



## Auscap Long Short Australian Equities Fund Newsletter – May 2015

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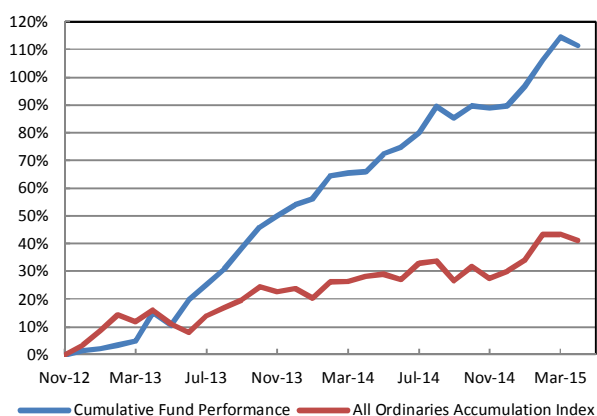
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**Welcome**

Welcome to the Auscap newsletter, an opportunity for us to report the performance of the Auscap Long Short Australian Equities Fund (Fund+) to current and prospective investors. In each publication we will also discuss a subject that we have found interesting in our research and analysis of the market. We hope that you enjoy reading these snippets and encourage any feedback. In this edition we highlight a few of the insights we gleaned from the 50<sup>th</sup> Annual General Meeting of Berkshire Hathaway.

**Fund Performance**

The Fund returned minus 1.36% net of fees during April 2015. This compares with the All Ordinaries Accumulation Index return of minus 1.47%. Average gross capital employed by the Fund was 133.4% long and 34.2% short. Average net exposure over the month was +99.2%. At the end of the month the Fund had 38 long positions and 10 short positions. The Fund's biggest stock exposures at month end were spread across the financials, consumer discretionary, industrials, consumer staples, healthcare, materials and energy sectors.



**Fund Returns**

Period	Auscap	All Ords
April 2015	(1.36%)	(1.47%)
Financial Year to date	20.98%	11.06%
Calendar Year to date	11.53%	8.59%
Since inception	111.49%	41.13%

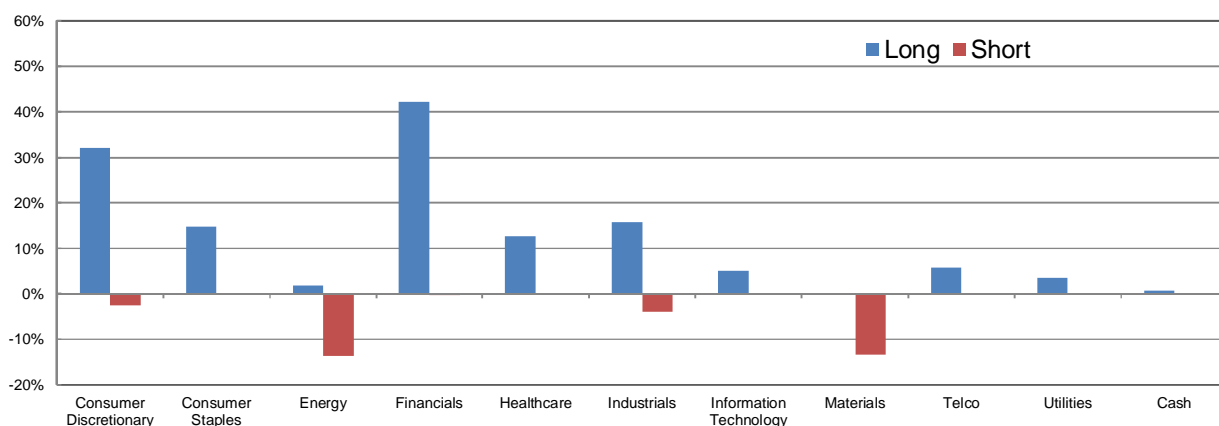
**Fund Exposure**

April 2015 Average	% NAV	Positions
Gross Long	133.4%	37
Gross Short	34.2%	10
Gross Total	167.6%	47
Net / Beta Adjusted Net	99.2%	71.0%

