OPTIMIST FUND

Q4 2022 Quarterly Letter

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To my fellow Optimists,

At Optimist Fund we focus on maximizing returns over a 5-year time horizon by investing in global leaders in their respective industries, which we believe to be deeply undervalued.

Today the fund consists of 20 exceptional market leaders that are run by proven operators with significant equity ownership in the companies they manage.

As we have spoken about previously, the market for small and midcap growth-oriented companies has now been in a 2-year bear market creating what we believe to be an extremely attractive investment opportunity.

> “The time to buy is when there is blood in the streets.” – Baron Rothschild

Given this opportunity, we continue to position the fund offensively to take full advantage of the inevitable market recovery.

Since 1957, the S&P 500 has generated a negative calendar year return 18 times. In all but 4 of those instances, the market generated a positive return the following year. We don’t know exactly when this recovery will happen, but history would point to 2023 or 2024.

From there, the inevitable question becomes, if the recovery could happen in 2024, why don’t we sell what we currently own, and buy everything back at the beginning of 2024. Unfortunately, markets aren’t so predictable and the risk of being wrong on the timing of the recovery is significantly more costly than the risk from the recovery happening further out in the future.

Let's look at Lululemon for example. In the 2008 financial crisis, Lululemon went from $27 to under $3 in the span of 18 months. At that point, there were likely investors who decided they would sell their shares and wait a year until they were more certain the economy would improve. If they did that, they would've missed a ~600% gain as a year later Lululemon was back over $20.

Given that we believe our portfolio has the potential to appreciate 10-fold over the next 5 years from current prices, we remain fully invested and focused on ensuring our companies are tracking towards our 5-year targets.

Now let's turn to what went on in Q4.

% Returns	**Optimist Fund***	**Benchmark****
Q2	-43.8%	-21.3%
Q3	-8.5%	-3.0%
Q4	-3.8%	5.6%
YTD	-51.4%	-17.5%

There was no material change to what we owned at the end of Q4 versus Q3. Even though Q4 was another negative quarter for the fund, there were many positive developments going on in our individual holdings.

For example, **Uber** continues to march toward their 2024 goal of $5 billion in adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) that they laid out at their investor day in early 2022. In their most recent quarter, they stated they are tracking in line on their revenue targets and outperforming their profit targets. The Uber thesis continues to track in line with our expectations. To read our Uber thesis, head to our blog post "It's Ubers Time to Shine".

Smartsheet continues to grow revenue at a rapid rate of over 35% as well as beating revenue and free cash flow expectations. In the quarter they increased their annual guidance to positive free cash flow for the year and reiterated their ability to continue to improve margins while delivering robust 30%+ topline growth. To read our Smartsheet thesis, head to page 7 in our Q2 letter.

Focus Financial Partners delivered strong quarterly results showing the resilience of their business model and consistency of their growth. The stock is currently under 10x earnings, and we expect the business to grow earnings by atleast 15% annually over the next 5 years. To read our Focus Financial thesis, head to page 8 in our Q2 letter.

Cricut provided promising commentary that the company can return to growth and margin expansion in 2023 after a difficult 2022 due to tough COVID-comparisons. Near the end of December, they also announced a special dividend of $3.5 per share on top of the share buyback program they have already been executing. To read our Cricut thesis, head to our blog post "Cricut: A One of a Kind Creativity Platform".

Peloton has made significant progress getting the company back on a promising path. After the most recent quarter, management stated they expect the business to be free cash flow positive from January-July 2023, which was an upgrade from previous commentary of being free cash flow breakeven by July 2023. We believe Peloton is at a positive inflection point which we outline in our blog post "Peloton: The First Inning of the Comeback".

Wayfair announced that they grew year-over-year during the black Friday weekend and is on pace to take over $500 million of cost out of the business. 2023 is expected to be a year of adjusted EBITDA profitability and market share gains. To read our Wayfair thesis, head to page 12 in our Q2 letter.

