Dear partners,

Gross returns for Tissot Ayram Family Partnership in **2019** were as follows:

Partnership 1	***Partnership 2***	***Partnership 3***
+43,14%	*+38,12%*	*+43,70%*

** Partnership 3 was initiated in October 2017.*

*"The Mathematics of compounding: The big losses are essentially **ALL** that matter to your rate of compounding, not the small losses—and not even the big or small gains. The big losses literally destroy your geometric returns and equivalently your wealth." Mark Spitznagel*

First of all, I hope you, your family, and friends are well and healthy during this difficult and challenging time. Unfortunately, our lack of early reaction to contain the virus has led to huge consequences that have affected us all in a big way. Our daily routines and ways of life have been adjusted, at least for a while. I truly hope we can come out of this experience both wiser and stronger. This letter will be a mix between 2019 and an update for 2020.

We currently have a relatively large position in gold and cash, while keeping our amazing companies as well (in some we added). I do not know how we will end 2020 (we currently are positive YTD but may end up negative, of course, so be prepared for that), but we have been and are positioned for more volatility. The addition of the cash position was a result of large hedges I had (we still have some) that gave us multiples of what I paid for, and a disposal of businesses that I sold for various reasons in 2019 and in the first two months of 2020. Our largest positive contributors of 2019's returns were: XPEL and GAN plc.

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%*
2019	***43,14%***	***38,12%***	***43,70%***	***31,50%***
CAGR	***18,28%***	***20,39%***	***20,60%***	***11,93%***

** Partnership 3 was initiated in October 2017.*

** As of the 12th of June 2020 all partnerships were positive YTD*

I truly hope you are as satisfied as I am with our results, but please do not expect that we will outperform the market every year. We surely will have negative periods and periods where we will substantially underperform. Our results are the fruit of how I have been constructing my mental models, as life is not about being right or wrong but how attuned our mental models are to our present reality. As a risk-taker, this is tested by the quality of our decisions and how accurate our predictions are (my predictions are represented by my portfolio), never forgetting the role of luck, of course.

<u>Overview:</u>

<u>General:</u>

At the moment of writing, our small Yoga studio has just been re-opened, and this experience has allowed me to see the extent of the damage of the pandemic through other lenses. The more I see how everything is developing in the real world, the more I realize that markets are underestimating the uncertainty of the situation we are living in. There are a large number of unknowns for how this will develop, and, while I have to be more cautious than ever, I still need to be vigilant in regard to opportunities, as it is in times of crises when they become more frequent. Both danger and opportunity show up often during crises, but the reality will lie in the middle. Everything lies in the middle. The avoidance of extreme views is imperative. As a steward of our capital, the most important mandate I have is the preservation of our wealth, and I must deliver. It doesn't matter if we compound at high rates for some years if we then blow up with the "occasional" surprise. Consistency in how we act is what really matters.

By the results, you will probably assume that I am making less mistakes. You are wrong. Your manager made a lot of mistakes in 2019. In fact, I made more mistakes than in any other year, and some were not acceptable, but I was quick to react as soon as I realized the mistake. I looked for contradictory evidence to my thesis rather than giving in to sedating confirmation bias, and that attitude saved us from huge debacles. I will disclose some of them (only some, as otherwise this letter will be even longer). My decision-making process values not how many times I am wrong but how I do not allow a single error to become large and accumulative. I expect to make many small mistakes, but I am paranoid about making a few large ones that could eliminate our geometric rate of returns.

I would love to avoid the topic of COVID-19, but, unfortunately, I can't. As you all know, one of my heroes, who also was my professor, is Nassim Taleb. His lessons are the fundamentals of my investment pillar number two. This awareness made me pay unusual attention to the early developments of COVID-19. I have written extensively about pillar two in my previous letters, so now I need to describe how it has been applied. This will be covered in Part 1.

Part 1 Covid-19 Update

Our unusual hedges—People do not understand the exponential function and they do not know it—Humans have an inability to react to risks that have not affected them, even if they can see them affecting others.

The notion I want to transmit below is prompted by the need to have an open mind. I know that wealth cannot be created with the absence of equity ownership, but I cannot blindly ignore huge risks, nor ever sacrifice our survival. My mindset is made up of both risk-lover and risk-averse components. The risk aversion makes me paranoid of events that can jeopardize our survival, while the risk-lover enables me to always have some equity in truly remarkable companies and be ok if we are wrong and lose some capital there. In times like these, we are forced to improve the quality of the portfolio and also ensure that we cut negative tail exposure. If we have had the opportunity to talk in the last few years, you've probably heard me saying that my biggest fears are nuclear weapons and biological threats (epidemics or biological attacks). Those are tail risks that are really hard to hedge, and if they occur, the effects could be very bad for the world and our partnership. Therefore, I am particularly alert on those topics. I am also aware that the real black swans are the ones that are on nobody's radar, and, if they occur, we will be affected. It is a burden I bear by being an investor and can only be mitigated by our barbell strategy, where, on one hand, we own safe assets, and on the other hand, nano or micro-cap companies. We have outperformed the market by owning more than 30% of our assets in vastly underperforming but safer assets and spending on some hedges. I am aware that if we did not have them, our results would be way better; however, we would be fragile and less likely to survive in situations when the "unexpected" comes. Hence, we will always continue with that strategy.

The most important attitude to have is one that accepts our limitations of knowledge and prepares us for surprises which are impossible to forecast without the delusion of believing that what we are seeing is the reality, and never extrapolating the present into the future. The COVID-19 pandemic has opened a huge amount of uncertainty, and respecting it is how I operate. It is important to emphasize that my job is to act when material risks have been identified (not to forecast them) and to position myself accordingly as much as to find great companies to invest in. My answer to the current situation is: I have no idea how this will play out.

