Conscious Investor® Fund
Interim Letter to Members: December 2018

Topping Up Wealth Winners® During Volatile Times

Over the past months, there has been an upsurge of political and government uncertainty around the world. Many countries are also experiencing unrest.

This uncertainty and unrest is reflected in market turbulence, providing ideal opportunities for us to purchase additional parcels of great companies at bargain prices.

The S&P/200 index was down -6.7% over the past 3 months. On a global level, the December quarter was the worst quarterly performance in more than seven years mostly due to (1) increasing US interest rates, and (2) trade tensions between China and the US. Major international indices were down around -11% over the quarter.

The good news is that this turbulence has been on the level of share prices, not the underlying profitability of the companies in the Conscious Investor Fund. Even better news is that this turbulence has enabled us to add to our Wealth Winners® at excellent prices

In the Fund we have outstanding companies run by exceptional managers. We hope you agree.

For instance, the December 2018 Report lists the core companies as Berkshire Hathaway, Ulta Beauty, Technology One, Mineral Resources, Blackmores, Starbucks, Baidu, Ramsay Health Care, Axos Financial and Mastercard. Each one of them show the highest levels of business savvy and management dedication.

The first purchases were made for each of these companies at prices calculated to give solid returns over an extended period.

Once purchased, equally important is continually monitoring them looking for opportunities to top up the holdings.

These price movements have provided excellent opportunities to top up holdings in our favourite companies. Once a company is in the Fund, provided it continues to meet our requirements for them as businesses, we are always looking for opportunities to add more at bargain prices.

As an example of how we monitor and top-up companies at suitable times, consider Berkshire Hathaway B shares (BRK-B). The first shares were bought for $145 in March 2015. Shortly thereafter more were purchased for $130.

Since that time prices rose as high as $219. During the turbulent past three months, we were alert to make top-up purchases as low as $195.

With these extra purchases, Berkshire Hathaway (including A and B shares) has contributed an average total shareholder return (TSR) of 11% since its first purchase.

We can do similar calculations for all the companies in the Fund. The following table collects together these statistics for the ten core companies at the end of December 2018.

Name	Symbol	First purchase	Price	Lowest Purchase Price	Lowest Purchase Price (Past 3 mths)	Current Price	Total Return All Purchases
Berkshire Hath'y	BRK.A/B	Mar '16	$145.00	$130.82	$195.00	$196.29	11.01%
Ulta Beauty	ULTA	Jul '17	$252.13	$191.65	$254.72	$284.11	28.00%
Technology One	TNE	Jun '15	$3.52	$3.50	$5.92	$6.43	28.25%
Mineral Res	MIN	Mar '13	$11.04	$9.25	$13.99	$16.06	22.19%
Blackmores	BKL	Nov '13	$20.55	$20.55	$123.32	$121.11	10.72%
Starbucks	SBUX	Jun '18	$56.50	$49.01	$55.48	$63.73	26.00%
Baidu	BIDU	May '15	$167.63	$160.01	$186.05	$166.11	-12.97%
Ramsay Health	RHC	Mar '13	$31.53	$31.53	-	$57.92	3.88%
Axos (BOFI)	AX	Dec '16	$27.81	$22.04	$26.90	$27.56	-1.07%
Mastercard	MA	Apr '15	$90.00	$88.88	$191.01	$195.90	36.60%

The last column is the most important in terms of final performance. It is the total shareholder return for each company including dividends (and the effect of exchange rates for US companies) on a per annum basis. Baidu and Axos (formerly called the Bank of Internet) were both down; the remaining eight were all up, the highest being Mastercard, up an average of 36.60% p.a. since the first purchase almost four years ago.

