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TOP MARK CAPITAL PARTNERS LP

ANNUAL LETTER

For the period ended December 31, 2022

Dear Partners and Friends,

We are pleased to present this update on the performance of our Partnership, accompanied by a detailed letter that offers insights into our results and how to think about and compare results of various investment activities. The letter also sheds light on our investment process and portfolio allocation. We believe it is essential to provide you with a comprehensive understanding of the strategies and principles that guide our decision-making.

The section titled "Outlook for New Partners" delves into the attributes we seek in potential partners and our ongoing commitment to align our interests with those of our esteemed partners. We consider this alignment a cornerstone of our Partnership's long-term success.

As always, we are deeply grateful for the trust you place in us and the support you continue to provide. We remain steadfast in our commitment to delivering the best possible results for our partners, and we look forward to many more prosperous years together.

Sincerely,

Mike Nicoletti

Jason Wallace

PERFORMANCE[1]

In 2022, we experienced a decline of 31% in the limited partnership interests of Top Mark Capital Partners. This performance is set against the backdrop of a -18% return for the S&P 500 and a -33% return for the Nasdaq. While these figures may appear concerning at first glance, we encourage you to assess performance on a cumulative basis, rather than focusing on discrete annual increments. This approach offers a more accurate reflection of our Partnership's long-term value creation.

To 12/31/2022, From:	TMCP % Gross Return[2]	TMCP % Net Return[3]	S&P % Return[4]
12/31/2021	**-31%**	**-31%**	-18%
12/31/2020	**-4%**	**-10%**	5%
12/31/2019	**56%**	**39%**	25%
12/31/2018	**176%**	**125%**	64%
12/31/2017	**215%**	**151%**	57%
12/31/2016	**403%**	**272%**	91%
12/31/2015	**1063%**	**661%**	114%
Since Inception[5]	**993%**	**616%**	225%
Annualized Since Inception	**26%**	**21%**	12%

It is important to acknowledge that our performance is expected to underperform broader market indices from time to time. In 2022, we found ourselves on the "wrong side" of the index. We anticipate this to occur in roughly 30-40% of instances, but we

[1] Please review the section titled "Important Disclaimer"

[2] Performance is gross (i.e., after management fees and costs but before performance fees) and rounded to the nearest whole percentage.

[3] Performance is net of all fees (i.e., management fees, costs, *and* performance fees) and rounded to the nearest whole percentage.

[4] S&P 500 total return, i.e. dividends reinvested.

[5] October 1, 2012

remain unfazed by these short-term fluctuations. Our focus is steadfastly on the long term. Subsequent sections of this letter will provide constructive examples to support this perspective.

For those who prefer to examine annual returns data, we have included a table on below for your review. This information serves to provide additional context for our performance, but we reiterate the importance of evaluating returns cumulatively for a more accurate understanding. While evaluating returns in discrete periods, such as monthly, quarterly, or yearly, may seem like a natural and convenient way to measure performance, it can also lead to misleading and inaccurate conclusions. By emphasizing the cumulative nature of returns, we aim to cultivate a more holistic and accurate understanding of our partnership's performance over time.

Year	TMCP % Gross Return[6]	TMCP % Net Return[7]	S&P % Return[8]
2022	**-31%**	**-31%**	-18%
2021	**40%**	**31%**	29%
2020	**62%**	**55%**	18%
2019	**77%**	**62%**	31%
2018	**14%**	**11%**	-4%
2017	**60%**	**48%**	22%
2016	**131%**	**105%**	12%
2015	**-6%**	**-6%**	1%
2014	**8%**	**8%**	14%
2013	**-7%**	**-7%**	32%

[6] Performance is gross (i.e., after management fees and costs but before performance fees) and rounded to the nearest whole percentage.

