2024 ANNUAL LETTER

DEEP ROOTS, HARD LOOKS, AND CHANGE

PERMANENT

EQUITY

"Progress is impossible without change, and those who cannot change their minds cannot change anything."
– George Bernard Shaw

"Change your opinions, keep to your principles; change your leaves, keep intact your roots."
– Victor Hugo

"Do not conform to the pattern of this world, but be transformed by the renewing of your mind."
– Romans 12:2

2024 was a year of change. It was a year of taking a hard look at what's working, what isn't, and what's next. And I think that's true of both the world at large and what we're building here in Columbia, Missouri.

Globally, politics realigned. Economic policy shifted. Conflict erupted.

Locally, Permanent Equity renovated our portfolio operations – rolling out a new operating system called Blueprint and adopting a new board of directors structure for our companies – and made one acquisition. We hosted Capital Camp, Main Street Summit, our first LP Summit, and our second Operator's Summit, all here in mid-Missouri. 10th St. Talent and Scratchmade Events officially stood up their own shingles, and we published the second edition of The Messy Marketplace.

On a personal note, my wife and I welcomed our fourth child, Silas Peter Beshore. I hit Onederland (sub-200 lbs.) for the first time in 20 years. Unfortunately, I also got a front-row seat to tremendous challenges. More on that later.

By the numbers, Permanent Equity generated almost $50M of distributable free cash flow across the portfolio (including both funds and affiliated companies), thanks to roughly $400M of revenue on $230M of invested capital, delivered by some 900 full-time employees.

On Being Gratefully Wrong

When I was a young man, the world seemed obvious. I knew what was true, what I wanted, when I wanted it, and how to get it.

I knew that success solved everything and I spent my 20s chasing it. In my late 20s, I got it. I'll never forget my 28th year — I made $1M+ in income. My firm had just been ranked 28th on the Inc. 500. I visited the White House as part of a delegation of young entrepreneurs. I was getting invites to meet famous people, join prestigious organizations, and do exciting things. I got everything I hoped for and more.

And yet, despite stuffing myself, I felt empty and insatiably hungry. I had a gnawing sense of anxiety and frustration. I woke up each day with sweaty palms and lingering dread, condemnation, and worry. No amount of positive thinking, praise, social media, stoicism, food, wine, travel, or pornography would cover it up. I tipped the scales at 252. Even the best of it all tasted bland. I blamed long hours and lonely stress. I tried "retiring," which lasted about six weeks. My wife wanted kids. I didn't, because I saw them as an impediment to business success. My wife didn't serve me the way I wanted to be served, and neither did my friends, or my employees. I told my wife I didn't love her, and we came close to a divorce. I distanced myself from my friends. I was in the wilderness, a state of near-constant discontent and discomfort, surrounded by luxury.

But time has shown me that those hopes, those wishes, those aspirations were a mirage. The life I have now is an undeserved and unearned gift. When I try to describe this, people often don't believe me. They think I'm being falsely humble, or self-effacing. But then I tell them…

I got married because I thought she was hot and smart (and she is!), not because I was in love. And yet, despite our fair share of hardship, I'm deeply in love with the dynamic, faithful, and caring woman my wife has become. I reluctantly had kids, only to realize they are the greatest blessing imaginable and wish we had 5 more.

I started what became Permanent Equity because I wanted to get rich, and I did, only to discover that's not the thing. The lie is that money will make you someone else. The truth is that money only makes you more of what you already are. But, I'm now a steward of a thriving business that hopefully will grow into a towering oak tree, providing shade for many for generations to come. I settled on not raising outside capital, and then had my mind changed by this guy from the internet named Patrick, who subsequently became my first investor and a dear friend.

I neglected my body, didn't work out for over a decade, and used to joke that I only ran when I was chased. Now, I literally work out every day, I sometimes enjoy it, and my health is unimaginably better. I was an ardent atheist who made fun of Christians, and then was unexpectedly rescued by God and came kicking and screaming to faith. Now my relationship with Jesus is the cornerstone of my life.

I could go on, but you get the picture.

My life is a testimony to how someone can be so wrong, so often, be so slow to catch on, and somehow be constantly surprised by unmerited blessing. Forrest Gump is my favorite movie for a reason.

Being Wrong on Boards

The last 16 years leading Permanent Equity has given me tremendous opportunities to see what works and doesn't, especially when it comes to how companies are governed and operated, and what leads to high performance. I've made tremendous mistakes. I've watched others fumble and bumble and stumble towards disastrous ends. We've also figured a few things out along the way.

Along with using minimal debt and the importance of patient capital, my views on boards of directors have been, well, divergent. We are all a product of our experiences, and my experiences with boards had been suboptimal. I've watched boards devolve into time-wasting, ego-filled box-checking. Everyone felt like they had to have an opinion, but no one wanted to take responsibility for the decision. Major strategic changes were made not because they were well-reasoned, but because someone brought it up, then it got momentum, and then no one felt like they could disagree. Compensation packages spiraled out of control as a big-city recruiter, who benchmarked against a cohort of larger and dissimilar organizations, switched out executives for 3x the pay and no better performance.

