GREENWOOD INVESTORS LLC

Global - Collaborative - Builders

Tuesday, August 18, 2020

**A New Decade**

Dear GreenWood Investor:

This September, it will be a full decade since I legally filed the papers to start GreenWood. At the time, it was a convenient time for my life, but in late 2010, after very torrid performance from the bottom of 2009, most of the portfolio that turned into our Traditional Strategy was more of a sell than a buy. Taking on new clients was inconvenient timing because I didn't want to add securities to those portfolios that I was trimming at the time in the legacy accounts. But I didn't have a lot of actionable fresh ideas at the time, and we sat for a couple years mostly in cash. Furthermore, the few stocks I bought in 2011 and 2012 didn't initially perform well. What a terrible portfolio to start an investment management business with, in hindsight. I'm incredibly grateful for the few dozen investors that started with us ten years ago, nearly all of whom remain with us today.

2010 is quite literally the opposite of the position we find ourselves in today. Chris and I recently decided to take CTT to a maximum position in our fund, just under the limit set by our Luxembourg fund. In the process, we needed to take exposure down elsewhere to avoid our fund utilizing gross leverage, something we shun. It has been an incredibly difficult process because we sincerely love our entire portfolio and all the positions today. In late 2010, the historical performance was terrific. It seemed like a great time to catch some momentum, yet proved to be the opposite. Today, we've suffered through a few years of very languid returns, and it seems like all momentum has been lost. Contrary to this perspective, we believe it's actually the best time to allocate cash to this portfolio. The international travel bans, while frustrating to me, have allowed me to deploy more capital into the fund earlier this month. It's the highest conviction moment I've had in a very long while.

And today, when we have conviction, it implies a different level of confidence. In at least ⅓ of our portfolio, it carries with it a board seat and more influence over the outcome. We are really excited about Covid-19 accelerating the transformations in nearly the entire portfolio today. While we went into Covid-19 with a very long portfolio filled with travel exposure, we acted during the downturn to add more Covid-19 direct and indirect winners that had also sold off, and believe we are well set up for the months and quarters to come. While exhibit 1 has the long-term performance with the still very unsatisfactory 2020 results, particularly in our Global Micro Fund, I'd like to spend some time in this letter dissecting the results and the positioning that we have for the quarters to come.

*Exhibit 1: GreenWood's Composite Performance[1] vs. MSCI ACWI All Cap (Net)*

| | Traditional | Global Micro | Global Micro Fund | MSCI |
|---|---|---|---|---|
| 8/1/08-12/31/08 | -10.9% | | | -33.9% |
| 2009 | 155.3% | | | 36.6% |
| 2010 | 28.5% | | | 14.5% |
| 2011 | -1.0% | | | -8.0% |
| 2012 | -5.6% | | | 16.4% |
| 2013 | 14.2% | 18.0% | | 23.6% |
| 2014 | 0.1% | 2.0% | -2.8% | 3.8% |
| 2015 | 11.2% | 11.8% | 11.2% | -2.2% |
| 2016 | -2.5% | -1.0% | -1.5% | 8.4% |
| 2017 | 27.0% | 25.1% | 25.0% | 24.0% |
| 2018 | -2.1% | -2.1% | -3.1% | -10.2% |
| 2019 | 6.9% | 5.4% | 6.8% | 26.3% |
| YTD July 2020 | -10.9% | -11.4% | -16.3% | -2.3% |
| Cumulative | 301.5% | 52.4% | 15.3% | 107.1% |
| Annual Compounded Rate | 12.3% | 5.7% | 2.2% | 6.3% |

The Global Micro Fund has this year underperformed our separate accounts largely because of the exposure in our Fund to our coinvestment, CTT Correios de Portugal. We believe the market selling off CTT earlier this year represented the ultimate buying opportunity, as while the second quarter income dropped, Covid-19 has accelerated the mix shift of the company to parcels and e-commerce logistics. Further, most of the factors negatively affecting the

[1] Represents GreenWood's Traditional & Global Micro Composites. Performance prior to January 2011 represent the returns generated by the manager prior to founding GreenWood Investors, using the same strategy. GreenWood Investors LLC claims compliance with the Global Investment Performance Standards (GIPS®) and a GIPS-compliant presentation is available on our website (click here for access). **Past performance is no guarantee of future results.**

second quarter were temporary logistical challenges, given the world hasn't dealt with a pandemic of this scale in a century. Most of those temporary issues have normalized as of June, as the company recently reported, but the massive acceleration in our growth businesses have not tapered. We took advantage of this temporary dislocation and increased our exposure even further to the company. But we're not only excited about CTT, we're optimistic about what the brave new world means for nearly the entire portfolio.

