Dear Partners,

Gross returns for Tissot Ayram Family Partnership in **2020** were as follows:

| ***Partnership 1*** | ***Partnership 2*** | ***Partnership 3*** |
| --- | --- | --- |
| *+84,21%* | *+79,50%* | *+85,95%* |

** Partnership 3 was initiated in October 2017.*

As I highlighted in my brief note in January, in 2020 we have had the best results so far in our investment journey. However, I kindly asked you to not expect those returns to be repeated anytime soon. I also warned you that the time for a major drawdown should be close. My reason for saying this is because the best investor of all time has had four drawdowns of more than 50% in 50 years, while we have not had our first and have been operating for almost eight years—this only means that our first major drawdown should be getting closer. But fear not: When drawdowns occur, we will still be holding great companies and those drawdowns should be because of major broad market corrections. The major drawdowns that you should be concerned about are those that occur when I am wrong on the assessment of businesses, resulting in a real permanent loss. These are the ones I must prevent. These will occur, but they should be small as long as I never involve my ego. I am truly proud of what we have achieved in these nearly eight years and of how the investment approach has evolved. I cannot tell you how excited I am about the future.

| *Year* | *Partnership 1* | *Partnership 2* | *Partnership 3* | *S&P 500* |
| --- | --- | --- | --- | --- |
| 2014 | *12,47%* | *15,00%* | | *13,70%* |
| 2015 | *-8,32%* | *-3,15%* | | *1,40%* |
| 2016 | *63,42%* | *65,89%* | | *12,00%* |
| 2017 | *12,62%* | *20,75%* | **7.33%* | *21,14%* |
| 2018 | *0,81%* | *-1,18%* | *-1,18%* | *-4,40%* |
| 2019 | *43,14%* | *38,12%* | *43,70%* | *31,50%* |
| **2020** | *84,21%* | *79,50%* | *85,95%* | *18,40%* |
| ***CAGR*** | ***26,01%*** | ***27,46%*** | ***37,79%*** | ***12,83%*** |

**Partnership 3 was initiated in October 2017.*

**<u>Overview:</u>**

General

As you know, I am setting up an alternative investment fund in Europe, and, if everything goes well and we do not have major obstacles, this should be the last annual letter as a partnership.

The fund will be an investment practise instead of an investment business, as explained by Anthony Deden in a wonderful podcast. It is being constructed based on what is needed to ensure I will make the best decisions on capital allocation long-term. It does not take into consideration what people might *want*, but rather what we *need* to protect our capital. Similar to a medical practise, a doctor should offer patients what they need instead of just what they want (imagine how successful such a

doctor would be, but at the expense of the patient's health). Few have figured out that most investment products are created to be sold irrespective of whether the service/instrument is good or not for the final investor. Our fund will be a disciplined investment practise—period.

My main ambition is to be able to do what I have been doing (compounding the important things in life) while opening the possibility of allowing people I trust and like to join me. I will focus on making the best possible investment decisions and nothing else. If I have just two or three investors alongside me, I will be completely happy. I am not looking for any capital that will not help me grow as a person or that is not completely aligned with our principles. I can only afford to have partners that share my philosophy; otherwise, we will all lose. Therefore, do not expect to see any major change coming from me.

As a final note, Laura and I no longer own the yoga studio (we sold the business to some friends and are delighted that our little project will continue to live), which means I will be focusing 100% on the fund.

## Part 1

*The invisible Risk Manager—Ego as a helper for maximizing outcomes rather than righteousness—The more labels an investor has, the less freedom an investor has.*

I see risk as the probability of permanent losses, and the latter I see as a situation where my investment thesis is flawed, either by the appearance of new facts that would make my thesis obsolete on a fundamental basis, or by having an incorrect understanding of the business combined **with my inability to recognize those facts in a timely manner**.

My job is not to be a cheerleader for our positions but to constantly monitor the validity of what I think when entering into our positions over time. I will undoubtedly be happy when management teams execute, and when that execution meets or exceeds my expectations. However, this is easy to say in theory and extremely hard in practice. You all understand by now the plethora of biases we have and how easy it is to fall into the narrative fallacy. The worst that can happen to an investor is that he becomes predictable regarding what he will think about his companies regardless of the flow of news. Those investors will always have the same viewpoint and will often ignore contradictory evidence. This is a common disease in the investment world, and a dangerous one if one wants to generate returns.