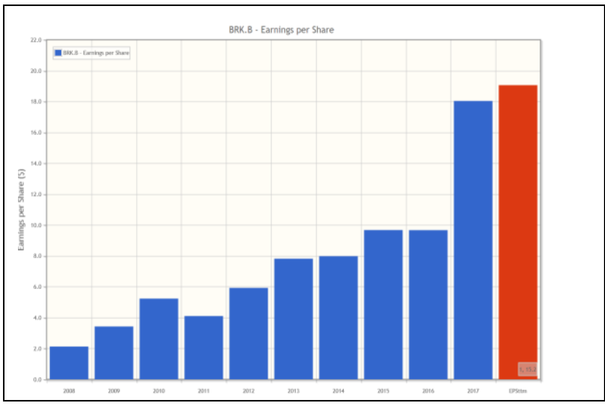
How Much Cash

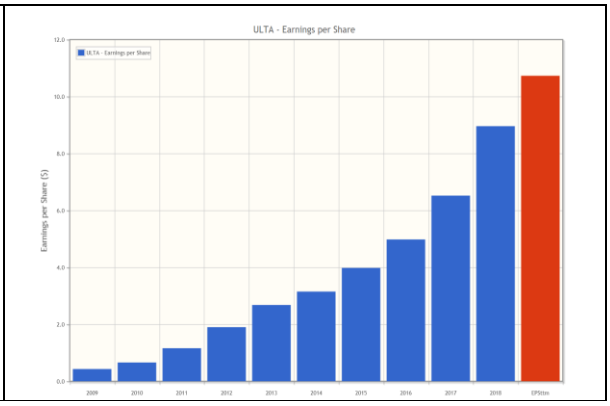
Uncertainty in global markets over the recent months is likely to continue for the next 12 months at least. For this reason we are holding a little more cash than usual (currently 3.9%) to take advantage of any large dips in the prices of either the best companies in the Fund. Or to make the first purchase of any we would like to add to the Fund. We call these best businesses our "bottom-drawer" stocks.

History of Earnings per Share

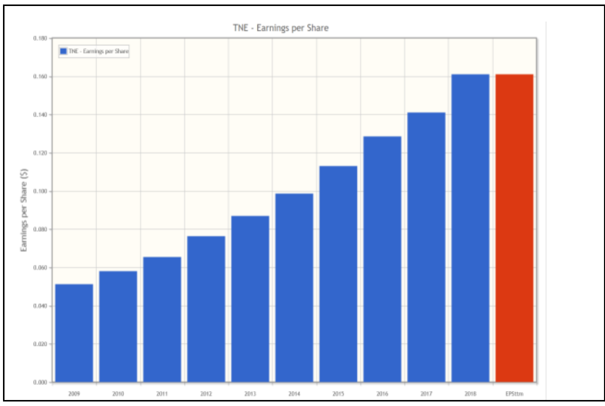
You can get a better understanding of the drivers of the returns of the companies in the Table by looking at the history of their earnings per share. The following charts show a clear upward trend for each company. The Capital Allocation Team continually monitors the companies checking that we remain comfortable the business will continue performing as a great business.

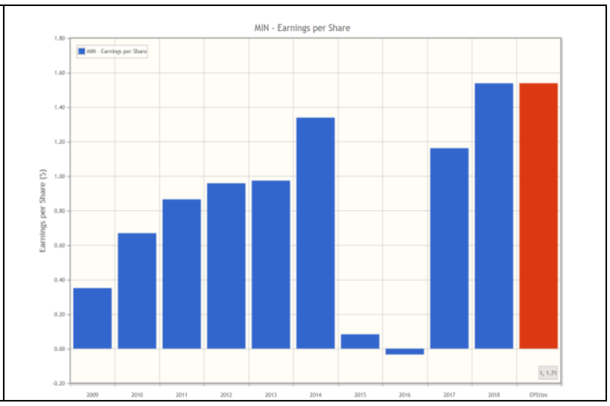
1,2: History of Earnings per Share for Berkshire Hathaway (B shares) and Ulta Beauty



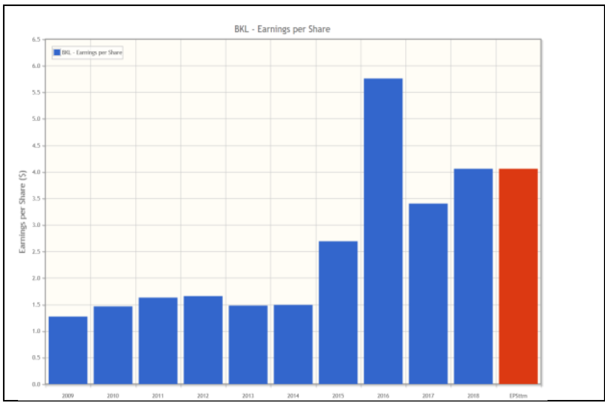


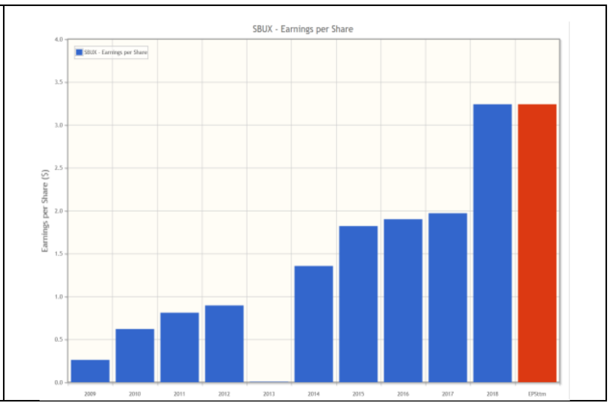
3,4: History of Earnings per Share for Technology One and Mineral Resources