**Fund Monthly Returns**

Year	Jul %	Aug %	Sep %	Oct %	Nov %	Dec %	Jan %	Feb %	Mar %	Apr %	May %	Jun %	YTD
FY13						1.35	0.74	1.23	1.46	9.83	(4.05)	8.32	19.72
FY14	4.70	4.28	5.84	5.46	2.86	2.57	1.32	5.32	0.70	0.29	3.82	1.48	46.01
FY15	2.95	5.24	(2.09)	2.25	(0.43)	0.44	3.65	4.90	3.98	(1.36)			20.98

**Sector Exposure - April 2015**

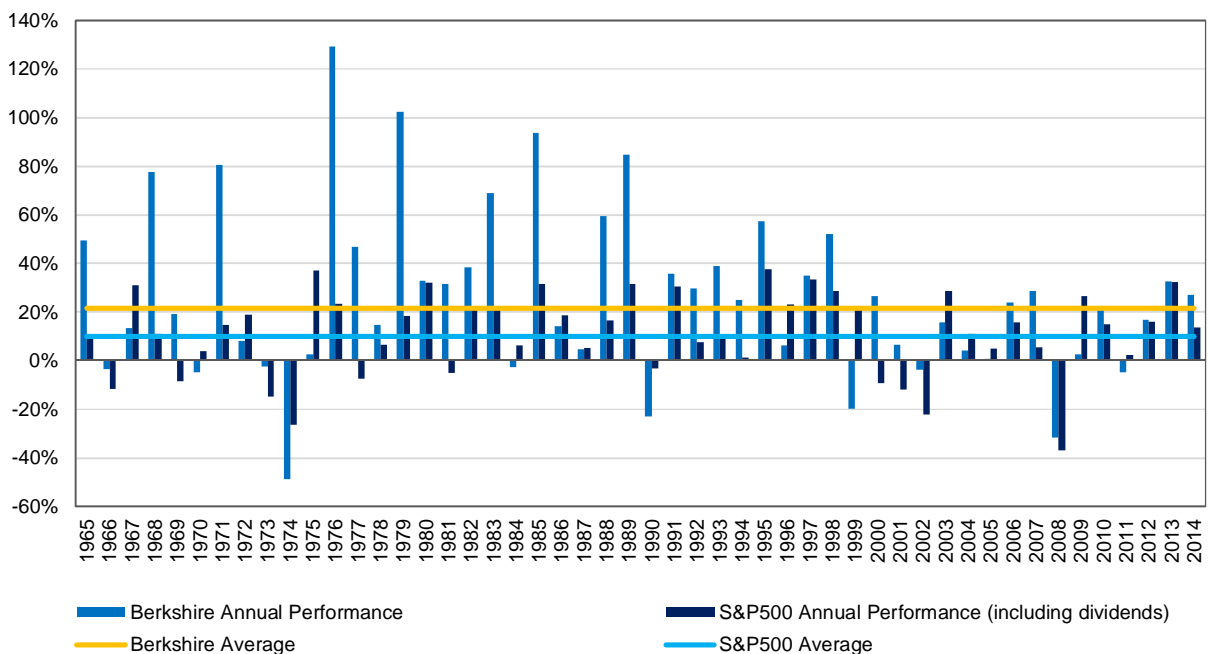


## There’s Something About Warren (and Charlie!)

Warren Edward Buffett. Born August 30, 1930. If you were fortunate enough to have invested \$10,000 with him in 1965, today it would be worth a little over \$182m. A corresponding investment in the S&P500, assuming reinvestment of dividends, would today be worth approximately \$1.1m. He, along with Berkshire Hathaway’s Vice Chairman, Charles Thomas Munger, born January 1, 1924, are arguably the greatest investing duo of the modern era. They have delivered an average return of 21.6% pa over the last 50 years while at Berkshire. This excludes Warren Buffett’s record managing Buffett Partnership Limited for 8 years from 1957 where the limited partners annual return averaged 22.4%.

