MARRAM
INVESTMENT MANAGEMENT

11672 Rochester Ave, Ste 304
Los Angeles, CA 90025
www.marramllc.com
626.367.1212

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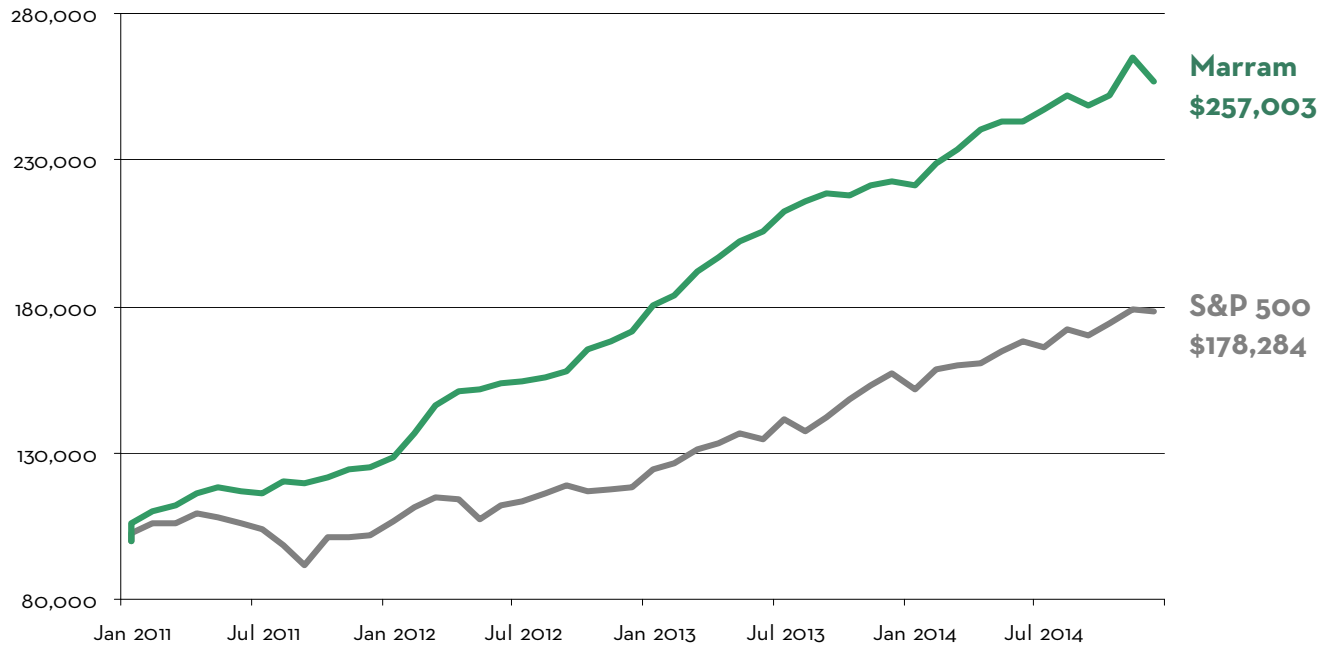
Dear Investors,

In 2014, the Portfolio* appreciated +15.60% (gross return). Please refer to your account statement for net return figure.

During this same period, the S&P 500 returned +13.69%.

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

$100,000 Investment in Marram* vs. S&P 500 (Inception to 12/31/2014)



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 – utilize vehicles, assets, & securities that best fit our needs (such as ETFs, equities, debt, derivatives, etc.), offer superior risk-reward, and if all else equal, lowest expense ratio & greatest liquidity
RESULT:	• Absolute Returns • Wealth Compounding Solution

PORTFOLIO RETURN ANALYSIS

	4th Quarter 2014	Calendar Year 2014
Marram Portfolio* (Gross Return)	**3.4%**	**15.6%**
S&P 500 Total Return	4.9%	13.7%
Number of winners (where we made $)	14	41
Biggest $ winner, as % of $ P&L	136.7%	33.1%
Top 5 winners, as % of $ P&L	167.7%	69.5%
Top 10 winners, as % of $ P&L	186.8%	92.4%
Number of loser (where we lost $)	12	14
Biggest $ loser, as % of $ P&L	-27.3%	-5.5%
Top 5 loser, as % of $ P&L	-78.1%	-13.8%
Top 10 loser, as % of $ P&L	-91.4%	-16.6%
Ratio of number of winners to losers ("Brag Ratio")	1.17x	2.93x
Ratio of $ profit to $ loss ("Profit Ratio")	**2.09x**	**6.90x**

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.

