Kopion Asset Management

400 W. Louisiana St.
McKinney, TX 75069

214.425.7027

Rocky Road

Friday, January 14, 2022

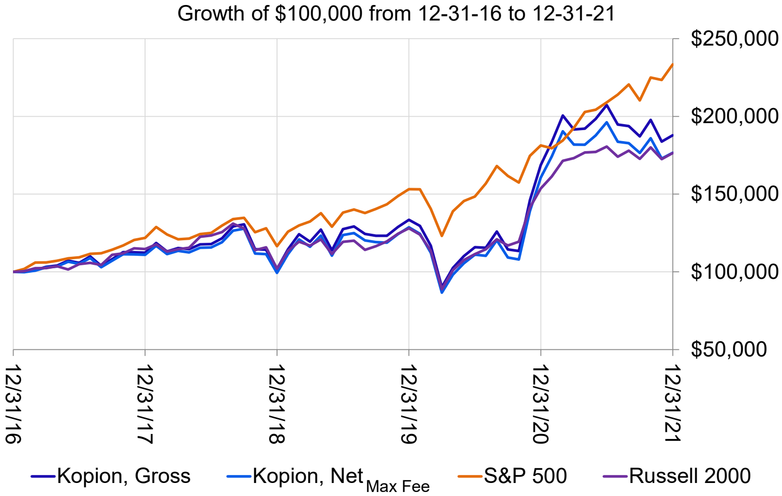
Dear Kopion Clients,

Kopion enjoyed another good year in 2021, returning 11.3% before fees (10.2% after fees). The S&P 500 and the Russell 2000 increased 28.7% and 14.8%, respectively.

During 2021, the world and the stock market moved closer to normal, but disruptions and volatility remained relatively high. In order to understand the current moment, I thus find it helpful to put our recent results into context by looking back over the last five years as shown in the chart below. The most salient feature of this chart is the phenomenal strength and resilience of large stocks over this period as seen in the S&P 500. This part of the market has been like a freight train, partly due to strong earnings growth among large technology companies such as Amazon.com and Microsoft as well as a growing preference by most of the market for these firms. That preference went into overdrive during the pandemic due to:

1. These companies benefitting from trends that the pandemic accelerated and
2. A perception that these firms' continued success is inevitable, which suggests that they are relatively safe investments.

Historical Performance of
Kopion Asset Management, LLC
Growth of $100,000 from 12-31-16 to 12-31-21



In contrast, Kopion's portfolio and small stocks represented by the Russell 2000 have made good progress over the last five years, but the path has been quite rocky. They experienced a dramatic rebound from late 2020 through the first half of 2021. During the second half of 2021, however, new disruptions and worries about the Delta variant, the Omicron variant, and inflation weighed on market sentiment. This disproportionally hurt small stocks, which impacted us since we generally focus on this part of the market.

The decline that our portfolio experienced in the second half of 2021 was disappointing and yet, we ended the year with both a healthy return and a value-laden portfolio. As I look across our portfolio I am encouraged by both:

1. The amount "value content" among our holdings and
2. The specific business opportunities that each of our companies has over the next several years.

It is worth noting that our strong results during the first half of 2021 were partly due to investors' collective attention broadening out and starting to recognize the value and business opportunities of stocks like ours. Renewed anxieties about the pandemic during the second half of 2021 generally reversed that. As I look out over the next few years, I am primarily excited about our stock's intrinsic prospects regardless of how other parts of the market perform. And yet, I was still encouraged to see what can happen in our portfolio when anxieties subside and stocks like ours gain recognition.

As mentioned earlier, while disruptions and volatility eased some in 2021, they remained relatively high and had some unusual impacts in our portfolio. This required us to manage risk in ways that were straightforward, but atypical. For example:

1. Two of our long-time core holdings were bought out within the span of two weeks. We have occasionally had companies get acquired in the past, but I cannot recall ever having such a meaningful portion of the portfolio bought out in such a short period of time. Another unusual facet of this development was that both of the acquisition prices included the acquirer's stock. This led us to consider keeping the acquirers' shares as new investments. We ultimately concluded, however, that their stocks were respectively too risky and too expensive to keep so we liquidated both positions.
2. Two of our companies with exceptional growth prospects drew the attention of speculators who drove their prices up to unattractive levels. We responded by trimming those positions aggressively and were delighted when their prices later retreated and allowed us to rebuild those positions. In fact, for one of those stocks, this overall process occurred twice during 2021.

Situations like these benefitted our results during the year, but contributed to higher capital gains for taxable clients.

Pandemic-related disruptions will surely continue in 2022, though I am very hopeful that the economy will continue to make additional progress. The Omicron variant is causing the latest installment of workforce disruptions and will temporarily exacerbate supply-chain constraints. And yet circumstances are changing in ways that are leading some governments to start relaxing restrictions. The tide of anxiety surrounding the virus thus continues to go out, albeit slowly and unevenly.

A key consequence of government restrictions has been widespread supply-chain shortages, which have led to the highest inflation since 1990. High inflation seems likely to persist through much of 2022, though our companies are generally well positioned for such an environment. Warren Buffett explained that the businesses best able to handle an inflationary environment are those with enough pricing power to increase their own prices and thus revenues, without having to increase their expenses and capital outlays by the same degree.[1] Most of our stocks generally meet those criteria by virtue of operating leverage, modest capital requirements, or both.

In summary, the economy seems likely to continue its disjointed path out of the pandemic. I am encouraged by our company's prospects for the next several years, and I am even cautiously hopeful that the improved recognition that many of our stocks received in the first half of 2021 could return if investors' collective attention broadens out beyond large technology companies.

Thank you for your continued confidence and support.

Best regards,

Terry Ledbetter, Jr., CFA

---

[1] Buffett, Warren. Berkshire Hathaway 1983 Letter to Shareholders. See also Berkshire Hathaway 1981 Letter to Shareholders.

PERFORMANCE DISCLOSURES

Period	Kopion, Gross	Kopion, Net $_{Max\ Fee}$	S&P 500	Russell 2000
Annualized*				
1 Year	11.3%	10.0%	28.7%	14.8%
3 Years	22.6%	21.2%	26.1%	20.0%
5 Years	13.4%	12.0%	18.5%	12.0%
10 Years	11.8%	10.5%	16.6%	13.2%

*Ending 12-31-21

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 reflect 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.