Tsai Capital
CORPORATION

Tel: +1 917 979 4821 • Fax: +1 917 979 4849 • www.tsaicapital.com
590 Madison Avenue, 21st Floor • New York, NY 10022

January 2022

Dear Partners and Friends,

"The real voyage of discovery consists not in seeking new landscapes but in having new eyes," said Marcel Proust, the French writer who wrote the monumental novel *In Search of Lost Time*.

It's unlikely that Proust, who penned these words around 1913, contemplated how the emerging technologies of late 1800s including the telephone (1876), electricity (1879) and automobile (1886) might change the development of human civilization, which had been fairly static up until the onset of the industrial revolution. For sure, Proust, who passed away in late 1922, would not fully see, as did his contemporary F. Scott Fitzgerald, how these technologies would help to ignite the "Roaring Twenties."

One hundred years later, we find ourselves in a world where many new technologies including artificial intelligence, blockchain, DNA sequencing, energy storage and robotics are likely to shape our lives in profound and unexpected ways. What are we going to discover next? Personally, I find it so exciting to be living now – during a period of such rapid innovation.

When I think about markets and businesses, I'm reminded of Proust. The voyage of discovery necessitates that we constantly view the world with new eyes, to be dynamic, to not get trapped using models that may no longer align with reality. If your model of the world is wrong, you're not going to understand why something is happening, and you're going to make mistakes.

These mistakes, incidentally, typically fall into two categories: errors of action and errors of omission.

An example of the former is illustrated by a person who chooses to invest in a business and subsequently loses money. The loss is easily calculatable and blame often too easily assigned. An example of the latter, on the other hand, is demonstrated by one who passes on an investment that subsequently becomes hugely successful. An error of omission is often more costly than an error of action. It's also highly elusive because it's commonly swept under the table by the perpetrator as if it had never happened.

Take the case of Apple, for example. Not long after the iPhone was released in 2007, Apple exceeded the market value of Nokia, Palm and Research in Motion (Blackberry) combined. There was much talk about Apple being overvalued. Regarding the company's market value, countless investors said, "that makes no sense." And lending confirmation bias to the naysayers, Steve Ballmer, the Chief Executive Officer of Microsoft at the time, said, "There's no chance that the iPhone is going to get any significant market share. No chance."

Donella H. Meadows, the late American environmental scientist and writer, wrote a fantastic book called *Thinking in Systems*. I would not have known about this book had Josh Tarasoff of Greenlea Lane not sent it to me. Thank you, Josh! Meadows has certainly shaped how I think about our investments. If you're interested in systems and feedback loops, this book is for you.

Meadows says, “When a system thinker encounters a problem, the first thing he or she does is look for data, time graphs, the history of the system. That’s because long-term behavior provides clues to the underlying system structure. And structure is the key to understanding not just what is happening but why.”

If we look at a stock, for example, and its price doesn’t make sense, we need to think about the system structure. There’s a good chance that its market value does indeed make sense – just not to us – because we don’t yet understand the underlying system structure.

In 2007, the iPhone was reinventing the cell phone, transforming it from a conventional, commodity-like consumer product into a platform business tool for users and third-party app developers. The stock market recognized that Apple was not just another mobile phone manufacturer but was creating powerful network effects that would lead to the disruption of the incumbent players. In a world where winners take all, or most of the market, there was a reason why Apple was valued as highly as it was.

The underlying system structure was changing. Apple’s business model itself was changing. It was important to look at Apple with new eyes because not owning it for the years to come would be a costly error of omission.

While Apple’s shares soared in value, Nokia’s shares plummeted, and rightly so. Nokia’s market share fell from 51% in the fourth quarter of 2007 to less than 3% five years later. By 2015, the Apple Store had 1.4 million apps and had generated a cumulative $25 billion for developers.

“There is nothing permanent except change,” said the pre-Socratic, Greek philosopher Heraclitus. Whether we like it or not, change is a fundamental aspect of business. A successful investment program requires one to be dynamic and to approach a rapidly changing world with new eyes.

To be clear, I’m not saying that one should invest in non-fungible tokens (NFTs) or cryptocurrency. I’m saying that one should not be too quick to dismiss new technologies and their implications for existing businesses and for society as a whole.

In 1958, McKinsey found that the average life span of a company was 61 years. That life span has since dropped to less than 18 years. I think the life span of companies has decreased largely as a result of the birth of platforms.

Platforms use technology to create an architecture that enables users to connect from both sides of a trade. And they offer many economic benefits. For example, platforms, like Uber, increase asset utilization, reduce transaction costs and act as catalysts by bringing new users into the marketplace at a near zero marginal cost. I love these types of businesses because they are more likely than others to achieve exponential growth and disrupt the incumbent competition.

