EMETH VALUE CAPITAL

TO: Investment Partners
FROM: Emeth Value Capital | emethvaluecapital.com
DATE: 02/24/2019
RE: 2018 H2 Letter

Annualized Net Returns to December 31, 2018 *(unannualized if < 1 year, inception 12/31/2015)*			
	Emeth Value Capital	MSCI ACWI Index	Delta
6 Months	-19.04	-8.89	-10.15
1 Year	-17.14	-9.12	-8.02
2 Years	+7.54	+6.30	+1.24
Since Inception	+8.13	+6.99	+1.14

Calendar Year Net Returns to December 31, 2018			
	Emeth Value Capital	MSCI ACWI Index	Delta
2016	+9.33	+8.39	+0.94
2017	+39.57	+24.35	+15.22
2018	-17.14	-9.12	-8.02
Cumulative Since Inception	+26.44	+22.48	+3.96

Foreword

This is the inaugural letter of the partnership. Over time, you can expect from me an annual and interim letter, which I intend to use to share aspects of my investment philosophy and highlight investments owned by the partnership. I will also share the updated results at the outset of each letter. It is worth emphasizing that I ascribe little significance to short term results. I look out many years when making investments for the partnership and believe our results are best weighed using a similar time horizon.

On Matters of Truth

My interest in investing emanated from my study of Christian apologetics, a branch of theology focused on logically defending the Christian faith. In this pursuit, any statement is underpinned by the fundamental presupposition that truth itself exists. Indeed, to claim that "Truth does not exist" would first necessitate the existence of truth or would by definition be unprovable. In apologetics, as in investing, you are neither right

nor wrong because people agree or disagree with you; you are right because your facts and reasoning are sound. Fortunately for our partnership, truth is rarely the measure on which companies are valued. Hope, fear, greed and anxiety are far more common inputs to Mr. Market's equation. My aim for the partnership is to select a small number of securities where there exists a considerable gap between what is perceived and what is true. In doing so, I expect that our results will bear little relationship to the global indices which I expect us to beat substantially over time.

Long-Only vs. Long-Short

Having spent a number of years allocating capital on behalf of a university endowment, I can definitively say that there are many ways to make money investing. Within public markets investing, perhaps the broadest level of segmentation occurs between long-only and long-short funds. With the exception of writing puts, which in effect creates additional long exposure, I intend to spend zero time shorting. There are a few reasons for this. First, shorting is incredibly time consuming. While academic theory suggests that shorting reduces portfolio risk, the activity itself exposes a portfolio to unlimited losses. This inherent risk warrants detailed fundamental research but prevents an investor from sizing a short beyond a few percentage points. After all, even if the analysis is correct, Mr. Market's erratic swings could render a large short position catastrophic. Consequently, in order to run a prudent short book with meaningful gross short exposure, an investor would likely need thirty or more short positions. For a one-man investment firm that intends to have ten or less long positions, this would reduce the research time spent per investment by seventy-five percent. With such little time spent researching long positions, is it any wonder that every long-short fund actively grosses down during a drawdown? Furthermore, even for a long-short firm with an army of analysts, an unfortunate Catch-22 exists. It goes like this. In order to properly run a long-short strategy, your firm requires five or more analysts. In order to pay those five or more analysts you need to charge high fees and have a large enough capital base. When your capital base is large enough to pay your analysts, you can no longer short the companies you wanted to in the first place because you are too large. Second, the base rate for shorting is a negative return. Stocks on average increase over time, representing the collective daily efforts of over three billion working individuals. Thus, to short a company is to actively position yourself against many people actively working to prove you wrong. In addition, industries or companies with obvious structural headwinds are often accompanied by prohibitively high borrow rates. Finally, short selling requires a fundamentally different mindset than long investing. While skepticism naturally fosters a margin of safety in a long investment, it is optimism that preserves the standard of investment for any short. Switching between these mindsets is difficult and potentially destructive to the overall investment process.

A Good Place to Start

Billionaires are rare. According to Forbes, there are 1,490 self-made billionaires, a minute fraction of the global population. Interestingly, the source of wealth among these billionaires is remarkably undiversified. Some industries, it seems, are prone to creating immense amounts of wealth. These industries generally have a few common characteristics: enormous end markets, businesses that can be self-funding from a very early stage, businesses with incremental margins that can approach one hundred percent, and competitors that cannot differentiate on price or are incentivized not to do so. One industry that uniquely possess all of these characteristics is money management, the source of wealth for seventeen of the richest one hundred

Americans. As you might have guessed, I believe that aligning our partnership with how the world's richest individuals have amassed their wealth could be a compelling investment proposition. Below I highlight KKR & Co., an investment that constitutes over twenty-five percent of our partnership's assets and fits squarely into this framework.

