January 4th, 2020

Dear Investor,

As the year has passed I would like to take this opportunity to first of all thank you for your trust in me, but also explain the new outline of my quarterly update. Going forward, I will structure the quarterly letter as follows, here we go:

1. Performance
2. Performance explanation
3. Micro
4. Macro
5. Knowledge
6. Outlook

Performance

We have had a record setting year with year-on-year performance of more than 113% annually and added another 8% in Q4 mainly due to a 40% return in IAG and a 16% return in Enquest, while our EUR holdings Lufthansa and Covestro had a rather mixed performance and with £ gaining, our € positions automatically lose as our returns are measured in £.

Performance explanation

As our performance has been stellar, I would like to remind you how this was achieved: Brexit. Nearly all of our top holdings throughout 2019 were underpriced due to Brexit and performed strongly once multiple deadlines passed. In comparison, we have had 3 divested investments in UK, all with returns between 30-50%, while we had 1 divested investment in EUR with a return of -21%. Hence, looking into 2020, the £/€ exchange rate will play a major role in deciding to divest our EUR investments and instead invest in the UK in £. In that respect, all major banks expect £ to outperform $ over the next year – invested in the UK hence will benefit the returns also from a cross-currency perspective and with new Brexit deadlines emerging, there are new undervalued companies coming to light.

My investment philosophy is easy: First of all, I look at Price/earnings, i.e. how much does a company earn in comparison to its value. Then I look at the company overall, its industry, does it have any risks to future taxation, geopolitics or declining demand for its products. I also look at revenues, is there continuous growth. Generally, I prefer high earnings compared to revenues, but often low earnings compared to revenues opens up a chance for a company to cut costs and in that way increase earnings. So if revenues grow, there are no major industry-wide risks on the horizon, the earnings/valuation looks attractive, I ask myself, do I like this company? Am I buying their products? If the answers are both yes, then it is a buy. Most important though, is to understand why the company is valued so cheap. Over this year, clearly Brexit undervalued many British companies – all to the benefit of our returns!

Micro

As you will see below, most of our current holdings performed well, especially IAG and Enquest. However, Lufthansa and in particular Covestro were laggards. IAG, as the owner of British Airways, Iberia and a few smaller airlines outperformed Lufthansa mostly due to Brexit. Compared to Lufthansa the growth opportunities are larger, as IAG purchased the 2nd largest Spanish airline, Air Europa. This takeover was key in stepping up growing routes to Latin America, which European passenger can fly to via Spain. Lufthansa, in comparison doesn't have any growth strategy, unless it buys/invests in Alitalia. While Lufthansa has a cleaner balance sheet, profits have also started lagging those of IAG and Lufthansa faces growing tension in the home market of nearly doubling of airline taxes in April 2019, as well as potential competition from local trains. With Price/Earnings of only 5 or 6, both airlines are still cheap in terms of market value. This means, it only takes 5-6 years for your investment to fully pay off. In addition, you can expect dividend yields of +5%. Generally, I also like airlines since I travel myself nearly once a month. With Instagram and better Iphone cameras, the social pressure to impress remains full on. Travelling is and will remain or even grow therefore also over the coming years.

The big threat for the airlines, nonetheless, is potential jet fuel tax and generally higher fuel prices. While the former is somewhat priced in, the latter we are hedged with our investment in Enquest, which is also priced cheaply with a price/earnings of 3.3. The PE is so low, because Enquest has only oil reserves for <10 years and has high leverage with 2x debt/revenue and no dividends. When oil prices spike, Enquest is equivalent to oil on steroids and hence an excellent hedge for our airlines. I also like to be long oil in Enquest due to new regulatory burden for the shipping industry, which needs to use cleaner, less Sulphur containing oil – oil, which Enquest produces. With a potentially weaker USD, oil producing nations worldwide will also have to raise their prices to keep local currency earnings constant. This can also drive oil prices higher.

