GREENHAVEN ROAD
PARTNERS FUND

May 2023

Dear Fellow Investors,

The Partners Fund returned approximately 6.4% in the first quarter.[1] Please check your individual statements for your returns. At this point in the fund's life, I have reiterated the criteria that we use to find managers several times:

- One-person investment committee
- Concentrated holdings
- Reasonable amounts of capital (AUM)
- Significant personal investments ("skin in the game")
- Original thinking
- Mindset: Getting rich is not the point

What is not as obvious from those criteria are the types of investments that our managers hold.

As a broad characterization, our underlying funds are U.S.-biased but global in geographic exposure and invest in smaller companies. Our purely non-U.S. investments include South Africa-focused Desert Lion Capital, Southeast Asia-focused Sixteenth Street Capital, as well as a special purpose vehicle invested in a Portuguese company. The predisposition towards smaller companies has several sources. First, several managers believe that there are more opportunities to have an informational advantage with fewer eyes looking at a company. In addition, unlike the largest companies, smaller companies do not suffer from the law of large numbers. A company with $100B in revenue needs to find $20B in NEW revenue to grow by 20% this year. Next year, they need another $24B to sustain the growth rate. This pace is generally unsustainable at scale. Thus, while not precluded from owning the largest companies, our managers will generally elect to invest elsewhere. To my knowledge, none of our managers hold any of the top 5 U.S. companies.

The chart below is adapted from one put out by an underlying manager, Travis Cocke of Voss Capital. As the chart aptly lays out, mega-cap tech drove virtually all of the Q1 returns for the U.S. market as measured by the S&P 500.

Company Name	Ticker	Index Weight	Q1'23 Price Return
Apple, Inc.	AAPL	7%	27%
Microsoft Corporation	MSFT	6%	20%
Alphabet, Inc.	GOOGL	4%	18%
Amazon.com, Inc.	AMZN	3%	23%
Meta Platforms, Inc.	META	1%	76%
Mega-Cap Tech		**20%**	**26%**
Remaining 495 stocks		**80%**	**2%**
S&P 500	**SPX**	**100%**	**7%**

[1] Performance: (i) is representative of a "Day 1" investor in the Partnership, (ii) represents returns earned by Class B investors assuming a 0.75% annual management fee and no incentive allocation, and (iii) is stated net of expenses, including commissions, legal, audit, administration, and other. Year-to-date performance for an individual investor may vary from the performance stated herein as a result of, among other things, the timing of their investment and the timing of any additional subscription and withdrawals.

Perhaps we should just plow all of our capital into these five stocks. They have excellent management teams, products that we use every day, and enormous liquidity. They are easy to buy, and they are great companies. Literally great. Books are written about them, and they set the standard for American business.

This trend even continued into April, which brought their YTD return to 33%. One would think this level of outperformance occurred because they were very cheap to start with, or that they are growing revenues and profits rapidly. Well, here are the same companies, through April, but with additional columns to show both valuation and growth rates (highlighted in yellow). Take a moment to look them over.

				Sales Growth		Margins			NTM
Company Name	**Ticker**	**Weight**	**YTD Price Return**	**2023E**	**2024E**	**2023E**	**2024E**	**EV/sales**	**P/E**
Apple, Inc.	AAPL	7%	27%	(2.2%)	6.7%	24.5%	24.5%	6.5x	27.6x
Microsoft Corporation	MSFT	6%	20%	6.4%	11.3%	34.0%	34.5%	10.1x	30.8x
Alphabet, Inc.	GOOGL	4%	18%	5.8%	11.6%	22.5%	23.3%	4.1x	20.4x
Amazon.com, Inc.	AMZN	3%	23%	9.0%	11.9%	2.8%	4.2%	2.0x	72.0x
Meta Platforms, Inc.	META	1%	76%	8.3%	10.6%	19.9%	23.3%	4.2x	22.0x
Mega-cap tech		**20%**	**26%**	**5%**	**10%**	**18%**	**19%**	**4.8x**	**27.6x**
Remaining 495 stocks		**80%**	**2%**	**2%**	**4%**	**10%**	**11%**	**2.3x**	**20.0x**
S&P 500	**^SPX**	**100%**	**7%**	**2%**	**5%**	**10.9%**	**11.8%**	**2.5x**	**21.2x**

When I look at this chart, I do see the same iconic companies. But Microsoft, for example, is selling for 10X revenue and 30X earnings with only 6% topline growth expected. These companies are massive. As a point of reference, the market capitalization of the group is approximately 3X that of all 2,000 companies in the Russell 2000, combined. I think there is lower-hanging fruit. Our managers are looking for companies that are far less expensive with far better future growth prospects.

In early May, I traveled to Omaha for the Berkshire Hathaway annual meeting, where Warren Buffett said the following,

> *"[T]he world is overwhelmingly short-term-focused. And if you go to an Investor Relations call, they're all trying to figure out how to fill -- obviously to show the earnings for the year. And the management is interested in feeding them expectations that will slightly be beaten. I mean, that is a world that's made-to-order for anybody just trying to think about what you do that should work over 5 or 10 or 20 years. And I just think that I would love to be born today and go out with not too much money and hopefully turn it into a lot of money…"*

As interesting as Warren Buffett and Charlie Munger are in person, the meeting can be watched on CNBC from home. Like many, I made the pilgrimage to speak with fellow investment managers throughout the small ecosystem of events that has been built around the Berkshire nucleus. I went to two "Best Ideas" events that had both managers from the Partners Fund as well as those outside the fund and left very optimistic about the medium term. There are a lot of actionable investments in smaller companies that have just not worked yet. I realize there is a debt ceiling fight in the U.S., inflation both here and globally, and a likely recession, and yes, 2022 left many managers digging themselves out of holes, but I think the seeds for future returns are being planted now.

To cite Buffett again, "I don't try to jump over *7-foot hurdles*; I look for *1-foot hurdles* I can step over." Can the largest companies use AI, VR, and other acronym'ed tools to continue to generate outsized returns? They certainly could, but it feels like a 7-foot hurdle. Attached are three letters from managers discussing their portfolios, which, in my opinion, are filled with companies stepping over 1-foot hurdles. This approach does not guarantee returns in any given period, but again, we can return to the math – smaller, cheaper companies require only "modest" improvements on a dollar basis to translate into more substantial gains. There is a history of smaller companies underperforming their larger peers over long periods of time, before the tide eventually turns. We are deep into this cycle, and, by many measures, smaller companies are cheaper than larger companies by historical standards. I am not bold enough to call the end of the cycle this quarter, but I don't think the laws of gravity have been repealed.

As I have said at the end of every letter, our fund of funds is going to be different. It will be smaller, the underlying holdings will be more esoteric, and I hope the managers will continue to collaborate more over time. I believe that it will be "good different," but only time will tell. Thank you for joining me on this journey. I will work hard to grow your family capital alongside mine.

Sincerely,

Scott

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