SAGA PARTNERS

SEMI-ANNUAL REPORT

SECOND HALF 2021

H2 2021 Results

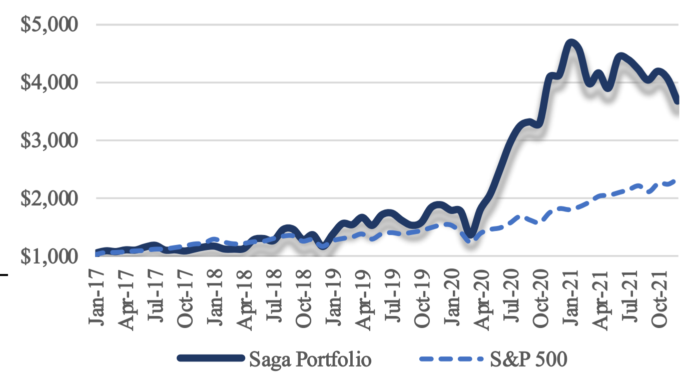
During the second half of 2021, the Saga Portfolio ("the Portfolio") decreased 17.1% net of fees. This compares to the overall increase for the S&P 500 Index, including dividends, of 11.7%.

The cumulative return since inception on January 1, 2017 for the Saga Portfolio is 268.3% net of fees compared to the S&P 500 Index of 133.4%. The annualized return since inception for the Saga Portfolio is 29.8% net of fees compared to the S&P 500's 18.5%. Please check your individual statement as specific account returns may vary depending on timing of any contributions throughout the period.

Performance (as of 12/31/21)

	Saga (gross)	Saga (net)*	S&P 500	Relative Results
2017	16.0%	14.3%	21.8%	-7.5%
2018	2.1%	0.6%	-4.4%	5.0%
2019	65.6%	63.2%	31.5%	31.7%
2020	123.8%	120.5%	18.4%	102.1%
H1'21	8.3%	7.5%	15.3%	-7.8%
H2'21	-16.5%	-17.1%	11.7%	-28.8%
2021	-9.6%	-10.9%	28.7%	-39.6%
Cumulative	297.0%	268.3%	133.4%	134.9%
Annualized	31.8%	29.8%	18.5%	11.3%

Growth of $1,000



**Saga Portfolio serves as a model for client accounts. Net returns assume 1.5% AUM fee, or 0.375% applied to account balance at beginning of each quarter.*
S&P 500 performance includes dividends.
Source: S&P Dow Jones Indices LLC

Interpretation of Short-Term Results

It is my goal to one day remove any discussion of short-term performance because changes in share prices over the short-term are more or less random and therefore deserve little discussion. However, each year we have been fortunate to grow the Saga family with new investors so I feel a need to reiterate how I think about short-term results for newer members.

Last year I felt the need to reign in what could have potentially turned into impossible to meet expectations after a year of material outperformance. During 2021, the Saga Portfolio materially underperformed the S&P 500 Index and as I write this letter, the relative underperformance has only continued into the beginning of 2022. Our most recent investors have therefore not participated in such unusually strong results, so I feel the need to reconfirm long-term expectations. Eventually, when our investor base is closed and each investor has been part of the Saga Portfolio for many years, it will not be as important to help frame shorter-term results and I can focus on the longer-term results of the underlying portfolio companies as a way to gauge whether our efforts are paying off.

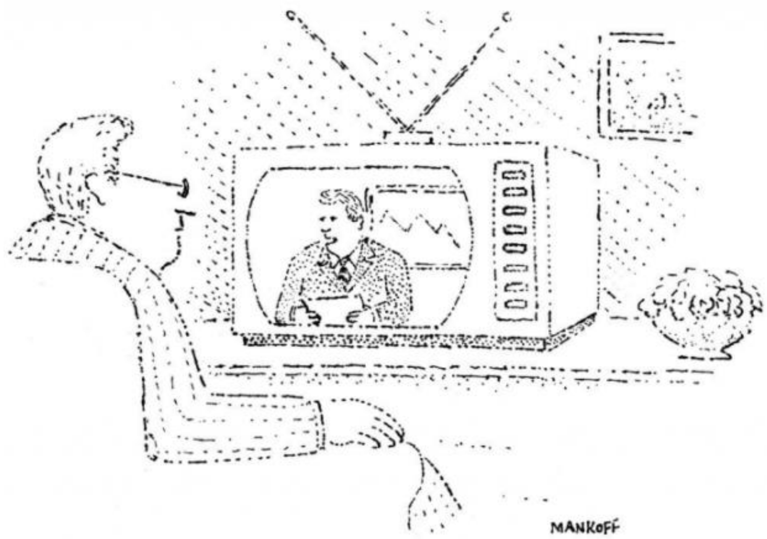
The Q4 2019 letter stated,

> *"There is no doubt the Saga Portfolio will have negative years and perhaps periods of significant underperformance to the general market. Constantly comparing how one's portfolio is performing against the S&P 500, or any benchmark, is likely to distort the investing process. This is not to say we shouldn't have a measuring stick. We continue to think at least a five-year period of performance compared to the*

general market is a reasonable time to begin to assess an investment strategy, preferably with tests of relative results in both strong and weak markets."