I perceive a sad and huge misunderstanding, particularly among finance people, about the following, better described by Taleb: "There is this illusion that the economy is harmed by the reaction to the virus rather than by the virus. In fact, if anything, **it is harmed by the lack of EARLY reaction to the virus**."

If you have read Taleb's books or have been in his lectures, one of the most recurring examples he uses to explain risks with fat tails are epidemics. They are risks that have enormous consequences, but we have the certainty that they occur with some regularity. Therefore, COVID-19 is not a black swan, it is not even a grey swan; nature regularly sends these damaging shocks. It is a fact that no country nor the WHO was prepared for this, and their leaders ignored and downplayed all the signs, wasting precious time and allowing the virus to enter and spread worldwide. They did not want to pay pennies by closing international travel and borders early, which led to lots of people dead and a bill in the trillions of dollars and growing. The whole world witnessed a city of eleven million people completely locked up (January) and prominent outbreaks in Iran and South Korea (early February). We only needed access to the news to see what was happening. Arrogance and lack of understanding of a multiplicative process by decision-makers and a huge proportion of educated people led to the effects we are seeing.

When I saw the mathematical illiteracy shown by comparisons made by world leaders and other educated people of deaths caused by COVID-19 (a multiplicative event—fat-tailed distributions) with non-multiplicative ones (thin-tailed distributions) such as deaths by cancer, heart attacks, drowning in swimming pools, or deaths of the normal flu (or worse, the "just a flu" message), I started to worry. If people are not able to differentiate this basic fact, it can only lead to bad decisions, which made me conclude the markets and politicians were underestimating the risk in front of them. That realization led me to two actions:

1) I felt the need to become active and helpful and decided to contact my government (Colombia), begging for the closure of borders and international airports (so we did not have to take stronger measures). I also helped illustrate the risks we were facing, and I wanted to implement the precautionary principle, which was initially alerted **in January** by Taleb. I did this before Colombia had the first case. Unfortunately, the government was slow at first and only listened once the virus was already inside the country. The good news is that when Colombia acted, it had less than 200 cases. It did so aggressively (that was the price to pay for not closing the borders earlier) and managed to avoid the disasters witnessed in Ecuador,

Peru, and particularly Brazil, where the president downplayed the epidemic and the country is now one of the most affected ones. Right now, Colombia is starting to gradually open the economy and the hospital system has not become saturated. At the same time, the country has been preparing should the situation deteriorate, which can easily happen. You can find my article in the Colombian newspaper here.

2) My second action was to assume a higher probability of the epidemic becoming a pandemic, given the reasons above. That led me to take unusual large hedges in February and evaluate whether our companies passed the test of holding, should such an event occur. Only three companies were disposed of entirely based on this reason: Tinkoff, Crescita Therapeutics, and Boustead Projects. Tinkoff is a Russian online bank with 30% of its revenues coming from fees and the highest interest margin I have ever seen. I am aware banks are concave, that is why it was a small position; there was no chance I would maintain exposure to banks with that risk on the horizon. Crescita was a small position in a company that was not performing as expected, and with Boustead being in Asia, I felt the need to close it. Our hedges gave us multiples of what it cost us and cushioned the fall in our remaining long positions. The hedges were mostly closed in March; therefore, our cash position is substantially larger than usual. I remain with a few hedges left, but clearly I am net long and a lot less hedged than before. We kept our amazing companies, added to some during the last few months, and opened the largest position in precious metals we have ever held.

As a reminder of why it is so dangerous to make the mistake of confusing thin risks with fat-tailed risks, let's examine a clear example. Imagine I am evaluating the height of Colombian people and, after collecting a good sample, I get a mean of 170 cm and a standard deviation of 10 cm. 68% of people would fall between 160 cm and 180 cm or, equivalently, 1 person out of 6.3 people would be taller than 180 cm. Now, 1 person out of 44 people would be expected to be taller than 190 cm, 1 out of 740 would be expected to be taller than 200 cm. If we continue until reaching a 10-sigma event (10 standard deviation), it would imply a person taller than 270 cm, which, under this imperfect example, would be 1 person in every 130 and 21 zeroes people, ignoring our actual population currently at 7 billion for the exercise, it gets ludicrously small. The odds exponentially decrease, and there is an infinitesimally small chance for a "rare" event to occur. Another way of illustrating this is to imagine the summation of the heights of all Colombians is 85 million cm, (50 million people times 1.7 cm). There is zero chance of having a single person with the largest share of the total, and we won't find a person with a height of 53 million cm (530 thousand meters / 530 kilometres). This example is thin-tailed—large deviations from the mean are extremely rare, and no single observation can have a disproportionate share of the total. Here we can use the famous Gaussian bell.

All the examples above about deaths from cancer, heart attacks, etc., belong to this type of distribution as well. They are thin-tailed risks, their numbers are high but stable, not scalable, and not multiplicative (they are not growing non-linearly through time). There is no chance (or one with hundreds of zeroes) that deaths from cancer will double (assuming the population remains stable) from one year to the next. In addition, they are independent; one death in a swimming pool does not trigger other deaths in swimming pools.

Epidemics are multiplicative. If unchecked, they grow non-linearly. How quickly depends on how they spread (blood, airborne, etc.), as one person can infect many others, and they can have a disproportionate share of deaths or require disproportionate use of ICU beds in hospitals in a short period of time. Here, the key message is to know that they can have this effect and that they have a non-zero probability of generating enormous damage like deaths or economic depressions without forecasting they will happen (another huge misconception).

The two risks (multiplicative and non-multiplicative), then, must have different distributions and different variances. One is idiosyncratic, another is not, and they can never ever be compared. Once an infection grows non-linearly at any rate above 1, it is growing exponentially, and any analysis needs to be done under a fat-tail distribution. We finance people are good at calculating CAGRS but not so good at using the same principle in other fields. We can understand how the richest 1% can own 90% of the wealth (fat-tailed) but not how an epidemic can have similar features.

