

Mutoro Group Partners, LP
Full Year 2023 Letter

February 15, 2024

“I realized that the essence of mountain climbing is to keep putting one foot in front of the other, and that it takes all your concentration. Like so much else, all you have to do is keep one step ahead, but it’s hard to do.”

– Bill Russell (1979)^a

“Well, yes, you climb as hard as you can by just advancing one inch at a time. That’s the secret of life.”

– Charlie Munger (2023)^b

	Annual Percentage Change			Compound Percentage Change	
	MGP, LP (Gross)	MGP, LP (Net)	HFRI Fund Weighted Index	MGP, LP (Gross)	MGP, LP (Net)
2015	(3.5%)	(5.0%)	(1.1%)	(3.5%)	(5.0%)
2016	24.5%	18.9%	5.4%	9.6%	6.3%
2017	(3.3%)	(4.7%)	8.6%	5.1%	2.5%
2018	(0.9%)	(2.4%)	(4.7%)	3.6%	1.2%
2019	30.0%	23.9%	10.4%	8.4%	5.4%
2020	34.2%	25.7%	11.8%	12.3%	8.6%
2021	8.5%	5.5%	10.2%	11.8%	8.1%
2022	(44.8%)	(45.7%)	(4.3%)	2.3%	(0.8%)
2023	21.6%	19.9%	8.1%	4.3%	1.3%
Aggregate	46.3%	12.3%	52.0%		
Annualized	4.3%	1.3%	4.8%		

Dear Partner,

For the full year of 2023, our fund returned 21.6% on a gross basis. Net of fees and expenses, it returned 19.9%.

The most dangerous part of hiking is typically not the climb but the descent. Descending requires focus and energy. Yet fatigue can settle in after the exertion and joy of an adrenalin-fueled ascent, lowering concentration and coordination. You must find the balance and strength to control your speed while countering gravity. Trail conditions can worsen on the way back, with darkness, cold, and diminishing supplies increasing risks.

^a Russell, W. F. *Second Wind: The Memoirs of an Opinionated Man*. 1st ed. New York: Random House; 1979.

^b Munger, C. T. (2023, February 15). *Daily Journal’s Shareholder’s Meeting* [Video]. Available at: <https://www.youtube.com/watch?v=9VVPO3KWj3A&t=6094s>. Accessed February 14, 2024.

In our *2022 Annual Letter*, I compared hiking to our fund's performance.^c I discussed the preparations I made for the safety of our assets and operations and how our fund would survive to ascend on future days. I described in detail my journey up a 9,143-ft mountain in the Dolomite region of Italy. However, I spent only two sentences on the descent. The reality was more challenging than my brief description suggested. The path was often used by Italian farmers and their cattle. On the way down, I had to navigate piles of manure the size of dinner platters that on the way up had been much easier to step around. I slipped and fell on my backside repeatedly. Realizing I was safer lower to the ground, I crab-walked critical moments. (Though not over the manure.)

I have learned that reaching summits is not as important as a safe return home. I have also become comfortable with a measured descent. Even though I can hike as fast as anyone I know, I prefer to descend at a slower pace, which often puts me in lockstep with hikers born during the Roosevelt administration. I believe our shared slowness and interest in safety bodes well for my longevity.

As I look back on the year 2023 and my experiences as an investor and businessman, I have come to realize that there are two main types of activities that I engage in daily: **Ascending Activities** and **Descending Activities**. Depending on the situation, I may find myself spending much more time and energy focusing on one type of activity over the other, for a period of weeks or even months.

Ascending Activities refer to the upward climb in business growth, involving expansion and development. It includes making new investments, launching novel ventures, and introducing innovative products or services. These activities explore new opportunities and expand the business's horizon, much like reaching greater heights in a hike.

Descending Activities in business, on the other hand, require more careful navigation. These tasks involve handling costs well and maintaining efficiency, like negotiating with suppliers and managing vendor relationships. Monitoring cash flow is crucial, similar to the attentiveness needed during the descent to avoid missteps. Long-term financial planning, including preparing for liquidity needs, is akin to knowing the path ahead during a descent, ensuring the business meets its long-term commitments.

Most businesspeople prefer to engage in Ascending Activities. They are exciting and enjoyable. They are particularly common in low-interest-rate environments, facilitating easier access to capital and encouraging investment and expansion. As Warren Buffett relayed in his 1995 Shareholder Letter, Peter Drucker once remarked:

I will tell you a secret: Dealmaking beats working. Dealmaking is exciting and fun, and working is grubby. Running anything is primarily an enormous amount of grubby detail work... dealmaking is romantic, sexy. That's why you have deals that make no sense.^d

This is partly why companies often loudly announce new hires, capital raises, and investments. Yet news of layoffs, write-downs, and the unwinding of foolish boondoggles tend to be shared more quietly.

As in hiking, it is true in business that descent introduces more perils than ascent. It is far more costly to a company's reputation to fire poorly, ungraciously, or unsympathetically than to hire badly.

^c Bakuli, G. M. *2022 Annual Letter*. Mutoro Group LLC. Available at: <https://www.mutorogroup.com/notesandletters/2022/annual-letter/?1>. Accessed February 14, 2024.

^d Buffett, W. E. *Chairman's Letter - 1995. Berkshire Hathaway*. Available at: <https://www.berkshirehathaway.com/letters/1995.html>. Accessed February 14, 2024.

Descending Activities tend to become more common in environments with higher interest rates and tighter capital conditions, as seen in the previous year. During such times, companies tend to focus more on cost management and operational efficiency rather than pursuing top-line growth. Although less glamorous, these Descending Activities are crucial for a business's survival and sustainability.

