Dear Kopion Clients,

During 2019, Kopion returned 31.1% before fees (30.0% after fees). This compared to the S&P 500 and the Russell 2000, which returned 31.5% and 25.5%, respectively. As you will remember, however, we entered the year in the midst of a market panic that caused 2018 to end on a particularly bad note and 2019 to begin at a low starting point. This is shown by the orange circle in the chart on the right. I personally find it more helpful to consider our results over the last two years in order to look across that valley. Over that time period, Kopion’s annualized return was 9.0% before fees (8.0% after fees). The S&P 500’s and Russell 2000’s annualized returns during that time were 12.1% and 5.7%, respectively.

Over the last two years, the stock market has generally vacillated between two different views of the future. The positive view has held that the economy and corporate earnings will continue expanding. The negative view, by contrast, has expected the expansion to possibly die of old age or be killed by the U.S. trade dispute with China. During 2019, the trade dispute did cause the global economy to slow, but its impact was less severe than many people feared going into the year. In addition, positive developments on trade and the economy began to emerge toward the end of 2019. These pushed the prevailing view of the future back up towards the positive end of the spectrum. I believe that the market finished 2019 around a “happy medium” that was roughly balanced between an expectation that growth will probably continue and lingering worries about the trade war.
One way to understand this volatility is through the fictional character Griffin in the science fiction movie, *Men in Black 3*. Griffin can see into the future, but not in the conventional sense of knowing exactly how events will unfold. Rather, Griffin sees every potential version of the future without knowing which version will be realized. This naturally gives him a nervous, jumpy personality as he toggles between anticipating the different potential outcomes. Griffin also struggles to hold to the range of possibilities even-handedly. Instead, he alternates between obsessing over the negative versions of the future and forgetting about them. The risks are always present, but his attunement to them varies. The stock market works a lot like Griffin.

What is brilliant about Griffin’s character is the way that he illustrates how the future has many potential paths. Everyone knows this intellectually, but most people seem to relate to time in a linear fashion that focuses on a single path. This is presumably because the past is linear. It has been finalized, and uncertainty no longer plays a role there. The future, however, is full of possibilities, including many undesirable ones. Facing this squarely is uncomfortable as it forces us to reckon with how little we actually control. In addition, trying to evaluate a wide range of possibilities is mentally taxing. For these reasons, it is easier to take a more linear view of the future that focuses on a single path.

It is currently the time of year when experts start offering their predictions for the future, and 2020 will include a bevy of additional predictions related to the U.S. Presidential election. We all know that these prognostications aren’t entirely reliable, but they are still alluring. Indeed, an entire industry has sprung up to develop and sell them. I think predictions’ allure lies in their implicit offer to give us more control over the future. They tend to offer a simplified vision of the future that is easier to comprehend. More importantly, they tell us what to expect so we can plan accordingly. Please don’t misunderstand. I recognize the need to think carefully about the future. It’s crucial for good investing. Predictions, however, are just predictions. When we forget this, we can bet too heavily on a particular version of the future and set ourselves up for a jarring experience if those expectations are not met. Moreover, predictions are not all created equally. Some things lend themselves to reasonable forecasts while others do not. Kopion’s investment process is largely built around this reality.

At Kopion, we strive to:

1. buy companies that can thrive in a wide range of potential versions of the future,
2. at prices that should generate decent returns in conservative scenarios and excellent returns in more favorable ones.

For example, one of our largest holdings is BorgWarner. This company historically produced automotive components such as turbochargers that lowered the emissions of internal combustion engines. Over the last four years, however, they have masterfully extended their product line to include components for hybrid and electric vehicles. The company is now poised to grow regardless of which of these vehicle types becomes most prevalent in the future. Moreover, the stock’s valuation is low enough that it
should generate healthy returns over the long term, even if the business’ results aren’t as good as I expect. These factors reduce the number of predictions that I have to “get right” for BorgWarner to be a successful stock. A portfolio of these types of investments is the ideal that we labor towards even though we cannot attain it perfectly. Conceptually, however, I believe that this approach can actually be more robust than investing in an index, which is arguably a narrow bet on economic growth. To be fair, the global economy probably will continue growing due to rising incomes in the developing world and productivity gains globally. In recent decades, however, birth rates have been falling, and the resulting population dynamics are already pushing economic growth below its historic norms.

There is a wide range of potential outcomes for the coming year, which is always the case (and the reason that I avoid making short-term predictions in my client letters). I did, however, want to mention that the 2020 U.S. Presidential election has introduced some relatively unique negative scenarios since some of the Democratic candidates are openly antagonistic towards businesses, and thus investments. Over the long term, the U.S. economic system has proven incredibly durable, and I expect this to continue regardless of who wins the Presidency. In the short term, however, there is a real possibility that businesses react to this uncertainty by delaying hiring and expansion, and that the stock market responds by focusing on negative scenarios. This might not occur, but I encourage you to be emotionally prepared for it. On a more fundamental level, I remain optimistic about our companies, many of whom are poised to make important progress during 2020. I am even cautiously optimistic about our energy firms because U.S. shale production has finally begun to encounter its geologic limitations. We expect this to lead to a recovery in the energy portion of our portfolio, but it remains unclear whether this will occur in 2020.

