KIG INVESTMENT MANAGEMENT, L.L.C.

260 Crandon Boulevard, Ste #32 PMB 63
Key Biscayne, FL 33149
Tel: 617-938-3443

March 15th, 2022

KIG Investment Partnership, L.P.
2021 Letter

Trailing returns	KIG Investment Partnership, L.P.
One year	-8.0%
Two years	55.3%
Three years	56.7%
Four years	70.7%
Five years	118.0%
Six years	108.3%
Seven years	73.1%
Eight years	149.5%
Since inception (February 1st, 2013)	274.2%
Annualized since inception	15.9%

The figures above are net of all costs and fees under the founding partners' terms and 2021 figures are yet to be audited[1]. We do not enjoy posting a negative annual return. At the same time we like to remind ourselves and our partners that we are long term business owners and take comfort that our businesses' fundamentals remain robust. We are fully invested with 78% of KIG's capital concentrated in our top four holdings.

Manifesting Transcendence

Last year we defined a company that transcends as one that "has the ability to scale at a completely different level, capture a truly ginormous opportunity, and have a deep impact in the world". Due to their vast moats and opportunity sets, buying these rare businesses at reasonable valuations are both one of the safest and most rewarding places to allocate capital.

What follows is a few characteristics that we consider when underwriting good candidates. These is not a checklist that intends to replace our due diligence process or the need to exercise thorough judgment. We understand the devil is in the details. We also know that history does not repeat itself, but it often rhymes. Amazon, Google and Apple enjoy many of the following characteristics. So did Standard Oil, Walt Disney, and Wal-Mart. The main purpose of internalizing these extremely valuable attributes is to raise our awareness and eventually manifest transcendent businesses in our portfolio.

Exceptional management capable of navigating unchartered territory and constantly crossing new frontiers. If running any business properly is not for everyone, running well a business

[1] Founding LPs pay a 2% fixed management fee and no performance fee. Other investors pay a 1% management fee and a 20% performance fee over a 6% hurdle rate. In that case, trailing returns are 239.4% since inception or 14.7% annualized.

that is navigating unchartered territory is definitively for the rare soul. The key is having impressive people that figure out a prudent way to go where few do. We want leaders that have their eyes wide open and show no signs of being cavalier about risks.

Jeff Bezos, for instance, was famous for taking "risky" decisions such as pricing certain products below their current cost early on knowing that the result will have Amazon winning a significant share of the entire market, scaling, and generating plenty of profitability. "Your margin is my opportunity," became almost a universal law of business over the last decades. On the other hand, he also said "being wrong feels like pulling teeth." The simplicity of his concepts conveys his deep understanding of both opportunity and risk; the kind of understanding necessary to survive and thrive in unchartered territory.

Almost by definition a transcendent company must create a product or a service capable of crossing all sorts of frontiers. Think geography, age, sectors, etc. We ask ourselves how universal can the product or service become? For instance, Roblox, a gaming/social platform we describe more in the next section, is becoming global, increasingly appealing to users of all ages, and while originally focused on the gaming business, it is improving its prospects in new sectors such as advertising and education.

Products/services that eradicate a problem and play a crucial role in customers' lives. A very smart colleague recently told me, "Great companies create products or services that significantly improve the problem. Genius companies create solutions that make you forget the problem ever existed." We only need to think about Google solving for search or Apple solving for personal computing to understand how genius a company can become.

There is only a handful of businesses that have a continuous presence in customers' lives. Businesses with this kind of role are extremely hard to displace. It is also about upside: interacting with customers on daily basis allows you to try new experiments more often. A good example is Twilio, a CPaaS or communications platform as a service business which enables enterprises and businesses of all sizes to interact directly with customers. They provide personalized software to manage marketing or operational communication through text, voice, email, etc. Think about the texts you receive when using ride shares, online orders, your financial institution or your local shop. Most likely than not Twilio is behind this critical service. These interactions are becoming more common by the day and Twilio is continuously finding new ways to provide new services with more value added to its customers (see next section for further detail).

