Annual Returns

	Prime Long/Short (Gross of Fees)	Prime Long/Short (Net of Fees)	HFRX Equity Hedge Index	Long Only Unlevered (Gross of Fees)	Long Only Unlevered (Net of Fees)	S&P 500, Including Dividends
2009	58.06%	40.71%	12.94%	97.32%	77.38%	34.23%
2010	123.94%	95.43%	8.92%	100.69%	75.60%	15.06%
2011	26.65%	18.91%	-19.08%	13.56%	6.18%	2.11%
2012	16.19%	16.19%	4.81%	18.64%	18.64%	16.00%
2013	62.48%	56.81%	11.14%	84.41%	77.60%	32.39%
2014	-6.94%	-7.31%	1.42%	1.09%	0.59%	13.69%
2015	3.32%	2.49%	-2.33%	0.44%	-1.24%	1.38%
2016	0.16%	-0.88%	0.10%	8.61%	7.83%	11.96%
2017	0.27%	-0.17%	9.98%	14.33%	13.10%	21.83%
2018	-18.36%	-18.37%	-9.42%	-18.67%	-18.86%	-4.38%
2019	35.96%	35.72%	10.71%	44.72%	41.41%	31.49%
2020	295.92%	252.42%	4.60%	180.76%	157.82%	18.40%
2021	-29.30%	-29.26%	12.14%	-15.58%	-14.98%	28.71%
Annualized Return	**26.23%**	**21.60%**	**3.02%**	**28.98%**	**24.32%**	**15.77%**
Total Return: 2009-2021	**2089.11%**	**1234.62%**	**48.31%**	**2813.51%**	**1688.71%**	**595.98%**

Dear Investors,

Over the past eighty years, no form of wealth creation has been as robust and fertile as investing in publicly traded companies. Investors have made over $47 trillion in the US market alone. We love the market, and for good reason. The stock market—and all its craziness—has been our favorite place to grow our assets.

But here's the point we love to stress: it's not *in spite of* its craziness but rather *because* of it that we love the market. In the market's craziness lie long-term opportunities.

If you can approach the investment process with patience, we believe there is no better opportunity to create long-term wealth than in the equities market.

The Big Picture

Investing is all about the big picture, not the short-term gyrations. But before we delve into the big picture, let's talk about last year. Short-term performance is just one chunk of data—much like focusing on a few pixels on a TV screen instead of seeing the complete picture. It's partial information--incomplete. Our investment process does not overweigh the short-term view, as we believe much of what drives the stock price of a company over the short-term is random and ultimately not predictable with any consistency. I don't generally like to think along one-year timelines at all. The risk in doing so is to overfocus on some pixels and miss the bigger, more important picture. However, we believe it is possible to see the whole screen—or at least a big enough portion of it that the concept, and thus the opportunity, becomes clear. This is the path to maximizing risk-adjusted returns over our long-term investment horizon.

2021

Last year we were down across our portfolio. No one likes to see negative returns, and we acknowledge that poor performance over a calendar year can be stressful. And as stressful as the underperformance might seem, as investors we strive to eliminate the emotional response that often only serves to separate the individual from their investment at the worst possible time. As you may recall, we had our best single year ever in 2020 and as there is nothing magical about calendar year periods, it's important to view 2021 performance in context with the previous outperformance, as well as our positive view of the next few years. We ask that our investments (or any other) not be viewed over a few quarters but rather the next three to five years, and in that context, we believe 2021 is just another year that folds into the story of our long-term outperformance for our clients.

Why? Because I'm looking at more than just a few pixels. On a pure investment and stock-picking basis (gross return), each dollar invested in our Long Only Unlevered portfolio at our inception would have yielded $33.60 by now versus just $6.29 had it been invested in the S&P. Our Long Short fund on a gross basis would have returned $24.38 versus $1.48 had it been invested in the HFRX index of Hedge funds.

That is the big picture and the important picture. Stock picks take time to bear fruit. I aim to emphasize our true stock-picking ability here, because that is the bottom line and that is what keeps everything else in perspective. We have a high degree of confidence that the short-term blips are not a cause for concern. In fact, they are an integral part of the process. A cold snap in spring is not an indicator that summer isn't coming; it is a short-term, expected circumstance.

History shows that downturns have happened in the past, both with Prime and with the overall market long before we were around. To attain overall performance like ours, and to exploit idiosyncratic risk, downturns are integral to the investment process. Welcomed, in fact. The *overall performance number* is the ultimate trump card, and it *includes all those downturns* that have occurred over the past twelve years. This is the macro picture.