**Covid-19: Past, Present & Future**

One of my biggest mistakes of the past year was believing in February that Covid-19 would play out like SARS, but just on a larger stage. Early evidence that the death rate was dramatically over-reported turned out to be true, but the world reacted as if it was far more serious, so the economic effect was the same as if it was highly lethal.

Coming into 2020, we were enthusiastic that *this* would be the year for Rolls-Royce, Exor, Cairn Energy and TripAdvisor. All four were poised to show major progress along their transformational paths. Rolls was going to exceed its £1 billion FCF target and possibly announce a monopolization of the 787. Exor was going to see FCA merge with PSA and deliver a very large cash dividend to its parent, while CNH would separate itself into two companies, and Ferrari would fire on all twelve cylinders as the Monza SP rolled through the income statement of the company. Cairn Energy was on track to sell down an interest in the >1 billion barrel oilfield it discovered in Senegal as well as conclude the International arbitration on a $1.4 billion claim. Over half of TripAdvisor's revenue was poised to come from experiences, dining & media solutions, all growing north of 20% rates and allowing the company to finally leave its multi-year hotel underperformance in the rearview mirror.

All four of these companies, representing 30% of our portfolio at the start of the year, were major "losers" from the global pandemic. We initially believed they were all at least doubles as 2020 and 2021 played out, but Covid-19 had different plans for these companies. While we didn't move as quickly as we should have to lower our exposure here, we did actually mobilize our diligence efforts towards Covid-19 beneficiaries, both direct and indirect, and established a very large number of new positions that we will be very happy to own once Covid-19 is history and the compounding continues.

*Exhibit 2: Covid-19 Portfolio Buckets*

| | | | | | Performance Attribution (to fund) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1/1/20 Exposure | | 7/31/20 Exposure | | Q1 | | Q2 | | Q3 TD (8/14/20) | |
| | Long | Short | Long | Short | Longs | Shorts | Longs | Shorts | Longs | Shorts |
| Beneficiaries | 1% | | 11% | | 0% | | 7% | | 1% | |
| Indirect Beneficiaries | 31% | | 60% | | (11%) | | 5% | | 14% | |
| Price Mismatches | 11% | | 16% | (17%) | (6%) | 0% | 1% | (2%) | 1% | (1%) |
| Losers | 30% | (14%) | 18% | (12%) | (17%) | 5% | 1% | (1%) | 1% | (1%) |
| Other / Exited | 16% | | 5% | | (4%) | | 10% | | (2%) | |
| Total | 89% | (14%) | 110% | (29%) | (38%) | 5% | 24% | (3%) | 15% | (2%) |

*Beneficiaries*

I briefly touched on Peloton in the last letter, our second largest position, and we have provided our initiation note on our public research page. Peloton is a clear winner from Covid-19, but with the near-term launch of a cheaper treadmill, after having conquered nearly 5% of the boutique fitness studio market in the United States, we think it's poised to accelerate on the share gains. It has scale, network effects and the second highest customer satisfaction of any company in the world. Its business model behaves more like a luxury company than a fitness company. With over half of American exercisers now considering joining its ecosystem, the company will continue to compound meaningfully beyond Covid-19.

The same goes for Ocado. Unfortunately for our fund, we hadn't been adding to this position since our initial purchases in early 2017 and the portion sizing was diluted as the fund size grew. We believe the centralized fulfillment technology that Ocado has spent over a decade developing is more needed now than ever. Hundreds of millions of people around the world have ordered groceries online during Covid-19 for the first time, and are realizing how much more convenient and time-saving it is. We're optimistic it's still early days at Ocado.