The mistake of confusing non-multiplicative processes with multiplicative ones is equivalent to an English-speaking couple arriving in Bogota, Colombia with a map of Paris in French expecting not to get lost.

Unfortunately, this mistake resulted in the world downplaying the threat when we had the time to act and huge measures having to be taken, causing the world to bear an immense cost in lives, jobs and capital. As Charlie Munge once said and where we all failed, "an ounce of preventions isn't worth a pound of cure, it's worth a tonne of cure". As the time of writing I remain cautious, as there is a lot of what we do not know (and a lot of us who think we do), combined with second order effects that will start emerging.

In February, I decided to sell Crescita Therapeutics, Boustead Projects, and Tinkoff and spent some money in additional hedges while continuing to hold all our amazing companies. As I said, everything needs to lie in the middle. I cannot dispose of our great companies, either. The asymmetry was clear to me; I'd rather sacrifice some upside for some protection, given the information available at the time.

Part II

> *The importance of conditional optimism vs. complacent optimism—The scientific way of thinking and the pursuit of contradictory evidence—Ego, our silent enemy—The art of receiving feedback*

<u>One billionth of 1 percent is all that is needed.</u>

The current theory of the creation of the universe states that one trillionth of a second after the big bang, the particles of the newly created universe were composed only of matter and antimatter. Matter and antimatter are opposites and annihilate each other on contact. When these particles were created (per the energy realized by the big bang), they quickly collided and extinguished themselves. If things had remained that way, we, galaxies, planets, etc., would not exist. What led to the creation of all that is around was one billionth of 1 percent of excess matter over antimatter; that infinitely small difference of matter was enough for our universe to take hold, just a tiny imbalance. I love that example, as I think it helps us establish a way of thinking and behaving that leads to actualizing goals—a slight optimism over pessimism can create powerful things. A tiny imbalance can compound into huge and amazing enterprises, just as the entire universe came into being. That is why I think it is critical to be more of an optimist than a pessimist, particularly if you are an investor, although it is essential to be particular in our optimism, as not all are equal nor benign.

There are two types: complacent optimism and conditional optimism. Complacent optimism is the typical attitude of expecting things to get better over time without any real effort. It is the equivalent of a child wishing for presents or people expecting a virus to "suddenly" disappear. It misses the point that for things to improve, people need to get to work and take action. We cannot be daydreamers expecting our wishes to be fulfilled. We need to work for them. If the Allies had had this attitude in WW2 and instead of getting on the ground had said, "No worries, things will get better," history would have been different. We have not survived as a species by having this type of optimism. Complacent optimism blinds us to risks and makes us lazy. We can't show a chart of the Dow Jones, seeing that it has gone up, and expect that it should continue to do so without knowing what it takes for it to go up. We can also show the Russian market chart in 1917. We have created enormous progress through all the work performed by some. These geniuses who have carried humanity forward have been optimistic as well, just of another kind—the kind that I have.

I am optimistic in situations when we are working together day and night, **taking action** for a common goal, which is a different type of optimism, **conditional optimism**. This is the type we have used for improvements, discovering parts of nature, inventing new technologies, winning our battles, and for getting a "yes" from the person we love. This optimism explains why it is important to be aware of risks and be cautious at times. It is ok to not be optimistic until something is done to make things change. I got worried when in Jan/Feb I saw statements by several people expecting the virus to "suddenly" disappear. My worries diminished and my optimism increased in proportion to the importance we gave to our risks and the work we did to contain our threats. I hope this explains how I think; I am fully a conditional optimist. A heuristic: When people claim that things are going to be better, just ask them why. You will start to differentiate the two types of optimism quite quickly and realize when more action is needed rather than just waiting.

Thinking like a Scientist

I learnt that people love people who agree with them and agree with their views. I learnt that if people are scared about a situation, they do not look for facts and new risk evaluations but reassurance. There is a sedating drug in the investment community called the confirmation bias. We are addicted to it, and we do not know it. I've witnessed it on a large scale over the last few months. As I have explained, I no longer seek wisdom in value investing books (only technical investing books), but I devote a lot of time to learning other disciplines. My latest studies have made me incorporate the mentality used by scientists, which is also shared by George Soros. This mentality makes me look for **contradictory evidence** as soon as I have a view on something and take a position. I always have my list of facts that, were they to occur, would mean that my thesis is flawed. However, the majority of reasons that would prove a thesis wrong cannot be known beforehand. That is why I think, if I focus on what will impair my thesis rather than what will confirm it, I will be quick to identify a change. This attitude has saved our capital from some debacles regarding positions I have taken.

Let me bring in another of my heroes, the astronomer Carl Sagan, to explain this concept:

"Science thrives on error, cutting them away one by one. False conclusions are drawn all the time, but they are drawn tentatively. Hypotheses are framed so they are capable of being disproved. A succession of alternative hypotheses is confronted by experiment and observation. Science gropes and stages toward improved understanding."

Thomas Gilovich also helped frame this concept:

"People systematically err in understanding numbers, in rejecting unpleasant evidence, in being influenced by the opinion of others. Wisdom lies in understanding our limitations."

I find this type of thinking so important, particularly in the current environment, where lots of noise dominates our screens, a lot of people's opinions are based on fake news, and incorrect models and opinions are easily expressed online. Instead, I take the scientific approach, and this has already paid huge dividends. The benefit to my mental health of avoiding (as much as possible) justification, narratives, attempts to win arguments, confrontations, and rationalizations is priceless. I therefore thrive to find contradictory evidence to our positions, ideally only from well-informed counterparts or the appearance of new facts.

