VOSS CAPITAL

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February 16th, 2021

Dear Partners,

In Q4 2020, the Voss Value Fund, LP and the Voss Value Offshore Fund, Ltd., returned 20.81% and 20.67% to investors net of fees and expenses, respectively, compared to a 31.37% total return for the Russell 2000, a 32.72% total return for the Russell 2000 Value, and a 12.15% total return for the S&P 500.

As of December 31st, 2020, the Fund's total gross exposure stood at 171.7% and the beta-adjusted net long exposure was 106.1%. Our top 10 longs had a 66.1% weighting, and our top 10 shorts had a gross weight of -30.8%.

Firm assets under management stood at approximately $189 million as of December 31st, 2020.

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%	1.75%	-3.21%	-5.47%	-0.04%
FEBRUARY	2.35%	2.36%	-8.42%	-9.88%	-8.23%
MARCH	-21.21%	-21.45%	-21.73%	-24.93%	-12.35%
1st QUARTER	**-17.95%**	**-18.18%**	**-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	15.25%	15.23%	2.77%	1.96%	5.64%
AUGUST	5.39%	5.56%	5.63%	5.17%	7.19%
SEPTEMBER	-1.28%	-1.44%	-3.34%	-4.86%	-3.80%
3rd QUARTER	**19.91%**	**19.88%**	**4.93%**	**2.01%**	**8.93%**
OCTOBER	-2.11%	-2.20%	2.09%	3.48%	-2.66%
NOVEMBER	14.42%	14.52%	18.43%	19.08%	10.95%
DECEMBER	7.86%	7.74%	8.65%	7.71%	3.84%
4th QUARTER	**20.81%**	**20.67%**	**31.37%**	**32.72%**	**12.15%**
YEAR TO DATE	**23.73%**	**23.01%**	**19.96%**	**2.38%**	**18.40%**

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

Net Return Comparison as of December 31st, 2020

					Compound Annual Growth Rate		
	1 Month	3 Month	YTD	1-Year	3-Year	5-Year	ITD[1]
Voss Value Fund, LP	**7.9%**	**20.8%**	**23.7%**	**23.7%**	**19.7%**	**18.8%**	**17.9%**
Voss Value Offshore Fund, Ltd.	**7.7%**	**20.7%**	**23.0%**	**23.0%**	N/A	N/A	N/A
S&P 500	3.8%	12.1%	18.4%	18.4%	14.2%	15.2%	16.2%
Russell 2000	8.7%	31.4%	19.9%	19.9%	10.2%	13.3%	14.4%
Russell 2000 Value	7.9%	33.4%	4.6%	4.6%	3.7%	9.7%	11.8%
Russell 2000 Growth	9.4%	29.6%	34.6%	34.6%	16.2%	16.4%	16.8%
HFRX Equity Hedge Index	4.6%	8.8%	5.6%	5.6%	1.9%	3.1%	3.2%

(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 timeless spectacle of Mr. Market's dissociative identity disorder is on full display. Having barely had time to remove his neck brace due to a severe case of Fed induced whiplash last year, he is arguably more ebullient than at any time in history, rudely romping through worrywart's portfolios and hobbling hedge fund alpha as the market has experienced its most vigorous vertical ascent in history out of the March bear market bottom.

Everywhere one looks, there is aggravating evidence of emphatic certainty on all manner of issues that are by all objective and historical measures utterly uncertain. The market is tinged by a not-so-subtle undertone of desire for instant gratification, as empirically evidenced by stats such as a historic surge in demand for short term call options.[1] Individuals' consequential personal financial decisions are made with zero due diligence and willful ignorance.

For most of history, a few episodic bubbles notwithstanding, companies with high sales growth were only rewarded with high valuations if they could demonstrate the ability to generate returns above their cost of capital. Now, there is not really a "cost of capital." As the aphorism goes, the only difference between medicine and poison is the dose. The Fed has simply left rates low for so long that it has poisoned many traditional capitalist principles I grew up studying. A central tenet of capitalism is creative destruction. Fundamentally worthless enterprises that used to be ephemeral (the destruction part), now endure indefinitely (literally 20+ years for some perennial cash incinerators), surviving off a steady drip of ETF fund flows, episodic hype and endless equity offerings, despite their glaring idiocy. Capital is being misallocated on a mass scale because many business decisions are being made by the hype and market valuation a venture or new initiative can potentially garner as opposed to flowing where there is a genuine market need, where the best ROI is, or excess industry profits are to be had.

One of our emerging core beliefs over the last few years is that as society faces less true threats that provide us a common enemy to unite against, we are increasingly governed by a tribalist mentality, Twitter mobs, and cancel culture, so we wake up each day hyperaware of the power of an online mob in search of something to expunge or a cause to champion. Most recently, a small group of these roving rabble-rousers has tried to "stick it to the suits" by turning their collective attention to certain short sellers, an unequivocally anti-American and faceless enemy that is easy to hate. We only wish these demagogues discovered short sellers' unspeakable evils a year earlier when BFYT (f/k/a HIIQ) was our largest long position and had 90%+ of its float shorted.

In some sense, the equity market has devolved into a perverted combination of Instagram and Kickstarter, whereby participants band together to "give" money to companies they like (including lots of frauds). Garnering the most attention, "likes", and engagement on social media seems to be one of the best indicators of stock returns.[2] This is empirically backed by numerous white papers and studies from Academia showing novice traders' decisions tend to be purely headline induced.[3]

In modern times with potentially hundreds of millions of people constantly connected to one another via anti-social media apps, the "virtual crowds" may only keep getting larger. This ubiquitous usage of internet chat rooms for trading ideas rhymes with the late 90s better than a Shakespeare sonnet, although maybe acts more like *Crime and Punishment* in its size and scope.

