

Conscious Investor® Fund

Annual Letter to Members: 2022 - 2023

Noble Purpose:	Focussing on preserving and growing wealth with peace of mind for our Members and their families.
Mission:	Providing consciousness and stewardship for the wealth of our Members and their families via the Capital Allocation Team. Identifying the most likely Wealth Winners® while avoiding potential Capital Killers through unique and proprietary software and processes.
Vision:	Our Members and their families viewing the Fund as a fundamental part of growing and preserving their wealth to live the lifestyle they choose while investing in companies that add value to society.
Cultural Values	<ol style="list-style-type: none"> 1. We stay true to the philosophies and methodology of Teaminvest and Conscious Investor®—centred around long-term growth of earnings per share—to maximise long-term capital growth for our Members. 2. We recognise Members and their families have faith in us, by investing their money in the Fund. 3. We support our Members by being responsive to their questions and by providing regular reports explaining the principles of how and where we invest their money. 4. We emphasise that we only make money as managers when our Members make money, and not simply by having funds under management irrespective of performance.

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Dear Fellow Members of our Conscious Investor Fund:

Welcome to the End of Financial Year Letter for Members of the Conscious Investor Fund. One of my favourite aspects of our Fund is its “magical” side. The Capital Allocation Team focusses on outstanding companies for which we have confidence their earnings will be materially higher over the coming years.

We put no direct attention on what their share prices will be. This is where the magic comes in. By achieving earnings growth, automatically the growth in share prices takes care of itself.

This is why our favourite quote from Warren Buffett is: “Put together a portfolio of companies whose aggregate earnings march upward over the years, and so also will the portfolio’s market value.”

Buffett continues: “Though it’s seldom recognized, this is the exact approach that has produced gains for Berkshire shareholders.”

As we will see, following this approach, provided another successful year for the companies in the Fund and hence for the performance of the Fund. For example, the financial year 2022-2023 showed a performance of 22.90% after fees. More interesting is the total money the Fund has generated for its Members, as discussed in the next section.

The Fund’s Contribution to the Wealth of its Members

As just explained, growth in earnings converts to share price growth over time.

How much a purchase 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. The next table shows just how much this growth of earnings has converted into wealth.

The Table lists in alphabetic order the contribution (including dividends and foreign exchange) of the ten largest holdings in the Fund. We also include the remaining holdings.

Overall, the Fund has bought a net amount of \$72,861,391 of shares. These shares are now worth \$136,170,285, including dividends and foreign exchange gains. This means the Fund has added over \$60 million in value for you, its Members.

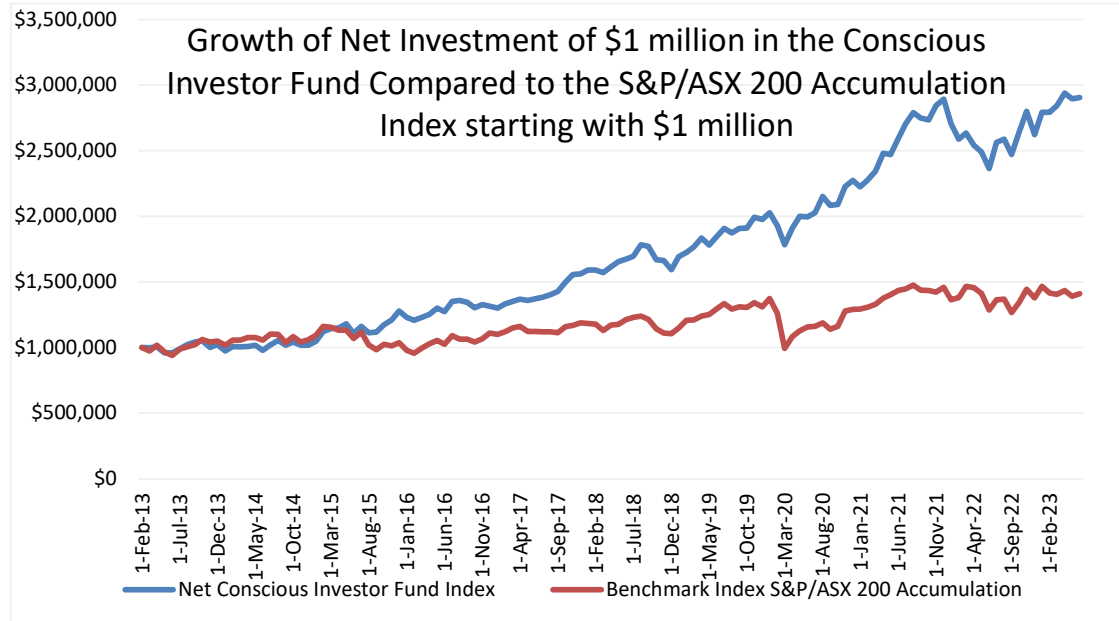
Quantity	Market	Name	Cost (AUD)(1)	Market (AUD)	Total Add’n (AUD)
52,000	NASDAQ	Alphabet Inc - Class A	\$4,871,448	\$9,270,202	\$4,398,754
21,300	NASDAQ	Apple Inc	\$1,240,968	\$6,034,857	\$4,793,890
20,365	NYSE	Berkshire Hathaway – B (2)	\$5,582,759	\$10,288,706	\$4,705,947
8,850	NASDAQ	Costco Wholesale Corp	\$2,580,863	\$7,070,994	\$4,490,131
25,468	ASX	CSL Limited	\$4,920,407	\$7,089,018	\$2,168,611
18,500	NASDAQ	Microsoft Corporation	\$6,940,456	\$9,325,019	\$2,384,563
169,000	ASX	Mineral Resources.	\$640,389	\$11,973,650	\$11,333,261
641,000	ASX	Technology One	\$3,415,641	\$9,897,040	\$6,481,399
18,500	NASDAQ	Tractor Supply Co.	\$2,675,415	\$6,219,002	\$3,543,587
11,100	NASDAQ	Ulta Beauty Inc	\$3,927,167	\$7,733,213	\$3,806,046
Remaining Holdings			\$36,065,879	\$51,268,586	\$15,202,708
Total			\$72,861,391	\$136,170,285	\$63,308,895

