



To: Ironwood Partners  
From: Nathan Reid, Fund Manager  
CC: NAV  
Date: 01/17/2023  
Re: Q4 2022 Performance Outline and Summary of Fund Results.

---

## FUND UPDATE

### Market Update/Fund Update (2022)

Dear Partners,

2022 was a year of transition(s). From a world in a pandemic to a world coming out of a pandemic, from a world with extremely low or non-existent interest rates to a world with rates as high as we have seen in a few generations, from a world where all assets were desired and overvalued to a world where these assets have become valued more in line with historical valuation norms and lastly from a world that has been relatively peaceful (at least in Europe and North America) to a world at war on the European continent for the first time in 80 years. All of this upheaval comes with a lot of fear and with that fear comes wild swings in the stock market. I believe that the benefit of having a fund manager manage your capital is that the fund manager has to deal with these emotions and that the manager is being paid to not make rash decisions at inopportune times (i.e. selling at the bottom). At Ironwood Fund/CAP, we know what we own and haven't sold anything in this current down market. We have target prices for most of our holdings and the ones we don't have target prices on are ones we think can go up many times the current price over the medium to long-term. After three (3) really large up years, the fund was down approximately 30% this year (more on this below in the tables). Our portfolio was truly bi-polar this year with some of our holdings doing well (around 1/2) and up for the year and other holdings being down a lot in line with small caps and the market in general (the other half). Stocks don't like higher interest rates, companies however can thrive in environments this like. As an example, our largest holding (BNC Bank), will do exceedingly well in a higher interest rate environment as they take a spread on deposits vs. loan rates, this spread is widening significantly currently.

# 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		2022	(30.01%)	\$12.77
2017	6.59%	\$10.50				
2018(A)	(19.91%)	\$8.41				
<b>GROSS GAIN</b>			<b>GROSS GAIN</b>			
<b>2013 to 2018 – (15.9%)</b>			<b>2019 to 2022 – 51.8%</b>			
			<b>4-yr CAGR 11.00%</b>			

(A) Partial co-managed year

Below is a summary of how the fund has done against the indexes over the past four (4) years. As you can see, we are neck and neck with the Nasdaq and the S&P and somewhat ahead of the DOW. I personally think the stocks we own will do better than the ones in the indexes going forward.

	<u>1 year return</u>	<u>4-year return (annualized return)</u>			
<b>Ironwood Fund</b>	<b>(30.01)%</b>	<b>11%</b>			
Nasdaq	21%	12%			
DOW Jones	19%	9.1%			
S&P 500	27%	11.3%			
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>TOTAL (Gross)</u>
<b>Ironwood</b>	<b>37.09%</b>	<b>30.23%</b>	<b>21.29%</b>	<b>(30.01)%</b>	<b>51.8%</b>
Nasdaq	35.23%	43.64%	21.39%	(33.1%)	57.8%
DOW	22.34%	7.25%	18.73%	(8.8%)	41.9%
S&P	28.88%	16.26%	26.89%	(19.4%)	53.2%

## Positions

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

<b>ANNUAL</b>	<b>12/31/2021</b>	<b>12/31/2022</b>	<b>YTD Gain (Loss)%</b>	<b>% Fund</b>
<b>BNCC (A)</b>	\$44.49	\$29.75	(29.2%)	37.3%
<b>PAR</b>	\$52.77	\$26.07	(50%)	7.7%
<b>LOV</b>	\$3.14	\$.65	(79%)	4%
<b>LXU</b>	\$11.05	\$13.30	20.3%	30%
<b>BRKB</b>	\$299.00	\$308.90	3.3%	13%
<b>Top 5 positions</b>				<b>92%</b>

(A) Adjusted for \$1.75 in dividends paid out in 2022

### Major Portfolio Changes in Q4 2022

We started a position in Dutch Brothers in Q4 2022 and will continue to add at this price. It has the potential to be a very large business and has the model of other highly successful chains that have grown rapidly in the past with great unit economics, raving fans, a large runway for growth (they are only in a few states currently), strong management and a good balance sheet.

### Thesis Discussion(s)



**PAR Systems (PAR) – current Stock Price \$ 26.07(Intrinsic Value range \$60 to \$70)**

**Upside to low end of valuation range: 130%**

While PAR system stock was down significantly this year, the business couldn't be performing better. They are growing 40% per year and are competing in a massive opportunity to upgrade the tech stack for large restaurant chains that are desperate for technology, particularly given the labor shortage they are experiencing. PAR will most likely finally sell a government service division this year as well, which will provide capital and then it will be a pure play technology company.



In last years letter I wrote that LSB was probably worth over \$20/share. During 2022 the stock blew past this estimate, all the way up to \$27. The economics of the business are so great right now with the disruption due to Ukraine and other factors, so I decided to hold and let this one play out. It has since come back down a lot, but the business has done great and has a long runway. It most likely will get purchased by a larger player in a continuing consolidation of this industry.



**BNC Bank (BNCC) – Current Stock Price \$ 29.75 (Intrinsic Value range \$50 to \$60)**

**Upside to low end of valuation range: 68%**

BNC Bank did extremely well during the pandemic, which gave it massive tailwinds in their mortgage division. They paid dividends in excess of what we paid for the stock during 2021 and 2022. The new tailwinds are the higher interest rate environment, which while they are bad for the mortgage division, they are great for the core banking division.



**Spark Networks (LOV) – Current Stock Price \$.65 (Intrinsic Value range \$5 to \$7)**

**Upside to the low end of range: 670%**

Spark Networks has been disappointing. They have a new CEO and they are in the process of potentially selling the company (strategic alternatives), we will see how it plays out. They compete in a very niche business that has good economics and it is a subscription business with low maintenance costs to maintain. But so far, the managers cant seem to hit the mark either in terms of getting the business right or communicating with the market.

## The current economic environment

I have taken the idea of this section from one of the greatest investors of all time and a really great thinker as well, Howard Marks. Here are some interesting comparisons to where the world is now vs. where we were over the past 12 years or so, this has great implications for how we invest, what we invest in and how we assess risk.

<u>Topic</u>	<u>2010 to 2021</u>	<u>Today</u>
Buyers	Eager	Hesitant
Key Worry	FOMO	Losses
Credit	Highly available	Constricted
Potential Forward Returns	Low	Strong
Investors	Complacent	Uncertain
Likelihood of distress	Minimal	Rising
Inflation	NONE	40 year high
Fed Actions	Stimulative	Tightening
Yield Spreads	Low	Normal
Labor	Available	Unavailable

Given all of these factors I like to run our current holdings through this mental model and think if this is a net positive or a net negative for the companies we own. As I said earlier BNC Bank does well with higher interest rate spreads, Berkshire Hathaway tends to outperform in troubling times, PAR has no debt and is growing rapidly and helps solve the labor issue plaguing the restaurant industry. LSB Industries provides essential commodities to the farming and mining industry and Spark Networks provides dating apps to niche consumers across the globe at a low cost. So my overall take is that our portfolio is in a good position for the climate we are in now.

## 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 \$19.00. 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 \$12.77, the manager is below the high-water mark and I will be trudging my way back to the high water mark to the benefit of the partners with no fees until I reach it again. 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](http://www.ironwoodfund.com)

3337 N Miller Road, Suite 107

Scottsdale, AZ 85251