This phenomenon, whereby many are focused on the same few stocks or news items at a time and all act on the most basic first-level thinking, has increased the odds of rolling parabolic spikes/market crashes that are entirely removed from any fundamental basis. Bubble cycles that historically may have boomed and busted over a period of months or years now occur in a matter of days.

> "...a crowd puts them in possession of a sort of collective mind which makes them feel, think, and act in a manner quite different from that in which each individual of them would feel, think, or act were he in a state of isolation."
>
> -Quote from *The Money Game*

With the helping hand of hindsight, everyone can now see that a confluence of events in late 2019 and early 2020 created a perfect storm for an explosion of speculative retail trading, namely the elimination of trading commissions by brokerage platforms, everyone being locked at home with no sports betting available, and stimulus checks mailed out to people who did not lose any income to begin with. Despite money being fungible, psychology studies[4] show that when someone finds money or has an unexpected windfall, they are more like to speculate with it. In other words, if someone finds a $20 bill on the sidewalk, they are more likely to literally buy a lottery ticket, or in this case of unneeded "stimmys," $TSLA call options.

Note that ~38% of US equities are held directly by households (excludes pensions and mutual funds, etc.). This means that "retail" investors control ~27x more than the ~$705 billion of assets under management of all long/short equity hedge funds, equity market neutral funds, equity long bias funds, equity event driven funds and long only equity hedge funds combined.[5] True "value oriented" hedge funds within that relatively tiny pool of capital likely comprise <10% of the total. Furthermore, everyone knows that passive ETFs' AUM has exploded—rising by about 11x since 2008 to be precise to $7.7 trillion, also ~10x as much capital as equity focused hedge funds. These passive flows and valuation indifferent market participants will only keep increasing structural market inefficiencies in a potentially permanent manner.

As an apt analogue, an index of 24 internet stocks appreciated 9.5x from November 1997 to their March 10th, 2000 peak, in what is widely considered one of the greatest industry bubbles of all time. In this silly cycle, a basket of Electric Vehicle stocks (EVs) has exceeded that meteoric rise but done so just within the last 11 months. So, we find ourselves at a very strange part of a cycle, whereby someone who knows the power of the Greater Fool better than anyone (the world's richest man), is pumping other assets that require ever greater a fool (i.e., Dogecoin/Bitcoin/various penny stocks to 50M+ Twitter followers), of which there are plenty. **While it is understandable that all these anecdotes point to a frenzy of speculation that would logically lead one to have high conviction that we are at a generational peak for risk assets, Mr. Market rarely rewards such lackadaisical and intellectual shortcuts. Our view on the entire market is much more nuanced.**

To channel my inner economist, on the one hand, you have the economy which is looking, acting, and quacking like it is early cycle. For example, the US manufacturing capacity utilization rate is still at recessionary levels of 74% (chart in appendix), which is below where it was at its worst in the 2001 recession.[6] On the other hand you have capital markets in an obvious mania that is indicative of a late market cycle behavior. In terms of the latter, another strange wrinkle of the current environment is that literally everyone is aware of it, as the frequency of calls for a bubble peak has never been higher than it was in January 2021.[7] 90% of respondents in a recent survey of institutional investors by Deutsche Bank said they see bubbles in the equity market. It is a perplexing consensus view. In fact, the only money managers who said they didn't see a single bubble anywhere were Jim Cramer, Ross Gerber, and Cathie Wood (just kidding...or am I?). For if it is truly consensus, does that mean everyone is conservatively positioned and has already raised cash, or just thinks they will be able to hit the exit before it all pops? A sampling of research reports near the peak in 1999 and 2000 show sentiment was eerily similar though, so just because the majority are aware that it is a bubble does not mean it can't pop violently. In Chuck Prince parlance, the tunes are blaring and as 'Tones & I' catchily croons, "Dance for me, dance for me, dance for me, oh, oh, oh!"

Beating Expectations

While most can likely articulate the bearish case for equity returns over the near/intermediate term (1-5 years), at Voss we strive for intellectual honesty and must dispassionately and empirically evaluate both sides of an investment thesis.

We believe we can make a rational bull case, which very few on the buyside that we have seen have even acknowledged. The powerful melt-up* is confounding many investors. However, Voss Partners will recall that it is *surprises relative to expectations* (akin to beating the spread in gambling lingo) and *changes in expectations of long-term growth/ROIC/cash flows* that ultimately should move stocks. Many historical relationships have no doubt been perverted, but when viewed through that lens, the market melt up makes sense as earnings and economic activity have consistently been beating overly lowered expectations by an unprecedented magnitude for each of the last three quarters.

To wit, Q4 earnings for S&P 500 constituents are coming in at ***18.3% above consensus*** so far through February 3rd, showing +2% year over year growth when negative double digit percentage growth was expected.[8] Sales growth for the S&P 500 in 2020, excluding volatile energy stocks which are now a tiny fraction of the index weighting, was only -0.2%. Net guidance from US companies has also been the **strongest on record** (that is, the ratio of companies guiding forward earnings up versus down). While small businesses have been battered due to government forced shutdowns, big businesses boomed—which nearly all public companies can be classified as. Tech/Media/Telecom (TMT) stocks make up ~1/3 of the S&P 500's earnings but these sectors only account for < 10% of US GDP. This is partly why there has been such a visceral disconnect between "Main Street" and Wall Street. Main Street is Bob's Deli that shuttered down the block. Wall Street is Facebook, Apple and Amazon—the largest global businesses that are that pull the strings of power in Washington, are doing phenomenally well and aren't necessarily broadly reflective of middle America.

