

# TOP MARK CAPITAL MANAGEMENT LLC

Report For the Quarter Ended

September 30, 2024

416 13th Street

2nd Floor

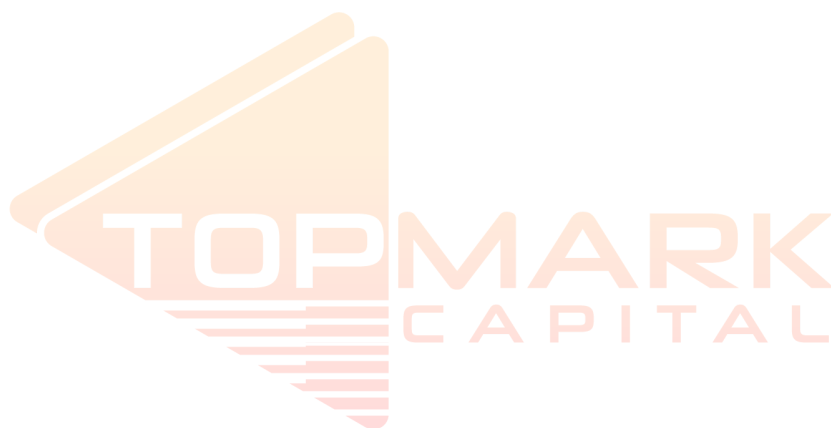
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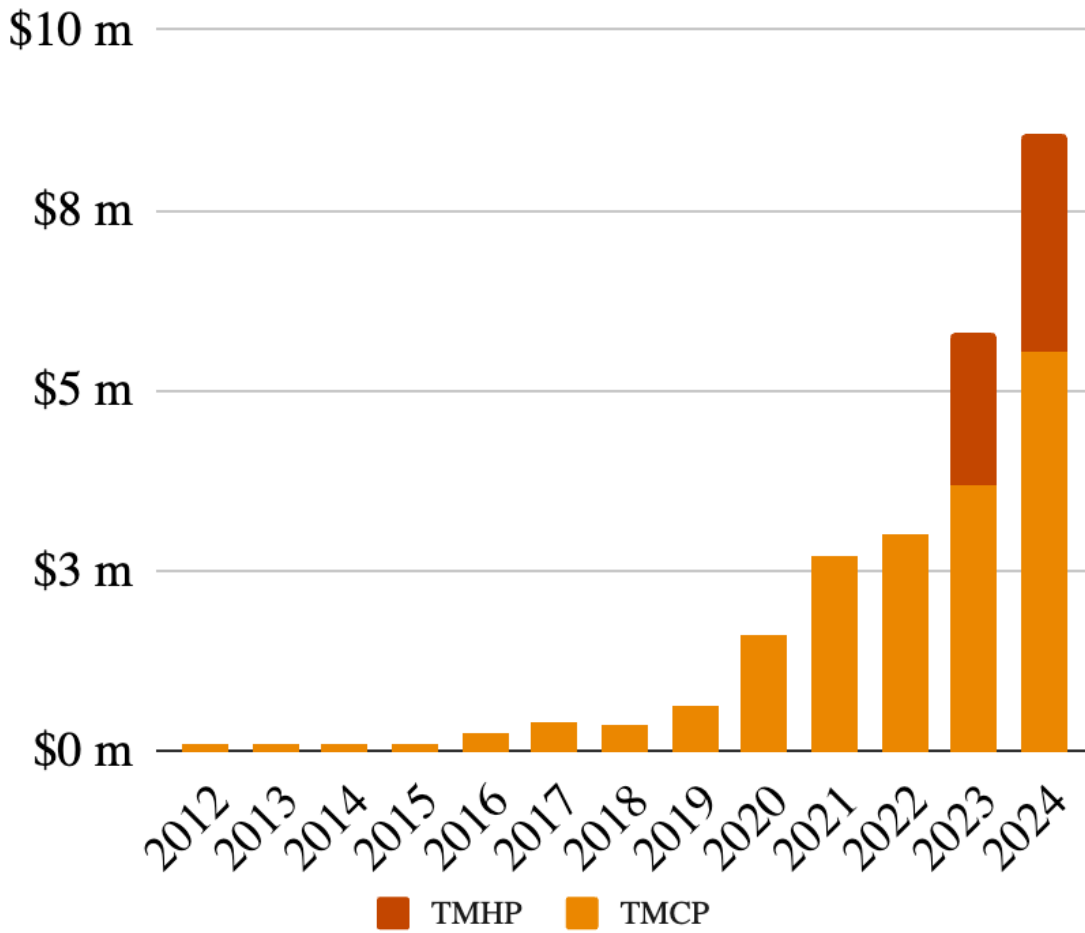
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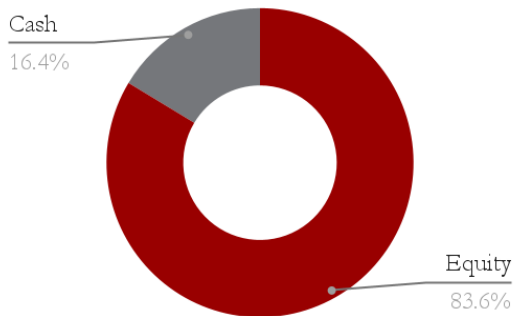
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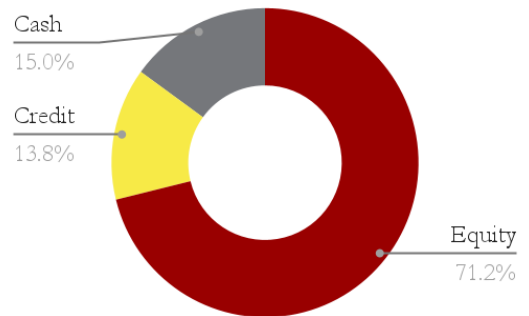
# ASSETS & ALLOCATIONS<sup>1</sup>



Top Mark Health Partners



Top Mark Capital Partners



<sup>1</sup> Net asset values of all funds managed by Top Mark Capital Management LLC as of the year ended, or in the case of 2024, as of Sep 30, 2024. Allocations by asset class are as of Sep 30, 2024.

Dear Partners & Prospective Partners,

Top Mark Capital delivered strong results in Q3 2024 across both partnerships. Top Mark Capital Partners (TMCP) achieved a net return of 4.6% (36% YTD), while Top Mark Health Partners (TMHP) generated an outstanding 22.2% (45% YTD).<sup>234</sup> While we are pleased to present these results, we encourage you to focus on long-term, cumulative results rather than these quarterly fluctuations. You'll find detailed performance figures in each partnership's respective section in the pages that follow.