We want our investors to evaluate the Saga Portfolio's results with a critical eye but to evaluate them over the correct timeframe. I have no ability to predict where the market will quote our portfolio holdings over the next year. I find that explanations of short-term performance are really just an example of narrative bias attempting to place rationale behind stock price fluctuations which always look so obvious in hindsight. A period of rising stock prices might be explained by an improving economic outlook, lower interest rates, or beating consensus estimates. A period of decreasing prices might be explained by rising interest rates, inflation, or increasing uncertainty surrounding some macro event. When is there ever a lack of uncertainty surrounding the future?

It reminds me of this cartoon that Howard Marks has included in a past memo.



"On Wall Street today, news of lower interest rates sent the stock market up, but then the expectation that these rates would be inflationary sent the market down, until the realization that lower rates might stimulate the sluggish economy pushed the market up, before it ultimately went down on fears that an overheated economy would lead to a reimposition of higher interest rates."

I prefer not to discuss short-term performance because it places reasoning behind the unpredictable and therefore potentially creates an illusion of control and certainty where none exists. It could make one feel good when stocks rise but also alarmed or frightened when they inevitably fall from time to time. Why spend precious time and energy worrying about something that you cannot control or predict?

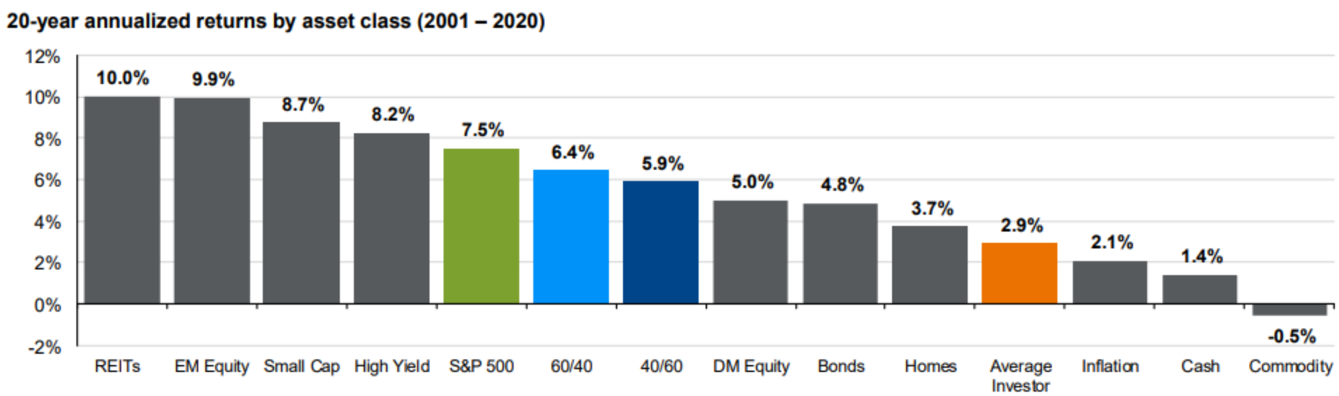
In this letter I wanted to discuss how I think about drawdowns since the Saga Portfolio is currently going through one, as well as my thoughts on timing the market and holding cash. As I started writing, I realized that I already discussed these topics in the Q1'20 Investor Letter following the COVID selloff, which lo and behold perfectly explains my views. I recommend reviewing those sections to get a better understanding of how I think about investing through downturns, but in summary,

"A panic, crisis, or recession occurring does not impact how we manage the Saga Portfolio by any means. During a downturn, we do not rotate from low quality companies into higher quality, or cyclical to non-

cyclical, or from an out of favor industry into a more favorable industry, etc. At any part of the market cycle, we only own companies that meet our investing criteria with the expectation that we would be happy to own them throughout a downturn."

It is easy to look back at prior highs or lows and say, "I knew I should have sold" or "I knew I should have bought." The thing is, I didn't know, otherwise I would have done so. If the outcome was so clear, then the decision to act would have been simple. If I had absolute conviction how the market would twist and turn each day, month, or year, I would invest in a much different manner and provide perfectly consistent market-beating returns. Of course, if I knew what the market would do next then it is likely that others would as well, which would negate that insight…one can see the circular logic.

By focusing and trying to guess short-term movements in the market, people have been more likely to hurt rather than help their long-term returns. JP Morgan's annual 2021 Guide to the Markets report has a chart each year with the 20-year annualized return by asset class that shows the average investor significantly underperforms all asset classes and has barely kept up with inflation.



