

TOP MARK CAPITAL PARTNERS LP

ANNUAL LETTER

For the period ended December 31, 2021

PERFORMANCE

By all measures, our Partnership had another great year. Bear with me for a moment, as this is a good opportunity to discuss performance presentation as it relates to both our fund and other investments you may encounter. There are two ways to present results: in discrete annual increments or on a compounded basis. The former is industry standard and is useful in demonstrating consistency of results (which, I should point out, is not an objective we seek), and for helping to assess outcomes for those that invested part way through. We would prefer that our performance be assessed on a compounded, multi-year basis in order to separate what is in and out of our control. Distinctly not in our control is market timing. As a result, our annual results may be inferior to the market for a period, but this will only convey information about the timing of outcomes rather than the end result (which matters most). Our partners that have been with us since the beginning will naturally understand this. For our newer partners, we encourage you to be indifferent to the annual and quarterly results and focus instead on the compounded numbers, for which we recommend allotting at least three years.

The Top Mark Capital Partners gross results (i.e., net of management fees and costs, but before performance fees) since the end of each of the last five years, as well as since inception, are tabled below, together with comparable results for a leading stock market index:

To 12/31/2021, From:	S&P 500% Return ^[1]	TMCP % Return ^[2]
12/31/2020	29%	40%
12/31/2019	52%	126%
12/31/2018	100%	300%
12/31/2017	92%	358%
12/31/2016	133%	618%
Since Inception ^[3]	302%	1,464%
<i>Annualized Since Inception</i>	16%	35%

An index has been included not for the purpose of explicit benchmarking, but in order to place performance in context. For those interested in our near term results, the second table provides quarterly returns. I'd like to reiterate the unimportance of these figures relative to the ones in the table that precedes it. Our results this year could have been swapped with those of the index and I would think no differently of the long term value of our portfolio. Our focus is decidedly long term, so we try to avoid focusing on short term figures - and so should you!

Quarter	S&P % Return ^[1]	TMCP % Return ^[2]
2021 Q1	6%	4%
2021 Q2	9%	16%
2021 Q3	1%	3%
2021 Q4	11%	13%

¹ S&P 500 total return, i.e. dividends reinvested

² Performance is gross (i.e., net of management fees and costs, but before performance fees) and rounded to the nearest whole percentage. *Past performance does not guarantee future results and current performance may be lower or higher than the performance quoted.*

³ December 1, 2012

PARTNERSHIP GROWTH

In this letter we would like to describe some of the principles we apply in managing the Partnership. These will be obvious to some of you and less clear to others, but it is increasingly important as we intend to grow the Partnership. Our growth in AUM to date is primarily due to investment performance - this is something we are very proud of as it exemplifies our mission - ***to compound capital at a world-class rate over the long term.***

You may be wondering, given the track record, why would we bother taking in new capital. The simple answer to this is the fact that this growth was off of a small base. The general partner contribution to this fund at initiation was the whole of my liquid net worth, which was not much to speak of as of formation in 2012. Today those numbers are more substantial, and as a result, our individual net worths are larger. It is clear, to us at least, that our time is best spent compounding this capital over the coming decades. As a result, Jason Wallace, who has been my co-investor since 2014 will join me in managing the Partnership full time.

Jason is an aerospace engineer by education and ultimately became a software engineer. His talent led him to the National Security Agency where he had the unique opportunity to develop both analytic skills and build cutting edge data processing software. Jason and I began investing together in 2014 due to our complementary understandings of the developing trend we refer to as *Applied Artificial Intelligence* (more on that below). His skill set complements that of mine in a way that can be seen

in our historic returns. Having him join the Partnership full-time is a windfall to me and to our partners.

The Partnership is tiny by traditional asset management standards and given our increased bandwidth, we have the ability to take in new capital. However, we are focused on compounding capital and the marketing side of asset management is uninteresting to us. We aim to minimize our marketing efforts in order to maximize the time and effort spent on adding value to our Partnership. We intend to be diligent stewards of our partners' capital, and when it comes to taking in new capital, we cite the distinctly well aligned perspectives on partnership subscription growth from the Nomad Partnership (a partnership we shamelessly idolize)...