Patience and Stock Picking

We love to dig deep into the companies we invest in, and we invite you to dig deeper with us. The better you understand our thoughts and actions, the more conviction and confidence you will have in our management skills, and the better you will understand our strategies

The overall goal of this report is to help you understand the premises that drive our decision-making. It is our hope that the more you understand the premises, the more you will see that (a) everything we're doing has a logical, sustainable foundation, and (b) *patience* is a necessary factor. We are certainly convinced of the latter, after everything we've seen over the past twelve years and beyond. Patience is the very foundation of profitability when investing in public entities.

What We've Learned Over the Past Decade-Plus

Prime has been in business for 12+ years. During that time, we have sharpened our thinking in a lot of areas. We believe these ideas will hold as true for the next fifty years as they have for the past hundred-plus.

Market Efficiency Is a Myth

The underpinning of everything we believe since we launched Prime in 2009 came into focus for us recently through another research study. *(Source: Bessembinder, Hendrik (Hank), Wealth Creation in the U.S. Public Stock Markets 1926 to 2019 (February 13, 2020))* particularly astonishing data point that emerged from that study serves as the foundation for all our lessons and provides perspective.

What is that crucial data point? As mentioned above, the stock market has created over $47 trillion in earnings for investors over the past eighty years. That alone is great news as it shows the market has an ability to create wealth unlike any other vehicle. (And the beauty is all you must do is invest—you don't have to *run* any of these companies) But here is a data point that truly blows everything else out of the water:

Less than 1% of the U.S. publicly traded companies created *over 50%* of that $47 trillion value.

Two important premises flow from this:

- The stock market is HIGHLY inefficient. (If it wasn't, and if companies were priced correctly and "efficiently," then you would not have such a vastly lopsided outcome. Plain and simple.)

- If you can conceptualize which businesses are going to be successful, we believe your returns can be significant.

These two conclusions tear away at the heart of the efficient market theory and demonstrate that stock picking—i.e., understanding the underlying investments—is critical to outperforming, and has been for over eighty years. Provided you can identify the companies primed for success (and failure). And we argue that you can, *if* you have intense focus and a strong ability to conceptualize the future. That includes an ability to understand what people want and need, who are the best management teams, what products will be favored, who is making the right strategic decisions, etc. It’s complicated, but it *is* knowable. And we believe ultimately profitable.

The Stock Market Is a Crazy Place and We Love It

If the market *didn’t* go down and if we *didn't* have blips like those of 2021, then I'd be worried.

Does that sound crazy? Welcome to the stock market. Think of it this way: to find undervalued companies, don't the companies need to be mispriced in the first place? And mispriced significantly?

Asymmetry is an essential component of our investment philosophy. We strive to identify companies with vast upside potential, in our opinion, and very limited downside over the long run. We believe any capital lost in the short term with such advantaged companies is temporary, and the companies will reach their true intrinsic value over time. Our investment process, honed over 12+ years, is designed to mitigate both risks; we look for true value creation happening at our companies, buy them at a discount to their true expected value, and hold on to them for as long as we believe there is significant upside.

We believe the market is still absolutely the best place to build wealth. At Prime, we are finding truly undervalued companies that have good balance sheets, plenty of money and staying power, established products, great management teams, incredible innovation, and a huge addressable market—at the right price. Low downside over the long run, huge upside. As we see it.

Drawdowns Are Integral to the Market

If all pricing were rational, then all stocks would provide a fairly equal relative weighted return over time. And that clearly is not the case.

We have experienced this firsthand. Even a company as massively successful as Amazon, for example, has had huge drawdowns since we got into the stock twelve years ago. In fact, Amazon has been down over 25% *seven times* during that period! That is, it has been down

25%, recovered, then gone down 25% again. Seven times. Crazy, right? What did we do when this happened, though? We held the position. And from the time we initially got into Amazon in 2009, it is up 35-fold. The payoff for having patience and holding onto great, undervalued companies is staggering.

Why does a company like Amazon experience such ups and downs in its stock price? Simple: the market is irrational, and people like to gamble and play the short-term game. Let them keep doing it, we say. That's what provides us the upside opportunities.

Of the top-performing companies in wealth creation over the past ten years, Apple, Microsoft, and Amazon have made shareholders $1.47 trillion, $1.07 trillion and $812 billion dollars respectively. But what did investors have to endure to get there?

