CLIO ASSET
MANAGEMENT LLC

November 17, 2023

Dear clients,

Through yesterday, November 16, 2023, the Clio Core Portfolio has returned +5.0% in Q4 and +14.1% for 2023. I will provide full Q4 and 2023 results in early January.

This letter is slightly longer than most prior ones, as it is intended to provide some reflections on Clio's first five years. Clio hit the 5-year mark on September 30, 2023, and accordingly all figures cited from here down are as of that date.

Net Returns (incl. Dividends) through 9/30/2023	Clio Core Portfolio	S&P 500 Index ETF (SPY)	Relative
Q3 2023	(4.9%)	(3.2%)	(1.7%)
Year-to-Date 2023	8.7%	13.0%	(4.3%)
Last 12 Months	23.2%	21.6%	1.6%
Since Inception (Cumulative)	86.6%	60.0%	26.6%
Since Inception (Annualized)	13.3%	9.9%	3.4%

While five years has gone by quickly in some respects, quite a lot has happened since October 2018, both for the firm and across markets more broadly.

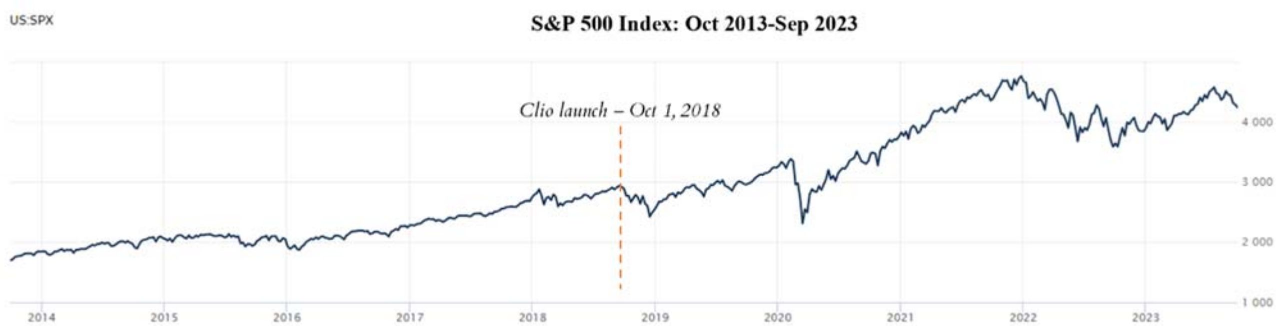
Organizationally, key developments have included:

- Growing the client base from 21 clients / $21 million in assets to 55 clients / $119M in assets;
- Registering the firm with the SEC in summer 2021 (as required for firms managing over $100M) and undergoing an extensive normal-course regulatory examination ("SEC audit");
- Transitioning Clio's custodial/brokerage platform in September 2023, following Schwab's acquisition of TD Ameritrade;

On the markets front, the investment landscape has been influenced by multiple disruptive global events, including:

- A US trade war with China beginning in 2018;
- A global pandemic and associated economic lockdowns in 2020;
- Significant monetary and fiscal easing and a period of zero interest rates (ZIRP) in response to Covid;
- Unpredictable changes to supply chains and consumer behavior;
- A contentious US presidential election in 2020, along with two power-shifting midterms in 2018 and 2022;
- The worst inflation in more than 40 years, along with highly volatile commodity prices and interest rates;
- A major war in Europe following Russia's invasion of Ukraine;
- Three separate stock market declines of 20% or more (Q4 2018; Q1 2020; Q1-Q3 2022).

Indeed, the chart below shows just how *calm* the markets were in the five years leading up to Clio's launch, relative to the volatility which has ensued since.



Throughout it all, I believe Clio's approach to managing your capital has remained consistent. Clio is in the client service business. While there are many possible ways to describe what actual "service" an investment manager provides, to me it comprises four key attributes: trust, transparency, sound judgment, and – ultimately – investment performance.

In this letter, I want to re-visit Clio's founding principles along with some reflections on the past five years. A good portion of the letter will also be devoted to reviewing Clio's 5-year performance track record (on both an absolute and relative basis) as a means of discussing why I remain confident in the strategy, structure, and longer-term outlook.

When I reflect on Clio's investment performance, I am pleased with the fact that the Core Portfolio has produced better five-year returns than every index benchmark that I consider relevant. Additionally, the Portfolio has produced higher returns over those 5 years than 99% of active US mutual funds.