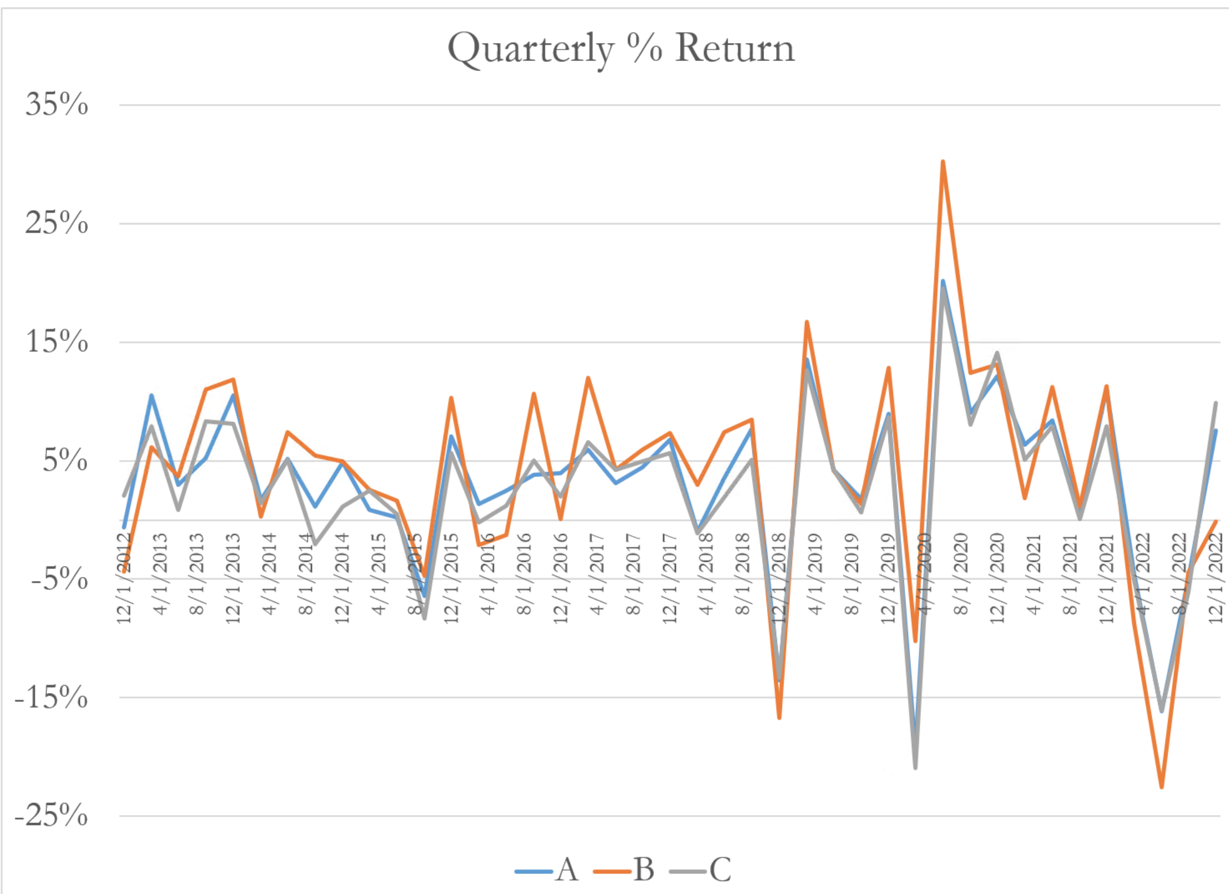
[7] Performance is net of all fees (i.e., management fees, costs, *and* performance fees) and rounded to the nearest whole percentage.

[8] S&P 500 total return, i.e. dividends reinvested.

