"The idea of excessive diversification is madness. We don't believe that widespread diversification will yield a good result. We believe almost all good investments will involve relatively low diversification. If you took our top fifteen decisions out, we'd have a pretty average record. It wasn't hyperactivity, but a hell of a lot of patience. You stuck to your principles, and when opportunities came along, you pounced on them with vigor. Berkshire in its history has made money betting on sure things."

Charlie Munger

To:	All Ironwood Investors
From:	Nathan Reid, Fund Manager
CC:	NAV
Date:	1/9/2020
Re:	Q4 2019 Performance outline and summary of annual fund results

FUND UPDATE

37.09% Gain for 2019!

Q4 was a spectacular quarter for the fund. During 2019 our investments in BNC Bank, Amtech Systems and PAR Technology led the way being up 69%, 58% and 41% respectively (also note that our smaller investment in Quorum was up a whopping 90% this year), all three of our core large positions have executed extremely well on their business plans and goals (more on that below). We beat the market for the quarter and the year, even with all of the indexes having record moves in 2019. Concentrated value investing works when it is combined with patience and deep research. I am intimately familiar with the companies we own and am very aware of the valuation, the management and the industry dynamics which they compete. We only own 5 large positions (4 were up big in 2019). This is because I believe you don't make money on your 7th or 10th best idea, it is best to focus attention and capital on your top ideas and know them extremely well.

Aside from reporting the results for the past quarter, the purpose of this letter is to provide limited partners in Ironwood the following 1) A view into the thinking that goes into the stock selections that end up in the fund 2) Update everyone on the happenings on our current holdings 3) To provide some insight into how I view the current market environment 4) To try and explain some of the strange happenings that occur in the equity market that we should be able to take advantage of being a small and nimble fund.

Results

For the quarter, the fund was up **15.34%** vs the S&P, DOW, Nasdaq and Russell 2000 which were up 9.07%, 6.0%, 12.2%, and 9.94% respectively.

For the year the fund is up **37.09%** vs. the S&P, DOW, Nasdaq and Russell 2000 which were up 28.88%, 22%, 35%, and 25.53% respectively.

It is always a challenge to keep up or beat the indexes when they are rapidly advancing, as a value investor. I feel good about the results in 2019. Also, as we discussed at the annual meeting, I would much rather own our positions than the overall market, which is probably somewhat overvalued.

Positions

Our top 3 positions represent 87% of the fund. While all three are extremely different businesses with vastly different reasons for owning them, they all are being run extremely well and management is hitting targets and doing what they said they were going to do to create value in various ways. At BNCC the mortgage division is on fire and book value looks like it will grow by over $5 this year. Par Systems is rolling out Brink software at a rapid pace and doing strategic M&A to fill in gaps in their software but doing this in a conservative way and not overpaying. Lastly, Amtech is repositioning the company to get completely out of the solar business, which is a now a low margin business dominated by Chinese companies who have extremely low cost, into a higher growth semiconductor company with their silicone carbide division and polishing division.

The Q4 2019 and Year to Date performance of our largest positions is highlighted below;

	12/31/2018	**9/30/2019**	**12/31/2019**	**Q4 Gain %**	**YTD % Gain**	**% Fund**
BNCC	$20.50	$32.65	$34.65	6.1%	69.00%	43%
PAR	$21.75	$22.82	$30.74	34.7%	41.33%	20%
ASYS	$4.53	$5.63	$7.16	27.1%	58.05%	24%
LXU	$5.52	$5.31	$4.20	(20)%	(23.9)%	8.4%
QIS	$.68	$.96	$1.29	34.3%	89.70%	4%

Stock Market or Market of Stocks

I get a lot of questions from people who want to know if stocks are overvalued. While it is an interesting question, it really isn't even in the top 10 relevant questions one should be asking when making an investment in a specific stock. The more relevant questions that you should ask are more the following;

1) Is this particular investment overvalued?

2) Is the industry in which the business competes experiencing a lot of disruption and if so, is management aware of the disruption and what are they doing about it (think Walmart and how they are very effectively competing against Amazon)?

3) What is management like, do they take excessive compensation or are they greedy empire builders? Are they aligned with other investors through owning a lot of the stock themselves?

4) If you invested in this company and had to leave for a desert island for 5 years, would you feel comfortable owning this while you were gone?

5) Who else is invested in the company?

6) How much debt is being employed in this venture and how is it structured?

7) What kind of bias has led me to this investment, did I find it through a church group, a financial advisor who is earning a fee for me to invest, is it my "friends deal", do I really understand the investment?