Though much of the portfolio holdings fundamentals were in line to better than our expectation, one of our holdings has experienced more challenges than expected. **Carvana** Q3 results were worse than expected as the used car market continued to soften. They announced another round of layoffs to get their expense base in line with the current revenue run rate of the business. Though this quarter was incrementally disappointing in comparison to their Q2 quarter, their burn rate continues to decrease, and they continue to have over $3B in liquidity which we believe is more than enough to get to free cash flow breakeven. We have not sold or bought more.

Overall, we were pleased with the aggregate underlying performance of our holdings and believe today is one of the best times in the last 20 years to invest in growth-oriented small and midcaps.

Aggregate Portfolio Composition

Below is a list of our top 10 holdings that make up ~75% of the fund as of December 31st, 2022.

Smartsheet	Phreesia
Focus Financial Partners	Just Eat Takeaway
Uber Technologies	Doordash
Cricut	ACV Auctions
Colliers International	Asana

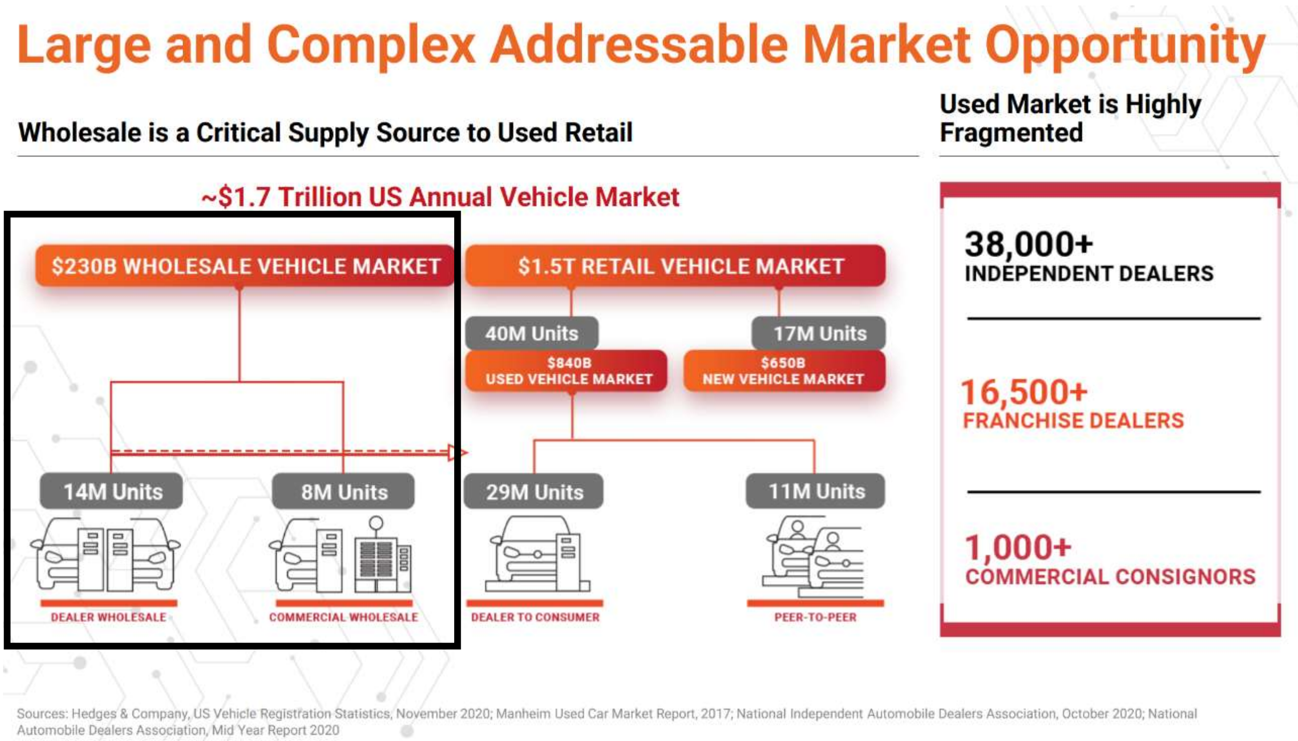
If you have any questions about any of our holdings, please reach out.