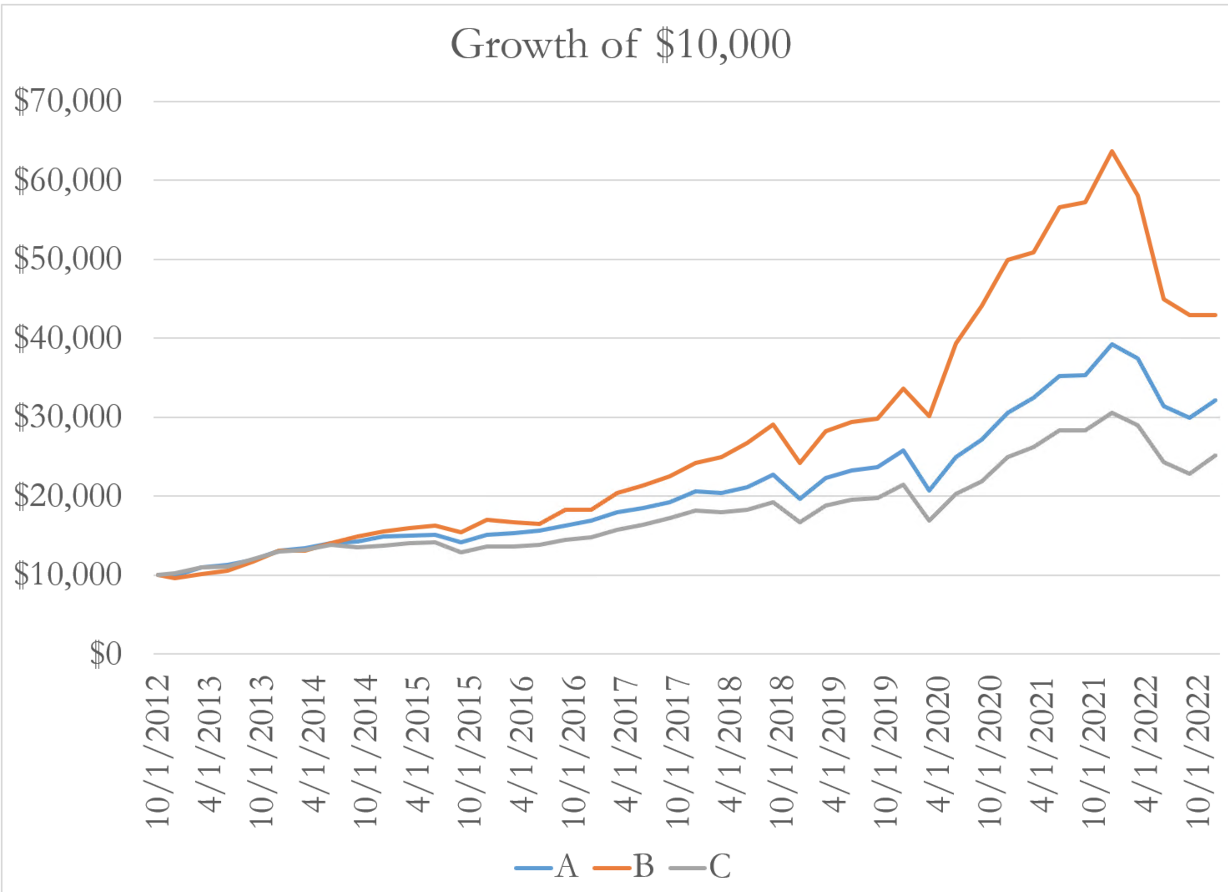
THE POWER OF COMPOUNDING

One of the primary drawbacks of examining returns in discrete periods is the disregard for the remarkable power of compounding over time. Compounding is the process by which returns are earned on both the initial investment and the accumulated returns from previous periods. As a result, seemingly small differences in annual returns can lead to substantial disparities in cumulative wealth over extended time horizons.

To better understand this concept, let us consider a hypothetical scenario in which you had invested $10,000 in each of three funds—A, B, and C—ten years ago. A chart displaying the quarterly returns for each of these investments can be found below. Based on this information, it may not be immediately clear which fund generated the highest returns over the decade.



However, after ten years, the cumulative values of these investments reveal a different story: Fund A would now be worth $32,153, Fund B would be worth $42,927, and Fund C would be worth $25,145. When these values are plotted cumulatively over time, as shown in the second chart, the outperformance becomes strikingly evident. If you read all the way through to "Outlook for New Partners", you'll find the names of these funds and their performance relative to our Partnership.



This example is intended to demonstrate that the longer you hold your investment, the more pronounced the impact of compounding becomes. Therefore, we recommend assessing returns cumulatively over a period of at least three years, although a five-year or longer horizon is preferable to gain a more accurate understanding of your investments' growth potential.

BEHAVIORAL BIASES IN INVESTING

Another issue that arises when focusing on returns in discrete periods is the potential activation of various behavioral biases, which can negatively impact judgment and decision-making. Gaining an awareness of these biases and learning to mitigate their influence is crucial to making informed and objective investment decisions. Some common biases include:

- Recency Bias: This is the tendency to assign greater importance to recent events than to older ones. This bias can lead investors to overreact to short-term trends, often causing them to make hasty decisions based on the latest market fluctuations.
- Anchoring Bias: This bias refers to the tendency to rely excessively on an initial piece of information when making estimates or judgments. In investing, anchoring can result in investors holding onto an outdated view of an investment's value, potentially causing them to overlook new information that could affect their decision-making.
- Hindsight Bias: This is the tendency to believe that past events were more predictable than they actually were. In investing, hindsight bias can lead to overconfidence in one's ability to predict future outcomes, which can result in taking excessive risks.

