



Sova Fund Annual Letter 2014:

The results of an investment fund's performance tend to be inversely related to the length of its year end letter. Inclusion of graphs and charts are predictive of additional underperformance. Rest assured, I will try to keep this letter brief and I am technologically incapable of inserting charts or graphs into this letter.

Results exceeded expectations, however, opportunities were in short supply. Over the long-term, opportunities need to be more plentiful for returns to continue. I take mild comfort in the following slightly edited thought from Bertrand Russell: "It has been said that the *market* is a rational place. All my life I have been searching for evidence which could support this."

In Buffett's first annual letter to his partners (1956) he noted, "My view of the general market level is that it is priced above intrinsic value. This view relates to blue-chip securities. This view, if accurate, carries with it the possibility of a substantial decline in all stock prices, both undervalued and otherwise." If you put a gun to my head and asked for a general market opinion, this would be my gut feeling about today's prices generally. How's that for precision. I believe the market will continue to exhibit pockets of irrationality. This irrationality will always provide the occasional chance for investments in companies I know well, but are mispriced for one reason or another. However, the baby with the bathwater sell-offs that occur periodically offer the best investment opportunities. I will continue to look for both, but prefer the latter. In the brief market swoons of October and December, we were able to buy small positions in very large companies (\$90B+) that are currently up double digits in a brief time. We bought a little, and considered buying more, but it was like Valentine's candy on February 15 - it disappears quickly.

A perfect subject matter for a year-end letter is why I don't discuss specific investments. A few reasons for this practice follow:

Most discussions of investments are purely for marketing purposes. Something along the lines of..."Let me explain how smart I am..." I prefer a slightly edited Mark Twain, "It is far better to keep your mouth shut and be thought a wise man than to open it and convince your listeners otherwise."

The ability to admit you are wrong is much easier when you have not vocally and repeatedly staked a claim to an idea. If you aren't sometimes wrong in your investing, you are probably lying. Admitting an error and reversing position is easier done when you have not explained how right you are.

Recycling of ideas is a powerful concept that I believe many ignore. It might have something to do with the institutional imperative to continually show “intelligence” through each additional idea. My law background taught me that attorneys use the same contracts over and over, tweaking the names and a few details. For this lesson alone, I consider my legal education valuable. I am not entirely clear on why ideas are not recycled more often, but I could stand to watch a few more Indiana Jones’ movies

“I have tried to cover points which I felt might be of interest and disclose as much of our philosophy as may be imparted without talking of individual issues.” Buffet, 1957 Letter to Partners.

As for 2014’s results, one idea produced roughly 75% of the Fund’s returns this year. This idea was recycled from 2012. It didn’t occur until October. It was simple, yet if I would have talked it up all year, it would no doubt have produced less beneficial results than the Fund experienced as a result of its relative obscurity. If the same idea produces the outsized portion of our returns in 2015, we will consider a re-branding effort along the lines of Wash, Rinse, Repeat...

Tax documents will follow shortly. I appreciate your trust and welcome any discussions by phone or email.

My editor-in-chief thinks my letters are too depressing. My counter: It was a good year...!

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