



Dear Partners,

During the fourth quarter of 2020, Rhizome Partners generated a net return of 18.2%, bringing the year-to-date net return to 23.7%. The S&P 500 index returned 12.2% during the quarter and 18.4% year-to-date. The FTSE NAREIT All Equity REIT Total Return Index returned 8.1% during the quarter and is down 5.1% year-to-date. With roughly half of our portfolio allocated to real estate companies, our full year returns outperformed the FTSE NAREIT index by almost 29%. You may notice that the Class B returns may differ from your personal returns. This is mostly due to 2 side pockets that made distributions during 2020. Existing Investors in 2014 and 2015 were eligible for distribution while subsequent investors were not. The Class B returns calculated by our fund administrator incorporate all the capital allocation decisions since fund inception.

Time Period	S&P 500 ¹	Hypothetical 10% Absolute Return	FTSE NAREIT All Equity REIT Total Return ²	Rhizome Partners Class B Net Return ^{3,4}
April 10th thru Dec 31, 2013	18.2%	7.2%	-4.9%	19.50%
Full Year 2014	13.7%	10.0%	28.0%	19.2%
Full Year 2015	1.4%	10.0%	2.8%	-5.8%
Full Year 2016	12.0%	10.0%	8.6%	11.5%
Full Year 2017	21.8%	10.0%	8.7%	5.6%
Full Year 2018	-4.4%	10.0%	-4.0%	-7.2%
Full Year 2019	31.5%	10.0%	28.7%	17.8%
Q1 2020	-19.6%	2.4%	-23.4%	-14.0%
Q2 2020	20.6%	2.4%	13.3%	18.3%
Q3 2020	8.9%	2.4%	1.2%	2.9%
Q4 2020	12.2%	2.4%	8.1%	18.2%
Full Year 2020	18.4%	10.0%	-5.1%	23.7%
Cumulative Return Since Inception	146.7%	108.9%	73.2%	113.8%
Annualized Return Since Inception	14.1%	10.0%	7.3%	10.3%

1. S&P 500 returns include dividend reinvestments and are fully invested

2. FTSE NAREIT All Equity REIT Total Return Starts on 3/31/2013 and includes dividend reinvestments and are fully invested

3. Net return is net of expenses and incentive allocation for Class B. Individual partners may experience returns that are different than the Class B return.

4. Rhizome Partners Class B Net Return is accomplished while holding 29% cash and SPACs while comparable indexes are fully invested.

Class B Net Return also includes 13% of investments that are workouts/special situations/hedged

Quick SPV Updates

We have high conviction in a real estate holding company and allocated about 15% of the fund to this idea. We also created a Special Purpose Vehicle (SPV) to allow our partners to further concentrate in the idea. As of this writing, we have raised and deployed an additional \$6.25mm in the SPV. Please see our discussion on our concentrated real estate returns to understand the merits of investing in our SPVs. We believe there is an additional \$10-14mm of capacity left for the SPV at the current price.

Revisiting Our Original Mission Statement

In our original letter, we wrote the following:



In picking a name, we looked for a symbol that would accurately represent the mission statement of the fund. We found inspiration in the world of science. In botany, species such as the quaking aspens and bamboos exhibit a phenomenon whereby a single plant can propagate into an entire forest via horizontal underground roots called rhizomes. A majestic quaking aspen forest actually once sprouted from a single tree and a vast bamboo forest sprang from a single shoot. We also saw inspiration in the speed of growth and ruggedness of bamboo plants. Any gardener can attest that bamboos multiply exponentially and are virtually impossible to eradicate once the rhizomes start to expand outward. Aspens are vigorous resprouters following wildfires since the roots are protected from lethal temperatures during a fire. Rhizomes contribute to these extraordinary characteristics of rapid growth, resilience, and regeneration. Hence, Rhizome Partners strives to compound a small amount of initial capital into a vast fortune while employing a risk adverse strategy that will prove resilient over time.

Our mission statement is still relevant today. 2020 was a symbolic forest fire that ravaged everything in its path. Our conservative underwriting and risk management have kept us safe and allowed us to quickly “resprout.” Thank you for your trust and allowing me to do what I love. Our partners stood by us during a year full of risk and uncertainty. Our conversations during the crisis were cordial and friendly. Some even added capital and many contemplated adding capital. We were able to re-allocate our hedging windfall into amazing opportunities rather than worrying about redemptions. This “bedrock of trust” allows me to invest for the long term.

Your trust also allowed us to achieve a meaningful milestone in early 2021. The investment manager, Rhizome Capital Management, will have to file a form ADV as we exceeded \$25mm of assets under management for the first time. We certainly did not imagine that our investment manager would grow assets under management by roughly 70% in the middle of a worldwide pandemic!

Our Risk Adjusted Returns Since Inception

I want to provide an honest assessment of our risk-adjusted returns since inception. In addition, I hope this analysis can help you evaluate our performance. Since inception, we have beaten the 10% absolute return hurdle and the NAREIT All Equity REIT index while we trailed the S&P 500 index. It is important to note that our Class B returns are net of management and performance fees while holding 29% in cash/SPACs and implementing a hedging program.

We met with an institutional investor once who astutely pointed out that we are underselling our risk-adjusted returns. Paraphrasing his comments, “Your net return is 10.3% since inception. It is very respectable because you can double the capital every 7 years. But you have held 29% of cash and SPACs, so your gross return on deployed capital is closer to 19% since inception. You also own companies that trade at reasonable valuation multiples and you invest in low leverage real estate companies at 50-60 cents on the dollar. You are not taking much risk in the portfolio.” We believe his comment is concise and thoughtful.

Benchmarking is an art not a science. We allocate roughly half of our capital towards publicly-traded real estate companies which drive a meaningful portion of our returns. The NAREIT index is a representative benchmark. Many investors chose to invest with Rhizome due to our focus on real estate. Since inception, we have beaten this benchmark by 3% a year while holding 29% cash and SPACs. When we do allocate capital to



high conviction real estate ideas, we have averaged 37% IRR since inception. Please see the detailed discussion of the performance of our concentrated real estate investments.

