January 20, 2022

Fairlight Alpha Fund LP

2021 Letter

Performance vs. the S&P 500

We track the net asset value of Fairlight Alpha Fund (the "Fund") over time as calculated by our fund administrator based on our portfolio positions and prices over time on a dollar basis. The fund financials are also audited each year by an independent auditor with the assistance of the Fairlight management company and the fund administrator.

The tables below show the S&P 500 total return and partnership net returns, after fees for each year 2019-2021 followed by the compounded returns over the same period, as well as the annualized gains.

Annual Returns

Year		Fairlight Alpha Fund	S&P 500 (Total Return)	Difference
2019[1]	……………………........	38.1%	17.9%	20.1%
2020	…………………………	26.3%	18.4%	7.9%
2021	…………………………	146.5%	28.7%	117.8%

Compounded Returns

Year		Fairlight Alpha Fund	S&P 500 (Total Return)	Difference
2019[1]	……………………........	38.1%	17.9%	20.1%
2020	…………………………	74.4%	39.6%	34.7%
2021	…………………………	329.9%	79.7%	250.2%
Annualized Gain – 2019-2021	…………………………	67.1%	21.8%	44.2%

(1) The S&P 500 returns represent the total return index, i.e. with dividend reinvestment. included. Increases in value arise from stock price appreciation as well as dividend reinvestment. This provides a fairer comparison to the fund.
(2) The Fairlight Alpha Fund performance is shown net of partnership fees and expenses.

Three years is a relatively short period for the track record, but the outperformance has been significant for the partnership, with variation due to market conditions and specific stock performance. Last year was an exceptional year for the fund, and so we would not expect to be able to repeat this kind of performance going forwards (although we will do our best!). We discuss the drivers of last year's performance in more detail in the next section.

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[1] The Fairlight Alpha Fund was launched on 01-Mar-2019 and so the 2019 performance and any returns are presented for a 10-month period.

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Market Performance in 2021

Like the overall market, 2021 was a very good year for the Fund. As per the outperformance tables the fund returned 146.5% in 2021 net of fees and expenses. The Fund did not have a single down month until December. This is an exceptional result, and it is worthwhile to discuss how our portfolio positioning resulted in this gain.

Our returns are a combination of general market tailwinds, small cap performance and specific stock selection that created some large gains for us. Last year equity markets were recovering from the pandemic lows and in spite of lockdowns and new variants there was an on-off recovery throughout the year so that the US market (as measured by the S&P 500) increased by 26.9% for the year, hitting new highs and stretching overall valuations. Contrast this to Asia where the Shanghai Stock Exchange Composite index, Hang Seng Index, and Singapore (Strait Times) Index changed by 4.8%, -14.8% and 9.8% respectively.

Our Investments in 2021

The market performance in 2021 obviously changed the relative value picture between the US and East Asia. Early in 2021, the Fund was approximately equally weighted between US and East Asian companies. In the early months of the year, our US names performed very well. We had four stocks that went up by multiples varying from 2 to 4.6. In fact, the majority of our H1 performance came from US stocks.

Throughout the second half of the year, we rotated these gains into East Asian companies so that by the beginning of 2022 we had a majority of our investments in the East Asian markets. For the second half of 2021 our returns primarily came from this region.

As discussed above we started the year focused in the US with several promising positions, some of which would benefit from business reopening post Covid and some which would do well in any environment. Generally, we look for stocks that are cheap on value metrics, exhibit excellent business qualities (large network effect, big TAM and expanding moats) as well as high growth.

Our biggest position at the start of last year was a great example that ticked all of these boxes. One that would benefit greatly from gradual reopening but was still performing well in spite of the pandemic-related business closures and restrictions. Our original purchases were made at an enterprise value to earnings ratio (EV/E is one of our measures of cheapness) of close to 9.0, with expansion funded by self-servicing debt and with a business model protected by regional regulation. This business continues to do well and this position has returned 7x from our original purchase price as of the end of 2021 (although a proportion of these gains occurred in 2020).

In the first half of 2021 we built a large position (for us) in an East Asian technology company. We built this larger position due to the very high level of conviction we had in this stock (and still do). Our initial position was built at an enterprise value to earnings ratio of 2.9 in a rapidly growing business (the key segment for the most important half of this business grew the prior 12-month period by 70%) and in a business with a huge TAM and long runway.

Search as we might across the world's research materials, social media and investment blogs there was no mention anywhere about this stock. But the business itself was expanding its influence with growing awareness and an increasing, rolling customer base. This position increased by a significant

factor for us and contributed significantly to our H2 gains of 2021 although it was not the only position to do so. Our aim is to balance holdings like this where the business itself is likely to do well over time versus rotation of gains into new positions where we find value.

