May 13, 2022

Dear Partners and Friends,

A lot has happened in the markets since I wrote to you just two months ago in March. I am writing again to update you on our performance year to date, and what we're working on for the next several months.

The Western world has just come out of the covid winter with excitement and euphoria, traveling and meeting each other again. At the same time, the inflationary consequences of the lockdowns, excessive monetary and fiscal stimulus, leverage, and overspending are coming to light. The result is a surge in demand and still restricted supply chains. On top of this, China lockdowns and the Ukraine war are exacerbating inflation in almost every commodity and asset class.

There is no easy fix for inflation in the near term. The long-term solution is a much-needed market correction, and deflation of asset price bubbles in everything from the stock market, bond market, everyday goods and services, and real estate.

That is what we are witnessing in the markets. We have been expecting this. Although painful in the short-term, this is a healthy correction, and we are excited about this opportunity to buy exceptional businesses at cheap prices.

More than ever, we need to stay true to our investment values:

Ownership – We are owners of underlying businesses, not numbers on a screen.

Compounding – Invest in good ideas, and let the math do the work over the long term.

Humility – Recognize where we were wrong and quickly course-correct.

Truth Seeking – Find the companies' true value, not what the market is pricing today.

Honesty – Communicate honestly to you, our partners.

Patience – Wait for the right opportunity to invest, and to take profits.

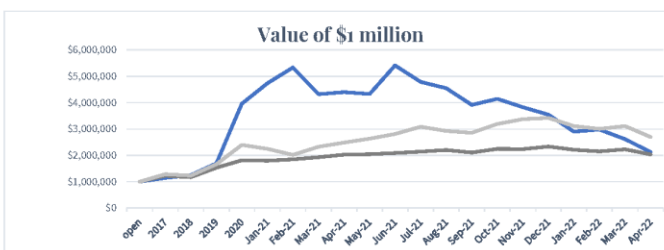
As of April 30, our portfolio is down 40% year to date. This is mainly due to our exposure in platform technology companies and our higher leverage. This is normal for the types of businesses we invest in, and we believe we are positioned well to outperform in the long run.

In this letter, I will share some macro-economic factors contributing to the recent sell-off, how we are positioning the portfolio going forward, an exciting new investment in Ohio in Installed Building Products (IBP), and a brief China update.

Here is a summary of our returns put together by a third-party administrator: As you can see, our -40% performance as of April 30th compares to -13% in the S&P and -24% in the Nasdaq.

Ellisville Harbour Partners Historical Returns | **S&P 500** Historical Returns | **NASDAQ Composite** Historical Returns

