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Dear Partners,

For the first quarter of 2021, Rhizome Partners generated a net loss of 9.9% versus a 4.6% loss for the Standard & Poor's 500 Index and a 5.3% loss for the National Association of Real Estate Investment Trusts (NAREIT) Index. During the quarter, our portfolio was down broadly. Our real estate companies, combined with short fixed income ETF positions, contributed only 2% of the loss, despite constituting more than 50% of our partners' capital. Our non-real estate companies contributed the remaining 8% loss. Since inception, our portfolio has had 62% general market exposure, 24% cash/SPAC holdings, and 11% market-neutral investments.

Time Period	S&P 500[1]	Hypothetical 10% Absolute Return	FTSE NAREIT All Equity REIT Total Return[2]	Rhizome Partners Class B Net Return[3,4]
April 10th thru Dec 31, 2013	18.2%	7.2%	-4.9%	19.50%
Full Year 2014	13.7%	10.0%	28.0%	19.2%
Full Year 2015	1.4%	10.0%	2.8%	-5.8%
Full Year 2016	12.0%	10.0%	8.6%	11.5%
Full Year 2017	21.8%	10.0%	8.7%	5.6%
Full Year 2018	-4.4%	10.0%	-4.0%	-7.2%
Full Year 2019	31.5%	10.0%	28.7%	17.8%
Full Year 2020	18.4%	10.0%	-5.1%	23.7%
Full Year 2021	28.7%	10.0%	41.3%	24.9%
Q1 2022	-4.6%	2.4%	-5.3%	-9.9%
Cumulative Return Since Inception	239.7%	129.8%	131.9%	140.6%
Annualized Return Since Inception	**14.6%**	**10.0%**	**9.8%**	**10.3%**

1. S&P 500 returns include dividend reinvestments and are fully invested
2. FTSE NAREIT All Equity REIT Total Return starts on 3/31/2013 and includes dividend reinvestments and are fully invested
3. Net return is net of expenses and incentive allocation for Class B. Individual partners may experience returns that are different from the Class B return.
4. Rhizome Partners Class B Net Return is accomplished while holding 24% cash and SPACs while comparable indexes are fully invested.

Class B Net Return also includes 11% of investments that are workouts/special situations/hedged. Total market exposure was only 62% since inception.

The Importance of Two Little Percentage Points

Most of the macro thoughts laid out in this letter reflect our thinking in late 2021 and early 2022. At the time, the notion that a rise in interest rates would cause a market sell-off in bonds and equity was not consensus. Unlike most investors, we took defensive maneuvers early on to sell short fixed-income ETFs and allocated 1.2% to tail-risk hedging via out-of-the money puts. We underwrite our investments from the bottom up, focusing on company fundamentals. At the same time, we worry top down and try to be creative with worst-case scenarios. At times, our thinking can appear bipolar because we have two equally important objectives—securities selection and portfolio risk management.

We may be experiencing a regime change in the market in 2022. Sustained rates of high inflation have led to anticipation of rapid rate hikes by the Fed. As a result, yields on U.S. Treasury and corporate bonds have moved significantly higher. This could drastically impact the valuation of equities, commodities, real assets, and other speculative investments. We believe the importance of rising rates is on par with fundamental analysis of individual companies in our portfolio. Our portfolio construction and risk management will focus heavily on interest rate policies in 2022. We have strong opinions on the subject because of its importance, but we will change our mind quickly if the facts change.

Why do we care about interest rates? In our simplistic view of the world:

The interest rate is financial gravity. It dictates pricing for all asset classes by impacting discount rates and investors' risk appetite. When rates fall, asset prices rise and animal spirits abound. When rates rise, asset prices fall and fear grips investors' psyche.

The Fed injected unprecedented liquidity into the market during the Great Financial Crisis. Prominent investors such as Warren Buffet, David Einhorn, and John Paulson warned of impending inflation. To everyone's surprise, this was followed by a decade of Goldilocks conditions, where interest rates stayed near zero and official inflation rates were muted. We believe the market became complacent.

The Fed again injected unprecedented liquidity into the market during the Covid crisis, albeit at a much greater scale. Until recently, there was much debate on whether inflation is transitory or not. We are reminded of that famous quote by Supreme Court Justice Potter Stewart: "I know it when I see it." Consumer products, restaurant meals, wages, and residential rent have all experienced high inflation. When the Fed stopped using the word *transitory*, we started shorting fixed-income ETFs to hedge against rising rates. The Russia-Ukraine war and the recent Covid lockdown in China are two events that convince us inflation will persist longer. The real risk is that inflation expectations start to normalize. If employees and producers start to expect 5% annual escalations, we will have reached the point of no return. Raising interest rates to combat inflation has serious consequences.

