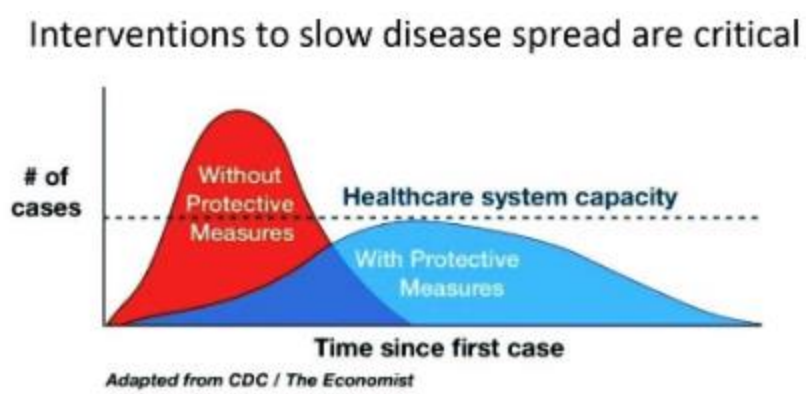
April 5th, 2020

Dear Investor,

First and foremost, thank you for being part of our endeavor. A reliable partner in times like these is of exceptional value and I am incredibly thankful for that, as we weather this crisis. What we have seen in this last month alone is breaking records in many respect, a few listed below:

1. The largest single day % drop in European and North American stocks since 1987
2. The fastest 30% drop in European and North American stocks in history
3. The largest single day % drop in oil prices in history (>22%)
4. The fastest % monthly decline in oil prices in history
5. The largest single day % increase in European and North American stocks since 1933

While COVID 19 and a potential global infection of the disease did not come to a surprise to me, I would have never imagined to see global cities like London and New York and even entire countries on lock-down. The economic cost of this experiment is already coming to light with more than 3.3mio people seeking unemployment benefits in the US last week alone – again another record. Clearly, politicians and people like you and me were afraid of the same reason, which is this chart below that everyone is so familiar with:



This led to a similar political response worldwide:

1. Hygiene: Wash your hands as often as you can and ideally for at least 20 seconds
2. Social distancing: Keep at least 2 meters distance between you and other people and don't gather in groups of more than 2

My point in outlining these measures is that we could have tackled this crisis completely different. Instead of targeting the blue wave by shutting down the economy, we could have tried to lift the healthcare system capacity to match up with the red wave. Why have we opted for the saver, but, and this is of course not certain, a potentially more painful measure in the long run, to live this crisis out via the blue wave? Because we panicked and when we panic we seek safety. Even more so, we will act as herd animals. If a politician would now aim for the red wave, the public would force him/her out of office within 24hrs. It is the same reason why people believed in the earth being in shape of a pizza and not being round in the Middle Ages – the fear of not knowing. And this is exactly what happened to the market. All stocks fell in value, even those that might actually benefit from it, such as food producers that focus on cooking at home and pharmaceutical companies like Roche.

**Just to avoid any confusion, I am not in favour of the red wave. Clearly, the red wave is more risky, i.e. less time to build more hospitals, to develop a vaccine, not enough doctors and nurses. However, the blue wave carries a much larger economic burden, one that can cause more harm and deaths than the red wave in the long run. To find a middle ground between the two, this is the real goal here. And the same pair of goggles one should wear in investing during this market turmoil.

I have changed this quarter's report to the following structure – graphs and data you will find at the end, as usual:

1. Performance
2. Performance explanation
3. Learning points
4. Outlook

Performance

This quarter has been an extremely painful experience. While I sold our airline and oil stocks with between 30-40% of profits and liquidated our long time holding of Covestro early on in January, I have bought right into the market again when it peaked in mid-February. Having understood what this crisis meant for China (i.e. much less traffic, travel), I believed food producers (because people cook themselves) and infrastructure companies (because governments push for fiscal stimulus via infrastructure projects) are the right choice in this market. Despite these sectors having outperformed leisure, oil and other industries, our investments took a loss of -43% in Q1 2020 and a loss since inception of -26%, slightly worse than the DAX and FTSE (both -23%) and much worse than the S&P 500 (+7%). However, including dividend receipts, our performance since inception lies at around -17%, which still outperforms the DAX and FTSE index.

