PINCHOT LANE PARTNERS, L.P.
101 Inara Court
Carrboro, NC 27510

January 25, 2020

To My Partners:

2019 Performance Summary

From January 1 to December 31, 2019, Pinchot Lane Partners LP (“PLP”, the “Fund”) returned 28.9%, net of 0.75% in management fees as well as incentive allocation earned, as per the Fund’s Limited Partnership Agreement. Below is a summary of Fund performance during 2019 and since inception. As you’ll recall from prior letters, returns are shown dating back to both January 1st, 2018 as well as fund inception (1/22/2018) to demonstrate what Fund performance would have been had the Fund started at the beginning of 2018. The difference in annualized performance between these two timeframes is due to the significant pullback in both the market index and the Fund beginning in late January 2018. This delta will shrink over time as the effect of this pullback gets diluted over subsequent years.

	(A) Pinchot Lane Limited Partners***	**(B)** S&P 500 Total Return†	**= (A)-(B)** Relative Performance
2018 Calendar Year*	(2.3%)	(4.4%)	2.0%
*Fund inception thru 12/31/18***	*(10.3%)*	*(9.1%)*	*(1.3%)*
2019 Calendar Year	**28.9%**	**31.5%**	**(2.6%)**
Annualized 1/1/18-12/31/19	**12.2%**	**12.1%**	**0.1%**
Annualized Inception-12/31/19**	**7.7%**	**9.6%**	**(1.9%)**

** 2018 returns if Limited Partners' investment had commenced 1/1/2018*
*** Fund inception was 1/22/18*
**** Net of 0.75% annualized management fees and incentive allocation paid to Managing Member*
† S&P500 Total Return includes dividends

Note: Returns may vary based on when you joined the partnership.

The Fund slightly underperformed the index before incentive allocation (30.4% vs. 31.5%) and was 2.6% below the index net of incentive allocation. To be clear, even though the S&P 500 is the benchmark for the Fund, I make no attempt to replicate its performance. There would be no reason for you to invest in PLP if, year-after-year, the Fund matched the index’s gains or losses. You are not paying me to turn in long-term performance that could be duplicated through virtually fee-free index funds.

The fact that the Fund performed in-line with the S&P 500 in 2019 was coincidental. My objective was to put more capital to work behind positions with the highest risk-adjusted return, so the number of positions in the portfolio was reduced. Had a few names not performed as they did, the result would have been different. Depending on the quality and depth of investment opportunities over time, the Fund is likely to become even more concentrated in specific high conviction positions, increasing the likelihood that performance will deviate from equity market indexes.

For many active fund managers, the possibility of underperforming market indexes in any given year due to a concentrated portfolio is a "third rail" to avoid at all costs. Given volatility of fund flows and omnipresent career risk, most active managers prefer highly diversified portfolios, which not only reduces the probability of underperforming the market, but also hampers their chances of meaningfully beating it. Having steered my own ship for the better part of a decade with no income other than investment-derived gains, I do not subscribe to this mentality. If I can establish high conviction around a particular investment idea through rigorous due diligence, I am willing to weight it heavily in the Fund. A crowded market combed over by hundreds of thousands of investment professionals[1] (not to mention rising ranks of computers) does not typically offer an abundance of obvious bargains. Through hard work, patience, and good judgment, perhaps we can find a few good opportunities a year worthy of our precious capital. Attempting to shoot for more tends to water down returns.

As usual, you can read more about the Fund's top 5 positions in the attached Exhibit A (last page). I'll discuss some of the fund's successes and blunders in further detail below. My objective for the Fund is to produce long-term outperformance vs. the S&P 500 with dividends reinvested, as measured over at minimum a 5-year period and ideally, a complete market cycle. Sorry to sound like a broken record player on this point, but it is worth repeating.

The Investing Environment in 2019

As I wrote in the Fund's inaugural January 2018 letter (paraphrasing Buffett), interest rates are like the fundamental law of financial asset gravity, acting as a drag or boost to asset prices depending on when interest rates are high or low, respectively. Freed from the drag of a rising rate environment in 2018, equity markets not only bounced back in 2019 but set all-time highs. Nearly all asset classes benefited from the Federal Reserve's reduction in the benchmark interest rate ("Fed funds rate") and adoption of a lenient posture with respect to future rate increases. These moves marked a complete reversal from the tightening approach the Fed took in 2018, which in part precipitated the drastic market selloff in Q4 2018.