A business model that scales extremely well and is addressing an "infinite" market. The scalability characteristic comes down to a simple question: will the marginal user always enjoy a better experience than the previous one? This is the case for all great businesses. The marginal user of Netflix enjoys more content than the previous one, the marginal user of Amazon enjoys a lower price than the previous user and the marginal user of Instagram enjoys more connections than the previous one.

When it comes to the size of the market being addressed, we like to make the distinction between very large markets and markets that feel "infinite". Certain companies can be considered "category killers" addressing a well-defined market that might be extremely large. Carvana, that is quickly gaining share in a trillion-dollar used car market in the US is a good example. As large as this market is, its profit potential is significantly smaller than the "infinite" global retail market or the cloud market that Amazon is addressing. Of course, nothing is infinite, but you get the point: there is only a few rare markets that feel that way.

Are you seven years ahead of competition? This of course refers to Jeff Bezos famously explaining that Amazon had seven years of advantage to build Amazon Web Services before competition arrived. This was more than ten years ago, and competition has increased dramatically since.

The point holds more than ever, to build something exceptional it makes a tremendous difference to be years ahead of any competition. Being that early allows a company to grab the best talent at a much more reasonable price. Such company is also likely to develop unique insights and skills to continue dominating down the road. In other words, ROIs are incredibly high for useful products and services that no one else can provide. As important, if no one else is remotely close to addressing a similar opportunity, it probably means there is plenty of blue space around the core opportunity. This is the kind of white canvas necessary for having a shot at becoming transcendent.

Remaining Opportunistic

"The plan itself is opportunism. There is no plan before that." – Warren Buffett

Using transcendence as our bar does not mean we became valuation insensitive or ignore other opportunities. Quite the opposite, we continue buying only when opportunity arrives.

After so many years of animal spirits running high, people might forget that it was not that long ago that you could buy incredible well-run companies at reasonable valuations. Apple, Amazon, Google all traded at reasonable valuations – let's say 20x normalized earnings – at several points over the last twenty years. It's not if, but rather when will Mr. Market provide this kind of opportunities again.

As a result of this discipline on valuations and the fact that we started prioritizing transcendence about a year and a half ago, we still have most of our capital on "category killers" or "high quality companies" that we bought at very attractive valuations. For instance, our largest holding is Burford Capital, the leading litigation finance company in the world. We bought shares of this company at an average market cap of US$1.2 billion or less than 5x normalized earnings – a valuation that would be significantly lower if we also include one of the largest cases in the history of this relatively nascent industry that might result in billions of dollars for Burford. The business has a strong competitive position and plenty of runway to continue growing.

We also invested both in Alibaba and JD. JD we owned since 2016 while Alibaba is a recent addition to our portfolio. We greatly admire both companies. They are currently trading at single digit normalized earnings once you strip out their cash and their participation in other businesses, while they continue enjoying double digit growth. These very attractive valuations are the result of tech crunch policies that have been all over the headlines and geopolitical risks. It is important to mention that we understand that investing in China is riskier and therefore we use a much higher bar for sizing up these positions.

We ended up in these opportunities one step at a time. KIG's historical returns are mostly the result of investments in somewhat "younger" businesses that were growing at much higher rates such as

Ocado, Carvana, Wayfair, Trupanion, Vipshop, and Ubiquiti Networks. While unlikely to be "transcendent", these are well-run companies that dominate important sectors. In recent years, however, valuations in most of these businesses became ridiculously expensive even for our taste – and keep in mind we call our fund Keep It Going because we hold our business at much higher valuations that your typical investor. As a result, we concentrated most of our capital in opportunities like the ones mentioned above. In the meantime, we spend our time finding and underwriting the next generation of businesses that have a good shot at becoming transcendent.

A company we think highly of is Roblox – a gaming/social platform with more than fifty million daily active users growing at 30% per year. Think about Roblox as an ever-evolving menu of games/social 3D experiences where you interact simultaneously with other participants through your personal avatar. Users spend on average about two and a half hours daily on Roblox. Often referred to as a "metaverse" company, Roblox was founded eighteen years ago. If it feels that founder and CEO David Baszucki – or should I say Builderman, the name he chose for his avatar in Roblox? – and company are navigating uncharted territory today, imagine back then!