We also added the 10% absolute return hurdle because we need absolute returns to become wealthier over time. It naturally implies a doubling of our capital every 7 years. Inclusion of this index was also heavily influenced by the portfolio allocation strategies of Seth Klarman at Baupost who is famous for stressing absolute returns in conjunction with holding large cash balances. While it is hard to fathom today, there was a period during 1999 to 2009, where the 10-year CAGR of the S&P 500 index with dividends reinvested was actually negative. This was driven by the bursting of the Dot Com Bubble and the subprime mortgage crisis within a 10 year period. Few investors have a memory of the S&P 500 generating negative returns over a 10-year period. A 3% annual outperformance from 1999 to 2009 only equates to a 2% CAGR. My wife Jocelyn and I have the bulk of our liquid net worth in the fund, so we are personally interested in growing our wealth and beating inflation. We have beaten this benchmark while dragging a heavy anchor in the form of sizable cash, SPACs, and paying for hedging.

We have trailed the S&P 500 since 2013 while we executed a strategy that is fundamentally different. If our sole objective was to beat the S&P 500 with zero regard to generating absolute returns, we would have opted to pick stocks within the S&P 500 index. Our market exposure would also have been 100% at all times. Our market exposure historically has averaged only 56% while our cash and SPAC holdings were 29% and our market neutral and shorts accounted for the remaining 15%. Since inception, we have limited exposure to high growth technology companies which has meaningfully driven the return of the S&P 500 index. Our partners understand that beating the S&P 500 is not the sole objective, but getting wealthy over time certainly is. A more representative benchmark would have been the Russell 2000 as it more accurately represents our investment universe.

In summary, Rhizome Partners has executed a hybrid strategy of 1) real estate private equity in the public markets, 2) traditionally cheap operating companies, 3) hedging and opportunistic deployment of capital, and 4) targeting absolute returns. We share these analyses to help you objectively evaluate our performance. We believe we have delivered satisfactory risk-adjusted returns since inception and turned \$1.00 of original capital into \$2.14 of capital over this period.

What About the Next 10, 20, 30 Years?

We believe all three benchmarks will be relevant in the next 10, 20, 30 years. The S&P 500 will become more relevant as we increasingly invest in larger market cap companies. We do anticipate that we will hold less cash. There are two main reasons. First, we believe we have discovered a functional hedging strategy by always holding a small amount of “tail risk” puts in indexes and our portfolio companies. We have demonstrated that such a strategy can work. Second, we believe we are better investors today and we can analyze new companies in multiple industries. In the early years, we found ourselves running into the problem of a “dearth of ideas.” Through experience and the development of a peer network, we can create a more diversified portfolio without sacrificing performance. We will allocate about 1-2% per year towards “tail risk” hedging in the future. We expect our hedging to lose money during most years and produce an outsize return during a crisis like 2020. We believe that it will have positive expected value in the long run as the hedging windfall will allow us to be aggressive in allocating capital during phenomenal investing environments.



It is also important to understand that we are hedging the risk of “mental paralysis”. This is a real risk for an investment manager who has neither dry powder nor mental fortitude to act during a crisis.

Historical Real Estate Returns

Ticker	Company Name	Start		Current		Peak	
		Date	End Date	IRR	MOIC	Size	Exited/Active
Mays	JW Mays	2013	2016	66%	1.97	17%	Fully Exited
CTRE	CareTrust	2014	2016	90%	1.41	11%	Fully Exited
FRPH	FRP Holdings	2015	2018	32%	1.73	26%	Fully Exited
LAACZ	Laaco	2017	2020	4%	1.06	16%	Fully Exited
GRIF	Griffin Industrial Realty	2017	Active	23%	1.60	15%	Partially Exited
HHC	Howard Hughes Corp	2017	Active	5%	1.11	20%	Active
N/A	SPV # 1	2020	Active	30%	1.11	16%	Active
N/A	Real Estate #2	2020	Active	43%	1.15	10%	Active
Average				37%	1.39	16%	

The criteria for selecting this data set is 1) pure play real estate companies 2) minimum size of 10% and 3) performance end date of 12/31/2020.

Is the result above due to randomness or luck? Did we land 8 heads in a row in some sort of lucky coin flipping exercise which would have a 0.39% probability of happening? We strongly believe there is a systematic process that allows us to generate these returns. As a part of our research process, we often create detailed presentations on our investments. We have previously shared them with our investors in real time. You can evaluate our investment thesis against the outcomes and find that we systematically predict narratives and events 1-3 years before hand. Our strategy is simple but hard to implement. We invested in companies where private equity firms can pay double our cost basis and still underwrite to a 12-15% IRR. This is not a theoretical exercise as we have gone through a detailed underwriting on a couple of our portfolio companies with interested parties. We largely choose companies that own a diversified portfolio of assets with low leverage. We avoided real estate asset types that faced structural issues such as retail. We also spend months getting to know management teams and their incentives. We often know which family member is a documentary film maker and which family member likes to care for horses. We have spent a disproportionally large amount of time performing “on the ground” due diligence for a fund of our size. We also draw from our private real estate experience to determine the long-term trends of neighborhoods and communities. We believe our IRR, batting average, and slugging percentage are the byproduct of a repeatable and consistent underwriting process.

More Details On the Leucadia Seed Deal

I have mentioned in past letters that we were contacted by a “mini Berkshire Hathaway” at one point about structuring a \$50mm seed deal back in 2014. At the time, Leucadia (now known as Jeffries) had just structured a deal to swap some buildings in Downtown Brooklyn with a publicly traded subsidiary called HomeFed. We had just published our investment thesis on JW Mays on Sumzero.com. We received a call from my contact at Leucadia and we began a year-long dialogue about Leucadia seeding us to launch a focused real estate fund. It was one of those serendipitous moments in one’s career. At the time, Leucadia



was actively seeding investment managers and they invested \$400mm in Folger Hill Asset Management. We strategized over many sessions and talked about Rhizome's core strategy. My contact explained that "I had a knack for finding deeply discounted real estate companies." As a young manager managing less than 10% of what we manage today, I was surprised by the interest of Leucadia. The key question was can we find 10 companies that will generate the type of returns we reported above. Leucadia's plan was to provide a \$50mm seed deal in exchange for a sizable amount of the general partnership. The fund would invest purely in real assets. If we could build a solid 1-2 year track record, then Leucadia would provide the resources to grow the fund to \$1 billion. One of the conditions was that Rhizome Partners had to shut down.

