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February 9, 2022

To My Partners:

2H 2021 Performance Summary

From January 1 to December 31, 2021, Pinchot Lane Partners LP ("PLP", the "Fund", the "partnership") returned -26%, net of management fees. No incentive fees were paid, as the Fund's performance did not exceed the annual 6% hurdle rate required to earn them. Below is a summary of Fund performance for 2021 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%*
1/1/21 to 12/31/21	**(25.6%)**	**(26.1%)**	**28.7%**	***(54.8%)***
Annualized 1/22/18*-12/31/21	**19.4%**	**14.1%**	**16.4%**	***(2.3%)***

** 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).

Following strong gains in 2020, Fund performance suffered in 2021 from declines in our investments in Purple (PRPL) and Alibaba (BABA). Over 100% of PLP's losses were driven by these two names. Purple started the year as the largest position in the portfolio by a wide margin, and I added to both it and BABA as their prices declined. By mid-year, both companies occupied the top two positions in the Fund and represented approximately 47% of net assets at market value. Share prices of both continued to decline through the end of the year, which dragged down Fund performance substantially. 2021, to paraphrase Captain Obvious, was not the year we wanted.

Other areas of the portfolio generally performed well, with strong gains from our large bank basket of Wells Fargo/Bank of America, Lazydays, XPO Logistics, and Viasat (all initiated in 2020 or earlier), offset by small declines in other, minor positions. No new positions drove measurable gains, as proceeds from the sale of winners largely went to adding to PRPL, BABA, or other non-performing names (e.g., Molson Coors, Charter, JD.com). More information on our portfolio's top holdings at year end and individual contributors and detractors can be found in Partners' attached appendix.

Concentrated, long-only portfolios such as PLP's experience volatility (on both the upside and downside) as a natural consequence of holding a handful of companies in

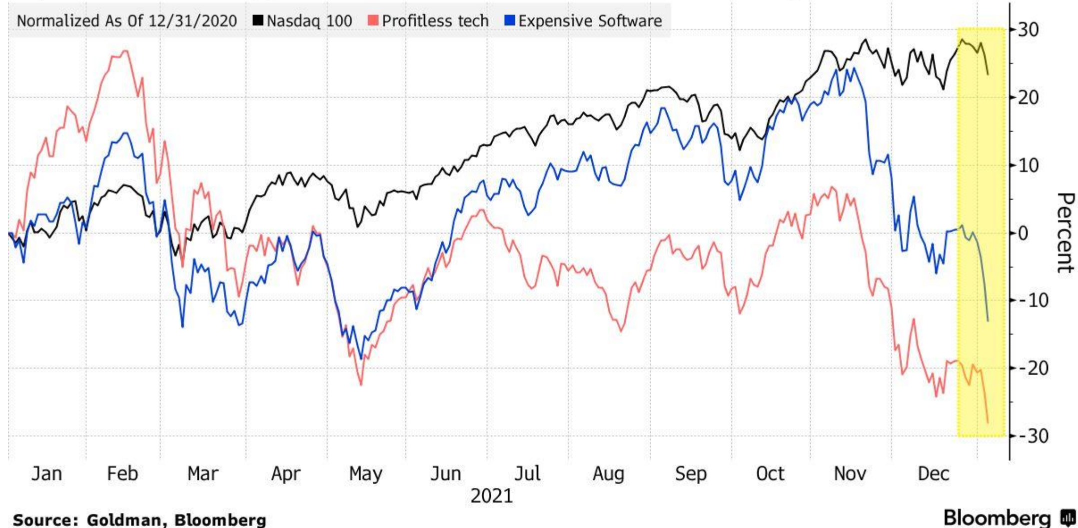
size. When our portfolio is concentrated and investment theses are confirmed, the Fund does extraordinarily well. When uncertainty is introduced through company mis-execution, competitive disruption, and/or macro pressures (e.g., interest rates, inflation, geopolitics, regulation), our performance suffers. While I try to get the long-term fundamentals correct in my due diligence, there are obviously many variables in the short term that are difficult to predict with accuracy. I'll address some of these variables below in deeper dives on Purple and Alibaba (and other China tech investments).