[1] https://www.cfainstitute.org/-/media/documents/survey/investment-professional-of-the-future-v2.ashx

https://fred.stlouisfed.org/series/FEDFUNDS

Anyone who invests money in assets other than cash should be sending Federal Reserve Chairman Jay Powell roses and a box of chocolates. The Fed's willingness to back down on rates while soothing market participants with words like "patient" and "accommodating" sent market participants back to the races, bidding up assets in an economic environment that continued to see low unemployment, strong domestic consumer spending, and contained inflation. On the other hand, venture-funded IPOs like Uber and Slack disappointed, showing that even in this frothy environment, there are limits to investors' imagination (or gullibility).

Broadly speaking, aggregate earnings for the S&P 500 were unchanged[2] in 2019 from the prior year, which means that most of the index's price appreciation came from an expansion of the price-to-earnings multiple[3]. With current multiples on the higher side of average and interest rates already low, fundamental earnings growth will eventually be needed to keep pushing markets higher.

Given uncertainty around the persistence of low interest rates, it is difficult to know what multiple the market should trade at. I don't make such predictions, preferring to spend my time in search of situations that yield good long-term returns regardless of the interest rate environment. In times of elevated market valuations, it pays to be prudent rather than aggressive.

Hits and Misses

Following the market meltdown in late 2018, there were more than a few obvious bargains in public markets, as measured by ratios of price to reasonable estimates of future earnings and free cash flow. I endeavored to capitalize on several opportunities presented in the pullback but did not anticipate market participants' willingness to drive equity prices to historically expensive multiples, especially for widely-recognized "blue

[2] https://www.yardeni.com/pub/yriearningsforecast.pdf
[3] https://www.marketwatch.com/story/almost-none-of-the-sp-500s-blockbuster-rally-in-2019-can-be-pegged-to-rising-earnings-and-thats-a-problem-says-goldman-2020-01-06

chip" names. As an investor in search of superior returns, the best I can do is make rational decisions considering the limited number of variables under my control. To that end, individual stocks that powered PLP portfolio returns in 2019 included:

- XPO Logistics: XPO was a new name to the Fund's portfolio in 2019. The company is a roll-up of myriad assets in the trucking, freight brokerage, and logistics space led by a visionary entrepreneur/CEO who had prior success building big businesses in relatively mundane industries (waste collection and heavy equipment rentals). An opportunity arose in early 2019 to take a position in the company at a historically low valuation. Trucking and logistics are relatively commoditized industries, but XPO has intelligently assembled assets that leverage technology to gain market share and increase profits. In response to its low share price, XPO launched a share buyback program that reduced outstanding shares by ~25%, one of the most aggressive short-term buyback programs that I've seen in nearly a decade of public investing. Buying shares in XPO was an opportunity to invest behind a proven CEO willing to make bold decisions to create shareholder value.
- Purple Innovation: Purple was not a top 5 position at the beginning of 2019, but the Fund gradually built up a large position over the year. Purple is a high-growth mattress and cushion company backed by intellectual property developed over decades by two Utah-based brothers, Tony and Terry Pearce. The company sets itself apart from competition in many ways, including a genuinely differentiated product and a profitable business, unlike most of its mattress upstart peers. Purple flew under the radar even as Casper, a well-known competitor, raised over $300 million in private markets at a $1 billion+ valuation. For the first year after the Fund invested in Purple, the position was underwater and headed lower, despite continued robust growth and the installment of a highly capable new CEO. Today, Purple can be found in over 1,500 Mattress Firm stores, where it is the top-selling brand against fierce incumbents Serta-Simmons and TempurSealy. The company continues to rapidly scale its direct-to-consumer business, fueled by innovative digital advertising that highlights the product's core differentiation. Purple is an unequivocal American success story and is finally beginning to receive well-deserved recognition. If you're in need of better sleep, I recommend checking out Purple (I'm not only a shareholder, I'm a customer).
- Camping World Holdings: The Fund's stake in Camping World resulted from a poorly-timed initial investment, followed by a doubling down at the lows, which resulted in meaningful gains. Led by entrepreneur-turned-TV personality Marcus Lemonis (aka "The Profit"), Camping World is the leading RV dealership chain in the country by a wide margin, giving it tremendous visibility, buying power, and servicing capabilities for the millions of members in its loyalty program. Two years ago, the company made an ill-conceived move into outdoor retail, where it thought it could compete in a crowded field of online and traditional players. Its core business of selling and servicing RVs is a good business, though highly cyclical. The company has effectively gotten out of the unprofitable outdoor retail business that obscured the underlying profit potential of its core dealership