We worked day and night to see if we could populate a portfolio with 10 real estate companies trading at half of NAV. It was clear that it was impossible. Since inception, we have only allocated to 8 different companies where the position size was over 10%. We intuitively knew that we needed to run a "punch card" strategy rather than a diversified fund where we will force subpar ideas into the portfolio. These opportunities do not come along often. Our underwriting process is so rigorous that it typically takes 6-12 months for us to become comfortable to build a full-size position.

In hindsight, Leucadia was really onto something when they saw our presentation on JW Mays. In our JW Mays analysis, they saw someone with a unique skillset to find real estate companies trading at 1/3 to 1/2 of private market value. Since inception, we have averaged 37% IRR on these investments through the cycle despite the Covid crisis in 2020. We currently have a batting average of 100% on our high conviction pure play real estate ideas in that we have not lost money on any of our high conviction real estate investments. Our slugging percentage is also high due to our large position sizing. FRPH alone was responsible for a roughly 17% gross return to the fund. On a look through basis, these eight companies all had below average debt levels and were purchased at deep discounts to private market value.

Jocelyn and I decided to forgo the Leucadia seed deal because we wanted to stay loyal to our investors. Many are friends and family and backed us when we had little track record to speak of. We also want to be honest with ourselves. We believe that creating a real estate focused fund is appropriate in 2020. But REITs had experienced large gains by 2014 since the financial crisis. We may have been able to pick 3 high conviction real estate ideas, not 10. We would have been forced to invest in low conviction companies just for the sake of being able to gather assets. Lastly, we were worried that Rhizome would lose its unique DNA. Despite managing about half of that seed deal, Jocelyn and I are very happy with our decisions. We believe we have added a lot of value to our partners and established many meaningful relationships along the way.

Why Special Purpose Vehicles Make Sense

We strongly believe that every manager should know their strength and weaknesses. It is obvious that we generate differentiated returns with our "real estate punch card" ideas. We believe it is our duty to highlight the uniqueness of the batting average and returns. At our current size, we run into a concentration problem as we allocate 10%-20% of our partners capital into a specific idea. Rhizome Partners is meant to be diversified. At the same time, many of our partners have additional capital for "high conviction" ideas. We can also offer an "a la carte" solution for investors who only want exposure to our high conviction ideas. We have to pound the table when we can buy a well-managed and under-levered real estate company with great assets and large cash holdings trading at 55 cents on the dollar.



We are currently less than 12 months removed from the Covid crisis. The mainstream narrative still focuses on Covid and its impact on real estate. We believe that when society is fully vaccinated, there will be an unprecedented need for income as the 10-year treasury yield is only 1.07%. We suspect that by 2022, a 5% dividend yield REIT that can grow over time will solve a lot of problems for retirees and pension funds. There will once again be a reach for yield in the real estate asset class. We suspect there will be silliness in yield products that masquerade as return on capital when really what they are offering is return of capital. To pre-emptively combat this issue, we have contemplated creating a SPV that will own a portfolio of income investments that pays out roughly 4-5%. Our compensation will be a small management fee and a performance allocation above the 4-5% distribution. This solves both the “need for income” and the “reach for yield” problems that were prevalent during the years following the Great Financial Crisis. Our incentive would be to only pick REITs with sustainable distribution that can grow over time. We would love feedback from our readers.

Large Contributors and Detractors During 2020

2020 Contributors	Investment Type	Estimated Portfolio Contribution	Year End Position Size	Commentary
Griffin & Prologis Puts	General Undervalued	6.0%	7.3%	Griffin reported strong fundamental performances during 2020 due to elevated e-commerce activity. The company announced a conversion into a REIT and added well-regarded Chairman, Gordon Dugan. We bought puts in Prologis to hedge against industrial real estate risk.
Index/Other Puts	Put Protection	4.0%	0.1%	We bought puts in the S&P 500 Index, Tesla, Caterpillar, Nike, Beyond Meat, Ferrari, Toyota, Darden, and Royal Caribbean. We purchase these puts when VIX index was around 10-12.
Berry Global & Puts	General Undervalued	2.5%	8.5%	Berry reported robust financials during 2020 with 2% organic volume growth. The company also paid down just under \$1bn of debt.
DuPont & Puts	General Undervalued	2.5%	7.7%	DuPont reported robust financials during 2020 with EBITDA down only 20% during Q2. Shares re-rated higher towards year end as the Nutrition business is about to be merged with International Flavors and Fragrances.
IPL Plastics	General Undervalued	2.0%	0.0%	We bought IPL Plastics at roughly 5x EV/EBITDA with proceeds from hedging. IPL was taken private by a private equity firm at 2.4x our cost basis.
SPV Idea	General Undervalued	2.0%	15.9%	This is currently our highest conviction idea. We created a separate Special Purpose Vehicle and raised an additional \$6.25mm of capital.
AutoDesk	General Undervalued	2.0%	3.4%	We bought AutoDesk with proceeds from hedging and shares have appreciated 92%.
Real Estate Idea #2	General Undervalued	2.0%	10.2%	We swapped into Real Estate Idea #2 with proceeds from selling Laaco. We believe that the equity is worth 3x our cost basis by 2023.
Angi Homeservices	General Undervalued	1.5%	2.5%	We believe ANGI Homeservices could potentially become the digital market place for home service needs. We bought ANGI with proceeds from hedging and shares are up 82%.
Howard Hughes Corporation & Puts	General Undervalued	-2.0%	8.4%	Howard Hughes experienced challenges in most of its business areas with the land sale business emerging as a surprising strength during 2020. We managed to lower our cost to the \$70s and significantly lower the portfolio size while maintaining roughly the same share count.
Calumet	General Undervalued	-4.0%	0.2%	This has been one of our more glaring mistakes since fund inception. Please see detailed analysis on our mistakes.

