Informal Investor Meeting

VT Holland Advisors Equity Fund **Andrew Hollingworth, April 2024**

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About today

What today is for?

I. To explain our Fund
   - Its structure
   - And the Holland Advisors team that manage it

II. To help you better understand our investment approach
   - So you can assess the inputs, not just outputs
   - Maybe also to help you in your wider investing

Our Fund - What you came to see?

CALENDAR YEAR PERFORMANCE [2]	%
2011	-0.2
2012	5.7
2013	19.7
2014	9.2
2015	-9.9
2016	21.1
2017	13.4
2018	-16.6
2019	21.4
2020	0.7
2021	12.2
2022	-19.7
2023	37.6
Year to Date	9.0

[2]Data since launch (2021) is present below the dotted line.

TOP 10 HOLDINGS as at 28 March 2024	%
Biglari Holdings Inc	8.9
Ryanair Holdings PLC	7.6
Green Brick Partners Inc	6.2
J D Wetherspoon PLC	6.2
Jet2 PLC	5.8
Ryman Healthcare LTD	4.4
Amazon.com Inc	4.0
Frasers Group PLC	4.0
Nu Holdings Ltd	3.9
Meta Platforms Inc	3.8

Outputs vs Inputs

“Investing is most intelligent when it is most businesslike”

Ben Graham

Fund Structure & Resources

- Holland Advisors is a professional investment manager <u>not</u> an IFA
- Holland's long-standing team and strengthening bench
- Fund structure (UCITS) provides investors structural protections
  - Manager (Holland), Administrator/ACD (Valu-Trac), Custodian, Depositary, Auditors (x2) and Platforms
  - <u>All of us are highly regulated</u>, *mostly* for investors' benefit

- How we behave and what we charge is closely monitored + we are expected to check each other's work
  - Shown fund charges are all-in and reduce with scale
  - However, **what** we invest in is **100% Holland's decision**
    - We will be judged on performance and value for money
    - We think you should judge us on outputs and inputs
    - Good structure we hope is a given

- Unit classes, platforms and other access

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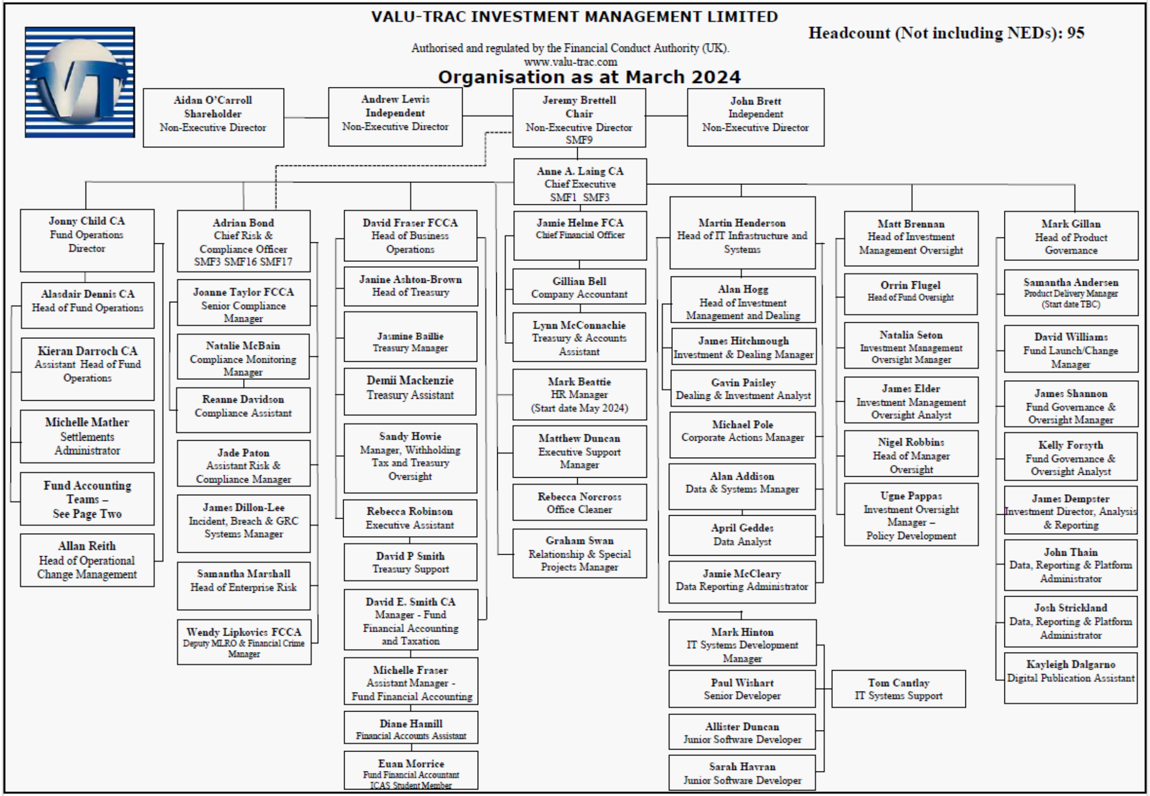
Fund Structure: Valu-Trac (£15bn AUC)



