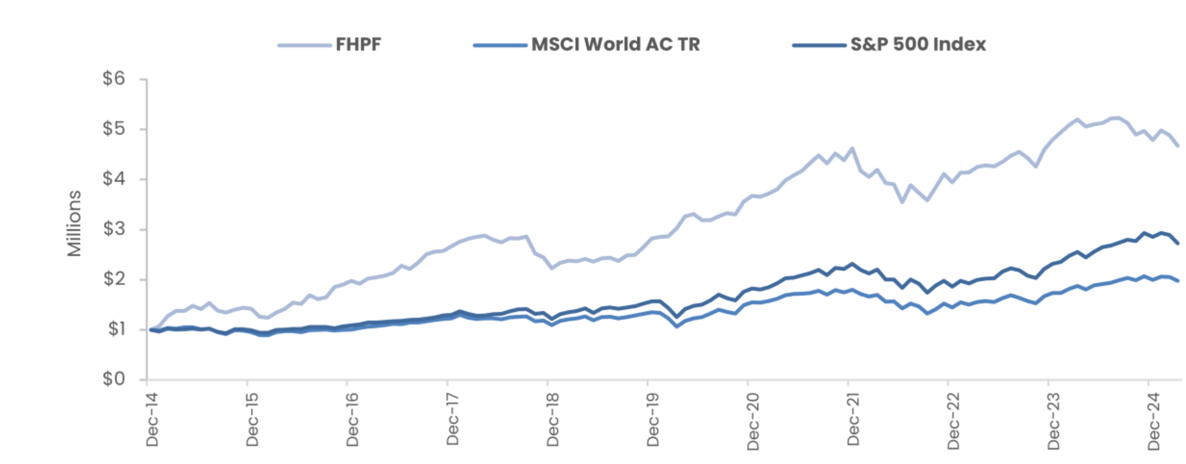
April 2025
Fountainhead Partnerships Fund
Investor Letter

Fountainhead Partnerships Fund (FHPF) was -3% in 1Q2025 while MSCI World (ACWI) was -1% and S&P 500 was down -5%. Fund has outperformed the US market every month this year. The real action in the market was in April when markets crashed after the US administration announced tariffs on the entire world from Australia to Lesotho (US runs a trade surplus with both). The Fund has so far outperformed the markets in April (as of 16th April).

Relative Performance



In our investor letters, we like to discuss how we are able to find good opportunities in different market environments. We are doing so in this letter. Also, as Asif prepares his annual pilgrimage to Omaha to participate in Berkshire's annual meeting, in this quarterly letter we will share with you our views on two core holdings of the portfolio: Berkshire Hathaway and Hikari Tsushin. In a unique way both companies have very similar characteristics - founder owners with unmatched patience, who are buying good companies at very reasonable prices and keeping them (almost) forever, and are probably the best capital allocators in their countries. The only difference between the two companies is that one is quite cheap. We will explain later in the letter which one.

In April we met with over 25 investors in Australia and Singapore – from various large family offices, high net worth individuals and a large pension fund. The trip started right on time as the global equity markets were having a fit in early April. We considered it a great opportunity to discuss with our current and potential investors what we are thinking and how we are navigating the volatility.

Here is a summary of the Fountainhead's views and how they have evolved since January this year:

	Jan-25	Apr-25	Fountainhead View- Jan 2025	Fountainhead View- April 2025
Narrative	US Exceptionalism Golden Age	Will US $ continue to be a reserve currency?	Rest of the world is not so bad. UK offers best value	Markets have adjusted. Global equities much less imbalanced now
GDP Growth outlook	3%	Recession or depression	US growth is unsustainable	No recession in US- A probable growth scare. Europe to still outpace US growth.
Investor outlook	US is the best place to invest	US is extremely uncertain	Rest of the world offers better value than US	High quality stocks in US finally offer good risk reward.
Earnings growth	14% for S&P 500 companies	0-4%	US earnings growth will be revised down	US earnings growth will outperform **expectations**
Valuation	24x earnings	18.5x earnings	US touching bubble valuations	US valuations are more reasonable now than any time in last few years
Concentration	MAG 7, ~38% of the index	MAG 7 <30% of the index	AI boom will fizzle soon	No AI expectations in companies earnings/stock prices anymore
Greed and Fear	VIX at 15	VIX at 50	Totally complacent	Attractive/Exciting

