Background for Investors

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Manager's Biography

Noam Grunes has managed unaffiliated 3rd-party capital since July 2008 in Komodo Global Fund LP, a Delaware limited partnership. Through July 2023, the LP cumulatively outpaced its benchmark, the All Country World Index, in over 88% of months since its inception.

From approximately 2008–2010 Noam concurrently served as a business consultant. From 2002–2008 he primarily read in Australia, enabled by a fortuitous approximately 500% two-year cumulative return on personal capital invested in 2002–2003 amid the downturn.

In these years he read Roger Lowenstein's *Buffett: The Making of an American Capitalist*, Warren Buffett's partnership letters, much of multiple versions of Graham & Dodd's *Security Analysis*, Phil Fisher's *Common Stocks and Uncommon Profits*, myriad books on strategy, all available back issues of Henry Emerson's *Outstanding Investor Digest*, other background for fundamental investors, and more Harvard Business School case studies. He had planned to work in venture capital before finding securities at prices untenable in privately negotiated transactions, in the stock market. This became his focus for mispriced financial assets.

Between attending finance and other undergraduate and graduate courses on a full-tuition scholarship to Boston University, Noam founded BUbooks.com and was recruited to be CEO and first employee of Beaumonde Inc., a Brookline-based supplier of websites and digitized

comp (composite) cards for model and talent agencies. He built its team with $100,000 seed capital and raised for it $2.5 million venture capital before handing over the reigns.

Beaumonde was closed during the 2001 downturn in a split board decision. Among its directors was the subsequent dean of Harvard Business School, where, in an unrelated development, Noam sat in during 2001 before completing his scholarship in Australia.

He has lived in Massachusetts, Australia (in Bondi and Balgowlah Heights, New South Wales) and Florida after childhood in Minneapolis, Minnesota.

While in Florida, Noam contributed to the publication *Vidya* as a member of triplenine.org. This experience led to launch of the public benefit company.

Valuation Background (Manager's 2005 Commentary)

Question: "What I don't know how to do is to compute the intrinsic value of a business. Out of your booklist, which is the first book I should read?"

Hi DolphinPlayer,

That's an excellent question. Smyr's recommendation, Ben Graham's *The Intelligent Investor* (4th revised ed.), is a fine choice. If nothing else, you might read, therein, chapter 20 and appendix 1: Warren Buffett's "The Superinvestors of Graham-and-Doddsville." Then or first you might enjoy Roger Lowenstein's *Buffett: The Making of an American Capitalist* (c. 1995). If you're asking what book will teach you how "to compute the intrinsic value of a business," the short answer is none. I'll expound that after posting a superb note on the subject: an excerpt of Mr. Buffett's 1992 letter to Berkshire shareholders.

> "In The Theory of Investment Value, written over 50 years ago, John Burr Williams set forth the equation for value, which we condense here: *The value of any stock, bond or business today is determined by the cash inflows and outflows — discounted at an appropriate interest rate — that can be expected to occur during the remaining life of the asset.* Note that the formula is the same for stocks as for bonds. Even so, there is an important, and difficult to deal with, difference between the two: A bond has a coupon and maturity date that define future cash flows; but in the case of equities, the investment analyst must himself estimate the future "coupons." Furthermore, the quality of management affects the bond coupon only rarely — chiefly when management is so inept or dishonest that payment of interest is suspended. In contrast, the ability of management can dramatically affect the equity 'coupons.'
>
> "The investment shown by the discounted-flows-of-cash calculation to be the cheapest is the one that the investor should purchase — irrespective of whether the business grows or doesn't, displays volatility or smoothness in its earnings, or carries

> a high price or low in relation to its current earnings and book value. Moreover, though the value equation has usually shown equities to be cheaper than bonds, that result is not inevitable: When bonds are calculated to be the more attractive investment, they should be bought.
>
> "Leaving the question of price aside, the best business to own is one that over an extended period can employ large amounts of incremental capital at very high rates of return. The worst business to own is one that must, or *will,* do the opposite — that is, consistently employ ever-greater amounts of capital at very low rates of return. Unfortunately, the first type of business is very hard to find: Most high-return businesses need relatively little capital. Shareholders of such a business usually will benefit if it pays out most of its earnings in dividends or makes significant stock repurchases.
>
> "Though the mathematical calculations required to evaluate equities are not difficult, an analyst — even one who is experienced and intelligent — can easily go wrong in estimating future 'coupons.' At Berkshire, we attempt to deal with this problem in two ways. First, we try to stick to businesses we believe we understand. That means they must be relatively simple and stable in character. If a business is complex or subject to constant change, we're not smart enough to predict future cash flows. Incidentally, that shortcoming doesn't bother us. What counts for most people in investing is not how much they know, but rather how realistically they define what they don't know. An investor needs to do very few things right as long as he or she avoids big mistakes.
>
> "Second, and equally important, we insist on a margin of safety in our purchase price. If we calculate the value of a common stock to be only slightly higher than its price, we're not interested in buying. We believe this margin-of-safety principle, so strongly emphasized by Ben Graham, to be the cornerstone of investment success."

