

Investor Letter

H1 2021



P&R
Investment Management

7 July 2021

Dear investors,

Let me share some good news with you: in the past six months the unit value of the P&R REAL VALUE fund has increased by 28.7% after fees.

Year	<u>Annual change in euro in per cent ¹</u>		
	P&R REAL VALUE	World Index	Dax Index
2013	6.8%	21.8%	25.5%
2014	13.9%	20.2%	2.7%
2015	13.2%	10.7%	9.6%
2016	18.5%	10.4%	6.9%
2017	18.4%	7.5%	12.5%
2018	-2.4%	-4.8%	-18.3%
2019	33.0%	30.9%	25.5%
2020	13.0%	6.1%	3.5%
2021 1H	28.7%	17.1%	13.2%
CAGR since inception	16.4%	13.7%	8.7%
Total return	264.5%	197.9%	104.0%

P&R Investment Management Ltd (P&R) is the initiator and investment adviser of the P&R REAL VALUE fund. IPConcept (Luxembourg) S.A. is the Alternative Investment Fund Manager. Our mission is to significantly increase the wealth of our investors, measured by the compound annual growth rate (CAGR), over a long period of time. We also want to build a trusting, long-term relationship with all our partners. Only then can we be successful together – through good times and bad.

Since our launch, the CAGR of the P&R REAL VALUE fund has been 16.4% after fees. Over the past five years, the CAGR has been 20.3% (vs World Index 13.4% and Dax Index 9.9%).

¹ The performance is calculated using the BVI method and considers annual distributions. Fund inception was on 27/12/2012. The World Index is based on the LYXOR ETF MSCI WORLD D-EUR, including all dividends.

As of 30 June 2021 our fund held 13 positions, which accounted for 103.5% of the fund's assets. The size of the fund was €80 million. The top five positions were (in alphabetical order):

- Carvana
- Credit Acceptance
- Naked Wines
- Wix
- World Acceptance

During the last six months, we sold our position in AFH Financial Group in the wake of the takeover of the company. For the freed-up capital of about 10% of our fund, we looked for the best opportunity and found two new candidates. Both are very small young elephants. One is still in the process. The other one I will tell you more about below. Except for a few minor changes, the portfolio remained otherwise untouched.

A young elephant from Australia

I'm a fan of compounding engines. Aside from our fund, something else compounds at P&R: our network of connections with first-class, high-calibre, intelligent individuals. These include Tristan Waine and Paul Tschischik, through whom I recently received some information about a small company in Australia. After some initial research, it became obvious that this company had many of the elements we look for. Aakash and I dropped our pens, stopped all other activities, and did a deep dive using our 20-point framework.

Kelly Partners Group (KPG) is based in Sydney, Australia. KPG does tax accounting for private companies and their owners. The firm was founded 15 years ago by Brett Kelly and went public in mid-2017. It consists of 25 operating units. 49% of each unit is owned by the partner and 51% by the parent. With around 8,000 customers, KPG has a total turnover of A\$46 million and an EBITDA margin of 32.5%. The market capitalisation is A\$150 million.

"Nothing is certain except death and taxes", wrote Benjamin Franklin. That sounds interesting for us. We like predictability. Moreover, clients are usually not willing to change their accountant. At KPG, the customer churn rate is only around 4%. Even better, tax complexity and thus the demand for advice is increasing. The risk of disruption is low because digitalisation improves process efficiency but does not replace advice.

KPG is not just any tax advisory firm. What makes the company special is its founder and the way he leads the organisation and its employees. To find out more about his motivation, we asked him the following questions:

- Why does the company exist?
- Is there a higher purpose?
- What is your mission?
- How do you add value?
- What is the most important thing you want to achieve in your life? ... in your business?
- What do you need to get right to achieve your goals?
- What has been the most interesting or challenging experience since founding KPG?
- Tell us more about your culture. What are your core values?
- How do you hire staff?
- How do you create alignment?

