Peter Partnership Fund's (PPF) return vs. benchmarks

Year (ending 31st December)	Peter Partnership Fund *	in Per-Share Market Value of BRK Class B	in S&P 500 with dividends Included
Fund inception to 2017 **	10.6%	9.4%	8.8%
2018	8.2%	3.0%	-4.4%
2019	34.5%	10.9%	31.5%
2020	-39.7%	2.4%	18.4%
2021	42.4%	29.0%	28.7%
2022	-8.7%	3.3%	-18.1%
Compounded Annual Gain	**4.46%**	**10.52%**	**10.55%**
Overall Gain	26.21%	70.51%	70.76%

** 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 4 months instead of the usual 12 months.*

**** Previous years returns have been restated to end at 31st December instead of 31st March for ease of comparison.*

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

Year (ending 31st December)	Peter Partnership (after fees) (in USD)	Benchmark[1] (in USD)	Difference
From 31st March 2008	-21.1%	-32.4%	11.30%
2009	64.5%	49.9%	14.60%
2010	56.2%	36.0%	20.20%
2011	-0.9%	1.0%	-1.90%
2012	29.5%	17.4%	12.10%
2013	12.5%	5.9%	6.60%
2014	15.1%	13.5%	1.60%
2015	-18.6%	1.2%	-19.80%
2016	47.0%	12.0%	35.00%
2017	21.6%	21.1%	0.50%
Compounded Annual Gain	**17.7%**	**10.7%**	
Overall Gain	390.2%	169.6%	

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

Peter Partnership Fund 2022 annual letter

To the investors of Peter Partnership Fund:

Thank you for your patience and continued support for the fund and me. My wife tells me that I have the best job in the world, and I couldn't agree more.

Our fund's change percentage wise during the last 12 months (from 1st Jan 2022 to 31st December 2022) was negative 8.7%. During the same period, Berkshire Hathaway's Class B (BRK.B) stock gained 3.3% while the S&P 500 (with dividends included) dropped 18.1%. Over the last 5.3 years, our fund's ordinary class NAV has increased from $ 10.00 to $ 12.6214, a rate of 4.46% compounded annually.

Our fund have been around for more than 5 years, I thought it would be good to do a more detailed review of our fund's performance during these period. Since there was an abnormal event (the Covid-19 Pandemic) since the fund inception, I believe a better gauge of performance it to split into 3 parts as below:

a) Before the Covid-19 pandemic (fund inception till 31st December 2019, 2.3 years).
b) After 2020 Stock Market Crash (31st March 2020 till 31st December 2022, 2.7 years)
c) During 2020 Stock Market Crash (December 2019 till 31st March 2020, 3 months)

a) Performance of our fund before Covid-19 pandemic (fund inception till 31st December 2019, 2.3 years)

Year (ending 31st December)	Peter Partnership Fund *	in Per-Share Market Value of BRK Class B	in S&P 500 with Dividends Included
Fund inception to 2017 **	10.6%	9.4%	8.8%
2018	8.2%	3.0%	-4.4%
2019	34.5%	10.9%	31.5%
Compounded Annual Gain	**22.68%**	**10.05%**	**14.39%**
Overall Gain	61.11%	25.03%	36.84%

Before the pandemic, our fund outperformed both Brk.B and S&P 500 every year, giving us an 22.68% annualised return, beating Brk.B (10.05%) and S&P 500 (14.39%) over 2.3 years.

During this time, the fund used a very simple strategy, which is owning Berkshire plus leverage with low-cost financing. I thought this strategy was very safe, and no matter how many back tests I did, our fund wasn't prepared for the 2020 market crash.

b) Performance of our fund after 2020 stock market crash (31st March 2020 till 31st December 2022, 2.7 years)

Year (ending 31st December)	**Peter Partnership Fund ***	**in Per-Share Market Value of BRK Class B**	**in S&P 500 with Dividends Included**
From 31st March 2020	55.3%	26.8%	47.3%
2021	42.4%	29.0%	28.7%
2022	-8.7%	3.3%	-18.1%
Compounded Annual Gain	**29.11%**	**21.01%**	**17.33%**
Overall Gain	101.91%	68.95%	55.20%

After the 2020 stock market crash, our fund also outperformed both Brk.B and S&P 500 every year (except for 2022, which Brk.B outperformed our fund). Our fund earned 29.11% annualised return, again beating Brk.B and S&P 500 by a considerable margin during these 2.7 years.