Source: JP Morgan Asset Management

It has been well-documented that over 90% of mutual funds underperform the market over the long-term, but the average investor in those mutual funds underperforms the fund's underperformance. Peter Lynch was one of the most successful mutual fund managers. He managed Fidelity's Magellan Fund from 1977-1990 and delivered an astounding 29% annualized return over his 13-year tenure, but the average investor in Magellan only made ~7% annualized return during the same period.

A 2019 DALBAR study found that the average investor in any equity mutual fund underperformed the S&P 500 by nearly 5% annually over a 30-year span. The primary reason for underperformance points to the investor retention rate data within the mutual funds, or rather the lack of investor retention, i.e. investors trade too much. There is an inflow of money into mutual funds that recently outperform and an outflow following underperformance. Just as the best investments underperform the market at times, the best actively managed portfolios also underperform the market at times and investors sell following that underperformance. Peter Lynch discussed, "when he would have a setback in performance, the money would flow out of the fund through redemptions. Then when he got back on track it would flow back in, with investors having missed the recovery." Expecting a company's stock or an actively managed portfolio to outperform at all times is sure to disappoint.

Most of the best companies in the world are publicly traded and anyone has the ability to own a small piece of them through shares. However, the ability to buy or sell shares everyday often encourages people to buy or sell shares each day. People turn the advantage of constant liquidity into a disadvantage because they exchange ownership in companies based on whatever the sentiment may be for that day as though a company were just a piece of paper. This activity often leads to herd behavior, positive feedback, and cascade effects causing excesses of greed and fear, i.e. buying high and selling low.

The purpose of this lengthy explanation is to try and convey the inability for people to time the market or predict short-term performance. For some reason people think they can better guess where others will guess a stock will be priced at some point in the near future. If one is trying to figure out when to get in and out of the market, it is even more likely they will be overly influenced by the subsequent price action of their "investments" immediately after purchase or sale to get validation of their recent actions. If they buy today with the hopes of higher prices tomorrow but instead go in the opposite direction, it can lead to doubt and questioning the initial premise, leading to anxiety and fear of being wrong and "losing" money. Of course, there is a ~50% chance prices move in the predicted direction, which then confirms the belief in their ability to outwit others. Roughly half of market prognostications will be accurate on average. Considering all short-term trading activities in aggregate, the long-term data does not support these efforts.

In other assets, such as buying a home, bonds, or a non-publicly traded business, people generally act much more rationally. That is because when they buy those assets, they typically plan to own them for longer periods of time and therefore think long and hard before assuming ownership of the asset. The lack of liquidity encourages more rational behavior. It is interesting how smart and accomplished private equity investors can act very rationally when it comes to private investments but irrationally when it comes to their public equity investments.

Investors in the Saga Portfolio choose to play a different game. We do not attempt to time the market or guess what stocks will do next. We do not look at past price movement as confirming or disconfirming evidence of an investment hypothesis. Rather than focus on whether we should be in or out of the market or how much cash we should hold, we base all of our decisions on the long-term opportunity costs available to us today. Trying to decide on how much exposure one wants to the market vs. trying to allocate to the best opportunities available today are two completely different questions.

I imagine that the Saga Portfolio will always be fully invested assuming we can find enough attractive opportunities we understand and are not overly concentrated in any one of them. Not having to worry about the day-to-day movements of the Saga Portfolio companies is a competitive advantage because it increases our ability to focus on the real work of studying businesses. If we are right about the long-term fundamental outlook of the underlying company and purchase shares at an attractive price relative to those expectations, eventually the market will reflect that value and long-term results will be more than satisfactory.

How to Think About Volatility

One thing will always remain true so long as human behavior does not change, people get excited when stocks go up and scared when stocks go down. With the help of hindsight, every market drawdown has been an opportunity. However, as we live through each new drawdown it always makes one consider, "is this time different?" We are wired to panic when others panic and get greedy when others are greedy despite the exact opposite behavior being far more lucrative when it comes to investing in publicly traded stocks.

Short-term price volatility is not the same as investment risk, in fact, it's quite the opposite. The greater the volatility in stock prices, the more likely our long-term returns will be higher. That last sentence is not something you will read on many fund marketing brochures because this view is unconventional to say the least.

Volatility is uncomfortable for the average investor and therein lies the opportunity. The Saga Portfolio's willingness to accept more volatility over the short-term and our investor's willingness to trust in our analysis has enabled us to make better decisions and thus achieve a higher rate of return over the long-term. It is this willingness that will let us continue to make these decisions in an effort to continue to achieve higher rates of return far into the future.

The best returning stocks of all time have experienced 50%+ drawdowns at some point during their life. One can only assume that anything less than the best investments will also face similar events. One example in the Saga Portfolio is The Trade Desk which it has owned since 2017. The stock has experienced *six drawdowns* of ~40% or more over the last *five years*, yet it has provided a ~90% annual return since our initial purchase price including the most recent 40% drawdown. The Trade Desk was an exceptionally attractive investment despite its significant volatility. We could only be so lucky to find more volatile stocks like the Trade Desk. These fluctuations are completely normal in stocks and will likely continue to occur in the future. The market can misjudge or ignore business success for a while, but eventually it will realize it.

