

## Conscious Investor® Fund

### Interim Letter to Members: December 2021

Dear Fellow Fund Member:

Wow, what a year it has been. First, on behalf of the Capital Allocation Team—Howard Coleman, Stephen Harrison, Michael Stewart and myself—I hope you, your family and your friends are safe and well. More than ever, it is a time to take care of ourselves and each other.

It has been a year of extremes where the ingenuity of humans has been tested and demonstrated as never before.

For a start, we have the extraordinary achievement by many countries in developing 27 vaccines in record time to combat COVID-19. Compared with the huge number of deaths from the Spanish Flu pandemic, this has saved millions of lives. Also a huge thanks to all the frontline medical and paramedical teams around the world.

An area that excites me is space exploration. On December 25 NASA launched the James Webb Space Telescope on a mission to study the earliest stars and peer back into the universe’s history further than ever before. Webb will be able to see what the universe looked like around a quarter of a billion years (possibly back to 100 million years) after the Big Bang, when the first stars and galaxies started to form.

### Over \$60 Million Added to Holdings of Fund Members

How much a company contributes to the Fund’s performance depends on the performance of the individual shares in the company held by the Fund and the size of the holding.

Below we list in alphabetic order the contribution of the ten largest holdings in the Fund, plus the contribution of the remaining holdings, including cash, since inception. Overall, the Fund has bought a net amount of \$73,821,545 of shares. These shares are now worth \$134,332,321 including dividends and foreign exchange gains. This means that the Fund has added over \$60 million in value for you, its Members.

Shares	Market	Name	Cost (AUD) <sup>1</sup>	Market (AUD)	Gain
2,310	NASDAQ	Alphabet Inc - Class A	\$3,896,047	\$9,315,221	\$5,419,174
94,100	NYSE	Axos Financial Inc.	\$4,153,976	\$7,190,848	\$3,036,872
19,365	NYSE	Berkshire Hathaway <sup>2</sup>	\$5,155,394	\$8,026,528	\$2,871,134
8,250	NASDAQ	Costco Wholesale Corp	\$2,600,963	\$6,416,025	\$3,815,062
23,350	ASX	CSL Limited	\$4,672,445	\$6,788,312	\$2,115,867
200,000	ASX	Fisher & Paykel H.	\$3,459,225	\$6,106,000	\$2,646,775
12,500	NASDAQ	Microsoft Corporation	\$4,726,705	\$5,849,541	\$1,122,835
190,000	ASX	Mineral Resources.	\$2,604,602	\$10,640,000	\$8,035,398
166,900	ASX	Resmed Inc <sup>3</sup>	\$3,784,877	\$5,996,293	\$2,211,416
560,000	ASX	Technology One	\$3,105,074	\$7,173,600	\$4,068,526
		Remaining holdings	\$35,662,237	\$60,829,954	\$25,167,717
<b>Total Equity Investment Carried at Market<sup>4</sup></b>			<b>\$73,821,545</b>	<b>\$134,332,321</b>	<b>\$60,510,776</b>

Notes:

1. These are the actual total purchase prices
2. Each Class A share is converted to 1,500 Class B shares.
3. This is the combined holding in Australia, with the US converted to Australian shares.
4. The total equity does not include cash held by the Fund.

### Performance and Growth in Earnings

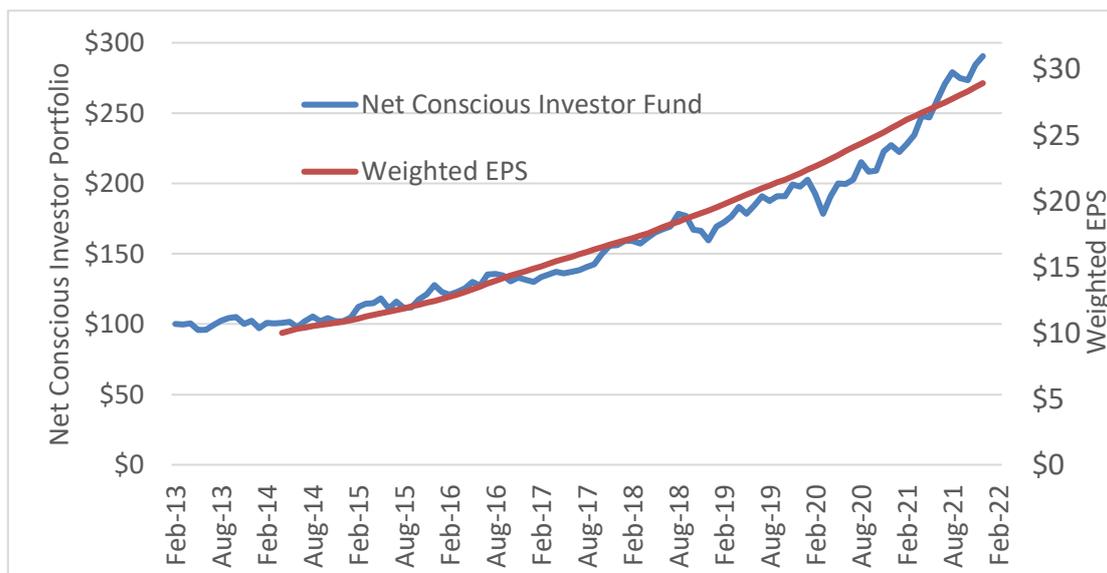
We regularly describe how, over time, the growth of earnings per share (EPS) drives the growth in share price. Warren Buffett describes this as the key to the success of Berkshire Hathaway. He wants to invest in companies that he is virtually certain will have materially higher earnings in five, ten or twenty years from now.

