PLEASE ALLOW ME TO INTRODUCE...

Some of you may know that at Vltava Fund we refer to Warren Buffett, half-jokingly, as “Son of the Most High,” the “Most High” for us being Benjamin Graham. Graham was an influential investor who through his work laid the foundations for valuing stocks in the way most investors do today.

One of Graham’s main ideas can be regarded as his view that shares represent a stake in a company’s business and that every company has its intrinsic value. These concepts are as valid and relevant today as they were ground-breaking in 1934 and 1949, when Graham published his two pivotal books, *Security Analysis* and *The Intelligent Investor*. (The second of these had such impact on me that I still today remember exactly when and where I first read it, even though it was still in the last century. The only other book concerning which I have equally precise recall is *The Godfather*. I wonder what a psychoanalyst would say about that connection.)

It would be superfluous, I suppose, to repeat that we endeavour to look at our investments similarly as did Graham. A share is for us first and foremost a stake in a company, and we strive to select individual stocks based upon the relationship between the price and value of each. Determining factors for us are the value of a company today, its expected future development, and the risk associated with its business. At the same time, we know that value is not created by itself but that it results from the work of people. We therefore understand companies as living entities where men and women work with the aim to create value. People who create that value are similarly important to us as are the characteristics of the business itself. Many publicly traded companies are led by outstanding value creators. From our own portfolio, let us take a very brief look now at a few such individuals and their stories.

Alain Bouchard (Alimentation Couche-Tard)

Alimentation Couche-Tard is one of Canada’s most fascinating and successful business stories. Its founder, Alain Bouchard, is the main character in that chronicle. A native of Quebec, Canada, Alain spent the first 12 of what might be termed his apprenticeship years working in various positions at several retail companies. In 1980, at the age of 31, he decided to set up his own business and opened his first so-called “convenience store” in the city of Laval. He came up with what was at that time a revolutionary idea: to keep the store open 24 hours a day. Thus were created the name of the company and its winking owl logo, which essentially reference the expression “night owl”.

The company grew successfully – at first slowly, then more and more rapidly, both organically and through larger and larger acquisitions. Today, it has nearly 15,000 stores in Canada, the US, Northern Europe and Asia (most of which also have petrol stations), and, with sales exceeding USD 50 billion, it is one of the largest global companies in its sector.

Alain Bouchard is still today Chairman of the Board and a major shareholder in the company. To his credit, the company has a deeply rooted culture in which return on capital, operational efficiency, and quality of service are paramount. Couche-Tard is one of few companies that has grown largely through frequent acquisitions and can boast that the acquired parts usually do better after the takeover than they did prior to it. Even at its present large size, Couche-Tard always has plentiful opportunity for further growth. (The full story of the company is described in Guy Gendron's book *Daring to Succeed: How Alain Bouchard Built the Couche-Tard & Circle K Convenience Store Empire*. I can highly recommend it.)

Greg Abel, Ajit Jain, Todd Combs, and Ted Weschler (Berkshire Hathaway)

Berkshire Hathaway is and always will be associated with the name Warren Buffett. Writing about what Buffett has created in his 60 years at its helm would be like carrying coals to Newcastle. (The most detailed account is offered in Adam Mead's book from the spring of this year: *The Complete Financial History of Berkshire Hathaway: A Chronological Analysis of Warren Buffett and Charlie Munger's Conglomerate Masterpiece.*) It would also be to look backwards, which, while a common potential problem of all these corporate stories, given Buffett's age, that is all the more apparent in the case of Berkshire. Fortunately, we know who will run Berkshire after Buffett, so it will be better to say a few words about that chosen successor. Or perhaps it would be better to say successors. Berkshire will be in the hands of the four people named above. All four of them are backed by very successful careers that to a large extent have been linked directly to Berkshire Hathaway.

The future CEO will be Greg Abel. Abel has worked at what is now Berkshire Hathaway Energy since 1992 and has been its CEO since 2008. He has played the lion's-share role in taking Berkshire over the past two decades from virtually nothing to become a major energy player with USD 90 billion in assets. Inasmuch as Abel's main task as CEO at the holding level will be asset allocation, his tenure at BHE is great preparation and he carries with him an excellent report card to begin with.

