Tissot Ayram Family Partnership

Dear Partners,

Gross returns for Tissot Ayram Family Partnership in 2018 were as follows:

Partnership 1	*Partnership 2*	*Partnership 3*
+0.81%	*-1.18%*	*-1.18%*

** Partnership 3 was initiated in October 2017.*

As you might remember, the end of 2018 was one of the most difficult periods for investors. At one point it was the worst December for the S&P 500 in all of its history (it rebounded slightly before year end), and I personally saw each of our top three holdings with a drawdown of 50% at some point. The challenges involved in navigating those waters without making unforced errors is hard to explain, but I will give it a try. If you remember, over the last three years, I've been studying how the brain works in order to develop tricks to protect our capital from myself (the Ulysses contracts I mentioned in my last letter). The year 2018 was the first test—I think we passed, and the Ulysses contracts worked. However, this is a process, and the next storm may be much bigger and more difficult, so I need to keep working in order to be ready for it.

The end of 2018 marks the end of our fifth year. This is a considerable amount of time, after which results must show, without excuses, the fruits of our philosophy, discipline, style, and approach. In a period of five years, I can safely say that results show very little noise as compared to short-term performance metrics. Our five-year gross returns have outperformed the S&P 500 by 65% per year for partnership 1 and more than 104% per year for partnership 2 without the use of any leverage. I can say we should be satisfied.

These returns cannot be achieved without you and your understanding of our philosophy. I can say with certainty that the test we faced in 2018 proved once again that I have the right partners. Never did I receive a nervous phone call, and the only comments I heard from you were: "I hope you are finding interesting opportunities," in addition to the constant support from Laura, who is a huge part of this project. Once again to my partners, thank you.

Year	*Partnership 1*	*Partnership 2*	*Partnership 3*	*S&P 500*
2014	*12.47%*	*15.00%*		*13.70%*
2015	*-8.32%*	*-3.15%*		*1.40%*
2016	*63.42%*	*65.89%*		*12.00%*
2017	*12.62%*	*20.75%*	**7.33%*	*21.14%*
2018	***0.81%***	***-1.18%***	***-1.18%***	***-4.40%***
CAGR	***13.85%***	***17.13%***		***8.38%***

** Partnership 3 was initiated in October 2017.*

<u>Overview</u>:

<u>General</u>:

We continue as a small partnership and with the same structure as per prior years. Partnership 1 is where the majority of my net worth is placed, ensuring total alignment of interests, while the other partnerships today have the exact same holdings with only slight differences in allocations, hence the imperfect match of results.

We continue managing your capital under managed accounts and only for family members and close friends. This setup has prevented me from raising more capital, but it has also helped me focus my energies and efforts on what I like—compounding capital, knowledge, and relationships—and ensures that the partners are the correct ones. I witnessed first-hand the amount of stress that some of my close friends who manage outside capital experienced in Q4; it was substantially higher than mine (which was not small, despite my tricks), not to mention the distractions they faced by clients who were not in sync with them. In those hard times, distractions can be costly if I do not have all my partners in sync with me. Even just one wrong partner can significantly jeopardize my competitive advantage, which is control over my behaviour. Having said that, should the right opportunity present itself, I would be willing to change my setup.

Part 1

JP Tissot's three pillars of investing—How learning from other investing styles makes me improve as an investor—Allowing luck to find me

The less I read about value investing, the better I get

I am going to start with a little secret. Ever since 2013, when I started learning/applying the value investing rules to my investments, I'd also wanted to know why so many people who called themselves value investors underperform. I explored what message was taken by the underperforming value investors and compared this to the outperforming value investors. In the former, they mostly heed messages that follow an investment process—something that can be repeated endlessly (remember the quoting fatigue I spoke of in my last letter). The latter group, however, are simply independent thinkers; they harbour unique mental processes that complement themselves, continuously evolve, and never look for magic formulas.

For as long as I can remember, I've been allergic to nonsense; I have been independent since I was a young boy, and I respect authority only if I admire the person or the authority has been earned by merit (I admire a lot of people). Therefore, I told myself, I just need to be me, use what fits me, and never stop learning. This approach led me to develop my building blocks of investing, which I call my pillars and which only work under an independent mind ("the ground/fundament" of the pillars).

