

Shareholder Letter to Partners

Partners,

2021 presented challenges in allocating capital prudently given heightened valuations. Nonetheless, we managed to delve deeply into our data sources and company reports and managed to allocate capital into some excellent opportunities. We made one significant investment which we know will bear fruitful returns in the years to come. However, as valuations remain elevated, it is apt to act with caution rather than vigor.

- 1) "An appeaser is one who feeds a crocodile, hoping it will eat him last"

Remembering that one may have to suffer in the short term to gain in the long term is critical yet not widely practiced.

Warren Buffett would often say "You should invest in a business that even a fool can run, because someday a fool will." His preference for investments with long-term time horizons stems not only from a desire to grow investment capital, but also from an inherent, fundamental understanding of the way investing works. Simply put, \$1 allocated today should generate more than \$1 worth of value tomorrow. In essence, the concept is so fundamental, yet is not adhered to by the management of many corporations. These corporations often seek the short-term solution at the expense of the long-term opportunity.

- 2) "Failure isn't fatal, but failure to change might be"

Investors lulled into easy money will likely face challenges in the year ahead. As the Fed shows signs of increasing rates, investors must remain aware that interest rates are like gravity. Low interest rates support higher valuations. Conversely, high interest rates support lower valuations. Essentially, the higher interest rates become, the less future earnings become. As the economic cycle adapts and as the Fed considers rate increases, the economic landscape will inevitably change.

The valuations of high-flying equities will likely come down and this will bring about new opportunities, both on the short and the long side. However, staying firm in certain positions that yielded high returns over the past few years could prove painful, at least in the short term.

3) “Great opportunities don’t come every day— recognize and seize them with every chance you get”

With such changes, come opportunities. The adage that luck is what happens when preparation meets opportunity could not be more accurate. When great opportunities arise, one must act with conviction. On the horizon, opportunities will arise. Some opportunities are so promising that it would be equivalent to going to a grocery store and getting 50% off every item in the store. Some deals, when presented, are simply too good to pass up. It is important to recognize such opportunities and seize these opportunities when they arise.

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.