

Conscious Investor® Fund Interim Letter for Members: December 2020

Dear Fellow Fund Member:

“When you arise in the morning think of what a privilege it is to be alive, to think, to enjoy, to love ...” — Marcus Aurelius

Welcome to the December 2020 Conscious Investor® Fund interim letter. It has been a strange year, exceedingly difficult for many people around the world. We are fortunate to be living in Australia.

The Capital Allocation Team has kept their noses to the grindstone, ignoring all the noise and wild claims by market commentators. The outcome is that over the past 12 months the growth of the Fund has been a healthy 15.04% after expenses compared to 1.40% for the accumulation index.

A key reason for this performance is the excitement we feel about our existing holdings. Every one of them is a company we feel confident will add substantially to the performance of the Fund. In other words, to your wealth.

Every day we eagerly scan the market to see if today is the day when the prices of these outstanding companies are at a level we can buy more. But the price has to be right.

The same applies to a group of other outstanding companies monitored by us. Each one of them would be a great fit for the portfolio. But only if the price is low enough. Otherwise we will hold on to the cash.

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Contribution of the Largest Ten Holdings

The largest ten holding make up about 52% of the Fund. In each case they have been held for many years. The following table shows the performance of these ten largest holdings since their first purchases. They are the stars of the Fund and are topped up whenever there are any suitable opportunities.

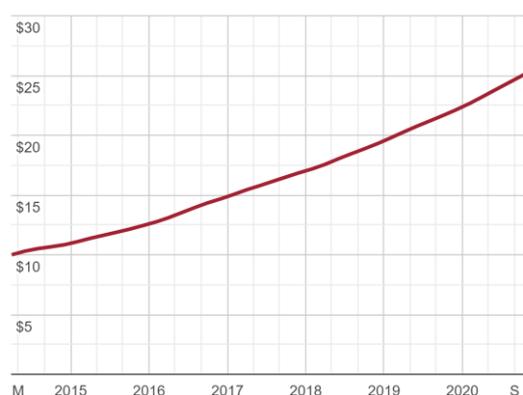
Code	Name	Value (AUD)	Total Return (\$) Since First Purchase	Total Return (% pa) Since First Purchase
MIN	Mineral Resources	\$7,377,650	\$5,362,427	45.38%
BRK/AB	Berkshire Hathaway	\$5,018,948	\$419,379	6.33%
GOOGL	Alphabet - Class A	\$4,803,232	\$1,720,541	22.00%
AX	Axos Financial	\$4,586,977	\$403,454	5.33%
FPH	Fisher & Paykel H.e	\$4,363,950	\$2,770,243	39.95%
TNE	Technology One	\$3,854,000	\$1,764,025	20.17%
SBUX	Starbucks Corp.	\$3,473,769	\$1,790,439	33.25%
NHF	Nib Holdings Limited	\$3,449,967	\$786,909	14.03%
ULTA	Ulta Beauty Inc	\$3,394,093	\$628,530	7.65%
AAPL	Apple Inc	\$3,240,070	\$2,480,621	55.65%

Earnings During 2020

During 2020 the weighted average of the growth of earnings per share for the companies in the Fund grew by 15.4%. Over time, provided this growth is maintained, this should translate into healthy growth of dividends and share price.

The adjacent chart shows the month-by-month growth of the average earnings per share for companies in the Fund to December 2020.

Return on equity is also vital. In 2020, managers of the companies in our portfolio earned for their companies an average of 23.3% on the equity in their companies. This, too, augurs well for strong growth of their share prices over time.



Fund Performance

As expected from the previous chart for the growth of EPS, members of the Fund will notice similar growth in the net asset value of their holdings. The adjacent chart shows the growth of \$100 after all fees since the inception of the Fund in February 2013. Over the past five years it has averaged 12.2% per year after all expenses compared to 8.7% for the S&P/ASX 200 Accumulation Index.

Notice how the upward trends of the two charts strongly match each other.



Warren Buffett Corner

A report on the Fund would not be complete without a few words of wisdom from Warren Buffett.