From 2021 onwards (9 months after the 2020 market crash), virtually all our fund's returns were from stock pickings, concentrating on the best ideas. That philosophy is the same investing philosophy I had when I started managing investor's money 15 years ago until end of 2016 when I switched to Berkshire + leverage strategy. Over the years, I've made some minor adjustments to my approach, but the philosophy of owning a concentrated portfolio of good companies run by management who thinks like an owner, and selling at an attractive price remains. This philosophy of owning a high percentage of our fund's money in a few good companies fits my personality perfectly (instead of owning little bit of everything).

c) Performance of our fund during the 3 months of 2020 Stock Market Crash (December 2019 till 31st March 2020)

Month	**Peter Partnership Fund ***	**in Per-Share Market Value of BRK Class B**	**in S&P 500 with Dividends Included**
Jan-20	-2.7%	-0.9%	0.0%
Feb-20	-25.8%	-8.1%	-8.2%
Mar-20	-46.2%	-11.4%	-12.4%
Overall Loss	-61.20%	-19.28%	-19.60%

Three months changed everything (or more accurately, a single month in March 2020 changed everything). In those three months, our fund lost a whopping 61.2%, while Brk.B and S&P 500 lost only less than 20%. There is even a Wikipedia entry on the 2020 Market crash here.

What was thought as a safe strategy of Berkshire + low-cost leverage back in 2016 (and employed successfully till 2019), did not prepare me for:

1) Berkshire's stock price could drop below its book value, and
2) With over USD 100 Billion in Cash, Buffett did not initiate any share buyback over a period when Berkshire was selling below its book value.

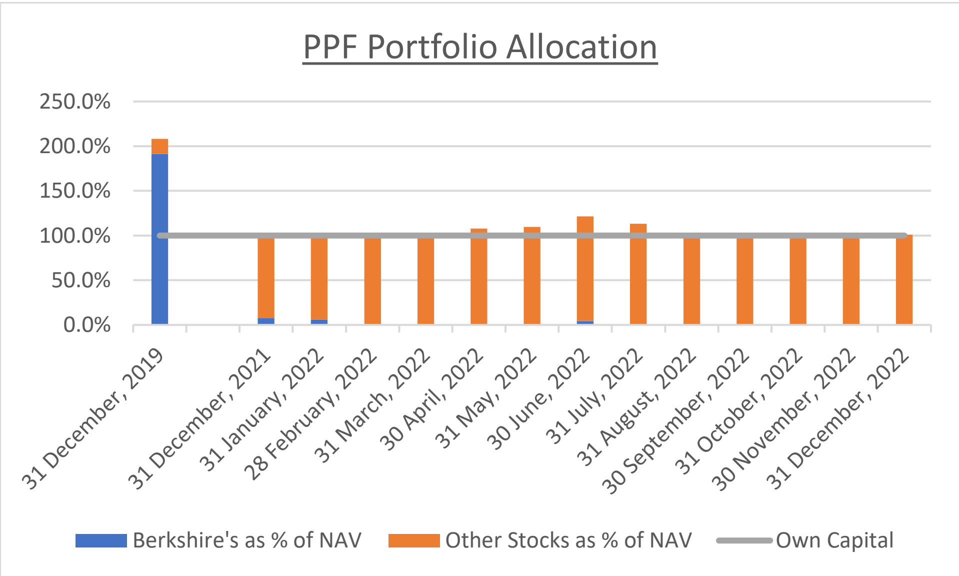
When an investment increases by 50%, it doesn't need another 50% for that investment to doubles in value. Instead, it needs just another 33.3% gain. That's the beauty of compounding. But when an investment loses its value, it needs more than the equivalent percentage to break even. That's when compounding works against an investor.

Our fund drop during the first 3 months of 2020 was 61.2%, and we would need not just 61.2% gain, but a whopping 157.7% gain just to break even. As of 31st December 2022, we've gained 101.9% from the bottom of March 2020, recovering 2/3 of the loss in 2020 market crash. I believe we should be able to get back to the pre-Covid peak of NAV $16.1111 per unit within 2 years or so.

Over the next 50 years, while I believe the probability of another pandemic or war is not zero, we are prepared for any event, and will not suffer the same fate that caused us to lose our holding power, because our fund's use of leverage will be kept minimal, almost always below 20% of the fund's NAV.

The very expensive lessons learned: we shall not use too much leverage until our fund cannot sustain any event, be it foreseeable or unforeseeable. Experiencing first-hand the use of too much leverage (though I didn't think our fund was using "too much" before the pandemic) during Feb/March 2020 pandemic is one time too many in our lifetime.

The use of leverage



The chart above shows PPF's portfolio allocation in Berkshire and other stocks since 31st December 2021 to 31st December 2022. From time to time, our fund uses a little leverage not to boost returns, but to increase flexibility for me when I found a good opportunity where I will buy first using leverage, and it gives me time to think what holdings to sell later.

Now, to a more interesting discussion: what our fund owns.

Our portfolio

1) The table below indicates the fund's portfolio as of 31st December 2022.

