PINCHOT LANE PARTNERS, L.P.
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July 21, 2021

To My Partners:

1H 2021 Performance Summary

From January 1 to June 30, 2021, Pinchot Lane Partners LP ("PLP", the "Fund", the "partnership") returned 4.8%, net of management and incentive fees. Below is a summary of Fund performance for the first half of 2021 and since inception:

		(A)	(B)	= (A)-(B)
	PLP	PLP	S&P 500	*Relative*
	Gross Perf	Net Perf**	Total Return†	*Performance*
1/22/18* to 12/31/18	(9.6%)	(10.3%)	(9.1%)	*(1.3%)*
1/1/19 to 12/31/19	31.1%	28.9%	31.5%	*(2.6%)*
1/1/20 to 12/31/20	128.3%	97.2%	18.4%	*78.8%*
1/1/21 to 6/30/21	**5.6%**	**4.8%**	**15.3%**	***(10.5%)***
Annualized 1/22/18*-6/30/21	**35.7%**	**28.8%**	**15.3%**	***13.5%***

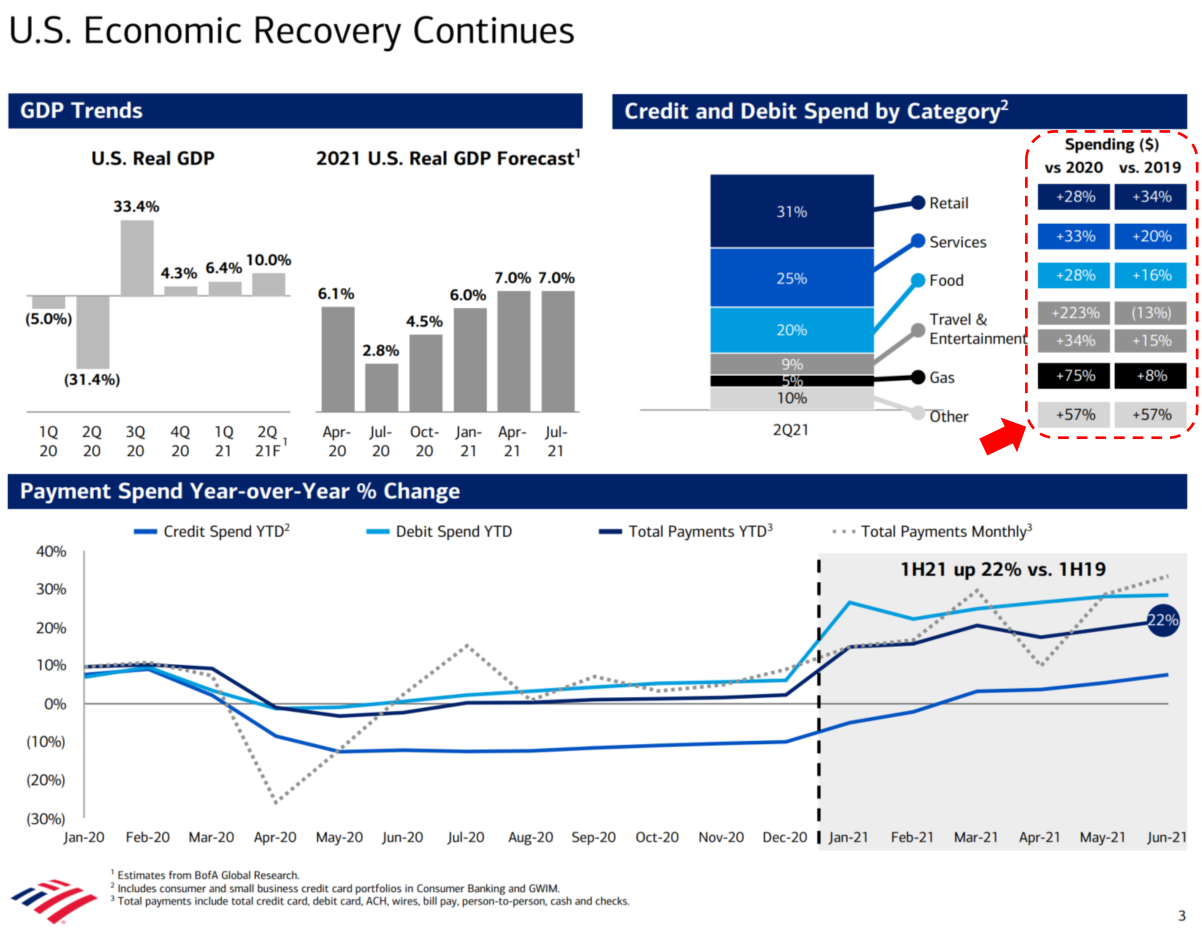
** Fund inception*

*** Net performance after 0.50% annualized mgmt fee (0.75% prior to 2021) and incentive allocation*

† S&P500 total return includes dividends

Note: Individual LP returns may vary based on the timing of your subscription(s).

The Fund's performance in the first half was essentially a "tale of two cities," with underperformance in our largest long position (PRPL) offsetting strong gains in the remainder of the portfolio. Our investments in several industrial, financial, and consumer companies (all made last year) had solid returns, reflecting growing confidence in the economy with mass vaccinations in progress and a broad belief that we are returning to "normal," despite sectors of the economy recovering at varying speeds. It's obvious that people are traveling, dining out, and