<u>PILLAR 1: Behaviour</u>

Behaviour is a function of our mammalian biology. I am highly emotional; I do not know if being Colombian has something to do with it, but emotions, if not managed well, can kill you when it comes to investing. I realized I had to work hard to make sure my emotions did not control me

during hard times. I observed that the ability to think independently steered the successful value investor group to be better at investing. Although I knew that independent thought alone wouldn't be enough for me, I needed to understand what having the right "temperament," which Buffett always speaks of, really meant, and how to achieve it (quoting Buffett is not the answer).

First, I studied psychology, and then behavioural economics, intensely (Kahneman and Tversky). Those subjects taught me about all the flaws we humans have but little on why they are triggered or how to overcome them. Knowing that we are severely flawed and running on a software developed for the African savannah is good but still does not solve the problem (I would still be a flawed individual even knowing that we are flawed). I needed more, and that is when I started studying biology/neuroscience and similar topics, which I have done for more than three years now with countless books and conversations with experts. This has been the best investment in time I have ever undergone; in my last letter I explained my main learnings and why this subject is so important. Last year, I encountered some books about our brain chemicals (Dopamine, Oxytocin, Endorphins, Serotonin, Cortisol) by Loretta Breunning which explain in a simple language how they are triggered and metabolized. How we feel is exactly a function of the levels of those chemicals and some hormones in our bodies. This additional knowledge gave me the insight that we can trick our brain chemicals (to a certain extent), which ultimately means that we can be responsible for our own emotions instead of blaming the world for how we feel.

Learning about the subject hasn't made me a flawless individual, but it has allowed me to develop my Ulysses contracts, or tricks, to ensure that my flaws do not take control of me. A good example of this is what I did in December 2018.

At the end of September, my YTD return was around 25%. Then TPL started to move aggressively lower, and Viemed (a large holding I will speak of later in the portfolio update) published some news that made the stock tumble by more than 50%. By the end of November, the YTD return was down to +10%. The sequence is important, as the brain starts to think everything is falling apart, and I started December already with a lot of stress (read cortisol). It does not matter that the return of the year was still good; the brain does not care about that—it only sees the latest drawdown.

We know how December then played out. After a few days I could feel how I was changing, how my thoughts were dominated by the amygdala, and I knew that my brain wanted to stop the feeling of the cortisol, and that can only be achieved with action—ideally, not selling out stocks.

My Ulysses contract was triggered, which meant I stopped reading anything written in December; I even forbade myself to log in to my broker account, as I was fully invested then and had little room to add. I needed to make a move somehow to trick my brain and develop some happy chemicals to help metabolize the cortisol in my body. I needed to have something that rewarded me in the short term.

I increased my sports activity (which is already high under normal circumstances), spent much more time taking care of our yoga studio, and started studying German for five hours a day. Sports is a natural process to metabolize cortisol, but I needed the dopamine and action in aspects I had control over. I was experiencing some progress with my German that could be felt daily. This achievement gave some sense of peace and dopamine (read reward) to my brain. I could reduce my stress (metabolize the cortisol and increase happy chemicals) and most importantly I did not dispose of any of our amazing companies at bargain prices. The progress I felt on my level of German and the energy I spent practicing sports and working on our business that we operate distracted me from the market and prevented my Amygdala from becoming the skipper of the boat. It ensured that **my judgement was not clouded, which is the ultimate objective of this exercise**. If you want to know why I have spent my time studying human biology, it is precisely to be able to use that knowledge during times like December 2018. The next test might be much harder, so we keep working to get better at it. I must ensure that external stimuli do not cloud my judgement; and it is not easy.

I repeat once more: One of my competitive advantages as an investor is that I can control *how I behave*, and I know that if I behave a little bit better than the rest, the compound effect over time will be enormous. I am committed to it.

PILLAR 2: Understanding the Mathematics of the Markets

I have spent several sections of my previous letters on this important topic; therefore, I am only going to mention the principle.

Understanding the mathematics of the markets is the lesson from Nassim Taleb, Robert Frey and Benoit Mandelbrot, among others. The mathematics show that the markets belong to Extremistan, which is a distribution where a single observation can disproportionately impact the whole. At the same time, it is important to know the amount of time the markets, while experiencing new highs, spend in drawdowns, which is around 75%. And it is very important to understand the concept of convexity—situations when the unexpected has a more positive impact than negative. Concavity is the opposite.

