Peter Partnership Fund's Return (PPF) vs. Benchmarks

Year (ending 31st March)	Peter Partnership Fund *	in Per-Share Market Value of BRK Class B	in S&P 500 with Dividends Included
Fund inception to 2019 **	15.3%	10.9%	18.3%
Compounded Annual Gain	9.4%	6.9%	11.2%
Overall Gain	**15.3%**	**10.9%**	**18.3%**

** All returns refer to the Ordinary Units of Peter Partnership Fund. Due to lower performance fees for the Elite Units, the returns from Elite Units would be equal or higher than the Ordinary units during the same period.*

*** From inception of our fund at end of August 2017, giving it 19 months instead of the usual 12 months.*

Peter Partnership's composite results of all managed accounts during the period before the fund's inception (and PPF's results thereafter) vs. selected benchmark

Year (ending 31st December)	Peter Partnership (after Fees) (in USD)	Benchmark[1] (in USD)
From March 31st, 2008	-21.1%	-32.4%
2009	64.5%	49.9%
2010	56.2%	36.0%
2011	-0.9%	1.0%
2012	29.5%	17.4%
2013	12.5%	5.9%
2014	15.1%	13.5%
2015	-18.6%	1.2%
2016	47.0%	12.0%
2017	21.6%	21.1%
2018	8.2%	-4.4%
Until 31st March, 2019	-3.70%	13.60%
Compounded Annual Gain	16.2%	10.4%
Overall Gain	423.8%	195.5%

[1] *KLCI + 3% a year from Inception until year 2013. S&P 500 Total Return Index thereafter.*

PETER PARTNERSHIP FUND

2019 ANNUAL LETTER

To the investors of Peter Partnership Fund:

Our fund's gain percentage wise since inception at end of August 2017 is 15.3% until 31st March 2019. During the same period, Berkshire Hathaway's Class B stock gained 10.9% while S&P 500 (with dividends included) gained 18.3%. Over the last 1.6 years, our fund's NAV has grown from $ 10.00 to $ 11.53, a rate of 9.4% compounded annually.

Since our fund was just formed about 1.6 years ago, a change in our fund's NAV in a single month could drastically change the annualised returns in either direction. For instance, had our fund's accounting period close just a month later (ending 30th April 2019), the annualised return would have been 20.6% (which is more than double the annualised return of the fund ending 31st March 2019), as our fund's NAV rose by 18.5% in the month of April 2019 (from $11.53 to $ 13.66). That is the reason why I mentioned in the Ground Rules that *"while I much prefer a five-year test, I feel three years is an absolute minimum for judging performance."*

It is wise to compare how our fund performed against other investment opportunities that you might come across; and in fact, I encourage it. However, it is important to compare apples to apples. Since our fund's primary investment is in Berkshire (with leverage), appropriate comparisons should be against Berkshire's stock, S&P 500 Index, or Dow Jones Industrial Average. Comparing our fund's return against an index of another country, say KLCI would be inappropriate, and comparing our fund's return against currency-based investments (like bank deposits, bonds, money market funds or other instruments) and in a different currency would be incorrect, especially when the tenure is short (as in less than 3 years).

Lastly, it is important to note the starting point's valuation and the ending point's valuation in computing performance. When the starting point's valuation is low (or the ending point's valuation is high), it would almost certainly shows a good return during any of the periods under review. Since Peter Partnership Fund's main assets are in Berkshire Hathaway's stock, one simple way to evaluate our fund's valuation is by evaluating Berkshire using Berkshire's stock price against the company's Book Value (or the company's Net Worth). See Figure 1 below for Berkshire's Price to Book Value ratio (P/B) since our fund's inception until end of April 2019.

