ASHEVILLE CAPITAL MANAGEMENT

February 2, 2023

Asheville Capital Annual Letter

Dear Partners,

It gives me great pleasure to be writing this first annual letter to you. My desire is that you will find this letter both informative and enjoyable. But first… the facts. In 2022 the Asheville Capital portfolio returned -5.6% net of fees. This compares with our benchmark, which returned -2.6% over the same time period. We officially began operations on May 25th, 2022.

Annual Return	2022
Asheville Capital (net)	-5.60%
ACWI	-2.57%

While broader market indices suffered their largest annual decline since 2008, we managed to survive the wreckage relatively unscathed. This is partly due to incredible luck, given that the majority of the carnage was experienced in the first half of the year, and partly due to the weightings of our individual portfolio constituents.

It is a little bit interesting to note that the top contributor to total returns on the year also happened to be our largest weighted position in the fund, while the bottom two contributors to returns were our two smallest weighted positions. **We continue to focus our efforts on investing in world-class businesses that are not broadly appreciated as such.** We allocate capital to the companies that meet our bar for inclusion and we try to weight our positions accordingly based on the asymmetry of their return probability distributions. This is an imperfect science and something that we are constantly improving.

Raksul

Our top holding, **Raksul (4384.T)** appreciated by 63% during the year and contributed 7.5% to total returns. Raksul is an operator of two core businesses – a printing and offline advertisement platform and a television commercial platform. Raksul's core belief is that they are capable of redesigning and improving the antiquated structure of conventional industries in Japan by utilizing the internet.

Yasukane Matsumoto formerly worked as a consultant before founding Raksul and one of his final projects was in helping a commercial printing company to improve their profitability. While working on this project, it occurred to Yasukane that the printing industry's biggest lever for increased profitability was in increasing the utilization rates of their machinery. These commercial printing companies experienced enormous fluctuations in their utilization rate because their customers were large-scale corporations that only paid for printing jobs on a seasonal basis.

These printing companies were unable to accept smaller projects because the costs associated with running the printing machines would have exceeded the revenue that they could expect to earn from the small-batch orders. Small and even mid-sized businesses failed to meet the order-size threshold and thus were unable to access cost-effective commercial-grade printing. The commercial printing companies suffered too because their printing machines sat idle, collecting dust for the majority of the year and were only utilized in peak printing seasons.

Yasukane saw an opportunity and he left his consulting job to create Raksul in 2009. Raksul created a webpage with design tools that enabled people to create printable items (brochures, flyers, business cards, etc.) and then once an order was processed, Raksul batched multiple orders into one single large project that it then delivered to the printing companies. These new, larger orders were big enough for the printing companies to justify running their machines.

Raksul quickly partnered with dozens of commercial printing companies in Japan because of the risk-free proposition to them. Over time, Raksul gained sufficient scale and was in fact able to increase these companies' utilization rates and operating profits.

Source: Raksul marketing materials

Now, more than 13 years later, Raksul generates more than ¥30 billion ($233 million) from individuals and enterprises across Japan that leverage the Raksul website to design and print items. The printing companies are now hyper-reliant on Raksul for revenues because Raksul makes up between 20-60% of their total printing capacity. Raksul uses its pricing power with the printing companies to gain 30-40% discounts on the average print job. **It then passes these price savings on to their customers in the form of lower prices.**

Raksul continues to grow organically >20% year-over-year because it has only reached a small percentage of the total small and mid-sized business population, and because these customers continue to repeat purchase multiple times per year with larger order sizes each time. Raksul estimates that e-commerce penetration for online printing is only 3% at the moment and it stands to reason that there is room for improvement given that a similar dynamic has played out in Germany and the penetration rate there is >30%.

Raksul initially operated with a simple first-movers advantage and benefited from being in an "un-sexy" industry (per Yasukane Matsumoto), but they have since carved out a defensible position for themselves because they are by far the largest player in this industry now, with the largest network of commercial printing companies, and with the largest percentage of printing capacity within those companies, which gives them structurally lower costs that they pass on to the consumers in the form of lower prices which competitors are unable to match.

Raksul is increasing its gross margin (towards 30%) through the addition of extra value-added services like cardboard box printing and mailbox delivery services that is allowing them to capture higher revenue and margin per order.

Additionally, they are employing the same mental model (e.g. utilizing the internet to improve structurally antiquated industries) to provide similar value for the tv commercial production industry and in physical goods logistics for small businesses. The logistics business was struggling to gain much traction and was spun out from Raksul earlier this year, while the tv production business is quickly capturing market share.

We own shares in Raksul for all of the reasons listed above, but the key point that matters most to me when researching Raksul is their other-worldly capital efficiency that enables them to grow with highly profitable unit economics. An important metric that I like to examine is the twelve-month return on marketing expenses. When looking at just the Raksul printing segment, my research reveals that Raksul produces a 380% twelve-month ROI when looking at gross profit per customer relative to marketing expense incurred per customer in the same time period. This extremely high return on investment is quantitative evidence for the facts outlined above. Raksul occupies a dominant position within its markets with an asset-light business model, and with a strong base of sticky customers who repeat purchase on the site multiple times per year. This results in top-percentile unit economics relative to all other global marketplace-type business models.

Raksul has always flirted with break-even profitability while also investing heavily in its growth initiatives. The company has taken in very little capital to-date and recently turned the corner on its operating expenses. Operating profit margins are expected to improve substantially in the coming years. Raksul is capable of producing 30-40% returns on capital in the years to come while continuing to grow revenues and gross profits organically between 20-30%.

