SCHUTT CAPITAL
MANAGEMENT

July 25, 2022

Dear Fellow Investor,

The stock market just concluded its worst first half of the year since 1970, and our Fund performance was not spared. During the six months, the Fund decreased in value by 26% (unaudited) and, by comparison, the S&P 500 was down 20% and the NASDAQ was down 30%.

In the face of this, I cling tightly to our Fund's mission – to compound its capital, and our wealth, at attractive rates for a long time hence, while reminding myself that we are playing a long game and merely find ourselves in the midst of a tough inning. Taking the long view, since the Fund's inception in 2009, $100,000 invested had a fair value at June 30 of $270,500, and I intend to continue the work of compounding our capital well into the future.

Eventually, just as day follows night, these periods are followed by recoveries that lead to advances in stock prices well beyond the prior highs. I keep my eyes fixed on this long-term reality and apply the best decision-making I can to position our capital for these next few years and beyond.

It is psychologically hard to "zoom out" to this degree when the market delivers abrupt drawdowns. But zooming out is just the exercise that the long-term investor needs, as it allows the proper framing of the current moment and environment.

Ben Graham, recognized as the founding father of value investing and Warren Buffett's early mentor, wrote presciently about how to prepare and endure market fluctuations in Chapter 8 of The Intelligent Investor (1949). He recommends an investor *"resign himself in advance to the probability rather than the mere possibility that most of his holdings will advance, say 50% or more from their low point and decline the equivalent one-third or more from their high points at various periods in the next five years."* Further, that the *"investor should know these possibilities and should be prepared for them both financially and psychologically."*

I also keep in mind that these periods offer up opportunities at attractive prices that will generate our future returns. Jason Zweig succinctly offered up this apt analogy in his recent Wall Street Journal article titled "How to Stand Up to a Bear Market."

"I like to say that the problem with stocks is that they contain the letter T. If they were called socks instead, people would treat a 20% decline in price not as a selloff but as a sale. When socks get 20% cheaper, you don't rush to get rid of the ones you already own; you check your sock drawer to see if you need a few more pairs."

Graham has a similar message: "*Basically, price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal. At other times he will do better if he forgets about the stock market and pays attention to his dividend returns and to the operating results of his companies."*

I have taken these instructions to heart through this period. First, by continuing to assess each holding based the operating results of the businesses themselves. Second, by using significantly reduced prices to add to our portfolio.

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Despite difficult market conditions, the Fund had several public market holdings that bested the market's performance. **Markel**, **WR Berkley** (both insurance companies), and **New England Realty Associates** (residential real estate) each delivered positive absolute returns in the first half of the year. The high-quality insurers benefitted from rising interest rates and a very favorable pricing environment for its policies. New England Realty Associates used the prevailing low interest rates early in the year to execute a significant refinancing transaction secured by a portion of its portfolio that helped expose the extreme excess value in the portfolio relative to the price of its limited partnership units. Several other holdings, **Berkshire Hathaway**, **HEICO**, **Visa** and **Mastercard,** all performed better (i.e., declined less) than the overall market. Finally, our private holdings – the high-yield real estate loans and our interest in Wilmington Holdings Corporation – also helped performance.

Amazon is now one of the Fund's five largest positions and was added at an average cost of $135 per share, a price roughly 27% lower than its 2021 highs. Founded 28 years ago, Amazon is the leader in two large and growing global businesses – e-commerce ("consumer") and cloud computing ("Amazon Web Services" or "AWS"). I view the challenges facing the company (and causing its decline in market price) as temporary, giving us the opportunity to buy a great business at an attractive price.

In its consumer business, as a pioneering online retailer, Amazon has radically reset customer expectations through better, faster, and cheaper delivery of goods ordered over the internet and delivered directly to doorsteps. Amazon Prime, a fee-based membership service, is an incredibly powerful offering that entitles a member to free and fast shipping, along with a bundle of increasingly valuable other benefits such as Prime Video (a streaming library of movies and TV shows). Amazon Prime costs $139 per year in the U.S. and has over 200 million members globally. Prime is a powerful force that delivers great consumer value, improves Amazon's customer retention, and encourages customers to increase their purchase volume over time. Despite Amazon's size, its retail opportunity remains compelling as its gross merchandise volume represents less than 2% of global retail sales and an estimated 80% of retail sales still occur offline.