There are a multitude of factors which could be assessed to help explain why this might be the case. While I think there are some unique elements to Clio's investment framework and valuation methodology, I don't assign much credit to my analytical capabilities or domain knowledge for the outperformance. These are table stakes, and there are plenty of talented investors out there with deep technical expertise.

In my mind, there are only two factors which really matter. The first is Clio's insistence on radical simplicity in all elements of its business – a goal which has required ongoing vigilance and at times some difficult tradeoffs. And the second is Clio's focus on fostering alignment between its clients, its business, and its investments. Each of you has played a major role – your long-term horizon and steadfast behavior during the past five years have been key to Clio's success and the firm's most important competitive advantage.

I. MISSION, VISION AND GUIDING PRINCIPLES

In early 2018, I sat down with a blank piece of paper to design an investment firm based on how I thought I could use my professional experience and personal strengths to best compound capital for as long into the future as possible. From this exercise emerged a set of statements and principles which form the foundation of Clio Asset Management.

I think it's worthwhile reiterating Clio's mission, vision, and guiding principles once again. I hope these words do not come across as fluffy corporate/MBA-speak, because to me they are very real and help guide every decision I make about the firm, both from an organizational and investment perspective.

> *Clio's Mission*: to generate exceptional investment returns over multiple decades.
>
> *Clio's Vision*: to attract and retain the best investor base in our industry by delivering on our Mission and adhering to the principles of Simplicity & Alignment.
>
> *Clio's Investment Strategy*: to buy ownership stakes in roughly 10 exceptional public companies at attractive prices and hold them for many years.
>
> *Guiding Principles and Beliefs*:
>
> Clio Asset Management:
>
> 1. Prioritizes **Simplicity & Alignment** across all organizational and investment decisions;
> 2. Believes that the most important competitive advantage of an investment firm is the **Quality, Alignment, and Duration** of its capital base – in other words, its **clients**;
> 3. Optimizes for **Duration** of client relationships over size;
> 4. Strives to be **Patient** – both in our search for new investment opportunities and new client partners;
> 5. Endeavors to strip away **behavioral constraints, organizational barriers, and sources of misalignment** which reduce the odds of superior long-term investment performance;
> 6. Believes in the importance of **Humility** – investing is humbling; markets are humbling; and serving as a fiduciary and steward of our clients' assets is a tremendous responsibility.

Investing is always hard. It's often said that the best public equity investors in the world are only right slightly more than 50% of the time over the course of a career – this is not a field where perfectionists tend to thrive.

But there are two things in particular which can make investing even harder – and those are complexity and misalignment (often due to principal-agent issues, but also in the form of things like leverage and misaligned investment time horizons).

My observation over the past 20 years in this business is that most investment firms, like many organizations, tend to become more complex over time, and consequently the sources of misalignment become more pronounced. In both the physical and social sciences, there is a related concept known as entropy – which is the idea that any system, if left unchecked, will gradually tend to become more complex and chaotic. From the beginning, Clio's goal has been to design its client base, organizational structure, and investment strategy to prevent that entropy.

Somewhat counterintuitively, fostering simplicity and alignment can require a lot of work and difficult decisions at times. But my goal has never been for Clio to be a *large* firm (in terms of clients, staff, or assets under management), but rather to be a firm with the longest *duration* – providing a runway for the magic of compounding to run its course.

So, with that, let's turn to a review of performance over the past five years.

II. INVESTMENT PERFORMANCE

Review of 5-Year Absolute Performance

As you may recall from the Core Portfolio's Investment Policy statement, Clio aims to generate absolute returns, and does not primarily measure itself against any specific benchmark or index. At launch, the policy noted that "the Core Portfolio has a specific baseline objective of exceeding an annual compounded rate of return of 6.0%" over a ten-year period. In January 2021, I lowered this baseline objective from 6.0% to 5.0% for the coming decade, given the increase in equity valuations.

Since inception, Clio's 13.3% annualized return has handily exceeded the 6.0% baseline objective. Overall markets have certainly been supportive of this performance, and Clio's individual stock-picking and portfolio management have added additional value – along with a healthy dose of luck (as noted in Clio's January 2021 letter).

Nevertheless, I am acutely aware that not all of Clio's clients have exceeded the 5-6% baseline objective in their accounts – albeit through much shorter time periods than a decade. In the table below, I provide annualized returns through Sep. 30, 2023 going back 1-,2-,3-,4-, and 5- years.

