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August 4th, 2020

Dear Partners,

In Q2 2020, the Voss Value Fund, LP and the Voss Value Offshore Fund, Ltd., returned 4.09% and 3.93% to investors net of fees and expenses, respectively, compared to a 25.42% total return for the Russell 2000, an 18.24% total return for the Russell 2000 Value, and a 20.54% total return for the S&P 500.

As of June 30th, 2020, the Fund's total gross exposure stood at 167.3% and the beta-adjusted net long exposure was 93.3%. Our top 10 longs had an 82.6% weighting and our top 10 shorts had a gross weight of -27.3%.

Firm assets under management stand at approximately $153M as of the date of this letter.

Voss Value Master Fund Complex

ESTIMATED NET MONTHLY PERFORMANCE | 2020					
PERIOD	Voss Value Fund, LP	Voss Value Offshore Fund, Ltd.	Russell 2000 TR	Russell 2000 Value Index	S&P 500 TR
JANUARY	1.75%	1.71%	-3.21%	-5.47%	-0.04%
FEBRUARY	2.35%	2.31%	-8.42%	-9.88%	-8.23%
MARCH	-21.21%	-21.24%	-21.73%	-24.93%	-12.35%
1st QUARTER	**-17.95%**	**-18.04%**	**-30.61%**	**-36.05%**	**-19.60%**
APRIL	3.33%	3.25%	13.74%	12.22%	12.82%
MAY	1.73%	1.71%	6.51%	2.63%	4.76%
JUNE	-0.98%	-1.03%	3.53%	2.67%	1.99%
2nd QUARTER	**4.09%**	**3.93%**	**25.42%**	**18.24%**	**20.54%**
JULY					
AUGUST					
SEPTEMBER					
3rd QUARTER	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
OCTOBER					
NOVEMBER					
DECEMBER					
4th QUARTER	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
YEAR TO DATE	**-14.59%**	**-14.82%**	**-12.98%**	**-24.38%**	**-3.08%**

The table below shows the Voss Value feeder fund returns compared to some of the relevant indices:

Net Return Comparison as of June 30th, 2020							
					Compound Annual Growth Rate		
	1 Month	3 Month	YTD	1-Year	3-Year	5-Year	ITD(1)
Voss Value Fund, LP	**-1.0%**	**4.1%**	**-14.6%**	**-13.7%**	**6.6%**	**11.0%**	**14.1%**
Voss Value Offshore Fund, Ltd.	**-1.0%**	**4.0%**	**-14.8%**	N/A	N/A	N/A	N/A
S&P 500	2.0%	20.5%	-3.1%	7.5%	10.7%	10.7%	14.6%
Russell 2000	3.5%	25.4%	-13.0%	-6.6%	2.0%	4.3%	11.2%
Russell 2000 Value	2.9%	18.9%	-23.5%	-17.5%	-4.3%	1.3%	8.6%
Russell 2000 Growth	3.8%	30.6%	-3.1%	3.5%	7.9%	6.9%	13.5%
HFRX Equity Hedge Index	2.2%	8.1%	-6.3%	-2.1%	-0.1%	-0.3%	1.9%

(1) Investment to Date measures the time period from Voss Value Fund, LP's inception date of October 1st, 2011

All performance figures are unaudited, estimated, and may be subject to subsequent adjustment. A limited partner's actual returns may vary from published fund returns based on the timing of capital and fee arrangements. This statement represents information based on the policies of the fund's managers and general partner. Please contact Taylor Steinhauff of Voss Capital, LLC, with any inquiries.

The equity market just witnessed the biggest three-month rise out of a bear market ever. It will surprise no one reading this that Mr. Market has incurable manic depression and is ruthless in his quest to humiliate professional investors who are deep in the weeds on company fundamentals. Many stocks remain either blessed by or plagued by ineradicable delusions that have lingered on for years making the current environment the worst for small cap value in history. While a few companies have elbowed all others off the front pages, lest we forget there are thousands of other corporations executing without their executives tweeting an incoherent stream of technobabble and "dank memes."