Auscap attended the 50th Annual General Meeting of Berkshire Hathaway on May 1, 2015 in Omaha, Nebraska. Flying in over the state’s corn and soybean farms, we were lucky enough to hear the story of a couple sitting next to us in the plane who had first met Charlie Munger in 1987, when he was trying to buy the business the gentleman worked for. At the time this gentleman had thought that Charlie was very impressive, so impressive in fact that the couple investigated purchasing some Berkshire stock, only to find that it was trading for around \$3,000 per share! Mr Munger might have been impressive but, as the gentleman said, they weren’t about to buy in at that price. Instead they waited and ended up purchasing shares in Berkshire Hathaway for over \$9000 per share in 1992. Today the stock is worth around \$220,000 per share, making the investment a 25 bagger for the couple over the 23 years they have held the stock.

### Berkshire Hathaway Annual Performance: 1965 - 2014



What makes Warren Buffett truly remarkable is the fact that he is almost unarguably the greatest financial communicator and educator the world has seen. Through his annual reports and annual general meetings, Mr Buffett has shared his accumulated insights and wisdom with millions of financial investors the world over. As value investors, at Auscap we have learnt a great deal from these communications. This year’s annual general meeting was no different, with Mr Buffett and Mr Munger answering questions from journalists, financial analysts and the audience for over 5 hours. We managed to scribble down a few of these insights and thought we would share them with our newsletter audience. We hope you enjoy them and apologise to Mr Buffett and Mr Munger for any transcription and/or attribution errors.

### **Warren Buffett and Charlie Munger on value investing**

- Between ages 7 and about 19 I had the same enthusiasm but I didn't really have any guiding principles, and then I ran into *The Intelligent Investor* and Ben Graham and at that point I was able to take all that energy and enthusiasm and now I had a philosophy that made a lot of sense, total sense. *Warren Buffett*
- If you're a young investor, and you can stand back and value stocks as businesses, and invest when things are very cheap, no matter what anybody is saying on television or in whatever you're reading, and perhaps, if you wish, sell when people get terribly enthused, then it's really not a very tough intellectual game. It's an easy game if you can control your emotions. *Warren Buffett*
- We've now watched a lot of other people start, and people that follow the Graham Newman path, they have one thing in common, they've all done pretty well... If you just avoid being a perfect idiot, and have a good character, and just keep doing it day after day, it's amazing how it will work. *Charlie Munger*
- I don't think that value investing will ever go out of style. Who in the hell doesn't want value when you buy something? How can there be anything else that makes any sense except value investing? *Charlie Munger* It never gets that popular though. *Warren Buffett* People are looking for an easier way and that's a mistake. It looks easier but in fact it's harder. And there's a lot of misery to be obtained by misusing stocks. *Charlie Munger*
- Nobody buys a farm to make a lot of money next week or next month. They buy it based on what the long term future is. If they make a reasoned calculation of value and the purchase price looks attractive they buy it and then they don't get a call on it every day or every week or every month or even every year, and that's probably a better way to look at stocks. *Warren Buffett*
- I would rather be 100 times too cautious than 1% too incautious *Warren Buffett*... It's crazy to sweat at night *Charlie Munger*... over financial things! *Warren Buffett*
- We always leaned towards businesses where we would be confident of getting a reasonably good result rather than those where we were less confident of getting a spectacular result. *Warren Buffett*
- I do think it's an easy game if someone has the temperament for it and keeps at it because he likes it and is interested in it. *Charlie Munger*
- There's an awful lot of accident in life, but if you keep yourself open to having good accidents happen and get past the bad accidents then good things will happen. *Warren Buffett*