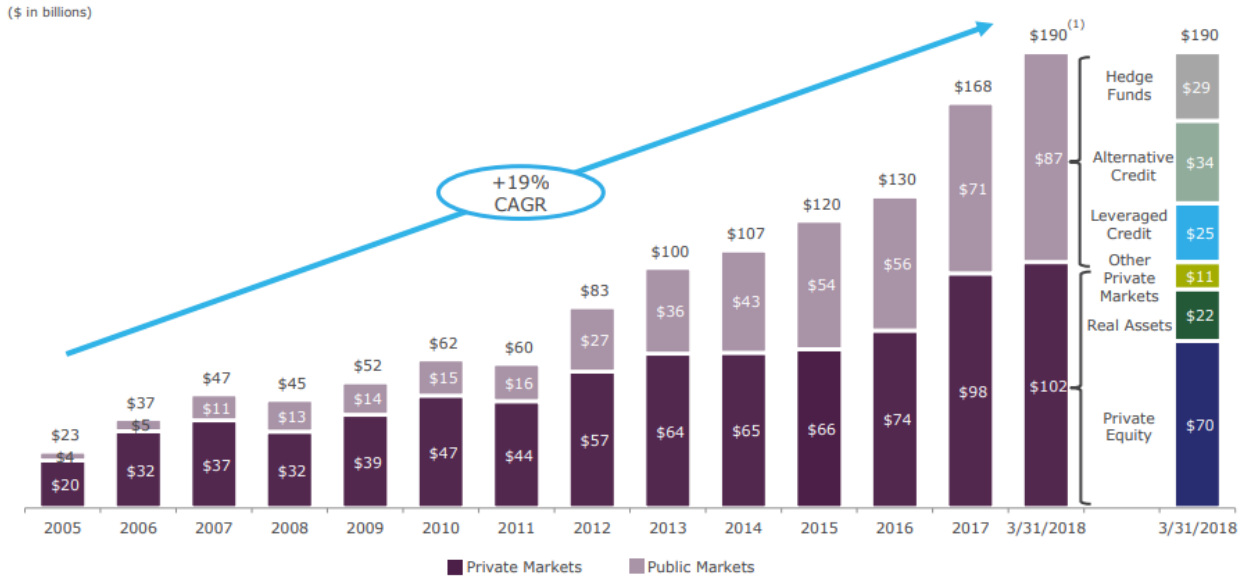
KKR & Co.

Overview

KKR is a global asset manager that was founded in 1976 by Henry Kravis, Jerry Kohlberg, and George Roberts. Over the last forty-two years, KKR has consistently been a leader in the private equity industry, having completed over 320 investments across twenty-one funds, which have generated returns of over twenty-five percent per annum. Today KKR has 1,200 employees and manages $195 billion in assets under management (AUM) across a range of alternative asset classes including private equity, credit, real assets, and public equity.