While there is no question that Roblox participates in a competitive landscape, we believe it's well incentivized community of developers puts them years ahead. The company boasts an impressive community of developers that are constantly competing against each other for users' attention by creating better games and experiences. This "creative destruction" mitigates to a large extent the faddish risk present in most gaming companies. Not to mention that Roblox is quickly becoming much more than a gaming company. Gucci and Vans are some of the many brands building experiences and marketing in Roblox. Lis Nas X and other popular singers used the platform to host virtual concerts and the NFL is also planning on offering a persistent experience on Roblox. They also have several prestigious partners building immersive educational functionalities. Where will Roblox be in five or ten years? No one knows but we like their prospects, especially with millions of toddlers and kids watching youtubers use Roblox every day.

We also started buying shares of Twilio, a business that has a developer focused approach, allowing businesses to build, scale, and operate a real-time communications platform to interact with their customers. They are responsible for 1.3 trillion emails and 127 billion SMS being delivered in 2021, among lots of other services they provide. Their core communications business places them in a critically strategic position: right in between the businesses they serve and their respective customers. This core business grew 50% in 2021. Moreover, their positioning opens the doors to lots of opportunities. They are adding more value to customers through their unique ability to gather information and develop insights using first party data. Twilio stands out for its reliability, scale and global reach. Even Amazon Web Services (AWS), the largest cloud provider in the world, uses Twilio's APIs in its Lex chatbots, SNS notifications, Chime enterprise communication service, and Connect cloud-based contact center.

Jeff Lawson is their founder and CEO. He was one of the very first product managers at AWS back in 2004, where he remembers his days fondly and often says he took numerous lessons which he later used to run Twilio. In his book, *"Ask your Developer"*, he explains how important it is for any organization to unleash the full potential of software developers. He makes the clear case that we are in a new era of business where software is no longer just a tool but rather a critical differentiation in the added value proposition of *any* business – regardless of how digital native it is.

One of Twilio's values is "wear your customer's shoes". They tell their customers "here you have a pair of Twilio's shoes, we would trade them for a pair of your shoes." And they do, literally hanging them all on a wall as a constant visual reminder. Numerous of their product releases, including Engage, Flex and Super SIM came from hearing and seeing where their customers were struggling. They also have a strong track record of navigating uncharted territories. Moreover, their concept of "Draw the Owl" embodies this. Coming from an old Internet meme it alludes to the two steps needed to draw an owl. First to draw some circles and then to draw the rest of the [expletive] owl. Quoting Jeff Lawson on his 2020 Shareholder letter: "*This meme inspires a spirit at Twilio - our job is to build, even when there's no instruction book. However, the inverse is even more true: when there's no instruction book, it's even more critical to build. You're at the forefront of humanity, solving problems nobody else has.*"

Twilio is expanding from a communications company to a customer engagement company. Digital giants such as Amazon or Google have built their own customer engagement clouds. Twilio is aiming to allow every business to do the same thing by bringing customer data, communications, and artificial intelligence together across all touchpoints (SMS, email, voice, websites, etc). This addressable market certainly feels "infinite".

Both Roblox and Twilio are trading at multiples of normalized earnings significantly higher than our main holdings. At the same time, we believe that over the long term current valuations will prove to be more than attractive if we are right about their ability to succeed. That is why we already own small positions in both businesses and remain actively patient for the opportunity to buy them in size.

Closing Remarks

The fund is open to new capital. We understand that macro and geopolitical headwinds are real. At today's valuations, however, we can't help to be quite excited about the long-term expected returns of our businesses.

This year we changed Auditor and Administrator. Deloitte is now our auditor and starting 2022 Citco Fund Services acts as Administrator. We've done these changes to support the continued growth we are experiencing and expect to work with these new partners for many years to come. You will receive the first Capital Account Statement from Citco in April – in case you have any question Mariano Ocantos, our COO will be of course available to help (mariano@kigip.com, +1 617 819 4962).

Thank you again for all your support. Without it would be impossible to invest for the long term.

Sincerely,

Matias Sacerdote