I wanted to share in this letter how I approach the above aspects and how this method has benefited us over the years. When constructing a portfolio, an investor logically expects the companies he holds to be the best places to entrust capital. The investor assumes a rosy future for each of them (otherwise those positions would not be held); however, reality, along with the passage of time, will reveal to us which of the investor's assumptions were right and which ones were wrong. We never know in advance—we only assume and take a probabilistic view. Sometimes, investors have more conviction and take a large size at entry. Those positions are the riskiest of all if the companies have not been observed for years. In other situations, the investor starts with smaller sizes and conviction increases/decreases with time, alongside the company's results.

Personally, once I build a position, I reject the premise that I will be correct regarding my assessment of the company. I just do not assume anything else and am diligent to incorporate new information to my thesis. When time passes—and I do not mean a quarter; it must be a meaningful amount of time—the decisions will become evident, and those companies that execute better than expected should organically become a larger part of the portfolio, while those that fail to deliver deserve a smaller size

(I must be vigilant to not fall into resulting). The portfolio self-corrects if I do not touch it; I can even improve it if I add to companies that execute better than expected.

Herein lies an aspect not often spoken of: **If a stock drops because of an issue intrinsic to the company that I was not expecting and is hard to justify, I never add**. The reason is that the unexpected bad performance of the company, behaviour of management, or a change in the industry can be an indication that I am wrong altogether, and if I am going to be wrong **without knowing it yet**, I'd rather have a smaller position. Similarly, those great winners in our portfolio are the companies that constantly execute and positively surprise us. A massive mistake (which I have made) would be to reduce exposures to those businesses based on valuation alone. We would be cutting the tails of a positive black swan, and we know that most of the returns are comprised of a few names; therefore, it is imperative that I hold companies that keep on executing.

I am aware that this can sound simple, but it is not—go to Twitter to test it. Humans personalize their positions, and, rather than trying to optimize outcomes, tend to optimize righteousness. Some religiously defend their views and their holdings. That attitude is an expression of ego; it is way easier to remain uber bullish on a company and post seven times a day on the name rather than trying to critically evaluate whether our original assessment is still valid or if new risks have appeared that would require a reduction or an exit. The ego can even make us add on those occasions and in the scenario where one is wrong but does not know it yet. We would be destroying a lot more capital if we ended up wrong after adding when the company was not executing. That is why it is so important under the presence of unexpected negative findings on a company to take pause and assume that the odds of being wrong have increased.

As an example, this year in 2021, our partnerships' biggest holding was a company that was a 4x (four bagger) in a short period of time in 2020, and the weight increased considerably for that reason to around 20% of the portfolio. The consequent execution of the company has not been the best and its stock price decreased by more than 50%. The new facts suggested that I had to start reducing the position, given that the odds of me being wrong had increased. Simply put, the position deserves a smaller percentage of the portfolio. At the same time, some other companies have had results that exceeded my expectations, generating considerable increases in their stock prices (because of results exclusively). This has led to a total change in the top positions in our portfolio, and our risk has been considerably reduced as companies that are executing have a larger percentage and some that are not have a smaller one, all with minimum activity.

Interestingly, as of the time of this writing (early May), our partnerships are slightly beating the S&P 500 despite the huge correction in our former largest holding. That, for me, is a great result. By not becoming a robotic cheerleader but an absorber of new information and never assuming that I am correct, I am able to assess the situation in a dispassionate manner and allow the self-correctness of the portfolio to take shape. Please remember that I never add only in this situation (the appearance of intrinsic negative facts that I was not expecting). In the case of a broader selloff of stocks, I would happily add to all my positions if my investment theses had not changed.

To conclude this topic, remember that stocks go up mostly for two reasons (there are more, but I am ignoring them as they relate to short-term moves): The first is when the company performs extraordinarily well with real results and the stock price catches up with fundamentals. The second is when investors have a vision of what a company can do in the future and decide to buy the stock. If more investors share that vision, logically, the stock will rise. Regarding the latter, the longer the company takes to materialize that vision, the more vulnerable it is to a potential correction. That is why companies which execute, de-risk the business model and deserve higher multiples and higher sizes in portfolios. In our portfolio, some of our multi-baggers were riskier companies at some point where, over time, management teams de-risked considerably the investment, such as XPEL. We want to make our returns mostly on those cases instead of owning stocks of companies that rise based on hopes alone.

The dangers of putting labels on investing

There are a lot of labels out there, e.g., value investor, growth investor, disruptive investor, etc. As you have seen in almost all my letters until 2018, I was calling myself a value investor. I no longer do this. The reason is that I realized that any label you use decreases your freedom, and you will be judged by how each person interprets that label. The independence of thinking for yourself is eroded.

