HUMMINGBIRD VENTURES LP

Annual Letter

01/07/22

To the Limited Partners and Shareholders of Hummingbird Ventures LP,

The 2021 to 2022 financial year was crazy. I don't think there is any other way to describe it. Last year with interest rates at an all time low and pandemic stimulus at an all time high, asset bubbles inflated everywhere around the world in almost every asset class. Everyone was making money hand over foot before the music abruptly stopped and everyone who hadn't found a chair yet promptly lost everything. Years worth of gains disappeared overnight.

This was an important learning period. Sometimes timing the market really does beat time in the market. Some important lessons for me are that I really don't enjoy volatility and that the fees on selling everything are lower than you think. You can in fact sell everything you own and miss out on much of the upside but then also miss out on much of the downside. If the downside is much worse than the upside, you come out significantly ahead. Which is exactly what happened this year.

Another core learning for me is that you don't need to spread investments for the sake of "diversification" but it is ok to hyper concentrate a portfolio to try to yield exceptional returns. So long as you also are conservative enough to sell at a profit when you think disproportionate profits are emerging to underlying value. Which is what I think was happening last year.

A key realisation is a viable strategy can in fact be to hold your money in cash; but then only deploy it when you see something you believe is an excellent opportunity. Ride the opportunity up or down and then liquidate before you think something bad may happen. While this seems much more like trading than investing – indeed, how much of that timing is luck and how much is skill I wouldn't have the faintest idea – the returns speak for themselves. But it means doing nothing most of the time.

Our major holdings, representing 80% of the equities were Airbnb (ABNB) and Cloudflare (NET). We concentrated just about everything into both of those stocks because we had no other good ideas. Both produced a near doubling of the stock price in a short period of time. The 3rd was Pinterest (PIN) where we took some huge losses as it performed contrary to how we thought it would behave.

I like businesses growing at 100%+ year on year where customers are in love with the product and the crux of their lack of profitability is because they're spending money on growing exponentially, not because of some core flaw in their underlying business model. It produces large moats that are hard to cross. I think there is a lot of growth in businesses that are on a trajectory to dominate a category but are yet to break through valuation glass ceilings.

I thought we hit those glass ceilings around late November when there was a market correction and it seemed like the global stimulus money taps were going to be switched off for good. I didn't decide to sell everything until weeks later which was a mistake. Probably the best decision we made was around early December of 2021, right after a small correction, we sold everything and then stopped playing. We picked our chairs and then stopped listening to the music.

In reality this was the best thing we could have done. In fact we should have sold everything weeks sooner when Cloudflare, bought at nearly $74 a share was trading over $210, instead of the measly $170 we sold at. All of these stocks proceeded to collapse along with the general tech sector into the first half of 2022. I tracked the same concentrated portfolio since then and if we had kept holding everything, we would have underperformed the S&P500. By a lot.

It turns out make good decisions and then go to sleep for half the year seems to be sound investing strategy in this case. It was a key learning for me, you don't have to make decisions all the time. **Less** decisions can be **more** impactful on your returns. Only a few good decisions in a year can make or break a portfolio. So it is good to think very hard about a decision before making it. Then think very hard about when to undo it. But to stop thinking at all in the interim time.

In addition to equities, the real estate side did exceptionally well. When prices were low and the media was frantic about price drops in the order of 30%+ or more, with major banks predicting these price drops as front page news. This was an excellent time to ignore the panic and focus on the fundamentals as you could enter deals with fearful **and** motivated sellers. The twin pillars of a solid discount. You could almost buy anything and it performed excellently but you did exceptionally well if you also bought **below** market with someone fearful of greater price falls.

None of those price falls occurred as the core fundamentals were unchanged. Of housing supply being low, population growth being high (although temporarily low due to the evaporation of tourists and students) and lender appetite being high (coupled with low interest rates) pointed to impending growth. It meant that I was out of step with the general consensus and that is the perfect place to be to get wonderful returns. Which occurred. Moments like that are interesting because it means rational actors are selling property below intrinsic worth. Even though it might be their only asset.

So all in all, it was an incredible year with a lot of learning and overall better than market returns. Whether this level of performance can be repeated, I'm honestly not sure. But I'll certainly try. One thing is for sure though; in a depressed market, it means there are definite bargains to be had. Whether or not I'm the one who is able to find them.

Regards,

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