Quarterly Letter, July – September 2018

	Jul 2018	Aug 2018	Sep 2018	Q3 2018	YTD	Since Inception	Annualized
Curreen Capital Partners LP	-1.42%	1.47%	0.07%	0.09%	4.51%	133.2%	17.2%
S&P 500	3.72%	3.26%	0.57%	7.71%	10.57%	99.5%	13.8%
MSCI World (US Gross)	3.14%	1.28%	0.58%	5.07%	5.69%	64.5%	9.8%

Dear Partner,

Our fund was up 0.09% in the third quarter. We began the quarter with 15.2% of the fund in cash and cash management positions, and ended just above 0%. Our cash level reflects the opportunities that meet our investment criteria – and we seized several.

Portfolio Changes

During the quarter we added to Nilorn, Socket Mobile, TopBuild, and made a new investment in Micro Focus. To fund our investment in Micro Focus, we sold Teikoku Sen-I and 1/3 of our stake in Conduent.

Our additions to Nilorn, Socket and TopBuild were driven by the same thinking. With each investment, I felt that the upside-to-downside justified that the position be a larger portion of our portfolio. With Nilorn, we continued the purchases that I mentioned in the Q1 and Q2 letters. We paid SEK 80.28 per share. Like Nilorn, Socket Mobile presented an outstanding upside-to-downside ratio. I continue to be leery of adding to such an illiquid position—along with GetBusy and Kopparbergs, there is simply not enough trading volume for us to easily buy or sell—but I felt that the price justified taking it toward 10% of the fund… slowly. We paid an average of $2.36/share.

We added to TopBuild after its price dropped to a 5:1 upside-to-downside ratio. I continue to believe that TopBuild has excellent business tailwinds over the coming years, that management operates the business well and allocates capital for the benefit of shareholders, and that at the upside-to-downside – it deserved to be a larger share of our fund. We paid $58.95/share to add 1% of the fund to TopBuild.

A New Investment

Micro Focus is our fund's newest and largest investment position. Micro Focus specializes in acquiring and managing declining software businesses. For example, they are a world leader in COBOL (the most widely used programming language… in 1970). Micro Focus's strategy is to intelligently manage critical but declining software assets – investing only where the customer will pay, and otherwise allocating the business's cash flows in a shareholder friendly manner. This has historically meant dividends (in the most tax efficient manner for its UK shareholders), small acquisitions at attractive prices, and a large acquisition every few years. This business strategy appeals to me, and the executive chairman has a solid track record of executing it since he began leading Micro Focus in 2011.

I first learned of Micro Focus in 2017, when Hewlett Packard Enterprise was selling its software business (largely comprised of its ill-fated acquisition of Autonomy) to Micro Focus through a combined merger-spinoff. I did not love HPE's capital allocation, while Micro Focus seemed popular and expensive, and I was not excited that a HPE executive would be CEO of the combined company. So I moved on and analyzed other businesses.

This past August I was reminded to revisit Micro Focus and I loved how the story had changed. The HPE executive was out, replaced by Micro Focus executives who had a solid track record of acquiring and managing declining assets, while intelligently allocating the resulting cash flows. Also, the stock price had dropped in a big way. The more I learned, the more I liked the business, management, and price. Micro Focus met our three key criteria, and we bought shares, making it a 15% position. With less than 15% of the fund in cash, we had to sell an existing investment to buy Micro Focus. I decided that Teikoku Sen-I was our least attractive holding, and when push came to shove, I felt that Micro Focus was superior. Teikoku Sen-I is a very good business, with an attractive upside-to-downside ratio, but Micro Focus' management is better at allocating capital. We received ¥2,329/share from selling Teikoku.

In late August, Micro Focus began a share repurchase program – its first in 6+ years. The Executive Chairman then bought shares personally, and even transferred shares to himself from his wife's account. I appreciated that management recognized that the stock price was attractive and acted on the opportunity. I also felt that the $200m share repurchase plan improved the odds that some of the $2.1B that they will receive from the announced sale of their SUSE business (for a good price) will also be used to repurchase shares.

These actions improved my assessment of management's ability to allocate capital and increased my upside and downside valuations for the business. The stock price was higher than when we first bought, but the upside-to-downside was even more attractive. We had limited cash to invest in Micro Focus, so I compared adding to Micro Focus against keeping 10% of the fund in each of our existing positions. I decided that I was willing to reduce our position in Conduent to increase our position in Micro Focus. Both companies are attractive, but Micro Focus won when I compared them head-to-head, due to a more attractive price and a longer record of intelligent and shareholder-friendly capital allocation. We sold Conduent at $22.71/share, and our cost for buying Micro Focus throughout the quarter was $16.23/share.

Operational Note – Changing a Benchmark

I have changed one of our benchmarks in the chart on the first page of this letter. Previously, our fund was compared to the MSCI World Index, and I have changed that to the MSCI World US-Gross Index. I feel that this is more of a fair comparison, as our fund does not pay withholding tax on US dividends, but we do pay withholding tax on most non-US dividends. When Curreen Capital launched, I did not realize that there was an alternative to the MSCI World Index that did not assume withholding tax on all dividends, and so we have been comparing ourselves to the MSCI World since day one.

Please note that the MSCI World US-Gross Index has <u>higher</u> returns than the MSCI World Index—because the gross index does not subtract the withholding tax on US dividends—so this comparison is less favorable to Curreen Capital. For example, over the 5 years ended September 30, 2018, the MSCI World returned 9.28% annually, while the MSCI World US-Gross Index returned 9.67%. The difference is withholding taxes.

In general, you should look critically at any investment manager who changes their benchmarks. I think that in this case—since I am strengthening Curreen Capital's competition—you can rest easy.

In Closing

Our fund is fully invested. In fact, we had so many outstanding opportunities that we sold good investments to buy even more attractive investments.

I remain worried that the overall stock market is expensive. Whether you look at the Shiller PE, the Market Cap to GDP "Buffett Indicator", or your favorite measure of exuberance – nothing screams cheap. But I do not (nor does anyone else) know where the stock market is going, and guessing at it is not how we invest. What I can do is identify a few outstanding opportunities that meet our three key investment criteria, and seizing those opportunities is what drives our fund's long term returns. We are invested in excellent businesses, run by capable management teams who allocate capital for the benefit of shareholders, priced at excellent upside-to-downside ratios. If we had more cash I would immediately buy more of what we own. We hold cash when we do not have enough opportunities to seize, and we are swimming in investment opportunities now.

Thank you. I appreciate your investment in Curreen Capital, and it is a great pleasure to make you money and earn the trust you place in me.

Warmly,

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CURREEN CAPITAL

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