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FEBRUARY 2022 UPDATE

In any moment of decision, the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing.

–Theodore Roosevelt

March 15, 2022

Dear Partners:

For February 2022, we returned -0.5% compared to -3.14% for the S&P 500.

	Philosophy (Net)[1]	**S&P 500 TR**[2]
Annualized Since Inception	17.55%	15.06%
Total Since Inception	79.55%	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 2/28)	-7.59%	–8.01%

Below we discuss (A) our view of the current geopolitical risks and how this impacts the fundamentals of the companies we own, (B) portfolio updates, 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.*

A. Geopolitical Risk and Fundamentals

Turn on the news today and there are endless images of the world in disarray. Russia is invading Ukraine. China turns back on lockdowns. Inflation is rampant in the USA and will only get worse. The Federal Reserve is likely out of monetary "bullets." And so on. Markets do not like uncertainty, and there is plenty of murkiness in the world now. Consequently, this is why we have strong, well-reasoned principles for our work of investment. Our principles act as a ballast in a ship, where one may be easily swayed by the winds of market sentiment otherwise.

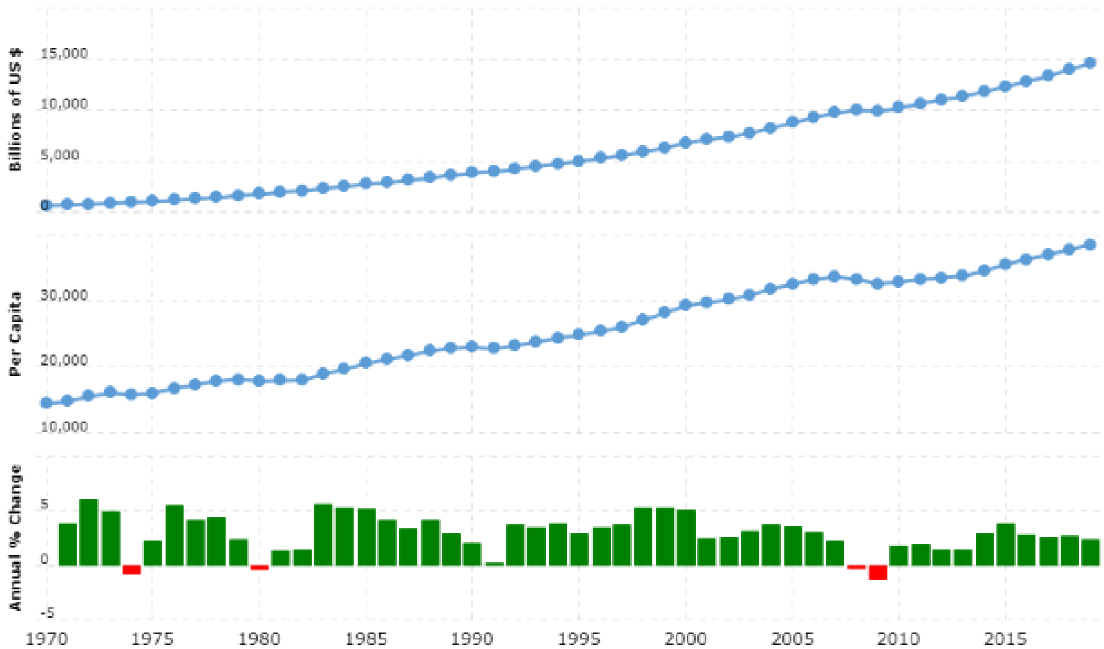
And how are these principles helping us now? First, we are bottoms-up investors, focusing on the fundamentals and the ultimate cash earning power of the enterprises we invest in. We view our public equity investments more similar to how a private equity firm analyzes entire businesses, rather than a trading desk focusing on charts and pieces of paper.

In the short term, we tend to move with the market, but over time we gain alpha through individual business performance. We take absolutely no view on where the market will go, and this is backed by research that shows seeking to time the market is a fool's errand. So we focus on what we can control–investing in exceptional businesses that are misunderstood by the market in some way.

