RD CAPITAL PARTNERS (RDCP)
2019 ANNUAL LETTER

RDCP's Performance vs. the S&P 500 and FTSE 100

	Annual Percentage Change		
	RDCP Annual Return	S&P 500	FTSE 100
Annual Return – 2015-2019	157.2%	9.1%	1.5%
Total Return – 2015-2019	4376.9%	41.6%	6.3%

The figures above represent cumulative annualised returns for the four-year period starting from July 1, 2015 and ending on June 30, 2019. RDCP's annual return is calculated using the internal rate of return (IRR) method.

To the Stakeholders of RDCP Group:
Iryna Dubylovska and I met in August 2014 whilst working at the Royal Bank of Scotland's (RBS) investment bank in London. Less than 12 months later, we decided to leave the world of banking behind to launch our own investment firm from the living room of our one-bedroom apartment in Clerkenwell.

RD Capital Partners ("RDCP") was born over four years ago in June 2015. I had learned that the UK's healthcare sector was highly fragmented and, in a sense, broken. There was a calling for someone to build a strong healthcare business and consolidate the sector. I wanted RDCP to be this someone.

The original plan was to raise capital for a healthcare fund, so as to start building a portfolio of care homes. We were inspired by the dozens of private equity firms out there and even some UK healthcare focused midmarket firms. We thought we needed to raise money in order to make money. *Not true. More on this later.* However, after an unsuccessful fundraising trip to Dubai, we had to come up with an alternative strategy. We decided to put our savings together, take on some bank debt and acquire our very first nursing home.

In June 2016, we launched RDCP Care with the vision of becoming a leading elderly and specialist care provider in the UK. Within a few weeks we had identified Kings Bromley Care Home as our first acquisition and officially completed this transaction in February 2017.

We had two simple goals at the time:
1. Grow the overall value of RDCP Group.
2. Make a positive and long-lasting societal impact.

Mistakenly, we thought the only way to achieve these goals was to raise capital via a fund structure. We decided to not attempt to raise another healthcare fund until we grew RDCP Care to at least £30 million in enterprise value. Reach a certain critical mass. We proudly achieved this goal in February 2019. By re-investing cashflow, intelligently utilising bank debt and finding undervalued investment opportunities, we were able to grow RDCP Care's value to £30 million. We did this without taking on any outside capital or giving up any shareholding in any RDCP company.

Soon after this, in May/June 2019, we decided the time was right to launch RDCP Healthcare Opportunities Fund II with a target size of £50 million. And we were right. Unlike our previous attempt, this time around we received a number of offers. *Cause for celebration? Not quite*. Unfortunately, if we went ahead and accepted this capital, we would no longer be the sole shareholders in RDCP. We had gotten used to wholly owning our portfolio companies, and not managing them on someone else's behalf. Due to downward pressure on asset manager fees, and especially for new and emerging managers, we would only be making 1% in management fees and between 10% to 15% of profits, after achieving a minimum target return, known as the hurdle rate. We would have a board of directors full of outside investors. There would be several restrictions on what we could and could not do, including the inability to enter into other sectors. In effect, we would once again become employees. And I hate being told what to do.

What had seemed like the overarching goal of RDCP for nearly four years, no longer applied. We no longer wanted to become a private equity firm. We enjoyed manging our own portfolio. Almost like a holding company. So, what had changed? The biggest change was that we had taught ourselves to grow a business and scale it without needing external equity capital. When you manage your own money, every single penny counts. Due to this, we had become razor-sharp about valuation methodology and keenly focused on finding deep value in our investments. We became religiously focused on increasing free cash flow and profit margins as the only way we grow our group value (or "AUM") is if we effectively re-invest this free cash flow into more undervalued acquisitions.