The most valuable part of Berkshire is still its insurance business. It is unquestionably a global leader, and much of the credit for that goes to Ajit Jain. He has been at the helm since 1986 and what he has built over time is unparalleled anywhere in the industry. Buffett once said: "If Charlie, I, and Ajit are ever in a sinking boat – and you can only save one of us – swim to Ajit." I think that speaks for itself, and it is a good thing that Ajit Jain will continue to remain in his position and create additional value for Berkshire shareholders.

Berkshire's publicly traded portfolio, which today totals about USD 500 billion, will be in the hands of Todd Combs and Ted Weschler. Both were very successful portfolio managers already before Buffett chose them as his future successors. Combs has been at Berkshire since 2010 and Weschler since 2012. Since that time, both have been managing smaller but progressively growing portions of the Berkshire portfolio. I think they will continue to be excellent. If the greatest living investor chose them as his successors from a plethora of candidates, we scarcely could wish for a better testimonial.

So this quartet will run Berkshire Hathaway after Warren Buffett will leave his position.

There is only one Buffett, and there will be no other like him, but I nonetheless can imagine quite well that the quartet of his successors will be collectively even better than this Son of the Most High.

Christopher Bogart (Burford Capital)

Very few people can say of themselves that they are pioneers and leaders in an emerging industry which they are themselves helping to create, moreover that they have founded and run a company in that same industry that not only was highly profitable from the start but that today occupies a dominant and sometimes even monopolistic position in the industry. I think that Christopher Bogart, the CEO of Burford Capital, could say that about himself.

Bogart is a lawyer by profession, and in the first two decades of his career he acquired valuable experience in investment banking, in the legal departments of large corporations, and also in litigation. This experience and his knowledge of the environment led him together with Jonathan Molot to the idea of founding Burford Capital 12 years ago.

Burford is a global leader in an industry known as litigation finance. In common language, this means that Burford helps various large corporations, law firms, individuals, and possibly other entities to finance their litigations in exchange for a share of any potential compensation awarded by the court. Of course, they also bear the full risk of failure. It is difficult to imagine an industry where the outcome would depend more on the skills, knowledge, and experience of the people doing the job. Being able to assess a court case purely from a lawyer's perspective is one thing. It is also necessary, however, to know how to work with probabilities and time horizons and be able to express all this in monetary terms.

I think only few people are capable of this with consistent results. Burford is clearly one of these entities, if one can judge from its results to date, the breadth of it client base, and its ability to do large transactions. This combination gives it a very strong competitive advantage with near-monopoly elements in some parts of the market, which is huge, by the way.

Burford can be viewed as a private equity firm, except that Burford need not strive to "exit" individual investments in its portfolio. These "exits" are brought to it by the courts themselves, and with much quicker turnaround. If one takes all of Burford's closed investments over the life of the company, their ROIC is 95%. That means that, on average, they double each investment. The IRR, which is an indicator of return that takes into account also the time during which each investment runs, is 30% p.a. over the entire life of the company. At a time when artificial intelligence is discussed everywhere and human intelligence is sometimes a bit overlooked, Burford is a nice example that also human intelligence can create great value.

Tom Gayner (Markel Corporation)

It is interesting that although Berkshire Hathaway's business model is fundamentally very simple, produces excellent results, and has been in the public eye for decades, almost no one has managed to replicate it. The implementation of this idea is seemingly very difficult. In fact, the sole company that has been largely successful in following Berkshire's footsteps is Markel Corporation. Its foundation is likewise a successful and highly profitable insurance business that produces free capital for further investments into both public and non-public shares in combination with exemplary asset allocation.

Much of the credit for this goes to its co-CEO, Tom Gayner. Markel was originally a family business founded in 1930 by the Markel family. Tom Gayner came onto the scene in 1990, when he took over the investment part of Markel, and since 2016 he has held the position of co-CEO alongside Richard White.

