SILVER RING
VALUE PARTNERS

October 22nd, 2021

Dear Partners:

I hope that you are doing well. The partnership has compounded capital at an annualized rate of over 12% per year net of fees since inception despite a market environment that is inhospitable to the kind of value investing approach that I practice. This has been achieved by following the disciplined value investing process that I outlined at the beginning of our journey in the Owner's Manual. Along the way I have paid, and continue to pay, careful attention to guarding our capital against the risk of substantial permanent capital loss.

Partnership Performance			
	Last 12 Months	Last 3 Years (Annualized)	Since Inception (9/1/2016, Annualized)
Silver Ring Value Partners (Gross)*	**49.1%**	**18.5%**	**15.0%**
Silver Ring Value Partners (Net)**	**39.1%**	**15.2%**	**12.3%**
Average Cash Levels	2%	5%	18%
Average Option-Adjusted Net Exposure	69%	73%	65%
Russell 3000 Index	**31.9%**	**15.9%**	**16.6%**
MSCI World Index	**29.4%**	**13.7%**	**14.3%**

*Gross results are before both the the base and performance fees
**Net results are net of all fees and expenses and use the 20% performance fee level above a 6% hurdle that represents the substantial majority of partnership assets over these periods
Partnership Results are audited through 12/31/2020 and unaudited afterwards

The portfolio ended the quarter at **a very attractive Price to Base Case Value ratio of 56%**, which makes me excited about its future prospects. Despite an overall dangerously optimistic stock market, I have been able to find a small group of companies pricing in very low expectations. The portfolio had **15 investments plus hedges**, cash at 1% and option-adjusted net exposure at 68% at the end of the quarter. The 15 investments were composed of 10 stock investments with an average ratio of **Price to my estimate of Normalized EPS of 5.6x** for a collection of businesses that I expect to grow profits at low-single digit rates on average over the long-term, as well as 5 individual put option positions on stocks that I consider to be substantially overvalued. The hedges consisted of tail risk hedges on U.S. equity indices as well as a hedge against a substantial spike in inflation.

This quarter, we had a partner at a large value investment firm and the family of another long-term investor join the partnership. We also had a number of additional subscriptions from existing partners. Given the currently very attractive valuations of our holdings I expect to be able to deploy capital well as it comes in.

Silver Ring Value Partners Limited Partnership • One Boston Place, Suite 2600, Boston, MA 02108 • www.silverringvaluepartners.com

SILVER RING
VALUE PARTNERS

Executive Summary

At the end of Q3 2021 the portfolio was very attractively priced, with the Price to Base Case value ratio at 56%. The portfolio had 15 investments plus hedges, cash at 1% and option-adjusted net exposure at 68% at the end of the quarter. My investment decisions are driven by bottom-up considerations, and cash is a residual of that bottom-up investment process. I do not seek to time the market, and I continue to rigorously stick to my criteria for quality and discount to intrinsic value.

	Portfolio Holdings			
			9/30/2021	9/30/2021
	Security		% Portfolio	% Delta-Adjusted
1	Equity Index Put Options		1.6%	-21.0%
2	FRESHII INC (previously Undisclosed Position #4)	FRII CN	17.4%	17.4%
3	LIBERTY LATIN AMERICA	LILAK US	14.2%	14.2%
4	DISCOVERY COMMUNICATIONS-C	DISCK US	6.9%	11.5%
5	OWENS-ILLINOIS INC	OI US	11.2%	11.2%
6	CHARLES & COLVARD LTD (previously Undisclosed Postion #2)	CTHR US	11.0%	11.0%
7	SPROUTS FARMERS MARKET INC	SFM US	10.4%	10.4%
8	QURATE RETAIL INC-SERIES A	QRTEA US	4.6%	10.0%
9	Individual Equity Put Options (AAPL, TSLA, CMG, ZM, SNAP)		2.6%	-9.9%
10	Garrett Motion Position		7.8%	7.8%
11	Inflation Hedge (Put Options on TLT)		0.7%	-5.7%
12	AIMIA INC	AIM CN	5.6%	5.6%
13	ALFA S.A.B	ALFA MM	5.3%	5.3%
	All Investments		99.2%	67.7%
	Cash & Equivalents		0.8%	

Investment Activity

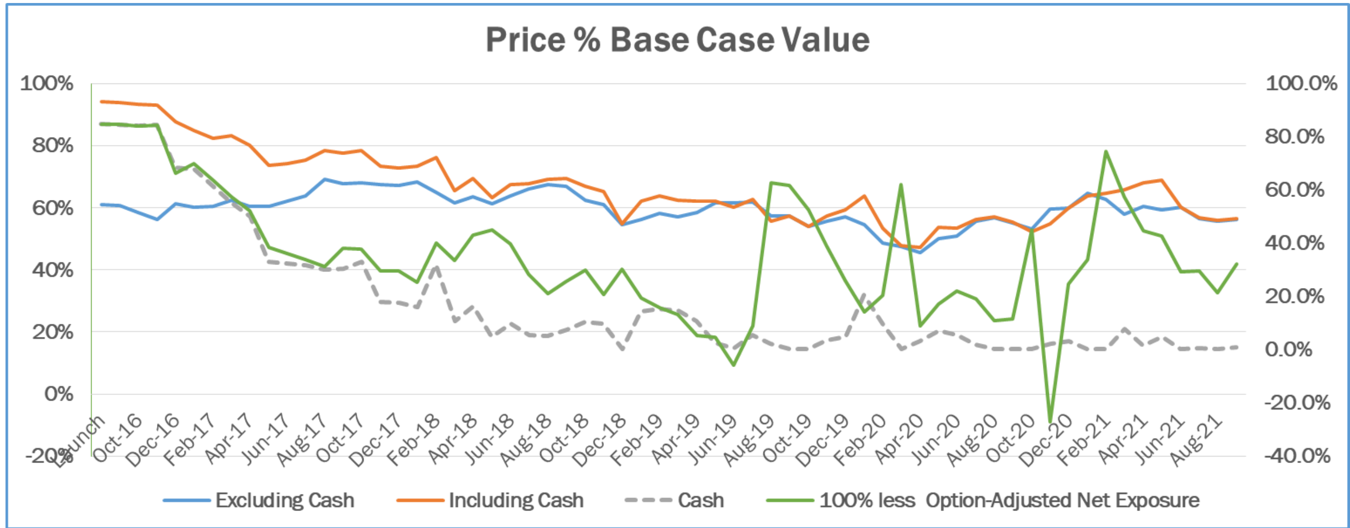
I made the following changes to the portfolio during Q3 2021:

- **Started** a **Small** position in ALFA S.A.B. **(ALFAA MM)**
- **Started** a **Medium** position in Garret Motion common (**GTX**) and preferred (**GTXAP**)
- **Reduced** Charles & Colvard (**CTHR**) to a **Medium** position
- **Converted** the majority of our Qurate Retail (**QRTEA**) position from stock to **call options**, most of which expire in 2023
- **Converted** a portion of our Discovery Communication (**DISCK**) position from stock to 2023 **call options**

Investment Thesis Tracker

Ticker	Company Name	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020	1Q 2021	2Q 2021	3Q 2021
DISCK US	DISCOVERY INC-C																	
CTHR US	CHARLES & COLVARD LTD																	
FRII CN	FRESHII				Start->													
OI US	OWENS-ILLINOIS INC					Start->												
LILAK US	LIBERTY LATIN AMERICA CL C													Start->				
QRTEA US	QURATE RETAIL INC-SERIES A													Start->				
AIM CN	AIMIA INC															Start->		
SFM US	SPROUTS FARMERS MARKET INC															Start->		
ALFAA MM	ALFA S.A.B.-A																	Start->
GTX US	GARRETT MOTION INC																	Start->

- White: thesis is tracking roughly in-line with my base case
- Orange: thesis is tracking somewhat below my base case
- Red: thesis is tracking significantly below my base case
- Dull Green: thesis is tracking somewhat better than my base case
- Bright Green: thesis is tracking significantly better than my base case



- The portfolio is attractively priced at 56% of Base Case value
- Option adjusted net exposure is at 68%, reflecting option-based hedges

Operational Update

The Annual Partnership Meeting will take place virtually the week of November 15th. If you are a partner, you will receive an invitation with the logistics shortly. If you are seriously considering joining the partnership, I would like to invite you to join the meeting. If that is the case, please reach out to me directly and I will be happy to extend an invitation.

SILVER RING
VALUE PARTNERS

Portfolio Update

The "Story" Stock Market

I was watching the stock prices of our companies drift down, day by day, and the market value of our portfolio slowly decline. There had been no fundamental news, just a steady drip-drip-drip of lower stock market prices.

As a two-decade investing veteran, I have seen a thing or two in the market. I started as a professional investor a couple of months prior to September 11th, 2001. The bear market that followed the dot-com bust was my first trial by fire as an investor. I remember sitting in a conference room with other analysts, guessing where and when the S&P 500 would bottom out.

I cringe when I think about how futile such an exercise was and the opportunity cost in terms of bargain hunting that I was paying by spending my time in this way. But that is the truth – that's what I did two decades ago. I am not proud of my behavior then, but I learned from that mistake and grew as an investor.

That experience helped me weather the 2008-2009 market crash much better. I did a fair bit of bargain hunting and buying distressed securities. Probably not as much as I could have though, as in the back of my mind was the thought of "what if this unprecedented financial crisis is truly different?" Overall I did well and kept my temperament at an even keel. I am sure I missed some distressed investments because of my caution, but it also made me pass on the really cheap-looking financial stocks that a number of legendary value investors were buying hand over fist. You don't need me to tell you how it worked out for them.

Having invested through two market crashes, the COVID-induced one of 2020 was much easier. The talk about "unprecedented" this and "unprecedented" that didn't cause me to stray from my job of acting rationally, and I was able to invest in some incredible bargains for the partnership. My earlier formative experiences (and mistakes) have allowed me to do much better this time. Experience, learned from properly, matters a lot in investing.

Why am I sharing all of this with you? My point is that I have experienced a wide variety of market environments first hand, and have studied the history of many more. And yet, this drift down of most of the stocks in the portfolio was puzzling. It wasn't preceded by some market shock or by negative company-specific developments. It was happening in a complete vacuum of plausible explanations.

At the same time, stocks that were already priced at the limit (or beyond) of rationality, kept drifting upwards. Again, no real news. They were floating up, just as steadily and inevitably as our stocks were drifting down.

And then it hit me. There *was* an explanation. We own a bunch of boring, cash flow-rich companies in the partnership's portfolio. They are priced at a level which implies a very pessimistic view of their future – a substantial decline in cash flows from current levels that my analysis leads me to believe is unwarranted by the facts. However, they lack one important characteristic which is greatly prized by the current market: a story!

Stories, however, are plentiful among the companies whose stocks have been drifting up. Stories about how their current businesses will grow at astronomical rates for many years. Stories about how they will come up with completely new business lines in the future. Stories about how legendary their CEOs are.

So the recent pattern appears to be quite simple. If the company has an exciting *story* about a rosy future, people bid up its stock. Other people notice, get excited about the story, and do more of the same.