From a client perspective, my assumption is that if you invested 5 years ago, 4 years ago, or 1 year ago, then you are probably pleased with Clio's performance on your behalf. If you invested 2 or 3 years ago – then you are most likely disappointed.

Oct 1-Sep 30	**5-Year Ann. Return (2018-2023)**	**4-Year Ann. Return (2019-2023)**	**3-Year Ann. Return (2020-2023)**	**2-Year Ann. Return (2021-2023)**	**1-Year Ann. Return (2022-2023)**
Clio Core	13.3%	13.1%	1.8%	(8.4%)	23.2%

Indeed, one of my personal realizations from the past five years has been this: the most mentally taxing part of the job has not been the daily market moves, the three 20% market drawdowns, or the occasional earnings-related selloff of one of Clio's investments. Rather, it has been the recognition that individual clients may have different experiences with their Clio investment as a result of the dates on which they invest.

Unfortunately, there is really no way around this given Clio's flexible separate account structure, where clients are free to invest or withdraw at any time. (This is similar to how most liquid open-ended funds work, but differs from an illiquid closed-end private-equity fund where most of the capital is committed up front and then deployed over a specified time period).

As a long-term investor, I am solely focused on growing the value of the Portfolio over many years to the benefit of all clients. At the same time, as a business owner, I want to provide a positive experience to each and every investor. I try to enable this in a variety of ways, but at the end of the day investment performance will be the most critical factor.

In my first client letter in October 2018, I noted the costs involved in being different:

> "Generating above-average returns requires an investor to do something different from the overall market. Many investment funds are 'closet indexers' whose gross returns more or less track the market over time, while their net returns get eaten away by fees and transaction costs. But there is a cost to being different – one that not everyone is prepared to pay. Research from Davis Advisors showed that, over a 10-year period, 95% of top-quartile large-cap mutual funds spent at least one 3-year period in the bottom half of their peer group. Nearly 75% of these funds spent at least one 3-year period in the bottom quartile of their peer group. In the investment world, long-term success requires conviction and patience to withstand short-term challenges."

In my second client letter in January 2019, I wrote the following about concentration and volatility:

> "Because the Clio Portfolio is concentrated in just a handful of investments, individual company performance should cause the overall portfolio return to diverge more significantly from the index. In some quarters, this will likely be to the downside, and in others to the upside. When I talk about volatility, I am referring to not only the volatility of the overall market, but also to the volatility of Clio's returns as compared to the indices. Clio is not managed to reduce either effect, and I would not be surprised to see future quarters in which the portfolio return is +/- 3% vs. the index."

This assumption proved both correct and understated. I have been a little surprised at the degree to which the Portfolio's major swings have been compressed into fairly short time periods. As seen in the table below, in *most quarters* the Portfolio has performed in that range of plus-or-minus 0-3% vs. the S&P 500. However, the major gains and losses on a relative basis have come in three six-month periods – Q1-Q2 2019, Q1-Q2 2020, and Q4 2021-Q1 2022.

	Clio Core	SPY	Difference
Q4 2018	(14.6%)	(13.5%)	(1.1%)
Q1 2019	21.9%	13.5%	+8.4%
Q2 2019	10.5%	4.2%	+6.3%
Q3 2019	(0.9%)	1.8%	(2.7%)
Q4 2019	11.4%	9.0%	+2.4%
Q1 2020	(12.7%)	(19.4%)	+6.7%
Q2 2020	44.0%	20.2%	+23.8%
Q3 2020	10.8%	9.0%	+1.8%
Q4 2020	13.5%	12.1%	+1.4%
Q1 2021	3.1%	6.4%	(3.3%)
Q2 2021	5.9%	8.4%	(2.5%)

Q3 2021	1.5%	0.6%	+0.9%
Q4 2021	1.2%	11.1%	(9.9%)
Q1 2022	(17.5%)	(4.6%)	(12.9%)
Q2 2022	(14.7%)	(16.1%)	+1.4%
Q3 2022	(4.4%)	(4.9%)	+0.5%
Q4 2022	13.4%	7.6%	+5.8%
Q1 2023	5.6%	7.5%	(1.9%)
Q2 2023	8.2%	8.7%	(0.5%)
Q3 2023	(4.9%)	(3.2%)	(1.7%)

At the end of the day, this lumpiness is by design. There is a famous line from Warren Buffett's 1996 letter to Berkshire Hathaway shareholders, where he writes: "Charlie [Munger] and I would much rather earn a lumpy 15% over time than a smooth 12%." For most people, this statement makes total sense on its face. However, that lumpiness can be difficult to stomach in practice. I have tried to design Clio to be able to withstand volatility and hold through periods of market declines and underperformance in order to generate superior longer-term returns. So, far I believe the strategy is mostly working as intended.