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Understanding my investment approach

- Fund outputs (i.e. performance + volatility) are hard facts
  - Do they impress you today..?
  - Would they have done 18mths ago..?!
- Q. Does an investment's inputs match its outputs?
  - A good match → Deserved Success → Long term hold
  - A bad matc → Dumb luck → Sell..?

	Good Outcome	Bad Outcome
Good Process	**Deserved Success**	**Bad Break**
Bad Process	**Dumb Luck**	**Poetic Justice**

Source: Michael Maboussin

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Understanding my investment approach

- Best place to understand us = Our Website, Investor Letters and Research…. But you are here today!
- Economic Forecasting + Market Cycles
- My three-pronged investment approach
  - *An Owner-Manager obsession*
  - *Sustainable Competitive Advantages (SCA)*
  - *A Compounding focus*
- + A new reflection on finding the very best global companies: *"Super-natural compounders"*

www.hollandadvisors.co.uk

Economic forecasting & Wing mirrors

Here is my economic forecast…!

"The only function of economic forecasting is to make astrology look respectable"

John Kenneth Galbraith

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Understanding market cycles

- There are 3 cycles
  - The Political cycle
  - The Economic cycle

- The Market cycle

Sentiment (Boom/Bust)

Capital Cycle

Market cycles are important & need be understood

- *Howard Marks* is our inspiration when it comes to market cycles
- Investors not fully understanding these cycles can pay a heavy price
  - By buying and selling (often with conviction) at the wrong times

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Market cycles drive volatility but also opportunity

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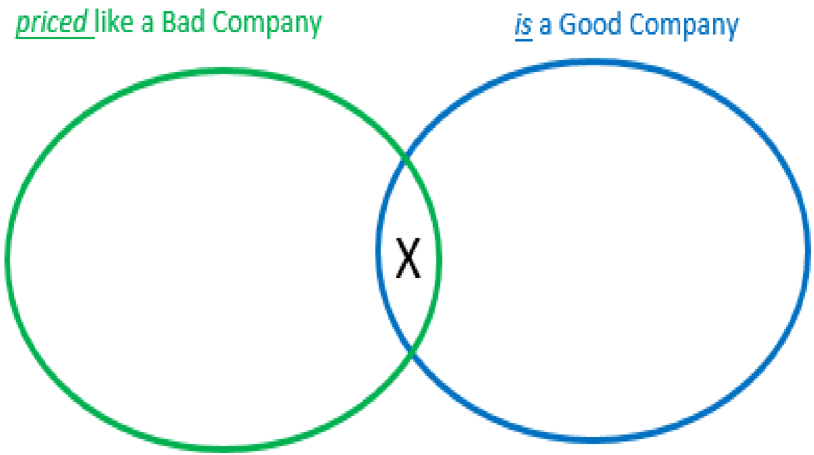
- Almost all current fund holdings were bought when Mr Market was fearful

Sentiment/Capital cycles are our opportunity

- Companies (especially entrepreneur lead ones) have their own cycles too



Source: Holland Advisors

"Be fearful when others are greedy and greedy when others are fearful"