Let me start by disclosing that this criticism is based on what labelling can do to an investor's progress; it is not meant to assume all people who use labels are bad. Not at all, just that labelling generally makes life more complicated when it comes to investing.

At the beginning of my investment career, I read, learned, and absorbed information from the investors who were more visible, mostly within the circle of the lessons of Buffett (a true hero of mine). Interestingly, the true legends, the investors with extraordinary track records for long periods of time, do not have labels. Take Buffett and Munger; they have repeatedly said that all investing is value investing and that they see themselves as investors, period. Those investors are also the generators of information. Yet the label "value investing" is constantly attributed to them. I think this happens more for the sake of the people using the label who might wish to project a connection with true legends. A lot of the "visible" value investors I learnt are just repackaging the original messages from the true legends.

Let me continue with value investing. People have used it to justify not investing in new technologies, for example. The world is constantly creating new products, new technologies, new ways of doing things, and businesses and investors must adapt and increase their circle of competence with time, yet many remain secluded in a narrow field of view. They excuse themselves by bringing in what Buffett said about technology in the 70s and 80s yet fail to see that he has been expanding his circle ever since, e.g., one of his best recent investments is in Apple. On the other hand, investors who are eager to learn increase with time their circle of competence and eventually understand more emerging technologies, enabling them to connect more dots and invest in more opportunities. Those investors will always exceed the ones who keep making excuses.

In my opinion, people also use the value investing label and confuse it with shortcut investing. Imagine a company trading at a high multiple but with extreme optionality. The purists of the value investing group will not be able to assign a value to that optionality and will only seek investments they can feel (by the actual numbers). Given how rapid the world is changing, especially with winner-takes-all industries, failure to understand optionality can be a costly mistake. Therefore, value investing in many forms has become a justification for shortcut investing.

I have also seen another excuse in the form of "shameless cloning," also within value investing. That message consists of taking other people's investment ideas. First of all, we all get investment ideas from somewhere or somebody. There is absolutely nothing wrong with getting ideas from somebody else, but proponents of the cloning approach have turned it into a way of feeling good by getting an idea **and the work** from somebody else without putting much effort into the idea. In this way, no conviction is ever created, and these investors always want to know what other people are doing and thinking in order to act based on other people's moves rather than building their own convictions. This, indeed, has led to more laziness within investing.

From my experience, some people who vehemently call themselves value investors are hardly independent; they only think "What would Warren do?" They have a mirror portfolio of the people they follow (I am amazed how some of the most visible value investors have 70% of their portfolio with shares of Berkshire and/or shares that are owned by Berkshire). I seriously believe labelling is

based more on marketing or a need to belong than anything else, and the real investors are there talking without insecurities about companies, speaking with management, making mistakes, and just doing the work. I am offering this criticism of value investing because it is what I am more familiar with and what I used to call myself. However, it applies to any label. I saw firsthand how the label was affecting my independence and my thinking. I also would be remiss if I did not mention that some investors who also call themselves value investors are extraordinary investors, and many are my dear friends.

Therefore, if you ask me today what I am, I am just an investor. It has helped me get closer to what I want to achieve: To compound the important things in life.

**Part 2: Portfolio Update**

*Genomics—Optionality—Back to Whiskey and Gaming—Execution a la XPEL*

**XPEL**: For the second consecutive year, XPEL was one of the biggest contributors to our returns. Let me start by highlighting a huge mistake I made. We own less shares today compared to the numbers we owned at the beginning of 2020. In February 2020, I trimmed a portion of the position and I only bought back 50% of what I sold. Despite that silly trim, XPEL today oscillates between the first and third largest position of the partnership; I truly regret that action anyway.

A brief reminder: We've owned XPEL since 2017, and since our original purchase, and compared to that price, the stock has appreciated almost 17 times (it is our first ever 10-bagger), all based on the company's performance, which is how I like our returns to be (sometimes a stock can go up because people agree with your thesis or have the same vision). I prefer when the company's results materialize that vision, and XPEL is one such example.