Despite the 63% improvement in stock price this year, Raksul still trades at 6.5x gross profit. Raksul is a crystal-clear example of a business that is both world-class and not broadly appreciated as such.

Portfolio Summary

While I am very excited about Raksul and I weight it highly as a percentage of total assets, I am proportionately excited about the other eight companies in the portfolio. Like Raksul, each of our holdings occupies an enviable position within their respective industries. These industries are experiencing meaningful macroeconomic tailwinds that are likely to continue into the future, and because our companies occupy mission-critical roles within those ecosystems, our companies should continue to take market share and grow faster than their industries.

Another important commonality (one that you will hear me speak of frequently) is that each of our holding companies is extremely capital efficient in the ways in which they acquire revenues. This is demonstrated by the mouth-watering unit economics that they produce. I spend an extensive amount of my time trying to determine the sustainability of these unit economics and in determining the financial discipline that is being exercised by the management teams.

Conclusion

In summary, our portfolio is a collection of world-class businesses that are not broadly appreciated as such. Effectively, we have identified certain key facts about our business that gives us a source of variant perception. This variant perception produces an asymmetric return probability distribution with significant downside protection.

It is our humble expectation that our portfolio will appreciate at approximately the same rate that our businesses continue to grow intrinsic value at, if not higher given our attractive entry points. The longer the time horizon, the more important it is to own high-quality assets that are capable of durably compounding at high rates. **It is my belief that our holding companies present the most attractive multi-year expected return profiles that are available in the public markets today.**

Going forward, we will produce an interim letter after the first half of the year concludes. We will continue to add and trim to positions as we see fit but we will otherwise not trade much. In fact, there could be years between trades going forward. But rest assured, though the trading is minimal, I am actively looking for new investment opportunities and stack ranking them based on the bar for excellence that has been established by our current holdings. I am ever vigilant in attempting to find new businesses and in trying to prove/disprove our current investment theses.

Most importantly, I thoroughly enjoy this work! My dopaminergic receptors are properly hooked up to the work at hand. I consider it my chief aim in this professional life to faithfully manage the assets that you have entrusted me. I am grateful for your trust and I look forward to the many years ahead of us as we compound our assets together.

Sincerely,

Jake Barfield

PS - While I still have your attention, I would like to mention that Asheville Capital is still small in terms of assets under management, and we would appreciate any introductions to people that you know who might align with this strategy.

Asheville Capital Management FactSheet

Information as of 12/31/2022

Objective: To invest in world-class businesses before they are broadly appreciated as such.

Implication: We will invest with conviction in exceptional companies when we hold a differentiated opinion on their long-term prospects, with a high probability of occurrence. Our companies present asymmetric return profiles due to the existence of variant perception. We have no way of knowing when the variant perception in our businesses will erode and the point at which their exceptional nature will be broadly appreciated as such. As a result, these businesses will experience periods of excess volatility. If our theses are correct, we should experience long-term rates of return that are at least comparable, if not in excess of the rate of return that our companies intrinsic value compounds at, and should expect to generate aggregate portfolio returns that are meaningfully higher than our index benchmark.

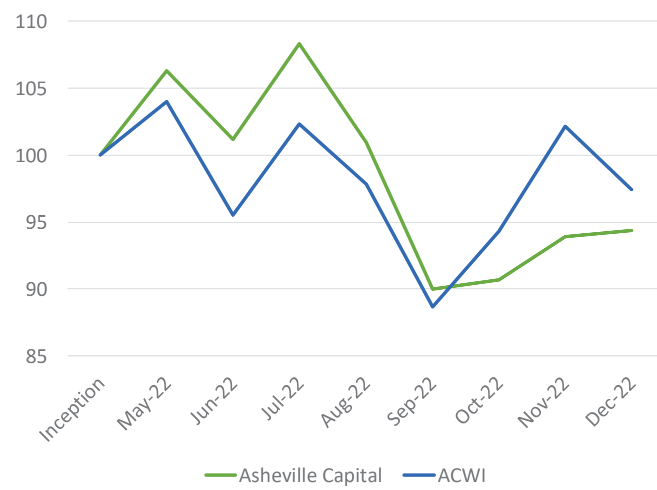
Monthly Performance (net of fees)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**AshCap**	ACWI	Δ
2022					6.3%	-5.9%	7.0%	-3.9%	-10.9%	4.0%	5.9%	0.5%	**-5.6%**	-2.6%	-3.0%

Performance Statistics

	AshCap	**ACWI**
Cumulative Return (net)	-5.6%	-2.6%
Annualized Return	n/a	n/a

Time-Weighted Return



Holdings (Alphabetically Sorted)	**HQ Location**
Acast	Sweden
Agora	China
Base (Japan)	Japan
Confluent	United States
Elastic	United States
HashiCorp	United States
Magnite	Unites States
Raksul	Japan
Temple & Webster	Australia

Terms

Inception Date	May 25th, 2022
Structure	RIA; Seperately Managed Accounts
Broker/Custodian	Interactive Brokers
Management Fee	1%; scales to 0.25% as AUM grows
Incentive Fee	20%; annualy over MSCI ACWI
Minimum Investment	$100,000
Lockup	Not required, but I strongly suggest that you consider the long-term nature of this investment strategy

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