Warren Buffett

Our Owner-Manager obsession

- We have studied/invested in Owner-Managers for a long time
- We like their proven track records, drive, passion, creativity and commitment
  - We love Owner-Manager alignment of interest. You should too!
- When ‘outputs’ are good investors love them too
  - But that love can turn to hate during heavy investment periods or unforeseen downturns
  - Entrepreneurism is messy – a fact missed by many investors
  - This can be our opportunity, but we need to dig for the truth
- >90% of fund assets today are backing proven Owner-Managers

 # Owner-Manager Inc

Our Owner-Manager obsession



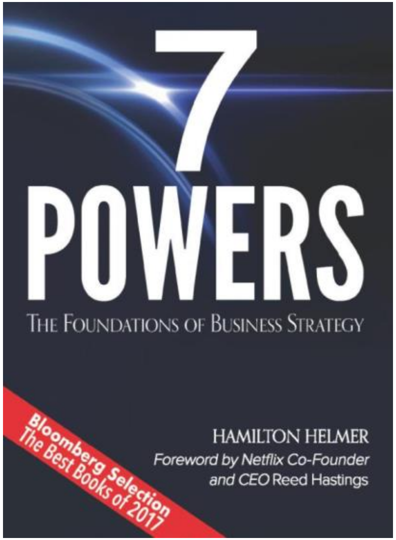




 # Owner-Manager Inc

Sustainable Competitive Advantages (SCA's)

- We have invested in businesses with SCA's for years, but 7P gives a helpful shortlist to focus on:
  - Scale Economics
  - Network Economics
  - Counter-positioning
  - Switching costs
  - Branding*
  - Cornered Resource
  - Process Power



- We find most opportunity in SCA's <u>least</u> understood by other investors

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SCA's of some fund holdings

Which SCA + Our opportunity to invest

NETFLIX

- Netflix started as Counter-positioning
- Now it has Scale and Network economics + Cornered resource?
- End of sector capital cycle was our opportunity (# research piece)

RYANAIR

- Ryanair was Counter-positioning (MOL got noticed!)
- Now Scale Economy. Business model's strength misunderstood
- Huge pricing power now competitors forced out

tsmc

- TSMC has huge unmatched processing power (very unusual)
- Also uses its size for scale-economy sharing with customers

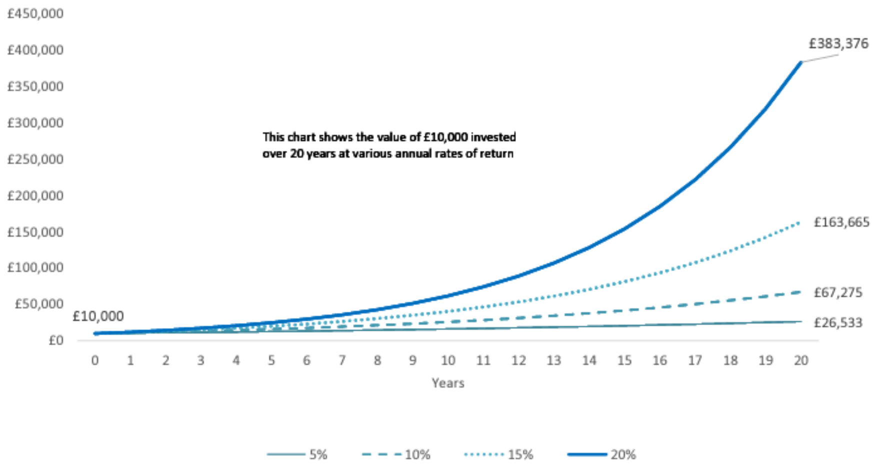
nu

- Nubank is counter-positioning and has Network economics
- It (we hope!) is also an example of a 'Supernatural Compounder'

All these business are owner-manager led and most are lowest-cost producers

A compounding focus – 8th Wonder of the World

- Many investors look for ‘Growth’, ‘Value’, ‘Franchises’ or try to forecast economies and markets
- Our focus is on **compounding** your/our capital at the fastest possible rate



- **20y Money multiples: Bonds = 2.6x, Equities = 6.7x, Best in Class investors = 16x - 38x**