These biases can prompt irrational and emotional decisions, such as chasing high-performing funds or prematurely selling underperforming investments. By acknowledging the fact that biases exist in the markets and working to counteract their influence on our investment decisions, we can strive to make more prudent and rational investment decisions, ultimately enhancing our long-term performance (an example of one of the frameworks we use to assess irrational market responses is provided in the "Portfolio Update & Theme Commentary" section).

OUR PHILOSOPHY

There is nothing reliable to be learned about making money. If there were, study would be intense and everyone with a positive IQ would be rich.

- John Kenneth Galbraith

In this section of our letter, we explore the importance of addressing the often irrational behavioral aspects of the market, our commitment to maintaining a long-term perspective, and the rationale behind our unconventional investment approach. These principles serve as the foundation for our Partnership's strategy, allowing us to capitalize on unique opportunities often overlooked by others.

Mr. Market is Manic

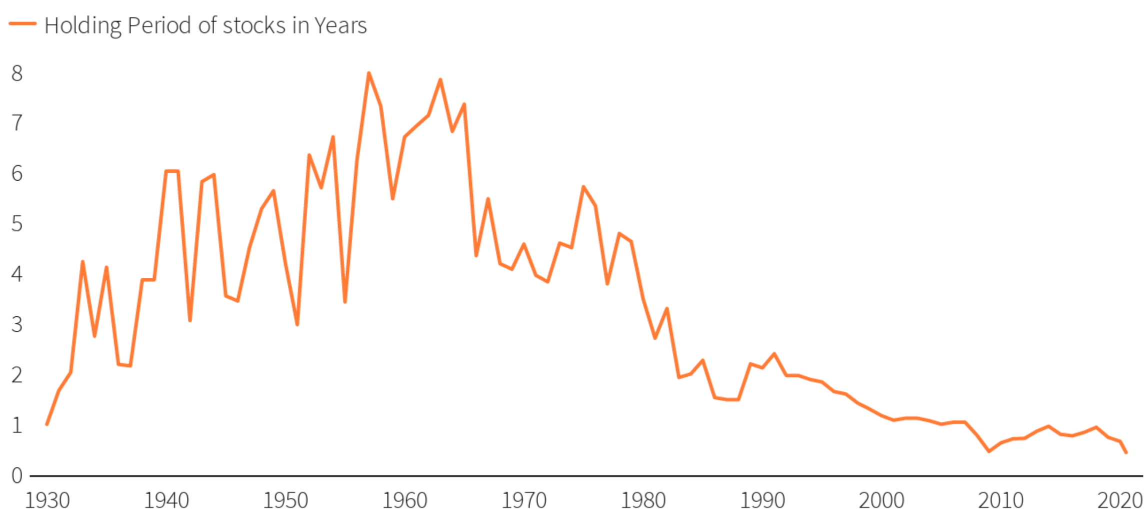
Price is what you pay, value is what you get.

- Warren Buffett

Benjamin Graham, in his seminal book *The Intelligent Investor*, first introduced the concept of Mr. Market - a manic-depressive character that offers to buy or sell shares at prices that range from wildly optimistic to deeply pessimistic. This mercurial character embodies the myriad of behavioral biases that infiltrate public market decision making. It is through this lens that we view investing in public markets, recognizing that he is perpetually on the other side of our trades.

As a result, public market prices exhibit far more volatility in *price* than the *value* a rational owner of a private business would entertain. That volatility, we believe, is the price public market investors pay for liquidity. Contrary to conventional wisdom, we do not regard volatility as a fitting measure of risk. In our view, volatility merely substantiates Mr. Market's capricious nature, while true risk represents the likelihood of a permanent loss of capital. We firmly believe that distinguishing between risk and volatility is key to establishing a successful investing process.

