Commencement Letter

01/06/21

To the Limited Partners and Shareholders of Hummingbird Ventures LP,

My name is Sohum Raut and I'm the founder of Hummingbird Ventures, an investment firm. Primarily this firm is created to invest in listed equities with the occasional venture capital or real estate deal. Initially I'll just be starting with my own funds and eventually, if we're good, raising outside investment.

I completed my undergraduate degree in Computer Science then went to business school for an MBA. I've built and sold technology companies and real estate projects so have deep experience in both the high tech and also bricks and mortar world.

Innovation is everywhere in the world right now but people struggle to picture what it could look like, and identify properly the companies pulling that innovation from the future to the present. Seeing what the key drivers are is difficult because much of the time, innovation doesn't look like what it's supposed to.

The most innovative solar power company is a car maker. The most innovative drone delivery company sells pizza. The most innovative server infrastructure company sells groceries. The largest company in the world is a watch maker, a trend many believed was disappearing. And so on.

It used to be that to invest successfully companies had only to copy an existing model in different locations and you had only to look where they might move to. But now you need to imagine the different iterations of a business well before they get there. To see everything they *could* be.

Because of this I believe the world is fundamentally mispriced and there's a divergence between value and price much of the time. But also, I think there's a misalignment of expectations on both value and price. Markets don't know how to price something whose future is unpredictable. And today prices can move based on sentiment and social change as much as by fundamentals.

Fast growing stocks deserve a price premium on their value, but are often cheap in the scale of how big they might get and the value that may materialise. Similarly sometimes expectations are high for the value of a stock to be greater than will materialise, but they're paying the price as if it will. Or a price for a stock is paid for reasons unrelated to the underlying business at all.

This fund is built to maximise on these differences in expectation. To value invest in growth, or growth at a reasonable price (GARP). To make high quality investments in long term positions at good prices to buy growth companies and businesses that are non obvious why they're exceptional. And to know when to exit positions where price has diverged from value.

To only invest in companies that can grow 2X – 100X at good prices means buying innovative mispriced companies at prices below intrinsic value. Keep our money in the best performers and then ignore market movements. They don't matter if you've done fundamental analysis and they're good businesses.

These are some of the guiding priciples and ideas that will be followed. An amalgamation of ideas:

Cathy Wood - *"Innovation can't be priced correctly."*

Peter Lynch - *"Buy companies you like that you can see growing long term by 10X - 100X"*

Charlie Munger - *"Buy businesses at prices below intrinsic value and only ones you understand."*

The key valuation heuristics of the fund:

1/ PE ratio < Growth rate in % for great value. Unit & revenue growth > 30% annually.

2/ Megatrends with long runway/growth prospects. Best in class innovative products.

3/ Quality management but deeply misunderstood or seen as expensive. Negative profit to profit.

4/ Current ratio > 1 and Debt < Assets + Cash as a long term trend means unlikely to implode.

5/ Enterprise multiple EV / EBITDA should be less than industry average for exceptional value.

Trends	Megatrend	Marketmaker	Misunderstood	Mispriced	Management
Targets	Low price to book	High book to market	Value stocks with growth	Reinvesting profits	Increasing earnings
Buy	Growth Rate > 30% Unit Growth > 30%	Debt < Equity DE ratio < 0.5	PE Ratio < Growth Rate in %	Assets > Liabilities Current ratio > 1.5	EV / EBITDA < Industry Average
Sell	Growth Rate < 30% Unit Growth < 30%	Debt > Equity DE ratio > 0.5	PE Ratio > Growth Rate in %	Assets < Liabilities Current ratio < 1.5	EV / EBITDA > Industry Average
Interpretation	Business should be growing. Double every 3 years.	Equity should be more than debt.	Business should be growing faster than the share price.	Assets should be higher than liabilities.	Enterprise multiple should be less than industry average.

**Valuation matrix for products I use, like and understand. Finds companies that are growing fast, have low debt, high equity, large assets and are trading at a lower price multiple relative to their industry. Sheer outrageous value.*

I think if we follow these fundamental principles; think clearly and thoroughly about investments; are cautious but optimistic; and believe in the future; we'll achieve success.

I plan for this firm to be operational in some fashion forever.

I hope you will come along on that adventure.

Regards,

Sohum Raut