On the other hand, if a company doesn't have an exciting story, people on the margin abandon its stock. It doesn't matter how cheap it was or how undervalued relative to intrinsic value. If it was a cheap stock and was at 7x free cash flow, then why can't it be a cheap stock and be at 6x free cash flow? Or 5x? It's still just a boring company with no good story.

You might be wondering why this can't go on forever and what will cause things to change. Let me assure you that everything I know about investing strongly suggests that this too shall pass, like so many of the market's excesses in the past. What I can't tell you is when. It might go on for weeks, months or maybe even years. However, as long as the management teams of our investments do intelligent things with the cash flows that our companies are generating, our holdings should increase in value over time. And when the gap does close, we should be amply compensated for the wait.

Since so few things in investing are truly new, perhaps it's appropriate to end with a quote from Benjamin Graham:

> *Real investment risk is measured not by the percent that a stock may decline in price in relation to the general market in a given period, but by the danger of a loss of quality and earning power through economic change or deterioration in management.*

That is how I am spending a good portion of my time – making sure that my investment theses are sound, looking for ways that I can be fundamentally wrong about the companies and making sure that managements are deploying the companies' cash flows in ways that increase intrinsic value. Value investing is *supposed to be painful* at times, which is what deters the vast majority of investors from utilizing this approach. One of my biggest advantages is the temperament to stay rational regardless of what is happening in the market, and to continue to make decisions based on the relationship between price and value. That is what I have done in the past, and that is what I will do going forward, however long the "story" stock market lasts.

Portfolio Activity

Alfa S.A.B. (ALFAA MM)

Alfa is a Mexican holding company which is undergoing a re-organization, the result of which should be the company becoming a pure-play global branded food business. Management has already taken the first step in this reorganization, distributing to shareholders the shares of a previously owned subsidiary. The remaining two assets to be disposed of or distributed are both majority owned and publicly traded.

The "crown jewel" within Alfa is Sigma, a branded food business focused primarily on branded meat products and to a lesser degree branded dairy products. This segment has grown sales organically over the last 5 years at low single-digits, with the worst year being the COVID-impacted 2020 when the business declined a mere 2%. Sigma is a global business, with only ~ 40% of sales coming from Mexico and the rest coming from the U.S., Europe and Latin America.

The gating factor to the speed of the reorganization is shoring up the balance sheet so that when the holding company is collapsed into Sigma, the remaining entity has Debt/EBITDA in the 2.5x range. This can be accomplished through a combination of asset sales as well as free cash flow generation, and should be achieved within the next three years.

Using the market prices for the company's other publicly traded subsidiaries, and penalizing the company for the cash flow needed to bring the balance to target levels, I estimate that Sigma is trading at approximately 7x EPS. For a defensible global business which should grow moderately over time, this is a price that should translate into a mid to high-teens IRR if we were an owner of a private business. Combined with a management team which has already demonstrated its focus on shareholder value, this is an attractive opportunity at current prices.

Garrett Motion (GTX/GTXAP)

Garrett Motion is a post-bankruptcy special situation trading at ~ 6x EPS. The company is a leading maker of turbochargers for cars, and was spun off from Honeywell in late 2018. At the time of the spinoff, the company was saddled with Honeywell's legacy asbestos liabilities, which is why I passed on it at the time after doing some initial work.

During 2020 the company filed for Chapter 11 bankruptcy in order to restructure its asbestos obligations to Honeywell. The result was that after emergence from bankruptcy, the asbestos liabilities were capped to a finite amount. Skipping the technicalities, the company will now have the ability to pay off Honeywell and be done with asbestos with the cash it currently has on its balance sheet.

The remaining capital structure is comprised of a term loan that is ~ 2x EBITDA, a Series A preferred stock and equity. The series A preferred should convert to equity on a 1-for-1 basis in Spring 2023 if the company is performing well. It's an 11% preferred with $5.25 face value, with

the dividend currently being deferred at the company's discretion. Again, skipping some nuances of the preferred dividend mechanics, this should mean that in the scenario where the company is doing fine, in 2023 holders of the preferred should get 1 share of the common plus *at least* $1.16 in dividends. The preferred, being more senior than equity, of course has better downside protection in certain negative scenarios than the common, especially since there is relatively little debt ahead of it in seniority.

So why is Garrett Motion so cheap? There is the usual post-bankruptcy dynamics: no sell-side coverage and general neglect. However, there is also a fundamental concern about the growth of electric vehicles. A turbocharger can only be used on an internal combustion engine (ICE) or a hybrid, but it is not used on pure electric vehicles (EVs). So as EVs become a higher % of all cars sold, this decreases demand for turbochargers. Acting in the opposite direction is the rising penetration of turbochargers as a % of ICE-based cars. This is aided by the increasing prevalence of hybrids, which have higher than average turbocharger penetration. The bear case therefore is that EVs grow so quickly as to cause a rapid decline in turbocharger demand.

While the bear case is not impossible, it is very unlikely for turbocharger demand to begin to decline in the next 5 years. EVs face a natural gating factor in terms of battery capacity, not to mention consumer acceptance and prevalence of charging stations. At 6x EPS, what happens with EVs in 2030 or 2040 will determine the magnitude of upside. What we care about most is that 1) there is a high chance of EPS not declining for the first 5-8 years and 2) that the company is going to deploy free cash flow in a way that doesn't destroy value. On the second point, we have a board with strong representation from thoughtful value investors who got involved during the bankruptcy process. This drastically reduces the odds of any capital allocation adventurism and increases the chances of prudent return of capital.

