

January 2021

Dear Partners and Friends,

About two decades ago, I launched the Tsai Capital Growth Equity Strategy of separately managed accounts. It's been a rewarding intellectual journey for me and a privilege to help protect and grow your wealth through many challenging market environments.

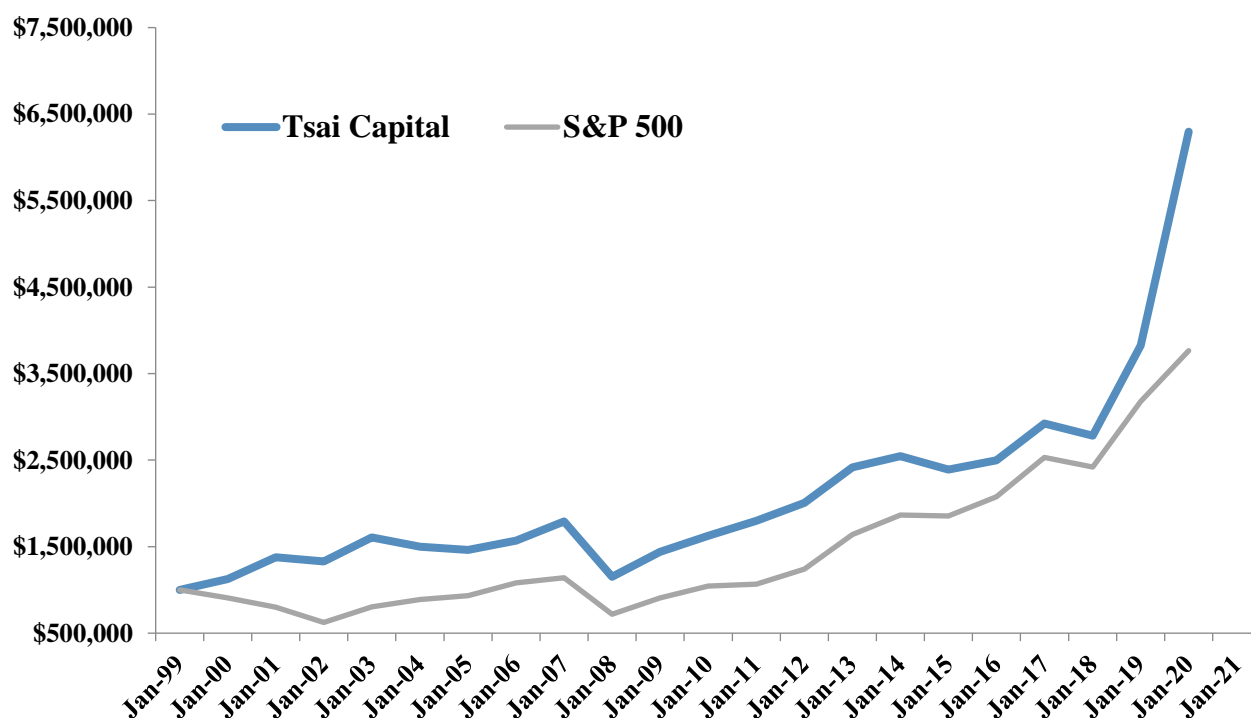
Since the beginning, I've been inspired by the Japanese concept of kaizen. If you are unfamiliar with this term, kaizen roughly translates to mean change (kai) for the good (zen). It's based on the philosophical belief that continuous, incremental improvement adds up to substantial change over time.

Tsai Capital, today, is the result of more than two decades of hard work and continuous, incremental improvement in all areas of the business, particularly our investment processes. Here are the cumulative results of these efforts:

Performance of Tsai Capital Growth Equity Strategy*

January 1, 2000 (Inception) – December 31, 2020

\$1 Million Investment with Tsai Capital Grows to \$6.3 Million vs. \$3.8 Million in the S&P 500 Index



For the year ending December 31, 2020, the Tsai Capital Growth Equity Strategy gained 67.04%, gross of fees, and 64.64%, net of fees, as compared with a total return of 18.40% for the S&P 500 Index.*

By any measure, last year was a standout year. However, I believe a stoic indifference to performance in any one year is the right way to think. I therefore encourage you to mentally reallocate our recent outperformance to future, leaner periods and to focus on how we do over the long-term.