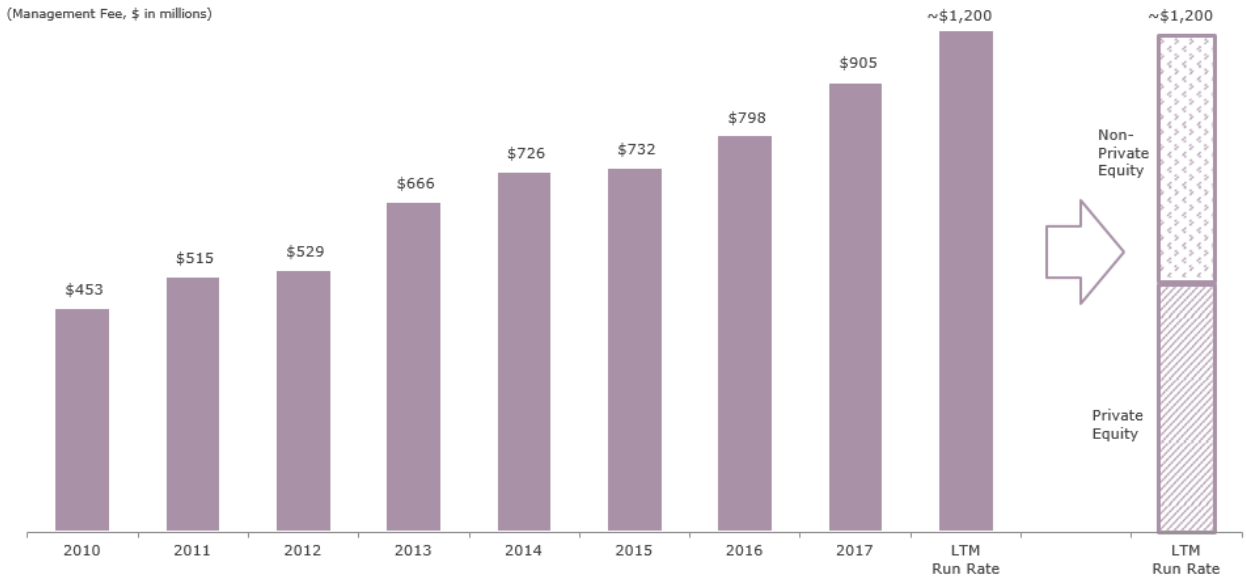
Industry

As an asset manager, KKR earns management fees and incentive fees for providing investment services to their 900 limited partners. Management fees are charged as a percentage of AUM, while incentive fees are earned as a percentage of investment profits. Accordingly, a key driver to the earnings power of any asset manager is the scale of third-party AUM. In total, there is an estimated $10 trillion in alternative AUM that is projected to double by 2025 due to three structural tailwinds. First, if you speak with the CIO of any major pension plan or endowment, he or she will tell you that the alternative space, in particular private equity, has been the best performing asset class over the last five and ten years. This has naturally led to increasing allocations. Second, there is a surge of new institutional investors who have not historically allocated to private equity and alternatives, but who have entered the market over the last five years. These include large sovereign wealth funds, insurance companies, and ultra-high net worth individuals. Finally, allocators continue to opt for simplicity by choosing to invest more with fewer partners, benefiting the largest global firms. Taken together, these factors have enabled KKR to grow AUM at twenty percent per annum over the last fifteen years, doubling the industry growth rate while more than tripling the number of limited partners. Importantly, KKR remains less than five percent market share in nearly every invested asset class, providing years of runway ahead.



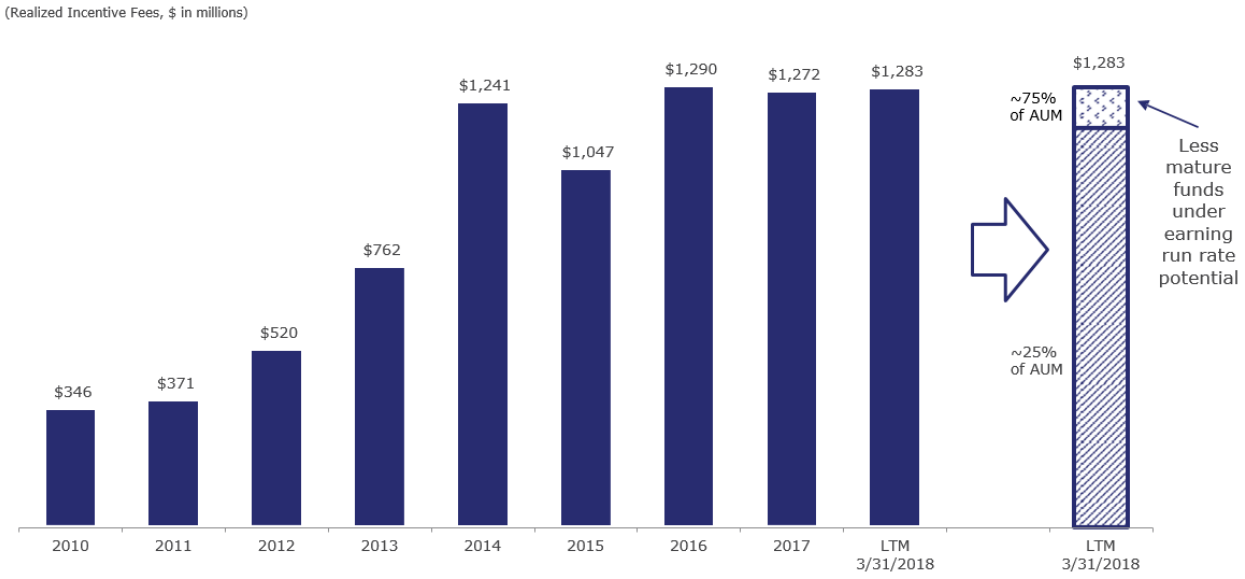
Management Fees

Perhaps the most attractive feature to any alternative asset manager is the long-term nature of third-party capital commitments. Unlike traditional fund investments that can be redeemed on a quarterly or monthly basis, capital commitments to alternative investment strategies have legal commitment periods of over eight years, creating very long streams of highly predictable revenue. Indeed, KKR still generates fees on their Millennium Fund, which was raised in 2002, over sixteen years ago. Today, KKR's capital base has a longer duration than any time in history, consisting of $22 billion in permanent capital, $20 billion in twenty-five year strategic investor partnerships, $115 billion in eight plus year commitments, and $38 billion in periodically redeemable capital. Altogether, this capital base produces $1.2 billion in annual recurring management fees with an average duration approaching fifteen years. Yet, even this figure is conservative, as there are $25 billion in AUM not presently earning economics that will become fee paying on an on-invested basis and contribute a further ~$250 million in management fees annually.