<b>To: 9-30-2024, From:</b>	<b>TMCP % Net Return</b>	<b>TMHP % Net Return</b>
One Year	36%	45%
Five Years	193%	*
Ten Years	1241%	*
<i>Inception</i>	1250%	51%
<i>Annualized Since Inception</i>	<i>24%</i>	<i>31%</i>

In our essay this quarter, which you can find in the appendix, we draw connections between an article on management that went viral in silicon valley (“Founder Mode”), and a leadership seminar that Mike attended at the University of Rochester in 2014. In the essay we discuss how a previous wave of innovation, which we dub Management Quality, made great strides in addressing the principal-agent problem and the professionalization of the practice of business management. This Management Quality arc birthed the venture capital industry and

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<sup>2</sup> Net Performance figures are presented at the fund level, after management fees and performance fees

<sup>3</sup> Gross Performance figures are presented at the fund level, before management fees and performance fees

<sup>4</sup> Please review the Important Disclaimers on Page 33

provided impetus for Warren Buffett's famous pivot from investing in "fair companies at wonderful prices" to "wonderful companies at fair prices".

We believe Management Quality, as a factor driving excess returns, has largely run its course - meaning there are few opportunities (in developed markets) to earn excess returns by identifying superior Management Quality. However, drawing on Paul Graham and Michael Jensen's work, we propose Leadership Quality as a potential new factor driving excess investment returns now and into the future. Please do read the essay and send us your thoughts and feedback.

### **Investment Philosophy and Partner Outlook**

Top Mark Capital's approach to concentrated equity investing is unique, reflecting your manager's operational and investment experiences, enhanced by our ongoing efforts to expand our competencies.

As our Partner, you'll receive these quarterly letters offering insights into our strategies and performance. Formidium Fund Management Services, our administrator, will continue to provide quarterly account statements and annual audited financials. Please inform us if you miss any communication.

Given our long-term focus, we believe less frequent updates may better serve you by minimizing short-term market distractions. For those interested in more frequent updates, we invite you to listen to the Telltales podcast. Subscribe at [telltale.us](http://telltale.us) for episode notifications.

Our edge lies in our capital allocation skills and your patience as investors. This forward-looking perspective distinguishes us from short-term-focused investors and defines our Partnership's essence.

We're fortunate to be surrounded by like-minded, long-term investors. Outperformance comes from looking further ahead than the short-term crowd. Remember, we're an investment partnership, not a hedge fund, and we seek a different relationship with our Partners.

**If you share our temperament and perspective, we invite you to consider subscribing to one of our partnerships. The next contribution window for both TMCP and TMHP is January 1, 2025.** Please contact us to begin the process.

As always, we deeply appreciate your confidence and support.



A handwritten signature in black ink, appearing to be "Michael Nicoletti", with a long horizontal flourish extending to the right.

Michael Nicoletti

A handwritten signature in black ink, appearing to be "Jason Wallace", with a long horizontal flourish extending to the right.