Morgan Stanley's factor baskets which isolate pure Growth and Value factors have a ~95% return difference year to date (growth over value). In one four-week period alone the Growth basket outperformed Value by over 35% in what Morgan Stanley deemed a 5-sigma event. Approximately 50% of the companies in the Growth basket are not profitable.[2]

The rolling 26-week correlation between High Momentum and Low Volatility is the highest ever at 0.92 due to 60% name overlap between the two. The most expensive stocks also have the highest price momentum currently.[3] In other words, *high valuation is momentum is low vol*—the trades are one and the same.

In the face of these significant style headwinds for us we have been increasingly focused on undervalued small caps whereby we may serve as the catalyst for returns.

In July, our largest position BFYT (formerly HIIQ) received a buyout offer from a top-tier private equity firm for $31/share. When we filed a 13D in December the stock was trading at $18.60/share and was one of the most highly shorted stocks in the world with the consensus being that it was a fraud. Extensive first-hand due diligence led to us to having conviction in making a contrarian call and we were rewarded with a nearly 70% gain over seven months, a period during which the Russell 2000 Value was down over 25%.

We were also recently pleased to learn that the board of Rosetta Stone (RST), another company we filed a 13D on in January, has commenced the exploration of strategic alternatives. While this story has yet to fully play out, we believe the stock's strong reaction to that news preliminarily validates our Rosetta thesis – the company has very strong assets whose value can only be fully unlocked by a strategic event.

Not all hope is lost for stock picking and value investing. For the first time in over 20 years, actively managed ETF launches have exceeded passive ETF launches thus far in 2020.[5] TBD if the active ones garner the same scale of assets but there is clearly a renewed demand for actively managed funds. Additionally, some of the large cap indices are seeing fund outflows while money is starting to trickle into small cap funds. This at time when the cheapest quintile of small caps is at remains at an all-time low, 40% below the long-term average.[4]

Recently every disconfirmation of an investment thesis seems to give those on the opposite side a sense of renewed vigor in their convictions. Many sophisticated short sellers may unequivocally prove accounting fraud at a company publicly only to see the stock doubling or more over the subsequent few weeks. The progress from the returns of months of diligent research on a core long in one's portfolio can be materially offset by one small short position that the masses suddenly decide to glom onto. For these reasons and others that we have frequently commented on, we have significantly cut back on shorting individual stocks in this environment for the time being and have pivoted to ETFs for over half of the short exposure.