I continue with another reminder: XPEL sells automotive surface, window, and paint protection film (it also offers software services). In the last few years, XPEL has entered new verticals, such as architecture. XPEL sells its products worldwide. In February 2020, with the virus affecting China and my expectation that the epidemic was going to become a pandemic, I thought XPEL was going to be negatively impacted. I hedged the position by shorting Adient stock and clipping the tail of that short by buying a call option on Adient stock as well (again, dear partner, do not expect me to do this again successfully—the opportunity to hedge was one in a million). Adient is a company involved mostly producing sitting systems for the automotive industry and at the time of the hedge was highly indebted. Foolishly, I also trimmed some of our shares in XPEL. In March and April, I exited the short position in Adient but was dumb and did not buy back all the shares of XPEL I had sold.

What happened later, we know. The world shut down, and very few people were driving cars, but a lot of people were still buying XPEL products. With 20% of the sales coming from China, which was mostly in lockdown, XPEL's Q1 2020 sales grew +15%, a huge surprise. Then came Q2 2020, a time when most of the world was closed. XPEL's revenues grew 19% with 32% growth in EPS. XPEL managed to achieve these numbers despite a decline in sales in April alone of 21%. This was a serious amount of information about the quality of the business and the management team. I bought back 50% of the shares I had sold once the Q2 2020 report came in. I basically was told XPEL is a much better business than what I had anticipated.

Q3 came with 30% revenue growth and Q4 growth of 23%; imagine what this business will do when the world is back to normal. Well, we have a kind of indication—management guided for Q1 2021 growth of 60%, expanding margins, and a lot of activity on the acquisition front.

XPEL is highly profitable. Its new window film segment grew 96% in Q4 alone, indicating that this segment might follow a similar path as the paint protection film. XPEL enjoys a growing cash position and it seems it has reached a point where larger acquisitions make sense. This was explained by the CEO Ryan Pape, who said that his expectations are that in 2021, XPEL will be able to close more acquisitions in dollar terms than what they had done cumulatively in the company's history.

As an investor in XPEL, my expectations of the duration and sustainability for management to continue deploying incremental earnings into M&A and organic projects remain very high, that is where the continued success in XPEL will lie and my job to monitor.

I learnt my lesson: When a company is executing, do not even trim. XPEL is a core position, and I am delighted with the execution of the management team, excited for the bright future of this company, and happy to have learned a lesson.

**Maxcyte MXCT (new position)**: Maxcyte is a company that truly excites me, and with the facts that I have today, I do not see why we will not own it for a very long time. Maxcyte is a company that produces instruments that are used in the emerging field of regenerative medicine, particularly within the areas of gene therapy and gene editing.

MXCT is a GBP 850 mln (million) market cap, led by its founder and backed by funds such as Casdin Capital, which owns more than 13% of the company. MXCT has a net cash position, revenues have grown at a 23% CAGR over the last five years, currently at 26.2 mln, gross margins are 90%, it operates a razor/blade model with recurring revenues of more than 70%, and has extreme optionality as it benefits directly from the success of other companies in the nascent industry of cell therapy. It can be considered a platform for cell therapy.

Maxcyte produces its instruments under the flow electroporation technology, which is currently the only non-viral method used for regenerative medicine. Electroporation is a process that uses electricity to permeabilize cells' membranes, allowing the insertion of molecules of any size into the cells.

Viral methods, which have been in existence longer, are less scalable and less precise. The manufacturing process is lengthy, and it is a very expensive method. On the other hand, electroporation allows the engineering of any cell (including stem cells) with any molecule with high precision; it is a scalable technology that will likely enjoy broad adoption in the not-so-distant future.

Within the regenerative medicine field, gene therapy, which consists of adding a healthy gene into a patient's DNA, has been around for longer and it is where viral methods have been predominantly used. However, for gene editing, which consists of repairing defective genes by changing a letter, switching it on/off, or knocking it out, viral methods cannot be used, as gene editing requires complete precision. Electroporation is the only technology, as far as I know, for gene editing, and from the companies with patents on gene editing besides two companies that are using their own platform (which are years behind Maxcyte's technology), all the rest use Maxcyte electroporation systems.

Maxcyte currently derives revenue by providing its products for drug discovery and development and cell therapy. On the drug discovery segment, the products are sold for USD 125k per machine, and revenues are also derived by the sale of disposables that are used when experiments are performed. On the cell therapy segment, which is where the cells are the drugs, the instruments are leased at a price of USD 150k when used pre-clinically and USD 250k when used in the clinic. This is the segment that excites me the most, given that when clients want to have the right to use Maxcyte technology, they must enter into milestone and commercial royalty agreements. Maxcyte benefits from the success of others, and this is a demonstration of pure optionality.

