SILVER RING
VALUE PARTNERS

July 16th, 2021

Dear Partners:

I hope that you are doing well. The partnership has compounded capital at an annualized rate of over 15% per year net of fees since inception despite a market environment generally 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)*	**71.3%**	**24.9%**	**18.9%**
Silver Ring Value Partners (Net)**	**55.9%**	**20.3%**	**15.5%**
Average Cash Levels	2%	5%	19%
Average Option-Adjusted Net Exposure	69%	73%	64%
Russell 3000 Index	**44.2%**	**18.7%**	**17.5%**
MSCI World Index	**39.7%**	**15.6%**	**15.0%**

*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 an attractive Price to Base Case Value ratio of 60%, 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. Even better, all of the stocks in the portfolio were below 70% of Base Case value. This means that as new capital has come in, I have been able to add to a number of our existing holdings at very attractive prices. The portfolio had 11 investments, cash at 0% and option-adjusted net exposure at 71% at the end of the quarter. The ratio of Price to my estimate of Normalized EPS was 6.5x for a collection of businesses that I expect to grow profits at low-single digit rates on average over the long-term.

This quarter, we had another value-oriented family office and an individual who is a successful entrepreneur join the partnership. I have also received indications of intent from several existing partners for additional subscriptions later this year and several new partners have indicated their intent to invest as well. Given the attractive valuation of our holdings I expect to be able to deploy this capital well as it comes in.

Executive Summary

At the end of Q2 2021 the portfolio was attractively priced, with the Price to Base Case value ratio at 60%. The portfolio had 11 investments, cash at 0% and option-adjusted net exposure at 71% 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			
			6/30/2021	6/30/2021
	Security		% Portfolio	% Delta-Adjusted
1	FRESHII INC (previously Undisclosed Position #4)	FRII CN	16.6%	16.6%
2	CHARLES & COLVARD LTD (previously Undisclosed Postion #2)	CTHR US	14.9%	14.9%
3	LIBERTY LATIN AMERICA	LILAK US	14.3%	14.3%
4	QURATE RETAIL INC-SERIES A	QRTEA US	13.7%	13.7%
5	OWENS-ILLINOIS INC	OI US	12.1%	12.1%
6	DISCOVERY COMMUNICATIONS-C	DISCK US	11.3%	11.3%
7	Equity Index Put Options		0.8%	-11.0%
8	Individual Equity Put Options (AAPL, TSLA, CMG, BIGC, FSLY, MAT, ZM, SNAP)		1.5%	-8.8%
9	SPROUTS FARMERS MARKET INC	SFM US	7.7%	7.7%
10	AIMIA INC	AIM CN	6.1%	6.1%
11	Inflation Hedge (Put Options on TLT)		0.9%	-6.0%
	All Investments		99.8%	70.8%
	Cash & Equivalents		0.2%	

SILVER RING
VALUE PARTNERS

Investment Activity

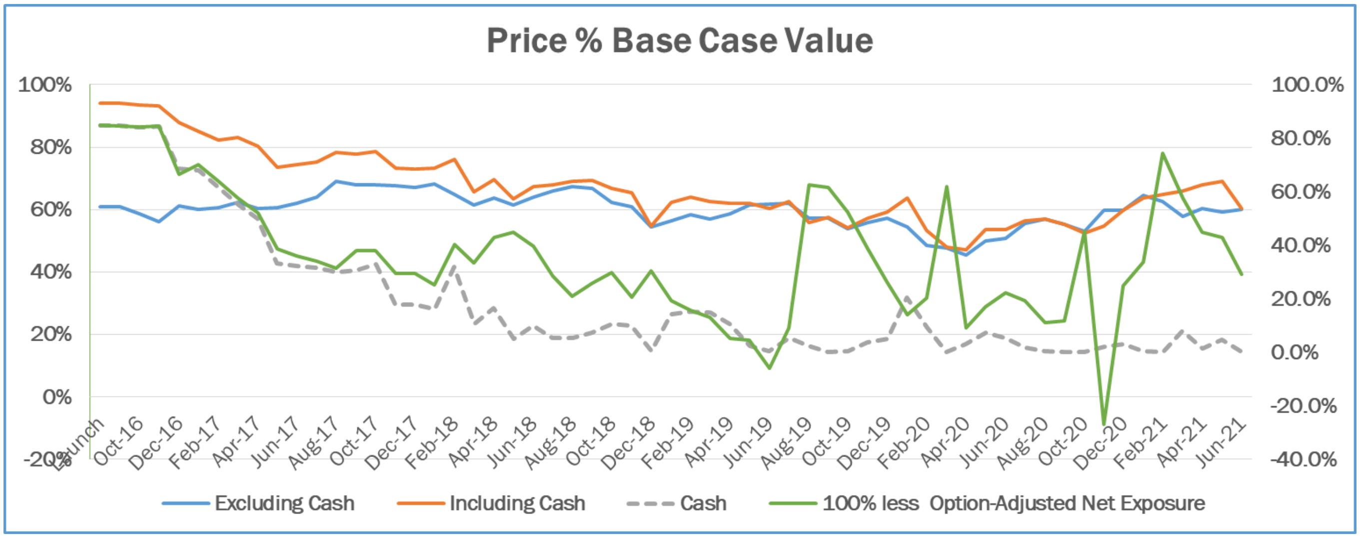
I made the following changes to the portfolio during Q2 2021:

- **Established a Medium** the position in Discovery (**DISCK**) stock
- **Increased** Sprouts Farmers Market (**SFM**) to a **Medium** position
- **Exited** the position in Mednax (**MD**) after it exceeded 90% of my Base Case value
- **Added** Zoom (**ZM**) to the **put** options basket
- **Added index put options** on the ARK Innovation ETF (ARKK) and the Russell 2000 as **hedges**

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
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->	

- 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 60% of Base Case value
- Option adjusted net exposure is at 71%, reflecting option-based hedges

Operational Update

- I continued posting educational **investing videos** on my YouTube channel
- I wrote several articles on general investing-related topics at the *Behavioral Value Investor*, a publication of Silver Ring Value Partners**, including**:
    - *Berkshire Hathaway 2021 Annual Meeting Insights*
    - *What A Strange Investing Environment We Are In!*

Portfolio Update

Investing Patterns

At the heart of investing is understanding why something is mis-priced. Contrary to the belief casually held by many, “it’s cheap” or “it’s a good company” or “it’s growing rapidly” is not a sufficient reason to believe that a mis-pricing exists. Cheap stocks can be overvalued because their businesses are deteriorating rapidly. Good companies or those experiencing rapid growth may be priced at a level that implies they are even better companies or faster growers than they are.

So what constitutes an investing pattern of recurring mis-pricing? For such a pattern to exist, investors need to be repeating a mistake, under similar circumstances, where they are improperly estimating the present value of the company’s cash flow stream. Furthermore, we need to be able to identify that mistake in real-time and act to take advantage of the resultant disconnect between price and value.

Investing patterns can be divided into *analytical patterns* and *behavioral patterns*. Analytical patterns are those where investors systematically under-appreciate the future cash flow stream in a way that is predictable at the time. Behavioral patterns occur when events trigger investors to react viscerally rather than analytically, and as a result create an investment opportunity where rational analysis would clearly indicate a higher value than the market price.

There are a number of investing patterns that I know of, and likely many more that I don’t. The number of patterns is not important. The investor needs to stay well within their circle of competence. Just because an investing pattern exists doesn’t mean that you should necessarily try to take advantage of it. **The pattern also needs to be inside your mental comfort zone**, because only then will you be able to stay the course and make rational decisions along the way.

There are four investing patterns that I found over my career to both work and to be inside my mental comfort zone:

1. **Cyclicals** - cyclical temporary problems over-extrapolated by the market
2. **Turnarounds** – company-specific temporary problems over-extrapolated by the market
3. **Long-duration Grower** – long duration of above-average growth rate underappreciated by the market
4. **Behavioral Misjudgment** – market participants pricing a security for emotional rather than economic reasons

The first class of patterns that I find fits my process and temperament is that of a *temporary* problem facing the business which is currently depressing profitability. The financial profile of such a company should show recent profits at reduced levels from those achieved in the past. There are two distinct patterns within this class: *cyclical* problems and *company-specific* problems, and they have somewhat different ways in which we can take advantage of them.

With ***cyclical*** problems, there is usually an industry-wide or economy-wide recession in corporate profitability. Assuming we have correctly diagnosed the problems to be cyclical, which isn't always easy to do, the restoration of past profitability is a matter of *when*, not *if*. Typical cycles last anywhere from 12 to 36 months, but there is no way that I know of to predict the length of any specific cycle.

However, that is *exactly* what most market participants try to do. They pointlessly try to guess when the cycle is about to turn. Why? Because they don't want to buy the stock too far in advance of the turn in profits, for fear of having it not appreciate, or worse, go down further for some period of time. So there they are, using methods not too far removed from reading tea leaves, guessing which quarter or in which half of which year the cycle will turn, so that they can be smart and buy the stock 3-6 months ahead of such a turn and have it appreciate soon thereafter.

There is a better alternative. Rather than using the timing of the cycle as the trigger for investment, it is much better to use the relationship between price and value. The whole point is that if we correctly diagnosed the problems as cyclical, the cycle will turn, usually within a couple of years, and the price/value gap should close when it does. So the way to prevent yourself from "being too early" is to demand a low enough price in relationship to value so that even if the time for the gap to close is on the outer end of the typical range our annualized rate of return is still very attractive.

For example, imagine that there is a cyclical company that your thorough analysis suggests should earn $1 per share in free cash flow per year on average. You do not believe there is any long-term growth in this business cycle-to-cycle and therefore conclude that the stock should be worth approximately $10. Of course you should be thinking in ranges rather than specific point estimates, but for brevity let's just assume that the $1 in free cash flow and the $10 value represent the mid-point of our range. However, the company is currently earning only 50c per share because of a cyclical problem in the industry, and so the market, believing that profitability is permanently reduced, prices the stock at $5.

Assuming your analysis is correct, if you buy the stock at $5 and the market revalues it to $10 when you are proven right, you can afford to wait quite a while and still earn a high annual rate of return. So whether this cycle takes a year or 3 years, your returns will be very attractive. Even if the cycle takes 5 years to turn, you will still earn approximately 15% per year. You might be thinking: isn't the business worth less if the cycle turns later rather than sooner because the present value of the cash flows is reduced? That's correct, but the magnitude of this effect is quite small, in the 5%-10% range in most cases, and if you allow for sufficient margin of safety in your purchase price you will still do very well.

