



7/11/2018

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Performance Summary		
	Sosin Partners, LP*	SPY**
<b>2012***</b>	<b>14.0%</b>	<b>-1.5%</b>
<b>2013</b>	<b>66.6%</b>	<b>32.3%</b>
<b>2014</b>	<b>6.3%</b>	<b>13.5%</b>
<b>2015</b>	<b>14.5%</b>	<b>1.3%</b>
<b>2016</b>	<b>22.0%</b>	<b>12.0%</b>
<b>2017</b>	<b>31.2%</b>	<b>21.7%</b>
Q1 2018	23.6%	-1.0%
Q2 2018	17.1%	3.5%
<b>YTD 2018</b>	<b>44.7%</b>	<b>2.5%</b>
<b>Cumulative return since inception</b>	<b>435.2%</b>	<b>109.3%</b>
<b>Annualized return since inception</b>	<b>34.0%</b>	<b>13.8%</b>

*See disclaimer regarding comparison to indicies at the end of this letter.*  
*\* Performance net of 2% management fee and 20% performance allocation.*  
*\*\* Includes dividends reinvested.*  
*\*\*\* Sosin Partners LP launched 10/9/2012; performance for both the fund and SPY shown from that date.*

To My Partners:

As shown in the table above, Sosin Partners, LP reported gains on a mark to market basis net of all fees, expenses and performance allocations of 17.1% and 44.7% during the three and six months ended June 30, 2018, respectively. The broad market as represented by the SPY ETF was up 3.5% and 2.5% including dividends during those periods.

Since its inception on October 9, 2012, Sosin Partners, LP has reported gains on a mark to market basis net of all fees, expenses and performance allocations of 435.2%; this represents a 34.0% compound annualized rate of return. The SPY ETF is up 109.3% including dividends during that period, representing a 13.8% compound annualized rate of return.



### The Balance Sheet

We ended the quarter with six stock positions of any significance on the long side of the balance sheet. Our long holdings total 106% of equity capital. As a result of market price changes, our investment in Carvana common stock (NYSE: CVNA) has now appreciated to be our largest single holding at just under 29% of equity capital. Our other five holdings range in size from 9% to 22% of equity capital. Other than the aforementioned six stocks, there are a few other small items on our balance sheet, but none are material.

### The “Process Question”

When I describe our business to people, I often find that it is helpful to lay out how our portfolio is constructed and how infrequently it changes. “We own six investments, three<sup>1</sup> of which we have held since the inception of the partnership, and in a typical year we might buy one new position and/ or sell one position.” Occasionally the uninitiated will inquire something to the effect of, “If you buy and sell so few stocks, what exactly do you do all day?”

Fair enough! It certainly doesn’t seem like we “do” particularly much, and if measured in activity, it is pretty clear that we don’t “do” very much at all. Certainly my brother in law – who manages teams that load and unload cargo in Charleston Harbor – can point to much more concrete activity than I can. Still, how we allocate time and how those activities might lead to profitable investments is important, so I will focus on that topic for the remainder of this letter.

In my experience, a great investment is the serendipitous result of a prepared mind encountering and acting upon the right opportunity. I say serendipitous because it is difficult to know in advance how best to prepare one’s mind to identify the best opportunities of the future (and avoid pitfalls), and it is similarly difficult to know in advance which investment opportunities to focus on.

Of course, while luck matters, it is possible improve one’s odds of finding great investments by a) cultivating a prepared mind and b) examining potential opportunities. We take this dual pronged approach. As such, our day to day workflow is divided between studying broadly to prepare our minds and studying potential investments themselves.

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<sup>1</sup> We have actually only held two stocks continuously since the inception of the Partnership. However, we have had a continuous investment in a particular industry, just switching between very similar direct competitors. Thus I view that position as a continuously held investment even if we did in fact change stock holdings.

What does “studying broadly” mean? Frequent readers of these letters will remember that we try to curate an understanding of mental models which are predictive of the behavior of social systems. The time spent studying broadly is the time we dedicate to learning these mental models and practicing their application.



**“As long as he continues to come up with brilliant investment strategies that way, we’ll just leave him alone.”**

CartoonStock.com

For example, I’ve recently spent time studying academic work on how incentives really modify behavior (it is not as simple as “you get what you pay for”), learning how Google runs its human resources activities (differently than many companies that came before it), and studying the history of McKinsey and Company. In each case, the direct application to investing is unclear. However, done year after year, the cumulative effect of this effort is to arm us with a bevy of mental models and case histories, which can make, and have made, the likely outcomes of seemingly ambiguous situations clear. This accumulated knowledge is (hopefully)

the raw materials for insights.

One positive attribute of these broad learnings is that they tend to have long useful lives and many potential applications. Insights into how people behave or how groups behave are likely to be true for many years and useful in many applications. By constantly practicing and adding to our mental model toolkit, we can (hopefully) continually expand our advantage over those who never curate such a toolkit.

