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

January 29, 2020

To My Partners:

2020 Performance Summary

From January 1 to December 31, 2020, Pinchot Lane Partners LP ("PLP", the "Fund", the "partnership") returned 97.2%, net of management and incentive fees. For more detail on the incentive fee framework, please see the Fund's Limited Partnership Agreement.

Below is a summary of Fund performance for the full year 2020 and since inception:

	PLP Gross Perf	(A) PLP Net Perf**	(B) S&P 500 Total Return†	= (A)-(B) *Relative 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%***
Annualized 1/22/18*-12/31/20	40.2%	32.3%	12.5%	*19.7%*

** Fund inception was 1/22/18*

*** Net performance after 0.75% annualized management fees and incentive allocation*

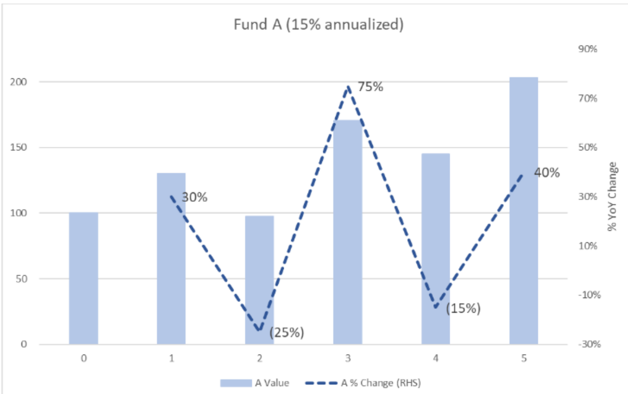
† S&P500 total return includes dividends

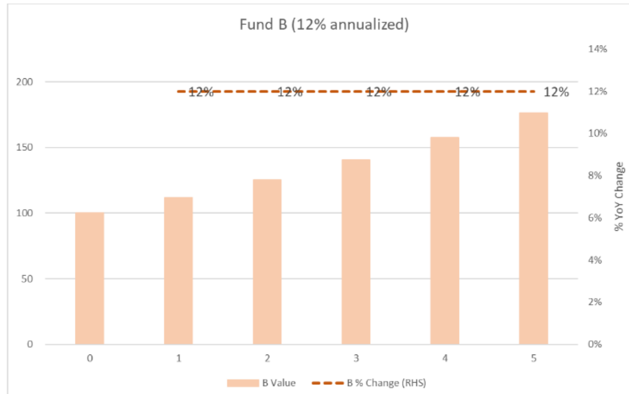
Note: Individual LP returns may vary based on the timing of your subscription(s).

2020 Fund performance notwithstanding, it's important to look at partnership returns through the lens of compounded long-term performance. If you're wondering whether the partnership will duplicate 2020's returns on a consistent basis, let me be direct: it won't. My objective for the Fund remains the same as always – superior returns *over the long term* achieved by picking our spots carefully, investing aggressively when conditions are favorable, and being patient when they're not. The goal is to compound our capital over a decade or more, not necessarily to produce gargantuan returns in any given year (though I won't refuse them when they come). Partners would be wise not to be overly fixated on the performance of any particular year, positive or negative.

Furthermore, it would be futile to try to predict precisely when the returns arrive. As an example, I thought that the Fund's largest position (Purple Innovation) would make a bigger contribution to performance in 2019, as the company's market share gains and operating momentum were evident two years ago. Instead, the market only began to recognize the company's rarified performance last year. Had our stake in Purple gained more in 2019, perhaps we would have had a smoother performance curve over the last two years instead of the explosive growth in just the past year. It can take a while for this game to play out, and the skill required to generate superior returns is as much about patience as asset selection.

Below is a chart that many value-driven fund managers know well:





"Charlie and I would rather earn a lumpy 15 percent over time than a smooth 12 percent." – Warren Buffett

"Fund A" is a notional example of a fund that created greater 5-year annualized returns (15%) than "Fund B" (12%), but did so with significantly higher volatility. 100 times out of 100, I'd prefer to own lumpiness in exchange for superior long-term compounded annual return. Some investors might disagree, and academically-inclined observers might roll out measures of volatility to prove that I'm wrong. Nevertheless, my most important measure of success is whether I can deliver a larger pile of net assets per partnership unit at the end of five years, even if in the interim it was anything but a straight ride up and to the right.

I think of volatility as a "feature," not a "bug" of Pinchot Lane Partners. Of course, I would love to have a fantasy portfolio that increases in value on a predictable basis, but that isn't how markets work. For example, our portfolio plunged in mark-to-market value by nearly a third in the first quarter of 2020, and while this decline is masked by the annual performance, it's not like it didn't happen. How an investor is positioned and what the investor does during these wild market gyrations is critically important. Having the cash to take advantage of cheap valuations and then *actually* backing up the truck to buy more helps create differentiated long-term investment performance. Viewed in this light, cash most certainly is not trash.

If you're an investor who needs consistent returns due to regular withdrawal requirements or because you're attempting to time the market, Pinchot Lane Partners is not the fund for you. Over the short term, anything can happen in markets driven by fear, greed, and computer algorithms. The core of the Fund's investment philosophy is built on a long-term focus (underwriting business cases 3-5 years out), a handful of high-conviction ideas, and a watchful waiting game.

