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

February 20, 2023

To My Partners:

2H 2022 Performance Summary

From January 1 to December 31st, 2022, Pinchot Lane Partners LP ("PLP", the "Fund", the "partnership") returned -26.4%, net of management fees (waived beginning Q2 of 2022). No incentive fees were paid for 2022, as the Fund's performance did not exceed the annual hurdle rate required to earn them. Below is a summary of Fund performance for FY 2022 and since inception:

		(A)	(B)	= (A)-(B)
	PLP Gross Perf	PLP Net Perf**	S&P 500 Total Return†	*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%)*
1/1/22 to 12/31/22	**(26.3%)**	**(26.4%)**	**(18.1%)**	***(8.3%)***
Annualized 1/22/18*-12/31/22	**8.3%**	**4.4%**	**8.4%**	***(4.0%)***

** Fund inception*
*** Net performance after 0.50% annualized mgmt fee (0.75% prior to 2021) and incentive allocation. Management fee has been waived since 2Q 2022.*
† S&P500 total return includes dividends.
Note: Individual LP returns may vary based on the date of your subscription(s).

Give It (More) Time

In my last Letter to Partners (July 2022), I wrote:

> *What do we do? Give it time - give the Fed and the economic machine time to work to bring supply and demand closer together, which will bring inflation down. Invest in the companies that benefit most from increasing supply and are candidates for sustained levels of demand. Trust that "high prices cure high prices," and that no demand curve is so inelastic that buyers are willing to pay any price if their wages aren't keeping pace. We're already seeing demand curtailed in industries that have driven the most inflation (food, gas, materials, travel, and housing) which should lead to attenuated price growth going forward.*

While inflation pressures appear to be easing (i.e., year-over-year reported price increases are still positive, but declining in magnitude), prices remain high. For most people, incomes have not kept up with price growth, leading to the feeling among many households of being poorer. On this topic, there's not a lot of new ground I can cover other than reiterating that for inflation to stabilize at lower rates, the economy must restore balance between supply and demand. Despite declining demand for products

like household goods and furniture, spending has shifted into services-intensive areas like travel and hospitality. For most consumers, "going out" is non-optional, particularly after almost three years of being shut-in by the COVID-19 pandemic. Therefore, inflation across the average household's consumption basket has shifted from goods to services. I'm optimistic that, eventually, rationality will prevail – households won't keep buying at ever-higher prices if their incomes aren't keeping pace, and/or they'll find more value-conscious ways to consume (e.g., group tours instead of personal guides). The best solution for our economy, of course, would entail investments in growing supply (productive capacity in plants and machinery, trained new workers), though such investments often take years to bear fruit (e.g., the recent CHIPS Act). In the meantime, we're still in the midst of an uncomfortably tight economy. I would expect the inflation picture to improve, *over time*, barring another supply-side breakdown, but the speed of this improvement is uncertain. Fortunately, most American households possess solid finances, supported by low unemployment and steady (if not spectacular) wage growth. All things considered, it may not be the best of times, but it certainly isn't the worst; an excess of demand relative to supply is a better problem to have than too little demand with high levels of unemployment.

The "R" word

The latest preoccupation of the business news is attempting to timestamp a recession in 2023. When making investment decisions where the primary goal is to reap rewards of an investment *years* into the future instead of the next day or few months, being obsessed about the near term only makes sense if imminent events meaningfully change business prospects over the long term. If they don't, the multitude of "nowcasts" and short-term predictions amount to low-value noise.

Furthermore, there's no rule in investing that requires an investor to have an opinion on "the economy" and what may come to pass over the next few months, unless existential calamities (at the macro or micro level) are reasonably predictable. There was a time when a component of my investment research included considerations of the macro environment. It has become clear to me, however, that expending significant energy on macro forecasting is not only a waste of time, but likely counterproductive for most long-term-oriented investors. In a recent memo, Howard Marks describes the futility of macro forecasting well. When I think about the value of in-depth macro research, I'm reminded of a former colleague's drole saying, "*That* and two dollar bills will get you on the subway" (note: NYC MTA was $2.00 for a one-way fare back then).

One distinction to make: avoiding macro forecasting is different from understanding cycles and separating cyclical vs. secular trends. In my experience, the process of analyzing cyclical trends is best performed at the company-level. Enough microeconomic data points might generate a macroeconomic opinion, like tiles in a mosaic that form an overall picture. But, approaching security analysis first from a top-down approach likely means missing out on some of the best opportunities to generate outsized returns. Keeping one's "nose to the grindstone" (micro-level situational awareness) does not equate to sticking one's "head in the sand" (being blind to macro developments).

Sticking with Quality
Even when near-term business dynamics are murky at best, maintaining a long-term perspective allows investors to confidently stake their capital in investments that meet the criteria of being high quality, resilient, and durable. We also want our companies run by disciplined, focused management who act as responsible stewards of shareholders' money. And of course, we want to invest in these assets at reasonable-to-great valuations. In following this approach, I wouldn't expect our Fund to win any prizes for quarter-to-quarter performance, but hopefully we will establish a track record of solid, sustained returns, *after taxes, over time*. Beware of market pundits focused on "the next couple of days." Most market participants would stand to benefit from removing their short-term goggles and sticking around (for the returns).

Housekeeping

- Taxes – once again, Akram & Associates are preparing Partnership tax returns for 2022. K-1 forms should be available no later than mid-March.
- If history holds, the Berkshire Hathaway 2022 Annual Letter will be posted on Saturday, February 25th. If you're looking for some of the most educational, well-written business prose, block off at least a half hour to peruse it.

As always, my line is open should you have questions and/or comments.

Sincerely,

Drew Peng