From an overall market view, the past two years have been anything but ordinary, that is if there is such a thing as ordinary in the market. In 2020, the market experienced its steepest crash in the history of the stock market (over 30%) followed by the steepest recovery in the history of the stock market; largely reflecting the subsiding panic surrounding COVID and monetary/fiscal stimulus policies pursued by the government and Federal Reserve. This stimulus, among other factors, led to a more speculative environment as reflected by the countless SPAC (special-purpose acquisition company) listings, skyrocketing "meme stocks" like GameStop and AMC, crypto currencies, and non-fungible tokens (NFTs); which is a concept I still have a difficult time understanding. It has been interesting to watch to say the least and has made me feel like an old stodgy value investor simply holding onto our ownership in a few companies.

During times of greater volatility there are a few tools that help us filter the noise and stay focused on what really matters. First is the Mr. Market parable popularized by Warren Buffett. While it's good to have a healthy appreciation and respect that the market is generally right much of the time, it is also healthy to appreciate that it can be manic depressive and move between euphoric highs and depressed lows in a heartbeat. By framing the market in this light, it helps to not become overly influenced during its manic episodes.

The value of part ownership in a company does not change because the market says it changes. Less time and energy should be spent focusing on where and why the market is valuing a stock at its current price. Stocks can swing wildly for many reasons and sometimes for no reason at all. They can diverge, sometimes significantly and for long periods, from their true underlying value. Therefore, if we think the market is incorrectly valuing a stock at $X per share, then there is no reason to believe that the market would be any more correct at $0.9X or even $0.5X per share simply because the price moved further away from our estimated calculation of intrinsic value.

I like to think of putting my shares of a company in a vault, locked away for at least the next 5-10 years. The number of shares in that vault or the percent ownership in the company does not fluctuate (assuming the company doesn't issue more shares). Think about opening up that vault to look at the share's value in the year 2027 or better yet 2032. During the interim period, Mr. Market continually shouts out what he believes those shares are worth each day, but I don't even have the opportunity to consider his offer because the shares are locked up.

If it was legally required that shareholders could not sell shares for at least five years, people would act more like rational investors and less like emotional speculators. If you enter stock ownership with the expectation of not selling it for many years, much like one would with a home or a private business, then you are relying on the underlying earnings power of the company to return value to you, not in the hopes of a “greater fool” paying a higher price for it in the near future.

While it may not feel like it at the time, significant volatility is in the investor’s long-term interests. An investor’s most significant advantage of investing in the public market is the ability to take advantage of it when an opportunity presents itself or to ignore it when they want to. The key is to never give up this advantage.

Interpretation of Intermediate Results – Five-Year Anniversary Reflections

The Saga Portfolio has reached its five-year anniversary! It’s a nice milestone to reflect on what has been a dream come true of managing an investment portfolio for others the way I believe a portfolio should invest, not influenced by the institutional pressures so common throughout the investment management industry.

Saga Partners has beaten the odds of building a durable yet unconventional investment firm. According to Goldman Sachs’ 2020 Hedge Fund Survivorship report, roughly half of U.S. funds survive past five years. For “smaller” funds that started with less than $25 million, only 40% make it to the five-year mark. To say that the Saga Portfolio launched with more modest beginnings would be putting it kindly. Goldman Sachs didn’t have data for funds that started with less than $5 million under management, but I imagine the statistics wouldn’t look overly promising.

Since beginning the Saga Portfolio, I have consistently told investors to ignore the random short-term fluctuations of the market and that a five-year period of performance, *at the minimum*, compared to the general market is a reasonable time to begin to assess an investment strategy. While short-term performance is mostly random, eventually one must look at the scoreboard and get results. Five years may still reflect good or bad luck, or obscure results if the starting or ending points include abnormal periods, but it should begin to give a general idea if past investment decisions have been prudent. Saga Partners does not want to be the investment firm that boasts about its superior philosophy and process but after a decade of effort has results that leave investors no better off than if they simply invested into the S&P 500 Index.

Despite experiencing multiple drawdowns throughout its history (including the current one), the Saga Portfolio’s performance is at or very near the top of any actively managed investment portfolio over the same period. The Portfolio’s 29.8% five-year annualized net return would rank 18th out of the ~1,700 U.S. equity mutual funds that have a five-year track record on Morningstar’s database. I estimate there were nearly 2,000 mutual funds available to invest in at the beginning of 2017, but many have since closed. These results have been earned the old-fashioned, boring way; through long-only stock picking.

How is it possible, for what has mostly been a two-man shop (three since Richard joined the team in August 2020) with few resources, to successfully compete in what is a highly competitive industry against multibillion-dollar investment firms that essentially have infinite resources?

