

“HEROES”

Dear Fellow Investor,

Virginie Guyot is a 43-year-old retired fighter pilot. Engaged in operations in Tchad, Tajikistan, and Afghanistan, she was promoted to Major aged 32. The first woman to join the Patrouille de France, one of the world's oldest and most skilled demonstration teams, she became the first – and so far, the only – woman to lead a prestigious aerobatic team in the world. Virginie is clearly no snowflake. Still, when interviewed, she considers she did not achieve so much on her own, but rather standing on the shoulders of giants. Heroes who had been in her position years previously, who through their brilliance, courage, or fortitude, inspired her to do the right thing at the right time. Helping her to gather the strength to fight, to overcome her fears, and to exceed her own ambitions.

Like Virginie, we all need heroes.

And today probably more so than ever. It is tough out there. The virus is wreaking havoc. Economies and societies suffer deep imbalances, triggering existential questions at a time when political leadership is weak, enabled by central bankers addicted to MoneyTree policies. No wonder we sometimes feel depressed.

Against this backdrop, heroes do not seem optional.

Still, as a society we seem more successful at producing cynicism, blame and apologies, than at celebrating modern heroes and their achievements. It is as if we were ashamed of role models, of people to look up to. As if we were slowly losing faith in the future and progress.

This feels counterproductive. And worse, wrong. There has never been a better time to be alive. Opportunities abound, technology expands the scope of the possible, and few are the places in the world where life expectancy and general living conditions are not at record highs. No matter how bad the political and

institutional framework gets, the unstoppable forces of **human ingenuity, entrepreneurship, and individual initiative are at work making the world a better place.** Because that is what humans do!

In the spirit of Christmas, this letter celebrates heroes. Giants who through their drive, intelligence, or compassion are making our world a better, richer, more vibrant place. Heroes who, despite their all too human flaws, move the needle and inspire us to try to improve.

Here is a short gallery, by no means exhaustive, necessarily personal, and hopefully entertaining of some of Ananda's heroes. We hope that studying their example will inspire you, and hopefully allow some of their magic to rub off on us.

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The Realist - Sergio Marchionne



There is bleak. And then there is the situation Sergio Marchionne inherited when the Agnelli family appointed him to run Fiat in 2004. The situation at the troubled carmaker was so dire that the very first issue on Mr. Marchionne's to-do list resulted in General Motors paying \$2bn for the right NOT to buy Fiat. Negative economic value was his starting point. Bleak.

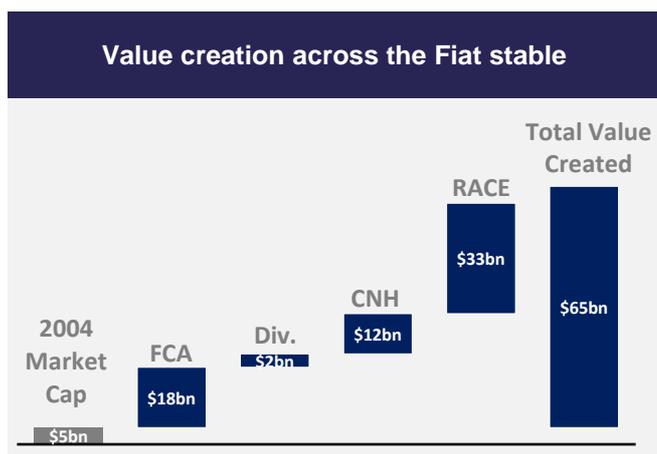
Little did General Motors know that Fiat, under the leadership of Marchionne, would become one of

Europe's greatest value creators over the following 15 years. That this negative value would compound over the period into more than €60bn of market capitalisation, outperforming almost any other stock in Europe, and certainly any of the other listed carmakers.

The late Sergio Marchionne was a savvy operator, an inspirational leader and had an incredible ability to allocate capital. During his tenure he severed links with General Motors, sold non-core assets like Magneti Marelli, spun off agricultural and industrial assets into CNH Industrial, spun off Ferrari into the aptly-tickered RACE IM, and managed to take control of Chrysler during the Great Financial Crisis, before buying it outright for a total consideration of around \$5bn.

If those moves look simple and natural with the benefit of hindsight, not one of those transactions was easy on the day it happened. And no other auto CEO was able to emulate this example, though they all had non-core assets of their own, usually of much higher quality.