The architecture of a platform is fascinating. The way we see it, modular components are developed, arranged, and modified over time on top of a static architecture of basic design rules. This design structure, or architecture, provides platforms a desired combination of stability and variability.

If you think about it, platforms share similarities with multicellular organisms. The significant phenotypic variation in multicellular organisms is obtained by means of conservation of the central metabolic processes inside cells, just as the dynamic quality of platforms, which stems from the development, arrangement and modification of modular components, is obtained by means of a static architecture of basic design rules.

This kind of structure, that is, the architecture that is exhibited in multicellular organisms and platforms, produces a flexible – and at the same time – robust system that is well suited for adaptation to changing environments. In business, this can mean substantial margin improvement and greater efficiency in product development and design, since the need to start from scratch with each new product or service is circumvented by the flexibility of the architecture.

As biological organisms are not immune to extinction, no company is insulated from the risk of disruption.

Disruption stems from the convergence of new technologies with a new business model. The convergence of new technologies often ignites causal feedback loops, which in turn accelerate adoption of the new system and the demise of the old.

It's typical for a new technology to initially gain market share slowly. However, once the causal feedback loops lead to a tipping point, or a threshold after which positive feedback loops dominate the behavior of the system, the adoption of the new technology occurs in an exponential, rather than linear manner. We note that every single adoption of technology in history has followed an S-curve, with an exponential phase and peak adoption occurring between 10 and 15 years.

For example, in the early 20th Century, the incumbent horse-based road transportation industry dismissed automobiles because there were no paved roads, fueling stations and manufacturing capacity was limited. I love this quote from the 1904 edition of *Carriage Monthly*, a then respected industry journal: "Humankind has traveled for centuries in conveyances pulled by beasts, why would any reasonable person assume the future holds anything different?"

Despite all the forces working against change, the gas-powered automobile fully disrupted road transportation in less than 15 years. To be more specific, car sales grew from a base of less than 5% of the vehicle fleet in 1905 to 95% in 1925. The trusted horse, used for transportation for thousands of years, was all of a sudden considered outdated, dirty and obsolete. And what did we do with all the horses? Hint: Harvard University's Faculty Club put horse steaks on their menu!

The internet also fully disrupted the media and telecommunications industries within 15 years. And it helped to weaken Gillette, which enjoyed a dominant market position for over 100 years until Dollar Shave Club launched in 2011 with a direct-to-consumer business model empowered by the internet. Even if you are a die-hard value investor, when it comes to investing in businesses, there is no way to avoid technology.

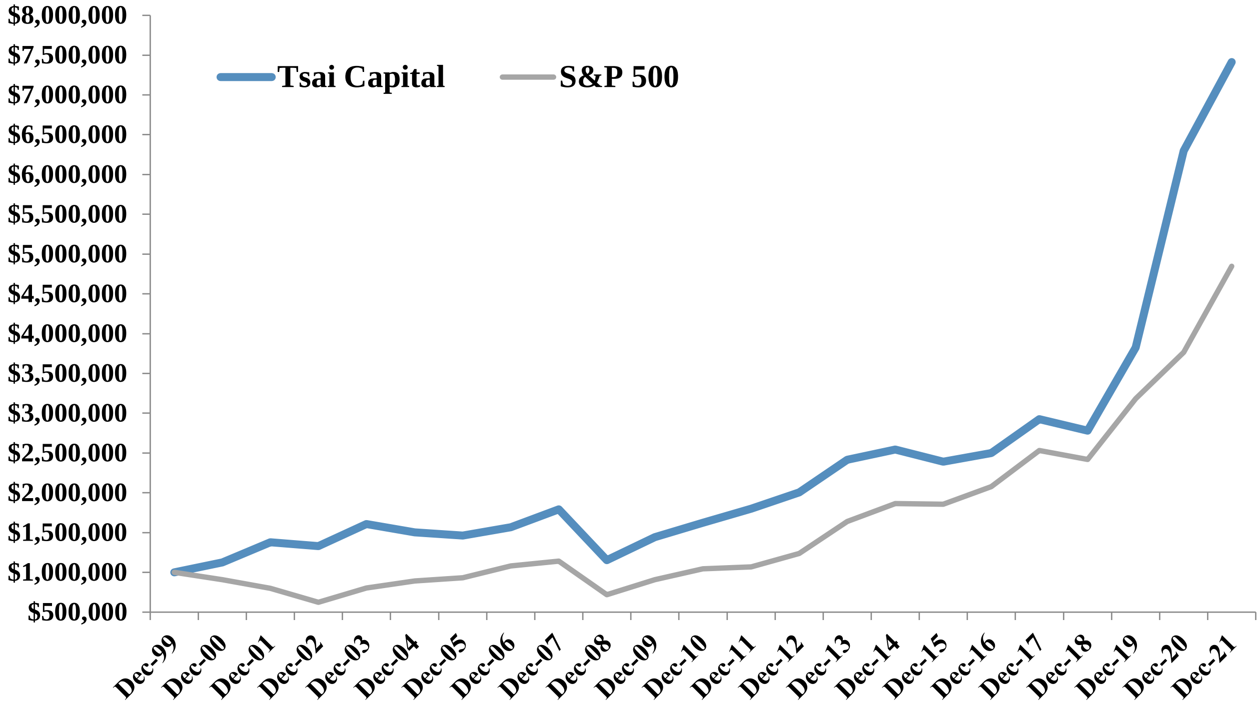
Last year, I wrote about the Japanese concept of kaizen. Kaizen roughly translates to mean change (kai) for the good (zen). It's based on the philosophical belief that continuous, incremental improvement adds up to substantial change over time.