There are three alternatives [when it comes to accepting new subscriptions]:

- 1. Accept subscriptions as they come and place cash on deposit until suitable investments can be found. The problem here is that money can easily arrive faster than good investments, almost inevitably so, with dilutive consequences for existing investors, and suboptimal outcomes for new investors.*
- 2. Accept subscriptions as they come and buy a little of everything to replicate the existing portfolio. This sounds attractive as, dealing costs and liquidity constraints aside, prospective returns from the Partnership as a whole are broadly maintained. But it does have one major, subtle drawback. There are very few absolutes in investing, but one thing about which we can be certain is that as prices rise prospective returns go down. If a business is worth 40, the purchase of shares at 30 has to be inferior to their purchase at \$20. We expend a great deal of mental effort preserving the integrity of our purchase decisions and would rather not have the thinking muddied by purchases made at ever-higher prices due to subscriptions. In our opinion, this alternative risks devolving the initial investment decision back*

to the subscribing party, who are likely-as-not unaware of their additional role as stock picker.

3. Match subscriptions to new ideas with a right to draw down or defer subscriptions as necessary. In our opinion this is the superior strategy as incremental funding is invested in new fifty cent dollars, thereby lowering the price to value ratio of the fund and with the effect that new investors bring something to the party. We have guesstimated that we may be able to find incremental investments at the rate of one per month. This is a best guess on our part and if pushed we will concede that it looks high; ideas may be far less frequent than that...

Nick Sleep (of Nomad) goes on to point out that option 3 is the most equitable way to run a Partnership. It does have its downsides, however as investors may need to stagger subscriptions over several quarters. When we discuss new capital subscriptions, we intend to follow option 3 and match subscriptions with new capital deployments. We understand this isn't normal, but we are OK with that. Our goal is to generate world-class returns over the long term, which is by definition **not normal**.

OUR INVESTMENT PROCESS

As stated in our last letter, our investment process has evolved over time. In this letter I will provide you with an overview of our investment process. It starts, of course, with a sailing analogy. An oft-quoted simplified form of sailboat racing strategy goes something like this

...if you want to do well in this sport, win the start, be first to the windward mark, and increase your lead.

This statement is obviously a gross simplification of the complexities involved in sailboat racing. Nonetheless, it is the genesis of the name of this Partnership and the goal which drives our decision making. Our Partnerships name, *Top Mark*, is another word sailors use for windward mark, as it is placed at the windward end, or 'top' of the course. It also doubles as a reminder of our goal - to achieve top marks (i.e. world-class results) over the long-term.

With this in mind, we believe that winning in investing is similarly 'easy' and could be shortened to:

Buy assets at prices that are significantly cheaper than their long term value; hold until they approach long term value estimates; repeat.

Again, this is a gross simplification of a complex process, so we will go into greater detail in the forthcoming pages.

TRENDS

Core to our investment process is identifying long-term trends and events that we believe will shape the future. From there, we aim to purchase companies that will benefit from these trends. As an example, here are excerpts from the trend: *Applied Artificial Intelligence*, which we first identified in 2015...

After a number of false starts, the three most important factors [data models, ubiquitous data, and hardware capability] facilitating the applied artificial intelligence megatrend are now in place. Every year, technology, data-models, and data get better. However, there is still a significant skill gap in actually implementing these models, and for that reason I am confident that we are still in the very early innings of this trend.

Most consumers think of virtual assistants or Tesla autopilot as examples of AI products they have interacted with, however most of our interaction with AI goes unnoticed. Recommender systems, working behind the scenes, are one of the more mature areas of AI. For example, Facebook's recommender system is said to have north of 12 million nodes. Similarly, every aspect of business is also being fundamentally changed by artificial intelligence. Accounting, Finance, Management, Marketing, Manufacturing, Robotics, Risk Management, and Supply Chain, to name a few, are all benefiting from the application of artificial intelligence. Furthermore, new industries and opportunities are being created as a result of the expanding accessibility of this technology.

The memo goes on to identify where we think we are in the trend and "ways to play" - in other words, the likely categories of businesses that are positioned to succeed as the trend plays out. This process shrinks our investable universe by increasing our odds of choosing very good investments, and in the event that we make bad investments, they turn out to be less bad than they otherwise would be.

EVENTS

Events are very similar to Trends, but tend to be shorter term in nature. In general, we only care about events that fall within existing themes that we are either tracking or invested in. As an example, here is an excerpt from an event that occurred in 2018:

Spectre and Meltdown Viruses...

Spectre and Meltdown are two distinct hardware vulnerabilities on the x86 platform. This is the chip architecture in use by all Intel and AMD processors and the devices impacted by this are wide ranging, from iPhones to PCs to cloud servers.

