Mutoro Group Partners, LP
Full Year 2022 Letter

February 15, 2023

"The King asked his wise men for some single thing that would make him happy when he was sad, but sad when he was happy. They consulted and came back with a ring engraved with the message 'This Too Will Pass.'" – Kim Stanley Robinson

"This is the third time that Warren and I have seen our holdings in Berkshire go down, top tick to bottom tick, by 50%. I think it's in the nature of long-term shareholding, with the normal vicissitudes and worldly outcomes in markets, that the long-term holder has his quoted value of the stock go down by say 50%. In fact, you can argue that if you're not willing to react with equanimity to a market price decline of 50% two or three times a century, you're not fit to be a common shareholder and you deserve the mediocre result you're going to get." – Charlie Munger

"A further comforting thought is that since no one knows what the future holds, all of us are entitled to guess about it. We should not forget, though, that an informed guess has an edge over a wild one." – Thomas Phelps

	Annual Percentage Change		
	Mutoro Group Partners, LP (Gross)	Mutoro Group Partners, LP (Net)	HFRI Fund Weighted Composite Index
2015	(3.5%)	(5.0%)	(1.1%)
2016	24.5%	18.9%	5.4%
2017	(3.3%)	(4.7%)	8.6%
2018	(0.9%)	(2.4%)	(4.7%)
2019	30.0%	23.9%	10.4%
2020	34.2%	25.7%	11.8%
2021	8.5%	5.5%	10.2%
2022	(44.8%)	(45.7%)	(4.3%)
Aggregate	20.3%	(6.3%)	40.5%
Annualized	2.3%	(0.8%)	4.3%

Dear Partner,

In 2022, our fund experienced a decline of 44.8% on a gross basis and 45.7% after expenses. We ended the year with 13 portfolio holdings.

Throughout the year, when friends and associates asked me about the fund's performance, I would reply with a version of the following: "We had our biggest decline ever, but we're on the right path. We've kept investing all year in high-quality companies, which will probably yield impressive results for us in the future."

When they didn't reply with silence or blank stares, they looked at me as though I were an alien visitor from another planet. I can understand their perspective. They likely expected my mood to be panicked or worried. It was a surprise I was so calm.

To be clear, I never *want* the fund's quoted price to fall by nearly 50% in a year. But, as Berkshire Hathaway Vice Chairman Charlie Munger explains in his uniquely forceful way, I accept it as a rare possibility with longevity in the market. I want to run The Mutoro Group for the rest of my life. In the many decades yet I hope to have on Earth, it is easy to imagine experiencing *at least* one year like 2022. Eight years into the existence of our partnership, we had our first.

I will admit I made some mistakes; staying calm doesn't mean I think I'm infallible. I like our process, but it is not fixed forever. It is based on deep curiosity and pattern recognition that I hope evolves as the questions we ask change and the patterns we observe evolve. I will keep iterating and improving it over time. Generally, though, we managed the biggest risks well and sowed the seeds of future rewards. I'll explain how and share reflections with a brief story from last year.

The trouble began, as it so often does, with a change in the weather.

The last Sunday of September started for me as most days do. I rose from bed, brushed my teeth, caught up on the news, and ate breakfast. It was a typical Sunday morning meal for me: oats, eggs, and fruit. The cappuccino that day was better than usual. The weather a little colder. Eager for a hike, I gathered supplies and set out in my car.

Unlike most weekends I was lucky not to worry about traffic on the George Washington Bridge or whether I would arrive early enough at a Catskills trailhead for parking. I was not in New York. And this was not a typical Sunday. I was six time zones away in Italy. I was in the heart of the Dolomites, the section of the Alps that runs through the northern part of the country. (As I said, the cappuccino was better than usual.) My aim was to hike Muntejela de Sennes, a mountain 9,143 feet high within Fanes-Sennes-Braies Natural Park.

It was the week of my birthday, and I hoped to make a brief hiking vacation out of it. Hiking, like cycling, had become a pastime in the pandemic, and friends from nearby Switzerland had recommended the area for its beauty. Entering the park, this was strikingly clear.