You will notice that there are many new names on this list. We took advantage of the crisis and redeployed the hedging windfall into two new high-conviction real estate ideas and a diversified basket of potential long-term compounders in AutoDesk, ANGI, Aspen, Ashtead, and others. IPL Plastic was the first crisis investment that we fully exited as it was purchased by a private equity firm at 2.4x our cost basis. We are excited that we have positioned the portfolio for significant growth in the next few years. You may also notice that we have dramatically reduced the portfolio size of Howard Hughes Corporation and significantly lowered our cost basis



via hedging. We did not meaningfully reduce our ownership of Howard Hughes Corporation. The position size shrunk mostly due to lower HHC share price and the rest of the portfolio experiencing sizable gains during 2020. At the same time, we maintained roughly the same number of shares of Howard Hughes Corporation as year-end 2019. While there is certainly froth in markets like electric vehicles going public via SPACs, we believe our portfolio is still cheap with our two top real estate ideas trading at 40-55% of NAV.

Investment Updates

Real Estate Companies

INDUS Realty Trust (formerly known as Griffin Industrial Realty) continues to execute well fundamentally and on the investor relationship front. The Company should complete its REIT conversion by Q1 2021. We will receive roughly \$2 of dividends as part of the REIT conversion with about \$0.60 of that in cash and the remainder in stock. The improvement in investor communication has been amazing. INDUS looks, feels, and talks like a billion-dollar public REIT today. Given management's continuous positive surprises and their recent success in getting the company to trade above NAV, we will hold the shares and see if the company can take advantage of the low cost of capital to grow the business. INDUS is a great example of why our patient investor base is a structural advantage to Rhizome Partners. INDUS executed admirably from 2017-2019 and yet shares were up barely 15%. Within a couple months, our IRR in INDUS jumped from low single-digits to about 23%. This is a common characteristic of value investing. A company can trade range bound for a long period and the returns can occur "violently" in a few weeks when it does work. Again, we thank our partners for your trust in our process.

We have fully exited Laaco. The company is still cheap relative to its liquidation value. We became more certain that the company has no actionable plan to close the large discount between price and intrinsic value. The management team also has no intention of "right sizing" the capital structure. There is no lever to create additional shareholder value such as share buybacks. Due to the low liquidity, it is also difficult for us to buy more shares with the distributions. Due to the antiquated tax reporting system of Laaco, the natural shareholder is a California resident looking for a fixed income solution rather than equity exposure. While most MLPs utilized cloud-based services to deliver their K-1s, Laaco still mails out K-1 forms via the US postal service. It dawned on me that if Laaco was testing our patience, a natural shareholder base will never emerge as we are likely the most patient investor in a real estate company. I still think the family and the management team are decent people. But they are set in their ways and we can generate higher and more certain returns with our SPV idea and Real Estate Idea #2. Hence, we sold our Laaco position and re-allocated into these two ideas. For the 2021 tax year, I look forward to sending out the K-1 forms in mid-February rather than late March.

We are excited about our SPV idea as they continue to buy back shares and the leasing and occupancy data continue to impress. As the rest of the portfolio has appreciated, we may add to our SPV idea as its weighting has declined despite the SPV idea's share price having risen since we built our position.

We allocated about 10% of our capital to Real Estate Idea #2. We have gotten to know the management team better. We believe shares could be 3x the current price in 2-3 years despite having risen about 20%. We have



contemplated creating SPV #2 to provide additional exposure to our investors. For now, we will keep the details sparse as we may buy more.

Q4 was full of positive developments for The Howard Hughes Corporation. The Pfizer and Moderna vaccine approval news were very bullish to HHC's retail and hospitality business. We believe that David O'Reilly's promotion to CEO has been positively received by the market. We have always been impressed by his grasp of the business. David and I have chatted about the trees and the forest. He has an encyclopedic knowledge of the performance of various assets including The Fulton restaurant by Jean George in the Seaport and the condo sale velocity in Honolulu, Hawaii. He understands the unit economics of developing each asset which is very high for all of their projects. Most importantly, he also understands how each incremental new development fits into a holistic vision towards building a better live, work, and play community. The last point sounds fluffy but can be readily confirmed if one visits the communities. We would argue that properly fitting the pieces together will create the most long-term shareholder value. We believe that the Chicago office building will be sold for a decent price in 2021 allowing the company to reinvest in the core MPC assets. Home sales in Summerlin and Bridgeland are up 10% and 18% respectively which places the two communities at #3 and #9 of the top selling MPCs in the US for 2020 according to third party research. I recently visited the Seaport with Jocelyn and we came away with the same feeling as we always had. This is an utterly unique place with amazing views of the Brooklyn Bridge, cobbled stone streets, and charming Old World architecture. It dawned on me that New York City will be devoid of entertainment venues and restaurants in 2021. The offerings at the Seaport will stand out and be even more differentiated than before Covid.

Long-Term Aspirations for Our Real Estate Strategy

Finding deeply undervalued real estate companies is perhaps the most important part of the equation, but it is not everything. Over time, we need the market to agree with us. Our INDUS (formerly Griffin Industrial Realty) experience has been a deep contrast with Laaco. Measured against private market transactions, both companies traded at about the same discount to intrinsic value. Yet, they have drastically different outcomes. Fundamentally, both warehouses and self-storage emerged as favored asset classes during the Covid crisis. From our conversation with INDUS, the management team was frustrated by the large discount between price and NAV. INDUS transitioned from an orphaned security to one coveted by the public market. This is a result of the management's desire for achieving a low cost of capital in order to grow the business. We speculate that as more capital moves towards indexing, it becomes increasingly important for a company to provide a "purpose" for shareholders. Narratives are more important than ever. The INDUS thesis today is a small and nimble warehouse company that can leverage its low cost of capital to develop and acquire warehouses in a fragmented industry. Implicitly, it represents an option to grow into a multi-billion dollar REIT and small acquisitions or developments can meaningfully impact value creation. Five years ago, we would have scoffed at the need for such analysis. But we are in the business of investing in what works. Swimming against the raging flows of passive capital will definitely slow us down and may even drown us.