You know the intrinsic value of a business is generally defined as the future cash it will distribute to its owner(s), discounted at a satisfactory rate. (A site like moneychimp.com will show you the basic calculations.) Basically it denotes the underlying value of a business in contradistinction to its market price, which may or may not be near its intrinsic (underlying business) value.

"This independent value has a variety of names, the most familiar of which is 'intrinsic value.' It may also be called 'indicated value,' 'central value,' 'normal value,' 'justified selling price,' 'reasonable value,' 'fair value' (in some legal proceedings), 'appraisal value,' and 'investment value'" (Graham and Dodd's *Security Analysis*, 1951 ed.). It's the "price that the investor should feel justified in paying, and in having paid, [for a security] without regard to what the market does thereafter" (ibid.). That would be the price that results in a satisfactory return from future cash flows.

So there are two elements to the intrinsic value of a business: (1) cash flows and (2) discount rate. Basically you may use a discount rate equivalent to the rate of return you require in light of your most attractive alternative and the sort of future opportunities you anticipate. Your discount rate should never be less than the yield of some "risk-free" US Treasury obligation, like its 10- or traded 30-year bond, which has nearly zero default risk, though it may return an unacceptably low (adjusted for inflation, even a negative real) amount. [This analytical staple changed since 2020, with attempts to overthrow the country to be determined.]

If that's clear, please jump to the next paragraph. If it's not, perhaps a simple example will clarify the elements. I own part of a liquidating company that I expect will be wound down in about 2 years. Suppose I expect it to then distribute $1/share and think I and its other investors can attain a 10% return elsewhere. While others may disagree with these assumptions, I would then calculate its intrinsic value to be around $.82/share. That's 1.00 / (1 + 10%)^2: a 10% expected return. (You can verify that by seeing that ~ $.826 * 1.1 (that's 1 + 10%) becomes .909 after 1 year; .909 * 1.1 becomes 1.00 the second year.) I'd consider its value/share around and not precisely $.82 if I think there's some probability it will liquidate before or after 2 years and distribute more or less than $1/share. That imprecision notwithstanding, I might then buy the shares if their market price falls substantially below my intrinsic value estimate (e.g., near $.40) and sell them if their price rises above it. Most businesses, however, are analyzed as "going concerns" that will operate a while.

The first element, future "equity coupons," is the crux of investment analysis. To forecast them well you need to understand (a) business generally and (b) accounting certainly to understand (c) particular businesses. You may begin to understand a business by ascertaining who its extant and potential customers, competitors and suppliers are and how it has made (lost), reinvested and distributed income over years. If you understand a business then you may roughly predict its future cash flows as a range of potentialities.

"Our notion of the intrinsic value may be more or less distinct, depending on the particular case. The degree of indistinctness may be expressed by a very hypothetical 'range of approximate value' ['intrinsic value band'], which would grow wider as the uncertainty of the picture increased.... It would follow that even a very indefinite idea of the intrinsic value may still justify a conclusion if the current price falls far outside either the maximum or minimum appraisal" (*Security Analysis*, 1940 ed.; almost identical to wording in 1934 ed.).

If you reasonably estimate the cash flows potentialities of a business and attendant probabilities, then you may calculate its intrinsic value as an estimated probabilistic or "expected" value and see what it would be worth given a near-worst case potentiality. If the expected value dwarfs its price — and if the intrinsic value given near-worst case cash flows is near its market price — then it may be an attractive investment.

So, how may one learn (a), (b) and (c)? I imagine you know quite a bit. One beginning her/his investment education might partake of the following resources.

(a) Learning business generally

No single book will really teach you what matters in businesses, what impacts equity "coupons." Optimally an investor experiences that by working in/with companies small and large, successful and ruinous — ideally witnessing several failures yet also at least one magnificent manager.

Vicarious learning, you know, is less impressionable but more expeditious than first-hand experience. A first-rate MBA program may be helpful, though one may cherrypick the best of its literature at no-to-nominal cost. MIT, for instance, offers much course material online for free. And Harvard case studies are generally superb. If you're interested in business, browse www.hbsp.harvard.edu and just buy 100–200 cases that interest you.

(i) Learning business from the standpoint of investors

Naturally, in any field wherein you hope to excel you may seek out the best practitioners and endeavor to learn how they conceive their practice and their missteps and triumphs. You can enjoy pseudo-fireside-chats with investors by reading their published works and interviews. Unfortunately most money managers don't merit attention and it's difficult to identify good ones. One way to do so: identify two excellent ones and find out who they admire.