Performance explanation

Selling out on our investments of 2019 has been the right choice, as both Enquest, and IAG are down around 70% from where we sold, Lufthansa 50% and Covestro over 20%. I then looked at the prospect of the future and in the UK this is clearly Brexit and the fiscal stimulus, in particular in infrastructure, which comes along with it. With the government signing off on £600bn in infrastructure spending over the next couple years and with many infrastructure firms at attractive valuations (after the 2nd largest infrastructure company, Carillion, collapsed there was a cash crunch in that industry, which forced companies to bump up their balance sheets), this felt like the right choice and the initial two weeks after purchasing showed a quick 10% profit on our holdings, which, however, evaporated quickly during the sell-off. I focused here on three companies: Costain (-81%), Galliford Try (-30%) and Kier Group (-34%).

As you can see, Costain, which was our largest holdings of the three, had a terrible performance. The reason here is that the firm has tricked investors in believing it has a strong balance sheet, yet their net cash position was overstated by 25% due to an early payment that fell on reporting day and their net cash position showing cash in joint account to which the firm does not have access other than using it for existing projects. On their reporting date, Costain announced to raise capital via equity, which devalued our holding by 50%. The remaining 30% makes up the equivalent of losses in Galliford Try and Kier Group – all due to the Covid 19 outbreak and fear of construction sites being closed down. While this risk is live and partially happened already, the current valuations make all three investments look fair according to my estimates of potential losses. In addition, the central bank and government stimulus should help in mitigating further downside risks.

On top of our infrastructure firms, I bought Premier Foods (-29%), a food producer focused on the UK market. While we accumulated losses here too, the prospects are looking better than ever before for Premier Foods. As the UK is in shut down, most people are working from home and need to cook for themselves. Premier Foods has #1 market shares in pasta sauces, flavourings, quick meals such as soups, desserts and cakes. Half of their products are sold out in supermarkets for the last two weeks. The decline in its stock price is due to fear for small companies to struggle during this crisis, which I would not count Premier Foods in.

<u>Learning points</u>

After such a rough performance, there are many points to learn from. One key point is that I invested in some infrastructure companies that had negative cash flows and negative working capital. While this has been against my rule, the valuation seem to have taken this into account and the prospects seem to look too good to not be part of it. This was definitely a very wrong assumption and makes me focus going forward even more on cash flows, in particular after the experience with Costain and what they counted as net cash flow vs joint net cash flow. Accounting frauds can happen to any company, small and large. Even Warren Buffett had this experience with their Kraft Heinz investment, which overstated revenues for years.

Another point of focus will be the people behind the company we invest in. Some of these smaller companies often have somewhat arrogant and unprofessional behavior towards investors – at least that was part of my experience with some of our holdings. While the investor relations contact is just 1 person out of many, it is the person representing the company to investors, and hence always reflects the culture and manners of the organization as a whole.

The simple recipe that Buffett always touts: Invest in companies that you like, that have strong cash flows and which you understand thoroughly. For that reason, I have developed a recipe, i.e. rules to follow going forward, on which I will build in the future. I am planning to write a book about it, which will have three parts:

1. Prediction
2. Valuation
3. Psychology

I have listed some of the cornerstones here below:

1. Always buy a company that you personally like and from which you personally purchase their products

2. Focus on the people running that business – are they competent and act in a transparent and honest way? They also need to be passionate and hard-working
3. Have a macroeconomic reason why the particular industry will gain revenues, profits over the next 5 years
4. Figure out whether this particular company has a competitive advantage in outpacing its competitors and gaining market share over the next 5 years
5. Follow valuation multiples:
    a. P/E <10
    b. P/B <1
    c. Net Debt/EBITDA <3
    d. Net Debt/Equity <0.5
    e. Positive net cash flows
    f. Current ratio >1
6. Be a business owner: This means you don't buy a stock, you buy a company @market value x. This is particular important when fear sets in and the market sells off in an irrational matter.

Last but not least, my portfolio has demonstrated a high beta, which means I outperformed when the market went up, but also underperformed when the market went down. This high beta is usually referred to higher risk. In our case, however, our portfolio only performed worse than the market due to our position in Costain, which was nearly 30% of our portfolio and suffered an 80% loss due to the capital raise.

<u>Outlook</u>

The near term environment continues to look uncertain. Economies are being shut down for longer, however, there are bright spots out there. Death rates in Italy and Spain are declining and summer is getting closer. While I would generally opt to be optimistic at this stage, I fear that with the supply chain disruptions, we might not get to higher growth as quickly as we would like to. In South Africa, for instance, they have closed down major raw materials extraction sites, such as for steel. This could increase input prices for manufacturing companies & for our infrastructure investments. While our food producing investment in Premier Foods should be safe for any supply chain disruptions and profits are expected to increase as more people cook at home, the largest danger for us lurks in construction sites in London being closed down for longer. Currently around 20-30% of revenue of our infrastructure investments are being subject to site closures. I am writing to the mayor of London and the Prime Minister in that regard, as the economic consequences are inacceptable. Furthermore, I'm in touch with our companies to understand the daily costs of sites being shut down. There are some environmentalists looking to put the HS2 infrastructure project into limbo, but given the tough economic situation we are in, there is a low chance this will find any merit.