Long-term thinking is a long-term advantage



Note: Holding periods measured by value of stocks divided by turnover
Source: NYSE, Refinitiv

Consider the chart above. The average holding period for an investment in US shares has declined considerably over time, to a mere 5.5 months, illustrating the fact that Mr. Market's short-term focus is getting shorter. This short-sightedness results in less competition for long-term investment ideas in public markets, providing a unique opportunity for patient investors like us, with a decidedly long-term mindset, to capitalize on the overlooked potential of companies with lasting prospects.

Conventional behavior gets conventional results

> *To achieve superior investment results, you have to hold non-consensus views regarding value, and they have to be accurate.*
>
> *- Howard Marks*

In 2006, Howard Marks penned a memo titled "Dare to be Great" in which he shared his insights on how investors should evaluate asset managers. The memo is a compelling read and encapsulates a principle that resonates with our approach to investing at Top Mark Capital. Marks emphasizes that conventional behavior yields average results (good or bad), while unconventional behavior generates above or below-average outcomes[9]. Consequently, when people inquire about how they should invest their money, I often recommend index funds as a means to achieve conventional results. However, if one seeks superior returns, it's crucial to find a manager who embraces an unconventional approach.

Our Partnership embodies unconventionality in several ways. Firstly, the significant personal stakes of your managers in the Partnership ensure long-term alignment of our interests. Secondly, our background and location are far removed from Wall Street and the groupthink that fosters conventional behavior. Lastly, our process, which we will detail in the following section, is designed to identify gaps in conventional wisdom, allowing us to uncover unique opportunities that can drive unconventional, superior performance for our Partnership.

[9] Marks, "Dare to Be Great."

OUR PROCESS

Our investment process is best described as a flywheel that comprises three key stages: Themes, Analysis, and Portfolio & Risk Management. Each stage enhances the others, contributing to continuous improvement over time.

Themes: Top-Down Thematic Analysis

The first stage of our process involves top-down thematic analysis of trends and events in the global economy, allowing us to identify promising industries, sectors, and ultimately, companies for further research. By evaluating macroeconomic factors, technological advancements, regulatory changes, and other relevant drivers, we can better understand the overarching themes that may shape the investment landscape and enable us to uncover opportunities that align with these themes.

Analysis: Bottom-Up Fundamental Analysis

In the Analysis stage, we conduct a thorough bottom-up fundamental analysis of the companies identified in the Themes stage. Our evaluation process examines various aspects of each business, including its business model, management team, valuation, and fit within our circle of competency. A key output of this stage is our price target and projected timeline for achieving that valuation, enabling us to compute an Internal Rate of Return (IRR) for each potential investment.

Portfolio & Risk Management: Monitoring and Decision-Making

> *The concerns which fail are those which have scattered their capital, which means that they have scattered their brains also. They have investments in this, or that, or the other, here, there and everywhere. "Don't put all your eggs in one basket" is all wrong. I tell you* ***"put all your eggs in one basket, and then watch that basket."*** *Look round you and take notice; men who do that do not often fail. It is easy to watch and carry the one basket. It is trying to carry too many baskets that breaks most eggs in this country. He who carries three baskets must put one on his head, which is apt to tumble and trip him up. One fault of the American business man is lack of concentration.*
>
> *- Andrew Carnegie*

The final stage of our process, Portfolio & Risk Management, involves closely monitoring our portfolio positions and evaluating new investment opportunities. Our portfolio is concentrated, representing just a few themes and a few names within each theme. We constantly monitor each investment's expected IRR relative to target and update target valuations based on new information. Potential new investments that emerge from the Analysis stage are assessed against existing positions in the portfolio.

We use IRR as a tool to help us determine when to buy, sell, or trim positions. For example, we may sell or trim a position when the expected IRR is no longer attractive relative to our other opportunities. This disciplined approach ensures that we remain focused on maximizing long-term returns.

We share this description of our investment process to help you gain a deeper understanding of how we approach our investments. In the subsequent section, we will delve into our Partnership's portfolio and offer commentary on each theme in which we are currently invested, shedding light on our perspective and our ongoing analysis of the theme.

