Tissot Ayram Partnership

Annual Letter 2016

Dear partners,

First of all, thank you for your trust, for sticking with me for three years now, and most importantly, for allowing me to work without any pressure to produce short term results. I cannot thank you enough.

Summary of Results

The returns of the partnerships are as follows (in USD):

- Partnership 1 (including Colombian stocks) had a gross return of **63.42%**
- It had a net return after fees of **49.07%** = 63.42% – {(63.42%-6%)*0.25}
- Partnership 2 (excluding Colombian assets) had a gross return of **65.89%**
- Its net return after fees was **50.92%** = 65.89% – {(65.89%-6%)*0.25}

Partnership 1			S&P 500	Partnership 2		
YEAR	GROSS	NET	Total Return S&P 500	YEAR	GROSS	NET
2014	12.47%	10.85%	13.70%	2014	15.00%	12.75%
2015	-8.32%	-8.32%	1.40%	2015	-3.15%	-3.15%
2016	63.42%	49.07%	12.00%	2016	65.89%	50.92%
3 Years CAGR	19.00%	14.85%	8.89%	3 Years CAGR	22.71%	18.12%

Overview

Now that 2016 is finished, I am pleased to be able to show you our performance for the year. In reviewing these results, I urge you to view them in a long-term context, rather than just assessing them as simple annual performance. I should also point out that I measure results not by how much a stock appreciates in value, but rather based on the performance of our companies' business operations.

The end of 2016 means that the partnership has now had three challenging years full of learning, new people met, and discovery. As steward of your funds, I am pleased to announce that I will get paid this year, since your funds achieved returns above the hurdle rate of 6%; I hope that you are as satisfied as I am. Fees are 25% of performance above the 6% threshold. Note that I do not use leverage, since I want to protect our cash as much as possible.

Since inception, over three years, Partnership 1 has generated a gross and net compound annual growth rate (CAGR) of **19% and 14.85%** respectively. A sum of $10,000 invested at inception would now be worth **$16,850** (gross). For Partnership 2 these figures are **22.71% and 18.12%** respectively, so $10,000

invested at inception would be worth **$18,470 USD** (gross). By way of comparison, the S&P 500 had a three-year CAGR in this time of 8.89%.

The main contributors to returns in 2016 were MGP Ingredients and Avianca, which both more than doubled during the year. One of my heroes, Warren Buffett, once said, "I would much rather earn a lumpy 15 percent return over time than a smooth 12 percent." Well, our partnerships seem to have "lumpy" returns if you look at them on a yearly basis, but they need to be viewed over long periods of time.

Let me explain what I mean by describing my experiences during a wonderful trip I took last year. In November 2016 my girlfriend and I spent a week with some friends in Manizales, Colombia. The friend we were visiting had created a holding company along with his family, which has incorporated all the businesses they own, most of them productive farms. They manage them very professionally and currently employ around 350 people. We learnt as much as we could about plantations of avocado, passion fruit, coffee, and other crops. For example, avocados cannot be harvested until at least 3.5 years after the trees are planted, and in many occasions it can require up to 5 years. This is truly the real world: the tree takes as long as it takes, and it is not going to change regardless of "expert" market forecasts or pundit prognostication.

During my stay I saw first-hand many issues that the farmers regularly face. An insect infestation was eating the passion fruit crop—a huge problem. Several employees quit to pursue short-term higher-paying jobs, and one day they even had a truck flip over.

You may be wondering what this story has to do with our partnerships. Well, as my friend dealt with various setbacks, I never heard him say, "I think I will dump all of these trees and replace them with something else." He knows that farming requires a lot of patience; he must plant the seeds and wait for the crops to grow. In time, barring a major negative event, the fruits will be harvested.

Similarly, I am a value investor, and I take the same approach as a farmer. When I was at the farms I could not stop asking how they react to bad news, and how they manage to always think long term. Their attitude made total sense to me, and for investing to be successful it needs to take the same approach. Think of our partnerships like farms, requiring patience and a long-term perspective.