Incentive Fees

An astounding eighty-eight percent of KKR's third party AUM is performance fee eligible. While less predictable over the short-term, incentive fees play a significant role in creating value for alternative asset managers over time. For instance, over the last five years KKR has earned $6.1 billion in realized incentive fees, compared to $4.1 billion in management fees. Consider the following example. A typical $10 billion private equity fund charging a one and a half percent management fee would earn approximately $1 billion in management fees over the life of the fund. In comparison, if that same fund returns 2.5x gross with a twenty percent carry, it would generate an additional $3 billion in incentive fees, quadrupling the total fee income. Taken further, the probability of realizing incentive fees is abetted by diversification and a highly asymmetric compensation structure. Today, KKR invests across ten different asset classes and five geographies. They also invest across thirty-five different funds that each discretely accrue incentive fees, or in other words do not net against each other. This means that if only one of KKR's thirty-five funds generates a profit and the remaining thirty-four go to zero, KKR will still earn an incentive fee. The asymmetry of this structure can be further emphasized by considering two parties wagering over a coin toss. In scenario one, party A agrees to pay party B the greater of either zero or the amount of flips shown heads less the amount of flips shown tails. In scenario two, party A agrees to pay party B the greater of either zero or the amount of flips shown heads less nothing. We can easily see that for party B scenario two is highly preferable. While the expected outcome of one hundred flips for scenario one is zero, the expected outcome under scenario two is fifty, and both have the same theoretical maximum of one hundred. By calculating incentive fees at the fund level as opposed to the firm level, KKR positions itself under scenario two, leading to a surprisingly consistent ability to generate incentive fees. Finally, one further element to understand about incentive fees is that they are lagged in nature. A fund structure that invests over ten years will typically only begin generating incentive fees five years down the road. This leads to the creation of substantial latent value for firms who have grown AUM at high rates. Indeed, today only twenty-five percent of KKR's AUM generates ninety-one percent of all realized incentive fees.



Balance Sheet

Unlike their peers, KKR retains a significant balance sheet and is the single largest investor in all their funds. To provide some context, KKR has approximately $13 billion in balance sheet cash and investments, which is more than Blackstone, Apollo, and Carlyle combined. This difference in business model is significant, increases the alignment of interests, and allows KKR to compound their own capital alongside limited partners. In addition, retaining a balance sheet with scale allows KKR to opportunistically size up compelling investments, support a world class capital markets business, and grow AUM at a faster pace by seeding new strategies or by doing strategic M&A. A prime example of how KKR has strategically used their balance sheet is their partnership with Marshall Wace. After meeting with over 250 hedge funds, KKR took a strategic stake in Marshall Wace in 2015, giving them access to the largest part of the alternative asset management space. When the deal closed, Marshall Wace had $20 billion in AUM which today has grown to $39 billion in AUM, tripling the growth rate of the broader hedge fund industry. Critically, KKR would not have been able to build a business like Marshall Wace in house over this period of time. Having a balance sheet with scale allowed KKR to identify a partner that was a top three player globally and participate alongside them.

KKR Capital Markets

Another feature unique to KKR is their in house capital markets business that provides capital solutions to both KKR portfolio companies and third-party clients. These services which have traditionally been provided by an investment bank allow KKR to increase the economic capture in every investment across the firm, further amplifying the benefits to scale. From acquisition to IPO, a significant opportunity exists for KKR to generate fee revenue from transactions that are already occurring at the portfolio company level. In addition, there are several strategic benefits to having an in house capital markets business that extend beyond generating fees. Consider this example. In December 2016, KKR sought to acquire Calvin Capital, a UK gas and electricity meter asset provider, in a transaction that would require £600 million of equity and £400 million of debt. KKR would make the investment from their $3 billion Infrastructure II fund, which to remain appropriately diversified could only invest $250 million. Caught in this situation, many firms would be forced to either call a competitor to complete the deal or participate in a broader bank-led syndication. Ultimately, having a sizable balance sheet and in house capital markets team allowed KKR to keep the asset from entering a competitive auction process by speaking for the entire deal, syndicate the remaining equity themselves and source attractive debt financing. In addition to earning $18 million in capital markets fees for this transaction, the equivalent of seven years of management fees, providing the equity syndication in house allowed KKR to maintain control of this investment while investing less than fifty percent of the equity.

