Memo to: MCJ Capital Partners

From: M. Carter Johnson

Re: Q3 2020 Performance Update

Date: 10/15/2020

Dear Partners & Friends,

For Q3 of 2020 our total return was +16.29% compared to +8.47% for the broader S&P Index, +7.53% for the broader MSCI World index, and +7.63% for the Dow Jones Industrial Average.

Since inception (as marked as February 12, 2020), our total return is +29.22% compared to -0.25% for the broader S&P Index, -2.63% for the broader MSCI World index, and -5.99% for the Dow Jones Industrial Average.

	MCJ Capital Partners	S&P	MSCI World	Dow
Q3 2020	16.29%	8.47%	7.53%	7.63%
2020	29.22%	4.40%	0.38%	-2.39%
Since Inception	**29.22%**	**-0.25%**	**19.30%**	**-5.99%**

**Performance as reported by Interactive Brokers.*

Commentary on Q3

Overall, the marketable securities of our companies performed exceptionally well on both an absolute and relative basis over the quarter. As an investor, I would strongly caution you against expecting this type of performance as a normal occurrence. While it is exciting to beat the traditional benchmarks by such healthy margins, my focus is, and will remain on finding the best companies we can own at the most attractive prices. There will be extended periods of time where the marketable securities of our companies lag in performance. During the good and not so good times I would encourage you to focus on how well our companies are executing and growing their intrinsic value.

Commentary on Our Companies

Our quarterly updates present me with an opportunity to familiarize you with both the businesses we own and individual investment theses we have made. I spend a lot of time emersed in these companies and my hope is in time I can communicate to you what I see and why we own these companies. A few highlights related to this past quarter:

Parks! America (PRKA) – Our thesis on Parks! America worked out exceptionally well. Over the prior quarter, organic growth in attendance sales rose 33.6%. In addition, Parks! America was able to complete their acquisition of the Texas safari park, Aggieland. The growth in organic sales combined with the acquisition of Aggieland led to a year over year net sales increase of 50.7%. Perhaps more impressive, for the quarter, the company reported net income of $1,266,175 compared to $618,695 over the same period last year, a 104% increase.

Roper Technologies (ROP) – Roper Technologies continues to leverage its unique position as being one of the preferred buyers of large software operations from private equity funds. As you may or may not be aware, private equity groups must exit businesses they acquire to return capital to their investors. Roper Technologies utilizes its permanent capital structure to acquire and hold these companies indefinitely. Company leadership has a proven disciplined capital allocation approach, using their internal metric of CRI or "Cash Return on Investment" ({cash earnings}/{gross fixed assets + net working capital}) as the guiding beacon for deploying capital. Acquisition companies must fair better than the collective enterprise average. This keeps the entire Roper Technologies machine cycling upward. Most recently, the company completed the acquisition of Denver, Colorado based Vertafore. Vertafore operates a cloud based system that simplifies the P&C Insurance business for agencies and carriers. The company serves over 20,000 P&C agencies and 1,000 insurance carriers. Overall, Vertafore should contribute close to $600 million in top line sales (a 10% boost to Roper Technologies overall), and an additional $220 million in cash flow. And to think, this is just one of Roper's 40+ wonderful businesses.

Diploma PLC (DPML) - This past quarter we were able to build our position in Diploma PLC. I've long admired Diploma from afar but it wasn't until I really pulled back the layers of the company that I was able to fully appreciate just how good of a business it is. Diploma is an absolute machine. The company operates an assortment of businesses across three verticals, providing customers with mission essential consumable products. Diploma has built up a number of superior competitive advantages, one of which is an infrastructure that allows for most customers to receive their highly specialized mission critical part the very next day. If the consistent growth, wonderful margins, and superior returns on capital don't excite you, maybe understanding how Diploma redeploys cash flow will... Similar to Heico, the company uses cash flow to acquire other small niche operators. The acquisitions are immediately plugged into Diploma's distribution network making the underlying operations of the acquired company more valuable while simultaneously strengthening the collective fortitude of the overall group of businesses that Diploma operates. What potentially makes Diploma's model more powerful than Heico, is the level of fragmentation in its end markets parlayed with the runway opportunity due to Diploma's size (DPLM has a market cap of only £2.74 billion).

Shortly after we built our position, Diploma announced it was acquiring Windy City Wire (WCW) for £357 million. While we would prefer Diploma to continue deploying capital in smaller (but greater quantity) acquisitions, the purchase of Windy City Wire seems to be an attractive business that fits well in one of Diploma's core verticals. 97% of WCW's customer orders are reoccurring with no single customer making up more than 2% of overall revenue. In addition, the company's EBITDA margins are north of 23% with operating cash flow growing at a three year CAGR of 25%. WCW should serve as a nice platform allowing Diploma to further accelerate bolt on acquisition opportunities in the United States.

Additional Thoughts and Considerations

I am still trying to figure out which benchmarks are the most appropriate for us to measure our results against. Up to this point I have included comparisons to the S&P, MSCI World and Dow Jones indices in our quarterly updates. To be honest, I'm not sure how fair that is to you as an investor, and here rest the conundrum… Of our current businesses, only four are included in the S&P index, only two are included in the Russell 2000 (one of which overlaps the S&P), none are included in the Dow Jones, and 14 are left out by most traditional index benchmarks altogether. Segmented geographically, roughly 32% of our portfolio weighting is made up of companies outside of the United States. As for size, that too presents issues. We own two companies with market caps less than $30 million while also holding a company with a market cap over $88 billion. Collectively, by my calculations three of our companies would be considered "nano cap," seven would be considered "small cap," three would be "mid cap" and six would be "large cap."

I've consulted perimeters outlined by the Association of Chartered Alternative Investment Analysts, in which the HFRI Equity Hedge (Total) Index seems to be their recommendation as the most appropriate benchmark. I've also investigated the argument to utilize something like the MidCap 400 which would hypothetically be the median average market cap weighting of our positions. Overall, I'm still not convinced either of these give you the best measurement.

I would appreciate and welcome any thoughts you have on the matter. In addition, please know I'm always open to pulling what data I can for you to measure our results against whatever benchmark you feel personally is best. Overall, my goal isn't to replicate any specific index as I think you would agree there are passive index funds for that. My goal and number one focus is to find good companies at fair prices. I'm comfortable owning good companies regardless of their size, geography or index inclusion and I hope you are too.

As always, I'm thankful for the trust you have given me in being a steward of your capital. It energizes me knowing others believe in what we are trying to do at MCJ Capital Partners. I do not take the responsibility lightly and hope to keep improving to further our overall performance.

Sincerely,

M. Carter Johnson
carter@mcjcapitalpartners.com

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