Period Ending	Return	Since Inception (SI)	Period Ending	Return	SI	Relative Results S&P 500	Period Ending	Return	SI	Relative Results NASDAQ Composite	Value of $1,000,000
2017	14.1%	14.1%	2017	21.8%	21.8%	-7.7%	2017	28.2%	28.2%	-14.1%	$1,141,456
2018	9.1%	24.5%	2018	-4.4%	16.5%	13.5%	2018	-3.9%	23.3%	13.0%	$1,245,167
2019	36.1%	69.5%	2019	31.5%	53.1%	4.7%	2019	35.2%	66.7%	0.9%	$1,695,159
Performance from 2017 - 2019 was in Personal Account only. Outside clients were accepted in 2020											
2020	133.7%	296.2%	2020	18.4%	81.3%	115.3%	2020	43.6%	139.4%	90.1%	$3,962,196
Jan-21	19.5%	373.6%	Jan-21	-1.0%	79.5%	20.5%	Jan-21	-6.4%	124.1%	25.9%	$4,736,067
Feb-21	12.7%	433.6%	Feb-21	2.8%	84.4%	9.9%	Feb-21	-10.1%	101.5%	22.8%	$5,335,928
Mar-21	-19.0%	332.3%	Mar-21	4.4%	92.5%	-23.4%	Mar-21	15.4%	132.6%	-34.4%	$4,323,303
Apr-21	1.8%	340.2%	Apr-21	5.3%	102.8%	-3.5%	Apr-21	6.8%	148.3%	-4.9%	$4,401,519
May-21	-1.6%	333.1%	May-21	0.7%	104.2%	-2.3%	May-21	6.0%	163.2%	-7.6%	$4,331,249
Jun-21	25.0%	441.4%	Jun-21	2.3%	109.0%	22.7%	Jun-21	6.8%	181.1%	18.2%	$5,413,709
Jul-21	-11.6%	378.8%	Jul-21	2.4%	114.0%	-13.9%	Jul-21	9.6%	208.1%	-21.1%	$4,788,185
Aug-21	-5.0%	355.0%	Aug-21	3.0%	120.5%	-8.0%	Aug-21	-5.2%	192.2%	0.2%	$4,549,524
Sep-21	-13.9%	291.6%	Sep-21	-4.7%	110.2%	-9.3%	Sep-21	-2.3%	185.5%	-11.6%	$3,915,927
Oct-21	5.8%	314.3%	Oct-21	7.0%	124.9%	-1.2%	Oct-21	11.8%	219.2%	-6.0%	$4,143,246
Nov-21	-7.6%	282.7%	Nov-21	-0.7%	123.4%	-6.9%	Nov-21	5.7%	237.2%	-13.3%	$3,827,331
Dec-21	-7.4%	254.4%	Dec-21	4.5%	133.4%	-11.9%	Dec-21	1.4%	242.0%	-8.8%	$3,544,095
2021	-9.6%		2021	28.7%			2021	21.4%			
Jan-22	-18.1%	190.1%	Jan-22	-5.2%	121.3%	-13.0%	Jan-22	-9.0%	211.3%	-9.2%	$2,901,140
Feb-22	2.7%	197.8%	Feb-22	-3.0%	114.7%	5.7%	Feb-22	-3.4%	200.6%	6.1%	$2,978,245
Mar-22	-12.2%	161.4%	Mar-22	3.7%	122.7%	-15.9%	Mar-22	3.4%	210.8%	-15.6%	$2,614,290
Apr-22	-18.7%	112.6%	Apr-22	-8.7%	103.3%	-9.9%	Apr-22	-13.3%	169.6%	-5.4%	$2,126,233
2022	-40.0%		2022	-12.9%			2022	-21.2%			



Prior to August 2020 results are from Manager's personal funds. Outside clients were accepted beginning August 2020.

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Macro factors driving the stock market correction:

The need for this healthy correction is best explained by Amazon's experience over the past two years. When fear of covid took over in March of 2020 and people quarantined in their homes, there was unprecedented demand to buy goods online. This demand was boosted by stimulus checks sent to almost every American. To meet this demand, Amazon hired more than 500,000 workers in the past two years and doubled their number of fulfillment centers, pulling forward capacity by three years. This led to a huge supply shortage of truck drivers and drove up shipping costs. Now that those stimulus checks have been spent, and the pain of higher prices is working its way through the economy, Amazon reported the slowest growth in sales in the first quarter in almost a decade. Now, Amazon is announcing layoffs, and letting go of many of the people who were just hired. They invested too fast and now they are reversing course. Hopefully this will ease some of the imbalance in truck driver shortages and other specialty programmers and engineers. The same thing happened in almost every other sector in the economy and now other major tech companies like Microsoft, Netflix, Spotify, are Shopify are experiencing similar problems.

Again, I believe this is healthy for the market and the economy and will help to balance out much of the labor shortages.

It is also increasingly clear that inflation is not going away anytime soon. Scott Grannis gives a good analysis that if M2 Money supply is still growing at 6% per year, the public reduces its money balances to the pre-covid level of 70% of GDP (people spend down their savings) over the next three years, and GDP grows at 2% per year, inflation will be about 10%.[1] If this is correct, the Federal Reserve is "behind the curve," meaning they are not raising the federal fund rate fast enough to slow inflation. The last time anything like this happened was the 1970s, when Jerome Powell was a teenager, and I was an idea. Fortunately, Mr. Market is doing a lot of the work for Mr. Powell, as the 10-year treasury bond has increased from 1.5% to over 3% in just two months. The Fed is reacting too slow, and the market is ahead. Rather than calming the markets by raising rates slowly, the delay has caused a panic.