Uniquely Similar: Berkshire Hathaway & KKR

Berkshire Hathaway's history of shareholder value creation is well known to almost everyone in the investing community. Over the past fifty-four years under the leadership of Warren Buffett, BRK common stock has compounded at twenty-one percent per annum, returning shareholders 24,000x their invested capital. While much of this success is attributable to Mr. Buffett's aptitude as an investor, a substantial structural tailwind exists for Berkshire Hathaway in the form of insurance float. In short, because insurers

receive premiums from their customers in advance of paying claims, an excess pool of capital is created. This excess pool of capital called "float" is a form of debt, i.e., money that is received today that will ultimately be needed to satisfy a future obligation. Berkshire Hathaway's advantage comes in its ability to profitably write insurance over a very long period of time, effectively creating negative cost debt. As the world's premier insurer, Berkshire Hathaway might sustainably write insurance at a ninety-five percent combined ratio, creating leverage at a cost of negative five percent. We can easily realize the power of this leverage by considering a hypothetical five-year $100 million investment made with fifty percent equity and fifty percent debt. If this investment were to double in value over the next five years, the unlevered return would be fifteen percent per year. However, by funding the investment with fifty percent debt at a cost of negative five percent, the equity investment would more than triple, leading to a levered return of twenty-six percent per year. At its peak, Berkshire Hathaway's insurance operations wrote enough business to generate float that reached fifty percent of Berkshire's book value, mirroring the economics of the example above. By managing third-party capital, KKR similarly leverages its balance sheet investments with negative cost debt. This form of negative cost debt is fueled by contractual management fees and incentive fees, and can never become a source of loss. This allows asset managers to safely leverage themselves as much as possible, something that would be imprudent for an insurer (and impossible from a regulatory standpoint). Today, KKR has $14 billion in balance sheet capital that is leveraged by $140 billion in fee paying AUM. At ten times levered, the economics of KKR's leverage net of compensation expenses is strikingly similar to the Berkshire Hathaway example above. Furthermore, it is substantially more attractive than today's Berkshire Hathaway which is only thirty percent levered with insurance float. Consider the illustration below.

Berkshire Hathaway Model
- $100m Investment --> 50% Equity and 50% Insurance Float - Unlevered return of 15% - Combined ratio of 95% - 5 year investment period

Ending Investment Value	$200m
Ending Insurance Liability	($37.5m)
Ending Equity	$162.5m
5 Yr Annualized Return on Equity	26.6%

KKR & Co. Model
-$100m Fund --> 10% KKR and 90% Third-Party Capital - Fund return of 15% - 1% management fee and 20% incentive (57% KKR Margin) - 5 year investment period

Ending Fund Value	$200m
LP Value before Fees	($181m)
Management Fees	$3.4m
Incentive Fees	$9.8m
Ending Equity	$32.2m
5 Yr Annualized Return on Equity	26.3%

Anti-Fragile

It is common perception that private equity firms like KKR will experience substantial value impairment during a market selloff given the levered nature of fund investments. At a very basic level this ignores the fact that KKR has $60 billion of its $195 billion AUM in credit funds and $30 billion of its $195 billion AUM in hedge funds, both of which are strategies that should protect capital on a relative basis in a drawdown. Furthermore, KKR has invested in private equity for over four decades across many market cycles, employs less leverage than it has historically, and has only had one unprofitable fund over this time. But perhaps most importantly, this narrative fails to understand three substantial counter-cyclical features to KKR's business. First, over $100 billion of KKR's AUM is invested in private fund structures. These structures are generally eight to twelve years in length, consisting of a four to six year investment period and

a four to six year harvesting phase. During the investment period, management fees are charged on the capital commitment. This means that if an investor commits $500 million to the KKR Asian Fund III, they will pay a one and a half percent management fee on that full $500 million commitment over the first six years of that fund, irrespective of how much capital is drawn and irrespective of what the most recent fair value marks are. Once the fund moves beyond the investment period into the harvesting phase, management fees are paid on the cost basis of invested capital. The quarterly marked fair value of the fund could swing drastically between a 0.5x multiple on capital and a 3.0x multiple on capital, and it would have zero impact on the management fees paid to KKR. In fact, the cost basis of invested capital is only lowered through realizing an investment via sale or by the underlying company going bankrupt. Barring the latter, which is rare, a market drawdown generally extends the timeframe for realizing an investment thereby increasing the aggregate management fees paid. Second, $60 billion of KKR's $195 billion in AUM consists of uncalled capital commitments that are deployed faster in a drawdown at valuation levels which will produce substantial incentives fees down the road. Consider the unit economics of $10 billion in private equity capital. If these funds are invested at a valuation that will result in a 2.0x gross multiple on capital, then a twenty percent carry rate would yield $1.1 billion in incentive fees net of compensation expenses. However, in a substantial drawdown, if we accept that KKR is able to deploy these funds at a valuation that would result in a 3.0x multiple on capital investment, then a twenty percent carry rate would yield $2.3 billion in incentive fees net of compensation expenses. In other words, for every $10 billion in dry powder that KKR deploys in a drawdown, they could earn over seven percent of their yearend market cap in additional incentive fees. Finally, KKR's $60 billion in dry powder has latent value in the form of capital markets fees. When KKR deploys capital, there are regularly investments that are too large for a specific fund. Recall the Calvin Capital transaction discussed earlier. While the exact amount is unknowable, periods of increased acquisition activity would have positive effects on both KKRs own syndication fees and the third-party segment of their capital markets business. It would not be unreasonable to assume that a drawdown could produce an additional $200 million in capital markets fees, capital which could then be reinvested into attractively valued opportunities.