Marchionne used his sheer will power (convincing the US government that ailing Fiat was a credible saviour of Chrysler required plenty), smart timing (spinning CNH and later Ferrari) and strategic vision (leaving the ultra-competitive large car segment to his blustering global competitors and focusing on a niche they scorned). To transform a weak and unfocussed European manufacturer into several thriving companies with well-defined strategies and empowered management teams. While making a fortune for his shareholders.



Source: Bloomberg

Looking back, the difference which made Sergio so effective seems to be his uncanny ability to optimize for the current situation. Only playing in areas where Fiat had strengths, seizing the opportunities the market offered him. Rather than rigidly pursuing preconceived

and often expensive investment programs favoured by competitors.

A lot of those moves – except the Chrysler buy out, though even this was gradual and controlled – could be considered by some as lacking ambition. Which is not intuitive considering the spectacular results achieved. Divesting assets, abandoning entire car segments. Slow to consider electric vehicles, and in general wary of investments when returns were elusive. Sergio Marchionne was first and foremost a realist.

This resonates with us at Ananda. As we too operate in a constrained environment. We deal with Mr. Market every day and do not control the proffered deals. We can only react to his – sometimes generous, sometimes frustrating – offers. This requires flexibility and the ability to act realistically. A sport at which Mr. Sergio Marchionne was an absolute master.

He is sorely missed.

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The Genius - Elon Musk



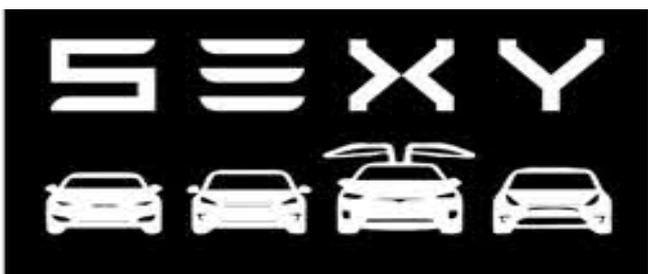
If Sergio Marchionne transformed a very average set of assets into gold, the road to value creation taken by Elon Musk has been very different, and its impact on society of a vastly different scale. Literally planetary.

Elon Musk needs no introduction. A modern-day combination of Thomas Ford and Leonardo da Vinci. Inventor and industrialist. An explosive combination of brain power, iron will, and risk taking. He published his first piece of software aged 12 and has not stopped since. First, he built Zip2 (a kind of basic TripAdvisor) in 1995 and sold it to Compaq for c\$300m in 1999. In an interview at the time he compared building businesses to a series of poker games, saying he intended to roll over his chips after each round. He reinvested the Zip2

proceeds into X.com, soon to become PayPal, which was sold in 2002 to eBay. He again reinvested the proceeds – and then some, nearly going broke in the process – into revolutionizing electric cars with Tesla and space exploration with SpaceX, his main projects currently. “Main” because on top of those two extremely ambitious endeavors, Elon Musk has also created (and is running) The Boring Company and Neuralink, as well as being tangentially involved in several other ventures. How long are your days?

Since shipping the first Roadsters in 2008, Tesla has crossed the milestone of one million cumulative units sold worldwide. The most of any carmaker, and substantially ahead of some companies around for almost a century. In fact, the giants who were mocking his claims and ambition 10 years ago, deriding the prospects of electric cars, are today furiously playing catch up. In doing so, they further help Musk realise his original masterplan with Tesla: to fight climate change through the electrification of cars.

S ... X ... 3 ... A pattern emerged with the release of the Model Y...



...that would have been perfect if Ford had not held legal rights over the name “E”, forcing Tesla to call it “3” instead.

His agenda with Space X is even more ambitious, and vital. Observing that human life is a glorious exception among solar systems, and that we humans are not always wise about our choices, Musk concluded that the only way to guarantee the existence of human life was to make it multi-planetary.

Given the magnitude of funding required by such an endeavor exceeded his personal finances, he chose the only realistic path. Starting small, he established a commercial launch company and grew it. Since launching its first successful rocket in 2008, SpaceX has dramatically lowered the cost of rocket deployment and taken a commanding share of the commercial space market.



Source: SpaceX presentation to US Congress

The amazing commercial success is allowing Elon Musk to finance his endgame: a new generation of heavy load, long distance, reusable rockets: the first step in establishing a human colony on Mars.