Coming into 2025, we were of the view that US markets are priced for perfection, particularly US technology stocks. We believed that Europe and Japan, and particularly the UK had the best return profiles for 2025 given their beaten down valuations and the growth on offer. Our contrarian view was validated as the UK and European markets significantly outperformed the US markets in 1Q. Our view was not based on the macro environment of Europe and Japan but was due to the resilient nature and ability to grow of the corporates that we like in those countries. We mentioned FREEE (a Japanese accounting software company up 20%YTD) and Games Workshop Group (+11% YTD) in our previous letters.

Going into the April market correction, the Fund had 15% cash and some hedges on the portfolio holdings. We took full opportunity of the correction and were able to deploy capital at very attractive prices. We again found ourselves in the contrarian corner as we allocated capital to those finally reasonably valued high-quality technology businesses that saw their share prices decline 30-40% from their highs.

The feedback from the investor meetings was that everyone is very uncomfortable with the turbulence caused by a massively ill-prescribed trade policy by United States. The traditional correlation between bonds, equities and foreign exchange has broken as the world enters an unchartered trade relationship. Almost every investor we met is now worried about a weakening US dollar in a rising US interest rate environment. This situation has paralyzed most investors as they have the majority of their assets in US dollars and no serious alternative in sight due to the lack of depth in the markets outside of the US. Our take on the current situation, before the pause in tariffs was announced, was that the policy announced by the US administration is highly unlikely to stay in the current form. The correction in stocks (at least in the ones that we like) has been much more than the eventual tariff regime would warrant. The entire AI boom of the last 18 months has fizzled out. Hence, as we have always learnt, the best time to buy stocks is usually when the level of fear and unpredictability is at its peak.

Temperament is key during unpredictable times

The odds of making good returns in the stock market are usually in an investors' favor (those who are patient and rightly positioned) when the fear, often represented by

VIX	Total trading days	% of observations	12 months fwd. return	24 months fwd. return
<30	8065	92%	9%	19%
30-50	657	7%	21%	34%
50-60	**37**	**0%**	**29%**	**45%**
60-70	27	0.31%	31%	46%
70 and above	11	0.13%	44%	59%

VIX is elevated. The stock market Volatility Index (VIX) spiking above 50 is a rare event. In the last 35 years, on fewer than 1% of the total days have we seen the VIX shot above the level of 50. On April 04, 2025 the VIX recorded the reading of 53, a level not seen since April 02, 2020. The average stock market return 12 months forward when the VIX crosses 50 is ~30%.

A VIX of 50 suggests the market anticipates daily moves (either up or down) of roughly 3.15% for the S&P 500 over the next 30 days. It represents excessive fear vs historic observed reality, taking stock prices to extremely cheap levels. In our understanding of financial history, during a correction the stock market wants to price in the worst-case scenario as fast as possible. Investors sell what they can, not just what they should, and they try to sell at the same time. This takes the stock prices and valuations often to attractive levels for long-term returns, but very unpredictable for short-term returns.

Investors tend to look for certainty, often from the macro factors which take their own sweet time to arrive. We believe these times require two things to act: a) prior preparation and a clear understanding of the long-term business dynamics of the companies you want to own, and b) a strong temperament.

Both are essential elements for success in the stock market. We were waiting for a stock market correction for the last six quarters and mentioned in our previous letters that we have our cash and list of stocks ready for when the correction arrives. We deployed more than 10% cash in very high-quality businesses when the VIX crossed the 50 mark this month. We are not forecasting a bottom in the stock market and know the VIX has seen higher levels than 50 in the past. Stocks are attractive at the current levels but they are not on an all-out sale. There are lots of high-quality companies that we would love to own but are still trading at expensive valuations. However, since our base case assumption is that there is no cataclysmic economic case of higher probability on the horizon, we are reasonably comfortable with our equity exposure.