The understanding of these concepts is key for my philosophy, as it ensures that I respect the markets. Make no mistake, I am an investor and only care about what the company is doing, but knowing the rules of the markets ensures I do not leverage; I evaluate the asymmetries of the positions and try to constantly be exposed to a level of risk that allows me to survive if a real crisis occurs. Also, it allows me to internalize the fact that most of our returns will come from a very few companies; therefore, the concept of holding when management executes is absolutely essential.

The aim of understanding the rules of the markets is to have the discipline to make the portfolio as Antifragile as possible.

PILLAR 3: Real-World Business Experience

The Story:

A big portion of investors are people who spend most of their time sitting at a desk in front of a computer, quoting other investors, reading books and company reports, talking to other investors who spend their time in a similar way, and occasionally traveling to companies and conferences. That is how I spend a lot of my time, but therein lies a problem. The problem is that if I only do the above-mentioned activities, my mental model of reality can look very different from reality itself, and the quality of my investment decisions can stop compounding.

The wakeup call happened one afternoon when I was speaking to a fellow investor. During the conversation I could see how my investor friend was angry at the management team of a company for its recent "bad" results. He elaborated on what management should be doing and explained with a lot of confidence the reasons and told me that the CEO had no clue how to run a company. This investor friend was not even 30 years old and had never run a company.

I realized that my friend's evaluation of the company could not be accurate given his lack of experience running companies. It then dawned on me that the same thing was happening to me, even if I was not trash-talking the CEO. I had never run a company nor knew what it took, but I was evaluating management teams with a sense of authority—a feeling that, like my friend, I knew what they should be doing. It made me realize that I had to acquire a sense for running a real business if I wanted to be a better investor.

In 2016, my partner Laura and I decided to leave London and moved to the Caribbean, as there was an opportunity to run a small business. We stayed for some months on a nice Caribbean island, but

quickly realized the people we had partnered with were not the correct partners and decided not to continue. The learning had begun.

Laura loves practising yoga, and she proposed opening a small yoga studio under a franchise agreement from a small start-up in London. She suggested we do it in Vienna, where she is originally from. After some in-depth research by Laura about the competitive landscape in Vienna, I agreed, and we went ahead. Running a yoga studio could not be a harder business. What are the barriers of entry? you might ask. There aren't any. We wanted to start and run a business to learn and get the experience; the rest was secondary.

We then had to find a location, find teachers, set up the studio, learn about and execute some marketing, and ultimately find clients. We opened the studio in October 2017; it has been almost two years. Two years filled with lots of lessons.

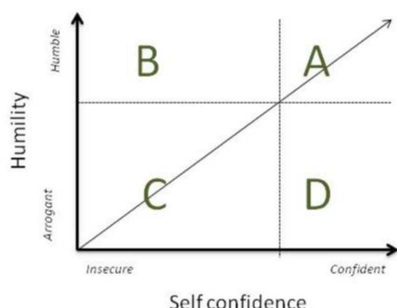
The Main Lessons:

People: I realized people are much more important than I could have ever imagined. People are hard to please, and most of the time we do not know what we want. You find very quickly that a lot of people's decisions are driven by egos—desire of purpose, desire of status—and then I realized that every person that was making my life harder had some special characteristics. Of course, the great people I encountered also had some special characteristics, and I started to see the following pattern:

Great people to partner/hire/do business with: People who are secure in themselves, confident, and very humble. People like this are ready to explore, bring ideas to the table, are confident in their abilities, and have no problem admitting when they are wrong and can change their minds. I have been lucky to find some of them, but they are as rare as unicorns.

People to avoid: People who are insecure and arrogant. This combination is a perfect recipe for failure. These are the people who are afraid of doing anything but at the same time **their insecurity does not let anyone work**. They drive my cortisol to high levels. The power of insecurity lets simple things seem complicated. I learnt that if you end up with these kinds of people and you do not cut your losses quickly, it compounds with a negative sign very fast.

I created the following chart: I am very interested in meeting/working with people that are in section A. People in section D are the hyperconfident storytellers that create whatever necessary to find their way. They "know it all" and are "never" wrong (avoid if you can). People in section B are people who can't make a decision for themselves, shift responsibility as much as possible, and are paranoid of change (avoid if you can). People in section C should be avoided at all costs.



Once you find people in section A, you really want to empower the relationship. If they are employees, you want to retain them. If they are clients, you want them always satisfied. And if they

are partners, you want them to receive value from you. Encountering people in section A makes you work hard to maintain the relationships, which ultimately makes you a better person—it compounds.