People whose opinions I trust seem to concur that boards rarely or consistently provide good governance, wise or strategic decision-making, or helpful support to the executive team, which is the whole point. And, research would agree. Reputable studies (see endnotes) have found that 57% of board members won't challenge strategic direction, 65% don't have adequate time to understand complex issues, 87% felt pressured into delivering short-term results, and 44% had misaligned interests. Large boards under traditional incentives can become a multiplicative system of dysfunction.

Despite all this, I have changed my mind. I was wrong. Mea culpa. My conclusion is that boards of directors are highly imperfect, but the best system for governing an organization at scale.

I came to this conclusion because the other system I'm familiar with, Permanent Equity's previous one, didn't work at scale either. What we had been doing was to hire talented and experienced executives as operating partners and give them authority over 4-6 portfolio companies. We called them the "board of directors in a box." They provided relational connectedness, strategic oversight, governance, and budget approval. They did everything from helping the company find resources and deal with difficult situations, to reviewing succession plans and incentive compensation. But, who watches the watchers? That's a lot of authority, responsibility, and conflicting priorities without the necessary and corresponding transparency, redundancy, or oversight.

The longer I live, the more I realize that many more things sound correct than actually are correct. Lots of things make complete sense, and just don't work. Think of putting butter in your coffee, or communism, or the music of Nickelback. The operating partner model is another one of them. In theory it should work. In practice, it didn't.

What seems to work for company governance, decision-making, and strategy is the goldilocks between a single, isolated point of failure (operating partner model) and an unwieldy and misaligned crowd (traditional board model). What the board model needs is reform. There is a tremendous opportunity to redefine and reimagine what a board of directors does, how it operates, and how it's incentivized.

Here's what we're attempting: a small and talented group of highly aligned and motivated people working towards a common goal. Decision-making is tight and accountable. There's nowhere to hide and no one to blame. Success and failure are felt and shared. It's just large enough, between 3-6 people, where there's diversity of thought and healthy horizontal accountability, but communication complexity, politics, and principal-agent problems are kept at bay.

The process begins with the annual objective, based on the company's recent history, current capabilities, and leadership capacity. That objective is generally tied to what makes the business model most valuable in its current form (e.g., margins, scale) paired with what the company can improve (e.g., growth, filling a gap). The objective is not aspirational; this is the board's mandate and a clear filter for reviewing all opportunities.

Smaller companies are easily distracted. There are so many unexpected fires, new business opportunities, and macro changes, along with finite resources, that it's easy to fill a year with chasing down a lot, accomplishing very little.

So with the objective known, the board meets to discuss how to prioritize and allocate resources. The resulting list forms a planning document we are calling

Blueprint. The Blueprint includes the objective, 3 to 5 strategies, action plans beneath each strategy, and then metrics, ownership, and timeline tied to each plan.

While this is our first go-around, we've already found this process to be clarifying. The assignment of ownership and due dates helped promote delegation and accountability among a broader group in most companies. CEOs were empowered to challenge conflicting plans. And documented priorities created opportunities for worthwhile conversations about the little stuff that so often gets in the way, or gets lost along the way.

With metrics refined around what matters, the Blueprint also improved the shared language between leadership teams and Permanent Equity, cutting out any performative reporting in favor of a common scorecard where impact is most critical. Progress is tracked monthly to quarterly, depending on the action plan. Mid-year recalibration is also expected.

While this may not feel like rocket science – and it isn't – the organization, governance, and continuous improvement of a single smaller company is far more complicated than it might appear. Doing so with 16 current portfolio companies with an eye towards many more creates a level of complexity that is hard to adequately describe. We built each step with intentionality for the smaller companies we partner with. Practically speaking, we need a structure to work similarly whether a company is in construction or consumer goods, has a leadership team of 2 or 10, and has an annual budget of $10M or $100M.

Before, we had rough ideas of where we collectively wanted to go and ways to get there. But those discussions, while had, were diluted by lots of daily issues, and largely communicated through a series of private one-on-one conversations with operating partners. It made intentional progress against shared priorities difficult to track and assign accountability. Now everything is written down – deliverables, due dates, parties responsible, and metrics to be measured – and signed off on by all stakeholders. Ambiguity feels nice in the moment. Clarity is kind.

Knowing we had said "no boards" repeatedly in the past, we had reservations about rolling out these changes to our leadership teams, but were pleasantly surprised by how readily everyone embraced the process. Several leaders remarked that the broader teamwork involved felt significantly more supportive. We've already seen fruit from helping everyone remember what is important, and not to sacrifice that on the altar of the urgent.

I'm sure we'll continue to learn and evolve, and I'll let you know in a year how things have gone.

Speaking of Being Wrong... Minority Transactions

While I'm on a roll about changing my mind, let's talk about minority transactions.

In the history of Permanent Equity, we've never done a minority deal, or a deal for less than 51% of the equity of the acquisition. Our thinking has been that few people have our time horizon, and smaller company messiness makes the governance of minority stakes even more fraught.

But this year, we had a few opportunities that would have been best structured as minority deals. The existing owners had ambition and runway, clear vision for the company, an appetite for and track record of growth, and a transition timeline long enough that a significant minority interest (30%-49%) would have made a lot of sense. These got us re-evaluating our decision to only pursue majority transactions.