High valuations are understandably at the top of any logical list of reasons to be bearish. To be certain, there are many (hundreds?) individual stocks at multiples of 100x+ earnings and 10x, 20x, 30x, or even 100x+ revenue, where sustained free cash flows are unlikely to ever materialize and economic reality will never justify the current value. Buying an asset regardless of price—that is the heart of the very definition of a bubble and defines the majority of transactions in the market (technical analysts, momentum traders, ETFs, etc.). People buy more solely *because* they are going up and they have not the faintest concern about valuation. Most stocks are Veblen goods, but that is nothing new. More broadly, the S&P 500 is presently at 22x forward earnings estimates, which is a full 7-turns higher than the 25-year median and a few turns shy of the all-time high. If, however, you back out the Tech sector at 32x+ forward earnings, the forward P/E for the S&P 500 drops to <19x.[9] While we hate to make these sorts of sector adjustments to periods of historic or sector extremes as there is usually always at least one sector that looks relatively frothy, doing so in this case drops the forward earnings multiple to "only" 26% above the long-term median for the majority of stocks. This is a level that may still be reason for legitimate concern, but it is less concerning if the economy is indeed closer to a cyclical low than a peak.

Historic Consumer Strength

Our main bullish thesis is one worth repeating often since few talk about it, is that **consumer balance sheets are in the best shape in history**. This can be hard to fathom given the economic distress at the lower end of the socioeconomic ladder due to nearly all the lockdown related job losses being in lower wage jobs within hospitality and retail. Consumer debt service and financial obligations ratios were already at all-time lows heading into 2020 and plummeted even further due to a historic spike in the savings rate thanks to government mailbox money, increased unemployment benefits, and a precipitous decline in discretionary spending categories like travel and entertainment. Last year, US Real Personal Incomes actually rose, thanks

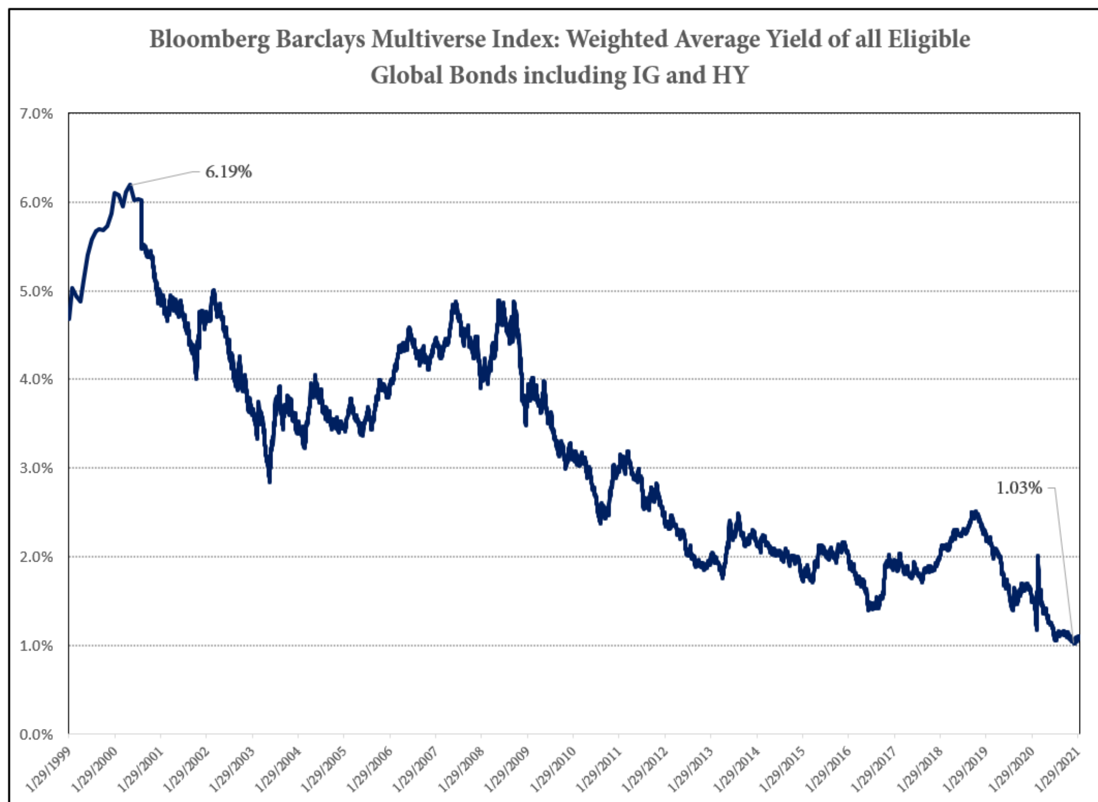
to the unprecedented transfer payments. Total wages collapsed in the first 1-2 months and then quickly snapped back. So far, before we even get the next round of helicopter money, government transfer payments have exceeded total lost wages (from April to November) by $620 billion. Astonishingly, a full ~75% of the workers laid off received more in transfers than what they had lost due to unemployment through much of the summer. These factors when combined with low rates and a huge year for mortgage re-financings (important because mortgage payments are most family's largest monthly expense) in 2020 have **lowered US household's financial obligations ratio to the lowest in modern history <u>by far</u> since the data has been tracked/available**. Even after the surge of refi's, >85% of the $11+ trillion of mortgage debt outstanding remains at interest rates above the current market levels and a large chunk of it has the potential to profitably refinance.[10] This is continuing to bear out in the incoming data. Re-fi applications have not slowed down at all to start 2021, growing by 45.6% y/y in the latest weekly reading, which is on top of a tough comp of +202% y/y from the same week last year.