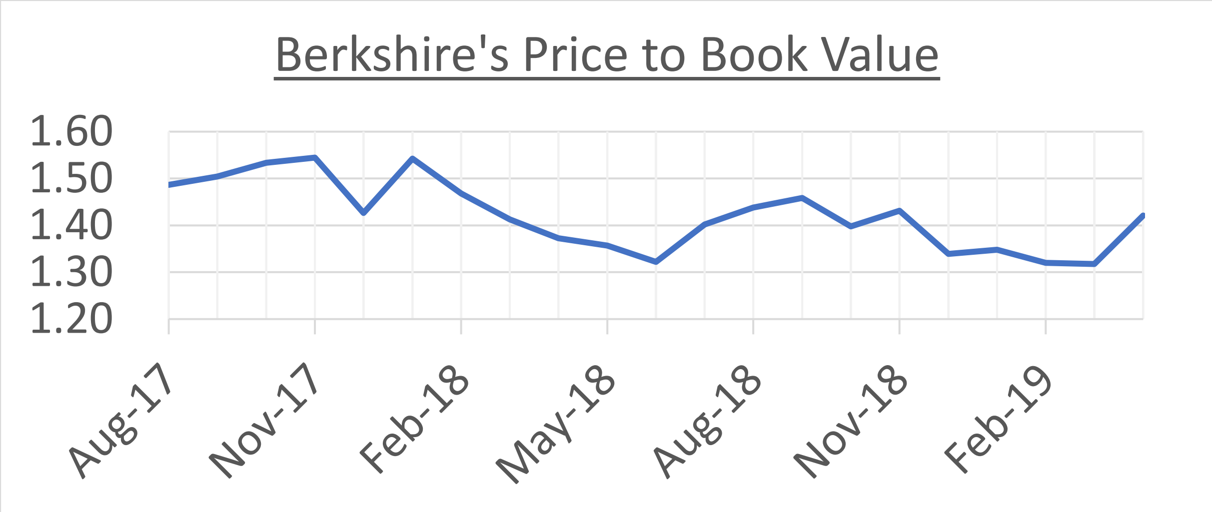

Figure 1: Berkshire's Price to Book Value at month end since our fund's inception

Berkshire's P/B generally fluctuates in the range of 1.3 to 1.6. At end of March 2019 (which is our fund's closing period), Berkshire's P/B is at 1.32, which is at the lower end of the valuation. Thus, the annualised return until that period would show a return which is lower than average, especially when the period under review is short. On the following month, Berkshire's P/B rose to 1.42, which translates to a higher annualised return compared to the month earlier.

Do notice that the times when Berkshire's P/B is below 1.4, it also translates to a good price for buying/topping up into our fund. However, should investors wish to redeem their investments from our fund (partial or in full), I do hope investors will redeem when Berkshire's valuation is on the fair side (or higher), which I estimate to be 1.4 times of its highest Book Value (or higher).

Without a doubt, there is definitely a need for bank deposits as part of our assets. The safety of knowing that the cash in the bank is not subject to market volatility or sudden drop makes it a very good place to hold money for the expenses that you might require within 3 years or less. However, even though the bank's deposits are safe in the short term, they're the most dangerous assets to own in the long term. This is simply due to the fact that the purchasing power of your money there is almost surely to decrease as the years pass by because the interest earned is almost no match for inflation. Warren Buffett wrote a very good article about this titled "Why stocks beat gold and bonds"[2], and I encourage everyone to read it. It might be the most valuable money lesson in our lives.

Although stocks are a bad investment vehicle for short term needs (as you might have to sell at a price lower than your cost), they are an extremely good investment vehicle when you own it for 5 years or longer, especially when you own a fraction of good companies and have bought it at a fair or good price. Quoting Buffett from the above article, he says, "*I believe that over any extended period of time this category of investing [Investment in productive assets, whether businesses, farms or real*

[2] http://fortune.com/2012/02/09/warren-buffett-why-stocks-beat-gold-and-bonds

estate] will prove to be the runaway winner among the three we've examined. More important, it will be by far the safest." I couldn't agree more!