Preeminent Warren Buffett lauds *Outstanding Investor Digest* (OID). If you're happy to invest several thousand dollars in your investment education, call Henry Emerson (oid.com) and ask to buy as many old issues of OID as he'll sell you. Time will reveal some of his interviewees are mediocrities, but imo [in my opinion] he has the best selection of non-fluffy interviews with and comments of thoughtful investors spanning over a decade. And Mr. Emerson is a delightful interviewer. I strongly suggest you read historical rather than current OID issues for two reasons. You can promptly find out the subsequent 5–15 year results of featured folks and ideas. Second, particular investment ideas won't distract you, for you should initially read such stuff not for timely tips but to learn how superb investors think.

David Swensen is a second outstanding practitioner (Yale's endowment manager) who also teaches: a rarity. If you like his *Pioneering Portfolio Management* (c. 2000) then you may like to find his Yale course reading list and gather (or ask a library service to gather) some material he commends.

Finally — or solely — read Mr. Buffett's extraordinary letters to Berkshire shareholders, attractively priced at berkshirehathaway.com. For an extraordinary education, read Mr. Buffett's letters, some of the above material, then Mr. Buffett's letters again.

One tip: whenever you encounter a word you don't understand: why not look it up immediately. Investorwords.com has generally good and succinct definitions and dictionary.com is also free.

(b) Learning accounting. Just read some accounting books until you're comfortable with financial statements and understand every term in several companies' periodic reports….

(c) Learning about particular businesses. When a publicly traded business interests you, read several of its annual reports and proxy statements sequentially. Then read its competitors' annual reports. (If you're evaluating it as an investment you may also want to read its 8-Ks — material activity reports — going back several years.) I enjoy the format and alerts of 10kwizard.com (~$150/year), but you can access annual (form 10-K) and other reports freely at http://www.sec.gov/edgar/searchedgar/companysearch.html. You can alternatively ask investor relations folks, often identified on corporate websites, to send you several years of reports if you prefer hard copies.

Company filings, provided you verify key facts therein, contain sufficient information on which to ground intelligent investment decisions, yet if you're interested in a business or industry you may like to meet some people in it and ask them whatever you want to know. Phil Fisher's *Common Stocks and Uncommon Profits and Other Writings* (c. 1996/1958) suggests nice questions. If you'll read that Phil, perhaps first read Phil Carret's wonderful *The Art of Speculation* (c. 1930) and remember his 7th dictum: "avoid 'inside information' as you would the plague."

If you delve into investing, please…

1. Take it easy. Money is more easily lost than made and a little knowledge can lead to unsound conviction. Endeavor to be cautious when others aren't, feel good about observing more than transacting and endeavor to never be dependent on any single investment (or group of similar investments) working out….

We Avoid Unhedged Shorts

We may concentrate in positions that profit if a security declines in price, with limited risk. We avoid unhedged short positions, however, in line with John Maynard Keynes' dictum that "the market can remain irrational longer than you can remain solvent." An experience of Michael Steinhardt (as recounted in his 2001 *No Bull*) illustrates this:

> "One of our most frustrating shorts of all time was a smallish purveyor of shopping and travel membership clubs: Comp-U-Card International, which eventually became CUC International. Our analyst, Herb Chen, had done an exceptionally good job in analyzing this company. He concluded that its earnings growth, which had been substantial, could not be maintained. Moreover, he was convinced that the company was engaging in highly aggressive and irregular accounting practices — simply put, it was 'cooking the books.' We began shorting the stock in 1989, and, like most positions, it was never supposed to develop into anything big — just another third-tier company with lousy accounting and a questionable business plan.

"But, like many highly promotive companies, CUC's management was smart and persuasive and had a plausible, if convoluted, business plan. CUC presented a simplistic view of extraordinarily complex financial statements, and, in the process, corralled many of the most prominent institutional investors. Quarter after quarter, Herb predicted that the earnings would fall apart, and quarter after quarter he was wrong. I grilled him endlessly in my usual aggressive and unconstrained way. Yet, his answers were consistently solid and well grounded. He never 'shot from the hip.' He knew this company well, and as painful as the short was becoming, and as brutal as I was during our 'sessions,' I increased the size of the short, convinced that Herb would eventually be proven right.

"Many stocks betray themselves by revealing the obviously speculative nature of their trading or ownership patterns. Not so with CUC. In contrast to other more speculative shorts, such as those involved with technological innovation or biotechnology where the volatility was at times frightening, being short CUC was a slow, steady grind. Against this backdrop, the firm would up short millions of shares.

"In 1992, CUC began a series of acquisitions designed to expand and reshape the company. Herb felt sure that these acquisitions were designed to mask the deteriorating fundamentals of the base business, but he also felt that management would probably be successful in its effort. After all, they had succeeded so far. Unlike many other shorts, which went out with a bang, this one went out with a whimper. I felt Herb was fundamentally right, but neither of us could stand another inexplicable quarterly earnings report. So we covered half the short and then covered half again. As the light at the end of the tunnel seemed to recede, we threw in the towel and covered our last share of this three-year short, eventually losing about $50 million on the position.