Valuation

If we assume that KKR does not raise another dollar of AUM and that the redeemable portion of their asset base declines at five percent a year into perpetuity, then in liquidation KKR would earn $4.2 billion in management fees after tax and all expenses. This stream of cash flows discounted at seven percent would yield an NPV of $2.5 billion. In addition, KKR has $13.25 billion in book value after adjusting for the strategic stake in Marshall Wace. If we assume that many of the investments on the balance sheet turn out to be poor uses of capital, then a twenty percent haircut would yield $10.6 billion in value. Finally, over the prior twelve months KKR Capital Markets has generated $300 million in after tax free cash flow. At a multiple of six times free cash flow KKR Capital Markets would add a further $1.8 billion in value. In total, this would result in $18.00 in value per share, only eight percent below where KKR was valued at year end. As I hope you can appreciate, the scenario above is completely irrational. The fundraising environment for private equity and alternatives is robust, KKR's funds have performed well across asset classes, and KKR Capital Markets is a rapidly growing business. What's more, this scenario ascribes zero value to incentive

fees, an expectation that is equivalent to assuming KKR will earn zero dollars in profit across all thirty-five funds over the next twenty years. Let us assess a more realistic scenario for KKR. To some extent, all of KKR's revenue streams are supported by growth in AUM, which has scaled at seventeen percent per annum over the last five years and twenty-six percent per annum over the last three years. This growth has enabled KKR to compound management fees at thirteen percent per annum while earning incentive fees each year that have ranged from 1.1x to 2.0x the level of management fees. Furthermore, KKR has more than tripled the level of capital markets fees over the last five years. Recall that a typical $10 billion private equity fund will earn roughly $1 billion in management fees over the life of the fund, and that a twenty percent carry rate and a 2.0x gross multiple on capital would produce an additional $2 billion in incentive fees. Also recall that eighty eight percent of KKR's third-party AUM are performance fee eligible. Therefore, if we expect an average KKR fund to achieve a 2.0x gross multiple on capital over a ten year investment horizon, an outcome that would be a discount to historical performance, then we should also expect KKR to earn incentive fees that are 175% of their management fees. Furthermore, the proper terminal value for KKR's fee revenue should reflect the potential future growth, duration of expected growth, and predictability of cash flows. Stepping back, the alternative investment industry is projected to grow at eleven percent per year over the coming decade and in recent years KKR has doubled this growth rate. In addition, at less than five percent market share across invested asset classes, KKR has significant runway for growth. KKR's management fees are exceptionally predictable given the long term nature of third-party capital commitments, and while incentive fees are harder to calculate, KKR's diverse investment base and ability to time their entry and exit have led to a consistent ability to generate incentive fees. Below I have outlined a base case scenario for KKR.

KKR & Co. - Base Case

	Year +1	Year +2	Year +3	NPV Cash Flows	NPV Terminal Value	NPV
Management Fees	1320.0	1452.0	1597.2			
growth	*10.0%*	*10.0%*	*10.0%*			
Mgmt Fee After Tax Income	462.0	522.7	591.0	1345.1	7506.0	8851.1
margin	*35.0%*	*36.0%*	*37.0%*			
Inc Fee After Tax Income	369.6	418.2	472.8	1076.0	3002.4	4078.4
% of Management Fees	*80.0%*	*80.0%*	*80.0%*			
Capital Markets After Tax Income	336.0	376.3	421.5	968.3	4015.0	4983.3
growth	*12%*	*12%*	*12%*			
Discount Rate	8%				Total NPV	17912.8
Mgmt Fee Multiple	16x				Book Value	13250.0
Inc Fee Multiple	8x				Total + BV	31162.8
KCM Multiple	12x				NPV / Share	$37.6
Book Value Multiple	1.0x				Upside to IV	92%

