

Mutoro Group Partners, LP
Full Year 2021 Letter

February 15, 2022

“But with enough reinforcement, players may even find themselves asking the same question in the real world, where the choices are less clearly defined. In the right context, a game is not just a vehicle for fun, but an exercise in self-determination and confidence. Good games teach us that there are tradeoffs to everything, actions lead to outcomes, and the chance to try again is almost always out there.” – Sid Meier (2020)

“Executives often resist making tradeoffs for fear they will lose some customers. The irony is that unless they make tradeoffs and deliberately choose not to serve all customers and needs, then they are unlikely to do a good job of serving any customers and needs. Clarity about what you don’t do, then, is the best way to succeed at what you do choose to do.” – Joan Magretta (2011)

	FY 2021	Q4 2021	Since Inception ¹ : Aggregate	Since Inception: Annualized
Mutoro Group Partners, LP (Gross)	8.5%	(2.2%)	117.9%	11.8%
Mutoro Group Partners, LP (Net)	5.5%	(2.1%)	72.6%	8.1%
HFRI Fund Weighted Composite Index	10.3%	0.6%	46.9%	5.6%

Dear Partner,

For the full year of 2021, our fund returned 8.5% on a gross basis. Net of fees and expenses, it returned 5.5%. We started the year with 14 portfolio holdings and ended with 13. We entirely exited three companies and acquired two new holdings.

My quarterly letters in 2021 focused on two critical topics: our cash management philosophy and portfolio concentration. This annual letter will focus on something else just as important: industry competition and strategy. As long-term investors, we weigh decisions on a timeline spanning many years. A critical aspect of our success is evaluating our holdings’ changing industry dynamics and competitive differentiation. So, let’s explore this. We’ll start with a short memoir that speaks to the origins of my thoughts on this topic. It requires us to go back in time 35 years ago to 1987. A time before Covid, before the World Wide Web, and before many things that we take for granted today.

An aptitude for resourcefulness is best gained through proximity and play. I speak from experience.

¹ Inception of fund investment activity is January 1, 2015.

In 1987, my dad, 30 years old, boarded a plane from our home in Kenya to begin a life in the United States. He had just \$241 on his person. It would be inaccurate to say it was all the money he had in the world. But it would not be far from the truth. He sold his car before the flight, netting the equivalent of \$903 in Kenyan shillings. The \$241 was all he could take to America because of Kenya's foreign exchange currency controls at the time. Beyond that, he had no credit cards, no lines of credit, and no bank accounts to draw upon—just that amount. He gave my mom the remaining proceeds from the car sale to help care for their three young boys. A year later, in 1988, my mom sold what remained of their possessions and boarded a plane with my brothers and me to join him in America.

To say that my parents “immigrated” is only a fact with the benefit of hindsight. In 1997 my younger brother was born here. In 2011 my parents became citizens. But when they initially arrived, they were not making a permanent decision. My dad had received a scholarship from the University of Massachusetts at Amherst to pursue a doctorate in Industrial Engineering. The goal was to earn that doctorate while working hard to feed and nurture their children in a country where our family had no prior relationships. Along the way, my parents received generous support from members of the international community in Amherst. We lived in affordable university housing. Tanzanian and Cameroonian family friends lent us money when liquidity was low or food when they had extra. The local Survival Center gave us free toys, clothes, and other household items. A desire for permanent residence only came to my parents years later. They grew to adore America and discovered that building a life here was something they could figure out.

I share this all to provide context on what came next. I feel fortunate that we arrived in America when we did. In this backdrop of a young family with modest resources and new to the country, an unexpected purchase welcomed a boon to my personal growth. It also foretold changes transforming the world.

My dad bought us a computer. It was a used IBM Personal Computer he purchased at a “computer show.” I should explain what this means before I lose some younger readers. These “shows” (or fairs) took place hours away at convention centers. Small vendors would sell computer parts and software at discounts to retail store prices. The computer we got was an early “home” version. To use it, you had to insert a floppy disk containing its operating system to load the OS into the computer's memory. Once the OS was running, you would insert a separate disk containing whatever software program you wanted to use. It was the first of successive computers we would get over the years that improved in power and uses.

While a home computer was helpful for my dad writing a dissertation, it also proved a great way to entertain and educate his children. With no interest in games himself, he went for what had good reviews. It is an understatement to say we took to the selection. A small, independent developer out of Maryland designed games transforming the industry. It was called MicroProse. Its co-founder was Sid Meier, a first-generation immigrant developer who had earlier in his life set the goal of creating “the ultimate strategy game.” His creations captivated me for hours on end, whether *Civilization* (1991), *F-19 Stealth Fighter* (1988), or *Sid Meier's Railroad*

Tycoon (1990). In Meier’s words, he was making “games about personal decision making.” They involved “military battles” and “maneuvering,” but also “resource gathering” and “economic strength.”²

To this day, I still play later installments in the various series, but the joys and lessons of that original *Railroad Tycoon* have never left me. There have since been many imitation “tycoon” games in other industries. It is a testament to its success. But none stand up to that one. It truly is one of the greatest strategy games of all time. I grew to adore it. I learned a tremendous amount about making decisions in competitive environments.