### **On the things to look for in a business**

- We don't have a one size fits all system for buying businesses. They are all different, every industry is different and we also keep learning so what we did ten years ago we hopefully will do better now. *Charlie Munger*
- Most of the things that go through our mind stop us from doing things, the filters are there... but it's very different for different businesses. We are looking for things where we do think we have got some reasonable fix on how it's going to look in five or ten years and that isn't a great many businesses. *Warren Buffett*
- Mostly we bought beautiful businesses and nourished them. *Charlie Munger*

**THE CHARLIE MUNGER ONE LINERS!**

**On rationality**

- It's dishonourable to stay stupider than you have to be. *Charlie Munger*
- Your main duty is to become as rational as you can possibly be... Berkshire is a sort of temple of rationality. *Charlie Munger*
- If you don't know how to save I can't help you. *Charlie Munger*

**How do you get people to like you and work with you?**

- Well you know I was pretty obnoxious when I was your age (13) and asked a lot of inpertinent questions and not everybody liked me... and so the only way I could get people to like me a little bit was to get very rich and very generous. *Charlie Munger*

**On focusing on one thing at a time**

- The idea of multitasking my way to glory has never occurred to me. *Charlie Munger*

**On why people want a stock they still want to buy more of to go up**

- Warren, if people were not so often wrong we wouldn't be so rich. *Charlie Munger*

**On why making mistakes harmful to Berkshire would keep them awake at night**

- A good doctor doesn't like it that much when a patient dies on the table either. *Charlie Munger*

**On printing money**

- I'm happier when we are printing money to use it to improve infrastructure than I am when we just spread it around with a helicopter. *Charlie Munger*

**On the formation of the Euro**

- You can't form a business partnership with your frivolous drunken brother in law. *Charlie Munger*
- It was investment bank aided fraud, not exactly novel. *Charlie Munger*

**On today's young adults**

- I think I speak for many here when I say I wish my grandchildren would hurry up and marry. It's not healthy for these people to hang around waiting for pie in the sky or something. *Charlie Munger*

**On modern law firms**

- It's like a pie eating contest and if you win you get to eat a lot more pie. *Charlie Munger*

**Warren Buffett reflecting on Charlie Munger's comments**

- Praise by name, criticise by category. *Warren Buffett*

**And finally, what keeps them awake at night?**

- I would not be happy if Berkshire were doing poorly... That we weren't building something every year that was better than the year before. *Warren Buffett*
- It's easy for Warren and me to lose a little of our own money, because it doesn't matter that much, but we hate losing somebody else's. *Charlie Munger*
- What bothers me is if I do something that actually costs Berkshire and its shareholders long term value. *Warren Buffett*

**INVITATION | Auscap Events in June**

Auscap invites you to: Opportunities & Risks to the Value Investor

We will be discussing topics including:

- Are we anchored to historical risk free rates?
- What are reasonable oil price expectations?
- Should we extrapolate steel demand growth?
- Noise around household consumption

The dates for the events are as follows:

- Sydney . 17 & 18 June 2015 . 5.30pm
- Melbourne . 23 June 2015 . 5.30pm
- Brisbane . 25 June 2015 . 5.30pm
- Perth . 2 July 2015 . 5.30pm

**You're invited!** We would like to extend an invitation to these events to our investors and newsletter subscribers.

If you wish to attend please email [info@auscapam.com](mailto:info@auscapam.com) and we will send you further information. We look forward to seeing many of you at the presentations.



***If you do not currently receive the Auscap Newsletter automatically, we invite you to register.*** To register please go to the website and follow the registration link on the home page. Interested wholesale investors can download a copy of the Auscap Long Short Australian Equities Fund Information Memorandum at [www.auscapam.com/information-memorandum](http://www.auscapam.com/information-memorandum). We welcome any feedback, comments or enquiries. Please direct them to [info@auscapam.com](mailto:info@auscapam.com).

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