"And there the matter rested — just another painful reminder of what happens when you sell what you do not own. Over the ensuing years, CUC continued its grinding advance, albeit without the noise associated with a large Steinhardt short position. In late 1997, however, the company merged with HFS Inc., another high-flying stock run by Henry Silverman. Within months, the new company, now renamed Cendant, owned up to massive accounting irregularities attributable to the old CUC divisions. The final postmortem provided by the SEC documented what Herb had suspected all along. Almost as far back as the company's inception, it simply made up numbers to suit its needs. Each year's fraud had to compensate for the previous year's fraud, so the manipulation grew larger each year. When the fraud got too big for one company, CUC bought other companies. When it got too big again, CUC merged the company into an even bigger company. By the end, it was the largest accounting fraud ever. It cost investors over $19 billion and involved the creation of over $500 million in fictitious profits. No solace to us."

Investment Approach: AP[8]

In “long” investments we seek the following attributes:

1. **Acceptable Politics.**
   We seek durable relations among businesses, governments and resident individuals with inalienable rights.

2. **Appropriate Processes.**
   Appropriate processes include reporting with sensible performance indicators and non-conflicted financial controllers.

3. **Aligned Principals.**
   We prefer investing with principals — decision-making personnel — whose financial interests align with ours.

4. **Advantaged Products.**
   Competitively advantaged products can enable satisfactory returns on capital and robust retained earnings growth. We consider not-super-advantaged businesses when priced attractively.

5. **Attractive Price.**
   “Price is what you pay, value is what you get” (Warren Buffett). Central price-to-value estimates of securities remain a pillar of our operation.

6. **Apportioned Portfolio.**
   Subject to withstanding errors and risk factors, we aim to concentrate in our most attractive positions.

7. **Active Patience.**
   Patience enables investment with margins of safety. Active patience generates prospects. Prospects ease patience. Patience enables... (above).

8. **Attuned Partners.**
   Partners attuned in patience, investing long-term, focus on fundamental investment.

When buying shares or obligations of businesses, we work to profit by investing in securities priced below their intrinsic, fundamental values.

Investment Case Studies

Intrinsic value "may also be called… 'fair value,' 'appraisal value,' and 'investment value'" (Benjamin Graham's & David Dodd's *Security Analysis*, 1951 edition). It "may be more or less distinct, depending on the particular case…. Even a very indefinite idea of the intrinsic value may still justify a conclusion if the current price falls far outside either the maximum or minimum appraisal" (*Security Analysis*, 1940 edition).

- While incurring modest losses in a downturn, Charles & Colvard had over $30M tangible net assets with about a $6M market capitalization; approximately the day after seeing this, the manager visited its customer Moi Moi in Sydney, Australia.
- Even without earnings, ordinary operations could turn its inventory into cash.
- The position generated a capital gain over 100%.

- In rounded figures, the manager paid a slice of $400M for $1.5B commercial real estate at cost, indebted net $100M and generating $100M segmented operating income with an unprofitable division being jettisoned.
- It soon generated a substantial capital gain.

- Managing mutual funds, Highbury Financial had approximately $14M net financial assets with $2M–3M annual cash earnings, ignoring its amortization of intangible assets. The manager bought its warrants when the company's market capitalization was near $20M.
- That was near 2–3x its cash earnings net of financial assets while its investments appeared satisfactory. Highbury's shares and warrants soon appreciated over 100%.

In each of these cases, screening with conventional financial ratios such as price/earnings or EBIT/EV (earnings before interest and taxes divided by enterprise value), as in numerous algorithmic or "quant" funds, would not have surfaced the undervalued opportunity.

(Current opportunities are larger than these examples and, we think, more compelling.)

We work to own securities that are intrinsically, fundamentally worth more than their prices, along with derivatives on mispriced securities.

Investment Term and Liquidity

- **Equanimity**

  Warren Buffett's Berkshire Hathaway Inc. traded 50% below its prior peak about thrice (in 1974, 2000 and 2009) while rising from $10 to above $250,000 per (BRK.A) share. Based on market prices aside from fundamental value, we expect occasionally large downturns as well. "After all," as Buffett wrote shareholders in his 1983 letter, "why should the time required for a planet to circle the sun synchronize precisely with the time required for business actions to pay off? Instead, we recommend not less than a five-year test as a rough yard stick of economic performance."

- **Sequoia Fund Example**

  When Warren Buffett wound up his partnership, he recommended only one money manager in a 1969 letter to his partners: Bill Ruane. From July 1970 to March 2005 Ruane's Sequoia Fund outperformed the US stock market by over 4% annualized with fundamental investment. "The Fund's investment objective is long-term growth of capital. In pursuing this objective, the fund focuses principally on common stocks that it believes are undervalued at the time of purchase and have potential for growth. A guiding principal is the consideration of common stocks as units of ownership of a business…." With long-term outperformance, Sequoia's *worst* cumulative returns then were as follows: in 1 year, -25%; 2 years, -36%; 3 years, -34%; 4 years, -25%; 5 years, -16%; 6 years, 32%; 7 years, 79%. Such experience augurs for investing about 6–7 years minimally. We offer 5-year terms pragmatically as customary for certain investors, with anticipated extensions.

