

June 2020

Fountainhead Partnerships Fund (FHPF)
Quarterly letter

“There are decades where nothing happens; and there are weeks where decades happen.” Lenin

In the last few weeks we all experienced decades of price movement.

Portfolio performance and commentary: FHPF was up 12.96% YTD in Jan-Jun 2020, whereas S&P 500 was down -4.8%. While 1Q20 was our best quarter relative to S&P 500 in last five years, we underperformed the market in 2Q20. Our fund generally keeps a long volatility exposure and as volatility declined in 2Q20 our hedging positions diminished the fund’s performance. The second contributor to the fund’s underperformance in 2Q20 was our limited share of index heavyweight stocks. Still, it was our 6th consecutive positive quarter. Our fund’s differentiation is based on our uncorrelated nature with the broader market and our goal to achieve positive and consistent returns with a focus on beating the market over the long term. Here is our last six quarters’ performance:

	S&P 500	FHPF	Alpha	<i>Sometimes you’re ahead of the market, other times you’re behind. The goal is to constantly improve and keep the torch burning - Warren Buffet</i>
1Q2019	13.09%	6.41%	-6.68%	
2Q2019	3.78%	2.35%	-1.43%	
3Q2019	1.19%	2.61%	1.42%	
4Q2019	8.53%	13.20%	4.67%	
1Q2020	-20.00%	7.10%	27.10%	
2Q2020	19.97%	5.62%	-14.3%	
Total return in last 6 quarters	26.56%	37.17%	10.73%	

**Correlation of FHPF with S&P500 is 4% in last six quarters.*

Have we reached the Peak? This was the most frequently asked question to us in 2Q20, in sharp contrast to the 1Q20 FAQ about the bottom, as investors’ sentiment shifted from extreme fear to extreme euphoria within a matter of weeks. We desensitized ourselves to the superlatives: the sharpest decline ever, the fastest ever recovery, the highest trading volume in stocks and options in a decade and oil prices reaching -\$40/bbl and reversing to +\$40/bbl. We remained mostly an observer with the view that these events can be explained only in hindsight. The actions we took before the storm of these price movements positioned us to successfully sail through it. From the macro perspective, currently we are generally focused on one simple variable i.e. Valuation. In Jan 2020, S&P500 was trading at 18x Dec-2020 earnings. In Jun 2020 S&P500 is trading at 20x Dec-2021 earnings with unemployment rate 4x higher!

Our focus remains on our thematically selected portfolio companies and our bottom up approach to the market. The nature of the current crisis has caused a significant number of businesses to close and file for bankruptcy. During the quarter we added two UK law firms that specialize in bankruptcy and restructuring deals. The UK insolvency market grew 7% in 2019 and is expected to grow by 10% in 2020 and 8% in 2021 as per the estimates of the UK Insolvency Service Office. The business model of law firms is based on the number of partners and average revenue per partner. The law firm industry is a very fragmented industry in the UK. Both our holdings in this theme are in the high growth phase and use stock price as currency to onboard more partners, which aligns the shareholders interest with

the partners of the companies. As a group both companies reported 20% earnings growth in FY2020 (April) and are trading at 15x PE and 4% div yield.

There are two sides of our portfolio: i) our long equity positions which have a better growth profile than the overall market and ii) our hedging positions through options. When markets are in an upward trend, we expect our long positions to outperform the overall market due to their superior return profile over 3-year periods. If markets suffer from a correction, we expect our hedging positions to work in our favor and cushion the portfolio from the losses.

Going forward, given the current valuations a cautious approach is warranted on the long side of the portfolio, in our view. Historically, the long-term equity returns from current valuations have been mediocre to negative. Hence, we are currently maintaining 55-65% net long exposure along with market hedged positions which will kick-in if the S&P500 goes down by 10%. Our hedged positions will then turn our net long exposure into net short exposure once the strike prices of our options are breached. This nature and composition of our portfolio also highlights our approach to investing i.e. to provide consistent positive returns regardless of the direction of the market and *keep the torch burning*.