

Conscious Investor® Fund

Letter to Members: 2024 - 2025

Noble Purpose: To preserve and grow the wealth of our Members and their families with consciousness and peace of mind.

Mission: To identify the most likely Wealth Winners® while avoiding potential Capital Killers through unique and proprietary software and processes.

Vision: Our Members and their families see 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.

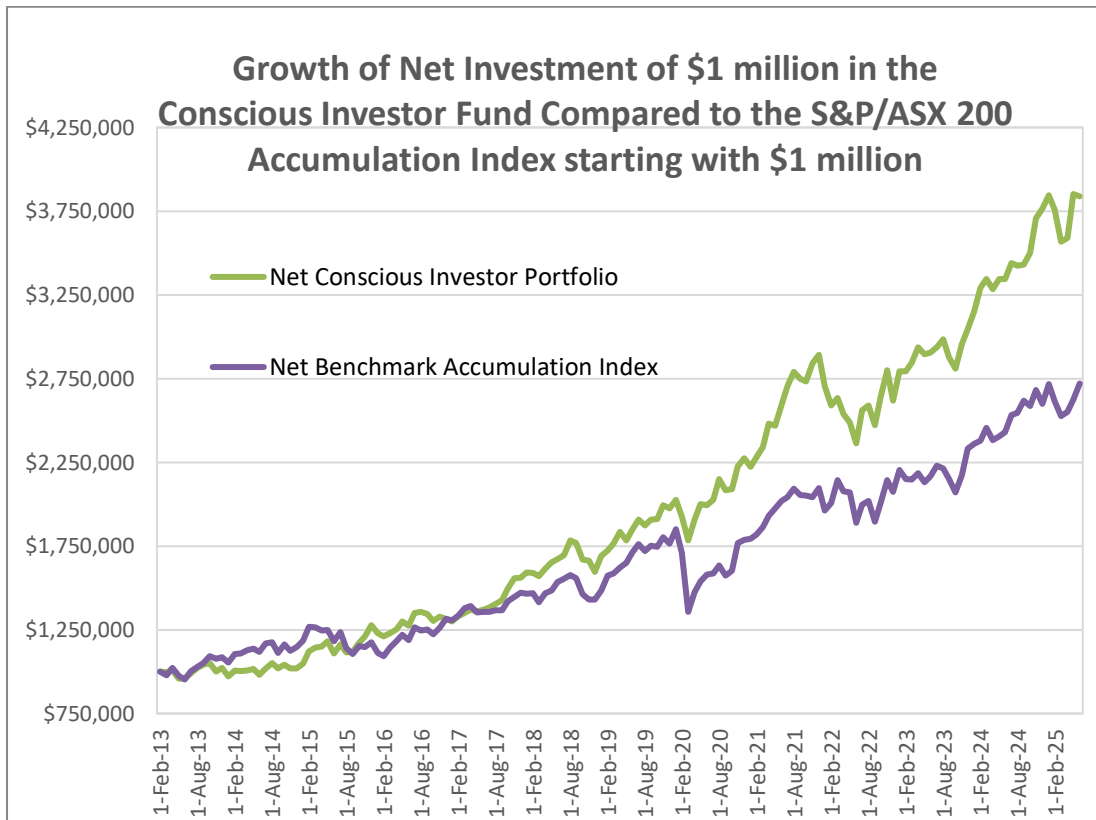
Cultural Values

1. We stay true to the philosophies and methodology of Teaminvest and Conscious Investor®—centred around long-term growth of earnings and sales per share—to maximise lasting capital growth for our Members.
2. We recognise that 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.

Dear Fellow Members of our Conscious Investor Fund:

It is a pleasure to describe some of the main features of the Fund starting with the outstanding return of 14.81% for the past financial year 2024-2025. The Conscious Investor Fund continues to provide outstanding performance while maintaining security and peace of mind for our Members. For instance, investing \$1 million in the Fund when it first started in 2013 would now be worth \$3,839,631. Putting it another way. If you had invested \$1 million in the Fund at its inception, you would have profited by over \$2.8 million compared to only \$1.7 million if you had invested in the S&P/ASX 200 Accumulation Index. This is an extra profit of \$1.1 million.

The next chart outlines this performance.



Companies that Grow Fund Profits Year after Year

In the last report I looked at the regular growth of Technology One, Mastercard and Visa, three major holdings in the fund. Since their original purchases they have grown by 36.25%, 23.31% and 22.10% respectively. In capital terms this is growth of \$19.7 million, US\$4.69 million and US\$4.35 million over their initial purchases.

