CEDAR CREEK PARTNERS, LLC

*Managing Member – Tim Eriksen      Eriksen Capital Management, LLC      567 Wildrose Cir., Lynden, WA 98264*

July 20, 2020

Subject: Cedar Creek Partners Second Quarter 2020 Results

Dear Partner:

First and foremost, we hope you, your families, and your friends are safe and well. In the first quarter, the markets were pummeled due to the spread of the coronavirus. In the second quarter the markets soared even as we saw a resurgence in the virus. If you are confused, you are not alone.

In the second quarter the fund returned 24.0%, net of fees and expenses.[1] Returns for the indices we compare against ranged 18.3% for the DJIA to 30.5% for the Russell Micro Cap. Year to date return for the fund is 1.8%, net of fees and expenses, which compares favorably to the indices we compare against, except for the NASDAQ, which has risen over 12% year to date.

| | 1H '20 | Q2 '20 | Q1 '20 | Inception | Ave. Annual |
|---|---|---|---|---|---|
| **Cedar Creek** | **1.8%** | **24.0%** | **-17.6%** | **423.9%** | **12.1%** |
| NASDAQ | 12.1% | 30.6% | -14.2% | 334.1% | 10.7% |
| DJIA (DIA) | -8.5% | 18.3% | -22.6% | 231.9% | 8.6% |
| S&P 500 (SPY) | -3.2% | 20.2% | -19.4% | 221.5% | 8.4% |
| Russell 2000 | -13.0% | 25.4% | -30.6% | 148.1% | 6.5% |
| Russell Micro Cap | -11.2% | 30.5% | -32.0% | 101.5% | 5.0% |

* fund inception January 15, 2006. Index Returns as reported on Yahoo! Finance, Morningstar, Dow Jones and Russell.

$100,000 invested in the fund at inception in January 2006 would have grown to $523,918 as of June 30, 2020, net of fees and expenses, whereas $100,000 invested in the indexes we compare against would have only grown to between $201,517 in the Russell Micro Cap and $434,122 in the NASDAQ.

The NASDAQ has widely outperformed other indices this year. As of the date of this letter, July 20, the NASDAQ has risen by 20% year to date. Apple and Microsoft's 34% year to date gains are impressive but fall far short of Amazon's 73% gain and Tesla's unbelievable 293% rise. Despite our micro cap focus, Microsoft is on our watch list and got close to a price where we would consider buying during the market sell off in March, but at the same time a number of other companies were attractive as well. Tesla's valuation we find absurd. We wouldn't put Tesla anywhere near the class of the other top companies. Amazon is an impressive business, but it is trading at 140 times trailing earnings. Alphabet (Google) is actually somewhat reasonable at thirty times earnings, based on its growth rate and current

[1] While, no single index is directly comparable to Cedar Creek Partners, we believe that it is important to compare our performance to a passively managed approach. At the core of our investment philosophy is the belief that we can generate superior risk-adjusted returns by holding a more concentrated portfolio of under-valued securities, than an index holding a far greater number of securities. Index returns are calculated from information reported on Yahoo! Finance, Dow Jones, and Russell (see DISCLAIMER for more information).

interest rates, whereas Apple at thirty times seems like a huge stretch since the company has not been growing sales the last few years, and the value of share repurchases has diminished as the share price has risen and is now a poor use of capital in our opinion. As much as many tech names have valuations similar to 1999-2000, we don't see the same prices we recall for small caps, brick and mortar companies, and community banks. Twenty years ago many of those were growing revenues and earnings yet still traded at single digit price-to-earnings multiples.

**Fund Holdings are at Incredibly Attractive Prices**

**On the whole, the fund's holdings are trading at 8.5 times earnings, and just 5.8 times earnings net of cash at the respective businesses**. At the start of the year, the latter ratio was 6.3. The level as of March 31, 2020 was only 4.3. Weighted price to book is 0.9. Dividend yield is 3.8%. Weighted return on equity was 11.0%. The price to earnings multiple net of cash is higher due to a few positions that have low operating earnings but trade a meaningful discount to book value, such as **HC2 Holdings** (HCHC), **Pendrell** (PCOA), and **Rubicon Technology** (RBCN) or at a deep discount to our estimate of value, such as **JG Boswell** (BWEL), which has been selling off a number of assets for attractive prices.