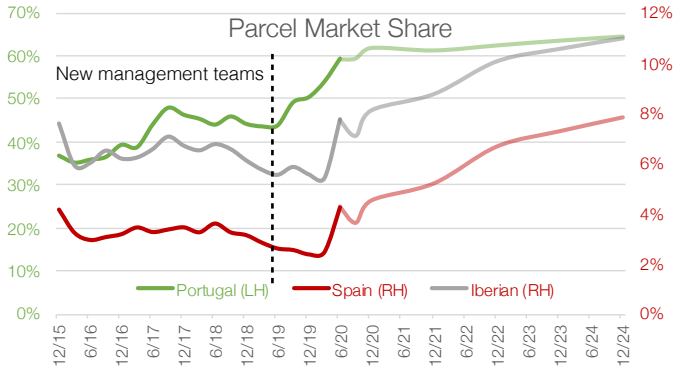
*Indirect Beneficiaries*

Most of our portfolio today is comprised of indirect Covid-19 beneficiaries. This means that they are not reporting torrid second quarter results, in fact many the opposite, but the business trajectory has been accelerated by the shifts

happening around the world. This is by far the largest exposure for our fund, and we believe, represents the most likely source of out-performance going forward. And if we're right that they are indirect beneficiaries, this won't take much time for this to flesh out. We're either wrong or right, but we don't need to wait until 2021 to be proven right. We're encouraged that the quarter-to-date performance is starting to show that these classifications have been largely right. Let me illustrate with a few examples.

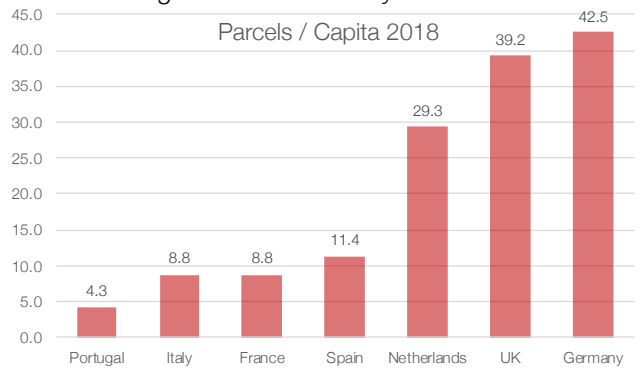
CTT reported revenue -5% in the second quarter, and an even more meaningful hit to profitability. The company didn't use the furlough scheme for the Covid-affected businesses, while it invested heavily into the e-commerce supply chain in Portugal, still in its infancy. This allowed the company to take very significant market share in parcels, driven by its own initiatives in e-commerce and a market-attacking mindset in Spain. As I wrote in July, how companies acted during this period of upheaval speaks volumes about their focus. Ours is clearly on customer needs & e-commerce.

*Exhibit 3: CTT Parcel Market Share*




Source: GreenWood Calculations & Estimates using data from CTT, ANACOM, CNMC

*Exhibit 4: Portugal at the Actual Day One in E-commerce*




Data sources: ANACOM, AGCOM, CNMC, OFCOM, BIEK, ARCEP, ACM

In December of 2018, the White House's Task Force on the US Postal Service noted that "Under the new business model, the growing package business will represent the key products that drive the USPS's decisions and policies, including the structure of the fleet, labor force, processing facilities, cost allocation, pricing, and regulatory requirements. This shift represents not only a change to the USPS's relative product focus, but also a change in management philosophy and culture from a monopoly activity to a more commercial activity." I hadn't read that until this past month, but it's exactly what we've instilled on the board at CTT over the past year. The new management team installed last year completely transformed a former monopoly mindset into a customer-first orientation. The preliminary results from this de-monopolization mindset has been very encouraging and our former rosiest estimates for Spanish market conquest are now too pessimistic.

Portugal has finally caught on to this whole e-commerce thing the rest of the world has been talking about. That will be our market to lose, and the company continues to promote strategic business lines to bring the entire country's commerce online. As the company disclosed in the very transparent month-by-month earnings presentation, the Covid-affected areas have been nearly restored to normal in June, while the e-commerce driven gains have sustained. Portugal has a very long way to go to catch up with the rest of Europe in e-commerce and CTT is investing heavily to triple parcel capacity this year, with further expansions anticipated beyond the next few months. Thanks to Covid-19 jump-starting e-commerce here, we now expect CTT to be able to report double-digit top-line growth from here on out, with even greater impacts to profitability. The runway here is very very long and the ~8% Iberian market share leaves a very significant market for our world class managers to go after, keeping the customer first, of course. This growth will impact shares above and beyond the balance sheet simplification items our Playbook contemplates.