Since inception about two decades years ago, the Tsai Capital Growth Equity Strategy outperformed its benchmark by achieving a gain of 530%, net of fees, as compared with a total return of 277% for the S&P 500 Index.*

Tsai Capital's long-term performance equates to an annualized return of 9.25%, after fees, as compared with an annualized return of 6.62% for the S&P 500 Index.* Our annual advantage, multiplied out over many years, means that a dollar invested with Tsai Capital all the way through would now be worth about \$6.30, while a dollar invested in the S&P 500 Index would be worth about \$3.77*. More information about our historical returns can be found in Exhibit I and Exhibit II.

Performance of the strategy, since inception, was achieved without the use of leverage, derivatives and short selling. That's because I prefer to keep things simple and sleep well at night.

Tsai Capital ended the year with just over \$100 million in assets under management. That is the largest amount of capital we have ever managed, yet assets remain meaningfully below the capacity of our investment strategy.

It's an honor and privilege to work on behalf of investment partners who deeply share our investment philosophy. And I want to keep it that way! Therefore, going forward, we will be even more selective on whom we welcome into the Tsai Capital family.

Our success – and our clients' success – would not be possible were it not for an aligned group of high-quality investors. There's an old African proverb that says, "If you want to go quickly, go alone. If you want to go far, go together." I couldn't agree more.

Please allow me to explain why the S&P 500 Index is a suitable alternative to Tsai Capital and may therefore be used as a *long-term* benchmark to assess relative performance. But first, understand that a) the S&P 500 Index's investment guidelines – and hence the nature of its investments – are rather different from those of Tsai Capital; and b) our performance may yield surprising results – both good and bad – relative to the benchmark over the short-term, which should neither be cause for concern nor celebration.

"In the short run, the market is a voting machine but in the long run it is a weighing machine." – Benjamin Graham

I provide this quotation to illustrate that short-term performance data provides little assistance in evaluating investment performance over the long-term. The nature of the stock market creates constant price action and this volatility is often amplified by human emotions, thus resulting in the inevitable short-term outperformance, or underperformance, by any a money manager. Over the long run, however, this price action phenomenon balances out, leaving stock selection, or business selection, rather, as the sole driver of investment returns.

Incidentally, very few money managers outperform the S&P 500 Index over the long run. It is on this basis, and this basis alone, that I recommend to use the S&P 500 Index as our *long-term* benchmark and to judge our performance using evaluation periods in excess of five years. Anything less than that is far too short a time frame to evaluate investment performance.

Our only objectives are the long-term growth and preservation of capital, which we seek to achieve by adhering to our core disciplines (Exhibit III). But first, let's address what many others are obsessed with, namely the general market.

Nobody can consistently predict what the market is going to do. That's a fool's game. Rather, all of my attention is devoted to finding the best individual investments that I believe offer significant upside potential and a margin of safety at the time of purchase. If you feel that an alternative strategy is essential to an investment program, you *should not* be invested with Tsai Capital.

I think the long-term growth aspect is best attained by investing in *compounders*. We define a *compounder* as a high-quality, growth business that we believe has a durable competitive advantage and can reinvest capital at high rates of return over a long duration.

We particularly like *compounders* that don't fully flex their pricing power, benefit from a network effect, and share efficiencies from increasing scale with customers. These types of businesses often have the strongest economic moats and the longest runways of growth.

When we find an attractive business at a sensible price, we like to buy in size and hold on for the long-term. Our long-term strategy is inspired by Albert Einstein who said, "Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it."

While growth is our goal, a basic mathematical concept elucidates the importance of capital preservation: while a 50 percent loss reduces \$1 of capital to 50 cents, a 100 percent gain is now needed to recover back to the initial \$1 of capital. This phenomenon grows in a non-linear fashion as demonstrated by the following: a 400 percent gain is required to offset an 80 percent loss. Indeed, Carl Jacobi's quip "invert, always invert!" may apply to investing, for the best way to make money is first not to lose it.

