MARRAM INVESTMENT MANAGEMENT LLC

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July 20, 2014

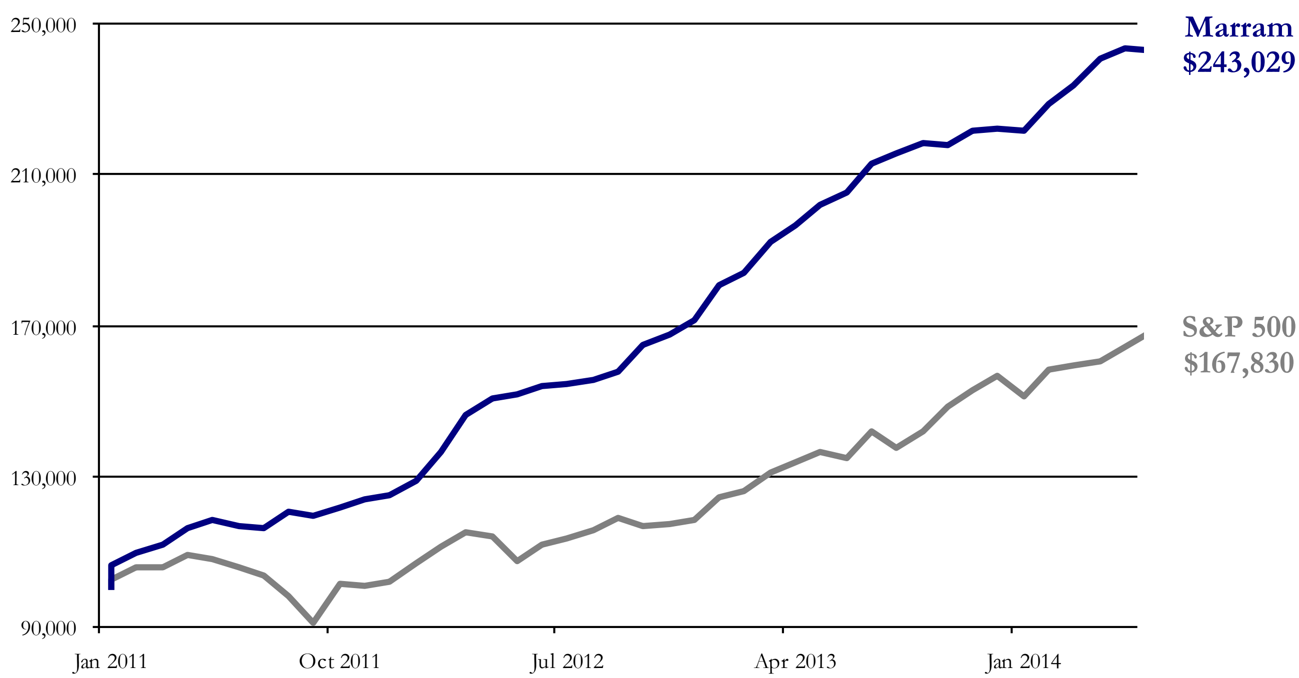
Dear Investors,

The Portfolio* appreciated +9.31% year-to-date 2014 (through 6/30/2014).

During this same period, the S&P 500 returned +7.14%.

For monthly details, please see Historical Performance Returns at the end of this letter.

$100,000 Investment in Marram* vs. S&P 500 (since Inception)



QUARTERLY LETTER SECTIONS

- **Marram's Five Pillars** – constant reminder of "why" and "how" we invest capital
- **Portfolio Return Analysis** – analysis of performance returns for the quarter
- **Portfolio Allocations** – breakdown of our current capital allocation
- **Portfolio Future Positioning** – glimpse into our current thoughts on markets, asset prices, and/or how we are positioning the portfolio to maximize future compounding

MARRAM'S FIVE PILLARS

INVESTMENT GOAL:	• To Compound (Grow) Capital Over Time
INVESTMENT STRATEGY:	• Opportunistic Capital Allocation – employing patient opportunism, which entails the following philosophy…
INVESTMENT PHILOSHOPHY:	• Buy cheap assets (when available) • Hold cash where there are no cheap assets • Hedge the portfolio when appropriate • Think creatively and opportunistically
IMPLEMENTATION:	• Security Agnostic – seek vehicles, assets, & securities that best fit our needs (these include but are not limited to ETFs, equities, debt, derivatives, etc.), offer superior risk-reward, and if all else equal, lowest expense ratio, and greatest liquidity
RESULT:	• Absolute Returns • Wealth Compounding Solution

