January 5, 2024

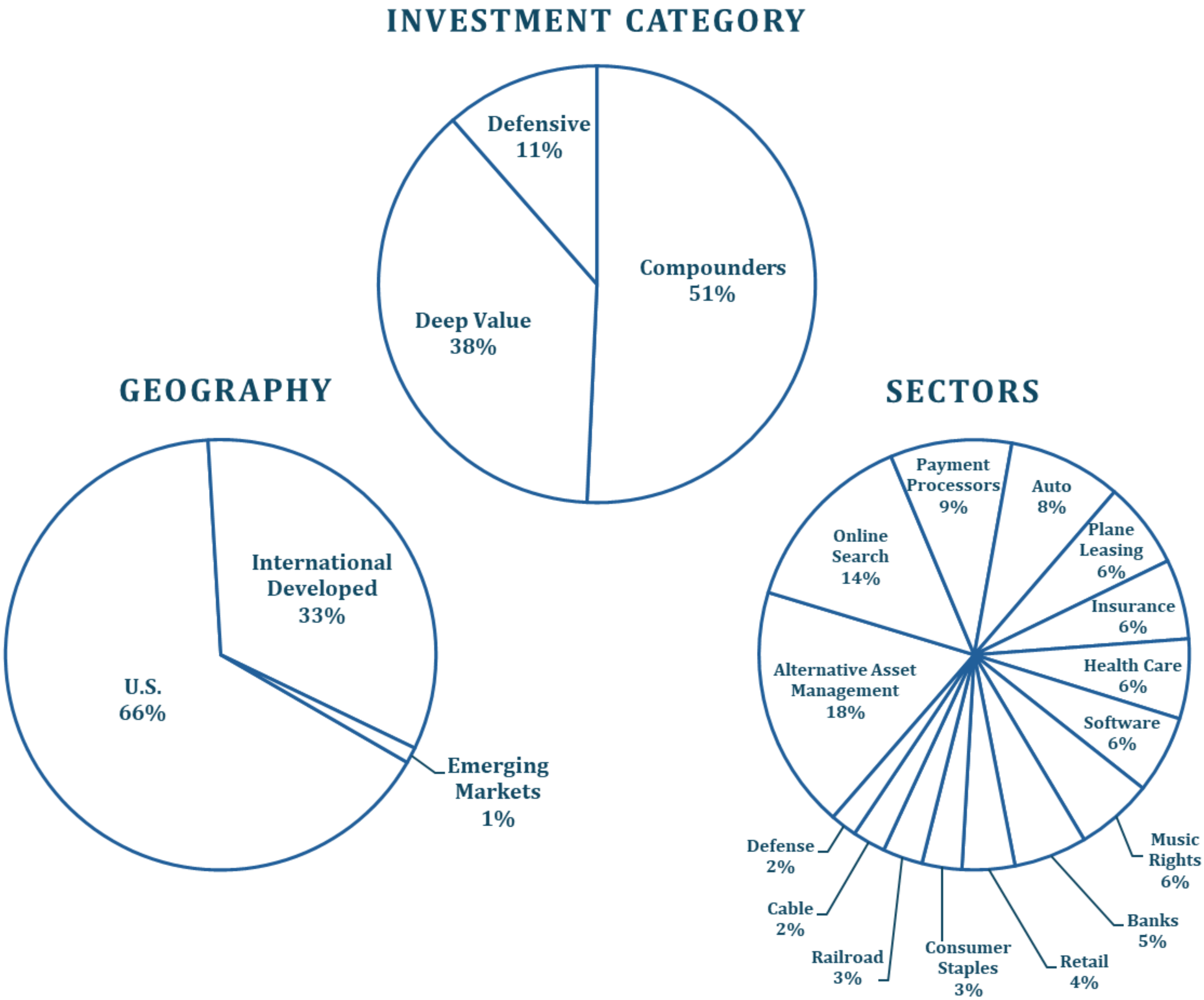
Dear investors and friends,

2023 marks Long River's fifth anniversary. I am pleased to share that if Long River's Mississippi strategy (formerly known as the satellite strategy) was included in Morningstar's database, it would be the top performing fund of the 331 funds in its category over the past five years.