Predicting the future is impossible. At Kopion, I have thus focused on businesses that can be successful under a wide range of conditions, and I have sought to be careful about what kind of predictions I am having to make. On a personal level, I am slowly coming to terms with the necessity of making the best decisions that I can today while remaining conscious of the many potential versions of the future. This has gotten easier as I have grown in my personal conviction that there is not only a God who actually exists, but that He has my best interest at heart and is involved in my life. In my better moments, recognizing the ambiguity of the future pushes me into a closer relationship with Him.

Best regards,

Terry Ledbetter, Jr., CFA
PERFORMANCE DISCLOSURES

<table>
<thead>
<tr>
<th>Period</th>
<th>Kopion, Gross</th>
<th>Kopion, Net Max Fee</th>
<th>S&amp;P 500</th>
<th>Russell 2000</th>
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</thead>
<tbody>
<tr>
<td>Annualized*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Year</td>
<td>31.1%</td>
<td>29.6%</td>
<td>31.5%</td>
<td>25.5%</td>
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<tr>
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<td>15.3%</td>
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<td>11.7%</td>
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<tr>
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<td>10.9%</td>
<td>9.5%</td>
<td>13.6%</td>
<td>11.8%</td>
</tr>
</tbody>
</table>

*Ending 12-31-19

Past performance does not guarantee future results. Investments with Kopion may lose value.

Terry Ledbetter, Jr. began managing his first diversified investment account on 2-4-04 while employed by Friedberg Investment Management (FIM). Mr. Ledbetter left FIM on 7-31-09 and founded Kopion Asset Management, LLC (Kopion), which became a legal entity on 8-24-09. Importantly, when Mr. Ledbetter founded Kopion, he continued to manage the same accounts that he had been managing while employed by FIM. The accounts, investment strategy, and investment process all remained the same. The performance information cited throughout Kopion’s marketing materials includes all of the diversified investment accounts managed directly by Mr. Ledbetter since 2-4-04, which is when he began managing his first diversified investment account. This information is provided for both Mr. Ledbetter’s entire performance history as well as for the portion of Mr. Ledbetter’s performance history that occurred after Kopion was founded and became a legal entity.

The performance information cited throughout Kopion’s marketing materials has been thoroughly documented, and it has been calculated using normal industry protocols, which are described in more detail below. This information has not, however, been audited by an independent third party. Dividend and interest income in these accounts was reinvested. Returns for these accounts have been asset-weighted to calculate historical returns. Said another way, the accounts were aggregated into a single group and then performance was calculated for that single group. This group includes some sub-accounts and securities that were carved out of larger accounts in order to exclude assets like mutual funds that Mr. Ledbetter did not manage directly. Those mutual funds were managed by professionals at third party firms, and Mr. Ledbetter’s involvement was limited to being a passive shareholder of those mutual funds. In addition, some of those mutual funds followed fixed income strategies, which were very different from the strategy used by Mr. Ledbetter when he was employed by FIM and later at Kopion. Performance information that includes assets like mutual funds that were not managed directly is available, and Kopion will provide it promptly upon request.

Kopion reports its Time Weighted Returns (TWRs). TWRs make adjustments for deposits and withdrawals so that those transactions do not influence performance results. Consequently, deposits do not increase the return, and withdrawals do not decrease the return. TWRs thus allow for performance comparisons between Kopion’s (and Mr. Ledbetter’s) history and market indices.

Kopion reports both “gross returns” (which are returns before Kopion’s management fee) and “net returns” (which are returns after deducting Kopion’s management fee). Kopion’s management fee schedule is graduated, which means that the fee rate begins to decrease after an account’s dollar value exceeds a certain threshold. The label “Net Max Fee” indicates that the net returns being presented reflect Kopion’s maximum fee rate for all periods presented. The words “net” or “after fees” without the words “Max Fee” in subscript lettering indicates that the net returns being discussed reflects actual fees.

Kopion has provided the returns of the S&P 500 and the Russell 2000 indices in order to provide the broader stock market context of Kopion’s (and Mr. Ledbetter’s) returns. The S&P 500 tracks the
performance of relatively large publicly traded companies, and the Russell 2000 tracks the performance of relatively small ones. Kopion does not “benchmark” its portfolio against indices in the traditional sense of carefully managing the portfolio for comparison against a specific index. Instead, these two indices are used as broad indicators of the stock market’s performance. Mr. Ledbetter has primarily focused on small and medium sized firms, but he has also invested in some large companies as well. This is why Kopion has provided the results of both the S&P 500 and Russell 2000. These indices cannot be invested in directly, but mutual funds and exchange-traded funds that track these indices (“index funds”) are available in the market. Kopion’s (and Mr. Ledbetter’s) investment strategy carries more risk than investing in an index fund that tracks either the S&P 500 or the Russell 2000. This is primarily because Kopion’s (and Mr. Ledbetter’s) strategy involves investing in a relatively small number of stocks and those stocks are primarily for small to medium sized companies. This approach results in greater volatility and greater risk of capital loss than index funds tracking either the S&P 500 or the Russell 2000.

Indices’ performance figures have been obtained from sources believed to be reliable.