The second investing pattern is the ***turnaround***, or a *temporary* company-specific problem. The difference from a cyclical is that the problem will not go away on its own with mere passage of time as the supply/demand dynamics of the industry normalize. Management needs to correctly diagnose the problem, create a plan of action to fix it, and then execute on that plan.

The key insight with respect to turnarounds is that historically most of them do not turn! This is notwithstanding confident statements and plans from well-dressed and well-credentialed company executives to the contrary. The *base rate* probability of turnarounds is that approximately 1 in 3 "turn" as defined by their profits being restored to prior levels.

With cyclicals, being early to invest is perfectly fine as long as the price is right. Not so with most turnarounds. Early in a turnaround the probability of success is low. So barring some mitigating circumstances such as asset-based downside protection or a price so low that even a scenario where the business does not turn around would translate into an attractive investment, investing early in a turnaround can often be a mistake because while the upside may be large, the probability of achieving it is relatively low at the beginning.

So when is a good time to invest in turnarounds? When the key operating metrics have started to turn, but prior to them being fully reflected in restored profitability of the company. At this point the odds of success will be dramatically higher, which should more than compensate for the potentially higher stock price. Mathematically, an 80% probability of getting $10 in a year purchased at $6 is much better than a 33% chance of $10 in 3 years purchased at $5.

I have observed that successful turnarounds, especially those in which new management has come in to fix the problem, usually follow a similar timeline:

- Year 1: Understand the problem and plan the solution
- Year 2: Implement the solution and begin executing on the plan
- Year 3: Accelerate execution of the plan

Evidence that the solution is working is usually visible sometime between the second half of Year 2 and the first half of Year 3. Furthermore, once a turnaround shows signs that it is on track, it is relatively rare for the progress to reverse. It is also frequent that there are company-specific metrics that will show improvement if the turnaround is successfully happening before profits begin to recover. Actually, in some cases profits get worse at the exact moment as the key operating metrics are flashing green. *That's the opportunity*. The market participants mostly wait for evidence of a profit recovery, and if you know your target well and management publicly discloses the key operating metrics, you can reach a high-probability conclusion that a turnaround is very likely before the market reflects it in the stock price.

A third investing pattern is companies with **long duration of moderately above-average growth** that is underappreciated by the market. Investors get very excited about high growth rates. However, there is a range of growth, usually in the 6% to 12% range, which mostly meets with a yawn and a slightly above-average valuation. However, there is a huge difference in value between a company growing at 10% for 5 years and one that is growing at 10% for 20 years. That difference is not always fully appreciated by the market. So if you study the business carefully and reach a conclusion that it is capable of sustaining moderately above-average growth for a long time, you might be able to purchase the stock at a price that does not reflect that.

The fourth investing pattern is action by the market that is driven by ***behavioral* mistakes** rather than by an incorrect analysis of the situation. This might take the form of a whole industry being perceived as undesirable for investment purposes and therefore not worth further analysis. Or it might be forced selling for noneconomic reasons, such as in the case of some spin-offs. Complexity is another barrier to rational analysis; complex situations usually get a disproportionate share of quick "passes" from investors, thereby sometimes depressing the price unduly. Finally, a version of this is simple neglect, as might be the case with a company emerging from bankruptcy or one that is small and is not well followed by market participants.

What all of these have in common is that other thoughtful investors would probably reach the same conclusion as you based on a rational analysis of readily available facts. However, that's the whole point: in these situations they are not engaging in rational analysis, but rather either avoiding the analysis or substituting an emotional response for a logical one. Remaining rational and having the temperament to act calmly on your analysis is all that is required – but for many market participants that is too much to ask for in certain circumstances.

There are a number of other patterns that I am aware of. For example, high-growth "compounders" that have attractive reinvestment economics for a long period of time, resulting in decades of high growth not fully appreciated by the market. Or companies that are early in an adoption "S-curve" for their product and which are about to experience staggering, in percentage terms, growth that is not yet reflected in market prices.

So if I am aware of these, then why not try to add them to my repertoire and take advantage of them as well? They are outside of my mental comfort zone. The starting valuation is usually quite high, which would result in a material loss in case I am wrong on the fundamentals. I have also realized that I am uncomfortable betting against base rate probabilities, as would be the case of a statistically very expensive stock that you think should be even more statistically expensive based on your analysis.

Taking advantage of investing patterns only works if you are able to remain calm and act rationally, usually when others aren't. If you are uncomfortable, there is a decent chance that it will be you rather than other market participants making the mistake at some point in the investment journey. Knowing yourself and knowing the boundary beyond which you are not able to maintain your temperament is crucial to investing success.

Portfolio Activity

Discovery (DISCK)

I established a medium position in Discovery stock during the quarter by means of selling the put options as I described in the last quarterly letter. The stock continued to decline in a way that I found hard to explain by fundamental factors, and the gap between price and value became quite attractive. When the put options expired I chose to keep the amount of stock roughly equal to a 10% position. My entry point was approximately 57% of my Base Case value and at approximately 8x normalized EPS for a business that I believe has the ability to grow profits at a moderate rate.