The answer: The Saga Portfolio is playing a completely different game. Comparing our returns to other actively managed investment strategies helps frame results, but it’s not really a fair comparison because the Saga Portfolio has several structural advantages that large institutional investment firms do not.

While the investment management industry is very competitive, it primarily competes based on marketability, not necessarily performance. Investment managers face conflicting incentives described as the principal-agent problem. The conflict is between what is in the best interests of investors (principals) and what is in the best interests of the fund management company (agent). Mutual funds, as well as most investment products, are largely optimized for what is saleable, which often conflicts with optimizing for compounding capital over the long-term.

Certain practices within the mutual fund industry highlight some of these precarious activities. One I find particularly misleading is when investment firms start numerous funds and then after several years only market the ones that have provided outperformance. Underperforming funds inevitably close and go to the graveyard of long forgotten failed investment strategies. However, that does not stop the investment firm from starting new strategies to market to unknowing clients.

I don't mean to pick on Fidelity Investments since they are a respectable mutual fund company, but there are more than one hundred different U.S.-focused Fidelity mutual funds with a five-year track record on the Morningstar database. Four of them were in the top 20 performing mutual funds. If you go to the Fidelity website, there is no shortage of fund categories available, segmented by market cap, industry sector, geography, value, growth, sustainable investing, thematic funds, concentrated, diversified, income oriented, target date funds, "go-anywhere" opportunistic funds. Inevitably, some of these strategies will perform amazingly during certain periods while others will not. How is an investor to choose which ones will likely do well going forward?

Besides the practice of launching numerous funds and marketing the few that outperform, fund management companies are simply trying to give potential customers what they want, which makes perfect sense from a business standpoint. However, when it comes to their money, customers typically want their portfolio value to march up and to the right in a perfectly straight line. The average investor demands consistent performance, wide diversification, and the avoidance of unpopular "risky" investments.

As discussed earlier, people do not typically handle the volatility of daily quoted stock prices very well. Loss aversion is a very real bias where losses can feel more than twice as powerful as gains. The average person would rather earn a steady 5%, than a portfolio that rises 20% but then falls to provide a 10% return. The 10% return is twice as good as the other option but leaves the investor disappointed because they feel as though they "lost" 10%. Watching the balance of their account decline from the prior month or year leads to unhappy customers. When the choice is between providing a less volatile mediocre return or a more volatile exceptional one, the decision is easy from a business standpoint.

Another misaligned practice is something called window dressing. Portfolio managers might feel pressured to avoid investing in what are considered to be "hated" assets that are viewed as too risky. While investors may state they want a strategy that thinks independently, in practice it is very difficult to own an unpopular asset that consensus "knows" to be risky especially if its price is declining.

In most institutional settings, a portfolio manager's personal risk/reward for making an unconventional decision is obvious. If it works out well, they are modestly rewarded, if it works out poorly, it can be career stifling. Most managers have little incentive to make the rare contrarian bet that goes against the herd, yet that is precisely what one has to do if the goal is to earn market beating returns. Failing conventionally through widely diversifying and owning "safe" assets is the intelligent business route to go, as experienced by the ~90% of U.S. equity funds that underperform the S&P 500 over a 10-year period. Hedge fund performance data is vague given the more private and wide-ranging nature of the investment strategies. However, the available data paints a similarly uninspiring picture.

I have had the opportunity to speak with several other portfolio managers over the years who have openly said they manage their private personal portfolio much differently than their professionally managed client portfolio.

The most common differences they mentioned were: 1. concentrate more on their best ideas, 2. trade less, 3. care less about volatility and relative performance to some benchmark.

Why isn't it possible to manage money professionally as though one would manage it for themselves? The answer is that it is difficult from a business standpoint, but it is possible. It just takes a long time to build trust and attract an aligned investor base that supports that specific strategy.

Since we crossed our five-year anniversary, it is a good opportunity to reflect on the saga of Saga Partners. After managing my personal portfolio for nearly a decade with relative success, about six years ago I reached the point that I thought I could manage money better than the "professionals." My experience working in sell side equity research opened my eyes to how a great majority of institutional investors really do think shorter term and try to predict the unpredictable.

While I had never managed money in a professional sense before starting the Saga Portfolio, it ended up being a big advantage with the help of hindsight. I believed that if I could invest a portfolio the way that I had managed my personal portfolio, I would have a high probability of beating the market by a wide enough margin over the long-term to justify the effort for potential investors. The key is ***if*** I could manage money in a way that made the most sense to me. If I explained my philosophy and thought process while building a track record along the way, eventually investors would self-select into the strategy and create a self-reinforcing culture of suitable investors that think long-term.

While it did take a while, that is largely how things have worked out with a lot of serendipity and luck along the way. Finding aligned investors is no easy task and can take a long time. One would think with a strong track record of outperformance that capital would flow into the strategy. While that is hardly the case, I have purposely been a bottleneck to Saga's growth. It would be easy to hire a salesperson or third-party marketer to promote our strategy in an effort to gather assets at a rapid pace. It has never been my goal to be the largest investment manager and I have never wanted to push our strategy onto others or accept "hot money" that would jump ship at the first sign of an inevitable storm.