PORTFOLIO RETURN ANALYSIS

The Portfolio* returned +3.98% in the 2nd Quarter 2014. Below are a few statistics for the quarter:

- Number of winners (where we made $): 29
- Biggest $ winner accounted for 70.0% of total $ profit & loss ("P&L")
- Top 5 and Top 10 winners accounted for 111.2% and 127.8% of total $ P&L, respectively

- Number of losers (where we lost $): 15
- Biggest $ loser accounted for -18.4% of total $ P&L
- Top 5 and Top 10 losers accounted for -39.3% and -43.1% of total $ P&L, respectively

- **Ratio of number of winner to losers ("Brag Ratio"): 1.93x**
- **Ratio of $ profit to $ loss ("Profit Ratio"): 3.25x**

We seek to maximize the "Profit Ratio" (how much $ we make when we are right vs. wrong), not the "Brag Ratio" (how often we are right vs. wrong). This is because we are here to maximize $ profits over time, not boast about how often we are right.

Our biggest $ loser declined ~6% during the 2nd Quarter and accounted for -18.4% of total $ P&L. It is a Small/Micro-Cap Bank that we have owned for a long time. Price appreciation has led to changes in expected risk/reward, and per the rationale outlined in our 1st Quarter Letter, we have begun to decrease the sizing of this position for investor portfolios.

Our second biggest $ loser declined ~12% during the 2nd Quarter and accounted for -9.5% of total $ P&L. We took advantage of this temporary price decline and purchased more shares for investor portfolios. This is a new Special Situations/Event-Driven position currently sized at ~10% of NAV. We would not hesitate to increase the sizing if the price declines further. The business is growing with strong 20%+ EBITDA margins, yet trades at ~6x EBITDA. Additionally, we believe there are a few catalysts emerging in the next 6-12 months that will help lift valuation multiples:

- $10MM share repurchase announcement (~10% of total shares outstanding, the company's equity market cap is only ~$100MM)
- Possible sale/spin-off of real estate into REIT resulting in additional ~$40MM cash infusion for reinvestment or share repurchase
- Company is exploring a dividend (not as tax-efficient as reinvestment of cash flow or repurchases, but could still provide a bump to the share price given the current yield craze)

Our two biggest $ winners (both Special Situations/Event-Driven names) appreciated ~45% and ~10% during the 2nd Quarter and accounted for 70.0% and 24.4%, respectively, of total $ P&L. One of these positions is a debt security that still offers ~ 15% total return and we intend to hold it until maturity in June 2015. We trimmed the other slightly and will continue to monitor for a few soft catalysts in the next 6-9 month.

PORTFOLIO ALLOCATIONS

Below is the target portfolio allocation – what we believe to be the optimal allocation for the capital that we manage – as of the writing of this letter. Investor accounts may differ from this allocation due to changes in asset prices, available opportunities in the marketplace, and tax considerations.

- **Large-Cap High Quality:** 10% NAV
  Businesses with robust competitive advantages trading at ~5-10% earnings yield. Correlated with general equity market performance on the upside, while downside is usually less if/when markets decline. These securities are very liquid so we can convert this allocation to cash at anytime and redeploy into opportunities when markets reverse.
- **Large-Cap Financials:** 15% NAV
  Businesses with dominant market share trading at ~8-15% earnings yield. Fearful investors fled this area during and after 2008, and prices are still recovering. These businesses were the survivors, gaining market share, with profit margins that will greatly benefit if/when interest rates rise, and regulatory shaming abates.
- **Small/Micro-Cap Thrifts (with Catalyst):** 7.5% NAV
  Healthy thrifts generating 3-8% ROE, all are well-capitalized. We only purchase the ones trading at or below ~0.70x book value, and where activist investors are pressuring management to (1) cut costs, (2) buyback shares, (3) pay dividends, or (4) sell the business – providing catalysts for value realization. This is a "revolving" basket for which we buy thrifts that fit the above criteria, and sell them when they approach fair value (~0.9x book value)
- **Small/Micro-Cap Banks (without Catalyst):** 7% NAV
  Healthy banks trading below book value with 3-8% ROE that are well-capitalized and growing loans, assets, and equity bases via reinvestment of earnings (compounding). Earlier this year, we decided to decrease this allocation and outlined our rationale in the 1st Quarter 2014 Letter
- **Special Situations/Event-Driven/Other:** 32% NAV
  Public securities undergoing spin-offs, recapitalizations, liquidations, certain debt instruments, etc. The share price performance of securities in this category are often not correlated with general market activity, but instead tied to the unique catalyst(s) embedded in each position.
- **Cash:** 28.5% NAV
  This category will fluctuate depending on opportunities available in the marketplace. If suitable opportunities cannot be found, we are comfortable holding the present or perhaps even greater levels of cash