During the quarter, the company announced its plans to acquire the Warner Media business from AT&T. The transaction is structured as an all-equity deal, is expected to close in approximately a year, and Discovery's CEO is slated to be the CEO of the combined business. The company expects to produce at least $3B in annual cost synergies without impacting content production investments.

The best way to think about the transaction is that Discovery is acquiring a strong and unique asset without paying a premium. The way that acquisitions usually work is that the buyer pays a sizable premium to the seller which frequently transfers most of the value of the synergies to the seller. In this case, the seller, AT&T, was in a difficult position. Essentially they were a forced seller, having taken on too much debt and under pressure from activist investors to simplify the portfolio. As a result, the equity ownership split between Discovery's shareholders and AT&T approximates the share of pre-synergy profits contributed by the two entities, which implies no meaningful premium paid.

The acquisition has its share of risks. A few come to mind:

- Integration risk of two large and different organizations
- Risk that the Warner Media culture is already strained by the previous integration and changes in management, and that the asset is damaged in a way that is not yet visible to outside observers
- Risk that between the announcement of the deal and when it closes the best people leave and the organization generally suffers, hurting future results
- The new company will now be participating in the much more competitive scripted content area, which Discovery's CEO previously frequently described as unattractive
- Large amount of debt used to finance the deal

Mitigating those risks is the very strong brands and library that Warner Media has. The crown jewel is HBO and its library. With no expected layoffs among creative staff expected, this should be just as attractive a place to work under Discovery's ownership, if not more so. CNN also has a very strong brand and hard-to-replicate global presence. These assets are very likely to be growing their profit streams for many years to come in most imaginable scenarios. Warner Studios, which is the

#1 TV studio by revenue and volume, is also a strong business that supplies a lot of the industry with great content. I am far less impressed with the quality of the TNT and TBS networks and don't think they are that valuable, but they are not important to the value of the deal nor the competitive position of the new company.

At this point it's too early to be overly precise about the impact on intrinsic value from the deal. First, the deal still has to get approved and close. Second, both companies are in early stages of their own streaming rollouts, the success of which will influence the strategy and value of the combined company. However, I think it's fair to characterize the range of potential impacts on Discovery's pre-deal intrinsic value as neutral to strongly positive. I see a reasonable worst case for the deal as being that unexpected business problems and integration snafus offset the value of the synergies. Could it be worse than that? I think the probability is low because of the strength of the brands and the library of content, which form a large portion of the competitive advantage of the business.

Following the announcement of the deal the stock sold off further, from the low $30s to the high $20s. This is understandable in the short-term. Market participants were excited to be fed a steady diet of positive short-term news flow about the pace of the rollout of Discovery's streaming product. In a market hungry for catalysts and short on patience, this has now been replaced by the purgatory of a 12+ month wait for the deal to close, followed by a further wait for the integration to take effect. So I am guessing that to the garden-variety market participant, the stock looks like "dead money" for the next year or two. Nothing exciting to see here, time to look for companies with better short-term momentum.

That is a very different perspective from the one that I have. I am not trying to answer the question of "what happens next" or will there be positive surprises over the next few quarters. I am trying to be a rational and impartial judge of the range of business values based on the long-term prospects of the companies that I invest in. On that basis, I believe that Discovery's value is likely much higher than the current market price, and that the downside to my Worst Case scenario is relatively low if things don't go our way. That's the kind of investment situation that I find to be quite attractive, which is why I made it a medium-sized position.

Sprouts Farmers Market (SFM)

I increased Sprouts Farmers Market to a Medium position. I spoke about the company briefly in last quarter's letter when I began building the position. It is a good example of the third investing pattern that I described earlier of companies with a long duration of above-average growth that is underappreciated by the market. I presented my investment thesis on the company at MOI Global's 2021 Wide-Moat Investing Summit. I am attaching the presentation to give you a more in-depth perspective of how I am thinking about this investment.

Mednax (MD)

It is never my intent to exit an investment relatively quickly after I make it. I have a long-term time horizon which usually translates into an average holding period of 3 to 5 years. However, my decisions are always governed by a rational comparison between price and value as well as consideration of the opportunity cost.

I purchased Mednax at approximately 65% of my Base Case value. It rose relatively quickly to over 90% of Base Case value. During this period, the quarterly fundamentals were worse than I had expected, for reasons that I believe to be temporary. With no reason to increase my assessment of value based on the available evidence, and with a number of my other investments trading below 65% of my Base Case value, I followed my process and exited Mednax in order to redeploy our capital into more attractive investment opportunities.