There are a vast number of techniques available to avoid losses, but many of these guard against quotational loss – that is, a loss as a result of volatility. However, we define risk as a permanent loss of capital. Our best hedge against it is a large margin of safety – or discount to intrinsic value – at the time of purchase. Accordingly, we welcome short-term volatility, as it occasionally grants us the chance to buy high-quality, growth businesses at large discounts to intrinsic value. Please note, while a margin of safety is not a precisely quantifiable number and therefore lacks the comforting (yet often misleading) sense of precision inherent in some strategies, it is crucial in guarding against uncertain and unknowable variables in any business. In short, I will side with J. M. Keynes in saying that "I would rather be vaguely right than precisely wrong."

Ideal investments are hard to find, especially in times of market euphoria. I seek to avoid investing in trees that appear to grow to the sky – that is, situations in which valuations drastically exceed intrinsic business values. This approach has helped us to successfully navigate through the outbreak of COVID-19, as well as the dot-com and housing bubbles. And since our buying and selling decisions are not tied to general market behavior, we may be a spectator for long periods of time. Our preference for inaction motivates us to swing hard when we see a pitch we like. This approach results in a relatively focused

portfolio – which, as previously mentioned, may substantially deviate from our benchmark over short time frames.

Mention of short-term deviations warrants an additional word. While investment management is considered a service industry, it contains one distinct characteristic: the quality of investment services is not as easy to evaluate as it is in most other service industries. For example, when biting into a steak at your favorite restaurant, the instant-feedback system triggers any meal imperfections to immediately emerge. In investing, however, the instant-feedback system (think short-term market deviations) does not provide nearly as much insight into quality as it does at a restaurant. Accordingly, a mistake may occur at the time an investment decision is made, but it is often not until years later that the results of that decision surface.

I made the mistake about two years ago, for example, of selling Trupanion. In hindsight, I lost sight of my original thesis and paid too much attention to the market's short-term concerns. In other words, I got distracted by the roadside attractions and forgot about the destination. For some time, selling Trupanion looked like a good decision. But the pet insurer has continued to grow intrinsic value and the share price has roughly quadrupled in value.

Losses are easy to see, though opportunity costs are not. But I assure you, the opportunity cost of the Trupanion mistake is very real. Fortunately, I believe the lesson learned is directly responsible for substantial value creation in other areas of the portfolio. In fact, I believe the cost of this lesson is already net present value positive.

Incidentally, the existence of commonly observed, yet deleterious emphasis upon the short-term may well stem from the lack of clear methods to evaluate investment performance. Whatever the reason, should the mismatch in time horizons of the investment manager and that of the investor exist, it will be challenging for the investment manager to take advantage of short-term volatility and to adhere to the long-term view. I therefore urge investors to maintain a long-term horizon to allow the 8th wonder of the world – compounding – to do its miracles.

We enter the New Year with a dozen high-quality, growth businesses that have significant competitive advantages. We are excited to own these *compounders* for years to come, so long as the fundamentals and culture of the businesses remain intact or until substantially better opportunities arise.

In closing, I'd like to thank you for your trust and long-term partnership with Tsai Capital. In return, I commit to you that I will continue to refine all areas of Tsai Capital, particularly our investment processes. If I have not been clear in any of the above, please feel free to contact me, and don't forget to check out Exhibit I, Exhibit II and Exhibit III on the following pages.

Christopher Tsai

Exhibit I
Composite Annual and Cumulative Returns*
January 1, 2000 (Inception) – December 31, 2020