The following tables present unaudited investment results for Long River's Mississippi strategy. Please review your individual custodian statements as your inception date, asset allocation, portfolio restrictions, and follow-on investments will significantly affect your individual returns. The performance tables are followed by charts showing the Mississippi strategy's diversification by geography, sector, and investment category (e.g., compounders such as Google, deep value such as AerCap, and defensive such as Lockheed Martin).

						Since Inception	
Annual Returns	**2023**	**2022**	**2021**	**2020**	**2019**	**Cumulative**	**Annualized**
Long River Mississippi Composite (Net of Fees)	**26.2%**	**-18.0%**	**40.3%**	**16.6%**	**27.8%**	**116.5%**	**16.7%**
Morningstar Medalist Funds	17.1%	-14.7%	14.0%	15.3%	27.4%	67.3%	10.8%
MSCI All Country World Index	22.3%	-18.4%	18.7%	16.3%	26.6%	74.5%	11.8%
Bloomberg Global Bond Index	7.2%	-12.9%	-2.1%	6.2%	8.4%	5.2%	1.0%

Trailing Returns	**1 year**	**3 year**	**5 year**
Long River Mississippi Composite (Net of Fees)	**26.2%**	**13.3%**	**16.7%**
Morningstar Medalist Funds	17.1%	4.4%	10.8%
MSCI All Country World Index	22.3%	5.8%	11.8%
Bloomberg Global Bond Index	7.2%	-2.9%	1.0%



<u>The Year That Was</u>

In 2023, Long River's Mississippi strategy outperformed Morningstar's highest-rated funds and its MSCI All Country World Index benchmark by 9.1 percent and 3.9 percent, respectively. Long River will continue to strive for outperformance. However, I also recognize that 16.7 percent annualized returns (about twice the historical market average) will be hard to replicate. In the words of my recently departed mentor from afar Charlie Munger of Berkshire Hathaway: "The first rule of a happy life is lower expectations." In addition to discussing 2023 performance, I will also touch on some of the decisions that I've made over the past five years at Long River.

Excluding the seven largest American stocks (the so-called "Magnificent Seven" in descending order: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, Tesla), the MSCI All Country World Index was up only modestly in 2023. The Magnificent Seven's 2023 outperformance followed a dismal 2022 when the group traded down nearly 50 percent. The index stands where it did in the spring of 2021.

Despite owning Alphabet (Long River's largest holding since inception) and Microsoft (a mid-sized position since May of 2022), Long River's portfolio is underweight this group. Alphabet and Microsoft trade at 26 times earnings as compared to 68 times earnings for the other five. Alphabet and Microsoft have been highly profitable since the days they went public (2004 and 1986, respectively), whereas several of the other Magnificents have histories of accumulated losses and sporadic profitability. The idea that all of the Magnificent Seven are inevitable future winners reminds me of the flawed 1970s "Nifty Fifty" era thinking, during which investors overpaid for good companies which subsequently underperformed for decades. If the other companies fail to achieve the tremendous long-term profit growth implied by a price of 68 times earnings (to grow into this valuation they would eventually need to roughly triple their profits), they have a long way to fall from such great heights. If one recalls the iconic 1960 film *The Magnificent Seven,* not all seven gunslingers made out too well in the end.