General market commentary / The Great Reversal

Overall, 2021 was a particularly treacherous year for fund managers aspiring to beat large-capitalization passive indexes, particularly those focused on small to medium-sized ideas, since so much of the equity market's performance was driven from the top (e.g., FAAMG, FAANG, etc.). Underneath this large cap bracket, market performance was mixed at best. As seen from the following chart, large company indexes meaningfully outperformed in 2021:

Source: GMO

Notably, high-growth technology names outside of the large caps struggled to repeat the pace of appreciation seen in prior years. The fourth quarter was particularly rough, as growth and momentum names fell sharply after reaching peak levels in the first half of the year. Looking at the charts that include these former high-flyers, it seems that many of them have already entered correction territory.



Source: Bloomberg

COVID beneficiaries, such as Zoom, Docusign, Roku, and Peloton, have retraced much (if not all) of their gains since the early months of the pandemic (example: Zoom is down nearly 75% from its peak in October 2020). Special purpose acquisition companies ("SPACs"), which are shell companies that raise money publicly to acquire private businesses, are almost all down substantially from their offering prices. Private market valuations, which benchmark to public valuations, are likely to see a correction as well before long. If you've been looking for the next bear market, we might just have found one among growth and momentum plays.

Throughout the last two years, zero interest rate policy by the Federal Reserve (which is quickly coming to an end) combined with strong consumer spending stoked the equity market's "animal spirits," which in turn fed speculation. Before you knew it, trend-chasing bubbles were inflating everywhere. COVID has provided an interesting time to observe market behavior in relation to trend-driven investing. 2021 showed that, at least in the public markets, "experienced professionals" are just as susceptible as retail investors to popular narratives.

As a fundamentals-based stock picker, I found it difficult to identify compelling opportunities to put meaningful amounts of capital to work within my circles of competence. While some structural shifts in the economy appear to be taking root two years into this pandemic (e.g. work from home), the outlook for the economy's emergence from COVID remains uncertain. Forecasting lasting trends as we come out of the pandemic is a particularly fraught effort, given the unprecedented nature of both the pandemic and the human response. Compounding these challenges is the fact that even company management teams are struggling to forecast, as recent demand patterns have been affected by consumer behavioral shifts and government interventions (see: Peloton).

To the extent that it is clear which sectors have permanently benefited from COVID, valuations in these sectors tend to already discount an extremely bright future. Paying *any* price to own the most resilient, high quality companies is not something I'm willing to do. The problem with chasing stocks at high valuations, even high quality ones, is that getting returns out of these assets becomes like "squeezing blood out of a stone." Nosebleed valuations leave very little room for error and increase the risk of a significant downdraft due to company and/or market-specific issues. When prices become untethered from fundamentals and increasingly rely on overoptimistic assumptions about the future, our job is to sit, wait, and do nothing.

Meanwhile, it's interesting to look at an example of an investment that had surprising outperformance in 2021. Kroger (KR), a *grocery store* and one of Berkshire Hathaway's most recent public investments, appreciated +55% over the last year, handily beating both the QQQ (Nasdaq 100) and IGV (software) ETFs (see chart below).

A year ago, Kroger traded at a trailing price to earnings multiple of 10 times. The prevailing view at the time was that the pandemic provided a one-time boost to Kroger's business, and that its earnings would most certainly fall in the year ahead. Even then, if Kroger's earnings per share in 2021 fell back to 2019's pre-pandemic levels, the shares would still only trade at an undemanding, below-market 15x P/E multiple. *Price matters* when endeavoring to produce attractive investment returns, and Kroger's performance is an example of the benefits of looking in areas most others avoid. Unfortunately, Kroger never made it into the PLP portfolio, but it's a story that inspires me to keep searching for the next overlooked, unloved asset with a healthy margin of safety.

January 2022 has been a continuation of the volatile (but mostly downward) action in 2021. We're beginning to see a "Great Reversal" of momentum, and themes that worked well since the March 2020 lows, and the countertrend has been violent.

Intraday price movements in several large cap, well-known companies have been extreme and demonstrate the extent to which *anything* can happen in markets driven by fear and greed. On a positive note, broad market selloffs tend to yield compelling long-term investment opportunities. In the midst of the volatility, perhaps we'll be able to find some attractive opportunities to deploy capital.