Maxcyte has more than 140 partnered programs with its flow electroporation technology. It is currently used in more than 80% of all the clinical trials being performed for regenerative medicine and used by the top 10 pharmaceutical companies. More importantly, MXCT has 13 pre-commercial milestone payments for a maximum amount of USD 950 mln. Of course, these partnerships will keep adding, increasing exponentially the value of the optionality of Maxcyte.

Commercial partners are companies such as CRISPR therapeutics, Caribou Biosciences, Editas, Vor, and Kite, among others. These companies are at the vanguard of drug development within regenerative medicine, which brings us to the royalties that Maxcyte could generate when a drug starts producing revenues. Maxcyte would generate single digit royalty payments in those cases.

As a single indication, the drug which has the highest chances to be the first approved is CTX001, which is currently developed by CRISPR therapeutics. CRISPR was founded by Emmanuelle Charpentier, who is one of the first proponents of CRSPR/Cas 9 technology and a co-winner of the Nobel Prize in 2020 for developing the method for gene editing. CTX001 is a gene-edited autologous stem cell therapy for patients suffering B-thalassemia and sickle cell disease.

Please bear in mind that the following exercise does not aim at achieving any precision. I only intend to illustrate the optionality represented with the potential MXCT has with its low single-digit revenue on future sales of CTX001. As a reference, I am taking current analyst projections on the total potential sales of CTX001 from 2024 to 2035 that, at the moment, are roughly USD14 billion for the entire period. That could imply an approximate royalty income for Maxcyte of USD 400 mln, half of the market cap today, in just one drug.

Maxcyte also offers regulatory support to its clients. That support includes an FDA Master file that can be used when initiating the process to get therapies to market. Maxcyte has become the company to approach when companies decide to enter the gene therapy/gene editing space. Please note that the company is listed in the London junior market, and it is expected to list on the Nasdaq in the second half of 2021.

**ImmunoPrecise Antibodies (IPA):** IPA was a large contributor of 2020's results, and so far our worst 2021 performer. I started buying the stock in Q1 2020 at a price of less than CAD 1 pre reverse split (CAD 5 post-split) and added in Q2 and Q3 2020.

I wrote an extensive write-up in August 2020, which I shared with you. I will only extract some aspects from it in this letter. But before that, I need to disclose that I have considerably reduced the position in the last few months, we have taken out more in dollars terms in our sales of what we put at cost. As you can imagine, IPA's stock increased more than 400% at some point and the percentage of it in the portfolio reached a large size. Such a size requires extraordinary execution, and that, for a small company, is hard to achieve and my imperative duty to verify. In addition, any position that is that large cannot tolerate excuses when management does not do exactly what they say they are going to do. The trims combined with the reversal of the stock in 2021 has substantially reduced the percentage of the partnership allocated to IPA.

IPA discovers novel candidates' therapeutics to advance to the clinic, for pharma, biotech companies, and for IPA's subsidiary Talem Therapeutics. IPA offers a single source, full-service antibody discovery CRO (Contract Research Organization) that offers an end-to-end service, having operations in the U.S., Canada, and Europe. It is a full-service antibody therapeutic discovery company with a focus on the next generation of antibody discovery. Their goal is to deliver the most relevant antibodies within the shortest period of time, all while offering antibodies with the highest probability of succeeding in clinical trials. One of IPA's competitive advantages is its proprietary platform that can screen up to 10 million B cells; the platform is species-independent and disease agnostic.

IPA's CRO offers a complete end-to-end service, from concept to pre-clinical trials. Other CROs, on the other hand, offer a solution at a single point in the process, forcing clients to contract up to 15 different CROs. IPA has 17 of the top 20 largest pharma companies among its clients and/or partners and close to 500 clients in total. Revenues have grown from CAD 2.6 mln in FY 2017 to CAD 14.6 mln in 2020 (2018/2019 growth was mainly due to acquisitions). Gross margins (GM) for the CRO are approximately 60%, which are multiple times higher than the one seen in the antibody industry, which are around 15%. The higher GM are a result of the end-to-end aspect of the CRO.

In 2019, IPA formed Talem Therapeutics, a wholly owned subsidiary focused on the discovery and development of next generation, fully-human, monoclonal therapeutic antibodies. Talem is designed to take ownership stakes during the antibody's discovery and development states. Talem has already entered partnerships with big pharma companies such as Janssen. IPA has a large COVID program, with more than seven programs on it alone, ranging from nanomedicine and antibody therapeutics to vaccines. Other programs are focused on inflammation, neuropathology, infectious disease, and immuno-oncology, among others, which clearly indicate the massive optionality of the company—just one program can be valued into the billions. Talem, by using IPA's CRO (which charges Talem at cost), has a clear advantage in developing its own therapeutic pipeline without any need to outsource or add extra personnel.

