



February 2021

Dear Fellow Investors,

The Partners Fund returned 24% in the fourth quarter, bringing the full year returns to approximately 31%. 2020 marked the third year of operations for the Partners Fund. Three years is not enough time to declare a fund a success or a failure, but some reflection is in order. Nothing in the past three-plus years has caused me to waver on our criteria. I still want to invest my family's capital and yours in funds with the following attributes:

- 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

Of course, preconditions for success do not guarantee success. I have encouraged the managers of the underlying funds to collaborate, increasing our chances. Over the years, collaboration has taken multiple forms, including a teach-in by well-known decision-making educator Annie Duke. From time to time, the managers (and I) also support each other by "red teaming," an Annie Duke concept in which a proponent of an idea – or an investment, in our case – proactively seeks out people to tear apart their idea. A productive member of a red team is not objective, but looks for negatives in a detailed and comprehensive manner. At the end of a red team process, the proponent of the idea should have a much greater appreciation for the risks and potential negative outcomes of their investment. After spending hours trying to tear ideas apart as a red team member, I have turned around and bought the companies with greater confidence. As Covid has restricted travel over the past year, collaboration also has come through informal Zoom cocktail hours in which fellow managers share ideas and we occasionally invite management teams to join and present. All of the companies that have presented have appreciated in value. Three have more than doubled since they presented, and one has even tripled.

One of the concerns that some of you had when we started the Partners Fund was that it would serve as a distraction and negatively impact the "main" fund. With three years of data, I can say unequivocally that our Partners Fund has been a net benefit to the main fund from a returns perspective. I can draw a direct line from several of the main fund's investments in individual companies back to managers in the Partners Fund. I am pleased that I can also draw a direct line from multiple managers we invested in early to our later investments in additional managers. As the saying goes, "game recognizes game." When a manager says I should look at another manager, the engagement always mutually productive. The unfortunate part is that the Partners Fund can't invest in every talented manager without sacrificing concentration, especially on a look-through basis to their underlying portfolios. The Partners Fund is currently invested in 13 managers with 9 traditional fund investments, 3 separately managed accounts, and we 4 SPVs (Special Purpose Vehicles), one of which is a standalone while the others are run by existing managers.



In 2020 there was a wide dispersion of returns from the underlying funds ranging from -20% in an SPV to in excess of 100% for one of the funds. Given the concentrated holdings and off-the-beaten-path nature of several of the underlying strategies, the dispersion is not a surprise.

Our 2020 returns include a very modest contribution from our seed investment in [Desert Lion](#), a concentrated value fund of South African equities managed by Rudi van Niekerk. Contribution from our revenue share interest will be driven by the combination of Desert Lion's AUM and returns. To date, Rudi has done an admirable job outperforming the local markets, overcoming currency headwinds, and building a high caliber base of limited partners. To see the quality of his work, [linked here](#) is a recent presentation he gave discussing the opportunity at rapidly expanding for-profit higher education provider Stadio (SDO.JO), which Rudi conservatively expects can deliver about 5X over the next several years over the next several years (30% CAGR) as the experienced management team continues to address the country's high demand for access to higher education with robust distance and in-person offerings.

While not everyone feels the need to have exposure to South Africa upon first thought, renowned small cap investor (and Greenhaven advisor) Chuck Royce and I seeded Desert Lion because Rudi's strategy encompasses so many things that excite us: investing in good businesses with top class management teams trading at below-average valuations in a highly inefficient and neglected market with macro and demographic opportunities and the ability to gain competitive advantages through deep fundamental work and special local knowledge. Desert Lion's Q4 letter discussed how the South African market is experiencing early signs of what could be a flood of fresh capital as investors hunt for yield in unappreciated and overlooked markets. If and when this plays out, the macro discount will abate from many interesting companies, allowing share prices to appreciate towards intrinsic value. We are glad to have invested before this potential run-up with a skilled partner poised to capitalize. I think it is highly likely that, over time, more investors will want exposure to Rudi's investing acumen, opportunity set, and Desert Lion's returns. If that occurs, the profit contribution from our seed investment will move the needle.

As evidenced by 2020, predicting the future is hard. If equity markets across the globe sell off aggressively, the Partners Fund will likely be impacted negatively (as happened in Q1) since the managers we invest in are long-biased. However, they are also stock pickers, and as indexation and government stimulus distorts markets and SPACs become the default IPO, I believe 2021 is fertile ground for this type of active management. Distortions bring opportunity; volatility brings opportunity. Chance favors the prepared mind, and we have a stable of big, prepared brains.

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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