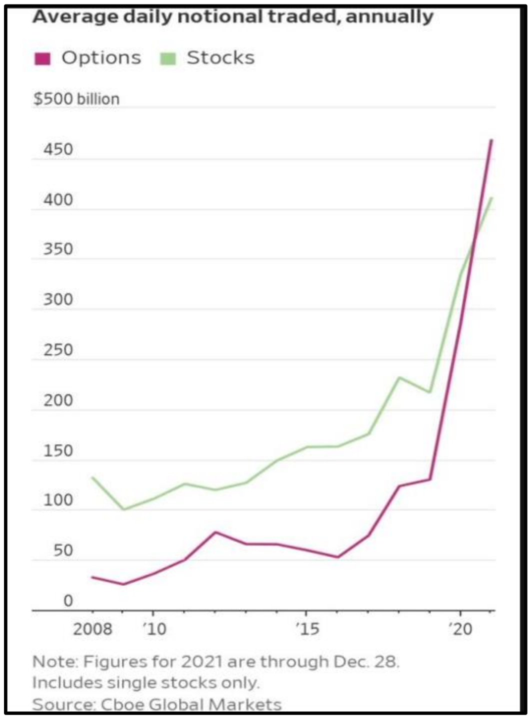
On no less than three occasions, Apple shareholders experienced drawdowns that exceeded 70%. Microsoft shareholders were subject to a 63% decline, and Amazon shareholders experienced a drawdown of 91%. Before Netflix made a 200X return, it dropped 80% from its peak.

In short, the lesson learned over our twelve-year history is that to outperform the market over the long term, we must stick to our processes when other market participants panic. We believe our long-term performance validates this approach.

A Gambling Mentality Prevails—and That's Good for Us

Most market participants are speculators gambling on outcomes, rather than investors seeking undervalued companies. Day trading in stocks and options is booming (short-term options at that).

The average holding period for a stock in the US is only about five months; down from over two years in the 1990s and from about eight years in the 1960s *(Source: NYSE, Refinitiv).* This short holding period is a function of algorithmic trading and general speculation.



In our view, there is a dearth of innovation and long-term thinking in the capital markets (stock investing and allocation), at least relative to the markets' size and importance to the world economy.

We Are Not Waiting on the Market to Be Rational

Reality prevails in the end, not the market's short-term opinion. Each business decision a company makes, each earnings call, each public announcement builds momentum for that company. The stock price follows—sometimes immediately, sometimes later. But it always gets there; it must. What do I mean? Well, could Chipotle, or Amazon, or Tesla (or any of the other dozens of companies we've successfully invested in) *not* have gone up? Had their stock price not gone through the roof, their respective PEs would have to be low single digits today, even with huge growth ahead of them. Thankfully for investors that growth is ultimately recognized, and stock prices rise to reflect that growth.

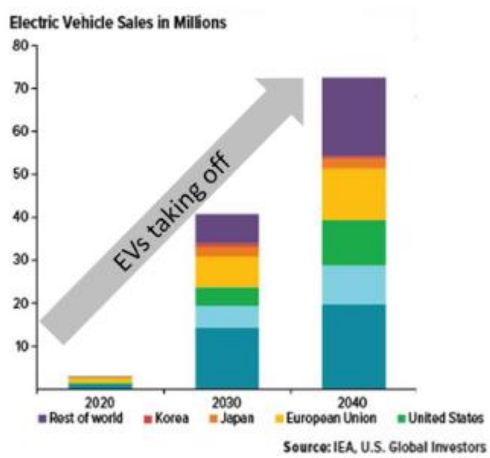
Rational Thought

There is almost nothing simpler than looking at what has worked in the past, and making associations.

