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TOP MARK CAPITAL PARTNERS LP
QUARTERLY LETTER

For the period ended September 30, 2022

PERFORMANCE

To 9/30/2022, From:	TMCP % Return ¹	S&P % Return ²
12/31/2021	-33%	-24%
12/31/2020	-7%	-2%
12/31/2019	51%	16%
12/31/2018	168%	53%
12/31/2017	206%	46%
12/31/2016	380%	78%
Since Inception ³	946%	206%
Annualized Since Inception	26%	12%

Over the first three quarters of 2022, limited partnership interests in Top Mark Capital Partners have declined 33% in price. This compares with an index return of -24% for the S&P 500 and -32% for the Nasdaq 100. In order to properly put returns in context, we suggest that you assess performance (of our partnership and other investments you may encounter) on a cumulative basis rather than in discrete annual increments. We will, from time to time, find ourselves on the “wrong side” of the indexes - in fact we expect to be on the “wrong side” 30-40% of the time. We are OK

¹ 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.*

² S&P 500 total return, i.e. dividends reinvested.

³ December 1, 2012

with this because we are investing for the long term. For those that like to see the annual returns data, the table below is provided for your review.

Year	TMCP % Return⁴	S&P % Return⁵
2021	40%	29%
2020	62%	18%
2019	77%	31%
2018	14%	-4%
2017	57%	22%
2016	131%	12%
2015	-6%	1%
2014	8%	14%
2013	-7%	32%

As usual, the following pages include essays to update you on our latest thoughts on the investing environment and our partnership. “Not Popular” attempts to describe our rationale behind the most significant change to the structure of the fund that we will propose with our ‘relaunch’ of the Partnership in 2023 (I think you will be quite pleased). “Investment vs Speculation” provides our current thoughts about the markets, and finally, “Outlook for New Partners” covers what we are looking for in new partners.

⁴ 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.*

⁵ S&P 500 total return, i.e. dividends reinvested.

NOT POPULAR

Top Mark Capital started a decade ago as a 'side project' that has snowballed with time. We've been fortunate to 'stand on the shoulders of giants' - some we know personally, others we've simply been fortunate enough to stumble upon their writings. We've learned an approach to investing that is structurally unpopular - meaning it requires patience & inactivity - both of which are contrary to generating 'no risk fees' for agents. We are not here for 'no risk fees'.

The principal agent conflict is one which we take seriously. By making unpopular decisions now, we believe we will maintain higher levels of alignment with you in the future, regardless as to whether or not our partnership becomes famously popular (which is not an objective we seek).

We address the conflict in two ways. First, we are not just agents, but also principals in this partnership as the majority of your managers net worth is invested in it. Second, since we do not believe our personal equity positions alone are enough to maintain the level of alignment we seek with you, **we will propose a restructuring of the partnership fees in 2023 so as to reinforce that alignment.**

Our current management fee is 2%, we think this is too high, so we will propose setting it at 1% (capped). We say capped, because we have an operating budget that we believe will be surpassed as our partnership grows over time. Our intention is to return that unused management fee to our partners. Our performance fee is 20%, with a hurdle rate of 6%. This is the same hurdle chosen by other partnerships which we look up to. Six percent is not a perfect rate, but it is one that we think is fair. We should not be rewarded unless we reward our partners. This structure gets us closer to that goal.

INVESTMENT VS SPECULATION

“A foole and his money be soone at debate: which after with sorow repents him too late.”

- Thomas Tusser

Matt Damon and the Crypto.com commercial from the 2022 SuperBowl he starred in, may go down in history as the sign of the top of the crypto boom⁶. In the commercial, the actor peers from the window of a spaceship and utters the cliché, “*fortune favors the brave*”. Given the opportunity, I bet Damon would like to go back in time and replace those words with another timeless saying: “*a fool and his money are easily parted*”.

Similarly, the peak of the dot com bubble was signaled during the SuperBowl of 2000, which was littered with commercials from many cash burning businesses with lofty valuations. For example, Pets.com, an online retailer of pet products, generated \$619,000 in revenue in 1999 while spending over \$11 million on advertising. In January 2000, the company aired the commercial *PLEASE DON'T GO*⁷ during the SuperBowl and in February the company raised \$82.5 million in an IPO. The company lost money on nearly every sale because, even before the cost of advertising (which was significant), it was selling merchandise for significantly less than cost. The company filed for bankruptcy 11 months later because it lacked a workable business model⁸.

