



KOROBRA
— CAPITAL

Annual Shareholder Letter
2021



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Dear Korobra Capital Partners,

Congratulations on your first full year with the fund! With this being the first Annual Shareholder Letter, I wanted the focus of this letter to be on the Korobra Capital investment philosophy and I wanted to share some insights into my thought process.

Philosophy:

When you invest into Korobra Capital, you're not just investing into a fund, you're investing into a philosophy.

I originally created Korobra Capital with the purpose of being a wealth creation vehicle for my family and friends. I wanted to capitalize on the companies that I myself have invested in and I wanted to create an alternate investment vehicle that could offer growth potential and exposure to some of the most promising companies in the world.

The goal for the Korobra Capital fund is to compound capital over the long term. We do not aim to maximize our annual return for any given year but to sustain a market-beating return over a long period of time.

Our mindset is that when we invest, we are not merely buying a stock, rather we are buying part-ownership of a business. We then seek to think and act like a long-term owner of the business. This shapes the way that we invest and how we manage the portfolio.

When we invest in a company, we are investing into the long-term prospects of the company. We are not investing in their stock charts, not price momentum, not on headline news, not price targets, not based on valuations, the macro environment, etc., but in the fundamental business and management itself. That is where our focus lies.

Korobra Capital aims to invest in high-quality, best-of-breed companies and hold them for years as the business grows and compounds. We focus on identifying companies within industries that are experiencing structural tailwinds, that have the best management, vision, and strategy to not only execute but also define the ways these industries will play out in the future.

We choose to invest in companies that are constantly innovating and have durable competitive advantages that enable them to be long-term winners. Although we emphasize qualitative factors when we invest, the numbers must back them up. We prefer investing in companies that have strong balance sheets, sustainable growth, increasing margins, and strong ROIC (Returns on Invested Capital).



We put an emphasis on the mission, executive leadership, corporate values, and company culture. We want to invest in companies that excite us and those that we genuinely care about. Given the long-term nature of our investments, we aim to invest in high-quality, honest management teams.

When we invest in a company, the management team of that company theoretically becomes our business partner. We are handing over our capital and entrusting them to allocate and compound it effectively. We aim to invest in leaders that are intrinsically motivated to grow their company. Leadership sets the tone for company culture, which we believe is a primary determinant of success or failure in the long-term.

This is the Korobra Capital investment philosophy.

Review and Reflection on 2021:

Results:

Korobra Capital	S&P 500	Nasdaq 100	Ark Innovation ETF	Return since inception
-8.48%	+26.90%	+21.40%	- 23.56%	- 4.16%*

*from 11/24/20

Interpretation of Results:

The Korobra Capital portfolio underperformed the broad-based indexes during 2021. While we acknowledge short-term price movements can be random and affected by several variables (market sentiment, macro conditions, etc), we would like to attempt to highlight some of the portfolio's strongest winners and losers in the past year and attribute some possible reasons that contributed to their price action.

Biggest Gainers:

- Nvidia (NVDA)
 - The rise in Nvidia can be attributed to strong growth in earnings as well as increased optimism in how Nvidia will play a huge role in building out the “metaverse” and other technological innovations.
- Tesla (TSLA)
 - Tesla's appreciation can be attributed to strong growth in earnings and deliveries. They have been able to reach new records about every quarter in many respects. Investor optimism around Tesla remains high as they hold the leading position in the “Electric Vehicle revolution” as they continue building out their autonomous software and production capabilities.



- Meta Platforms [formerly Facebook] (FB)
 - Facebook changed its name to Meta Platforms signaling a new chapter for the company, one focused on building the “metaverse”. Meta’s appreciation can be attributed to increasingly strong earnings as their business continues to do extremely well compounding at a high rate.

Biggest Losers:

- Roku (ROKU)
 - Roku’s depreciation can be attributed to a valuation reset (multiple re-rating) as inflation fears set in the markets leading to a pullback in many growth stocks. In addition, Roku has been dealing with a battle over rights with YouTube that eventually got settled in Roku’s favor.
 - Roku is one of our strongest convictions. The transformation from legacy pay TV to streaming (Connected TV) is a huge structural trend and a huge market opportunity and Roku is the category leader.
- Teladoc (TDOC)
 - Teladoc’s depreciation can be attributed to a “stay at home” stock selloff. As the vaccines were rolled out and the economy started opening up, many stocks that benefited from stay at home orders such as Zoom, Peloton, etc were sold off. Since then TDOC has been an unfavorable stock in the market however their business is still doing well and growing at a high rate.
 - Teladoc is one of my looser-held convictions in the KC portfolio. My due diligence on the company has been subpar, but I am still willing to bet on a company that is a leader in a huge health care industry that is ripe for disruption.
- Ark Genomic Revolution ETF (ARKG)
 - ARKG’s depreciation can be largely attributed to a valuation reset (multiple re-rating) as inflation fears set in the markets leading to a pullback in many growth and speculative stocks. ARKG is an ETF that provides exposure to the high growth areas of gene therapy, DNA sequencing, biotech, etc. Many of these companies are at the early stages of their growth and are considered speculative in many regards.
 - I believe I made a mistake investing into ARKG at the time I did. While I do believe in Ark’s thesis that genomics is going to dramatically change the healthcare industry with numerous advances in medicine and health care, I believe that I bought in at peak enthusiasm and much higher than I should have. In hindsight I would have liked to be more patient, scaling in, buying in over time.