Reflections on Purple

Anytime one invests in a Company selling an innovative new product or service, the following questions need to be asked:

1. Is there enough differentiation in the new product/service that actually matters to the average customer?
2. Is there sufficient demand for the product/service to scale, both in terms of product and geographic expansion?
3. Is there a profitable business selling these products/services at scale?
4. Are current go-to-market channels conducive to customers' discovering the product/service, and can going through these channels yield profitable business?
5. If current go-to-market channels are *not* sufficient, can new channels be created or accessed efficiently to generate profitable sales?
6. How defensible is the product from competition?
7. Is the management team capable of scaling the business?

PLP has been invested in Purple since early 2018. Up until 2021, the Company's outstanding operating results confirmed that questions (1)-(7) could be answered with a resounding "yes." Unfortunately, in 2021 Purple's growth engine derailed, partially a consequence of difficult year-over-year comparisons (mattress sales shifted to higher-margin online channels for much of 2020), self-inflicted mistakes, and the inflationary cost environment. As discussed before, there was a tragic manufacturing accident in May 2021 which held back Purple's production capacity for months. During the course of the year, the Company never fully recovered from this incident and consequently underdelivered against ambitious sales targets.

I have no regrets about investing in Purple despite the significant declines that drove most of PLP's underperformance in 2021. Partners invested in PLP since 2018 have made a healthy return on our investment as our cost basis was below 2021 lows, and the Fund realized large gains in 2020. Clearly, my mistake was holding this position in too large of a size at higher valuations, which required solid execution by the Company to see further gains. I should have harvested more gains in 2020 and early 2021 as PRPL's price rose to all-time highs. So, great investment at our entry price, poor investment from the perspectives of trading, portfolio weighting, and realization. My inaction cost PLP partners dearly.

I continue to spill ink on Purple because I think the Company's long-term story remains intact, subject to some key changes in operations, go-to-market strategy, and management. After the Company's disappointing third quarter earnings announcement, I sold the entirety of the Fund's stake in PRPL, having lost faith in then-management's

ability to execute. When a new CEO was announced in late December, and key insiders began aggressively buying shares in the market, I made the decision to re-establish a substantially smaller position in PRPL. Usually, I don't change my mind about an investment in such short order, but the predominant concerns that I had when selling shares late last year – that the Company could wind up with liquidity issues and that then-leadership seemed rudderless – are being addressed with recent changes. Will Purple get to its ambitious market share targets in a straight line? Probably not. Were the outsized gains in 2020 an aberration due to COVID tailwinds? Most definitely. Nevertheless, the bottom line is that Purple continues to have a fundamentally differentiated, consumer-beloved product with a long runway for profitable growth. The new CEO's background seems well-suited to execute on the Company's long-term growth plans, and if this management change is successful, shares are extraordinarily cheap at current valuations.

China Portfolio Companies

Our Fund's exposure to large capitalization Chinese businesses, primarily Alibaba, also drove sizable mark-to-market losses in 2021 (albeit much smaller than Purple). Establishing a position in these names (Alibaba, JD.com, Tencent) at attractive prices began feeling like trying to catch a falling knife, as geopolitical tension, China regulation, and slowing fundamentals weighed heavily on each. Alibaba suffered the worst triple whammy of market concerns, including: a) canceled IPO of Ant Financial/AliPay, of which Alibaba owns a 1/3 stake; b) Government fines of $2.8 billion for anti-competitive behavior in Alibaba's marketplace platforms; c) slowing fundamentals and increased competition. Despite these headwinds, I do not think they permanently handicap the long-term potential of Alibaba and our other Chinese digital platforms.

It's worth taking a moment to cover the Chinese Communist Party's ("CCP") renewed regulatory thrust, as due diligence on China investments is incomplete without considering the government's motives and long-term objectives. The table below is organized around the key objectives of the CCP along social and economic dimensions, as I understand them.

CCP objectives	Actions	Consequences
"Common Prosperity"	• Rural development including infrastructure and agricultural initiatives • Prioritization of shared wealth vs. wealth only among elites	• Attacking business models that are interpreted to be usurious or elitist • Higher taxes • Extracting agreements to invest more capital in less developed regions
Self-reliance	• State-supported development of key industries such as: agriculture, semiconductors, AI, manufacturing, biopharma	• Prioritization of key industries, especially those considered vital to China's continuing tech advancement and self-sufficiency
Fair competition	• Rooting out company behavior that unfairly restricts competition	• Fines for intentionally anti-competitive behavior

