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General Partner
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Pendragon Special Value Fund, LP

Mid-Year 2021 Letter to Partners

I am pleased to report that our partnership, at June 30, 2021, was up 26% year-to-date. We outpaced both the S&P500 and the Russell2000 indices by 12 and 9 percentage points, respectively. Continuing economic recovery and the tailwinds created by government economic support, raised bank share prices. Banks were able to reverse the hefty loan-loss reserves they were forced to create when the pandemic began. With the help of Federal Reserve and fiscal policy, actual loan-losses during the pandemic were relatively small. Banks balance sheets were historically strong going into the pandemic and were well-preserved coming out. Merger activity continued in the industry this year and we had four holdings bought by larger banking institutions.

Deal	Gain Realized	Months Position Held	Still Hold Shares
Meridian Bancorp	51%	30	No
Sterling Bancorp	21%	32	Yes
Cadence Bancorp	0%	50	No
Pioneer Bancshares (TX)	40%	49	Yes

The gains we experienced from merger activity was significant with Cadence being a notable exception. In 2018 and 2019, Cadence had elevated losses from loans made to firms in the oil and gas industry. We underestimated the difficulties the bank was having in resolving these issues. We held the shares and were able to exit at break-even. Pioneer Bancshares operates in east-central Texas with a presence in the attractive Austin market. It is being acquired by Sunflower Bank/First Sun Capital, a privately held company. The terms of deal have yet to be finalized and we expect the final acquisition price will be higher than where Pioneer is currently trading.

In our last letter, we discussed how we began to invest in SPACs. We have done so in a conservative manner with relatively small position sizes and with a review of the business and the valuations when a deal occurs. We have been prudent to take profits when our SPAC holdings jumped up and hopefully we will be proven to be just as prudent in holding the ones we have. So far, with realized and unrealized gains and losses, we essentially are even since we dipped our toes into this area of the stock market. As with everything we do, we look for fallen angels, mis-priced securities and out of favor special situations. We will continue to do so in the SPAC space in search of growth opportunities, especially in the areas of fintech and real estate.

One investment made in 2021 that combines several of our investment criteria is our purchase of shares in BowX Acquisition Corp. The company is a SPAC that is merging with the post-bankruptcy WeWork. Through the bankruptcy process, WeWork was able to correct the mistakes that led to its high profile collapse. Non-core businesses were exited, debt and leases were able to be either dismissed or re-negotiated. The old management departed and a more rational path was set. The new investor group that is in the merger deal with BowX includes Fidelity Research & Management, Starwood and Black Rock. In a post-COVID world of flexible workspace, WeWork's second act might be the charm.

During 2021 stocks showed spikes of volatility. Some of it was driven by internet traders squeezing short sellers. Some of it was driven by the uneven and uncertain recovery. In any event, we sold or lightened positions where the price moved to levels we believed unsustainable. While we are value players we will gladly take profits when the opportunity is presented to us..

During the first half of 2021, the partnership continued to buy shares in its core area of community banks trading at discounts to their tangible book or discounts to where peers are trading or to their estimated take-out valuations. Additionally, we continued to add to our positions in depressed REITs. We believe that the economy will continue to recover. COVID variants may slow down the path of recovery but nevertheless hospitality, travel and retail will survive and certainly in the medium term, thrive. There is a great deal of pent up consumer demand for travel and retail consumption.

The financial side of renewable energy is an interest. The green energy transition is underway and someone needs to finance it. Last year we purchased Hannon Armstrong. This year we purchased shares in a large Indian solar and wind project developer and in a US-based residential solar financing company.

Currently, the five largest current positions in the partnership are:

Position	Percent Of Holdings	Description	Rationale
Goldman Sachs 2023 Call	2	Leading Investment Bank with growing consumer businesses through a partnership with Apple and their own Marcus brand	Premier investment bank with strong management that is expanding into other growth markets
Partners Bancorp (formerly Delmar Bancorp)	2	Mid-Atlantic bank holding company	Growth story through the combination of several smaller banks under the leadership of a well-known activist investor
Caisse Regionale de Credit Agricole	2	French regional bank	Large discount to tangible book value.
Village Bank & Trust	2	Richmond, VA community bank	Combination of several smaller banks under the leadership of a well-known activist investor
Cambridge Bancorp	2	Boston area bank with large trust and investment management businesses	High performing institution. We have position through a merger

As the table above shows, our long-term option position in Goldman Sachs has increased in value such that it is our largest position. The option is a deep in-the-money call and is essentially a stock substitute that allows us to participate more fully than if we owned the stock outright. We have used deep in-the-money calls to buy mega-large US banks. Our other long-term calls are for shares in Citigroup and Wells Fargo. Both Citi and Wells are the more out-of-favor and cheaper stocks in the mega-large US bank group.

The composition of our partnership's current holdings are:

	Percent of Partnership Holdings
Community Banks	63%
Real Estate	9%
Non-US Financials	5%
Large US Financials	5%
Other Value Situations	10%
Other Financials	8%

Generally, I look at banking as a business with three elements. The first is credit quality. The second is non-interest income, like insurance or securities brokerage, mortgage sales, and investment/trust management. Finally there is a spread business where banks borrow short-term money to lend it out in the form of longer-term loans and mortgages. The profitability of the last is dependent on the slope of the interest rate yield curve. At this point in the cycle coming out of COVID with incredible amounts of government support, loan losses are low and are likely to stay there for a while. Non-interest income seems to be growing for banks and at presently is not much of a concern. The slope of the yield curve has been a significant headwind for banks since the Fed began extraordinary measures to deal with the 2008 financial crisis. If the economy continues to improve and the Fed has room to slow the pace of bond buying, a better yield curve might be in the offing.

As always I appreciate your trust. I look forward to reporting our year-end results. If you have questions or concerns, please call me at 917-837-2287. Please stay healthy and well.

Sincerely yours,

Ian Green

General Partner