PORTFOLIO UPDATE & THEME COMMENTARY

> *"...the market is not a weighing machine, on which the value of each issue is recorded by an exact and impersonal mechanism, in accordance with its specific qualities. Rather should we say that the market is a voting machine, whereon countless individuals register choices which are the product partly of reason and partly of emotion."*
>
> *- Benjamin Graham*

In the table below we provide an overview of our Partnership's allocation (as of 12/31/2022) to each theme under which we classify our investments. On the pages that follow, you will find a brief description of each theme and a more detailed update on the "Metals Powered Economy" theme. It is important to note that these themes are not mutually exclusive (i.e. some names in "Software is Eating the World" could also be in "Semiconductors are the Teeth"), nor are they always homogeneous ("Open RAN, 5G, & the Future of Wireless Networks" includes both convertible bonds and stocks), so they should not be considered an 'asset class' in the traditional sense of the term. Nevertheless, given our investment process (discussed in detail earlier), we believe the table below and the descriptions that follow provide a useful snapshot of our investment activities.

Percent	Theme	Dividend / Coupon Yield	IRR to Target
24%	Software is Eating the World	0.4%	23%
21%	TIAA	11%	15%
8%	Open RAN, 5G, & the Future of Wireless Networks	11%	25%
7%	Semiconductors are the Teeth	2%	17%
4%	Metals Powered Economy	2%	28%
64%	Stocks, Convertible Bonds, & Private Credit	5%	21%
1%	Hedge		
35%	Cash		
100%	Total Partnership		

Software is Eating the World (24%)

The phrase "software is eating the world" was first coined by Marc Andreessen, a prominent venture capitalist, in a 2011 Wall Street Journal article[10]. He argued that software was transforming industries and becoming an integral part of our daily lives, with companies that embraced this shift positioned to thrive while others faced obsolescence. This theme captures the idea that software-driven innovation is permeating every aspect of the global economy, revolutionizing industries, and creating new opportunities for growth and value creation.

Activity in Q4 included closing two of our software positions. In one case, our investment thesis was broken rather quickly due to antitrust concerns with a pending acquisition. The second was a more challenging decision because we found that our initial analysis did not accurately assess the management team's capital allocation skills and character. They say *you don't truly know a company till you own it*, and in this case we likely took a little too long to come to grips with our initial misassessment. With that said, we are very happy with our remaining constituents in this theme.

We plan to release an update on "Software is Eating the World" later this year, examining recent developments and investigating the impact of large language models (LLM) on the industry. Additionally, the theme is greatly expanded because we have merged it with "Applied Artificial Intelligence" since we believe AI has reached a level of maturity where, when implemented properly, it is simply software that works.

TIAA (21%)

Our "TIAA" theme, an acronym for "There is an Alternative'', emerged in response to inflated equity valuations and near-zero bond yields triggered by the fiscal and monetary stimulus measures in response to the COIVD-19 pandemic. Essentially, this theme acts as both a counterpoint and extension to "TINA" ("There is No Alternative"), a phrase that became popular in the aftermath of the global financial crisis, signifying that low bond yields compelled investors to hold only equities. During 2020 and 2021, equities were clearly overvalued *and* bond yields were near zero. Our challenge was to find value, prompting us to seek alternative ways to deploy our capital.

[10] Andreessen, "Why Software Is Eating The World."

Our search led us to an unloved and undervalued consumer staple and a partnership with Agility Capital, a specialty private lender we have mentioned in previous letters. We currently hold four loans with Agility and intend to continue to deploy capital here. I should note that with each of these loans we also receive warrants. We value these warrants at $0, and their future value is not included in the IRR to Target calculation. Any additional appreciation we receive from these warrants would be icing on the cake.

Silicon Valley Bank was a key player in the venture debt market. In the wake of its collapse, we expect the broader venture debt market to be less competitive going forward, creating even better opportunities for lenders like Agility and our Partnership.

Open RAN, 5G, & the Future of Wireless Networks (8%)

Our "5G & the Future of Wireless Networks" theme aims to capitalize on the transformative potential of 5G technology and the rapidly evolving wireless network landscape. For a comprehensive analysis of this theme, please refer to our 2022 Q2 letter.