The Farmer's Investment Philosophy

The best two months of the partnerships in 2016 were June (10.61%) and November (16.23%). As a reminder, Brexit happened in June, and the US election in November. I thought that Brexit and the election of a populist in the US would definitely—*definitely*— be detrimental for stocks. So what did I do with our portfolio during those months? *Nothing*. I was in Namibia in June, and at my friend's farm in Manizales during the US elections. But even if I had been at home, my behaviour would have been the same: do nothing.

While I was deeply shocked by Brexit, and I still think it is a very damaging outcome for the world in general, I cannot claim to be a value investor while worrying about events I cannot control and have no

ability to predict. My fearful side, of course, advised me to not be fully invested as I was during both periods. But as a farmer who does not plant his trees based on world events or the outcome of US elections, I did not buy MGPI or Spirit Airlines based on them either. The advice from my heroes is universal: no one knows the future, macroeconomic prediction is futile, worrying is pointless, and you can't delay important investments because you believe a correction is imminent. As Peter Lynch once said, "far more money has been lost by investors preparing for recessions or trying to anticipate them than has been lost in corrections themselves."

Seeing the post-reaction of the markets, the commentary from journalists and pundits trying to explain why stocks went up, and the behaviour of many investors—it shocked me and taught me an important lesson. Corrections will happen, but I do not know when they will occur. What I can promise is that I will focus my time on analysing companies and buying them when they are cheap compared to my estimate of intrinsic value, and by doing that, we will be able to weather storms. If you speak Spanish, you can read an article I wrote in the Economic Colombian Newspaper Portfolio explaining value investing:

http://www.portafolio.co/opinion/otros-columnistas-1/warren-buffett-y-sus-52-anos-de-ensenanzas-analisis-portafolio-31-de-marzo-de-2017-504622

George Soros, Carl Icahn and Prem Watsa, considered some of the best investors of our time, were incredibly bearish on stocks last year. They all held either short positions or put considerable hedging in place, and actively commented on how expensive stocks were and how investors should be more cautious. Icahn often mentioned that the US stock market was artificially boosted by low interest rates—stocks in general are assessed as being cheap or expensive relative to interest rates—but you cannot predict whether interest rates will go up or down.

Watsa, a value investor and someone I fully admire, ignored the "farmer" approach for years and the consequences were devastating. He had been fully hedging his equity holdings since 2010, as indicated in his Fairfax 2012 annual letter:

> "***Our common stock gains in 2012 were once again substantially offset or eliminated by our hedging program****.*
>
> *While this is disappointing, we continue to be comfortable maintaining our hedges because of all the uncertainties we see in front of us. In 2007, a major US bank CEO famously said "as long as the music is playing you have to get up and dance." After the Lehman bankruptcy in 2008, this same bank needed $45 billion from the US government to continue in business. Expensive dance!*
>
> *We prefer to wait for the music to stop and not depend on the kindness of strangers to be in business.*
>
> *We continue to fully hedge our common stock portfolios because of the reasons first discussed in our 2010 and 2011 Annual Reports. Those reasons have not changed!*
>
> *Total debt (private and government) as a percentage of GDP in the US, Europe and the UK*

are at very high levels, thus limiting the options available to governments. Deleveraging in the private sector has only just begun. In spite of the significant deficit spending in the US and Europe, high levels of unemployment prevail in both areas and economic growth continues to be very tepid. In fact, Europe and the UK appear to be heading for another recession.

The markets are ignoring this as they believe the Fed and the European Central Bank will bail us out – again!"

Watsa wrote similar passages in every shareholder letter until the last one. In 2016, after the US election and a huge rally in US stocks, Watsa turned bullish, closing his equity hedging and starting to deploy cash to equities. While the hedging losses (the unwinding of the hedges only) amounted to be around $2 billion, the most dramatic losses are not accounted for on the income statement: the gains he would have made had he been invested or not hedged. Fairfax is today a $14 billion company (market cap), but I estimate that had Watsa followed Lynch/Buffett's advice—don't stop investing due to fears of the next recession—Fairfax could be valued far more than that figure today.