On foot, I walked along rugged trails, treading rocky, brown paths over rolling hills green and lush with forest and wild meadows. At the horizon's edge, towering mountains rose sharply into the sky, jagged and grey, shaped into leviathans on land with the patience of millions of years. It was breathtaking.

Five miles in, I paused at a mountain hut. Without phone service in the park, it was a useful moment to hear news of conditions in the area, to eat and hydrate, and to relieve the weight of my thirty-pound backpack. Then I was on my way, up the steep path to Muntejela de Sennes.

As I scaled the mountain, the cold bit deeper. Beauty surrounded me still but was transformed. Green meadows abutting dense forests gave way to a treeless alpine tundra, a broad panorama of boulders and brown moss in every direction. The once distant, ashen, jagged peaks now hulked beside me, shading my every step.

As I crossed the snowline, there was no one else in sight, and a stillness hung in the air. Only the sounds of my boots and breath broke the silence.

I paused and looked back at my path so far. I had followed a sharp, S-shaped, beige trail that curved up the grey mountainside. Behind me lay miles and hours of the vast expanse I had traversed.

The wind increased as I moved higher. My heartbeat quickened. My goal was the summit. Then I would descend and make the six-mile journey back to where I started. I advanced closer with each step, only 150 feet of elevation from the peak.

In an instant, a thick cloud descended. Like some opaque, white curtain drawn across my path, the cloud disappeared all behind it. More snow began to fall. My visibility was limited in every direction.

Alone atop a mountain more than 4,000 miles from home, it was a moment for concern. But I did not panic. I stayed calm. I had the presence of mind to remember some useful lessons.

With hindsight, we can group those lessons into three buckets: Prepare Well. Stay Alert. Be Responsible. We can use these three to assess how we navigated 2022 and how they might help us this year and beyond.

1. Prepare Well

While it was my first Italian hike, this was not my first challenging ascent. I trained in preparation for it through increasingly difficult hikes. In total last year, I gained 33,036 feet of elevation over 19 outings. As with those, I communicated my plans with loved ones beforehand. I also informed the hotel and the staff at the mountain hut. I equipped myself with gear appropriate for conditions even worse than I was experiencing and was ready to shelter in place if necessary. I also had digital and physical maps to help the odds I stayed on the right path.

How did the fund plan and prepare for 2022?

We are a startup investment management firm and are still subscale. In any field, most firms at our stage of development fail because either (a) the founder loses interest or (b) they run out of money. We can tackle those two risks in order.

Let's start with the first, founder burnout: I am as committed to The Mutoro Group as ever. I started the fund after my older brother George passed away. I wanted to honor the gift of life by pursuing my dreams. I also knew that in doing so I would honor my late brother, who had more confidence in me than anyone else ever has. I intend to grow The Mutoro Group my entire life, and it is my honor to do so.

To mitigate the second risk, I took proactive steps in late 2021 to ensure financial stability for our operations. Anticipating the possible end of the Federal Reserve's accommodative policies, I obtained a multi-year, unsecured line of credit at a fixed, favorable interest rate. While it cannot directly cover fund expenses, I welcomed the security of it. It is crucial for managers to have the liquidity to weather market volatility and avoid making poor long-term decisions based on short-term financial needs. This helped. However, while a line of credit can defer expenses, it is not a substitute for income. And this relates to a third risk during periods of market volatility aside from (a) founder burnout and (b) operating financial instability: (c) lack of investable capital.

Cash inflows during a down market allow a meaningful advantage. Not just to meet fund expenses, but more importantly, to take advantage of widening discrepancies between market prices and business values. (This is, in many ways, a key advantage of Berkshire Hathaway as an investment operation.) When prices are falling, it is more profitable for us long-term to buy shares with cash rather than sell underpriced holdings hoping we can accurately time the market's recovery. I had a plan for this possibility. But it only became useful to us as the year progressed and the weather in the American market landscape changed.

2. Stay Alert

In six miles of hiking, no precipitation had fallen on me, yet I was aware a threat loomed because I had stayed curious and watched the skies. In the distance, clouds, dense and forbidding, had consumed mountain tops in seconds, shrouding them from view.