Certain allocations (such as a large debt security within the Special Situations/Event-Driven category, and Small Thrifts) serve as basic portfolio "padding" – akin to taking weightlifting in college for GPA credit (although one investor maintains that weightlifting was a difficult class). They set the baseline for attractive returns at relatively low levels of risk. This allows us to focus our remaining attention on improving the overall portfolio, by finding opportunities that provide superior risk-return profiles.

PORTFOLIO FUTURE POSITIONING

Over the past couple of months, we have implemented a number of portfolio adjustments:

- Decreased our allocation to Small/Micro-Cap Banks as expected risk/return has shifted
- Decreased our allocation to Small/Micro-Cap Thrifts as a number of positions reached fair value
- Opportunistically increased our allocation to Large-Cap Financials in late-May. Taking advantage of weak price performance in the sector, we added to our diversified basket of market share dominant franchises facing negative headlines and continued regulatory scrutiny, trading at or below 1.0x book value (~8-15% earnings yield)
- Continuing to increase our allocation to Special Situations / Event-Driven positions, now 32% of NAV (vs. 21% of NAV at the end of the 1st Quarter)

<u>Adapting to the Nature of the (Investment) Problem</u>

Charlie Munger once said that "Berkshire Hathaway's system is adapting to the nature of the investment problem…" So much of life involves identifying problems and finding creative solutions. Investing is simply another hair on the same monkey's back. We make portfolio adjustments (such as those described above) as adaptive solutions to the changing market environment.

Six years removed from the 2008 Financial Crisis, we are entering a very different market environment. With prices of almost every asset class at/near all-time highs, bargains are increasingly difficult to find. Determined to avoid scrapping the bottom of barrels, we are wary and suspicious of most "bargains" we encounter. Luckily, Marram's small size allows us to access a greater pool of potential ideas, including those considered too small and discarded by our larger competitors.

When we do find bargains in today's environment, we must use them more intensely. In other words, we have to "size them up" as we did for the Kingsway LROC Note (currently 15% of NAV). Although we don't have an inherent preference for portfolio concentration, the resulting consequence of sizing up a few positions is greater portfolio concentration:

> *"…the ability to have a highly diversified portfolio of attractive securities changes from time to time, and we have to change with it. If you insist on having a highly diversified portfolio in periods when there aren't many bargains around, then by definition, you have to buy non-bargains, or very risky things."*
>
> *– Portfolio Management Jar Interview with Howard Marks, June 2013*

The impact of greater portfolio concentration is a higher likelihood of lumpy returns caused by price volatility across fewer positions. There's a nuance to volatility's bad reputation: no one ever complains about upside volatility, it is only downside volatility that people dislike!

True to contrarian form, we believe that downside price volatility is a harbinger of opportunity (in the form of cheaper prices). The tricky part is positioning oneself to capitalize upon downside volatility. In order to do so, we must:

- Own assets with upside potential, but immune to downside volatility occurring elsewhere in the portfolio or marketplace, and can be readily converted into cash to buy the (now cheaper) assets available elsewhere. Although difficult to find, we hold a few such assets in the portfolio, including the Kingsway LROC Note and Small/Micro-Cap Thrifts. Embedded catalysts help minimize downside volatility's potential impact – this is why we are increasing our allocation to Special Situations / Event-Driven positions
- Own cash, a double-edged sword, sometimes acting as cement shoes on portfolio returns. Our current cash allocation is 28.5% of NAV

Recognizing that cash is a potential drag on performance (the landscape is littered with the carcasses of investors who "went to cash" prematurely as markets roared higher), we pondered: how does one hold cash (to buy cheaper opportunities created by downside volatility) while ensuring that the portfolio will continue to generate adequate returns? The answer to this question takes us full-circle back to the discussion at the beginning of this section: the bargains that we are using more "intensely" (non-cash portions of the portfolio) must hold high enough expected return potential to overcome our cash drag.