Here's what Watsa said when cutting the hedging in 2016:

"Why did we make these dramatic changes? Because the new U.S. administration's proposed policies have the potential of boosting economic growth significantly in the United States."

Watsa started hedging in 2010, only two years after the financial crisis. The S&P 500 compounded annually (with dividends included) at a rate of 12.85% since then (2010 to 2016). From Fairfax financial statements, Fairfax had been holding approximately $4.0 billion of equity investments at cost during those years. Let's make a rough estimate: take that $4.0 billion at a 12.85% (the S&P CAGR) for seven years (including 2016, since Watsa bought stocks and cancelled the hedges after the November rally, late in the year). That $4.0 billion would now be worth around $9.3 billion. Add to that the approximately $2 billion in losses from the unwinding of the equity hedges, and the roughly $7 billion that he held in cash during those years (assuming just a portion of them was invested in stocks), and you can see that Fairfax today could be valued by far more than the current figure.

Now as the saying goes, fool me once, shame on you; fool me twice, shame on me. Watsa turned bullish based on a macroeconomic event a few months ago. As he said: the new administration has the potential to boost economic growth in the US. Icahn said and acted about the same. To my view this is equivalent to riding a motorcycle at 100 mph with a very strong helmet and other protective measures, and then accelerating to 200 mph and taking all the protection off because the weather and roads look good. I don't see how a rational person can say that stocks have been overvalued for seven years, and after seven years of a 12.85% CAGR, suddenly say that they are very cheap! This attitude worries me, as people start to develop a consensus view. However, following these investors closely, acting differently, and seeing the result we got in 2016, convinced me to stick to the real wisdom of Buffett and Munger. And so I tell you once again that 2016 showed me how detrimental to long-term investing it is to worry or listen to all the people predicting oil prices, currencies, election results, and market reactions.

I have to admit that despite this example and the 2016 losses, Watsa has managed to compound Fairfax book value and stock at admirable rates: 19.4% and 18.6% respectively. I just want to point out how easy it is to fall in the "worrying" trap. Had I not been invested in June and November, our return in 2016 would not have been higher than 15%.

Avianca – Lessons Learned

I consider it intellectually dishonest to only publicize good news and ignore the bad, whether one is a politician, a portfolio manager or in any other role that requires reporting results. So I'm not afraid to discuss my mistakes. One of them is that I would have compounded your money at a much higher rate had I followed my original investment thesis on Avianca.

As you recall from my letter last year, I bought Avianca as a deep value investment. I said that when the Avianca share price reached or got close to my estimate of intrinsic value, I would sell. Well, it hit the target price, but I did not sell it, I actually increased the position in 2016.

I bought Avianca at a price that discounted deep trouble; almost a distressed price. Late in June, Avianca announced that it was looking for a strategic partner, and the stock moved considerably higher since that time. In December the media released that Delta and Copa had made offers to buy Avianca for $2 billion. United was also interested, but not to take full control of Avianca. Avianca confirmed to have received some offers, however never confirmed the numbers.

Why did Avianca need a new partner? The company is hugely leveraged: net adjusted debt is north of $5 billion (including leases) for a company with $4 billion in revenues. It has a 6.0 debt/EBITDA ratio, $16 billion in future commitments to buy airplanes, cash as a proportion of revenues oscillates around 10%, and interest expense represents 75% of operating profit. You may recall my bullish case for Avianca from my previous letter; it has extraordinary assets such as Life Miles and Cargo, among others. Being the door to South America, I can easily understand why Delta and Copa were interested.