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 (6/30/2021)		
	Last 12 Months	**Inception - 6/30/2021 (cumulative)**
Net Return (after all fees)*	**55.9%**	**100.9%**
Hurdle Rate of 6% per year	6.0%	32.5%
Russell 3000 (total return)	44.2%	118.3%
MSCI World Index (total return)	39.7%	96.2%
Average Cash & Equivalents % Portfolio	**2%**	**19%**
Average Option-Adjusted Net Exposure**	**69%**	**64%**
Contribution to Gross Return (before all fees)		
Positions (including equities and options that were part of each position)		
Qurate Retail	30.2%	37.6%
Charles & Colvard (previously Undisclosed Position 2)	23.3%	26.9%
Discovery Communications Position	15.1%	14.4%
Covetrus Inc	10.6%	34.1%
Freshii (previously Undisclosed Position 4)	7.9%	-3.0%
Owens-Illinois Inc	7.0%	7.2%
Liberty Latin America	2.7%	3.3%
Mednax	1.9%	2.4%
Arcadis NV	1.2%	6.3%
Aimia	0.6%	0.8%
eBay Inc	0.5%	4.5%
Berkshire Hathaway	0.2%	0.2%
Fox Corp	0.1%	-0.8%
Bristol-Myers Squibb CVR	-0.5%	-0.8%
Inflation Hedge	-0.6%	-0.8%
Sprouts Farmers Market	-0.8%	-1.0%
Carnival Corp Position	-2.3%	1.2%
Stock Market Put Option Hedges	-5.4%	-6.7%
Individual Equity Put Options	-20.9%	-26.0%
Medifast		1.6%
Gilead Sciences Position		-2.0%
Caesars Entertainment		1.6%
Allergan Plc		8.9%
Care.com (previously Undisclosed Position 5)		2.6%
American Tower Position		5.5%
Cimpress NV		3.3%
Hill International (previously Undisclosed Position 3)		1.6%
Go-Ahead Group		0.6%
CommerceHub Inc		2.0%
Innoviva (previously Undisclosed Position 1)		2.9%

* 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 it would be helpful to address in this letter. (Please keep the questions coming; I will do my best to address them fully.)

How much capital are you willing to spend on hedging, and how do you think about sizing the hedges?

Before answering the specific question, some context is helpful. I define investing success as safely compounding capital over the long-term at a rate that exceeds both the absolute hurdle rate of 6% and the opportunity cost provided by the stock market over a full cycle. I am not interested in accepting a lower long-term return in exchange for lower volatility of returns along the way. There are some who would claim success if they produced a lower than market long-term return with lower than market volatility by arguing that their risk-adjusted returns are superior. That is not my aim, and over a sufficiently long period of time that encompasses a full market cycle, I would not be satisfied with such a result.

So why hedge at all? If lowering volatility is not the goal, then isn't hedging just a drag on our results? And if not, then in what kind of environment are hedges beneficial vs. when would it be better to not hedge?

If I were able to find 10 or more meaningfully undervalued securities of high quality businesses, with safe balance sheets and largely uncorrelated long-term business outcomes, I don't think that hedging would be beneficial. A portfolio composed of such securities plus any cash that arose as a residual of my position sizing guidelines would be sufficiently safe on its own. Yes, if there were a broad market decline, such a portfolio would decline for a period of time as well. But so what? If I am correct in my analysis then that decline would be temporary and would not impede our long term goals outlined above.

Through many parts of the cycle I expect to be able to succeed in the above goal, and have a portfolio that is safe enough so as to make hedging unnecessary. After all, one of the advantages of searching broadly while managing a nimble pool of capital is that it increases the chances of finding good investing ideas even while maintaining a high bar for the quality of companies and the price paid relative to their value. However, there may be times when I am not able to put together such a portfolio. In that situation, there are two choices that are compatible with our long-term goals of safely compounding capital.

The first choice is to hold some combination of cash and investments. This might be because there are fewer than 10 investments that meet my criteria. Or it might be because not all of the investments that meet my criteria have safe enough balance sheets or robust enough businesses to achieve safety while fully invested. To be clear, there is no compromising on the security selection criteria for quality and price that I outlined in the Owner's Manual. However, that range includes average businesses trading at extremely distressed prices all the way through great businesses trading at more moderate discounts to their intrinsic value.

So consider a scenario where the nature and number of attractive securities would lead to insufficient portfolio safety if the partnership were fully invested in such a group. The solution of reducing position sizing below my guidelines and holding the proceeds in cash would help achieve an appropriate level of safety at the portfolio level. However, there would be an opportunity cost. Let's estimate that these securities have a 13% expected annual rate of return, which is in the middle of my typical targeted range of 12% to 15%. Further, let's say that we were only 70% invested and held 30% cash to achieve the desired level of safety. Then the opportunity cost of holding that cash would be at least 4% per year.

The opportunity cost would be higher if the price to value gap on the undervalued securities closed sooner rather than later. The 13% annualized rate of return on securities that I estimate are at 65% of my Base Case value estimate is calculated assuming we own the business forever and receive the cash flows that it produces. If the market re-values the securities which we estimate to be at 65% of value to 100% of value, the return in that year could be 50%+. Applying that to 30% of the portfolio would give us a 15%+ opportunity cost. I estimate the opportunity cost to be closer to the 4% per year above than to the 15% since it's unlikely for the market to revalue all of our securities so quickly. The point though is that the opportunity cost is quite substantial.

The second choice is partially hedging the portfolio. What are we hedging against? For example, a severe and prolonged consumer recession would likely both reduce the value of some of our less durable businesses and also result in a substantial decline in the stock market. The hedges, if properly structured, should provide a meaningful payoff that offsets some of the decline in the portfolio. Furthermore, that payoff would most likely occur in an environment rich with deeply undervalued investments. This should allow us to take each $1 of the payoff from the hedges and deploy it into new investments at 40%-60% of Base Case value.