In both Ascending and Descending business activities, foresight, awareness, and tenacity are essential, just as in hiking. How a firm handles Descending Activities often distinguishes those that survive and thrive from those that falter. To put it simply, if a company does not handle Descending Activities well, it won't have a chance to ascend again. The point of the game is to ascend, but a company cannot survive if it only descends well. A balance between the two activities is necessary for a company's success. And more strategically: while it is challenging, most companies perform better when they are ascending as their competitors are descending, and vice versa.

Most of the businesses we own ascend and descend well. In 2023, our largest holding, Company H, which constituted 23.4% of our portfolio, exemplified the importance of mastering both ascent and descent in business. It is in the *Business of Building Meaningful Connections and Relationships*.^e The company not only tightened its costs, but also ventured into diverse revenue streams, especially in e-commerce and advanced technologies. Along with the maturation of previous strategic capital investments, this increased operating margins and drove robust revenue growth. This approach, akin to a careful and strategic ascent and descent on a challenging hike, contributed to the company's share price nearly quadrupling from the start of the year. Company H is in Tranche A.^f

In 2023, another business we own, Company G, our third largest holding and 8.5% of our assets, showcased a similar skill at Ascending and Descending Activities. It is also in the *Business of Building Meaningful Connections and Relationships*. Under new leadership, the company revitalized its operational structure, focusing on continuous innovation and unmet customer needs to promote sustainable long-term growth. These initiatives, coupled with disciplined financial management, led to strong financial performance, marked by record operating income margins exceeding 30%. Company G's ability to balance growth-oriented innovations with efficient operations mirrors our investment philosophy of valuing companies that navigate well both the ascent and descent in business. Its shares did not reflect this in 2023, though, falling 12.0%. It has recently announced a share buyback program equaling 10% of its market cap. Its shares have still barely budged. Company H is in Tranche B.

As I wrote in my *Q3 2023 Letter*:

Outside of their experiences in the stock market this year, the biggest difference between Tranches A and B is that market participants pricing shares in the latter seem more sensitive to interest rates. This is not to say that the underlying performance of the businesses in Tranche B are more sensitive to rates. They are growing admirably and profitably. The marginal

^e Bakuli, G. M. *Q1 2023 Letter*. Mutoro Group LLC. Available at:

<https://www.mutorogroup.com/notesandletters/2023/q1-letter/?1>. Accessed February 14, 2024.

^f To analyze our portfolio's current structure and performance, in 2023 I split the portfolio into two tranches, A and B. Tranche A comprises 10 of our 13 holdings, or 77% of our businesses. On December 31, 2022, this represented 48.7% of our assets under management. By December 31, 2023, this was 70.1% of our assets, its price having increased 74.7% on the year. The second tranche, *Tranche B*, consisted of the remaining three holdings, or 23% of our businesses. It represented 40.1% of our assets under management at the end of 2022. On December 31, 2023, Tranche B was 24.8% of our assets, having experienced a price decline of 25.2% on the year.

investor is just more impatient and pessimistic about them under the current interest rate regime. At some point that will likely turn to patience and optimism, perhaps to no credit of management but likely to our benefit.^g

This still seems to be true. I think our managers in Tranche B have done the best they can with the trail conditions their industries face.

It wasn't just in our portfolio. From Q4 2021 through Q4 2023, my focus was intensely on Descending Activities. Aside from financial planning, I scrutinized our operations with the same diligence and caution one would exercise while navigating a treacherous descent on a hike. But I still made sure to focus on the growth and expansion of Ascending Activities. So far it has paid off. The strategic advisory firm I founded, Pioneer Strategy Group (or "PSG")^h, has met some early success solving client problems. I am optimistic about its future and how it will benefit our investments and operations, both in our public company portfolio and future private company investments. Recently, after its first 23 months of consistent operations, PSG exceeded \$1 million in revenue.

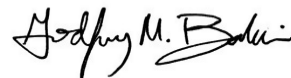
The table below shows the composition of our portfolio at the end of the year.

U.S. Public Equities	82.2%
European Public Equities	10.0%
Cash and Cash Equivalents	5.1%
<u>U.S. Options</u>	<u>2.7%</u>
Total Portfolio	100.0%

Table 1: Portfolio composition

Thank you for your ongoing partnership, investment, and confidence. I welcome your thoughts and questions. I have attached at the end of this letter a list of the books I read in 2023. I would love recommendations if you have read any others recently that I should read. If you would like to add to your investment or know someone who might like to join us, please feel free to reach out. There will be ups and downs, but we will keep climbing.

Sincerely,




Godfrey M. Bakuli
Founder & Managing Partner

^g Bakuli, G. M. *Q1 2023 Letter*. Mutoro Group LLC. Available at: <https://www.mutorogroup.com/notesandletters/2023/q3-letter/?1>. Accessed February 14, 2024.

^h Pioneer Strategy Group LLC. Home. Available at: <https://www.pioneerstrategy.co>. Accessed February 14, 2024.

Godfrey M. Bakuli's 2023 Books

Favorites = 

Ultralearning
by Scott H. Young

On Writing
by Stephen King

How to Be a Friend
by Marcus Tullius Cicero

Electric Dreams
by Philip K. Dick

The Cold Start Problem
by Andrew Chen

Untamed
by Glennon Doyle

Talk of Champions
by Kenny Smith

Wenger
by Arsène Wenger

The Caesars Palace Coup
by Max Frumes and Sujeet Indap

The Sunset Limited
by Cormac McCarthy

Strengthsfinder 2.0
by Don Clifton

Poverty, by America
by Matthew Desmond

Good for a Girl
by Lauren Fleshman

Running While Black
by Alison Mariella Désir

The High-Beta Rich
by Robert Frank

How Brands Grow
by Byron Sharp

Overcoming Passive-Aggression
by Tim Murphy and Loriann Oberlin

Counting
by Deborah Stone