In 2014, our two biggest $ winners accounted for 33.1% and 15.7%, respectively, of total $ P&L.

- The first is a Value / Special Situations position sized at ~13% of NAV (see Case Study section)
- The second is a Value / Special Situations position sized at 4.4% of NAV. We are currently attempting to transition this position from straight equity into derivative warrants expiring in 9 years. More on this in a future letter

In 2014, our two biggest $ losers accounted for -5.5% and -3.9%, respectively, of total $ P&L.

- The first is a Small/Micro-Cap thrift position sized at 2.9% of NAV. The security is statistically under-priced. The likelihood of capital loss is extremely low given the involvement of government bank regulators and an activist investor. We expect the outcome to involve a sale in 1-3 years with ~2x return upside (~25%+ IRR)
- The second is a Value / Special Situations position sized at 10.6% of NAV. This business trades at ~5x EBITDA, is well-capitalized, growing, generating significant free cash flow, and actively repurchasing its own shares in the open market

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.

- Special Situations/Event-Driven/Other: 31% 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.

- Large-Cap Financials: 20% 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): 6% 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): 3% 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). Last year, we decided to decrease this allocation as risk/reward has shifted, and outlined our rationale in the 2014 1st Quarter Letter

- Large-Cap High Quality: 3% NAV
  Businesses with robust competitive advantages trading at ~5-10% earnings yield. These securities are very liquid so we can convert this allocation to cash at anytime and redeploy into opportunities when markets reverse. We recently decreased this allocation as risk/reward has shifted.

- Cash: 37% 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

PORTFOLIO FUTURE POSITIONING

Over the past year, our portfolio has become increasingly concentrated. Top 5 and 10 positions now compose of 50.1% and 69.0% of NAV, respectively (versus 28.5% and 45.4% of NAV, respectively, at 4Q 2013). Our rationale for moving toward greater portfolio concentration is explained most eloquently by the following quote from Howard Marks:

> *"…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…you have to buy non-bargains, or very risky things."*
>
> *– Howard Marks, Interview with Portfolio Management Jar, June 2013*

In our 2014 2nd Quarter Letter, we began a discussion on portfolio concentration and its relationship with return volatility, in which we wrote:

> "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…When we do find bargains in today's environment, we must use them more intensely. In other words, we have to 'size them up'…
>
> 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 impact of greater portfolio concentration is a higher likelihood of lumpy returns caused by price volatility across fewer positions."

Recognizing that volatility will likely begin to play a more prominent role in our portfolio, we'd like to share some thoughts on volatility and its implications.

> *"…volatility isn't how much the security is likely to move; it's how much it's likely to move versus the forecast of expected return."*
>
> *– Cliff Asness, Financial Analysts Journal, May 2014*

Every time we establish a portfolio position, we have a view on the potential future price (and consequently expected return) on the upside and downside. But the price movement of securities, especially in the short-term, is often impossible to accurately anticipate. Volatility occurs as a result of any deviations from our original price and return expectations. The combined deviation of all portfolio positions contributes to portfolio volatility.

	Upside Volatility	**Downside Volatility**
Short-Term	GREAT	NOT IDEAL
Long-Term	GREAT	TERRIBLE

Deviations on the upside (i.e., upside volatility), whether long-term or short-term, is always pleasantly welcomed. Deviations on the downside (i.e., downside volatility) is usually considered more problematic (see matrix above), and where our discussion below will focus.

- *Long-Term "LT" Downside Volatility* – markets are often inefficient in the short-term but seldom inefficient in the long-term. Therefore, if the market price permanently deviates from one's price expectation, it likely means that capital has been permanently impaired. Impairment of capital is extremely damaging to the capital compounding process because a -50% loss in one period requires a +100% gain in another simply to breakeven. It is our intention to completely avoid LT downside volatility (i.e., permanent impairment of capital) as much as possible.

- *Short-Term "ST" Downside Volatility* – it's not uncommon for security prices to deviate from our price and return expectations in the short-term, leading to ST downside volatility. The only way to completely avoid ST downside volatility is to establish positions in securities that will not deviate from one's return expectations (such as high quality short duration securities which are nearly impossible to find in today's environment). Holding portfolio cash reserves allows us to take advantage of opportunities created by ST downside volatility

Linking this volatility discussion back to the bigger picture: since Marram's ultimate goal is to maximize wealth compounding over time, our first priority is to maximize expected return while avoiding LT downside volatility (i.e., permanent impairment of capital) for reasons explained above.