Jason Wallace

# TOP MARK CAPITAL PARTNERS LP

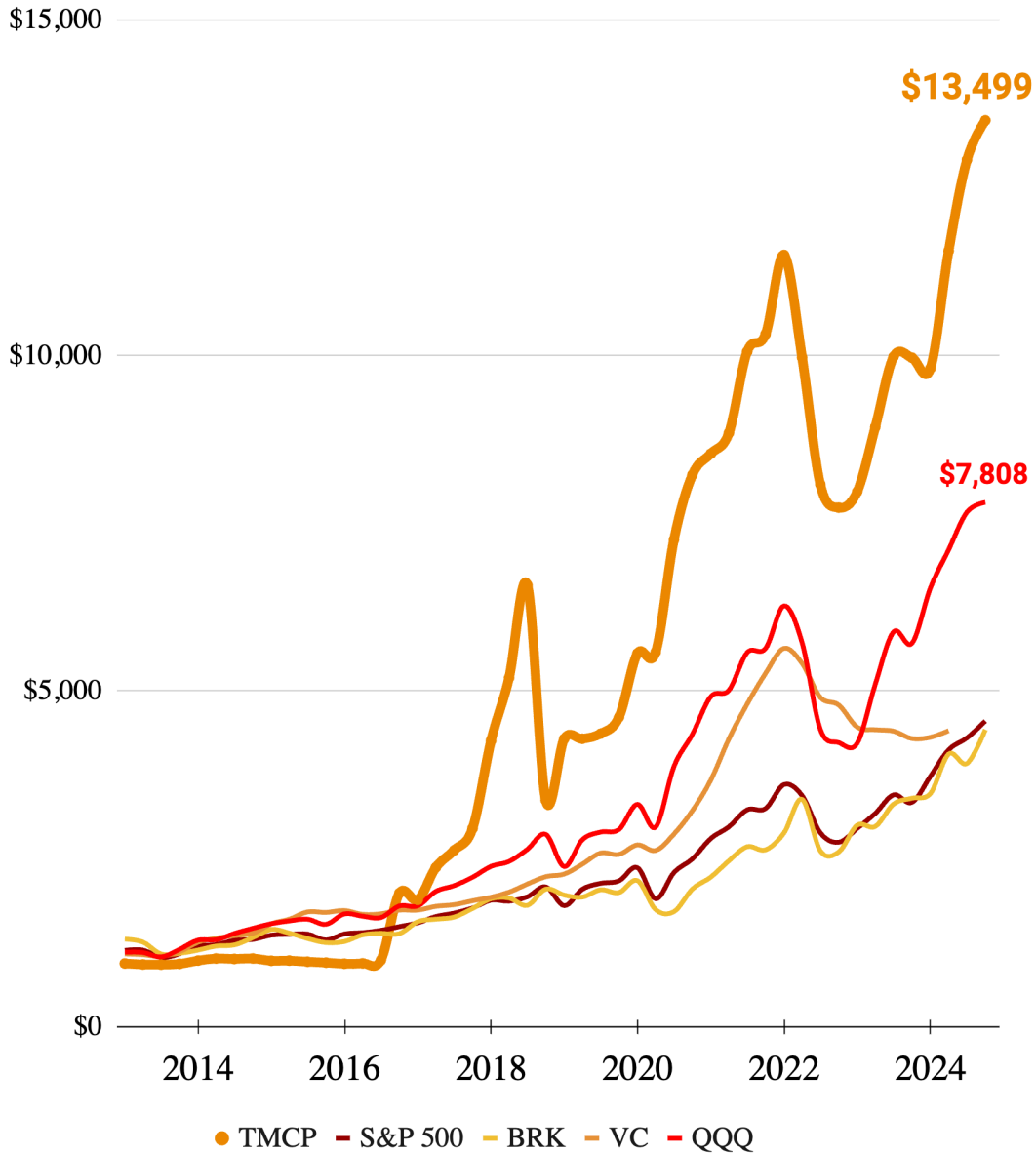
Partnership Letter

For the Quarter ended June 30, 2024



# PARTNERSHIP LETTER & PERFORMANCE UPDATE

## CUMULATIVE RETURNS ON \$1,000<sup>5</sup>



<sup>5</sup> TMCP figures are presented at the fund level, net of fees (i.e., management fees, costs, and performance fees). SPXTR: S&P 500 Total Return. BRK: Berkshire Hathaway Stock. QQQ: Nasdaq 100 Index ETF. VC Index: Cambridge Associates US Venture Capital Index. Please review the Important Disclaimers on Page 33.

## TMCP CUMULATIVE RETURNS TO DATE<sup>6</sup>

<b>To: 9-30-2024, From:</b>	<b>TMCP % Gross Return</b>	<b>TMCP % Net Return</b>	<b>S&amp;P 500 Total Return</b>	<b>Berkshire Hathaway</b>	<b>VC Index</b>	<b>QQQ</b>
One Year	37%	36%	36%	30%	3%	37%
Three Years	36%	31%	40%	68%	-16%	39%
Five Years	246%	193%	110%	122%	72%	166%
Ten Years	1922%	1241%	251%	234%	217%	434%
Since Inception	1960%	1250%	402%	434%	357%	734%
<i>Annualized Since Inception (October 1, 2012)</i>	<i>29%</i>	<i>24%</i>	<i>14%</i>	<i>15%</i>	<i>13%</i>	<i>19%</i>

Since Top Mark Capital Partners inception 13 years ago, our capital has grown at an impressive annualized rate of 24% (net), significantly surpassing the S&P 500's 14%. To date, TMCP's total return stands at 1250%, dwarfing the S&P 500's 402%. Our focus on high level thematics combined with fundamental cashflow based analysis has helped us find great companies with the potential for asymmetric upside.

Annual and quarterly returns data, going back to inception, are now located in the Appendix: *TMCP RETURNS DATA* on page 30.

More details on our portfolio allocation are highlighted in the following section: *Portfolio Update and Commentary*.

<sup>6</sup> TMCP % Gross Return is at the fund level before management and performance fees; TMCP % Net Return is at the fund level, net of all fees. SPXTR: S&P 500 Total Return. BRK: Berkshire Hathaway Stock. QQQ: Nasdaq 100 Index ETF. VC Index: Cambridge Associates US Venture Capital Index. We include the S&P 500 Total Return Index, a Nasdaq 100 index fund, Berkshire Hathaway stock, and the Cambridge Associates US Venture Capital index as gauges against other potential investments. These are not explicit benchmarks but provide a cumulative perspective. Please review the Important Disclaimers on Page 33.

## PORTFOLIO UPDATE & COMMENTARY

Below you will find a breakdown of each of TMCP's thematic holdings. Additional context on each of these themes can be found in previous partnership letters.

<u><i>Theme</i></u>	<i>% of Portfolio</i>				
	<u>9/30/2023</u>	<u>12/31/2023</u>	<u>3/31/2024</u>	<u>6/30/2024</u>	<u>9/30/2024</u>
Software is Eating the World	27%	31%	35%	37%	<b>33%</b>
Health	18%	28%	27%	28%	<b>31%</b>
TIIA	22%	14%	12%	10%	<b>13%</b>
Open RAN, 5G, & the Future of Wireless Networks	5%	5%	5%	4%	<b>5%</b>
Metals Powered Economy	3%	2%	2%	3%	<b>3%</b>
Semiconductors are the Teeth	6%	8%	2%	2%	<b>2%</b>
Hedge	3%	-3%	0%	0%	<b>0%</b>
Stocks, Convertible Bonds, & Private Credit	85%	85%	82%	83%	<b>87%</b>
<u>Cash</u>	<u>15%</u>	<u>15%</u>	<u>18%</u>	<u>17%</u>	<u><b>13%</b></u>
Total Partnership	100%	100%	100%	100%	<b>100%</b>

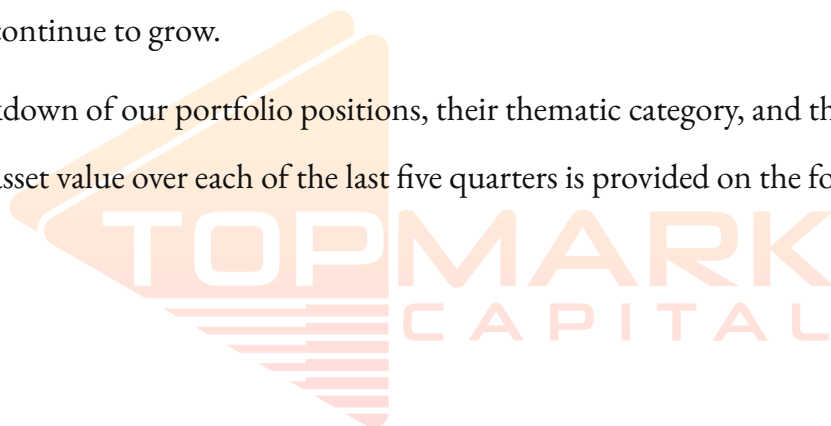
This quarter, our activity was rather muted. We will briefly highlight significant price fluctuations in two of our positions as well as a new loan we participated in with our venture debt partner, Agility Capital.

Lantheus Holdings, currently our largest position, saw a significant spike in its stock price in Q3 following a proposed rule by CMS (Centers for Medicare & Medicaid Services). This rule suggested boosting the reimbursement rate for diagnostic radiopharmaceuticals. As of this writing, the CMS rule was officially announced. These changes enable diagnostic radiopharmaceuticals to continue to be paid separately by CMS for traditional Medicare Fee for Service (FFS) patients in the hospital outpatient setting following the expiry of pass-through payment status. The final rule will go into effect January 1, 2025.