Berkshire Hathaway: The best of the best

	YTD	2024	3 YR	5 YR	7 YR	10 YR	20 Year	30 Year
BRKA	17%	25%	57%	185%	169%	271%	865%	3523%
S&P	-7%	23%	28%	92%	107%	158%	376%	979%

Berkshire has been a core holding of the portfolio since inception. The stock has outperformed the markets in any comparable period and has always performed well during times of stock market volatility. Given that we are still going through a *hard insurance cycle* and insurance remains the primary business of Berkshire, we consider it appropriate to share our latest thoughts on the company.

Berkshire had a very strong year in its insurance business that resulted in 27% increase in operating earnings in 2024. This performance was achieved despite overall flat revenues (two years in a row now). Other than insurance premiums, all the other businesses reported a decline in revenue. Energy was the only business other than insurance that recorded growth in earnings.

Berkshire Hathaway USD Mn	2024	2023	Growth	Contribution 2023	Contribution 2024	Berkshire Hathaway USD Mn
Insurance investment Income	8,472	4,067	108%	18%	11%	8,472
Total Insurance Income	22,690	14,995	51%	48%	40%	22,690
Railroad	5,031	5,087	-1%	11%	14%	5,031
Energy and utilities business	3,730	2,331	60%	8%	6%	3,730
Pilot	13,072	13,559	-4%	28%	36%	13,072
Other businesses	2,914	1,378	111%	6%	4%	2,914
Total Income	**47,437**	**37,350**	**27%**	**100%**	**100%**	

Warren mentioned in his annual letter to shareholders "In 2024, Berkshire did better than I expected though 53% of our 189 operating businesses reported a decline in earnings. We were aided by a predictable large gain in investment income as Treasury Bill yields improved and we substantially increased our holdings of these highly liquid short-term securities.

Overall, Berkshire's core operating earnings increased by $4bn vs $1.2bn increase in the same measure last year. Insurance contributed to 80% of the increase in earnings. Total Investment income, primarily arising from interest income on cash was $11bn which was $6bn higher than last year.

Berkshire maintains a stronger capital base than any in the reinsurance industry and is massive in scale. Berkshire's combined statutory surplus (conservatively defined as equity or book value) against which it writes business dwarfs all players. Berkshire's statutory surplus was recorded at $310 billion at year-end 2024, up from $303 billion in 2023 and $272 billion in 2022.

By comparison, the entire global reinsurance industry has a $715 billion combined surplus as of September 30, 2024 including $113 billion in alternative capital - catastrophe bonds and insurance-linked securities.

The industry will write roughly $390 billion in premiums in 2024. Berkshire writes about 7% of the combined reinsurance industry premium volume but has HALF of industry traditional equity capital and 42% when including alternative capital. Excluding Berkshire Reinsurance, the industry writes $363 billion in premium against S415 billion in capital, 87 cents per dollar of capital. **Seven versus eighty-seven!**

If anybody wonders how Berkshire can have so much of its insurance companies' investments in common stocks instead of fixed-income securities, look no further.

Berkshire Hathway Energy: Berkshire Hathaway Energy (BHE) is a collection of three Western U.S. regulated electric utilities and distribution assets throughout the US as well as Alberta and Great Britain. Combined, BHE's businesses are the largest in the US among investor-owned utilities with clean power in operation. Half of BHE's owned and contracted generating capacity comes from renewables, a figure that will grow materially higher. Cumulative renewables investments total nearly $40 billion to date. Wind and solar production assets are built in geographically disparate locations where much of the grid does not exist.

In 2024, Berkshire's energy business performed as expected. Revenue, which we consider to be an almost meaningless number in normal situations, stayed flat. Reported earnings jumped mostly due to large accruals in prior periods legal liabilities related to 2020's fires in Oregon. In addition, electric utility net margins likely improved by more than 2%. Where Berkshire's energy operation retains all profit and adds a like amount of debt to finance growth, competitors send 75% of profits, on average, to shareholders as dividends. To the extent competitors want to grow, they must find new capital to replace funds sent out the door. The difference is a huge competitive advantage in Berkshire's favor, as is Berkshire's willingness to spend massive sums growing the energy operation.