**Cash Levels and Fund Repositioning**

We started the quarter with cash levels at 6% and ended the quarter at 10%. We had a lot of activity in the quarter. As events worsened, we had been selling what was cheap in order to buy what we believed was cheaper, including certain net-net stocks. We also exited our position in **Big Lots** (BIG) with a nice gain, even though it was a bit early as the company reported a sharp rise in sales (see our Q1 2020 letter for more background on the purchase). We also exited small positions in **CCUR Holdings** (CCUR), **Cuisine Solutions** (CUSI), and **Customers Bancorp 5 3/8% Subordinated Notes** (CUBB).

We added three new positions – **Pendrell** (PCOA), **Rubicon Technology** (RBCN), and **bebe stores (BEBE)**. Bebe stores is a very small position as the stock recovered from a sharp sell-off rather quickly. We look forward to monitoring it to see how it is impacted by the current environment. **Rubicon** has been in the portfolio multiple times. We had sold it in the first quarter in order to buy more attractive names. During the second quarter Rubicon announced the closing of the sale of their Malaysian property. Based on our estimate of the gain on the sale and their continued reduction in outstanding shares, we expect book value to exceed $12 per share, and net cash to exceed $10.30 per share. We were pleased to pick shares up for $8.00.

**Pendrell Corporation**

**Pendrell** (PCOA) is an interesting company we have been following for a few years. It is largely controlled by Craig McCaw and Highland Capital Management. Craig McCaw started McCaw Cellular in 1974, which was later sold to AT&T in 1994. Pendrell was a company that invested in intellectual property rights, and wasn't very successful, eventually racking up net operating losses (NOLs) for tax purposes of $2.5 billion as of December 2017. Pendrell did a 1-for-10 reverse split in September 2016, a 1-for-100 reverse split in November 2017, and then a 1-for-250 reverse split in the summer of 2018. The share count went from 268 million in the summer of 2016 to under 800 (not a typo). There were some tender offers and cash out of those small shareholders where the reverse split left them with less than one share. They have deregistered with the SEC. Their last annual report for the year ended December 31, 2017 showed equity of $199 million, with $184 million of cash and $20 million of receivables.

Due to the reverse splits, which in aggregate totaled 1-for-250,000, the share price went from under a $1 to roughly $170,000 per share. A few trades occurred at roughly $150,000 per share in 2019. During the market plunge early this year, a share sold for $53,000. That got our attention. Our estimate of book value, which we believed was mostly cash and investments, was $160 million, or $200,000 to $210,000 per share. We didn't see any mention of an acquisition on the company's website, so we acted on the assumption that the balance sheet was mostly cash and investments. We purchased shares for $75,000 per share, which was less than 40% of our estimate of book value.

Pendrell has stopped publicly providing financials. As noted above, their website is active. We went through the tender offers in detail and believe the NOLs are still intact. Shareholders who are willing to prove ownership and sign an NDA can gain access to current financials. Our thinking at the time of purchase was we were willing to be effectively a silent partner in the enterprise if the price is right, and at less than 40% of our estimate of book value consistently mainly of cash and investments, we were willing to make the purchase. The current bid and ask for the stock is $85,000 bid and $145,000 ask. Due to the steep discount to book value we believe we can do well by 1) flipping it at a more modest discount to book, 2) if the company makes a tender at a price well above our purchase, or 3) if we hold and management makes wise decisions with the investments.

**Continued Asset Sales at JG Boswell**

For those not familiar, **JG Boswell** (BWEL) engages in the production, processing and marketing of agricultural commodities, primarily cotton, cotton seed, tomatoes, alfalfa, grains, and more recently orchards in the Central Valley of California and Australia. The company has been around for nearly 100 years. Over the last twenty years it has been a vehicle for many value investors to play water rights, as the company has extensive water rights in California and Australia. The company tries to stay under the radar. They do not send out financials unless you inform them and show proof you are a shareholder. Boswell is the only company we know that copyrights its financial statements (or at least acts like it has). There are just under 1 million shares outstanding and a market value of $540 million as of the date of this letter. Book value as of June 2019 was just under $525 million, and total debt was $266 million.

We profiled JG Boswell in our third quarter 2019 letter discussing the incredible potential value of Boswell's water rights in California and Australia, along with its decision to market its Midkin property in Australia for $200 million. We also noted other assets the company has such as its 46% ownership of Phytogen, a joint venture with Corteva (CTVA). We estimated Boswell's Phytogen share to be worth $150 to $200 million based on its historical earnings through 2018. Midkin was sold last fall. In June of this year Boswell agreed to sell its share of Phytogen to Corteva. Phytogen's earnings were down in 2019, such that we have reduced our estimate of value range to $100 to $175 million. No price was announced, but Boswell completing two large asset sales in less than twelve months is very aggressive.