While it would be ideal to avoid ST downside volatility as well, at this juncture, that is a secondary consideration. Historically, we have been fortunate enough to find and own securities that provided upside expected return with little or no ST downside volatility (such as our Small/Mirco-Cap Banks and Thrifts, as well as the Kingsway Note). This is why our ride in the last few years has been so much less bumpy than the S&P 500.

But times have changed, and we must also adapt. In today's environment, it's difficult enough to uncover securities offering attractive expected return with low potential LT downside volatility, let alone ones offering attractive expected return with low potential LT and ST downside volatility!

We anticipate the ride will get bumpier going forward. But we don't anticipate the bumpiness to last forever. There will be a time, one day in the future, when the marketplace will once again be flush with attractively priced ingredients, allowing us to seek to maximize expected return while avoiding both LT and ST downside volatility. Given our portfolio cash reserves, we will be well-positioned when that day arrives.

CASE STUDY: SPIN-OFF COMPANY A

The case study below is an apt example of a security with high expected return and low likelihood of LT downside volatility, but a fair amount of potential ST downside volatility, made much more apparent by its large sizing within the portfolio at ~13% of NAV.

Tip: be sure to caffeinate before proceeding as we will be providing a fair amount of investment detail. The complexities explained in the paragraphs below is indicative of current times – all the low-hanging-fruit bargains have been picked. In order to uncover undervalued securities, we must look harder and dig deeper to reveal facts not so obviously perceived at first glance.

The security is a spin-off that came to market in early November. We backed up the truck and were able to build a significant position at ~$60/share. Over the next two weeks, the shares rallied to over $130/share, and currently trades for ~$100/share. We believe there remains significant upside from today's price.

Background

Spin Co is a REIT asset manager that earns management fees (based on the enterprise value of assets which it manages) and incentive fees (based on the outperformance of assets which it manages vs. peers) – a high margin business with tremendous operating leverage (i.e., they won't incur much additional expenses as revenues grow).

But it was not the quality of the business that piqued our interest in this particular spin-off. Reading through the ~200 page spin prospectus, we noticed a small paragraph disclosing how the Chairman and Chairman Emeritus of the Parent Co intended to transfer ~$18mm of deferred compensation from the Parent Co into the Spin Co.

This ~$18mm figure seemed rather trivial until further reading revealed that the deferred compensation would be converted into shares of Spin Co based on a $50-70mm valuation provided by two investment banks retained by Parent Co. Quick math: ~$18mm deferred comp would equate to ~30% of total Spin Co shares!

What Spin Co Is Worth

Spin Co's revenues are derived from 20-year asset management contracts with Parent Co (a ~$3.5Bn market cap company) and another publicly-traded company affiliated with the Parent Co. Spin Co makes an estimated ~$11 million EBIT annually and was funded with ~$30mm of net cash on the balance sheet.

Our extremely conservative estimated value of Spin Co:

$11mm EBIT, which includes many non-recurring incentive compensation items, so the true cash EBIT is likely far higher once non-recurring line items are added back. However, at this juncture, the exact breakdowns are unclear based upon regulatory filings

(x) 10-12x multiple (at the lower range of where comparable public asset managers trade)
(=) $~110-132mm
(+) ~$30mm of net cash on balance sheet
(=) ~$140-162mm equity valuation
(÷) ~3mm total shares outstanding
(=) ~$47-54 per share for an extremely conservative estimated value of Spin Co

The above conservative valuation is supported by termination clauses within Spin Co's asset management contracts which provide a significant degree of downside protection. These clauses stipulate that upon early termination, Spin Co will be entitled to an amount equal to "1.1 multiplied by the greater of:

(i) 12 times [Spin Co's] net earnings…
(ii) the earnings multiple (based on net earnings after taxes) for [Spin Co's] common stock for the 12 months preceding…multiplied by [Spin Co's] net earnings…
(iii) the simple average of the earnings multiples (based on net earnings after taxes) for [the] common stock for each of the three fiscal years…multiplied by…net earnings"

"attributable to the…advisory agreement" in the 12 months preceding the termination PLUS an additional "gross-up amount for assumed federal and state tax liability, based on an assumed tax rate of 40%. The termination fee will not be subject to any maximum amount or other limitation."