Detracting from performance this quarter, Celsius saw a significant price drop following weaker than expected growth and negative growth in the broader energy drink category. We believe these are minor speedbumps in a long term growth trajectory.

We originated a new loan with our venture debt partners, Agility Capital, during the quarter. The borrower, Coyuchi, stands out in the market for luxury organic textiles, particularly known for its commitment to sustainability and high-quality organic cotton products. Founded in 1991, the company has pioneered the concept of "conscious luxury," emphasizing the use of 100% certified organic fibers without synthetic fertilizers or GMO seeds, which appeals to environmentally conscious consumers. This short term facility matures March 1, 2025, and like our other loans, includes warrants, enabling us to participate in the upside as they continue to grow.

A full breakdown of our portfolio positions, their thematic category, and their respective percent of net asset value over each of the last five quarters is provided on the following page.



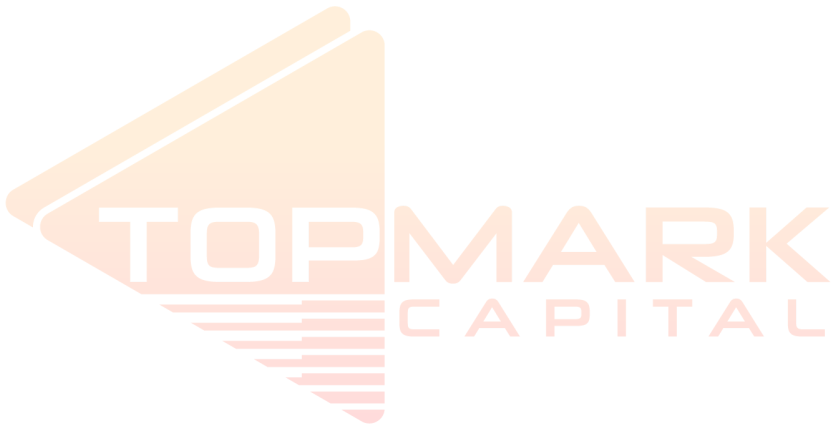
*% of Portfolio*

<i><u>Investment</u></i>	<i><u>Theme</u></i>	<i><u>9/30/2023</u></i>	<i><u>12/31/2023</u></i>	<i><u>3/31/2024</u></i>	<i><u>6/30/2024</u></i>	<i><u>9/30/2024</u></i>
Lantheus Holdings Inc	Health	9%	20%	17%	19%	<b>24%</b>
NVIDIA Corp	Software is Eating the World	12%	13%	20%	23%	<b>21%</b>
Microsoft Corp	Software is Eating the World	8%	9%	9%	8%	<b>7%</b>
Celsius Holdings, Inc.	Health	8%	8%	10%	9%	<b>7%</b>
CLI Studios	TIIA	7%	6%	5%	6%	<b>5%</b>
EchoStar Corp	Open RAN, 5G, & the Future of Wireless Networks	5%	5%	5%	4%	<b>5%</b>
Amazon.com Inc	Software is Eating the World	4%	5%	5%	4%	<b>4%</b>
Altria Group Inc	TIIA	4%	4%	4%	3%	<b>4%</b>
Coyuchi	TIIA	0%	0%	0%	0%	<b>4%</b>
Tesla Inc	Metals Powered Economy	2%	2%	2%	3%	<b>3%</b>
Taiwan Semiconductor	Semiconductors are the Teeth	2%	2%	2%	2%	<b>2%</b>
Snowflake Inc	Software is Eating the World	1%	2%	1%	1%	<b>1%</b>
Zan Compute	TIIA	1%	1%	1%	1%	<b>0%</b>
Seagen	TIIA	2%	0%	0%	0%	<b>0%</b>
Allison Transmission Holdings Inc	Metals Powered Economy	2%	0%	0%	0%	<b>0%</b>
HubSpot Inc	Software is Eating the World	2%	2%	0%	0%	<b>0%</b>
Activision Blizzard	TIIA	5%	0%	0%	0%	<b>0%</b>
ASML Holding NV	Semiconductors are the Teeth	5%	6%	0%	0%	<b>0%</b>
Invesco QQQ Trust	Hedge	3%	-3%	0%	0%	<b>0%</b>
Lifelink	TIIA	3%	3%	3%	0%	<b>0%</b>
Stocks, Convertible Bonds, & Private Credit		85%	85%	82%	83%	<b>87%</b>
<u>Cash</u>		<u>15%</u>	<u>15%</u>	<u>18%</u>	<u>17%</u>	<u>13%</u>
Total Partnership		100%	100%	100%	100%	<b>100%</b>

# TOP MARK HEALTH PARTNERS LP

Partnership Letter

For the Quarter ended September 30, 2024



## PARTNERSHIP LETTER & PERFORMANCE UPDATE

### TMHP CUMULATIVE RETURNS TO DATE<sup>7</sup>

<b>To: 9-30-2024, From:</b>	<b>TMHP % Gross Return</b>	<b>TMHP % Net Return</b>	<b>S&amp;P 500 Healthcare</b>
One Year	48%	45%	22%
Since Inception	55%	51%	24%
<i>Annualized Since Inception</i>	<i>33%</i>	<i>31%</i>	<i>15%</i>

Partnership interests in Top Mark Health Partners (TMHP) increased in price by a whopping 22% (net) in Q3. Since inception, 18 months prior, TMHP is up 51% (net), compared to the 24% gain of the S&P 500 Healthcare Sector index. It is safe to say that your managers did not expect returns to come this quickly, but we are finding unique sources of value in healthcare that are playing out in the portfolio.

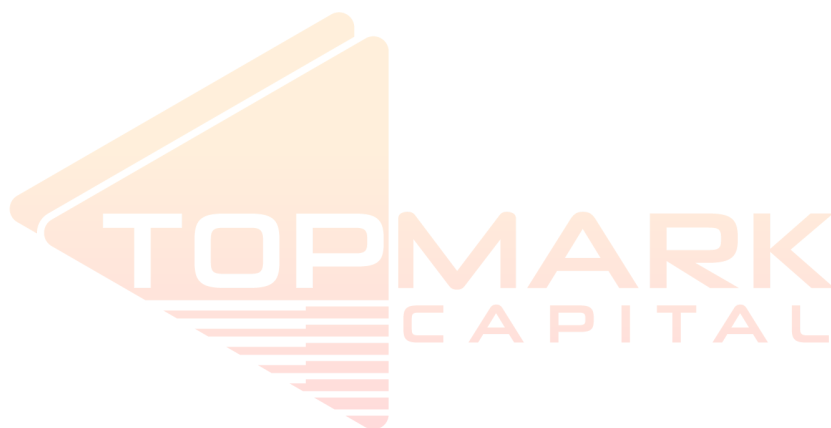
During the quarter, your managers opened two new positions. Both of these companies operate healthcare facilities in highly fragmented markets. Neither has greater than 10% market share, however both are the largest operators in their respective fields. Additionally, both companies will benefit from the tailwinds of aging demographics in the United States and the transition of care out of more expensive hospital settings. We believe these two new additions are well positioned for long-term cash flow growth.