This focus on long lived and broadly applicable wisdom contrasts sharply with more common efforts to focus on shorter lived and less broadly applicable learnings that dominate most investors’ time. Time dedicated to determining if a company beat earnings this quarter, why a stock is down 3% today or how weather impacted auto sales this month, etc., is of little enduring value. Thus, while whiling away the afternoon with an Alexander Hamilton biography might not appear productive, the timeless learned lessons from such an activity may



be extremely valuable, and the ability to dedicate time to such long lived learnings is in fact a core competitive advantage.

Abraham Lincoln is quoted as saying “If I had five minutes to cut down a tree, I’d spend the first three minutes sharpening the axe.”<sup>2</sup> Studying broadly is how we sharpen the axe. I don’t know if we quite reach this 60/40 ratio of preparation to execution, but we certainly invest a great deal of time studying broadly.

So how do we know all this preparation is fruitful? The answer, unfortunately, is that it is difficult to determine. I certainly don’t know in advance what topic to study that will prove insightful in developing investment ideas. That said, we do get to see progress from time to time when we revisit a business, which we had studied before and appreciate it with new nuance because of our efforts to study broadly. Fortunately this happens fairly regularly, which I interpret as evidence of ongoing progress.

Of course, we also must eventually study potential investments. Endless axe sharpening will not by itself fell any trees. So how do we ultimately approach a new idea?

Many investors have elaborate processes by which they screen new stocks to investigate. This is not the case for us. In general, it is fair to say that we pick new potential investments to study unsystematically and almost randomly. An examination of the ideas we’ve profited from since the start of the Partnership reveal no discernable pattern in how we first encountered them. However, while the “top of the funnel” may be mostly random, as we deepen our research, our approach becomes more organized/ systematic.

First, when investigating a new idea, like anyone else approaching a new topic, we must develop a basic understanding of the business and the industry. We check out the website, read the annual report, listen to an investor presentation or investor day recording or perhaps have a conversation with a former executive. For some industries, it is relatively easy to figure out the basics. For others, it can be harder. In any case, a rudimentary understanding is the starting point.

If we are fortunate, as we build this basic understanding, we develop some tentative ideas about how a business or industry might develop in the future by utilizing our mental models

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<sup>2</sup> Unfortunately this quote attribution is apocryphal see: <https://quoteinvestigator.com/tag/abraham-lincoln/>



and/ or analogizing from similar circumstances we've studied in the past. Of course, these initial ideas are highly tentative, but they serve as a starting point for further inquiry.

At this point, it usually makes sense to pause and to ponder whether this potential investment is worth continued investigation. Essentially, we ask, "Let's assume that our hypothesis is right and that things generally go pretty well for the business; could this be a good investment for us?" If the answer is yes, then we can continue the work of more fully fleshing out our hypothesis and attempting to invalidate our view. If the answer is no, then this is probably an investment which should be set aside and monitored for a better purchase price or a new insight. If the answer is "maybe, it depends on xyz," then we should probably focus on xyz as our next step.

Fortunately, even these seemingly dead ends can prove fruitful down the road, often in unanticipated ways. Our April 2016 letter, for example, referenced that I had recently spent time studying car dealerships on the theory that they might someday be an interesting area in which to invest. To date, we've never invested in a car dealership, but what I learned from those studies as well as related exploration of the auto retailing, marketing and financing space, proved quite useful in aiding my understanding when I encountered Carvana. Moreover, each time we study a business we have the opportunity to learn new and interesting ways that businesses compete, win and lose. In this sense, even passing on an investment builds our general knowledge in much the same way our broader studies do.

Assuming an idea is worth pursuing more fully, our theories create our questions, and answering these questions becomes the goal of our empirical work. We are not just trying to "learn everything" about a business; we are trying to test and invalidate our hypothesis. Perhaps we think that the company's customers face high switching costs, which means that existing relationships are sticky and hold significant value. If so, we should be able to verify this hypothesis through some combination of measures of customer attrition, customer interviews and surveys, and/ or conversations with former employees or employees of competitors. This method of inquiry is copied exactly from the scientific method where theory drives hypothesis, hypothesis leads to experimentation, and the results of experimentation lead to updated theories.

The exact type of empirical work we'll do studying a business depends on the theory we are trying to test. Many ideas can be tested by speaking with former employees of a company or a company's management team. Other ideas may require surveys, web scraping or analysis of



acquired data sets. In any event, like experimental scientist, we do our best to conjure up creative ways to invalidate our hypothesis using real world data.

Ultimately, if we are successful, we arrive at an understanding of why a business should succeed (or not) and is resilient to competition (or not). Often several factors are at work, but usually they can be synthesized into a handful of reasons, each reason based on a broader latticework of theory, and in turn, supported by empirical observations.

We don't, however, stop at this point. Instead, we try to cast a wide net for potential issues with our investment or hypothesis that we haven't identified. We'll speak with just about anyone smart who disagrees with us, review any evidence that seems to be inconsistent with our expectations, and generally survey the landscape for any facts that might be inconsistent with our worldview.

