Rowan Street
CAPITAL, LLC

September 10, 2019

Dear Partners,

Our 2019 second quarter performance was +5.9% (gross) compared with S&P 500 total return of +4.3%. Year-to-date performance through June 30 was +26.4% (gross) compared with +18.5% for the S&P 500. For the past 18 months ending June 30, 2019, our fund has returned +31.9% (gross) compared with S&P 500 total return of +13.3%. It's been a very volatile, but a very productive 18 months period for Rowan Street, where we stuck to our convictions and kept our emotions in check. Thank you for your patience! And we must say, we didn't get these results by trading on Trump tweets.

Third quarter of 2019 started off with quite a bit of volatility as worries about escalating trade war with China, interest rates and the inverting yield curve, and the "looming recession" media coverage have once again taken over investors' minds. We could not describe our attitude toward all these worries any better than Peter Lynch (a legendary investor with one of the most successful track records in history): ***"Nobody can predict interest rates, the future direction of the economy, or the stock market. Dismiss all such forecasts and concentrate on what's actually happening to the companies in which you have invested."*** That is precisely how we chose to spend 100% of our time. We strongly believe that our focus on deep research and our ability to keep emotions from corroding our investment process are what's going to add significant value to our fund over time. We will let Wall Street and the news media worry about the unpredictable.

Chipotle (CMG) Case Study - *reviewing our previous investment decisions*

In our Q3 2018 letter, we discussed our investment thesis on our investment in Chipotle. To reiterate, here is what we wrote:

> We are certain all of you are aware of this restaurant chain and many of you have tasted their burritos. When we first started the fund in 2015, there was a Chipotle restaurant across the street from the office. I would go there for lunch once or twice a week. I liked it because it was cheap, tasted very good, and I could eat reasonably healthy food there. I could get brown rice, beans, grilled chicken and salsa and it would be a nice meal. I remember I checked on the market cap of CMG when I was standing in line for my burrito and it was close to $20 billion

(very pricey with lofty expectations at the time). Two years later, I had lunch at Chipotle in South Lake Union in Seattle. Still the same price and still just as tasty, but the market cap was now around $9 billion. I thought, now this looks a lot more interesting! The stock was hammered due to concerns about numerous reports on e.Coli and Norovirus outbreaks over a period of 12-16 months, and eventually, in November of 2017, the valuations of Chipotle stock got to very unreasonable levels. At that time, we felt that it had reached a maximum point of pessimism and the odds were heavily on our side to make a double-digit rate of return on CMG stock over the next 5 years. Our rationale was simple. The fundamental principles upon which Chipotle was built and experienced tremendous success - finding better ingredients, preparing them using classic techniques in front of customers, and serving them in an interactive format with great teams dedicated to providing excellent dining experience - were still very much intact. We thought the issues impacting the company were temporary and could be solved with a focused management and targeted PR efforts. Just six months after we started buying shares in CMG, the stock had rebounded 80%, as they hired a new CEO (Brian Niccol) who had a very successful track record at Taco Bell. Same store sales and margins started rebounding and Mr. Market had quickly shifted from maximum pessimism to excessive optimism. The risk/reward had shifted dramatically in a very short period of time, and we decided to sell our position as we thought the market priced-in many years of return in just a few months' period. We reinvested the proceeds in a better opportunity with much more attractive expected returns.

So, most investors would never complain about booking an 80% profit in just 6 months holding period. As they say on Wall Street, *"You can't go broke taking a profit."* However, our experience has taught us that this is a wrong way of looking at things. Let's take a look what happened following our decision to sell. Over the course of 12 months following our sell decision, the stock kept climbing higher, gaining a total of 175% from our original cost basis in less than two years.

What caused such a rapid stock price increase in 2019? Chipotle reported outstanding results in both first and second quarter as solid execution on management's strategic growth initiatives continues to drive improved business fundamentals. Same-store sales grew 10% in both quarters reported. In the latest quarter, transaction growth of nearly 7% was industry-leading by a wide margin, as guests continued to respond to new marketing initiatives and more convenient ways to access the brand, including pickup and delivery of digital orders. Digital sales doubled once again and now account for 18.2% of sales. Management raised full year 2019 same-store sales guidance for the second time this year. Robust sales growth is translating into improved profitability, with restaurant margins up 120 basis points year-over-year in the second quarter.