Our conclusion is that we'd like to add the tool to the box. Moving forward, instead of enforcing a false boundary, we plan to contemplate minority investment opportunities when it makes sense. Here's our criteria beyond what is typical for majority transactions:

1. The leadership team is committed to a long-term transition and are aligned economically with that outcome.
2. There is a path for Permanent Equity to eventually be the majority shareholder.
3. The company is already of a size ($5M+ of net earnings) where we can invest a meaningful amount of capital.

We want to participate in a good business run by people we admire, trust, and enjoy. Whether we own all of it, the majority of it, or a smaller portion is less of a concern than the quality, trajectory, and price. While we would still prefer to own a majority, the size of our ownership should be secondary. The best deals are always collaboratively built, not formulaic. If there are great teams we can come alongside before they're ready for a change in control, why not?

Every owner faces a crossroads – that tension between personal liquidity and risk and company growth and resources – at least once. And, increasingly it seems, before retirement is a consideration. As always, if you, or someone you know, is interested in building a partnership for the future, we'd love to chat.

Portfolio Highlights

Brian's Cabinets: This is our only acquisition of 2024. Brian's is the premier cabinet manufacturer for luxury homes in Bend, Oregon and the San Francisco Bay Area. We had looked at quite a few cabinetry businesses over the years, and never gotten close. We found they historically fell into two unattractive buckets: large-scale, low-margin commodity shops that were dependent on distributors for sales or small, unscalable custom cabinet operations with nearly zero professionalization. Brian's was neither. They're high-end, scaled, and highly professional. The first time the team visited, it was unanimous that it was the cleanest and best-run manufacturing facility we had ever toured. We couldn't be more excited to help Todd and the team expand to more markets in the West and Pacific Northwest.

Pac Air/Air Cert: I remember visiting this business in the winter of 2018. It was clearly something special, but obscured by aging and nearly obsolete technology, a struggling warehouse, and a lack of clarity in how records were kept. A small handful of long-time employees had encyclopedic memories and tremendous tribal knowledge that was written down nowhere. We transacted in late 2019, and then COVID hit. Not an ideal time to buy an airplane parts distributor and a commercial aircraft repair station. Thankfully we were virtually the only company in our industry with zero debt, allowing us to reinvest in the business when everyone else was negotiating with their banks. I visited again this Fall and was floored by the transformation. The culture was vibrant. The warehouse was organized, professionalized, and buzzing. The custom-built software was auto-quoting client requests in real time based on the institutionalization of all that tribal knowledge. The business has grown 6X in 5 years and 2025 looks to be another record year. Leadership matters and I'm proud of Jason, Connor, Dave, and the whole team for what they've built and how they've done it.

Rylee + Cru: If you would have told me a few years ago that we would make our largest investment in a children's clothing brand, I wouldn't have believed you. Investment career graveyards are filled with those tempted by fashion. And, thankfully I would have been wrong. Kevin, Kelli, and the team at R+C are rocking. We had high hopes for 2024, and all were exceeded. We just opened up our flagship store in Southern California and have a pop up in New York City's Upper East Side. If you have children, or your children have children, or your friends have children, why haven't you checked them out yet? Go to ryleeandcru.com and use the code PELETTER to get 15% off, compliments of your friends at Permanent Equity.

Project Updates

I don't come from a finance background. I was, and still am, an entrepreneur and an operator. I love making something new, something I'd enjoy using or experiencing. I spend much of my time thinking about what we could do better, more efficiently, or more relationally. This is what led to the creation of The Messy Marketplace book and our two flagship events: Capital Camp and Main Street Summit. Here's a short update on those:

The Messy Marketplace: The book originated because we noticed we were having the same initial 5-7 hours of conversations with sellers of SMBs. We also heard from the helpers of sellers (lawyers, accountants, wealth advisors, and intermediaries) that they struggled with how best to educate business owners on the sale process. Our hope was to save everyone time, scale conversation, and hopefully attract the right people. And, it served the purpose. We partnered with at least two businesses where The Messy Marketplace played a key role. Five years after the first release, we've given the book an edit, added new sections, and modernized it for how the market has changed. I hope it serves you well.

Capital Camp and Main Street Summit: Capital Camp brings together roughly 400 investors, both LPs and GPs, from around the world. Main Street Summit is a 1000+ person, large-scale festival for small to medium-sized business owners, operators, and investors. Both gather in my hometown of Columbia, MO. This was the fifth year of Capital Camp and the second year of Main Street Summit, and we realized this year that there was more overlap between the two events, both in terms of attendees and interests, than originally expected. In hindsight it makes sense – many investors are interested in the market for smaller private companies and virtually all investment businesses are small businesses by virtually every metric. Looking forward to 2025, we've decided to run both events, which will be distinct, simultaneously November 4-6. This allows one trek to Columbia, MO and an expanded set of opportunities to learn and people to meet. I look forward to hosting you in the Fall.