A related observation and warning about index investing: investing in a typical capitalization-weighted index fund is inherently a momentum strategy as an investor owns more of what has recently gone up in price and less of what has gone down. This is antithetical to value investing, where one aims to buy low and sell high. The Magnificent Seven now comprise roughly one third of any broad index by weighting (record high concentration) despite representing around 1 percent of the stocks in an index. Whether this is a good bet or a bad bet is up for debate, but it *is* nonetheless an empirically concentrated bet on the stocks of just seven technology companies. If these companies fail to live up to their promises, index investors will likely experience middling future returns regardless of the performance of the other hundreds or thousands of companies in a given index. One of the two virtues of index investing is broad-based diversification, something most index funds arguably no longer provide.

Bonds were slaughtered this year. Long River's Mississippi strategy has *never* invested in bonds. In Long River's 2020 annual investor letter, I wrote that bonds were return-free risk and undeserving of their reputation for safety:

> *Investors who follow the conventional wisdom of the "60/40 portfolio" or alternatively "owning one's age" in bonds may be in for a rude awakening. It is easy to determine the return of a bond held from issuance to maturity- just look at the coupon. Buying a 10-year treasury today will provide a 0.9 percent annual return (an improvement over the $18 trillion in bonds currently trading at negative yields), which is similar to paying over 100 times earnings for a company that is guaranteed to never grow its earnings. At the same time, the federal reserve has pledged to do everything in its considerable power to generate inflation in excess of 2.0 percent. While a consensus has recently emerged that interest rates will be low for a generation, I have my doubts.*

Investors who purchased a 30-year Treasury bond a few years ago yielding a mere 1.2 percent have lost a staggering 53 percent of their money (a defeat nearly matching the stock market's 54 percent rout during the 2007-2009 financial crisis). This happens not because investors won't get repaid by the U.S. government, but because nobody wants to own a bond for twenty-seven years yielding 1.2 percent when you can buy one that will pay you 5 percent annually for the next thirty years. What motivates a bond investor? As *The Magnificent Seven*'s Vin Tanner responded when asked why he would take on a job almost certain to result in his premature demise: "I wonder myself. It's like a fellow I once knew in El Paso. One day, he just took all his clothes off and jumped in a mess of cactus. I asked him the same question. He said, 'It seemed like a good idea at the time.'"

"We have two classes of forecasters. Those who don't know — and those who don't know they don't know."
- John Kenneth Galbraith

We begin 2024 with many open questions. What level of interest rates will be required to reduce inflation to the Federal Reserve's official two percent target? When will there be a recession and how severe? What is the future of the wars in Russia-Ukraine and Israel-Gaza? Will China seize Taiwan, and, if so, how will the U.S. respond? The late great market strategist Byron Wein, a brilliant man who for several years was ranked the number one strategist on Wall Street, published for 38 years his annual list of ten predictions. His lifetime record across 380 predictions was worse than a coin flip. All I can say is that with any of these questions, I know I don't know, which certainly beats not knowing I don't know and allowing macro predictions to dictate investment decisions. Even if someone knew the answers to these unknowable questions, it would make almost no difference to their stock portfolio in the long term. After all, if you chart the last 150 years of the stock market, you can't even tell when the World Wars occurred.

Current economic data is a Jackson Pollock painting of data points, with plentiful trend lines to support just about any interpretation. Stanley Druckenmiller, perhaps the best macro investor alive, recently called it "the most complicated, no road map, unanalyzable situation I've ever seen in terms of economic predictions going forward." Despite the dour national mood, fiscal policy is recklessly stimulative as the U.S. government continues to spend like there's no tomorrow. We have $1.7 trillion in deficit spending (including a $891 billion spending bill with the Orwellian title Inflation Reduction Act), GDP growth at 4.9 percent (above the 3.2 percent average GDP growth of the past 75 years), inflation at 3.1 percent (down from the June 2022 peak of 9.1 percent, and the lowest in the G7), unemployment at 3.7 percent (a 50-year low), households with record high net worths (and inflation-adjusted increased 37 percent since 2019, by far the largest growth ever seen), a 5.3 percent federal funds rate (nearly matching the 5.4 percent average interest rate over the past 50 years), and a stock market priced at 19 times earnings (16 times earnings if one excludes the Magnificent Seven, which compares favorably to the typical range of 15 to 20 times earnings). Nobody has ever accused me of being Pollyannish, and I commiserate with those that "feel" things are bad (recent polling revealed that a majority of Americans incorrectly think inflation is running at 8 percent and unemployment is near a 50-year high). But the bad feelings aren't *fully* supported by the facts.[1] Nor is broad pessimism anything new, with newspaper clippings from every year going back to 1895 declaring that America is in decline like the Roman Empire. As always, investors would be wise to emulate Odysseus; tie themselves to the mast, ignore the noise and their feelings, and keep their eyes steadily on the horizon.