Hits and Misses

If you've been reading prior partner letters, you're aware that in 2020, the Fund had an outsized winner in Purple Innovation ("Purple"). The Fund initiated its position in Purple nearly 2.5 years ago, shortly after it was taken public via a reverse merger with a special purpose acquisition company ("SPAC") before such deals became the fashion du jour. You may recall a presentation I distributed to partners on April 8, 2019 that discussed the compelling investment case behind Purple and its differentiated products. At the end of 2020, Purple's shares traded 570% higher than the price as of the date of this presentation.

Purple fit a theme that I look for when making Fund investments – a company with unique products and/or services, the potential to earn attractive returns on capital at scale, measurable traction with customers, and a highly asymmetric risk-return profile. The Fund's returns from this investment did not come in a straight line, as Purple's share price has fluctuated considerably during our ownership (in 2018, our stake in Purple generated a mark-to-market *loss* for the year). The bulk of Fund shares in Purple were acquired in 2019 as the Company, under the leadership of a new CEO, began making substantial operational improvements and accelerating market share gains.

In previous letters, I've made a point of mentioning the level of portfolio concentration at which I am comfortable owning assets in our portfolio. As an example, Purple was a third of the Fund at the end of 2019, which drove substantial outperformance in 2020. While *some* diversification is prudent to reduce catastrophic risk, overdiversification waters down fund returns. Diversification for its own sake, or diversification as a substitute for conviction, strikes me as an unproductive use of precious investor capital.

> *"In our opinion, the massive over-diversification that is commonplace in the [fund management] industry has more to do with marketing, making the clients feel comfortable, and smoothing of results than it does with investment excellence. At Nomad, we would rather results were more volatile year to year, but maximized our rolling five-year outcome."* – Nicholas Sleep, former Fund Manager of Nomad, one of the best performing investment partnerships in history

Even after pruning our position in Purple in 2020, it remains the largest position in the Fund at year-end.

While Purple comprised the lion's share of Fund gains in 2020, other investments also generated strong returns. The Fund's "ex-Purple" portfolio grew 24% for the year. That return may look modest relative to the triple-digit percentage returns from Purple, but in the context of the dramatic declines in the first part of the year, I consider it more than satisfactory. Due to the extreme volatility throughout this period, there was higher than usual turnover in the ex-Purple portfolio. As I've written before, many of the minor positions sold to raise cash during the height of pandemic-induced uncertainty were mistakes in retrospect. Fortunately, these cash proceeds were subsequently redeployed into new positions with extremely favorable outcomes.

Hindsight is 20/20, but last year's March-April months now look like a textbook example of a panic-induced selloff. This brief window of opportunity offered a "target rich" environment as participants sought to liquidate positions amid extreme uncertainty. Following government stimulus and federal reserve programs, most asset classes roared back as confidence began to be restored in the economy. A big surprise to many was the resilience of the American consumer who, instead of pulling back from discretionary expenditures, reallocated spending that had been earmarked for travel and hospitality. Sales boomed in domesticated categories like real estate, furniture, boats, RVs, and pools. Fortunately, the Fund managed through this tumultuous period with respectable performance, investing in a variety of high-quality industrials, banks, and special situations, in addition to growing several core holdings.

Governmental Pandemic Response: Giving Credit Where It's Due

It would be intellectually dishonest for any fund manager who turned in decent performance in 2020 not to acknowledge the crucial role that key branches of the U.S. government played in stabilizing the economy. As a result of two rounds of multi trillion-dollar support packages developed in Congress, businesses and households that were crushed due to shutdowns were able to receive assistance after their incomes had all but dried up. The U.S. Treasury and Federal Reserve stepped in to keep the markets and economy moving through emergency tools that only entities of their scale and capabilities possess. It's sobering to think what would have happened had our government officials not risen above partisan divides to confront this crisis head-on. While we're clearly not out of the woods yet, greater economic disaster seems to have been averted. That said, there's clearly still room for improvement in the speed, efficiency, and execution of governmental responses. Here's to hoping a more compassionate and functional legislature will thrive under our new administration.

Imagination as a Guide to Investing

A consequence of the coronavirus pandemic and Federal Reserve response has been an acceleration in both the business fundamentals and valuations of technology companies. Elevated levels of market valuation can be justified by lower interest rates, which were already low by historical standards coming into the crisis. Market participants know that risk-free interest rates act on asset values like gravity acts on matter; hence, all-time low rates have the effect of pushing up valuation, all things being equal. As a simple thought exercise, calculating the present value of a stream of constant flows over 20 years shows valuation's sensitivity to interest rate. Every 1% reduction in rate drives approximately 10% increase in present value. When prevailing 10-year treasury rates go from nearly 3% as they were a year ago to 0.5% in mid-2020 (they've since marched back up to a still-modest 1.1%), it's not surprising that the S&P 500 ended up by +16.3%, and the technology-intensive Nasdaq Composite grew +43.6%.

