RAGING CAPITAL
MANAGEMENT

October 9, 2020

Dear Fellow Investors:

We have sent you several updates since announcing our plans in March to proceed with an orderly wind-down of Raging Capital. Today, I wanted to send you a more formal letter with some deeper thoughts and reflections on the past fifteen years.

First, I want to thank each one of you who believed in Raging Capital. It was your support and confidence that made my transition from a technology entrepreneur to a hedge fund manager possible. I am eternally grateful for your partnership and friendship. Thank you so much!

The decision to close Raging Capital was not an easy one, but it was the right one. While we are very proud to have compounded our returns at double-digits annually since inception in 2006, we plainly did not deliver the results that you or we expected for the past few years. We struggled to adapt to the recent market environment which heavily favored momentum over value, in addition to making too many mistakes.

Running a hedge fund is a unique and challenging endeavor. For those with boundless intellectual curiosity, it is an amazing business that provides an opportunity to interact with brilliant people and to constantly learn about new businesses and technologies. Further, the market is truly a multi-variable equation, one that can never quite be solved. For a competitive person, this constant challenge is thrilling. Unfortunately, there is also no "off" switch. After many years of running Raging Capital, as well as market-centric startups prior to that, I needed a break from that daily grind.

Some Reflections on Raging Capital

Having had six months to reflect, I wanted to share a few observations about our closing chapter(s):

Institutional Inertia: As Raging Capital matured into a larger, more institutional firm, a degree of inertia set in. We shorted stocks because that's what we were known for doing; we maintained certain portfolio constructions because that's what was typical; analysts wanted more of their own ideas in the book, because that's what good analysts always want; and so on. Even though I had the inherent flexibility to do otherwise, I too fell into a rut of doing certain things simply because that's what we were known for doing. The beauty of a hedge fund is you can run your book anyway you want; I think I forgot that.

Size Matters: As one of our key partners regularly reminded me, "Modest AUM continues to be important." And although we were restrained in our pace of asset growth, Raging Capital outgrew the sweet spot of the types of investments that I most enjoyed pursuing. This is not to say we couldn't manage a book of larger cap names; we often did. However, my passion was more focused on entrepreneurial opportunities and special situations. As a result, a lot of our investments remained in small companies, which, as we grew, created trading challenges (particularly when there was bad news). Given how much alpha we generated when we could be nimble, this hurt us over time.

Cycles Take Time: Even as a devoted student of history, I found it hard to be a patient investor *and* an active money manager. The fact is cycles take time. On a number of occasions, we had made early investments into important technology cycles (e.g. SaaS in the early days, Facebook in Mobile, Amazon/AWS in Cloud, etc.) only

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to later think that the opportunity was fully priced in -- when in fact many, many innings remained in the game. When the prices on your screen change every day, it is often hard to sit on your hands and let things play out over time. Ironically, the illiquidity of my privates was often a blessing, as I was structurally forced to be patient!

Today's Market Environment

The current market environment is astonishing. I, for one, am happy that I don't need to run a complex long/short portfolio right now. Honestly, I wouldn't know where to start and that's probably the biggest reason why I folded my cards at the end of March. Raging Capital has climbed out of plenty of holes over the years, but in each of them I had the confidence to point to the top of the mountain and say, "Follow me, this way to the top!" I didn't have that resolute determination this time around.

Many of you will recall that my first company was Raging Bull, a leading online finance web site in the late 1990s. Like Robin Hood or Dave Portnoy today, Raging Bull was the center for much of the market's speculative bubble at the time. It is perhaps not ironic then that Raging Bull has been reincarnated in the current era as a leading day trading service. Speculation is back in vogue, only this time it is being amplified by frenzied options trading. Stanley Druckenmiller may have described the current market best when he called it a "Raging Mania."

Central banks and fiat money are largely responsible for this speculative largesse. With many key interest rates around the world now negative, the "gravity" that drives free markets to efficiently allocate capital has been, in part, suspended. Central banks are further contorting the invisible hand of the market by purchasing corporate securities. Meanwhile, governments are spending money hand over fist. The Austrian economic masters that I grew up studying are surely rolling over in their graves.

The Merits of Short Selling

A few thoughts on short selling. We ultimately became known for short selling, due to our ability to generate both absolute returns (in more than half of our years) and material alpha (over 1500 bps per year on average through 2019). Short selling is a difficult undertaking that requires a sharp analytical ability as well as a steady emotional temperament. Inevitably, there is a battle to be fought even when you're 110% correct. Central bank policies have only made this tougher, as zombie and fraud companies are kept in business by cheap money and interventionist policies.

Still, short selling is worth pursuing, if for no reason other than almost no one does it anymore. It is truly one of the few true inefficiencies left in the markets today! To be successful, I continue to believe that it very important to maintain emotional neutrality via a diverse portfolio and limited position sizing. But even then, it is hard to fight the tide when the market is as manic as it is today.

A Few of our Favorite Stock Tales

Over the course of fifteen years, Raging Capital invested in many hundreds of companies; the below list captures just a few of our favorite investing tales from both the long and the short sides. There are many great stories!