The stock moved from 1800 COP to a high of 4000 COP during 2016. So what did I do? Instead of selling, I added a bit in 2016. My rationale was based on a deep "assumption" that the controlling shareholder and management had their interests aligned with those of all the other shareholders. Huge mistake!

I completely failed to see German Efromovich's motives with Avianca. Efromovich's holding company Synergy is the majority owner of Avianca with 78% of the voting shares, making him the controlling shareholder. Efromovich pledged his shares of Avianca for a loan provided by Elliot Management. I knew that he had done this as a result of losses on ship investments, and I was aware that he could not be trusted. However having Elliot pushing for the sale of the company was comforting to me.

Delta, Copa, United and Avianca confirmed their talks, and the media announced that the offer was $2 billion, a premium of 150% of the market price at that time. I evaluated the odds and calculated a much higher probability for the deal to materialize than not. Why would a hugely leveraged company not want to be bought by a top world-class airline? Or the biggest shareholders not want to sell at a 150% premium?

Well he did not sell, and instead announced last January a commercial partnership with United. In addition, he said that he would invite its partners to "invest"—in other words, he announced a dilution of $200 million. United seems (according to lawsuit filed against Efromovich) to have lent $800 million to Synergy. Synergy will pay its debts to Elliot, liberating the shares, and will be ready to inject $200 million of capital (apparently from United) in case the current shareholders do not participate in the pro rata offerings; a huge dilution in disguise.

What I failed is to see was that Efromovich's goals are to maintain control of Avianca. Synergy Group has huge debts with Airbus and others, and Avianca and Synergy have several "related businesses"—training, marketing, and aircraft maintenance. He has no upside if he sells the shares at double the price as the shares are collateralized.

I wrote an article in a Colombian newspaper explaining in detail the manoeuvre Efromovich was trying to pull off. To my surprise, the second-biggest shareholder—and the only one other than Efromovich who has voting rates—sued Efromovich. The lawsuit revealed several horrible activities Efromovich has been undertaking for years. You can find the article at the following link:
http://www.portafolio.co/opinion/otros-columnistas-1/german-efromovich-la-tarea-de-convencer-a-un-mercado-desilusionado-503389

To my surprise, Avianca's share price only moved down 20% post the news; I do not think the market understands the real outcome very well. I sold the full position at a good profit from cost, but much less than it could have been, which was in part detrimental for our 2017 results. I learned a lesson from the big mistake of not following my plan. My main takeaway is to deeply study incentives; they matter more than most realize. Consider in this case (all what I failed to see):

- **United Incentives**: United and Avianca belong to Star Alliance, so they have code sharing. United benefits enormously from Avianca, as United flights show up as Avianca flights. Consider a passenger flying from Bogota, Colombia to Boston. Assuming there is no direct flight, the passenger may book from Bogota to New York and then New York to Boston. The second leg of the trip is not Avianca but United, though the passenger may not know this. If Avianca were sold to Delta, for example, Avianca would immediate cancel its Star Alliance membership and United would lose its code sharing to one of its biggest competitors. For this reason, United will fight, lend money, drag out / beat passengers, whatever is necessary in order to obstruct Avianca's sale to a competitor.

  Another key incentive: The lawsuit claims that United's loan requires the collateral of Synergy's shares of Avianca. If Synergy defaults, United will become the owner of Avianca at a much lower price than the one Delta and Copa were offering—a horrible blow to minority shareholders.

- **Synergy Incentives:** Efromovich wants to keep control of Avianca at all costs so that Synergy services can continue to be sold to Avianca as he pleases, and he can continue negotiating with his creditors (Synergy creditors) with the promises of actions to be taken by Avianca. He

can do this as long as shareholders fund Avianca. If you want a recent example, go and check Dry Ships (DRYS)—shareholders can remain delusional for long periods of time.

Investment Focus: MGP Ingredients

You may be curious about our biggest holding, MGPI. As you may recall from last year's letter, in 2015 we put a considerable percentage of both partnerships into MGPI. I bought MGPI before it was covered by any sell-side analyst, when its sales of premium alcohol were tiny, when it did not have brands (excluding limited editions) and its own inventory was around half of what it is today.