__Review of 5-Year Relative Performance__

While Clio's ultimate mission is to generate exceptional investment returns on an absolute basis, I realize that the Portfolio does not exist in a vacuum, and that clients have a vast array of options to invest their capital. As such, I have provided comparisons to other asset classes and benchmarks over time, the most important and relevant in my mind being the S&P 500 Index ETF (SPY).

In this section, I want to take some time to compare the Core Portfolio's 5-year performance to some of these various benchmarks or asset classes. To start, let's go back in time to late September 2018, just before the launch of the Core Portfolio and discuss some of the options you had to invest your capital over the next five years.

In the first instance, let's say you wanted to guarantee the return of your principal and earn some income along the way. In this case, the primary option available to you was a 5-year Treasury note, which was issued at auction on October 1, 2018 with a yield of 3.0%. Indeed, 5-year and 10-year Treasuries are often referred to in the investment community as the "risk-free rate".

But as one of my UVA economics professors taught me, long-term treasuries are not "risk-free" – and should be more appropriately labelled "default-free" securities. Yes, you are essentially guaranteed by Uncle Sam to receive your 3.0% coupon payments and your principal back after 5 years, but the big *risk* is that your returns do not keep up with the erosion in your purchasing power – which is exactly what has happened over the past 5 years. Inflation over this time has averaged 3.6% annually, meaning your 5-year Treasury investment lost you money in real terms – and the comparison is even worse when accounting for the fact that the bond coupons are taxed at unfavorable ordinary income rates.

So, let's say you were not attracted to the prospective return on the 5-year Treasury. Where else could you have invested your money? Well, equities might have been a good place to look given their long history of providing high-single digit annualized returns.

But now you have a choice: do you invest in a passive benchmark via an index fund or ETF? Or do you entrust your money to an actively managed strategy – like the Clio Core Portfolio, or a mutual fund, or a hedge fund?

Passive Index Strategies

I've always said that passive index strategies are a good choice for a portion of nearly every investor's capital. They are liquid, inexpensive, tax efficient, and generally easy to understand. But as I note in Clio's overview presentation, passive index strategies come with their own set of challenges: "(1) By definition, index investing offers no possibility of outperforming the benchmark; and (2) Passive investing forces an investor to (a) make an *active decision* about which index to own and when, and (b) potentially own hundreds of mediocre and bad companies, diluting exposure to a smaller subset of the economy's best businesses."

At different points in time, the most relevant index against which to compare Clio has been each of the equity ETFs cited below as the composition of the Portfolio has evolved (with the possible exception of the Russell 2000). However, I still think the S&P 500 (SPY) remains the most appropriate benchmark given its ubiquity and simplicity and overlap with Clio's typical investment universe. (A bit more on this later in the Portfolio Overview section).

As you can see from the table, the decision of *which index to own* in October 2018 would have been critical to your subsequent performance over the next 5 years. The S&P 500 (SPY), which is weighted by market capitalization and thus disproportionately exposed to the market's largest companies, returned 9.9% annualized – a solid return well above both inflation and the 5-year Treasury. If you had just wanted to own the S&P 500 constituents in equal weights, you could have picked the RSP, which would have given you more diversification but lowered your return by 2.1pp (to 7.8% annually), as the market's biggest companies have driven the biggest gains of late.