The experience in the Caribbean and with our yoga studio taught me that the most important aspect for a business to run successfully is its people. The people you partner with can make a lousy business a better business or can make a wonderful business a mediocre one. In addition, partnering with great people brings a lot of fun to the journey.

Other Lessons: I learnt that every time I expect something to happen, it usually does not happen the way I want. I learnt how little I knew about a company that we were managing ourselves. We had to experience the need for hiring, firing, tinkering with marketing, infrastructure, unexpected problems and so on. This experience opened my mind to understand that managing a company is something extremely hard, and we had just created a small yoga studio—let alone a big public company.

I learnt that just because we (investors) own some shares of a company, we really have not earned the right to evaluate and direct a management team after a quarter or two. I have become much more candid and patient towards management teams. Having practical experience creating and managing a business has made me a smarter investor. I know you have read that somewhere, I just needed to walk the talk to say it.

Allowing the right type of luck to find me - Investment in an early stage company—Lessons from a personal/private investment

This part is the story of a private investment I made that I consider very relevant to mention, as it has been a beautiful business lesson that ultimately is making me a better person/investor and my public investments will undoubtedly benefit from this experience. I am not yet in a position to disclose the name of the company, but I will share some of the lessons. I promise to elaborate in detail when the time is right.

One of the most important lessons I learnt is that doing things, being exposed to serendipity, in option parlance "being long vol," can bring unexpected opportunities to the prepared and curious mind that is able to recognize those circumstances.

Through our yoga studio, we were exposed to a wonderful company in a very interesting industry. We had a business relationship with them, and I could experience the achievements of the company every day. I got really curious about the fundamentals of the company and especially wanted to find out whether the company not only had a great service/product but also a great business model, and I was about to find out.

One morning, Laura realized that the founder of the company was in her yoga class. She introduced me to her/him and we started talking. My first two questions resulted in a two-hour-long conversation.

The CEO and single founder impressed me on several fronts—her/his focus, determination, the master plan she/he had that was being smoothly executed, her/his vision of the market, and allergy to equity dilution (she/he has not even had the need to have a Series A). During the conversation I identified that she/he had figured out how to make money. The company was not only pleasing clients, partners, and employees, it was on a trajectory to enormously pleasing its investors as well. A total win-win, and I wanted to learn more.

After observing the progress of the company, the quality of its management, and seeing from all aspects their achievements, I wanted to be part of it. After some months of conversations, the CEO welcomed me as a shareholder.

The company has never changed its business model in an industry where its largest operator is known for tweaking its business model several times. It has several verticals that, in combination, give the company substantial and expanding margins. The CEO is not afraid to constantly experiment and tinker and is ok with taking small risks—I like that (remember from above: humility and confidence). She/he is definitely in the A segment.

Given the current competitive landscape in Europe, which has started to become really interesting, I have to be vague, but what I can say is that the company has performed way better than I would have ever expected, and the CEO has become a wonderful friend and a person from whom I have learnt a lot. This experience has allowed me to see how a company starts building its moat, how it expands and grows it from the inside. It has exposed me to the minds of venture capitalists, angel investors, private equity and founders; all using a style very different from mine, which is ultimately where improvements come from. I aim to take the best of each style and improve my own, which is one of my promises to you. I will always try to get better.

Conclusion:

After these years during which I combined my time on the partnership, real businesses (the yoga studio and the coffee roaster) and, for the first time, investments in early stage companies, I can conclude that, given my skillset, I add a lot more value and enjoy much more working on projects such as the early stage company and our small partnership. I want to focus my time on such projects for now. The lessons learnt by the experiences with our yoga studio and the coffee roaster are reflected daily in how I think as an investor and create the fundamental third pillar necessary to being a good investor. It has helped me see aspects of a business you can never experience by reading annual reports or a hundred value investing books.

In addition, the lessons I've received through learning from people who use a totally different approach from mine have been key to how I've grown as an investor in the last few years. Lessons from one of the founders of the most successful quantitative funds in the world, lessons from the experiences of successful VC, lessons from successful entrepreneurs, lessons from successful founders. As I say, it is my moral obligation to learn from what has worked for different people and combine that with my unique skillset; through this process, I think I can improve. All supported by authenticity and an independent mind.