Shared Services

Seemingly everyone who reaches out intending to build a portfolio of smaller companies all has the same idea: Every company needs marketing, technology, finance, accounting, and HR. Wouldn't it be easier and far more profitable to centralize shared functions? That's what I thought. And, like nearly everyone who attempts it finds out, I was wrong. If routine services are shared, no one is accountable. The ordinary and inevitable frictions of day-to-day work turn into major flash points of conflict and finger pointing. We learned that if we muddle into operations, then everything that goes well is theirs to own and failure is our responsibility. No joke, I once had a CEO claim that their organization dramatically missed their sales projections because their healthcare benefits were, get this, increased. He claimed it was distracting people from working. Turns out, the adage is right – success has a thousand fathers and failure is an orphan.

So after centralizing, we swung in the opposite direction and offered nothing beyond the promise of being a kind and thoughtful long-term owner. But then we noticed a frustrating trend where all the companies occasionally needed the same high-impact and rare expertise in the form of complex legal strategy, major technology upgrades, CMO-level marketing work, and executive search, to name a few. So we slowly started offering, always at the discretion of the company, some of these services. The more impactful and rarer the need, the more likely we were to help.

This was extremely well received and fostered better working relationships. The companies didn't feel forced to use a resource they either didn't want or didn't appreciate. Instead, they were asking for it, and chose it over using an outside resource or hiring internally. They pay for the services because they're market-competitive. And because it was only addressing valuable and rare needs, the stakes were high and the work was discrete. This created a focus and clear boundaries for the specific project, and eliminated blame-shifting.

10th St. Talent: The most impactful of these shared services has been our executive recruiting function led by Kelie Morgan. Like everything network based, the larger the network grows the more valuable it becomes. As that function gained momentum over the past five years, friends of the firm started to request it, then use it, and they told their friends, which further helped fuel the network expansion. There are now 6 employees, with 60% of the business coming from Permanent Equity portfolio companies and 40% from outside searches. They've developed their own proprietary recruitment process, personality and capacity assessments, and an AI-driven scorecarding tool. If you need help in hiring executive talent, I'd encourage you to reach out to Kelie and start a conversation.

Scratchmade: Content scales conversations and events are a primary way to scale meaningful relationships. In addition to Capital Camp and Main Street Summit, the Scratchmade team led by Clayton Dorge produced 5 unique events this year around the country for a handful of selected partners. They are invisible architects and an easy button to deliver experiences that map, organize, and compound the most important relationships. Want to host a unique and large-scale event to serve your people? Give Clayton a call.

Exploring Artificial Intelligence

The past two years have been a slow exploration of what's possible with recent changes in technology, especially around large language models and generative AI. It has become obvious to me, and perhaps this will be another mea culpa in 5 years, that what's coming with artificial intelligence will be similar to the advent of the internet. And, like when the internet first gave us new tools, people will be skeptical. As the often-wrong, never-in-doubt Paul Krugman stated in 1998: "By 2005 or so, it will become clear that the Internet's impact on the economy has been no greater than the fax machine's."

Like the idea of having a website, or taking orders through it, many on Main Street will ignore AI for a long while, and do fine without it for a while too. AI isn't going to replace brick layers and plumbers anytime soon. But, AI may offer a suite of transformative augmentation to the trades, and my guess is sooner than we expect. Imagine if your electrician could have his daily route optimized to start and adapted based on severity and urgency of customer need? What if the entirety of all applicable knowledge was on command in a chat-based format? What if he could have parts ordered and the order tracked effortlessly, and customer follow-up automated? It's not that the robots are going to take skilled jobs, but instead that the people doing the jobs become much more productive, responsive, and value accretive.

An often overlooked aspect of blue collar work is the back office function. Specialized white-collar work like programming and research is already in full disruption, but customer service, clerical, accounting, and project management are on the cusp of transformation. There's a reason why The Office and Office Space were so popular – they speak to the banality of much office work. An alternative future exists where TPS reports are automated and time can be spent where humans excel best and are most fulfilled in creativity and ingenuity.

My suspicion is that those who embrace AI, understand it, and wield it responsibly will gain a tremendous and perhaps enduring advantage. We may experience a sling-shot effect of technology where early adopters are accelerated so far ahead in such a short period of time that competitive catching up becomes nearly impossible. This might be particularly true where brand and sales advantages accrue. In a noisy future of unlimited information, relationships become even more important in the purchase decision.

That said, I thought this two years ago and have been fairly disappointed with the applicable use cases for most SMBs. There's a lot of hype and hand waving with less to show for it than I would have expected. We are using AI in our portfolio, but it's still largely on the fringes and without tremendous impact beyond light augmentation for the individual depending on their savvy. We offer no AI training programs, nor set expectations for the use of AI across our portfolio. For SMBs, AI looks expensive and unproven, which means almost all proposals to leverage it are dead on arrival, especially for those with the typically severe constraints.

Inside of our portfolio, the best AI-driven outcomes to date have been small initiatives in data analytics and customer service, and both types have resulted in clear but mild value creation. The most successful use case is one of our portfolio companies that has gone from closing 10% of customer service tickets with AI last year, to 40% this year. That has freed up their customer success team to spend far more time and attention on complex problems, increasing customer satisfaction and their own job satisfaction too.

My friends in tech tell me that game-changing use cases are already here, but just not widely known or used. The most amusing evidence of this is a voice-based sales chatbot for quoting complex situations that is so good it was asked out on a date twice in the first month of operation. It adjusts dialect, idioms, and topics of conversation by micro-region based on a constant feed of local news.