Notes:

1. These are the actual total purchase prices.
2. Each Class A Berkshire Hathaway share is converted to 1,500 Class B shares.

Net Growth

The next chart shows the growth of net investment in the Fund compared to the S&P/ASX accumulation index.



An investment of \$1 million in the Conscious Investor Fund near the start of 2013 at its inception would now be worth almost \$3 million after fees and expenses.

The data is supplied by Link Financial Services (audited to June 2022).

Tenth Anniversary of the Conscious Investor® Fund¹

A few months ago was the Fund’s tenth anniversary. Members of the fund now hold around \$140 million. Members collectively invested \$72,861,391 and the fund has created additional wealth of \$63,308,895 for Members - plus distributions paid out over the years. In other words: excluding distributions paid out, every dollar invested in the Fund is now worth, on average, nearly twice as much.

Consider the first member of the fund: His super fund invested \$500,000 in April 2013. It’s now worth \$1,389,276 plus the distributions he received. Many members are similar. Their initial \$500,000 is now also worth over \$1,000,000.

¹ This section was based on a letter sent to members of Teaminvest. The complete letter is available in the Member Intelligence section of Conscious Investor.

Recent research by ANZ Private Bank found about 70 per cent of transfers of intergenerational wealth fail because of “dissipating wealth, family conflicts, misaligned family values, delays and bungled execution”. We feel pleased to help so many people avoid these pitfalls.

To give you some background, in the early years some older Teaminvest Members in Melbourne asked us to start a fund on Teaminvest principles to best complement Teaminvest membership. They wanted a backup for managing their own money wisely.

And the Conscious Investor Fund was born. As we just said, we are very pleased to be playing a central role in helping our Members have greater financial security with sizeable increases in their nest eggs.