Long Highlights

Omniture	A leading web analytics software player that was ultimately acquired by Adobe, we made Omniture our first 10% position after a lackluster IPO debut in mid-2006. It proved to be a big early winner for us.
Taro Pharma	With an original cost basis of around $10 per share, we participated in a successful activist effort to fight off first a $24.50 take-private bid and then a $39.50 bid from their largest shareholder. We ultimately sold the last of our shares for nearly $100 per share.

American Airlines	We made over 10x our money by buying the stub equity of American Airlines during the late stages of its bankruptcy as it became apparent that there was real equity value, particularly after the merger with US Airways.
Pre-IPO Facebook	We bought our first shares in Facebook in 2010 at a ~$6 billion valuation when Mark Zuckerberg was just 26 years old, becoming one of less than 400 shareholders in the company. It was a very controversial purchase at the time. We sold out a few years later for roughly 4x our original basis.
Post-IPO Facebook	After a broken IPO in 2013, we went back to the well in Facebook and the fund made over $100 million (primarily through a multi-legged equity and options trade) when we nailed the inflection in Facebook's mobile advertising. We subsequently profited from Facebook on multiple occasions to follow, but it would have been a lot easier if we had never sold the stock in the first place!
Massage Envy	We helped lead the acquisition of Massage Envy amid the consumer downturn in 2010, making 7.3x our money when it was sold less than 3 years later!
Vitesse Semiconductor	We led the recapitalization and assisted with the turnaround of this networking semiconductor company, realizing over $40 million of profits when it was sold to Microsemi in 2014.
Toast	Raging Capital was the first institutional investor in this now super successful restaurant software and payments company. With a little luck, Toast could go public and become our first 50x+ bagger!

Short Highlights

Regional Bank Shorts	From 2006 through 2009, we were short a basket of more than 15 very targeted regional bank shorts (in addition to a number of mortgage banks) with a large amount of construction lending exposure. This was a very profitable trade, with names like Bank of the Keys and Silver State Bancorp going to zero.
Chinese Reverse Mergers	Over the course of 2009 to 2012, we shorted nearly 30 Chinese companies that reversed-merged into U.S.-based shell listings. Many of these companies, including names like RINO, Wonder Auto, and Longtop, proved to be frauds and saw their shares delisted by the SEC.
Conn's	Anchored by our deep analytic insights into their lending book, we made a living shorting this subprime lender masquerading as a retailer, including profitable trades in 2013, 2014 and 2019. The fact that this parasitic company is still in business speaks to the flaws in the Fed's easy money policies.
AAC	We have a lot of stories to tell on the short side, but nothing beats seeing a CEO *indicted for murder*! AAC was a roll-up of drug rehab centers that ultimately hit a wall after insurers tightened the screws on previously loose reimbursement rules.
Valeant	This high-profile short was a gift that kept on giving, as we were able to short Valeant multiple times on the way from $180 to $15 per share. Our previous TARO long gave us an edge on industry dynamics, and the stock remained lightly shorted throughout most of its decline due its perceived (but fake) low valuation.
Insys	We made over $30 million over multiple years shorting the worst company we've ever seen as short sellers. Insys literally bribed doctors to prescribe Fentanyl, a highly addictive opioid, to off-label patients. After years of pursuit, the DOJ ultimately secured racketeering convictions and Insys went bankrupt.

Go Forward Plans

Moving forward, Fred Wasch and I will remain laser focused for the foreseeable future on maximizing the value of the remaining Raging Capital portfolio while returning capital in a timely way. We are very pleased that we have already returned over 50% of capital in the first six months since announcing our plans. The good news is that much value remains in the portfolio, particularly in our private book which has been a key driver of returns over time (our private book returns have rivaled that of top tier VCs, thanks to Facebook, Toast, Massage Envy, Shape Security, and others).

I do plan to return to my roots as an entrepreneur and private investor. Starting in 2021, I hope to publish a regular letter and host an annual conference with a focus on exciting startups, emerging entrepreneurs and managers, and an occasional investment idea or two. I look forward to sharing more.

In the meantime, I'm super excited to inform you of the launch of Monimus Capital, led by Raging Capital's former Managing Partner Brian Bellinger along with our former Analyst Adam Walder, Senior Controller Ben Briggs, Head Trader Drew Rubin, and Senior Advisor Bob Lerner. I wish Brian and his team the best of luck and hope they can follow in the successful footsteps of another former Managing Partner, Wolf Joffe, and his firm, EVR Research. Good luck guys!

I also want to thank all of the other members of the Raging Capital team for their hard work over the years. Your contributions are greatly appreciated. We too wish you the best of luck.

I look forward to staying in touch and will continue to provide you with regular updates on Raging Capital's portfolio wind-down.

Please stop by and see us when you're next in the Princeton-area.

Good luck and Godspeed to everyone. Thank you again.

Sincerely,

William C. Martin
Chairman & Chief Investment Officer
Raging Capital Management, LLC