I always like to remind people who ask me about overall market pricing that the S&P 500 has 500 stocks in it and at any time there are for sure a handful that are undervalued. Those are the ones you are looking for, there is little to be gained in concerning yourself with overall market valuation.

Tax efficiency

One of the advantages that should accrue to partners from being invested in a hedge fund (vs. an index fund or a mutual fund) is that hedge funds generally have a manager that is extremely well aligned with the investors in the fund. This alignment includes wanting to avoid paying taxes through smart buy and sell decisions and harvesting losses and gains at advantageous times. In 2019 we had incredible results, and what is even better is we generated a loss on our K1s from selling loss positions and also generated losses through understanding wash sale rules and using them to our advantage. For those of you who don't like to think about taxes or tax matters, trust me, your CPA will be happy with the results this year!

Thesis Discussion(s)

PAR Technology (PAR) – current Stock Price $ 30.74 (Intrinsic Value range $35 to $50)

Upside to low end of valuation range – 13.8%

Par had a very impressive earnings call in Q3 2019, they announced several key business initiatives and were very bullish on the growth for 2020 and beyond. Also, they announced an important acquisition of Restaurant Magic, a bolt on acquisition, which makes their software more valuable to their client base and also brings new potential customers to the Brink platform.

LSB Industries (LXU) – Current Stock Price $ 4.20 (Intrinsic Value range $14 to $20)

Upside to low end of valuation range – 233%

LSB continued to improve plant operations and earnings before depreciation charges in the quarter. The company has been in the "penalty box" with Wall Street for several years and until they have a few strong quarters, I don't expect the stock to move much. However, when they do prove their going concern status, I expect the stock to react very well. Its best to have patience when everyone else is bailing, this is generally where the large gains are made.

Amtech Systems (ASYS) – Current Stock Price $ 7.16 (Intrinsic Value range $8 to $12)

Upside to low end of valuation range – 11.7%

At year-end Amtech announced that they are in the final stages of divesting their solar operations. These operations have been a drag on operation results for several years and have hidden a gem of a semiconductor business. I am always impressed with management at ASYS to be very conservative with debt, to keep plenty of cash around and to make tough decisions (such as selling a division) when it is obviously the right choice.

BNC Bank (BNCC) – Current Stock Price $ 34.65 (Intrinsic Value range $37.50 to $45)

Upside to low end of valuation range – 8%

BNC Bank had a blowout quarter in Q3 2019 that surprised me and was much better than even my highest estimate. The bank is very well run, is conservative, and has been compounding book value since the bottom of the market. They now have an activist investor as the chairman of the board. It is difficult to say if the bank will be sold off to the highest bidder or will continue as a stand alone enterprise, either way, I am very bullish on the prospects. The stock has continued to move higher, with increases in book value moving up in lockstep, making the company more valuable each quarter with stacked up retained earnings.

Diversification vs. Concentration

The quote on this annual report pertains to having concentrated positions in stocks that we regard as undervalued as an overall investment strategy. Diversification is generally best for those who know little, are afraid to lose their jobs if they are wrong and for people who are having to meet particular obligations over a specific timeframe. For investors who are looking to compound capital rapidly, it makes little sense. Ironwood is extremely concentrated and will continue to be run this way as long as I can find positions that I regard as cheap relative to where they are trading. The market is very efficient, but there are always pockets of mispricing.

High Water Mark

The current high-water mark for the fund is $18.37 (approximately 59% higher from the current NAV). It increases approximately $.25 per quarter (1.5% per quarter and 6% per year). Therefore, until the fund exceeds this high-water mark/NAV per share, I will receive **no compensation** for managing the fund (and have not received any since 2013). The current NAV is approx. $11.53, so I have some work to do. I am up to the challenge and I am happy to be running a partnership that is set up as a true partnership where I am only paid if I perform. I wouldn't have it any other way. I will be adding to my investment in the fund in 2020, **I encourage class A investors to do this as well**. I know of no other partnership vehicles that have no management fees and have such a large spread between current NAV and the NAV at which the manager will receive compensation. If there is such a thing as a "free lunch" this is it. Also, I am now by far the largest investor in the fund with around 25% of the assets under management; therefore, I am 100% aligned as an investor with everyone.

Thank you all again for investing in Ironwood, I wake up every day energized to compound our capital.

Warmest Regards,

Nathan Reid

Nathan Reid, MBA

Fund Manager/General Partner

www.ironwoodfund.com