

## Conscious Investor® Fund

### Interim Letter to Members: December 2023

<b>Noble Purpose:</b>	Focussing on growth of wealth with peace of mind for Members and their families.
<b>Mission:</b>	The Capital Allocation Team does this with consciousness and stewardship, making use of unique and proprietary software and processes to identify the most likely Wealth Winners® while avoiding potential Capital Killers.
<b>Vision:</b>	That our Members view the Fund as a fundamental part of the growth and preservation of wealth, for themselves and their families, to live the lifestyle they choose while investing in companies that add value to society.
<b>Cultural Values</b>	<ol style="list-style-type: none"> <li>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.</li> <li>2. We recognise Members and their families have faith in us, by investing their money in the Fund.</li> <li>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.</li> <li>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.</li> </ol>

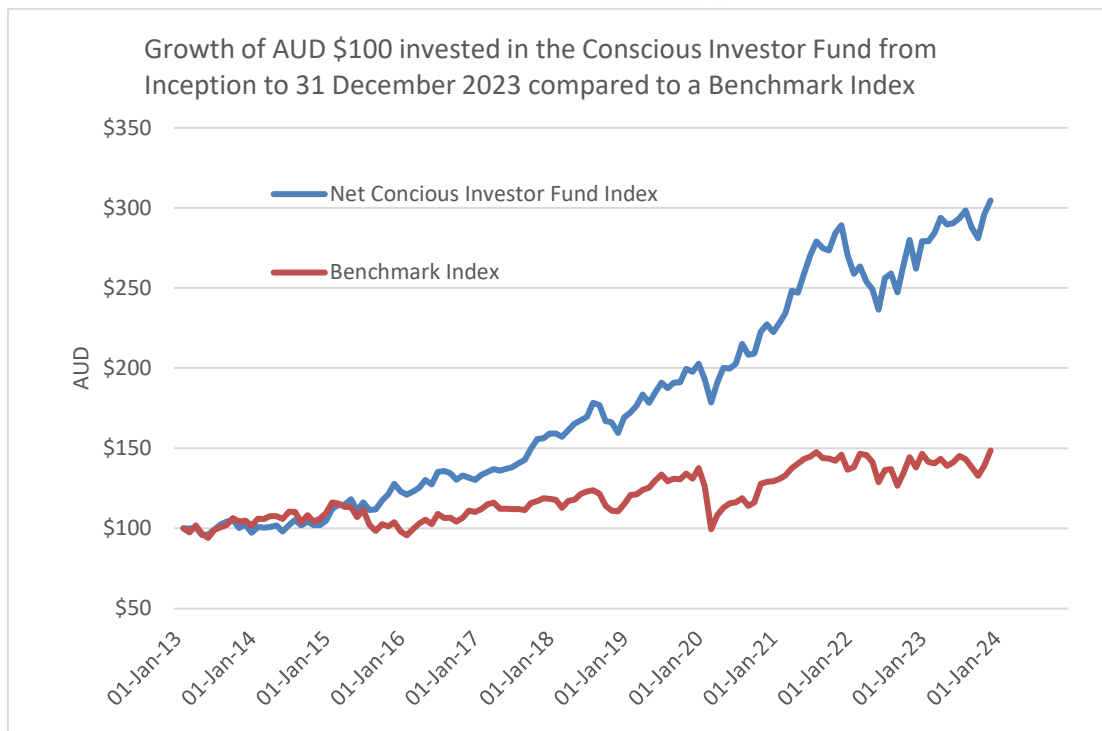
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## Welcome

Welcome to the interim Letter for members of the Conscious Investor Fund, families and friends.

The following chart shows the growth of \$100 invested in the Fund since inception to 31 December 2023 compared to an index fund. Some of the investments of our early Members have tripled in value since they were first deposited.