As a thought experiment, if consumers loosen the collective purse strings and in aggregate work off just one-third of 2020's cumulative excess savings (~$2 trillion), that incremental consumer spending would drive at least 3.15% percentage points of additional GDP growth. Something else to consider is that Household net worth and wealth have exploded higher given the rising market and blistering home price appreciation. Home equity comprises the bulk of most American's net worth and with a home ownership rate of 65.8% the wealth effects could be widespread. After the Great Financial Crisis, US household net worth took over five years to make a new high (peak in Q2 2007 to new peak in Q3 2012), which lies in stark contrast to the two quarters it took this time to set a new high again by the end of Q3. Like I said: whiplash. And the asset price surge has only accelerated since then. The S&P 500 was up 12.2% and the median US home value grew by 14.9% y/y in Q4, accelerating from +7.8% in Q3 2020.[11]

The importance of the US consumer financial health cannot be overstated as we account for ~1/3 of total global consumption and as a "cohort" are the largest economic driver in the world. In theory, US consumers could lever up for large ticket purchases like homes, durables goods like cars and appliances, and major home remodels, etc. for many years to come, acting as a ballast to the economy and driving an unfathomably long cycle of economic expansion.

Corporate Debt

The Bloomberg Barclays Multiverse Index of all global 10-year bonds have a weighted average yield of just 1.09%. This is the lowest in the index's 22-year history, is less than half what it was just two years ago and compares to 6.2% at the peak of the dotcom bubble. Chalk up another tally for the bullish side.



US based corporations continue to successfully push out debt maturities and lower their interest expenses. The weighted average debt maturity is now >12 years for the S&P 500[12], so there is unlikely to be a massive rogue wave of corporate debt maturities coming that will swamp the seemingly unending voracious appetite for pitiful yields and poor risk/rewards that are pervasive across the credit world. Surprisingly, net debt to total assets is still about 3% below where it was at the start of 1997, from which point stocks were about to go on an epic three-year bull run (though obviously to an unsustainable bubble peak). The average interest rate for S&P 500 companies is now a paltry 3.4% (pre-tax cost of debt) compared to >6.0% back then in 1997 and the Net Debt/EBITDA ratio is much lower now. On top of this, a full ~92% of S&P 500 company debt is at fixed rates, so rising rates are also not a near term worry.[13]

Equity Supply/Demand

Getting back to the basics of economics 101, we like to monitor supply and demand for equities. On the supply side, a surge in SPAC issuance has been well documented across financial media and hedge fund letters (there have been about 4 new SPACs created per trading day in 2021 so far) but even if annualizing the pace of this new supply it could still be swamped by net stock buybacks (removing supply) this year.[13] Stock buybacks were $630 billion in 2019 and were down 42% from that level in 2020. Buybacks net of share issuance still exceeded $200 billion in 2020, a year of depressed buybacks. The trailing three-year average of (gross) buybacks is $731 billion. Additionally, cash-based M&A could perk up as boards and management teams act pro-cyclically just like the rest of us, which is another potential factor that could offset new issuance

and reduce the available equity supply. Too much of a good thing is eventually a bad thing in capital markets as investment bankers are doing their best to spoil the party with more and more supply. For better or worse (I vote worse), liquidity and low interest rates (negative real rates) *may* continue to be the tail that wags the equity dog.

Investor Positioning

Another important aspect of the bull/bear debate is investor positioning, which is much harder to get a clear reading on. Is everyone already "all in" on their equity exposure and on the same side of the boat? Individuals' allocation to equities is within spitting distance of its internet bubble peak, which is worrisome. Regarding equity flows, since just the start of 2018, there has been ~$250 billion of cumulative net outflows from US equities, a recent record setting week notwithstanding. Considering this, the recent excess savings, and the explosion in US household net worth, it is plausible that equity flows could swing positively and continue for a while longer.

Valuation Dispersion

While the macro is useful to keep an eye on, ultimately what we care about is finding bottom-up value oriented special situations and wide valuation dispersion. Forward earnings yield dispersion is in the 81st percentile since 1990, so there is a wide range of P/E multiples, which historically bodes well for value-oriented stock picking on a forward basis. Additionally, the forward P/E of the "value" indices is still at a record discount to the S&P 500 overall (~9x turns discount, the lowest since at least 1986). A basket of high "12-month momentum" factor stocks is at a record high forward P/E relative to the Value factor and about as high as 1999 relative to the broader S&P 500.

Until recently, the environment we have been in has already been our worst stylistic/factor performance nightmare. Looking through the windshield instead of the rearview, one must consider the possibility whereby the market does not crash overall, but that there will be a (potentially violent) rotation out of expensive momentum stocks into cheaper ones. The internet bubble burst is illustrative. In 1999 the TTM P/E ratio for the S&P 500 was 30x, however like now, if you backed out the top 5% of companies by market cap, the P/E dropped to 23x. Almost all those mega cap stocks fell within the TMT sectors. The 2000-2002 bear market bust that followed was mostly a *sector phenomenon*—especially the large initial leg down in the first year before there was a broader recession that officially began in March 2001. The Information Technology sector comprised ~35% weighting in the S&P 500 at its peak and subsequently declined by 82% to its October 2002 low. Just isolating this sector's decline, it alone accounted for 28.7 percentage points of the S&P 500's eventual 49% drawdown. The Telecom sector comprised ~9% of the S&P 500 and fell by 76%, accounting for another 6.8% of the market's decline. In other words, as the Tech and Telecom bubble reversed, they alone were a 35.5% drag on the S&P 500. Remarkably, ~40% of the S&P 500 constituents rose in value from 2000-2002 despite the market accomplishing the rare feat of having three down years in a row. If investors had valuation discipline and avoided TMT and the Genomics/biotech bubble stocks (most of which declined by 100% over the next few years), it was advantageous to stay fully invested in the cheaper stocks. Overvaluation is more evenly distributed now, but there remain pockets of value, namely housing and consumer finance related industries, ironically perhaps two of the fundamentally strongest and fastest growing areas of the economy.