The successful implementation of all of the above will require lots of patience over time because:

> "Future performance returns are a function of purchase price – the higher the purchase price, the lower the likelihood of future performance returns. A bond does not increase coupon payments because investors are hungrier for yield in a low rate environment. A stock does not generate more profits because people pay higher prices for its shares. The economic return potential of assets do not change simply because market participants become less fearful and are now willing to pay more for assets they weren't willing to touch a few years ago – and hoping won't make it so…
>
> Which brings us back to how your capital is invested. **Patient opportunism is the basis of our approach to capital allocation. This is why our investment philosophy entails buying cheap assets when they're available, holding cash when there are no cheap assets, hedging the portfolio when appropriate, and thinking creatively and opportunistically.**"

These letters serve as a general medium through which we communicate with our investors. For any account specific questions, or anything else that's on your mind that you'd like to discuss, please do not hesitate to contact us directly.

Yours very truly,

Vivian Y. Chen, CFA
Portfolio Manager
Marram Investment Management LLC

APPENDIX: HISTORICAL PERFORMANCE RETURNS*

	2011	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Marram	**24.74%**	6.11%	3.39%	2.16%	3.62%	2.00%	-1.40%	-0.39%	3.52%	-0.66%	1.84%	1.81%	0.55%
S&P 500	**2.11%**	2.37%	3.43%	0.04%	2.96%	-1.13%	-1.67%	-2.03%	-5.43%	-7.03%	10.93%	-0.22%	1.02%
% Cash Exposure		*7.47%*	*11.92%*	*13.46%*	*15.42%*	*13.54%*	*30.64%*	*23.14%*	*21.93%*	*12.17%*	*11.78%*	*10.51%*	*7.95%*

	2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Marram	**37.35%**	3.12%	6.15%	7.05%	3.14%	0.54%	1.45%	0.59%	0.60%	1.46%	4.55%	1.63%	2.13%
S&P 500	**16.00%**	4.48%	4.32%	3.29%	-0.63%	-6.01%	4.12%	1.39%	2.25%	2.58%	-1.85%	0.58%	0.91%
% Cash Exposure		*9.69%*	*8.43%*	*11.20%*	*7.58%*	*10.57%*	*8.83%*	*16.43%*	*26.99%*	*22.73%*	*27.11%*	*25.32%*	*21.86%*

	2013	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Marram	**29.77%**	5.38%	1.80%	4.38%	2.48%	2.78%	1.63%	3.60%	1.42%	1.30%	-0.45%	1.80%	0.38%
S&P 500	**32.39%**	5.18%	1.36%	3.75%	1.93%	2.34%	-1.34%	5.09%	-2.90%	3.14%	4.60%	3.05%	2.53%
% Cash Exposure		*19.45%*	*17.58%*	*19.53%*	*17.45%*	*22.78%*	*16.78%*	*10.50%*	*6.81%*	*4.61%*	*4.87%*	*6.31%*	*9.02%*

	2014 YTD	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Marram	**9.31%**	-0.41%	3.22%	2.27%	2.88%	1.14%	-0.07%	-	-	-	-	-	-
S&P 500	**7.14%**	-3.46%	4.57%	0.84%	0.74%	2.35%	2.07%	-	-	-	-	-	-
% Cash Exposure		*7.88%*	*5.10%*	*9.45%*	*15.11%*	*15.07%*	*14.45%*	-	-	-	-	-	-

* **Unaudited, gross return figure, before fees. Performance is derived from the portfolio manager's separate account. Returns for each separate account may differ due to fund transfer timing, order timing, tax considerations, and other account restrictions. Returns presented for S&P 500 include dividend reinvestment.**

Disclaimer: An investment is speculative and involves a high degree of risk. Past performance return is not a guarantee for future returns. Investors are urged to consult a professional advisor regarding the possible economic, tax, legal or other consequences of entering into any investments or transactions described herein.