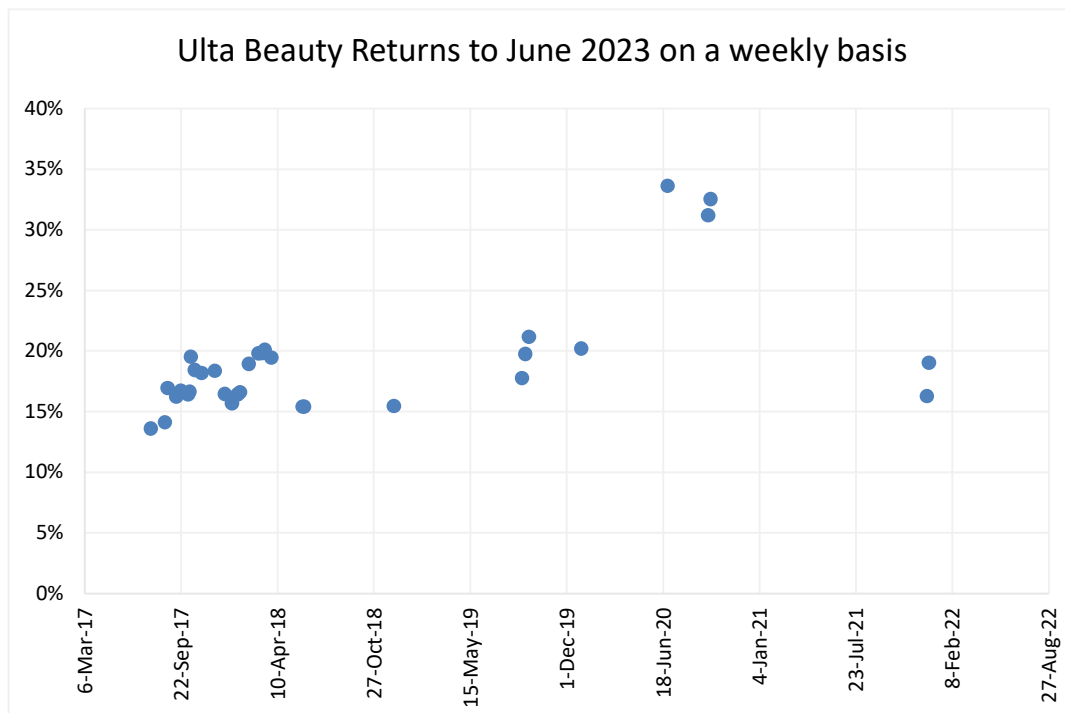
Topping up our Wealth Winners

One of the favourite family of charts of the Capital Allocation Team are the charts tracking the individual purchases of the core Wealth Winner holdings. We are always watching the core holdings of the Fund looking for opportunities when we can add more at attractive prices. We already know a lot about these companies. So, adding more when the price allows it, is a simple decision. We like to call them perpetual Wealth Winners. We will look at two examples: Ulta Beauty and Technology One.

Ulta Beauty

We are going to look at Ulta Beauty as a company in more depth later in this Letter. In terms of trades, the Fund has made 35 acquisitions on a week-by-week basis starting in July 2017. This resulted in 10,100 shares now valued at US\$4.5m or approximately AUD\$6.9m. The total return average annual return is 17.65% including currency gains.

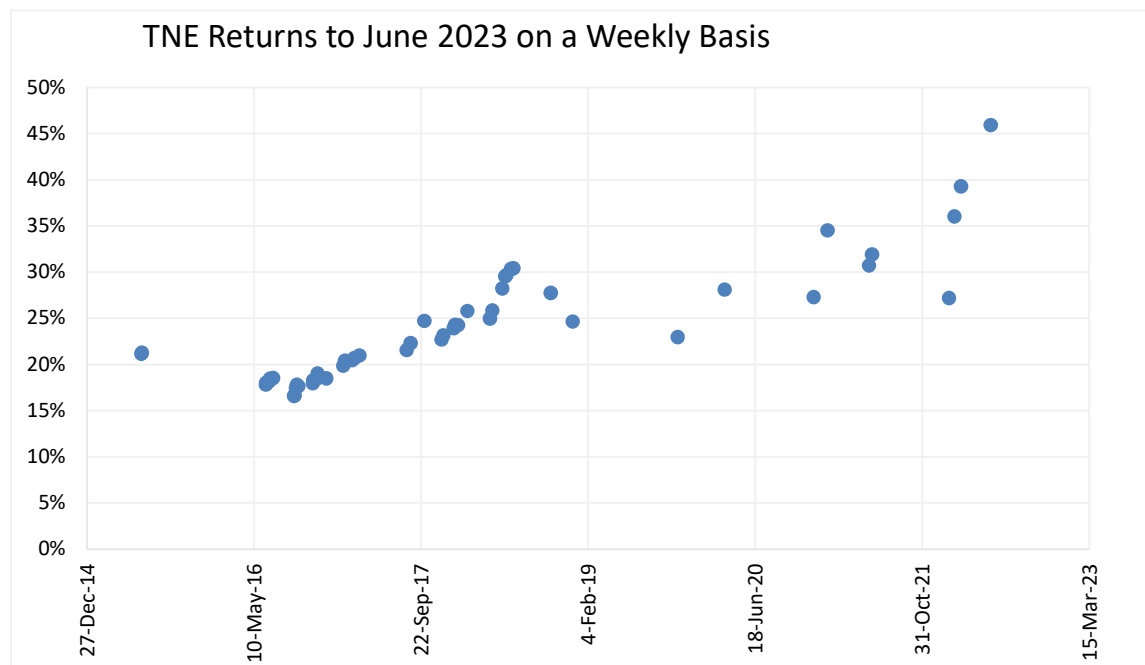
The following chart shows the distribution of the 35 trades.