Interest rates play a dominant role in determining how much one can pay for a house, a car, a multi-family building, or a generic widget company. For example, a home buyer with a 20% down payment will pay $4,295 in monthly payments for a 5.0% mortgage versus $3,373 in monthly payments for a 3.0% mortgage on the same one-million-dollar house. In a matter of a few months in 2022, higher mortgage rates will have taken $922 out of the pocket of a homebuyer every month for the next thirty years. This amounts to $331,920 in extra payments over a lifetime. These rate increases will have serious second order effects on the economy since housing has a large multiplier effect. Home purchases lead to spending in renovation, home goods, car purchases, and home services.

Higher interest rates also impact the cash flow multiples that corporations and private equity firms will pay for a widget company. For example, a private equity firm can pay a 10 times EV/ multiple for widget company with 4% debt financing. By increasing interest rates by a mere 2%, the math gets altered dramatically. The banks will lend less, the pace of debt payoff slows, and the terminal value at exit is reduced. Buyers will react by paying lower EBITDA multiples.

In a near-zero interest rate environment, investors use a low discount rate, which results in a net present value that is closer to the future value ten years away. Furthermore, low interest rates also result in higher terminal values. This environment is commonly referred to as TINA (there is no alteranative). Investors often reach for returns wherever they can get them, which is often in the all the wrong places, such as speculative companies. In a higher interest rate environment, investors have much better options in investment-grade corporate bonds. Institutions and savers are ready to pounce on 5% nominal yields, even if real returns are much lower. As rates rise, we believe capital may be reallocated from riskier assets, such as equities, into investment-grade bonds. Investor behavior can be

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complex in the transition. What is clear is that risk appetite has fallen, which has led to sell-offs across most asset classes, even value stocks to a lesser degree. Investors seem to have started to favor profitable companies trading at low multiples of existing cash flow over companies with uncertain payoffs in ten years. In a rapid turn of events, many of the unprofitable growth companies with uncertain unit economics have sold off 40-90%.

The Most Important Thing

We have explained in detail the importance of interest rates and we will explain our hedging strategies next. But the most important thing remains sound fundamental analysis at the company level. We still favor good businesses with healthy margins, good balance sheets, structural moats, high returns on invested capital, rational competitors, pricing power, and reasonable growth. Discounted cash flow (DCF) analysis is still the universal tool for determining what price we should pay for an asset. The most important thing is to pay a price well below the discounted value of all probability-weighted future cash flow streams of a company. Despite the doom and gloom in this letter, it pays to be an optimist in the long run. Public equity holders in the S&P 500 have enjoyed a 10% compound annual growth rate (CAGR) since 1928. We believe it is best to be simultaneously long-term oriented and have a game plan for large market dislocations and seismic shifts in the way the market functions.

Hedging and Schmuck Insurance

In the 2021 year-end letter, we wrote the following:

We have a hunch that this may be the time to short long-dated Treasuries and corporate bonds. Consistent with our buying puts and shorting in the past, the goal is to hedge against certain risk parameters in our portfolio. The Fed has stopped using the word transitory *to describe inflation and has publicly disclosed that it will increase rates multiple times in 2022. Wage gains have been substantial and will likely be sticky to the upside. We shorted the 20-year Treasury ETF and some long-duration corporate bond ETFs…With a 1.9% yield for the 20-year U.S. Treasury note, shorting them has minimal downside, given the background.*

During the quarter, we added to the short basket and increased our short exposure in fixed-income ETFs to 29% of our partners' capital. We believe that this is a low-risk way to hedge against inflation and rising rates. We have shorted four fixed-income ETFs. To further hedge against our short position, we bought calls on the largest short ETF position in case we are wrong. The short position in the iShare 20+ Year Treasury Bond ETF (TLT) has worked extremely well as the TLT sold off from roughly $149 in December to roughly $132 at quarter end. It is important to emphasize that we take this action to hedge out certain risk factors in our portfolio such as interest rates. We are not turning into a macro hedge fund. From my twenty years of private real estate experience, I am certain that higher interest rates will negatively impact the price of real estate, all else being equal.

Having a 29% short position may seem like a "bet the farm" move. Unlike shorting equities, which is potentially open ended, shorting fixed income has a maximum loss threshold as interest rates have not gone below 0% in the U.S., yet. We have prepared the following chart to help you understand the risk

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reward profile. We believe that the maximum downside to our partners' capital is 2.7%, which includes six months of interest payable. We estimate the maximum upside at 5% of our partners' capital. We estimate the probability of positive outcome at over 80%. If interest rates go even lower, a low probability event given the inflation backdrop, our real estate holdings should increase in value. Our real estate positions and the short fixed-income ETFs are natural hedges of each other. Shorting fixed-income ETFs added a 1% gain to the fund during the quarter.