Relative Value of Asia Versus the United States

The value disconnect between the Western and Eastern markets today is very large. We are seeing much better value in both developed and developing markets in Asia. In Asia, an investor can still find companies in the region trading for single digit cash flow multiples with very strong balance sheets and healthy prospects. In the US today, on the other hand, it is difficult to find good companies trading for less than 15x cash flows/earnings and the market is much more competitive than a decade ago[2]. With strong stock gains over the last ten years, competition in the region is strong even when purchasing shares of mediocre off-the-beaten-path companies. There are not many (if any) underfollowed and unloved names in the United States as there has been a rapid growth in individual investors and small hedge funds that specialize in microcaps. These are well capitalized and smart operators that cover a wide range of stocks. Further, expectations in the US are very high due to strong recent performance meaning forward returns are likely to be lower than in the past. The US needs some poor market returns to reduce the competition in equity markets.

Granted, US companies are often higher quality and further along in their digitalization transformation. Whereas US companies transformed their operations in the 2010s, Asian companies will transform their businesses in the 2020s and in half the time as technologies are much stronger today than a decade ago. The opportunity now for investors has switched from Western markets to Eastern markets.

Investing in Asia Versus the United States

We are often asked how can we invest in less developed capital markets, aren't these markets rife with fraud and poor capital allocation decisions? The answer is yes, these markets have many companies that are quite likely fraudulent and many more companies that have boards and management teams that make poor capital allocation decisions while protecting and promoting insiders' interests. However, the same could have been said of OTC stocks in the United States over the last ten years. Over the last decade, the majority of stocks we looked at (and we looked at all of them) in the OTC markets were either frauds or totally mismanaged. However, this created the opportunity. Amid the ore, we were able to find a lot of gems that went up many multiples of the purchase price, and yup we had a few that went down 80% or more.

The other question we hear is how can we compete versus local investors? The short answer is over the last two years we have significantly outperformed the indices in the foreign markets where we have been invested. In the past, we have invested in US companies ranging from software developers to manufacturing companies to food producers to car service providers. We did not have extensive knowledge in these industries and moreover talking to management added very little to our returns (actually it probably detracted from returns because management impressions can cloud one's analysis and feelings get in the way of facts).

[2] See slides 52, 53 and 57 of the DoubleLine Capital webcast presentation that illustrate this point: www.advisorperspectives.com/pdfs/2022/DoubleLineJustMarkets2022Presentation.pdf

So how did we generate much better returns than the overall market in the US if we did not have industry expertise developed from years studying an industry? Now that is an interesting question.

- First, we went to where competition was least. In the first years of the partnership, it was possible to examine OTC companies and trade with individuals or funds that either didn't focus on smaller names or had limited analytical experience in these markets.

- Second, we turned over the most rocks and analyzed the largest number of companies. To date we have reviewed every single listed company in the US three times and all South East Asian listed stocks up to $1 billion valuation. As generalists, we have a great feel for relative value and when we see an anomaly, we react.

- Third, price is our due diligence. We have less of an edge than other specialists and we do make our share of mistakes. To compensate for these weaknesses, we need to buy at a discount to our probability weighted estimate of fair values. An investor can either spend millions researching every little detail of a company and expend a significant sum of lost opportunity cost trying to get a little extra edge, or an investor can buy cheaply using better analytical mental models. Sometimes it's worth putting in the extra effort but often 80% the information needed for an investment idea is typically known in the first 30 minutes of research. Most poor investment results are due to sloppy analytical work not a lack of information. This is especially true given the amount of information available on the internet (hello Google translate) and the disclosure requirements (knowing English is a competitive advantage in today's world) both of which apply more or less equally to Asian and American companies.

- Fourth, we insulate ourselves from outside influences. It is easy to chase every latest fad and flip from one investment idea to the next when everyone around you is whispering in your ear about the next great breakthrough. Yes, we like to talk to other investors, and we learn a lot from other smart people. But we also have a process that is insulated from outside influences and the noise of the business of investments.

The best books we have read to help understand Eastern markets are *From Third World to First* by Lee Kuan Yew, *Singapore: Unlikely Power* by John Curtis Perry, *On China* by Henry Kissinger, *Singapore: A Modern History* by Michael Barr, *Made in Hong Kong: Transpacific Networks and a New History of Globalization* by Peter E. Hamilton, and *Chinese Companies and the Hong Kong Stock Market* by Flora Xiao Huang and Horace Yeung. We heartily recommend these as further reading for those interested.

Outlook for 2022

Our experience has shown that for the type of portfolio and investments we manage that we often see a relatively small percentage of positions contributing a large percentage to our performance. For example, say we were invested in a hypothetical portfolio of 12 positions of equal size where in a particular year 4 are unchanged in value, 4 double in value and 4 halve, the return on that portfolio would be 16.7%. This example provides a case where there are the same number of winners of losers, but of course we work tirelessly to make sure the ratio of winners to losers is as high as possible.

In some years there will be a smaller handful of positions contributing to performance, in other years it will be broader based depending on how the wider market performs. But overall, we expect to achieve significant outperformance with respect to any relevant benchmark that could be chosen. We use the S&P 500 total return as a measure that is well known although the stocks that we look at are very different from the composition of this index. Also, our geographic and sector allocation varies over time and so there is no single benchmark that can reflect our changing exposures over time. So, we revert to using this measure for simplicity.