It’s been a bumpy ride to say the least. The concentrated, growth-oriented strategy that Korobra Capital deploys is inherently volatile and its performance will likely not be correlated to traditional



benchmarks. Because our goal is wealth creation, I believe the best way to do so is by taking a selective approach and investing in my best ideas which in effect, results in a more concentrated portfolio that is bound to be volatile. Through the past year, month ending returns saw a swing of near 40%. While this may seem scary, I'd like to remind you that I do not see this as a risk. Unlike many funds, such as mutual funds who optimize for short-term stability, I am fine with having a volatile portfolio. In my eyes, volatility equals opportunity. Because we plan to be invested in these companies for the long-term, a volatile stock can actually create attractive opportunities to buy more shares at a more attractive valuation. As the saying goes, volatility is the price you pay for outstanding returns.

While I do not try to read too much into short-term price movement, I would like to share some thoughts on our overall performance through 2021: I believe that our overall underperformance this year has more to do with the overall market than these businesses themselves. This year we saw inflation fears, global supply constraints, COVID fears, etc hitting the markets. While indices (Dow Jones, S&P 500, etc) were continuously hitting all-time highs, under the hood, we saw broad sell-offs in stocks with high-multiples. As inflation fears hit, investors feared that this would cause interest rates to rise sooner than expected. When interest rates are low, it allows companies to borrow money at lower rates. So when rates are low like they have been, it fosters a growth-friendly environment as it allows companies to raise capital cheaper which in effect, allows them to fund and invest more into their business for long-term growth. Historically, lower interest rates have resulted in valuation expansion for stocks. This has certainly been the case in recent memory. However, in December of 2021, inflation reports hit the highest in decades. As a result, the Fed stated they may begin tapering and raising rates a lot earlier than originally expected. This has caused investors to re-examine how much they were willing to pay for a company. When inflation rises and interest rates increase, the value of future cash flows decrease. And since the stock market is forward looking, the companies with high expectations priced into the stock experience multiple contractions, where the market desires to pay less for future growth. Since Korobra Capital owns many innovative companies that fall under the "high-multiple" basket, the stocks we own have seen a significant pullback in their stock prices.

Focus and noise. Understanding our game:

Investing is hard. After seeing a relentless and incredible rally in the market in 2020 where it seemed like just about everything was going up, 2021 proved to be much more resilient. While indices were hitting all-time highs, our portfolio experienced a lot of volatility. This challenged me and it prompted me to rethink my philosophy and strategy, but most importantly it made me focus on my mindset.

The biggest thing I've learned this year is how much psychology and behavior can impact your investing. There is a LOT of noise in the markets and staying focused on the long-term is a lot harder than it sounds. Being able to pick the right stocks is one thing, but being able to hold them through a market environment that is constantly fluctuating and enticing you to sell is another. There are cognitive



biases/heuristics that are constantly gnawing at you and it's easy to let yourself be swayed by the market.

Another thing I learned this year is the importance of defining and understanding what game you're playing. There are many ways to succeed in the market; it's what makes the market the market. If everyone was playing the same game it would be nearly impossible to find good opportunities. Some market participants aim to take advantage of the opportunities that great fundamental businesses create while others aim to profit off of failing businesses and their corresponding stock. Some participants aim for quick returns and they frequently trade in and out of stocks. Others hold the same stocks for decades. Some optimize for safety and minimal volatility while others optimize for possible life-changing returns. What looks like a good investment to one, may not be a good investment to another. But that does not mean either is right or wrong, just that they may be playing different games.

So what *game* is Korobra Capital playing? To simply put it, we are in the game of buying and holding great businesses.

Therefore, what the market does tomorrow, next week, next month, or even next year is not important to us. What's important is what goes on underneath the hood. How are the companies we own executing? Is our investment thesis playing out the way we predicted?

When you understand what game you're playing it becomes easier to tune out and filter the continuous noise that the media and the other market participants are ceaselessly shouting. Without clearly defining what game you're playing, you will be pulled in multiple directions. Because price changes sentiment so quickly in the markets, one day you could be a *long-term investor* buying high-growth tech stocks and the next day momentum changes and you become a *short-term trader*, buying defensive stocks because that is what is hot at the moment. You will be like a ship at the mercy of the wind.

Going Forward

Although the stock prices of the companies we own have not performed as well as we would have liked in the past year, I am pleased with the progress within the companies of our portfolio and I remain optimistic about their growth prospects for 2022 and beyond. As business owners, our focus is on the businesses themselves, not the market.

I believe that it's a great time to be an investor. We are going through a transformational time in the economy and are in the midst of numerous technological shifts in many industries that will change the way we live, work, and communicate. There is so much innovation going on and there are so many quality companies that are disrupting industries and leading structural trends. We can see this through what renewable energy is doing to the gas and oil industry. Or what e-commerce is doing to retail shopping. Or what streaming is doing to Cable TV. There are many more examples I could use, but the



main premise is this: technology is advancing rapidly and it's affecting every industry in the economy. I think that numerous industries are going through what many call "creative destruction", where previous incumbents are being disrupted by newer, more innovative upstarts. This is creating an enormous opportunity for investors and I think it will be one of the defining themes in the markets for the next decade. While this will likely result in a handful of companies that will receive outsized returns, even more companies are going to lose. In an extremely competitive market, only the best businesses will win. My goal is to choose the best companies that I think will continue to compound growth for the long-term. This is why I place such an emphasis on competitive advantages and management teams in my research.

Through the stock market, we get to reap the benefits of the value that so many innovative companies are creating. While the ride will certainly not be smooth, I believe that by keeping a long-term focus we can receive outstanding returns.

Conclusion:

It has been a delight to be investing on your behalf for the first full year of the Korobra Capital portfolio. Thank you for entrusting me with your capital and joining me on my investment journey. Cheers to a fruitful 2022 and beyond!

Sincerely,

Carter Wang