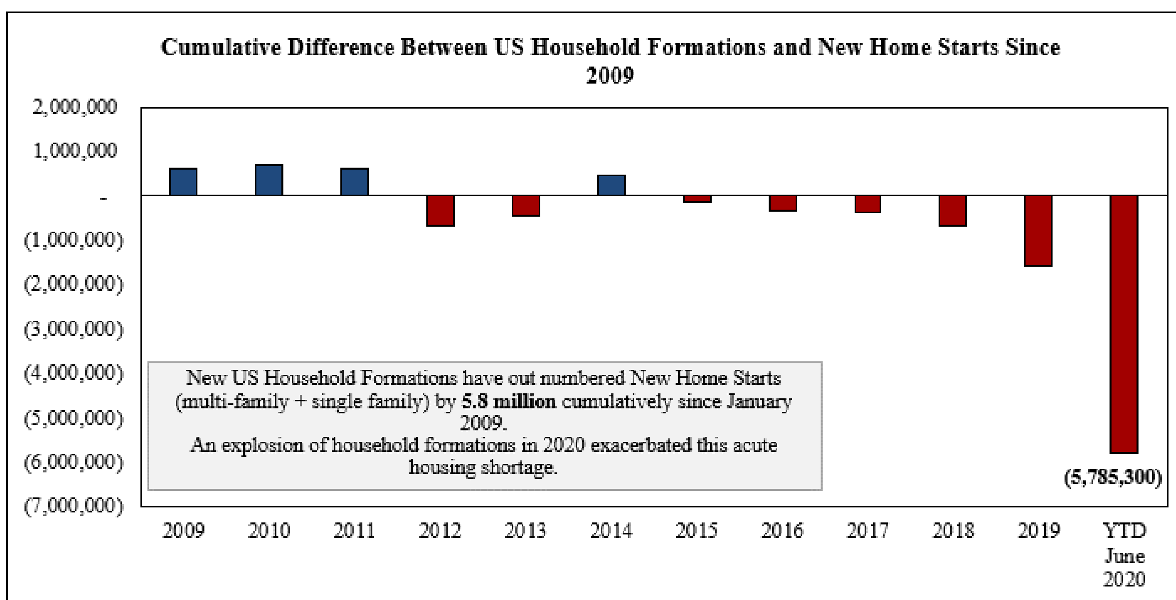
An unwinding of crowded positioning in expensive growth stocks into cheaper small caps would be the ideal market environment for Voss, but perhaps this is just wishful thinking (judging from the tens of billions of capital flow into Ark Invest funds as a proxy, the trends are accelerating, not reversing) and is not in any way necessary for us to continue to generate good returns given our many of our holdings' return drivers are so idiosyncratic.

We believe that many of our longs are massively under reacting to their most recent earnings reports and upwardly revised forward guidance. In many instances where we are intimately familiar with the company and their earnings prospects, it appears investors are stubbornly slow in adjusting their expectations upwards as new information becomes available. As we have been stating adamantly, we continue to believe our long book has perhaps the best combination of high growth and low absolute valuation that is has had since our inception. This is true even after the historic rally in small caps since November. We highlight three new ideas below to show what we mean.

Long US Housing

Our long book is positioned for continued strength in housing, with housing and mortgage related companies comprising an outsized bet of ~28% of the total long book. In our Q1 and Q2 2020 letter we highlighted the possibility of a dramatic affordable housing shortage. At the start of 2020, available US housing inventory listed for sale was at a new record low. It has halved since then. There is such an acute shortage of housing, especially at the low end (homes costing <$250k) that could be called a crisis.

If we look at the cumulative difference between US household formations and New Home starts since 2009, it paints a dire picture that corroborates the record low home inventory numbers. Undoubtedly, there was excess inventory of a few million housing units back in 2009—both in terms of empty homes and an elevated vacancy rate across multi-family that has slowly been absorbed. Even taking into consideration the increase in multi-family occupancy and the decline of second homes sitting empty, it is clear we have underbuilt new homes and the market was not prepared for an unexplainable surge in household formations that occurred throughout 2020. While it may feel like the housing market is unsustainably hot to some, the reality is we have only just recently reverted to the 40-year average for new home starts, despite the population being 105 million greater now than it was in 1980 when starts were at the same level.



As we have pointed out recently, Millennials are the largest population cohort in US history, are just now entering their peak earning and peak homebuying years, and we believe the housing cycle will stay stronger for longer than is currently anticipated by the consensus and we remain positioned as such.

Long MBIN

A newly initiated long position that fits the large housing and mortgage finance related theme of the long book is Merchants Bancorp (MBIN). MBIN is a unique bank and mortgage warehouse finance lender based in Indiana run by an owner/operator team of seasoned mortgage banking executives. The company grew EPS by 112% in Q4 and tangible book value by nearly 40%, growth rates usually associated with high-flying SaaS leaders. Normally it is prudent to be skeptical of a rapidly growing bank and the market often correctly assigns growth banks a massive comp discount for fear of future credit problems that are being masked by the growth. MBIN, however, is accomplishing this growth without taking on much credit risks whatsoever in two of their three distinct segments: Mortgage Warehouse Lending and Multi-Family lending. A large earnings growth driver last year was their mortgage warehouse lines of credit to non-bank mortgage originators (who are rapidly taking share from banks), which typically turn over every 15-20 days. When you close on a house, the first month's mortgage interest is generally prepaid and the first full P&I payment isn't due for over a month, therefore MBIN has very little credit risk in this segment barring massive fraud being discovered right out of the gate.

