

Memo to: MCJ Capital Partners

From: M. Carter Johnson

Re: Q1 2020 Performance Update

Date: 4/15/2020

Dear Partners & Friends,

For Q1 of 2020 our total return was -2.20% compared to -19.77% for the broader S&P Index, -24.47% for the MSCI World index, and -23% for the Dow Jones Industrial Average.¹

Since inception (as marked February 12, 2020), our total return is -2.20% compared to -23.34% for the broader S&P Index, -26.74% for the MSCI World index, and -25.83% for the Dow Jones Industrial Average.

	MCJ Capital Partners	S&P	MSCI World	Dow
Q1 2020	-2.20%	-19.77%	-24.47%	-23.00%
2020	-2.20%	-19.77%	-24.47%	-23.00%
Since Inception	-2.20%	-23.34%	-26.74%	-25.83%

**Performance as reported by Interactive Brokers.*

Commentary on Q1 2020

What an interesting inaugural quarter. As I have communicated in my recent memo's, the environment we find ourselves in is largely unprecedented. Change in the markets and actual economy are occurring at breakneck speeds, of which the true impact will not be understood until the dust settles.

Going into our inception date I wrestled with the riddle most new managers have. Do we a) allocate immediately across our portfolio to avoid cash drag in a rising bull market, or b) ease into our positions accepting cash drag but avoiding exposure to any large turndown due to unfortunate timing. Ultimately I concluded for our strategy and with current valuation levels option B was best. As such, going into the selloff we were positioned extremely defensively. We had cash, and were holding more defensive securities. Some would say we could have done better, and I would agree with them. However, considering where things stand in the world economy and the level of unprecedented volatility, I'm pleased with our first quarter.

Additional Thoughts

Our focus and goal is to buy good companies at fair prices. A good company has durability, and the rare ability to reinvest earnings in a manner that compounds capital within its own machine at an above average rate well into the future. It's times like these when the durability piece of the equation pays for itself.

When I think about durability I think about our company Constellation Software. Constellation Software is led by a phenomenal capital allocator in Mark Leonard. The company is a collective operation of hundreds of individual and decentralized mission critical software businesses. These independent businesses are essential to their own customer operations. Constellation Software has survived recessions and industry downturns and emerged all the better. Regardless of where the world goes, I'm pretty confident if commerce continues so too will Constellation Software.

As I look across the businesses we own and target companies of interest, my analysis is prioritizing durability and survival. Some ideas that seemed good three months ago aren't so good anymore. Other ideas that were just okay, now carry a higher level of conviction and are therefore more attractive. There are also opportunities we must evaluate in a context that forces us to think beyond today's current environment. There are good companies that under normal operating environments perform quite well. If their balance sheets can hold through the foreseeable uncertainty, the current price levels offer wonderful upside. Many of these types of businesses have been irrationally oversold out of fear. It's my job to find those companies that can withstand the near term uncertainty and are priced asymmetrically in our favor.

In Closing

I know right now things are uncomfortable. Believe me when I say, I much rather be writing our first update highlighting how wonderful our businesses are performing and what promising outlooks are in the immediate future. However, we play the hand we're dealt and not the hand we wish for, as anything else is denying reality. Being truthful, things could get worse. Being equally as truthful, we may have already seen the bottom. No one really knows for sure. What is certain is that I will keep relentlessly pursuing our hunt for good businesses at fair prices - that's our NorthStar.

I want to thank you for trusting me in being a steward of your capital and being a part of what we are building, especially in an investing environment like we find ourselves in.

All the best,

A handwritten signature in black ink, appearing to read 'M. Carter Johnson', with a stylized flourish at the end.

M. Carter Johnson

carter@mcjcapitalpartners.com

¹The performance results shown are those of the first account under management of MCJ Capital Partners LLC (“MCJ”) and are the result of the application of MCJ’s proprietary investment process. These performance results are presented net of brokerage fees, and custodial fees. No management fee was charged in 2020. The performance results include the reinvestment of dividends and interest on cash balances where applicable.

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