It is the same for us.

As well as looking at individual companies, we also look at the growth of the average earnings per share. Because of the changes in holdings and the different levels of EPS for companies in the fund, we calculate the average by weighting it according to these factors.

The following chart tracks the growth of an initial investment of \$100 compared to the weighted average EPS.

You can see how closely they track each other over the years.



### Wealth Winning Performance Year After Year

As stated above, we look for companies for which we are virtually certain their EPS will be materially higher five, ten and twenty years from now. There is something else, though. We also need to track their EPS compared to their price. In this way we can spot opportunities to top up when the price (temporarily) lags behind the growth in EPS. This is particularly important for the Fund. Almost every

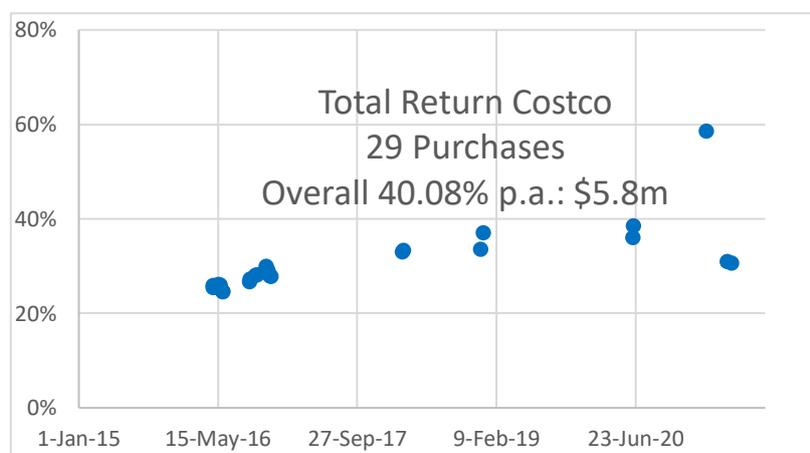
month the Fund is the recipient of more money and we want to make sure that we place it into Wealth Winners<sup>®</sup> and not let it drag on performance.

For record keeping we bundle purchases into weekly lots. For some holdings we have added over 50 (week-by-week) purchases. One of my favourite charts looks at the performance of these individual purchases.

Below is the chart for Costco. I recall when we first made the decision to invest in this outstanding company. I already knew about the company via the fact that Charlie Munger was on the board and was full of enthusiasm for the company. After further research we bought 100 shares at \$151.50 on 28 April 2016. A few days later it dropped to US\$147.50 so we added 1,000 more shares. And we have continued ever since whenever the price allowed it. Currently it trades at US\$516.80.

Munger is still enthusiastic about the company. At the recent Sohn conference he quipped: "Amazon may have more to fear from Costco in terms of retailing than the reverse", adding that "Costco will eventually be a huge internet player. People trust it and they have enormous purchasing power."

Since that first purchase we have added a further 28 purchases for a total 8,250 shares and an overall performance averaging 40.08% per year.



**More purchases to come...** Even though the price has risen from around \$150 to over \$500 in less than six years, it does not mean there will be no further opportunities for additional purchases of Costco at bargain prices. Quite the opposite. Using Conscious Investor<sup>®</sup> we are always alert for those times when, once again, all the signs show that its price is at a Wealth-Winner<sup>®</sup> level. It all depends on the relative change in price compared to changes in its fundamentals, particularly the growth of EPS.

## Conscious Investor<sup>®</sup> and the Teaminvest Methodology

The starting point is our investment software, Conscious Investor<sup>®</sup>. It filters and analyses companies listed in markets around the world in three steps: Filter, Research and Return. The filter stage zeros 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. The research stage identifies those companies for which these attributes are likely to continue. Finally, the return stage calculates the maximum price

to pay to be confident about getting the required rate of return over the long term. Conscious Investor uses automatic margins-of-safety calculations to stress test the investment assumptions.

Once this is done, the Teaminvest Methodology focuses on the following five areas and 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 potentially weaken their operations. These risks are identified and are scored according to the likelihood of their occurring over the next economic cycle and their potential damage if they occur.
4. Does the company have a clear mission statement or noble purpose? Is there strong evidence that the company uses these to guide its direction, decisions 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? The Capital Allocation Team scores the remuneration structures for the CEO and senior management in terms of clarity, alignment and quantum.

The final steps involve calculating buy and sell prices. You can find more details in the Information Memorandum. It also describes our processes to identify Wealth Winners® while making it extremely unlikely we would place 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 continue being outstanding stewards of your precious capital you have entrusted with us.

Wishing you the very best of health and well-being.

Kind regards,



(John Price and the rest of the Capital Allocation Team: Howard Coleman, Stephen Harrison and Michael Stewart)

*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](mailto:cifund@consciouscapital.com.au)

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