Num	Name	Yield	Duration	Estimated Max Loss	Estimated Max Gain	Position Size at Cost	Hedged with Calls	End of Q1 2022 Portfolio Size	Max Loss to Partners' Capital	Max Gain to Partners' Capital
1	20 Year US Treasury ETF	1.4%	18.3	16%	25%	4%	No	4%	0.6%	1.0%
2	Corporate Bond ETF	3.2%	14.4	10%	20%	5%	No	5%	0.5%	1.0%
3	Junk Bond ETF	4.2%	4.2	7%	15%	15%	Yes	16%	1.0%	2.3%
4	International Bond ETF	4.1%	7.6	15%	20%	4%	No	4%	0.6%	0.8%
						28%		**29%**	**2.7%**	**5.0%**

We increased our allocation to a basket of puts in the indexes, comparable companies, and other highly asymmetrical bets. We will continue to roll these puts as existing ones expire. We typically expect our puts to expire worthless unless there is a large market sell-off, or an idiosyncratic event associated with a specific company. In general, our puts do not hedge the first 15-20% sell-off in the market. But they are extremely effective in hedging against rapid 30-40% sell-offs in the market.

We have added some commodities exposure in the portfolio due to worries of persistent inflation. We do not like investing in commodities because we are not experts. But our job is to protect and grow the purchasing power of our partners' capital. We understand that these are dangerous words, but this time may be different. The popular environmental, social, and governance (ESG) mandates have led to a decade of under investments in commodities. We allocated a small amount to a nitrogen fertilizer company upon the outbreak of the Russian-Ukraine war. In addition, we purchased long-term equity anticipation securities (LEAPs) on a high-quality master limited partnership (MLP) paying almost 8%. We believe the option premium is cheap and we can avoid the pesky K-1 forms. Our commodity exposure is not a core allocation for our portfolio. Commodities serve as schmuck insurance in case we have sustained rates of high inflation.

There are many companies that still trade at 30-50 times price to free cash flow multiple. Many of these are good companies with stable profit margins and consistent cash flow, albeit with low growth rates. We believe that many of these "bondlike companies with growth kickers" no longer warrant 30-50 times price to free cash flow (P/FCF) multiples. We have bought puts in a basket of them. We may choose to outright short them and hedge our short exposure by buying some out-of-the-money calls.

2021 Portfolio Updates

Real Estate Updates

We follow several real estate general partners on Twitter. As a group, they were full of optimism and energy. From a purely economic perspective, deal making generally benefits them because it results in a plethora of fees including acquisition fees, management fees, and general partner promote. We have noticed a shift in their sentiments lately. Six months ago, they were extremely bullish. Lately, the group has been lamenting that attractive deals from six months ago are hard to execute due to rising interest rates. Some deals agreed to even a few months ago are repriced 6-10% lower. This is the best evidence that the rise in interest rates is altering investor behavior and asset pricing. When private market value starts to fall, we take notice and start adjusting our valuation.

FRP Holdings is likely the best positioned for any environment. The half a billion tons of rock reserves and the trophy waterfront multi-family buildings in Washington, D.C., will perform well in an inflationary environment. Many investors now favor hard assets such as commodities. FRP Holdings' rock reserves are a commodity that has the added benefit of pricing power. With supply and labor shortages, the replacement cost of the existing buildings has increased. If capitalization rates (cap rates) go up, FRP Holdings can deploy its cash and potentially pick up bargains. We sleep very well with our FRP Holdings position and constantly wonder if we should sell other positions and add to FRP Holdings.

After quickly buying back $250 million of shares recently, Howard Hughes Corporation authorized another $250 million share buyback. During the quarter, the company closed on the sale of the Chicago tower. Higher energy prices mean The Woodlands market is healthier. The company continues to deploy capital into development projects and has recently started to add medical and built-to-rent properties. This will diversify the product types and accelerate the conversion of land into cash-generative buildings. Higher interest rates will negatively impact lot sales. But the dual forces of Sunbelt net migration and millennials reaching home-buying age will counter the effects of higher rates. This remains one of the most interesting tug-of-wars in the coming years. The company has become more transparent with valuation and its "unit economic" in development projects. This has made it easier for the buy-side to value the company and track the growth of net asset value (NAV) over time. Under the new leadership of David O'Reilly, the company has cut general and administrative expenses by $68 million, sold non-core assets, and increased investor outreach. If Howard Hughes continues to buy back shares after this new round of $250 million authorization, we will be more bullish on the stock, since each dollar of buy-back immediately creates 70-100% of value and removes sellers.