Now a fear of recession in the short term is being priced into the stock market for technology companies. This could become a "white-collar recession," where high earners and asset owners, a.k.a. rich people, might see much of their wealth - everything from stocks to crypto currency - cut in half. Real estate appears stable for now due to an under supply of housing in the US. With higher mortgage rates, however, different sectors in real estate will start to see prices coming down. Meanwhile, blue collar workers, many of whom are still trying to regain

[1] https://scottgrannis.blogspot.com/2022/05/m2-still-has-lot-of-inflation-potential.html

their financial footing after covid, will suffer from inflation but won't see a dramatic drop in their net wealth. For our portfolio of companies, the drawdown has been particularly painful in the technology platforms Roku (ROKU), Sea Limited (SE), and Farfetch (FTCH), with stocks down over 60% from their highs. This, and our leverage, is the major reason for our underperformance.

We believe ROKU, SE, and FTCH may be suffering the same fate as Amazon, by expanding too quickly in the last two years. From a relative valuation perspective, we think SE and ROKU might have further to fall based on higher price to sales (P/S) ratio than FTCH, which is now trading at less than 1x 2022 sales.

Our plan going forward:

We may have to assume this could be like the 1970s, with 10% inflation for a few years. Growth may stagnate and emerging markets like SE Asia might suffer. Therefore, we need to concentrate on businesses with cash on the balance sheet to fund operations and pricing power. We are in a good position to do this because we specialize in energy and industrial sectors. These sectors traditionally do well in times of high inflation.

This week I started downsizing our positions in ROKU and SE to reduce our margin and take tax losses. These losses can be used in the future to realize some taxable gains without paying any taxes. We still own a sizable position in FTCH, which we believe has the best pricing power due to their wide technology moat in the luxury industry. We still believe in these platform companies, and we still think they will become very profitable the future. The market is not recognizing that right now however, so we need to concentrate on the other companies we own that are allocating capital with positive returns on investment, not investing in growth at all costs.

At the same time, we are ready to double and triple down in these names if we don't see revenue growth in these markets slowing down, and if we are wrong about inflation.

For this same reason we also sold Hyzon Motors for now, as they won't be selling any trucks this year, and still waiting on chassis for the next 16 months.

We started out this year with over 40% of our portfolio invested in our Old Industry New Technology theme: Advanced Drainage Systems, Africa Oil, Air Products and Chem and EOG Resources. Our Energy companies, led by AOI (+48%), are doing well, benefited by the higher prices and the supply/demand imbalance we highlighted in our last letter [HERE].

Our portfolio is now concentrated over 60% in that theme - in companies that have pricing and earnings power and are in necessary industries. WMS, our shining star, should do well, as will TSM and our Energy names AOI, EOG and CEQP. Finally, we added a new building products company, IBP.

New Investment in Installed Building Products (IBP):

Without being able to travel to China to hunt for new investments, I traveled to Ohio last fall to meet with IBP's Chairman Jeff Edwards and to visit our top holding WMS. The mid-west is the 4th largest economy in the world, bigger than India and Brazil. Chris Olsen from Drive Capital, a venture capital firm in Columbus, describes the opportunity this way: "If you put a circle around Columbus, a one-day car drive, you're talking about 60% of the GDP of America…"[2] I think of the mid-west as an emerging market. The mid-west is growing faster than other parts of the US, in job openings, new homes being built and now a $20 billion semiconductor fab from Intel in Columbus.

IBP is the leading installation contractor of insulation for residential and commercial builders with over 9,500 employees serving 210 locations with a 28% market share in the US. They are vertically integrated from sourcing to installation and have been so successful at insulation they are expanding into a one stop shop for large contractors by specializing in complimentary services such as garage doors, rain gutters, shower doors, mirrors, window blinds etc.

The founder Jeff Edwards is the chairman and CEO and still owns 30% of the company. IBP is a serial acquirer of small family-owned businesses much like a micro-Berkshire Hathaway, and has grown into a sizeable public company, with a $2.5 billion market cap and a 19% revenue CAGR over 8 years. IBP earned $1.9 billion in net revenue last year, adjusted EBITDA of $285 million and EPS of $5.39 and is currently trading at a forward P/E of 12x. We waited six months for the stock to fall from $140 down to around $80 before starting to buy.