Second, although we do not pay attention to the nebulous "market," this does not mean we do not follow macroeconomic trends in the absolute sense; it is just that ours are ones that most directly impact the fundamentals of the companies we own. Ultimately, we view stocks as levered ultimately to the underlying commodity that they're extracting value from: this can be understood simply in terms of something like oil & gas companies (which we have no positions in) or more generally the commodity of consumer spending. As an example, over time, consumer spending across the world and in the USA will continue to rise (organically, and inorganically from inflation), leading to more cash generated by strong businesses. Even difficult periods in history saw consumer spending rise substantially, and things like technological productivity increases will further this trend well into the future.

In times of high inflation, despite the hysteria on CNBC and elsewhere (if you must watch financial TV!), the best protection in our opinion is businesses with substantial pricing power, low capital expenditure needs, and a healthy balance sheet with good leaders. Such characteristics make up the companies in our portfolio.

Third, in times like these, it is prudent to remember that *volatility is the price one pays for returns* in the public markets. When the markets and the portfolio is down–as they are this year so far–it is a natural human tendency to want to shy away from markets; but this is the exact opposite of what the long-term investor should do. The impatient short-term investor gives money to the patient long-term investor in times of uncertainty–we are seeking to be the latter.



USA Consumer Spending Since 1970

Source: World Bank

B. New Business: InterActive Corp. (NYSE: IAC) and *Undisclosed*

1. InterActive Corp.

Started by Hollywood wunderkind Barry Diller as a result of his takeover of Silver King Broadcasting in 1995, Interactive Corp. ("IAC") is a technology holding company of businesses that primarily exploit the offline-to-online internet business model. It is a $8Bn startup studio that launches, invests, acquires, and then spins off (at maturity) high growth companies in the quest to maximize shareholder value. IAC is unique for holding companies. Most holding companies generally trade at discounts to the value of the parts, it is one of the only ones that tends to fill the gap between the Sum of the Parts ("SOTP") (valuing each individual holding to make up a combined fair value) and the price that the shares trade at.

While it trades at a massive discount to where we think a reasonable share price should be if its parts were valued (close to a 50% discount at the current price), IAC's strong history of prudent capital allocation decisions makes this SOTP-to-Price gap likely to close in our estimation. The parts are already worth substantially more than the price that it is trading at under reasonable estimations, and over time IAC will close this gap as it has done many times before. The value of the collection of businesses includes ANGI (home services offline-to-online) with a $2.3Bn stake at current prices, a 12% stake in MGM worth $2.3Bn, a 30% stake in the startup *Turo* which is projected to IPO this year at a $5Bn valuation, an internet search business worth about $500mm, Dotdash Meredith (a print and digital media company) worth $5 to 6Bn, and a collection of stakes in other fast-growing companies worth about $3.5Bn total. I believe that an extremely conservative estimation of the businesses above amounts to roughly $160 at the current prices, representing a current upside of 70%.

This has substantial optionality embedded in the upside as well–note that the 70% upside is an estimation of the conservative case, and including ANGI at its current share price. ANGI is currently working on building out a Fixed Price Services ("FPS") segment for home service projects, which is growing substantially, where they are seeking to change the traditional contractor-appraiser model used by community contractors. ANGI believes that it can act as a broker for these transactions–and with the FP model–provide a higher-trust and transparent experience than the traditional model which often over-promises and under-delivers, and if it works the FPS model is clearer, faster, more transparent than the typical contracting experience.

2. *Undisclosed*

February was quite an active month for us. We initiated two new positions: IAC and *undisclosed*. This was due to the market conditions causing some names we like to sell down substantially–creating opportunity. The second, which we are not disclosing because it is small (under $1 billion market capitalization, and we may want to buy more in the future). This company, not completely unlike IAC, is run by one of the greatest capital allocators in history, and although they have a collection of several businesses, it has one single business unit growing rapidly that is likely worth much more than the entire market capitalization, with a sale or spin-off of this unit likely in the near future, which we believe will unlock substantial value.

C. Portfolio Positioning

At the end of February, we were 99.6% invested with 0% leverage in the portfolio. This includes 97.7% fundamental-equity exposure, 0% short-equity exposure, 0% activist, and 1.86% allocated to systematic trading. Of the capital invested, 34% of the portfolio was invested in companies with market capitalizations greater than $10 billion, 34% in companies between $3 and $10 billion and, 23% in companies between $1 and $3 billion, and 9% in companies less than $1 billion.

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

Sincerely,

Jay Fields

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