Company	Listed In	Industry	Shares Owned	Market Value (in '000 USD)	% of NAV
O'REILLY AUTOMOTIVE INC	US	Specialty Retail	15,622	$ 13,185.44	35.1%
AUTOZONE INC	US	Specialty Retail	2,981	$ 7,351.68	19.6%
ALPHABET INC-CL A	US	Internet Content & Information	75,700	$ 6,679.01	17.8%
OPEN HOUSE GROUP CO LTD	Japan	Real Estate - Diversified	91,700	$ 3,370.91	9.0%
PAX GLOBAL TECHNOLOGY LTD	HK	Business Equipment & Supplies	2,665,000	$ 2,305.78	6.1%
JNBY DESIGN LTD	HK	Apparel Manufacturing	1,057,000	$ 1,264.08	3.4%
CSPC PHARMACEUTICAL GROUP LT	US	Drug Manufacturers - General	622,000	$ 653.76	1.7%
ALIBABA GROUP HOLDING LTD	HK	Internet Retail	58,000	$ 641.21	1.7%
CREDIT ACCEPTANCE CORP	US	Credit Services	1,346	$ 638.54	1.7%
AMAZON.COM INC	US	Internet Retail	7,000	$ 588.00	1.6%
SLEEP NUMBER CORP	US	Furnishings, Fixtures & Appliances	16,753	$ 435.24	1.2%
META PLATFORMS INC-CLASS A	US	Internet Content & Information	3,500	$ 421.19	1.1%
PATRICK INDUSTRIES INC	US	Recreational Vehicles	5,209	$ 315.67	0.8%
Leverage (Margin Loans)				$ 337.51	0.9%
Total				**$ 37,513.00**	**100%**

The fund's top 2 largest holdings remained O'Reilly Automotive and Autozone. In fact, I've increased our positions in the top holdings last year, from 16.59% on 31st March 2021 to 23.9% on 31st December 2021 to 35.1% of the fund's NAV on 31st December 2022.

Autozone, being our fund's 2nd to 3rd largest position with 15.21% on 31st March 2021 to around 20% of our fund's holdings throughout of 2022. Both companies are among the largest players in their field, and I believe their economic moats remain strong. I've written extensively about these 2 companies in my 2021's annual letters (can be found in http://peterpartnership.com , or here). Combined, these two companies represent over 50% of our fund's NAV last year and have been a major contributor of our returns throughout our fund's holding period (last year included).

Over the full year of 2021, O'Reilly Automotive and Autozone earned 56.05% and 76.84% respectively. We captured most of the returns of these two stocks as we owned it early in 2021 and did nothing additional. In 2022, these companies earned 19.51% and 17.64% respectively. Our fund again captured almost all the returns by these two stocks by doing nothing (or what Charlie Munger likes to say, "*Investing is where you find a few great companies and then sit on your ass.*").

If you noticed the returns by these two holdings, an investor owning just these two stocks would be better off in the last 2 years compared to being an investor in our fund. While some might be worried of concentration risk (owning just two stocks in their entire portfolio), these two companies have combined of more than 12,000 stores serving millions of customers each year on a product or service that they need. Viewing it this way, owning O'Reilly Automotive and Autozone is diversified enough, in my view.

Our fund's fifth largest position, Pax Global Technology Ltd. also performed well, earning 22.28% last year. The company's profits on a per share basis rises 19% in the year 2022, which is similar to the gain in its stock price.

Other than this 3 companies (which represents about 60% of the fund's NAV), the remaining stocks pulled down our fund's returns last year. Luckily, most of these holdings are a small percentage of the fund, thus the impact was not big to our fund's performance. Nevertheless, while individually this drag wasn't much, collectively the impact was still significant on the overall fund's performance.

The biggest drag to our funds' performance last year was Alphabet (the parent company of Google and YouTube). I increased Alphabet's holdings to third largest in our fund, and Alphabet's stock price dropped 39.09% last year. While the company's operating income dropped, it was not at the magnitude of the drop in the stock price. Alphabet is a company that was harder to evaluate than what I initially expected, and I do hope to exchange it for a simpler company to own for our fund.

When I analysed our holdings over the years, I realised that our fund's top few holdings (including our predecessor, Peter Partnership without the "fund") performed better than our bottom holdings. After all, the reason why I didn't own more of our bottom holdings is usually because there was some concerns or uncertainties, or that the valuation or the expected growth rates wasn't as attractive as our top holdings. Putting it another way, our fund's returns would have been better, and our risk of capital loss would be lower if I had just concentrated on our top few holdings instead of putting money on my 12th best idea. Buffett sums it up by writing, "*Portfolio concentration may well decrease risk if it raises, as it should, both the intensity with which an investor thinks about a business and the comfort-level he must feel with its economic characteristics before buying into it*."