Since our fund's inception, the operating cost of our fund has dropped from the maximum cap of 1% of our fund's Net Asset Value (NAV) per year to 0.29% of our fund's NAV per year, mainly due to the increase in our fund's NAV to USD 25.2 Mil as at end of 31st March 2019. Going forward, I expect our fund's operating cost percentage to drop further as our fund size grows. As expenses drop, our fund's return increases. A mutual fund for mutual benefits. Yours truly can't wait for operating cost to be below 0.1% of our fund's NAV.

Berkshire Hathaway:

For the year 2018, Berkshire's Book Value per share rose by 0.4%. The main reason for their low increase in Book Value is mainly due to the drop in the market value of their investment holdings. Quoting Buffett in 2017's annual report, he says, "*Berkshire owns $170 billion of marketable stocks (not including our shares of Kraft Heinz), and the value of these holdings can easily swing by $10 billion or more within a quarterly reporting period. Including gyrations of that magnitude in reported net income will swamp the truly important numbers that describe our operating performance. For analytical purposes, Berkshire's "bottom-line" will be useless."*

Quoting Buffett in Berkshire's 2018's annual report, he says *"In complete contrast to these gyrations, the many businesses that Berkshire owns delivered consistent and satisfactory operating earnings in all quarters. For the year, those earnings exceeded their 2016 high of $17.6 billion by 41%."*

Investors might then ask, "How should then one evaluate Berkshire"? In the same report, Buffett mentioned that, "*Our advice? Focus on operating earnings, paying little attention to gains or losses of any variety. My saying that in no way diminishes the importance of our investments to Berkshire. Over time, Charlie and I expect them to deliver substantial gains, albeit with highly irregular timing."*

Book Value, which has been a metric that Buffett used to evaluate Berkshire Hathaway's intrinsic value in the past 54 years, has lost its relevance it once had. Quoting from Berkshire's 2018 annual report, Buffett says, *"Three circumstances have made that so. First, Berkshire has gradually morphed from a company whose assets are concentrated in marketable stocks into one whose major value resides in operating businesses. Charlie and I expect that reshaping to continue in an irregular manner. Second, while our equity holdings are valued at market prices, accounting rules require our collection of operating companies to be included in book value at an amount far below their current value, a mismark that has grown in recent years. Third, it is likely that – over time – Berkshire will be a significant repurchaser of its shares, transactions that will take place at prices above book value but below our estimate of intrinsic value. The math of such purchases is simple: Each transaction makes per-share intrinsic value go up, while per-share book value goes down. That combination causes the book-value scorecard to become increasingly out of touch with economic reality."*

Over the years, Buffett has been increasing the valuation (measured using P/B) that Berkshire will repurchase its shares from the market. It started from a P/B of 1.1 in 26th Sept 2011, and then in 12th December 2012, the threshold increased to a P/B of 1.2. Then on 17th July 2018, Berkshire's repurchase policy was amended again to permit Berkshire to repurchase its Class A and Class B shares at prices below Berkshire's intrinsic value, as conservatively determined by both Warren Buffett and Charlie Munger. Subsequent to the program amendment, in 2018 Berkshire repurchased shares of Class A and B common stock for an aggregate cost of approximately $1.3 billion.

Quoting an article on Berkshire's buyback titled "Berkshire's Buybacks: Back Up the Truck[3]" by Rupert Hargreaves, he says,

"These figures give us further data on Buffett's estimate of intrinsic value for his conglomerate. So far, buybacks have taken place in a range of around $312,000 to $292,000 per A-share (there may have been purchases outside of his range, but for simplicity, I'm going to use average numbers).

This seems to suggest that he believes the conglomerate's intrinsic value is above $312,000 per A-share [or an equivalent of P/B of 1.36]. I say above because I think that Buffett will only want to do repurchases when the stock is trading at a discount to intrinsic value. How much of a discount, it is difficult to tell, but if we give a rough figure of, say 10%, this implies that the Oracle of Omaha believes Berkshire's intrinsic value is somewhere in the region of $340,000 to $350,000 per A-share."