Tom Gayner is first and foremost an excellent investor and asset allocator. At Markel, he is currently in charge of a USD 28 billion investment portfolio, as well as the part that invests in private companies and goes by the name Markel Ventures. He has been instrumental in driving the stock price from USD 10 to USD 1,200 during his tenure. That is about the same percentage increase that Berkshire's shares had over the same period. Tom Gayner, and indeed Markel as a whole, is a fine example of the fact that you do not need to invent something new, to come up with some innovation, or to try and disrupt something in order to succeed in the world of finance. To succeed, it is enough to apply things and practices that have been proven over the years. But it certainly is not easy. Markel has one undeniable advantage over Berkshire, and that is its much smaller size. The long-term potential of the company in the hands of Tom Gayner and his colleagues remains enormous.

Anthony Coombs (S&U)

S&U is a small, British family-owned company, which, due to its size, remains aside from the main interest of investors and analysts. In our eyes, it exemplifies the famous saying "small is beautiful". S&U was founded by Clifford Coombs in 1938. Anthony Coombs has been at the helm for the past 13 years and is credited with much of its current form. Anthony Coombs is a member of the third generation of the Coombs family in the company's management, and the family still owns approximately half its shares. They treat the company as a true family asset, being patient, systematic, taking no unnecessary risks, while also being very mindful of the interests of minority shareholders. If anyone can be said to have "skin in the game", it is the management and major shareholders of this company. We like being in the same boat with them, and the only reason we are not buying more of their shares is because we are hampered by their relatively low liquidity.

Jamie Dimon (JP Morgan) and Herman Gref (Sberbank)

While all the previous names could be categorised as founder, continuing, or key shareholders, these last two names fall into the category of hired professional managers. This is actually the most numerous category among the bosses of large companies, but even among them there exist a number of individuals with exceptional long-term track records. In our view, these include also Jamie Dimon and Herman Gref.

We consider JP Morgan to be the strongest, largest, and most profitable bank in the world. It has not always been so, and the fact that it is what it is today can be attributed especially to its CEO Jamie Dimon. Dimon has spent his entire career in banking. He came to JP Morgan in a roundabout way in 2004 after the bank bought Bank One, of which he was CEO at the time. Since early 2006, Dimon has been CEO of the entire JP Morgan.

The quality and strength of JP Morgan under his leadership became fully apparent for the first time in 2008. Not only did JP Morgan help to stabilise the market by taking over the failing Bear Stearns in the spring of that year, but it was the only major US bank that did not require government assistance throughout the Great Financial Crisis and that was highly profitable even in the difficult year of 2008. Today, JP Morgan is even bigger, even more profitable, and even stronger than ever before. Many investors view banks with disdain, but a good bank with good management can be a very good long-term investment. From the time of its merger with Bank One in 2004 through the end of 2020, JP Morgan's stock has outperformed even the S&P 500 index. The bank has earned a total net profit of USD 330 billion during this period, of which USD 232 billion has been paid out to shareholders in dividends and in share buybacks. I can recommend two books about Jamie Dimon: *The House of Dimon* and *Last Man Standing.*

It may come as a surprise to you that I have included Herman Gref, the CEO of Russia's Sberbank since 2007, into the ranks of people introduced in this letter, but his track record speaks for itself.

I myself bought Sberbank shares for the first time at the turn of 1996 and 1997, at a time when the Russian market was still terra incognita for most of the world. It was a very wild market then, and Sberbank itself was the very picture of a socialist economy. It was not much better even in 2007, when Herman Gref took the lead. Today, it is a very different story and I can think of no major bank in the world where a comparable qualitative shift has taken place.

Sberbank is today the most profitable bank in the world outside the US and China in terms of absolute profits. Its ratios could be (and perhaps are) envied by any major bank in the world. Sberbank also has a dominant position in its domestic market that I have not seen in any other major country. Moreover, it is considered a technology leader in banking not only in emerging markets but also from a global perspective. Herman Gref was and is the motor driving all these changes. Under his leadership, Sberbank's book value per share (inclusive of dividends paid) has increased more than tenfold. That means approximately 20% p.a.

Summary

I am aware that the descriptions above are very simplified and abbreviated views of the selected managers. Nevertheless, it was not my intent to present an exhaustive curriculum. After all, as we have seen above, whole books are already available about them. Rather, my aim was to draw attention to one of the most magical things that investing in stocks has to offer. By a very simple transaction – buying shares – one becomes all at once a partner of all the value creators in the managements of the companies one has chosen. Indeed, all those I have mentioned here are also shareholders (often very large shareholders) in the companies they manage. Moreover, the feeling that these people are now working for you can keep you warm day and night. And if they continue to do as well as they have to date, this will be more than just a nice feeling. It will be reflected in the prices of the stocks. For us as investors, watching good managers and investing with them is also a way to learn more.