I've heard about a household robot, like Rosey in the Jetsons, that can do everything from washing the dishes to changing out air filters on your HVAC unit. The kicker is that 30% is AI, but 70% is run through virtual reality goggles by a remote worker. Not addressing the potentially dystopian implications, we're just on the starting line of how AI melds with human capability.

My guess is that 2025 will mark the beginning of widely applicable and highly valuable AI becoming available for those who are paying attention. But like enterprise software generally, too much of the broader AI discourse is not practically contemplated for smaller companies. Like everything, those with more resources get it first, followed by everyone else.

Our plans are to invest significantly in the search for, experimentation with, and implementation of AI. We plan to hire someone to lead this effort, hopefully within the first six months of the year, and offer that high-impact, rare expertise as another shared service to our portfolio. And, depending on that person's skillset and experience, we may look to develop our own proprietary technology based on the work that comes out of trying to solve practical, mostly blue collar problems with the latest technology.

Like anything new, this will be messy and not without stumbles, but I think it will prove to be worth it.

Nothing to Fear, Nothing to Hide

I want to end with a warning, a plea, and a word of encouragement.

I've had a front-row seat to the unplanned and rapid disassembly of quite a few peoples' lives this year. I'm not sure if it's my age, or stage, or just random, but I've never had so many friends and acquaintances struggle so mightily in such deeply personal ways. From addiction and adultery to mental health breaks and alleged criminal activity, I've seen what feels like "it all" this year. I've gotten more "I need to talk" texts than I can count.

Our biggest problems always start small. It's just a little help to get me through the day. It's just one night of fun with the boys. It's just a little corner cut. It's just some fun flirting. It's just a short season of unsustainable work. We realize that we're not okay, but we like the results and believe we can make it work. Our desires overpower our conscience.

To state the obvious, life is complicated and messy. I certainly am. The more I see other peoples' lives up-close, the more I realize that everyone, and I mean everyone, is battling something dark and difficult. You must trust me that you are not alone in your battle. What you're going through is far more common than you can imagine, no matter how messed up you think it is.

The problem is that we all hide out of fear. We tell each other we're fine when we're not. This goes back to the Garden of Eden. When sin entered the world, our response was to hide and blame. We've been doing so ever since. Genesis is either ground-breaking literature or the Word of God, but either way, you should read it. It's all there.

In this hiding we lie to ourselves and to each other. We try to cover ourselves with fig leaves of success, money, beauty, religiosity, and morality. Our masks become so tight and so polished, and we play pretend for so long that we lose ourselves. The perfect job, perfect family, perfect lives can only hold for so long. And in the hiding, the darkness grows. As Tolkien depicts in The Lord of the Rings, Smeagol transforms into Gollum until eventually, Gollum forgets he once had another name.

Sin is the carbon monoxide of life. We think we're the same person we've always been. That's what makes sin so confusing, unpredictable, and lethal. We're being poisoned, but can't feel the damage. We think we can play with darkness, or make the darkness work for us. We think we can control it. We think our darkness is so ugly that if known, no one would love us. But, we also love the darkness. Our loves are disordered, and it's killing us.

There become cracks in the mask, but we maintain such a distance that we're convinced no one notices. We keep pretending, while our hearts slowly become deadened. We assume that cautiously navigating everyone, especially those closest to us, is just how life works. And often, we try harder to keep the mask tight and polished, getting more fit, more successful, and more involved in our churches. We pretend that if we shroud ourselves in good works and the apparent fruit of them, no one will ever know about the brokenness.

And then the facade detonates. It always does, but rarely when we expect or in the way we would have expected. The shrapnel maims. Everything we built our lives on is threatened, which is the exact fear that we were hiding from. Our fears become a self-fulfilling prophecy, and it was our hiding that enabled it.

This probably sounds impossible, but true freedom starts with nothing to hide. Light is the best disinfectant, and when it comes to our sin, it is the only disinfectant. We must be known. We must live in deep relationship, in community with people who know the real us, the real pain, the real struggles, and our real dreams.

There is a danger to living this way. People will hurt us. People will betray us. People will use what they know to their advantage. I know, because as I've tried to live this way, I've experienced some serious costs. But, I promise you it's worth it. You will find true friends, those who will mourn and celebrate with you, those who will tell you the truth in love. The alternative is loneliness and misery. Aren't we tired of living alone? Haven't we had enough pain of no one knowing the real us?

There seems to be a Rubicon that we all have to cross, and from my experience usually the choice presents between the ages 35 and 45. It's the decision to be you, or to continue to play a fictitious character. If you haven't gotten there yet, it's coming. You can prepare by actively seeking real relationships and community. Or, you can keep accumulating soul-level debt, which is like piling sticks of dynamite next to a roaring fire.

If you are battling anything in secret, and the odds are extremely high that you are, I beg you to become known to someone you trust. And, stay known, especially when you want to go back into hiding. I promise you that while the consequences might be painful, you and the people around you will experience far less suffering than if you leave it unaddressed. The real relationships and freedom to be found on the other side are worth it.