The biggest destructor of value: Our Ego—Lesson from my investment Pillar III

As you remember from my last letter, I thrive to work with people who are confident and humble. I know finding them is a really hard task, but, with effort, some progress can be made. Currently, we have the best team we have ever had in our yoga studio, and by that, I mean it is a team with the best quality of people we have partnered with to date. However, this is the end result of a lot of experiences where we encountered the opposite as well. As an illustration, there has been less drama in more than a year (by the entire team) than the drama of one particular occasion by a single person in just two weeks. Drama is a waste of time and emotional energy. It stops us from progress and destroys value. This is why it is so important to select well the people we spend our time with and to whom we delegate our capital and responsibilities. Those humble, energetic, bright souls give so much that we want to do anything to retain them. Let me highlight the most important lessons, which all fall under the province of the ego, our quiet enemy.

I personally think (I would love to test it) that the biggest factor in destruction of value in companies is ego, and this enemy, when surfaced, becomes an obstacle to progress. I believe it has taken a toll bigger than any other factor from companies, and that is why I give so much importance to the avoidance of it. I believe I can compound at enormously higher rates of return if my environment is free from the toxicity of ego. I am not an extremist against ego. Some ego is useful, in really small doses, when it drives and gives us strength, and when we do not take things personally. Just a small dose is needed. Unless you are a hyper genius that can get away with a big ego, like Newton or Descartes (who were mostly brilliant thinkers and never part of a company), I do not think high egos are beneficial when they are displayed by people within organizations.

When we are prey to our egos, our bodies react with the purpose of elevating ourselves rather than looking at what is true. We stop listening to others and create blind spots for ourselves. When we are part of an organization, this attitude causes other members to not want to work with us. I am interested in creating value and compounding capital over being right; therefore, the ego can stop me from achieving that.

I must be vigilant against falling prey to it, but I must also partner with people who can control it. When we are in an organization and we can create the habit of removing ego, everyone benefits, but that is not easy.

For example, I have seen lose-lose outcomes in most cases involving egocentric people, and they have the following characteristics, which I have learnt to watch out for: They are the ones who take things personally, i.e., a message is given and it is interpreted as an attack; they seek importance, recognition, and status above the wellbeing of the whole; they love to have a sense of importance and believe they are superior; and they love hierarchy if they are at the top and have a vision that some tasks are not meant for them but for subordinates, creating dangerous blind spots. They get defensive rather than seeking the best possible outcome for all. Ego and insecurity, I came to believe, are two sides of the same coin. I learnt that the moment I see displays of ego by people within my environment, a huge emotional investment will be required to fix the fire that surely will start, and this drags so much of my energy. Ego can eclipse the most brilliant people. I have learnt by experience what Mr. Buffett says about being careful of people with a 130 IQ who think they have a 170 IQ. The danger lies in our egos making us blind to errors as we pretend that our decisions are "100%" correct, leading us to become dangerously overconfident.

I have witnessed how the most irrational decisions that destroy a lot of value are made based on the human need for status and when people constantly take things personally (which is a display of ego). This is a lesson that is visible in all kinds of companies and in all rankings, and once you start identifying people who can master their egos, you feel more attracted to them. They have high gravity and ultimately create value, and the opposite is also true.

I am not immune to this. I readily address this topic because, as a result of my ego in my younger years, I made so many dumb decisions which cost me dearly. I have worked really hard to lessen the vigor of this enemy, and the best antidote is being aware of its existence and having a strong desire to beat it. Nobody is immune to this, but we can only get better if we accept its presence and want to change, then we can compound the important things in life through time. Otherwise, we would be blindly destroying value and relationships as we go along. As a capital allocator, I need to find these people who manage to beat their egos in the wide spectrum of environments and companies I invest in. I learnt that I should never underestimate the powerful destructive force of the human ego. I also learnt that the actual number of non-egocentric people is less than I think it is.

The art of receiving feedback

If companies want to improve, they need to be constantly receiving feedback, particularly if they are service oriented. Sometimes management teams think they are doing (X) and clients or employees give feedback of (Y), which represents the exact opposite of what the original intention was. Management has two ways of dealing with the situation. On one hand, let's call this the damaging approach, they defend themselves, try to justify why (Y) happens, and try to talk the person out of that way of thinking by giving reasons. The other option is listening as much as possible and gathering information to ensure with **actions/change** and not words so the next time, the person can have a better experience. Sometimes management knows that (Y) happens and addresses it, yet the negative/constructive feedback continues. This is a valuable source of information, as it is possible the message of the action is not getting through to the clients or whoever gives the feedback, and a change is needed.

A great way to start learning about the culture of a company is to provide negative, or "constructive," feedback and see how they respond. I can say by experience with our yoga studio, getting constructive feedback as a business owner is not easy, and sometimes you really think the feedback is not fair. But by listening and then evaluating why the person had that experience, you can find ways to improve. There is no way to find out what customers, employees, and stakeholders want if we cut the channel of communication. Feedback needs to be answered by the company with actions, and actions only.

I can tell you from my portfolio, Games Workshop and XPEL are two companies where I have been impressed by the entire culture. In the case of GAW, this is a result of Kevin Roundtree radically changing the way the company was operating with clients. XPEL is a company where, from top to bottom, you can encounter a dedicated team that wants to listen to anyone who has an opinion or feedback on the business. Here again, I have encountered an immense outperformance from companies that use the second approach, and I am looking for those. It is important to note some wisdom from Scott Adams: We should not judge people or companies' cultures by their mistakes (we all make tons) but by the way they respond to them.

Conclusion of part II:

As you can see, my main lessons come from qualitative aspects and not from information I find in an Excel spreadsheet. These lessons have allowed me to identify great companies, and also, very importantly, to realize when facts have changed and I should respond. These lessons have allowed me to see when some management teams were not what I thought; some proved to be better, some worse. These lessons have allowed me to identify, on time, that, in some cases, my understanding of a business is not great, or when new facts should impair or alter my theses. In the end, they help me to identify valuable patterns.