Today we wanted to highlight **ACV Auctions,** the leading digital automotive wholesale marketplace.

ACV Auctions was founded in 2015 in Buffalo, New York, to create a better way for dealers to sell trade-in vehicles.

When consumers buy cars, they typically sell their existing car to a dealer. If someone who has a BMW decides to buy a Mercedes, the Mercedes dealership will buy the BMW and sell it at a wholesale auction. The sellers at wholesale auctions are new car dealers selling trade-in vehicles, commercial fleet owners, and rental car companies. However, buyers are mostly independent used car dealers looking for inventory to sell on their lot.

The industry has historically consisted of physical auction sites owned by Manheim and KAR Global who together had around 70% market share. Like brick-and-mortar retail, the buying process would happen at the physical auction site. The wholesale market is very large with roughly 22 million cars sold each year for a total value of ~$230 billion.



Source: ACV Auctions 2022 Investor Day

ACV created a better way for dealers to sell wholesale inventory.

In 2015, ACV came up with the idea that dealers could wholesale vehicles on the internet directly from a dealer's lot saving sellers the cost of sending the car to the auction, and time from being able to sell the car faster. The benefit to buyers was the ability to bid on vehicles anywhere in the country, at any time on their smartphones.

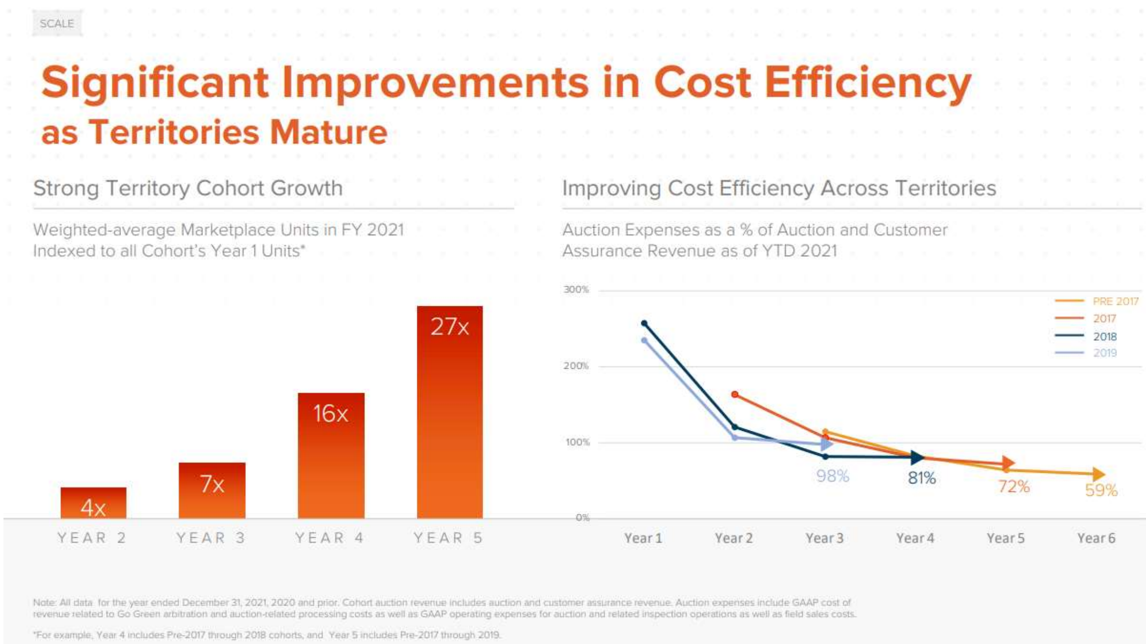
ACV differentiated their online platform compared to peers by investing in their own inspectors, having their salespeople and inspectors do all the work required to sell the vehicles, and having lower fees since they didn't have the overhead of a physical auction. The investment in their own inspectors increased buyer trust and lowered arbitration cost.