This was a massive change. And we would be giving all this up to become a private equity firm? In order to make this tough decision, we had to crunch the numbers based on the offers we had received. The results were unexpected. We could as easily grow AUM to £100 million by re-investing cashflow and retaining 100% shareholding, as we could by raising a fund and schmoozing investors. The decision was a no-brainer. Being the founders of a £100 million business that was built from scratch is significantly more impressive than being the fund managers of a £100 million fund. The first option leaves us with total control and the ability to build much greater wealth. Whilst with the second option, we would always be overshadowed by mega-funds and consistently "boxed-in" and compartmentalised into the category of an "emerging fund manager."

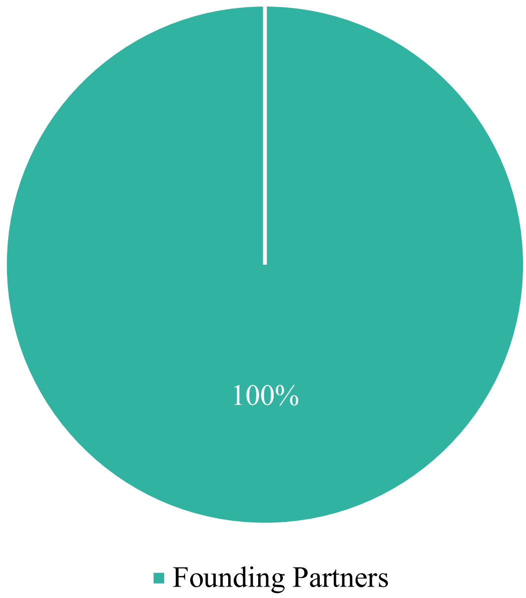
On top of this, over the last four years, we realised our values align significantly more with Warren Buffett or Bernard Arnault, rather than with Steve Schwarzman or David Rubenstein. We are building an investment firm with growing inter-connected businesses, with the ability to centrally allocate capital to the highest yielding investments. We do not want to have a "fund cycle" or "exit horizon." We do not want to spend our time raising funds. We want to spend our time building businesses.

This level of clarity and self-awareness is, frankly, addictive.

RDCP as a Snapshot in 2019
The table at the start of this letter shows the level of returns we are able to achieve by finding investment niches and doubling down when we know we can press an advantage.

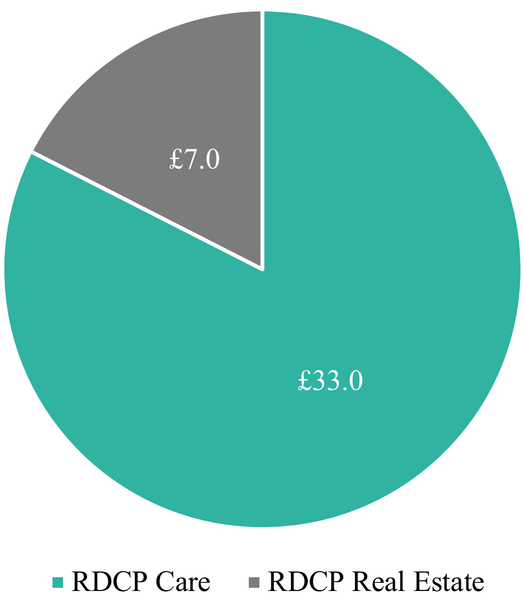
In order to invest with uncompromising conviction and make contrarian, long-term investments that we want to make, we need to stay fully independent. This is reflected in the chart below.