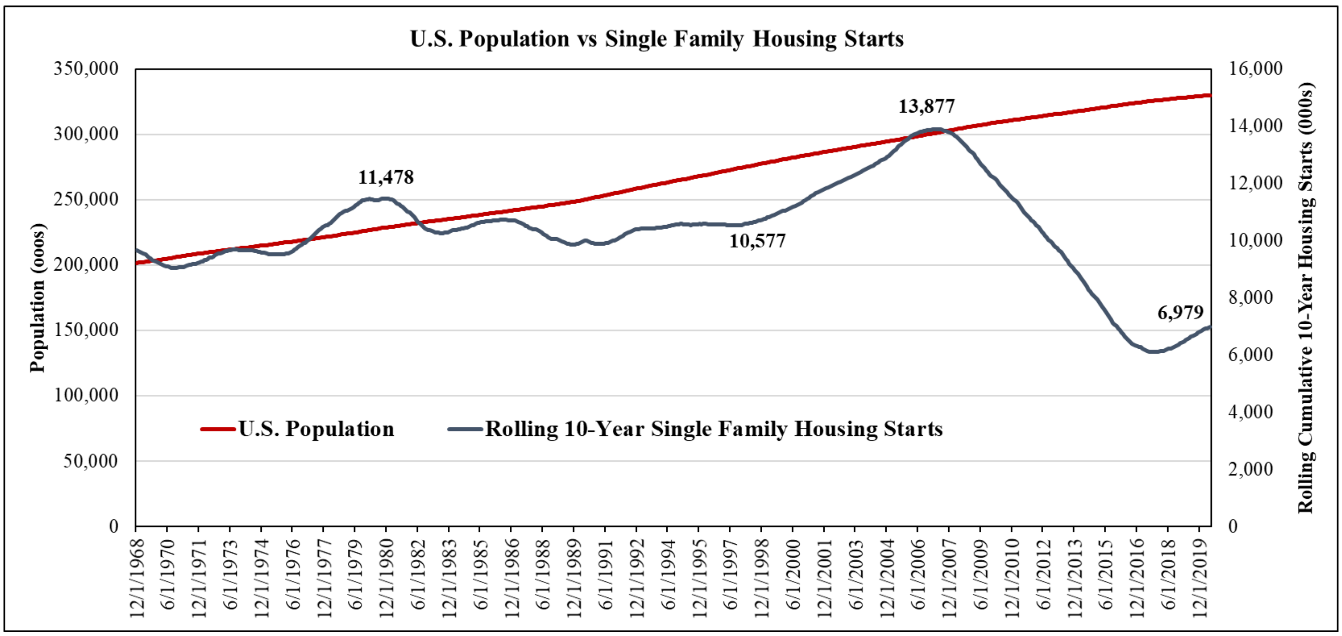
Long Affordable Housing

If you had asked me in late March, I would have told you I thought the fundamentals of anything housing related were poised to collapse as tens of millions of Americans found themselves newly unemployed and weren't in a position to make the largest purchase of their life. As we monitored data points coming in through the quarter, such as mortgage applications and Zillow search traffic, we quickly reversed our thinking and realized there was in fact a housing boom occurring with entry level and affordable housing have seen the most acute demand surge spurred on by COVID-19 related lockdowns, the ability to work from home, lingering fears of close human contact, and the general urban unrest, it became apparent that there is a large ongoing migration out of some of the Tier-1 cities (NYC, San Fran) into more affordable suburban areas.

The surge in home buying demand in May has continued to accelerate into July as the months of available housing supply nears an all-time low. The stocks finally began catching up to the underlying fundamental situation, however, most market participants seem to believe the results are unsustainable. This is seen in the still low consensus estimates, the muted homebuilder stock reactions to Q2 earnings, and the multiples ascribed to related stocks in the market.

Home starts have been stuck in the mud coming out of the Great Financial Crisis. Isolating just single-family homes from the housing starts data, the United States is building at an average 740K annualized rate in Q2 2020. This compares to the 50-year average of 1.01 million. We are still 41% below the average 1959 annualized build rate and languishing at a level usually only seen in past recessions when the US population was upwards of 50 million lower (i.e. 2001 recession).

Zooming out and looking at rolling 10-year cumulative supply additions, we are only just above the lowest number of starts on record (since the 1960s) at 6.9 million as of June, 32% below the historical average. While we are modestly above the trough 10-year period in 2017, we are still 39% lower than the 11.5 million unit peak ending in 1980 with a US population that is 44% larger. Many have been confidently proclaiming a similar thesis of structural under building the last few years, but few anticipated that the COVID-19 lockdowns would be the needed catalyst to inflect demand higher.



Millennials - you may have heard of them - now outnumber Baby Boomers. The largest age cohort within Millennials is now 30 years old, just a few years away from the average age of first-time home purchases. The home ownership rate jumps from the mid-30% for those under 35 years old to over 60% for those aged 35-44. Therefore, it is possible the housing boom can continue and even accelerate for the next few years as more Millennials move into the "sweet spot" age range for first time home ownership.

In our Q1 letter we highlighted LEGH as a stock we own that benefits from an extreme nationwide shortage of entry level housing supply. As we gained conviction in this fundamental thesis, we found another homebuilder with many parallels to LEGH in that it has a scrappy and aligned management team, has been profitable every year since inception (2003), has much better returns on capital, growth, and margins than peers, and a differentiated business model altogether. That company is LGI Homes (LGIH).