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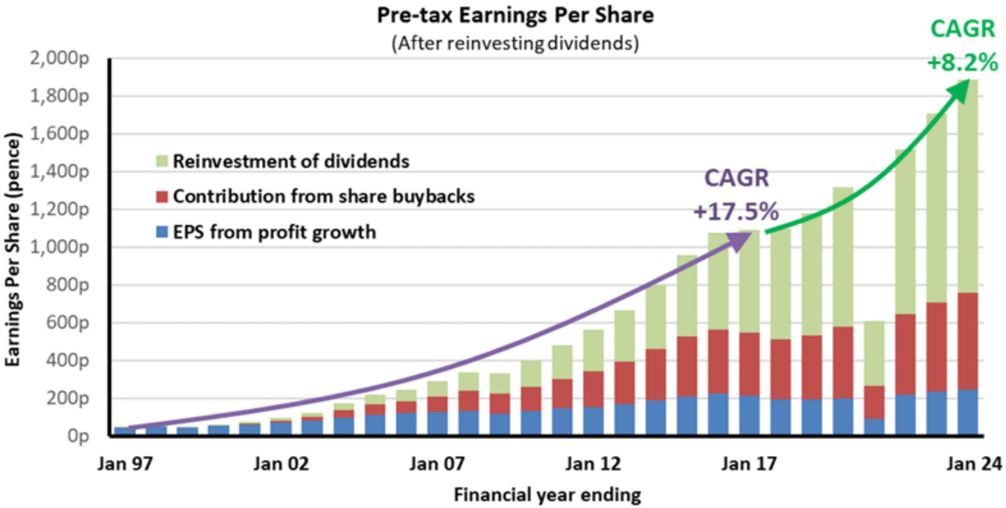
The search for Nirvana: Super-natural compounders

- 15-20% compound growth rates are <u>much</u> harder to achieve in practice vs theory
  - Mostly due to the <u>inability</u> to deploy more capital



- Next plc shows good growth and great allocation. The outcome is c.12-14% pa
- Many of our good investments look like this
  - Respectable, especially if bought well….but can we do even better?

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Super-natural compounders

"At Berkshire, we particularly favour the rare enterprise that can deploy additional capital at high returns in the future. Owning only one of these companies – and simply sitting tight – can deliver wealth almost beyond measure". **Warren Buffett, Berkshire Hathaway 2023 annual shareholder letter, 25th February 2024**

"The ideal business is one that earns very high returns on capital and continues to generate high results on incremental capital. But businesses of this sort are exceedingly rare, and it is even rarer to purchase one at a reasonable valuation." **Sadar Biglari, Biglari Holdings 2023 annual shareholder letter, 25th February 2024**

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Super-natural compounders

- Need a long runway of growth to deploy more capital at a high return rate. This is very rare but not impossible.
  - Amazon sales +26% pa 2010-2020
  - Berkshire BVPS +20% pa 1965-2010
  - All capital was being retained and <u>deployed</u> at consistently high ROIC rates

- Our study suggests three types of organisations can <u>possibly</u> achieve this:
  - Amazon like rollouts of a new paradigm in a huge market
  - Exceptionally run conglomerates who redeploy capital from X to Y – **Biglari?**
  - Serial acquirers

- Great care must be taken in this area
  - We must not believe too easily….or use it as an excuse to overpay
  - But the compounding potential of any successful investment is wonderful…
  - Twenty years for 15x-30x …vs…3x-6x