Our Portfolio

One of my favorite investing models is the Lindy Effect, which posits that the older a thing is, the longer it's likely to be around in the future. As Nassim Nicholas Taleb wrote about in *Antifragile* and *Skin in the Game*:

> *If a book has been in print for forty years, I can expect it to be in print for another forty years. But, if it survives another decade, then it will be expected to be in print for another fifty years. This tells you why things that have been around for a long time are not aging like people, but aging in reverse… Time is equivalent to disorder, and resistance to the ravages of time, is the ability to handle disorder… The only effective judge of things is time.*

While The Lindy Effect is not a Newtonian law like gravity, it is an instructive lens through which to analyze our portfolio. The average year of foundation of our portfolio companies is 1931, and more than one third of the companies we own were founded in the 1800s. While age alone is not a very good reason to make an investment, this is evidence of durable competitive advantages, able stewardship, and a long-term owner's mindset.

[1] I can't blame someone for thinking inflation is higher than the official 3.1 percent. My unscientific inflation calculation of my personal basket of goods has risen 12 percent this year. One reason for this mismatch is how the Bureau of Labor Statistics has changed how it calculates inflation with a bias towards lowering the inflation number. As hedge fund manager Paul Singer recently noted, "If the current bout of inflation was measured in the same way inflation was measured before the adjustments came into use, the current inflation and the 1970s would not look very different. If it took a 20 percent interest rate to stymie the 1970s inflation, why should 5 percent do the trick today?"

Through World War I, World War II, the Great Depression, and 20 percent interest rates, Long River's portfolio companies have stood the test of time. These companies are not historical relics. On the contrary, they are growing revenue and profits faster than the average company in the market while trading at a meaningful discount to both the market and their conservatively calculated (and growing) intrinsic value. Long River invested in four new companies this year and exited a profitable investment in Adobe, resulting in portfolio turnover of about five percent. Let's look at how some of Long River's 23 companies are doing today.

Adobe (1.6 years)

This was Long River's second successful ownership of Adobe. While Adobe remains a great business, the stock got swept up in a wave of artificial intelligence euphoria upon release of its Firefly product and increased 55 percent from May to June. This accelerated several years of attractive returns, leaving it richly valued at 47 times earnings (the highest multiple Long River had or has owned). I made the decision to sell the investment amidst Adobe's controversial and recently abandoned $20 billion (50 times sales) acquisition of upstart Figma, which revealed cracks in the company's competitive positioning.

Danaher (2 Months)

Danaher, long near the top of Long River's watchlist, is the most recent purchase in the portfolio. Founded by the Rales brothers over a half century ago, Danaher can be thought of as the anti-General Electric: while both started as large industrial conglomerates, Danaher's stock has outperformed General Electric's by 155 times over the past 40 years. Unlike General Electric, Danaher is a model of shrewd capital allocation, renowned operating efficiency, and shareholder-aligned management incentives.

After several years of divestitures, the company is now lean and focused on the life sciences. Danaher's bioprocessing products are necessary for pharmaceutical companies to research and manufacture life-saving biologic drugs, which comprise the majority of drug pipelines. While investing in pharmaceutical companies can be a risky proposition, selling the equivalent of picks and shovels to these companies is far less so. Danaher is the number one scaled player in an oligopolistic life sciences market and the only one-stop shop. As a result, Danaher's customer relationships are quite sticky.