Finally, coming back to the preferred. Since the preferred a) has better downside protection than the common and b) will have at least $1.16 of accrued dividends when/if it converts, logic would dictate that it should be trading at least $1.16 above the price of the common. However, recently the spread has been well under $1. The explanation? Liquidity. Currently the preferred is mostly closely held, with very little trading volume.

If you are managing a billion-dollar fund, you are not even going to think about the preferred. However, a nimble pool of capital allows us to take advantage of this opportunity. I structured the position as part common and part preferred. I did this to be mindful of portfolio-level illiquidity given some of our other illiquid investments and the relatively small discount that the preferred has relative to where it should trade in relation to the common; still, the preferred is clearly the more undervalued of the two securities.

SILVER RING
VALUE PARTNERS

Performance Discussion and Analysis

I encourage you to consider the results summarized below in conjunction with both the investment thesis tracker as well as the discussion of the individual companies in this letter. Any investment approach that is judged over less than a full economic and market cycle is liable to appear better than and worse than it really deserves at different points. Ultimately, it is the quality of the investment process and the discipline with which it is implemented that determines the long-term outcome. Therefore, I strongly encourage you to focus on process over outcome in the short-term.

Performance Analysis (9/30/2021)		
	Last 12 Months	Inception - 9/30/2021 (cumulative)
Net Return (after all fees)*	**39.1%**	**80.7%**
Hurdle Rate of 6% per year	6.0%	34.5%
Russell 3000 (total return)	31.9%	118.1%
MSCI World Index (total return)	29.4%	96.4%
Average Cash & Equivalents % Portfolio	**2%**	**18%**
Average Option-Adjusted Net Exposure**	**69%**	**65%**
Contribution to Gross Return (before all fees)		
Positions (including equities and options that were part of each position)		
Qurate Retail	22.5%	30.0%
Charles & Colvard (previously Undisclosed Position 2)	19.6%	24.0%
Discovery Communications Position	11.7%	10.6%
Freshii (previously Undisclosed Position 4)	6.8%	-3.2%
Covetrus Inc	3.2%	29.9%
Owens-Illinois Inc	1.8%	4.6%
Mednax	1.7%	2.1%
Liberty Latin America	1.6%	1.7%
Garrett Motion	0.2%	0.2%
Carnival Corp Position	0.0%	1.1%
Alfa S.A.B.	-0.1%	-0.1%
Aimia	-0.2%	-0.2%
Bristol-Myers Squibb CVR	-0.2%	-0.7%
Fox Corp	-0.4%	-0.7%
Inflation Hedge	-1.0%	-1.2%
Sprouts Farmers Market	-1.4%	-1.7%
Stock Market Put Option Hedges	-6.4%	-7.9%
Individual Equity Put Options	-10.3%	-23.1%
Arcadis NV		5.7%
eBay Inc		4.0%
Berkshire Hathaway		0.2%
Medifast		1.5%
Gilead Sciences Position		1.0%
Caesars Entertainment		1.5%
Allergan Plc		7.3%
Care.com (previously Undisclosed Position 5)		2.4%
American Tower Position		4.9%
Cimpress NV		3.0%
Hill International (previously Undisclosed Position 3)		1.4%
Go-Ahead Group		0.5%
CommerceHub Inc		1.8%
Innoviva (previously Undisclosed Position 1)		2.6%

* Performance fee is presented based on the 20% rate, which reflected the majority of the assets during these time periods

** Option-Adjusted Net Exposure adjusts for the use of options by replacing their weight with the delta-adjusted notional value for each option. While imperfect, it takes into account both the use of put option hedges and the presence of call options

Disclaimers: Please see the “Disclaimers” section at the end of this letter

Your Questions

As I have committed to do in the Owner's Manual, I will use these letters to provide answers to questions that I receive when I believe the answers to be of interest to all of the partners. This quarter I received one question that I thought would be helpful to address in this letter. (Please keep the questions coming; I will do my best to address them fully.)

Sprouts Farmers Market (SFM) seems interesting, however, it crossed my mind that we have a lot of exposure to turnarounds in the portfolio, especially in the retail sector (including Food and Beverage) which has been experiencing tech disruption. SFM's target customers are likely to be tech savvy and may be more likely to get poached by online grocers? Same maybe for Freshii (FRII)?

There are several good questions here, which I will try to address in turn. Undue concentration of business risk in the portfolio is something that I think about a lot and try to guard against. The goal is to have no one judgment, if it were to prove to be incorrect, have a disproportionate impact on the long-term value of the portfolio. I view this threshold as 10%, meaning that I want to be able to be wrong about any one thing and still lose less than 10% of the portfolio. The logic behind 10% is that in the course of a normal year it is very possible to have the remaining 90% offset the loss and bring us back to even, whereas a larger loss, say 20%, would make that unlikely.

The thing that makes this somewhat challenging is that sometimes there is a hidden correlation among different companies. So it's possible to think that we are very well diversified while in reality there might be a single development that will negatively affect multiple portfolio holdings and cause a larger than expected cumulative loss.

On to the questions:

1. **Do we have an undue concentration in turnarounds?**

   I define a turnaround as a business that is currently earning significantly less than it had been in the past for company-specific reasons. There is usually a plan in place by management to restore past profitability. A benefit of turnarounds is that typically the success of one is largely unrelated to the success of another. Each company has its own idiosyncratic set of challenges that it is trying to overcome, and a different management team with a different plan to do it.