I love the idea of growing with aligned investors who would like to form a multi-decade relationship; however, I don't think the process of forming these relationships should be expedited. Our largest source of new investors has come from existing investor referrals. We do not market externally beyond posting research or making these letters publicly available and I insist on speaking directly with every prospective investor. In fact, I attempt to talk any prospective investor out of investing as a way to ensure their suitability and maintain the quality of Saga's investor base. Though this has slowed Saga's growth, it has ensured we grow with an aligned and durable investor base, which is truly a competitive advantage in the investment management industry.

Given my experience over the last five years, it is easy to understand how someone who initially has genuine motivations for launching their own investment portfolio would make exceptions to their strategy as a way to make it more marketable. As the bills start adding up and investors are nowhere to be found, it is easier to conform to the pressures of the institutional imperative and give in to the more conventional path. Why not just give the customer what they want and make a nice living? It can be very lucrative to provide comfortable returns that hug the benchmark by offering supposed "risk management."

Personally, it is far more satisfying to build an investment firm that manages money in the way I think it should be managed with likeminded investors. If I had the obstacle of managing capital for an investor base that had the risk of running for the exit at the first sign of an inevitable panic, I would likely manage the Portfolio much differently. I would find the task of having to be widely diversified, which requires frequent activity and constant turnover of new ideas each month, impossible to manage for outperformance over the long-term.

The benefit to our investors is that they do not have to worry about the principal-agent problem when it comes to the Saga Portfolio. I have no career aspirations beyond my current role, and I manage the Saga Portfolio as if it were my own money because it is my own money, as well as many of my closest family and friends' money. Our competition on the other hand has the impossible burden of needing to outperform every quarter and year while not taking any career stifling contrarian "risks" regardless of how attractive they think the opportunity may be.

Portfolio Update

Despite what has been a pretty wild market over the past year, there was little action in terms of investing in new ideas. Redfin is the one new company we invested in during the year and it has since become a larger position in the Portfolio during H2'21. For those interested in reading more about my thoughts on Redfin, here is a link to the December write-up.

I always struggle with what to include in each letter and what to save for a later date. It's a balance between covering the philosophy vs. the application/practice, either focus on investing topics or on the actual investments. Since switching from quarterly to semi-annual letters I seem to try to squeeze more and more in. The letters tend to run long and readers' attention can drift, but I have always erred on including more than less if it means that it helps just one of our investors better understand how their money is being managed. I assume if you have read this far that you do not mind the long-form content.

For this letter I was originally planning to dig into our portfolio companies' competitive advantages but then pivoted at the last moment to focus on "how to interpret short-term performance" given the volatility in the market and the Portfolio recently. So, in this Portfolio Update section I will simply touch on our company's fundamental results at a high level and put that into the context of valuation from a portfolio management perspective. Perhaps next letter I will get the opportunity to drill down into more detail surrounding the business models and competitive advantages that have provided these results.

To evaluate performance, I look to the company's operating results rather than the fluctuating price quotations. All of our time and effort is spent trying to answer the question, "if we own this investment forever, what will our returns be from today's price?" There is no consideration surrounding price momentum, beta, fund flows, potential guidance/earnings beats or misses, etc.

At the end of the day, the investing problem we are trying to solve is estimating the net cash that will be returned to owners per share over the company's remaining life, and then paying a price relative to those expectations that will provide an attractive rate of return. Therefore, the value of a stock in a company over time will be the dividends paid to owners, plus or minus the market's capitalization of the company's ability to pay dividends in the future per share.

Most of the Saga Portfolio companies are generally at an earlier stage in their lifecycle. They are reinvesting all cash flows back into the company to take advantage of investment opportunities, with the exception of Facebook, which has been building a net cash balance on its balance sheet and started repurchasing shares. Given the companies are currently scaling operations and are not at mature operating margins, one way to evaluate their progress in earnings power is evaluating the growth in gross profits.

Traditional “value investors” may scoff at considering earnings power as anything above net income, while traditional “growth investors” may scoff at looking below revenues. I am neither in the traditional sense and am simply trying to assess intrinsic value.

Contrary to what many traditional value investors believe, just because a company does not have free cash flow or pay dividends today does not mean it has no value. Berkshire Hathaway or Amazon have never paid dividends to shareholders, but their ability to pay dividends has grown over time because they reinvested cash flows back into their business, which has been appreciated by a higher market value.

Using historic gross profits is just a proxy for a company's unit economics, which can then be extrapolated into the future until end markets are more saturated, growth slows, operating margins normalize/mature, and the company provides net profits (dividends) to owners. A more comprehensive analysis would dig into each company’s unit economics, but for the purposes of this letter gross profit growth will provide a reasonable proxy for earnings power growth.