Truly independent thinking remains very scarce in the value investment world. I continue to see so much copy-pasting of the same messages repeated over and over again. Particularly worrying is that some messages are taken literally without being given the necessary context, which is a symptom of a lack of independent thinking. At the same time, for the few truly deep thinkers out there, I offer deep gratitude. As you know, I have a lot of heroes, though I do not agree with everything they say. As an example, I wrote this piece explaining why I refuted a particular piece of advice from one of the people I truly admire, Charlie Munger. Also, I find particularly worrying the pervasive idea of "cloning" blindly, or copying other people's ideas or moves. People love to be told what to do, and this is so dangerous. We can take the lead, of course, from other people (I think all investors do that), but we, with our work and knowledge, must make our own decisions. If you copy someone's idea without doing enough work, you will be a slave to others' opinions, views, and to the stock price. My portfolio is an expression of myself, my evolution, and my current way of thinking, which includes lots of mistakes—but those mistakes are mine, as well as the successes.

"Having open-minded conversations with believable people who disagree with you is the quickest way to get an education and to increase your probability of being right."

Ray Dalio

Part 3

Portfolio Update:

Well Health Technologies (WELL)—New Investment

Well Health Technologies (WELL) is a company focused on modernizing and digitalizing the healthcare system in Canada.

WELL operates in two divisions. First is the clinical division, where they operate 21 clinics, of which 20 are fully owned. In this segment, WELL charges medical practitioners a percentage (30%) of their revenues in exchange for providing entire facilities and taking care of all administrative duties. Therefore, doctors can focus on what they know and like. WELL's other division is the Digital, or EMR, division, where WELL provides EMR (Electronic Medical Records), software, and services to more than 1,500 medical clinics with over 8,000 doctors, currently.

The digital division enables interoperability between their own clinics and within the healthcare clinic system in Canada. The technology is based on OSCAR (Open Source Application and Research), and this technology has 20% of the EMR market. The Canadian healthcare system is very old school, and WELL is on the path to revolutionizing it.

WELL's growth strategy includes M&A, and it has been very active on that front. In 2018, it acquired the majority of its clinics. In 2019, it completed two majority ownership acquisitions and four digital EMR ones. And in 2020, WELL opened a new clinic called the Dermlab, completed and finalized four acquisitions so far (including a majority ownership stake), and launched its new segment called VirtualClinic+. This segment became a large beneficiary of the current environment of social distancing measures.

To get a sense of the opportunity, Canada currently has around 4,000 clinics, and the largest chain has only 35, which indicates an extremely fragmented market and an ocean of opportunities for WELL to continue its acquisition and expansion strategy. In the EMR division, WELL is already the third largest provider in Canada.

Insig Corporation, one of WELL's recent investments, is a company engaged in developing telemedicine platforms and clinical automation software, which fits perfectly with the recently launched VirtualClinic+, which enables patients and doctors to perform non-critical appointments through the internet. In just two months after launching this segment, it is getting more than one thousand bookings per day.

WELL is reshaping the healthcare system in Canada. As a result of its aggressive expansion, the company is expected to have more than CAD$50M in revenues and generate positive EBITDA in 2020 (Q4 2019's EBIDTA was already positive against all expectations).

The company acquisitions strategy tends to pay 5 times EBITDA for clinics and 3-5 revenues for EMR software businesses. As a result of COVID-19, WELL's initiative with telehealth and the need of the healthcare system to improve its technology has dramatically accelerated the momentum for WELL. the company has been opportunistic and has raised some cash to take advantage of opportunities. It currently has a net cash position, and its CEO is the largest shareholder.

I met the founder and CEO in L.A. at an investment conference and, so far, I am truly impressed by him. Hammed Shahbazi, WELL's CEO and largest shareholder, is a serial entrepreneur. He was the founder of TIO Networks, a company that he built and which ended up being acquired by PayPal for CAD$304 million. He earns no salary; all his compensation is paid in stock. He is an energetic, ambitious, and intellectually humble person. I would recommend you check his latest interviews.

WELL is backed by Li Ka-Shing, who is the 30th richest person in the world. He is the largest shareholder of the Watson Group, which owns one of the largest chains of pharmacies in China. I like the trust from one of the greatest businesspeople in this relatively small company.

The company has to properly execute its mergers and acquisitions strategy, which is not an easy task and one of the main risks of the investment. I am monitoring the development, and, so far, after owning shares in the company for almost six months, I can tell you that my conviction has strengthened. This was reflected by my decision to add to the position in March 2020. WELL should capitalize on the Telehealth opportunity, and I hope to see the company venturing into the United States as well. With the information at hand, I see no reason why WELL cannot be an extraordinary compounder.

MGP Ingredients (sold):

In 2019, I sold the remaining shares I still owned. As I mentioned last year, with the company trading at around 40 times earnings, the valuation was discounting a high rate of growth of the brown spirits segments and a successful implementation of the brands initiative, which was often fueled by management's rhetoric. I had been trimming for a while, and more than 90% of the initial position had already been sold at the time of the sale of the last share. I realized that the thesis had changed, given the Q1 and Q2 2019 results, which showed a decrease in sales in the brown spirits, particularly in the aged whiskey. This was a shocking result for the valuation at the time, particularly as it was already the 7th consecutive quarter of mediocre numbers, and I could not keep holding. Our average selling price was $78, close to four-fold of what I paid at cost. MGP's CEO Gus Griffin later on had to withdraw guidance, and the stock fell to the low twenties. He left the company, and a new CEO is now in charge. I still think Gus is a great leader and I truly like him, but I believe his sin was probably overconfidence and that, unfortunately, led to a painful shock for the remaining shareholders. I will keep a close eye on the company and we might own it again, as the strategy might still work out.

