1/14/2019

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Performance Summary		
	Sosin Partners, LP*	SPY**
2012* **	**14.0%**	**-1.5%**
2013	**66.6%**	**32.3%**
2014	**6.3%**	**13.5%**
2015	**14.5%**	**1.3%**
2016	**22.0%**	**12.0%**
2017	**31.2%**	**21.7%**
Q1 2018	23.6%	-1.0%
Q2 2018	17.1%	3.5%
Q3 2018	13.6%	7.7%
Q4 2018	-21.1%	-13.5%
YTD 2018	**29.8%**	**-4.6%**
Cumulative return since inception	**380.0%**	**94.8%**
Annualized return since inception	**28.6%**	**11.3%**

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 performance summary, during the three months ended December 31, 2018, Sosin Partners, LP reported a loss on a mark to market basis net of all fees, expenses, and performance allocations of 21.1%. The broad market as represented by the SPY ETF including dividends was down 13.5% during the same period.

For the year ended December 31, 2018, Sosin Partners, LP reported a gain on a mark to market basis net of all fees, expenses, and performance allocations of 29.8%. The broad market as represented by the SPY ETF including dividends was down 4.6% during the same period.

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 380.0%; this represents a 28.6% compound annualized rate of return. The SPY ETF is up 94.8% including dividends during that period representing an 11.3% compound annualized rate of return.

The Balance Sheet

We ended the quarter with six stock positions on the long side of the balance sheet, totaling 108% of equity capital. Our largest holding, representing 25% of equity capital, is our investment in Carvana, which I discussed in detail last letter. Our other holdings range in size from 6% of equity capital to 22% of equity capital. We also have a short position in the portfolio at 2% of equity capital. No other positions are material individually or collectively.

Holding Cash and Market Timing

There is something of a trope of value investors holding onto piles of cash, sometimes for many years, passing on opportunity after opportunity, in order to buy the very best investments in a moment of absolute market panic. Indeed, this behavior is often portrayed as virtuous and reflective of prudence, discipline and restraint.

I think of our method of investing as value investing, and I think of our approach as prudent disciplined and restrained… yet we have never held onto cash. In fact, we have been more than 100% invested essentially continuously since the start of the fund.

So a fair question for an investor to ask is why we don't hold any cash? I am going to address this question by telling you a story about a real business decision faced by a friend of mine. We'll call him Bill.

Bill, a businessman and part time student of investing, owns and runs a profitable local chemical business. His business makes a variety of niche products for various markets. His customers demand the very best performance and are willing to pay for his superior chemistry. His markets are small, which limits room for competitors who would have to make large investments in research relative to the size of the market in order to compete. This limited competition allows him to charge fair prices for his unique materials.

We were discussing his aspiration to grow his business by buying small competitors who offer other unique materials in different niches, but whose economics are otherwise similar. (I love chatting with my friends about their business problems!) It turns out that since these businesses are quite small with very limited potential to grow, they can often be purchased for fairly compelling prices. Moreover, since many of these chemicals are produced using common types of equipment, he can make these already comfortably profitable companies even more profitable by bringing their production into his facilities, thereby reducing their costs. In sum, Bill believes he has the opportunity to earn very attractive returns on these investments.

As we discussed, Bill explained that, while the economics of these potential acquisitions are quite compelling, it was his intention to wait until the next recession to acquire one. After all, he reasoned, it is likely that in the next recession he will be able to buy one of these already well priced assets for an even more compelling price. Why not pay less? My friend Bill had clearly internalized the lessons of wise value investors to sit on cash and to wait for just the right moment to buy.

However, as we discussed his plan further, it became clear to both of us that this seemingly prudent, disciplined and restrained approach was wrong. Let's walk through the math:

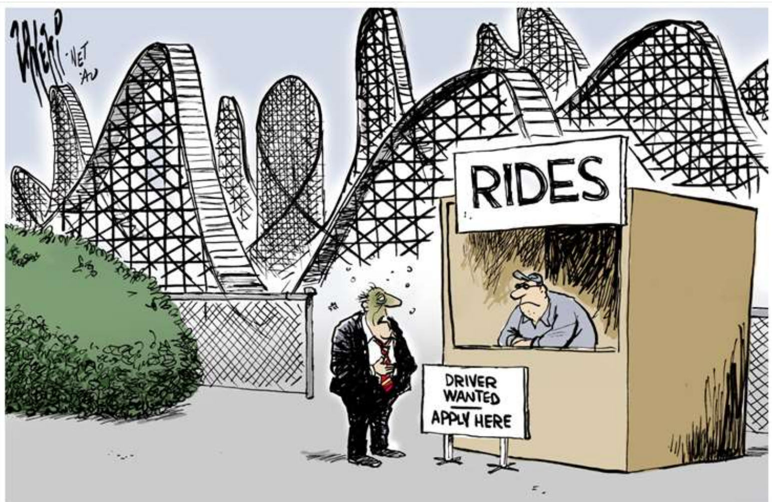
Suppose that investing $1 million in one of these bolt on acquisitions promises a return of about 15% per year better than a comparable investment in short term treasuries. In other words, the investment promises a profit of $150k per year. Suppose further that in a typical recession, the same company with the same earnings stream would be available for 30% less, or $700k.

Since a recession will invariably happen at some point, if he is patient, Bill will eventually be able to make the acquisition at the bargain price of $700k, thereby saving himself $300k. However, every year that Bill waits costs him $150k that he only gets if he owns the asset. Clearly if there is going to be a recession tomorrow or in the next two years, Bill should wait. But if the next recession happens in two years or more, he is better off buying today, even though he could buy for less in the future because the accumulated profits during those two plus years will exceed the bargain savings from buying at the lows. Indeed, if no recession occurred until year ten, patience will make end up costing Bill a whopping $1.2 million versus buying immediately.[1]

In essence, by deferring the acquisition, Bill was making a bet on the occurrence of a recession. Given that the gains from a recession happening were $300k, but the cost of a recession not happening were $150k per year, this bet implied a roughly 50/50 chance of a recession in any given year.