Amazon's consumer business can be thought of as a flywheel with multiple components that leverage the massive scale, technological capabilities, and fulfillment and logistics infrastructure that the company has built. Some businesses that are prospering as part of the retail flywheel have better characteristics than its online stores – they are growing faster, earn higher margins, and are less capital intensive. For example, its third-party seller services markets and delivers products for other vendors and collects fees in exchange for these services. Amazon's advertising business, too, is now one of the world's largest, as sellers and brands find it compelling to have product advertised at the point of sale. While Amazon's online store revenues have grown by 20% annualized over the past four years, its third-party seller services revenue has grown 34% annually and its advertising services revenue has grown by 61% annually. More and more of Amazon's earnings growth is coming from higher-margin services over time.

Amazon's second major business, Amazon Web Services, is a leading provider of cloud computing services and also features high margins and a large market opportunity. Cloud computing providers deliver computing, data storage, and software capabilities to businesses that need them, allowing its customers to "rent" IT infrastructure rather than having to lay out large amounts of capital for

it. AWS offers customers a very attractive value proposition – shifting what was previously a significant and inflexible fixed cost to a variable costs that can be adjusted up or down according to actual usage and need.

This attractive value proposition is driving significant growth for AWS and its top competitors. Over the past four years, AWS revenue has increased at an average annual rate of 37%, totaling $67 billion in revenue and $21 billion in operating income (i.e., operating margins greater than 30%) in the last twelve months. This places AWS among the largest and most profitable software businesses in the world. According to Synergy Research Group, enterprise spending on cloud infrastructure services totals more than $200 billion globally, and AWS has 33% market share, followed by Microsoft Azure (22% share) and Google Cloud (10% share).

The migration of IT services from on-premise to the cloud still has ample room to run and will power continued growth for these three leading providers. Gartner estimates that public cloud spending represented less than 17% of all enterprise IT spending in 2021, and that this will grow to 45% by 2026. The three largest players should continue to take share from smaller players, too, since cloud infrastructure is a business where scale brings significant advantages. With a huge fixed investment base, at more and more scale, the per unit cost of servicing any customer falls, increasing the profitability and success of the largest players and allowing them to profitably serve more and more customers.

What we know as the sources of value of Amazon today – retail, third-party seller services, Prime, AWS – are the fruits of a relentless innovation culture that has taken an online bookseller to a corporation that hungers to address any very large market in which it believes the customer is not being well-served. CEO, Andy Jassy, recently summarized Amazon's culture by saying: "We exist to make our customers lives better and easier every day and relentlessly invent to do so." Amazon continues to reinvest aggressively in growth and innovation, and I suspect that this reinvestment will drive further growth in the company's revenue, and ultimately, free cash flow.

In my view, the current market concerns about Amazon are legitimate but focus on temporary factors, and I see no reason why they aren't resolved with time. These concerns include that Amazon's profit margin has been suppressed by an overbuilding of its logistics and fulfillment network relative to current customer demand; that inflationary pressures for fuel, shipping and labor are also eating in to margins; and finally, that the current economic slowdown will generally have a dampening effect on its revenues across business units.

My primary investment objective is to own great, durable businesses with meaningful growth opportunities ahead of them at attractive prices, and I think Amazon satisfies these criteria. With expected continued growth largely driven by its higher-margin business units, a market cap nearing $2 trillion, or a stock price of $190 - $200 per share, is possible.

Two existing holdings, **Netflix** and **Naked Wines** deserve special mention, as they were each significant detractors from the Fund's overall performance. I regrettably misappraised some specific strengths (in the case of Netflix) and potential vulnerabilities (Naked Wines) in each of these businesses. We continue to own them, as I feel the market has discounted both too much relative to their business and prospects.

Netflix, which has about 220 million subscribers worldwide, reported a surprising halt in subscriber growth in the first half of the year. In response to this setback, management is pursuing two strategies to adapt its business. First, it is launching a lower-priced ad-supported subscription tier that, if done well, will be highly attractive to brand advertisers. Second, the company is exploring ways to monetize a portion of the estimated 100 million(!) non-paying users (against a base of 220 million paid up users). Both of these efforts are well underway, should generate incremental and high-margin revenue, and may begin to bear fruit in 2023. More subtly, I also suspect that the company will demand increasing efficiency from the massive annual investment it makes in content, which should also positively impact its free cash flow over time.