Warehouse lenders typically extend lines of credit to non-bank mortgage originators to fund the issuance of their loans, with the intent that these loans will be sold to the secondary market within a short amount of time – typically within two to three weeks. In today's market, nearly all loans originated by their warehouse line customers meet standards set by the GSEs. As a result, the loans that serve as collateral for the warehouse line of credit are high-quality mortgages that have a deep and liquid secondary market. Because of its business model, MBIN's warehouse segment has little risk from both a collateral standpoint as well as a counterparty credit standpoint. Their credit risk is substantially mitigated because they control the collateral and can move quickly to protect their interests.

In their Multi-Family lending segment, they originate commercial mortgages and immediately securitize and sell them to the GSEs for a quick "gain on sale." Again, because they move the loans off their balance sheet so quickly, barring an immediate payment shock, their credit risks are de minimus and this segment does an eye popping 14% ROA (~1% is normal for a traditional bank).

While MBIN is unlikely to repeat 2020's breakneck EPS growth and industry leading Return on tangible common equity (ROTE), they don't need to for the stock to work well from here. The stock is only priced at 5.7x conservative consensus EPS estimates. We believe this discount is due to the fact that the company is hard to model on a quarterly basis, doesn't do quarterly conference calls or offer guidance, has a low float due to large insider ownership by its owner/operator management team and Board, and the market is pricing in a quick collapse in ROE for fear unsustainable mortgage market activity, which so far is only accelerating and continuing to defy skeptics. To the last point, mortgage applications were still growing a blistering 20% y/y for the month of January and accelerated to +35.9% for the first week of February. If they can maintain their current elevated earnings power, we believe the stock is trading at closer to 3.5x 2021 EPS. If, however, their ROTE aggressively mean reverts to their four-year trough, the stock would still only be trading at 10x earnings, which is a ~60% discount to the S&P 500 and a >25% discount to the broader US banking universe that is inferior across every relevant metric for evaluating banks. The shares have ~80% upside just to get in line with bank comps on a Price/Next Twelve Months Tangible Books Value Per Share basis when adjusting for ROTE. We think the company could ultimately be acquired in the 2.5x tangible book value range in the next few years, offering at least 100% upside from today's market price and the current P/TB multiple of 1.2x. This conservatively assumes zero book value growth, which would be a draconian slowdown from their historical 27% BV CAGR.

Long COOP

Another new long that is a value oriented special situation is Mr. Cooper (COOP).

COOP is trading at 6x NTM earnings and under 1x NTM tangible book. Like MBIN, we believe the shares offer an asymmetric bet towards ongoing strength in mortgage originations and refinancing activity along with hard catalysts in the next 6-12 months that should force the stock to re-rate.

Mr. Cooper's business segments offer natural hedges to each other. When rates rise, their mortgage servicing business does better; when rates fall (like now) their refinance and mortgage originations division does better. If there is mortgage market weakness or consumer distress and foreclosures surge, their Xome business, an online real estate marketplace known for auctions, thrives.

Our thesis for Mr. Cooper is two-fold. Firstly, we believe the stock has been "held back" because it is perceived to be a temporary, but unsustainable, beneficiary of the spike in refinancing. Not only do we believe refinancing can continue into 2021 (refi mortgage apps up 45.6% y/y for the week ended February 5th), which will increase book value, but we also believe their mortgage servicing business will pick up when refinancing and originations ebb, smoothing the earnings far more than is currently priced in.

Secondly, management has telegraphed their intent to sell Xome, either part or in whole, and have been adamant the business is worth "at least $1 billion", a number that seems both plausible and potentially conservative in the current market environment with frothy FinTech/marketplace valuations. While Xome's results are present on the income statement, its value is nowhere to be found on the balance sheet. With a sale in the $1 billion range Mr. Cooper will be swimming in cash like Scrooge McDuck.[14] The sale will also materially increase tangible book value per share, which is how most investors value the stock. Because of tax accounting around their Net Operating Losses (NOLs), the company will have more flexibility around buybacks and special dividends starting in August. So, our thesis is that a sale of Xome will occur and the market will either push the company to at least tangible book value, or management will force the issue by aggressively buying back stock and/or issuing a large special dividend. We think the stock has >35% upside over the next six months.

Long AOUT

While we are clearly optimistic on the prospects for robust US consumer spending going forward, the retail and consumer goods stocks in general have had valuations too rich for our taste, so we have been underexposed to these sectors. We finally found a special situation consumer stock we could sink our teeth into in American Outdoor Brands (AOUT).

AOUT owns a portfolio of 20 mostly outdoor-related consumer brands. The company was spun out of Smith & Wesson (SWBI) in August 2020 with no debt and $25 million in cash. The current EV of $250 million values the company significantly below the $360+ million in acquisitions SWBI spent to build the portfolio since 2014. Most of AOUT's brands have strong end market tailwinds, as evidenced by half of the brands growing sales >100% last quarter. The number of hunting licenses, fishing licenses and first-time campers is exploding higher as consumers pursued new hobbies and socially distant entertainment options during the COVID-19 related lockdowns.

Over the past 18 months, AOUT wisely invested in building out its e-commerce capabilities and revamping its brands' websites which is now paying dividends. The e-commerce part of the business grew 213% last quarter and now makes up 40% of total company revenue, which is growing by 60% overall. This growth isn't just coming from the e-commerce side

cannibalizing the company's traditional retail channel customers though, as revenue from brick & mortar retail still grew 27% over the last six months and accelerated to +34% last quarter. With the relatively fixed cost platform and low capex requirements, the company is seeing expanding margins and high FCF generation. Despite these attractive characteristics and growth potential, the stock is trading at just 7x EBITDA and **8x FCF**.