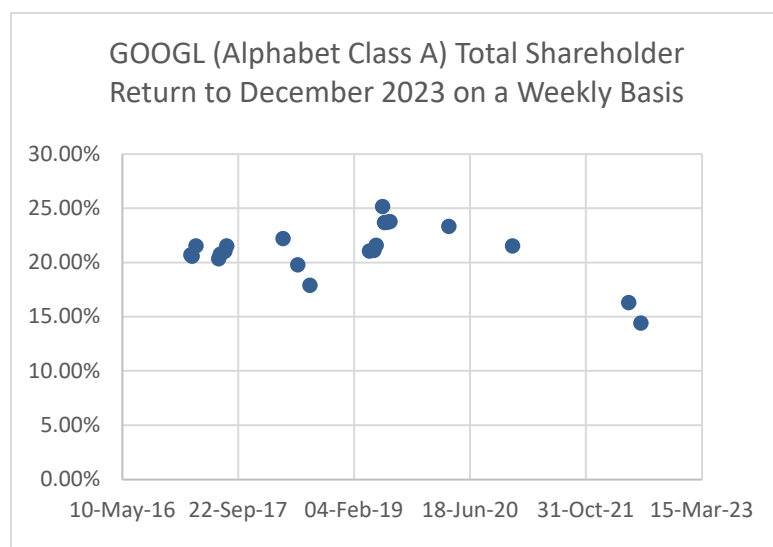


Calculations are based on exit prices with distributions reinvested, after ongoing brokerage fees and expenses but excluding individual tax and member fees. Fund Inception 1 February 2013.

### Topping up our Wealth Winners

Our favourite charts belong to the family that tracks the individual purchases of the core Wealth Winner holdings. (As an example, see the next chart for GOOGL.) We are constantly watching the Fund's core holdings, looking for opportunities to add more at attractive prices. Since we already know a lot about these companies, whether to add more when the price allows it, is a simple decision. We like to call them perpetual Wealth Winners®.

Let's look at a company we have not displayed before: Alphabet (usually referred to as Google). (This report will discuss the Company with the ticker symbol GOOGL. For more details, see the Appendix at the end of the Report.) For recording purposes, we bundled the purchases into blocks of length one week. Since 2015, we have made 22 such purchases, as shown on the adjacent chart.



The Fund first bought shares in Google (Ticker GOOGL) in March 2017 for \$42.56 each. (When talking about Google, all prices will be quoted in US dollars. Also, prices were adjusted for a 20:1 split in June

2022.) We bought a parcel of 2,800 shares, followed by 2,000 shares a week later using all the available cash. At the time of writing, the share price is \$142.38.

With dividends, this is an attractive return of 23.18% per annum.

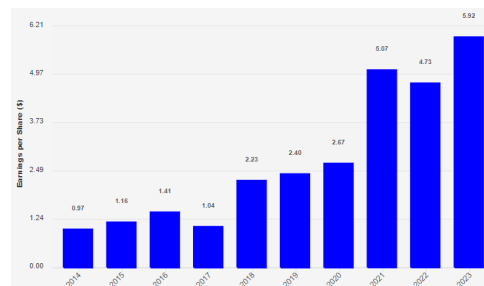
But if that was all we did regarding Google, the Fund would not be as successful as it has been... and continues to be.

This is where Conscious Investor enters. The Capital Allocation Team uses it to monitor all the fund's holdings, waiting for opportunities to top up. In broad terms, this means waiting until the price lags a company's earnings. (It is more complicated than this, but this is the basic idea.)

As just stated, the price is now \$142.38. More importantly, by watching for buying opportunities, the initial holding of 2,800 shares is now a holding of 52,000 shares with an overall return of 23.18% per annum.

Here is a chart of the Earnings per Share for Google. This strong growth year after year gives us confidence about the future growth of EPS.

EPS has grown from 97 cents in 2014 to \$5.92 over the current financial year, a growth of over 600%.



## Vale Charlie Munger

In our Reports, we usually include the investing principles and methods of Warren Buffett. What some of you may not know is that Buffett acknowledges much of his success and the success of Berkshire Hathaway is due to his association with Charles (Charlie) Munger. So, although we haven't usually been quoting Munger, his knowledge and principles are an integral part of quotes by Buffett.

Munger and Buffett both grew up in Omaha, Nebraska. Even though as a teenager, Munger worked at Buffett & Son, a grocery store owned by Warren Buffett's grandfather, Ernest P. Buffett, they didn't meet until 1959 when Munger was in Omaha for his father's funeral. Straight away they struck up a fast friendship. In a recent interview, Buffett said he knew "I'm not going to find another guy like this .... We just hit it off."

Charlie died on November 28 last year, aged 99, less than a month short of his 100<sup>th</sup> birthday. In a press release following his death, Buffett declared: "Berkshire Hathaway could not have been built to its present status without Charlie's inspiration, wisdom and participation,"

Munger had a reputation as a deep and original thinker, approaching investing problems from unique angles. In multiple speeches, and in the 2005 book *Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger*, Munger explained how he liked to tackle problems through sets of overlapping mental models, lattice works of mental models.