I had expected that the company would grow faster than it has, and in turn, more quickly achieve further operating leverage that would drive greater free cash flow. A key merit for me in owning Netflix is its exceptional culture, which has allowed the business to evolve in the face of challenge and change multiple times throughout its history. As a loved service to hundreds of millions of viewers worldwide with a substantial base of recurring revenue, the company has a strong foundation from which to move forward.

Naked Wines was impacted by a combination of company-specific and broader environmental factors that has left the company in a more vulnerable position than before and caused investors to re-evaluate the company's prospects.

As consumer sentiment shifted with the relaxing of COVID measures, the company found it a bit harder and more expensive to recruit new customers. Deterioration in digital marketing efficiency following Apple's privacy changes also contributed to the loss in efficiency. Concurrently, Naked's sales to existing customers, long a source of strong cash generation, experienced margin deterioration due to cost inflation in shipping, fulfillment, and materials that was not matched with price increases. All the while, Naked continued (and continues) to use cash for investments in further scaling its business – building inventory (which it found itself short of at times in 2020 and 2021), conducting brand marketing, and building out general and administrative infrastructure. Taken together, these dynamics led to weak returns and an outlook that is clouded by the need to rehabilitate some key performance measures in the business. Heavy cash usage, mostly for building inventory, plus weak returns, transformed a once super solid balance sheet with lots of excess cash to one that may not support the business if results deteriorate further.

It is fair to say that Naked's management did not react quickly enough to these environmental changes, but it is clear that they now have. The company is valued around book value, suggesting that it isn't worth any more than the net value of its cash and inventory.

By bypassing the three-tier distribution system in the United States, Naked can deliver incredible value in a bottle of wine and its business model is truly a win for both winemakers and the wine drinkers. The US market, in particular, has vast room for growth. With nearly 1 million subscribers, it is the largest direct-to-consumer wine business in the world and has a core, satisfied customer base that enjoys connecting with the company's exclusive brands. The company has in the past year transitioned its Board of Directors from a UK-centric group that was generally less supportive of making investments for long-term growth to one that is more US-oriented and experienced in developing similar direct-to-consumer and branded companies. I sense that this group is both helping Naked identify and address current challenges but also encouraging management to build and invest with a long view of value creation.

The economy is in a transition marked by higher interest rates and businesses and consumers are grappling with significant uncertainties resulting from inflation and the war in Ukraine. Higher interest rates negatively impact the valuation of all assets and this revaluation has occurred swiftly in stocks this year. I think that we own a collection of businesses that are priced inexpensively, advantaged, and whose earnings will grow, and that their continued value creation will eventually offset further market valuation adjustments, if they occur. In tough operating environments such as these, advantaged businesses also tend to emerge better than before relative to their competition, and I expect some of our holdings will benefit accordingly.

It is our intention to hold our investor meeting this fall and we will be in touch as details and logistics are confirmed. I am looking forward to it.

Feel free to reach out to me to discuss further. I always enjoy hearing from our thoughtful partnership group. Thank you for your continued trust and partnership.

Best regards,

Marshall P. Schutt
Managing Member

Appendix A: Overview of Changes in Holdings and Current Holdings (9/30/21 – 6/30/22)

New Positions	Disposals
Amazon	ABL Alliance, LLLP
Undisclosed New Position	

Positions Substantially Increased[1]	Positions Substantially Reduced[1]
Naked Wines plc	Berkshire Hathaway
Netflix	Meta Platforms
High Yield Loan XXXIV	HEICO Corp.
	Kennedy Wilson Holdings
	New England Realty Associates LP
	Research Solutions

(1) An increase or decrease representing at least 0.50% of the Fund's capital, measured as of the beginning of the period.

Business Descriptions of Holdings at 6/30/22
*(*one of top 5 largest holdings at 7/25/22)*