Some of AOUT's promising brands like Bubba and BOG are going from "niche to known" as the company likes to say by expanding into new product categories. BOG recently released the patent-pending Blood Moon game camera, the company's first foray into game cameras which received an 88/100 rating from TrailCamPro.com who described it as *"excellent photos and videos. 20-plus months of battery life and insanely fast detection capability."* With the launch of new products like this, the brands are both expanding their customer bases and moving into higher priced goods which will only help continue to drive revenue growth.

While the portfolio was built through acquisitions, the team has also shown the ability to successfully launch brands organically like MEAT! Your Maker which was developed entirely in-house and debuted in March 2020. MEAT! sells an array of meat processing equipment and was originally targeted at hunters to process and preserve their meat. However, the commercial-grade quality meat grinders, slicers and dehydrators are also finding their way into home kitchens, restaurants and butcher shops given their rave reviews. The company says that in just nine months the brand went from *"non-existent to self-sufficient"* and has *"quickly becoming a multimillion-dollar brand in our portfolio"*. We expect more low-risk, internally developed brand launches in the future.

At the time of the spin in August, the company was guiding for $200 million in revenue and $20 million in EBITDA for the fiscal year ended April 2021. In December, the company raised revenue guidance to $240 million (+20%) and EBITDA to $35 million (+75%) implying 38% incremental margins and showing the leverage of the brand platform. We believe there is a good chance the company raises guidance again in a couple weeks when they report Q3 numbers. Despite all this we think the company is being overlooked with the stock up just 8% since its spinoff in August compared to the S&P Retail ETF up 50% over the same time frame with its constituents having vastly inferior fundamental performance over the same timeframe. With 20 unique brands, or "shots on goal", we believe there is a good chance just a couple of them could ultimately be worth more than AOUT's current EV.

Largest holding: RMNI

Due to ~92% price appreciation YTD, Rimini Street (RMNI) has become our largest position. At its current market price and valuation, it remains the cheapest profitable North American SaaS related stock that has scale (~$330 million in ARR) on an EV/ARR or EV/Gross Profit multiple basis. The stock still has hundreds of percent of upside to go to catch up to slower growing and much lower margin IT services trading comps, much less the low gross margin SaaS stock cohort that it most resembles. The company seems to be hitting an operational groove and has only just begun cross selling their recently introduced Application Management Services (AMS) in earnest into their existing 2,365 clients. Each new AMS contract cross-sold will drive a ~3x ARPU uplift over their existing core support business. At their recent analyst day, the company detailed its five-year strategic plan for the first time to investors, targeting $1 billion in revenues and 20-25% operating margins. Given estimates by Gartner for the third-party software support industry to skyrocket by nearly 3x within next three years and RMNI's near monopoly like market share of the space (85%+), we believe their target is highly credible. They do not need to come close, however, to achieving the stated 20%+ five-year sales CAGR for the stock to double or

triple from here. If their targets are achieved and we still assume an undeserved substantial trading comp discount, we believe the stock would be valued in the $40-50 range by 2026. This compares to its current market price of ~$8.50 and would translate to a >40% IRR from here even after it has nearly doubled YTD.

Conclusion:

The S&P 500 index inclusion committee, in its infinite wisdom, decided in December to sell down $57B of existing index members in order to dogpile into TSLA. By this point it was already worth about as much as every other auto OEM combined (excluding Chinese ones) despite having just <1/180th of their combined global auto unit sales, to compliment its free-falling BEV market share in Europe as other OEMs release a torrent of competing vehicles and pour tens of billions into R&D and CapEx for EVs instead of focusing on memes and Dogecoin. The largest component of the Russell 2000 was recently (briefly) GME. Stats like these should build our confidence that the passive index returns should be a relatively easy hurdle to clear going forward, but Mr. Market is no slouch and perhaps several other bubble cohorts that we would never contemplate investing in will continue attracting enough attention-induced traders to keep dragging the index up exponentially from here.

Josephine Baker was an eccentric French spy, singer, and actress who was described as “volatile” by those who knew her well. Jean Claude Baker said of his foster mother: "I loved her. I hated her. I wanted desperately to understand her." I empathize with his sentiment. I love the market. Some days I hate the market. I want desperately to understand its multi-faceted complexities and master it. This is a compulsion within me more than a desire. In order to do so, one must first master emotional control, be able to tolerate disarray, endure volatility, embrace ambiguity, be intellectually curious and adapt tactically to rapidly changing circumstances while maintaining firm investment principles. Even the most cursory study reveals that the market routinely sacrifices logic to make way for delusion, so why should now be any different? Today there is this or that dogma. Next year, there will be another that is accompanied by a new cohort of timeworn follies. Unless human nature magically changes, we have a fighting chance of continuing our ten-year trend of generating uncorrelated alpha by applying timeless value investing principles and unconventional wisdom. We look forward to a time when ambiguity aversion returns and economic reality reasserts its dominance over harebrained hype, but we aren’t holding our breath.

Sincerely,

Voss Team

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 two 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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weighted index of 500 widely held stocks often used as a proxy for the overall U.S. equity market. The Russell 2000 index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index. The Russell 2000 serves as a benchmark for small-cap stocks in the United States. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price/book ratios and higher predicted and historical growth rates. The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower expected and historical growth values. HRX Equity Hedge Index consist of Equity Hedge strategies which maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios.