The annual budget for the hedging costs should be informed by the opportunity cost calculated above. If it would be cheaper to just hold a portion of the portfolio in cash and have smaller or fewer positions, then that should be the preferred route. However, when hedging is available at an affordable cost, then being fully invested and hedging rather than being partially invested is likely to produce superior long-term returns. That is the environment that I believe we are in now, and that is why the hedges are being utilized.

In more general terms, the annual budget for hedges will not exceed what I estimate to be the opportunity cost of owning less of our investments. Under most circumstances it will be under 10% in a given year, and hopefully substantially less. While I know that sounds like a lot, and it is, remember that this is something that I expect to occur maybe 1 or 2 years out of 10. The majority of the time we will own a portfolio of securities sufficiently safe as to not require hedging. So when you think about the hedging costs over a 10-year market cycle, the cost per year is not nearly as large as it seems by looking at the cost in the period when the hedges are being utilized. And while I wish the costs didn't reduce our returns, I would always prefer to err on the side of caution to guard the partnership against meaningful permanent capital loss.

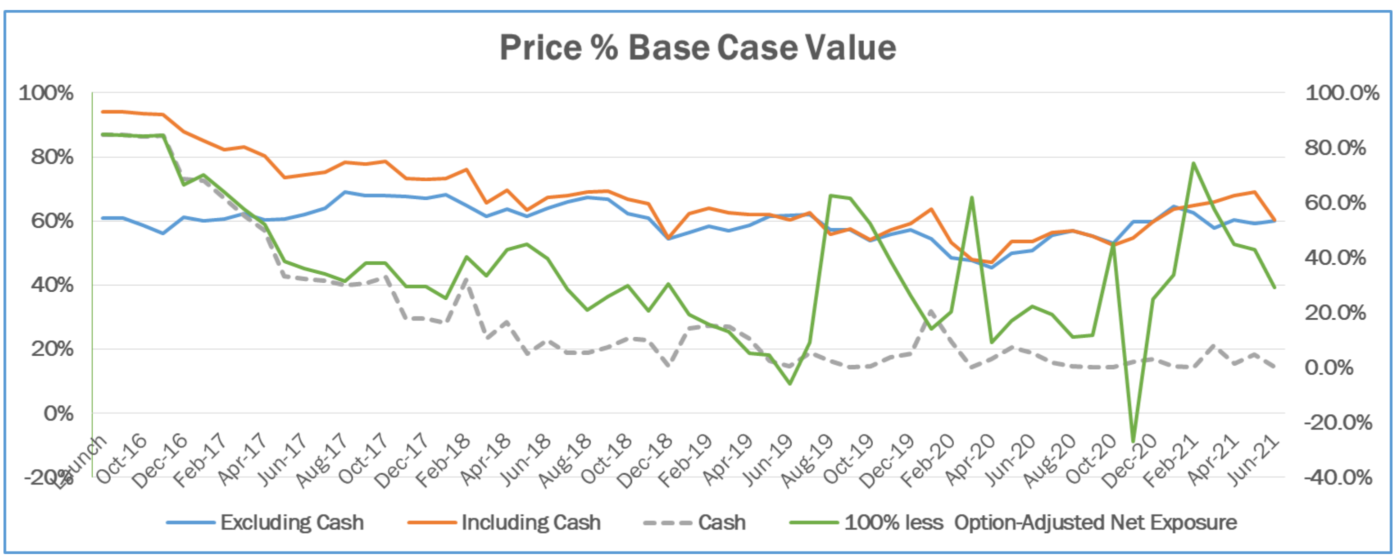
Finally, in prior communication I have been less than precise by lumping all of our put options into the "hedge" category. The put options on individual stocks are there because I estimate the stocks to be materially overvalued in a very frothy stock market. I estimate these put options to have a positive expected return on their own, even if there isn't a broad market decline. However, in practice I believe that the biggest payoff from them is likely to occur if the prevailing overly-optimistic market sentiment turns more sober, which could correlate with a market sell-off. So to be more precise in my description, I view the index put options that we hold as hedges, whereas the individual stock put options stand on their own as positive expected value bets on the market re-valuing the underlying stocks to more appropriate levels.