BHE has $50.6 bn in equity capital net of non-controlling interests but include Berkshire's trimmed investment in BYD that Berkshire began liquidating in 2022 (and continued to do so in 2024). BHE assets of $142 billion comprise 12% of Berkshire total assets. It should surpass the railroad assets in value to Berkshire within the next four or five years, maybe sooner.

Berkshire Common Stock Portfolio

Approximately 70% of Berkshire's stock portfolio is concentrated in its five largest positions (down from 80% a year ago). With 25% in Apple alone (down from 50% a year ago), as go the largest holdings - Apple, American Express, Bank of America, Coca-Cola and Chevron, so goes the portfolio. Each of the investments were acquired at terrific prices and at great moments. Will they collectively or individually beat the S&P 500? It really doesn't matter. Four have enormous embedded long-term capital gains. Returns on the stock portfolio prospectively are not why Berkshire is likely to outperform over the next decade and beyond. It will be most likely, when and (some may say if) a recession comes and whether Warren is around, how the cash mountain will be deployed.

Berkshire- Investment Portfolio									
	% of Common Stock Portfolio	Berkshire Inv @ Mkt Value (31-Dec-24)	M.cap	Berkshire % Holding	PAT (bn $)	Applicable earnings to Berkshire	Price	PE	Applicable M.cap to Berkshire
Apple	28%	75	3,529	2%	94	2	180	37.65	75.1
BoA	11%	30	321	9%	26	2.38	34	12.57	29.9
Amex	17%	45	200	23%	10	2.28	218	19.73	45
Coke	9%	25	303	8%	12	1.02	60	24.34	24.9
Chev	6%	17	263	7%	18	1.19	152	14.4	17.2
13F and Others	29%	80	4,777	2%	340	5.66		14.05	79.6
Applicable earnings		**272**	**9,393**	**3%**	**500**	**14.53**		**18.69**	**272**

Berkshire's common stock portfolio seems far too large now to run circles against the S&P 500 anymore, but somehow it still does. If the occasional Apple or Coca-Cola come along then fantastic. The degree of overcapitalization in Berkshire's insurance operation (and a friendly home state regulator) allows for ownership of a much larger allocation to common equities than other insurers. Most own bonds. Because Berkshire buys durable and growing earning power and does not generally overpay, the earnings yield on the stock portfolio is often higher than yields on bonds. Bonds pay interest and don't reinvest retained earnings. If stocks return more than bonds over time, then Berkshire's dominance of and one of its competitive advantages over the insurance industry only grows.

A look at Berkshire’s investment in Japanese trading houses

Berkshire invested initially USD 5bn in five Japanese trading houses starting in July 2019. That investment has increased to USD 13.8bn now. Market value of these investments has reached USD 20bn. Berkshire financed the entire investment by borrowing USD 11bn in cheap interest cost Yen. The Yen has depreciated since by 50% helping to reduce the debt value in USD. Corresponding market cap of these companies has increased by 2.36x. The interest cost of this debt will be USD 135 mn in 2025, while Berkshire is expected to receive USD 812 mn in dividends.

Talk about leverage buy-in! Has any private equity company done a better deal ever!!

Japanese holdings Table

Berkshire Hathaway Japanese Holdings % of each company						
	2020	2021	2022	2023	2024	2025
ITOCHU CORP	5.32%	5.34%	6.63%	8.07%	8.16%	8.30%
MARUBENI CORP	5.06%	5.06%	6.68%	8.23%	8.37%	8.49%
MITSUBISHI CORP	4.86%	5.06%	6.56%	8.15%	8.52%	8.97%
MITSUI & CO LTD	4.99%	5.13%	6.47%	7.98%	8.29%	8.57%
SUMITOMO CORP	5.05%	5.05%	6.57%	8.10%	8.27%	8.36%

Berkshire Hathaway Japanese Holdings						
USD bn	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
ITOCHU CORP	0.29	0.20	0.44	0.48	0.44	0.48
MARUBENI CORP	(0.09)	0.10	0.22	0.32	0.26	0.28
MITSUBISHI CORP	0.28	0.06	0.50	0.74	0.56	0.62
MITSUI & CO LTD	0.20	0.16	0.46	0.65	0.57	0.63
SUMITOMO CORP	0.09	(0.06)	0.24	0.34	0.22	0.24
Total	**0.77**	**0.46**	**1.87**	**2.54**	**2.05**	**2.24**