We suspect that indexing has fundamentally shifted the landscape where only "high growth" and "mold fitting" small cap companies will benefit from re-rating. It seems that finding diamonds in the rough is not the only game anymore, getting it polished and selling it at Tiffany's on Fifth Ave is the path to riches. We will increasingly conduct a thorough "diamond in the rough to Tiffany's" analysis prior to investing. In the long run, one of our goals is to continue to build a track record of high batting and slugging percentage in real



estate investing. Our goal is that one day Rhizome's investment in a small cap real estate company will partially catalyze the re-rating of the share price the same way that Warren Buffet's investment in a consumer bank can act as its own catalyst. We understand the goal is nearly impossible, but it is important to aim high in life. A good example of this dynamic within the small cap space is Scott Miller of Greenhaven Road. We have noticed that Greenhaven Roads' involvement in a small growth company tends to act as its own catalyst for the share price. We think this is due to Scott being an amazing investor and people having started to coattail-ride his investments.

Non-Real Estate Portfolio Updates

DuPont is expected to merge its Nutrition and Bioscience business with International Flavors and Fragrances in early 2021. Auto sales and industrials, an area of weakness for DuPont earlier in 2020 will likely emerge much stronger in 2021. We believe these two factors have helped drive shares to over \$71 at the end of Q4. Dupont has also been shedding non-core businesses with lower ROIC and growth prospects. The remaining segments are more pure-play and focused. Corteva, the previous DuPont agricultural focused spinoff, was recently targeted by activist investor Starboard Value which led to year-end price gains.

Berry Global is the "Rodney Dangerfield" of value investments. The company recently issued \$750mm worth of 2026 debt at 1.57% and used the proceeds to pay down higher coupon debt. The spread between the debt and equity yield is about 10%. Something is mispriced. In 2020, Berry had generated "bond-like" cashflows and had paid down almost \$1 billion of debt. The market simply yawned. We keep hearing that institutional investors will not touch Berry until it reduces leverage below 4x EBITDA. Perhaps Berry will work like Griffin in that once they reduce leverage below 4x and starts to show 4-6 quarters of 2% organic growth, the shares may move "violently" to the upside.

We continue to be excited about Univar. We think the company is trading at about 8x 2022 P/FCF for a structurally advantaged and growing business. We think that the stock re-rates in 2021 and 2022 after it fully implements the new ERP system, reduces leverage, and starts reporting the fully synergized and normalized financials.

Ticker	Name	Return on	
		2020 Purchases	% of Year End Portfolio Thesis
ADSK	AutoDesk	92%	3.4% Critical engineering/architecture design software transitioning into SaaS model
AHT	Ashtead	95%	2.5% Leading equipment rental business in fragmented industry
ANGI	ANGI Homeservices	82%	2.3% Marketplace for matching homeowners repair services
ASPU	Aspen Group	22%	1.3% Offers low cost online education (nursing focused) for a monthly cost of \$250
CLAR	Clarus Corporation	36%	1.4% Chairman with great long term track record building a consumer brand
DJCO	Daily Journal	58%	2.5% Charlie Munger company with hidden sticky SaaS business
HQI	HireQuest	27%	0.7% Franchisor of blue collar staffing company run by founder with great track record
NUAN	Nuance Communication	35%	1.2% Leader in voice technology undergoing SaaS transformation
USAT	USA Technologies	47%	2.9% Activist with great track record re-focusing the company on software
Weighted Return		56%	18.2%

We allocated to a basket of higher growth companies as detailed in the chart above. We added to existing positions such as Ashtead, Aspen Group, and Daily Journal and we opened new positions such as AutoDesk, ANGI, Nuance, Clarus Corporation, and USAT Technologies. The 2020 returns on the newly purchased shares



generated a weighted average return of 56%. As we mentioned before, capital deployed following a crisis tends to generate strong returns. If we follow the event path, we turned \$1.00 of hedging cost into roughly \$11.20 of hedging windfall. Redeploying the capital, we further turned the \$11.20 into \$17.50 worth of equity value. When people argue that hedging generates negative expected returns, I would like to show them this result. Given that the investment above may double from here, it is possible that we may turn \$1 of hedging cost into \$35 of capital in the next 2-3 years.

The position sizes reflect our tip-toed way of wading into growth investing. We believe these are structurally better businesses that offer faster growth. We think Ashtead is one of the most compelling investments. Ashtead owns the equipment rental business called Sunbelt Rental. Sunbelt is the more competitive player in a duopoly in a very fragmented equipment leasing industry in the US. Sunbelt benefits from scale, route density, full embracement of technology, and a culture that allows employees to grow. They can grow organically and through acquisitions. Unlike its main competitor, United Rental, Sunbelt tends to grow their presence in a market after an acquisition. We reason that this has amazing effects on employee morale. It was one of those rare 100-baggers since 2009. We believe it offers amazing value-add to its customers as it provides an outsourced “Equipment As A Service” model as it allows the customer to focus on their core functions. Sunbelt will handle the equipment certification, maintenance, scheduling, logistics, and financing of the equipment. At our purchase, it trades at low-to-mid-teens P/FCF. We regret not buying more of Ashtead at the depth of the crisis as it is an exceptional business.

Except for Ashtead and HireQuest, these new companies do not appear cheap based on traditional valuation metrics such as P/FCF or EBITDA. ANGI HomeServices could potentially become the marketplace for matching homeowners with service providers for small house repairs. Facebook’s recent entry into the market validates that it is a large addressable market. Clarus Corporation is run by Warren Kanders who generated an impressive track record at his previous company. USA Technologies was targeted by an activist group who is refocusing the company on its software offerings and implementing cost cuts to the hardware components of the business. Every year, value fanatics descend on Los Angeles to attend the Daily Journal (DJCO) annual meeting. Yet very few own shares of Daily Journal. Charlie Munger explained that they offered municipalities and local governments to try DJCO’s software for free for several years. This is a great example of “delayed gratification” in the interests of building long-term sticky customer base. We believe that the government software business could be worth multiples of the DJCO trading price in a few years. We believe all of these companies have opportunities that could enable them to become multibaggers in the next few years.