We recently reduced our INDUS Realty Trust position to roughly 3% of our partners' capital. In the 2020 year-end letter, we discussed embracing the mixed value artist strategy and our efforts to expand our circle of competence. As a result, we currently own 1% positions in Amazon and Wayfair. Being a warehouse investor made us realize the immense route density moat of Amazon and Wayfair. As consumers, we have been conditioned like Pavlov's dog in expecting delivery within twenty-four hours. A dense logistic network leads to route density, one of our favorite structural moats. Our reluctant decision to sell INDUS was largely due to our observation of Amazon and Wayfair. In 2020 and 2021, Amazon added a total of 170 million square feet of real estate in North America, mostly in warehouses. We interpret this as a "pull forward" of Amazon's warehouse build-out due to Covid. We also heard anecdotes of Amazon warehouse employees experiencing limited hours. There is slack in the system and Amazon's CFO stated, "we currently have excess capacity in our fulfillment and transportation network." Amazon has also moved to own rather than lease its warehouses. This shift to ownership

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removes a large tenant that accounted for roughly one-fifth of all warehouse absorption in 2020 and 2021. In addition, Wayfair reported negative year-over-year sales during its fourth quarter. This led us to believe that events of the past two years were a perfect storm for warehouses and likely pulled forward future demand. In the meantime, it is hard to find a bearish warehouse investor with industrial capitalization rates trading at an all-time low. We sold our INDUS position down to 3%. We are reluctant to fully sell out of the position, given the quality of the CEO and chairman. But the setup is full of headwinds rather than tailwinds. We may add to INDUS Realty Trust in the event of market jitters or shares trading down after another capital raise.

Clipper bought another project on Dean Street, right next to 1010 Pacific Street. To our surprise, the company announced that the 1010 Pacific Street building may be completed by year-end 2022. This new multi-family building will be delivered into a red-hot rental market. Unlike some smaller, mom and pop developers, Clipper has executed and moved quickly on this project. New York City apartment rents continue to reach all-time highs. As leases expire in 2022, we believe rent increases will be in the double digits. We believe that Clipper will eventually re-rate because it will trade close to a 6% cap rate upon stabilization in 2023, too cheap for a multi-family REIT. In the coming months, when other buy-side analysts receive rent increase notices from their landlords, the Clipper thesis will really hit home. In theory, cap rates can rise higher than 6% in the future. In practice, developers cannot profitably build new supply if cap rates are 6% due to New York City's unique land constraints and difficulties in permitting and construction. Without new supply, rent growth should result in a stabilized cap rate higher than 6% over time.

During the quarter, we sold our 1% position in NexPoint Residential, a Sunbelt multi-family REIT. The rent growth is phenomenal, but we believe that higher gas, grocery, and rent prices may decelerate future rent growth. More important, NexPoint trades at a nosebleed valuation of 3.7% 2022 capitalization rate after appreciating 170%. Separately, we sold out of our Preferred apartments position after Blackstone bid $25 per share for the company, 140% above our cost basis. Our Sunbelt exposure was small and the proceeds from these two positions are roughly 2% of our partners' capital. By comparison, Clipper trades at an estimated 5% 2022 capitalization rate and Clipper has just started to increase rent from an unusually low level due to Covid, whereas the Sunbelt assets have been raising rents at double digits for over a year. History teaches us time after time that valuations do matter.

Non-Real Estate Companies

During the quarter, we sold a small amount of Berry Global and reinvested in Ardagh Metal Packaging. Our exposure in Ardagh Metal Packaging has been largely in five-year warrants. We added exposure in the common stock, since the company recently announced the initiation of a sizable dividend in 2022. We like the dividends because they allow us to create our own style of share buybacks. Although Berry Global is cheaper today both on EV/EBITDA and P/FCF basis, the 2024 EV/EBITDA multiple will be roughly the same. We prefer the long-term secular trends, growth rate, and sustainability of aluminum cans over plastic packaging. We believe the market will rightfully reward a higher terminal value to Ardagh Metal Packaging.