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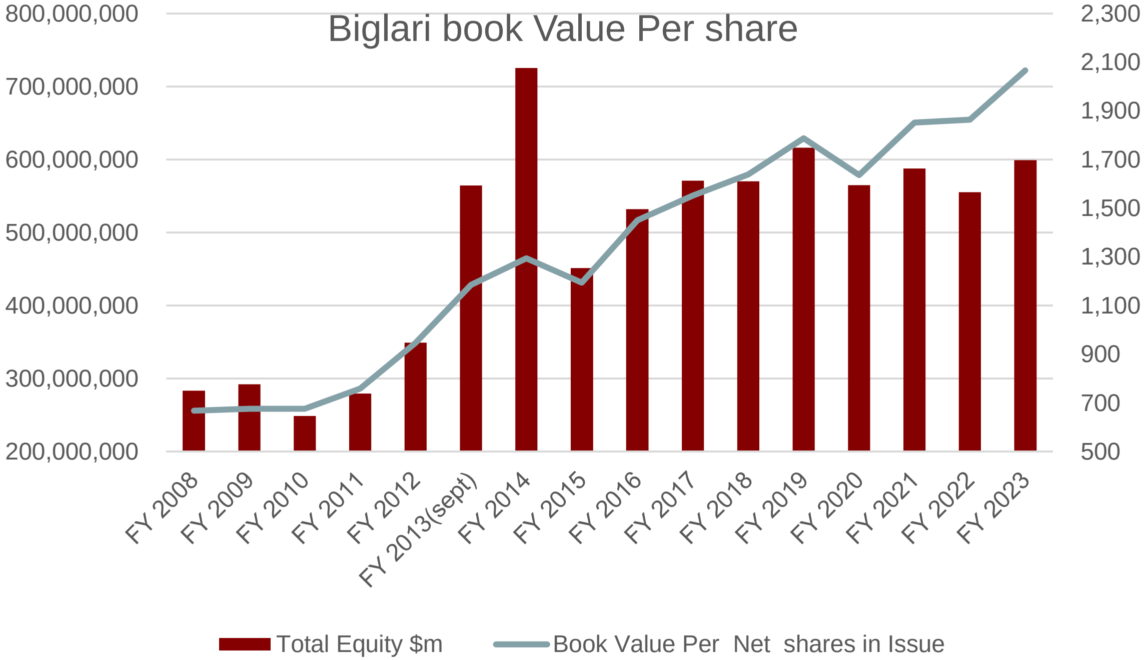
Biglari Holdings ($950)



Source: Holland Advisors

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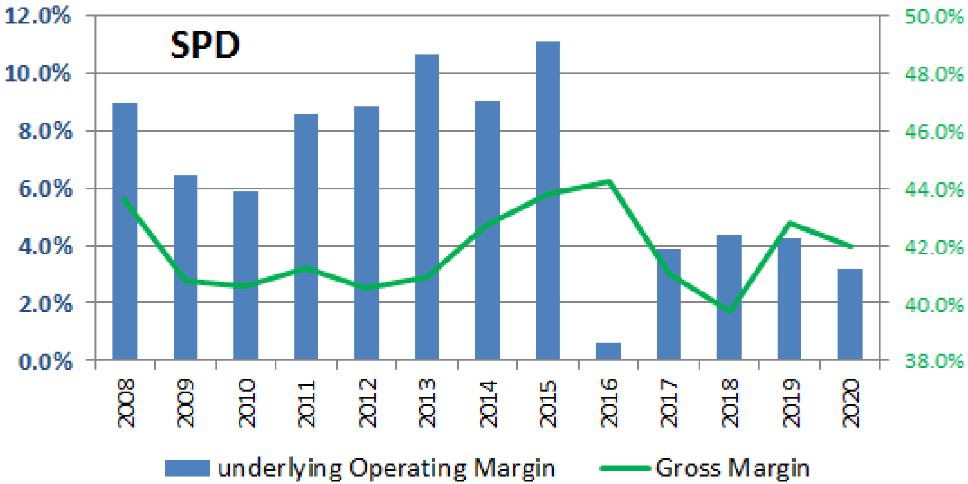
Frasers: Formerly Sports Direct

- Frasers (SPD's) margins dropped, when it fell out with Nike/Adidas
- But with less discounting we believed they would recover



Source: Holland Advisors: Frasers. He got you, didn't he? Aug 2020(350p)