Like all great doers, Elon Musk has attracted his share of controversy. Controversy and even acrimonious attacks have been particularly acute from the hedge fund industry, where participants have forever been skeptical of him, to put it mildly. It is fascinating to see that the short interest in Tesla (i.e. the proportion of shares sold short by investors betting the stock price will go down) has averaged c10% throughout the entire listing period. 15 years during which the stock price has gone from USD 2 to the current USD 650. It has been a painful trade for the so-called smart money involved. In fact, short sellers have lost more year to date than the entire US airline industry. The same story goes for the Twittersphere which nicknames the company “TSLAQ”, adding the Q which usually denotes bankrupt companies in the US, not ones sporting a \$600bn market capitalisation.

This very negative coverage is probably due to a bias of Elon Musk to sometimes over-promise and under-deliver in the short-term. To focus the attention on lofty long-term goals but miss quarterly expectations. Anybody willing to look at the bigger picture will of

course reach an opposite conclusion: it is difficult to accuse of under-delivery, someone who has achieved so much in such little time. Revolutionizing two industries in the process.

Let's not let bubble talk prevent us from realizing the extent of the successes Elon Musk has already achieved. In 2021 Tesla will sell more than 700,000 cars, generate \$40bn+ turnover, and post a solid free cash flow. Starting from close to 0 only 10 short years ago. SpaceX will have had over 100 successful rocket launches and a constellation of almost 700 satellites, all the while making great progress on its Mars projects. Those are mind blowing achievements.

Sadly, at its current stratospheric valuation, Tesla is not a stock we would consider owning at Ananda. Though Elon Musk has proven many skeptical investors wrong, we are not that ambitious. If anything, we feel for the numerous retail investors owning ETFs who will initiate a substantial position at these elevated levels when Tesla enters the S&P500 index this December. Today might not be an attractive entry point to make Tesla the 8th largest position in a portfolio.



Source: Bloomberg

But we are glad that Elon has in the process secured easier access to financing, to fuel his dreams and invent our future.

Larger than life – literally: he was the inspiration for Jon Favreau and Robert Downey Jr.'s film *Iron Man* – Elon is the perfect embodiment of one of Tony Robbins' principles: you often overestimate what you can achieve in one year, and underestimate what you can achieve in 10. This is probably because the human mind is more comfortable with linear progressions than with the exponentially geometric ones. This comfort is misguided as it is not the way the world works. In real life, things generally compound: successes, problems, everything.

In our industry for example, it is only the tedious and pedestrian compounding of basis points over the years which can result in solid performance. Just think that to multiply an investment by 20 over 30 years – an extraordinary result by any standard – “all” it takes is 3 basis points a day, 20 basis points a week. From small and irrelevant basis points... to glorious multiples. We find this inspiring and it makes us ferociously incremental: working hard to achieve solid results, but conscious we can only succeed one basis point at a time.

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The Genuine Article - Oprah Winfrey



Queen Oprah has created a formidable business by focusing on other people's business. Of many talents one of her greatest has been an empathy which has persisted despite great worldly success. People feel comfortable around Oprah Winfrey and enjoy talking to her. And, that in turn, has created some great entertainment and a substantial media empire.

As a high school leaver, she was voted most popular person in her year, and she has been channeling that energy ever since. These days she is dubbed “the Queen of All Media” and counted amongst the most influential women in the world.

In her first major show, “People are Talking”, Oprah captured a zeitgeist across American culture and became a wild success, taking her unique interview style to a wider and wider audience across various platforms. She struck her first syndication deal in 1986 when she was 32, working out on a napkin that her success under an ownership model would be far greater, if the show worked, than remaining an employee of a TV network. The Oprah Winfrey Show

continued in some format until 2011, when she switched to an entire channel, the Oprah Winfrey Network. Reading about so many events in Oprah's life you are struck by the sense that opportunities came her way because of her kindness to everyone, combined with a genuine aura that comes from taking things seriously. A living incarnation that good things happen to good people. Fêted, multi-award winning, a suggested presidential candidate – those accolades could go to your head, or at least make interviewees bashful. And yet the empathy Oprah elicits from the public has only compounded throughout her life.

It is an amazing ability. It is said that people often don't remember what you tell them, but they always remember how you make them feel, and Oprah sure makes a lot of people feel good. Maybe sometimes even too good!



