Shareholder Letter to Partners

Partners,

2024 was yet another strong year, producing total net returns of 38.1% for the fund as we continue to build on our very strong track record. Our partnership's overall objective serves to compound capital for investors, at least at 15% per year annually, on average throughout the fund's lifetime.

Different investors have different investment options to consider based on many factors such as overall goals, lifestyle choice, maximizing compounded returns versus current income, risk tolerance, market dynamics impacting personal financial decisions, and many other items. Thus, when an investor evaluates a particular investment, alignment of interests should always be an important consideration. The investor is really asking 3 core questions:
1) what is the investor or fund's competitive advantage?
2) what is the fund culture?
3) how aligned are the managers and/or entities with me? (the investor)

I will separate the remainder of the letter into 3 major themes encountered through the course of 2024:

1) *"Bull markets to go to people's heads. If you mix politics with investments, you're making a big mistake"*

2024 was characterized by uncertainty followed by continued strength after the US election, leading to a significant gain with a 38.1% net return to investors. This performance stems from careful planning and analyzing data correctly such that the macro backdrop aligns with the micro environment. The year was characterized by bouts of volatility, but the rational investor should have been able to take advantage of such market swings to enhance performance and reposition strategically for the end of the year. With a strong shift in consumer sentiment buoyed by election results toward the end of the year, investors regained confidence and repositioned for reduced government coupled with stronger growth. In order to derive second-level insights that can lead to market outperformance, first-principles thinking is a strong framework to adopt. First-principles thinking is a problem-solving approach that involves breaking down complex

problems into their most basic, fundamental truths and reasoning up from there, rather than relying on assumptions, analogies, or conventional wisdom. Such thinking is often what separates the great managers from everyone else.

2) *"In the business world, the rearview mirror is always clearer than the windshield."*

Our outperformance in 2024 stems from insights and anticipation of the macroeconomic backdrop changing via a presidential election, particularly one which shifted consumer sentiment and appetite for risk not only amongst individuals, but companies as well. The asymmetric payoffs from particular holdings resulted with an election outcome that uplifted the spirits of many Americans. Furthermore, treasury yields remained on par or lower, which helped keep asset prices higher relative to any potential softening. Indicators of macro shifts along with microeconomic transitions were present, as long as investors were looking in the right places. Clues in places such as fed data, public filings, and statistical models painted a picture that yielded stronger results in the back half of the year.

Without clear knowledge of the future, investors can weave their way through the complexity of the markets by assimilating various pieces of information to form conclusions based on logical, sound reasoning. It is only when logic and common sense go out of the window that trouble starts to arise. Common sense is, after all, the most uncommon of all gifts.

3) *"Intelligent investing is about being patient, disciplined, and eager to learn."*

The ethos behind intelligent investing is not captured by every investor in the market. If anything, in reality, very few investors possess both the intellectual and mental discipline coupled with the right mental models to perform at a high level in the investment management business. Some very important attributes to consider are temperament, outlook, long-term vision, insights about the short-term and the long-term, and how each impacts the other. It is inevitable that each investor, even the greatest of each generation, makes mistakes, but it is how those investors respond to such mistakes and/or market calamities that makes them truly legendary. For instance, in a declining market, Warren Buffett was buying as much he could after a 50% decline in the value of American Express stock in 1964. The salad oil crisis of 1964 was a major financial crisis involving borrowed funds using salad oil inventories as collateral, falsely inflating the reported quantities. After carefully analyzing the aftermath, Buffett realized that this exogenous shock was a one-time shock and not recurring in nature. Hence, knowing that short-term prices can be very far removed from reality, Buffett saw this opportunity and invested 40% of the partnership's assets in American Express. The strength of Amex's brand and customer loyalty had not changed at the time. As a result, Amex recovered and tripled in value just a few years later. By observing consumer behavior along with the financials, Buffett was able to reach his own sound conclusion based on first-principles.

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.