GGHC GILDER GAGNON HOWE & CO.

First Quarter 2021

July 27, 2021

Dear Client:

Our accounts continued to perform well during the first half of the quarter, but starting in mid-February, we gave up all the gains... and then some. The re-opening seemed to trigger the drop in our portfolios, as the power of the mRNA vaccines turned investors' attention from stocks that benefited from staying at home to stocks that benefited from the re-opening. At the same time, pandemic-fueled shortages were raising prices from everything from used cars to lumber, inviting investors to worry about inflation. For different reasons, both of these trends encouraged investors to sell the stocks that we favor and buy stocks that we're mostly less interested in.

Short-term losers, long-term winners?

As hard as the pandemic has been, it's interesting to note how much more difficult it would have been twenty years ago before the internet had developed enough to provide alternatives for working, entertainment, and shopping. We've been watching these digital trends for our entire career, and our process paid off last year as they were accelerated by the pandemic.

Zoom (-4.8% during the quarter) is a great example. After a year of virtual meetings, classes, and family gatherings, companies can generally assume that potential clients have Zoom installed on their devices, and that they know how to use it. Solar installers, for instance, have switched to Zoom from in-person meetings. Their "close rates" are a little lower for each meeting, but they can do many more meetings each day. Without the pandemic motivating everyone to get on Zoom, we don't think this would have happened -- you can't sell a solar roof after asking your prospective customer to struggle to install software drivers and learn a new communications system. We hope we'll go back to lots of in-person meetings and activities as the world reopens, but, as Zoom continues to improve their product offering, we project that many phone calls will be upgraded to Zoom, and that many less important meetings will be downgraded to Zoom, leaving them an expanded opportunity for their subscription service.

Similarly, while many (if not all) Peloton (-25.9% during the quarter) riders want to return to in-person fitness activities, there are many aspects of Peloton that remain extremely compelling. Peloton's data-driven classes have allowed countless riders to get in better shape than ever before from the convenience of their own home, and many of those riders now socialize in Peloton groups. We think that Peloton continues to have a massive opportunity to define digital, social, at-home exercise as they also expand the offerings of their subscription service.

Stocks like these shaped our performance during the quarter, as the market turned from a digital/pandemic focus to a focus on the re-opening. Since last fall, we've been working to find re-opening stocks, specifically ones where we think the pandemic has improved their long term outlook. However, we didn't own enough of them to insulate ourselves from the stock market's rotation during the quarter.

Benefiting from re-opening

According to the Wall Street Journal, over two hundred thousand businesses in the United States closed due to the pandemic, with travel and restaurants hit especially hard. Three of the companies that we've invested in since the pandemic that we hope will be long term beneficiaries are Azul Airlines (-11.5% during the quarter), Volaris Airlines (+14.8% during the quarter), and Starbucks (+2.1% during the quarter). In all three cases, our grim bet is that they will grow faster because the pandemic crushed their competitors. For the airlines, their legacy competitors went out of business, freeing up valuable gates in Rio de Janeiro/São Paulo and Mexico City respectively, where our companies previously could not get slots for their planes. In the case of Starbucks, probably over a million smaller restaurants and coffee shops around the globe have closed, giving Starbucks less competition in the near term and access to better real estate in the longer term, opportunities further bolstered by their mobile app which now accounts for over 30% of payments or orders.

While we found a handful of investments like these, our focus remains on getting the big bet right, and we still have our money on the digitization of the economy.

What about inflation?

Another bump on the road that we hit in the first quarter was the prospect of sustained inflation. Pandemic-induced shortages have caused prices to rise, increasing the broad metrics that measure inflation. In the first quarter, the market shifted to valuing stocks that would directly benefit from rising inflation. As we follow these stories, we tend to be a bit more optimistic than the market that the effects are passing.

As we all remember, this time last year there was a shortage of masks, hand sanitizer, and toilet paper. It's easy to understand the increased demand for masks and hand sanitizer, but we were confused about the increased demand for toilet paper! It turns out that one success of the information economy is that modern supply chains are long and thin. The parts to make a complicated product like a car or cell phone now come from every corner of the globe and assemblers operate with just-in-time delivery to increase efficiency and drive down cost. In the case of even a simple product like toilet paper, while overall use didn't actually increase, the lockdown shifted the type of toilet paper that was purchased from commercial product in bulk packaging to home product in retail packaging, which set off what would have been a minor shortage, except, since nothing creates demand like a shortage, it quickly spiraled into a feedback loop of distributors, retailers, and consumers all hoarding a little bit.

Now imagine this same dynamic of a moderate change in demand, but replace the simple product -- toilet paper -- with a cell phone or a car. These are some of the most complicated objects humans have ever created, each assembled from thousands of individual parts sourced from every corner of the globe, and some of which, like microchips, take four to six months to manufacture. A single twelve inch silicon wafer winds its way through hundreds of steps of light and chemicals before getting diced into chips. As the pandemic hit in early 2020, many companies cut their orders, trading what little inventory they had for cash. Our favorite story about this is that car rental companies sold large portions of their fleets in the spring of 2020 into the used car market at rock bottom prices. Now, only a year later, demand for rental cars grossly exceeds supply and data from the US Consumer Price Index shows rental car rates are almost double their previous high. Why can't they simply buy more cars to meet demand, you ask? Car companies like General Motors and Ford are idling production in the face of this wave of demand because they and their suppliers are out of the parts they need to make more cars, often microchips, in part because of reduced orders last year. As availability of new cars is constrained, the price of used cars is up more than 20% year over year, and we recently noted that you can sell a two year old Tesla (-5.4%) for more than it cost to buy it new before the pandemic. Tesla, incidentally, is handling the chip shortage fairly well, but several other companies we own, Impinj (+35.8%), Infinera (-8.1%), and Calix (+16.5%) to name a few, are also exposed and we are carefully monitoring the situation.

