Shareholder Letter to Partners

Partners,

2020 was a year characterized by elevated valuations, low interest rates, and heightened trading activity, in part due to Covid-19, which precipitated short-term thinking. The psychology dominating the 2020 market could be described as exuberant.

For some securities, prices and intrinsic values differed widely, with some investments rising as much as 400% or more. Other businesses whose prices were below intrinsic value, continued to provide attractive investment opportunities at attractive valuations.

1) *"Ignore today's furor. It will often be forgotten by next week."*

It is important to remember Benjamin Graham's famous saying that "[i]n the short run, the market is a voting machine but in the long run, it is a weighing machine." The short-term gyrations and fluctuations of quoted market values should simply serve to inform, not to instruct any particular action. For instance, purchasing portions of a business merely because the stock price is rising will likely lead to less than satisfactory returns in the long run.

Due to market excitement in specific sectors, other sectors often are overlooked, which can lead to attractive opportunities. Due to such overlooked opportunities, I can say with certainty that our portfolio stems from better investment purchases made over the past year and will lead us towards the high returns our partners have come to expect.

2) *"Nine-tenths wisdom consists in being wise in time."*

Over the past year, opportunities did emerge to acquire stakes in businesses with durable competitive advantages. Moreover, we added a significant stake to a business with truly rare characteristics. A business not only whose value grows with time passing, but also, whose intrinsic values will increase in time. A truly rare accomplishment in business. The new holding will add to the value of the portfolio over time and was acquired at a rather reasonable price.

The partnership achieved about a 21% gain for the second year. This performance, although satisfactory, could mask the role of luck in the short run. Even though the first 2 years of operation started with results in excess of 20%, it important to recognize that results should not

be judged for a minimum of 3 years and preferably 5 years. Long-term thinking allows for inherent structural advantages that will improve results over time. Short-term thinking tends to cloud judgement and lead to suboptimal decisions, both in operating business and managing portfolios to optimize returns.

3) "Ability can take you to the top, but it takes character to keep you there."

One structural advantage that separates us from almost all investment firms is the removal of the management fee. When thinking about the structure of the investment business, why should consumers pay management fees on top of performance fees? Why should general partners and/or managers be compensated regardless of whether the client makes or loses money?

This construct has existed in the investment management business for centuries and strikes me as absurd. It is time to provide superior investment performance at a lower price, compensating the manager only if they earn positive returns. Even among private equity managers, the 2/20 model should be altered to a model where the manager is compensated based on performance. Providing incentives that tie performance directly to returns is the first step to incentivize the right behavior in investment managers.

I have tried to highlight important points as well as impart knowledge of our philosophy. If there are any questions, I would welcome hearing from you.