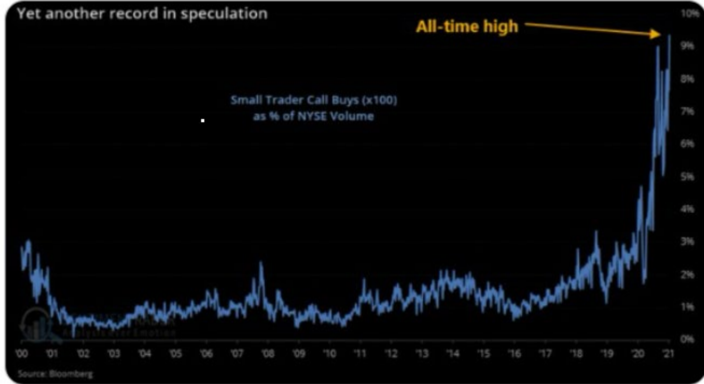
Past performance does not guarantee future results.

Appendix:

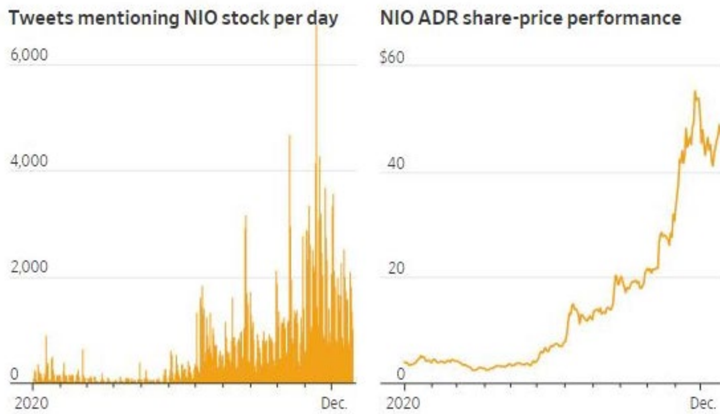
**Note: the small cap indices are up another ~10%+ since writing this at the start of February.*

[1] Source: Bloomberg

Retail options speculation has hit an all-time high



[2] Case in point:

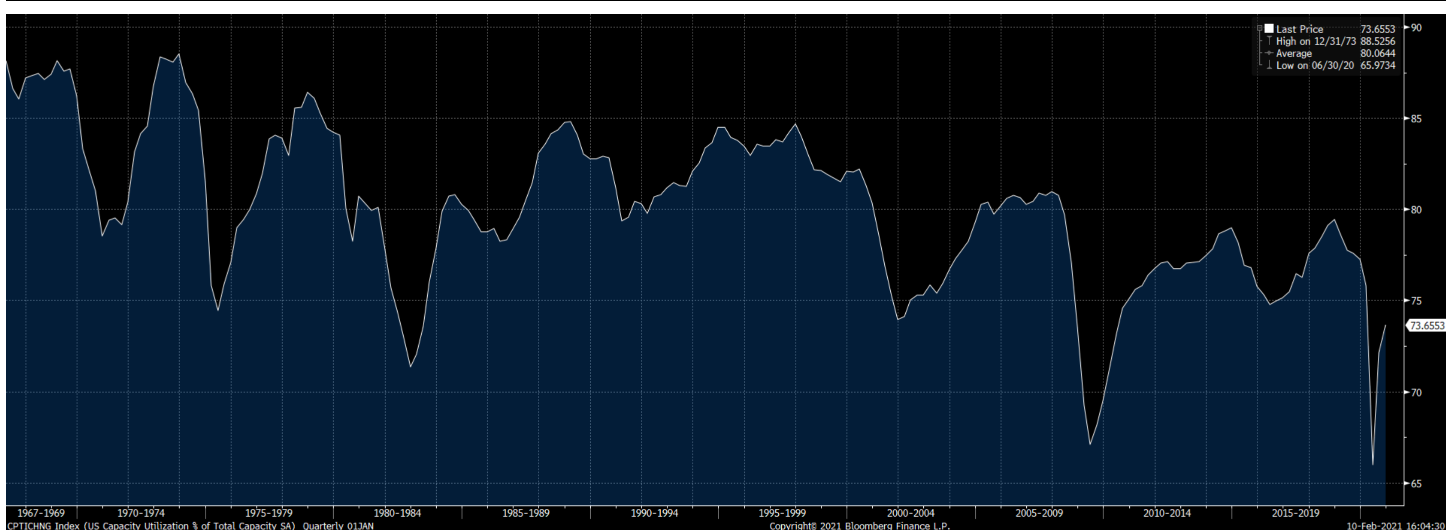


Note: Figures through Dec. 24
Sources: Twitter (tweets); Share-price (FactSet)

Google search trends for "stock market bubble" are at a record high.

[3] Attention Induced Trading and Returns: Evidence from Robinhood Users, published February 2021
[4] White paper study of "windfall" money spending:
https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.487.1108&rep=rep1&type=pdf
[5] Source: https://www.barclayhedge.com/solutions/assets-under-management/hedge-fund-assets-under-management/

[6] Long term chart of US Manufacturing Capacity Utilization:



[7] Source: [Time to pause? Wall St grow wary of some stock bubbles]

[8] Source: Bloomberg
[9] Source: Bloomberg
[10] Source: Investor day presentation from Finance Companies of America
[11] Source: Bloomberg, National Association of Realtors
[12] Source: Bloomberg
[13] Cantor Fitzgerald "SPACTtistics" report 2/2/21: "There were 91 SPAC IPOs that priced, representing ~$22.83b of total capital raised for the month [of January], with the average IPO size at~$251m." This represents $274b annualized.
[14] I am aware that Scrooge McDuck actually swims in a vault filled mostly with gold coins, with only a bit of cash sprinkled in.