In other words, if Spin Co ever traded below ~12x its "net earnings attributable to the…advisory agreement," one would actually hope for the contract(s) to be terminated so that Spin Co could receive the amount(s) as determined by the termination clause(s)!

Now that we've establish what we believe Spin Co is worth in a worst case scenario, let's move on to a more pleasant topic: upside. We believe Spin Co is worth as much as $200-350+/share depending on two major variables:

- Annual EBIT – as more light is shed on non-recurring incentive compensation figures in the coming months via updated regulatory filings and earnings calls, a true annual EBIT figure will emerge. How much higher will this figure be than the previously disclosed ~$11mm/year – is it $20mm, $30mm or $50mm? The answer to this question is the key to our upside thesis
- Market valuation multiple – this figure is driven by a variety of considerations, such as the business profit quality, overall market sentiment for the business and industry, market comparables, etc. We believe that 10x multiple is not an unreasonable multiple for a low capex business with high operating leverage. Additionally, the termination clauses discussed above places a ~12x multiple floor on Spin Co valuation

In the sensitivity matrix below, we've provided the implied future price for Spin Co given different scenarios for these two variables (based on the math outlined on the previous page). Green areas signify all scenarios under which the implied future price is higher than today's market price.

		Annual Spin Co EBIT (in $ millions)								
		$10	**$15**	**$20**	**$25**	**$30**	**$35**	**$40**	**$45**	**$50**
	10x	$43	$60	$77	$93	$110	$127	$143	$160	$177
	12x	$50	$70	$90	$110	$130	$150	$170	$190	$210
Valuation	**14x**	$57	$80	$103	$127	$150	$173	$197	$220	$243
Multiple	**16x**	$63	$90	$117	$143	$170	$197	$223	$250	$277
	18x	$70	$100	$130	$160	$190	$220	$250	$280	$310
	20x	$77	$110	$143	$177	$210	$243	$277	$310	$343

Why Spin Co Is Undervalued

Our thesis that Spin Co is undervalued stems from our belief that Spin Co's current (and future) annual EBIT figure is far higher than the ~$11mm per year provided in the spin prospectus.

We believe that management of Parent Co did not do a very good job of clarifying the non-recurring expenses included within Spin Co's EBIT figure, which depressed the value of Spin Co as it came to market (management certainly was not incentivized to do so since the deferred compensation then converted into a greater % of Spin Co shares). Additionally, given the high operating leverage nature of the business model, we believe there are many levers available to boost Spin Co profitability that had yet to be pulled.

Our hypothesis has thus far been partially validated as Parent Co and Spin Co have announced a number of developments in December and January that will boost Spin Co profitability. These include:

- Parent Co raising a new Real Estate hedge fund on which Spin Co will be investment adviser
- Parent Co purchased ~$300mm of new assets = ~ $2.1mm additional revenue to Spin Co
- Parent Co and another affiliate refinanced debt with ~$100mm excess balance sheet proceeds = ~$0.7mm additional revenue for Spin Co

Developments such as these will likely continue to occur in 2015 because the companies that Spin Co advises have plenty of deal working capital to deploy. There is going to be a great deal of information discovery to come. A potential catalyst: Spin Co will be announcing its first stand-alone earnings at the end of February.

Post-spin, despite receiving ~30% of Spin Co through their deferred compensation conversion, the Chairman and Chairman Emeritus continued to purchase shares in the open market at prices as high as $130/share. This is yet another data point in triangulating the upside potential of this security.

Although exact upside valuation is difficult to pinpoint, we are comfortable making Spin Co our second largest position given the degree of downside protection as well as insider incentives.

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											
	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											
	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											
	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											
	2014	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Marram	**15.60%**	-0.41%	3.22%	2.27%	2.88%	1.14%	-0.07%	1.62%	2.11%	-1.41%	1.49%	5.11%	-3.09%
S&P 500	**13.69%**	-3.46%	4.57%	0.84%	0.74%	2.35%	2.07%	-1.38%	4.00%	-1.40%	2.44%	2.69%	-0.25%
% Cash Exposure		*7.88%*	*5.10%*	*9.45%*	*15.11%*	*15.07%*	*14.45%*	*19.95%*	*19.75%*	*18.36%*	*17.31%*	*11.06%*	*15.97%*

** Unaudited, gross return figure, before fees. Performance is derived from the portfolio manager's separate account which does not pay management or performance fees. Returns for each separate account will differ due to fee structure, trading expenses, fund transfer timing, order timing, tax considerations, and other account restrictions. Please refer to your account statements for net return figure. 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.