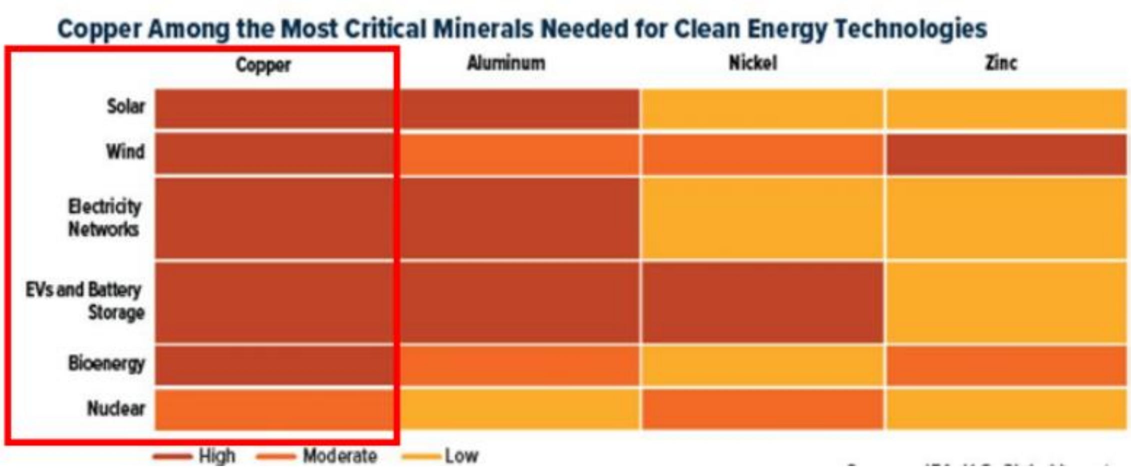
Lessons from the past help us make other great investment decisions. What we do is conceptualize business. Find innovation, and figure out which companies are delivering those innovations—even if they are simple. Making correlations, and connecting the dots does not have to be complicated, in fact the best business investments are simple.

Tesla to Copper

The end game of Tesla is that eventually all companies are getting in to building electric cars, something we argued they should have started eight years ago. For myriad reasons outlined in the 40+ pages we wrote about Tesla all the way back in our 2015 annual report (we invested in tesla in 2013), electric cars are the way to go. The next logical beneficiary? Copper…



Copper has emerged as among the most critical elements needed for clean energy technologies. We identified Copper companies were trading at 6 times trailing earnings, with copper prices going through the roof—and we believe even more so in the future.



Reality leads, stock prices follow. In short, either through competition, or by regulators forcing the adoption of electric cars, (electric cars need over 200 pounds of copper per car—about 5 times as much as internal combustion cars) there are only a few copper producers that control most of the supply, and it's VERY hard to add more supply. So as demand grows at a faster pace for electric cars and related energy products, we believe copper producers will continue to benefit.

We Have the Benefit of History, and We Know History Repeats Itself: T-Mobile to Dish Network

We've been in business long enough to see a lot of history unfold and to see that the past repeats itself, fortunately for us. For example, many patterns we have seen before in the telecom industry, in particular with T-Mobile—a position we opened in 2013—at about 1/7th of its value today (and wrote about extensively in the 2013 year-end letter) are playing out in the story of Dish, one of our current holdings. And we are taking advantage of that knowledge.

Let's look briefly at Dish's story:

Dish is trading at a current PE of less than 10x on a strong underlying business. And that is even after carrying the costs of additional overhead and heavy expansion into the telecom space (which we'll talk about in a minute).

Dish has a proven CEO in Charlie Engren, a man who played poker to support himself through college, then started selling satellite dishes door-to-door after college, and eventually started his own company, Dish.

Dish has been steadily accumulating bandwidth. Over the past ten years or so, it purchased over $60 billion dollars' worth of bandwidth, slowly and methodically.

Dish's current market cap is about $16 billion. Dish has plenty of cash flow and can raise huge amounts of additional capital if required. It recently went to market and raised a large round of capital at even lower rates than it was expecting. There is NO shortage of the money needed for Dish's buildout. The debt markets are throwing money at these telecom providers.

T-Mobile is a player here. You see, when T-Mobile wanted to buy Sprint, it faced significant resistance. The regulators did not want to allow the transaction as there were only four telecom carriers—which was already too few—and reducing the number to three would make the U.S. telecom industry even less competitive. But T-Mobile would gain tremendous efficiencies by consolidating both companies, and perhaps even more importantly, it would gain a treasure trove of additional bandwidth from Sprint—not to mention knocking out a competitor.

Here's where Charlie Engren—who is an extremely shrewd negotiator and businessman—steps into the picture. Engren says that Dish will become the fourth carrier/competitor. BUT, in true Charlie style, he wants everything. And he gets it. T-Mobile agrees to allow Dish to use T-Mobile's backbone and entire architecture for eight years, and in return is given over a million clients to start with *and* receives a huge amount of additional bandwidth to compete with AT&T and Verizon in the future. Full house. Or maybe even a royal flush.

The only players who get the short end of the stick are AT&T and Verizon. But there is nothing they can do. And it's not the end of the world for them because their industry is consolidated, at least for the short term.

So now Dish started to buildout its telecom infrastructure *throughout the United States*. They even brought on the head of technology and infrastructure from T-Mobile to help the buildout.