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<sup>7</sup> TMHP % Gross Return is at the fund level before management and performance fees; TMHP % Net Return is at the fund level, net of all fees. S5HLTH: S&P 500 Health Care. We include the S&P 500 Health Care Index as gauges against other potential investments. These are not explicit benchmarks but provide a cumulative perspective. Please review the Important Disclaimers on Page 33.

## TMHP QUARTERLY RETURNS DATA<sup>8</sup>

<b>Quarter Ended</b>	<b>TMHP % Gross Return</b>	<b>TMHP % Net Return</b>	<b>S&amp;P 500 Healthcare</b>
9/30/2024	23%	22%	6%
6/30/2024	11%	11%	-1%
3/31/2024	6%	5%	9%
12/31/2023	2%	2%	6%
9/30/2023	0%	-1%	-3%
6/30/2023	5%	4%	4%




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<sup>8</sup> TMHP % Gross Return is at the fund level before management and performance fees; TMHP % Net Return is at the fund level, net of all fees. S5HLTH: S&P 500 Health Care. Please review the Important Disclaimers on Page 33.

## PORTFOLIO UPDATE & COMMENTARY

<u>Positions</u>	<i>% of Portfolio</i>		<u>Change</u>
	<u>6/30/2024</u>	<u>9/30/2024</u>	
Lantheus Holdings Inc	28%	30%	2.0%
Harrow Inc	13%	21%	8.8%
Vertex Pharmaceuticals Incorporated	23%	18%	-5.0%
Axsome Therapeutics Inc	7%	6%	-1%
Celsius Holdings, Inc.	8%	4%	-4%
Radnet Inc	0%	2%	2%
Exelixis Inc	2%	2%	0%
Tenet Healthcare Corp	0%	2%	2%
Stocks	79%	84%	4.3%
<u>Cash</u>	21%	16%	-4%
Total Partnership	100%	100%	

Appreciation of TMHP interests were largely attributed to our (now) two largest positions, Lantheus Holdings and Harrow. Lantheus benefited from a proposed rule change by CMS (Centers for Medicare & Medicaid Services) that would suggest boosting the reimbursement rate for diagnostic radiopharmaceuticals. As of this writing, the CMS rule was officially announced. Harrow showed significant progress with the commercialization of their VEVYE and IHEEZO products. IHEEZO in particular saw its sales double quarter over quarter.

Detracting from performance this quarter, Celsius saw a significant price drop following weaker than expected growth and negative growth in the broader energy drink category. We believe these are minor speedbumps in a long term growth trajectory.

## **RadNet (\$RDNT)**

Top Mark Health Partners began building a position in RadNet, Inc. RadNet is the largest owner and operator of diagnostic imaging centers in the United States, with 375 locations spanning seven states. As the largest operator, they hold just 5% market share. The company's leading position in this fragmented market, where the top five operators collectively control 10%, places it in an excellent position to drive consolidation. Through a combination of strategic acquisitions and organic expansion, RadNet has laid the foundation for continued growth via market consolidation.

A significant factor that will contribute to RadNet's success is its ability to leverage economies of scale. As the largest operator, RadNet benefits from operational efficiencies that competitors cannot easily replicate. For example, a single technician can operate several imaging machines remotely, reducing the need for on-site staff and further enhancing operational efficiency by providing higher throughput at a lower cost.

RadNet's growth potential is supported by favorable market trends. Diagnostic imaging has become an integral part of modern healthcare, particularly in the detection and management of critical conditions like cancer and Alzheimer's disease. With the number of Americans aged 65 and older expected to rise from 62 million today to 84 million over the next three decades, demand for imaging services will continue to grow. Notably, Medicare beneficiaries, who use diagnostic imaging at three times the rate of the general insured population, will represent a key driver of this demand. Additionally, freestanding imaging centers, like those operated by RadNet, are becoming more attractive due to their lower cost and greater convenience as compared to hospital-based imaging services.

In addition to demographic tailwinds, RadNet has pursued an aggressive acquisition strategy, spending over \$250 million between 2020 and 2023 to expand its network. The company is also forming joint ventures with leading health systems, such as Cedars-Sinai, which provide guaranteed imaging volume and help RadNet further entrench itself in key

markets. These joint ventures allow RadNet to maintain a steady flow of patients while benefiting from established relationships with top-tier healthcare providers. Another industry innovation is offering capitated contracts for health groups. These contracts, which RadNet has already deployed in California with 30 medical groups, charge a fixed per-member, per-month fee for imaging services. This model offers healthcare providers stable, predictable costs, while presenting RadNet with the opportunity to reduce the cost of providing imaging services.

Technology also plays a vital role in RadNet's competitive edge. The company has developed a proprietary IT platform called eRAD, which was initially designed to streamline internal operations but is now licensed to over 200 external customers. In addition, RadNet has made significant strides in artificial intelligence through acquisitions, such as DeepHealth, Aidence Holdings, and Quantib. These investments have led to the launch of an AI-enhanced breast cancer detection service, which offers advanced screening capabilities that improve diagnostic accuracy. Early pilots of this service, including in Walmart locations, could open new growth channels and further differentiate RadNet from its competitors.

In summary, we believe RadNet's ability to achieve scale economies and its focus on innovation make it a compelling investment. The company's strategic acquisitions, joint ventures, and advanced technology position it for continued growth, while favorable demographic trends support long-term demand. We feel this positions RadNet well to deliver sustained value to investors over a long time horizon.

# APPENDIX



## FOUNDER MODE: LEADERSHIP AS VALUE

While traditional value investing strategies have evolved over time, a new approach centered on assessing leadership quality offers potential for generating long term excess returns. This essay explores how investors can leverage a structured framework to evaluate leadership in today's dynamic market environment.

