too aggressive. The situation is still very fluid as the

company is in the middle of its sales process, lease negotiations, and a potential capital raise. But balancing the various puts and takes, I believe the risk / return profile remains attractive.

Sincerely,

Aaron Sallen

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