RDCP Investor Type

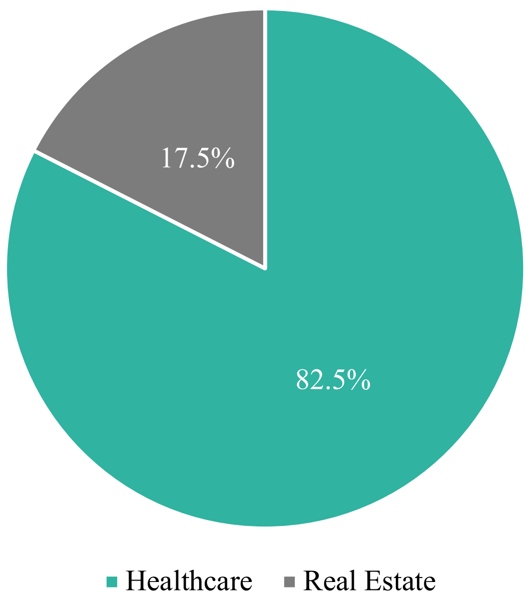


As of June 30, 2019, RDCP had a presence in two sectors: healthcare and real estate. In line with our goal of marrying profit hunting with making positive societal impacts, we have identified infrastructure to be the next sector that RDCP will build a presence in.

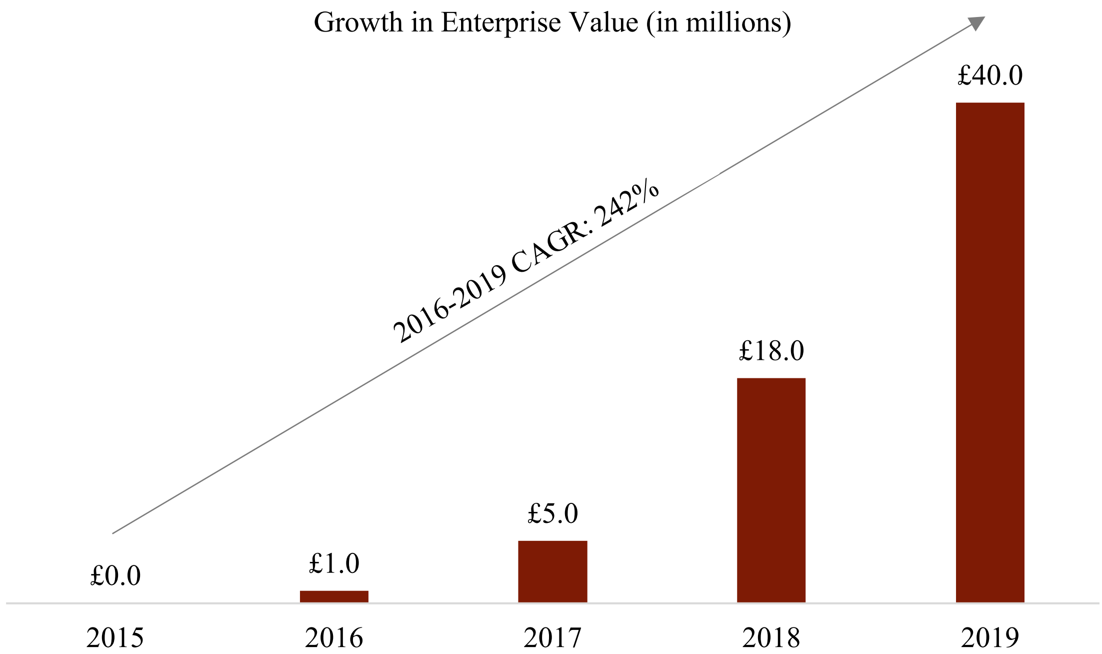
Enterprise Value (in millions)