MGPI has performed far better than I could have expected. It grew its operating income 27% in 2016 by selling higher-margin premium alcohol while adding around $25 million of barrelled distillate to its inventory, increasing its level from $28.3 million to $53.2 today. Remember that this inventory is whiskey that must age in barrels for a minimum of four years (as its main clients are craft brands MGPI can and has sold light aged whiskey as well). A conservative management estimate is that it can be sold for at least three times its cost.

MGPI also launched Till Vodka, started offering four new distilled gins (each featuring a distinctive flavour profile) and bought George Remus and its three lines: Bourbon Whiskey, Rye Whiskey and Limited Edition Rye Whiskey.

MGPI created the position Vice President of Brands, appointing Andrew Mansinne, a veteran from Brown Forman. The company started marketing its new brands more aggressively; for example, if you go to see Sporting Kansas City you will learn about Till Vodka.

MGPI's own inventory (the whiskey in barrels) has several uses: as supply for its own brands, to engage new clients, and to establish stronger partnerships with existing clients.

MGPI's shift from industrial alcohol to premium alcohol has substantially increased margins in recent years. The company remains very profitable with minimal debt, and its own inventory continues to increase. Overall, the earning power of MGPI has dramatically increased while the company has remained very profitable. As a result, the stock appreciated more than 100% in 2016.

I initially put a high proportion of the partnership into MGPI. The increase in its stock price made the percentage of MGPI in our partnerships reach levels where I was not comfortable from a portfolio management perspective, so reluctantly, I have had to trim MGPI twice, all at levels above $51 per share. MGPI continues to be our biggest holding.

This is the type of company that you cannot sell due to valuation alone. At some times the stock can look stretched, and at some others undervalued, but I see MGPI as a long-term holding. I envision a company where the majority of the sales will come from its premium alcohol- aged inventory and own brands, and possibly by adding two or three more brands in the next three years. Thus, again, I will disregard intra-month prices—**assuming the company does not act in ways contrary to my investment thesis**. As discussed earlier in this letter, I am not a trader, so I will not sell a stock at a "stretched" price

with the aim to buy it back later. This is not the "farmer approach," and I prefer to spend my energies ensuring that my thesis remains valid and exploring new ideas.

MGPI has not been an easy company to hold, and we were tested many times in 2016. As the stock became more widely discovered, short term buyers jumped in and the stock became very sensitive to quarterly estimates. During two earnings release cycles the stock dropped more than 10% with no material change in the business, and I am afraid that this will persist as more sell-side analysts have started covering the company (currently three houses).

The biggest test came in October 2016, which caused a lot to run through my mind. MGPI's stock price started at around $40 in the morning of October 21st. I do not glue my eyes to the screen (that practice is bad for investing) but a 10% move will definitely get my attention, and I saw it then trading at 36 with very erratic behaviour; the low that day was $31. I checked Google and found a news story about a chemical release from MGPI's facilities in Atchison, Kansas (MGPI's HQ). Atchison County Emergency advised the people in the town to stay off the streets as the release was apparently very toxic.

Believe me, this is why there is a "risk premium" on stocks. The feeling that day was deep pain, and your brain starts to play with you. I knew that the whiskey barrels were in Lawrenceburg, Indiana, so the majority of the assets were safe (I do not know why I thought of that first). But what if someone in the town actually got hurt? This would be terrible. I knew that I couldn't know exactly what was happening—I did not have accurate information as I was not there. I also did not know whether this release was very dangerous or not. But I could see that the volume being traded was very substantial (at the end of the day the stock traded more than 17 times its typical daily volume). I knew if the news were really bad I had no chance to be the first to sell.

After seeing the market acting in such a desperate way, I decided to leave the house. I went with my girlfriend to ride horses for three hours. While in the mountains of Colombia, my mind was deeply disturbed, but the ride did help.