possibly even going back to the workplace after over 15 months of being sequestered at home. A surprising development in the recovery has been consumers' appetite to buy houses and all sorts of discretionary goods (furniture, autos, RVs, apparel) at levels significantly higher than before the pandemic. Pent-up or "revenge" spending is real!



Source: Bank of America [2Q Earnings Presentation](#) (7/14/21)

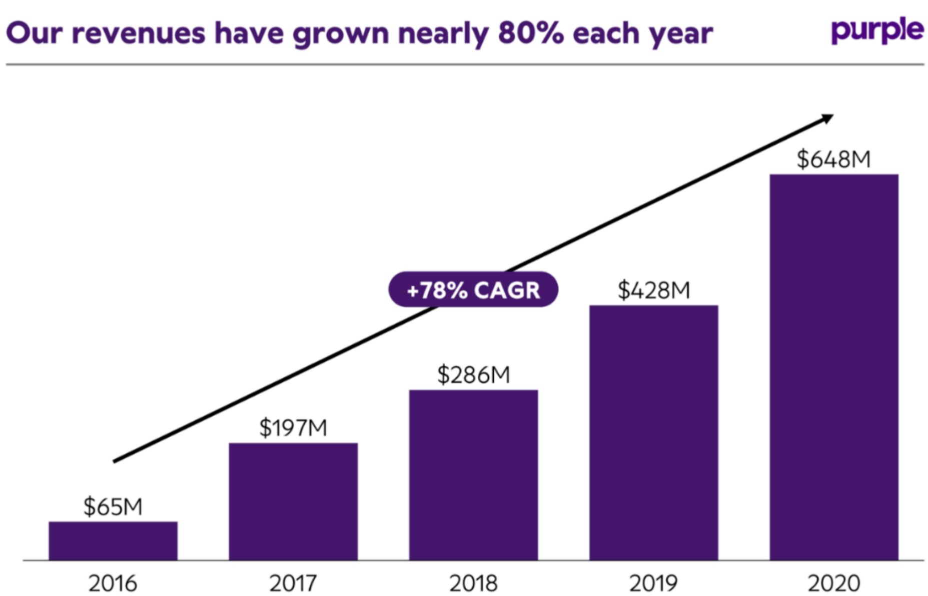
It's hard to talk about "the consumer" in any monolithic sense, since we know that in reality, the American consumer is divided into multiple strata, each with their own propensity to spend and save as we come out of COVID-19. Clearly, not all consumers are back on their feet and spending freely. I've mentioned this in previous letters and I'll say it again: the U.S. economy would not be where it is today without the coordinated efforts of the Federal Reserve and the Treasury to get money into the hands of American households amidst the fog and uncertainty of the pandemic. It took rare moments of bipartisan agreement in Congress to get here, which is something to celebrate, although one can't help but wonder why every other time politicians get together, they can't seem to get anything done. Assets of nearly every kind have appreciated, some of which is due to improved fundamentals (see: technology and pet food companies), and much of which is driven by monetary policy. Investors enjoying the growth of their assets should take a moment to tip their hats to the Fed and Treasury (see PLP 2H'20 Letter section, "Giving Credit Where It's Due").