- **Frasers most recent Sports EBIT Margin = 16%!**

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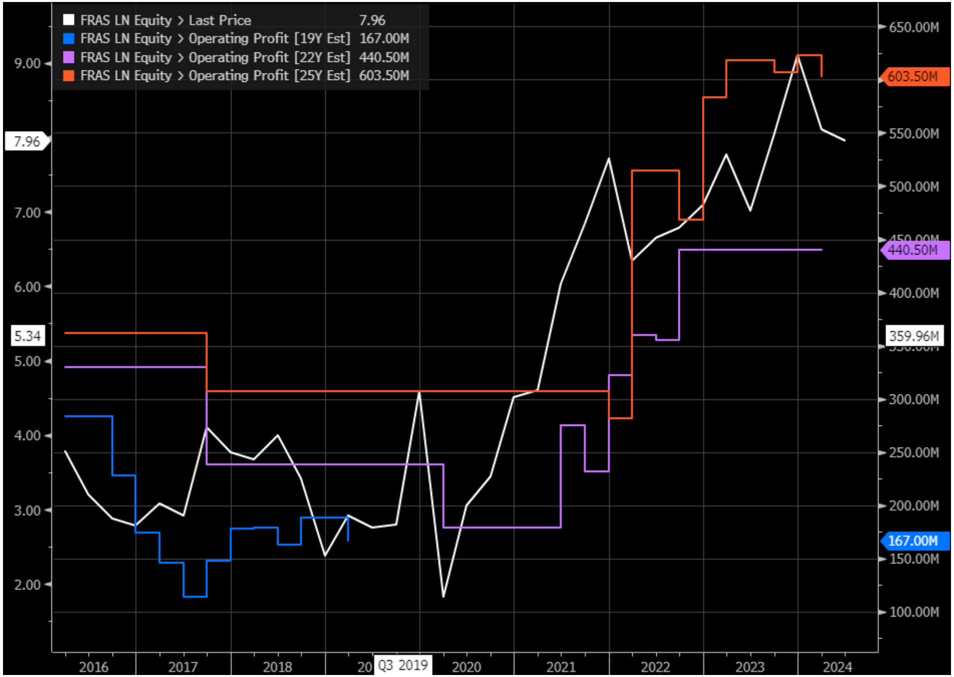
Frasers: Formerly Sports Direct

Source: Holland Views: SPD – Engine Overhaul, Jan 2018/Bloomberg

Frasers: Formerly Sports Direct

- Mr Market's Frasers EBIT forecasts in 2024



Source: Bloomberg April 2024

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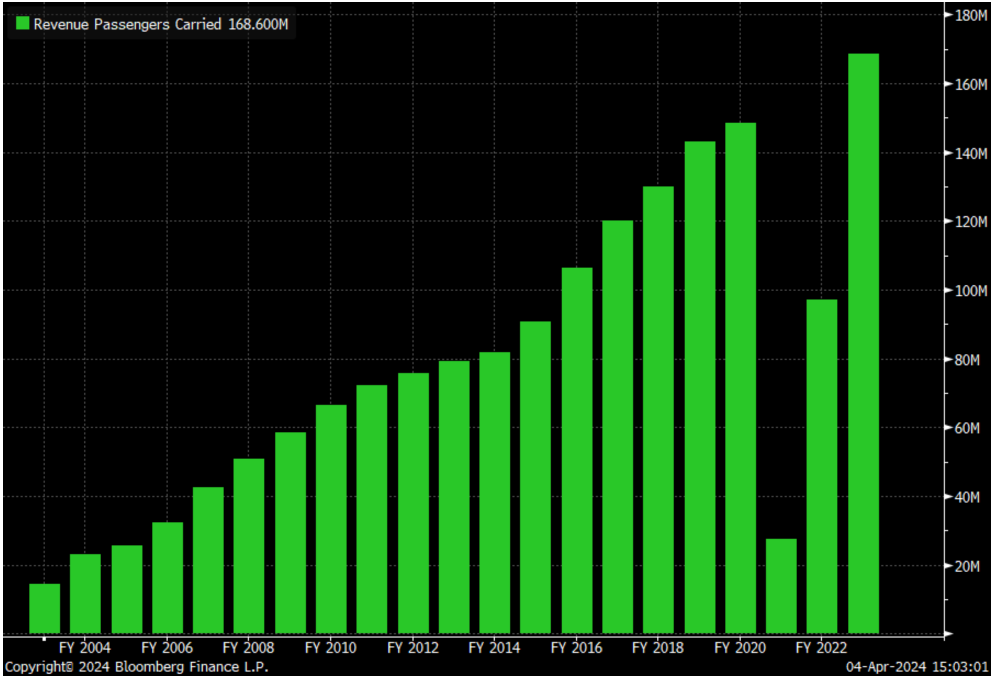
Ryanair: Passengers