LGIH is a high-growth homebuilder (40% revenue CAGR since 2013 IPO) 100% focused on first time homebuyers of lower end homes (with an ASP of $230-240k versus comp average of $421k)[6], the price point where the most acute home inventory shortages are. Their buyers are not typically reliant on selling their current home as they are mostly first-time buyers coming from apartment leases. LGIH has the second highest return on equity in the industry and is turning inventory over faster than any of its competitors.

LGIH's low-risk development strategy is to option land on the outskirts of major metros (with at least 40,000 apartment renters in a 25-mile radius) and then quickly send out direct mailers to test the market demand despite not actually having any inventory to sell. If they get a certain response rate, they move forward with the land purchase and begin development quickly. With mortgage rates hitting all-time lows, the relative cost of home ownership in an LGI home is increasingly attractive and quite a bit cheaper than renting a three-bedroom apartment in comparable geographies.

LGIH builds 100% spec homes (allows no customization) and completes construction in just 45-60 days. This short lead time relative to other builders allows them to rapidly adjust to demand trends and tweak the mix of models/floorplans offered in each community. Less than 10% of their sales have a realtor involved so they have very low external commission cost, instead relying on extensively trained, 100% commission-based salespeople on-site at the communities. They aim to maintain only two months of inventory in each community at any given time so as not to get out over their skis. In fact, they remained profitable and grew through 2008/2009 and avoided having to make layoffs. They also never lower prices within a community, instead they slowly ratchet up the selling prices with each quarter that passes, allowing buyers peace of mind that they are not about to miss the opportunity of a mark down while keeping the sense of urgency to purchase elevated.

When the lockdowns took hold and uncertainty skyrocketed, active home listings collapsed, which is bullish for homebuilders as there is less inventory of existing homes to compete with. LGIH's estimate dispersion widened with consensus Q3 20 revenue growth estimates settling at -17% y/y a few months ago. As Q2 progressed, we established a position as we gained conviction that LGIH could actually achieve growth rates similar to Q1's (+58%) and could blow consensus revenue estimates out of the water. We began buying shares at <7x consensus 2021 earnings estimates and averaged up through the quarter as we gathered additional bullish data points and gained conviction that estimates would need to rise.

A buyout of the company by a larger comp remains a possibility longer term. Homebuilders with less growth, lower profitability, and lacking the well-defined niche that LGIH has have been acquired at valuation ratios substantially higher than LGIH's current value. With an active community count of only 113 at the end of Q1 2020 compared to an average of 300+ for the public comps, LGIH is still underpenetrated and has a long runway for continued high growth rates for many years to come.

In summary, we believe that migration out of expensive cities, newfound employer flexibility around working from home, lower mortgage rates, and wariness over living in close quarters in urban apartment complexes (also desire for one's own backyard) is causing a boom in affordable housing demand in the suburbs. We have found a variety of attractive ways to express this housing thesis, including lumber products companies, a timber REIT, and a title insurer, among others. LGIH and LEGH are our two largest exposures to this theme and we believe are the best positioned public homebuilders to capitalize on the ongoing secular demand growth for affordable housing.

Conclusion

Ted "Teddy Ballgame" Williams said all he wanted in life was to walk down the street and hear people say "*there goes Ted Williams, the greatest hitter who ever lived*".