Moving forward—a flash flood is about to occur in the telecom industry—and we believe Dish shareholders will be significant beneficiaries:

You see, Dish is building a network *throughout* the United States. And the results show up almost at once. This is not an incremental build out—it is something that has never happened on this scale. It's like lights on, all at once. Dish will rollout 5G to 30% of the U.S. market this year and will cover 60% of the entire country the following year.

Dish has partnered with Amazon for its buildout, based on its next-generation backbone. Dish is going straight to 5G without having to mess with legacy infrastructure.

Telecom is still a growing industry, and is now moving into self-driving cars, replacing home cable with 5G cable, and more.

What will Dish do now? It will undercut the prices of the other carriers, just as T-Mobile did, to attract a huge user base. The other carriers, unable to justify their current market caps, won't want to massively drop their prices and create a price war. They will simply, with no choice in the matter, allow Dish to become the fourth carrier. Then, once Dish gains its market share, they will all inevitably raise prices, *just as happened with T-Mobile*. By that time Dish (and its stock price) will already have won the game. Let's explain further.

Dish, on its existing business with sub 10X earnings, has a market cap of about $16 billion. Which is reasonable from a buying perspective—even assuming the company was not getting into the telecom business. The SMALLEST enterprise value among its competitors is $250 Billion for T-Mobile, while Verizon and AT&T are $400 and $350 billion respectively.

We believe a company like Dish could be worth at least 5 times the current value in five years—and still have huge growth upside as a result of being in one of the best and safest industries in the world. A true low downside/high upside opportunity, in our view. Even at 10X growth, Dish will still be one of the smallest players in an expanding industry with tremendous pricing power, as the telecom industry is the backbone of communication in America that *cannot have any other competitors*. Let that sink in.

Logic prevails.

Why do I say this, and why do I give the Dish example? Because it shows that value investing is not about the stock market, but rather about having the mindset to find opportunities. And opportunities abound. Over the past hundred years, the top 10% of the S&P (theoretically the most efficient and most followed market in the world) has produced about 80% of the market's return. Which means there have always been undervalued companies. The landscape is abundant with such diamonds and has been for a long time.

There is almost nothing simpler than looking at what has worked in the past (read our analysis on T-Mobile) and applying the same logic again. T-Mobile, which shot up tenfold after we bought it, had many of these same characteristics early on—a great deal of bandwidth, a very smart CEO, and an underdog coming in as the smallest player in a huge industry.

Instead of worrying about the market, we find inspiration from the big picture *reality* is painting.

Should I Be Worried About Inflation (and Ukraine and Mid-Term Elections and Covid…)?

As we all know, COVID-19, in combination with several other factors such as the war in Ukraine, has had enormous effects on the global economy and has set off a round of inflation such as we haven't seen in a few decades. You may be wondering how this will affect your investments.

In our view, there is no better place to be than in our select, publicly traded companies for passing on price increases to consumers. When a company is providing so much added value to the end user/consumer and creating such a differentiated product or experience, it is highly sought after by consumers and thus has great pricing power.

The best example I can give is Chipotle. It costs more to go to the supermarket, buy food, and cook it at home than it does to go to Chipotle. Chipotle prices its food at less per gram than even McDonald's. It is an exceptional value.

Chipotle is relatively cheap compared to fast-casual rivals. Chipotle's core burrito/bowl prices range from $8.05 (chicken) to $9.40 (steak) in most markets, a noticeable discount to core sandwich/salad offerings at Panera (most $10-12), lower than Qdoba ($8.98-10.05), and also lower than the cost of a single cheeseburger + fries at Shake Shack ($9.24). The cost for a bundled meal (core item + soft drink) is also 6%-14% higher at Qdoba/Shake Shack/Panera, and around 33% higher at Five Guys.

And food expenses as a percentage of Americans budgets is dwindling—making food expenses a manageable expense.

Food as a share of household spending:
1800: 75%
1900: 39%
2020: 9%

The concern these days is not about unemployment—the economy is strong, and companies are having a hard time hiring people. So, Chipotle, and, we believe, many of the other companies in our portfolio can pass prices on to consumers relatively easily because they are providing so much value. These are the areas you want exposure to in an inflationary environment. Real estate is the other, but with capitalization rates and returns low and political risk (regulatory change, etc.) high, investing in undervalued public companies is a much better option. And, we believe, with much better returns.

Will Prime Run Out of Opportunities?

Question: What do the following brands and companies have in common?