Like talk show hosts, members of the investment community interview people all the time – company managements, industry experts, policy makers, you name it. Some interactions are simple and easy, some are more difficult or even frustrating – we feel for the CEO trying to build a generational business when asked by a 20 year old about the expected marginal tax rate in the next quarter, but it happens sometimes.

Conscious of the chance and opportunity we have to meet so many outstanding individuals, we try to never forget that like Oprah, our business is built on the success of other people's businesses.

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The Wise Guy - Stanley Druckenmiller



Probably the wisest, humblest billionaire you have never heard of. Unlike Sergio Marchionne and Elon Musk, Stanley Druckenmiller is not an industrialist, and his impact on society has therefore been more limited. Although that is probably not what the numerous philanthropic activities he is supporting would say.

Still, everything about Stanley Druckenmiller is exceptional. Becoming Head of Equity Research a year after joining a bank as a graduate. His track record running the investment vehicle of George Soros. The unrivalled performance delivered by his family office Duquesne Capital which has compounded annual returns in excess of 30% for over 30 years, without a single negative year. The largest charitable donor in America in numerous years. All this delivered with grace and modesty.

It is difficult to pinpoint the exact reasons behind such a statistic-defying track record. Druckenmiller credits strong opinions, weakly held – and open mindedness. In interviews and speeches you will usually find him discussing the times he has been wrong, and he is not embarrassed to change his mind publicly. He is also a constructivist. Despite being a vocal critic of the ineptitudes of current central banking policies, by whose antics he seems to physically suffer, he always adopts a positive tone. No doom and gloom, choosing to look for the best in people and circumstances.

Perhaps this is the result of 30 years practicing his trading style. Or perhaps it is what enabled his trading success in the first place. His mentor Soros was famous for placing a few successful, enormous bets – for going all-in on the few best opportunities. Druckenmiller has said that he learnt this skill from Soros. But he felt it was never fully internalized because it went against his

natural inclination to optimize whatever cards he was dealt, to try make the best available choices in any given market situation.

We find his journey inspiring. As contrarians who take comfort in a solid margin of safety when we invest, we often find ourselves to be early. Usually buying too early, only to sell too early. Finding the best balance is a constant fight against one's own biases and limitations. We find it helps to establish processes, and adhere to strict discipline, but it never comes easily.

It is reassuring to know that we are in such good company. As Stanley Druckenmiller puts it, "I believe that good investors are successful not because of their IQ, but because they have an investing discipline."

Moreover, it is nice to know one does not have to be as smart as Stanley to succeed in the markets... it leaves us a chance!

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The Artisan - Brunello Cucinelli



An entrepreneur with a big heart, a creator obsessed by the quality of his environment, his processes and his productions. You may have come across his very soft, and sadly very expensive, cashmere jumpers. Brunello Cucinelli founded his eponymous couture label in 1978, buying the first batch of 50 jumpers with a loan from a friend.

By combining love of quality and durability, clever positioning, and a long-term perspective, the brand has become one of the leaders in casual luxury. Brunello's majority shareholding has made him a billionaire whilst preserving the control which enables the company to make substantial charitable donations, pay all craftsmen and suppliers above-market rates and

contribute to various artistic and cultural projects in his native Solomeo, Umbria.



Glorious Solomeo

The apparel industry has had its fair share of critics over the years, from promoting over-consumption to unfair labour practices and unethical sourcing of materials. Distressed to witness his father's feelings of dehumanization when forced to leave his job as a farmer to work in a cement factory, Brunello determined to make the cultivation of the "dignity of mankind" a core philosophy in his own business.

The company visits its suppliers each year. During recent virus lockdowns store rents were paid on time. Tailors are paid to train in the Solomeo academy and machinists work fixed hours with lengthy lunch breaks in the best Italian tradition. The fashion collections do not change radically each year and customers are encouraged to harmonise with pieces from previous seasons. The famous jumpers are designed to last for at least ten years.

Brunello has developed a consistent culture for several decades. It has become synonymous with the integrity of a brand you can depend upon to do the right thing. Which in turn has resulted in a fanatical customer following.

The luxury industry may be better suited than most to spreading love and largesse, if only because of its high margins. But nobody has done it better, to the same extent, and in such a systematic way than Signore Cucinelli.

We find his example inspiring as we are lucky to be in an industry that shares some of the same characteristics. Seeing such healthy and balanced growth produced by the relentless commitment of Brunello Cucinelli to his core humanistic values through the years is something one can only dream of emulating.