As I've written before, concentrated portfolios are susceptible to volatility, and the PLP portfolio did not escape this fate in the first half (the "lumpiness" referred to in the last letter). The portfolio saw a substantial increase in market value in PRPL, our largest long position through February, followed by a sharp decline in this name over the last four months, masking healthy gains among other portfolio holdings. Excluding PRPL, the remainder of the portfolio saw gains of +23% (gross of fees) in the first half of the year. To be clear (and to reiterate my earlier missives), I don't view first-half Fund performance as disappointing. The decision to maintain our large stake in PRPL despite the meaningful drop in market valuation is based on a multi-year thesis of sustained levels of innovation, rapid growth, and improving profitability at the company (more on this in the next section). My intention is to hold on to great portfolio companies possessing long runways for growth, even when they appear to be fairly-valued in any given month.

After trimming some of our strongest performers during the first half, I redeployed capital into several marked-down assets including an increase to the Fund's exposure to several leading Chinese technology platforms (further discussion below).

Purple Investment

I'd like to talk more about our continued investment in Purple Innovation, Inc., given some of the interesting dynamics at this company and the fact that it was a significant drag on our overall portfolio's performance. Purple's business, similar to other home furnishings companies, has been outstanding, both during and emerging from COVID-19. In the first quarter, Purple's net revenues grew by over 50% year-over-year, on top of +46% in the prior year. It has been one of the highest growth consumer retail names throughout the entirety of its relatively brief existence (founded in 2016), with an annualized growth rate of +78% from 2016-20. Today, Purple has market share of between 4-5% of the domestic mattress industry and is the fastest growing major mattress brand in the market.



Source: Purple Investor Presentation (6/29/21)

In May of this year, an extremely unfortunate accident occurred in Purple's Grantsville, UT factory, where an employee died from work-related injuries. Following this accident, Purple management took all manufacturing lines across the company down for inspection, OSHA review, and installation of additional safety measures to help ensure that accidents like this don't happen again. These temporary production shutdowns ended up being prolonged, as stopping and restarting these machines (the oldest of which is only four years old) is not trivial. The net of these circumstances is that Purple was unable to produce enough mattresses to meet explosive demand, causing management to guide down expectations for second quarter financial performance during an analyst/investor relations presentation on June 29th. Despite this extremely regrettable incident, Purple's business and brand momentum are stronger than ever. Management projects continued market share gains fueled by expansion of the company's production capabilities and retail footprint, combined with new products in both mattress and non-mattress categories. Moreover, management has indicated that production is being restored to full capacity as of mid-July and has guided to more than doubling domestic market share (~$20 billion market size) over the next 3-5 years. At the high end of projections, revenues could triple over this period. Improving profit margins as the company reaches operational maturity could drive profits to more than quadruple.

Ordinarily, one would expect that a compelling growth story like Purple's would be a positive tailwind to a company's market valuation. The disconnect between the company's current market valuation and promising future could be due to any number of extrinsic factors - none of which, in my view, justify the growing discount between Purple's market valuation and my estimate of the company's worth. Purple came into the year as a large Fund holding; if the valuation disconnect continues to widen, you can assume that PLP will be acquiring more shares of the company.

