

OF

OPTIMIST FUND

We are  
growth-  
oriented value  
investors.



## OPTIMIST FUND

To my fellow Optimists,

Our fund has a singular focus; to invest in and alongside great entrepreneurs and business leaders who are trying to capture big opportunities over a 10 plus year time horizon.

We're looking for businesses and fellow investors who focus on maximizing profitability and value over the long term.

We are a mission-driven investment partnership built for realistic optimists who think and act with the long-term in mind.

*“A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.” – Winston Churchill*

Realistic optimists are open to new business models and opportunities that can otherwise be easily dismissed. We believe the right team, in the right business and the right market can transform challenges into significant opportunities.

Optimist Fund's mission is to bet on exceptional people with exceptional growth opportunities to produce world-class, long-term investment returns.

Notice how our mission isn't just the desired outcome of delivering world-class, long-term investment returns. Our mission is to achieve that by betting on exceptional people with exceptional growth opportunities. The "how" matters. It's well defined,

repeatable, and it makes it easier for our investors to know we are sticking to our knitting. With every investment we make, you can hold us to this: “How are the people running this business exceptional?” and “How is their growth opportunity exceptional?”

### **What do we mean by exceptional people?**

Exceptional people have a history of unusual success. They have significant ambition and are betting their career on the company they lead. Over 70% of our model portfolio companies are founder-led and the average tenure of our CEOs in their current position is over 10 years. These leaders have had considerable impact on their industries and are only just getting started.

### **What do we mean by exceptional growth opportunities?**

We are looking for companies that have such enormous growth opportunity that they could be growing revenue and earnings 10% or more 10 years from now. These are businesses with decades of double-digit growth opportunity ahead of them.

### **What is our definition of world-class, long-term investment returns?**

Over the last 100 years the S&P 500 has appreciated at roughly a 10% annual rate. Our definition of world-class, long-term investment returns will be our investors doing better than that over multiple decades.

## **Investment Philosophy**

**We are growth-oriented value investors** – One of the most common ways that people segment investors is growth versus value. At Optimist Fund we don't believe these are mutually exclusive distinctions. We focus on growing companies but only own them if we believe they are significantly undervalued.

Often in the types of businesses we invest in, “value” is disguised through high return on capital investments in growth. We define value as the present value of the cash a business will generate into perpetuity. We do not define value by near term earnings multiples or price to book multiples.

**We are long-term and absolute-return focused** – We think about what our companies' opportunities and challenges are over the next 10 years. This allows us to focus on what matters most to maximizing value and ignore short term noise. Though we think about our company's business fundamentals on a 10-year basis, we

think about our investment returns in increments of 5 years. We always have an estimated 5-year return expectation of the fund in a bull (upside case), base and bear (downside case) scenario. We aim to compound in the double digits over each five-year increment.

**We are concentrated** – Our portfolio is typically 15–25 securities which is significantly more concentrated than typical funds. This concentration keeps us exposed to only high conviction investment ideas, all while having adequate diversification.

**Volatility is opportunity, not risk** – Whether a stock is up or down significantly doesn't play a role in whether we are interested in investing. Volatility is typically a sign of short-term uncertainty even though long term prospects often haven't significantly changed. If we can make a choice between higher returns with more volatility or lower returns with less volatility, we'll take the higher returns.

## Investment Approach

Our investment approach is focused on five core pillars of the companies we study:

1. Management
2. Market
3. Moat
4. Unit Economics
5. Valuation

**Management:** We partner with exceptional management teams with a proven track record of success, who have exceptional growth opportunities ahead of them.

**Market:** We focus on markets that have significant growth opportunity from disruption and/or consolidation or that are new and growing at a rapid rate.

**Moat:** We invest in businesses that have a distinguishable competitive advantage that will allow them to grow above GDP rates for 10 plus years while generating returns above their cost of capital.

**Unit Economics:** We focus on returns on incremental capital deployed and the size of the capital deployment runway. We do not shy away from investing in a company generating negative profits if the income statement investments are generating returns well above their cost of capital.

**Valuation:** We value a business based on the future cash flow we expect the

company to generate. To invest in a company, we need to believe it's currently trading at a significant discount to our estimate of the present value of future cash flows.

## **Portfolio and Risk Management**

Given we focus on companies with significant ambition that have significant upside opportunity, we do not expect to be right on every investment. The strategy is to have a portfolio of 15-25 securities, so that when we're right, we make 3 or more times our investment over 5 years. When we're wrong, we hope to limit our downside to a third of our investment over 5 years. A portfolio with these characteristics should deliver strong long-term returns.

From a position sizing perspective, a maximum position to us is approximately 10% of the fund at our cost base, and 15% at market values. This ensures that the success of the fund overtime will not be reliant on a single position, but by the collective returns of many high performing companies.

Now shifting to how we think about risk. We do not believe volatility equals risk. We think about risk in two ways:

1. Capital impairment risk: If we are wrong, what is the investment loss potential?
2. Risk/reward forecasting risk: We under or overestimate the extent of the upside or downside risk. Downside risk is the risk that we overestimate the value of the business in our downside scenario, resulting in us underestimating the capital at risk. Upside risk is the risk that we underestimate the value of the business and thus sell too early.

*"...practically everywhere in life, and in corporate life, too, what really costs, in comparison with what easily might have been, are the blown opportunities."* - Charlie Munger

Even though investing legends like Warren Buffet and Charlie Munger emphasize that their biggest mistakes are errors of omission not commission, we believe investors broadly under analyze upside risk which leads to missing opportunities that were theirs for the taking (errors of omission). We put equal effort into analyzing upside and downside risk to mitigate capital loss and missed profit opportunities that are right in front of our nose.

## Concluding Remarks

I hope after reading this letter you know what we are about at Optimist Fund, what makes us different, and the types of likeminded investment partners we are looking for. If you are a realistic optimist that wants to bet on exceptional people with exceptional growth opportunities to produce world-class, long-term investment returns, then there isn't a fund that could be more tailored to you.

On a more personal note, I have bet my career on Optimist Fund as well as 100% of my family's liquid net worth. I quit my job managing a successful \$1 billion fund at a large public company because I know I will be able to provide a superior long-term client experience by executing on my own vision, versus plugging into someone else's.

In closing, I couldn't be more excited about the future for Optimist Fund and am forever grateful for those that have committed to joining the Optimist family.

Speak soon.



Jordan McNamee

A handwritten signature in black ink that reads "Jordan McNamee". The signature is written in a cursive, flowing style.

Founder & Chief Investment Officer

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