The two vulnerabilities both, at a basic level, allow a process to read data in memory that it would otherwise not be able to access. These vulnerabilities allow the process to bypass other security measures that have been built into the hardware and software systems and gain access to potentially sensitive information such as passwords or encryption keys. In a cloud computing environment, the vulnerabilities allow a process to escape its virtual container and potentially access data from other customers shared on that cloud resource.

While these are hardware flaws, software patches to the BIOS or firmware have been created to close these vulnerabilities. These patches do come with a performance penalty, initial warnings were for between a 7 - 30% impact to performance. It does seem like the average processing performance hit is 20% to Intel processors and a much lesser extent to AMD processors.

As with trend memos, in our event memos, we identify "ways to play" the event. One key difference, however, is that the market is generally quite efficient at interpreting events and incorporating the value of such events. The above example had counterintuitive consequences and therefore provided an opportunity for us to capitalize by adding a new position and increasing our exposure to an existing position.

ASSET SELECTION

When it comes to actually choosing assets among the categories identified in our Trend and Event memos, our research focuses on four key areas. First we look at the industry. In this step we assess the competitive landscape and the various aspects of supply/demand and competitiveness inherent to the industry. Next, we look at individual business models. This step primarily focuses on business model analysis. Business model innovation is a common feature among firms that successfully compound value over a long period of time (we call these firms, Supercompounders). We then diligence the Management team, where ownership concentration and a history of smart capital allocation decisions correspond to features we find in Supercompounders. Finally, our financial diligence establishes our expectations for the firm over the next five years. Our goal is to invest when we can comfortably purchase at a price less than half of our conservative 5 year target. We are particularly intrigued when the prospects for the firm are not well understood by the investment community at large.

OUTLOOK FOR NEW PARTNERS

Performance to date has been a product of investments made by identifying trends and choosing high quality assets that are likely to benefit from those trends. It may take 5 years (or more) for the market to value our holdings appropriately. In other cases, it may take less than a year. In order for us to successfully compound capital at a world-class rate over the long term, we need to both identify important trends and select assets at reasonable prices that are likely to benefit from those trends. I provide this context because it influences what we buy (and when) and what we sell (and when). It also will influence how we take in additional capital.

You can expect from us quarterly letters in which we discuss our investment thoughts. In our opinion these documents, once digested, provide the information needed to form a judgement about what and how we are doing. From Top Mark's administrator (Sudrania Fund Management Services) you can expect a quarterly statement of your account and financial statements. Do let us know if you are not receiving all you should.

Top Mark's focus is genuinely long-term, and more regular reports, daily, weekly, monthly or otherwise, are likely to be of little value to you, and may even be counterproductive. One of Top Mark's key competitive advantages will be the aggregate patience of its Partners. We are genuinely investing for the long-term and the fruits of those investments may not be apparent for several years to come. In the near term our results are as likely to be bad as good, but we are confident that in the long run they will prove satisfactory.

If we are to have a sustainable comparative advantage, it will come from two sources...

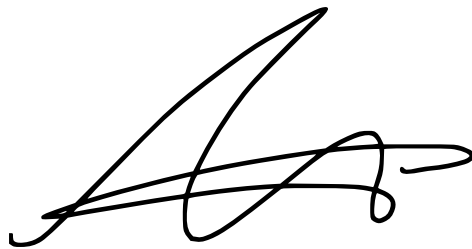
1) your manager and the capital allocation skills which we attempted to describe above, and 2) from the patience of our Partners.

When it comes to the latter, we have started well, with the only withdrawals coming from yours truly when Kellin and I bought our first home. It is a good thing we have strong sentimental feelings toward our home, as that withdrawal would have been worth more today in partnership interest than the appreciated value of the equity in the house (in spite of leverage and a strong housing market), and this gap in valuation is likely to widen over time, but I digress. This low-level of turnover is unusual and implies that our Partners have a similar long-term outlook. Only by looking further out than the short-term crowd can we expect to beat them. We are an investment partnership, not a fund, and the relationship we seek with our partners is different.

In the event that you share our temperament and perspective, we invite you to consider subscribing to the Partnership.

As always, we thank you for your confidence and value your support.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mike Nicoletti'. The signature is fluid and cursive, with a large initial 'M' and a long horizontal stroke extending to the right.

Mike Nicoletti