CCP objectives	Actions	Consequences
	• Includes: Forced exclusivity imposed on suppliers and/or consumers, restricting access and consumer choice	• State-mandated opening of walled gardens and platform interoperability
Digitalization	• Promotion of digitalization to improve growth and efficiency in government and society • Enhanced digital access, broadband, internet platforms	• Increase digital economy share of national GDP • Improvement in digital governance systems • Push to increase size of software and IT industry
Population growth	• Abandonment of former one-child policy • Incentives for having more children and child support • Removal of barriers to having more children	• For-profit tutoring industry basically no longer exists after being targeted by CCP • Crackdowns continue on businesses viewed as inhibitors to raising children
Control capital	• Stronger regulation of capital flows, foreign investment • Stronger guidance given as to which industries the CCP will support in terms of growth and development	• CCP does not want to see unregulated capitalism develop, especially if it is seen as weakening society and does not contribute to CCP goals

It can be seen above that the CCP's objectives are to create a more stable, prosperous, and harmonious society over the long term. Setting up guardrails that prevent undesirable levels of inequality, advancing the country's self-sufficiency, modernizing the economy to enhance productivity, and promoting population growth all make sense in the context of building up China's long-term capabilities. While the increased regulation of the last 18 months feels hostile to Alibaba and its peers, I think of it as a course correction by the CCP to give strong guidance as to how it wants to see "good growth" take place, as opposed to the sort of unchecked capitalism that leads to increasing inequality and divisiveness. Interestingly, the regulatory posture in the U.S. is beginning to resemble what is already taking place in China. Commentators in the U.S. often portray the CCP's actions as being bizarrely anti-capitalist, or brazenly regressive, but could it be that China is actually a few steps ahead of where U.S. regulation eventually ends up?

Our bet on China's biggest tech platforms (Alibaba, JD.com, Tencent) requires an understanding of their alignment with the CCP's objectives. As core utilities that provide access to essential goods and services, whether in groceries, messaging, digital payments, or cloud computing, our China portfolio companies all play crucial roles in the daily lives of Chinese consumers and businesses. While each company has at one point or another engaged in activities deemed out-of-step with the CCP's agenda, fines and regulatory action thus far have been mild. As an example, Alibaba's $2.8 billion fine for anti-competitive behavior amounts to ~1/10th of the company's profits in fiscal

2021. Examples of areas in which each of these companies has been found to have violated CCP dictates include the following:

- Tencent – unrestricted gaming targeted at minors, ecosystem lock-in
- Alibaba – sale of counterfeit goods, ecosystem lock-in, forced merchant exclusivity
- JD.com – False promotional pricing, monopoly behavior

More important than monetary fines are any restrictions that could handicap the long-term growth and profitability of these platform companies. Considering the administrative government has already embraced a future of digitally-led growth in its 14th Five Year Plan, intentionally sabotaging the biggest, most scalable technology platforms would be counterproductive. A similar scenario in the U.S. would be our government attempting to take down Amazon and PayPal, while simultaneously touting the benefits of driving less and banking online. It makes sense that regulation would put restrictions on anti-competitive behavior, but weakening a country's leading companies (thus inhibiting their ability to serve the masses) seems a step too far. Indeed, from reading what Chinese regulatory authorities have stated publicly in their support of the "*healthy and sustainable development of the platform economy*," we get the sense that authorities desire continued growth of technology platform companies, but in a more controlled way.

My expectation is that certain business practices that locked-in users and disadvantaged rivals (e.g., blocking of links to rival platforms) will end. In the short term, these measures may temporarily slow growth, but over time I believe they will help each company thrive in a more open ecosystem by narrowing their focus on respective core competencies. Another overlooked thesis is the ability of these platforms to adapt to heightened regulation by virtue of their size and profitability. Unlike smaller competitors who are unprofitable and/or rely on unsustainable subsidies to fuel growth, our portfolio companies are consistently profitable and possess the scale to continue investing in promising opportunities ahead.

Possible delisting of Chinese American Depositary Receipts ("ADRs")
U.S. regulators have intermittently threatened to delist Chinese ADRs, the U.S.-listed securities through which PLP invests in Chinese portfolio companies, due to audit oversight rules. Basically, the PCAOB, which the SEC has empowered to regulate U.S.-listed public company accounting, has not been authorized to review the work of Chinese auditors. You can read more here.

