Shareholder Letter to Partners

Partners,

I begin this letter by highlighting the objective of the partnership, to compound returns at a rate of 15% or more per year, on average, throughout the life of the partnership. I write this objective and share it with you not only to hold myself accountable, but also to make clear the overall objectives of the partnership. Over time, it is the temperament of the manager that is by far the most important quality. The partners and I firmly believe this to be the case.

While conducting analyses of investment opportunities, overall market analysis does not spring forth to the very top of my mind. In fact, analyzing the general market to determine causes for market movements is akin to looking at the ocean's wave patterns to determine whether a storm is coming. One can stare infinitely into the water, however, any single identifying cause remains elusive.

I will separate the remainder of the letter into 3 major themes encountered through the course of 2019:

1) "What the wise man does in the beginning, the fool does in the end."

Some of you are probably thinking that if returns are not at or above 15% today, then, the partnership is not achieving its results. I would simply ask you to refer to Berkshire Hathaway's annual letter of 1993, which states "From 1991 to 1993, Coke and Gillette increased their annual operating earnings per share by 38% and 37% respectively, but their market prices moved up only 11% and 6%." I would also like to point out that since that time, the respective annualized returns of Coke and Gillette both exceed 15% per year (the Coke investment is more than 25% compounded annually), excluding dividends. In other words, the decision to invest and allow the returns to compound over time, generated increased returns. As evidence, $1 million earning at 10% per year for 20 years, turns in results of $7.3 million, resulting in an annualized rate of return of approximately 31%. Albert Einstein once attributed compound interest as "the 8th wonder of the world." Those who gain from it can see why. Those who are aware of the effects of compound interest and are able to identify businesses with unique economic characteristics that bring incremental returns with time are the ones who will benefit from this almost magical 8th wonder. The art of compounding clearly wields more power as time moves forward.

2) "In a room where all think alike, no one thinks very much."

Our activities over the past year stemmed partly from searching for opportunities in which we either established new positions in smaller companies or added to existing positions in businesses demonstrating a durable competitive advantage. On the other hand, our most intelligent behavior of 2019 may have been to engage in the art of doing nothing. No need to force action when the opportunity is not there, especially since there are no required actions imposed upon us. Granted, if we simply elect to do nothing over the course of many years, then we will deserve the frustration that will come from our partners.

In a market where many seemingly have no doubts about purchasing portions of businesses at heightened valuations, our attitude reflected one of patience. Over time, in one form or another, patience certainly pays. We feel no qualms about engaging in strategies that others may question simply because no one else is following suit. Similarly, if 20 people are in a room and given a choice to step to the right or to the left before an arriving bus and 19 people step to the right, then I will have no problem stepping to the left as long as the facts that I analyze reveal that the odds of avoiding a collision are greater than 50% if I step to the left. This is not to be confused with a deliberate step to the left simply because everyone else stepped right, but rather a leftward move after carefully considering the facts at hand.

3) "It is better to be approximately right than precisely wrong."

It is important to state that we are by no means perfect, nor do we strive for perfection. Rather, we look to assess every opportunity based on publicly available information. During our first year of operation, we were approximately right, earning a return in excess of 25% in our first year. Although it is way too early to judge performance, I will share the results with my partners just as I would expect the same if I decided to invest with a particular manager (i.e., if you ask me, performance should not be looked at for a minimum of 3 years). Rather than over-analyze the short-term performance, I will end this letter by saying that the snowball is at the top of the hill and has begun to roll down as we embark on this long-term journey.

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.