The Long Only fund returned 4.6% for Q2 2019. As I mentioned in my last letter, I held a significant amount of cash to be deployed should I come across an attractive investment opportunity. Over the past three months I built a small position in a few new companies and selectively added to existing positions, thereby reducing our cash to 11%. During March of this year I initiated a new holding in KAR Auction Services and have increased our ownership over the past three months. Up until a few weeks ago the company consisted of three businesses that serve the used auto industry: salvage auctions, whole car auctions, and dealer floorplan financing. At the end of June they spun off their salvage auction business as a standalone company called Insurance Auto Auctions (“IAA”). While I am optimistic about both IAA and remainco (“KAR”), I particularly like IAA and have directed the majority of our exposure to this entity.

When an insured vehicle is in an accident, an estimator makes an economic comparison of the cost to repair the vehicle with the cost to replace it offset by any salvage proceeds. Cars that are determined to be too costly to fix are declared a total loss and sent to a salvage auction where they are sold for parts and materials. Enter IAA. IAA provides the two sided network that brings together sellers (insurance companies, dealerships, rental companies) with buyers (dismantlers, scrap dealers). Marketplaces are considered to be excellent businesses as increased participation from one side of the network increases the value proposition to the other side, and this dynamic continues in a reflexive manner. The salvage auction industry, however, has several other factors that make it nearly impossible to penetrate. A dense network of salvage yards is critical to reduce transportation costs thereby putting smaller operators at a disadvantage; these yards are hard to come by given permitting requirements. Furthermore, the physical and technical complexities of managing the end-to-end transportation / storage / auction process are immense. To boot the industry benefits from predictable demand that is driven by the number of cars in an accident and the salvage rate. Many factors will lead to volume growth including an expanded and aging vehicle fleet, increases to miles driven, and greater car complexity which typically makes a total loss declaration more attractive. IAA and its primary competitor, Copart (“CPRT”), each have an approximate 40% share of the North American market.

IAA has the opportunity to significantly improve its operations as a standalone entity. When the company was combined with KAR, prior management chose to return cash to shareholders instead of

<table>
<thead>
<tr>
<th></th>
<th>MRCM Long Short Small Cap</th>
<th>IWM (Russell 2000)</th>
<th>MRCM Long Only Large Cap</th>
<th>SPY (S&amp;P 500)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annualized</strong></td>
<td><strong>Since Inception</strong></td>
<td><strong>Since Inception</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2 2019</td>
<td>(3.9%)</td>
<td>1.9%</td>
<td>4.6%</td>
<td>4.2%</td>
</tr>
<tr>
<td>2019 YTD</td>
<td>1.1%</td>
<td>16.8%</td>
<td>19.6%</td>
<td>18.3%</td>
</tr>
<tr>
<td>2018</td>
<td>17.1%</td>
<td>(11.1%)</td>
<td>(5.6%)</td>
<td>(4.6%)</td>
</tr>
<tr>
<td>2017</td>
<td>37.7%</td>
<td>14.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016 (Jul-Dec)</td>
<td>1.6%</td>
<td>18.7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: All returns are net of management and performance fees.
growing the business. I think we can all agree that reinvesting capital in an industry with large barriers to entry, stability of earnings, and high returns on incremental invested capital seems like a better use. New IAA management has outlined that its cash priorities are first debt reduction, followed by strategic growth, and then and capital returns. Given the significant cash generation of the business and the fact that the company is nearly within its target ratio of 2.0-3.0x (currently at 3.1x), I think we will see greater investments sooner rather than later.

CPRT has emphasized reinvestment and its trajectory provides a good roadmap for IAA. For instance, over the last 3 years CPRT has added 30 salvage yards to their base and currently has a presence in Canada, Brazil, Finland, Germany, the UK, Ireland, Spain, the UAE, Oman, and Bahrain. During the same period IAA has only increased its footprint by 12 and its international operations are relegated to Canada and the UK. Geographic expansion is an obvious opportunity for IAA as auctions are a global business (30% of IAA U.S. volume is exported) and the strength of a marketplace is determined by the depth of its suppliers/buyers. There remains a large margin differential between IAA and CPRT as well. Many factors can impact a like-for-like comparison including IAA’s lack of owned real estate, customer mix, dual physical/online auctions, and service revenue. Some of these factors are structural while others are not. Improvements to IAA’s customer facing technology solutions, ancillary service offerings, and operating structure should lead to margin enhancement. Management has said that they will provide more details on their margin expansion plan at an investor day early next year.

IAA is currently trading at 15.0x consensus 2020 EBITDA while CPRT is at 19.5x. Importantly these multiples do not give IAA credit for potential operating improvements. Taking a step back, IAA is a newly traded company that is valued at a meaningful discount to its closest peer with the market giving little credit for the potential of earnings improvement. I like these types of situations as it seems like the company is in the double penalty box with a discounted multiple on discounted estimates.

The Long Short fund incurred a loss during the quarter of 3.9%. It’s obviously frustrating to report a loss for the period and all else being equal I would prefer to see the prices of our holdings go up rather than down. But we must also remember that the reported price is simply the last traded price – nothing more, nothing less. Prices can rise and fall for a whole host of reasons, sometimes having nothing to do with fundamental value. When price and fundamentals diverge, as can often be the case with more illiquid securities, it presents an attractive buying or selling opportunity. In this context frustration turns to optimism as I have been able to add to positions at more attractive levels.