For the first quarter 2022, they performed exceptionally well, growing revenue by 34% year on year raising prices by 14% outpacing inflation (about 8%), with the dollar value of the backlog up 26%. We love this about IBP. This illustrates their pricing power; the ability to pass higher costs onto their customers, increasing margins at the same time.

Finally, from a macro perspective, IBP is in the sweet spot of the housing market where there is housing gap of 3.8 million homes in the US.[3] With rising mortgage rates, this might slow down the housing market reducing the gap, and easing pressure on the construction industry. What is unique about IBP is that it is immune to a slowdown in the housing market.

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[2] https://techcrunch.com/2021/01/11/columbus-drivecapital/
[3] 2021 U.S. Census Bureau Housing Vacancy Survey

Supply chain issues have caused the cycle time between housing starts and completions to lengthen, increasing IBP's backlog. IBP will achieve double digit revenue growth during this business climate, but they can easily add capacity if the housing market slows down and the cycle time shortens. As the CFO Michal Miller put it: "Quite honestly, a slowdown in starts would help reduce that construction cycle time, and we don't expect it to be "normal" anytime soon. But anything we can do to reduce it even a couple of weeks, we believe is very constructive..."

China

I sold Tencent and Miniso back in January and February to decrease our Chine exposure. The zero covid lockdown policy is significantly hurting the economy. We still own JD.com and JD logistics which are essential businesses for ecommerce in China much like Amazon is in the US. The policy crackdowns on technology firms have not had a material impact on JD.com, but they are a major risk. We are hopeful that the Chinese government is on record indicating that these anti big-tech crackdowns will be ending soon.

We have identified some exciting Fintech companies that are trading at 1x P/E ratios and are conducting due diligence now. We believe "zero covid" will remain and the Chinese stock market will continue to lag until around October when President Xi is expected to get his 3rd term. More details to come on China soon.

Conclusion

Bear markets are healthy and normal, they can be painful, but it's important NOT to get caught up in emotions and remember that they do come to an end. For our holdings, the underlying businesses are still growing and their investments in new technologies and business models will yield fruit in the coming years. Now is the time to invest in these businesses.

Referring to the chart below, it is helpful to look back and see that over the last 15 bear markets the average downturn is a loss of 30%. On average these last just under a year to reach bottom and take a year and half to break even.

S&P 500 Bear Markets Since 1950

Peak	Trough	% Decline	# of Days	Breakeven	# of Days	Years
7/15/1957	10/22/1957	-20.7%	99	9/16/1958	329	0.9
12/12/1961	6/26/1962	-28.0%	196	9/3/1963	434	1.2
2/9/1966	10/7/1966	-22.2%	240	5/4/1967	209	0.6
11/29/1968	5/26/1970	-36.1%	543	3/6/1972	650	1.8
1/11/1973	10/3/1974	-48.2%	630	7/17/1980	2114	5.8
9/21/1976	3/6/1978	-19.4%	531	8/15/1979	527	1.4
11/28/1980	8/12/1982	-27.1%	622	11/3/1982	83	0.2
8/25/1987	12/4/1987	-33.5%	101	7/26/1989	600	1.6
7/16/1990	10/11/1990	-19.9%	87	2/13/1991	125	0.3
7/17/1998	8/31/1998	-19.3%	45	11/23/1998	84	0.2
3/24/2000	10/9/2002	-49.1%	929	5/30/2007	1694	4.6
10/9/2007	3/9/2009	-56.8%	517	3/28/2013	1480	4.1
4/29/2011	10/3/2011	-19.4%	157	2/24/2012	144	0.4
9/20/2018	12/24/2018	-19.8%	95	4/23/2019	120	0.3
2/19/2020	3/23/2020	-33.9%	33	8/18/2020	181	0.5
Averages		**-30.2%**	**338**		**603**	**1.7**

Our strategy is long term and at times may seem volatile. This is the best time to invest. With our barbell approach, we can rotate between industrial businesses with pricing power and high growth technology businesses. We plan for these buying opportunities, and we are excited now more than ever to invest in great companies.

We all should plan and be patient for the right opportunities.

Please reach out to me with any questions, and send me your investment ideas, I would love to hear from you.

Sincerely,

George

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