Wrapping Up

I'm grateful for another year. I'm grateful for all the new friendships I've been blessed with, and all the old friendships that I've had the pleasure of deepening. I'm grateful for the unmerited and outrageous blessing I've received, including the remarkable group of people I get to work with. I hope to write to you again next year.

In the meantime, I'll leave you with this from Romans:

"May the God of hope fill you with all joy and peace as you trust in Him, so that you may overflow with hope by the power of the Holy Spirit."

– Brent

P.S. That concludes the investment letter. What follows is a lengthy and personal postscript. I chose to include these sections because I wrote about my health last year and got feedback that it encouraged others to start a process. I hope the following continues to add more color and helps in some small way.

One might conclude that by including it this way and putting it last, this is less important. I would argue the exact opposite. We are embodied creatures, and physical health enables everything else. It is said that a healthy person wants many things, but a sick person wants only one. Since I have started taking my physical health seriously, it has improved quite literally every other area of my life. I hope you experience the same.

Slow Road To Fit

Last year's letter TLDR: I peaked at 252 lbs and started 2023 at an out-of-shape 235 lbs. I lost 30 lbs last year and put on 10 lbs of muscle. Everything about how I ate and exercised changed. The results were slow, but steady.

I said the following in last year's letter, which is pertinent to the story: "I wanted to try to get off all substances and see how I felt. I had already been off caffeine. Dropped alcohol beyond celebrations. No allergy meds. Not even an Advil when I was sore."

This year I just kept at it through the first six months of the year and dropped another 5-7 lbs. Then progress started slowing dramatically. At 41, with a demanding career, some unexpected turbulence at work, and four kids, including a baby, it got hard to stay focused. Exercise was steady thanks to the "sweat every day" lifestyle change I'll tell you about below. But, I hopped on and off the struggle bus with sustaining a 250-500 calorie per day deficit. Experience has taught me that losing weight is a magnitude order more difficult than maintaining.

2012 vs. 2022 vs. 2024

I tried to understand what was going on and consulted a number of experts. What I learned was that we have two hunger mechanisms that interact: System 1 and System 2. System 1 sets your appetite based on your recent (2-4 days) caloric load and needs. If you overeat in a given period of time, your body nudges you to eat less temporarily. This is why you tend not to over-eat the days following Thanksgiving. The opposite is also true. If you diet, this system is going to rev up. I knew this, as I had experienced it since about day 3 of my journey. In my experience, it's hard, but straightforward in muscling through it with enough protein and some distractions.

System 2 is more complicated and interacts with System 1. System 2 is a long-term system that adjusts your hunger based on your energy balance over the previous 6-12 months. System 1 is concerned with making sure you can fuel your lifestyle, while System 2 is concerned with you trending towards literal starvation. The more you lose, the more active System 2 gets. If you lose a meaningful amount of body fat, no matter your recent intake, it will override your System 1. This is why body builders coming out of a hard cut are almost uniquely able to put on body fat quickly after the show.

I experienced this phenomenon in a way that shocked me. No matter what I put in my mouth and no matter what combination of protein, fat, and carbs, I couldn't get rid of this deep ache. It was a constant distraction. And, I naturally ate more in response, slowing or stopping my weight loss. My temporary solution was to exercise more. I started doing at least 90 minutes/day of cardio, and sometimes far more. My body started to hurt all the time, which became its own distraction. And I learned about this delightful phenomena called Exercise Energy Compensation, which still is not fully understood by scientists, but shows that the body can adjust down your non-exercise caloric needs up to 600 calories per day. Said differently, your body will compensate for exercise beyond a point and it's a waste calorically speaking.

Then one of the doctors I was consulting recommended I try Tirzepatide, which is a dual GIP and GLP-1 receptor agonist and goes by the names Mounjaro or Zepbound. He called it, "a painkiller for hunger." I laughed and said no. I got on my high horse about not using caffeine, or alcohol, or anything. I had even stopped taking any supplements. This year I've had 7 alcoholic drinks, down from approximately 1,000 in 2022. I wasn't interested in going down that path. Plus I hate – emphasis on hate – needles. He pushed back on me and told me I should start reading the studies on it to make an informed decision. I agreed to start reading up.

As I did, my position softened. It became clear that while there are tradeoffs (side effects) to every decision, the benefit of quieting hunger seemed large and the tradeoffs seemed mild and well-studied at scale. His argument to me was that I had already lost a significant amount of weight by rebuilding my habits, so I was in a far better position to sustain any additional weight loss after going off of it. I was lifting weights consistently and eating high protein, which guards against muscle loss. He said I was an excellent candidate for it to be successful.

I gave it a go, and, well, it worked as advertised. I kept doing what I had been doing, but that deep ache was quieted down. I'm still hungry often, but I've stopped thinking about food all the time. In the absence of near-constant pain, my body relaxed. The biggest tradeoff I experienced was in my exercise performance. By keeping your glucose levels within a narrow range, it eliminates your body's ability to dump glucose into your system during high-intensity exercise. It felt like I lost my 5th gear. Honestly, it sucks, but thankfully I'm not performing for anyone but me.

