



April 2022

Welcome to Right Tail Capital!

The opportunity to help grow your hard-earned wealth is one I take very seriously. I look forward to growing and learning together on this long-term journey. I plan to be investing for as long as I can think soundly. As I work backwards from what will hopefully be several decades of my investing years, investing the vast majority of our family's net worth alongside like-minded investors is the simplest and most authentic version of who I want to be as an investor. I care deeply about growing your wealth and look forward to having meaningful relationships with each of you.

Right Tail Capital is the ideal name for our approach to compounding your wealth. The name refers to a typical (often bell-shaped) distribution curve where the right tail outcomes are the best.

First and foremost, Right Tail Capital aims to generate excellent, long-term after-tax returns. If we accomplish this mission together, your hard-earned wealth has the potential to grow substantially over the ensuing years and decades.

Secondly, the name Right Tail Capital also refers to the excellent underlying businesses that we will be invested in. Our investments will most often be concentrated in higher quality businesses that have proven themselves to be in the right tail of outcomes over their histories. (I will discuss later in the letter how I approach finding undervalued excellent businesses. For Right Tail to generate outstanding investment returns, I will seek to invest in businesses that trade at a discount to their intrinsic values.) Elements of higher quality businesses include durable competitive advantages, high returns on invested capital and high returns on incremental invested capital, long reinvestment runways, and excellent management teams.

Let's address each of these items. Durable competitive advantages can encompass several different attributes. I want to invest in businesses that need to exist and that often create win-win relationships for all parties in their ecosystem. It's much less about having such a great business that is able to raise prices and take advantage of their customers and much more about demonstrating great value for your customers. This value creates long term relationships and makes the business more durable such that customers want to grow with you. Often, favorable business models allow for high returns on capital. High returns on capital are important because if a business is consistently earning at or below its cost of capital, then value is not being created. We want to invest in those businesses that are creating exceptional value. Similar to how I want Right Tail's investment returns to compound at high rates over time, a company that can consistently invest at high returns on capital can also compound the value that it creates. Returns on *incremental* invested capital are also paramount and require much more analysis and judgment. Capitalism is self-fulfilling in that high returns on capital often invite competition. It is rare, and beautiful, when companies can maintain and grow their returns on invested capital over time. Therefore, I will seek to find and invest in these businesses that can maintain or grow their returns on invested capital over time.



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The name Right Tail also has enormous personal meaning to me and symbolizes our continuous journeys of learning and improvement. My early childhood circumstances likely would not have classified me as having the best or highest percentile opportunities, but I absolutely believe that self-improvement can lead to greater outcomes. Growing wealth became important to me at a young age after my parents divorced when I was 6 years old. As the oldest child in our family, I felt the financial strains deeply as I saw my mom continually need support from the government in the form of food stamps and from other friends and family. Through these circumstances, I grew to appreciate earning and saving money. I learned that hard work could lead to greater financial security and my first paying job was making \$3-4 per hour in middle school helping teach summer school students. Teaching summer school also drove home the value of education and continuous learning as I was explaining math concepts to students who were older than me and further embracing the importance of education. I work each day to become better – a better father, a better husband, a better friend, a better investor, healthier, etc. Charlie Munger has a great quote that says, “those who keep learning, keep rising in life”. I want all of us to keep striving to be our best and recognize these consistent, slight improvements compound over time. I look forward to growing together, and I treat the great responsibility of managing your hard-earned wealth very seriously.

Right Tail will always attempt to buy securities at a discount to their intrinsic values, and ultimately believe the intrinsic value of a business is the discounted value of its future cash flows. If we don't believe that we will be able to generate more cash or take more cash out of the business over many years then we should not be investing in the business. Often the financial media categorizes professionals and investing styles as either “value” or “growth”. I believe that both value and growth are incredibly important. The price we pay matters tremendously as does our assessment of intrinsic value. The ability of the business to grow its cash flows over time has a tremendous impact on the intrinsic value and the potential returns that we can generate on an investment.

Right Tail approaches investing as owners of businesses with a 3+ year time horizon. We always keep in mind that we are owning pieces of businesses and believe that over the long-term business fundamentals will be the primary determinant of stock prices. In the short term, anything can happen so Right Tail does not try to outperform over quarterly or yearly time periods. Similar to the way I approach each investment, I remind our investors that we are trying to invest for longer term success and evaluate our performance as such. Right Tail will inevitably have periods of challenging performance – we are cognizant that markets can be volatile and feel that we will do well in the long run by consistently following our process. Sometimes excellent companies go through short term periods of real or perceived weakness – these situations can create amazing long term investment opportunities and allow us to benefit from both an improvement in the fundamentals of the business and in the market's valuation of the business. Investing for the long term is also aligned with investing in high quality businesses because the company's ability to create value will play a larger role the longer we own the business. Tax considerations also favor a long-term mindset, and I endeavor to generate excellent, long-term, after tax returns.



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Having a concentrated portfolio is preferable for Right Tail for several reasons. First a concentrated portfolio of 8-15 positions allows for our long-term winners to have a sizeable impact on each investor's returns and wealth. Additionally, I have found a concentrated portfolio is ideal from an allocation of time perspective allowing me to understand each company and its surrounding ecosystem while not running the risk of being spread too thin from owning too many names. I expect our portfolio to benefit from diversification and will always be mindful to not have too much exposure to any one business model or possible determining factor.

In setting up Right Tail, I have tried to create as much alignment as possible. First, the vast majority of our family's liquid net worth will be invested in the strategy and alongside our partners. I wouldn't have it any other way. Secondly, I have always admired Warren Buffett's original partnership fee structure which included a 0% management fee and a 25% performance fee over a 6% hurdle. I feel that this structure greatly aligns all parties around long-term performance and is quite different from the behaviors of large portions of the industry that focus on asset gathering and building successful businesses from large management fees. That said, I want investors to have options and recognize that some investors may prefer to pay a management fee. I will also be offering a management fee structure and have tried to make the two options roughly equivalent in various scenarios.

Right Tail's goal is to generate exceptional long term, after-tax returns. I look forward to the journey ahead.

Sincerely,

Jeremy Kokemor

Right Tail Capital



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