I recognize that for every supposedly new-fangled consumer product on the market, there are dozens if not hundreds of failures – products that don't deliver their promised benefits and/or don't have enough differentiation vs. incumbents to compel consumers to switch. Purple's amazingly fast growth trajectory over the last five years and its ability to profitably scale to match exponential demand are a testament to the extremely rare nature of this company and its products. As a well-known investor once said about Apple, Purple is the kind of company where, after the purchase of one product, you can't help but to want to buy more (e.g. seat cushion → pillow → mattress → sheets). As Purple adds new comfort-based products to its portfolio, the company grows its addressable market, builds more loyalty, and drives more (free) word-of-mouth advertising. Visit @Purple on Twitter and Instagram and see for yourself the fanaticism behind their products.

A last word on recent PLP portfolio developments is that the Fund has been opportunistically building positions in several major Chinese technology platforms. I won't go into much detail in this letter on the underlying investment rationale, other than to say that they are:

a) Big
b) Very profitable
c) Growing at high rates
d) Embedded in the daily lives of their users
e) Investing tremendously for growth
f) Trading at very reasonable valuations

One of the hallmarks of the PLP investing philosophy is to take advantage of temporary market dislocations to buy high quality assets on the cheap. Caught in the crossfire of heated Sino-American political rhetoric and newly introduced regulation, nearly all of the largest, most prosperous Chinese tech platforms have experienced meaningful share price declines. Companies like Tencent, Alibaba, and JD are arguably as advanced as their western technology peers (if not more) and play a utility-like role in the rapid ascent of the Chinese consumer, which is part of the reason they are being scrutinized. Though the China tech ecosystem is an intensely competitive environment with new entrants all the time[1], the moats that these platforms have built are large and afford long runways for continued profitable growth. The following nuanced perspective from a China tech sector expert helps explain the regulatory issues:

> *The intent with regulation is not to kill innovation but to redraw the boundaries within which private companies can operate to maximise their profits. What use is a dead company to anyone? Especially when it is handling something as crucial as modern-day utilities. That being said there's a long backlog of regulatory enforcements to get through. Chinese tech companies have to address their tech debt and charging practices now that they know the CAC and SAMR are actually watching.*
>
> – Lillian Li, *"Let the bullets fly for a while, The intent and tipping point for Chinese tech regulation"*

As with many of our portfolio names, short-term uncertainty often yields long-term opportunity. While regulatory risks shouldn't be ignored, I am optimistic about the future of China's largest tech champions.

[1] For more insight on the cutthroat nature of China's technology competition, I highly recommend reading Kai-Fu Lee's *AI Superpowers*

In summary, the first half provided plenty of volatility in the Fund, with:

- A big runup in our largest long (PRPL) through mid-March, followed by a sharp selloff due, in part, to temporary production hurdles
- The Fund's large stake in PRPL has been maintained with an eye towards adding to the position
- Strong overall performance in our ex-PRPL portfolio
- Trimmed positions in 1H strong performers
- New positions initiated in the several Chinese technology platforms

Our portfolio remains concentrated. At the end of the quarter, only six positions were of 5% or greater size in the Fund. The PLP investment strategy has rarely had smooth, steady returns, as my approach to building the portfolio is predicated on identifying assets that are deeply undervalued when evaluated on a time horizon beyond several quarters. For any given portfolio investment, it's impossible to know in advance when price will converge on my estimate of intrinsic value, hence no attempt is made to time the market. We need only to have a deep understanding of the set of assets that gives us conviction in their future performance, a highly asymmetric risk-return profile (great upside vs. limited downside), and the patience to see our thesis play out. In some cases, the returns arrive quickly (e.g., WFC and BAC are both up +50-70% in less than one year of ownership) and in others, they take time (XPO has taken 2.5 years to achieve a nearly 3x return).

Thanks for your continued partnership on this journey. Investing on behalf of others would not be as much fun without true alignment between partners. The knowledge that we're on the same page gives me confidence to make the kinds of investments that allow us to continue generating strong absolute performance for the Fund over the long term.

Sincerely,

Drew Peng