IPA's market cap at the time of writing is around USD 165 mln and holds around USD 35 mln in cash. The CRO alone, with its estimated USD 20 mln in revenues for the current financial year, supports this valuation if my estimations of annual growth of around 30% for the foreseeable future are correct. On the other hand, Talem's optionality is the true gem. Just one program, if successful, can eclipse the entire valuation. In addition, IPA's CRO can, and I expect it to enter into areas such as pre-clinical and clinical manufacturing, where gross margins are substantially higher. The company is currently extremely cheap, if management executes and that is a big if at this stage.

Over the course of our holding period, we have seen management develop the majority of the Talem pipeline while also promoting their COVID program as one of the best in the world, which, in my view, was an unnecessary promotion, as it fuels avoidable expectations and brings the wrong type of shareholders. This brings me to disclosing my current concerns.

As of early May, IPA has not updated the market on the vaccine's progress, the test that was developed in combination with Dr Brolo's lab at the University of Victoria, or any meaningful commercial development with the COVID therapeutics that are in progress, and none of them has managed to enter clinical trials despite management and company representatives having promised a lot of progress by April. Here is where the value of the optionality starts to be reduced if the company does not deliver on its projections, specially when does not explain the whys.

The company listed on the Nasdaq at the end of 2020; however, no strategy was put in place to use the listing to properly communicate their progress and status on their programs. Management has decided to not offer earning calls so far, and communication directed toward the investment community has been uninformative; thus, not a single house in the U.S. covers IPA, and institutional ownership remains low. Most recent interviews and presentations by management do not provide new information beyond those from September and October 2020. I have given constructive feedback to the company and hope they take it seriously. Based on actions taken in May, this leads me to believe they do. I do not have any problem with the lack of commercial results on the COVID program. My concern is the lack of explanation on the gap between what management said the company was going to do and what the company has done or has not done, and that is the reason I have been reducing our position to a percentage commensurate with current execution.

The main risks I am paying attention to are: A deacceleration of the revenues by the CRO and/or a decrease in gross margins, which is essential for maintaining the margin of safety of the investment. I have estimated annual growth of no less than 30% for the CRO. In addition, Talem needs to start generating some traction if the programs are as good as the company says they are. Remember, IPA

is a micro-cap, and those companies need to de-risk the business model. It is imperative for me to be not a complacent optimist but a conditional one (see last annual letter).

**Evolution (EVO):** Imagine a business operating in the gaming industry that does not have to pay when the customer wins. Its tables are not limited to the laws of physics and can allow for unlimited users. Wouldn't those be features of a fantastic business? Well, I introduce to you Evolution. I have been delighted for years with the company and, unfortunately, kept the company for a long time on my watchlist. I fixed the problem and finally, with the correction of the markets in 2020, I built a relatively large position. Today, Evolution shares have moved up more than 200% (based on impeccable execution) since I initiated the position, and, at the time of this writing, Evolution is our largest holding.

Evolution is a B2B supplier of live casino games and online slots after the acquisitions of NetEnt and BTG. Evolution offers games recorded LIVE in its own studios where a dealer runs the game from a casino table and players can join via video. Players only need a device with internet connection. Evolution is by far the leader in the industry, and Evolution's new games not only help to narrow the small share of online (20%) versus land-based gaming revenues but also increase the pie, as more people are attracted to playing and Evolution products become more and more desirable.

Evolution growth and profitability speak for themselves. Revenues in 2015 were EUR 76 mln and EBITDA EUR 31 mln. In comparison, last year's revenues were EUR 561 mln, and EBITDA EUR 332 mln. EBITDA margins are around 65%; this is an astonishing profitability combined with high growth. When we acquired the shares in 2020, we paid around 38 forward earnings—a bargain for such a business. Evolution is so profitable that it distributes half of its net income on dividends and retains ample cash for acquisitions. CAPEX is only needed for the construction of the studios.

To finalize this brief introduction, just think about the following points:

Online casino gaming revenues represent less than 20% of the total, use of mobile and tablets will keep increasing, and the gap will continue to get smaller. More countries are regulating gaming, particularly the U.S., where just a few states have fully regulated it. Lastly, you have a proven business model run by some of the brightest minds in the industry. Evolution is just getting started.