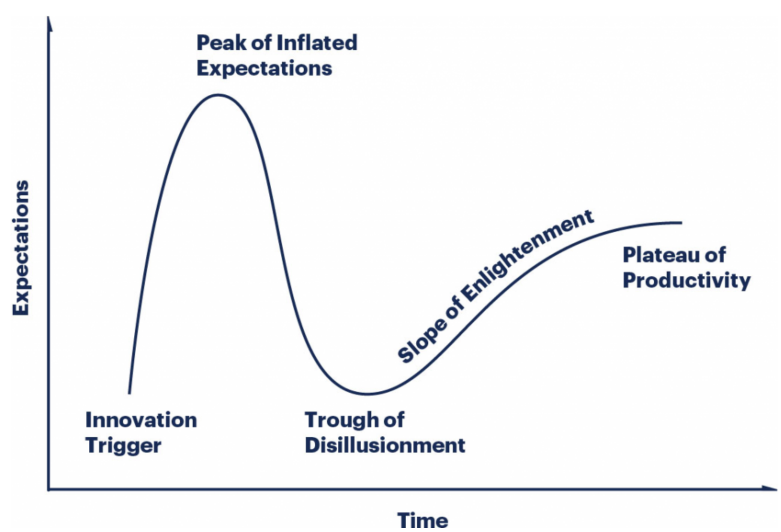
Semiconductors are the Teeth (7%)

Our "Semiconductors are the Teeth" theme highlights the crucial role that semiconductor technology plays in enabling the "Software is Eating the World" phenomenon. As software continues to drive innovation and transform industries, semiconductors act as the "teeth" that facilitate this process. The semiconductor industry experienced numerous challenges in 2022 including geopolitical tensions, trade disputes, export bans, and a global intent to reshore semiconductor production capacity. This made for a tumultuous investment period, particularly given that it coincided with the later stages of the semiconductor cycle. In response to these challenges, we closed one of our semicap positions in Q4 but remain confident in our other holdings within the theme.

Metals Powered Economy (4%)

Our "Metals Powered Economy" theme centers around the transition to renewable energy solutions and the growing need for innovative energy storage and transportation methods. One of the key technologies emerging in this space is battery technology, and electric vehicles (EVs) are a prime, early application.

The Gartner Hype Cycle[11] explains a generally applicable path a technology takes in terms of expectations or visibility of the value of the technology[12]. While imperfect from a mathematical perspective, we find it particularly useful as a framework for understanding and assessing the behavioral reaction in markets to technological innovations. It encompasses five main stages, as depicted in the chart below. In the case of EVs, we believe the "Peak of Inflated Expectations" occurred just after the Rivian IPO, when no price was too high for an EV company (in spite of having no revenue and no production history). Our analysis showed that auto manufacturers' target EV production from 2025-2030 would be near impossible to achieve due to infrastructure constraints, supply chain constraints, and commodity availability. This assessment led us to our first investment in this theme, a "discarded ICE supplier". This company supplies parts to manufacturers of traditional internal combustion engine (ICE) vehicles. We like the business model, industry structure, and capital allocation track record of the management. Furthermore it was available at an attractive valuation as investors actively avoided exposure to ICE vehicles.



As of this writing we believe we are approaching the "Trough of Disillusionment" in Gartner's Hype Cycle. Factors such as grid limitations, falling lithium prices, and the

[11] "Gartner Hype Cycle."

[12] Steinert and Leifer, "Scrutinizing Gartner's Hype Cycle Approach."