Technology One

Technology One researches, develops, markets, sells, implements, and supports integrated enterprise business software solutions worldwide. Its stated goal is to build and deliver truly great products and services that transform business and make life simple for its customers. It offers various business modules, including business analytics, corporate performance management, DXP local government, enterprise asset management, enterprise budgeting, enterprise cash receipting, enterprise content management, financials, human resources and payroll, performance planning, property and rating, spatial, strategic asset management, student management, timetabling and scheduling, and supply chain management. Its customers include QUT, Bendigo and Adelaide Bank, and the University of Melbourne.

The Fund has made 51 trades on a week-by-week basis starting in June 2015. This resulted in 641,000 shares now valued at \$9.7m. The total return average annual return is 26.15% including dividends.



What the Conscious Investor® Fund Looks For²

Buffett started his first investment partnership with US\$105,000 on May 1, 1956: seven family and close friends chipped in as limited partners. Buffett popped in US\$100 as the general partner. Over the decades, after various twists and turns, this partnership converted to Berkshire Hathaway with a current market capitalisation of approximately US\$750 billion. Buffett's US\$100 sweetener is now around US\$113 billion.

² A modified version of this section was sent as a letter to members of Teaminvest. It can be seen in the member Intelligence section of Conscious Investor.

As indicated, from the outside you can see many changes in the structures and ownership of these Berkshire Hathaway corporations over their lifetime. But underneath, one thing was consistent: the investing principles developed by Buffett and his lifelong partner and friend, Charlie Munger, which they stuck with like glue over the decades.

As an example, in his 1958 Letter Buffett wrote: "I make no attempt to forecast the general market - my efforts are devoted to finding undervalued securities." In other words, back then, as now, he did not try to forecast stock market levels. He focussed on the profitability of the underlying investments. Fortunately for us, from time-to-time Buffett describes his acquisition principles. For example, in the 1982 Annual Report of Berkshire Hathaway he gave a list of six acquisition principles with the stated hope that one of the readers would respond with a company for sale meeting these principles:

"We are eager to hear *from principals or their representatives* about businesses that meet all of the following criteria:

1. Large purchases (at least \$5 million of pre-tax earnings: later increased to \$75 million),
2. Demonstrated consistent earning power (future projections are of no interest to us, nor are "turnaround" situations),
3. Businesses earning good returns on equity while employing little or no debt,
4. Management in place (we can't supply it),
5. Simple businesses (if there's lots of technology, we won't understand it),
6. An offering price (we don't want to waste our time or that of the seller by talking, even preliminarily, about a transaction when price is unknown)."

He continued: "We are not interested, however, in receiving suggestions about purchases we might make in the general stock market." In other words, he will do his own research and make up his own mind.

He further added: "We will not engage in unfriendly takeovers. We can promise complete confidentiality and a very fast answer as to possible interest - customarily within five minutes."

You can only make decisions this quickly when you are clear about your principles and acquisition criteria.

Analogous Acquisition Criteria for the Fund

Now let's look at how these criteria provide the basis for the criteria for the Fund. Despite the difference in size between Berkshire Hathaway and the Conscious Investor® Fund, and the fact that Buffett is talking about stand-alone businesses, and we are concerned with investments in listed companies, there are a lot of commonalities between what we try to do and what Buffett tries to do.

To see this, let's look at Buffett's criteria in our language and how we apply the corresponding principles in the Fund. (And how you can apply them to your portfolio as a member of Teaminvest.)

1. Strong confidence in the company that we would be willing to make a large purchase, even purchase the whole company. (So many investors get poor results because they reason that since they are making a small purchase, they won't lose much money if it is an unsuccessful investment.)
2. The company has a history of consistent earnings growth as measured by STAEGR®. Earnings that have grown consistently means high STAEGR, typically above 85 to 90%.
3. We ask for solid ROE of at least 10% over the past 5 years, plus conservative debt levels.

4. We want companies with management that believes in the business and are not just “hired guns”. We also like the CEO and senior management to have reasonable ownership of company shares, which we call “skin in the game”. We also want incentives that will motivate management to achieve what we desire, particularly growing earnings.
5. We want businesses we understand. The businesses should have clear and strong economic moats. Also, we want to know how the company makes money, and not just what it does.
6. We know what price we are willing to pay by using the functions STRETD® and TARGD® in the Conscious Investor software and will not increase it to make a purchase. In other words, when it comes to investing, patience is essential.