[1] I am ignoring the effects of reinvestment for simplicity.

Neither my friend nor I think we can predict recessions. In fact, I'd venture that nobody can reliably predict recessions. Despite this naivete, we both reasoned that since recessions have occurred on average every 5-10 years since World War II, the implied 50% odds seemed far too high. Consequently, we realized that in order to maximize his wealth over time, Bill should make these acquisitions as soon as possible!



" I USED TO BE A STOCKBROKER BUT I'M LOOKING FOR A GIG A LITTLE EASIER ON THE STOMACH.. "

The key to understanding Bill's choice was to frame the question as a comparison of his opportunity cost of non-ownership against the potential savings by making the acquisition at a future date. This method of framing does not imply that he should always make any acquisition. It just dictates that he take advantage of compelling opportunities when they present themselves but hold off on less compelling opportunities. For example, if buying the company today resulted in only $15k of expected incremental profits per year instead of $150k per year, by waiting Bill would be betting that a recession would occur sometime in the next twenty years, implying recession odds per year of about 5%. In this scenario, waiting would seem like the more appropriate choice in spite of the foregone profits each year.

This brings me back to the topic of investing in stocks.

Just as Bill has opportunities to invest in small chemical companies, we have opportunities today to invest in businesses with certain expected returns through the stock market. However, stock prices are volatile, and it is not uncommon for stocks to get cheaper from time to time for many reasons or for no reason at all. So, like my friend with his chemical business, we face the question: should we buy these stocks today or wait for a better price? As you would expect by now, the best answer depends on our sense of the expected profits from ownership versus the potential savings from buying the same stocks for a cheaper price in the future.

For example, suppose you think that a particular stock at a particular price promises a risk premium (return in excess of short term treasuries) of 6% over the long term. Additionally, suppose that once in a while you think that you'll have a chance to buy the same stock at a temporary 40% discount. If you thought the odds of such a dislocation occurring were less than 15% per year, you'd buy the stock today. If you thought they were greater than 15% per year, you'd wait. Of course all of these machinations assume that you'd actually be able to identify and act on the transient 40% discount. In reality this is much harder, since as the expression goes, "nobody rings a bell at the bottom."

I have no special insights into the funny ups and downs that the market prices of stocks take. However, I do think that over the years I've been able to identify a few investments which promise particularly high returns over time, and that our investments today (assuming I've correctly analyzed them) also offer compelling returns over many years. These anticipated returns are sufficiently high that, like my friend with his chemical business, it is obvious that I'd need to have a very high expectation of the likelihood and severity of a decline in stock prices in the near term in order to forgo the opportunity to buy or own them today. Since I have no such view (and doubt I will ever have such a view), we are and have been fully invested. Put another way… it is always better to pick up a 50c dollar today than to wait in hopes you can get it for 40c unless you are darn sure that you will get it for 40c pretty soon.

Let's turn back to my friend Bill's chemical company. Recall that we worked out that he should make the bolt on acquisition today for $1 million even though he knows that at some point that same company will be available for $700k, because the profits he'll make over the years owning the business will likely exceed the savings he'd enjoy by waiting. Now let's assume that emboldened by this observation, my friend starts making one of these acquisitions every year. This behavior would be profit maximizing since he is making the same good bet year after year, and more of a good bet is better.

Of course even though these bets are good on average, they will not *all* be good bets. In fact, my friend will *inevitably* end up making a couple acquisitions in the runup to a recession and overpaying for those acquisitions. How foolish he'll look at that point for those foolhardy acquisitions. Imagine the recriminations he might face for his "lack of discipline" if he had third party investors or a board. Fortunately, my friend has no third party investors or board to answer to, but most investors do and these pressures must clearly exert their influence.

Stock investors have it even harder than Bill. Since selling a private company is laborious and the potential transaction price is opaque, nobody expects Bill to sell his company and whatever previous acquisitions he has accumulated at the highest price just before a recession in order to buy it back at a lower price during the recession. Nor is anyone precisely aware of what the company could sell for on any given day. Likewise, while people may understand generally that the transaction price of a private company is lower in a recession, this fact is not advertised to them via to the penny mark to market losses in bold red text and breathless CNBC commentators. In short, a general sense that a private company would fetch less value today than in the past is far less salient than a readily computable mark to market loss in the stock market. It's no wonder that so many investment managers in the public markets insist on holding cash or try to time their purchases and sales even if they expect that the returns on their best investments will be high over time.

CAS is different than most investment managers. As I say ad nauseum but will repeat again, our approach is built around long term compounding. This means that I will happily trade the risk of embarrassment/ mark to market drawdowns for higher potential returns on average. In keeping with this approach, we buy and own stocks when we think that the expected returns over many years are very attractive knowing full well that, from time to time, in retrospect it would have been better to hold cash. While this strategy should produce higher returns over time, it will invariably produce bumps in the road. To a greater extent than other investment managers, we at CAS are dependent on your trust and long term perspective.

For this I am extremely grateful.

<u>Administrative</u>
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.

<u>Conclusion</u>
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 <u>trust</u> us and allow us the space necessary to focus on <u>long-term</u> investment performance;

2) this long-term focus allows us to make better investment decisions unclouded by short term considerations; and
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 and shall not be used by the recipient except in connection with its investment in the Partnership. 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.

Statements made herein that are not attributed to a third party source reflect the views, beliefs and opinions of CAS Investment Partners LLC and should not be taken as factual statements.