The assumptions in the scenario above, in my opinion, are very conservative and are worth calling to attention. First, I assume that over the next three years management fees grow at ten percent per annum. This is considerably slower than recent growth rates and does not factor in the $25 billion of AUM that KKR already has that is not yet earning economics. This uncalled capital alone could generate two years' worth of ten percent growth in management fees. I then value the management fee stream at a 16x multiple, less than a market multiple. Second, I assume that incentive fees are normalized at eighty percent the level of management fees. This implies that half of KKR's funds come out at the expected 2.0x gross multiple on capital, while the other half generate no incentive fees at all. I then value the incentive fee stream at an 8x

multiple, half of a market multiple. Third, I assume that the capital markets business grows at twelve percent a year over the next three years and deserves at 12x multiple. This business is currently growing at twenty-five percent plus per year, has latent value built up in the form of uncalled commitments, and arguably deserves a sizable premium to a market multiple. Finally, I assume that KKR's balance sheet is worth 1.0x book value. Altogether, these assumptions would yield a $37.6 share price, or a 92% premium to where KKR traded at year end. We can also assess a more optimistic outcome for KKR by adjusting some of our assumptions. Perhaps the element that warrants some further explanation is how to properly value KKR's balance sheet. KKR has slightly over $13 billion in book value that primarily consists of investments in their own funds, the same funds that hundreds of allocators around the world pay fees to access. In addition, as part of their investments, allocators accept liquidity terms that are eight to ten years in length. They are willing to accept these terms because net of fees they still expect their investments to outperform the market and enough so to make up for the onerous liquidity terms. The simple reasoning works like this. If an allocator expects the broader equity market to return eight percent per year with daily liquidity, then an alternative investment with ten-year liquidity must provide returns of twelve percent per year net of all fees. In order for an investment fund to produce these net returns the gross returns must be in excess of sixteen percent per year, something KKR has bested over the last four decades. While this might sound difficult to repeat, there are many reasons why private equity and alternatives can be expected to sustain higher returns than a comparable public equity investment. Private equity investors add value by improving the operations of a business, have the ability to apply non-recourse leverage, and are able to arbitrage the private to public discount. If we assume that allocators are sensible to expect twelve percent net returns from their investments as a limited partner, then KKR's balance sheet should be worth in excess of 2.0x book value. Below I have outlined a more optimistic scenario for KKR, one I still believe to be conservative.

KKR & Co. - Bull Case

	Year +1	Year +2	Year +3	NPV Cash Flows	NPV Terminal Value	NPV
Management Fees	1380.0	1587.0	1825.1			
growth	*15.0%*	*15.0%*	*15.0%*			
Mgmt Fee After Tax Income	483.0	571.3	675.3	1473.1	10721.0	12194.1
margin	*35.0%*	*36.0%*	*37.0%*			
Inc Fee After Tax Income	724.5	857.0	1012.9	2209.6	8040.7	10250.4
% of Management Fees	*150.0%*	*150.0%*	*150.0%*			
Capital Markets After Tax Income	360.0	432.0	518.4	1115.2	6584.4	7699.6
growth	*20%*	*20%*	*20%*			
Discount Rate	8%				Total NPV	30144.1
Mgmt Fee Multiple	20x				Book Value	19875.0
Inc Fee Multiple	10x				Total + BV	50019.1
KCM Multiple	16x				NPV / Share	$60.4
Book Value Multiple	1.5x				Upside to IV	207%

The scenario above values KRR's balance sheet at 1.5x book value, projects three-year growth rates that reflect current growth rates, assumes an incentive fee level that implies an average fund performance of 2.0x gross, and gives proper credit to the quality of KKR's revenues. This would result in a share price of $60.40, or a 207% premium from where KKR traded at year end. If you are still reading at this point, there is one final way I think about valuing KKR. An interesting question to consider is, "What is a fair price to pay for an investment that can be counted on to beat the market by several hundred basis points per year?" With the benefit of hindsight, many investors correctly point out that such sustainably great businesses are perennially

undervalued by the market. Throughout their public histories, there was practically no valuation too high to pay for companies like Berkshire Hathaway, Amazon, and Walmart. It seems that no matter the circumstances, Mr. Market's DCF will assume regression to the mean some years into the future for any business earning abnormally high returns on capital. Would it really have been reasonable to pay 100x earnings for Walmart in 1975? Knowing what we do today, the answer is undoubtedly yes. I would argue that KKR's business model is one that lends itself to unusually predictable long-term outperformance. Over the last twelve months, KKR earned $1.2 billion in after tax free cash flow from fee revenue. They also have $13.25 billion in adjusted book value. This means that at present, KKR's book value starts off with a 900 basis point head start over the market. In looking at the history of KKR, we also see evidence of this advantage coming to light. When adjusted for dividends, KKR's book value has compounded at twenty-three percent per annum since their inception as a public company. This compares to eleven percent per annum for MSCI ACWI or a 1200 basis point differential. This outperformance was not only a result of reinvesting the fee income, but also from making underlying investments that outperformed the market. Below I have shown a table of what KKR's share price should be worth based on the level of outperformance and the duration of outperformance.