Part 2

Portfolio Update:

<u>MGP Ingredients:</u>

As you know, MGPI has been our biggest holding since 2015 and requires special mention. I will start with the positives. In 2018, the company increased revenues by 8.2%, gross profit by 10%, and operating income grew 16.9% in line with our expectations. MGP continued increasing its portfolio of brands, launching Rossville Union and, most recently, Eight & Sand Blended Bourbon whiskey. MGPI's own brands continue expanding, and in 2018 entered to Arizona, Illinois, Colorado, and, a few months ago, Texas. The company continues expanding its Whiskey inventory and it is about to

finish the warehouse expansion. All of these measures should be translated into meaningful increases of earnings and cashflows going forward. Basically, the time when the company should start harvesting the investments has arrived, depending on the successful commercialization of the aged whiskey.

Now the negatives. Premium beverage alcohol grew +5.9%, below a rate that makes me feel comfortable given the excess of aged Whiskey inventory in the industry, and brown spirits (whiskey) grew 11%. While this rate outpaces the overall rate of growth of the American industry category, I don't think it was high enough to justify MGP's valuation at around 38 times earnings and an allocation in the portfolio of more than 15%. The ingredients solution had a great year with gross profits increasing 28.3%; however, the segment lost a key client, and achieving similar numbers in the future will be difficult.

Given the stretched valuation and the not-so-great growth (in my opinion) that the price was implying, I decided to cut the position in half last year at an average price of $82 USD, which is more than four times what we originally paid at cost when we allocated 30% of the assets to MGPI. Furthermore, in 2019, the stock had a huge rebound, and I decided to trim another 50% of the holdings at an average price above $80 USD. Given the quality of the management team (Gus Griffin is an extraordinary CEO), board of directors, employees, and the new measures to start selling the whiskey internationally, I cannot mention how hard it is for me to see MGP making up less than 5% of our portfolio, but an allocation above 10% made no sense for me anymore.

I am excited to watch MGP's evolution, and I want to remind you that MGP has been our best investment so far. However, as it is important to identify a cheap asset, it is also important to identify a non-cheap asset and adjust the size of the holding accordingly. We remain loyal shareholders, just with fewer shares. As a side note, do not be surprised if you wish to hit me when we realize that every trim on MGP was a mistake. This can easily be the case, given the outstanding quality of the company.

<u>Bioventix:</u>

The rabbit is out of the hat. We have owned Bioventix for some years and it was about time to mention this gem. Last year I decided to be explicit about this company and wrote about it.

There are companies that do not require capital investment to fund their growth. These companies produce extraordinary returns on capital over time. And then there is a company like Bioventix that requires negative incremental capital while growing.

Bioventix is a UK company that creates and manufactures sheep monoclonal antibodies (SMAs). The antibodies are sold to manufacturers of blood-testing machines such as Abbott, Siemens, or Roche. Those manufacturers incorporate the SMAs in reagent packs for use in their machines.

Bioventix generates revenues from selling liquid "physical" SMAs and from the royalties coming from their downstream use. BVXP receives royalties each time a test is performed. Royalties are perpetual, operating margins are higher than Facebook's and Google's, around 78%, and all earnings are converted into cash. As the company does not have use for all the cash it produces, it pays a fast-growing dividend.

BVXP has increased revenues for the last six years at **22% *CAGR***, and earnings after tax have grown at an impressive ~**30% *CAGR.***

I cannot emphasize enough the beauty of its business model. Bioventix develops an antibody, and then passes it to their clients who must conduct field trials, submit data, obtain regulators' approval,

and market the test; this process can take from three up to twelve years. While Bioventix does not have patents, the barriers of entry are huge, as a client would have to enter into this process again if they wanted to change the antibodies.

Bioventix's most important project to date, the high sensitivity troponin test, has just begun implementation by Siemens. Troponin is a marker for heart attacks. This new test increases the accuracy in establishing if a heart attack is about to happen or has happened. The novelty is in the acid test, where a change in troponin levels in a person's blood can be identified within 30-120 minutes, as opposed to several hours in the previous test. Troponin's revenues are expected to be the primary source of income in the coming years and are currently immaterial.

Peter Harrison, CEO, is an owner-operator with a stake of 8% of the shares outstanding. I have followed Peter since 2015 and met him last year. I can confidently say he is an intelligent fanatic. Working from a small laboratory in Farnham with less than 15 employees, he has created a powerful compounding machine, where companies like Siemens and Roche agreed to pay perpetual royalties as a result of the quality of its antibodies. Bioventix's current and immediate sales are the product of work done more than five years ago, as I was told by Peter. Today, he is working for the period 2025/2035—I like that.