Also, by taking on all the work required to sell a car online, most dealers would give them a shot by selling inventory on the site as there was nothing to lose. As they signed up more dealers to sell their wholesale vehicles, they attracted more buyers. More buyers encouraged more sellers creating a network effect.

In the last 5 years, ACV has aggressively expanded across the US.

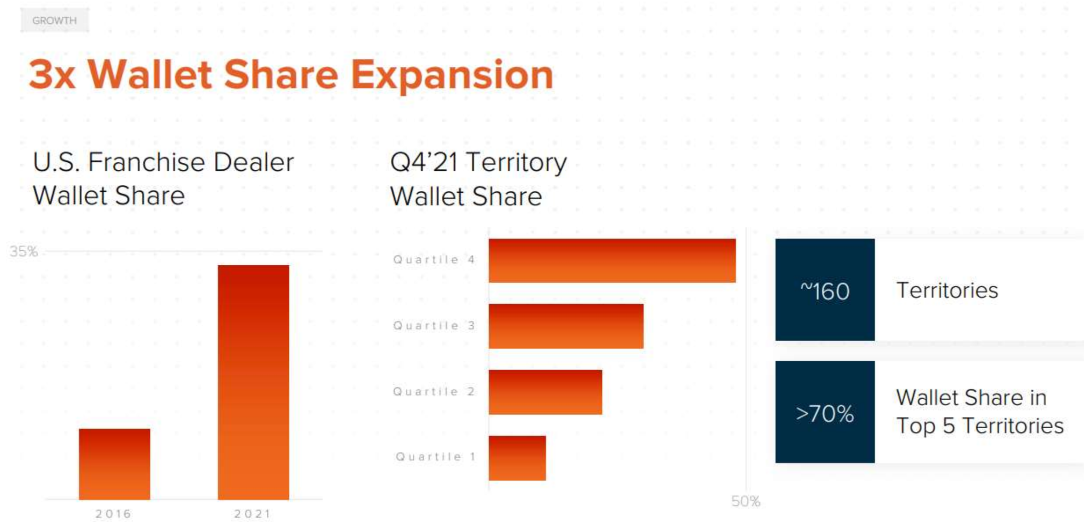
Source: ACV Auctions 2022 Investor Day

Over the last 5 years, they have been in land grab mode, aggressively investing in sales and inspection capacity to build out every market in the US. The oldest markets are profitable, and the business in aggregate is expected to reach EBITDA profitability by the end of 2023.