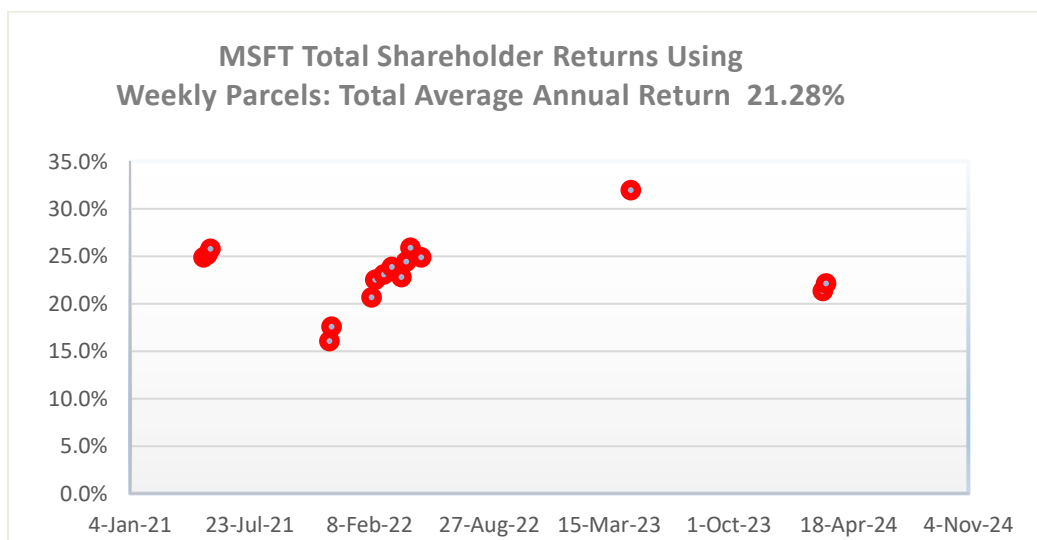
In this report, we discuss Microsoft.

Microsoft Corporation (MSFT)

The first investment in Microsoft was made on 7 May 2021 consisting of 3,000 shares at US\$246.50 each for a total of US\$739,500. These shares are now valued at US\$506.69 each plus dividends.

Since that first purchase, a further 15 parcels of MSFT shares were bought for an average return of 21.28% per year. (When purchases are made, they are recorded by bundling them together as weekly parcels. The average annual return for these parcels ranged from 16.05% to 31.99%.)

The current position in MSFT is now valued at AUD\$14.9 million.



Becoming a Buffetier, Part I

Since Warren Buffet had his 95th birthday last month, I thought this would be an ideal opportunity to reminisce a little about the time I attended my first Annual Meeting of his company Berkshire Hathaway. I will describe some of the highlights. Over time these highlights became Wealth Winning principles as the foundation for the Conscious Investor Fund. In a later report I will cover more of these highlights.

The meeting was in 1998 and was attended by 11,000 eager Berkshire Hathaway shareholders. Today the number of attendees is estimated to exceed 40,000 including those who attend the associated exhibition.

The following is based on my notes. After dealing with the official business in under ten minutes, Buffett opened the meeting to questions. For almost six hours he told stories, joked and munched on See's Candies, while answering question after question with care, relevance and wisdom. Many questions were also dealt with by Charlie Munger, the Vice Chairman of Berkshire Hathaway (who has since passed away).

The following is a selection of the answers given by this twosome taken straight from my notes.

- » Avoid stocks with low returns on equity and capital.
- » Time is the enemy of poor businesses, the friend of good businesses.
- » With a poor business you may be lucky in that you pick the time that it gets taken over. However, it is no fun to own stock in a company in which you hope it liquidates before it goes bankrupt.
- » Avoid "cigar butts," but we have had a lot of soggy butts in our time.
- » When presented with a new company, we can say "no" within 10 seconds. Technology does not get through our filter.
- » Our central role is
 - (1) to motivate the CEO and chairmen of our companies to keep working even though they are already very rich, and
 - (2) to allocate capital.
- » Buy stocks that you never want to sell; when you get a good business, buy for life.