We encourage you to read the philosophical discussion of the evolution of our investment styles at the end of the letter. It will help you understand the transitions that we are making.

Reflecting on Our Mistakes

Calumet has been our largest mistake since inception. We had a full year to reflect on our mistake and we are going to share our findings with you in an honest and open manner.

Calumet suffers from high leverage coupled with a Master Limited Partnership (MLP) structure. The high leverage is obvious but the MLP structure proved to be more significant than we previously thought. If Calumet were a C-Corporation, the capital market would have charged the company a much lower rate for



borrowing money. Due to the MLP structure, the capital market assumed that the management team will eventually turn distributions back on. While the capital market is willing to finance all sorts of junky companies, it does currently draw a line at financing MLPs. Perhaps this is to compensate for the sins committed by MLPs during the past decade. This significance is much more important than we thought previously. Despite paying down hundreds of millions of dollars of debt, the actual interest expense was not reduced by much. As we examined other investments in our portfolio that did not work, we realized that many of them were MLPs. This includes Teekay Offshore, and Laaco. In the case of Teekay, Brookfield conducted an underpriced take-private. In the case of Laaco, it fundamentally performed as we expected. But the market demands a much higher discount than we anticipated. We are reluctant to invest in any MLPs in the future.

Second, we wrongly assumed that the new CEO made the strategic decisions when it was the general partners, The Heritage Group, who were actually in control. Third, we suffered from frog-in-a-slow-boil syndrome. There were minor deteriorations of the thesis over time. While not every thesis works out the way we envisioned, most of the Calumet surprises were negative in both fundamental performance and “decision maker” quality. As we got to know the key players better, we realized that the CEO, CFO, and the general partners all had their issues. Another part of the slow boil problem is that the company kept dragging their feet in divesting the Montana refinery. A looming wall of debt maturity and Covid was a toxic mix for Calumet. Fourth, we needed a much more charismatic CEO/CFO combo. We still believe that Tim Go is a good operator. But he lacked charisma and the ability to charm the capital markets. As a result, Calumet had to pay 11.5% to refinance the debt in late 2019. A focus on execution combined with a lack of charisma is fine for a well-capitalized company. But it could be fatal for a company with near-term debt maturity. On the other extreme of the spectrum is Elon Musk who managed to avoid insolvency time after time. Fifth, we had too much invested in Calumet and we were too vocal about our thesis. We simply sized it too large at roughly 7% of the partners’ capital. An 1-2% allocation would have been ideal as we can react to share declines with a cooler head. The fact that we published our thesis in a detailed slide deck presentation made it hard for us to change our mind.

Finally, we made some analytical mistakes. For example, we underestimated the disruptive impact to the business during an ERP implementation. We assumed the specialty business would grow faster and we underestimated the total interest expense as the use of revolvers created additional expenses. Lastly, we suffered from a bit of PTSD. There was a period during March and April when I was replaying why we got involved with Calumet and all the mental anguish that we suffered along the way. I played out the could’ve, should’ve, and would’ve in my head. Ironically, it was after we sold Calumet that I was able to mentally focus on redeploying the hedging windfalls and that is why we were able to turn \$1.00 of hedging cost into \$17.50 during 2020.

There is a small bit of positive from this experience. Under the negative back drop of losing money and time, we have learned a lot about specialty chemicals and about ourselves. We have come to appreciate that they are attractive businesses as Calumet continues to generate significant EBITDA during 2020. This has made us better investors in DuPont, Corteva, and Univar. Our Calumet mistake is different than previous oil and gas mistakes as we believe we can compound our knowledge over time. On the other hand, we still have no idea about the future price of oil.



Evolution of Mixed Martial Arts and Its Implication of Investing Styles

Nothing could be more different than the professions of cage fighting and investment management. Cage fighting was once labeled as “human cockfighting” by the late senator John McCain. It is a world full of dreams achieved as well as dreams shattered. It reeks of bottled up testosterone and it writes poetries of violence. Investment management is populated by people with Ivy League degrees in suits reading 10-Ks, attending conferences, and waxing poetic about return on capital and barriers to entry. Yet, nothing is more similar. Both professions pit the players against a large pool of talented competitors. Every player is self-motivated in developing a strategy that is effective in neutralizing their opponents. Both systems are adaptive and constantly evolve in anticipation and in reaction to other players. Both professions draw participants who are obsessed and passionate about their pursuit of outperformance. Ironically, both professions deal with the question of whether a player’s performance has been artificially enhanced through hormones or leverage. The ultimate parallel is that both professions reward participants in a non-linear way for brash, controversial, and larger-than-life personalities. In short, people either love or hate Connor McGregor and Bill Ackman. But people care much less about Demetrious Johnson and Walter Schloss.

For years, people have been fascinated by which style of martial arts would dominate in a street fight. People generally thought traditional Asian martial arts like Karate or Kung Fu would dominate. People pondered whether size and natural athletic talent mattered? Will we see fight footages that resemble Blood Sport and The Karate Kid? In 1993, Ultimate Fighting Championship hosted its first no-holds-barred tournament inside a literal cage. The competitors included a 500-pound sumo wrestler, a professional boxer, and a chiseled shootfight specialist named Ken Shamrock. We can finally put the debate to rest and perhaps witness some flashy crane kicks.

To the world’s surprise, Royce Gracie won the inaugural tournament by choking out his opponents and submitting them with strange joint locks. The world was shocked that a skinny man weighing about 170 pounds dominated his larger and more physical opponents. The competitors were confused and hapless against what are now considered basic techniques such as rear naked choke, armbars, kimura, and triangle chokes. Gracie Brazilian Ju Jit Su captivated the attention of the fight world. With the win, Gracie gyms proliferated around the world and people flocked to them. I even briefly trained in the Renzo Gracie gym in New York City during 2009. An apt analogy is that the various fighting styles represent different investing/speculating styles, including value, growth, momentum, technical, quant, special situations, activism, etc. In the first tournament, Brazilian Ju Jit Su won handily just like traditional value techniques such as low P/B, P/E, P/FCF, and EV/EBITDA outperformed other strategies.