Below are the historic gross profits for each of the Saga Portfolio’s companies at the end of the year. Note the Saga Portfolio has not owned each of these holdings during the entire period below.

	Gross Profit ($ in millions)					
Company	2016	2017	2018	2019	2020	2021E
GoodRx	$98	$154	$243	$374	$515	$704
Carvana	$19	$68	$197	$506	$794	$1,913
Redfin*	$84	$114	$123	$150	$234	$381
Roku*	$77	$171	$296	$478	$765	$1,469
Trade Desk	$163	$242	$363	$505	$657	$979
Facebook	$23,849	$35,199	$46,483	$57,927	$69,273	$95,280
Trupanion	$33	$43	$51	$65	$82	$105

Source: Saga Partners LLC, Company filings
**Redfin gross profits only include the Real Estate segment; Roku gross profits only includes the Platform segment*

It is difficult to find a weak link among the 2021 expected results of our companies. Gross profits of the Saga Portfolio companies are expected to grow at an average 64% year-over-year and have grown at an average 59% compound annual growth rate (CAGR) over the last five years, albeit off smaller bases. Each one of our companies continues to execute in what has been a challenging operating environment considering shifting customer habits, supply chain issues, etc.

	Year-Over-Year % Change in Gross Profit					
Company	**2017**	**2018**	**2019**	**2020**	**2021E**	**5 Yr CAGR**
GoodRx	57%	58%	54%	38%	37%	48%
Carvana	255%	189%	157%	57%	141%	151%
Redfin*	35%	8%	22%	56%	63%	35%
Roku*	122%	74%	61%	60%	92%	80%
Trade Desk	48%	50%	39%	30%	49%	43%
Facebook	48%	32%	25%	20%	38%	32%
Trupanion	29%	19%	26%	26%	28%	26%
Average	85%	61%	55%	41%	64%	59%

Source: Saga Partners LLC, Company filings
**Redfin gross profits only include the Real Estate segment; Roku gross profits only includes the Platform segment*
***Note gross profit growth per share is somewhat lower for companies that have raised equity capital by issuing secondary offerings, acquisitions financed with stock, or convertible debt*

In the last letter, I discussed a successful long-term investment as typically including two factors: 1) a high-quality company, that 2) beats the market's expectations. Not only does a company have to provide stellar long-term fundamental results but those results must also exceed the market's expectations that are reflected in the current stock price.

Below is a chart of the Saga Portfolio company's historic market cap to trailing twelve-month gross profits. One can see how valuation multiples surpassed historic averages at the end of 2020 with the average price to trailing-twelve-month gross profit multiple of our portfolio companies increasing from 21x in 2019 to 41x in 2020.

	Market Cap / TTM Gross Profits					
Company	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E****
GoodRx	NA	NA	NA	29x	19x	9x
Carvana	37x	24x	28x	50x	21x	10x
Redfin*	22x	10x	13x	30x	11x	7x
Roku*	30x	11x	33x	55x	21x	10x
Trade Desk	6x	12x	21x	52x	45x	24x
Facebook	15x	8x	10x	11x	10x	8x
Trupanion	20x	17x	20x	58x	51x	26x
Average	22x	14x	21x	41x	25x	13x

Source: Saga Partners LLC, Factset, 2022E consensus gross profits estimates
**Redfin gross profits only include the Real Estate segment; Roku gross profits only includes the Platform segment*
***2022E based on Factset consensus gross profits. Market cap based on 1/31/22 price.*

There are a few things to consider when reflecting on historic multiples. Multiples are simply a reflection of the market's current valuation of a company relative to a recent fundamental metric. The higher the multiple the more the market is baking in future growth of that recent fundamental. Therefore, the higher the multiple, the higher the future expectations.

During 2020 and much of 2021, the market placed increasingly high expectations on many companies, particularly those considered “higher growth.” In some cases, lofty valuations were placed on certain companies that had yet to generate any revenues but simply the promise of revenues far out in the future. When it came to many SPAC offerings last year, there was no value creation but more of a wealth transfer from hopeful speculators to those promoting “companies” that were unlikely to ever generate profits for owners.

Since Saga Portfolio companies generally have a larger growth component in their intrinsic value, they also traded up with the optimistic environment. Towards the end of 2021 and into 2022, sentiment quickly shifted and the prices of many of these stocks declined materially as reflected in the lower 2022E multiples.

One can look back at the higher multiples and believe it made sense to sell what appeared to be a potentially overvalued company. I think this reasoning is too simplistic. First, I have found that selling the truly rare company with strong prospects that you understand well simply because the current multiple might appear to have gotten a little ahead of itself has been a mistake on average.

