

AVENIR CORPORATION

INVESTMENT MANAGERS

January 2022

Dear Friends and Fellow Investors,

2021 was a surprising year for investors. Supported by abundant fiscal and monetary stimulus and spurred by the easing of pandemic restrictions, the U.S. economy performed well amidst a period of continued low interest rates. Markets responded with the S&P 500 posting a 27% gain for the year.

The first few weeks of 2022 have been rougher for financial markets as concerns about an overheating economy and inflation have prompted the Federal reserve to shift to a less accommodative monetary policy, signaling rising interest rates in 2022. This change presents investors with the challenge of reconciling still-high valuations with the possibility of higher interest rates, which would compress earnings multiples and perhaps reduce economic growth.

While all businesses are affected to some degree by the general economic environment, our investment approach leads us to avoid owning businesses that are heavily leveraged to the business cycle or at the mercy of fickle capital markets should higher interest rates materialize. Specifically, we seek to invest in well managed businesses characterized by secular growth drivers and superior economics which enables them to prosper and grow earnings and cash flows in any economic environment. In addition, while unsettling, a turbulent stock market works to our advantage as opportunities to invest in excellent businesses at attractive prices may become available. In short, as prices fall, the search for new ideas gets easier and more interesting. For example, the rapid innovation witnessed over the past several years has fostered the creation of many fascinating businesses, some of which have developed durable franchises. We have identified several that we would like to own at the right price. Our disciplined process is to weigh the returns on these prospective investments against the returns we are earning on our current holdings and make investment decisions as opportunities arise.

Portfolio Review

Our largest holdings in wireless infrastructure and enterprise software posted excellent operational results in 2021 and had significantly positive impacts on portfolios. The long-term outlook for the wireless industry remains favorable as it continues to roll out 5G in both the U.S. and abroad and wireless bandwidth consumption continues to rise. Similarly, the enterprise software industry has emerged as the primary enabler of the rapid digitization of the economy. Among other notable contributors, our investment in an auto-parts retailer had another excellent year as miles driven recovered, illustrating the depth and width of its economic moat, and our investment in a leading financial institution performed well as the business normalized with positive loan growth and continued expansion in digital banking.

While most of our holdings appreciated during the year, shares in one of our largest positions lagged. This company has brilliantly taken key parts of its retail business - data centers and

transportation logistics, for example - and rented them to others, creating immense new businesses and significant shareholder value in the process. While its share price lagged the market in the last year by a significant margin, we expect the company will continue revolutionizing segments of the global economy, perhaps in ways we haven't imagined, as it has in the past decade. We have recently taken advantage of the opportunity to add to positions at attractive prices.

During the year we trimmed our position in one of our long held holdings as its shares appreciated sharply on the strength of the used car market. In addition, we reluctantly exited a more recent software enabled insurance investment as the shares moved well above our estimate of intrinsic value. We note that this company fits our definition of a great business with superior economics and management, and we would certainly reconsider this business at the right price.

Lastly, during the year we added significantly to our investment in a global digital infrastructure investor, which manages and operates cell towers, data centers, fiber optics and small cells. We first became acquainted with its CEO when his former company was acquired by one of our long held investments. Over the past several years the CEO and his team have assembled a portfolio of assets which through a series of transactions forms the core of the company. The company directly owns and operates digital infrastructure businesses and it owns an asset management business that invests in digital assets on behalf of institutional investors including sovereign wealth funds, endowments and pensions. We know and like management, and we believe it has a long runway for growth.

Summary

Following an extraordinary 2021, capping three years of double-digit returns, markets have unsurprisingly entered 2022 on a down note, and we will strive to take advantage of any extraordinary opportunities that may arise. Meanwhile, our core holdings are in excellent financial shape and earning attractive internal returns for shareholders. You can rely on us to adhere to our quality and pricing discipline.

We are honored by your trust in Avenir. As always, please call or e-mail if you have any questions or would like to discuss your portfolio in more detail. Meanwhile, we hope that you and your families are healthy and safe, and we wish you all the best in the year ahead.

Respectfully,

Peter C. Keefe

James H. Rooney

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