Sectors

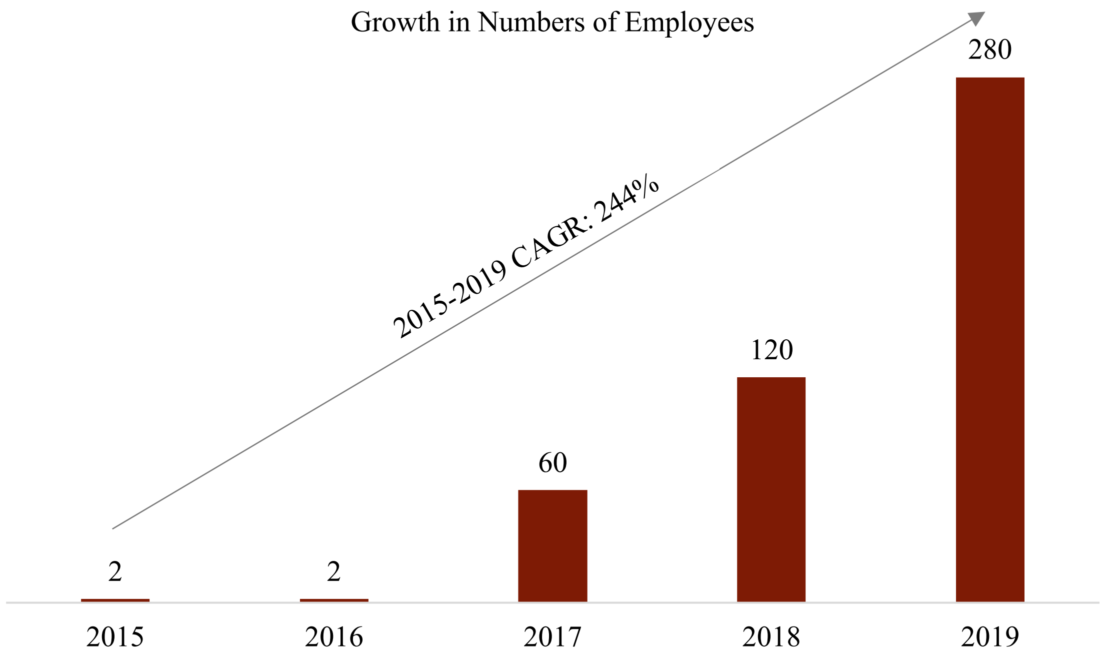


Our enterprise value has grown at an average CAGR (compound annual growth rate) of 242% since 2016. We expect group enterprise value to rise to over £60 million once our live healthcare and infrastructure transactions complete in 2020.



NOTE: Date shown at 30th June for each year.

Our staff team is tight-knit, highly competent and focused on growth. We are fortunate enough to currently employ 280 full-time staff members. We started as just two in 2015.



NOTE: Date shown at 30th June for each year.

Why We Don't Invest in Tech
This is a question I get asked constantly. In fact, some folks mistake RDCP to be a venture capital fund, assuming as we are "young," we must clearly be into tech start-ups and cryptocurrencies. *Most certainly not.* They should really take a look at our website.

There is an endemic problem in the vast majority of new businesses or "start-ups." Their founders seem to have forgotten that a company's revenue should fund more than 100% of its costs, allowing the business to earn a profit. *The most basic rule of running a business*. This no longer seems to be the goal though. Instead, the mindset is that new equity capital will fund any shortfall. This is acceptable for the first year or so, but not forever. The founders instead focus on burn rate: the rate at which a company is losing money, usually expressed in per month terms. The goal should not be how to raise capital to fund this burn rate, but instead how to grow the top line to achieve positive EBITDA. How can a company go down the route of an initial public offering (IPO) without ever having demonstrated profitability? **A business that makes no money is not a business, it's a hobby**.