Provided that our hypothesis survives, we make some rough estimates of a company's future profits and even rougher estimates of the returns that an owner can expect over many years. Finally, we allocate capital based on the principal of opportunity cost, i.e.. by trying to invest more of our capital in the businesses that we think have the highest expected returns with the highest certainty.

To an outsider, our approach to investment sourcing can seem disorganized and "unrepeatable." We spend time honing mental models without any clear expectation that any particular mental model will prove useful in evaluating investment ideas. Then we study companies with a fairly low expectation that any particular company will turn out to be a great investment. Yet, over time, the process works as our accumulated kit of mental models give us expanded abilities to think rigorously about businesses, and our exposure to a series of individual investment opportunities, each unlikely to be a great investment, produces a high cumulative probability of finding worthwhile investments over time.

I am sometimes asked how long we spend studying a potential investment idea. Unfortunately, this is a difficult question to answer for two reasons. First, for all our potential investments, we come to the topic with years of accumulated learnings from our broad studies and from our investigations into other businesses. I am frequently surprised with how significantly these generalized studies can accelerate our understanding of a new business or industry. Second, it is not at all uncommon for us to revisit the same idea year after year until either our understanding matures to the point where we have an insight, or market price changes make an



uninteresting investment interesting. More generally, it is not at all uncommon for us to keep revisiting the same business questions over and over until they eventually yield to insight.

In the end, this method of investing takes time. While experience can mean that I might be excited about a new idea within hours of first encountering it, at the very least, ideas take weeks and sometimes months to fully develop. Many potentially good ideas prove too hard, and, even more frustrating, many promising ideas where we think we've developed interesting and unique insights prove too expensive relative to our other alternatives. In the end, we don't find many worthwhile investment ideas.

Fortunately, arithmetic works in our favor. Very few good ideas are necessary for a successful investing career. We've historically found about one per year but even one per decade would be enough (assuming they are in fact good investments) for an extraordinary investing result over a lifetime. If we can closely study about twenty ideas per year (after doing a more cursory review of many more), then, on average, roughly two of those ideas will be in the top decile of potential investments. If we have the mental machinery to understand and recognize even one in four of those top decile ideas, then we should be able to identify one every other year... far more than are needed.

#### Administrative

The Partnership's Amended and Restated Confidential Offering Memorandum (the "Offering Memorandum") requires that I disclose whether my investment in Sosin Partners, LP represents over 50% of my liquid net worth. I am pleased to say it does. In fact, it represents over 90% of my entire net worth. My family and I are invested right alongside you.

In addition, the Offering Memorandum requires that I disclose whether I have any other significant income generating activities. I do not. The management of the Partnership is my sole occupation and source of income.

We recently changed New York offices. Our new office is at 135 East 57<sup>th</sup> Street, Suite 18-108. It's a WeWork, so please come by for a cold brewed iced coffee on Softbank!

#### Conclusion

I am excited for the prospects of our Partnership. While I expect our short term results will be volatile, I believe that profits over time will be worth the volatility.

You'll recall that we endeavor to benefit from a virtuous cycle wherein:



- 1) our investors trust us and allow us the space necessary to focus on long term investment performance,
- 2) this long term focus allows us to make better investment decisions unclouded by short term considerations,
- 3) better long term investment decisions, in turn, (hopefully) allow us to produce better long term returns, thus earning our investors' trust and restarting the cycle.

With this in mind, we continue to look for additional partners who understand and support our approach to investing. The wrong partners, partners who focus on short term performance, will not be welcome. Prospective investors should review the Amended and Restated Confidential Offering Memorandum for more information.

I appreciate your continued trust in me. As always, feel free to call or drop by the office if you'd like to chat.

Sincerely,

Clifford Sosin

CAS Investment Partners, LLC

**The information contained in this report is intended for informational purposes only and is qualified in its entirety by the more detailed information contained in the Sosin Partners, LP offering memorandum (the "Offering Memorandum"). This report is not an offer to sell or a solicitation of an offer to purchase any**



**investment product, which can only be made by the Offering Memorandum. An investment in the Partnership involves significant investment considerations and risks which are described in the Offering Memorandum.**

**The material presented herein, which is provided for the exclusive use of the person who has been authorized to receive it, is for your private information. CAS Investment Partners, LLC is soliciting no action based upon it. It is based upon information which we consider reliable, but neither CAS Investment Partners LLC nor any of its managers or employees represents that it is accurate or complete, and it should not be relied upon as such.**

**Performance information presented herein is historic and should not be taken as any indication of future performance. Among other things, growth of assets under management of CAS Investment Partners LLC may adversely affect its investment performance. Also, future investments will be made under different economic conditions and may be made in different securities using different investment strategies.**

**The comparison of the Partnership's performance to a single market index is imperfect because the Partnership's portfolio may include the use of margin trading and other leverage and is not as diversified as the Standard and Poor's 500 Index or other indices. Due to the differences between the partnership's investment strategy and the methodology used to compute most indices, we caution potential investors that no indices are directly comparable to the results of the Partnership.**