	2019 Return	11 Year Annualized	Value of $10M	Correlation to the S&P 500
Prime Long Only (Gross) (150% Long)	67.75%	35.25%	$270.7M	0.55
Benchmark: **S&P 500 Total Return, w/ Dividends**	31.49%	15.30%	$47.9M	1.00
Prime Traditional Long/Short (Gross) (125% Long, 60% Short)	35.95%	22.15%	$90.4M	0.22
Benchmark: **HFRX Equity Hedge Index**	10.71%	2.18%	$12.7M	0.82
Prime Ultra Hedged Unlevered (Gross) (100% Long, 90% Short)	15.40%	13.97%	$42.1M	-0.02
Benchmark: **HFRX Market Neutral Index**	-1.87%	-0.76%	$9.20M	0.18

Dear Investors and Friends,

We hope everyone had a good year, both personally and financially.

In 2019 we took a year off from writing an annual letter, for our sake and for yours, after writing several lengthy annual reports over the years. We decided to focus all of our attention on doing the work you count on from us—painstaking research into companies that may be undervalued (or overvalued), and careful stock selection. And it seems to have worked out well; we had one of our best years in 2019.

For the year our Long Only portfolio was up 67.75% (gross), and our Long Only Unlevered portfolio was up 44.61% (gross), while the S&P 500 was up 31.49%. Our hedged portfolios also performed exceptionally well, with our Traditional Long/Short portfolio up 35.95% (gross), and our Ultra Hedged Unlevered portfolio up 15.40% (gross); while the HFRX Equity Hedge Index was only up 10.71%, and the HFRX Market Neutral Index was down -1.87% during 2019.

We love writing about what we do and why we do it. That is why we have covered so much in past years—from our investment philosophy to our risk management approach to our actual research processes leading up to buy/sell decisions on numerous companies we've invested in (and shorted). In big-picture terms, through the 100+ pages we've written in past annual reports, we have probably already said everything there is to say about who we are and how we operate. So this year, we will walk a more modest path with our report. We'll simply talk about a few sample companies, summarize our overall performance, and refer you back to previous years should you wish to go into more detail on our investment approach. Ultimately, performance says everything. The rest is only commentary.

And our performance speaks volumes. Since inception, our Long Only product is up 2,669.68% (gross) and our Traditional Long/Short product is up 803.69% (gross). One million dollars invested with Prime eleven years ago would be worth $6.19 million (net of fees) if invested in our Traditional Long/Short

fund, and $15.42 million (net of fees) if invested in our Long Only portfolio, through 12/31/19. By contrast, that same million would be worth only $0.92, $1.27, or $4.79 million, respectively, had it been invested in the HFRX Market Neutral, HFRX Equity Hedge, or S&P 500 indexes. In terms of annualized gain, our Long Only fund has been outperforming its benchmark (the S&P 500) by 19.95% annually, while our Traditional Long/Short fund has been outperforming its benchmark (the HFRX Equity Hedge Index) by 19.97% annually, since we started the firm.

All of our performance, since day one, has been based on picking the right companies.

Why do we pick the companies we do? As we've discussed in the past, we evaluate many factors, but if we had to break it down in the most simplistic of terms, we like companies that have: (1) a wide moat or sustainable competitive advantage, (2) a great management team, and (3) a huge runway, or market opportunity. To find the very best companies, we research and read as much as we can. We meet and we share perspectives with one another. We argue, we defend, we listen, we adjust. When possible, we try to experience the company's products and services firsthand by trying them ourselves, as we did with a Tesla vehicle before committing to buying that stock. And then we research and we read some more. This process allows us to find the needle in the haystack, and although it requires great effort, it is all worthwhile when we uncover the performance potential of these "buried gems."

There is not much we enjoy more than zeroing in on a position, studying it from all angles, and coming to the conclusion that it is significantly undervalued. We evaluate each company and its prospects from as many angles as possible, to ensure there are no contradictions in our theories. We endeavor to understand the intricacies of the company, catch the vision of where it is headed, and evaluate every shred of the bull case as well as the bear case – so that our thesis makes sense from every perspective. That is when you know you are on to something; when it makes sense from all angles. We simply put in the work required to identify the best investment opportunities.