Last but not least, Covestro shows another poor performance. The chemical giant is expecting ~500mio net income for another year due to abundant supply. While Covestro looked cheap in 2018, now with abundant supply around, selling prices are depressed despite higher demand, Covestro almost looks expensive compared to similar earnings in 2015 (stock was priced around 15% lower) – a picture that is not expected to change any time soon. On a positive note, expect Covestro to outperform strongly when electric vehicles start hitting the market. For that reason, despite the bleak near-term outlook, I potentially look to continue holding Covestro, also as we can enjoy a +5% dividend yield. I also simply like Covestro, as their materials are present in nearly everything we use – running shoes, insulation for buildings, cars, furniture, cosmetics, electronics, wind turbine blades and so on. And as everything is getting lighter, more of Covestro's materials are needed.

Macro

The killing of the top Iranian general has clearly shifted the market and the big question is whether we will have war in the Middle East. Our airlines are hedged with our oil producer investment in Enquest. Our chemical producer, Covestro, could drop in value here dragging our overall portfolio lower. To avoid that, I could both look at selling Covestro and the airlines and invest in UK infrastructure, sustainable energy or grocery companies in the UK. I will consider this over the coming month. Personally, I think Trump might like the idea of having a war or proxy war with Iran, as it likely shores up votes in the upcoming election. Unfortunately, military companies are already pricing in potential conflicts and the large military spending over the coming year in the US.

The next Brexit deadline on 31st January could potentially lead to a few underpriced stocks once again in the UK, although given the parliamentary majority of Tories, this cheapness could be less than in the past.

Other big macro movements for this year include the energy reform of the European Union and potential political unrest, which we have seen around the world from Hong Kong to Lebanon and Chile. Populism is likely on the rise, infrastructure and military spending should increase.

Knowledge

Let's not forget, we have also learned a lot this year. First and foremost, I would point out to never trust banks and their expectations of a performance of a stock. A bank nearly at all times has a conflict of interest. To give a company a sell recommendation means this company won't chose this same bank for any debt issuance or other financing related activities. So banks are always inclined to report positively about companies, or at least more positive than the reality might look like. At the same time, those very same banks cannot make outrageous assumptions and hence will often underestimate large upside of a stock. Key is here, to move within a certain band of the herd. This means, it is my number one priority to solidly analyse a company and potentials headwinds all by myself without any opinions of others – although other opinions can help as a double check on any points missing my personal analysis.

And finally, my biggest regrets of 2019:

Purchasing Reach Plc at an average price of GBP 0.62 has been great, but selling it for GBP 0.80 on the basis of an inflated balance sheet due to high intangible assets from past take-overs has been wrong. The stock is currently priced at GBP 1.38 and would have been the #1 investment 2019. In fact, the intangible assets are a gift, as every year Reach Plc can write some of them off, which will be a non-cash expense and so they can still pay big dividends, but which will also enable them to pay no taxes on their profits.

When I first bought Covestro in 2018, I thought I bought a value stock. But what I did not realise was why earnings were so high. That was not due to high demand, but due to a lack of supply of plastics materials. Hence, while Covestro looked cheap to 2017/18 earnings, there were a few plant outages generally less supply of plastics materials to the market. My regret is that I did not fully understand the chemicals industry and the importance supply and demand has in such a capital intensive industry.

Both points have taught me lessons: Understand balance sheets, understand industries in detail

Outlook

The outlook for 2020 looks foggy on back of heightened political and geopolitical uncertainty. The good news, there will be expected inflow cash inflows over the next 30 days and I have multiple potential investment ideas, such as Centrica, Costain, Acciona, Sainsbury's and Indivior.

Combining value investing with a macroeconomics is key and shapes our investment philosophy. This gives me good hope to achieve high returns for 2020 again – yet, it will be difficult to beat 2019!