We added five Covid-19 indirect beneficiaries into our portfolio this year at highly attractive valuations. It was interesting to watch these companies sell-off in March despite the fact that prospects for each business have been accelerated by recent developments. Regardless of the Covid effect, these are businesses that we want to own for the medium to possibly very long-term. And four of five of them are run by their owners or founders. As a side note, investors will notice in our monthly portfolio display on our site, we are no longer adding a special shading for international companies. Instead, we now highlight whether or not the companies are run by Builders, something we prioritize above geographical exposure.

Twitter, for instance, sold off given the weakness seen in brand advertising, where it generates roughly 80% of its revenue. But the service has become an essential information tool, particularly during Covid-19, which is reflected by record daily user growth that we had seen prior to the company confirming this on its most recent earnings report

(+34%). We're most excited about the new ad server which came online in June. This new server will allow the notoriously slow company to more quickly develop Direct Response ad formats, which are roughly 80% of Facebook's revenue and command materially higher price points. Twitter has not been using the targeting capabilities its service enables, and has not developed ad formats to support commercial transactions in-app. Fixing this over the next year is going to have a very pronounced effect on the company's user monetization, while that user base is experiencing record growth. But, again, you wouldn't have seen this show up in the second quarter, with revenue -19%. I posted our introductory research on Twitter to investors back in June in case you haven't had a chance to read it yet.

Vertiv, which makes cooling and power solutions for data centers, reported a 9% drop in second quarter organic revenue. Due to both supply and customer logistical issues, the company had trouble completing customer orders, which are accelerating at a record rate with the widespread increase in data consumption around the world (ending the second quarter with a record high backlog of $1.8 billion). Chris recently detailed Executive Chairman David Cote's book, *Winning Now, Winning Later*, in an article which you can read by clicking here. Of course it didn't take a genius to understand data center capacity was going to have to accelerate around the world just as Vertiv's stock was cut in half earlier this year. We are excited to own Vertiv for the long-term, as Cote turns it into the Danaher of data-centers. With Cote, we are getting a seasoned manager from Honeywell, but in a much smaller company in an equally large addressable market. We are excited for him to exceed his Honeywell performance given a better and smaller collection of assets with stronger industry tailwinds.

*Price Mismatches with Reality*

There are still a lot of companies whose stocks have yet to price in reality. Late last year we decided to double-dip into Leonardo after our first foray from 2014-2017 which saw the stock double. The company's success in the military arena has been stellar recently, and with orders and revenue in every division growing double-digits, free-cash-flow is poised for material improvements. While Covid-19 has brought production and delivery interruptions, as well as working capital drains on cash, nearly 90% of the company's revenue and profitability this year will come from military clients, where it has been taking market share. Its success has been particularly notable in electronics and helicopters, with recent high profile and very large wins with the US Air Force & Navy. But the company's stock has sold off more than Airbus and other commercial-heavy aviation companies. While Leonardo does have a civil aero-structures business to restructure, it's a drop in the bucket and not material to the story. The stock price is very mismatched relative to the company's fundamentals and customer demand resilience.

Bolloré's share price also precipitously declined as a result of Covid-19, even though freight-forwarding rates have been hitting record highs, given the global crunch on freight capacity. Vivendi's entertainment businesses are largely unscathed from Covid-19, making the significant share price decline highly irrational. The management agrees with us, buying back fairly aggressive amounts of stock in recent weeks and months. We are excited that this is the final moment for the company to repurchase shares at such levels, as the company's crown jewel, Universal Music Group (UMG) will likely be publicly listed in the next year or two at the latest. While investors are enamored with Spotify, we prefer to own the music labels, as they have more market power, have the same tailwinds, and better valuations. We took advantage of both of these mismatches in price to reality by increasing the weight of both Bolloré and Leonardo.

