



“Stay calm and stay the course” Warren Buffett

To: All Ironwood Partners
From: Nathan Reid, Fund Manager
CC: NAV
Date: 1/8/2021
Re: Q4 2020 Performance outline and summary of fund results.

FUND UPDATE

Market Update/Fund Update (2020)

Dear Partners,

The fund had another extremely solid year with our performance **above 30%** for the second year in a row, what was best about this gain is both in 2019 and 2020 these large gains came with no taxable income to investors as I managed our taxable transactions and trimmed old positions to harvest tax losses. Taxes are the great wealth destroyer, so I will continue to manage the fund in an extremely tax efficient manner.

2020 was a year full of records and definitely belongs in history books! We started out the year with a booming economy fueled by lower tax rates and low interest rates, and then in March stared into the abyss of the first global pandemic in 100 years. To say this was an unexpected turn of events is a massive understatement. If I had told anyone that by year-end the stock market would be at all-time highs, the housing market would be extremely strong and that we would already have a vaccine developed, most would have thought I was ready to be committed to the asylum.

With historically low interest rates and a very uneven recovery, many businesses are thriving while others are hurting, capitalism is a brutal system and the weak for sure get disintermediated and the strong thrive and grow. Luckily for our fund, we owned many of the winners in this wild and whacky year. Par systems not only survived, but thrived as restaurant customers scrambled to adopt technology that would allow them to pivot to significantly more online ordering, takeout, drive through etc. BNC Bank has a very large and profitable national residential mortgage operation and given the historically low interest rates they were able to earn massive (Note: Record) profits for the company. The profits

were large enough that they will be paying out a \$8/share dividend in February, this dividend is almost as much as we paid for our BNC shares in 2013 (we paid \$11ish). The theme of this letter is in the quote above and centers around staying calm when others are panicking. Napoleon used to say that greatness was “being able to do ordinary things when everyone around you is panicking,” I am proud to say as the manager of this partnership, I didn’t panic, but took advantage of the short window of opportunity to buy more of PAR and to also “stay the course” on other names such as BNC that went down a lot due to initial panic resulting from virus uncertainties, but that in actuality, really ended up benefiting from the government intervention put in place to stabilize the economy.

Results

Historical Results

Co-Managed Fund		NAV/Share	Sole Manager Fund		NAV/Share
Initial		\$10.00			
2013	22%	\$12.20	2019	37.09%	\$11.53
2014	(2.46%)	\$11.90	2020	30.23%	\$15.02
2015	(26.72%)	\$8.72			
2016	12.96%	\$9.85			
2017	6.59%	\$10.50			
2018	(19.91%) (A)	\$8.41			
GROSS GAIN			GROSS GAIN		
2013 to 2018 – (15.9%)			2019 to 2020 – 78.7%		

(A) Partial co-managed year

The fund just came off of two of the biggest annual gain years since inception. Of the 8 years the fund has been in operation the partnership had two major down years, one flat year and now two years with north of 30% returns, which is sort of my baseline goal for performance given the fund size, etc. and the types of companies we can invest in (small and mispriced).

For the quarter final quarter of the year (Q4), the fund was up a whopping **40.07% (in line with Q3 returns)** vs. the S&P, DOW, Nasdaq and Russell 2000 which were up 12.15%, 10.5%, 16.37%, and 8.65% respectively. **For the year, the fund was up 30.23%**, we handily outperformed the market in 2020 (except for the tech/FANG heavy Nasdaq that was up 43.6%) with the S&P, DOW and Russell 2000 up 16.3%, 7.25% and 19.96% respectively. I believe our concentrated portfolio of undervalued stocks will continue to outperform in a lumpy way. Below is a summary of how our individual positions did in Q4 2020 and 2020.

Positions

Year-to-Date performance and Q4 2020 performance of our largest positions is highlighted below;

ANNUAL	12/31/2019	12/31/2020	YTD Gain (Loss)%	% Fund
BNCC	\$34.65	\$45.25	30.59%	44.5%
PAR	\$30.74	\$62.79	104.2%	28.8%
LOV(a)	\$4.77	\$5.32	11.5%	18.6%

Q4 2020 Update

QUARTER	09/30/2020	12/31/2020	Q4 Gain (Loss)%	YTD % (Loss)	% Fund
BNCC	\$31.04	\$45.25	45.77%	30.59	44.5%
PAR	\$40.51	\$62.79	55%%	104.2%	28.8%
LOV(a)	\$4.89	\$5.32	8.8%	11.5%	18.6%

Major Portfolio Changes in Q4 2020

There were no major portfolio adjustments in Q4 2020.