I broke through 200 lbs, then 190 lbs recently. I'm about 7-9 lbs from my original goal and plan to start coming off tirzepatide soon, which I suspect isn't easy or straightforward. System 2 will be roaring and I'll have to readjust to a lower basal metabolic rate. I can't wait to get my 5th gear back. Although I'm not on social media much these days, I'll try to share how that's going.

As an aside, I'm not encouraging anyone to go on Tirzepatide, or any medication. And, I'm certainly not encouraging someone to do so without first renovating their lifestyle, exercise, and eating habits. It's a powerful tool, but not a magic cure-all.

In fact, the body of evidence clearly shows that if you go on these drugs and don't make lifestyle changes first (lift heavy things, eat plenty of protein), you'll likely lose a disturbingly large percentage of muscle as your weight loss. This will set you up to be lighter, but far weaker. And, if you regain the weight, you'll end up at a much higher body fat percentage at the same weight than before you started.

My goal ultimately is both quality and quantity of life, and while this hasn't always been an enjoyable experience, I believe I am significantly better off where I am than where I started.

What I Learned About Health

I've had quite a few people reach out and ask me what I've learned along the way. Here's a short summary in hopes that it helps someone out there who is ready to get started.

Note: I'm a sample size of 1, have no fancy degree in anything including exercise physiology, am not trying to sell you anything, am not sure everything below is completely correct, and didn't even stay at a Holiday Inn Express last night.

1) It's Slow — Unless you're the first human to break the laws of thermodynamics (which I thought I was for a long time), to lose a pound of fat, you have to under-eat by 3500 calories. And, your body has to preferentially burn all of that as fat, as opposed to muscle, which is rare. A 500 calorie per day deficit is a pound per week. Everything else is water-weight. I've found that a deficit of 500 calories per day is about the limit of what can feel sustainably normal. More deficit than that is going to feel hard. I can only do a 750-1000 calories per day deficit for 4-6 days. Then I need a break, even on Tirzepatide.

2) Lift Heavy, Eat Protein — Assuming you're in a calorie deficit, to get your body to preferentially burn a higher ratio of fat to muscle requires you to lift heavy things (whatever heavy is for you) and eat plenty of protein. It's a signal to your body that the most metabolically expensive tissue (muscle) is worth keeping. My experience is that 3 days per week of lifting has gotten great results, but 2 days per week keeps me from losing ground. But, it's personal. Progressive overload with compound movements has the biggest effect. I aimed to average 180 grams/day of protein (1 gram/day x target body weight), but didn't always hit it.

3) Count Calories, Until You Know — I'm allergic to structure and systems, so the idea of counting calories for the rest of my life was a non-starter. But, I did count calories 3 separate times, each for about 3 weeks, and it was revelatory. It's one thing to know in theory that there are 400 calories in 3 ounces of pistachios. It's another to grab a small handful of pistachios and realize you just ate 400 calories.

Within a short period of time I was able to eyeball my calories in a way that made me conscious of what I was eating and made me realize how frequently I overate.

4) Measure Glucose, Until You Know — A big part of keeping hunger in check is making sure I don't spike/crash my blood glucose. I used Levels once for two weeks to eat normally and see how different foods/exercise affected me. The biggest takeaway was how food order seemed to matter (protein first helped a ton) and how much standing or walking affected post-food glucose spikes compared with sitting. I started eating protein first, incorporating a standing desk at work with a treadmill underneath it, and walking whenever I can.

5) Sweat Every Day — My friend Shane Parrish convinced me that it's easier to do something 100% of the time than 80% of the time. 23 months ago I decided that I was going to do something active every single day, no exceptions. A 20-minute walk counts. Just be active. Prior to that, I worked out at most once a week, and hated every minute of it. Now my body craves movement.

6) Quit Negative Self-Talk — I used to joke that I was a "fat kid." I remember where I was as a 9-year-old when someone called me that, and it stuck. Identity drives behavior. That identity made/allowed me to do stupid stuff like binge eat, because that's what fat kids do. My friend Patrick lovingly told me to knock it off. He said that's not who I am and asked me why I kept saying it. I didn't have a good answer. It was a huge wake-up call.

7) Cardio Matters, With Caveats — I keep hearing that cardio is a poor way to lose fat, but good for longevity. Also, cardio can burn a lot of calories, but it's hard outside a lab to measure exactly how many – and my anecdotal evidence is that fitness trackers considerably over-count. During bouts of long exercise, there's a gap in expected calories burned and what is practically observed called Exercise Energy Compensation. Bottom line…it's confusing. Having done a LOT of cardio, here's where I have landed — 30-60 minutes of hard cardio is an excellent appetite suppressant and helps my body feel much better. Beyond that, it's still "healthy" but I've noticed a compensatory response with hunger that diminishes the fat-loss benefits. I'd build in intense cardio (running, biking, swimming, etc.) a couple times a week and see what you notice.

8) Supplements, Toxins, Heat/Cold, Red Light Therapy — Over the last couple years I've had well-meaning friends recommend all kinds of supplements and techniques that they say helped them, and I'm sure they did. From what I've read and observed myself, heat/cold exposure, supplements, and reducing exposure to toxins can and do matter, but they're the final 5-10%. If you're focused on these, make sure you've already nailed diet, exercise, and sleep.