Why pull the trigger now? Like many industries, the pharmaceutical industry saw a large pull-forward during Covid followed by a dramatic pull-back. A combination of inventory destocking and biotech funding weakness caused life sciences stocks to tumble in October. Long River views these trends as predictable and transient and capitalized on the opportunity to buy a best-in-class company at a discount. The bioprocessing industry should return to its historical low-teens growth trajectory in time. If that happens, Long River will have paid twenty times trough earnings for a company that has the potential to grow earnings in the mid-to-high teens for a long time.

Burford Capital (7 Months)

Burford is the largest third-party litigation finance company in the world. They pay legal fees and expenses to top tier law firms to prosecute major business litigation, getting in return a percentage of amounts recovered. Burford's size affords it the best deal flow, further allowing them to be selective in the cases they fund. The litigation finance business offers venture capital-like return optionality, except instead of making money on roughly only 5 percent of investments, Burford's win rate is 88 percent across hundreds of cases (and when they lose, they still manage to recover an average of 42 cents on the dollar).

Last September, Burford funded a winning case (*Petersen v. Argentina*) that in a probability-weighted scenario would return all of the company's $2.9 billion market capitalization (for a more than 370 times return on its investment). For competitive reasons, Burford does not disclose much detail on pending cases. However, I believe Burford may have another potential multi-billion dollar win in the pipeline (*Sysco Corporation v. Tyson Foods*). Also, current earnings are suppressed due to Covid-imposed trial backlogs. While Burford's earnings will be lumpy, its performance is uncorrelated with the economy and provides portfolio diversification. On a conservative sum-of-the-parts analysis, Burford is worth 70 percent more than its current stock price.

Bolloré (2.5 years)

France's Bolloré is the oldest company in Long River's portfolio, tracing its roots back to 1886. In a country known for onerous regulation and taxes, this feat is all the more impressive. Similar to our ownership of Charter Communication via Liberty Broadband and Ferrari via Exor, Bolloré is an investment vehicle that gives us a significantly discounted ownership stake in a crown jewel of a business with a recurring, growing, and high-margin stream of cash flows. That business is Universal Music Group, which is essentially a tax on our ears.

A staggering 30 percent of all the world's music is owned by Universal. The dominant player in an oligopoly rounded out by Sony and Warner, Universal's artists range from Taylor Swift to U2 to Bob Dylan. Content is king, and Universal has the power to dictate royalty payment terms with streaming services such as Spotify (no music, no subscribers). While Spotify attracts a lot of hype (a textbook case of a beloved consumer product that makes for a bad investment), the real profits of the music business quietly flow to the rights owners. It's an elegant business model where Spotify's marketing expenditures and price increases effortlessly grow Universal's profits. The number of global paid streaming music subscribers will likely double in the next five years, and the lion's share of the profit pool will belong to Universal. Other long-term music royalty tailwinds include the dramatic growth in nontraditional platforms such as social media (especially TikTok and YouTube), connected fitness, video games, and podcasts.

Why did Long River invest in Bolloré instead of directly in Universal (which trades freely on Euronext Amsterdam)? Bolloré provides a "Russian nesting doll" worth of discounts: it trades for less than its 22 percent ownership stake in Universal (which itself is undervalued) and the cash on its balance sheet; its other holdings, primarily in media, logistics, and energy, are valued at a negative net worth; and its conservatively calculated net asset value is $12 versus a share price of $6 today. Absent a catalyst, European sum-of-the-parts discounts can persist indefinitely. However, Bolloré's controlling shareholder Vincent Bolloré has perhaps the brightest financial engineering mind in Europe and has many potential levers to pull. For example, in March, the company announced a tender offer to buy back 10 percent of its shares at a price of up to $5.75, putting a solid support floor on the stock price.