Over the years, there were many iterations of fighters. We saw the dominance and waning of the “ground and pound” fighters such as Mark Kerr and Mark Coleman. They are both physically imposing collegiate wrestlers who quickly took their opponents to the ground and punched them into submission. Then we saw the emergence and decline of Chuck Liddell who was a gifted striker with take-down defense. He was capable of knocking out his opponent with one punch but he shut down take-down attempts by his opponents. This kept the fights on the feet and forced his opponents to strike with him. In the early 2000s, Chuck’s striking was many levels above his opponents. In the meantime, the Gracie family started to compete in Japan and ran into their nemesis in Kazushi Sakuraba who is unofficially known as the Gracie Hunter. Sakuraba utilized catch wrestling techniques, striking, and better physical conditioning to systematically defeat multiple fighters



from the Gracie family. The Gracie family doggedly held onto the belief that high level Brazilian Ju Jit Su techniques are still effective in the modern UFC. Unfortunately, the competition has gotten significantly better. In a return to the UFC fight in 2006, Matt Hughes quickly overwhelmed Royce Gracie with his larger size, strength, and better striking techniques. Gone are the days when a BJJ specialist can lay on his back and patiently wait for his opponent to make a technical error and apply a choke hold or a joint lock to end the fight. The competitors have learned to defend against the submissions. They have also learned to strike from awkward positions inside the guard and thus the saying “you can turn a BJJ black belt into a white belt by punching them in the face.” One-trick BJJ specialists can no longer compete at the highest level in MMA today. In recent years, this is analogous to value investors betting on mean reversion on certain structurally deteriorating businesses such as department stores or legacy cable channel content providers. These businesses have been disrupted by Amazon and Netflix and there is no chance of reverting back to the mean without significant transformation of their business model. Fighters, investors, and businesses are all alike in that those that do not adapt will be bruised and battered by their competitors over time.

Six months after the Royce Gracie fight, Matt Hughes fought a younger fighter by the name of George St. Pierre. St. Pierre won via technical knock-out and ushered in a new era of MMA fighting style. St. Pierre had a base in Karate from a young age. But he also took up wrestling, BJJ, and boxing at the age of 16. Even in 2020, St. Pierre can be viewed as a complete modern-day MMA fighter in 2021. He was able to outwrestle NCAA champions. His submission defense was excellent and his striking was crisp and powerful. He possesses knock-out power. His fight IQ was incredibly high and he was capable of making adjustments in the middle of a fight to counter his opponents. St. Pierre is also known for training all over the world. I once found him walking around the locker room at Renzo Gracie’s gym in New York City in 2009. (I was giggling inside like a 15 year-old fan boy but I was able to compose myself.) While the Gracie family largely adhered to tradition and the supremacy of Brazilian Ju Jit Su techniques, St. Pierre was there to train with one of the best BJJ instructors, John Danaher, to hone his submission techniques. He has trained with the famous Greg Jackson who is known for his superior game planning. He has also trained Muay Thai in Thailand. The only criticism of George St. Pierre’s fighting career is that he can sometimes execute a game plan that is too conservative and thus too boring where he repeatedly takes down his opponents and methodically wears them down. This does not result in an exciting highlight reel for the UFC fans. But it is certainly effective as St. Pierre possesses a 26-2 win-loss record and most of his fights were title defenses which makes his 93% career winning percentage record much more meaningful. Lastly, George St. Pierre has remained one of the humblest and most intellectually curious fighters.

Mixed Value Artist

Capitalism is a form of cage fighting. It is efficient, brutal, cuts away the fat, devastates the losers, and rewards the winner in a non-linear way. There are incumbents or existing champions and there are an endless army of envious challengers looking to dethrone the champions. Strategies that work brilliantly tend to be arbitrated away. This includes buying net-nets, low P/FCF, low EV/EBITDA, spinoffs, convertible arbitrage, merger arbitrage, etc. To stay on top, one must work hard, be curious, and evolve with the times. One must work on their weaknesses and adapt to the current environment. Fighters spend months game planning for their opponents. Different fight opponents require different strategies just like different markets require different portfolio allocation. We have seen value investing in its traditional definition struggle in the last decade. Perhaps, this is similar to the Gracie family refusing to evolve to compete against the modern-day



cage fighters. The arguments between the value traditionalists and the growth/compound camp can be as feverish as arguing over which religion will allow its believers into heaven. We believe the right approach is to incorporate all the techniques. One of the areas that we need to work on is improving our analysis of growth companies with existing or emerging structural advantages.

One of our weakness and mistakes in the last 10 years is not being intellectually curious enough about internet companies such as Google, Netflix, Facebook, and Amazon and dozens of SaaS businesses. We were dismissive of these companies because they are too expensive upon a first glance based on P/FCF multiples. Many of these companies can grow their earnings in non-linear fashion due to incremental margins being 80-90 percent. Perhaps, it was my vivid memories of the Dot Com crash that limited my perspective. Perhaps, it was my vivid memories of the housing bubble. Perhaps, I was blindly worshipping at the church of Warren Buffet and favoring brick and mortar over engagements and habit formation. Even outside of technology companies, we have rarely paid 20% more for growth and potential “sizzle” in an investment. Another weakness of ours was not paying attention to the potential effects of indexing. We learned the hard way that companies like INDUS Realty and Howard Hughes Corporation do not fit neatly into boxes. As a result, they can trade at a discount for much longer than we can imagine. This is not to say we should not have any exposure to these companies, the tweak to our techniques is to own them in smaller size and really increase our position size when we have identified a potential re-rating catalyst such as Gordon Dugan joining the board and the company electing to convert into a REIT at INDUS. Five years ago, we would have scoffed at such “technical” analysis. Today, we think it is important to manage portfolio positions and efficiently allocate capital.