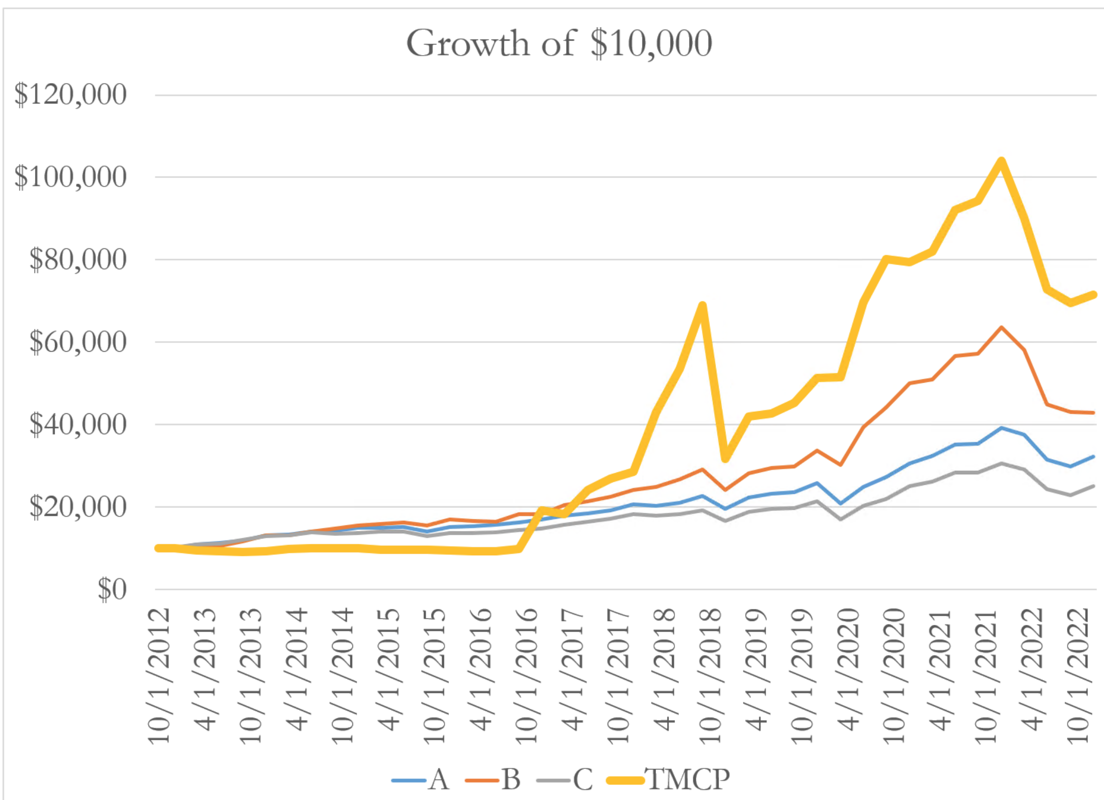
high cost of EVs have sunk into the market psyche. For example, today we see that Rivian is trading slightly above cash ($3b enterprise value), a far cry from its peak enterprise value of 151 billion. While trying to time the bottom in any market is a fool's errand, we did finally get comfortable with a valuation of an EV manufacturer that we have been tracking for some time and established a position near the end of Q4.

The next couple years may be a relatively rough road for the EV market. We believe the leaders will emerge by prioritizing volume over margin. This will cause most traditional auto manufacturers to drastically scale back EV production plans due to higher costs and a more price sensitive consumer. This will likely lead to the closure or acquisition of some of the smaller, upstart companies. When we enter the “Slope of Enlightenment”, which may take a few years, we expect the strongest EV makers to extend their lead and the resulting market for EVs will be significantly more consolidated (by brand) than the automotive markets of the past century.

OUTLOOK FOR NEW PARTNERS

For investors seeking conventional results, index funds may be a more suitable investment vehicle. However, for those seeking long-term outperformance, we believe that our approach is sound and uniquely suited to delivering exceptional returns.

Back to our example on page 6-7 of this letter, I've added our Partnership's returns to the chart, assuming a $10,000 investment, for comparison with index funds A, B, and C (S&P 500, Nasdaq 100, MSCI World respectively). That $10,000 stake in Top Mark Capital Partners (TMCP) at inception is, as of 12/31/2022 worth $71,568 (net of all fees and expenses), and we believe our portfolio has significant room to continue to compound in the coming years.



You can expect from us quarterly letters like this one 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), 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. You can also sign up for the Telltales weekly newsletter at telltales.us.

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,

Mike Nicoletti

Jason Wallace

IMPORTANT DISCLAIMER

Past performance is no guarantee of future results. Investing in equities and fixed income involves risk, including the possible loss of principal. The investment performance presentation contains historical data and information relating to the performance of certain investments. These figures should not be considered as a guarantee or a reliable indicator of future performance. Investment returns and the value of an investment can go up or down, and there is no assurance that any investment strategy will achieve its objectives, generate profits, or avoid losses. Investing in financial markets inherently involves a certain degree of risk and speculation. The value of investments, and the income generated from them, can fluctuate due to various factors, including but not limited to market conditions, economic changes, interest rates, and political events. As such, there is always the potential for loss, and you should only invest funds that you can afford to lose. The S&P 500 Index is included to allow you to compare your returns against an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of the 500 stocks representing all major industries. The NASDAQ 100 Index measures the performance of the largest 100 stocks on the NASDAQ.

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