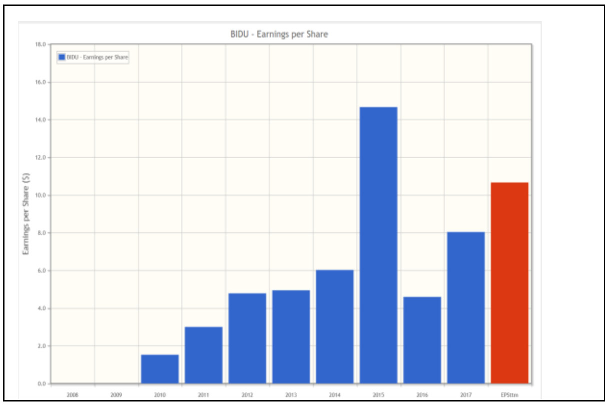


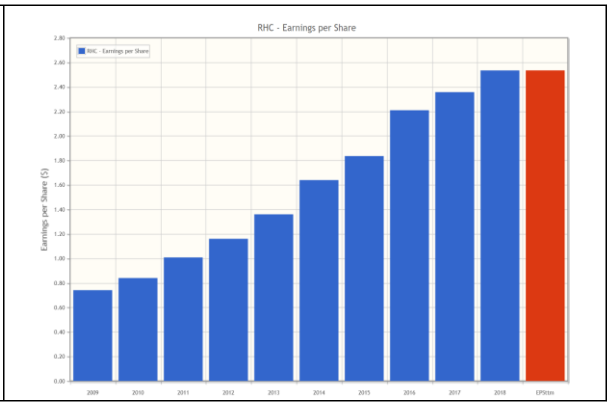
5,6: History of Earnings per Share for Blackmores and Starbucks



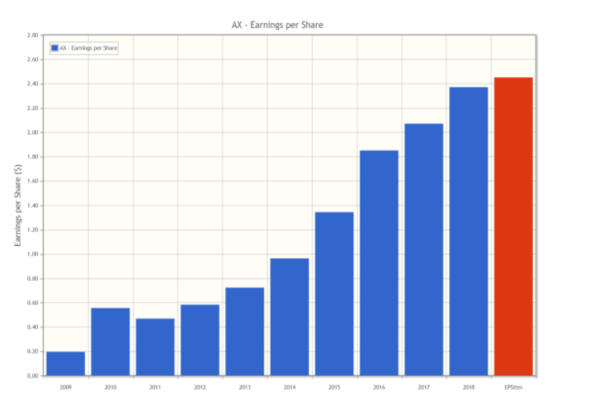


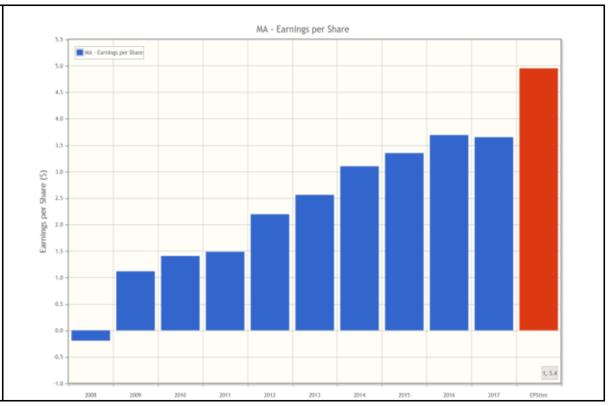
7.8: History of Earnings per Share for Baidu and Ramsay Health Care





9, 10: History of Earnings per Share for Axos and Mastercard





Recent News on Autonomous Vehicles

Intel Predicts Autonomous Driving Will Spur New ‘Passenger Economy’ Worth $7 Trillion

Intel Corporation reported on a new study that explores the yet-to-be-realised economic potential when today’s drivers become idle passengers. Coined the “Passenger Economy” by Intel and prepared by analyst firm Strategy Analytics, the study predicts an explosive economic trajectory growing from $800 billion in 2035 to $7 trillion by 2050.

According to Intel, autonomous driving and smart city technologies will enable the new Passenger Economy, gradually reconfiguring entire industries and inventing new ones thanks to the time and cognitive surplus it will unlock.