It is fundamentally important to understand what factors would change my thesis if they were to occur. With MGP, I had full expectations of an improvement of margins and substantial growth in the brown spirit segments **as soon as the aged inventory was beginning to be sold**. This did not happen, even though I was patient, and I simply could not justify holding it at a high valuation anymore. I must confess another change of mind I had while holding MGPI. I initially put 30% of our assets at cost based on a view that did not fully materialize, yet we generated a great return. I want to take home the right lesson. The stock price reached a high of $100, but it was mainly because people started to see the same potential I was seeing and discounted the story, and not because the company was delivering on its targets. Today, I believe a 30% position at cost was somehow irresponsible and have cut the limit to enter a position at cost to a maximum size of 15%.

Viemed (sold)

I also exited our position in Viemed. We paid for our shares around $2.84 CAD, and our average selling price was $8.5 CAD, a three-fold in a short period of time. When we bought the shares, as explained in last's year letter, we were paying 5 times EBITDA for a company that was growing revenues at more than 40% per year and had expanding margins. In 2019, margins started to contract, revenue growth slowed, and there was the uncertainty (that no longer exists) of how the company would operate under the competitive bidding program. For these reasons, combined with the shares trading at a more reasonable valuation, I concluded that an exit was appropriate.

GAN plc (sold in 2020) *Main contributor of 2019 returns

I started the position in GAN plc in 2017 at a price of 0.25p GBP, added several times during 2018 and the first half of 2019, and sold all the position in 2020. It has been the best investment in the history of our partnership. GAN provides player account management software to the online and sports industry, both for simulated and real money gaming; most of the revenues today come from the growing U.S. market. GAN earns roughly a 10% take on the winnings generated by the operators. GAN entered the U.S. market several years ago with the expectation that more states would legalize real money gaming and sports betting, while at the time of our investment, it was only legal in three states. That view did not materialize in the time frame the company was expecting, and, by 2017, GAN was a company that was on nobody's radar, listed in both the AIM in London and Ireland, with revenues generated in the U.S. and with no real traction. In other words, it was a very confusing company to understand.

What I saw was that the company had invested time and resources into understanding the U.S. market better than any of its competitors and started to sign casinos for simulated gaming, which, in case the legislation changed, GAN would be in the leading position to capitalize the new opportunities. I found out that GAN also owned the U.S. patent to integrate online gaming to the casino loyalty programs. I kept an eye on the legislation.

In 2017, Pennsylvania approved real money gaming, and that was the catalyst I had been waiting for. I started with a 3% position, as I needed to test the company's execution. What happened next was a wave of other states regulating real money, e.g., Indiana, Michigan, West Virginia. This was accompanied by the regulation of sports betting and a flawless execution by GAN. Its growth in 2019 was more than 100% and was profitable. We added to the position several times during 2018 and 2019. I met management and have been impressed by what he said he was going to do and what he did; few management teams delivered on every promise like GAN's CEO. The company just recently listed on Nasdaq.

Why on earth did I sell, you might ask. It is important for me to highlight that I am not bearish in GAN at all. In fact, I remain bullish, but there are some risks that I do not want to ignore. Almost 60% of GAN's revenues come from Fanduel/Flutter, the largest U.S. operator, and Fanduel has mentioned several times that they want to inhouse the platform. I am fully aware, then, that Flutter has not taken the PAM inhouse in Europe where they have operated for many years and that integrations are really difficult to pull. I just think the odds of a negative surprise are not zero, and a client concentration of more than 45% at the current valuation is a risk I am not comfortable holding. GAN represented more than 22% of our assets when we sold the shares.

GAN has been our best investment to date, and we really wish the best of luck to the management team and investors.

Games Workshop (GAW)—New Investment

I must confess that in 2018, I started a position in GAW which I quickly sold for a small return. The reason why I made such a silly mistake was that I did not fully understand the value of the franchise. I entered again, at a higher price, in 2019. I fully disclosed my position in 2019 and wrote an extensive writeup about the company (extracts below). This is a company that surely will be affected by COVID-19. Earnings will decrease in the short term, but I will hold it. There is nothing that would impair the business long term. In fact, I think the company can become even more popular during the current circumstances.

Games Workshop is the creator of the hobby and brand Warhammer. It is also the market leader for tabletop miniature gaming and related products such as board games, books, and card games. GAW is the owner of the Warhammer intellectual property (IP), where I believe monetization is only in its initial stage; this is where I see the main opportunity. Prior to COVID -19, GAW had been compounded EPS at 69%, enjoyed returns of equity of more than 100%, and had a rock-solid balance sheet (currently has tapped some debt). When I bought it, the stock was trading at 20 times earnings approximately. However, today the stock is substantially higher and earnings are going to be reduced for some time, and I have to remain patient with a somehow elevated valuation.

GAW makes money by designing, manufacturing, and selling fantasy miniatures and related products such as board games, card games, and artwork, among other items. These miniatures and products come from GAW's main brand Warhammer and its products/universes Warhammer 40K and Warhammer Age of Sigmar. These products are "different settings" where characters, stories, and offshoots of other products like Horus Heresy are constantly being created, which provides GAW with an infinite pool for creating additional revenues, and the company does not need to go and do extra work. It licenses the IP to the best game developers while charging them royalties.

Royalties, which is the segment that interests me the most, has more than 90% margins, which are coming mostly from licensing its IP to PC and console games developers, with mobile gaming and media (TV series and movies) totally untapped as of today. The company recently signed a new license agreement with Frontier Developments, and It has already been announced informally by media channels that the showrunner of the series based on Eisenhorn (a character from Warhammer 40k) is Frank Spotnitz, who was the executive producer of "X-Files" and "The Man in the High Castle."

