GREENHAVEN ROAD
PARTNERS FUND

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Dear Fellow Investors,

In May, I was invited to give a keynote address for a panel discussion with emerging managers at one of the many events surrounding the Berkshire Hathaway 2019 Annual Shareholder Meeting. The panel was hosted by boutique value hedge fund seeding and support platform, Willow Oak, and I was asked to talk for fifteen minutes or less about whatever I wanted. I was flattered to be asked, but also filled with dread. The event was held on a Saturday night, after a long day when most of the attendees would have woken at the crack of dawn and have spent the previous several hours listening to the two most interesting and charming members of the investing community: Warren Buffett and Charlie Munger. A tired audience, following legends… this is not a great set-up for any speaker. To compound the dread, I am not a "speaker" by nature. I don't have a stump speech filled with pithy anecdotes ready to go. I don't even like public speaking.

Yet, I wanted to participate. The panel I was asked to introduce featured managers of five funds that we are invested in (Arquitos, Bonhoeffer, Desert Lion, Laughing Water, and Maran). These are managers that I think are very talented, who I hope continue to grow and have healthy businesses. The challenge was how to best highlight why I believe the managers are special in less than 15 minutes to an audience that had been spoken to all day. I decided to make a three question game out of it with audience participation and little prizes (a Warren Buffett washable tattoo, etc.). As I think the logic of the questions applies to the Partners Fund as well, I want to pose the same questions to you and encourage you to play along:

1) **How common is conviction?** There are 174,211 investment entities in the world that manage in excess of $86 trillion in capital. How many firms own even one position greater than 5%?
2) **How powerful is compounding, really?** What is the difference in ending value of an investment that compounds at 5%, 10%, and 15% over thirty-year period?
3) **How small did Buffett go in the early days?** Many of us have heard the stories of a young Buffett investing in Sanborn Map (1958), See's Candy (1971), and Berkshire Hathaway (1962). What was the approximate market capitalization of those companies in 2019 dollars?

The data for the first question – how many of the 174,221 filing investment entities have at least one 5% position – comes from a talk given last year by family office manager Shaun Noll at ValueX Klosters. For his comprehensive study, Shaun pulled data from all filing entities around the world, including ETFs, mutual funds, sovereign wealth funds, and large (SEC-registered) hedge funds. It is worth noting that smaller hedge funds managing less than $150m would be excluded from this data set since they do not make the same types of holdings filings. The information is likely imperfect given the complexity of the data set, but I think it is directionally correct and the best study I have seen of its kind. Shaun concluded that even modest conviction is rare. According to the data, 756 of the investment entities in question had any positions weighted over 5%. This translates to less than ½ of 1% of the field. I agree with Charlie Munger that "*…it's hard to find good investments, so [to] concentrate in a few, seems to me to be an obviously good idea*." This is not a common practice in the larger investment landscape, sometimes by manager choice and sometimes by fund charter. The panelists / our managers are the exception, not the rule, so if you believe in concentration, they are to be celebrated.

The second question on compounding will be familiar to our LPs because we discuss it on a regular basis. It still bears repeating, given that the human mind has such a propensity to underestimate compounding and its effects. The short answer is that after 30 years of 5% returns, your capital will grow to be 4X larger; at 10%, it is 17X larger; at 15%, it is 66X larger; and at 20% it is over 200X larger. I tried to emphasize to the audience that, yes, smaller managers have some inherent risks and the probability of a zero is generally considered to be higher with an emerging manager than a bulge bracket firm; however, one can minimize the risks of emerging managers by looking at the incentives, the personal investment of the portfolio manager (PM), the service providers, the track record, the underlying portfolio, and – I believe most importantly – the PM's thought process. None of these methods are foolproof, but if one is right about even one manager, blended returns can be quite satisfactory. Even at the bottom of the returns chart, if one has a choice between (A) investing in a safe 5% or (B) two managers where one will be a zero and the other will return 10% over 30 years, the expected value of the latter is 8.5X the original investment vs. a bit over 4X for the former. We search and aim for the incremental returns particularly because of the exponential payoff that compounding can provide.

The final question - an estimated market cap of seminal Buffett investments in today's dollars - was for the Buffett faithful. The data is based off of materials from small cap manager Tim Eriksen of Eriksen Capital Management. Again, it may not be accurate to the penny, but is directionally correct and the best data that I have seen. The answers are as follows – in 2019 dollars, Sanborn Map had a valuation of approximately $40M, See's Candy was $210M, and Berkshire Hathaway was a mere $105M. As Warren Buffett himself said in 1999, "It's a huge structural advantage not to have a lot of money." The panelists, and our managers in general, are investing modest amounts of capital. This is often depicted as a negative, when in fact I believe it is one of their greatest attributes. The investment opportunity set is larger, and managers can quickly change their minds if the situation changes.

The not so subtle point that I was trying to make with my game show style questions was that managers investing with conviction is rare, the rewards can be substantial, and, with "reasonable" AUM, many less competitive corners of the market are more available. Depending on your information diet, it is easy to lose sight of these facts. Small managers face a lot of doubt and skepticism from the world at large, so I was trying to celebrate the uniqueness and the opportunity. To browse a copy of the presentation, click here.

NEW INVESTMENTS

In addition to seeding South African fund Desert Lion Capital on April 1st (discussed in our Q1 letter), we also invested in Cliff Sosin's CAS Investment Partners during the second quarter. Investor Howard Marks once wrote, *"It is not enough to be right. You have to be contrarian and right."* Well, Cliff has many skills, including a propensity for taking long positions in companies that have very high short interest in them; in other words, companies where there is an overwhelmingly negative consensus outlook. CAS has successfully invested in Herbalife, LifeLock, and Carvana to name a few. Cliff has a strong preference for compounders that he expects to grow their profits at a high rate over a long time horizon while also returning a large portion of capital to owners. He is one of the most impressively articulate investors I have ever met, thinking deeply about the structure of businesses, pricing dynamics, cost structures, and incentives. He is looking for structurally superior businesses that he can describe qualitatively and support quantitatively. CAS' most recent letter is attached to give you a flavor of Cliff's style.

ANNUAL MEETING

Our annual meeting will be held on October 16th in New York. We will be combining the meeting with the meeting for the main fund (Greenhaven Road Capital Fund 1 and Fund 2), and LPs will receive an e-invite with all of the details. Over the course of the evening, attendees will hear several manager "pitch" a current idea, which I believe is a great way to see how they think and the types of companies that they invest in. We will conclude the evening with an informal dinner where you can sit with the manager of your choice.

For those of you who cannot attend in person, the presentations will be recorded and available. I hope to see you in October.

FINAL THOUGHTS

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 all 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 Miller

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