Investment / Benchmark[1]	**5-Year Ann. Return**	**5-Year Total Return**	**Clio Core Relative**	**Brief Benchmark Description**
Clio Core Portfolio	13.3%	86.6%	n/a	Clio Core Portfolio
ONEQ (Nasdaq)	11.7%	73.7%	+12.9%	Nasdaq Composite Index ETF
SPY	9.9%	60.0%	+26.6%	S&P 500 Index ETF
RSP	7.8%	45.4%	+41.2%	Equal-Weight S&P 500 Index ETF
DIA	7.0%	40.1%	+46.5%	Dow Jones Industrial Index ETF
ACWI	6.5%	36.8%	+49.8%	MSCI ACWI All-World Index ETF
Avg. US Equity Mutual Fund	6.4%	36.4%	+50.2%	Avg. of 5,552 funds in Morningstar database

[1] *Sources: Yahoo Finance (ONEQ, SPY, RSP, DIA, ACWI, IWM); Hedge Fund Research (HFRX Equity Hedge; https://www.hfr.com/indices/hfrx-equity-hedge-index); Morningstar Investor (US equity mutual funds; https://investor.morningstar.com/); US Bureau of Labor Statistics (Inflation; https://data.bls.gov/); US Treasury (5-Year Note; https://www.treasurydirect.gov/instit/annceresult/press/preanre/2018/R_20180925_3.pdf)*

Inflation (CPI-U)	3.6%	19.3%	+67.3%	Avg. of monthly inflation, Sep. '18-Aug. '23
HFRX Equity Hedge	3.5%	18.6%	+68.0%	HFR Long/Short Equity Hedge Fund Index
5-Year Treasury Note	3.0%	15.0%	+71.6%	5-Year US Treasury issued Oct 1, 2018
IWM	2.3%	12.0%	+74.6%	Russell 2000 Index ETF

You could have done even better had you invested in the Nasdaq Composite index, which skews towards more technology and growth companies and returned 11.7% annually. Conversely, had you chosen the Dow Jones (which comprises 30 more mature blue-chips) or the ACWI (a global index made up of 3,000 stocks in 48 countries), you would have earned 6.5%-7.0% annually. At the bottom of the spectrum, the Russell 2000 index of smaller capitalization companies returned just 2.3% annually – below the 5-year treasury and the rate of inflation.

While passive index investing is simple in theory, choosing an index is actually pretty hard!

Actively Managed Strategies

So now let's say you've allocated a portion of your capital to one of the passive index strategies mentioned above. But you would also like to invest with an active manager – perhaps to gain exposure to a specific strategy or sector, or because you highly trust an individual firm or person to manage your capital.

For the sake of argument, let's look at long/short equity hedge funds – the strategy where I spent much of my career. While there were certainly individual outliers, the asset class (as measured by the HFR Equity Hedge Index) returned just 3.5% annually over the last five years. I could write several pages on why I believe hedge funds have struggled over the last decade – but suffice it to say, complexity and misalignment are two of the key culprits in my mind.

Turning to mutual funds – the category of active management that people are typically most familiar with. Mutual funds tend to have lower fees than hedge funds, which is good. However, in my view they have some characteristics which can put unnecessary constraints on their ability to outperform.

Typically, mutual funds limit themselves to a certain 'style box' – e.g. 'large cap value' or 'small cap growth'. They then choose a benchmark to compare themselves against that best reflects that style. In general, to keep assets coming in the door and support their overhead, they are under constant pressure to not deviate too far from that benchmark in any given period, which tends to lead them to excessive diversification. Indeed, Fidelity notes that "most mutual funds hold well over 100 securities".[2] In other words, they end up looking a lot like their benchmark, while charging much higher fees than an index fund.

This aversion to concentration and volatility are, in my view, the primary reasons why mutual funds, as an asset class, limit their opportunities to outperform. Using Morningstar's database, I pulled the returns for the 5,552 active US equity mutual funds operating from Oct. 1, 2018-Sep. 30, 2023. The average annual fee rate was 1.04%, and the average 5-year return was 6.4% - below the Nasdaq, S&P, and Dow, although above the Russell and the rate of inflation.

[2] https://www.fidelity.com/learning-center/investment-products/mutual-funds/what-are-mutual-funds

Of course, as with hedge funds, there are outliers. However, only 11% of mutual funds exceeded the S&P 500 (SPY) return of 9.9%. Clio's performance came in better than 99.2% of all 5,500+ funds.

Lastly, I would note that, in my opinion, Clio's investment returns have been extremely tax efficient – with long-term capital gains and qualified dividends representing more than 100% of the total Portfolio appreciation from 2018-2022. While I don't have data to support this claim, I would venture to guess that the average hedge fund and mutual fund generates a significantly higher percentage of tax-inefficient short-term capital gains. I will refresh this analysis on Clio through 2023 next spring.