- **Generally Three Offered Terms**

  Some of our investment prospects are in biotechnology and other private equity while most are in public markets. Capital committed for 20, 10 or 5 years enables investment in these three categories, respectively. Capital committed for 20 or 10 years may be invested in what we find most attractive across all categories. From time to time we may return capital to investors, generally retaining funds with the most remaining years committed. Some investors may have a target date for large outlays, and may request an investment term beside 20, 10 or 5 years.

- **Patient Investment with Liquidity**

  The investment manager's first limited partner subscribed over 14 years with ability to withdraw part of capital annually, enabling patient investment with ample liquidity. We offer at least 5%-of-capital account withdrawals annually to accommodate endowments' and other investors' required or desired liquidity.

Our partnerships are built for fundamental investment.

Portfolio Management Details

"So act that the maxim of your will could always hold at the same time as a principle establishing universal law."

How do we size positions?

Generally we imagine universalizing them.

Suppose we estimate a position entails a 60% probability of returning 200% over 5 years and a 40% probability of losing 40%. Imagine we could fill a portfolio with positions that present the same odds with uncorrelated risks. Our annualized 5-year expected return would be 15.3%, and we may want several positions (N) to achieve a low total loss probability (TLP):

TLP	N
40%	for 1
16%	for 2
1%	for 5
0.2%	for 10
0.005%	for 20
0.00002%	for 30

If we'd want 20 of such positions, we'd assign it a 1/20 = 5% "Kant slice" and aim to size it up to 5% of our portfolio.

(Other positions may far exceed 5% or be a basket grouped into a Kant slice.)

Positions, Est.			Guidelines				
Kant Slice	Price/ FVE	% of NAV	Base1	Base2	Sell	Add1	Add2
	48%	100%	30%	47%	0%	1%	8%
12.5%	47%	11.6%	7.8%	12.5%	0%	0%	1%
7.1%	65%	4.1%	2.7%	4.1%	0%	0%	0%
4.5%	72%	3.6%	1.1%	1.9%	0%	0%	0%
4.5%	53%	3.5%	2.3%	3.9%	0%	0%	0%
2.4%	76%	3.4%	0.3%	0.7%	0%	0%	0%
2.9%	57%	3.0%	1.5%	2.1%	0%	0%	0%
12.5%	67%	2.4%	3.1%	7.1%	0%	1%	5%
4.5%	80%	1.1%	0.6%	1.3%	0%	0%	0%
1.2%	53%	1.0%	0.6%	1.1%	0%	0%	0%
1.2%	46%	0.9%	0.8%	1.2%	0%	0%	0%
1.2%	59%	0.7%	0.5%	0.9%	0%	0%	0%
1.2%	93%	0.4%	0.0%	0.0%	0%	0%	0%
0.8%	52%	0.3%	0.4%	0.7%	0%	0%	0%
0.4%	91%	0.3%	0.0%	0.0%	0%	0%	0%
1.2%	66%	0.0%	0.3%	0.7%	0%	0%	1%
8.3%	13%	11.2%	8.3%	8.3%	0%	0%	0%
		4.4%		0%	1	0%	1
		0.0%		33%	7/8	47%	1
		0.0%		38%	6/8	51%	6/7
		0.1%		43%	5/8	56%	5/7
		0.0%		50%	4/8	62%	4/7
		0.0%		57%	3/8	68%	3/7
		0.0%		66%	2/8	75%	2/7
		0.0%		76%	1/8	83%	1/7
		48.0%		87%	0	91%	0

Should we want it to be a 5% position right away? After all, lower prices may appear later. Our Guideline #1 adds an eighth of a Kant slice at each successive 15% price discount from our estimated fair value of a position. Our Guideline #2 adds a seventh of a Kant slice at each successive 10% discount. The range between these guidelines may facilitate patient trading.

Accumulating positions at successive discounts to fair value estimates can reserve outlays for buys that present large margins between prices we pay and values we perceive.

We aim to hold winners until another position is preferable. Preferable alternative positions can include cash when a holding trades above our estimate of its fair value.

That's how we think about managing position sizes commensurate with estimated fundamental margins of safety.

"[I]f you can identify six wonderful businesses, that is all the diversification you need, and you're going to make a lot of money…. [S]ix is plenty, and I'd probably have half of it in what I liked best." — Warren Buffett

Public Benefit Corporation

The partnership manager is a Delaware public benefit corporation. What does that entail?

