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MARCH 2022 UPDATE

The world we have created is a product of our thinking.

–Albert Einstein

April 20, 2022

Dear Partners:

For March 2022, we returned -4.54% compared to +3.7% for the S&P 500.

	Philosophy (Net)[1]	**S&P 500 TR**[2]
Annualized Since Inception	16.64%	15.06%
Total Since Inception	71.40%	65.35%
2018 (from 8/1)	-13.87%	-13.03%
2019	26.06%	28.88%
2020	48.14%	16.26%
2021	20.79%	26.89%
2022 (to 3/31)	-11.78%	–4.60%

Below we discuss (A) a recent deep dive into blockchain technology; (B) a firm update; and (C) portfolio positioning.

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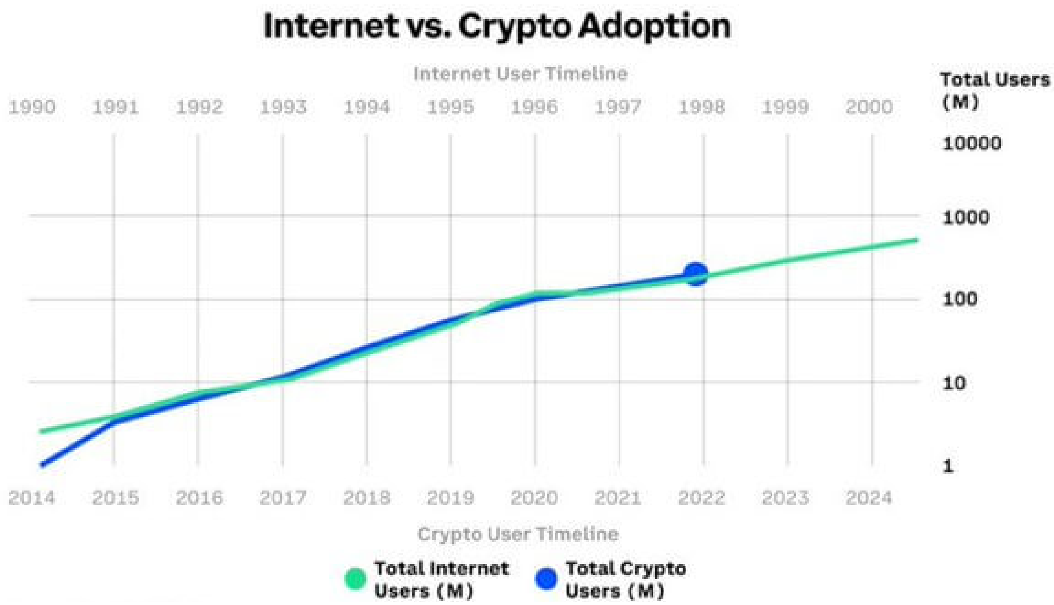
[1] *Returns prior to 2/1/2022 were the composite of equities in separately managed accounts net of a 1.5% annualized management fee and 15% performance fee schedule for Philosophy Holdings, LP applied to gross performance; this data was pulled from SS&C Black Diamond.. Returns after 2/1/2022 are from Philosophy Holdings, LP, provided by Opus Fund Services.*

[2] *Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, performance of indices do not account for any fees, commissions or other expenses that would be incurred. The Standard & Poor's Total Return Index (SPTR) is an unmanaged group of securities considered to be representative of the stock market that tracks capital appreciation as well as distributions. It is a market value weighted index with each stock's weight in the index proportionate to its market value. The Total Return index assumes that all cash distributions (dividends and/or interest) are reinvested.*

1. **Bias, Blockchain, and Payments**

Every New Year's, I have a reunion with some of my smartest friends from graduate school. This past year, with the world talking about cryptocurrencies, it was a topic of discussion. I concluded that at the very least I should examine this myself to see if it was a fad or something revolutionary, with some people saying that this would be as big as the internet. If that is the case, then this would have serious downstream effects on legacy companies using antiquated value transfer mechanisms. Similar to how the internet has revolutionized almost every industry, creating many new winners and many legacy losers. This makes it extremely important for someone managing pools of risk like we do to examine. I have spent the last few months looking into blockchain technology that undergirds Bitcoin and other cryptocurrencies, due to thinking that it is important to understand if it is truly going to be a paradigm shift on the level of the internet. I came into looking at this, admittedly, a skeptic and thinking it was an overblown fad and a bubble. So, I found out where lots of software engineers working on this technology were going to be, at a "Hacker House" for the *Solana Ecosystem*, and went there. I was skeptical despite having a positive opinion on Bitcoin, having spent three months working on it for a hedge fund after graduating.

