GREENHAVEN ROAD
PARTNERS FUND

November 2024

Dear Fellow Investors,

The Partners Fund returned approximately 5% in the third quarter, bringing year-to-date returns to approximately 12%.

As discussed in previous letters, the funds we invest in typically favor smaller companies and skew more international. The rationale for smaller companies is that it is easier to develop an informational and analytical advantage and there is generally a longer runway for growth as the law of large numbers has not kicked in yet. Historically, smaller companies have outperformed larger ones, but that has not been the case over the past decade.

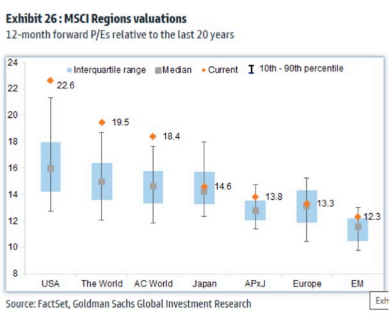
The Partners Fund leans internationally for three primary reasons. First, some funds are based overseas and have much better access to local opportunities, particularly in underserved and underfollowed locations. For example, Desert Lion is based in Cape Town, South Africa and focuses on South African equities, while Sixteenth Street, based in Singapore, invests in Southeast Asia. Second, we have two investments in special-purpose vehicles (SPVs) that own European companies. Finally, some managers are finding opportunities abroad in areas that they are familiar and with more attractive valuations than domestic companies. For example, one of our California-based managers with a go-anywhere mandate, ended the third quarter with 42% of their portfolio in Europe and only 28% in the U.S.

This focus on smaller companies and international holdings means that, on a look-through basis, the Partners Fund has little overlap with the S&P 500. While this has been a headwind to date, it could become a tailwind in the future.

Steven Wood, the founder of GreenWood Investors and who manages one of our single-company SPVs, recently tweeted:

> *"If you care about valuation & downside protection, you're likely being forced to go global, where you can probably throw a dart. US can't actually go to 100% of the global index, so while it has all the momentum today, the days are numbered. Just sayin'."*

He also shared two charts. The first, more compelling chart highlights that U.S. equities are expensive on an absolute, relative, and historical basis.



The second chart on the right underscores the dominance of the "Mag 7" companies, collectively valued at over $17 trillion—more than the total value of all publicly listed equities on some continents and driving the US growth as a percentage of world market capitalization.

Goldman Sachs recently predicted an annualized nominal return (excluding dividends) of just 3% for U.S. equities over the next decade. Their rationale includes high valuations, economic fundamentals, rising interest rates and the concentration of mega-cap companies. While I'm less pessimistic than Goldman Sachs, I acknowledge that U.S. valuations are high especially considering several potential headwinds. Thus, I want to highlight some of the international holdings in the Partners Fund in this letter.

International Opportunities

In North Peak Capital's most recent letter they devoted two pages to a German-listed equity, Delivery Hero. Here are the most salient parts that highlight this international opportunity,

> "[O]n the quarterly call, management announced that the company planned to IPO its Middle Eastern subsidiary, Talabat, on the Dubai stock exchange. As part of the IPO process, management for the first time proffered detailed financial disclosures on Talabat. The business is on pace to generate more than €400M of free cash flow in 2024 and more than €500M of FCF in 2025, while growing GMV 20%+ per year and profits even faster. It doesn't take much valuation expertise to realize that that business is worth at least €10B – €15B today….and possibly far more over time as cash flow continues to compound…..
>
> [T]he equity, in part due to the leverage, is still nearly 3x undervalued on the quarter-end price, even after the move this quarter. All of those businesses, except Korea, are growing robustly – roughly 20% annually and accelerating – while rapidly increasing margins, so we expect them to be worth much more in five years, once they have more than doubled in size and grown margins through operating leverage. The implication is that we still expect to earn ~10x our money from here if we are correct."

While an outcome even ½ as optimistic as outlined above would be fantastic, the magnitude of the opportunity is compelling, in my opinion.

Another manager, Sia Kamalie of Skycatcher, wrote about two of his international investments, Nintendo and Sony,

> "[W]e believe that Sony's PlayStation and Nintendo's Switch ecosystem have evolved to become vertically integrated platforms that have both robust app stores (30% tax on all digital purchases) and content libraries (monthly subscription). These ecosystems can be viewed as the combination of Apple's App Store and Netflix's content library where they can drive material portion of their business via high-margin digital sales... we believe both companies will begin to see an upward valuation re-rating where they go from being viewed as "pure hardware" to "vertically integrated software" companies. This is similar to Apple in 2015 when it was trading at single digit valuation multiples, and then it returned +400% on back of earnings growth and its valuation re-rated to the 20s.

The following passage is from Desert Lion's October 2024 update to their limited partners,

> "The Desert Lion portfolio has never been in better shape, and our opportunity set is filled with high quality, high growth prospects that are trading at historically cheap valuations. When the market and global capital wake up to the latent returns in this relatively niche segment of global equities, the reaction will be fast and furious. Those who sleep in and wait for shouts of excitement to wake them up will miss more than half the move. I am excited to see how this plays out."

Below is Steven Wood's assessment of a Portuguese parcel delivery company, this update was penned earlier in the year but is still relevant,

> "CTT remains our highest conviction position in the portfolio and it's why we have yet to sell a single share. In fact, given the ongoing, and hopefully accelerated future buybacks, every day we own just a little bit more of this very strategically important company.
>
> In a world with expanding valuation multiples, passive index flows and Artificial Intelligence bubbles, we choose to own assets where we effectively control capital allocation on a collection of assets that we get nearly for free. And we get paid nearly a 10% shareholder return to hold those shares.
>
> Over the course of 2024, if the market doesn't begin to reward us for these assets, we'll most certainly take matters into our own hands…..in order to secure the win for current CTT investors."

I am not prepared to declare US equity markets as dead and move all of my assets overseas. That said, I think many of the managers within the Partners Fund are finding compelling opportunities outside the confines of the United States and I wanted to shine a spotlight on them, as I think they can be a substantial driver of future returns. Unlike most of the Mag 7, they are not reliant on Nvidia shipping their next chip successfully, and they are hard to get exposure to via a simple index, in my opinion, employing stock pickers is recommended.

As I have said at the end of every letter, our fund of funds is going to be different. It will be smaller, the underlying holdings will be more esoteric, and I hope the managers will continue to collaborate more over time. I believe that it will be "good different," but only time will tell. Thank you for joining me on this journey. I will work hard to grow your family capital alongside mine.

Sincerely,

Scott

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