A "public benefit corporation shall be managed in a manner that balances the stockholders' pecuniary interests, the best interests of those materially affected by the corporation's conduct, and the public benefit or public benefits identified in its certificate of incorporation" (Delaware Code). In line with statutes, biennially we aim to assess our success with regard to facts that may include among the following:

- For our limited partners: appreciation of net assets relative to a benchmark over an appropriate number of years.

  Reiterating for modest emphasis: "After all," Warren Buffett wrote in his 1983 letter for Berkshire Hathaway, "why should the time required for a planet to circle the sun synchronize precisely with the time required for business actions to pay off? Instead, we recommend not less than a five-year test as a rough yard stick of economic performance." BRK.A traded 50% below its past peak about thrice (in 1974, 2000 and 2009) en route from $10 to above $250,000. With assets marked to market prices, we expect occasionally large downturns as well, generally in times of opportunity.
- For our public benefit: ideas published by our team to advance durable public policy; initiatives advancing them; and investments consistent with everyone flourishing.
- For our stockholders: indicators including returns on capital invested, income, free cash flow, net assets, employees' satisfaction and compliance with legal requirements.

Standard Referral Incentive

We endeavor to offer referral payments of 18 basis points (0.18%) to professionals and non-professionals alike. This may be payable as 1 basis point (0.01%) of applicable investments per month for 18 months, multiplied by the net assets referred without limit. This works out to $180,000 per $100 million of referred investment. We welcome thoughtful referrals. In case one investor is referred by multiple people, the referral incentive may be divided.

Accounting Details

Our partnerships have the option of pooled or series accounting at the manager's discretion. In series accounting, simultaneous subscriptions are treated as a new series for the incentive allocation, then series are consolidated when at a high-water mark.

Annual management fee:	Of net assets up to $1 billion: 2%. Of net assets above $1 billion: 1.5%.
Hurdle return in the main series:	All Country World Index (ACWI: "access to the global stock market in a single fund").
Profit split of value added above hurdle:	50%–50% between limited and general partners.

Management Fee

The management fee (hereinafter the "Fee") is annually 2.00% of firm-wide net assets under management ("AUM") up to US$1 billion, and 1.50% of AUM above US$1 billion.

In case of substantial inflation, the US$1 billion threshold may be adjusted by a consumer price or other index to approximate US$1 billion purchasing power at any time in calendar year 2022, as calculated or supervised by the general partner or investment manager (hereinafter "manager") at its sole discretion in good faith.

At the manager's sole discretion, for any period and any capital account, the Fee may be levied in advance up to twelve (12) months and in arrears (for past days) up to any duration. (Whether in advance or arrears, the Fee may not be assessed for any day more than once, nor may be it be assessed in advance for any time for which an investor has not committed.)

The manager may defer or decline to levy any portion of the Fee, temporarily or permanently, for any partnership series. Generally the manager aims to treat investors equally.

When it is allocated, the Fee is calculated based on net assets in investors' capital accounts at a valuation date generally as near the Fee allocation date as readily practicable. Calculations of net assets are by, or supervised by, the manager in good faith. This may be in reliance on third-party brokerage statements and any other service provider.

The Fee may be assessed as the applicable percentage (2% in this example) of net assets pro rated per portion of a year, for example the net assets in a capital account multiplied by 2% per 12 months, 2%/12 per month, 2%/52 per week or 2%/365 per day of a non-leap year.

Incentive Allocation

The general partner's profit allocation is intended to equally split value-added with investors as limited partners. Value-added is defined as total return above a designated benchmark.

Historically the portfolio manager's benchmark has been total return of the All Country World Index fund (from its sponsor: "access to the global stock market in a single fund").

Generally investors allocating at least $100 million may request another benchmark that we may endeavor to accommodate in a different series or partnership offered to other investors as reasonably practicable.

An "applicable partnership interest" that is not a capital interest, the profit allocation has zero intrinsic value upon investors' subscription, and zero reasonably ascribed value in taxation as most invested capital cannot outperform the market of all such invested capital approximated by benchmark returns. Naturally we hope to generate substantial profit allocations, however. Both investors (limited partners) and the manager (general partner) may reasonably want maximal profit allocations, sharing equally in value added.

As value added above a benchmark would not be possible but for both capital invested and management, the 50%–50% split of value added strikes us as intuitively reasonable, more so than alternative profit allocations from every dollar of appreciation without a hurdle return.

Risk Factors – Overview

We suggest investors in funds or partnerships may benefit from a moderately diversified portfolio of managers concentrated in their most compelling positions. While we certainly do not intend to lose money permanently, any investment by or connected with our management entails risk of full or partial loss, permanently or temporarily. Risks or risk factors of or in connection with such investment include, and are not limited to, the following:

A Public Benefit Corporation May Be Disadvantageous

A Delaware Public Benefit Corporation ("PBC"), Infinity B Corporation is "managed in a manner that balances the stockholders' pecuniary interests, the best interests of those materially affected by the corporation's conduct, and the public benefit or public benefits identified in its certificate of incorporation" (Delaware).