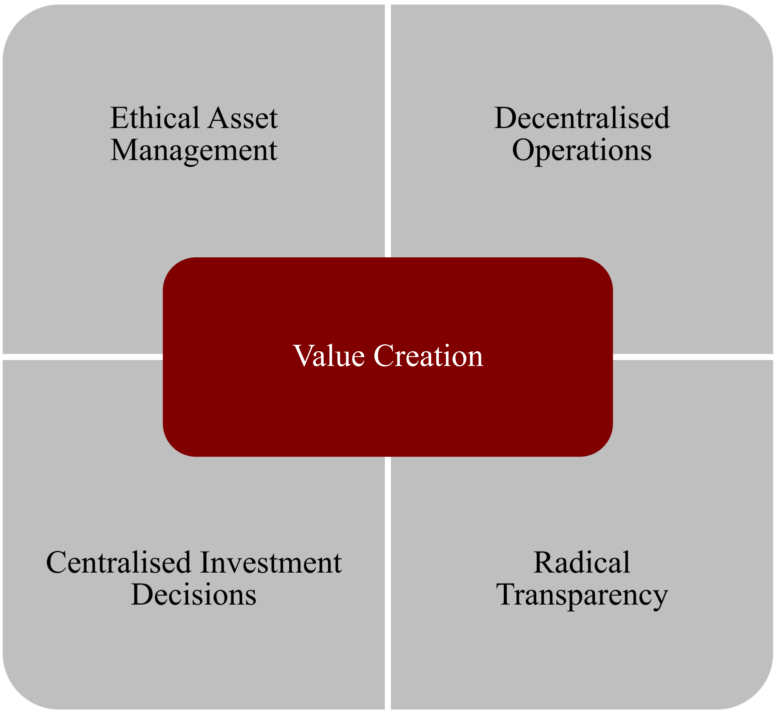
One of my favourite investors and thought leaders, Chamath Palihapitiya, argued in his 2018 annual letter that venture capitalism has morphed itself into a ponzi scheme. He couldn't be more correct. He argues:

> "if you're a VC with a $200 million dollar fund, you're able to draw $4 million each year in fees. (Typical venture funds pay out 2 percent per year in management fee plus 20 percent of earned profit in carried interest, commonly called "two and twenty"). Most funds, however, never return enough profit for their managers to see a dime of carried interest. Instead, the management fees are how they get paid. If you're able to show marked up paper returns and then parlay those returns into a newer, larger fund - say, $500 million - you'll now have a fresh $10 million a year to use as you see fit."

This is the problem. The VC investors are propagating foolish capitalism, creating companies which rely on "investor subsidies" and forget about a path to real profitability. Somehow, the venture capital firms and their limited partners (LPs) don't seem to understand or (perhaps) don't want to understand the issue.

The way I see it is their ignorance is our win. They can continue to focus on food delivery apps and "Uber for cycles," whilst we snowball our portfolio by investing for the long-term in real businesses in core sectors such as healthcare and infrastructure. We focus on finding businesses with a demonstrated history of cashflow. We then work hard and negotiate to buy this cashflow for as little as possible. We then re-invest this cashflow into more high-cashflow businesses. This is the simple RDCP philosophy for successful investing.

Our Corporate Values
We try to keep our management philosophy and corporate values equally simple.



We create valuable, sustainable and robust businesses by adhering to core RDCP values:

- Ethical Asset Management: we are proud to have built an honest organisation with a focus on care excellence, person-centric care, ethics and integrity.
- Decentralised Operations: we run a flat organisation with a lean investment team, releasing entrepreneurial energy for each individual business unit.
- Centralised Investment Decisions: we have the ability to invest across multiple sectors, and we understand that capital and resource allocation is the single most important driver of a business' success. Hence, all investment decisions are made centrally by the small executive management team.
- Radical Transparency: we are radically transparent about all aspects of our business with all staff members and stakeholders, including mistakes and weaknesses, and this helps us create an idea meritocracy. This and future annual letters are a testament to this core value.

Lessons Learned
Over the last four years, we as a company, and I as the CEO, have learned countless lessons from our failures and successes. Here are my top five.

1. Hold on tight to your equity

As an entrepreneur and founder, starting and scaling a business can be a lonely endeavour. The easy solution might seem like bringing on a number of other partners and handing out equity like it is charity. We almost made this mistake twice, but thankfully had the insight to not follow through. Learn to value yourself.

2. Understand the pecking order of your balance sheet

A common mistake companies make is when they need capital to grow, the only solution that comes to mind is selling equity in exchange for money. Equity is the most expensive part of any company's capital structure. If capital is needed for growth, always opt for internal funds, followed by bank debt. Raising capital via a share issuance should be the last resort. I learned this lesson in my very first corporate finance class at McGill.