Upon my return I saw the stock at $38.50, only about a dollar lower than the opening price. The danger was over and nobody was really hurt, just a few minor respiratory problems.

A month later, the stock was just shy of $50.

This event again taught me how important it is to remain calm, evaluate rationally what we know, and set aside what we cannot know until we have enough information to find out. The details of the chemical release were going to come out, and I just could not act before I had the necessary information. If I had sold MGPI in October due to the chemical release, I would have liquidated your share of a wonderful company at a very low price.

MGPI currently has a very high short interest as it screens beautifully for people who want to short based on quantitative measures without doing their homework to understand the company. For example, it has more than doubled its margins in the last few years, while more than doubling its inventory, and the stock price has appreciated from $5 in 2013 to more than $50 today. Doesn't that

sound like a great short? Maybe, unless you understand that MGPI produces alcohol, unless you understand that the inventory needs to be aged (which MGP just began doing in a meaningful way in 2015), and unless you know that MGPI has been transitioning from industrial alcohol to aged premium alcohol.

I look forward to continuing to see MGPI's progress in the future.

Investment Focus: BOFI Holdings

Our only other activity in 2016 was the addition of BOFI Holdings. This is a "post mortem stock," since I have already sold it. We made 55% on the investment.

BOFI operates eight brands, with Bank of Internet being the most relevant.

I had been reading short articles about BOFI since October 2015, while at the same time evaluating the company. I was impressed by many of its metrics. BOFI is a bank that does not have branches; it is 100% Internet-based. The bank was formed in 1999, meaning it survived the .com crisis of Internet companies and the 2008 financial crisis. This is noteworthy since, being an Internet bank, both crises could have had a huge impact.

BOFI's efficiency ratio has been around 32%, which is less than half that of a brick-and-mortar bank; EPS growth in the last five years has been around 30%; ROE is at around 18%; and non-performing loans as percentage of loans a mere 0.4% in the last few years. BOFI's ROA and ROE ranked in the 93rd and 95th percentile, respectively, among peers of similar size. I bought the stock at a PE of 10 and a forward PE of 8.5. My estimate of intrinsic value was USD $36—I do not rely on relative valuation measures much. I bought the stock at around $19.

Short interest was 40% of the float at the time I bought in. The reason was that a former employee in the internal audit department had sued BOFI for wrongful termination. This led to allegations of money laundering, providing incorrect information to the authorities, you name it. The story got public attention after a New York Times article in October 2015.

The narrative in those short reports changed over time, and I started to feel that the authors were trying to find any excuse to write negatively about the company, ignoring any positive facts. During the lawsuit, all emails were released, and to my surprise there were emails between short story authors, the New York Times and the former employee' lawyer—before the original article was published! I bought the stock against the advice of many after seeing those emails. I am aware of the risks in banks.

Banks are not great companies to invest in, as they can make money for long periods of time, then make a small error that can wipe out a decade of profits. In every crisis banks lose more money than the total profits accumulated prior to the crisis, including 1929, 1982 and 2008, just to mention a few.

After a relatively quick rally on the stock I decided to sell and book profits; at around $30.5, the risk reward became no longer appealing to me, and who knows if actually there was something of truth on those allegations.

Summary and General Strategy for the Future

The year 2016 was a good one; I do not know if I will ever see a return like that again (but I hope I do!) In investing you need to accept that luck plays a factor in returns. For example, it can play a role in how you find an investment, or the reaction of the market to events. I also take into account the fact that part of our returns comes from randomness. It can go both ways, so we need to welcome randomness, and it is my job to make sure to act aggressively when the odds are in our favour.

I want to make sure you know how I think about our partnerships. The mental model I am about to explain is not something that I had totally ingrained three years ago, I knew the theory but needed a bit of practice; the Avianca experience spurred me to evolve and develop it. I am not thinking first and foremost about returns; I will always keep **safety** first in mind. In other words, I need to first see what the risk of permanent loss is in any investment we make. Only once I have assessed a considerable margin of safety can I invest.