Just days after the Phytogen sale, news came out that Boswell was listing the rest of its Australian operations for sale, with bids starting at $500 million AUD, or $350 million USD. Based on what Boswell likely received for Midkin we expect the rest of Boswell's Australian operations (Auscott) to sell at or slightly above the bid price. Amazingly, Boswell's stock price is below where it was a year ago despite a closed ~$200 million deal for Midkin, the sale of Boswell's Phytogen stake for what we believe to be between $100 to $175 million, and the marketing of the rest of its Australia property for $350 million plus. Those three sales exceed the market cap and still leave Boswell with its California farming operations estimated at 144,000 acres and 400,000 acre feet of water rights. According to Boswell's annual report, US operations accounted for nearly 70% of its annual revenue, and 66% of its net plant property and equipment. Thus, one could argue its US operations as a going concern are worth twice its Australian operations, or $1 billion, or $1,000 per share. Due to the water rights we think the true value is even higher.

In 2013 Tejon Ranch (TRC), a company about fifty miles south of Boswell, paid $18.7 million up front for thirty-one years of rights to 6,693 acre feet of water (afw) in Kern County, plus a 35 year option. That works out to nearly $2,800 per afw up front plus annual payments of $656 per afw with an annual increase based on greater of CPI or 3%. Tejon Ranch sold water at $968 per afw in 2018 and just $750 per afw in 2019 after a heavier rainy season. We think Boswell's annual water rights are worth around $1,000 per afw. Transportation of the water would probably cost $200 per afw. We estimate the sale of permanent rights between $15,000 to $30,000 per afw. Boswell has rights to 400,000 afw. We do NOT think they could sell all of the rights in a short period of time. It would also make the land have negligible value if it cannot be farmed. We do think sales can begin to happen over the next ten years and be very rewarding for shareholders. Water rights have risen 4 to 5x in the last 15 years we have been monitoring them, so time is not an enemy.

Whether or not Boswell begins to monetize its water rights, it is clearly making major changes, and obtaining favorable prices for its Australian assets. We don't know what the Company's plans are. Will they pay a special dividend? Will they reinvest the proceeds somewhere else? Will they tender for shares? Some investors speculate that Boswell will sell its recently planted pistachio orchards along with associated water rights once they are mature in the next year or two. It is unclear how many thousands of acres of pistachios they have, but I have seen speculation of 15,000 acres with a value of $25,000 to $35,000 per acre. A possible scenario is leasing some of the land for solar farms and then leasing the associated water rights. Boswell could create a substantial revenue stream that would be very attractive to large pensions and endowments.

**Update on Portfolio Companies**

**Solitron Devices** (SODI), where I am the CEO, rose 10% in the quarter from $2.23 per share to $2.46. On July 10 Solitron filed an amended 8-K requesting additional time to complete its audit due to the coronavirus. As of that date, expectations for fiscal 2021 were unchanged from the March 26, 2020 press release. For fiscal 2021 Solitron noted that it expected revenue to be approximately $10.5 million, which would be an increase of 14% over fiscal 2020; net bookings of $10 million, which would be a decrease from fiscal 2020's $11.2 million; and a meaningful improvement in net income.

**DBM Global** (DBMG) increased from $48.50 per share to $65.50 per share during the quarter, or 35%. There was no significant news during the quarter. Subsequent to quarter end, the company declared a dividend of $1.30 per share. The company, along with its 90% owner **HC2 Holdings** (HCHC) has been subject to a shareholder suit regarding the tender offer by HC2 for DBM Global shares back in late 2014. The tentative settlement calls for shareholders who tendered to receive an additional payment and for current shareholders other than HC2 to receive $3.51 per share. We have held the position for roughly six years. Our cost basis is just over $32 per share. We have received over $21 per share in dividends to date. That amount will rise to nearly $25 per share once both payments are received. The stock is illiquid, and trades for roughly 1.3 times book and eight times annual earnings.

**HC2 Holdings** (HCHC), mentioned above, is also a holding of the fund. It rose 115% in the quarter as the activists reached a settlement. The new board members were aggressive buyers of the stock on the open market during the lows of March in the $1.50 range all the way up to a million shares purchased between $3.59 and $3.78 by directors Avram Glazer and Michael Gorzynski. About a month after the settlement, the new board removed CEO Philip Falcone, and replaced him with an interim CEO. So far, no asset sales or debt reduction has taken place, but the removal of Falcone was an important first step in our opinion. We would expect sales to begin toward the end of the year.