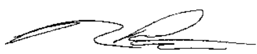
Looking forward to 2022 our focus remains on Asia although we will look at US businesses and other regions where they meet our criteria. Last year was an extraordinary year both for the fund and for the world in general. This year looks set to be a year of gradual return to a new kind of normal with many aspects of society having changed forever (e.g. WFH, video calling apps, biotech advances and internet usage).

But our main goal for this year will be patience, one of the most underrated qualities in any investment manager. We are positioned and just need to wait for businesses to grow, earnings to increase, cash balances to rise and events to unfold. We hope this glass half-full picture continues, but we also plan for the possible downside risk of new variants or economic turmoil and will remain vigilant across the portfolio for any new risks that may emerge.

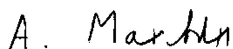
We are finding that there are many new opportunities that we can invest in and that we are in the fortunate position of having the capacity for much more capital. So, we will continue to look for additional partners to join us and we will be able to deploy any additional capital into new ideas very quickly (weeks or months).

To the existing partners we would like to thank you for your support and the trust that you place in us to manage your capital. Going forwards these letters will be distributed to partners semi-annually. And we look forward to what we hope will be continuing success in the future. We hope you all have a great year, that the pandemic soon recedes, and that we can look forward to a bright future.

Yours,



Chief Investment Officer: Nick Peters



Chief Executive Officer: Andrew Martin

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AN INVESTMENT IN THE FUNDS IS SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. OPPORTUNITIES FOR WITHDRAWAL, REDEMPTION AND TRANSFERABILITY OF INTERESTS ARE RESTRICTED, SO INVESTORS MAY NOT HAVE ACCESS TO CAPITAL WHEN IT IS NEEDED. THERE IS NO SECONDARY MARKET FOR THE INTERESTS AND NONE IS EXPECTED TO DEVELOP.

THE FEES AND EXPENSES CHARGED IN CONNECTION WITH THIS INVESTMENT MAY BE HIGHER THAN THE FEES AND EXPENSES OF OTHER INVESTMENT ALTERNATIVES AND MAY OFFSET PROFITS. NO ASSURANCE CAN BE GIVEN THAT THE INVESTMENT OBJECTIVE WILL BE ACHIEVED OR THAT AN INVESTOR WILL RECEIVE A RETURN OF ALL OR PART OF HIS OR HER INVESTMENT. INVESTMENT RESULTS MAY VARY SUBSTANTIALLY OVER ANY GIVEN TIME PERIOD.

THE PERFORMANCE DATA SHOWN HEREIN REPRESENTS THE PERFORMANCE OF THE FUND. THE RESULTS REFLECT THE DEDUCTION OF: (I) AN ANNUAL ASSET MANAGEMENT FEE OF 2%, CHARGED QUARTERLY; (II) A PERFORMANCE ALLOCATION OF 20%, TAKEN QUARTERLY, SUBJECT TO A "HIGH WATER MARK;" AND (III) TRANSACTION FEES AND OTHER EXPENSES ACTUALLY INCURRED BY THE FUND. THE RESULTS REFLECT THE IMPLEMENTATION OF THE INVESTMENT STRATEGY DESCRIBED IN THE FUNDS' OFFERING DOCUMENTS AND APPLIED IN THE FUNDS' TRADING ACCOUNTS. ALL INVESTMENTS INVOLVE RISK, INCLUDING THE LOSS OF PRINCIPAL.

RESULTS ARE COMPARED TO THE PERFORMANCE OF THE S&P 500 TOTAL RETURN INDEX (THE "COMPARATIVE INDEX") FOR INFORMATIONAL PURPOSES ONLY. THE FUND'S INVESTMENT PROGRAM DOES NOT MIRROR THE COMPARATIVE INDEX AND THE VOLATILITY OF THE FUND'S INVESTMENT PROGRAM MAY BE MATERIALLY DIFFERENT FROM THAT OF THE COMPARATIVE INDEX. THE SECURITIES OR OTHER INSTRUMENTS INCLUDED IN THE COMPARATIVE INDEX ARE NOT NECESSARILY INCLUDED IN THE FUND'S INVESTMENT PROGRAM AND CRITERIA FOR INCLUSION IN THE COMPARATIVE INDEX ARE DIFFERENT THAN THOSE FOR INVESTMENT BY THE FUND. THE PERFORMANCE OF THE COMPARATIVE INDEX WAS OBTAINED FROM PUBLISHED SOURCES BELIEVED TO BE RELIABLE, BUT WHICH ARE NOT WARRANTED AS TO ACCURACY OR COMPLETENESS. UNLESS NOTED OTHERWISE, THE RETURNS OF THE COMPARATIVE INDEX PRESENTED HEREIN DO NOT REFLECT FEES OR TRANSACTION COSTS, BUT THOSE RETURNS DO REFLECT NET DIVIDENDS, IF ANY.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.