To outperform the market by nearly 20% per year – which our Long Only portfolio has done, averaging 35.35% per year (gross) – while only investing in highly-liquid publicly-traded companies, with no options or derivatives, is quite remarkable. With our 36% gross outperformance of the S&P 500 this year, we can write a 50-page report on each company in our portfolio. That being said, there are two companies and cases we'd like to highlight today which we think you may find particularly enjoyable. One is a short story on not getting high on too much supply, and the other can aptly be titled A Broken Moat.

A "Short" Story: Not Getting High on Too Much Supply

On January 31, 2019, we began shorting Canopy Growth Corporation (NYSE: CGC), a marijuana producer and distributor.

At the time, its market cap was about $17 billion. Today, about one year later, its market cap has fallen to $4.7 billion. To be blunt, we believe CGC could be worth zero.

To us, this was a classic case of investors getting overzealous and passionate about a "growth industry," with its "massive potential"—but not objectively analyzing the details of the business's economics and industry dynamics.

The stock is down over 70% since we started shorting it, and the company will likely go bankrupt… or at best be recapitalized, wiping out all the current investors' equity and debt. Bold statement, I know. Why do I feel comfortable making it? Sometimes the core business fundamentals are easily overlooked.

Here's our basic business case for shorting CGC: it takes as much space to grow a pot plant, which "feeds" hundreds of customers and produces product for years, as it does to grow a head of lettuce, which can only feed two or three people. Therefore, given enough time, pot prices should approximate the price of lettuce over the long run. At the time we got into our position, however, pot was selling for $600 per pound vs. 55 cents per pound for lettuce.

That kind of irrational imbalance, unsupported by reality, simply can't sustain itself. Once you realize that, everything else is elementary. It's all about basic economics.

Usually it takes reams of information and countless hours of research and thought for us to come up with a good idea of a company's intrinsic value—and then to assess whether it is being mispriced by the market. In this case, however, the key ideas simply *flew* off the page. The big ideas are always the most important ones to understand when evaluating a company. The details are important too, but in this particular case, the main points were so compelling they stood on their own.

The beautiful thing was that once we understood the main points and started diving more deeply into the supporting facts, the details not only verified our initial thesis but showed us that the situation was much worse for CGC than we even initially thought.

I won't go into a long dissection of each and every point but I'll mention just a few...

First of all, pot is now *legal* in a fast-increasing number of countries. It is being grown more and more openly around the world. Columbia has legalized it. Mexico is growing it. The entire world is taking up the cause. Until now, the only constraint was the land needed to produce pot. Now that America, Canada, and the rest of the world have blessed pot, and are legalizing it, land is no longer the constraint. It's now just a matter of time – and it only takes six months to grow a whole pot plant! We are only in the first inning of this game. In Canada alone, CGC has enough production capacity to produce enough pot for *all of Canada* by itself. And there are hundreds of other companies, and thousands of producers, that can supply it as well.

Not only does it take very little space and resources to grow pot, but a pot plant can also be grown fast, and it can be harvested, as I said, for a long time. In six months you have a healthy thriving plant that can supply hundreds of people, in the same growing-space as a head of lettuce. Now add this fact: tens of billions of dollars are being thrown at this product around the world. Because pot has so much sex appeal, and because there is so much enthusiasm behind its becoming legal, the whole world is putting money behind it—all at once.

However, just as in the famous Tulip Mania phenomenon of the 1600s, the enthusiasm is excessive and unwarranted. With so many countries, companies, and individuals growing pot in their fields and back yards (yes, it is now legal in many countries to grow it for yourself), there is going to be such a glut on the market that prices are bound to collapse. During the tulip craze, the price for the prized flower got so far ahead of its intrinsic value that a single bulb of certain strains was selling for *ten times the annual salary of the average Dutch craftsman*. But tulips weren't very hard to grow. A correction of this irrational situation *had* to occur.

Does history repeat itself? Well, it's clear that the pot bubble is already losing air fast, and that CGC is pretty well doomed—as is the entire industry and anyone trying to make fast money from buying stock in it. We won't get into a philosophical discussion about the pros and cons of the product itself, but monetarily, it's game over.