Consequently the manager may allocate substantially more time to public benefit endeavors than managers operating solely for profit. While this can lead to unexpected opportunities and align investment activity with beneficent societal developments, it might also be considered a distraction from money-making — disadvantageous relative to managers focused solely on profit. In other words: the PBC structure can result in better or worse results than managers structured as solely for-profit entities, ceteris paribus. For us it is an imperative, a non-negotiable element of any investment in connection with our corporation or personnel.

By way of explanation, you might consider a prison management company motivated to increase beds under management, which it could do partly by sponsoring politicians to enact policies that promote incarceration for dubious offenses such as speeding to deliver a baby or selling MMS or syrup+baking soda for cancer with factual disclosures. If its shares are cheap relative to all others, a solely for-profit investment manager may be obligated to buy them and, having so invested, support its advocacy as a disservice to people broadly.

Similarly you might consider shares of a company poisoning water sources legally, selling directed energy weapons to torture targeted individuals at home, or stifling competition for generic drugs etc. In each case, a purely for-profit asset manager would be obligated to buy their shares when distinctively bargain-priced and in no way act to reduce their profits from harmful activity. Meanwhile we (must by law) endeavor to balance pecuniary interests with public benefit. It is the only way we will operate for profit.

(We estimate less than 1% of asset managers are structured as a public benefit company yet surmise many will convert to this structure upon recognizing these basic facts. For those so inclined, Delaware enables both public benefit corporations and public benefit LLCs.)

Concentration May Elevate Risk

The manager imposes no limit on portfolio concentration or diversification. While concentration may reduce risk relative to a diversified portfolio of optimistically priced securities, this may result in greater risk of full or partial loss than other investments entail.

Cryptocurrencies and Other Currencies Risk

The manager may hold any portion of the portfolio in any currencies including crypto-currencies, and any options thereon, all of which might ultimately be worthless as currency derives durable value from being the denomination for required taxation (that can change).

Front-Running May Harm Results

The manager's any action may be front-run by any individual or entity with advance knowledge of the action or intended action, whether or not such knowledge is obtained through illegal monitoring or high-speed trading. In such event, there may and may not be any legal or other recourse, and the manager might not pursue any legal action. Front-running can result in higher prices paid for purchases, and lower prices realized for sales, than in an absence of front-running. (It is a problem the manager might partly tackle some years from now by sponsoring or advocating a new kind of exchange.) The manager's any attempt to maintain confidentiality, or to otherwise avert front-running, may be unsuccessful.

Any Insurance May Not Cover Possible Losses

Any insurance in force may not cover possible theft of any portion of net assets, including without limitation by or in connection with any hacking activity. Any insurance may also fail to perform as desired when the insurer experiences any financial difficulty or insolvency.

Intermediaries May Malfunction

Assets held by Cede & Co., any broker, any bank and any other intermediary or service provider may be compromised or mis-accounted including, and not limited to, as a result of any activity in connection with any intermediary or service provider. Any insurance in force for investors, which may be nil, may not cover losses associated with any such eventuality.

Marketability May Disappear

Marketability of any or all of our securities may disappear for any period of time, including, and not limited to, in the event of security exchange closure.

Past Results May Not Be Indicative of Future Results

Past results may not be indicative of future results, including, and not limited to, on account of portfolio management that may be in any way, or ways, different than the past.

Policy Advocacy Might Disturb You

In business, there may be generally (much) more downside than upside in discussing politics or religion. In public policy advocacy and work related to it, the manager and its personnel somewhat ignore that. This may result in adverse publicity or limited partners' unwanted affiliation with ideas you may find abhorrent. Among the most potentially off-putting:

- Our CEO has advocated for a moderate high-end wealth tax (approximately 3% of assets above $10 million generally in publications) funding capitalist full employment opportunity. Some wealthy investors may not like the idea of any wealth tax.

- Our CEO has advocated for pacification of religious teachings and texts, with broad agreement to modify texts considered holy. Orthodox and other adherents of religion may find this repulsive or intolerable to the extent of detesting any affiliation with it.

In the event you find either notion abhorrent, investing with the manager may be ill-advised in a world of alternative investments not connected with any negative visceral reaction (and best for the manager as we desire pleasant partner relations unencumbered by any discord).

Targeted Individuals Face Elevated Risks

As information you might find scary and unnecessary, yet part of what we would want were positions reversed: the manager's CEO has been a targeted individual (TI) subject to around-the-clock surveillance and assault, including with directed energy leaving burn marks as partly explained by former operative Carl Clark in (the ~April 2010 edition of) Raum + Zeit, interviews and books by Dr. John Hall, former Naval Officer David Voigts, Robert Duncan's *Soul Catcher Volume 2* and *How to Tame a Demon,* testimony of Bill Binney (formerly with the NSA: https://twitter.com/Bill_Binney) et al. While such assault must terminate in any decent world, being subject to it can increase risks, including even risks of death.