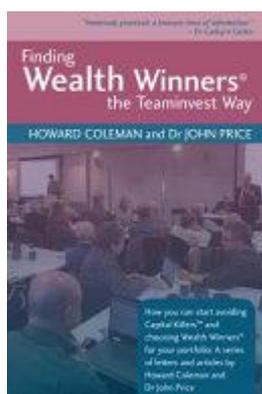
In the following quote from the 1978 Letter to Berkshire Hathaway he describes his approach to long term value. I am sure you will recognise that this is something we follow closely in the Fund.

We are not concerned with whether the market quickly revalues upward securities that we believe are selling at bargain prices. In fact, we prefer just the opposite since, in most years, we expect to have funds available to be a net buyer of securities.

And consistent attractive purchasing is likely to prove to be of more eventual benefit to us than any selling opportunities provided by a short-term run up in stock prices to levels at which we are unwilling to continue buying.

This approach dovetails with something said by Charlie Munger, Buffett's partner and long-term friend: "The first rule of compounding is to never interrupt it unnecessarily."

Recent Book: Finding Wealth Winners the Teainvest Way



During the year Howard and John published a book *Finding Wealth Winners the Teainvest Way*, a collection of articles they have written over the past decade. The articles include topics such as how to identify companies most likely to become rare Wealth Winners, why most 'Blue Chips' make mediocre investments and why it is important to understand how a company actually makes money. There are also articles of historical significance such as "The Day I Became a Buffettier." Although aimed at people who want to manage their own money, it also gives background on how we choose companies for the Fund. You can buy copies at www.educatedinvestor.com.au/

Conscious Investor® and the Teainvest Methodology

The starting and ending points of the Fund methodology is our investment software, Conscious Investor®. At the start it filters and analyses companies listed in markets around the world in three steps: Filter, Research and Return. The main components of the filter stage zero in on companies with attributes such as strong and stable growth in earnings and sales, high and consistent return on equity and not too much debt.

Next comes the research stage helping to limit the results to companies for which these attributes are likely to continue.

Finally, coming back to Conscious Investor, the return stage calculates the maximum price to pay to be confident about getting the required rate of return over the long term. It uses automatic margins-of-safety calculations based on stress testing the investment assumptions.

Once this is done, the Teaminvest Methodology takes centre stage and focuses on the following five areas. Whenever possible the Capital Allocation Team scores these areas to increase the precision of the decision process.

1. How does the company make money? Is the business expected to grow? Are there clear signs it will have a growing customer base?
2. Investments should be like castles with deep moats: What are unique features of the business that separate it from its competitors? These “economic moats” are scored in terms of depth and durability.
3. Risks need to be identified: All businesses face risks that could weaken the continuing success of their operations. These risks are identified and scored according to the likelihood of their occurrence over the next economic cycle and their potential damage if they do.
4. Does the company have a clear mission statement or noble purpose? Is there strong evidence that the company uses it to guide its decisions, appointments, acquisitions and remuneration policy?
5. Is management honest, open and rational? As part of examining the business, evaluation is made of the board and senior management: are there any signs that they are not acting honestly, rationally and in the best interests of shareholders? Specific areas that are looked at include the number and type of related party transactions and the remuneration structure for the CEO and senior management. The Capital Allocation Team scores remuneration in terms of clarity, alignment and quantum.

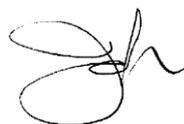
The final steps involve calculating buy and sell prices, and the checklist. You can find details in the Information Memorandum together with all our processes that ensure we are investing in Wealth Winners and making it extremely unlikely of putting any of your capital in potential Capital Killers.

We hope you enjoyed reading this Letter. We chose the topics to help you better understand our philosophy and what motivates us in choosing investments for your money. Please let us know if there are any other topics you would like us to include.

We aim to be outstanding stewards of your precious capital you have entrusted with us.

We wish you the very best health and well-being for 2021,

Kind regards,



(John Price and the Capital Allocation Team)

The Capital Allocation Team prepared this report for members of the Conscious Investor® Fund. It does not take into account anyone's personal circumstances. Remember, what happened in the past is not always what will happen in the future.

Questions? Contact us: cifund@consciouscapital.com.au

Conscious Capital Limited AFSL 427 216 9/2 Kochia Lane, Lindfield NSW 2070, ph (02) 9416-1941.