There are numerous other data points and facts that further substantiate our view. For the sake of brevity, we'll omit them here. But the central idea—that pot logically should approximate the price of lettuce over time—is so simple. It's that differentiated business perspective that makes these companies so obvious to us. As with many of our ideas, this thesis becomes obvious after you hear it. The fact is, we haven't heard anyone else – on or off Wall Street – discussing this aspect of the industry's economics. That's why we love ideas like this. And that is why we "lock on" to investments like this one and are so confident in their future prospects, positive or negative.

If you were alive in the 1500s, would you invest in a company selling hand-printed books for a thousand dollars apiece when you knew the printing press had just been invented? Of course not. We're in a similar scenario here—cheap, plentiful pot is definitely going to be available; that just makes logical, intuitive, inarguable sense. And we saw it coming sooner than others. We're not bragging here, just making a point—about our future, and about your comfort level with our ideas and investment approach.

We've maintained our short position as CGC has fallen from $17 billion to about $4.7 billion, where it is now. As it approaches $3 billion, due to our conservative risk management parameters, we plan on dramatically reducing our position, even though we think it has further room to fall.

A Broken Moat

We always look for companies with wide moats—sustainable competitive advantages. But the thing about moats is they don't last forever. Even for the most well-positioned companies, circumstances eventually change, new technologies come along, and competitors with new ideas eventually arrive on the scene.

If you were analyzing industries and companies eight years ago (as we were), you probably would have ranked the moat that FedEx enjoyed as among the widest and deepest of any company out there, given the massive amount of capital needed to replicate its operation and infrastructure (trucks, planes,

delivery centers). As evidence of this moat, for many years, FedEx was one of only two major companies dominating the industry (along with the USPS). In addition to its inherent competitive advantages, FedEx also was a main beneficiary of the growth of e-commerce, which signaled a massive increase in demand for package-delivery services. When we looked at FedEx, we saw a company with a wide moat, great management, and terrific long-term growth opportunities, which, considering all the facts, was significantly underpriced at the time. This analysis led us to invest in FedEx, which was a profitable position for us.

Then, the facts changed.

We pride ourselves in working hard to be unemotional and agnostic at all times. Because we take that approach, we constantly monitor the facts and premises for each of the companies and industries we are currently invested in (on the long or short side), as well as for companies we are researching as potential future investments.

In FedEx's case, in our view, the wide moat it had enjoyed for so many years had evaporated. And the major cause of that evaporation? One word: Amazon.

We have a rule, never go against Amazon. (Unless and until the facts change for Amazon.)

Because of what Amazon has started doing in the shipping and logistics arena, even one of the best defended companies in the world, with one of the widest moats—FedEx—loses its investment appeal.

In March of 2019, we came to realize how—despite the *words* of FedEx management, which for many years had been proclaiming that Amazon had no effect on them and wouldn't be able to compete with them–Amazon was going to significantly disrupt FedEx's business and earning power. Over time, Amazon positioned itself to start its own full package delivery arm, which simultaneously reduced its reliance on delivery providers such as FedEx. As further evidence of Amazon's decreased reliance on FedEx, in December 2019, Amazon blocked sellers from using FedEx Ground for Prime shipments – which partly caused FedEx's stock price to decline 10% in a day.

We believed the ramifications of Amazon's owned and operated delivery operation would hurt FedEx dramatically. The "hurdle" for delivery investments to make sense for Amazon is significantly lower than it is for FedEx. Amazon can afford to break-even on the actual delivery service – *if* that service fuels faster deliveries, which causes more orders on Amazon. In other words, Amazon can earn a greater profit from the increased volume of orders (and the profit associated with those orders), rather than the delivery itself.

And on top of all of that, in the meantime, because of its massive scale, it can eventually build out a full-fledged delivery service that *can* earn healthy profits while undercutting FedEx's prices.

Ultimately, we got out of FedEx in March of 2019 at around $180 per share. By the end of the year, FedEx dropped 16% while the S&P 500 was up 14%. We think it could go down further from here, as Amazon's rapid expansion into this sector will become deafening.

Increased Volatility = Increased Opportunity

As we're putting the final touches on this report, the world is in the midst of the coronavirus pandemic. In this challenging time, we hope that you and your families are remaining safe and healthy. As we have all been reminded, there is nothing more important than our health and well-being.