- A growth business in a cyclical sector



Source: Bloomberg April 2024

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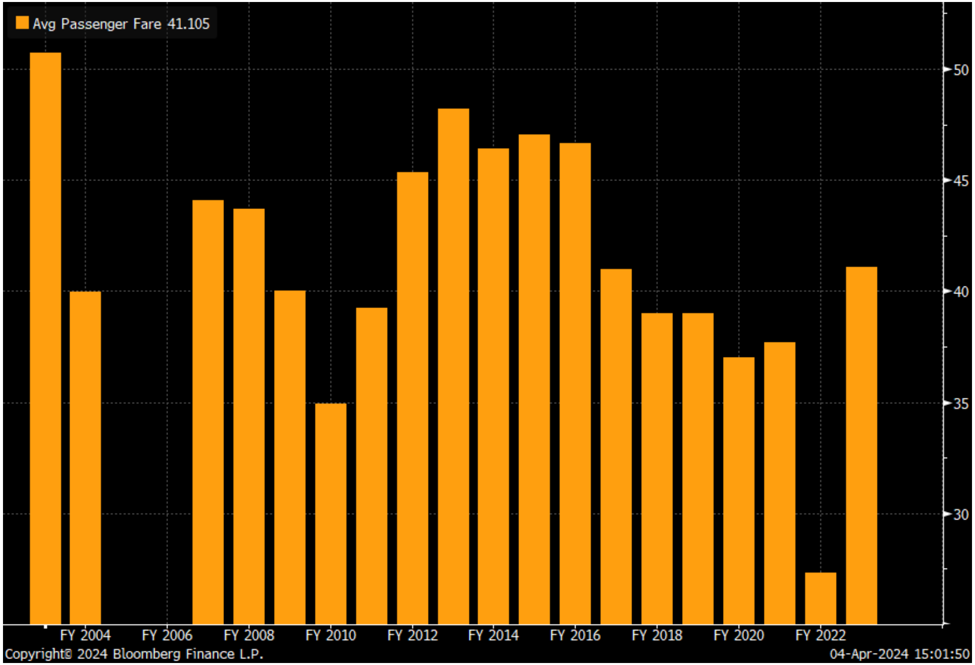
Ryanair: Fares

- Ryanair's airfares were depressed <u>before</u> CV-19 as it invested to hurt competitors



Source: Bloomberg April 2024

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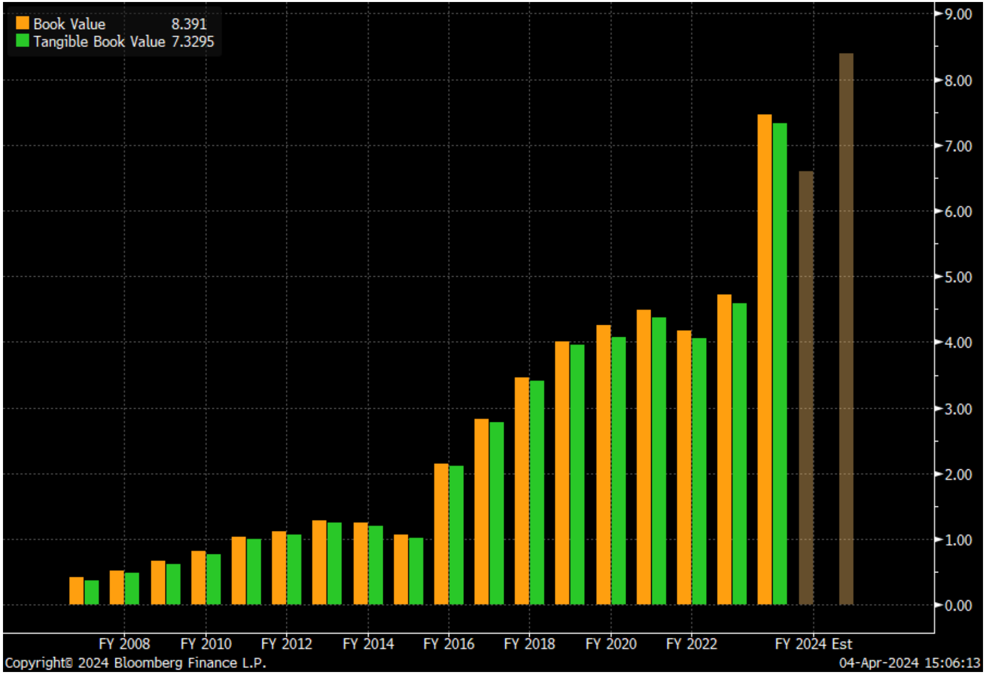
Jet2: An example of mispriced compounding