During the quarter, we increased our allocation to the two staffing companies. Cross Country Healthcare sold off upon the announcement of the CEO's transition to chairman. We believe this will allow Kevin Clark to focus on strategic decisions and delegate the day-to-day operations to the new CEO. Cross Country is an asset-light business trading at an estimated 10 times normalized P/FCF and roughly 7 times 2021 P/FCF. The key risk is that hospitals will stop using staffing companies to fill nursing needs and move the function in-house. This is typical drama within the nurse-staffing business every few years. Given the current nursing shortage, we believe this risk is low and Cross Country will continue to play a significant role in nurse staffing. We increased our allocation to HireQuest to over 4% of our partners' capital. Our channel checks keep coming back with happy franchisees. Feedback includes better support from the franchisor, excitement to expand branches, and operational support to empower franchisees to focus on staffing. We called so many franchisees that the corporate office asked us why we were bothering their franchisees. We take this reprimand as a badge of honor. We believe that HireQuest may become an asset-light compounder with an impressive CEO. But staffing is a cyclical business, and we are positioned to add to our position in case of a sell-off.

Univar Solutions reported excellent results for the full year of 2021. More important, the company guided to $860-$890 million of EBITDA and $430-$445 million of free cash flow in 2022, with a net debt/EBITDA ratio between 2.0-2.5 times. The year 2022 will be the first normal year without any integration-related costs. We estimate that our cost basis in Univar is roughly 5.7 times 2022 P/FCF, with some lots purchased as low as 3.4 times during the Covid lows. We wish every high-quality business in our portfolio could be bought as cheaply as Univar.

We allocated a two percent position in Houghton Mifflin after Bloomberg reported that the company is exploring strategic alternatives. Shares barely reacted on the news. Houghton Mifflin is an education company that has successfully transitioned from the print business to a SaaS business. We also expect large federal stimulus that will benefit curriculum spending in the next few years. We bought shares at $17 and believe that intrinsic value is in the high $20s. The private equity firm Veritas emerged as the buyer with a $21 per share tender price. We quickly sold our shares and bought some calls in case there is a higher bid. Given the rate increase backdrop in 2022, we will focus on more event-driven ideas such as Houghton Mifflin.

Audits and Tax Forms

You should have received your K-1 forms already. We have completed our audit and there were no disagreements with our new auditors, Spicer Jeffries. We find the audit quality is similar while the process is faster and less costly. We will be happy to provide a copy of the audited financials if you would like to see them. Please feel free to reach out to us if you have any questions.

Sincerely,

Chong Tong Chen

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The Fund commenced operations in April 2013 and has limited performance history. All performance of the Fund shown is from inception, net of applicable fees and expenses, presumes reinvestment of income and reflects the performance of the Class B Interests with a 1% Management Fee and a 15% Performance Allocation. The performance of Class A, which is also currently being offered and charges a 2% Management Fee and a 20% Performance Allocation, is not shown but is available upon request. Past performance is not indicative of future results. No representation is made that the Fund will or is likely to achieve its objectives, that the Investment Manager's investment process or risk management will be successful, or that any investor will make any profit or will not sustain losses.

Any descriptions involving investment process, investment examples, statistical analysis, investment strategies or risk management techniques are provided for illustration purposes only, will not apply in all situations, may not be fully indicative of any present or future investments, may be changed in the discretion of the Investment Manager and are not intended to reflect performance. Portfolio characteristics and limits reflect guidelines only and are implemented, and may change, in the discretion of the Investment Manager. Investments are selected by, and will vary in the discretion of, the Investment Manager and are subject to availability and market conditions, among other factors. Portfolio information shown may not be fully indicative of future portfolios.

Targeted returns are used for measurement or comparison purposes and only as a guideline for prospective investors to evaluate the Fund's investment strategy and performance. Target returns shown reflect the Investment Manager's subjective view based on a variety of factors including, among others, investment strategy and prior performance of products pursuing similar strategies and market conditions. Targeted returns should be evaluated over the time period indicated and not over shorter periods.

Any statements regarding market events, future events or other similar statements constitute only subjective views, are based upon expectations or beliefs, should not be relied on, are subject to change due to a variety of factors, including fluctuating market conditions, and involve inherent risks and uncertainties, both general and specific, many of which cannot be predicted or quantified and are the beyond the Fund's or the Investment Manager's control. Future evidence and actual results could differ materially from those set forth in, contemplated by, or underlying these statements. In light of these risks and uncertainties, there can be no assurance that these statements are now or will prove to be accurate or complete in any way. The Investment Manager undertakes no responsibility or obligation to revise or update such statements.

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This information is as of the date indicated, reflects present intention, is not complete, is subject to change, and does not contain material information regarding the Fund, including important risk disclosures. The Fund is a private investment fund that is NOT subject to the same regulatory requirements as mutual funds, including mutual fund requirements to provide certain periodic and standardized pricing and valuation information to investors. Investment in the Fund may involve a high

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degree of risk and its performance may be volatile. Such risks may include, without limitation, risk of adverse or unanticipated market developments and risk of illiquidity.

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