Bioventix has never been "cheap" in quantitative measures. It currently trades at my estimate of 29x current year earnings excluding cash, without the impact of troponin that I expect to be seen from next year onwards and to be the main driver of earnings growth. If Bioventix is able to maintain its dynamics as a company with these characteristics, it does deserve to trade at a higher multiple. I am excited to see Bioventix start harvesting the proceeds of the high sensitivity troponin test in the years to come. Bioventix contributed positively to our returns in 2018, and it is in a core position in our portfolio.

Viemed:

Viemed was the biggest positive contributor to our returns in 2018. Viemed is a provider of non-invasive ventilators (NIV). The company provides equipment and 24/7 home therapy service to patients. Patients are mostly suffering of Chronic Obstructive Pulmonary Disease (COPD).

Viemed used to be a private business called Sleep Management LLC that was acquired by Patient Home Monitoring (PHM) in 2015. PHM's strategy was a leveraged roll-up that did not work well. Management was replaced in just a few weeks by the management team of its newly acquired company Sleep Management, and Casey Hoyt became CEO of PHM.

Instead of staying and running a bigger but still troubled company, Casey Hoyt decided to return to its original business and to spin-off Viemed from PHM. The spin-off was finalized in December 2017.

Viemed is growing entirely organically; its revenues have grown from $10M USD in 2013 to $65M USD in 2018, with improving EBITDA margins of ~26%.

Viemed currently has excess cash and a management team that owns 11% of the shares outstanding. The installed base of non-invasive vent therapy is less than 5% of its current potential, which means Viemed has years of growth ahead.

If you have read *You Can Be a Stock Market Genius* by Joel Greenbalt, Viemed perfectly followed the playbook stated in the book. After the spin-off, the company did not bother to create an Investor

Relations website, as they were not incentivized to promote the story before setting the strikes of the warrants and options they would receive, which management wanted to be as low as possible. Once they were set, an IR firm was hired, and management started to tell the story of this amazing company—exactly as the book stated. We started buying at $2.5 CAD a few weeks after the spin-off, which implied a less than 5 times 2018 EBITDA multiple, an incredibly cheap price for a company with these characteristics. These opportunities do not and will not come often.

Viemed's main risk comes from the fact that around 75% of its revenues come from Medicare and Medicaid (CMS). Viemed has faced and can face more reimbursement cuts. In fact, that fear made the stock tumble by more than 50% in November last year when the company announced that CMS was seeking comments to include NIV in its competitive bidding program. Today, that fear has materialized, as NIV will be part of Medicare's competitive bidding program, and surprisingly the stock has almost tripled from the November lows. Why? you might ask. The reason is that Viemed's exposure to CBP corresponds to less than 25% of its revenues, and it can be a beneficiary as smaller players exit the market. The market needed education.

I allocated 8.8% of the portfolio at cost at different prices, with the average cost being $2.84 CAD. We sold half the position at more than double of our cost base in 2018 and continue holding the remaining as a core position today.

Texas Pacific Land Trust:

At the moment of this writing, this holding is giving me some headaches. Let's start with the positives again. Crude oil production on TPL's land increased 110%, from 818,854 to 1,719,588 barrels. Our royalty revenues, which should give you an idea of the overall growth of the trust, increased from $51M USD in 2017 to $124M USD in 2018. The future prospects keep getting better; as of March 2019, the trust had encountered 313 wells that are drilled but not completed yet. This is a substantial increase compared with the 206 DUC wells that the trust had identified at the end of 2017.

The water business is showing extraordinary economics. The trust has invested approximately $75M USD since 2017; and Net Income in Q1 2019 attributed to the water segment was $16M USD. alone These are the numbers of an extraordinary business. It is not surprising that our earnings per share in 2018 were $26.93 USD., which show a significant increase on activity in TPL's lands, EPS for the year 2015 were only $6.10 USD.

I wish I could end the update here, but I cannot. As shown by the results, TPL is sitting on a gold mine, or, better said, an oil, gas, and water one. The value generated by TPL comes from the serendipity that the land held those valuable resources and that companies like Chevron are investing billions in TPL's lands.

