

Muturo Group Partners, LP
Full Year 2019 Letter

January 22, 2020

“The prize ring lost a good man in you,’ he said, laughing. ‘You were getting a licking but you hung on. That’s what you always want to do. You know how you feel and maybe you feel pretty bad. But you don’t know how the other fellow feels. Maybe he is worse off than you are. A fight is never over until one man is out,’ he emphasized. ‘As long as you ain’t that man you have a chance. To be a champion you have to learn to take it or you can’t give it.’” – Bernard M. Baruch (1957)

“Don’t call it a comeback. I’ve been here for years.” – LL Cool J (1990)

Dear Partner,

The fund finished 2019 up 24.01% net of all fees and expenses. Our gross return before my incentive compensation and the fund’s management fee was 29.99%. We started the year with six portfolio holdings, and we finished with nine. We began the year with 48.5% of the fund in cash, and we finished with 37.4% in cash. The portion of the fund that was not in cash grew strongly. In this market environment, having returns like this with so much of the fund in cash is typically considered impressive. It suggests we bought businesses well while still being securely positioned. (Trying to do so is my job, so that’s nice to think.) However, this is not a universal opinion. Nor is it the only way to interpret this. There are some who might consider our results meager. I’ll be upfront: I do not share their view. However, the questions behind their negative perspectives are useful to consider. Engaging with them—at a distance preferably—is like enlisting a sparring partner for our ideas. We should do that. Are you ready? Let’s begin:

Alternative perspective: Godfrey, you miser. If you knew at the beginning of 2019 that the share prices of the fund’s holdings would perform so strongly over the next year, why didn’t you invest more of the fund?

This perspective unfortunately suffers from hindsight bias. If I truly knew what would happen before it happened and when it would happen, then yes, I would carry no cash in the fund. But I do not have that skill nor suggest I do. Investing is a game of probability, where you make business judgements based on your assessments of changing probabilities. It requires thinking about the future, but it doesn’t require predicting the future exactly. Rather, it requires having in your head multiple alternative futures and positioning yourself either to benefit from them or to not be destroyed by them. Let’s examine one of those possible futures that could have transpired. I think it is useful to show how I manage our collective capital.

Imagine the fund had been fully invested. That is, ponder the fund with 0.0% cash all last year. But instead of what did happen—equity markets reaching all-time highs—imagine a different ending. Imagine that over 2019 equity prices fell by a fifth. If that happened, instead of actively buying discounted securities and telling you about the great deals we’re getting, I would have been waiting passively until prices turned up. Because we had cash, at the end of 2018 and the beginning of 2019, we were able to be active, acquiring businesses we had long coveted. This isn’t an aberration. This is by design. Cash provides optionality—optionality that increases in value as prices of target companies fall. We have aggressively used that optionality to our benefit and will again in the future.

Alternative perspective: Godfrey, you hoarder. If the fund's holdings rose so dramatically, why haven't you sold them to capture gains and have more of that cash you love for the next downdraft?

This perspective misunderstands our strategy. Just as holding 0.0% cash in this market context is not our intent, neither is holding 100.0% cash. I think we have a great strategy, but it requires not rapidly entering and exiting positions. It favors owning great businesses that reinvest their retained earnings and compound abundance over time. To do this requires ignoring fortune telling in favor of thinking and preparing. Our strategy also requires humility. A boastful arrogance in matters of investing is a brittle heaven. This means we have to keep revisiting our assumptions. It means we have to keep learning. I am comfortable with that. In 2019, I read 54 books, two-thirds of which were explicitly business or investment related. (A full list is attached to this letter after my signature.) On top of this, I read mountains of news articles and hills of 10-Ks and 10-Qs. Let me remind you of the strategy at *Mutoro Group Partners, LP*:

We keep a concentrated portfolio of roughly 5-15 company holdings. Those holdings are highly cash generative, a dominant or a key player in their industries, and which seem likely to have persistently high returns on invested capital over time. We try to become long-term owners of these businesses at prices that suggest that we are likely buying with a margin of safety relative to future cash flows.