During this time of heightened uncertainty, the volatility in financial markets has increased significantly. For anyone investing in the equity markets with a very short-term time horizon, volatility can be exceedingly painful. They can see the value of their securities sharply decline in a short period of time.

However, for the investor that invests with a long-term view on value – which we most certainly do – volatility can be your friend. We love volatility. With prices moving dramatically (in either direction), we are seeing increased inefficiencies in the market, and more investment opportunities. With increased volatility, comes increased opportunity.

For investors that want less exposure to the market, we recommend our Ultra Hedged Unlevered portfolio. In Q1 2020, in the midst of the coronavirus-induced volatility, the Ultra Hedged Unlevered portfolio is up over 26% (gross), while the S&P 500 is down 20%. Moreover, it was up in each of the first three months of the year. Since inception, even with a low net exposure, it has averaged 13.97% per year (gross) through 2019, with a negative correlation of -0.02, while the HFRX Market Neutral Index has averaged negative -0.76% per year, with a higher correlation of 0.18 to the S&P 500. Ultimately, we believe the most important variable for long-term outperformance in the market is to have the business sense to consistently identify companies that are significantly undervalued (and overvalued on the short side).

2019 was another exceptional year. As always, we thank you for placing your trust in us. We will continue to research companies intensively, and do the detailed work required to find the very best investment opportunities. We look forward to many more successful years.

All the best,

Pouya David Yadegar

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PERFORMANCE AND PORTFOLIO: Prime Opportunities Long/Short Composite performance results reflect time-weighted rates of return, the reinvestment of dividends and other account earnings, and are net of applicable account transaction and custodial charges, and Prime’s performance based allocation. The reinvestment of dividends and other earnings may have a material impact on overall returns. Valuation is computed and performance is reported in U.S. dollars. All Prime products are subsets of a single core portfolio, with the same securities. Returns for Ultra Hedged Levered portfolio reflect the performance of the Prime Opportunities Long/Short Composite. “Long Only Unlevered,” “Long Only,” “Traditional Long/Short,” “Ultra Hedged Unlevered,” and “Ultra Hedged 50% Cash Unlevered” performance represent the stock performance of Prime Opportunities Long/Short Composite, adjusted based on each portfolio's level of hedging and leverage. Prime has never used options on our long positions. Options on our short positions were used in the past on two securities, but have not been purchased for four years, and when bought were limited to Deep-in-the-Money LEAP puts for tax efficiency. Prime does not anticipate any use of options going forward.

Returns for Prime's Ultra Hedged Levered portfolio reflect the performance of the Prime Opportunities Long/Short Composite. Returns for subset products "Traditional Long/Short", "Ultra Hedged Unlevered", "Ultra Hedged 50% Cash Unlevered", "Long-only", "Unlevered Long-Only" are illustrated net of fees and subject to a high water mark, and do not include cash or cash equivalents. Actual long exposure of the Prime Opportunities Long/Short Composite used for all products, with the following maximums: Ultra Hedged Unlevered and Long-Only Unlevered: 100% long exposure; Ultra Hedged 50% Cash Unlevered: 50% long exposure; Traditional Long/Short: 125% long exposure. Actual net exposures of the Prime Opportunities Long/Short Composite used for all Long/Short products with the following exception: Returns for Traditional Long/Short are illustrated using actual net exposures of the Prime Opportunities Long/Short Composite through July 2010, with 125% long exposure and 60% short exposure thereafter; the Prime Opportunities Long/Short Composite first surpassed 125% long exposure in July 2010. Floor for all products: 0% short exposure. Gross returns for subset products were calculated on a monthly basis using figures from the Composite as follows: ((Product long exposure / Composite long exposure) * Composite long contribution)) + ((Product short exposure /Composite short exposure) * Composite short contribution)). Net returns of subset products represent actual fees of the Prime Opportunities Long/Short Composite product, and were calculated using the Prime Opportunities Long/Short Composite gross return to net return ratio.

"Long-only performance" as illustrated in this report represents the long only stock performance of the Prime Opportunities Long/Short Composite. Returns were reduced by a simulated incentive fee of 20% of all profits, charged quarterly through 12/31/13, represent actual fees of the Prime Opportunities Long/Short Composite through 12/31/14, and represent actual product fees thereafter.

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