Value of Berkshire Holdings Market Cap (USD bn)					
2020	2021	2022	2023	2024	2025
7	**10**	**14**	**21**	**24**	**20**

Berkshire Intrinsic Value:

We value Berkshire on different valuation measure:

1. Based on economic earnings multiple

Berkshire Hathaway USD Mn	2024	2023	Growth	Contribution 2024	Contribution 2023
Insurance Income (Incl div)	14,218	10,928	30%	23%	20%
Insurance Investment Income	8,472	4,067	108%	14%	7%
Total Insurance Income	22,690	14,995	51%	37%	27%
Railroad	5,031	5,087	-1%	8%	9%
Energy and utilities business	3,730	2,331	60%	6%	4%
Pilot, Manufacturing and retailing business	13,072	13,559	-4%	21%	25%
Other businesses	2,914	1,378	111%	5%	3%
Total Operating business Income	**47,437**	**37,350**	**27%**	**77%**	**68%**
Look through earnings of the holdings	14,532	17,399		23%	32%
Total Economic Profits	**61,969**	**54,749**		**100%**	**100%**
Market Cap	1,117,449	775,136			
Multiple	18	14			
Implied multiple 20x	1,239,388	1,094,971			
Upside	11%	41%			

The stock is trading at 18x economic profits (lower than market PER) in which we include the look through applicable earnings of the common stock portfolio. The stock was very cheap last year and may not offer the same upside based on earnings but the significant increase in its cash pile which is generating 4-5% could easily increase the future returns by twice as much.

Some interesting math as the final word

Berkshire- Optionality					
Cash USD bn	Interest income @ 4%				
305	12				
If deployed in Common stocks		Return on Common stock @15%	Additional after- tax income	$bn Valuation upside at 18x	Upside Vs Current Market cap
50	-2	8	6	99	9%
75	-3	11	8	149	13%
100	-4	15	11	198	18%
125	-5	19	14	248	22%
150	-6	23	17	297	27%

Berkshire stock is trading at 1.72x Price to book which is one of the highest in its history of trading.

However, it has never had such a percentage of book value in cash (at 57%). Assuming out of $300bn cash, management is only able to deploy USD 100 bn of cash in common stock it can generate significant value to shareholders. On the flip side, any temporary decline in earnings due to an economic recession could be a great opportunity to buy high quality assets that can generate greater than 15% return on invested capital. Berkshire remains the core holding of the portfolio with a Fort Knox balance sheet.

Hikari Tsushin

Market cap USD 12bn

Hikari Tsushin, Inc. was founded in February 1988 by Yasumitsu Shigeta in Tokyo, Japan, with initial capital of 1 million yen and just three employees. The company began by selling and leasing office automation equipment and telephones, quickly expanding into the line sales business for intercity telephone services. In the 1990s, it expanded into selling copiers, fax machines, computers, and peripheral devices and became cell phone retailer when this technology became widely available and used. In 1999, the company was listed on the JASDAQ stock exchange, making Mr. Shigeta (now 60 years old) the youngest CEO of a public company in Japan (34 years old).

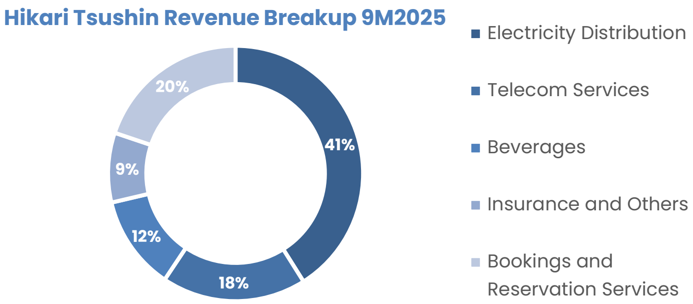
Mr. Shigeta is a huge fan of Berkshire Hathaway and considers himself a disciple of Warren Buffett. He reformed Hikari into primarily an investment holding company like Berkshire Hathaway following the turbulence the company faced when the dot com bubble burst and company lost 93% of its value from a very unsustainable valuation of 720x (from a Forbes article). Hikari stock went up from below 3000 yen in Feb 1996 to 217000 yen in Feb 2020, a thousand bagger or rising on average 0.4% every day for four years leading into March 2000 dot com bubble peak. The stock went down to below JPY 1,000 by 2002 and has not seen those levels since.