Our two asset management firms performed strongly during the quarter. **P10 Holdings** (PIOE) is an alternative asset management firm. Private equity firms are different in that the funds are generally locked up for a long period of time. In P10's case, typically for ten years with management fees being a fixed percentage of contributed capital. Our cost basis in P10 is just over $1 per share, with most of the shares purchased in the summer of 2018. During the quarter the bid price increased 49% from $1.68 to $2.51 per share. We have a high regard for the management team of Robert Alpert and Clark Webb. P10 owns RCP Advisors a private equity fund-of-funds and intends to acquire additional firms in the future. At the end of 2019, RCP had $6.7 billion of assets under management. On April 1 they closed on the acquisition of Five Points Capital. Five Points has assets under management of $1.5 billion. Hopefully they can do more deals in the future.

Our other asset manager, **Diamond Hill Investment Group** (DHIL) increased by 36% in the quarter. Assets under management grew from $17.5 billion at the end of March to $20.6 billion at the end of June. While Q1 results were dampened by mark-to-market losses on its investment portfolio, Q2 results will be amplified by mark-to-market gains. Diamond Hill has roughly $60 per share in net cash and investments and should earn approximately $14 per share in 2020. We would expect the annual dividend in December to be $9 to $10 per share, which is quite attractive in relation to its current $120 share price.

**Room for New Members and/or Additional Funds**

We continue to have more attractive ideas than capital. Thus, there is plenty of room for existing partners to increase their investment and for others to join. Please consider referring friends of yours who may be potential new investors. The basic requirements are 1) that each invests a minimum of $100,000 and 2) that new members are accredited (high net worth) individuals. Subsequent investments must be for a minimum of $10,000.

If this letter was passed on to you and you would like to be added to our monthly distribution list, please email me at the email address below. Should you have any questions regarding the fund, please don't hesitate to call or email.

Sincerely,

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Fund Performance

*The financial performance figures for 2020 presented in this report are un-audited estimates based on the best information available at the time of the letter and are subject to subsequent revision by the Fund's auditors. Past performance may not be indicative of future results and no representation is made that an investor will or is likely to achieve results similar to those shown. All investments involve risk including the loss of principal.*

*Net Return reflects the experience of an investor who came into the Fund on inception and did not add to or withdraw from the Fund through the end of the most recently reported period. The reported net return figures will therefore include the impact of high water marks in the cumulative return. Individual investor returns will vary depending upon the timing of their investment, the effects of additions and withdrawals from their capital account, and each individual's high water mark figure, if any.*

Index Returns

*The S&P500 Index returns are reported using the S&P500 Depository Receipt Trust (SPDR) which trades under the ticker symbol SPY. Reinvested dividends are included in these figures. A spreadsheet showing the SPY performance versus the fund since inception is available upon request.*

*Nasdaq performance excludes dividends, which historically have been immaterial to the total return of that index. In recent years more technology stocks have begun paying dividends thus the inclusion of dividends would increase the reported figures.*

*Russell 2000 performance is from data reported on Russell's website, and includes reinvested dividends.*

*DJIA returns are reported using the SPDR Dow Jones Industrial Average which trades under the ticker symbol DIA. Reinvested dividends are included in these figures. A spreadsheet showing the DIA performance versus the fund since inception is available upon request.*

*While reported returns for SPY and DIA will likely be a few tenths of a percentage lower than the representative index annually, we believe they are a better reflection of what a non-institutional investor would earn following a passive investment approach.*

*Index returns are provided as a convenience to the reader only. The Fund's returns are likely to differ substantially from that of any index, and there can be no assurance that the Fund will achieve results that are superior to such indices.*

Share Prices

*Share price figures for listed stocks are from Yahoo! Finance and unless specified otherwise are the closing price as of the previous month end. Share price figures for unlisted stocks are closing bid prices as reported on otcmarkets.com.*

Forward Looking Statements

*This letter and the accompanying discussion include forward-looking statements. All statements that are not historical facts are forward-looking statements, including any statements that relate to future market conditions, results, operations, strategies or other future conditions or developments and any statements regarding objectives, opportunities, positioning or prospects. Forward-looking statements are necessarily based upon speculation, expectations, estimates and assumptions that are inherently unreliable and subject to significant business, economic and competitive uncertainties and contingencies. Forward-looking statements are not a promise or guaranty about future events.*