In summary, while I am pleased with Clio's performance during the first five years on both an absolute and relative basis, none of this section should be taken as any kind of declaration of victory. Firstly, five years is a pretty short period of time – let's see where we are after twenty years. The markets have a way of humbling every investor, no matter the strategy or philosophy. Secondly, performance over the last two years has been disappointing, and I've addressed some reasons for this in prior letters and what I've learned from my mistakes.

My personal aspiration is to continue to improve every day, learn from my mistakes, make changes when necessary, and deliver on your performance expectations while adhering to Clio's core principles.

My main point in reviewing Clio's 5-year record is to say: I continue to believe in Clio's approach of doing deep fundamental research and concentrating the Portfolio in my best ideas; of trading as little as possible; and of keeping the strategy simple by avoiding things like leverage, short selling, and derivatives. The philosophy makes sense to me, and I believe it can be enduring through market regimes and cycles.

In the next section, I want to talk a little bit about how the Portfolio has evolved over time and how I think about Clio's opportunity set.

III. PORTFOLIO UPDATE

At times over the past few years, I've heard some potential clients say they were attracted to Clio because of the Portfolio's exposure to high growth / technology companies. While this statement was fairly accurate in the 2019-2021 time frame, I want to clear up any misperceptions about Clio's strategy and investment universe.

Clio has historically made about 2-3 new investments per year. As such, the overall 'look and feel' of the Portfolio changes quite slowly – but it does change. Unlike many mutual funds which are constrained by their mandates (large cap vs. small cap; 'growth' vs. value', concentration caps, etc.), Clio has no such limitations. My only goal is to own exceptional companies at attractive prices.

Great companies can be found in every industry and geography, and across all different market capitalizations. Some industries tend to contain more quality companies than others, although this too changes over time as capitalism does its magic and excess returns get competed away and supply/demand dynamics evolve.

After Clio's first quarter of investing (Q4 2018), the Portfolio had significant exposure to payment networks / processors (c. 35% of assets) and software (14% of assets). By Q3 2020, these percentages had grown to 37% in payments and 37% in software – in other words, nearly 75% of the Portfolio was invested in digitally-enabled, growth technology companies, fueled by their strong outperformance in the early days of the pandemic.

While each of these investments was profitable, I became concerned in late 2020 that many of these companies had reached unsustainable valuations and fully exited several of them. Thus began a slow three-year evolution to the Portfolio composition which exists now.

Today, the Portfolio has much lower exposure to growth technology/payments (at roughly 10%), and much more exposure to 'real-world' companies that make or distribute physical goods and services. As one client noted to me, the Portfolio feels more 'blue-collar' these days, which I think is a fair assessment. Current allocations include 20% to paint and plumbing distribution (Sherwin-Williams and Ferguson); 19% to auto-parts retail (O'Reilly Auto and AutoZone); as well as 8% in Berkshire-Hathaway, which has subsidiaries across the consumer, manufacturing, transportation and energy sectors. Additional exposures include IT services & distribution (CDW), life sciences equipment (Danaher), information services (S&P Global), and hotels/leisure (Hilton).

Clio's goal was never to manage a 'technology strategy' or a 'high-growth strategy' – simply a high-quality strategy. While revenue growth is an important component of quality, it doesn't particularly matter to me whether a company is growing sales at 5%, 15%, or 25%. What matters more is whether a company meets Clio's consistent criteria for business quality and valuation:

- High and/or improving returns on capital, along with attractive reinvestment opportunities
- Durable competitive advantages, structural growth drivers, and a strong balance sheet
- A superior management team with a record of operational excellence and intelligent capital allocation
- A positive company culture and a customer-centric approach
- A share price which does not reflect the value of the current assets plus the likely future value creation from reinvestment

All that said, I believe the current Portfolio is the highest quality and most diversified by end market that it has been since inception. Clio owns a collection of eleven highly *durable* companies that in my opinion have a good shot at surviving and thriving against all the chaos that the world and the competitive forces of capitalism will throw at them over the coming years.

In the future, I would not expect the number of investments in the Portfolio to deviate much outside of the 8-12 range, where it has stood historically. I could maybe see the odd occasion where the number of stocks creeps up to 13-14, but I think it would be quite unlikely to see that number fall below 7.

