

Dear (future) partner,

My company is seeking to raise 15 to 20 million euro equity investment for 80 to 85% of the non-voting shares in a newly formed “Fund Capital Management BV” for the launch of a new fund.

- The strategic investor(s) must be willing to stay with the fund for at least 15 years.
- 90% of the invested capital will be used for direct investments into the fund. 10% for setting up the fund and strengthening the balance sheet of the Fund Capital Management BV.
- The fund will be set up according to the original Buffett Partnership principles, i.e. no management fee and a performance fee of 25% above a 6% cumulative hurdle rate (high water mark).
- The fund reimburses the actual expenses incurred in connection with the operations of the fund up to a cap on overhead expenses of 0.375% of the funds average net asset value.

The fund

To succeed in investing you have to invest consistently over time. The fund will be a concentrated portfolio of 20 stocks, chosen from the portfolio's of successful investors, that I admire. It will be a buy-and-hold portfolio (10 - 15 years). No leverage. When appropriate, stock and/or portfolio hedging might be introduced.

Circle Partners takes care of the entire process of setting up a new fund structure under the light regime; setting up the legal ownership, opening bank accounts, providing fund administration and fund accounting services, financial, regulatory and tax reporting services, registrar and transfer agency services. Once the manager comes close to

the EUR 100 million threshold, Circle Partners assists with the licensing application process by referring the manager to their local law firm contacts in the Netherlands.

Under AIFMD (Alternative Investment Fund Managers Directive) there are two routes for managers to pursue: licensing or registration. The registration regime (“light regime”) is more attractive due to the lower costs involved and the shorter time to market (weeks). The manager is only subject to certain registration and reporting obligations.

In order to comply with an exemption from the licensing regime, a manager's total assets under management in the AIF (Alternative Investment Fund) and other vehicles including managed accounts must not exceed:

- EUR 100 million; or
- EUR 500 million, in the case of AIFs that are not leveraged and have no redemption rights exercisable during a period of five years from the date of initial investment in the relevant AIF.

At the same time participations are offered to fewer than 150 investors, or the minimum investment amount is EUR 100.000, or participations are only offered to professional investors. If applied for the 'light regime' managers must include a (Dutch) selling restriction in a prescribed form in all advertisements and documents announcing the offer of participations in their fund.

Market outlook

Since the market crash of 2008/2009 the markets have gone way up. Stock prices were much cheaper then than they are now. Many great value investors warn for the huge risks in the current market environment and are in the process of returning money to their shareholders.

On the other hand for instance Bill Miller continues to believe that the path of least resistance for US equities is higher and that this bull market probably has several more years to run. According to Leon Cooperman the market's not cheap, but it's not expensive. Warren Buffett stated that if rates were to spike, however, then the stock market would be more expensive. If interest rates were 7 or 8 percent, then these [stock] prices would look exceptionally high.

This is a very unusual situation and I guess nobody knows how it will play out. It only takes one stone to start an avalanche. History shows that many thousands of hedge funds just didn't make it. There is reason to be cautious. What I learned from studying "Capital. The Story of Long-Term Investment Excellence" by Charles D. Ellis is that the best time to start a new fund is when the markets are way down. And that just ain't so. If I had to set up a fund today it would be strongly "hedged" and probably with a lot of cash on hand just waiting for better times to invest. And that just might be an interesting proposition.

Sustainability matters

The core of the strategy is buying high quality businesses at attractive prices and then hold on to the company as long as the company remains a good company (Buffett style). There is an undeniable shift towards sustainable investments and I do prefer companies that prioritize positive social or environmental impact alongside financial

results, allowing investors to accomplish more with their money.

So here we are

If you are a professional investor with a very long-term investment horizon you are more than welcome as a strategic investor for my new flagship fund or as a new separately managed account customer.

I do not think it's smart to try to convince you to join the partnership, so I will avoid "commercially pitching" my fund. The best is that you convince yourself, based upon the information publically available, if my approach makes sense to you. That's the type of partner/customer I am looking for.

And there is another reason why I avoid "pitching". My commercial skills are probably worse than the rope jumping skills of an old elephant. If you have questions, the best is to send me an email.

Also, I am not in the business of timing the markets. It's your responsibility to decide if and when you will join the partnership. I can promise you that I will stick to my approach through thick and thin. But performance doesn't happen on a schedule. In the short run the market is going to do whatever the market is going to do.



Cordially,

Peter

Peter Coenen,
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peter@thevaluefirm.com