AerCap (3.8 years)

Ireland's AerCap is the world's largest aircraft lessor and, since being discussed at length in Long River's 2020 annual investor letter, has been firing on all cylinders. Supply chains have snarled production at Boeing and Airbus, leaving AerCap with a valuable inventory of in-demand planes. Since Long River purchased AerCap, the company has repurchased billions in shares, grown book value 18 percent annually, and doubled operating income from $1 billion to $2 billion.

Despite the best year in the history of the company, and management raising earnings guidance three times, the stock still trades below the $78 value of its balance sheet assets. By comparison, London's Standard Chartered Group just sold their smaller and inferior aircraft lessor for 1.35 times book value. AerCap is selling old planes at a 24 percent premium to its balance sheet value; thus, AerCap's true book value is closer to $97. Viewed another way, one could liquidate the company and potentially realize a 30 percent return. In 2023, AerCap repurchased $2.7 billion of its own stock at an average of 75 percent of book value. This discount gap is a gift to long-term shareholders.

CEO Aengus ("Gus") Kelly said on AerCap's Q3 earnings call: "We are here for shareholders and no one else. One thing we will never do is grow for the sake of growth. There's always a bunch of clowns waiting to order aircraft when everyone else is. That's not the time to be ordering airplanes. The last time we ordered a significant amount of airplanes was in March 2020. That is when you buy." I wish more CEOs were like Gus.

Blackstone (5 years)

Blackstone is the world's largest alternative asset manager and has been Long River's second largest position since inception. The original investment thesis was that in a low interest rate world, large institutions and pension plans would stampede into alternative investment funds and that their herd-like allocators would disproportionately favor Blackstone ("Nobody gets fired for hiring Blackstone."). Just as I thought five years ago, Long River's investment in Blackstone's common stock has done far better than the institutions investing in Blackstone's funds. For reasons I could never understand, in 2019 Blackstone's stock traded like that of a buggy whip manufacturer. Since we purchased Blackstone, the company has grown its assets under management from $472 billion to over $1 trillion and the stock is up 401 percent (including dividends).

No longer just a traditional private equity firm, the firm has transformed itself into a real estate and private credit juggernaut (an opportunity created by Dodd-Frank's Volcker rule severely curtailing traditional deposit-taking banks' ability to be nimble and take risk). While I did not foresee all of these new business opportunities in 2019, I remain confident that Blackstone's president Jon Gray will, in the immortal words of Wayne Gretzky, "skate to where the puck is going, not where it has been."

Long River's Value Proposition

Long River endeavors to achieve superior, long-term, risk-adjusted returns for a small group of clients. Core firm principles include fair fees, client alignment, and "skin in the game." I have nearly all of my liquid net worth invested alongside clients (half of the roughly 15,000 funds in the U.S. are run by portfolio managers who do not invest a single dollar of their own money in their fund) and am thus incentivized to protect capital and focus on the long term. Unlike portfolio managers at large funds who are often forced to spend a majority of their time marketing, I don't. Instead, I devote most of my time to analyzing investments. Long River's investment process involves an average of hundreds of pages of daily reading, and I am able to turn every page. All Long River investors will receive an Amazon gift card to rent the must-see documentary film *Turn Every Page* about the author Robert Caro's research process, whose doggedness sets the bar to which I aspire. This focus is a competitive advantage.

While Long River's Mississippi strategy is the topic of this letter, the typical Long River account consists of the Hudson strategy (index fund equivalents that screen for high-quality companies worldwide), the Mississippi strategy (15-25 primarily long-term investments purchased at a minimum 20 percent discount to conservatively-calculated intrinsic value), and zero to three month Treasury bills currently yielding 5.4 percent (held as "dry powder").

If you have any questions about your Long River account or investing, please call or email me.