At first glance, it was a game for aficionados of locomotives, whether real ones or model trains. But entering this digital world revealed it to be much more complex. It takes place over an in-game calendar that spans a century-length career. You started on an empty, open map representing either the contiguous United States, Britain, or continental Europe. In those maps were growing cities and towns that needed connections to transport mail and passengers. They also required links to resource centers for raw materials to make manufactured goods created by new industries. An attentive player had to understand industry, technology, and financial developments while also serving the impromptu demands generated by the economic systems of cities.

It was less a simulation of history and more a playable model about “high-level economic strategy,” according to the computer historian Jimmy Maher.³ He explains well the core challenges of the game:

In addition to needing to set up profitable routes and keep an eye on your expenses, you also need to judge when to sell bonds to fund expansion and when to buy them back to save the interest payments, when to buy and sell your own stock and that of other railroads to maximize your cash reserves. Most of all, you need to keep a close eye on the competition, who, if you’ve [turned] the “cutthroat competition” setting on, will try to buy your railroad out from under you by making runs on your stock — that is, when they aren’t building track into your stations, setting up winner-take-all “rate wars.”

Sounds intense, right? Well, I will remind you that I played this game as a young child. It was intense. And I loved it.

On my own, I learned what bonds were before I knew cursive. Before finding the courage to talk to a crush, I learned about cash management. I understood that assuming too much debt or expanding operations too quickly could destroy profitability and lead to bankruptcy. I gleaned you could buy back stock to prevent a digital J.P. Morgan or Cornelius Vanderbilt from taking over your company. I learned

² Meier, Sid & Noonan, Jennifer Lee. (2020). *Sid Meier’s Memoir!: A Life in Computer Games*. W.W. Norton & Company, Inc.

³ Maher, Jimmy. (2017). “Railroad Tycoon.” *The Digital Antiquarian*, March 17, 2017, <https://www.filfre.net/2017/03/railroad-tycoon/>

of supply and demand and how they are often out of balance. I felt the frustrations of managing supply chains to meet consumer needs. I discovered the benefit of sometimes knowingly lagging competitors on short timelines to create superior performance on longer timelines. In a period before online search, I abstracted most of this through trial-and-error. Winning and losing in digital worlds without real-life consequences is a wonderful sandbox to play with ideas.

Most importantly, I learned what worked for me. It was undesirable trying to create the biggest railroad in the United States, going for broke head-to-head with A.I. robber barons, whose motivations and machinations seemed arbitrary and malicious. I could choose not to play that game. Instead, I focused on what I could control that was different and profitable. I learned how to think independently and develop strategies suited to my goals and temperament.

Here's what I figured out. I would set up initial stations in two proximate cities, say Baltimore and Washington D.C. I was the only railroad in town. While the A.I. competitors tacked on city after city, piling debt on thin margins in high-risk bids to outgrow each other, I would serve my little niche route as well as possible. After building up a comfortable cash cushion, I would expand selectively and intentionally. Perhaps Dover was next or Raleigh. I would repeat my short-haul strategy. At a certain point, having made money serving niches exceptionally well, I played the A.I.'s game of market expansion and unsolicited takeovers. Not until I was ready on several fronts, though. It required discipline and was a gradual, slower way to win. But it worked for me. Because the game wasn't zero-sum, because it was about doing as much as you could in your 100-year career for a rank at the end, I understood that what strategy was "best" was a variable answer. "Success" was a concept relative to the games one chose to enter within the broader *Railroad Tycoon* game.

To borrow a phrase from Meier's excellent memoir, years before I built a library of over 700 books, I learned, in sum, "a holistic approach to winning." It was not one-size-fits-all or fixed. It was relative and considered your resources, personal preferences, external influences, and managing a portfolio of decisions that had tradeoffs. It prefigured some mature business frameworks I would see again later. From strategist and author Joan Magretta:

In business, however, you can win without annihilating your rivals. For decades, Walmart has been a winner in discount retailing, for example, but so has Target. Each offers a different and distinctive mix of merchandise, aimed at meeting different customer needs. Walmart is the workhorse of discounters, offering "everyday low prices." Target is more of a show horse, appealing to customers who want flair along with low prices. In business, multiple winners can thrive and coexist. Competition focuses more on meeting customer needs than on demolishing rivals. Just look around. Because there are so many needs to serve, there are many ways to win.⁴

⁴ Magretta, Joan. (2011). *Understanding Michael Porter: The Essential Guide to Competition and Strategy*. Harvard Business Review Press.

