

First Quarter 2020

May 11, 2020

Dear Client:

We know that many of you are going through difficult times, and if you want to talk about your financial situation or anything else we are always available. We've all been working from home since March 12. Personally, I'm in Brooklyn, and my family is healthy. My wife is homeschooling our two children, and we are in a relatively good place. Some of our friends and coworkers have gotten the virus but have now recovered.

During the quarter, we suffered the largest drawdown since I began managing money in 2011, and recorded both our #1 and #2 biggest single day losses. Yet, at the end of the quarter, our aggregate account was a little above where it started the year¹ but still well below it's February high. Adapting the portfolio to the quickly changing circumstances, we traded more shares in a few weeks of Q1 than we did during most of last year. It's been emotionally draining.

As we learned about the new Coronavirus in January, we got scared and sold companies that we thought would be directly affected. We sold the Brazilian airline Azul, the American casino operator Penn National Gaming parent of Barstool sports, Carrols Restaurant Group, which owns a cluster of Burger King and Popeyes franchisees launching plant-based meat, Sunrun, an American residential solar installer and Virgin Galactic, a space tourism operator. It's hard to believe but between when we sold them and the end of the quarter, just a few weeks later, these stocks were down 73 - 36%.

In our margin accounts, we also initiated short positions in three airlines: the parent of British Airways, IAG (-63% in the quarter, although we covered some at a higher price); another Brazilian carrier, Gol Linhas Aéreas (-61% during the quarter); and the domestic airline American Airlines (-18% between where we shorted it and covered it too early, because we were worried about the magnitude of a potential government bailout). In addition to the airline shorts that we put on earlier in the quarter, later in March we shorted Hilton Hotels (relative to the others, flat from where we shorted it).

We haven't just been looking for shorts. During the quarter, we bought two stocks that we hope will benefit from the pandemic and added more to others: the video conferencing company Zoom (+43% between buying and end of the quarter), and the food delivery service Hello Fresh (+29% since we bought it and the end of the quarter).

We benefited from the actions we took early in the quarter, and would have benefited even more if we had acted still more decisively early. Our later actions have had mixed results at best. Later in the quarter we sold portions of our positions in Tesla, Enphase and Roku, those traded down significantly between when we sold them and the end of the quarter. However, as

¹ All accounts, except for non-commission and non-fee paying accounts, are included in the calculation of aggregate performance. Past performance is not indicative of future results. Aggregate performance and the worst performing account are net of all fees, commission and expenses and includes the positive impact of reinvestment of dividends. At the end of Q1 2020, Alex Derbes managed 87 margin accounts, 8 cash accounts, and 46 retirement accounts.

of this letter they are all now above where we sold and these decisions have limited how much we've benefited from the recovery that occurred after the end of Q1. Unfortunately, we had significant long term gains in these positions that have now been partially realized; there will be tax bills which make our skittishness even more costly.

While we were early to worry about the potential for a pandemic, we wrongly assumed that at a minimum, Western countries like the US would learn from the experiences of China, South Korea, Taiwan, and Singapore, and that Western countries would rapidly ramp testing and public health, buying time to find effective treatments and eventually a vaccine. That didn't happen, and in March, as the virus continued to grow exponentially, the US was little more prepared for the viral outbreak than we had been in January before China belatedly sounded the alarm. Paraphrasing what we heard one scientist say: Asia got a B on a pop quiz, while the West is (at best) getting a C on its take-home test.

Writing this letter in the middle of April, the Western economies, including the US, have been closed for weeks, and standing between the present and a global depression is monetary and fiscal stimulus of a previously unfathomably scale. As the crisis develops, our task as investors becomes more complicated. Initially, all we had to get right was to catch the big idea that the virus would grow into a pandemic and become a global crisis. Now the trick is more intricate: we have to understand how the crisis will affect individual companies, each with their own specific problems and opportunities. Even more difficult, in addition to this, we have to predict the political response: where will the trillions go? These tasks are different from how we usually find ideas looking for the beneficiaries of emerging trends at the intersection of technology and society, but we will do our best.

Looking forward, the range of outcomes is broad. On one hand, the amazing tools of modern medical science have never been deployed en masse at a single target before and it's exciting to see what human ingenuity combined with modern science is capable of. Hopefully this will result in therapies that significantly reduce the suffering from the disease and eventually produce a vaccine. On the other hand, nothing is guaranteed, science is hard and takes time. If it takes longer for researchers to find a solution, and we are left with the tools of 20th century public health, the result may be years of social distancing, which will produce a more dramatic and long lasting change to economic activity. With the stimulus, the outcomes are also unknown. In the end, it is difficult to give small amounts of money to a lot of people, and easier to give larger amounts to fewer people, and, as occurred with the global financial crisis, this appears to be what is happening. While this, tragically, will not provide as much help to those who need it most, it does benefit the stock market, because at the most rudimentary level, all that money has to find a place to go, and the people getting outsized stimulus checks are the people who own stocks.