Speaking of Tesla, this saga is another point in the column for the advantages of vertical integration. While Ford and GM are idling production because they can't get parts, Tesla has been quietly changing their designs to work around the shortages. As an example, apparently the controller for the adjustable lumbar support was in short supply, and Tesla's solution was to just drop it from the passenger seat and only include adjustable lumbar support in the driver's seat.

So how did all these companies get their demand prediction so wrong? In large part, they anticipated the shock of the pandemic but not the scale of the response. We were guilty of this as well, if you recall, we sold positions in May of 2020 because we couldn't fathom the government response filling the demand gap! The pandemic did shut down huge portions of economic activity, and has without a doubt been more disruptive to the economy than any other event in our lifetimes. If a person goes into cardiac arrest, you can keep them alive if you can keep the oxygen flowing to the brain, and the economy is similar. As the pandemic stopped the flow of money through the economy, governments around the world deployed trillions of dollars of stimulus to stave off what otherwise would have been even greater waves of business bankruptcies and personal foreclosures due to the massive demand shock. This brings us to the second cause of higher prices -- at the most simplistic level, more money chasing the same goods means higher prices, and thus inflation.

While some inflation is likely good for the stock market, too much inflation, and the higher interest rates that would come with it, might not be good for the types of stocks that we own, and the market in the first quarter reflected those fears. We don't make economic predictions, but the same aspects of the information economy that allow supply chains to be long and thin should also, given a bit of time, make them flexible and able to continue to counter inflationary pressure by increasing productivity. We think the current shortages will be largely temporary, and that the massive shot of stimulus will be absorbed in time.

We are actively looking for information economy stocks that make supply chains more flexible, and we've got a quiver of new ideas that we've been working on and are excited to address in our next letter.

Alex Derbes

We have always reported a single performance statistic, summarizing a range of results. Many factors affect where your account landed in that range. Accounts that missed one or more top performing stocks, or had a larger position in a poorly performing stock, can land at the bottom of the range. The performance of new accounts, smaller accounts and accounts that had significant deposits or withdrawals during the period is particularly variable. Even among the remaining accounts, there is a wide range from the aggregate performance we report[1].

We derive aggregate performance by totaling the equities in all of the accounts under management and calculating performance (net of commissions or wrap fees) as if we managed one account. This methodology weights large accounts more heavily and is not representative of any particular account. Therefore, we provide the worst performing account[2] in the relevant period to give an indication of the potential range in investment performance. Please look at your account statement for changes in value from one period to the next[3].

	Q1 2021 aggregate	**Q1 2021 worst**
Margin	-2.5%	-7.1%
Cash	-0.5%	-2.5%
Retirement	-0.8%	-2.1%
S&P 500	6.2%	
Nasdaq	3.0%	

The companies discussed in this letter were selected because they are representative of our thinking. Since GGHC manages individual accounts, some of the companies discussed in the letter are not necessarily held in every account.

Please remember our goal is to build your wealth by aggressively investing your capital over the long term. This approach carries considerable risk and is not for everyone. It requires tremendous patience and commitment in the face of large swings, and has the possibility of failure. At the same time, success can only be measured on an absolute basis. We do not invest with any particular benchmark in mind. While we provide comparative performance of various widely-reported indices to give you a sense of the overall market environment, you should not expect our results to track any one of them. There are

[1] All accounts, except for non-commission and non-fee paying accounts, are included in the calculation of aggregate performance. Past performance is not indicative of future results. Aggregate performance and the worst performing account are net of all fees, commission and expenses and includes the positive impact of reinvestment of dividends. At the end of Q1 2021, Alex Derbes managed 130 margin accounts, 11 cash accounts, and 72 retirement accounts.
[2] The worst performing account excludes accounts opened within the period, accounts with an equity of $1,000 or less, accounts that transferred between GGHC money managers during the period, and uninvested accounts.
[3] Non-retirement accounts pay a commission rate of 1.5% per equity trade. Retirement accounts pay an annualized wrap fee of 2.5% to 3% based on account size. See GGHC ADV for details.

material differences between GGHC accounts and the indices shown, as volatility, investment objectives and types of securities differ.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks. The S&P 500 is a market-capitalization weighted index containing 500 widely held companies. The NASDAQ Composite is a market-weighted index that measures all stocks listed on the NASDAQ Stock Market. The Russell 2000 is an index of the smallest 2,000 companies in the Russell 3000 Index, as ranked by total market capitalization. All index results shown are calculated on a total return basis with dividends reinvested. Index results do not reflect the deduction of any fees or expenses.

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