   One relevant characteristic of turnarounds is that the majority of them do not succeed. The way I deal with this is by either a) requiring that in the scenario that the turnaround doesn't

work out our loss be small or b) waiting for evidence that the turnaround is already making progress, greatly tilting the odds in our favor, before that is fully reflected in the price of the security. The first approach still gives us an attractive expected return and risk/reward ratio even if the odds of success are below 50%. The second approach shifts the odds of success to well above 50% in my experience.

Another aspect of turnarounds, and one relevant to the question of hidden correlation, is that the likelihood of success is lower in an adverse macro-economic environment than it is in a favorable one. Thus, an unexpected change in the macro environment, could negatively affect multiple seemingly unrelated companies going through a turnaround attempt. Here, it is important to differentiate between a delay in a successful turnaround (when the negative macro-economic climate recedes) vs. a permanent decrease in the likelihood of the turnarounds' success.

That is not always easy to judge. Clearly an overly levered balance sheet could translate a temporary delay into a permanent value impairment, and is therefore to be avoided. However, turnarounds also have a certain momentum of their own – with employees, customers and suppliers, which if disrupted for a period of time could lower the odds of success. Thus, it's not unreasonable to believe that broad economic challenges could permanently reduce the value of multiple turnarounds.

Looking at our portfolio, I think of the investment theses of Freshii (FRII) and Charles & Colvard (CTHR) as fitting the turnaround pattern. At the end of Q3 those two investments combined represented less than 30% of our portfolio. In both cases the balance sheet is pristine, with no debt and net cash. In the case of Freshii, the excess cash represents around 50% of the market cap of the company, providing us with substantial downside protection should management not be successful in their attempt to turn the business around.

In the case of Charles & Colvard cash accounts for approximately 20% of the market capitalization. However, there have been substantial improvements in business metrics (e.g. website traffic, organic sales growth, FCF, EPS growth) under the leadership of the new CEO over the last year. Combined with a surge in the popularity of the key product, moissanite-based jewelry (as measured by a surge in Google Search trends as well as by my discussions with industry sources), the company is experiencing a substantial tailwind. Nonetheless, I recognize that success is far from certain, there is substantial competition, and the company doesn't have a long-term history of profitability that I typically look for in investments. This, in combination with the availability of alternative investments that are offering a much higher

margin of safety at recent prices has caused me to reduce our position from a large one to a medium one during the quarter.

Sprouts Farmers Market (SFM) has some aspects of a turnaround (new management, change in execution strategy), however I do not think it fully fits the pattern described earlier. In this case, the company's earnings never dropped below its prior peak. Instead, growth materially slowed down (but didn't go negative) and new management has been working on re-accelerating long-term growth. Finally, while CTHR and FRII benefit directly from easing of COVID-19 restrictions and increased cyclical demand, SFM to some degree benefits from the opposite (people staying at home more and cooking rather than going out), as evidenced by the increase in sales and profits during 2020. So at least in this respect the company provides diversification against some scenarios in which CTHR and FRII are likely to encounter macro-economic headwinds.

2. **Do we have an undue concentration to the retail sector as a whole and to the part of the retail sector that is susceptible to technological disruption?**

Charles & Colvard (CTHR) and Qurate Retail (QRTEA) both sell discretionary goods. The two positions combined were around 15% of the portfolio at quarter-end. While most of the sales at CTHR come from new customers, QRTEA has a highly loyal cohort of repeat buyers who account for the substantial majority of sales. Their churn is very low and they make ~ 20 purchases per year, suggesting that for them this is a permanent part of their lifestyle and is as much an entertainment choice as it is a consumption choice. Of the two, CTHR is by far more susceptible to adverse negative change, be it from new competition or from new technology. QRTEA is not completely future-proof, but having co-existed with the meteoric rise of Amazon for so long it is less likely that it is susceptible to technological disruption in a material way.

Freshii (FRII) and Sprouts Farmers Market (SFM) sell food, prepared in the case of the former and mostly unprepared in the case of the latter. These two combined were slightly over 25% of the portfolio as of the end of the quarter. In the case of FRII and SFM, there is still a discretionary component to the purchase. Nobody *has* to eat at Freshii nor buy from Sprouts. However, both have recurring loyal customers and good brands in their niches. Both of them are able to fulfill demand via multiple modalities (e.g. on premise, delivery or pick-up). So while I constantly search for ways in which I can be wrong, it is not apparent to me how technological disruption could negatively affect their business in a material way.

3. How exposed are Sprouts Farmers Market (SFM) and Freshii (FRII) to negative online substitution trends?

   A large portion of Freshii's demand is lunch business. This is least likely to be disrupted by the increased prevalence of delivery models as people typically go out and pick up their lunch. There is of course some ordering in, especially when people are working from home. Freshii offers this option. However, if someone went from working downtown near a Freshii location to working from home, that customer's consideration set potentially increased dramatically, possibly lowering their spend with Freshii. This is a risk that I am monitoring as we learn how permanent the changes to working patterns caused by the COVID pandemic end up being. One encouraging data point is that a conversation I had with a multi-unit franchisee in Vancouver, a province that was early to lower COVID restrictions in Canada, has seen demand this year surpass the 2019 pre-COVID levels in all of their locations. This is certainly not conclusive proof, but it is one encouraging data point to suggest that with proper management execution the company should be able to exceed pre-COVID demand as a whole.

   Sprouts tends to be most customers' second shopping trip. Customers go there in order to either find affordable healthy food, or to discover new and interesting foods to try. There is a high loyalty rate with a very high Net Promoter Score (NPS) among repeat buyers. During COVID their online order sales as a percentage of total spiked to double digits, suggesting that customers still want their products even when they don't want to go into a physical store. However, the most recent quarter's 2-year comparable sales growth was slightly negative, which is a counter-thesis data-point that I am paying attention to. My belief is that this is due to the run-off business from the ~6% of customers who were shopping there due to one-off deep discounts that the new management has eliminated. If that theory is correct, in the next few quarters we should start seeing positive 2-year comparable sales growth. If we don't, and especially if we do see that positive growth at mainstream grocers, then that will be meaningful evidence that there is more structural disruption than I currently believe, and reason to re-examine my thesis.

