NZS Capital, LLC

Fourth Quarter and 2021 Annual Update

January 10th, 2022

The NZS Capital Growth Equity strategy had a gross return of *5.91% (5.74% net)* in the fourth quarter of 2021 compared to its global market index benchmark, which was up *6.62%*. The year ending December 31st, 2021, the strategy returned *22.62% (21.83% net)* compared to the benchmark's *18.57%*. The NZS Capital Select strategy rose 5.14% gross *(4.97% net)* in the fourth quarter of 2021 and rose *25.47% (24.66% net)* for the year. The end of 2021 marked the two-year anniversary of the founding of the NZS Capital Growth Equity and Select strategies. Since inception, Growth Equity rose *41.60% (40.67% net)* annualized and Select rose *44.79% (43.85% net)* annualized compared to a *17.19%* return for the index.

Q4 and Full Year 2021

Through December 31, 2021

NZS Capital, LLC	NZS Growth Equity			NZS Select		
	Q4 2021	**2021**	**SI ***	**Q4 2021**	**2021**	**SI ***
Gross Strategy Return	5.91%	22.62%	41.60%	5.14%	25.47%	44.79%
Net of Fees	*5.74%*	*21.83%*	*40.67%*	*4.97%*	*24.66%*	*43.85%*
Index Return**	6.62%	18.57%	17.19%	6.62%	18.57%	17.19%

** Inception for Growth Equity and Select is January 1st, 2020; performance greater than 1 year is annualized.*

*** Morningstar Global Target Market Exposure NR USD.*

The research process at NZS Capital is always guided by the unpredictability of the world around us. Our lens on the world, which does not rely on narrow predictions of the future, is ideally suited for long-term investors as the global economy transitions from analog to digital. We believe companies that maximize non-zero-sum outcomes for all of their constituents, including employees, customers, suppliers, society, and the environment, will also maximize long-term outcomes for investors. These adaptable businesses will take share as the economy continues its decades long transition from analog to digital, sector by sector. Our view of the world informs our portfolio construction process, which combines a relatively small number of Resilient companies (larger positions) with a long tail of Optionality companies (smaller positions). Resilient businesses have very few predictions underpinning their success and a narrow range of outcomes, while Optionality businesses have a wider range of outcomes and their success hinges upon a more specific view of the future playing out. This combination of long-duration growth and asymmetric upside is well suited to navigating the increasing pace of change throughout the global economy.

Performance Discussion

The following fourth quarter and full year 2021 performance discussion references the NZS Growth Equity strategy. For the year 2021, our top ten contributors were NVIDIA, ASML Holding, ViacomCBS, Alphabet, Lam Research, Crown Castle, Microchip, Sun Communities, Amphenol, and Microsoft. Information Technology was our top performing sector along with Industrials and our underweighting of Healthcare and Consumer Staples. Our largest sector detractors were our underweighting of Energy and Financials and our overweighting in Communications. The most significant ten detractors from performance were Peloton, Nexon, Redfin, Walt Disney, T-Mobile, Zillow, Zendesk, Take-Two, PayPal, and Snap.

For the quarter, our technology investments were up 11.83%, lagging the benchmark technology component by 1.09%. Among the top contributors in the quarter were Lam Research, Crown Castle, Amphenol, Microchip, KLA, Sun Communities, Cloudflare, Micron, Silicon Labs, and NVIDIA. Similar to the annual results, our relative overweight of technology aided performance while our overweight in Communication Services hampered performance. Further, our stock selection in Consumer Discretionary was a drag to performance. Bottom contributors included ViacomCBS, Peloton, Twitter, Snap, T-Mobile, Salesforce.com, Block, Redfin, PayPal, and MercadoLibre.

Market Commentary

All biological systems exist in an ongoing effort to achieve homeostasis – a perfect level of nourishment and comfort for the organism to optimally survive and procreate. The stock market, like the global economy, is analogous to a living organism in that it is constantly seeking homeostasis, i.e., some sort of balance between supply and demand that manifests as the price of a stock and of the overall valuation of the market. Living organisms and the stock market are also both complex adaptive systems, and that means that disequilibrium is generally the equilibrium state. In other words, we are always shuffling one way or another to try and achieve homeostasis, drifting through – but never maintaining – that ideal state.

In the body, we balance things like calories, sleep, temperature, mental wellbeing, satisfaction, etc. The financial markets are trying to balance interest rates, inflation, geopolitical forces, shocks to the system (oil supply, pandemics, wars, etc.), and the range of possible future states of the world along with the range of outcomes for each individual stock. In a complex system rife with chaos and emergent outcomes, maintaining equilibrium for any meaningful duration of time is of course an unachievable goal.

The human body is concerned with maintaining temperature, food, and water within a narrow band, because those parameters are so critical to survival and the minimization of physical disequilibrium. For the markets, the key element is probably a consensus around interest rates, because everyone in the markets has some sort of hurdle they need to meet in order to take on the risk of investing money rather than sitting on it or making other investment choices. For individual stocks, homeostasis revolves around valuations.

When the market has wide divergence in opinions on things like long-term interest rates, or when there are a lot of shocks to the system, its struggle to find homeostasis tends to become more dramatic. In other words, the typical disequilibrium operates in a wide band as price levels are more volatile than when the market can agree on a tighter range of future scenarios for variables like interest rates. This is an overly elaborate way of saying more unknowns create more volatility, but the key point I want to make is that thinking biologically can give you more context for how markets behave over time.

Humans need a full stomach, a warm fire, and a good night's sleep that isn't plagued by worries over the future. To feel equally sated, the markets need stable leadership, calm geopolitics, and a consensus view of future inflation and interest rates. But, predicting the future of any type of complex system is a fool's game. So, we humans have learned to stock the pantry, have alternative heat sources on hand, and shelter funds for a rainy day. The markets, in contrast, have a more subsistent existence, digesting news minute-to-minute while never fully satisfied it can achieve any level of consensus. Whereas adult humans have a chance at understanding if they are hungry or tired, markets are more like a crying infant, unable to fully communicate what would calm them down.

When the future is unknowable, the best basic strategy is to own assets that require you to make as few predictions as possible for achieving a desired outcome. That means owning assets that imply a return rate above your hurdle rate without having to know with precision how the world will unfold. That's a challenge if you cannot pin down interest rates to a relatively narrow band, especially when the variables going into inflation are difficult to forecast. That conundrum seems to be what the markets are grappling with today, but it could be a million other things as well. It is complex, after all.

Fortunately, we can return to a few basic first principles that we believe hold true long term: 1) the future is always better than the past; 2) technology is an overarching deflationary force; 3) one person's debt is another person's asset, which impacts the direction of interest rates; 4) humans are innovative and rise to the challenge; and 5) given enough time, optimism always wins over pessimism and cynicism.

Thank you for your continued trust, interest, and support.

---

info@nzscapital.com

NZS Capital, LLC