While it is easy to focus on the insecurity and tragedy in the current crisis, our job remains to look for opportunities. The world has had a number of global pandemics before this — 1918, 1957, or even the much more minor H1N1 flu epidemic in 2009 — but this is the first one to occur post digitization of the economy. The trend toward digitization is central to our investment approach and it is one that the crisis will probably further accelerate. While the number of people who aren't working is depressing, it's also encouraging how adaptable digitization has made many businesses, enabling a significant portion of the economy to move

to remote work in days or weeks and some stores and restaurants to quickly pivot to ordering online with curbside pickup or delivery.

The Defense Advanced Research Projects Agency funded the creation of the internet in the late 1950s to solve a military problem. They asked computer science researchers to design a distributed network that would allow the country's leaders to continue to communicate in the event of a nuclear attack. The design that emerged was a set of distributed protocols that enabled a federation of individual networks to work together, thus forming the Internet. Each node could operate independently and, perhaps even more importantly, there wasn't a central authority whose permission you needed before writing a new application that used the internet.

As society around the world has adapted to the virus, huge portions of how we work, learn and play have moved online in a matter of days, Cloudflare (+38% during the quarter) which sells smart internet connections and provides security and acceleration services for over 10% of all websites, saw traffic nearly double in a matter of days. It's really cool that modern computer systems can react as quickly as they have to increased demand, but what is more exciting is how the freedom to innovate that the internet has enabled has allowed companies to build applications like, from Zoom and Google (-13% during the quarter) Classroom/Hangouts for video conferences, Peloton (-7% during the quarter) for exercise classes, HelloFresh, Amazon (+6%) and Uber (-6%) for to deliver food and other items and 2U (-12%) to enable online learning that's even higher quality than what was occurring offline. None of these applications would have been possible without the internet which, with minor exceptions, enabled these applications to scale flawlessly to incredible increases in demand.

While many pundits are explaining the difference between the Western and Asian responses to this pandemic based on differences in western culture or politics, another difference worth considering is that Asia had a practice run with SARS-1. The original SARS coronavirus in 2002/2003 did not spread nearly as well, never really making it out of Asia, but it was much more deadly, killing about twenty times as many people who contacted it as SARS-2. This scared many Asian societies, shutting down large parts of Asian economies. When China shut down, it practically bankrupted the first iteration of Jack Ma's company Alibaba which at the time connected Asian factories to western businesses, but rather than going quietly out of business, Ma pivoted Alibaba to deliver goods to Chinese consumers who were scared to go to the store and in the process built one of the world's most dynamic companies. We're convinced that while this public health crisis will probably be harder and longer than some thought, global society will get through this, and in this crisis there will be at least one investment opportunity created the size of Alibaba. We might not find it, but we sure are going to try.

Thanks for your support,

A handwritten signature in dark ink, appearing to read 'Alex' followed by a stylized flourish.

Alex Derbes

We have always reported a single performance statistic, summarizing a range of results. Many factors affect where your account landed in that range. Accounts that missed one or more top performing stocks, or had a larger position in a poorly performing stock, can land at the bottom of the range. The performance of new accounts, smaller accounts and accounts that had significant deposits or withdrawals during the period is particularly variable. Even among the remaining accounts, there is a wide range from the aggregate performance we report.

We derive aggregate performance by totaling the equities in all of the accounts under management and calculating performance (net of commissions or wrap fees) as if we managed one account. This methodology weights large accounts more heavily and is not representative of any particular account. Therefore, we provide the worst performing account² in the relevant period to give an indication of the potential range in investment performance. Please look at your account statement for changes in value from one period to the next³

	Q1 2020 aggregate	Q1 2020 worst
Margin	3.12%	-8.81%
Cash	-1.22%	-7.48%
Retirement	-3.25%	-8.37%
S&P 500	-19.6%	
Nasdaq	-13.91%	

The companies discussed in this letter were selected because they are representative of our thinking. Since GGHC manages individual accounts, some of the companies discussed in the letter are not necessarily held in every account.

Please remember our goal is to build your wealth by aggressively investing your capital over the long term. This approach carries considerable risk and is not for everyone. It requires tremendous patience and commitment in the face of large swings, and has the possibility of failure. At the same time, success can only be measured on an absolute basis. We do not invest with any particular benchmark in mind. While we provide comparative performance of various widely-reported indices to give you a sense of the overall market environment, you should not expect our results to track any one of them. There are material differences between GGHC accounts and the indices shown, as volatility, investment objectives and types of securities differ.

The S&P 500 is a market-capitalization weighted index containing 500 widely held companies. The NASDAQ Composite is a market-weighted index that measures all NASDAQ domestic and non-U.S. stocks listed on the NASDAQ Stock Market. All index results shown are calculated on a total return basis with dividends reinvested. Index results do not reflect the deduction of any fees or expenses.

You can access the GGHC Privacy Policy and our Firm Brochure, Part 2A of Form ADV (required by the SEC that describes our firm at length) on our website at www.gghc.com. This letter is intended for you, our client. If you would like to share it, please contact us and we will gladly provide a copy to the intended person.

² The worst performing account excludes accounts opened within the period, accounts with an equity of \$1,000 or less, accounts that transferred between GGHC money managers during the period, and uninvested accounts.

³ Non-retirement accounts pay a commission rate of 1.5% per equity trade. Retirement accounts pay an annualized wrap fee of 2.5% to 3% based on account size. See GGHC ADV for details.