- Jet2 shares are up 50% in 6m. They still trade on a PE of 8x…for 15%pa growth!



Source: Bloomberg April 2024

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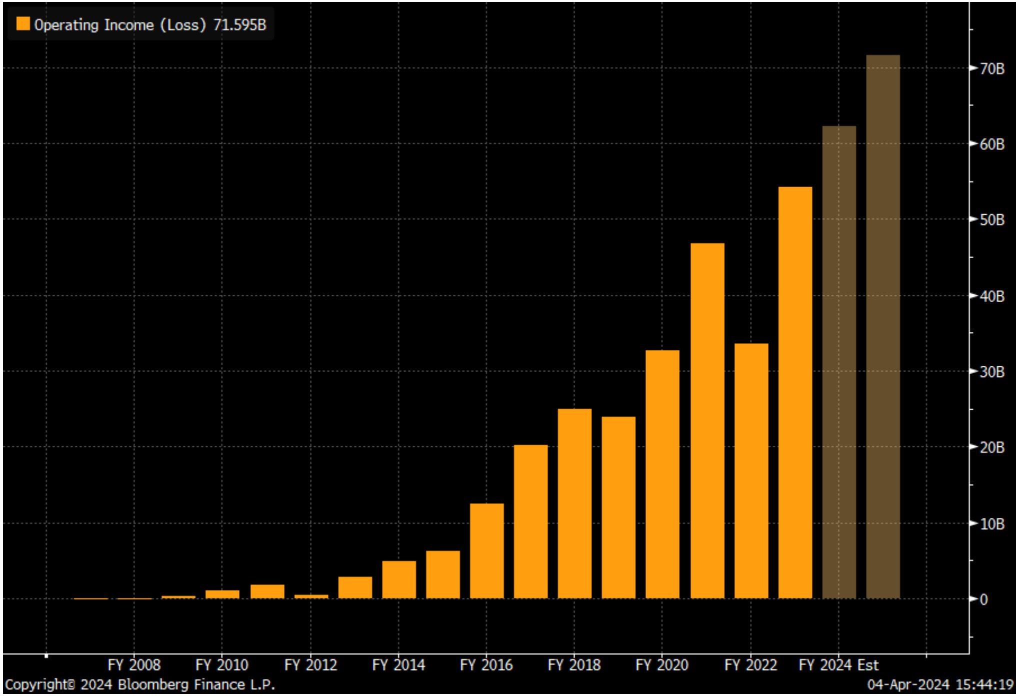
Meta: Mr Market's self-invented panic



Source: Bloomberg April 2024

Meta: Mr Market's self-invented panic

Source: Bloomberg April 2024

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Munger, on selling… and not

"Psychologically, I don't mind holding a company I like and admire and I trust and know that it will be stronger than now after many years", he has said. "And if the valuation gets a little silly, I just ignore it. So, I own assets that I would never buy at their current prices but I am quite comfortable holding them."

Charlie Munger

Know what you seek

"Choosing individual stocks without any idea of what you're looking for is like running through a dynamite factory with a burning match. You may live, but you're still an idiot."

Joel Greenblatt

Lou Simpson's perfect summary hangs on my wall

- *"Think independently"*
- *"Invest in high return businesses run for the shareholders"*
- *"Pay only a reasonable price, even for excellent businesses"*
- *"Invest for the long-term"*
- *"Do not diversify excessively."*

Thank you

www.hollandadvisors.co.uk
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