Despite the positive news, the trust still holds some medieval rules, such as trustees are appointed for life. Recently, one of the trustees died, and there is a proxy fight for the election of the new trustee between Horizon Kinetics, who is a major shareholder, and TPL's management and incumbent trustees.

Management and the incumbent trustees have acted in an unethical way towards Horizon Kinetics, Eric Oliver, and any shareholder that does not support them. In addition, management has increased their compensation tenfold within the last two years, is obscure in reporting, and it seems they are

desperate to win the proxy fight at the cost of all shareholders. It is as if management and the trustees are hiding something.

As I wrote before, I need to be selective with the people to whom I entrust our capital, and TPL's management has shown that not only are they wasting our cash in nonsensical Facebook and twitter ads promoting their candidate, but they are threatening Horizon Kinetic's candidate, Eric Oliver. They are showing the world how they treat shareholders as soon as they have something to say.

We are protected by the trust mandate that indicates that it is a self-liquidating trust; however, the mandate allows management to reinvest cash in the business if they have a reasonable expectation to increase value. I have no problem with that. The problem is that this management team has lost my trust. At the time of writing, TPL's management and incumbent trustees, against my wildest dreams, illegally postponed the annual meeting after realizing the vast support for Eric Oliver. This action made me trim our position for the first time. I sold 20% of the shares at $850 USD given that TPL had become my largest holding and this set of new facts made me lighten up the position. I will monitor the proxy fight to evaluate further actions. I am supporting Eric Oliver and hope his election can bring transparency to TPL.

<u>New investment: Boustead Projects (AVM):</u>

We bought shares of BP at an average price of 9x Last twelve-month (LTM) earnings and less than 7x LTM FCF (Free Cash Flow). We paid this price for a company whose earnings will substantially increase, and the huge gap between the current market price and its NAV (Net Asset Value) may be about to close.

Boustead Projects is a leading industrial real estate provider in Singapore. BP's business consists of two segments, the first being Design and Build, which designs and manages construction of Class A real state. This segment does not involve construction, as the actual construction of the projects, which is the low margin component, is outsourced. Therefore, BP focuses exclusively on the design, engineering, and project management aspects of the projects, which are where the juicy margins are. The second segment is called Real Estate, which entails a real estate portfolio of fully owned properties and partially owned with its Joint Ventures Partners. BP also owns the management company that charges fees to the tenants on top of the rent.

There are several reasons why I think this is an amazing opportunity for each of the two segments:

<u>Build and Design</u>: BP used to bid for projects exclusively in the private sector. Recently, the Government of Singapore has changed the way they award contracts and started to value quality over price. As a result, BP bid its first government contract and was awarded. That contract alone was worth $242M SGD, which is more than the company's average yearly backlog. BP is known for having one of the most advanced industrial spaces in Asia and in the world, which the market has started to recognize, and the company has been awarded an unusual number of new contracts in the last few months. Backlog today stands at more than $650M SGD, which is more than three times the yearly average.

To illustrate the impact that these contracts can have, gross margins on the D&B segment have averaged approximately 17% since 2012, excluding FY 2018, as it was an atypical high number. Assuming $400M SGD of the backlog is recognized this calendar year and the company can maintain these levels of margins, I do not see why earnings cannot double or at least increase by 50% in this segment alone.

Real Estate: Real Estate's income has generated on average 60% of the FCF; however, earnings have recently declined as a result of the expiry of a lease on a big property, which remained a few months unoccupied without generating income. BP has already leased the entire property, and the tenant has moved in; the quarter ending in June 2019 will already reflect this new revenue. This is the first component that will increase Real Estate's earning.

The second component is a project that was the fruit of the new Joint Ventures the company is pursuing. BP started to set up Joint Ventures in order to enter into larger projects they could not pursue alone. The Joint Ventures are with top class partners, such as the Sovereign Wealth fund of Abu Dhabi. BP completed its largest project ever in the leasehold portfolio, Alice-Mediapolis. This is a 39,500 Gross Floor Area (GFA) project. The project is already generating depreciation charges that have depressed earnings. The interesting part is that BP has committed and advanced tenants' negotiations for more than 80% of the building; this is all new income about to be generated.

There are additional large projects that will be generating income within the next two years, such as the Braddel Road, Amcor Flexible Singapore's integrated facilities, and a portion from the Razer building that is not rented yet. All of those projects, as management said, are, "expected to contribute meaningfully to earnings." None of these future earnings are reflected in the price we paid.