	Annual Return			Cumulative Return		
Year	Tsai Gross	Tsai Net	S&P 500 Index	Tsai Gross	Tsai Net	S&P 500 Index
2020	67.04%	64.64%	18.40%	737%	530%	277%
2019	39.50%	37.51%	31.49%	401%	282%	218%
2018	-3.68%	-4.86%	-4.38%	259%	178%	142%
2017	18.33%	16.94%	21.83%	273%	192%	153%
2016	5.60%	4.51%	11.96%	215%	150%	108%
2015	-5.78%	-6.00%	-0.53%	198%	139%	85%
2014	6.71%	5.36%	13.69%	217%	154%	86%
2013	21.87%	20.38%	32.39%	197%	142%	64%
2012	12.90%	11.57%	16.00%	143%	101%	24%
2011	11.68%	10.69%	2.11%	116%	80%	7%
2010	14.49%	12.68%	15.06%	93%	62%	5%
2009	26.78%	25.20%	26.46%	69%	44%	-9%
2008	-34.88%	-35.75%	-37.00%	33%	15%	-28%
2007	15.89%	14.32%	5.49%	104%	79%	14%
2006	8.69%	7.21%	15.80%	76%	57%	8%
2005	-1.18%	-2.57%	4.91%	62%	46%	-7%
2004	-5.15%	-6.60%	10.88%	64%	50%	-11%
2003	23.09%	20.94%	28.68%	73%	61%	-20%
2002	-1.92%	-3.58%	-22.10%	41%	33%	-38%
2001	24.76%	22.38%	-11.89%	43%	38%	-20%
2000	14.86%	12.61%	-9.10%	15%	13%	-9%
Since Inception						
Cumulative	737%	530%	277%			
Annualized	10.77%	9.25%	6.62%			

Exhibit II
Composite Annualized Returns*
January 1, 2000 (Inception) – December 31, 2020

Trailing Period	Tsai Capital Gross	Tsai Capital Net	S&P 500 Index	Relative Gross	Relative Net
Last 12 Months	67.04%	64.64%	18.40%	48.64%	46.24%
Last 3 Years	30.93%	29.14%	14.18%	16.75%	14.96%
Last 5 Years	22.93%	21.38%	15.23%	7.70%	6.15%
Last 7 Years	16.33%	14.93%	12.92%	3.41%	2.01%
Last 10 Years	16.06%	14.70%	13.90%	2.16%	0.80%
Since Inception	10.77%	9.25%	6.62%	4.15%	2.63%

Exhibit III

Tsai Capital Core Disciplines

All-in and Win-Win: Tsai Capital, today, is the result of more than two decades of hard work and continuous, incremental improvement in all areas of the business. Our success – and our clients’ success – would not be possible were it not for an aligned group of investors who share a similar mindset. We are all-in.

It’s our mission to bring a scientific spirit and integrity to the business of investment management and to create win-win outcomes. We seek to build long-term relationships with all our counterparties while being guided by the African proverb: “If you want to go quickly, go alone. If you want to go far, go together.”

Remember Einstein: In choosing individual securities, Tsai Capital ignores short-term volatility and instead focuses on the long-term potential for capital appreciation. This approach broadens the universe of our investment opportunities as other market participants, generally operating under institutional constraints, have a much shorter time horizon.

Once we have made an investment, we seek to hold it for the long-term. Our long-term strategy is inspired by Albert Einstein who said, “Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn’t, pays it.”

Invert, Always Invert: Preservation of capital is paramount to long-term investment results as illustrated by a simple mathematical principle: while a 50 percent loss reduces \$1 of capital to 50 cents, a 100 percent gain is then necessary to recover the initial \$1 of capital. Moreover, this phenomenon expands in a non-linear fashion: for example, a 400 percent gain is required to offset an 80 percent loss. Carl Jacobi’s quip “invert, always invert!” may aptly apply to investing, for the best way to make money is first not to lose it.

So, no matter how outstanding a business may be, we will only commit capital when we believe the market offers us a large discount to intrinsic value. In other words, we need a margin of safety at the time of purchase.

Never Forget Tussman: Knowledge acquired through a multidisciplinary approach is essential to understanding the world and to minimizing risk. Our extensive network of fellow investors, analysts, executives, and business owners help in idea generation and due diligence.

We strive to be open-minded in order to understand all the major factors that might affect the outcome of an investment. Our goal is to eliminate blind spots. Our research process is inspired by the late Joseph Tussman who said, “What the pupil must learn, if he learns anything at all, is that the world will do most of the work for you, provided you cooperate with it by identifying how it really works and aligning with those realities.”

Follow the Business, Not the Market: We don’t think that anyone can consistently predict what the market is going to do. That’s a fool’s game. Our capital allocation strategy is therefore market agnostic.

Rather than obsessing about the general market as so many others do, we focus on business fundamentals. All of our attention is devoted to finding the best individual investments that offer significant upside potential and a margin of safety at the time of purchase.