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The Compounder - Mark Leonard



Mark Leonard is an amazing entrepreneur who shuns the spotlight, to an almost obsessive degree. At time of writing, Google only returns a single picture of him, and we're pretty confident he's working hard to have it removed as we type.

Yet Leonard – who seems to share a glorious beard with da Vinci – is the Founder of Constellation Software, a Canadian company which has delivered a 38% compound annual return since its 2006 IPO. Buying and compounding mature software businesses, it has transformed an initial investment of \$25m into \$25bn of market capitalization.

From that description you might think Leonard were wary of giving interviews for fear of letting slip his investment “edge”. Nothing could be further from the truth.

Mark Leonard clearly set out his plan at the founding of Constellation, and every year has reprised it in detailed investor letters. Like the plan of Walter Sobchak in the Big Lebowski – but thankfully with a much happier outcome – the beauty of Constellation's plan is its simplicity: buying vertical software companies at decent prices, leaving them fully autonomous but rigorously benchmarked. In fact, it was so simple and so repetitive, that Leonard stopped writing investors letter a few years ago, saying he was only repeating himself.

A clear description of the companies Constellation looks to acquire is available on the website. And the price they pay has remained steady throughout a tumultuous market. That's it. No secret. No edge. Just discipline and hard work. Perhaps it is a Canadian character-trait or perhaps it was the youthful stint working as a gravedigger putting things into perspective, but both Leonard and Constellation have a healthy dose of self-deprecation. They let the results do the talking.

A keen learner, Leonard is fond of studying successful companies and it seems Constellation have some heroes of their own. In fact on the day we visited the headquarters in Toronto (mind you, the “Global Headquarters” is 20 people on one floor in a nondescript tower block), there were still on the whiteboard the names of a few companies we consider ourselves among the very best in the US. The list was the result of a brain-storm where the Constellation management identified other top performing organisations whose best-practices they could emulate.



It's probably the study of those “High Performance Conglomerates” (as Leonard calls them) that helped him to establish such a direct culture, where bad news travels faster than good. Where divisions are kept small and nimble and run very independently, but very strictly benchmarked against one another to foster a culture of accountability. And where capital allocation decisions are centralized to optimize at group level and ensure strict respect of hurdle rates. Doing this in a systematic way has produced results of which most listed companies can only dream.



Source: Bloomberg

This simple but not easy way of creating value deeply appeals to us at Ananda. Everything we do is simple.

We work to identify great companies, and then try to buy them from pessimists, and sell them to optimists. The plan is frighteningly simple. But not easy to execute, and sadly probably never will. We are sometimes asked by investors – what is our edge? And they seem surprised when we say we have none. When told this is not a differentiated strategy and that anybody could replicate it, we agree. But given how difficult it is to implement, we would be delighted if we were able to maintain the focus and discipline that Mark Leonard and his teams at Constellation Software have sustained throughout all those years.

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Those who know us at Ananda will think there is an elephant in the room. Warren Buffet is fond of saying the best thing he did in life was to choose the right heroes. And he is for sure a personal hero, whom I happily share with so many in the world.

Rare have been the occasions when I have had to take a big decision and didn't ask myself what Warren would do. Of course – like any human – Mr. Buffet has his flaws. But I am so glad he is here. I have found the inspiration provided by a healthy, empowered role model in my life totally priceless.

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Think about what those great 7 have achieved. How much they have contributed to the overall health of

society. Many of them changing the outward world, all of them examples of how we can make incremental improvements.

This is why, despite the depressing spectacle offered by the weakening political and institutional frameworks affecting the western world, we cannot help but be constructive, and even bullish about what humans will achieve in the future. Progress has felt elusive in the last few months. And the path is never easy. But rest assured heroes are busy making the world a better place. One car, one investment, one conversation, or one jumper at a time. And we need them more than ever. We feel blessed at Ananda that a part of our job involves looking for heroes. And in the ideal situation - when Mr. Market allows it - even investing alongside them. Some have done wonders for our portfolio. But better still, their examples inspire us to constantly try to do better.

So, let's pick heroes wisely, let's celebrate them, and let them lift us to heights to which we would not otherwise rise!

From all the team at Ananda, we wish you a Merry Christmas, and a fantastic 2021: Godspeed!

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