As with everything, our strategy has trade-offs. The portion of the fund not in cash should ideally be in companies that punch above their weight. The nine businesses we currently own are cash gushers, an attribute which seems likely to persist. Because of this, I believe the fund today is likely well prepared for various possible futures that could affect our individual holdings and the economy. I'm betting on it. I have rolled my 2019 incentive compensation back into the fund right alongside the rest of the limited partners.

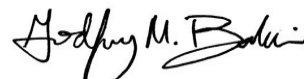
The exhibit below shows the composition of our portfolio at the end of 2019:

Cash and Cash Equivalents	37.4%
European Public Equities	11.9%
<u>U.S. Public Equities</u>	<u>50.7%</u>
Total Portfolio	100.0%

In other fund news, I am currently working with our third-party administrator NAV Consulting Inc. and our outside auditor Spicer Jeffries LLP to have your K-1s to you as soon as possible, with a likely delivery before the middle of March. Should this present any difficulties for you, please let me know.

Thank you for your partnership and your long-term attitude and your trust. Please feel free to email me or call with any questions or comments or book recommendations. I look forward to seeing what opportunities this decade affords us and working hard to ensure we take advantage of them.

Sincerely,



Godfrey M. Bakuli
Managing Partner

Godfrey M. Bakuli's 2019 Books

 = Favorites

The Education of a Value Investor
by Guy Spier

The Innovator's Solution
by C. M. Christensen and M. E. Raynor

Blitzscaling
by Reid Hoffman and Chris Yeh

Scale
by Geoffrey West

We Should All Be Feminists
by Chimamanda Ngozi Adichie

Thick: And Other Essays
by Tressie McMillan Cottom

A Man for All Markets
by Edward O. Thorp

The Education of a Coach
by David Halberstam

The Seven Pillars of Statistical Wisdom
by Stephen M. Stigler

A Short History of Financial Euphoria
by John Kenneth Galbraith

The Three-Body Problem
by Cixin Liu

The Value of Art
by Michael Findlay

Woman World
by Aminder Dhaliwal

The Way of the Writer
by Charles Johnson

Dreamland
by Sam Quinones

The Wall Will Tell You
by Hampton Fancher

Creative Selection
by Ken Kocienda

The Curse of Bigness
by Tim Wu

Dream Work
by Mary Oliver

The Ten Commandments for Business Failure
by Donald R. Keough

Wade in the Water
by Tracy K. Smith

What I Learned Before I Sold to Warren Buffett
by Barnett C. Helzberg, Jr.

Junk
by Ayad Akhtar

Seven Brief Lessons on Physics
by Carlo Rovelli

You Can Be a Stock Market Genius
by Joel Greenblatt

The Art of Thinking Clearly
by Rolf Dobelli

Frankenstein
by Mary Shelley

Atomic Habits
by James Clear

100 to 1 in the Stock Market
by Thomas W. Phelps

Stories of Your Life and Others
by Ted Chiang

The Lessons of History
by Will & Ariel Durant

How to Win in a Winner-Take-All World
by Neil Irwin

Kochland
by Christopher Leonard

Why Deals Fail: And How to Rescue Them
by A. Faelten, M. Driessen, and S. Moeller

The Electric State
by Simon Stålenhag

The War of Art
by Steven Pressfield

Playing for Keeps
by David Halberstam

Catch and Kill
by Ronan Farrow

Reality in Advertising
by Rosser Reeves

The Great Reversal
by Thomas Philippon

21 Lessons for the 21st Century
by Yuval Noah Harari

Unpacking My Library
Edited by Leah Price

Bloodchild and Other Stories
by Octavia E. Butler

Heavy: An American Memoir
by Kiese Laymon

Farsighted
by Steven Johnson

The White Card: A Play
by Claudia Rankine

Billion Dollar Whale
by Tom Wright & Bradley Hope

The Undoing Project
by Michael Lewis

Good Habits, Bad Habits
by Wendy Wood

Flash Boys: A Wall Street Revolt
by Michael Lewis

Dear Ijeawele
by Chimamanda Ngozi Adichie

Citizen: An American Lyric
by Claudia Rankine

How to Lie with Statistics
by Darrell Huff

Baruch: My Own Story
by Bernard M. Baruch