Sidecar Partners

Goal

Durable Returns for Like-Minded Partners

“Most big investment payouts come when money is combined with complementary skills, such as knowing how to develop real estate or new technologies. Those who lack these skills can look for ”sidecar” investments that allow them to put their money alongside that of people they know to be both capable and honest.”

-Richard Zeckhauser

Why a People-First Investment Approach?

The world is messy and unpredictable

It is how entrepreneurs operate

Exceptional people pull rabbits out of their hats

Long-term returns are driven by capital allocation. People allocate the capital

As an outside shareholder, knowledge is limited and control is an illusion

People are stable compared to markets, the economy, often even business models

Exceptional CEOs make forecasting unnecessary

What We Look For In People

"...what Teledyne makes or sells is less important than the style of the man who runs it."
-Forbes on Henry Singleton

Candor; Escaped the Institutional Imperative

Often times…a little strange

Track record of business building

Maximizing ***per-share*** intrinsic value

Extreme ambition + can pivot

Clear, dispassionate thinking and communication

What We Look For In a Business

Mission critical products / services. Creates value for customers while capturing some for shareholders.

Open ended growth opportunity

<u>It scales; gets stronger as it gets bigger.</u>

Sound Financial Model

- Durable revenues
- ***<u>Improving reinvestment opportunities</u>***
- Diverse reinvestment opportunities
- Appropriately Financed. Benefits from volatility

Sidecar Investing and the Stock Market

Public companies are run by some of the most seasoned and accomplished executives.

A solid regulatory environment helps reduce risk for outside passive minority shareholders.

Stock price fluctuations create the opportunity to buy businesses at prices that would rarely be available in private markets.

> Investors worried about the economy often put selling pressure on great businesses.
>
> Talented operators often manage their business in a way that hurts short term earnings which makes the business look (temporarily) less valuable.

Shrewd operators take advantage of volatility

Decision Leverage

The goal is to make a small number of correct decisions that will pay off for a long time. Partnering with exceptional management is a sound way to do this.

“If you invest $1000 in a stock, all you can lose is $1,000, but you stand to gain $10,000 or even $50,000 over time if you are patient.” -Peter Lynch

“To suggest that this investor should sell off portions of his most successful investments simply because they have come to dominate his portfolio is akin to suggesting that the Bulls trade Michael Jordan because he has become so important to the team." -Buffett

“In business, every once in a while, when you step up to the plate, you can score 1,000 runs. This long-tailed distribution of returns is why it's important to be bold. Big winners pay for so many experiments." -Jeff Bezos

‘You can’t win a game you aren’t playing’ -Ho Nam

Valuation

Truly exceptional businesses will usually look expensive but be cheap. The opposite is also true.

Discovery is just as important as traditional valuation methods, if not more.

Look for conditions that are ripe for a stock to be mis-priced.

<u>**The stock price can be thought of as a call option on management's ability to create value. It has no expiration date but there is an opportunity cost.**</u>

Portfolio Management

“Our performance doesn’t come from what we buy or sell. It comes from what we hold.”
-Howard Marks

The goal is resiliency / durability, not diversification

We are permanently bullish while maintaining the ability to survive difficult times

Bet big but ***don’t bet the farm***

Recycle money to most attractively valued holdings; but rarely sell outright

Largest positions have lowest downside

Selling

New opportunity must *clearly*:

Have stronger management

<u>Have better (diversified) capital reinvestment opportunities</u>

Be earlier in digging its moat

<u>Valuation is secondary</u> to the above

Consider taxes

“It’s a huge advantage to have a few simple, robust, deeply held beliefs…why? Because we live in an extremely confusing world and simple principles can guide us through the fog…the ability to keep things simple is a super-power.”

-William Green