There is a strong match between Buffett’s principles and what we use in the Conscious Investor Fund. This is not surprising. It was when I first read these acquisition principles, I started working on the development of Conscious Investor.

As a final summary, what we focus on in the Conscious Investor Fund are purchases that satisfy the above criteria with the overall goal they will give us significantly higher earnings five, ten or more years in the future. This is why the Fund has been so successful and why we can be confident that it should continue this way in the future.

Ulta Beauty Inc

One of the major holdings of the Fund is Ulta Beauty. It is either one of the largest ten holdings or close to it. The following is a summary of its main features.

Strategy: The US beauty products and salon services market is highly fragmented with over 70,000 places to buy beauty products. It is also huge with 2021 sales estimated at US\$140 billion.

Ulta Beauty stepped into this market in 1990 with a single store. The company is now the largest beauty retailer in the US with a network of over 1300 stores across the US, which provide, as it says, “All Things Beauty, All in One Place”. The stores aim to be premier beauty destinations for cosmetics, fragrances, skin and hair care products and salon services (hair, skin and brow).

It offers more than 25,000 products from over 600 well-established and emerging beauty brands across all categories and price points, including Ulta Beauty's own private label. A recent partnership with Target U.S. has opened co-located outlets.

It also has an online division through its website, which includes tips, tutorials and social content.

Despite this growth, the company estimates that it has just 4% of the national market. Plenty of room for continuing expansion.

Success Drivers: Ulta Beauty targets what they call “beauty enthusiasts”, people (generally women) who have a “high passion for beauty”.

The company refers to its customers as guests. This is part of their differentiation strategy by making their customers feel special. They try to provide a distinctive and personalised experience and have bright, open stores with non-commissioned sales teams.

Customers are encouraged to become members of the company’s loyalty program called Ultamate. Currently this program has over 37 million members. Ulta uses sophisticated mining of the database resulting in greater personalization and precision of its marketing campaigns, including special deals from manufacturers.

Company Statement: “We know our guests love the thrill of discovery, the rituals of self-care and the fun of self-expression. Our community represents all ages, genders, skin tones and abilities.”

Economic Moats: Its primary moat is that all the stores have salon services: salon clients spend 3 times more and visit 2 times more than those who don’t use these services. This makes their stores “one-stop” shops for beauty products and salon services resulting in more “sticky” customers. A second moat is its loyalty program with its associated data on their buying habits: over 37 million members contribute 90% of sales. Finally, convenient, high-traffic locations help customer traffic.

Main Future Risks: The company loses its edge in providing beauty products and services wanted by their current and potential customers. Also online sales (Amazon, etc) eat away at their margins.

Dividend Yield	ROE	5 Year Growth	
		SPS	EPS
0.0%	55.8%	13.3%	7.5%

• Market Cap: \$24.7 billion • 5-yr TSR: 18.9%

Conclusion: Many surveys conclude that women use makeup, skin care products and salon services to help feel good about themselves. This helps explain the size of the market and why it is likely to keep growing at a solid pace. Ulta Beauty is a savvy operator in this area with proven ability to attract and maintain customers with plenty of room to continue its high earnings growth.

Buyback News From Berkshire Hathaway

Warren Buffett and Charlie Munger love it when companies repurchase their own shares provided two criteria are satisfied. First, the company has available funds by which they mean “cash plus sensible borrowing capacity -- beyond the near-term needs of the business”. Second, the shares are selling at very attractive prices.

One thing they warn against, management who want to “show confidence” in the company, rather than increase shareholder value.

When it comes to buying back their own shares, they are masters. In the last 20 quarters they have repurchased shares every quarter totalling more than \$71 billion. This is good news for the Fund since Berkshire Hathaway is one of our largest holdings.

Conscious Investor® and the Teaminvest Methodology

The starting point is our investment software, Conscious Investor®. It filters and analyses companies listed in markets worldwide 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 the businesses unique features that separate it from its competitors? These “economic moats” are scored in terms of depth and durability.
3. Risks must be identified: All businesses face risks that could weaken their operations. The identified risks 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 the board and senior management are evaluated: are there any signs 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 this letter will give help you a better understanding of our philosophy and what motivates us to choose investments for your money. Please let us know of any other topics you would like us to cover.

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, Kevin Robinson and Michael Stewart.