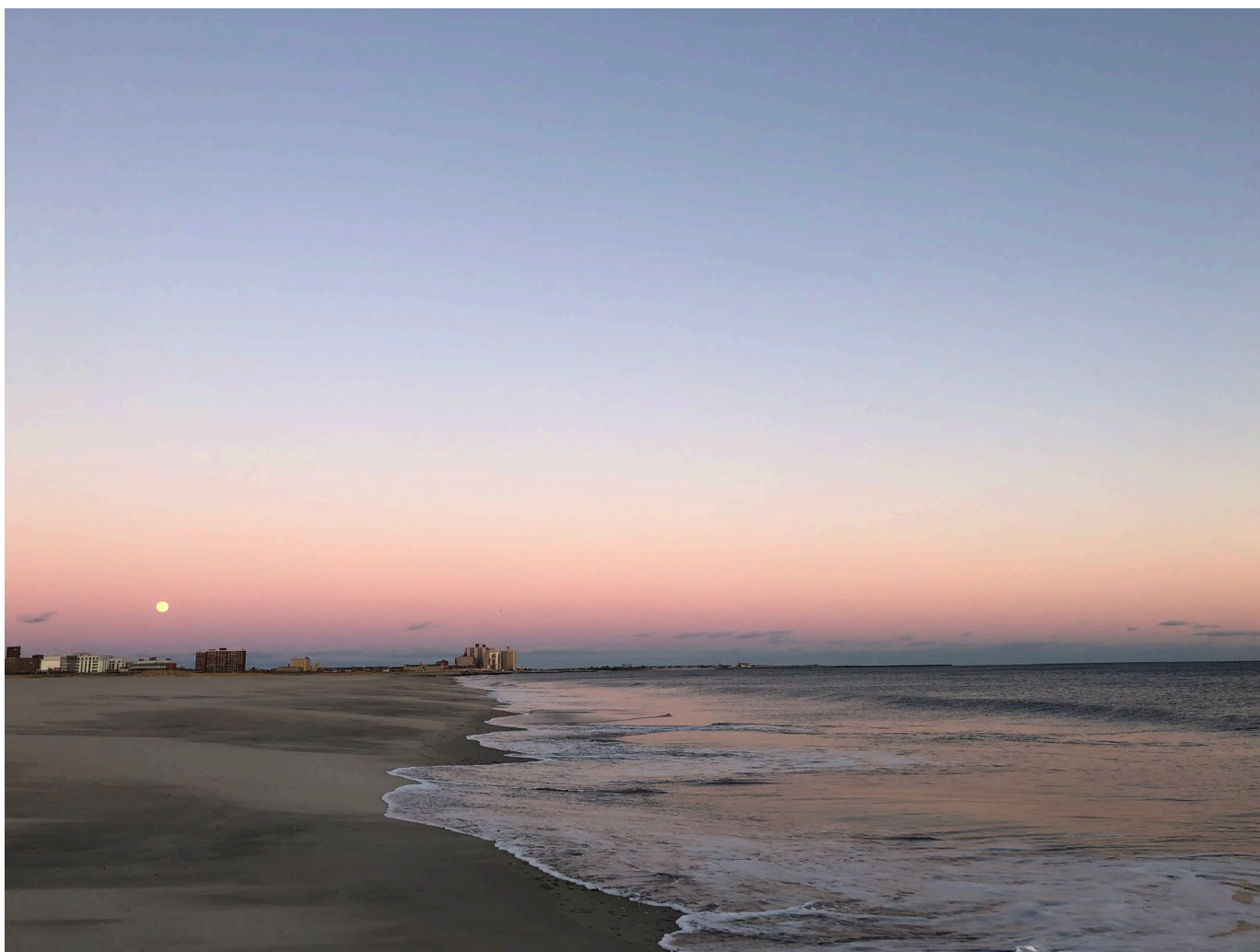
We believe the solution is to incorporate a Mixed Value Artist (MVA) approach. What is an MVA? First and foremost, we passionately believe that good investing is simply paying \$1 for much more than \$1 of future value discounted back to the present. There are many paths to this achieving this goal. Like a Mixed Martial Artist, a Mixed Value Artist will incorporate the best elements of all techniques. For us this means allocating about 30-50% of our capital towards publicly traded real estate companies trading at half of private market valuation. It also means allocating another 20-30% of our capital towards cheap companies based on traditional value metrics such as P/FCF and EV/EBITDA. But it also means that we should allocate towards some growth companies that could potentially become multi-baggers although some of them will likely be impaired in the process. As a basket, these opportunities could generate meaningful returns. We may even invest in net-nets from time to time as we did recently. We will adjust the allocations accordingly the same way that a Mixed Martial Artists will change up his game plan for a different opponent. In hindsight, it was a great time to buy large cap growth following the Great Financial Crisis. In hindsight, it was also a great time to buy value companies trading at cheap multiples in 1999. We will try to emulate the philosophy of George St. Pierre who soaked up the knowledge of various styles of martial arts to create a complete modern-day MMA fighter. It is a good thing that a Mixed Value Artist can continue to improve into their 70s and 80s while George St. Pierre had his last fight at the age of 36 and he is currently retired. I look forward to the next 30-40 years.

New Office

We have moved the physical operation to the new beach house in the Rockaways which is about a 15-minute Uber ride south of JFK airport. It has done wonders for my daily routine. When I need to go for a walk to clear



my mind, I can quickly head out to the beach and the boardwalk in about 30 seconds. It has been an amazing solace to live in New York City and yet live next to the crashing waves. Walking has done wonders for me to zoom out and focus on the bigger picture. It has also helped with my Seasonal Affective Disorders which historically lead to insomnia during this time of the year. Living by the water has also made me appreciate that the sun will always come up tomorrow and the tides will always return. Perhaps this is a metaphor of optimism for humanity. The tide went out in 2020, but we did not find out who was swimming naked due to forceful intervention by the Fed. But we surely find out that the sand is flat, compact and very enjoyable to walk on when the tide goes out. The moral of the story is to be present and enjoy the flat sand after the tide has gone out. Come visit us when we are all vaccinated. My tenants upstairs even teach surfing.



Regards,

Chong Tong "Bill" Chen

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