We also acquired shares of Gaming Innovation Group and Kindred within the gaming industry in 2020.

**MGP Ingredients (MGPI):** I bought MGPI again. We had a four-year-long history owning MGPI shares, from 2015 to 2019. What I expected MGPI to do during these four years was finally executed by the new CEO, Dave Colo. I would be remiss to not recognize the extraordinary effort of the previous CEO, Gus Griffin, who was the one who initiated MGP's transformation.

Recently, MGPI acquired Luxco for USD 475 mln, which represented a 14x forward EBITDA multiple. Luxco, in my view, is an extraordinary acquisition, as MGPI can use Luxco's distribution platform with sales and distributor representation in all 50 states. Luxco also counts with an established international sales team, exactly what MGP was desperately needing.

MGP's old problem was the distribution and commercialization of its own newly established brands. With Luxco's platform, MGPI's high premium brands can be sold not only in the whole of the U.S. but internationally. Luxco sources a lot of the whiskey, which I expect MGPI to make, thus increasing margins. This transaction can be the real transformation of MGP, and it is about the long-term strategy laid out by previous management. We acquired the shares immediately after I learned about the deal.

MGPI's gross margins should move toward the mid-30s, cash flow will increase, and if the acquisition goes well, it can pave the way for further transactions and the possibility that the high premium brands that MGPI has developed start to become widely recognized.

With this transaction, MGPI also expands their products to a higher value brand and brings the Lux family on board. MGPI will offer less of their bon-aged product and produce it instead for its own products, cancelling the short narrative that MGPI is a "commodity" producer.

I initiated the position with 3% size and will be happy to increase it with sustained execution by the management team.

**Macro – Commodities – Gold and Crypto**

When I sent my last annual letter in June 2020, we had around 20% of our portfolio in Gold, which mostly came from the proceeds that I collected after unwinding the hedges in March and April. I also had several options in Gold and Uranium producers that were profitably closed. In addition to that, I also entered into a large bullish risk reversal in Silver (I bought a call and sold a fully covered put) and I had a position in Uranium through the ownership of Uranium Participation corporation.

In October, I decided to close the Silver position and the gain represented more than 5% of the portfolio, as the price of Silver more than doubled since we entered into the structure. As I was finding great opportunities to deploy our capital in companies, I decided to substantially reduce our Gold position to fund those additions. Today, Gold represents a little less than 5%. The gains on our positions in commodities were substantial, but those positions are not the core of my strategy, so I tend to exit or trim them once they have had a considerable move. I remain firmly vigilant to the unintended consequences of the vast increase in the money supply, and it is imperative that I own companies with asset light business models, extensive earnings power, and, in some cases, companies that are convex to the move in commodities.

We have, to my knowledge, one of the best inflation beneficiaries with our long-term holding of TPL. We have had four drawdowns of more than 50% since we bought the stock, yet the stock at the time of this writing is +400% above our purchase price; the drawdowns are a price to pay to own such an incredible asset.

TPL's future revenue potential keeps increasing. TPL currently has 531 wells that are drilled but not completed yet (DUC). Compare that with the 206 DUC in 2017. In addition, there was an announcement that TPL's water business has morphed from only source water to a source and produced water. Produced water is basically the recycling of the water that is extracted alongside oil. This water needs to be disposed of or recycled. This will imply a large source of additional revenues as, when wells age, they produce more water. It is a recurring revenue stream completely new for TPL.

TPL's optionality keeps expanding with the potential revenues coming from installation of solar panels on its land and the future development of the Midlan County.

As a final note, despite TPL's recurrent drawdowns of 50%, those drawdowns are always from a higher price. TPL has moved 5-fold since the pandemic lows, while oil is at pre-pandemic levels and still 50% lower than the highs experienced in 2008. Just think of the role that TPL can play in our portfolio when we do have an inflationary environment and oil reaches new highs again.

My views on inflation have not changed. I would write exactly what I wrote in my previous letter. As a warning, even though the price of commodities has surged considerably, most of those prices are still not higher than prices reached 10 years ago; if inflation is actually coming, it has not yet started.

I also finally decided to allocate a very small portion of our portfolio to crypto currencies, Bitcoin and Ether (Ethereum network). I am trying to exploit convexity; if BTC and ETHER go to zero, we would lose a tiny percentage of our partnership, but if those assets become widely adopted, we would be

proven wise to be exposed to them. I am not planning to trim nor to buy more. Those purchases are multi-baggers at the time of this writing, and the growth in size in our portfolio has been purely organic. I put 1% of the portfolio in BTC when the value was USD 10k.