The Real Estate Portfolio can be calculated by an independent third-party valuation that the company performs by taking the cost basis on recently acquired properties and, by some estimations, on the new properties and the Joint Ventures. The company is about to cross the $800M SGD mark on the value of its properties (yes, the company is trading at a substantial discount to its Net Asset Value). The company is committed to unlocking value and has indicated that they would be forming their own REIT (Real State Income Trust) when the time is right. In order to do that, the company needs to have properties worth at least $800M SGD or $1BN SGD in value and a minimum of 300 thousand of GFA. That's why I believe the company may be close to forming a REIT, and in that case, the asset would need to re-rate to trade, as most REITS do, close to its NAV. On top of that, the company will enjoy a more generous tax treatment, and the distribution of earnings will increase meaningfully.

While I like to have the potential catalyst on the formation of the REIT, I am comfortable with waiting while the company continues to increase its earnings.

Part 3

Positive results are not always the result of a good decision-making process—
Why do I invest for the long term? -Sankofa

Outlook

- We continue to own shares in a UK company that is benefiting enormously from the regulation of real money betting in the US. The company offers a service to the casinos, and its main clients are mostly the biggest on-line operators such as Fan-Duel. In 2019, its revenues have been growing at more than 100%, and the majority are recurring revenues. It is EBITDA positive, it does not have debt, and the management team owns more than 10% of the outstanding shares. You would expect a company with these characteristics to be trading at least at 7 times revenues, yet the company is as cheap as ever at around two times revenues. The company's shares are extremely illiquid, and, I keep adding, even after

owing the shares for more than two years. As buying their shares is so complicated, I will not disclose the name for now.

- We want to own shares in companies of which the controlling shareholder is a family; they think in generations, and their aim is the preservation of capital. After studying EXOR for some time, Mr. Market gave us a nice opportunity when the discount to NAV (Net Asset Value) reached a level that was very attractive to include it in our portfolio. Mr. Elkann, CEO and Chairman, has demonstrated that he is a great capital allocator and since 2009 has generated a lot of value for EXOR's shareholders. We are happy to be one of them now.

We keep making mistakes. I took small positions in some companies where, after a few months, I realized I had not understood them well enough; I also found out I had not formed a complete opinion on a management team, and the realization was, of course, a negative surprise. These examples cost us some of our returns. The moment I realize I have made a mistake, I correct them—I act. It is important to explain that when we lose money, it is not always because I have made a mistake. Sometimes the quality of the decision is right but the results are not. It is my obligation to know which one is a teachable lesson. My aim is to be a good decision-maker.

As an investor, I have an obligation to try to understand how my results came to be the way they are—to identify what works against what does not in order to evaluate the quality of my decisions. I always say I invest for the long term. But why? What does "long term" even mean? If my actions today will reflect a permanent better future tomorrow, I can say I have spent my time well; however, if my permanent future is worse than my present one, I must be doing something wrong. So, the only reason why I invest with a long-term horizon is because I want a permanent future that is better than my present, rather than a portion of an ephemeral joy that expires in minutes. This is equal to evaluating my present. Is it permanently better compared to how it used to be a few years back? I can answer with a definite yes. I have spent a great deal of time thinking about why I act the way I do. The past, present, and future are blurred together; the actions taken yesterday live today and will in my future. It is important that I understand that if I misbehave today, I will be stealing happiness from the future, and the same is true if I behave well—I will be adding happiness to my permanent future.

There is no future if we do not keep a close eye on our past and our human history. The Twi language of Ghana has a word, "*Sankofa.*" This word is represented by a bird with its head turned backwards, which means, "it is not wrong to go back for what you have forgotten" and a message to keep going forward without forgetting how we got here.

I cannot achieve any of this alone. To my partners, all the people who spend time with me, to my silent teachers, and especially to Laura, thank you. I am truly excited to see what 2019 has in store for us. Please reach out to me should you have any questions.

Thank you for your trust,

Jean Philippe Tissot
jeanphilippetissot@icloud.com

This letter has been distributed for informational purposes only. Neither the information nor any opinions expressed constitute a recommendation to buy or sell the securities mentioned, or to invest in any investment product or strategy related to such securities. It is not intended to provide personal investment advice, and it does not take into account the specific investment objectives, financial situation or particular needs of any person or entity that may receive this letter.