This simple thought exercise describes only part of the reason high-growth technology companies have outperformed. When the world is forced to live and work from home (where feasible), the obvious beneficiaries are businesses that cater to a virtual-first environment. These trends were already in place before the pandemic (just look at the inverse trends of mall vs. internet traffic over the last decade), but they experienced a sudden leap forward when households were largely confined to the home. The persistence of these step changes remains to be seen, but there is no doubt that as a society, we've crossed a threshold in mass digital adoption.

There are still more benefits that accrue to technology companies with the confluence of low interest rates and a crisis-induced increase in demand. Historically low risk-free interest rates also mean that surplus capital in the world looks harder for real (after inflation) return. The result is an exaltation of "growth" as a distinct style of investing that seems detached from considerations of "value" (i.e., what you get for your money). There is no doubt that investment portfolios need growth assets, but at what price? Over the long term, it cannot be true that a strategy pursuing growth irrespective of price generates superior returns. In short, we need to be able to distinguish an incredible investment narrative from an incredible investment opportunity.

Recently, a prominent technology growth investor extolled the virtues of "imagination" when investing in public markets. I must admit that I've never used this term before when describing my approach, which puts me out of step with many of the forces driving technology assets higher. I don't take issue with the term, but whose "imagination" are we talking about, exactly? I can imagine all sorts of things, but that doesn't make them realistic or true. The particular investor making this statement (whom I respect highly) might have an unusually prescient imagination, but the same couldn't be said for investors buying at the peak of high-flyers like WeWork, Theranos, and most recently, Gamestop. The problem is that markets can create their own feedback loops that run, at least for a while, unchecked by economic reality or the laws of physics. Instead of letting imagination be my guide, I'll stick with "enlightened analysis," an approach that centers on observable inputs and durable precedents. Essentially, I'm not trying to run Pinchot Lane Partners as a late-stage venture capital fund. I avoid investing in companies where it is difficult to ascertain business model sustainability and long-term product-market fit, outside of unsubstantiated hype. There are those who have the resources to parse these opportunities well; I don't count myself in that camp. Fortunately, we haven't had to rely on my limited imagination to produce acceptable returns for the partnership.

Since the majority of market attention seems preoccupied with finding the next hypergrowth tech stock, there will continue to be opportunities to find compelling investments that meet our threshold of superior risk-adjusted returns on a compounded, multi-year view. For the avoidance of doubt, my approach to seeking investments that lie outside of popular tech-driven narratives does not imply that the opportunity set is limited to assets of questionable quality on the verge of disruption. There are plenty of high quality public companies with durable growth characteristics that exist outside of the narrow spotlight of technology. While they may have slower growth, on occasion you can own them at reasonable prices relative to their potential. These are the types of names that the Fund was able to pick up in last year's historical correction. As exemplified by our investment in Purple, it may take years to identify and invest in such companies, but time and patience are relatively inexpensive assets that give the Fund its competitive edge.

Staying Focused

During particularly turbulent market environments like the first half of 2020, I find that the best way to cut through market noise is by redoubling research efforts on portfolio companies and their competitive strategies. The majority of my time continues to be spent on primary due diligence of companies we own, followed by targeted deep dives into companies and industries that have yet to yield new investments. The constant gathering of background knowledge, even if not immediately actionable, is part of the "craft" of the investing profession that is both interesting and highly useful for the intellectually curious. The compounding nature of knowledge ensures that, when opportunities arise within my circles of competence, I will be ready to capitalize on them. It helps to recall Einstein's three rules of work:

Out of clutter find simplicity.
From discord make harmony.
In the middle of difficulty lies opportunity.

Embracing this mindset gives me the resolve to tune out the noise, focus on fundamentals, and step up to buy assets when they go on sale.

Housekeeping

I have made the decision to reduce the Fund's management fee to 0.50% of assets under management (from 0.75%). As Fund size has grown, primarily through capital appreciation, the relatively fixed costs of operations have come down in proportion. I anticipate being able to offset primary expenses (fund administration, tax, regulatory, and limited legal) with any excess (research, subscriptions, IT) continuing to be paid out of my pocket. Fortunately, the Fund continues to operate rent-free from my home office.

As I've written previously, the more assets in our partnership, the more we can drive the management fee downward. I continue to welcome additional subscriptions and don't see Fund size affecting our opportunity set in the near future. As usual, the vast majority of my liquid assets are invested alongside partners.

Also, I've decided to discontinue the practice of publicly reporting the Fund's largest positions with each semi-annual letter. Instead, I will send partners this disclosure separately on a confidential basis. Generally, it doesn't serve the partnership for the wide world to know what we own, especially securities that may be illiquid and thinly-traded. Of course, any partners who wish to discuss our portfolio should reach out at any time.

Lastly, the Fund's accountants at Akram & Associates are working on partnership tax filings and should have K-1 forms available to partners in the second half of March.

Please let me know if I can answer any questions you might have about your investment, and/or if I can do a better job communicating with you. As always, I appreciate your partnership on this journey together. It makes my job immeasurably easier and more enjoyable to know that I have partners who buy into the Pinchot Lane Partners' value creation philosophy. I hope that you and your loved ones stay healthy and safe.

Sincerely,

Drew Peng