*Losers*

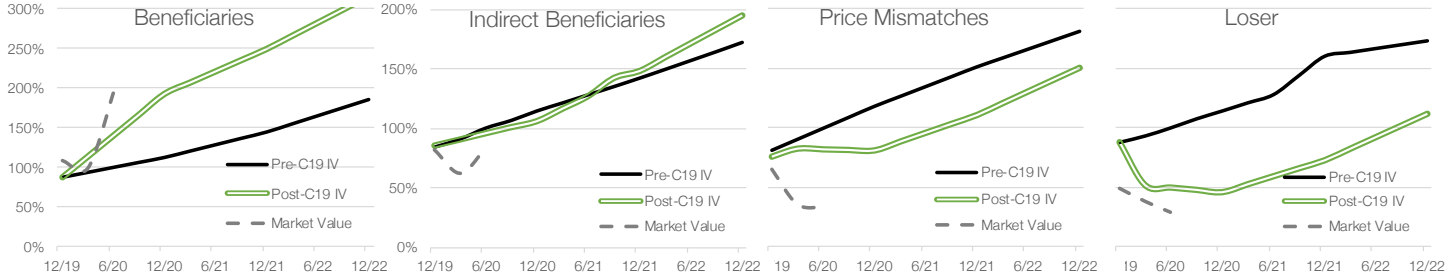
Up until recent weeks, we had kept the long loser bucket relatively well-matched with the short bucket. Current exposure to losers is partially understated relative to the beginning of the year because we swapped our TripAdvisor for Liberty TripAdvisor, taking a tax loss while actually increasing our exposure to the tourism recovery we're witnessing. Due to Liberty TripAdvisor's leverage and its discount to NAV, we've prudently sized it smaller than TripAdvisor given it carries significantly more performance leverage to TripAdvisor than the underlying.

Now, with increasing evidence mounting that herd immunity will be reached far more quickly than general market participants believe, and at far lower levels of total cases, we believe it is actually reckless to not own any Covid-19 "losers." We've been selectively increasing our exposure here, while also lowering our short exposure to the Covid-19 losers we had on thankfully prior to the pandemic. This year we've added two "losers" to this long portfolio as both are experiencing strong recoveries in their underlying businesses while shares are stuck near Covid lows. Both companies have current revenues down only 10%, and are slowly getting back to normal from a top line perspective, but the share prices are still bouncing along the bottom.

Synthesizing these buckets and discussions into a familiar format I used in the fourth quarter letter, we've shown how Covid-19 has impacted the share prices and intrinsic values of the stocks in each bucket. Exhibit 5 shows while it hasn't shown up in our historical returns, we do expect the pandemic to positively accelerate the fundamentals in

much of our portfolio. Most of these stocks have yet to reflect the implications of Covid-19 beyond just the second quarter, and only a handful of companies have driven the portfolio's recovery from the market bottom in March. These portfolio leaders are largely the Covid Beneficiaries and MEI Pharma, which I've categorized in the "Other" bucket.

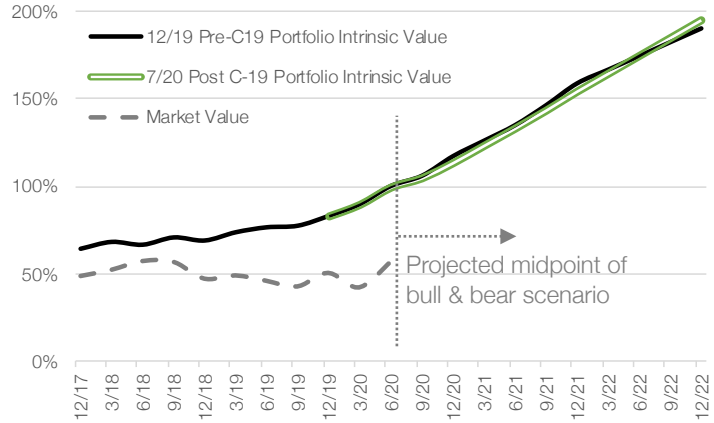
*Exhibit 5: Intrinsic Value Curves Pre & Post Covid, Longs Only, Midpoint of Bear & Bull Cases*