So in summary, I reduced the position size of Charles & Colvard (CTHR) during the quarter both because it was the least undervalued of our holdings and because it is the most susceptible to potential negative adverse change. I continue to monitor the potential threats discussed, and plan to be evidence-based in updating my theses on the companies as warranted. At this point I am comfortable with our level of diversification in this area, but I plan to continue to re-examine this and diversify away from discretionary retail as I find better alternatives.

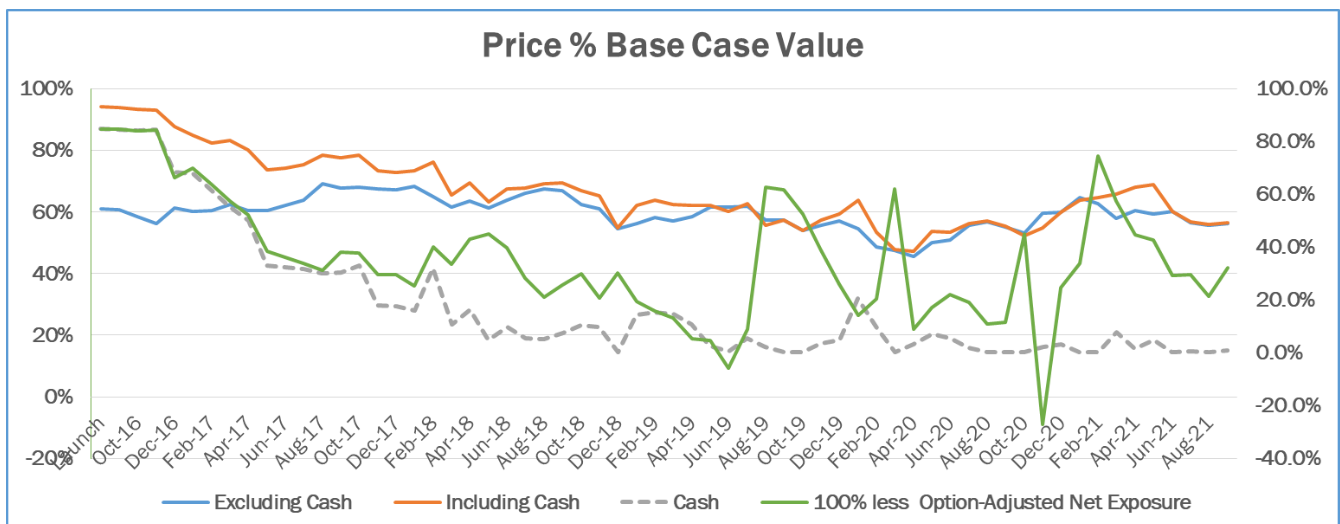
SILVER RING
VALUE PARTNERS

Portfolio Metrics

I track a number of metrics for the portfolio to help me better understand it and manage risk. I track these both at a given point in time, and as a time series to analyze how the portfolio has changed over time to make sure that it is invested in the way that I intend for it to be. Below I share a number of these metrics, what each means, and what it can tell us about the portfolio. As time passes, you should be able to refer to these charts and graphs to help you gain deeper insight into how I am applying my process.