Instead of giving you our assessment of his answers, you can get an impression for yourself. A few weeks ago, I invited Brett Kelly to a Zoom Talk with students from my mentoring programme and some investor friends (please click).

KP+GH

KPG

**Fireside chat with London
Business School MBA
Students**

ASX: KPG

PRESENTED BY
Brett Kelly Founder and CEO

18 June 2021

CEO and Executive Chairman, Brett Kelly, has approved the release of this document to the market

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Private YouTube link: <https://youtu.be/wvgm7JiSTwM>

The conversation reminded me of a meeting with Warren Buffett in 2012, when I was lucky enough to be invited to Omaha with about 60 other business students. We all hoped to learn how to get rich in the stock market. Instead, Buffett far exceeded our banal wish, because he taught us something much more important: how to live a happy, fulfilled life.

That's exactly how the students and I felt after listening to Brett Kelly. Kelly is brimming with wisdom and principles. He inspires people to achieve

excellence. Thus, Kelly Partners' motto goes far beyond tax advice. It is: "*Be better off: Health, Wealth and Wisdom.*"

KPG scored very high on all elements of our framework (which is rare). One notable element is its growth engine. KPG systematically acquires smaller tax firms. The purchase price multiple is usually only three times the cash flow post implementation of KPG best practices. Banks finance about two-thirds of the full price and the rest is financed by a vendor loan. As a result, KPG can grow through acquisitions without having to reinvest one (Aussie) cent of equity. This creates a fabulous compounding engine.

Since its foundation, the company has grown revenues by 32% per year. We estimate that KPG will continue to grow at rates that exceed the official 10% guidance (see 1h 22min in the video: *underpromise and overdeliver*). But even if KPG achieves only 10% over a long timeframe, we'd be happy. Our purchase price was about 19 times expected free cash flows for the current financial year. Our fund holds 5.9% of the outstanding shares and is the largest shareholder after Brett Kelly. Brett is 46 years old and full of energy. He dreams big and has a clear plan. I look forward to watching his progress and cheering him on from the sidelines.

And lastly...

In my letter three years ago, I told you about Ernest Shackleton and how he recruited the right crew members for his expedition to the South Pole.

Our goal is not to reach the South Pole, but to create a ton of wealth over a long period of time. We started with 12 million euros at the end of 2012 and now stand at 80 million euros – thanks to your patient capital, our performance and some inflows. But we are still at the beginning of our journey, during which we can let the magic of compounding do its work for you.

For all readers who are not yet crew members: please invest at an early stage to enjoy the benefit of compounding. You cannot turn back the clock on your life. For you, I reprint our Shackleton ad:

LONG-TERM INVESTORS WANTED

Unconventional small alternative investment fund,
concentrated portfolio of outstanding companies,
sharp price fluctuations possible. Reward: Prospect of
above-average wealth growth over many years.

P&R REAL VALUE

The outlook over the coming years remains good. We have three advantages over passive ETFs and active UCITS investment funds.

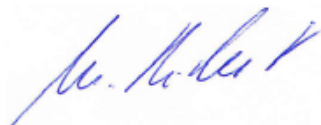
1. As an Alternative Investment Fund (AIF) we are not bound by position size restrictions under UCITS. We can invest concentrated. Good ideas move the needle.
2. As a small fund, we can fish in areas that others cannot, due to their size and liquidity requirements.
3. With you as long-term investors, we can ignore short-term price fluctuations and focus on things that matter.

These advantages allow us to invest in young elephants and hold them over many years. We can thereby benefit from both the growth in profits and the increase in valuations. Our investments in AFH, Judges Scientific, Naked Wines and EQS are successful examples of this.

If you feel connected to our approach and would like to learn more, please contact me. I look forward to speaking with you.

With best wishes from London,

Matthias Riechert

A handwritten signature in blue ink, appearing to read 'M. Riechert', is centered below the printed name.

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