Long Exposure: 11% 60% 16% 18%

This lag between the fundamental trajectory change and stock market performance sets us up well to outperform, as most of the portfolio is now ready to carry its weight, and the market begins to reflect the more promising outlooks while the companies deliver. Furthermore, given we've just been through the mother of all inventory recessions, the market skepticism that has long applied to industrials' valuations over the past few years looks particularly out of date. The very significant discounts many of our industrial companies have relative to their intrinsic values sets up for tailwinds above and beyond the compounding of the intrinsic values of our portfolio. At CTT, we are determined to eliminate this sizable discount. But we're not going to just be dependent on re-ratings or valuation normalizations to drive portfolio performance. Despite many of our companies' fundamentals being materially affected by Covid-19, with the losers not recovering for a few years, by adding all of our new positions this year, we've not had to sacrifice the rate of fundamental compounding we've demanded from our portfolio, and our current setup is even slightly better than the prior portfolio despite keeping "losers" like Rolls, Liberty TripAdvisor and many others in the mix.

*Exhibit 6: Portfolio Intrinsic Value & Price Curve - Longs Only*




At the same time, we are taking greater care than before to limit our geographical, industry and pandemic exposures as the ability to predict future events, as well as the markets' response, remains quite limited. For instance, we were intrigued by the recent claim from Goldman Sachs market strategists that a vaccine could cause a market crash- as the big-five companies driving most of the performance of the market could crash if life returned to normal. That runs contrary to the current market narrative that a vaccine is a great thing for the market.

**Factor Exposures: Past, Present & Future**

With a wide range of possibilities, an inability to predict them, and even less ability to predict the market responses, we moved earlier this year to more strictly limit the factor exposure we have to any single geography or industry. In our IRA accounts that cannot short securities, in early April, we put half our cash into gold. In the current world, we believe it's more important than ever to have a diversity of factors driving performance. The largest category of our exposure is to the "indirect beneficiaries" of Covid-19, but in a world where herd immunity is reached or a vaccine developed, we still want to own these businesses just as much as we want to today. So we feel comfortable that the correction possibility from a vaccine or herd immunity will not dramatically affect these valuations.

*Exhibit 7: Net Factor Exposures as of July 31, 2020*

| **Sectors** | Sep. Accounts | Fund | **Geography** | Sep. Accounts | Fund |
|---|---|---|---|---|---|
| Old TMT | 14% | 13% | UK | 17% | 16% |
| New TMT | 23% | 21% | EU | 18% | 45% |
| Healthcare | 2% | 3% | Emerging Markets | (10%) | (12%) |
| Defense & Aero | 8% | 8% | US | 26% | 28% |
| Transportation | 0% | 28% | Canada | 6% | 8% |
| Commodities | 3% | 4% | | | |
| Industrials | 11% | 12% | **Size Exposures** | | |
| Consumer | (1%) | (2%) | Large | (3%) | (3%) |
| Finance | 3% | 3% | Mid | 51% | 50% |
| China | (10%) | (9%) | Small | 19% | 49% |

We are still less diversified on our exposure to various company sizes, with a definite skew to small and medium cap companies, and we are net short large cap companies. This has been a clear detriment to this year's performance, as the big have gotten bigger and the small have become less relevant in the stock market. Sounds sort of like what our world is experiencing on a socio-economic level.

*Exhibit 8: S&P 500 Returns by Size, as of July 3, 2020*

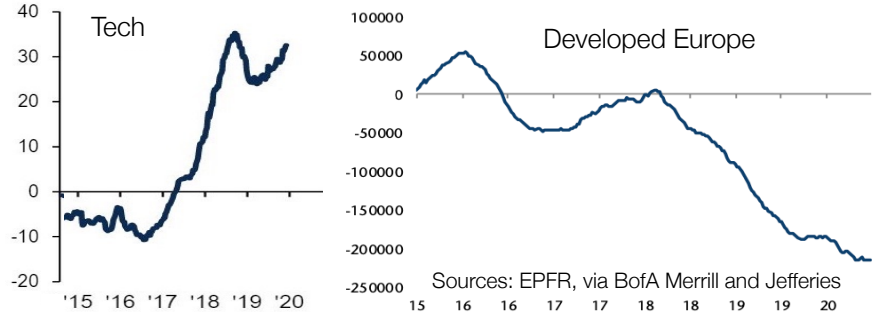
| **Co. Size** | Market Cap | P/E | P/S | P/FCF | YTD Returns |
|---|---|---|---|---|---|
| Top 10 | $849 B | 31.4x | 6.3x | 33.2x | 10% |
| Top 50 | $199 B | 28.7x | 4.6x | 23.3x | 2% |
| 51-100 | $78 B | 26.0x | 3.8x | 25.0x | (6%) |
| 101-150 | $50 B | 22.9x | 3.9x | 23.6x | (2%) |
| 151-200 | $31 B | 26.4x | 3.0x | 23.5x | (7%) |
| 201-250 | $25 B | 24.4x | 2.6x | 20.0x | (9%) |
| 251-300 | $20 B | 23.2x | 2.6x | 21.8x | (6%) |
| 301-350 | $15 B | 23.9x | 2.8x | 22.8x | (9%) |
| 351-400 | $12 B | 22.1x | 1.8x | 18.4x | (18%) |
| 401-450 | $9 B | 13.3x | 1.4x | 12.8x | (23%) |
| 451-505 | $5 B | 13.9x | 0.8x | 10.0x | (39%) |