While Buffett has increased Berkshire's price for stock repurchases, Peter Partnership Fund will maintain its current leverage using the previous buyback level of 1.2 times its book value for now. This might be too conservative for some, but it is the policy which my wife and I are comfortable with. After all, virtually all our net worth is invested in the fund. In fact, Peter Partnership Fund is my wife and my only investment, other than the house that we're staying in (which is 90% financed by the bank), some odd lots of stocks worth less than $ 1,000, and some money in the bank account. Not only do we eat our own cooking, but we only eat our own cooking. "As one of the 'Indianapolis 500' winners said, '*To finish first, you must first finish*.". In short, our fund's aim is not to get the last dollar on the table. Rather, the aim is to earn good returns safely, even at the expense of leaving some money on the table.

Changes to Peter Partnership Fund's Brokerage firm

Our main brokerage firm for more than 4 years have been Interactive Brokers (IB). They offer both the lowest brokerage fees and margin rates in the world. Their online reporting is also very comprehensive. However, from 1st August 2018 onwards, the European Securities and Markets Authority (ESMA) enacted new rules on CFD trading for retail investors. Though professional investors are not affected by the new rules, Interactive Brokers applied a higher initial margin requirement to them as well.

[3] Source: https://www.gurufocus.com/news/871999/berkshires-buybacks-back-up-the-truck

Previously, the initial margin required for initiating a CFD position in Berkshire for our fund was only 12.5%. This meant that to buy a $ 1 million CFD position, our fund would only need a capital of $ 125,000; in other words, a leverage of up to 8x our capital may be used. However, IB increased the initial margin required for the top 2 highest positions to 30%, which reduced the leverage to only 3.33x of our capital. While our fund doesn't use more than 3x leverage, this change increases the risk of forced selling considerably if our fund leverage reaches 3x the fund's capital (though that would be a rare occasion, since it's not often that Berkshire trades at P/B of 1.2 or lower). Put another way, if our fund has 3x our fund's capital in Berkshire's CFD, the new ruling only allows a drop of 4.8% before forced selling occurs, compared to a drop of 23.8% previously.

As Berkshire's P/B have not dropped to 1.2 or below since our fund's inception, we did not have the opportunity to leverage up Berkshire to 3x our fund's capital. However, I believe in preparing for the worst-case scenario (and a little bit more). Continuing with Interactive Brokers does not give me the peace of mind to leverage up 3x should such opportunities arise. Luckily, I have found a good alternative, which is with Maybank Kim Eng Singapore (MKE), a fully owned investment banking arm of Malayan Banking Berhad.

The fund has a deal with MKE that allows the fund to have an initial margin of 10%, and interest financing at base + 1% (equivalent to roughly 3.5%) a year. Though the interest charged by MKE is higher than IB by 0.5% a year, brokering with MKE gives me the peace of mind to comfortably use 3x leverage when the opportunity arises; and that peace of mind, in my view, is worth many, many times more than the higher interest charged. MKE's brokerage fees are also higher than IB (3 times higher, to be exact), but since IB's brokerage fees are rock bottom (trades at about USD 40k in Berkshire's stock translates to only USD 1 brokerage fees), a 3-fold increase on that low brokerage fee are still low, in my view. Additionally, the total brokerage fees incurred by the fund isn't much. At current brokerage fees with MKE, I estimate it to be less than 0.05% of the fund's NAV a year (up from the previous 0.01% a year with IB).

In 2018, an Australian brokerage firm called Halifax went into administration by the Australian authorities, causing all the investor's money to be frozen until liquidation, which might take a few years. Even then, there's a high possibility that the investors will end up with less than what they had in their brokerage accounts as the firm currently has more claims from investors and creditors than the value of the company's assets. Halifax is not lightly regulated; it is regulated in Australia by ASIC, in New Zealand by FMA, and also in US by FINRA/SEC/NFA. While the administrators are looking into the reasons for the shortfall, we are taking a pro-active measure to reduce the downside should such a scenario occur to our fund's brokerage firm. After all, virtually my family's entire net worth is invested in the fund.