business. The market's unwillingness to separate out the lossmaking parts of the business created the opportunity to upsize the Fund's position at an attractive valuation.

- Aercap & Air Lease: Neither of these companies are household names, but there's a good chance that you've flown in an aircraft owned by one of them, especially if you travel internationally. Aircraft leasing companies are effectively "flying banks," except that instead of loaning money, they lease airplanes to a diversified portfolio of creditworthy customers. Both companies depend on solid credit ratings, modern aircraft fleets, and extensive customer relationships to generate attractive returns on equity. In the turmoil of late 2018, both names could be bought well below book value with attractive double-digit earnings yield. Furthermore, global growth in air fleet is a certainty as surging middle class populations around the world seek to travel. Aercap and Air Lease are the largest independent companies in aircraft leasing and play a pivotal role enabling this growth.

On the "misses" side of the ledger, the Fund did not own sizable stakes in any of the technology juggernauts in 2019. As I've written previously, there is no doubt that these companies are among the highest quality businesses ever created, with low capital needs relative to operating profits and large, global markets to expand into. Several of them have also perfected a recurring revenue model based on contractual agreements with customers (e.g. Microsoft, Adobe) or de facto repeat business based on user lock-in and a lack of meaningful competition (e.g. Apple, Google). The real question when it comes to owning these companies is not one of business risk but valuation – when the market is willing to value these businesses as low-risk annuities, much of the good news is likely priced in. Paying nosebleed multiples for such assets only makes sense if you believe in their ability to sustain growth and margins far into the future. The risk/reward equation doesn't seem compelling to me so far, but perhaps I'll have another shot at owning these companies at better prices. In the meantime, I'll have to be content watching from the sidelines.

On the topic of siren songs from technology companies, one huge miss was not investing in Facebook in late 2018. I am not usually one to complain loudly about missed chances in hindsight - after all, everyone wishes they could have selected the winning Powerball numbers. Nevertheless, not pulling the trigger on Facebook when it traded at a market average multiple in December 2018 is inexcusable. Facebook and Instagram are irreplaceable platforms that continue to attract global advertising budgets. To paraphrase Charlie Munger on mistakes of omission: I saw it, but didn't act on it.[4]

Lastly, a review of costly errors in 2019 would not be complete without mentioning the particularly large mistake of holding shares of Hostelworld. As its name suggests, Hostelworld is the leading online travel agent ("OTA") for hostels around the world. These types of businesses are extremely capital-efficient and cash-generative when they are supplied with a steady stream of visitors (via website or mobile app) who convert their "looks" into "books," as each completed reservation results in a 15-20%

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[4] https://25iq.com/2015/09/19/a-dozen-things-ive-learned-from-charlie-munger-about-mistakes/

commission being paid to the booking platform. When traffic to the site and/or booking conversion declines, the business faces the uncomfortable prospect of trying to spend more to entice visitors through advertising or product spend. While Hostelworld was at one time the only centralized site to book hostels around the globe, most hostels today (even the mom and pop ones) understand how to diversify distribution channels among larger OTAs and Google, which has rapidly become a force in the online travel industry. As a result, Hostelworld finds itself squeezed by much larger, well-funded rivals not only in evolving its product, but in acquiring customers. What I had once believed to be a relatively sheltered corner of the travel industry turned out not to offer any substantial competitive moats against much larger competition. PLP has completely exited its stake in the Company.

As Munger says, "I know I'll perform better if I rub my nose in my mistakes. This is a wonderful trick to learn." Unfortunately, calling out one's past mistakes doesn't mean there won't be more in the future. Sometimes, the analysis is just wrong, which speaks to the importance of appropriate (but not excessive) diversification and continuous evaluation of portfolio company performance. Per Buffett, the key is to "make sure that the right things overcome the wrong."