Perhaps our fund might one day own only 6 positions? I think it's possible.

So, what is too much in a single company (or stock)?

In Buffett's Partnership, Warren Buffett wrote, *"We might invest up to 40% of our net worth in a single security under conditions coupling an extremely high probability that our facts and reasoning are correct with a very low probability that anything could drastically change the underlying value of the investment*."

He concentrated heavily when there's rare opportunities. For instance, when he's 21 years old, he invested half of his net worth in Geico's stock, and in 1967, he put 40% of his partner's investments in American Express which amounted to $500 million when the company fell into salad oil scandal.

Buffett's maximum (at the time of his investment) is 40% in a single stock (other than his personal stake in Buffett Partnership /Berkshire Hathaway).

Charlie Munger, on the other hand, was comfortable to go all out on a single idea if that idea is virtually certain. He did enormous trades with borrowed money like British Columbia Power, which was selling at around $19 and being taken over by the Canadian government at a little more than $22. He put not just his whole partnership, but all the money he had, and all that he could borrow into an arbitrage on this single stock--but only because there was almost no chance that this deal would fall apart. Source

Similar to Munger, Edward Thorp (who is a mathematician and a successful Hedge Fund manager) bought $330 million in Ma Bell shares, and sell $332.5 million in "when-issued" Baby Bells—for an "insignificant" $2.5 million gain in 1983. Even more curious, his fund had just $15 million in assets, putting that trade at over 40 times his fund's capital at that time.

These two trades by Munger and Thorp were arbitrage deals (the simultaneous buying and selling of securities, currency, or commodities in different markets or in derivative forms in order to take advantage of differing prices for the same asset). Excluding arbitrage deals, Charlie Munger had approximately 90% of the fund in two stocks when he was running a hedge fund called Wheeler, Munger partnership in 1972. He had 29% in a company called New America Fund and 61% in Blue Chip Stamps. Source

Other than Berkshire, our fund is not allowed to invest more than 40% in a single stock. For me to love a particular investment so much that I would want to go beyond 40% of our fund's NAV, it must be

1) a business with extremely good historical track record, and
2) outlook is extremely bright, and
3) management acts in the interest of shareholders with strong alignment of interest, and
4) their business competitor (if any) is extremely far behind, and
5) risk of permanent loss is extremely low, and
6) The price of the stock is attractive in relation to its intrinsic value, and lastly,
7) The next best use of our fund's money (opportunity cost) is quite far behind.

Recently I came across such a company. The company is called Evolution Gaming. It fulfils all the 7 criteria above. The company develops, produces, markets and licenses fully-integrated B2B Online Casino solutions to gaming operators. Since its inception in 2006, Evolution has developed into a leading B2B provider with 600+ operators among its customers (including Genting and Hardrock Hotel). The group currently employs about 16,000+ people in studios across Europe and in North America. The parent company is based in Sweden and listed on Nasdaq Stockholm. is the best company I've seen in my 18 years of investing career, it is our fund's largest holdings (at around 35% of our fund's NAV as of 12th May 2023), and I still think it is too low allocation to that company.

Though my wife and I invest virtually all our money in this fund alongside with you and we are also the largest investor of this fund, our ownership in this fund is less than 10% of this fund's total value. Even including my parents, parents-in-law, sister, brother-in-law, sister-in-law's investments, it is still less than 20% of the total fund's value. If I'm just investing my family's money, I would have invested over 50% in this wonderful company. But since over 80% of the fund's NAV belongs to non-family members of mine, and I have to consider their thoughts and concerns. And I do not want to "force" my way through (even if I have 80% approval, there is still a high 20% who disagrees with it).

The other option is for me to withdraw a portion of my own money to invest in this company, but it is not something I like to do because:

(1) I have virtually no other investments outside of this fund, and I intend to keep it this way, and

(2) due to the fund size, I can execute a strategy of earning premiums from both call and put options for our holdings, which should add a few percentage points of returns a year.

A side note: Evolution Gaming's stock price went up over 70-fold since listing 8 years ago (and that is excluding dividends earned every year since then). The latest dividend pay-out was EUR 2 per share, which is more than IPO stock price of the stock 8 years ago (adjusted for stock split). And the gain in stock price is supported by its consistent growth in the company's net profits, which ranges from 30% to 100% a year for the past 8 years.

Final words

Playing the "catch up" game (after the 2020 market crash) is no fun. We've made substantial progress since then, and I'm optimistic of our fund's future performance to outperform the chosen benchmarks.

As ever, it is an absolute pleasure running this fund. I thank you for the opportunity to do so under my own autonomy and for your patience and confidence in me.

Thank you.

16th May 2023

Peter Lim
Fund Manager
Peter Partnership Fund