With every investment, we are actually putting the money you have entrusted to us into the hands of people running the companies into which we have invested. We are therefore always interested in who they are, what they have accomplished, and what we can expect from them. Obviously, the share prices of even such companies can fluctuate a great deal, and we in fact expect them to do just that. Each of these stocks is likely to experience a number of price declines that will be measured in tens of percentage points. This has always been the case, and the future will certainly be no different in this regard. After all, corporate managers do not have much influence on short-term share price movements. But if they manage their companies well and if they allocate their capital efficiently, we will be satisfied. In the long run, this should take care of the share prices as well.

Changes in the portfolio

We have two new positions. The first is Williams-Sonoma. This position is still very small, so other than to say that we really like its story, its potential, as well as its numbers, I am not going to go into further details now. We will see where the future takes us.

The second position is much larger and was thrown into our hands by an unexpected turn of events. It is the stock of Willis Towers Watson. This is a British company with roots dating back to 1828. WLTW is the third-largest insurance broker in the world. This is a sector with which we are very familiar, as some time ago we held in our portfolio shares of its slightly larger competitor AON.

It was AON in fact that announced last spring it had agreed to merge with WLTW. In the merger, WLTW shareholders would have received AON shares. As is usually the case with such announcements, investors stepped in to conduct what is known as merger arbitrage. In this particular case, they bought WLTW shares and sold short AON shares in order to profit from the fact that the prices of the two stocks did not yet fully reflect the exchange ratio in the merger. Moreover, merger arbitrage commonly makes extensive use of leverage in order to increase profits.

This summer, however, AON and WLTW jointly announced that they were pulling out of the planned merger because they had not received approval from the US Department of Justice. The regulator had feared that in an already quite concentrated industry, a merger of the second- and third-largest players would restrict competition too much. The immediate reaction to this announcement was, of course, closing of positions from the merger arbitrage. This brought an immediate increase in the price of AON shares and decline in the price of WLTW shares. We saw this as an excellent buying opportunity in WLTW stock. (In addition, WLTW had received a USD 1 billion breakup fee from AON.) Because we knew the industry and the two companies well from earlier years, we were able to react immediately, and a new, very attractive investment appeared in Vltava Fund’s portfolio rather unexpectedly and quickly.

Insurance brokerage is a very good business. Simply put, insurance brokers are intermediaries who sell, find, or negotiate insurance on behalf of a client for a fee. They do not bear the insurance risk themselves and thereby do not risk their own capital. They live from commissions and the fact that this is a large and recurring business. Just to give you a sense of this, I will note, for example, that of the 500 companies in the Fortune Global 500 list, more than 90% are clients of WLTW. The entire industry is very concentrated and has relatively high barriers to entry. WLTW is the third-largest global player, has very high free cash flow, low capital investment requirements, and a very valuable client base. The business as a whole also provides some long-term inflation protection, as the speed at which the volume of total premiums grows follows the speed at which the economy and asset prices grow in nominal terms. I have to say we are very happy that circumstances have passed this investment on to us.

Daniel Gladiš, October 2021

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holding and repurchase of shares in the fund as well as payments to the shareholders.

The shares of the fund have not been and will not be registered under the United States Securities Act of 1933, as amended (the “1933 Act”) or under any state securities law. The fund is not a registered investment company under the United States Investment Company Act of 1940 (the “1940 Act”).

The shares in the fund shall not be offered to investors in the Czech Republic on the basis of a public offer (veřejná nabídka) as defined in Section 34 (1) of Act No. 256/2004 Coll., on Capital Market Undertakings.

The Fund is registered in the Czech National Bank´s list in the category Foreign AIFs authorised to offer only to qualified investors (without EuSF and EuVECA) managed by AIFM.

Historical performance over any particular period will not necessarily be indicative of the results that may be expected in future periods. Returns for the individual investments are not audited, are stated in approximate amounts, and may include dividends and options.