At the Hacker House, I spoke to 50+ software engineers and quizzed them about anything relating to the technology that came to mind—this led me to have a new conceptualization: *blockchain technology removes the friction of value transfer and allows for decentralized information, similarly to how the internet removes the friction of information access.* I think people saying this is the 'next evolution' of the internet is missing the point. We do not need another internet (which fundamentally connects information and makes it accessible), but we do need new ways of interacting with the internet, and each other, than the ones we have today. I am not even convinced that the main advance is within Bitcoin being a new "digital gold" or immutable money. But instead, rather than having countless internet middlemen for commerce—payment processors like Stripe, storefront mechanics like Shopify, the receiving bank, the credit cards, and many more—there is a fully-encrypted incorrigible transfer of value directly from one individual to another individual. The blockchain at its best removes the uncertainty of fraud, allows individuals to not have to store their personal information with a third party, and removes the unnecessary middlemen that create waste via extra payments. It provides the ability for immutable ledgers of transactions and files, which create permanent databases from which to draw on in the future. There are fascinating new technologies now possible like the Render Network, which allows for a distributed case of Amazon Web Services or Google Cloud, which I wrote about here and made a personal investment. (We cannot invest in these sorts of things currently in the fund.) The blockchain unlocks real-time tokenized payments for GPU usage in this instance, which was impossible to set up previously without advances in technology. We currently have a small position in Bitcoin through ProShares Bitcoin Strategy ETF (BITO), which we believe will be a strong long-term hedge against inflation.



Source: World Bank, Crypto.com

There is one main implication that I've taken from this. Importantly, relating to biases, I am fascinated by my own skepticism about blockchain technology even prior to looking into it seriously. If I had to sum up my bias, I would think that it was something like, "It is too overpriced, we are clearly in a bubble; there are so many meme coins and worthless tokens like the *Tulip Mania*; being a value investor, I only focus on things that have free cash flow, so this is not worth looking into." Human beings are naturally prone to casting doubt on something they haven't encountered before–and new technologies, which are often ridiculed until mass adoption, are no exception. All of these are the sorts of reasons we tell ourselves something that have nothing to do with the particular instance itself. These questions are entirely unrelated to the technology itself, and the implications that it can have in the future. With 300 million active users worldwide, growing rapidly, there is clearly demand coming from somewhere–and I believe this demand is durable, and will continue to grow rapidly. Rather than instantly casting doubt on something new, that is actually a counter-indicator to reorient oneself to take something seriously. Though I am still working through the implications of what these technologies mean for the legacy companies we own and what we will look at in the future, I encourage everyone to take this seriously–some of the smartest minds in the world are now entirely focused on bringing this new technology to the masses.

In my humble opinion, I believe the role of technology is primarily the removal of friction in the world. As Nikola Tesla said (paraphrasing), technology allows man to more easily influence his environment. Automobiles removed friction from traveling (by reducing time spent), the internet removed friction for the world's information to be accessed and transferred, modern medicine removes the friction for the body healing itself from ailments (providing additional aid than the immune system can do on its own), and blockchain technology (I posit), removes the friction between value transfer, and so on.

My main criticism of these technologies, from what I currently know, is that they have horrible user experience. Though, if the introduction of the internet is any guide, this is how new technologies begin–and the Googles of the world provide a better user experience for leveraging a new technology allowing for mass adoption. Similar to how someone now balks at using an encyclopedia rather than Google or Wikipedia, there will be many similar instances with the adoption of blockchain.

2. Firm Update

We are currently at approximately $30 million in assets as a firm, and seeking to expand our reach. My goal since the start of the year has been to institutionalize our activities so that it is no longer myself as a "solo-capitalist" and transitioning to a team-based approach, hopefully allowing me to spend 80% of my time thinking about investments as opposed to other activities. As Michael Gerber talks about in the *E-Myth,* most businesses are started by someone who was a "specialist" and wants to do that task on their own. In my own experience as an investment analyst, I started a firm primarily because I wanted to express my personal views on risk management and investment analysis, unhindered from a large institution. While I am happy with the results that we have produced so far, I am even more excited about the future with additional help. Philosophy Group has added 3 new roles recently, bringing our total staff count to 4. (1) We added an *Associate* to help with all aspects of the "scuttlebutt" research we do–including finding, contacting, and asking direct questions pertinent to our research to suppliers, former executives and employees, customers, competitors, and so on. While I did this on my own previously as a part of my research process, it is a full-time job to do it well. I could by no means do the volume of outreach required to get comprehensive scuttlebutt research in the timeframe I desired. While Jacob has worked with me at this point for over a year in a different role, I am excited to have him on board with this new focus. (2) We have added an *Investment Analyst* who has over a decade of experience analyzing global markets, with a previous focus on Indian and Asian markets. Similarly, it is extremely helpful to have additional labor attacking the problem of finding and analyzing new investments. There are countless ideas to look at, and our approach- treating investing as an art that uses scientific tools–is more bespoke, requiring us to turn over many 'rocks' and do intense fundamental research. And (3), we have added an *Executive Assistant*, in order to make sure we are operationally sound.

We are still looking for someone to help us with *Investor Relations and Business Development*, to help us find new potential partners and help maintain current communications effectively. If you know anyone who you think may be a good fit, please let us know.

3. Portfolio Positioning

At the end of February, we had 99.7% long-equity exposure and 0% short-equity exposure. Of the capital invested, 35% of the portfolio was invested in companies with market capitalizations greater than $10 billion, 36% in companies between $3 and $10 billion, 20% in companies between $1 and $3 billion, and 9% in companies less than $1 billion.

If you have any questions regarding these results or any other matters, please feel free to call or email me.

Sincerely,

Jay Fields

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