The crypto world is inundated by fanatical views, with some participants claiming absolute truth about the topic. There are many unchangeable opinions that fluctuate between beliefs such as “BTC and Ether are a scam” to views that claim that those cryptocurrencies are here to change the world and will destroy fiat currencies. It is hard to find people who have views that are not extreme. The level of epistemic arrogance is also very high in this world, and, as I have explained in length, that is not an attitude that pays dividends in investing. I stay away from debates or discussions.

I am not an expert on the technology; however, I cannot deny that decentralization is here to stay, and that is the reason the size in our portfolio in Ether is larger than in Bitcoin.

Ethereum is a blockchain network which allows people to build decentralized applications on top of it. Developers can write code, implement rules, and, most importantly, create applications on the Ethereum network. The more the network is used, the more valuable the crypto currency (Ether) becomes. And, most importantly, no one controls the network; users need to use a set of rules. At the time of this writing, the Ethereum network is valued at more than USD 200 billion, and I think this could just be the tip of the iceberg. I was astonished to see the development of decentralized applications and decentralized finance, let alone NFTs (non-fungible tokens), which, to a large extent, are mostly built on top of the Ethereum network.

A lot of crypto takes place on centralized platforms such as Binance. Ethereum, while facing competitors and not perfect, is, to my knowledge, one of the best forms to capture the adoption of a truly decentralized technology. There are aspects that need to be improved, such as high transaction costs (gas fees) and time per transaction. The Ethereum network faces upgrades from time to time where the network improves those issues. A major upcoming improvement is the change from proof of work to proof of stake, for instance. As we own Gold, I consider it prudent to allocate a very small portion of our portfolio to Ether and Bitcoin.

I am looking forward to elaborating on our other holdings not mentioned in this letter in due course.

**Part 3: Conclusion and End**

*Progress—Barbelling—Respect for the unknown—Circle of life*

One of the aspects of investing that has been counterintuitive to me is the fact that the more you are exposed to it and the more you learn, the more respect you build towards the profession, leading to an attitude where your first thought is about minimizing the downside more than maximizing the upside. It is humbling how sometimes reality plays out completely differently from what you expected, but if you have acted with humility towards the unknown, you can still win big. The mental models phrased in my three investment pillars (see them here) have been instrumental in the results the partnerships have produced. But they have a small price, a price I will always be happy to pay.

As I have laid out, one of my advantages is that I can invest easily in micro-cap companies, and part of my mandate is trying to uncover rocks in that space with the objective of finding true gems. Take XPEL; this is an example of what I am trying to do, but I never knew XPEL was going to develop that way. XPEL management simply executed superbly, and you never know in advance. However, micro-cap investing is risky. Think about why a company is a micro-cap; it is either an emerging great company, or a company that has remained in micro-cap land for a long time as their business model has not taken off, or a company completely under the radar, or it is a company that is just a bad business. In addition, there are more corporate governance issues than in larger cap companies, management teams have much more power over the company's results, and the list goes on.

Micro-cap investing is riskier when the companies have not yet proven the business model. Think about ImmunoPrecise today for us. If they execute, they will de-risk that investment in a substantial way. Before that happens, it will remain a high-risk investment. Therefore, for me to be able to have positions in this side of the market, I must have a portion of the portfolio in extremely safe assets. That is why we always will hold Gold, some cash, and some shares in companies like Berkshire and TPL. Our results would be substantially higher if I did not hold those assets, yet I am extremely satisfied that we have managed to compound at the rates we have while holding around 20% in the safe portion, and those holdings allow me to sleep well at night. That approach is called Barbelling—one very safe area and one risky one with something in the middle. Barbelling is an expression of my humility toward the unknown.

Conclusion

I am delighted that, after almost eight years, I am close to opening my fund and being able to accept like-minded friends to invest alongside me. The upgrade of the structure has not been without major obstacles, frustrations, and disappointments, all this on top of our wedding and a relocation to a new country. However, I cannot be more grateful to my real partner in life, my wife Laura, who has been with me and supported me every single day, challenging me and inspiring me. Without her, our results and the fund project would not have been possible.

Laura and I are more excited about the future, not only of the fund but about the prospects of every company we hold, now more than at any other time, while the same time remaining cautious of the exuberances of the market. I really think if we keep working hard, stick to our principles, and remain respectful to the unknown, we can keep compounding the important things in life.

Sincerely,

Jean Philippe Tissot

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