I share all of this because these fundamentals counter a feature of business commentary that becomes more pronounced during periods of market volatility, such as what we're in right now. I want to make sure it does not negatively affect how we think.

Instead of assessing the balance sheet health, long-term earning power, or unique strategies of different companies, fleeting matters receive greater attention. More than usual, commentators emphasize a sports-fan-like approach to analysis. They cheer or boo companies as though they were rooting for a league champion rather than objectively assessing industry mechanics where multiple players coexist over several years. This is understandable for those who make short-term capital commitments or hold shares in businesses with precarious finances or market positions. We do not play those games, however. Prices change and fluctuate wildly on any given day; market power changes too, but typically more slowly. We intend to retain most of our holdings for several years, so we focus on multi-year business developments, which prices will, in time, also likely reflect.

All our holdings generate free cash flow, which is likely to continue. Their long-term returns on invested capital seem stable or improving. None has a meaningful risk of bankruptcy. The federal funds rate path is unlikely to affect their core activities negatively. They pass on inflationary pressures to their customers without much consequence. We will maintain composure and stay disciplined to our strategy.

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

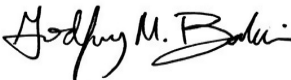
Cash and Cash Equivalents	6.2%
European Public Equities	2.8%
<u>U.S. Public Equities</u>	<u>91.1%</u>
Total Portfolio	100.0%

Cash as a percentage of our portfolio has come full circle. From 6.4% at the start of 2021, we grew it to 12.8% at the end of Q1. We then raised it to 16.6% at the end of Q2 and expanded it to 20.3% by the end of Q3. We lowered it to 6.2% by year-end because I intensified the part of our game that involves buying into volatility.

I have attached at the end of this letter a list of the 52 books I read in 2021. If you have read any recently you think I should check out, I would love your recommendations.

I am grateful for you and your partnership. Please let me know if you have any questions or comments.

Sincerely,



Godfrey M. Bakuli
Founder & Managing Partner

Godfrey M. Bakuli's 2021 Books

■ = Favorites

Red Mars
by Kim Stanley Robinson

Working
by Robert A. Caro

The Great Gatsby
by F. Scott Fitzgerald

What It Takes: The Way to the White House
By Richard Ben Cramer

Facebook: The Inside Story
by Steven Levy

Interior Chinatown
by Charles Yu

Land of Big Numbers
by Te-Ping Chen

Caste: The Origins of Our Discontents
by Isabel Wilkerson

What I Talk About When I Talk about Running
by Haruki Murakami

Set Boundaries, Find Peace
by Nedra Glover Tawwab

Man's Search for Meaning
by Victor E. Frankl

Science Fiction: A Very Short Introduction
by David Seed

Super Pumped: The Battle for Uber
by Mike Isaac

Change is the Only Constant: The Wisdom of Calculus
by Ben Orlin

Educated: A Memoir
by Tara Westover

Nonviolent Communication: A Language of Life
by Marshall B. Rosenberg

The Road to Your Best Stuff
by Mike Williams

Start With No
by Jim Camp

Making Things Right
by Ole Throstensen

Boundaries: Where You End and I Begin
by Anne Katherine

Leave the World Behind
by Rumaan Alam

The Essential Neruda: Selected Poems
edited by Mark Eisner

Logicomix
by A. Doxiadis and C. Papadimitriou

Subtract: The Untapped Science of Less
by Leidy Klotz

Firefighting: The Financial Crisis and Its Lessons
by B. Bernanke, T. Geithner, and H. Paulson Jr.

Pluses and Minuses
by Stefan Buijsman

The Body Keeps the Score
by Bessel van der Kolk

Narrative Economics
by Robert J. Shiller

Cable Cowboy
by Mark Robichaux

Never Split the Difference
by Chris Voss (with Tahl Raz)

Metabocal
by Robert H. Lustig

The Memo
by Minda Harts

Machiavelli for Women
by Stacey Vanek Smith

American Primitive
by Mary Oliver

How to Become a Rainmaker
by Jeffrey J. Fox

Parade
by Hiromi Kawakami

e-Boys
by Randall E. Stross

The Intuitionist
by Colson Whitehead

Here's the Deal
by Joel Ankney

What is Nintendo?
by Gina Shaw

Richer, Wiser, Happier
by William Green

Life on Mars
by Tracy K. Smith

Where You Are Is Not Who You Are
by Ursula M. Burns

Black Edge
by Sheela Kolhatkar

Assembly
by Natasha Brown

This is How You Lose the Time War
by Max Gladstone & Amal El-Mohtar

The Fall
by Albert Camus

Dept. of Speculation
by Jenny Offill

The Selected Poetry of Henry Dumas
edited by Eugene B. Redmond

You Have More Influence Than You Think
by Vanessa Bohns

Enemy of the People
by Henrik Ibsen

The Beautiful Bureaucrat
by Helen Phillips