There will be more cash being invested next week into Costain (the firm is currently valued at £35mio, of which you need to add the £100mio they are looking to raise via equity offering) – still a bargain. Oil and car manufactures should benefit with the reopening of economies as well. After a crisis like this, there will be long term economic consequences, and I believe, people will be less inclined to fly and instead buy their own car. Remember, the Spanish flu, which is the most comparable period in history to the current economic environment, lasted for nearly 2 years from 1918 to 1920. The difference why the market didn't sell off during the Spanish flu was, because the virus emerged just after World War I, hence the market was already at low valuations. Also remember that after the Spanish flu, we had the roaring 20s, which were particularly profitable years for car manufacturers.

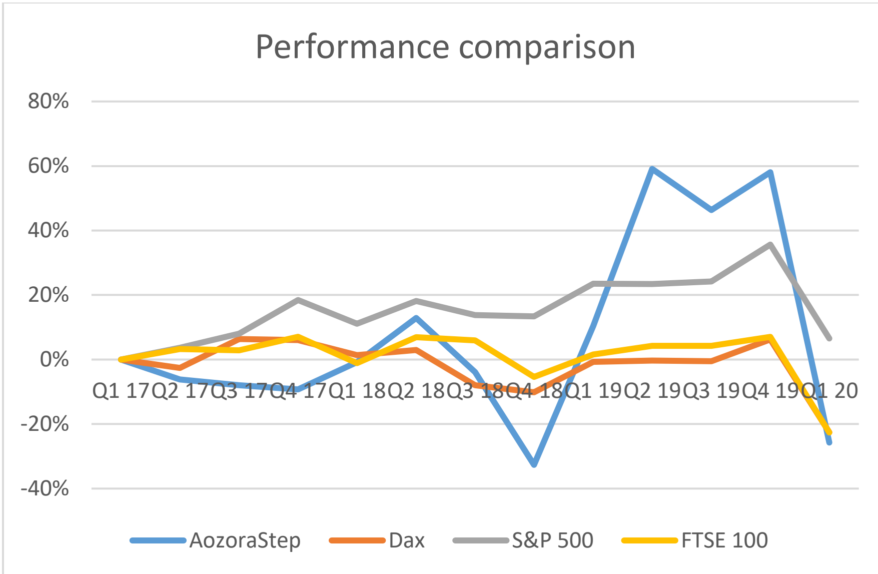
Below you can find all the numbers and charts that outline our business. If you have any questions, always feel free to ask. With not being able to go on holidays, I expect to have monthly cash inflows, which should help increasing our returns coming out of this crisis.

Best wishes,

David Herrmann

Performance

		Portfolio	
Year	**Quarter**	**% change by Quarter**	**% change from inception**
2017	**Q1**	-	-
	Q2	-8.37%	-6.17%
	Q3	-4.92%	-7.98%
	Q4	-1.34%	-9.21%
2017		-9.21%	-9.21%
2018	**Q1**	8.60%	-0.79%
	Q2	18.91%	12.91%
	Q3	-16.20%	-3.86%
	Q4	-29.94%	-32.64%
2018		-30.79%	-32.64%
2019	**Q1**	45.41%	10.36%
	Q2	38.99%	59.10%
	Q3	-0.01%	46.30%
	Q4	8.04%	58.07%
2019		113.15%	58.07%
2020	**Q1**	-43.28%	-25.72%



Dividends Receipts

Dividends	Payment Date	Dividend per share	Currency
GKN	18th Sep 2017	0.03	GBP
Inmarsat	25th May 2018	0.06	GBP
Inmarsat	19th Oct 2018	0.06	GBP
Reach	7th June 2019	0.04	GBP
Covestro	17th Apr 2019	2.15	EUR
Renewi	26th Jul 2019	0.01	GBP
IAG	5th Dec 2019	0.10	GBP

Current Holdings

Company	**Average Purchase Price**	**Current Market Price**	**Currency**	**% change**	**% of portfolio**
Berkshire Hathaway	224.7	179.660	USD	-20.04%	0%
Galliford Try	1.703	1.1800	GBP	-30.71%	25%
Costain	1.9816	0.3700	GBP	-81.33%	9%
Kier Group	1.1761	0.7760	GBP	-34.02%	29%
Premier Foods	0.3458	0.2450	GBP	-29.15%	36%