I would say that the partnerships are modelled roughly based on 30% Buffett, 60% Munger and 10% Nassim Taleb. The last of these experts taught me the beauty of being exposed to positive "black swans," and the aesthetics of asymmetric situations. In other words, being able to invest in situations with a small probability of success but with a huge payoff. Where do we find such opportunities? Two examples could be long-dated options or biotech stocks. I've decided to be open to **very small** purchases of such stocks and instruments, which I'll discuss further in the 2017 letter.

We need to have our partnerships be **Antifragile**. This is not merely the neutral of fragility, such as resilience, but rather the opposite: benefitting from shocks and actually improving as a result. We aim not merely to avoid ruin through our actions but to be exposed to positive results by welcoming volatility. Ruin can come through the usage of leverage, by owning highly-leveraged companies (like banks) and by selling naked options. Avoidance of such will make us robust, but we want to move one step further to antifragility. Having companies with optionality that is not factored into the price will take us there. Examples include a hugely successful launch of a new MGPI product (if it does not happen, the investment thesis does not change a thing – but if it happens what a nice tailwind would it be), a biotechnology company with the potential to develop a blockbuster drug, long-dated options in deeply undervalued stocks, and the ability to buy companies when storm clouds gather over the stock market. We do not spend too much time looking for these —our focus is on finding companies for the long term—but we welcome asymmetric situations when they arise.

Outlook for 2017

First of all, I am happy to report that in June I will be learning directly from Nassim Taleb in his Real World Risk course in New York. If you have not heard about this course, see this link: http://realworldrisk.com/

While in 2016 we did not have much activity, 2017 has already been a very busy year. We sold (100%) Avianca, Bancolombia, Precision Drilling, Ecopetrol and BOFI, while adding some small—very small, unfortunately—long-dated options in a European car manufacture. We also did quite a bit of buying:

- A US biotech company.
- A tiny Canadian company trading at 1 (yes, one) operating cash flow, CAPEX only dependent on projects, with no debt and a new management team with skin in the game.
- Another small Canadian company that develops software and has a churn rate of 1.5%. A competitor left the industry, and its clients are the main shareholders.
- An undiscovered small US company involved in healthcare document solutions (an extremely boring business) that just acquired a healthcare cybersecurity company. This could be a growth company, but the stock trades at around 8 PE.
- A small US company in the Internet domain industry. Selling extra domains does not cost anything, no inventory is needed, and the high-margin segment of domains is growing rapidly. The company is currently engaged in a huge share buyback as it has too much cash.

The portfolio as of the end of 2016:

- Precision Drilling (sold in 2017)
- Berkshire Hathaway (no activity)
- Spirit Airlines (no activity)
- Avianca: only Partnership 1 (sold in 2017)
- Bancolombia: only Partnership 1 (sold in 2017)
- MGPI (trimmed)
- BOFI (sold in 2017)
- Ecopetrol (sold)

Our last purchase is a US company that offers a consulting service to major corporations. The company recently changed how these services are sold; instead of selling one by one to its clients, it sells access to all of its services for an annual fee. I have been following the results of this company to check the first renewal rate; it was north of 90% at my last check, so I bought the stock. The company is also aggressively buying its shares. With this activity it seems 2017's letter will be long! – Hope you do not get bored.

Despite these acquisitions we currently hold around 20% in cash for both Partnerships. The cash is in Colombian pesos (we have the spot risk) at approximately a 7% rate for partnership 1 and in USD (at close to zero interest rates) for Partnership 2. We are ready to deploy it when we find an attractive opportunity anywhere in the world. I am very optimistic with the current companies we hold, I will certainly make mistakes, sometimes of size, but the objective is to always keep learning.

Thank you,

Jean Philippe

jeanphilippetissot@icloud.com