January 23, 2020

"The seeds you plant today analyzing companies and industries is what will bear fruit in the months and years ahead. It's often the work and curiosity from years ago that leads to returns you have today."
- Ian Cassel

Dear Partners,

2019 was the best year yet for Rowan Street Capital! The fund gained +28.3% (gross). Over the past 24 months, our fund gained 33.8% (gross). The bull market celebrated its tenth year with a flourish as 2019 marked the best year for the S&P 500 (+31.5%) since 2013. For the past 24 months, S&P 500 gained +25.7% with dividends reinvested.

You should have received your 12/31/19 account statement from HC Global Fund Services, which shows the value of your interest in the fund, as well as your net returns for 2019 and since inception.

Great news for our taxable investors!

All our gains in 2019 were unrealized, which means that your Rowan Street tax bill for 2019 should be very close to $0 (we had a very small dividend and interest income). Compounding funds' capital while minimizing the checks that we write to Uncle Sam is our main objective.

The tax team at HC Global should begin working on the fund's tax return shortly and will be sending your K-1's later this spring when they are complete. Peterson Sullivan LLP has been performing our fund's audits since we started, and on November 1, Peterson Sullivan LLP became part of BDO USA, LLP (one of the nation's leading accounting and advisory firms). You should receive a copy of the fund's audited financial statements from BDO USA, LLP in the next few months.

Decisions we had made in 2018

In our 2018 year-end letter we wrote:

> *"In the last three months of 2018, and especially in December, Mr. Market has finally given us an opportunity to own businesses that we had dreamed of owning at prices that presented us with some very attractive expected rates of returns. In fact, our internally calculated IRRs (Internal Rate of Return) for the next 3-5 years for these investments are in excess of 20% per annum. We used this difficult quarter to our advantage, and in our view, we entered 2019 with a significantly better quality of companies in our portfolio with much more favorable long-term prospects than we've ever had since the funds' inception. Since we are still in the process of building out our new positions, we will be discussing these investments in our future letters."*

The businesses that we were referring to are Alibaba, Facebook, "Undisclosed Position" and Tencent, which were also our top four performance contributors in 2019. Alibaba (BABA) returned +55%, Facebook (FB) +57%, "Undisclosed Position" +32% and Tencent (TCEHY) +22%.

Alibaba (BABA) - *taking advantage of the trade war headlines*
We have been studying Alibaba for a couple of years now and believe that they are very uniquely positioned to capture opportunities of both the growing Chinese middle class in metropolitan areas and the urbanization of China's lower-tier cities.

China's $5.5 trillion domestic consumption market is driven by two massive demographic forces:

1. The emergence of middle-class of over 300 million people living in large cities. This affluent middle-class population is almost as large as the entire U.S. population and their consumption needs and wants are approaching developed market levels.
2. The rise of urbanization, affecting third, fourth and fifth tier cities. Other than the major metropolitan areas like Shanghai, Beijing and Shenzhen, China has more than 150 cities with a population of at least 1 million people. In aggregate, these lower-tier cities and the surrounding towns have more than 500 million people with a consumption economy of $2.3 trillion. What is happening is the lower-tier cities are urbanizing very fast, with a projected 300 million people that will move from rural areas into these cities in the next 10 years. The economy of these smaller cities will grow faster than the major metropolitan areas. We've seen projections that retail consumption from the lower-tier cities and townships will triple from $2.3 trillion today to nearly $7 trillion by the year 2030. That is a compounded annual growth of more than 10% over a long period of time.

All the trade war headlines casted a huge cloud of worry over Chinese stocks in 2018 and presented us with an opportunity to own a great company with exceptional long-term prospects at an attractive price. We preferred to use "a shovel and not a teaspoon" to take advantage of this opportunity, and Alibaba has now grown into a top position in the fund.

Facebook (FB)
Facebook has one of the best business models we have ever come across, led by one of the best CEOs in history (despite all the criticism that Zuckerberg has received over the past couple of years). There is now 2.8 billion people using Facebook, Instagram, WhatsApp or Messenger each month, and approximately 2.2 billion people using at least one of their services daily. In some ways, it operates like a traditional media company that provides content to readers and collects advertising revenue from businesses who want to reach those readers. But the key difference is whereas traditional media companies have to spend billions on creating their content, Facebook's users gladly provide that content for free (that's how FB gets to have an astonishing 83% gross margin).

No doubt, Facebook controls the world's most dominant social networking platforms. The company's unprecedented global reach and infamous ad-targeting capabilities have made Facebook one of the most sought after and effective advertising platforms ever created. In 2019, a considerable amount of negative press had surrounded the company, as has happened occasionally in the past. Facebook's business has repeatedly withstood these historical setbacks, due in part to its superior products, powerful network effect and track record of out-innovating, replicating or acquiring its would-be competitors.