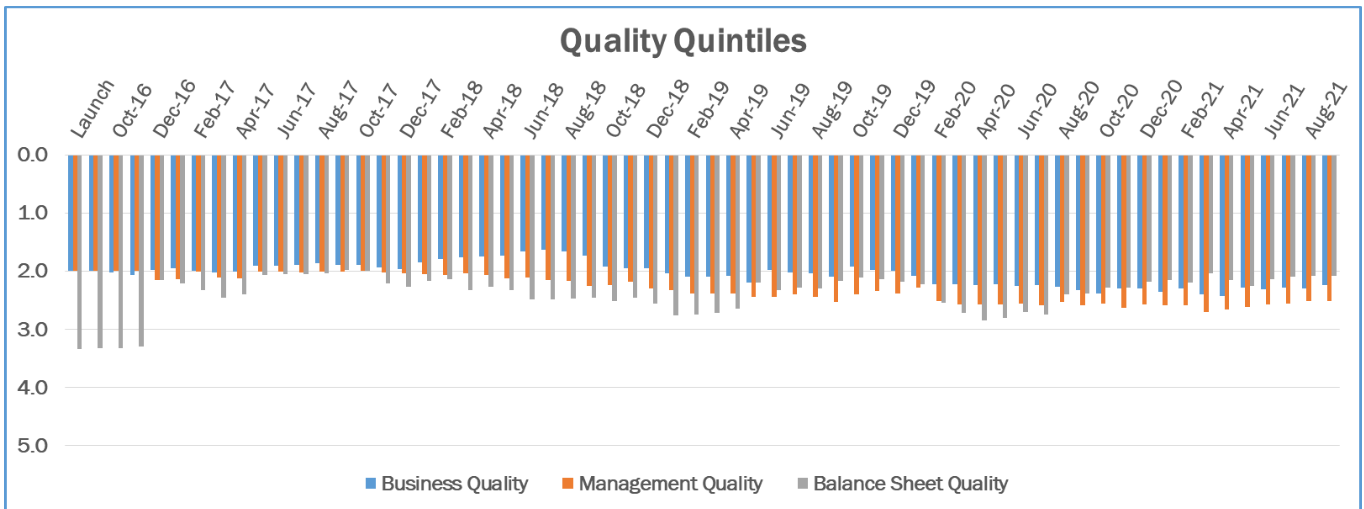
Price % Base Case Value

This metric tracks the portfolio's weighted average ratio between market price and my Base Case intrinsic value estimate of each security. This ratio is presented both including cash and equivalents, which are valued at a Price to Value of 100%, and excluding those. All else being equal, the lower these numbers are, the better. Excluding cash and equivalents, a level above 100% would be a red flag, indicating that the portfolio is trading above my estimate of intrinsic value. Levels between 90% and 100% I would characterize as a yellow flag, suggesting that the portfolio is very close to my estimate of value. Levels between 75% and 90% are lukewarm, while levels below 75% are attractive.



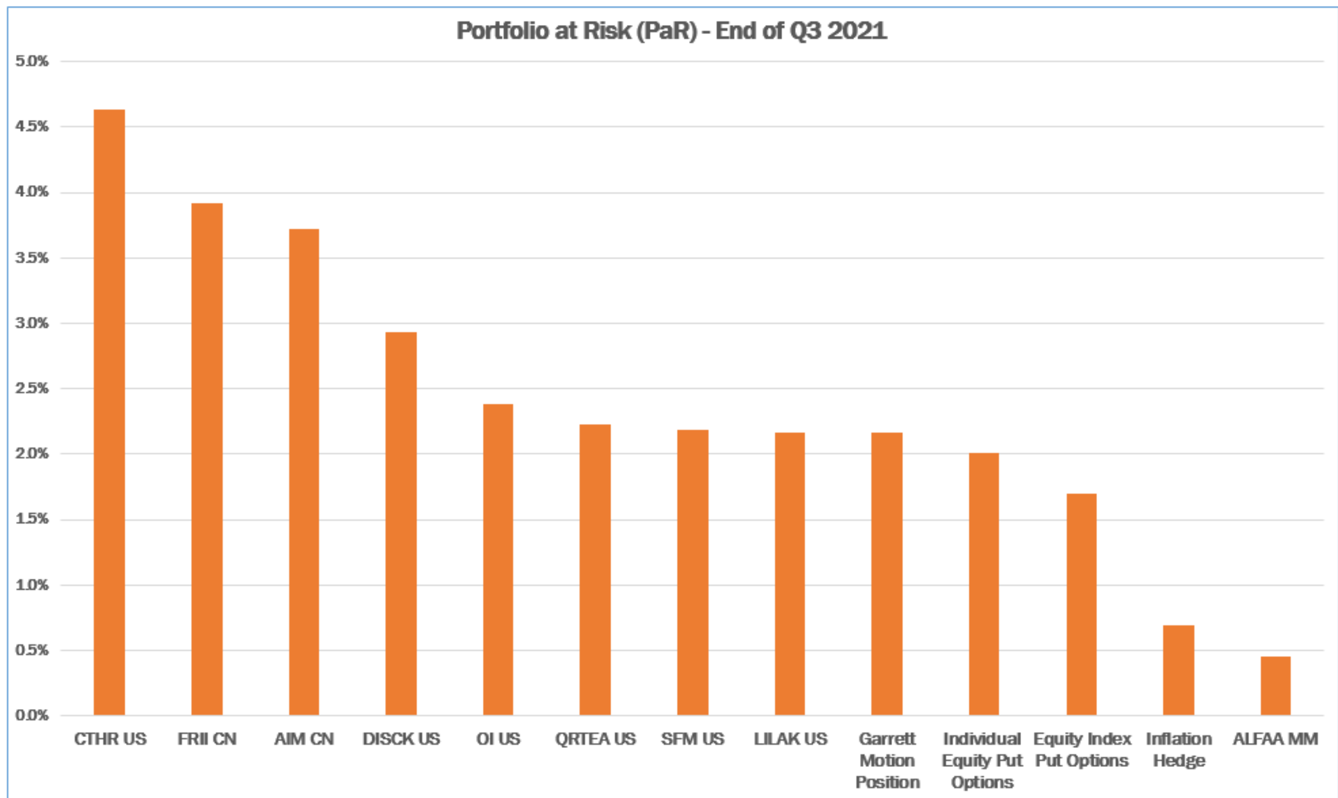
Quality Quintiles

As outlined in the Owner's Manual, I evaluate the quality of the Business, the Management and the Balance Sheet as part of my assessment of each company. I grade each on a 5-point scale with 1 meaning Excellent, 2 Above Average, 3 Average, 4 Below Average and 5 Terrible. The chart that follows presents the weighted average for each of the three metrics for the securities in the portfolio.



Portfolio at Risk (PaR)