I had come so far. It had taken a lot of energy and determination to climb the mountain. But to fixate on what's been, and not what may be, would be a mistake. I could not dismiss the notion that to press on, to attain the summit, might well render my descent more perilous.

How did the fund pay attention to our surroundings in 2022?

Years ago, I discovered that R&D and marketing executives within large enterprises wanted my advice, and I enjoyed their company and providing it. My background as an investor, former investment banker, and startup founder and CFO earned me unique expertise and an outsider perspective to help solve their problems. These leaders want to launch innovative business ventures. But the massive, established firms they work at often prioritize high-margin areas and the satisfaction of current customers at the expense of attracting the new, potentially lower-margin customers crucial for creating fresh markets and fostering disruptive growth.

I formed a new business to help, "Pioneer Strategy Group" (or "PSG").[1] We provide strategic advice and tactical execution plans to navigate these challenges. Find us online here: https://www.pioneerstrategy.co/.

The partnership benefits in two ways. Firstly, income the investment manager controls is a better way to support fund expenses than debt facilities, no matter how

[1] I considered naming it "Mutoro Group Ventures," but sought some brand distinction. "Pioneer" represents my family's immigrant background, my New England upbringing in the Pioneer Valley, and the name given to the tactic of entering new markets first, i.e., "pioneer strategy," which fits our clients' focus on innovative ventures.

well priced. Secondly, excess cash flow from PSG I invested into the fund as a limited partner. This allowed us to play offense during last year's downturn.

Investing new capital contributed to our short-term results being lower than had I stayed with cash. In the past, I have been extremely comfortable with high cash balances. Between 2015 and 2022, our cash position at year-end as a portion of our assets was a median of 47.1%. We finished 2022 with cash as a percent of our fund at 11.2%. This is a high level by industry standards but low by our own. Considering this, one could wonder whether I erred not holding cash at prior levels. Time will tell. In the past, though, I did not have an asset like PSG. Suppose we can stomach the volatility and not sell underpriced holdings out of panic. In that case, in the long run, this will benefit us more than trying to time entry and exit into securities.

Buying into a market downturn is most effective if the purchased businesses are likely to survive the economic disturbances causing the downturn. When evaluating our holdings, I find no significant survival risks. If we were more trading-oriented, rising interest rates would be of great concern. As long-term business owners, though, the more important question for us to ponder is the future operating results of our holdings versus their results before and during the pandemic. The chart below shows our businesses are larger in 2022 than in 2019. Years later, most sell at similar or lower prices to their 2019 levels, despite still growing and being better positioned competitively. This is appealing.

	2022 vs. 2019 (% Change)		2019 to 2022 CAGR[2]	
	Revenue	Operating Income	Revenue	Operating Income
Company C	30.2%	34.9%	9.2%	10.5%
Company G	55.5%	32.5%	15.8%	9.8%
Company H	67.4%	20.7%	18.7%	6.5%
Company J	74.7%	118.6%	20.4%	29.8%
Company K	34.3%	47.7%	10.3%	13.9%
Company L	84.4%	86.8%	22.6%	23.2%
Company O	11.2%	4.2%	3.6%	1.4%
Company P	100.9%	99.7%	26.2%	25.9%
Company Q	47.5%	83.0%	13.8%	22.3%
Company R	15.4%	(6.3%)	4.9%	(2.1%)
Company S	84.1%	15.2%	22.6%	4.8%
Company T	82.0%	150.9%	22.1%	35.9%
Company U	154.1%	N/A	36.5%	N/A
Median	**67.4%**	**41.3%**	**18.7%**	**12.2%**
Average	**64.7%**	**57.3%**	**17.4%**	**15.2%**

[2] This represents a compound annual growth rate, or CAGR. It solves for the rate that would equalize growth in the three years between 2019 and 2022. It smooths out year-to-year fluctuations to allow easier comparisons.

3. Be Responsible

I love hiking. I was on the most significant hike of my year and doggedly pursuing a summit. Alone atop a mountain, a storm coming in, what did I do?