I think the monetization of the IP is just starting, with several other verticals being implemented, such as mobile, tablets, media, and AR/VR realities experiences totally untapped. I also think, in the case of a successful media launch, the company can exploit its IP on clothes, attraction parks, and several other verticals. Basically, if the company manages to execute this segment, it can eventually eclipse the current core business, even though management has explicitly mentioned its focus remains the core business. Royalties currently have more than 92% EBIT margins and have grown from 1 million GBP in 2014 to 9 million last full calendar year. Revenues coming from royalties exploded in the last six months' reporting period to close to 11 million GBP (there has been an accounting method change so growth y/y is difficult to compare).

GAW's products are more than a hobby; they are really addictive. People play, paint, and build for hours and spend a ton of time in online forums talking about it. I have met management and the board, and I am delighted by how they have transformed the company. GAW is one of our core holdings; we have made only a slight trim at 71 GBP.

<u>Additional companies we exited in 2019 at a reasonable return</u>: CRHM and Franklin Covey

Some mistakes and some correct decisions that yielded poor results

Our biggest mistakes were investments we had in: Burford, Shipping (Scorpio Tankers and EURONAV), and Stage Stores.

Decisions that should not be called mistakes, given the information at the time, but yielded poor results (read: lost some of your money) were a bearish Put spread on Tesla, long in National Services Reunited, and long Valeura.

My lessons in Shipping: I lost some of our money in this industry. Shipping is basically a commodity; revenues depend on the rates set by the market. I was involved in tankers, which are vessels that carry crude oil or refined products. I had estimated the rates paid to tankers to increase (I will skip the rationale), the companies to lower debt, pay dividends, and stock prices to reflect the improved fundamentals. Everything of that happened except a sustained higher share price. The calculations of estimating the cash flows of shipping companies is simple. The costs are known, and, if we have a reasonable idea of where rates are going to be, we can estimate the free cash flows.

My mistake was to treat this industry purely as a commodity. The industry is dominated by promotional management teams that have a history of diluting shareholders and destroying value. I was witnessing how the CEO of Scorpio Tankers was buying short-term options, announcing the transaction in press releases, and never disclosing the sales (as a foreign issuer, they can do that). This behaviour also occurred in transactions of other companies, announcing the purchases and burying the disposal of shares. It seems the market assumes the money generated will be kept by management and not minority shareholders. I see it as a lack of trust, and, honestly, with the behaviour witnessed, I do not blame the market. I had a spot position that I luckily could sell at a profit once I realized the rabbit hole this industry was; however, we lost all the money I had invested in the call options. It was a small amount, nevertheless a large mistake on my part.

My lessons on Burford Capital: Burford operates in the litigation finance market. It is the largest company listed in the junior London Market, and the main assets on its balance sheet, which are the investments it makes, are level three assets, meaning they are very hard to valuate as there are no active markets for them. Burford ticked several characteristics that are perfect siren songs for value investors. It is supposed to be a compounder, it is unrelated to the real economy, and management knows how to perfectly lure investors.

If you believe its numbers as I did when I bought it at 16.5 GBP, it was a no-brainer. However, their earnings have not been properly converted into cash flows, as the company has been a serial issuer of debt, and, on one occasion, equity. I invested in the company despite being aware of several red flags, and that is why I consider it a huge, unacceptable mistake. Some of the red flags at the time were: Management compensation had never been disclosed; the company trades in the junior market in the U.K, despite its large market capitalization , which has less regulatory requirements; at the time, the board had not changed in almost ten years; the CEO was married with the CFO and neither were part of the board; the company is located in Guernsey, which has very relaxed rules, and there were some questions about some old transactions unanswered by the company. Another aspect is that the majority of the earnings are coming from a single litigation case (the Petersen case) that the company keeps selling chunks and revaluating the balance sheet for, and, consequently, booking earnings based on those transactions. These “transactions” tend to happen prior to the end of the reporting period for some reason. The company has not disclosed to whom they sell those portions, nor has it responded to questions of whether they sell it to related parties, despite being questioned on several occasions.

In July, I started to lose trust in management and was worried, as Burford was a consensus holding among the value investing community. I was surprized by the number of value investors who held it and had the exact same thesis. I even saw some theses calling it the best company in the world. I get really worried when I see this type of enthusiasm, as this is when we get trapped by our expectations rather than facts. I decided to trim half the position at 15.50 GBP. In August, the company reported "great numbers," and the stock did not respond. Management was under pressure to address the red flags, and my anaesthesia to their answers had completely waned. I decided to sell the remaining position at 13.50 GBP purely by luck one day before a short report on them was issued. Following the report, Burford's behaviour has strengthened my distrust. They attacked and threatened to sue the short seller (if a company has nothing to hide, they should never attack back), then they decided to "address" the issues. The fact that they intended to address them only after a huge short report means that they actually never planned to fix them at all; it was only due to the pressure. They promised to list in the U.S. as a foreign issuer, which fixes nothing. Management compensation is still unknown, and it is not confirmed whether the buyer of the tranches of the Petersen case is a related party.

I hope to have more than fifty years left of investing; therefore, it is imperative for me to create the right habits, habits that improve the quality of my decisions. If I am going to invest your capital in companies that I know have red flags, I am guaranteed to lose money in the long run, as I will lower the quality of my standards. There will be several mistakes that I will make, and some red flags in some of our holdings will show up, but for me to willingly invest and hold while knowing about the presence of red flags and a management team with not the best reputation is something I should not do, particularly if I manage external capital. I lowered my standards three times in 2019. In the case of stage stores, it was not about the reputation of the management team, it was a bad business and not my type of investment. So, with these examples, I can say we lost money because I made poor decisions. The lessons have been learned.