Despite growing its revenues by 35% in 2018 to $56 billion and generating an 83% gross margin, FB stock fell ~40% from its peak of $210 in July 2018 to trough of $125 in December 2018. After reporting its Q2 2018 earnings, FB lost $100 billion of market cap in just 1 day (we took notice)! It was the biggest single drop in business value of any company in the history of at least our country, maybe the world. In a recent interview, Mark Zuckerberg spoke about the stock price decline: "To put it in perspective, going back to the Great Depression in the 1930s, on Black Tuesday, when the market crashed, the value that we (Facebook) lost on that one day was two-thirds of the total value that was lost in the Great Depression on that day, adjusted for today's dollars." We were accumulating FB stock throughout 2018 and by the end of the year it became our second largest position in the fund.

Tencent (TCEHY)
What if one company did all this?

Ever heard of WeChat? Talk to any Chinese native and you will have a tough time finding anyone who doesn't use their platform in some shape or form. WeChat is like a Facebook on steroids - it's a #1 smartphone community in China with 1.15 billion monthly active users (China's population is 1.4 billion). It is also a #1 online gaming platform globally by revenue. What else do they do? They have a Media business that is a natural beneficiary of their social networking platform: #1 in video, #1 in news, #1 in music and #1 in literature. FinTech? Yes, you guessed it, they are #1 in mobile payments in China. Cloud? Yes, they are a #2 service provider next to Alibaba being #1.

We believe that Tencent is a great business to own and it's still got a long runway for growth ahead. Just like in the case with Alibaba, we took advantage of the negative trade war headlines in 2018 and first half of 2019 to build out a position in Tencent at what we believe was a very favorable price. Between Alibaba and Tencent, we now own the two most dominant companies in the Chinese economy.

Sold the entire position in Under Armour (UA)
On November 2019, Wall Street Journal broke the news that [Under Armour is subject of federal accounting probes](), where the Justice Department and the SEC are examining how UA recorded revenue. The investigation has to do with the company's practices of boosting their revenues to meet Wall Street quarterly targets, which has been going on since 2017 and was never publicly disclosed by the company. To date, UA has not been charged with anything, but even if what they were doing was totally legal and within the GAAP accounting guidelines, what we learned did not settle well with us. In fact, it goes against all our principles in what we look for in a company!

We believe that Kevin Plank has failed as a leader of UA to evolve the company past the distribution shift that was caused by sporting goods stores bankruptcies. Being a founder, CEO and a visionary for the company, he should have foreseen this inevitable shift many years prior to the Sports Authority bankruptcy and should have taken steps to position the company for success in the age of Amazon. UA's competitors such as Nike, Adidas and Lululemon have managed to be very successful over the past few years.

After learning the newly-released information from the WSJ article, we came to a conclusion that Kevin Plank was caught "flat-footed" in 2016 and desperately tried to cover up his failure to position the company for future growth. In our opinion, the incredible success of 25 consecutive quarters of 20%+ growth combined with lofty Wall Street expectations, clouded Kevin's judgement as he was caught up in the short-term quarterly earnings game. We have been listening to UA's earnings calls for quite some time now and are very put off by how long Kevin has "mislead" the public as he continued to be very promotional on the calls as the company was clearly struggling. Although, nothing he said on those calls may have been illegal, the integrity of the management team with Kevin Plank at the helm has been severely compromised in our eyes - the long-term shareholders! Kevin eventually came to his senses and decided to hire a new leader in 2017, but his huge EGO cost the company and its shareholders a fortune. Numbers never lie, and over the past 5 years, UA stock was down -43% while Nike posted +127% return, Adidas is +409% and Lululemon is +264%.

There is no argument that Kevin Plank is an incredible entrepreneur and has built a great brand since he founded the company in 1995 from his grandmother's basement. His success story is truly inspiring and we are a bit guilty in getting too caught up in its inspiration. However, we have learned through experience that some founder entrepreneurs are great for the start-up stages, but have a tough time growing into their bigger role as the company becomes larger and more mature. Kevin is probably a good example of that.

Despite all this, we still managed to earn a profit on our UA position because of the low price that we paid, but overall it was a big detractor from our performance in 2019. Under Armour was probably the last "traditional retail" business that we will ever own!

Conclusion

As a reminder, the fund is open at the end of each month for new investments. If you would like to increase your investment in the fund, please reach out to Joe or myself. As always, we encourage you to refer new investors to join our expanding band of like-minded partners in our quest to compound capital at double-digit internal rates of return over a long-term investment horizon.

We want to thank you for your partnership. Joe and I have a significant part of our net worth invested alongside with you, and we're extremely lucky to be involved with such a great group of partners.

Best regards,

Alex and Joe

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.