In his book, *The Science of Hitting*, Williams states:

> *"I think you will find as you go along that much of what I have to say about hitting is self-education—thinking it out, learning the situations, knowing your opponent, and most important, knowing yourself. Lefty O'Doul was a great hitter and he always said that most hitting faults came from a lack of knowledge, uncertainty, and fear—and that boils down to knowing yourself. You, the hitter, are the greatest variable in this game, because to know yourself takes dedication."*

His book makes it clear that he was constantly honing the mental side of his game, maniacal about game preparation and always looking for a new edge against pitchers he had already faced. He goes on to say, *"There is no question that some strikes are called balls and some balls are called strikes, but you're far better off forgetting the calls that hurt you and concentrating on that next pitch, or that next turn at bat."*

Coming off such a violent market drawdown and objectively making many mistakes off the bottom (mistakes of commission on the short side and omission on the long side) has been mentally trying and had me wallowing in regret more than usual lately. Perhaps one could easily be forgiven for casting blame for poor performance on government officials for both causing the economic crash (picking winners and losers) and the subsequent unprecedented capital markets meddling (hurting price discovery and engendering speculative behavior, as if the market needed extra reasons). But to point fingers is to shun accountability for our own buy and sell decisions. Contemplating these innumerable and quantifiable recent mistakes can be psychologically paralyzing. Thinking about recent successes with the same intensity can also be one of our biggest risks, leading to complacency and hardened dogma when in fact no market behavior is immutable, and nothing is certain.

We do not count on the market's perpetual parade of absurdities to abate, but rather to intensify as time passes as it is simply a magnified extension of human nature and heightened societal complexity. Big data may increase exponentially, but human nature will remain constant and that is ultimately our source of continued long-term alpha. We strive to remain grounded in fundamental principles but tactically adapt to and gladly exploit the chaos of the world instead of succumbing to it.

Like batting in baseball, the opportunities will keep coming—it is our mentality that is the greatest variable in this game. Following Teddy Ballgame's advice, we will do our best to limit outside distractions, forget the last "at bat" and concentrate on finding our next actionable edge over a familiar foe.

Sincerely,

Voss Team

<u>Appendix:</u>

1: Morgan Stanley quantitative research team.

2: Using the Russell 2000 Growth index as a proxy, where 49% of the constituents are expected to be unprofitable in 2021.

3: 60% of the stocks in the top quintile for Momentum are also in the bottom quintile realized volatility. The valuation of the top Momentum quintile also matches the valuation of the top quintile valuation across all stocks (>20x EBITDA), e.g. Momentum and high valuation have record overlap and are one and the same trade.

4: Source Jefferies equity research.

5: https://www.bloomberg.com/news/articles/2020-07-16/active-etf-launches-are-outstripping-passive-for-first-time

6: Source: SEC filings, Bloomberg.

Common Terms:

CAGR – Compound Annual Growth Rate	*GDP – Gross Domestic Product*
DCF – Discounted Cash Flow	*IRR – Internal Rate of Return*
EBITDA – Earnings Before Interest, Taxes, Depreciation & Amortization	*LTM – Last Twelve Months*
EPS – Earnings per Share	*NTM – Next Twelve Months*
EV – Enterprise Value	*P/E – Price to Earnings*
FCF – Free Cash Flow	*YTD – Year to Date*

Disclosures and Notices:

Beginning January 1, 2020, all investment activity is conducted by the Voss Value Master Fund, LP (the "Fund"), which has 2 feeder funds, and therefore performance figures from January 1, 2020 onward are calculated based on the Master Fund. All limited partners invest in the Fund through one or more of the following feeder funds: Voss Value Offshore Fund, Ltd. (the "Offshore Fund") and Voss Value Fund, LP (the "Predecessor Fund"), each a "Feeder Fund". Performance figures for the Predecessor Fund are contributable to Travis Cocke as sole portfolio manager. Mr. Cocke maintains the same the position with the Fund and the Fund will employ a similar strategy as the Predecessor Fund. Actual returns are specific to each investor investing through a Feeder Fund. Each Feeder Fund was established at different times and has varying subsets of investors who may have had different fee structures than those currently being offered. As a result of differing fee structures, differing tax impact on onshore and offshore investors, the timing of subscriptions and redemptions, and other factors, the actual performance experienced by an investor may differ materially from the performance reported above. Portfolio statistics shown are inclusive of the Predecessor Fund and the Offshore Fund.

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Past performance does not guarantee future results.