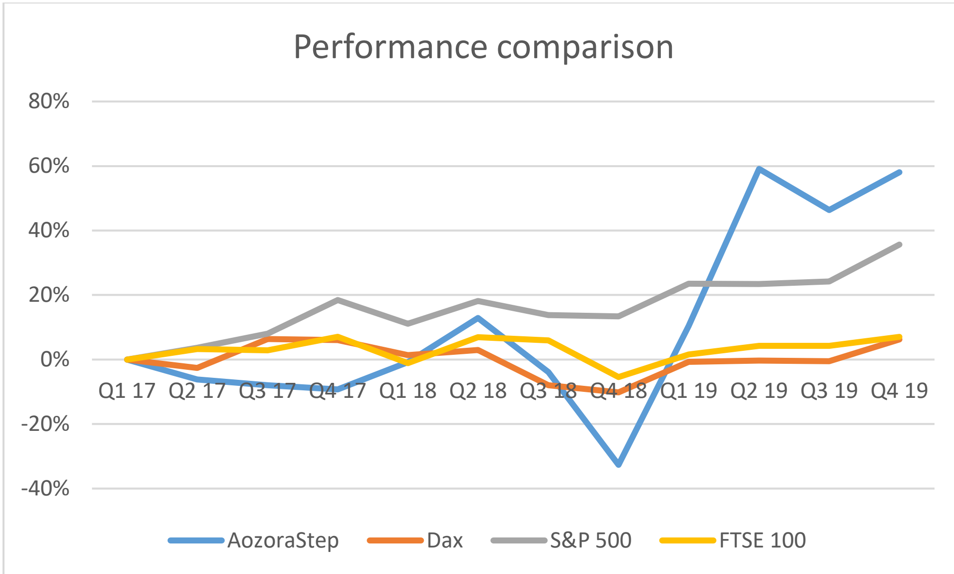
Below find our performance, holdings and profits in numbers

Best wishes,

David

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%

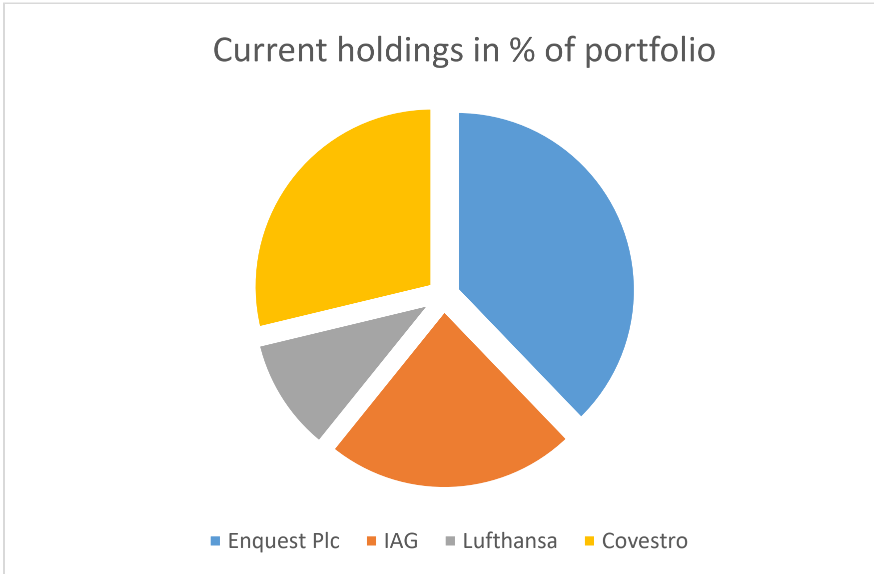


Dividend Receipts

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
Enquest Plc	0.1957	0.2286	GBP	16.84%	38%
IAG	4.4967	6.2540	GBP	39.08%	23%
Lufthansa	15.0300	15.5900	EUR	3.73%	10%
Covestro	52.8213	41.9000	EUR	-20.68%	29%


Current holdings in % of portfolio
Enquest Plc
IAG
Lufthansa
Covestro