- » Ideal purchase: buy more of what you already like and have because the price is right.
- » Insurance is the most important business at Berkshire Hathaway.
- » Political campaign spending is an underpriced commodity; it needs legislation to limit it.
- » Berkshire Hathaway gets a 20 to 30% return on equity.
- » Jack Welch (CEO of General Electric) gave his secret of life—go where the competition is weak. How do you beat Bobby Fischer? Play him at anything but chess.
- » Q. What keeps you awake at night? I don't worry. We do the best we can. We don't predict currents—just how different fish will swim in different currents.
- » Coca Cola is the best large business in the world; amongst other things, it set the trend for a company to buy back its own stock.
- » Is there a danger of Japan selling the U.S. Treasuries that it owns? When you ask such questions, always follow up with "and then what?" If Japan sold a billion dollars of U.S. Treasuries, what would they do with the money? They would have to invest in other U.S. securities.
- » There are two questions managers of public companies must ask:
 - (1) Do you keep the earnings or return them to the shareholders.
 - (2) With the portion that you keep, what do you do with it?
- » Not many analysts recommend Berkshire Hathaway—perhaps because it is not the stock for them to get rich on.
- » Buffett's steps to selecting companies.
 - (1) We start by only looking at companies we understand.
 - (2) We observe whether or not the management is telling us the truth in the Annual Report and other publications. Are they the things we would want to know if we were buying 100% of the company?
- » We avoid companies with annual reports full of PR gobbledygook. We want to be able to read the report and know the company better at the end.
- » The Annual Report of Coca Cola is an enormously informative document. We first bought Coca Cola on the basis of its Reports and had no discussions with its management.
- » Look for candid, clear, coherent prose. If a business has a problem, we would like to know about it. Honesty and openness is the best policy. We would like to see announcements at board meetings along the lines of "this is a very serious problem and we have no idea how to solve it."
- » Because of the use of options and warrants, we estimate earnings for many companies could be 10% or more lower than what they state.
- » Benjamin Graham was a wonderful teacher and said that you don't have to be right about every company. If I [Munger] taught a course on company evaluation, I would ask the following question on the exam, "Evaluate the following internet company." Anyone who gave any answer at all would be flunked.
- » Current factors influencing market prices:
 - (1) return on equity,
 - (2) low interest rates,
 - (3) market perceptions.

- » A valid criticism is that we should have bought more shares of the companies we already own; perhaps we missed the boat in some cases. Also, probably we have issued shares that we shouldn't have.
- » Need various internal models to deal with reality. One model is not enough: "To a man with a hammer, every problem looks like a nail." [Munger]
- » We try to assess managers as to whether they love the business or the money.
- » Do not mind paying a manager a lot of money for good performance but I am bothered by mediocre managers getting large sums of money. Unfortunately, the system feeds on itself and there is not much that you can do to correct this problem. The original Vanderbilt didn't take any salary. These high management salaries have a pernicious effect.
- » Can have a circle of competence for a particular industry, but not a circle of competence for individual companies within the industry. It easy to say that the manufacturing of PCs will grow enormously over the next decade, but hard to say which company will dominate.
- » We have decentralized Berkshire Hathaway to the point of abdication. The only thing we have centralized is money.
- » Investing is the art of putting in cash now to get more cash later on.
- » EBITDA [earnings before interest, taxes, depreciation and amortization] is a nonsense figure; it is absolute folly to take any notice of it.
- » We like homey, Norman Rockwell types of companies.
- » Depreciation charges are a good indication of the required capital expenditures. Avoid companies that have to spend like crazy just to stay in competition.
- » Good businesses throw up easy questions for the managers and the board, bad businesses throw up tough questions.
- » We are willing to wait indefinitely for the right price for the right stock.
- » Don't worry about risk the way it is taught at Wharton. Risk is a go/no go signal for us—if it has risk, we just don't go ahead. We don't discount the future cash flows at 9% or 10%; we use the U.S. treasury rate. We try to deal with things about which we are quite certain. You can't compensate for risk by using a high discount rate.
- » We don't worry about volatility, if we are confident about the business. For example, Washington Post went down by 50% after we bought it; it was a volatile stock, but not a volatile business.
- » The best criterion is to buy businesses on the assumption that you will hold them for life.

Beginning of Conscious Investor®

The meeting was held on 4 May 1998. It was also the day I became a Buffeteer!

My immediate thought was that the Mousketeers was never this much fun, even though back then we got to wear big ears.

That night in my motel room I started developing Conscious Investor (back then called Valuesoft) as a tool for incorporating and implementing the principles learned that day. Since then it has been responsible for generating huge amounts of money through the Fund and Teaminvest. Let me know if any of the principles stand out for you. In our next report I will describe some of my favourite principles.

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, Sanjee Narendran, Kevin Robinson, Michael Stewart and Andrew Coleman.