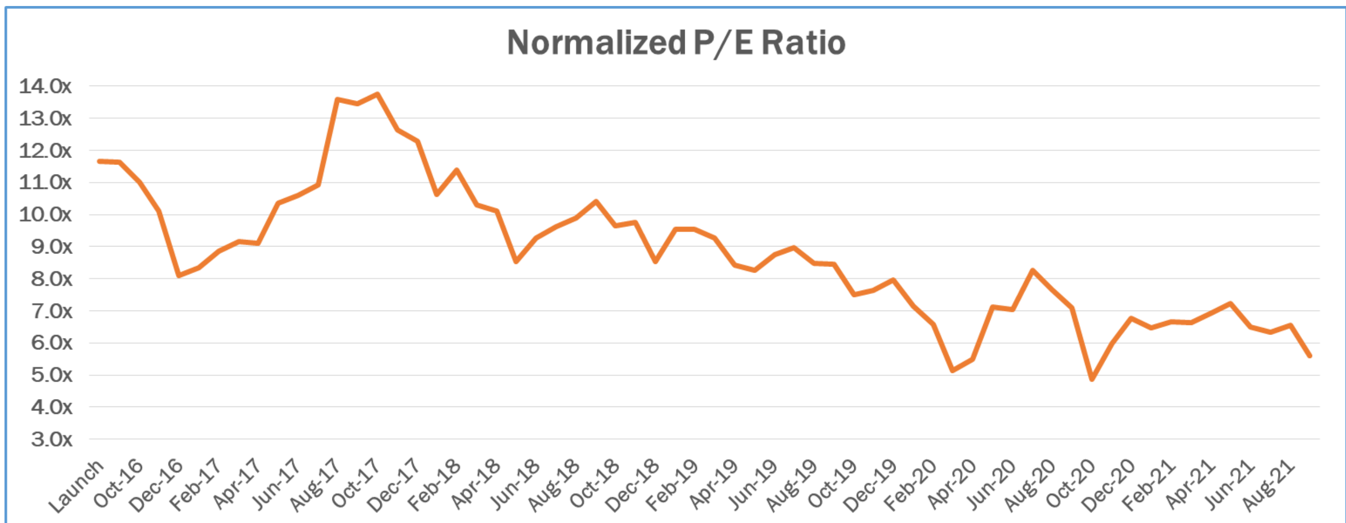
I estimate the Portfolio at Risk (PaR) of each position by multiplying the weight of each position in the portfolio by the percent downside from the current price to the Worst Case estimate of intrinsic value. This helps me manage the risk of permanent capital loss and size positions appropriately, so that no single security can cause such a material permanent capital loss that the rest of the portfolio, at reasonable rates of return, would not be able to overcome. I typically size positions at purchase to have PaR levels of 5% or lower, and a PaR value of 10% or more at any time would be a red flag. The chart below depicts the PaR values for the securities in the portfolio as of the end of the quarter. Positions are presented including options when applicable.



Note: In cases where the Downside to Worst Case < 0%, PaR = 0%

Normalized Price-to-Earnings (P/E) Ratio

I supplement my intrinsic value estimates, which are based on Discounted Cash Flow (DCF) analysis, with a number of other metrics that I use to make sure that my value estimates make sense. One of the more useful ones is the Normalized P/E ratio. The denominator is my estimate of earnings over the next 12 months, adjusted for any one-time/unsustainable factors, and if necessary adjusted for the cyclical nature of the business to reflect a mid-cycle economic environment. The numerator is adjusted for any excess assets (e.g. excess cash) not used to generate my estimate of normalized earnings. One way to interpret this number is that its inverse represents the rate of return we would receive on our purchase price if earnings remained permanently flat. So a normalized P/E of 10x would be consistent with an expectation of a 10% return. While the future is uncertain, it is typically my goal to invest in businesses whose value is increasing over time. If I am correct in my analysis, our return should exceed the inverse of the normalized P/E ratio over a long period of time. The graph below represents the weighted average normalized P/E for the equities in the portfolio.



Conclusion

Some days, my 4-year old son has greater investment wisdom than I do.

Me: I am getting a little frustrated with this stock.

Jacob: Well, Papa, maybe you can just stop thinking about it and then in a couple of years you will have a lot more stocks?

I am happy to answer any questions you have. Your feedback is important to me; please let me know how I can improve future letters. I greatly appreciate your trust and support, and I continue to work diligently to invest our capital.

Sincerely,

Gary Mishuris, CFA
Managing Partner, Chief Investment Officer
Silver Ring Value Partners Limited Partnership

IMPORTANT DISCLOSURE AND DISCLAIMERS

The information contained herein is confidential and is intended solely for the person to whom it has been delivered. It is not to be reproduced, used, distributed or disclosed, in whole or in part, to third parties without the prior written consent of Silver Ring Value Partners Limited Partnership ("SRVP"). The information contained herein is provided solely for informational and discussion purposes only and is not, and may not be relied on in any manner as legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any fund or vehicle managed or advised by SRVP or its affiliates. The information contained herein is not investment advice or a recommendation to buy or sell any specific security.

The views expressed herein are the opinions and projections of SRVP as of September 30th, 2021, and are subject to change based on market and other conditions. SRVP does not represent that any opinion or projection will be realized. The information presented herein, including, but not limited to, SRVP's investment views, returns or performance, investment strategies, market opportunity, portfolio construction, expectations and positions may involve SRVP's views, estimates, assumptions, facts and information from other sources that are believed to be accurate and reliable as of the date this information is presented—any of which may change without notice. SRVP has no obligation (express or implied) to update any or all of the information contained herein or to advise you of any changes; nor does SRVP make any express or implied warranties or representations as to the completeness or accuracy or accept responsibility for errors. The information presented is for illustrative purposes only and does not constitute an exhaustive explanation of the investment process, investment strategies or risk management.

The analyses and conclusions of SRVP contained in this information include certain statements, assumptions, estimates and projections that reflect various assumptions by SRVP and anticipated results that are inherently subject to significant economic, competitive, and other uncertainties and contingencies and have been included solely for illustrative purposes.

As with any investment strategy, there is potential for profit as well as the possibility of loss. SRVP does not guarantee any minimum level of investment performance or the success of any portfolio or investment strategy. All investments involve risk and investment recommendations will not always be profitable. Past performance is no guarantee of future results. Investment returns and principal values of an investment will fluctuate so that an investor's investment may be worth more or less than its original value