For decades he was a fixture as Buffett's righthand man at Berkshire Hathaway's annual meetings. Buffett would answer questions from the audience, then turn to Charlie and ask if he had anything to add. At this stage, there would be pin-drop silence as the audience waited for another "zinger" from Charlie. For many, these were the main reason they attended the meetings yearly.

As an example, at the 2015 Meeting he stated playfully: “If people weren’t so often wrong, we wouldn’t be so rich.” Referring to Buffett and himself, it is no wonder they were such deep friends.

The following is a collection of more of these comments by Munger.

**CM:** People calculate too much and think too little.

**CM:** People are trying to be smart. All I am trying to do is not to be idiotic, but it’s harder than most people think.”

**CM:** Those of you who are about to enter business school or are there, I recommend you learn to do it our way. At least until you're out of school, you have to pretend to do it their way.

**CM:** I'm optimistic about life. I can be optimistic when I'm nearly dead. Surely the rest of you can handle a little inflation.

**CM:** And of course, that's the other advice. The best way to get what you want in life is to deserve what you want. How could it be otherwise? It's not crazy enough so that the world is looking for a lot of undeserving people to reward.

**CM:** Everybody wants fiscal virtue, but not quite yet. They're like that guy who felt that way about sex. He was willing to give it up, but not quite yet.

**CM:** Well, you don't want to be like the motion picture executive in California; they said the funeral was so large because everybody wanted to make sure he was dead.

**WB:** Talking about buy backs, it does not mean we approve of every buyback at all, though. I mean, we've seen...

**CM:** No, no, no. I think some people just buy it to keep the stock up, and that, of course, is insane and not moral. But apart from that, it's fine.

**WB:** I've listened to so many nonsensical cost of capital discussions that...

**CM:** I've never heard an intelligent one.

**WB:** Charlie's big on lowering expectations.

**CM:** Absolutely. That's the way I got married... my wife lowered her expectations.

**CM:** Sure, there are a lot of things in life way more important than wealth. All that said, some people do get confused. I play golf with a man. And he says, “What good is health? You can't buy money with it.”

**CM:** Well, there are a whole lot of things I don't think about. And one of them is companies that are losing two or three billion dollars a year and going public.

**CM:** The general system for money management requires people to pretend that they can do something that they can't do, and to pretend to like it when they really don't. I think that's a terrible way to spend your life, but it's very well paid.

**CM:** Well, I can't give you a formulaic approach [for investing] because I don't use one. If you wanted a formula, you should go back to graduate school. They'll give you lots of formulas that won't work.

**CM:** As Samuel Johnson said famously, I can give you an argument, but I can't give you an understanding.

**CM:** It's extraordinary how resistant some people are to learning anything.

**CM:** And yet it's perfectly obvious, at least to me, that to say that derivative accounting in America is a sewer is an insult to sewage.

**CM:** It's not that great a business as a business. Casualty insurance, it's a tough game. There are temptations to be stupid in it. It's like banking.

**CM:** But competency is a relative concept. And what a lot of us need, including the one speaking, what I needed to get ahead was to compete against idiots. And luckily there's a large supply.

**CM:** I don't like multitasking. I see these people doing three things at once, and I think, God, what a terrible way that is to think.

**CM:** I like cryptocurrencies a lot less than you do. And I think that people who are professional traders, that go into trading cryptocurrencies, it's just disgusting. It's like somebody else is trading turds, and you decide I can't be left out.

**CM:** One reminds me, once I asked a man who just left a large investment bank, and I said, how does your firm make its money? He said, off the top, off the bottom, off both sides, and in the middle.

**CM:** Well, I would rather throw a viper down my shirt front than hire a compensation consultant

**CM:** I think I've offended enough people.

**WB:** Could be three more in the balcony (Buffett quipped mischievously).

### **Conscious Investor® and the Teainvest 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 Teainvest 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 unique features of the business 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 potentially weaken their operations. These risks are identified and scored according to the likelihood of their occurring over the next economic cycle and their potential damage if they happen.

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, an evaluation is made of the board and senior management: are there any signs that 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<sup>®</sup> while making it extremely unlikely we would place any of your capital in potential Capital Killers.

We hope you enjoyed reading this Letter. We chose the topics to help you better understand our philosophy and what motivates us in selecting investments for your money. Please let us know if there are any other topics you would like us to include.