9) Sleep Matters — There's tons of evidence on this. Seems almost like common knowledge at this point. Anecdotally, everything gets easier with good sleep. It's worth prioritizing. Go dark, cool, and quiet. I use an Eight Sleep and love it.

10) Fasting Works, But Not How I Expected — You know the quickest way to drop weight? Stop eating. I did quite a few 36-hour fasts, four 3-day fasts, two 5-day fasts, and one 7-day fast. All of them resulted in me feeling food-focused, depleted, and irritable. I lost a little weight, but not as much as expected. My body would get lethargic and stressed. The more research I've done, the less I think fasting is beneficial long-term for fat loss, or more precisely, the less I think that the benefits outweigh the costs because of associated muscle loss. But, what fasting did was adjust how I viewed hunger. I realized that not being full isn't hunger and normal hunger, like skipping a meal, isn't a big deal or dangerous, and shouldn't create anxiety.

11) Seek Support — 2 years of trying to "get fit" felt like an eternity. My hope is that I sustain this for the rest of my life. There's no way I could have done it for long without friendships, community, and help. But to get help, you have to be vulnerable and honest. Some days I screwed up and gorged myself. Other days I felt terrible and didn't want to work out. Feeling discouraged is going to come up often. Alex Maples, who recently joined Permanent Equity as our Director of Health and Fitness, has been there every step of the way and deserves a lot of credit.

12) Grace Not Shame — It took me a long time to gain weight, and I had 40 years of entrenched habits. When I started trying to get fit, I wanted it quick. That led to frustration when my old habits weren't gone and I couldn't tell a difference in the mirror. It took a solid year to completely reset my habits, and it has only been recently that people have even noticed that I've lost some weight (look up the paper towel roll effect). My advice is to go slow, set low expectations, and just try to get a little fitter every day.

I'm sure I'm wrong on half of this stuff. But, I'd encourage you to eat the fish and spit out the bones. Cheers and hope it's helpful!

Research Links

- Research by Stanford's Graduate School of Business found that **57% of directors felt that other directors were likely to go along with the opinions of the board's majority rather than challenge them**, leading to a reduced diversity of thought. (Stanford Graduate School of Business Report on Corporate Boards, 2021)
- Directors often serve on multiple boards, diluting their focus. According to a 2018 Harvard Business Review study, **65% of directors felt they didn't have adequate time to fully understand complex issues facing the companies they govern.** Overextended directors may miss critical warning signs, contributing to corporate failures. (Harvard Business Review, 2018, "Directors Are Getting Tired: Here's How It Impacts Companies")
- Boards are often composed of individuals who lack the specific expertise needed for informed decision-making. A 2020 PwC survey of directors found that **45% of board members said they needed more expertise in industry-specific issues.** This knowledge gap can lead to poor strategy, misjudgment of risks, and failed initiatives, potentially putting the company's future at risk. (PwC's Annual Corporate Directors Survey, 2020)
- Boards are often heavily influenced by short-term expectations, leading to a short-term focus and poor long-term decision-making. A 2015 study by McKinsey found that **87% of board members felt pressured to deliver short-term results, even if it meant undermining long-term value.** This focus on short-term gains can lead to layoffs, reduced R&D investment, and missed opportunities, hampering innovation and growth. (McKinsey Quarterly, 2015, "Short-Termism in Corporate America")
- Board members are generally well compensated, yet research suggests no strong correlation between director compensation and company performance. The National Bureau of Economic Research (NBER) found that companies with highly compensated boards actually performed worse than those with modestly compensated boards. This disconnect implies that **boards may not always act in the company's best interest, especially when their focus shifts toward personal financial gain.** (National Bureau of Economic Research (NBER), 2019, "The Cost of Highly Paid Corporate Boards")
- Many board members have ties to the CEO or other executives, which can compromise their independence. A 2017 study published in the Journal of Finance found that **44% of directors had professional or social relationships with the CEO, leading to bias in CEO compensation and performance reviews**. These conflicts reduce the board's ability to provide effective oversight. (Journal of Finance, 2017, "CEO Influence and Director Selection")
- There's often a misalignment between the interests of directors and those of shareholders. A 2019 study from the Harvard Law School Forum on Corporate Governance showed that **44% of board members felt that shareholder interests did not necessarily align with their own priorities. Directors may**

focus on initiatives that enhance their personal reputation or support their own professional networks, potentially neglecting the long-term interests of the company or its shareholders. (Harvard Law School Forum on Corporate Governance, 2019)

- There is often no standardized, transparent way to measure board performance, leading to low accountability. The Council of Institutional Investors found that **66% of public companies had no formal system for evaluating the performance of their board members**. Without clear metrics, boards may avoid addressing their own shortcomings, creating an environment where underperforming directors remain on the board without consequences. (Council of Institutional Investors, 2022)
- Many board meetings are structured inefficiently, leading to wasted time and poor decision-making. According to a 2020 McKinsey survey, **48% of directors said that they spent most of their meeting time on compliance and administrative issues rather than strategic decision-making.** This inefficiency reduces the board's ability to address critical company issues, making them less effective as a governance body. (McKinsey Quarterly, 2020)