Looking forward from a high-level perspective, there are many unresolved questions that investors will grapple with over the coming years (as there always are). Some important ones that I think about today include:

- Will today's fraught geopolitical environment stabilize or deteriorate?
- What will be the longer-term impact on the economy of the Fed's rapid tightening cycle?
- How will consumer demand normalize across sectors in a post-Covid world?
- Will Artificial Intelligence lead to broad productivity gains across the economy, and how will this impact the workforce?
- How will birth rates and immigration trends impact consumer and labor demand?
- Will the US get its fiscal deficit under control, or will its creditworthiness become further at risk?

I have opinions on many of these questions, which are outside the scope of this letter, but I am always open to discussing them with you at any time.

In the end, history would suggest that perhaps none of these questions will matter that much, and it is rather the risks and opportunities that remain invisible today which will have the greatest impact. I continue to believe that clients should mentally and emotionally prepare themselves for at least one 30-50% stock market decline over the coming 5-10 years. Our conviction will be severely tested. One tool to combat these feelings is to look back at letters such as these and remember that we *knew* there was a decent probability of a major shock to the system – we just didn't know *when.* And still we decided to remain invested. Owning pieces of high-quality businesses for the long-term remains the best way I know of to compound wealth on a risk-adjusted basis.

Through it all, I believe the strongest companies run by the most capable management teams will prove their ability to generate above-average returns, while weaker competitors who have been propped up by easy money and low interest rates will have a more challenging time.

IV. CLIENT BASE AND ORGANIZATIONAL UPDATE

At September 30, Assets Under Management totaled $119 million from 55 clients.

For the most part, I have been very pleased with how the business has evolved and grown over the past five years. Designing an investment firm – like any business – comes with distinct choices and tradeoffs that may or may not pan out as expected over time. Knowing what I know today, there is very little that I would do differently were I given a chance to start over and re-design Clio from scratch.

More specifically, the choices below have contributed to the firm's success over time:

- I believe Clio's separate account structure is more operationally simple, tax efficient, and client-friendly than a more traditional pooled fund.
- I think the fee model (a flat management fee which declines over time) is competitive and fair.
- I'm glad the firm is based in Charlottesville, outside of the noise and groupthink of major financial centers.
- I remain comfortable being Clio's sole employee, and don't believe adding staff would be additive to investment performance or my own time-management; this could change, but I doubt anytime soon.
- I have been most pleased with my decision to build a predominantly high-net worth client base, rather than one comprised of institutional investors like endowments or pension funds. There are several reasons for this, but most importantly I think it fosters greater alignment between Clio and its clients. I still believe there might be an endowment or two out there that might truly understand what Clio is trying to accomplish, but I do not make efforts to market to them.

My original goal was to spend 85% of my time on investment research and portfolio management, and 15% of my time on everything else (operations, compliance, client service, marketing). I think I have generally exceeded that goal over the past five years, facilitated by Clio's simple model. The Schwab transition has taken up more hours than I would have liked over the past two months, but I am hopeful that the initial growing pains will subside soon. I am comfortable with the firm's current size and would like to see it grow slowly and organically over the coming years. I ceased any proactive marketing efforts about two years ago.

I continue to love my job. I get to be a lifelong student and learn something new every day about endless subjects – not just individual companies, industries and business models, but about the world more broadly; about finance, economics, accounting, and law; about politics, geography and demography; about biology and the physical sciences; about psychology, human behavior and incentives; and of, course, about history (from which the name Clio derives).

I'll close with a quote from Sam Walton, founder of Wal-Mart, from his 1992 biography, *Made in America:* "There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else." I take this philosophy to heart when it comes to serving you, as well as in my search for high-quality, customer-centric companies. I am deeply appreciative of your support and know that you have many other options to invest your hard-earned capital. I hope I continue to earn your trust over time.

My best wishes for a joyous Thanksgiving and holiday season.

Sincerely,

James Aldigé

Clio Asset Management LLC

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Performance comparisons to benchmarks such as the SPDR S&P 500 ETF Trust ("SPY Index ETF", "SPY", or "S&P 500 Index ETF") are provided for information purposes only. The SPY is an exchange-traded fund which seeks to provide the investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500 Index. The S&P 500 Index is a diversified large cap U.S. index that holds companies across all 11 GICS sectors, and as such may differ materially from the securities managed by Clio in client accounts. Benchmarks such as the S&P 500 Index and the SPY may be of limited use in understanding the risks and uncertainties inherent in the investment strategies managed by Clio.

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