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

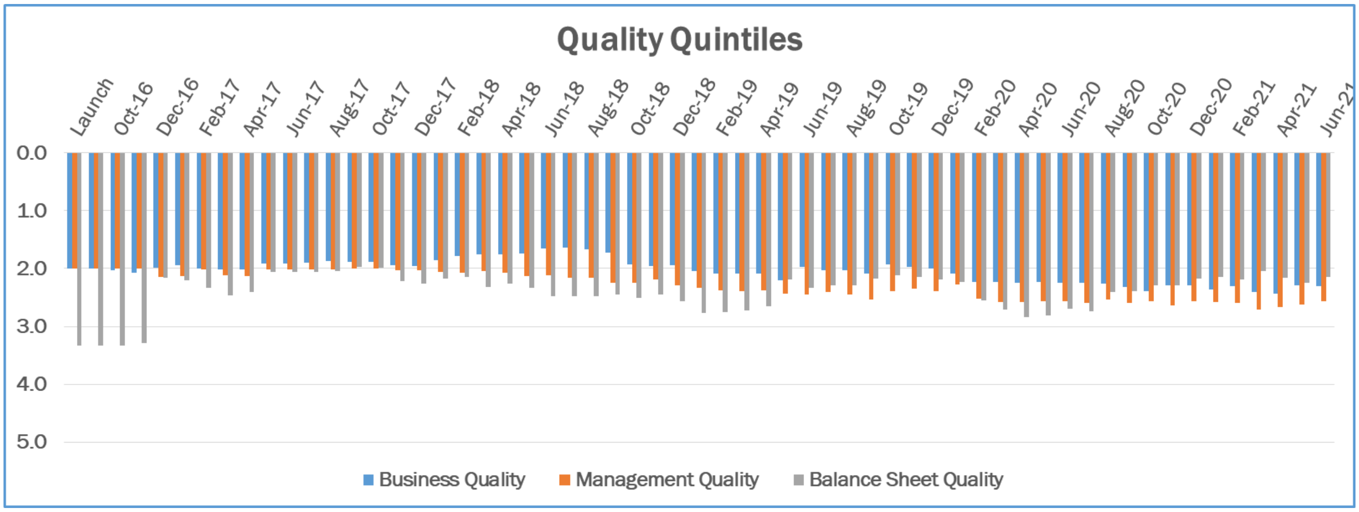
This metric tracks the portfolio's weighted average ratio between market price and my Base Case intrinsic value estimate of each security. This ratio is presented both including cash and equivalents, which are valued at a Price to Value of 100%, and excluding those. All else being equal, the lower these 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.



SILVER RING
VALUE PARTNERS

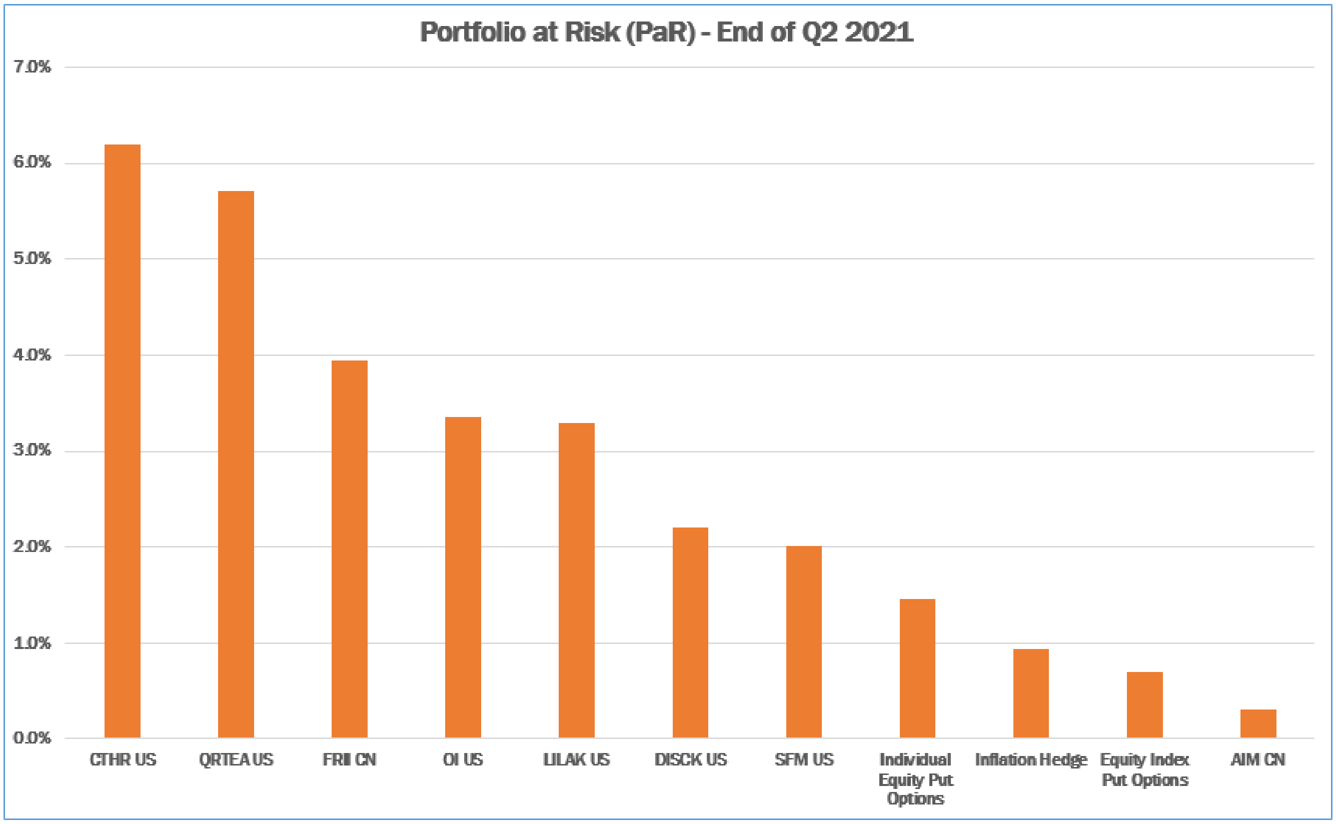
Quality Quintiles

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)