### **Evolution of Value Investing**

Benjamin Graham and David Dodd were pioneers in finding undervalued assets. One of their simple methods, called "net-nets," involved seeking companies trading for less than their current assets minus all liabilities. As Graham put it, it was like buying dollar bills for fifty cents.

Over time, this strategy lost its edge. Markets became more efficient, ironing out obvious mispricings. Better corporate governance pushed management to maximize asset value. The simple bargains disappeared.

Warren Buffett is a unique value investor. He began in the 1950s, using Graham and Dodd's methods like net-nets described above. But as these strategies dwindled, Buffett evolved his approach. Most investors can't move past what once worked. But with Charlie Munger's help, Buffett shifted to buying "wonderful companies at fair prices." They evolved value investing.

These changes highlight a broader shift in thinking about value creation and capital allocation today. To generate superior returns, investors must grasp the drivers of long-term value and discard old methods when they no longer work.

While Buffett's reputation as the greatest investor alive today is well deserved, it would be foolish to ignore the massive tailwind and driver of value that benefitted his career: the advancement of the quality of management.

## **Importance of Management Quality**

When Buffett first got started, the principal-agent problem was not well understood. The principal-agent problem occurs when managers (agents) may not act in the best interests of owners (principals). This lack of alignment between managers and owners was one of the primary reasons net-nets and other early value investing strategies were so prevalent. In the years that followed, the most important strategies for addressing the principal-agent problem were figured out.

In 1957, Fairchild Semiconductor addressed this issue, igniting an industry. Arthur Rock structured financing to give managers equity ownership. This aligned their interests with shareholders and marked a shift from the salary-based compensation models. This approach ignited the venture capital industry, proving, empirically, that aligned incentives foster innovation and value creation.

In the 1970s, Michael Jensen and William Meckling provided the academic backbone by analyzing conflicts between owners and managers. Their 1976 paper on agency theory is the most cited academic business paper of all time. It showed that equity ownership could transform management behavior. Their premise was simple: align financial incentives to reduce agency costs.<sup>9</sup> This led to widespread use of stock options and performance-based pay in the 1980s and 1990s.<sup>10</sup> This has been the single largest tailwind to the last 50 years of investment return.

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<sup>9</sup> Jensen (Deceased) and Meckling, "Theory of the Firm."

<sup>10</sup> Madden and Stevens, "Michael Jensen's Contributions to the Theory of the Firm."

Corporate scandals like Enron and WorldCom in the early 2000s exposed the limits of financial incentives alone. Even with aligned interests, ethical breaches occurred. Jensen acknowledged his original work was incomplete. There was more to uncover in corporate governance. Again, we turn to Silicon Valley for empirical solutions to the shortcomings of traditional management models.

### **Silicon Valley's Founder Mode**

In the mid-2000s, Silicon Valley introduced a new approach. Paul Graham, who co-founded Viaweb (later sold to Yahoo), noticed that many smart programmers wanted to start companies but lacked seed money. This led him to co-found Y Combinator, a venture capital firm providing small amounts of funding for small equity stakes. They invested in batches, scaling through standardized deals, group education, and targeted mentorship.

Y Combinator gained a reputation as "founder friendly" - encouraging founders to run their businesses as they see fit with very little oversight. Graham, and his most successful proteges would tell you the results have been incredible. Graham's recent essay, "Founder Mode," attempts to capture the cumulative insights Y Combinator has acquired over the years when it comes to startups: scaling a startup doesn't require adopting traditional management practices, or "Manager Mode." Evidence suggests that such shifts often lead to poor results. Reading between the lines, it is easy to conclude that management practices espoused in the top business schools may be great for managing existing assets, but they are woefully lacking when it comes to new business and technology models.<sup>11</sup>

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<sup>11</sup> Graham, "Founder Mode."

Brian Chesky's experience at Airbnb illustrates this point. As the company grew, he adopted Manager Mode, following advice to "hire good people and give them room to do their jobs." Performance suffered dramatically. Only by returning to a hands-on, founder-driven approach—"Founder Mode"—partly inspired by Steve Jobs at Apple, did Airbnb regain its footing.

However, Graham's essay offers few concrete examples of what "Founder Mode" entails in practice, beyond mentioning "skip-level" meetings and Jobs's annual retreats with his top employees. This vagueness makes it hard for other leaders to implement or for investors to evaluate.

These limitations highlight a deeper need: a comprehensive framework for understanding effective leadership within dynamic environments. While Silicon Valley's rejection of conventional wisdom is telling, we need more than anecdotes to generate actionable insights for investors and managers alike.

Our search turns back to academia, revisiting Jensen's work on leadership. We will find his work resulted in solutions that address both his initial concerns about financial scandals and ethical breaches as well as leading dynamic businesses.

## Jensen's Leadership Framework

Jensen distinguishes management from leadership in the same way that Paul Graham distinguishes manager mode from founder mode.

*Management : Manager Mode*

*as*

*Leadership : Founder Mode*

**Management optimizes within known limits. Leadership ventures into the unknown to create new possibilities.** Jensen's leadership framework shows that corporate governance needs more than aligned incentives. It demands understanding leadership, integrity, and organizational behavior.<sup>12</sup> This shift recognizes the complexity of human motivation.

### Defining Leadership

Jensen's definitions are complex. Let's clarify.

- **Leadership:** Using language (spoken, written and action) to create a future that wouldn't happen otherwise.
- **Leadership Situation:** When current conditions and potential futures are unacceptable.
- **Leader:** Someone who shapes circumstances so their actions naturally lead to effective leadership.

Jensen views leadership through outcomes and situations, not specific traits. This departs from conventional management theory and aligns with Graham's observations about traditional approaches' limitations. For Jensen, **leadership is about realizing**

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<sup>12</sup> Erhard, Jensen (Deceased), and Granger, "Creating Leaders."

**futures that wouldn't happen otherwise.** It goes beyond optimization. Leaders must:

- Operate effectively amid uncertainty.
- Decide without complete information.
- Take principled stands against opposition.
- Create possibilities others can't see.

### Jensen's Four Fundamental Leadership Factors

Effective leadership rests on four key factors, especially evident in successful founders.

#### **Integrity**

*"Somebody once said that in looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if you don't have the first, the other two will kill you. You think about it, it's true. If you hire somebody without [integrity], you really want them to be dumb and lazy."*

*- Warren Buffett*

Integrity is the foundation. It means honoring one's word, building trust and workability. This aligns with Graham's observations of founders like Brian Chesky, who stay involved and follow through on commitments.