While the CEO thinks that his any managed portfolio would perform well if held after his passing, it may not, and others may experience anxiety in that eventuality. Anxiety can lead to liquidation of any position at an unfavorable price, including in impatient sale of all securities simultaneously, as impatient selling can drive down buyers' bids and realized prices. Experienced partners may and may not overcome this risk.

Targeted individuals also face elevated risks including and not limited to risks of slander, libel, hacking, intellectual property theft and private conversations recorded and publicized. Their experiences may generally reflect covert operations that attempt to discredit or dispose of "uncorruptibles" beside for sadists, rapists or intellectual property theft, an undesirable badge of honor in some respects.

When instrumentalities of power are corrupt, anyone with cogent policy advocacy, or who cannot be compromised, may be targeted for character assassination or incapacitation.

The regime enabling targeting individuals with unconstitutional assault, partly described in the April 2011 affidavit by Ted Gunderson (formerly with the FBI), might be dismantled in the near future, as generally all of its participants are subject to capital punishment under 18 USC § 241–242 (as no executive order or legislation, whether federal or state, supersedes constitutional US law since the *Marbury v. Madison* Supreme Court decision in 1803).

Timing May Be Erroneous

The manager may erroneously assess the timing of any security price change or corporate or other event, including, and not limited to, in connection with any option or credit default swap. This may result in loss of any amount of assets under management.

Trade Execution May Be Subpar

The manager's any or every trade execution may be subpar, including, and not limited to, by or in connection with any brokerage whose financial interests are not well aligned with ours. That may be approximately every brokerage. Generally we aim to profit while expecting to be disadvantaged in trade execution relative to brokerages, banks and other financial exchange members and market makers. We might not do so successfully.

Unrelated Business Taxable Income Might Be Incurred

Generally the manager intends to avoid realizing any unrelated business taxable income (UBTI). However, accidental incursion of UBTI is possible, with all tax and other regulatory adversity or disadvantages that UBTI may entail.

Valuations May Be Materially Erroneous

The manager may materially misjudge fundamental value of any-to-every security, derivative and other investment. This may result in loss of any portion of assets under management. This risk may be mitigated but not eliminated by a long-term investment horizon.

Additional Risks or Risk Factors

For comprehensiveness, the following risks or risk factors are copied nearly verbatim from a publicly traded firm's annual report, with some modest overlap with risks highlighted above.

Activist Strategies. The manager may and may not pursue an activist role with respect to any investment, which may involve substantial use of time, resources, capital and potential litigation with or in opposition to the investee's management, board or shareholders.

Business Continuity, Service Providers and Cybersecurity. Incidents may significantly disrupt the business operations of the manager or any key service provider to the manager. Key service providers may perform inadequately or expose us to risk. Any data security breach may result in disclosure of our, and any of our investors', sensitive information.

Insurance. We may be liable for claims due to the failure of an insurance underwriter or inadequate or inappropriate insurance coverage.

Investment Risk. There is no assurance that our portfolio investments will increase in value and our investors may lose all, or substantially all, of their investment.

Key Man. The manager is dependent on our CEO for its investment activity as he has ultimate discretion with respect to investment decisions.

Manager's Authority. Our manager's CEO has broad investment authority and may use whichever techniques he believes are suitable, including novel and untested approaches.

Market Risk. Adverse changes affecting the global financial markets and economy as a whole may have a material negative impact on the performance of our investments or may cause prices in our portfolio to be highly volatile. We may acquire put options, and/or index or single-name credit default swaps or engage in other hedging strategies, but we are not committed to maintain hedges at any time.

Portfolio Concentration. Because our portfolio is expected to be highly concentrated and may be primarily invested in public equities or derivatives referencing public equities, it is sensitive to fluctuations in equity prices and investment results over time may be volatile. Concentrated portfolios also exacerbate risk that a loss in any one position could have a material adverse impact on our assets.

Portfolio Liquidity. The manager might be restricted from trading in securities for which the manager later has board representation or for a contractual, a regulatory or another reason. Liquidity in any or all of our positions might also be constrained for any other reason.

Regulatory Risk. Regulatory risk can negatively impact our portfolio in a number of ways. For example, changes in laws or regulations could have a detrimental impact on our ability to freely acquire and dispose of certain securities. In addition, failure to comply with laws or regulations can subject us to reputational damage and even prosecutions.

Taxes. We may transact in a way that places any tax status at risk. Changes to tax law or tax practices in a jurisdiction affecting us could adversely affect the value of our portfolio and after-tax returns. Our investments may not be tax-efficient for some or all investors.

Outlook

We anticipate cumulatively triple digit percentage returns in 1–5 years from special situations, with strong protections against certain macroeconomic calamities. While results may differ materially from our anticipation, our manager anticipated this about twice before, correctly (in 2002–2003 and 2009). The outlook today is reminiscent of prospective returns in 2002–2003. (Please see "Manager's Biography" on page 1 above.)