3. When hiring advisors, never opt for a Tier 1 firm

Tier 1 lawyers, accountants or bankers will charge your company extortionate fees and hand the work over to a junior straight out of university. Stick to a smaller but reputable firm with hungry partners, who will work twice as hard for half as much money.

4. Avoid chasing the same goals as the majority

Chasing the same goals as the majority creates abnormally intense competition, with wins that feel like Pyrrhic victories. Let's use a series of relatable examples.

- It's extremely competitive to get a job at Goldman Sachs. Once you get there, you realise that working 100-hour weeks might not be as glamorous as you had imagined.
- Raising a fund is statistically easier than getting a job at Goldman. However, once again, it's very competitive. After successfully raising said fund, you might realise that you do all of the work, but only keep a tiny portion of the profits.
- A growing business that is trying to raise equity capital from investors faces a lot of competition from other businesses that are also fundraising. After going through the entire process, you might realise you no longer have control of your own business and own a much smaller piece of the pie.

The path that most will never take is actually the easiest one. Build a business by utilising bank debt. Let your cashflow fuel further inorganic growth. Focus your energies on finding solid businesses with great cashflow and then improving margins further, rather than window-dressing your business to make it appealing to investors.

5. Never waste cashflow on awards, conferences or other networking events

Instead continue to build and invest into the business. The time will come where awards are given rather than purchased and invitations are received to speak rather than attend conferences. If the focus is on growth rather than on optics, then soon enough, news and media agencies will be writing about the business, all without spending a single penny.

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All of these lessons are counter-intuitive and contrarian, but that's the point. The vast majority cannot fathom that there's a simpler way of doing business. Again, their ignorance is our gain.

Future Plans

Every investment firm needs a compelling reason to start. Our reason was and is UK healthcare. Over the last four years, we have worked hard to successfully build a strong presence in the highly regulated UK elderly care sector. Our most important platform, RDCP Care, is growing at a CAGR of 304% per annum since launch in 2016. Obviously, this growth rate is slowly trending down to a more reasonable level. However, our goal still is to create one of the largest healthcare businesses in the UK – a well-capitalised healthcare company that provides elderly care, specialist adult care and child care.

We are lucky to have Rosie Howell lead the business currently as Senior Operations Manager and soon as Chief Operating Officer (COO). Rosie manages a growing team of 280 hardworking staff members. She and her team continue to focus on person-centric care, ensuring compassionate and dignified care for residents with a keen focus on each individual's needs. As a company, we are also building an ecosystem of care excellence, where quality of care and residents' needs are the highest priority and at the forefront of every decision we make.