Facebook, iPhone, YouTube, Instagram, Twitter, TikTok, Android, Bitcoin, Tesla, iPad, Gmail, Netflix streaming, Amazon Prime, SpaceX, Slack, Reddit, WhatsApp, Messenger, Google Maps, Snapchat, LinkedIn, Pinterest, Chrome, Zoom, Spotify, Airbnb, Uber…

Answer: twenty years ago, none of them existed.

Fifteen years ago, Steve Jobs unveiled the first iPhone and now there are more than a billion smartphone owners around the world. Gmail was launched in 2004 and currently has one and a half billion users. Facebook was also founded in 2004 and now has nearly *three* billion active users—well over a third of the population of the planet.

Game-changing companies are appearing on the scene with astonishing frequency and are taking less time than ever to achieve dominance in their industries. Is there any reason to believe such innovation and change will stop happening soon? Especially in a world where life-changing developments are occurring in fields such as AI, self-driving cars, quantum computing, robotics, nanotechnology, 5G, biometrics, and the Internet of Things?

As the future becomes more mind-bogglingly complex, is there any reason to believe that some of these fantastic new companies won't be drastically mispriced—especially in their early days? As economies make massive shifts to accommodate sweeping technological and lifestyle changes, is there any reason to believe enormous wealth will not be created for smart investors?

We don't think so. We believe our portfolio is populated with the Tesla's and Chipotles of tomorrow, and we are tremendously excited about watching their potential unfold.

Should I Be Worried About Volatility and Risk?

When it comes to market volatility, we can reduce our exposure to it, but we cannot eliminate it. Remember, it is the market's essential volatility, or skittishness, that creates opportunities for the patient investor.

That said, we do aim to reduce volatility within our portfolio. Our primary goal is not to just provide absolute return, but also to create a balanced portfolio.

Currently we are invested in four to six sectors, and even today 30% of our portfolio is at under 20X forward earnings. We purposely have low-PE, mid-PE, and high-PE companies. Also, as an anecdote: in none of those four years in which we had over 95% returns has any one stock represented more than 30% of our returns.

We are not a one-trick pony that's only in technology. Looking at 2019 and 2020—two recent high performing years—only one of our top five picks, and none of our top five investments, were in tech. Our performance comes from many industries and fields.

When it comes to risk, our investment process rests, as it always has, on a foundation of strong stock section and well-designed risk management practices.

- Invest only in highly liquid, publicly traded companies
- Limit the number of positions held—we currently have approximately 30 long and 35 short positions
- Invest only in well-established companies (our median market cap is currently about $28 billion on the long book and about $93 billion on the short book)
- Strict position-size limits
- Pre-defined leverage ratios that we adhere to by rebalancing on at least a monthly basis
- Maintain a long-term-value-based approach to each investment
- Diversify by investing in several different sectors on both the long and short side of the portfolio

- Finally, for every $2 billion in market cap, allow ourselves to take only a 1% short position

Each risk management parameter laid out above helps prevent us from falling into the high-risk hole that can cause other funds to close. The core reasoning behind each of these guidelines is to ensure that we can maintain our long-term mindset and continue to capitalize on our ability to understand operating businesses and identify mispriced opportunities.

Wrapping Up and Looking Forward

Twelve years in business has provided us a lot of lessons, experience, and insight. It has also provided us a lot of data.

After our first few years in business, people saw a pattern in our performance—or at least *looked* for a pattern in it. Now looking back after twelve years, our base conviction is confirmed: there is no "pattern." The only pattern is long-term.

The only pattern is to get in early and be patient. It is *very* hard to know exactly when things will happen. But what we *can* and *do* know is the value of these stocks over the long term.

When stock in a great company drops, it doesn't concern us because we believe stocks eventually reach their true intrinsic value. Understanding companies is simply understanding reality. Stock prices go up because these companies are providing a product or service that is creating tremendous value to the end user in the reality of today's world. That is what creates stock price appreciation. People's tastes, feelings, emotions, convenience, health, and happiness drive profits.

To outperform the market requires a disciplined approach and a drive to learn, combined with a conceptual ability to decipher real-world facts and premises. And, of course, it requires another key ingredient: patience.

In conclusion, we love analyzing companies. We love the companies in our portfolio, and we anticipate great things for them. For our long portfolio, our current five-year growth target on an annualized unlevered basis is about 39%. We also love the fast-changing world we live in, which we believe will allow us to continue to find amazing, underpriced companies in the years to come. From our perspective maintaining disciplined risk management, combined with business vision is the key to a sustainable winning formula.

We thank you for your continued trust and appreciate your support.

Pouya David Yadegar