Personal Redemption (not the religious kind)

Some of you may know that I recently completed the purchase of a new home, allowing me to have a living room that doesn't also serve double duty as an office. Due to banks' reluctance to hand out loans to the self-employed, payment had to be settled in cash (with 30-year borrowing rates hovering at historical lows, it's hard not to be jealous of the mortgage-worthy). As a result of this personal liquidity event, I redeemed a small portion of my stake in the Fund (less than 10%) at year-end. This amount ensures that I can pay for such staples as electricity, health care, food, and taxes. With the exception of funds invested with former employer 401k programs, nearly all of my liquid net worth continues to be invested in the Fund.

Partner 2019 Tax Statements

I expect partner K-1 forms to be available by early April. If you need to receive your statement earlier, please let me know and I'll do my best to convey urgency to the Fund's external accounting firm.

In Closing

Notwithstanding continued geopolitical tensions, soaring budget deficits, and trade wars, 2019 was a year when optimism was restored in the market. There are fewer opportunities today than there were a year ago, but as we saw then, the market's mood can change suddenly, and fear is a bargain hunter's best friend.

As usual, please let me know if there is anything unclear in these letters, if you have any questions, or if there are better ways to communicate with you about your partnership

investment. Unless something comes up, the next letter you'll receive from me will be in July 2020.

Please also note my new mailing address in the letterhead. If you're in the area, I warmly invite you to stop by the new home/office.

Sincerely,

Drew Peng

Attached: PLP Top 5 Portfolio Positions as of December 31, 2019

<u>Exhibit A</u>: Pinchot Lane Partners - Top 5 Portfolio Positions as of December 31, 2019

Name	Symbol	Description	Investment Thesis	% of Portfolio Value	Date of initial investment
Purple Innovation	PRPL	A leading consumer comfort brand with substantially differentiated product technology (hyper-elastic polymer grid); Purple is a vertically-integrated designer and manufacturer of mattresses, bedding accessories, seat cushions, and pet beds	Rapidly growing direct-to-consumer mattress industry (which now represents over 10% of the $17b domestic market); Purple wholesale channel sales show explosive growth and brand has built a large consumer following; patented technology differentiates company from proliferation of foam-based competition; valuation substantially below private market comps; new CEO successfully executing operational turnaround	32.5%	Apr-2018
XPO Logistics	XPO	Provider of transportation and logistics in N. America and Europe; company was formed through a rollup of 17 different acquisitions led by an experienced entrepreneur who used a similar strategy to build and successfully exit two multi-billion companies (United Waste and United Rentals)	Transportation and logistics is a large, fragmented industry and XPO has few comparables who have adopted its integrated approach to delivering customer solutions; XPO's technology-led approach seems poorly understood despite a strong track record of gaining market share and substantially improving margins since completing its last acquisition in 2015	11.0%	Feb-2019
SS&C	SSNC	One of the largest providers of financial software and fund services for the asset management industry	Rollup acquisition strategy led by founder/CEO. Company has grown revenue by 6x over the last 5 years and compounded earnings per share by >25% compounded annual growth rate over same period. Proven acquisition playbook with modest organic growth and continued opportunity to take market share	7.9%	Feb-2016
CyrusOne	CONE	Rapidly growing provider of domestic datacenters serving enterprises and hyperscale cloud companies	Company has developed the fastest, lowest-cost development approach and secured land in the most attractive datacenter markets (e.g. NoVA, TX, PHX, SV); leveraging design and development expertise to expand platform to Europe; strategic relationship with largest Chinese DC player	6.2%	Aug-2013
Viasat	VSAT	Provider of satellite equipment and communication services for government/defense sector, consumer broadband, rural community wifi, and commercial aviation	Lowest cost satcom provider on critical cost per bit capacity metric; technology is years ahead of primary competitors; potential to become first truly global internet service provider post-launch of next-generation, advanced Viasat-3 satellite constellation (currently under construction); has taken significant market share of commercial airline connectivity	5.9%	Jun-2012
			Total Top 5	**63.5%**	