Alphabet* – *internet services; holding company for Google*
Amazon* – e-*commerce and information technology services*
Bank of America Corporation – *large U.S. financial institution*
Berkshire Hathaway* – *holding company; insurance, railroads, utilities, manufacturing, retail and services*
Constellation Software* – *vertical market software*
HEICO Corp. – *aerospace and electronic components manufacturer*
High Yield Loan XXX – *loan secured by real estate; Columbus, OH*
High Yield Loan XXXI – *loan secured by real estate; Columbus, OH*
High Yield Loan XXXIV – *loan secured by real estate; Columbus, OH*
High Yield Loan XXXVII – *loan secured by real estate; Columbus, OH*
Kennedy Wilson Holdings – *real estate investment company*
Markel Corporation – *property and casualty insurance and reinsurance globally; non-insurance operating businesses*
Mastercard – *payments technology company*
Meta Platforms – *social media conglomerate*
Naked Wines – *vertically-integrated e-commerce retailer*
Netflix – *streaming video service*
New England Realty Associates LP – *real estate investment company*
Research Solutions – *niche software provider*
Salesforce – *enterprise software provider*
Undisclosed New Position – *insurance services provider*
Visa – *payments technology company*
W.R. Berkley Corporation – *property and casualty insurance globally*
Wilmington Holdings Corporation* – *controlled investment; private property & casualty insurance company; held through an investment in Gearson Partners Holdings, LP*

Appendix B: Annual Performance

One dollar ($1.00) invested in the Fund at inception is $2.71 as of June 30, 2022.

Annual Performance Metrics:

Year Ending	SPIF Net Return	SPIF Avg. Exposure/Allocation[1]				1-Year Return	
		Equities	Secured Loans	Private/ Controlled Co.	Cash	S&P 500[2]	SPIF ROIC[3]
2009 (from 4/1)	9.0%	28%	0%	0%	72%	42.1%	64.8%
2010	12.7%	69%	0%	0%	31%	15.1%	20.2%
2011	-6.3%	77%	0%	0%	23%	2.1%	-8.0%
2012	15.4%	76%	0%	0%	24%	16.0%	21.0%
2013	21.1%	76%	3%	0%	21%	32.4%	28.3%
2014	10.3%	82%	2%	0%	16%	13.7%	12.7%
2015	5.2%	80%	7%	0%	13%	1.4%	6.1%
2016	14.1%	63%	21%	0%	16%	12.0%	18.7%
2017	9.9%	72%	15%	2%	11%	21.8%	10.6%
2018	-6.3%	71%	21%	5%	3%	-4.4%	NM[4]
2019	25.5%	72%	19%	6%	4%	31.5%	NM[4]
2020	4.8%	72%	17%	7%	4%	18.4%	NM[4]
2021	26.6%	80%	10%	7%	3%	28.7%	NM[4]

5-Year Performance Metrics:

Five Year Period Ending	SPIF Net Return Rolling 5-Year CAGR[5]	SPIF Avg. Exposure/Allocation[1]				Rolling 5-Year CAGR[5]	
		Equities	Secured Loans	Private/ Controlled Co.	Cash	S&P 500[2]	SPIF ROIC[3]
2014	10.3%	76%	1%	0%	23%	15.5%	14.1%
2015	8.8%	78%	2%	0%	19%	12.6%	11.3%
2016	13.1%	75%	7%	0%	18%	14.7%	17.1%
2017	12.0%	75%	10%	0%	15%	15.8%	15.1%
2018	6.4%	74%	13%	1%	12%	8.5%	NM[4]
2019	9.2%	72%	16%	3%	9%	11.7%	NM[4]
2020	9.1%	70%	18%	4%	8%	15.2%	NM[4]
2021	11.4%	73%	16%	5%	5%	18.5%	NM[4]

My preferred measurement is how the Fund performs over five-year periods or longer – and I encourage you as a limited partner to view our results the same way. The S&P 500 is selected for comparison as it is representative of the broad stock market and the returns available to earn passively for little incremental cost, if one remained fully invested in the index at all times. I view the index as an opportunity set – one of many you could choose, the Fund being another, and any index broadly representative of the U.S. stock market could be exchanged for the purposes of this comparison. The Fund often owns investments not included in the S&P 500 and does not seek to track the composition of S&P 500 in its portfolio.

1. Calculated using an average of month-end balances throughout the year for 2009-2018. For 2019, calculated by averaging the allocation at each of the four quarter ends during the year.
2. The S&P 500 return includes dividends and does not reflect an adjustment for any fees or expenses.
3. Return on Invested Capital. This metric highlights the performance of the Fund's investments, excluding its cash balances. It is calculated by dividing the Fund's gross quarterly return by the average invested capital in that quarter, and then subtracting the percentage of fees and expenses incurred during the same period.
4. ROIC metric not meaningful as the Fund held little, if any, cash during the period.
5. Compound Annual Growth Rate.