The mountains were here before us and will be here after us. You can always hike them another day. Continuing up the mountain, as close as I was to the summit, would have added unnecessary risk. Heading back whence I came was not riskless but had better odds because I already knew that path. It also presented the powerful upside of more tomorrows with all the non-hiking beauty life has to offer. My decision was easy. This was a big trip, but not worth risking my life over. As the weather turned, my first thought was, "Nope."

I carefully descended. Back to the mountain hut, back to the park entrance, back to my car, back to my hotel, warm and inviting as the minute I entered, back to the best Italian dinner I had ever had, and back to sleep. I earned more tomorrows that week by making a wise decision, and I climbed other beautiful Italian mountains. I will return to Muntejela de Sennes again, ideally with better weather.

How did the fund behave responsibly in 2022?

We did not risk it all last year to climb the mountain that was 2022, and we will try never to risk it all for one year. Down years happen, up years happen, and flat years too. But our goal is to ensure we focus on the long term of more tomorrows and that one year does not turn into a bad ending by fixating on the short term.

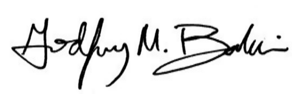
The table below shows the composition of our portfolio at the end of the year:

U.S. Public Equities	68.9%
European Public Equities	19.0%
Cash and Cash Equivalents	11.2%
U.S. Options	0.9%
Total Portfolio	100.0%

Thank you for your ongoing partnership and confidence. I have attached at the end of this letter a list of the books I read in 2022. I would love recommendations if you have read any others recently that I should check out.

I will be in touch soon with K-1s and audited financials. In the meantime, I welcome your comments or questions.

Sincerely,



Godfrey M. Bakuli
Founder & Managing Partner

Godfrey M. Bakuli's 2022 Books

Favorites =

The Unapologetic Guide to Black Mental Health
by Rheeda Walker, Ph.D.

My Life in Full
by Indra Nooyi

Negotiation Genius
by Deepak Malhotra and Max H. Bazerman

Sid Meier's Memoir!: A Life in Computer Games
by Sid Meier

A Garden in Your Belly
by Masha D'yans

Red Notice
by Bill Browder

Bewilderment
by Richard Powers

The Ministry for the Future
by Kim Stanley Robinson

Tenth of December
by George Saunders

Parable of the Sower
by Octavia E. Butler

The Road
by Cormac McCarthy

Kindred
by Octavia E. Butler

The Handmaid's Tale
by Margaret Atwood

What Happened to You?
by Oprah Winfrey and Bruce D. Perry, M.D., Ph.D.

How Emotions Are Made
by Lisa Feldman Barrett

She Said
by Jodi Kantor and Megan Twohey

The Nordic Theory of Everything
by Anu Partanen

Where to Draw the Line
by Anne Katherine, M.A.

Ignorance: How It Drives Science
by Stuart Firestein

Parable of the Talents
by Octavia E. Butler

An Emotional Menagerie
by Alain De Botton and Rachael Saunders

Negotiating the Impossible
by Deepak Malhotra

2001: A Space Odyssey
by Arthur C. Clarke

Opening Up by Writing It Down
by J. W. Pennebaker, Ph.D. and J. M. Smyth, Ph.D.

Franchise: The Golden Arches in Black America
by Marcia Chatelain

Weapons of Math Destruction
by Cathy O'Neil

The Alignment Problem
by Brian Christian

Liberation Day
by George Saunders

Permutation City
by Greg Egan

Klara and the Sun
by Kazuo Ishiguro

What Is Art?
by Leo Tolstoy

Good and Mad
by Rebecca Traister

What is Strategy?
by Joan Magretta

The Untethered Soul
by Michael A. Singer

The Atlas of AI
by Kate Crawford

The War of the Worlds
by H.G. Wells

Ways of Seeing
by John Berger

The Procrastination Equation
by Piers Steel, Ph.D.

O Pioneers!
by Willa Cather

Give People Money
by Annie Lowrey

The White Wall
by Emily Flitter

All Systems Red
by Martha Wells

Rethinking Positive Thinking
by Gabriele Oettingen

Artificial Condition
by Martha Wells

Rogue Protocol
by Martha Wells

Remote Control
by Nnedi Okorafor

Exit Strategy
by Martha Wells

Childhood's End
by Arthur C. Clarke