## **Authenticity**

*"To me, business isn't about wearing suits or pleasing stockholders. It's about being true to yourself, your ideas, and focusing on the essentials"*

*- Richard Branson*

Authenticity is aligning words and actions. It's being truthful about strengths and limitations. Successful founders break from convention when it doesn't fit their genuine assessment. Authentic leaders admit their flaws. This removes pretense and enhances performance.

## **Commitment Beyond Self**

*"To make a contribution to the world by making tools for the mind that advance humankind."*

*- Apple Computer Mission Statement (1980s)*

This factor is best explained as dedication to something bigger than personal success. Founders like Steve Jobs stayed engaged beyond what conventional wisdom suggests. Their commitment to transformative futures provided motivation and resilience. This creates "serene passion"—a sustainable drive powering long-term leadership.

## Being Cause in the Matter

*"Responsibility equals accountability, accountability equals ownership, and a sense of ownership is the most powerful thing a team or organization can have."*

*- Pat Summit (basketball coach)*

Being cause in the matter means seeing oneself as responsible for everything—not as blame but as enabling effective action. Managers with this stance find creative solutions by getting more involved when things go wrong instead of delegating.

This light summary of Jensen's leadership factors highlights the uncanny similarities to Paul Graham's Founder Mode. These factors create a framework, not restricted to founders, that can be taught and assessed, enabling traditional managers to become effective leaders.

## Conclusion

Buffett initially found value in net-nets, these companies were so poorly managed that the market frequently valued them below liquidation value. As management quality improved, Buffett pivoted from investing in "fair companies at wonderful prices" to "wonderful companies at fair prices", riding the wave a step further.

Like him, we must seek new sources of value. If the prior wave was driven by broad based improvements in management quality, then the next wave may come from broad based improvements in leadership quality.

Jensen's leadership framework gives us tools to assess leadership quality. Yet these attributes, while necessary, aren't sufficient alone. Effective leadership also needs the right context, resources, and strategies. Further research is needed before we can draw solid conclusions on the topic.

In the appendix, you'll find an analysis of Jensen's four fundamental factors at Intel and SpaceX. These companies show a clear contrast in foundational leadership principles.

Elon Musk's leadership at SpaceX exemplifies Jensen's factors in action. His approach diverges from traditional management approaches. His ability to set audacious goals and achieve them is unparalleled.

In contrast, Intel's decline from an innovation powerhouse to a struggling semiconductor company shows how leadership can go wrong. This decline highlights the critical difference between "Founder Mode" and "Manager Mode" and the consequences of abandoning Jensen's principles.

For investors, the implication is profound. Sometimes, an opportunity emerges that changes how we uncover value. Leadership assessments might be that opportunity. We'd be foolish not to keep pulling this thread.

	<b><u>SpaceX</u></b>	<b><u>Intel</u></b>
<b>Integrity</b>	<p>At SpaceX, Musk's integrity is demonstrated through his consistent delivery on seemingly impossible commitments. When he declared SpaceX would develop reusable rockets - something the aerospace industry deemed unfeasible - he honored that commitment through years of expensive failures until achieving successful landings. This built unprecedented credibility in an industry historically dominated by traditional aerospace companies.</p> <p>This is reinforced through the company's commitment to transparency about both successes and failures. SpaceX openly shares videos and data, treating setbacks as learning opportunities rather than embarrassments.</p>	<p>Intel's departure from its commitment to technological leadership manifested first through a breakdown in integrity. The company repeatedly missed production milestones and technological targets, particularly in advancing to new semiconductor manufacturing nodes. This wasn't merely a technical failure - it represented a deeper fracture in the organization's relationship with its word. The company's integrity issues became evident in:</p> <ul style="list-style-type: none"> <li>• Repeated delays in delivering 10nm and 7nm manufacturing processes</li> <li>• Inconsistent messaging about technological capabilities</li> <li>• Growing gap between public commitments and actual delivery</li> </ul>
<b>Authenticity</b>	<p>Musk's authenticity manifests in his unorthodox, hands-on leadership approach. He regularly works on the factory floor, makes major announcements via Twitter, and openly acknowledges both his strengths and limitations. His communication style, while sometimes controversial, reflects genuine conviction rather than careful corporate messaging.</p> <p>This authenticity extends to publicly acknowledging mistakes and failures. When early SpaceX launches failed, Musk directly addressed concerns rather than attempting to minimize them. This transparency, while unconventional in aerospace, has helped build trust with stakeholders and employees.</p>	<p>As Intel transitioned to non-technical CEOs, a profound authenticity gap emerged between leadership and the company's core identity as an innovation-driven organization. This mirrors Graham's observation about the limitations of professional managers who lack deep connection to their company's fundamental value creation. The leadership's disconnect from Intel's technical roots manifested in:</p> <ul style="list-style-type: none"> <li>• Decisions being driven by financial metrics rather than technological advancement</li> <li>• Communication becoming increasingly opaque about technical challenges</li> <li>• Growing cultural divide between management and engineering teams</li> </ul>
<b>Commitment Beyond Self</b>	<p>Perhaps most notably, Musk exemplifies commitment to something greater than oneself through SpaceX's mission to make humanity multiplanetary. This audacious goal transcends traditional business objectives. This commitment is demonstrated through:</p> <ul style="list-style-type: none"> <li>• Investing nearly all his PayPal proceeds into SpaceX when failure seemed likely</li> <li>• Maintaining focus on Mars colonization despite pressure to pursue more profitable ventures</li> <li>• Consistently prioritizing long-term mission over short-term financial gains</li> </ul>	<p>Perhaps most critically, Intel lost sight of its commitment to something greater than quarterly profits. Moore's Law - the observation that the number of transistors on a microchip doubles approximately every two years while cost halves - had served not just as a technical roadmap but as an inspiring mission that gave meaning to the company's work.</p> <p>The shift away from this organizing principle:</p> <ul style="list-style-type: none"> <li>• Fragmented the company's sense of purpose</li> <li>• Reduced employee motivation and engagement</li> <li>• Diminished Intel's role as an industry leader</li> </ul>
<b>Being Cause in the Matter</b>	<p>Musk consistently takes full responsibility for SpaceX's outcomes, both successes and failures. Rather than blaming external factors or market conditions, he positions himself as ultimately responsible for the company's ability to achieve its mission.</p>	<p>Instead of taking full responsibility for outcomes and proactively shaping the industry's future, Intel's leadership began offering explanations and excuses for falling behind competitors. The company's reactive posture manifested in:</p> <ul style="list-style-type: none"> <li>• Blaming external factors for competitive losses</li> <li>• Focusing on financial engineering over technical innovation</li> <li>• Failing to anticipate and lead industry transitions</li> </ul>