The delisting risk, while not immediate, is certainly a possibility (see Didi, China's version of Uber). Were this to happen, I see no issues holding our portfolio companies' stock in Hong Kong (where they are already cross-listed), as opposed to holding the ADRs. I'm not convinced that delistings of ADRs would be negative for company valuation. In fact, the resolution of the delisting uncertainty over these names could improve liquidity, when global investors see that: (a) the Hong Kong Stock Exchange is a large and liquid global stock exchange, and (b) its company reporting and disclosure

requirements are equivalently robust as U.S. exchanges. If a delisting event were to occur, the Fund's brokerage (Interactive Brokers LLC) would facilitate a smooth transition to ownership of Hong Kong-issued shares. I'm confident that there would be very little cost (if any) to the Partnership. Having previously owned Hong Kong-listed investments, I see no issues owning shares listed there again.

China stocks as "uninvestable"
More than a few market pundits have called China "uninvestable" given uncertainty around cross-border listing regulations, growing geopolitical tension, and reports of China's macroeconomic fragility. This sentiment shows that China's economy and system of government continue to be poorly understood by most Americans. These two countries increasingly do not see eye-to-eye on a range of issues, but that doesn't mean that both systems cannot produce healthy economic growth, innovation, and standards of living.

When I hear the term "uninvestable" used to describe large, durable franchises that provide utility-like services to a massive addressable market, I become *more* interested, not less. Our investment in Wells Fargo, initiated in mid-2020, is an example of a situation in which the term "uninvestable" was commonly applied following years of underperformance. As you may recall, Wells was mired in the aftermath of various forms of banking malpractice including fraudulent account opening, overaggressive sales culture, insufficient management and risk controls, and top executive turnover. When COVID sent shares even lower, Wells' share price was trading at a decade-long low, with industry analysts having all but given up on the stock. It took less than a year for share prices to more than double from 2020 lows. The bank is now well on its way to restoring healthy operational performance and putting legacy issues behind it. The moral of this story is that when it comes to large-scale institutions providing essential services (Wells is the #3 bank in the U.S. by deposit base), one has to look beyond headlines to the underlying set of assets that will enable them to endure. Each of our China portfolio companies has an incredible set of franchises that form the backbone of the country's digital economy, positioning them extremely well for government-aligned growth.

Key Learnings from 2021
Our performance in 2021 was a bitter pill to swallow as in retrospect, I let our biggest position grow too large. Managing risk in the portfolio means not just deeply understanding our portfolio companies and what can go wrong in their businesses, but also managing the size of our investments so that if bad things unexpectedly happen, we don't get in too deep of a hole. I don't want to overreact to the circumstances, since a meaningful contributor to the Fund's performance in 2020 was owning PRPL in size when shares exploded from $9 to $33. Still, a margin of safety is an important consideration when evaluating whether to hold unrealized gains at ever higher prices, as further gains require impeccable execution and a cooperative market environment. Portfolio management is a skill to be cultivated, and in this case, unfortunately, I'm learning it the hard way.

I expect PLP will continue to be a concentrated fund, since my approach to due diligence is time consuming, and spreading my efforts too thin will result in decisions of poorer quality. That said, there is a prudent level of diversification that provides some level of insurance against unanticipated outcomes. Being better disciplined about harvesting profits and balancing position size with future expected gains is something I've learned through this experience.

Truth be told, I don't have an ego when it comes to managing capital – if I feel like the flow of market opportunities within my circle of competence runs completely dry for an extended period or my faculties wane, I'm happy to fire myself as an investment manager in favor of outsourcing these duties to someone else (and/or a passive index). I have too much of my own net worth invested in the Fund for it to be managed to a subpar result.

As the wise investor-philosopher Ray Dalio often says, *"Pain + Reflection = Progress."*

In Summary

2021 was a disappointing year for the Fund, largely driven by our heavy concentration in Purple and bellwether Chinese tech platforms. Our portfolio is less concentrated today than it has been for several years, a function of intentional diversification. I remain steadfast in my resolve to own high quality assets that will grow in value *over time* in excess of inflation, bought at prices that yield attractive risk-adjusted returns for our investment partnership.

A quick update on taxes - the Fund is retaining Akram & Associates once again for the Partnership's tax preparation. I don't anticipate any issues since our investments and fund structure are not exotic. K-1 forms should be available to partners by late March.

As always, I appreciate your time and continued partnership on this journey. Feel free to ask any questions you may have after reviewing this letter, I'll do my best to answer them.

Sincerely,

Drew Peng