As I reflect on Long River's first five years, I owe an unrequitable debt of gratitude to my investors. The quality of Long River's investor base is humbling: family, friends from all stages of life, philanthropic family offices, CEOs, entrepreneurs, and other professional investors. To all of Long River's investors, thank you for allowing me to continue doing for you what I love to do. It is an honor and a privilege every day.

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Past performance is no guarantee of future results. Investments carry risks and investors may lose principal value.

The views expressed herein and any forward-looking statements are as of the date of the publication and are those of the investment manager. Future events or results may vary significantly from those expressed and Long River's views are subject to change at any time.

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Portfolio composition will change due to ongoing management. References to individual securities are for informational purposes only and should not be construed as recommendations by Long River. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Long River may purchase foreign securities, including American depository receipts, which are subject to interest rate, currency exchange rate, economic, and political risks. Foreign investments, especially those of companies in emerging markets, can be riskier, less liquid, harder to value, and more volatile than investments in the U.S. Differences in tax and accounting standards, difficulties in obtaining information about foreign companies, restrictions on receiving investment proceeds from a foreign country, confiscatory foreign tax laws, and potential difficulties in enforcing contractual obligations, can all add to the risk and volatility of foreign investments.

Long River may purchase small and mid-cap stocks, which may involve greater risks and may fluctuate in price more than larger company stocks.

Long River may purchase bonds. The return of principal in a bond investment is not guaranteed. Bonds have issuer, interest rate, inflation, and credit risks.

Value securities, including those selected by Long River, are subject to the risk that their intrinsic value may never be realized by the market because the market fails to recognize what the investment manager considers to be their true business value or because the investment manager has misjudged those values. In addition, value investing may fall out of favor and underperform growth or other styles of investing during long periods.

Comparison to any index is for illustrative purposes only and should not be relied upon as a fully accurate measure of comparison. For investment comparability, index returns are calculated using liquid, low-cost investible index fund ETFs and include reinvestment of all dividends.

Morningstar Medalist Funds represent Morningstar analysts' highest conviction global large-cap blend funds to outperform their benchmark and peers. The composite consists of American Funds Capital World Growth & Income Fund, Davis Global, Dimensional Fund Advisors Global Equity, Eaton Vance Richard Bernstein Equity Strategy, Morgan Stanley Global Franchise, Thornburg Global Opportunities, Vanguard Global Equity, and Vanguard Global Minimum Volatility.

While the Long River Mississippi strategy is not intended to track an index and may have greater volatility and risks, it is believed that the MSCI All Country World Index has the highest degree of correlation. The iShares MSCI All Country World Index ETF (ticker: "ACWI") is a market capitalization-weighted index fund of 2,336 stocks in 51 countries. The iShares MSCI All Country World Index ETF weighting is 62 percent U.S., 30 percent international developed, and 8 percent emerging markets.

The Vanguard Total World Bond Index ETF (ticker: "BNDW") tracks the Bloomberg Global Aggregate Float Adjusted Composite Index and provides a measure of the performance of the global investment grade bond market. The global investment grade bond market includes government bonds, corporate bonds, mortgage pass-through securities, and asset-backed securities.

Performance results for Long River's Mississippi strategy composite are unaudited and subject to change. Long River's Mississippi strategy composite performance (January 1, 2019 inception) is net of the asset-based Mississippi strategy fee and calculated using a combination of time-weighted returns (if an investor controls the timing of investment) and internal rates of return (if Long River controls the timing of investment) of the individual companies held within a portfolio (Berkshire Hathaway Inc., if used as a U.S. index fund substitute, is excluded). All fee-paying accounts with a minimum $100,000 discretionary and unconstrained Mississippi strategy portfolio are included once the Mississippi strategy achieves its first full calendar year of performance. As a result of client-specific circumstances, individual clients may hold positions that are not part of Long River's Mississippi strategy. Client returns may deviate significantly from the returns of the composite due to an individual account's inception date, the timing of deposits and withdrawals, dividend reinvestment policy, and other portfolio restrictions.

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