⁶ *Fortune Favours the Brave | Crypto.Com.*

⁷ “Pets.Com - Please Don't Go Video from Ad Age.”

⁸ “Pets.Com.”

Since I wrote these first two paragraphs (they were initially drafted for our Q1 letter) the Crypto bubble has deflated significantly. Crypto.com remains operational⁹, but Terra / Luna coins failed spectacularly (erasing \$40 billion of ‘market cap’) and dragging a number of crypto exchanges and custodians with it. Just recently, the most well-respected person in the crypto community, Sam Bankman-Fried (aka ‘SBF’), has been revealed as a total fraud. We believe SBF may have committed the biggest fraud in American history¹¹. For context, the alleged fraud is greater than that of Bernie Madoff, Elizabeth Holmes, and the yet-to-be-sentenced Nikola founder, Trevor Milton.

What do all of these frauds have in common? They all exemplify failures, on the part of investors, to do sufficient diligence to understand the risks of the investment. They were caught up in the ‘hype’. Or, another way of putting it, they failed to discern between investment and speculation.

Practically speaking, in order to avoid getting caught up in the ‘hype’ and instead make good investments, we need a framework that enables us to think clearly and avoid being swept up in making these behavioral mistakes. Ben Graham proposed a framework¹² to disentangle the definition of investment and speculation and incorporate a pressure release valve to help us avoid conflating the two.

“An investment operation is one which, upon thorough analysis promises safety of principal and an adequate return. Operations not meeting these requirements are speculative.”

⁹ Braun, “Crypto.Com Releases Proof-of-Reserves Data Showing Client Assets Are Fully Backed.”

¹⁰ Sigalos, “Crypto.Com CEO Has History of Red Flags Including Bankruptcy and Quick Exits.”

¹¹ “One of the Biggest Financial Frauds in American History.”

¹² Graham, Zweig, and Buffett, *The Intelligent Investor Rev Ed.*

“There is intelligent speculation as there is intelligent investing. But there are many ways in which speculation may be unintelligent. Of these the foremost are: (1) speculating when you think you are investing; (2) speculating seriously instead of as a pastime, when you lack proper knowledge and skill for it; and (3) risking more money in speculation than you can afford to lose.”

Graham goes on to define a way in which to avoid conflating speculation with investing - a separate fund or account.

“If you want to try your luck at it, put aside a portion—the smaller the better—of your capital in a separate fund for this purpose.”

This separate account can act as a ‘pressure relief valve’ - that enables you to explore things that are not investments while not causing catastrophic harm to your finances. Jason and I maintain a small fund, separate from the partnership, that we contribute small sums to for speculative purposes. It serves two purposes. First, it provides Jason and me with a clear delineation between investments and speculation. Second, it enables us to learn about things we might not otherwise spend time on. **Top Mark Capital Partners is an investment partnership, not a speculation vehicle.** We would argue that the vast majority of investment vehicles are primarily speculative in nature (even ETFs!).

As a result of the COVID and crypto bubbles deflating, there will be bankruptcies and acquisitions, and a few businesses will emerge stronger. Take Amazon.com (circa 2001) for example. Unlike Pets.com, Amazon had a workable business model with positive gross margins. Like Pets.com, Amazon stock plummeted with the rest of the technology sector in the wake of the dot com bubble bursting. Like Amazon in 2001,

new fantastic investment opportunities will be presented to those who are looking today. Your managers are actively looking!

OUTLOOK FOR NEW PARTNERS

Performance to date has been a product of investments made by identifying trends and choosing high quality assets that are well positioned 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 identify important trends and select assets at reasonable prices that are well positioned 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 judgment about what and how we are doing. From Top Mark's administrator (Formidium Fund Management Services, formerly known as Sudrania) 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. With that said, Jason and I can be found every week on the Telltales podcast (available on Apple Podcasts, Spotify, and Soundcloud) if you'd like to hear from us more frequently.

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.

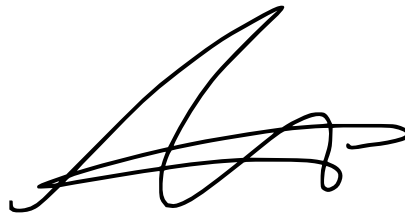
If we are to have a sustainable comparative advantage, it will come from two sources... 1) your manager's capital allocation skills, and 2) from the patience of our Partners.

When it comes to patience, we are fortunate to be surrounded by like-minded, long-term investors. 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, sweeping tail that ends in a small loop.

Mike Nicoletti

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