



“Stay calm and stay the course” Warren Buffett

To: Ironwood Partners
From: Nathan Reid, Fund Manager
CC: NAV
Date: 01/14/2022
Re: Q4 2021 Performance Outline and Summary of Fund Results.

FUND UPDATE

Market Update/Fund Update (2021)

Dear Partners,

The fund had another extremely solid year with our performance **above 20%** for the third year in a row. We did well with a very concentrated and highly curated portfolio of stocks (see details below). I believe our portfolio is still undervalued and therefore likely to do well going forward. I also believe the overall market appears to be fully valued or even overvalued at current levels.

As the manager of the fund, I take a bottom-up view of the market, which means that I try to pay limited attention to the overall market. Instead, I pay considerable and constant attention to the stocks we own. There is really no such thing as “the stock market”. So when you’re at a dinner party and you hear things like “the stock market is overvalued” or “stocks are really high,” people are usually referring to a general view of stock market indexes or popular stocks like Netflix and Amazon. This dinner party banter is of little help to an investor who is focused on finding overlooked and/or undervalued stocks. When I tell people the fund owns BNC Bank (a regional bank in North Dakota) or that we own LSB Industries (a small fertilizer producer), generally their eyes gloss over and they change the subject. However, if I tell them that LSB was up 5X this year, or that BNC Bank has produced a higher than 20% IRR for the fund since 2013, that gets their attention. Stock market investing isn’t supposed to be exciting. It should be a struggle between the constant need for activity and the realization that often the best companies are the ones you hold for a long-time, are boring but steady businesses well-run by managers who are good stewards of capital. This approach is also best from a tax strategy.

Results

Historical Results

Co-Managed Fund		NAV	/Share	Sole Manager Fund		NAV/Share
Initial		\$10.00				
2013	22.00%	\$12.20		2019	37.09%	\$11.53
2014	(2.46%)	\$11.90		2020	30.23%	\$15.02
2015	(26.72%)	\$8.72		2021	21.29%	\$18.22
2016	12.96%	\$9.85				
2017	6.59%	\$10.50				
2018(A)	(19.91%)	\$8.41				
GROSS GAIN				GROSS GAIN		
2013 to 2018 – (15.9%)				2019 to 2021 – 116.7%		
				3-yr CAGR 29.4%		

(A) Partial co-managed year

We all know the fund got off to a slow start in the early years during an unprecedented period when traditional “value stocks” were out of favor. But we stayed the course and adjusted the portfolio accordingly. Our performance has improved meaningfully, and I’m pleased to report that 2019, 2020, and 2021 have been our 3 best years of performance since inception. Of the 9 years the fund has been in operation the partnership had two major down years, one flat year and now three years with north of 20% returns and a 29.4% CAGR for the past three (3) years. As many of you know, this exceeds my baseline goal for performance (26% RULE) given the fund size and the types of companies we can invest in (small and mispriced). Below is a summary of how the fund did against the major indexes in 2021 and over the past three (3) years.

	<u>1 year return</u>	<u>3-year return</u>
Ironwood Fund	21.29%	29.4%
Nasdaq	21%	27.65%
DOW Jones	19%	13.20%
S&P 500	27%	20.4%

Positions

Year-to-Date performance of our largest positions is highlighted below:

<u>ANNUAL</u>	<u>12/31/2020</u>	<u>12/31/2021</u>	<u>YTD Gain (Loss)%</u>	<u>% Fund</u>
BNCC (A)	\$45.25	\$44.49	29.2%	37%
PAR	\$62.79	\$52.77	(26%)	10%
LOV	\$5.32	\$3.14	(41%)	10%
LXU	\$2.61	\$11.05	323%	17%
BRKB	\$231.87	\$299.00	29%	8%
Top 5 positions				82%

(A) Adjusted for \$14 in dividends paid out in 2021

Major Portfolio Changes in Q4 2021

There were no major portfolio adjustments in Q4 2021.

Thesis Discussion(s)



PAR Systems (PAR) – current Stock Price \$ 52.77 (Intrinsic Value range \$60 to \$70)

Upside to low end of valuation range: 13.7%

PAR Systems is in the sweet spot for long term growth and is only in the 1st or 2nd inning of a very long replacement cycle of restaurant technology. The restaurant technology stack is not just a point of sale system anymore, it is a interwoven system of order flow, take out, customer loyalty, payment and supply chain software. PAR has one of the best tech stacks in the market to assist restaurants in making this transition. Also, the CEO is 2nd to none. We plan to hold this company for a long-time and allow it to compound in the Ironwood fund.



It is interesting to note that in our Investor/Partner update last year, I stated that LSB Industries could be worth 5X to 10X the current value. The stock was up from \$ 2.61 to \$11.05 in 2021, which represents about a \$1 billion valuation. I still believe the company is worth around \$2 billion and it has incredible inflation and commodity tailwinds currently. A \$2 billion valuation would make the stock price around \$20 (around 2X the current price) and we will consider selling if it hits those levels.



BNC Bank (BNCC) – Current Stock Price \$ 44.49 (Intrinsic Value range \$50 to \$60)

Upside to low end of valuation range: 12.5%

BNC Bank has been a massive winner for the fund. As I mentioned above, it has compounded at over 20% per annum since we bought it in 2013. We believe a sale of the company is likely in the near-term (see below). We would likely sell if/when a meaningful deal is announced. If a sale doesn't occur, the company will continue to print cash. It is an extremely well-run regional bank.

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 \$3.14 (Intrinsic Value range \$12 to \$15)

Upside to the low end of range: 282%

Spark Networks has been a laggard for the fund. We bought it pre-covid and has not moved much since. However, it competes in an oligopoly in the attractive online dating market with Match and Bumble. The management team is laser focused on execution and refinancing the expensive debt that was incurred when they acquired Zoosk. I think 2022 could be a big turnaround year for Spark. If I am right, the stock should move a lot closer to its intrinsic value.

The Long Game

I have been managing a number of different partnerships over the past 12 years (including Ironwood for the past 9). Over this period, I have come to appreciate that when you truly play the long-game and are fortunate to have investor partners who are aligned in the same long-game, you have a very solid chance at winning. Most of the partners in this fund have been with Ironwood from the beginning. Over the past three (3) years your patience has paid off. My commitment to you is to continue to invest with the same disciplined, rigorous long-game mindset focused on effectively and efficiently compounding your capital.

High Water Mark

Lastly, I wanted to refresh your memory on the concept of the “High Water Mark” and how it impacts any compensation I may receive for managing the fund. The current high-water mark for the fund is about \$18.22. It increases approximately \$.25 per quarter (1.5% per quarter or 6% per year, which is the hurdle rate). Unless I exceed the annual 6% hurdle rate, I receive **no compensation** for managing the fund. At the current NAV of \$18.22, I have managed over the past 3 years to dig out of “high water mark hell” and am now reasonably above this hurdle. I truly believe the fund is a partnership and I don’t get paid, nor do I want to get paid, unless the investors make money. Our mutual interests are fully aligned, which to me, is a true partnership.

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