Hikari's current business model has two key characteristics: a) buying stakes in small Japanese companies trading at very attractive valuations and build stakes in them overtime b) Buying high quality companies in the US and Europe. The sponsor has successfully capitalized on deregulation of various sectors in Japan - Telecom in the 1990s and Electricity Distribution in the 2010s.

For the companies acquired in Japan, investment is increased in the promising ones to Investment under Equity-method affiliates and if there are strong synergies with existing business, then to consolidated subsidiaries.

The small businesses house:

Hikari owns multiple businesses in its small companies portfolio, vast majority of them are non-operating businesses. Wholly owned Japanese businesses include: electricity distribution services, telecom services, small ticket insurance provider, booking / reservation services and beverages. Another 33 holdings are reported as publicly listed equity-method affiliates.



These wholly owned businesses generate 670 bn JPY of revenues (FY25 guidance) and JPY105bn (735mn USDmn) of profits. These are very sustainable high cash flow generating businesses. The company uses these recurring cashflows to buy smaller companies in Japan. Further, the company leverages its balance sheet to borrow very cheap capital in Japan and buy very high-quality companies in the US and Europe.

Fountainhead is fond of Japanese companies and believes there are still lots of hidden investment gems in *the forgotten land of the rising sun*. We have invested in many Japanese companies over the last ten years, both big and small, with very good outcomes. We found Hikari in 2021 when the US market was in its biggest bubble since dotcom, and we were looking for opportunities abroad. It came out from the filter of high bottom line growth stocks trading at under 10x earnings. We found that Hikari has grown its book value per share by 13% per annum over 16 years (in 2021).

Hikari Tsushin

When we looked deeper we found that Hikari has three sources of returns for shareholders.

1) High free cash flow from wholly owned companies
2) A portfolio of small Japanese companies that are acquired at very cheap multiples and
3) A portfolio of very high quality non-Japanese companies.

We loved what we found in Hikari's balance sheet. From 2017-2019 Fountainhead had invested in small cap Japanese companies whose cash on the balance sheet was more than their market capitalization. However, what we also found in our investing experience with those *net-net companies* was that their share prices are extremely volatile because of the thin trading float. We exited those small cap gems in the spring of 2019 but were always looking for ways to invest in those high return potential companies. When we looked at Hikari's portfolio, we got very excited. The holding company structure that Hikari has is probably the best place to house those companies. The experience of Hikari's management and understanding of those businesses is decisively better than ours to own those companies directly in Fountainhead's portfolio.

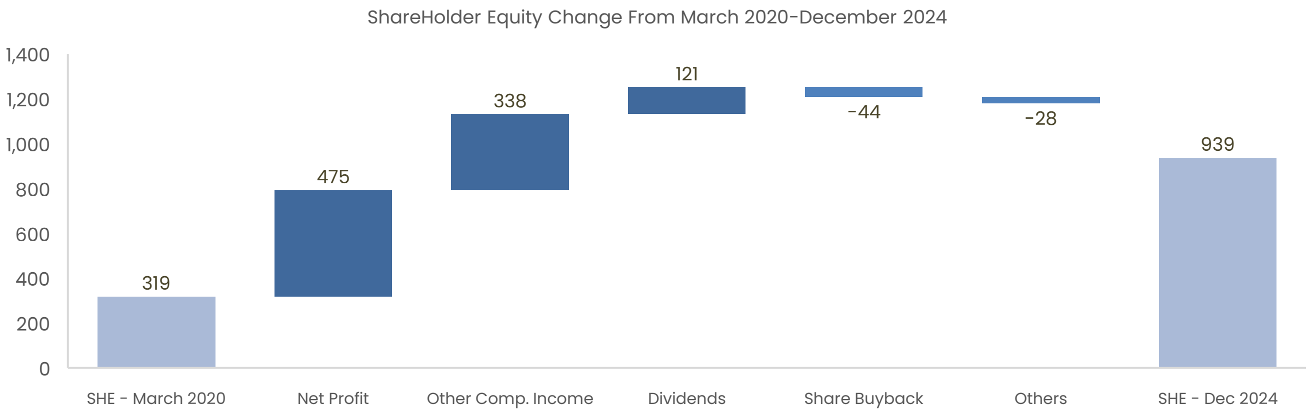
Thirdly, another exciting feature of Hikari Tsushin was its portfolio of foreign companies. Hikari had 20% of its investment book in foreign companies. What we found was that Hikari's foreign companies portfolio resembles quite a bit of Fountainhead's own portfolio. While Hikari was trading at less than 1/3rd of Fountainhead's portfolio valuations. That portfolio had 50% investment in Berkshire Hathaway and rest in the companies like Google and Novo Nordisk. All key holdings of Fountainhead's portfolio that we can own at 1/3rd of their market valuation.