Equivalent Share Price at 8% CAGR

KKR CAGR	10 Years	15 Years	20 Years	25 Years	30 Years
10% (+200bps)	$21.8	$23.8	$26.3	$28.8	$31.5
12.5% (+450bps)	$27.0	$33.5	$41.2	$50.3	$61.4
15% (+700bps)	$33.5	$46.4	$63.6	$86.3	$117.3
17.5% (+950bps)	$42.1	$64.7	$97.9	$147.9	$226.4

You can see that as outperformance and duration increases, the value of KKR's shares rises dramatically. In this respect, the feature unique to KKR is the tremendous duration of fee revenue, which ultimately drives their ability to sustainably outperform the market. KKR is forty-two years into building a global investment franchise, and the business today is as strong as it has ever been. Given this backdrop and the advantageous structure described above, I believe KKR's book value could easily be expected to outperform the broader equity market by 700-950 basis points over the next twenty to twenty-five years. Weighted evenly, these scenarios would yield a value of $87.37, or a ~4.5x from the year end share price.

Conclusion

At a time where I am finding many attractively priced opportunities for the partnership, the companies that make up our portfolio set an incredibly high hurdle. I am blessed to spend the hours of my day doing what I love and for a wonderful group of partners. I look forward to updating you all in the fall.

Appendix A: Realized Investments

Ticker	Company	IRR*	MSCI ACWI	Delta
-	-	94.69%	17.29%	77.39%
-	-	3.19%	13.84%	-10.65%
-	-	46.07%	14.10%	31.96%
-	-	37.70%	17.21%	20.49%
-	-	3.29%	8.86%	-5.57%
-	-	28.08%	14.16%	13.92%
-	-	10.00%	2.09%	7.91%
-	-	38.91%	21.19%	17.72%
-	-	20.01%	14.81%	5.20%
-	-	27.84%	17.45%	10.40%
-	-	29.94%	14.95%	14.99%
-	-	18.71%	16.74%	1.97%
-	-	37.17%	15.28%	21.89%
-	-	42.56%	-2.85%	45.41%
	Average	31.30%	13.22%	18.07%

**Table above reflects the IRR of realized portfolio investments (unannualized if < 1 Year), and the equivalent IRR that would have been achieved had each invested dollar been allocated to MSCI ACWI.*

***Full Disclosure Available Upon Request*

Appendix B: Unrealized Investments

Ticker	Company	IRR*	MSCI ACWI	Delta
-	-	28.05%	6.90%	21.15%
-	-	17.79%	-0.59%	18.38%
-	-	43.09%	-	-
-	-	21.07%	7.62%	13.45%
-	-	47.99%	5.49%	42.50%
-	-	34.22%	-1.33%	35.54%
-	-	-11.85%	8.04%	-19.89%
-	-	-33.78%	-0.44%	-33.34%
-	-	-74.18%	-2.11%	-72.07%

**Table above reflects the IRR of unrealized portfolio investments (unannualized if < 1 Year), and the equivalent IRR that would have been achieved to date had each invested dollar been allocated to MSCI ACWI.*

***Full Disclosure Available Upon Request*

Disclosures

Investment in Emeth Value Capital are subject to risk, including the risk of permanent loss. Emeth Value Capital's strategy may experience greater volatility and drawdowns than market indexes. An investment in Emeth Value Capital is not intended to be a complete investment program and is not intended for short term investment. Before investing, potential clients should carefully evaluate their financial situation and their ability to tolerate volatility. Emeth Value Capital, LLC believes the figures, calculations and statistics included in this letter to be correct but provides no warranty against errors in calculation or transcription. Emeth Value Capital, LLC is a Registered Investment Advisor. This communication does not constitute a recommendation to buy, sell, or hold any investment securities.

Performance Notes

Net performance figures are for a typical client under the standard fee arrangement. Returns for clients' capital accounts may vary depending on individual fee arrangements. Net performance figures for Emeth Value Capital, LLC are reported net of all trading expenses, management fees, and performance incentive fees. Reported returns prior to January 1st, 2021 reflect the personal account performance of Emeth Value Capital, LLC's sole managing member, and therefore represent related performance. All performance figures are unaudited and are subject to change.

Contact

Emeth Value Capital welcomes inquiries from clients and potential clients. Please visit our website at emethvaluecapital.com or contact Andrew Carreon at acarreon@emethvaluecapital.com