Source: Y Charts

We are also under-indexed to new "TMT" versus major market indices. The momentum of the past few years, driven by the largest technology companies, are driven by trends that make a lot of sense to us. The most obvious winners from Covid-19 have performed as one would have expected, even if current valuation levels require those investors to take very significant valuation risks. These businesses are winner-take-all businesses, and the big rationally do get bigger, particularly in a digitalized world.

But frankly, just like we saw with the Eurozone in 2011-2012, it wasn't Germany and France that got the entire Eurozone into trouble, it was peripheral nations. Similarly, in the current digitalized world, the big five winners are in an industry and market category that has a lot of irrational behaviors taking place. It's likely not going to be a big-five company blow up that eventually changes the market leadership, rather the insane valuations of money-losing companies in the software and online space, whose stocks have a very long way to fall to reach a more rational level. When momentum unwinds, as we detailed earlier this year, the draw-downs are typically extreme. Speaking of Europe, large US tech, and extremes, fund flows to both categories are nearly a mirror image to each other and are at two polar opposite extremes.

*Exhibit 9: Tech & Developed Europe Equity Fund Flows*



This consensus short position on Europe looks particularly out of sync with the current times. Now that the EU Budget will surpass €1 trillion, with large-scale joint bond issuance being embarked upon for the first time, the European political duality (between dissolution and integration) has clearly swung very far in the direction towards the United States of Europe. While fund flows have recently warmed to the EU, the reversal of outflows seen in recent years has considerable runway to restore southern European valuations to more rational levels.

George Washington once proclaimed, "Some day, following the example of the United States of America, there will be a United States of Europe." He and the founding fathers of the United States were masters at designing a government, much like the ancient Roman Republic, that had very considerable checks and balances against any one voice or movement having too much influence. Global investors have long lamented that European integration has been glacial, but they can't deny the significant checks and balances that exist. Particularly as progressives in the United States talk about abolishing the Senate's filibuster restraint, the political landscapes of these two geographies look particularly unmatched to equity fund flows.

Thus, while we are seeking to limit factor exposure, we are still intentionally exposed to continental Europe. WIth our portfolio and performance having endured the brunt of three years and $250 billion in outflows, we don't want to strictly limit this exposure at the precise time we believe the markets are again out of sync with reality.

*Exhibit 10: Global Micro Fund Geographic Exposure*

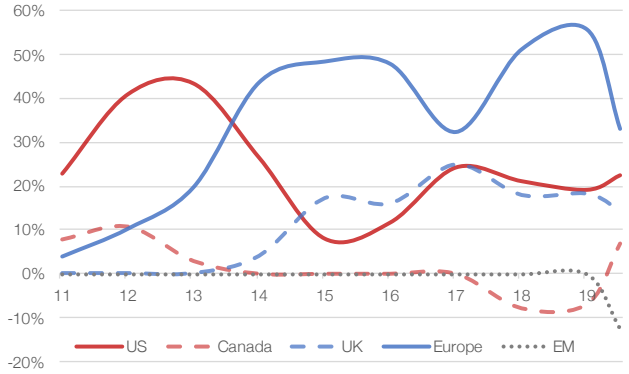
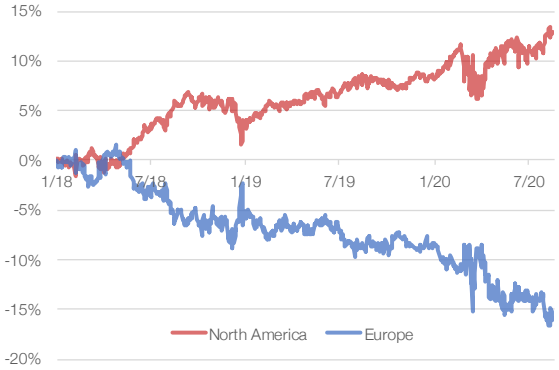