Mastech Digital (“MHH”) was the largest driver of negative returns as it fell 23% during the period. MHH is an IT staffing company that was spun-off from iGate, an IT outsourcing company, back in 2008. iGate subsequently made the transformative acquisition of Patni in 2011 and sold the entire company to Capgemini in 2016 for $4bn. Following this sale, the two co-founders turned their attention to growing MHH. In 2016 they brought in a new CEO, Vivek Gupta, to help reposition the company toward a higher valued product and in 2017 they provided the equity funding for the acquisition of Infotrellis, a data and analytics company (thereby increasing their joint ownership from 50% to 60% of the company). I built an initial position in early 2018 at roughly current prices and it was the source of significant positive performance last year as I made sales at higher levels. Mr. Market has provided us with another bite at the apple, and I have been adding to our position on recent weakness.

With regards to IT staffing, MHH provides temporary employees on a wholesale basis to system integrators and other IT staffing firms as well as on a retail basis directly to consumers. While this is a competitive, economically sensitive, and lower margin business, execution has been very encouraging.
Vivek has focused on serving higher-growth digital needs like cloud, mobility, and social over traditional IT services such as Oracle mainframe. Employees addressing digital needs typically generate a 2-3% higher margin for MHH, which is significant given that operating margins are in the mid-single digits. Today 30% of their staffing work is digital versus less than 20% when Vivek took over as CEO, and this trend should continue. The industry has been growing in the mid-single digits and is forecasted to grow 4% in 2019. MHH has surpassed this level, growing 11% in 2018 and 7% in Q1 2019. Margins have expanded despite the additional long-term investments the company has made in upgrading its systems and expanding its offices. Industry participants I have spoken with have given positive reviews of the company.

The data and analytics business provides project-based consulting services solely focused on digital technologies such as master data management, enterprise data integration and digital transformation (i.e. implementation of Salesforce.com CRM). When MHH acquired this business a large part of the consideration came in the form of contingent payments based upon one and two year segment EBIT. The first year hurdle was not met, meaning that MHH was not required to make an additional payment to prior management. The second year concludes in July of this year and it is still too close to call. I doubt MHH specifically throttled the business, but it is clear that they would not have benefited from any outperformance. These disincentives will go away once the testing period concludes. Of note, in the last few quarters the company has begun to make investments that will improve segment sales and offshore delivery services. The industry as a whole is forecasted to grow at a 12% CAGR from now until 2023. Senior management incentive compensation is tied to achieving 25% segment growth annually from 2020-2023.

MHH is currently trading at a little less than 6.0x my estimate of 2020 EBITDA and around 5.5x free cash flow (after adjusting for one-off expenses related to office relocation and expansion). Most IT staffing companies trade at 7-9x EBITDA while data and analytics companies are typically valued at 9-11x. At 8.5x MHH would be worth $8.50 or 75% above the current price. So the question remains, why has the stock traded down so much and what is going to change?

Ignoring the prior point with regards to the contingent consideration, there is a more obvious explanation for the stock underperformance and a potential catalyst. Upon closing the Infotrellis acquisition MHH’s goal was to pay down debt and subsequently pursue additional acquisitions. While the company has generated strong earnings since then, earnings have not been converted into cash as their accounts receivables balance and unbilled receivables balance have ballooned by $10mm. I believe this has been the biggest factor weighing on the stock. Over the last several quarters MHH has implemented a new ERP system which wreaked havoc on their billing processes. This type of upgrade can be very complicated and they are not the first company I have seen have issues. Fortunately, the cash conversion problem should be a temporary setback; and through my conversations with the management I believe that the worst is behind them. If working capital normalizes not only will we see earnings turn into cash, but we should also see a release of excess working capital that is currently on the balance sheet (allowing them to quickly de-lever). Once this occurs it will be hard for investors to ignore the almost 20% free cash flow yield that the company will generate.

Lastly, we must remember that this is a small-cap company with significant insider ownership. Not a lot of shares typically trade and all it takes is a few sellers to push the stock lower. One quantitative fund (i.e. investment decisions based on algorithms rather than fundamental research) has been selling over the past few quarters and as of March still owned 70k shares. It is possible that they could be weighing on the stock.
Thank you again for your continued trust.

Sincerely,

[Signature]

Aaron Sallen
General Disclaimer

This document has been prepared and issued by MRCM. Performance metrics may include internally established valuations of non-traded securities, which are subjective by nature. All figures are unaudited. The enclosed material is confidential and not to be reproduced or redistributed in whole or in part without the prior written consent of MRCM.

Past performance is not indicative of future results. There can be no assurance that MRCM will generate a return on capital similar to these historical returns because, among other reasons, there may be differences in economic conditions, regulatory climate, portfolio size, leverage use, as well as investment policies and techniques. Any information provided with respect to how MRCM manages its accounts is merely a guideline, which may be subject to change.

The information contained herein is only current as of the date indicated, and may be superseded by subsequent market events or for other reasons. These materials may contain historical market data; however, historical market trends are not reliable indicators of future market behavior. Any statements of opinion constitute only current opinions of MRCM, which are subject to change and which MRCM does not undertake to update. Nothing herein constitutes an offer to sell, or solicitation of an offer to purchase, any securities, nor does it constitute an endorsement with respect to any investment strategy or vehicle. Due to, among other things, the volatile nature of the markets and the investment strategies discussed herein, the investment strategies may only be suitable for certain investors.