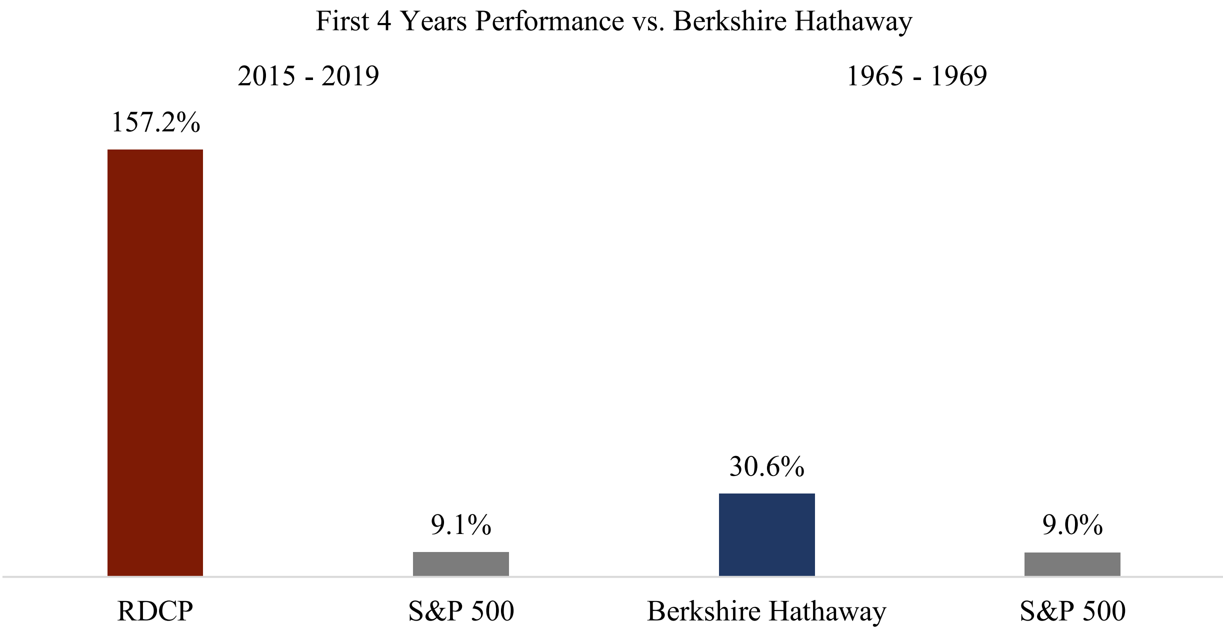
Currently, there are approximately 300,000 elderly care beds in supply in the UK, with demand for nearly 500,000 beds. By 2040, the demand will increase by 60%, reaching 800,000 beds. Hence, we will continue to invest further into the elderly care sector, but also start building a presence in the subsectors of child care and specialist adult care. The majority of new money into sector goes towards the overcrowded luxury care sector. Although this is a pleasant business to own, the cost-per-bed and breakeven weekly bed rates are through the roof. Hence, RDCP Care continues to focus on overlooked and somewhat forgotten affordable care market. The backbone of any economy is its middle class and a healthcare business that ignores this part of the market is not thinking long-term.

We have a small, almost negligible, presence in the real estate sector via RDCP Real Estate. Our vision for residential real estate is to create a community of happy tenants and become the landlord of choice for young adults and students. We would also like to invest into commercial real estate. The issue, of course, is pricing and valuation. Any real estate investments around London or the South are overpriced. Hence, the opportunities lie in the Midlands, Wales and the North. When the time is right, we will actively start growing our real estate portfolio, but this is not likely to be the case in 2020.

The sector we are very bullish on is infrastructure. Same as healthcare, infrastructure is a core aspect of the economy. Capital constraints on the part of government entities are increasing the attractiveness of private participation in infrastructure businesses. Civil engineering and construction businesses are under-priced in today's market. We can see a number of opportunities to build a large presence in a matter of months via inorganic acquisitions. Infrastructure will certainly be RDCP's second largest sector.

Ahead of our five-year anniversary in summer 2020, our goal is to achieve a group enterprise value of £50 million. £50 million in just 5 years, with no outside capital. However, the real overarching financial goal is to grow the business to £100 million in value without selling any equity. This is exciting for us. *Why, you ask.* Because I cannot think of a single business that has achieved this goal in the last two decades. Any business of this magnitude has a number of third-party investors. This also circles back to lesson #4 that I discussed earlier. Nobody has gone down this path of growth. Hence, there is no competition and no comparable companies or founders.

I have made it a habit to benchmark our financial performance and AUM to successful investments firms and conglomerate businesses during their first decade. The one that always comes to mind is Warren Buffett and Berkshire Hathaway. The vast majority of our investment principles are based on inspiration from the likes of Buffett, Munger and Graham. Hence, it is always a pleasure to see a chart like this one below.



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We are only just getting started. We learn something new every single day. We are careful about who we gain inspiration from. We are focused on growth. The present and the future are exciting.

Respectfully,

Sameer Rizvi, CFA
Chief Executive Officer (CEO)
December 13, 2019

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