Gold, Cash, Uranium, and closing remarks on the portfolio

I do not need to bore you with an additional macro view, but the creation of money in unprecedented amounts by central banks, particularly by the Fed, and the need of ever bigger stimulus to avoid a credit crisis (in the short term, as I do not think it can avoid it in the long run if the economy deteriorates) has and will continue debasing the dollar, which is a practice that has been used for thousands of years by rulers to technically default on their debt. That is why when we see ever growing stock indices or "higher" average household net worth, we are measuring them with an ever-depreciating unit, the dollar, and all fiat currencies in essence. The U.S. is now a debtor nation (it used to be a creditor), and that fact increases the difficulty of selling the issuance of debt of an ever-growing deficit to other countries. This means the Fed will have to continue monetizing the debt, creating more money, and debasing the currency as a result.

This would not be a major concern if real economic growth was higher than debt growth, but, unfortunately, that was not the case after the global financial crisis. The amount of money created by the Fed **in just two months** (from March to May 2020) is similar to the entire amount created from 2007 to 2017 (M2 current growth is 21% y/y). The Fed is betting all that either inflation or deflation will not occur and is expecting the debasement effects to be ignored by the people.

Therefore, I see it as imperative to protect our capital through the ownership of hard money (money that cannot be easily created and that is no one's liability) in these situations. I think "money printing" will start biting us, as it has always done over thousands of years. I see the current debate over inflation or deflation as useless; both can come, deflation first, followed by inflation. We are in uncharted waters, and money printing is the only tool left for the Fed.

Our partnerships own a large portion in gold, and I also entered in OTM (out of the money) calls in gold and silver and own some calls in stocks of the largest gold miners. Silver is more complicated, as it has an industrial use as well. However, in periods of uncertainty, its storage of value roots tend to come back. We are convex to higher moves. If gold has a 50% move lower, we would have paper losses of a fraction compared to if the price was to move 50% up (same for silver). The Fed can create money and inflate bank reserves, inflate financial assets, and temporarily improve market psychology, but it cannot create jobs, cash flows, or establish the lending standards of commercial banks. The Fed can expand M2 but cannot increase the velocity of money (unless they give handouts to people). I would rather be more defensive during this time and sacrifice some additional upside but have plenty of dry powder when clear opportunities present themselves.

We also own a portion of our assets in uranium via the ownership of shares in Uranium Participation Corporation, which is an investment company with the singular purpose of investing in uranium oxide and uranium hexafluoride. We entered in the position last year, and in March 2020, increased the position substantially. The rationale is that the market is in a large supply deficit (demand is 190/200 million pounds and supply around 130/140 million annually), its price is trading below the cost of producing it (not even counting corporate expenses), and some large producers have shut down mines, which have made them temporally short the metal (even before the effect of COVID-19). Cameco in particular is buying in the spot market to meet its long-term contract needs. COVID-19 safety measures have accelerated the deficit, as Cameco had to close its largest operating mine, Silver Lake. Kazatomprom, the largest producer in the world, announced that, in 2020, it will reduce its production by 18% (from its original production guidance) and it will not replace the lost production. Kazatomprom has several joint ventures with different producers which rely on those pounds, making them even shorter of uranium. The price of uranium has already moved 40% higher from the lows, and we won't sell until it reaches at least the cost of production or if the facts of the thesis change.

Cash is a very risky asset to hold in the long run, as explained above by the debasement effect, but a robust one in the short-term given the optionality it provides, particularly in volatile times. As a reminder, as a result of our disposal of GAN, Boustead, Crescita, and Tinkoff, and the net profit of the hedges, our cash position is currently at very high levels. Some proceeds have been deployed in our precious metals, additions to TPL, Uranium Participation, WELL Health, some bullish risk reversals in some companies and in a new investment in a small company with asymmetric (convex) attributes, which I am not disclosing today, as I possibly would continue adding.

Our core holdings remain and will always remain in our portfolio pending the arrival of new intrinsic facts that would change my thesis. Bioventix continues performing extraordinarily and is not affected by COVID-19 at all, while Exor, XPEL,TPL, and GAW, among others, will temporarily decrease earnings and undoubtedly will be affected in ways I cannot measure. But those holdings are of the best quality, and, in almost all cases (yes, not all, as TPL gave us some drama in 2019), management has executed impeccably. I believe some of those companies will be where we generate the majority of our future returns. We can add or trim them but not sell.

Part 4

Outlook and Conclusion

Currently, the market is rewarding one-order thinking—assuming a recovery without major consequences. I take rather a middle seat with my views and prefer to be defensive for the first time in my close to seven years since I began managing our capital. If things prove to unfold as the market expects, our current companies should be the first to benefit, and I would be fine to leave some money on the table by not being fully invested for a while.

Investing is not a sprint but a marathon. I do not need to act when I do not have a proper margin of safety. I currently do not know so many things. For instance: Are we going to have a second/third wave of COVID-19? A cure? A vaccine? A mutation of the virus? How many jobs will never come back? Are riots going to escalate? Deflation? Inflation? Stock market melt up? What I do have is the certainty that my current holdings are companies of extraordinary quality, and I am confident that they will create enormous value in the years to come. I do know that I can never ever exit the market. If I get too worried, I should (as I did) enter in extra hedges, but, as an example, more than a third of our companies made all-time highs in April/May 2020. The market is unexplainable, and I must ignore valuation concerns as long as management executes (GAW, XPEL) and never ignore them when execution is not present (MGPI). Remember in my 2017 letter the farmer approach explanation? Think of our portfolio as a farm, where this year we decided to invest more in the best crops, eliminate some crops that the current weather could damage permanently, and create space with healthy soil for the next type of crop that should benefit from the new weather patterns.

I am aware that we may be in the early innings of a bear market or excess liquidity, and the lack of returns outside equities could lead to an equity melt up, too. I must remain without any extreme view, prepared for both or neither. The awareness of invisible risks (unknown unknowns) is present in how the portfolio is constructed.

To my partners, and especially to Laura, my fiancée, all my gratitude. Without your trust and support, this project would not be possible.

Warmly,

Jean Philippe Tissot

jeanphilippetissot@icloud.com