## TMCP RETURNS DATA

### TMCP ANNUAL RETURNS DATA<sup>13</sup>

Period	TMCP % Gross Return	TMCP % Net Return	S&P 500 Total Return	Berkshire Hathaway	VC Index	QQQ
<b>2024 through Q3</b>	<b>39%</b>	<b>38%</b>	22%	27%	2%	19%
<b>2023</b>	<b>24%</b>	<b>23%</b>	26%	16%	-3%	55%
<b>2022</b>	<b>-30%</b>	<b>-31%</b>	-18%	4%	-21%	-33%
<b>2021</b>	<b>41%</b>	<b>35%</b>	29%	30%	53%	27%
<b>2020</b>	<b>64%</b>	<b>54%</b>	18%	2%	36%	48%
<b>2019</b>	<b>79%</b>	<b>65%</b>	31%	11%	19%	39%
<b>2018</b>	<b>15%</b>	<b>14%</b>	-4%	3%	18%	0%
<b>2017</b>	<b>58%</b>	<b>48%</b>	22%	22%	11%	33%
<b>2016</b>	<b>133%</b>	<b>109%</b>	12%	23%	0%	7%
<b>2015</b>	<b>-5%</b>	<b>-6%</b>	1%	-12%	13%	10%
<b>2014</b>	<b>9%</b>	<b>9%</b>	14%	27%	22%	19%
<b>2013</b>	<b>-6%</b>	<b>-7%</b>	32%	33%	29%	37%
<b>2012Q4</b>	<b>0%</b>	<b>0%</b>	0%	4%	7%	0%

<sup>13</sup> TMCP % Gross Return is at the fund level before management and performance fees; TMCP % Net Return is at the fund level, net of all fees. SPXTR: S&P 500 Total Return. BRK: Berkshire Hathaway Stock. QQQ: Nasdaq 100 Index ETF. VC Index: Cambridge Associates US Venture Capital Index. Please review the Important Disclaimers on Page 33.

TMCP QUARTERLY RETURNS DATA<sup>14</sup>

Quarter Ended	TMCP % Gross Return	TMCP % Net Return	S&P 500 Total Return	Berkshire Hathaway	VC Index	QQQ
September 30, 2024	5%	5%	6%	13%	n/a	2%
June 30, 2024	12%	12%	4%	-3%	n/a	8%
March 31, 2024	18%	18%	11%	17%	2%	9%
December 31, 2023	-1%	-2%	12%	2%	0%	14%
September 30, 2023	0%	0%	-3%	3%	-3%	-3%
June 30, 2023	12%	12%	9%	11%	0%	15%
March 31, 2023	12%	12%	7%	-1%	-1%	21%
December 31, 2022	3%	3%	8%	15%	-7%	0%
September 30, 2022	-4%	-4%	-5%	-1%	-2%	-4%
June 30, 2022	-19%	-19%	-16%	-23%	-9%	-23%
March 31, 2022	-13%	-13%	-5%	17%	-4%	-9%
December 31, 2021	13%	11%	11%	10%	7%	11%
September 30, 2021	3%	3%	1%	-2%	10%	1%
June 30, 2021	16%	14%	9%	9%	12%	11%
March 31, 2021	5%	4%	6%	11%	17%	2%
December 31, 2020	5%	4%	12%	9%	14%	13%
September 30, 2020	15%	13%	9%	20%	12%	12%
June 30, 2020	35%	30%	21%	-2%	9%	30%
March 31, 2020	0%	0%	-20%	-20%	-3%	-10%
December 31, 2019	24%	21%	9%	9%	6%	13%
September 30, 2019	7%	6%	2%	-2%	-1%	1%
June 30, 2019	2%	2%	4%	6%	7%	4%

<sup>14</sup> TMCP % Gross Return is at the fund level before management and performance fees; TMCP % Net Return is at the fund level, net of all fees. SPXTR: S&P 500 Total Return. BRK: Berkshire Hathaway Stock. QQQ: Nasdaq 100 Index ETF. VC Index: Cambridge Associates US Venture Capital Index. Please review the Important Disclaimers on Page 33.

Quarter Ended	TMCP % Gross Return	TMCP % Net Return	S&P 500 Total Return	Berkshire Hathaway	VC Index	QQQ
March 31, 2019	33%	27%	14%	-2%	6%	17%
December 31, 2018	-53%	-49%	-14%	-4%	2%	-17%
September 30, 2018	29%	27%	8%	13%	5%	8%
June 30, 2018	24%	22%	3%	-6%	6%	7%
March 31, 2018	52%	44%	-1%	1%	4%	3%
December 31, 2017	14%	12%	7%	8%	3%	7%
September 30, 2017	13%	11%	4%	8%	3%	6%
June 30, 2017	29%	26%	3%	2%	1%	4%
March 31, 2017	-5%	-5%	6%	2%	3%	12%
December 31, 2016	121%	101%	4%	13%	0%	0%
September 30, 2016	6%	5%	4%	0%	3%	11%
June 30, 2016	1%	1%	2%	2%	1%	-1%
March 31, 2016	-2%	-2%	1%	8%	-3%	-2%
December 31, 2015	-1%	-1%	7%	1%	2%	10%
September 30, 2015	-2%	-2%	-6%	-5%	0%	-5%
June 30, 2015	0%	0%	0%	-6%	7%	2%
March 31, 2015	-3%	-3%	1%	-4%	4%	3%
December 31, 2014	1%	1%	5%	9%	10%	5%
September 30, 2014	-1%	-1%	1%	9%	3%	5%
June 30, 2014	3%	3%	5%	1%	3%	7%
March 31, 2014	5%	5%	2%	5%	5%	0%
December 31, 2013	1%	1%	11%	4%	13%	12%
September 30, 2013	0%	0%	5%	1%	7%	11%
June 30, 2013	-1%	-2%	3%	8%	4%	4%
March 31, 2013	-6%	-6%	11%	17%	3%	6%
December 31, 2012	0%	0%	0%	4%	1%	0%

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