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, Kevin Robinson and Michael Stewart)

*The Capital Allocation Team prepared this report for members of the Conscious Investor<sup>®</sup> Fund. It does not take into account anyone's personal circumstances. Remember, what happened in the past is not always what will happen in the future.*

*Questions? Contact us: [cifund@consciouscapital.com.au](mailto:cifund@consciouscapital.com.au)*

*Conscious Capital Limited AFSL 427 216*

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## Appendix

### **Alphabet Inc. (Google): “Not a Conventional Company”**

Alphabet is a holding company that oversees a range of companies: in particular, the search company Google. Founded by Sergey Brin and Larry Page in 1995, later they wrote: “Google is not a conventional company. We do not intend to become one. Throughout Google’s evolution as a privately held company, we have managed Google differently. We have also emphasized an atmosphere of creativity and challenge, which has helped us provide unbiased, accurate and free access to information for those who rely on us around the world.”

Earlier Page wrote: “From the start, we’ve always strived to do more, and to do important and meaningful things with the resources we have.

We did a lot of things that seemed crazy at the time. Many of those crazy things now have over a billion users, like Google Maps, YouTube, Chrome, and Android. And we haven’t stopped there. We are still trying to do things other people think are crazy but we are super excited about.”

Alphabet offers various products and platforms in the United States, Europe, the Middle East, Africa, the Asia-Pacific, Canada, and Latin America. It operates through Google Services, Google Cloud, and Other Bets segments.

Alphabet (NASDAQ code: GOOGL), the parent company of Google, is a major player in the tech industry, with a multifaceted approach to information and innovation. At the time of writing, GOOGL is the second largest holding in the Conscious Investor fund and has shown a 20.9% p.a. growth return to the fund over the last 5 years, not including currency gains.

#### *Strategy*

The Google story began in 1995 at Stanford University with the meeting of Larry Page and Sergey Brin. Within a few years they formed a company to market the now well-known Google search engine. Its two founders, Larry Page and Sergey Brin are still involved. Alphabet was set up as the parent of Google in 2015, inspired by the structure of Berkshire Hathaway as a holding company with subsidiaries with strong CEOs who are trusted to run the businesses. The aim is to streamline the traditional business of Google, “with the companies that are pretty far afield of our main internet products contained in Alphabet instead” (Larry Page). This structure allows Alphabet to house its main, and traditional, internet related business within Google and place high-risk, high-reward projects, seen as a key to long-term success, directly under Alphabet. All this while adhering to their stated principle of "Don't do evil."

#### *Success Drivers*

The company's revenue generation revolves around facilitating vendors and customers through data and 'ticket clips' on transactions, with approximately 80% of income derived from focused advertising. Google's global market dominance in search engines, commanding a 91.5% share, further solidifies its position. The company operates under the concept of 'freemium,' offering free products to create an entry point for users that can be monetised (for consistency) with premium offerings. The business obtains 48% of its revenue from the U.S. and 29% from Europe.

Alphabet Inc. invests heavily in research and development, allocating 14% of its revenue in 2022 to stay at the forefront of technological advancements.

### *Data as an Asset*

Data is highlighted as Alphabet's most significant asset, described as 'priceless.' The company utilises sophisticated mining of databases for personalised marketing campaigns, emphasising the value of customer information.

### *Moats*

The main moats are the business size, scale, and market dominance in utilising the data collected through its search engine dominance to enable focussed advertising for its business customers.

### *Main Future Risks*

The company may lose its technological edge in monetising the data it collects through the Google search engine. This might occur by competitors using AI and other technological developments to interpret data more effectively, anticipate market trends, and customer needs. An example is the use of generative AI in the Microsoft Bing search engine. This underlines the need for Google to maintain the scale and effectiveness of its research efforts.

### *Key Statistics*

Dividend Yield	ROE	5 Year Growth p.a.	
		SPS	EPS
0.0%	24.3%	22.8%	33.4%

- Market Cap: \$1,825.6 billion • 5-yr TSR: 23.3% (including currency gains)

### *Summary*

Alphabet, in its expansive evolution from Google, is a dynamic force in the tech industry. With a commitment to innovation, data-driven strategies, and a diversified portfolio, Alphabet should maintain continued growth. The company's emphasis on long-term vision, accountability, and transparency aligns with its core mission to improve lives and significantly contribute to the ever-evolving digital landscape.