Mutoro Group Partners, LP
Second Quarter 2021 Letter

August 14, 2021

"I venture that 'current trends' will no longer hold. That's because 'current trends' always look linear while history's full arc almost never does. […] Life is like the Mississippi. It flows. It meanders. Zoom in close enough, and you may find a straight edge, but the whole landscape is a restless and ever-curving thing."
– Ben Orlin, *Change Is the Only Constant*

	Q2 2021	YTD	Since Inception[i]: Aggregate	Since Inception[i]: Annualized
Mutoro Group Partners, LP (Gross)	9.8%	11.3%	123.7%	13.2%
Mutoro Group Partners, LP (Net)	7.5%	8.4%	77.4%	9.2%
HFRI Fund Weighted Composite Index	4.0%	10.0%	46.5%	6.1%

Dear Partner,

For the first half of 2021, the fund returned 11.3% on a gross basis. Net of fees and expenses, it returned 8.4%. We started the quarter with 14 portfolio holdings and ended it with 13. Our cash as a percentage of the portfolio grew from 12.9% at the beginning of the second quarter to 16.6% by its end.

Longtime readers of this letter will know that I think and write a lot about cash. Lest I sound like Scrooge McDuck, I will unpack that topic sentence. Since my first letter six years ago, agile cash management has been a linchpin of our strategy. From my *2018 Annual Letter*, published February 11, 2019:

> Because we currently have a meaningful portion of our portfolio in cash, and because we would like to put that cash into more attractive long-term investment opportunities, in the near-term, falling securities prices are probably great for us.

At the time, cash was 56.7% of our assets. A year later, in my *2019 Annual Letter*, published on January 22, 2020, I also addressed the topic:

> 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.

[i] Inception of fund investment activity is January 1, 2015.

Cash was at the time lower than the year previous, dipping to 37.4% of our fund. This proved very beneficial as we unknowingly headed into the pandemic. We ended 2020 with 6.4% of our fund in cash, having profitably deployed most of it during the pandemic.

Holding above-average percentages of cash has not been without consequences, though. I alluded to these consequences the following year in my *2020 Annual Letter* published on February 8, 2021:

> Since the beginning of this fund, one of our strengths has been carrying and opportunistically deploying a significant percentage of our portfolio in cash. While this has been at times a drag on our returns, it has functioned, as expected, as a source of strength entering and exiting severe market corrections like that of last year. When I think of strong short-term preparation, I think of our courage to carry cash knowing it will be the fuel of our performance at other times.

I say this all because our cash, which for years trended down, is now trending in the opposite direction. It is substantially up off the lows it reached at the end of 2020. When additionally compared to year-end 2018 and 2019, our current cash balance of 16.6% is still less than a third and a half, respectively, of those levels. But it is still almost 3x what it was at the beginning of this year. I would not be surprised if it grew more. For many fund managers, that's a problem. Cash, as the saying goes, "burns a hole in their pockets". That's not a problem for us. Things change. We can be patient as they do. As markets rise, our cash balance tends to rise. As market fall, our cash balance tends to fall too because we exchange cash for securities.

In other news, during the second quarter, we exited one of our airline holdings completely. It entered the pandemic with an investment-grade balance sheet, dominant geographic positions, substantial free cash flow, and substantial regulator capture. This (in part) helped it navigate the pandemic without going bankrupt or losing its most critical competitive advantages. But after a wildly chaotic year, its balance sheet and business outlook seem to present more downside risk and vulnerability than I find attractive given the price and value of its shares.

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

Cash and Cash Equivalents	16.6%
European Public Equities	9.5%
U.S. Public Equities	73.9%
Total Portfolio	100.0%

Thank you for your partnership and confidence. Please let me know if you have any questions or comments.

Sincerely,

Godfrey M. Bakuli
Managing Partner