It's All in the Swing: Our preference for inaction motivates us to swing hard when we see a pitch we like. This results in a relatively focused portfolio – which may substantially deviate from our benchmark over short time frames.

We are solely focused on investing in compounders, which we define as a high-quality, growth business that we believe has a durable competitive advantage and can reinvest capital at high rates of return over a long duration.

And we prefer certain business models, particularly those that benefit from network effects. Our extreme focus forces us to stay within our circle of competence and helps us to avoid costly mistakes.

Important Disclosures

Past performance is no indication or guarantee of future performance and no representation or guarantee is being made as to the future investment performance of Tsai Capital Corporation's separately managed accounts or any entity.

*The S&P 500 Index is a benchmark of unmanaged securities. It is not a security that can be purchased or sold. Individual account performance and investment management fees incurred by clients may vary, as fees for smaller accounts are higher, on a percentage basis, than for larger accounts. Additionally, securities held by individual accounts may differ significantly from the Tsai Capital Growth Equity Strategy composite of separately managed accounts. Individual accounts managed by Tsai Capital Corporation may have experienced materially less favorable results than those portrayed by the composite over any particular period of time. Performance data includes fee-paying accounts only and excludes: Tsai family (and related accounts); accounts with net assets below \$200,000; accounts and/or time frames in which short selling strategies were applied; and accounts that are considered "nondiscretionary" by the adviser due to client-mandated or other account restrictions. The inclusion of any of the aforementioned excluded accounts and/or time frames may have led to less favorable results had they been included in the composite. Returns include the reinvestment of dividends, interest and other earnings.

This information is for illustration and discussion purposes only and is not intended to be a recommendation, or an offer to sell, or a solicitation of any offer to open a separate account or become an investor in a private fund managed by Tsai Capital Corporation, as the case may be, nor should it be construed or used as investment, tax, ERISA or legal advice. Any such offer or solicitation will be made only by means of delivery of a presentation, prospectus, account agreement, or other information relating to such investment and only to suitable investors in those jurisdictions where permitted by law.

Further, the contents of this letter should not be relied upon in substitution of the exercise of independent judgment. The information is furnished as of the date shown, and is subject to change and to updating without notice; no representation is made with respect to its accuracy, completeness or timeliness and may not be relied upon for the purposes of entering into any transaction. The information herein is not intended to be a complete performance presentation or analysis and is subject to change. None of Tsai Capital Corporation, as investment advisor to the separately managed accounts, or any affiliate, manager, member, officer, employee or agent or representative thereof makes any representation or warranty with respect to the information provided herein.

In addition, certain information has been obtained from third party sources and, although believed to be reliable, the information has not been independently verified and its accuracy or completeness cannot be guaranteed.

The attached material was provided to investors in Tsai Capital Corporation's separately managed accounts at a specific past point of time, advice that may no longer be current or timely. References to past specific holdings of that specific vehicle and matters of related historic fact must be seen in context (as would have been apparent to investors in that vehicle) and are not intended to refer directly or indirectly to specific past recommendations of Tsai Capital Corporation (other than as an indication of language sometimes found in the newsletters). Any reference to a past specific holding or outcome is not intended as representative. None the less, for individuals actively interested in investing in such Tsai Capital Corporation's separately managed accounts, a list of recommendations made by Tsai Capital Corporation with regard to the vehicle in question will be made available on request.

Certain statements on the attached material, including but not limited to (a) statements of things that “are well known” to be the case (other examples include: “In hindsight people often say, “I should have known better,” and more often than not, they did.”), (b) statements with the phrase “always”, and (c) certain similar statements, are not intended to represent absolute literal fact, but rather represent certain colloquialisms/mannerisms expressed by select market participants (but not necessarily individuals associated with Tsai Capital Corporation).

All data presented is historical and it should not be assumed that investors will experience returns in the future comparable to the performance presented herein. Investment returns may vary significantly at any time from the data provided herein. Results are unaudited and are presented net and gross of management fees.

References herein to Tsai Capital’s efforts to minimize losses and seek a margin of safety should not be construed to imply an absence of risk in any investment. All investments carry risk, including the risk of loss of investment principal. Additionally, short-term market volatility may present increased risks for investors who have shorter investment horizons due to impending or current liquidity needs.

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