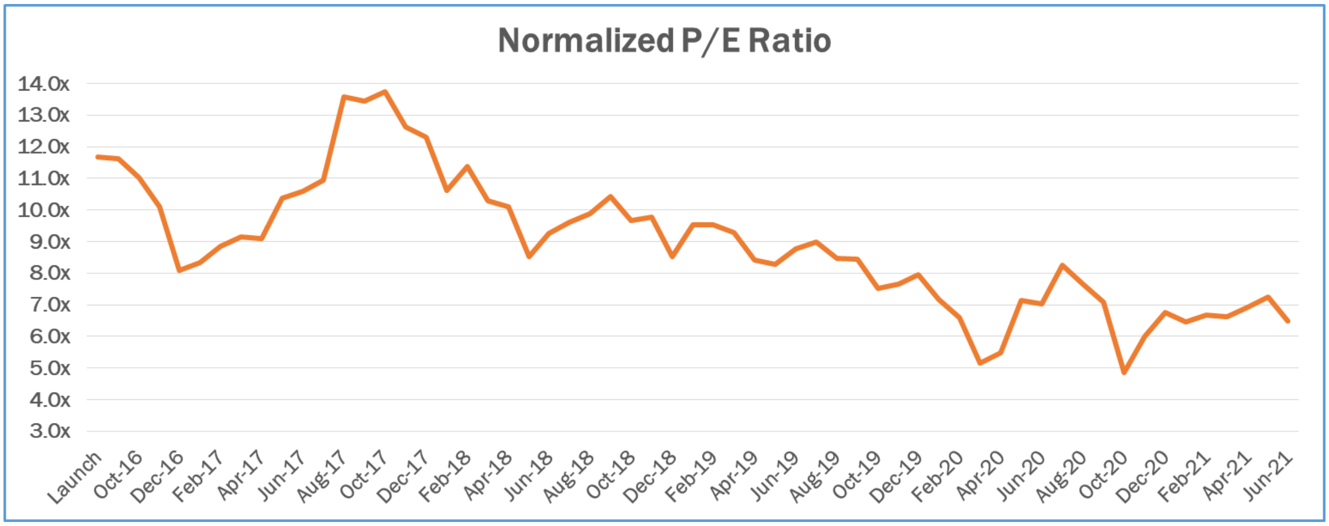
I estimate the Portfolio at Risk (PaR) of each position by multiplying the weight of each position in the portfolio by the percent downside from the current price to the Worst Case estimate of intrinsic value. This helps me manage the risk of permanent capital loss and size positions appropriately, so 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.


Normalized P/E Ratio
14.0x
13.0x
12.0x
11.0x
10.0x
9.0x
8.0x
7.0x
6.0x
5.0x
4.0x
3.0x
Launch
Oct-16
Dec-16
Feb-17
Apr-17
Jun-17
Aug-17
Oct-17
Dec-17
Feb-18
Apr-18
Jun-18
Aug-18
Oct-18
Dec-18
Feb-19
Apr-19
Jun-19
Aug-19
Oct-19
Dec-19
Feb-20
Apr-20
Jun-20
Aug-20
Oct-20
Dec-20
Feb-21
Apr-21
Jun-21

Conclusion

My oldest son, Ben, just turned 8, and he is becoming quite the businessman. I usually pay my kids to help me bring recycling out each week. The normal rate is 25c per bag/pile. When it's raining, the rate is doubled as compensation.

During dinner, it was pouring rain, so I announced the 50c per pile piece rate and asked who among my kids was in on the job. Nobody said yes.

Twenty minutes later, the rain had stopped. Ben cheerily announced that he was going to do recycling and that he expected to earn 50c per pile. I protested: the rain had stopped. Ben was relentless, and argued that since I had offered the rate and he never said "no," that he still had the option to accept the job at that wage. I accepted his lawyerly argument and started cutting up the boxes to make the piles.

While I worked, Ben didn't waste any time. He ran up to the playroom, and with his sister's help brought down three giant boxes. I was definitely not excited about the extra work, and inquired why we needed to recycle these boxes, which the kids had been using to play that very same day. Ben cheekily answered that since they were done using them to play, today was as good a day as any to recycle them. He innocently left out that it just so happened that recycling these today would earn him a double rate.

As I was done cutting up the boxes, I asked Ben to help arrange them into piles. Big mistake. He happily complied, and helpfully suggested that what I had cut up so far would make for *at least* 5 (very small) piles. Despite realizing my mistake in asking him to make the piles, I let his decision stand.

Nobody else offered to work, so Ben had all the piles to himself. He busily started to bring the piles outside to me, where I began putting them into the recycling bin. His twin sister, Ellie, decided to be helpful and held the door for him each time Ben was ready to bring out a pile. That's not something that earns any money – she was just doing it to be helpful.

When Ben was done, he proudly declared that he earned $7 – by far the all-time weekly record for a recycling job. I asked him to stay outside with me for a minute. I told him that Ellie's help made his job faster and easier. He thought about it and agreed. I then told him that the $7 was his. He had earned it. I also asked him to think about what, if anything, it would be fair for him to give to Ellie for her help. I left it up to him.

When we went inside, Ben asked to talk to Ellie in private in their room. When they came downstairs, Ben said that he decided to pay Ellie $2 out of the $7 that he earned that evening for her help. I told him that I was proud of him. I also told him that that's what integrity means – doing the right thing, even if it's not the one that makes you the most money in the moment.

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 June 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