Lesson learned

We have recently gone through every single sell decision that we've made since we started the fund. What we found is whenever we decided to sell a position for pure fundamental reasons, we have been right pretty much 100% of the time. However, in our experience, whenever we decided to sell because the stock has moved up (oftentimes significantly just like in the case of Chipotle) and we thought it had gotten a bit ahead of itself, but it was still a very good business with management that continued to execute, it has almost always been a mistake. Charlie Munger describes it best: *"If you buy something because it's undervalued, then you have to think about selling when it approaches your estimate of intrinsic value. That's hard! But if you buy a few great companies, then you can sit on your as* - do nothing. And that a good thing."*

A lot of people say that they invest for the long term, but it can be very difficult to stay in a good business because you are constantly bombarded with new ideas. As Glenn Greenberg, a well-known investor whose track record I very much admire (100x in 22 years), mentioned in an interview when he reflected on his investment career, *"When I look at our big winners over the years that really drove the performance of the portfolio, they didn't happen in one year. They very often happened over a period of five or seven years. The trick is not to discard them just because you've already made good money on them. It's not so easy to stay in something for 10 years and make 10x your money, it's very tempting after something goes up 40% in the first nine months to ditch it and leave the next 5x behind."* Activity is the enemy of returns - and that the lesson!

Semi-Annual Letters

The primary objective of our letters is to discuss the results of our portfolio companies. But even more important, our goal is to explain in detail the long-term investment philosophy behind the selection process for the companies in our portfolio. Our wish is for our partners to fully understand the nature of our investment process since long-term portfolio returns are the fruits of this philosophy. We believe that we can provide you with all the necessary information required to understand our process by writing twice a year rather than four times a year like we have been doing in the past. We are long term investors with an investment horizon of at least 3-5 years, and we aim to have relatively low portfolio turnover every year. Thus, there just isn't enough interesting information for us to share every three months. Since writing and distributing investment letters is a very time consuming process, we believe that the time we save on writing two extra letters per year could be used a lot more productively on deep research and investing our fund's capital. Thus, from now on, you will receive our investment letter twice a year (6/30 and 12/31), but you will still receive your regular quarterly statements of your capital accounts (no change from before).

Thank you for your confidence and trust in our investment discipline. We will continue to invest with a long-time horizon like it is our own money – because it is. We appreciate the opportunity to grow your family capital alongside ours. As always, should you have any questions or comments, we would be very happy to hear from you. We look forward to reporting to you again after the end of this year.

Sincerely,

Alex Kopelevich, CFA
alex@rowanstreet.com

Joe Maas, CFA
joe@sfmadvisors.com

DISCLOSURES

The information contained in this letter is provided for informational purposes only, is not complete, and does not contain certain material information about our Fund, including important disclosures relating to the risks, fees, expenses, liquidity restrictions and other terms of investing, and is subject to change without notice. The information contained herein does not take into account the particular investment objective or financial or other circumstances of any individual investor.

An investment in our fund is suitable only for qualified investors that fully understand the risks of such an investment. An investor should review thoroughly with his or her adviser the funds definitive private placement memorandum before making an investment determination. Rowan Street is not acting as an investment adviser or otherwise making any recommendation as to an investor's decision to invest in our funds. This document does not constitute an offer of investment advisory services by Rowan Street, nor an offering of limited partnership interests our fund; any such offering will be made solely pursuant to the fund's private placement memorandum.

An investment in our fund will be subject to a variety of risks (which are described in the fund's definitive private placement memorandum), and there can be no assurance that the fund's investment objective will be met or that the fund will achieve results comparable to those described in this letter, or that the fund will make any profit or will be able to avoid incurring losses. As with any investment vehicle, past performance cannot assure any level of future results.

If applicable, fund performance information gives effect to any investments made by the fund in certain public offerings, participation in which may be restricted with respect to certain investors. As a result, performance for the specified periods with respect to any such restricted investors may differ materially from the performance of the fund. All performance information for the fund is stated net of all fees and expenses, reinvestment of interest and dividends and include allocation for incentive interest and have not been audited (except for certain year end numbers).

S&P 500 performance information is included as relative market performance for the periods indicated and not as a standard of comparison, as it depicts a basket of securities and is an unmanaged, broadly based index which differs in numerous respects from the portfolio composition of the fund. It is not a performance benchmark, but is being used to illustrate the concept of "absolute" performance during periods of weakness in the equity markets.

Index performance numbers reflected in this letter reflect reinvestment of dividends and interest (as applicable). Index information was compiled from sources that we believe to be reliable; however, we make no representations or guarantees with respect to the accuracy or completeness of such data.