Source: ACV Auctions 2022 Investor Day

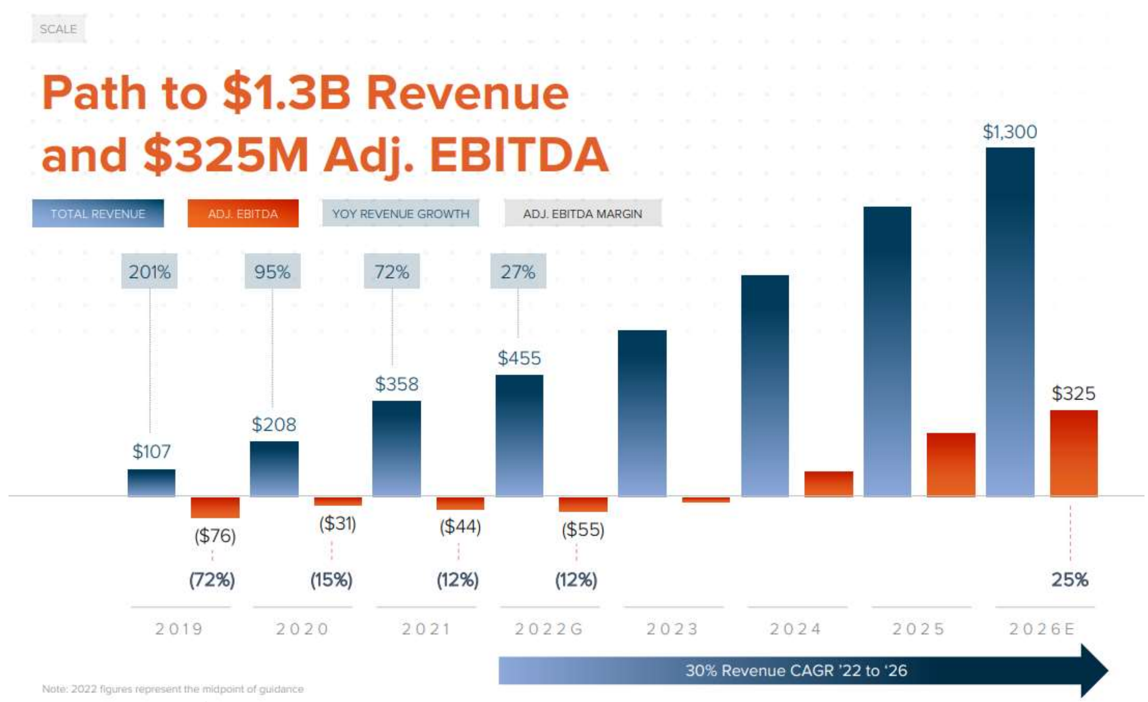
As territory cohorts mature, ACV penetrates more franchise dealers and gains a higher share of each dealer's wholesale volume. Together, this scale drives operating leverage.



Source: ACV Auctions 2022 Investor Day

Now that ACV's nationwide infrastructure has been built, incremental growth will drive significant operating leverage.

In March of 2022, the company laid out a target of $325 million in EBITDA and $1.3 billion in revenue by 2026. Based on 2022 figures this implies a 44% incremental EBITDA margin from today to 2026. Not only does this display the operating leverage from incremental revenue growth, but also provides evidence that EBITDA margins can go much higher over the long term than the 2026 target of 25%.



Source: ACV Auctions 2022 Investor Day

Valuation is attractive creating an asymmetric investment opportunity.

Today ACV has a market capitalization of $1.4 billion and has ~500 million in net cash. If they execute against their plan, at the current share price in 2026, the company will be valued at around 4x free cash flow and have about $1.2 billion in cash. If we conservatively assume ACV trades at a 20x free cash flow multiple, an investment at today's share price will generate a ~5x return on capital or a 3-year internal rate of return of around 70%.

We think it is a compelling investment opportunity.

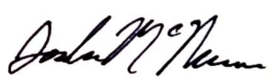
If you would like to learn more about ACV, please reach out and we can dive into the thesis in more detail.

Closing Remarks

Lastly, we want to thank our investors for their patience during these turbulent market conditions. If you would like to speak further on any holdings in the fund, please reach out. We'd love to hear from you.

Speak soon,

Jordan McNamee



Founder & Chief Investment Officer

*Rates of return are for Class E series net of all fees and expenses for Optimist Fund to illustrate the historical performance of our investment strategy.

**The Benchmark has a 50% weighting in the MSCI World Growth Index and a 50% weighting in the Russell Midcap Growth Index. The Benchmark is provided for information only and comparisons to benchmarks and indexes have limitations. Investing in global equities is the primary strategy for Optimist Fund but Optimist Fund does not invest in all or necessarily any of the securities that compose the Benchmark or the market indexes. Reference to the Benchmark and the market indexes does not imply that Optimist Fund will achieve similar returns.