Thesis Discussion(s)



PAR Systems (PAR) – current Stock Price \$ 62.79 (Intrinsic Value range \$60 to \$70)

Upside to low end of valuation range – 0%

PAR Systems took advantage of the pandemic by being a collaborative technology partner in a very uncertain time for restaurant chains. I believe the Covid 19 virus accelerated change in many areas, particularly technology adoption. Companies had no choice but to finally abandon version 1.0 tech platforms for something more cloud based and robust. This was great news for PAR in 2020, but also going forward as their recurring subscription revenue will be growing rapidly. However, PAR is approaching the high end of even my updated valuation and therefore we have trimmed a little of the position and may trim more as it approaches \$70/\$75 per share.



LSB Industries has been a major laggard for the fund. Almost everything that could go wrong in the business did. Major plant upgrades went extremely over budget, the price of the commodities they produce went way down and the price of corn (which is what a majority of their product is applied to as fertilizer) also went way down. A trifecta of bad news. I have been trimming this position to harvest tax losses. However, as 2020 came to a close and 2021 has started the price of corn is hitting 5-year highs, which is extremely good for LXU. We will continue to evaluate this position and I have no current price target other than to say that if the commodity complex continues to improve, this company could be worth 5X to 10X the current price.



BNC Bank (BNCC) – Current Stock Price \$ 45.25 (Intrinsic Value range \$50 to \$60)

Upside to low end of valuation range – 10.5%

What a year for BNC Bank. After years and years of me having calls with management about capital allocation policy, the bank finally decided to pay a large one-time dividend (\$8/share), and they also put a buyback in place to purchase up to 5% of outstanding shares. This is probably one of the most well-run community banks of its size (around \$1 billion in deposits). Our investment in the bank has earned us an approximately 22% annualized return since we first bought shares in 2013. The best part is we haven't sold any and haven't received any dividends (until we get the 2021 one), so all of this compounding has been tax free, which is the best kind of compounding and the most powerful to growing capital.

PL Capital is still the largest shareholder of the bank and is in control of the board essentially. PL Capital has never been involved in a bank, that I am aware of, where the end result isn't a sale. The new dividend policy and the buyback is all a result of PL Capitals involvement. I believe a sale is potentially imminent at around 1.5X book value, which would make this a \$60/stock.



Spark Networks (LOV) – Current Stock Price \$5.32 intrinsic value (\$12 to \$15)

Upside to the low end of range – 125%

This year Spark Networks will become a U.S. public company filer (vs. currently filing in Germany). I believe this and a few other things could be massive catalyst to valuation in 2021. Bumble will be going public this year, and the rumor is the valuation will be approximately \$8 billion. For reference Bumble did around \$220 million in revenue in 2019, Spark did around \$220 million in 2020. However, the similarities end there. Sparks total valuation is approximately \$200 million, that is 40X less than Bumble, given Bumble is growing faster, it deserves a higher multiple, but there is no way it should be 40X more valuable than Spark. If the valuations continue to be so disconnected between Spark and other dating app companies, the only real result is Spark would be acquired for their revenue. I see this as a strong possibility. Spark has been for sale on and off throughout the years and the company has been built through M&A. Subscription based dating apps are a very high margin business, so M&A tends to be a no-brainer for competitors to just “buy the revenue” and get their higher market multiple.

Taxes and Compounding

Income taxes are the enemy of compounding in investing. Every time taxes are paid, those dollars can no longer compound and they come out of the snowball making it grow less quickly as it rolls down the hill and gets larger. Therefore, tax strategies and tax efficient investing is extremely critical to achieving post tax/high growth compounding. All of the major portfolio decisions in The Ironwood Fund are made with tax consequences in mind. While we can never completely avoid tax, we can defer it and minimize it. 2019 and 2020 are great examples where the fund was up greater than 30% in both years, but no taxes were due as the performance came either from stocks we haven't sold or we offset gains with loss harvesting from positions that were underwater.

High Water Mark

The current high-water mark for the fund is around \$16.50 (approximately 9.7% higher from the current **December 31, 2020** 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). I didn't set out to manage a hedge fund for free for several years, however I believe in fairness and aligned compensation and true partnerships structures, where I only make money if investors make money. The current NAV is approx. \$15.02, so I have a little work to do to **FINALLY** clear the high-water mark, but I have made a valiant and hard-fought effort to dig out of the performance hole in 2019 and 2020. Given the two solid years of performance and the relatively small size of the fund, I would love to have current investors and friends/acquaintances of current investors to add capital to the fund. Our compensation structure is extremely advantageous, and the cost structure (essentially no costs other than tax return and audit) is also very favorable. So please tell your friends and family "you know a guy," your support and referrals are always appreciated!

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

Warmest Regards,

Nathan Reid

Nathan Reid, MBA

Fund Manager/General Partner

www.ironwoodfund.com