*Exhibit 11: MSCI Cumulative Relative Performance*




While we run a very concentrated portfolio of less than 20 positions, we've not given concentrated thought to macro considerations over the past few years when it comes to portfolio construction. Instead, we have used a bottoms-up method of security evaluation. Our ranking framework is built to compare companies of all geographies, sizes and industries. We've simply been attracted to the best combinations of value and quality, and this has led us to the many beaten down valuations of high quality international businesses in Europe over the past few years. While this has been great for finding future value, it does mean we've been fighting a helpless battle against fund flows.

We believe that while our portfolio is driven by some of the same factors driving big tech, we've been able to find companies that will not be subject to the same momentum draw-downs if and when they eventually occur. Looking at the drivers of the big five companies: digital advertising, cloud computing, e-commerce, and the digitalization of media, well over three quarters of our net long exposure (62% net exposure) is fueled by the same trends taking place. But when comparing the big five technology companies, all in our ranking framework, to the companies in our portfolio, not only do the valuations make more sense, but the ability to grow is actually quite a bit easier starting from a market capitalization that isn't measured in trillions, much less billions.

Let's take digital advertising. Last we checked, robots and artificial intelligence are still bad at generating the creative part of advertisements and perhaps always will be. Furthermore, in a world of targeted and personalized ads, the number of different creatives needed in any one campaign has dramatically increased, making ad agencies even more needed. On the heels of leaving the large conglomerate that he built over three decades, Sir Martin Sorrell started S4 Capital in mid 2018. We thought we had missed the opportunity to buy S4 at attractive valuation levels until Covid-19 hit, and the stock was cut in half. Sir Martin's S4 has never experienced a month of revenue contraction despite the widespread decline in digital advertising spending. He has built a digital-only ad agency and plans to double organic revenue every three years, with great capital allocation and a solid M&A track record to add on top of this growth. We paid less than 10x EBITDA to join Sir Martin as he executes the second major value creation endeavor of his career. It will be considerably easier for S4 to grow in this gigantic industry than it will be for Google or Facebook, two of his largest clients.

Or how about e-commerce. We're playing this trend through CTT, where its last mile dominance gives it a sustainable advantage in delivering these packages. In Portugal, e-commerce is less than 10% as developed as is it in the United States while Spain is still less than 25% as developed as US, UK or Germany.. This leaves the company with a very long runway for growth as this obvious trend continues to penetrate Europe. Or with Ocado, online grocery ordering is still only a few percentage points of overall grocery purchases around the world. Grocery shopping is perhaps the area of retail most perfect for online ordering: nearly the entire basket recurs weekly, centralized fulfillment lowers waste significantly, the time savings are substantial, and even last mile distribution has a lower carbon footprint than those trips being done individually to the stores.

From Bolloré's Universal Music Group benefitting from streaming and having all the industry's negotiating leverage, or Vertiv's power & cooling systems for data centers, I could keep going. But to summarize, we believe we have similar industry tailwinds, smaller capitalizations, longer runways and significantly better valuations than big tech. The relative underperformance is why we're so excited for the quarters and years ahead. We believe in the months ahead, the market will begin to appreciate the accelerating fundamental roadmaps these indirect beneficiaries have today.

While we under-reacted during the initial days of Covid-19, we believe we're set up to perform well in any environment we will face in this highly uncertain world. Our factor exposure is more diverse, which we believe will allow the growing intrinsic value of the portfolio, doubling every three years, to generate satisfactory returns regardless of macroeconomic developments. The market values of our combined portfolio are still roughly half of intrinsic value, giving us a highly compelling opportunity set. We appreciate your patience and trust, and look forward to continuing the conversation in the coming days, weeks and months.

Committed to deliver,

Steven Wood, CFA

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