Second, if one sells a company, they then have to figure out where to reinvest the proceeds. They can sit in cash awaiting a market correction; however, as discussed earlier trying to dance in and out of the market based on guessing where it will trade next is more likely to hurt rather than help returns over the long run and is not a game that I am any good at. It is very likely that if we were trying to sell a company simply based on multiples rather than our estimate of intrinsic value, we would have likely sold many stocks far before any high was reached and even likely far below the lows reached after a drawdown. This “not timing the market” philosophy may feel like a liability during a drawdown, but it was this very philosophy that enabled us to experience the drawdown because we stayed invested to reach the highs in the first place. If only we could know when a stock would bounce between each high and low with perfect foresight, then investing would be easy!

While the best investment scenario is owning a great business at a great price, we can only pick from the opportunities that lie in front of us. If faced with picking between owning a great business at a questionable price or a questionable business at a questionable price, I will stick with the former. A questionable business rarely sells at a great price. More often than not, a low multiple applied to a questionable business is still overvaluing the net cash that will be returned to owners. Moreover, there is risk in selling things that one understands well and have a very bright future in order to buy new things that one understands less well and potentially have less exciting prospects.

We do not sell simply because the stock price appreciated or because we have held it for a long time. Of course, sometimes the market may price a business to be more valuable than the underlying facts would suggest it is. In such a case, we will sell the business. One should note that several of the companies that the Saga Portfolio owns have business models and end-markets that make it possible for them to scale much faster and further than what has historically been the case when compared to the economics of more traditional industrial-aged companies. Therefore, they may appear expensive based on current multiples when in fact they are significantly undervalued, at least based on our analysis. I may touch more on this topic in a future letter.

At the end of January and based on 2022 consensus gross profit expectations, several of the Saga Portfolio companies were selling near or even below their all-time low historic multiples reached during past sell offs despite being in relatively stronger competitive positions and having more favorable outlooks. I consider forecasts with a grain of salt, but I think these 2022 consensus outlooks seem reasonable if not conservative in some cases.

There will obviously be times when it may be more attractive to invest and times when it may be less attractive to invest. I am never going to be the one to tell a prospective investor specifically when it is a good or bad time because I never know what the market will do next. Stocks can always go lower in the short-term and I do not want to be blamed for making a market call that I do not have the ability to make. However, I will provide a general rule of thumb when it comes to investing: the lower the price a company sells for relative to its intrinsic value, the higher the future rate of return, all else being equal. That is as far as I will go to suggest my general excitement for the long-term prospects of the Saga Portfolio based on recent prices.

Conclusion

Over the last five years, Saga Partners has built a strong foundation and culture that will help us withstand anything the market may throw at us. In order to provide an attractive long-term record, one must be able to survive any scenario that may occur. We never could have predicted all the events that happened since launching the Portfolio, which is exactly why we don't try to predict them going forward and manage the Portfolio in a way to be able to withstand anything.

The success of the Saga Portfolio is directly tied to the quality of its investor base. I could not thank you more for your trust, support, and long-term relationship in Saga Partners. It has enabled us to focus only on the important long-term investment considerations and weather the various, and sometimes significant, ups and downs of the market over the last five-years. It is truly an honor to manage our investors' hard-earned capital.

We continue to look for like-minded investors who think and act long-term and understand our approach to investing. If you know of anyone that fits this profile, please send them our information.

As always, please reach out if you have any questions or comments!

Sincerely,

Joe Frankenfield

Appendix

	Monthly Performance (gross of fees)*												Annual Performance			
Year	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Saga (gross)	Saga (net)	S&P 500	Relative Results
2017	3.9%	3.8%	-1.2%	3.2%	-0.3%	4.9%	2.9%	-7.0%	0.4%	-1.5%	3.4%	3.2%	16.0%	14.3%	21.8%	-7.5%
2018	1.5%	-4.3%	-0.2%	1.3%	13.9%	1.4%	-2.4%	15.7%	0.1%	-12.1%	6.8%	-15.1%	2.1%	0.6%	-4.4%	5.0%
2019	18.7%	13.9%	-1.2%	8.7%	-8.5%	12.2%	2.1%	-7.1%	-5.5%	3.6%	16.5%	2.6%	65.6%	63.2%	31.5%	31.7%
2020	-4.7%	-1.0%	-23.5%	33.5%	14.9%	21.2%	18.6%	10.0%	2.3%	-0.4%	24.3%	1.0%	123.8%	120.5%	18.4%	102.1%
2021	13.8%	-2.1%	-13.0%	4.9%	-6.4%	13.7%	-0.4%	-3.7%	-4.6%	4.2%	-3.1%	-9.6%	-9.6%	-10.9%	28.7%	-39.6%
Cumulative return since inception													297.0%	268.3%	133.4%	134.9%
Annualized return since inception													31.8%	29.8%	18.5%	11.3%

**Saga Portfolio serves as a model for client accounts. Net returns assume 1.5% AUM fee, or 0.375% applied to account balance at beginning of each quarter.*
S&P 500 performance includes dividends.

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Saga Partners LLC is an independent registered investment advisory, providing portfolio management to individuals, retirement plans and institutional investors.

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