Baidu Is Helping Walmart Deliver Groceries in America

Walmart is planning to deliver groceries with autonomous vans powered by Baidu's Apollo platform. Udelv, a California-based autonomous vehicle start-up, will deploy the vans for Walmart in a pilot program in Surprise, Arizona.

Udelv currently provides driverless deliveries for grocers in Oklahoma City and the Bay Area city of San Mateo. It has completed about 1,200 deliveries to date and aims to deliver up to 100 autonomous vans to customers this year. It also recently developed a second-generation autonomous van, the Newton, through a collaboration with Baidu.

Robo Taxis Managed by Baidu

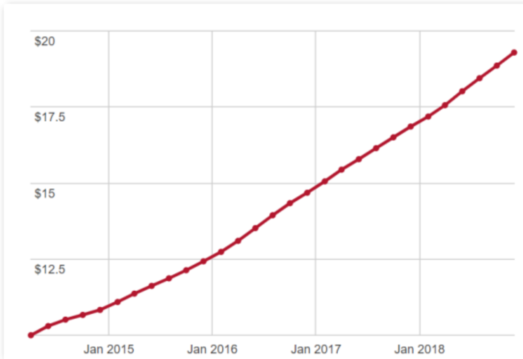
In 2019, 100 robo-taxis will operate on 130 miles of city roads equipped with Baidu’s V2X (vehicle to everything) technology in Changsha, the capital city of Hunan province in the south-central part of China. The fleet will be China’s first group of autonomous driving taxis managed by Baidu’s V2X system, a comprehensive solution that integrates smart vehicles and intelligent road infrastructure for safer deployment of autonomous cars.

Earnings During 2018

During 2018 the weighted average of the growth of earnings per share for the companies in the Fund grew by 14.4%. Over time, provided this growth is maintained, this should translate into healthy growth of dividends and share price.

In 2018, managers of the companies in our portfolio earned for their companies an average of 24.9% on the equity in their companies. This, too, augurs well for strong growth of their share prices over time.

The adjacent chart shows the month-by-month growth of the average earnings per share for companies in the Conscious Investor Fund from April 2014 to December 2018.



Conscious Investor® and the Teaminvest Methodology

The investment process used by the Capital Allocation Team for the Fund consists of four steps: Filtering using Conscious Investor®; Applying the Teaminvest investment methodology; Calculating the price to pay and when to sell; and a Final Checklist. Full details of these steps are contained in the Information Memorandum. Here we just give a brief summary of the first two steps.

Conscious Investor® filters and analyses all companies listed on the ASX in three steps: Filter, Research and Return. The main components of the filter stage zero 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 helps to limit the results to companies for which these attributes are likely to continue. Finally, the return stage calculates what maximum price to pay to be confident about getting the required rate of return over the long term. It uses automatic margin-of-safety calculations based on stress testing the investment assumptions.

The Teaminvest Methodology focuses on the following four areas. Wherever possible the Capital Allocation Team scores the areas to increase the precision of the decision process.

- A company can only make money if it serves a market need. What 'market needs' does the business serve?
  - Are we confident these needs are likely to continue for some years?
  - How does the business extract profits from these market needs?
  - What is the business of the company?
  - Who are its customers? Are we confident that there will be a need for their products and services in five to ten years?
- Investments should be like castles with deep moats: What are unique features of the business that separate it from its competitors? These "economic moats" are scored in terms of depth

and durability. If we are not satisfied with the depth and durability of these moats, we don't invest your money in these companies.

- Risks need to be identified: All businesses face risks that could weaken the continuing success of their operations. These risks are identified and are scored according to the likelihood of their occurring over the next economic cycle and their potential damage if they do. If we consider these risks are too likely to occur or too damaging should they occur, we don't invest your money.
- Is management honest, open and rational? As part of examining the business, an evaluation is made as to whether we believe that the board and senior management are acting honestly, rationally and in the best interests of shareholders. Specific areas we look at include the number and type of related party transactions and the remuneration structure for the CEO and senior management. Does it motivate them to act in the best interests of the owners of the company, namely us? The Capital Allocation Team scores remuneration in terms of clarity, alignment and quantum. We call all this good stewardship of shareholder funds. If we are not comfortable with their stewardship, we don't invest your money.

We look forward to further wonderful investment opportunities in the coming year.

On behalf of the Capital Allocation Team we wish you all the best for 2019,

Warm regards,

John Price

The Capital Allocation Team prepared this report for members of the Conscious Investor® Fund. It does not consider anyone's personal circumstances. Remember, what happened in the past is not always what will happen in the future.

Questions? Contact us:

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