Thus, the fund is currently in the process of opening another brokerage account with CGS-CIMB, which is a 50-50 joint venture between China Galaxy International Financial Holdings Limited, a wholly-owned subsidiary of China Galaxy Securities Co. Ltd., and CIMB Group Sdn. Bhd. Once the process completes, the fund will have 3 brokerage firms; IB with about 20% of the fund's NAV, and the remaining NAV about equally divided between MKE and CGS-CIMB. The brokerage terms that our fund receives from CGS-CIMB are the same as MKE's; thus, engaging with CGS-CIMB reduces the risk should we encounter difficulties trading with MKE. The fund administrator might increase their administration fee to cater to 3 brokerage firms, but I believe the cost is justified for its huge benefits, especially when Peter Partnership Fund is our family's only investment vehicle. There's no price high enough to pay for a good night sleep.

Dart Group, our fund's only holding, other than Berkshire

Other than Berkshire (which usually represents more than 2 times our fund's NAV), our fund has a "small" position in Dart Group PLC. The reason I use the word "small" is because it represents around 8% of the fund's NAV, or less than 1/20 the fund's position in Berkshire. In a more conventional fund, a position of 8% of the fund's NAV might comprise that fund's biggest position. Peter Partnership Fund is not a conventional fund, and don't intend to be one. We will act conservatively and do what makes sense, whether it's conventional or otherwise.

When I research a company for investment, I intend to buy a company that has a business that I can understand, run by management who acts in the interest of the shareholder (and preferably invest a substantial amount of their net worth in the company), and selling at an attractive price (in relation to the company's value). In addition, I prefer that the company earns a high return on the company's net worth, shows good historical growth rates, with growth that is expected to be good in the foreseeable future while at the same time, uses little or no debt. I believe Dart Group fits all of the above criteria, and I'm happy to include the company's stock as part of our fund.

Dart Group's main business (which represents 93% of the company's revenue and 97% of the company's profits for the financial year 2018) is in leisure travel. They specialise in the provision of scheduled holiday flights by its award-winning airline Jet2.com, as well as ATOL licensed package holidays by its acclaimed tour operator Jet2holidays to leisure destinations in the Mediterranean, the Canary Islands and to European cities. Jet2.com and Jet2holidays are the UK's third-largest airline and second-largest tour operator respectively.

The company launched Jet2holidays in the year 2007. That year, the stock reached a high price of £ 1.5875 per share on 26th January 2007 before dropping down to £ 0.4679 on 18th December on the same year, or a whopping 70% drop from its peak price just 11 months ago. The CEO, who is also the largest shareholder of the company, Philip Meeson saw his wealth (measured in market value) drop from £ 89 Million to "only" £ 26 Million. However, he didn't sell a single share then. Instead, he focused on growing the company year after year. As the company's profit increased, so did the dividends paid to the shareholders. Today, the stock's market price is about £ 9.00 per share, which puts his stock ownership in Dart Group to be worth over £ 500 Million, placing him amongst the richest in his country. On top of that, he has received dividends totalling £ 19 Million in the last 12 years, of which £ 5 Million came in the recent 12 months.

Buffett summarizes very well what I wanted to share in his letters to Berkshire's shareholders in 1988, where he wrote *"When we own portions of outstanding businesses with outstanding managements, our favourite holding period is forever. We are just the opposite of those who hurry to sell and book profits when companies perform well but who tenaciously hang on to businesses that disappoint. Peter Lynch aptly likens such behaviour to cutting the flowers and watering the weeds."*

Though I enjoy stock picking, our fund's bread and butter will always be in Berkshire with dynamic low-cost leverage, except when Berkshire's valuation is high, which happens rarely. This ensures that our fund's return rely less on the skill of the manager, and more on Berkshire's strategy, which provides a huge structural advantage, higher certainty and less effort (which translates to lower cost) for our fund to outperform its benchmarks.

22nd May 2019

Peter Lim
Fund Manager
Peter Partnership Fund