Tsai Capital, itself, 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 over the past 22-years:

Performance of Tsai Capital Growth Equity Strategy*

January 1, 2000 (Inception) – December 31, 2021

$1 Million Investment with Tsai Capital Grows to $7.4 Million vs. $4.8 Million in the S&P 500 Index



For the year ending December 31, 2021, the Tsai Capital Growth Equity Strategy gained 19.47%, gross of fees, and 17.73%, net of fees, as compared with a total return of 28.71% for the S&P 500 Index.*

Since inception 22-years ago, the Tsai Capital Growth Equity Strategy outperformed its benchmark by achieving a gain of 641%, net of fees, as compared with a total return of 385% for the S&P 500 Index.*

Tsai Capital's performance, since inception, equates to an annualized return of 9.62%, after fees, as compared with an annualized return of 7.54% for the S&P 500 Index.* Our annual advantage, multiplied out over many years, means that $1.0 million invested with Tsai Capital all the way through would now be worth about $7.41 million, while $1.0 million invested in the S&P 500 Index would now be worth about $4.85 million.* 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.

Today, we own 12 exceptionally well-managed companies that are leading – as opposed to being disrupted by – change. We believe these companies, many of which are platforms, have significant competitive advantages, are generally undervalued and will collectively provide a satisfactory investment result. Our expectation is to hold these businesses for the long-term, so long as the fundamental and qualitative aspects of the businesses remain strong or until substantially better opportunities arise.

I have been careful to ensure that all of our businesses are benefiting from a network effect or other kind of positive feedback loop. If a business is not growing in a self-reinforcing manner, it is inherently fragile. We want to avoid fragility.

Tsai Capital ended the year with approximately $147 million in assets under management, up from $102 million at the end of 2020 and $65 million at the end of 2019. Despite the firm's growth, 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.

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.

Earlier, I compared Tsai Capital's results to the S&P 500 Index. Please now 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.

My 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 their increasing scale with customers. These types of businesses often have the strongest economic moats and the longest runways of growth. They are the opposite of fragile.

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. But these fluctuations are of little importance to the long-term investor. I ignore them, and ask you do the same.

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 (error of action or error of omission), but it is often not until years later that the results of that decision surface.

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 begin the New Year with a dozen high-quality, growth businesses that we believe have significant competitive advantages and are generally undervalued. We are excited to own these *compounders* for the long-term, so long as the fundamental and qualitative aspects of the businesses remain strong or until substantially better opportunities arise.

In closing, I would like to thank you for your trust and long-term partnership with Tsai Capital. I am grateful for the opportunity to help you achieve your financial goals and I commit to you that I will continue to refine all areas of Tsai Capital, particularly our investment processes.

Please feel free to contact me with any comments, questions or suggestions, 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, 2021

	Annual Return			**Cumulative Return**		
Year	**Tsai Gross**	**Tsai Net**	**S&P 500 Index**	**Tsai Gross**	**Tsai Net**	**S&P 500 Index**
2021	19.47%	17.73%	28.71%	899%	641%	385%
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	899%	641%	385%			
Annualized	11.16%	9.62%	7.54%			

Exhibit II
Composite Annualized Returns*
January 1, 2000 (Inception) – December 31, 2021

Trailing Period	**Tsai Gross**	**Tsai Net**	**S&P 500 Index**	**Relative Gross**	**Relative Net**	
Last 12 Months	19.47%	17.73%	28.71%	-9.24%	-10.98%	
Last 3 Years	40.61%	38.59%	26.03%	14.58%	12.56%	
Last 5 Years	26.00%	24.30%	18.49%	7.51%	5.81%	
Last 7 Years	18.23%	16.77%	14.94%	3.29%	1.83%	
Last 10 Years	16.84%	15.41%	16.57%	0.27%	-1.16%	
Since Inception	11.16%	9.62%	7.54%	3.62%	2.08%	

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 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.

Finally, we prefer certain business models, particularly ones that benefit from a network effect or other kind of positive feedback loop. That's because growth created in a self-reinforcing manner can be highly durable.

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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