We analyzed Hikari on not just the reported earnings but also on the look through earnings of their portfolio that was buried in the middle of a very long presentation.

While on reported 2021 earnings stock was trading at close to 20x PE**,** on look through basis it was trading at 12.5xPE**.** We realized that we have found a company very similar to Berkshire Hathaway.

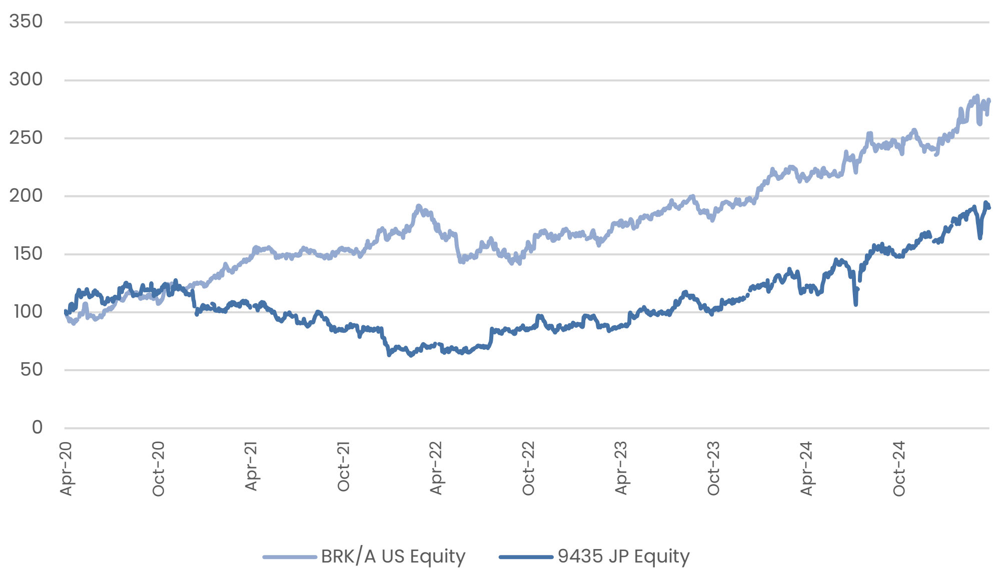
We invested in Hikari at 16000 JPY price in 2022 at 5x PE on look through basis. The stock has more than doubled over two and half years while it still trades at 8x PE on look through earnings. Since then, Hikari has grown its book value at 20% per annum. While Berkshire predominantly uses insurance float for investments, Hikari has used internal cash generated and cheap cost of borrowing in Japanese Yen to leverage and generate a hugely positive spread.

Hikari Tsushin



Portfolio holdings and management's temperament also resembles Berkshire's style of long-term investing. That long-term holding style allows investors to include look through portfolio earnings in valuing Hikari's stock price. Including look through earnings, Hikari has been delivering ROE of over 20% over 20 years. That has led to a remarkable 13% book value per share growth in that period.

Hikari Tsushin vs Berkshire

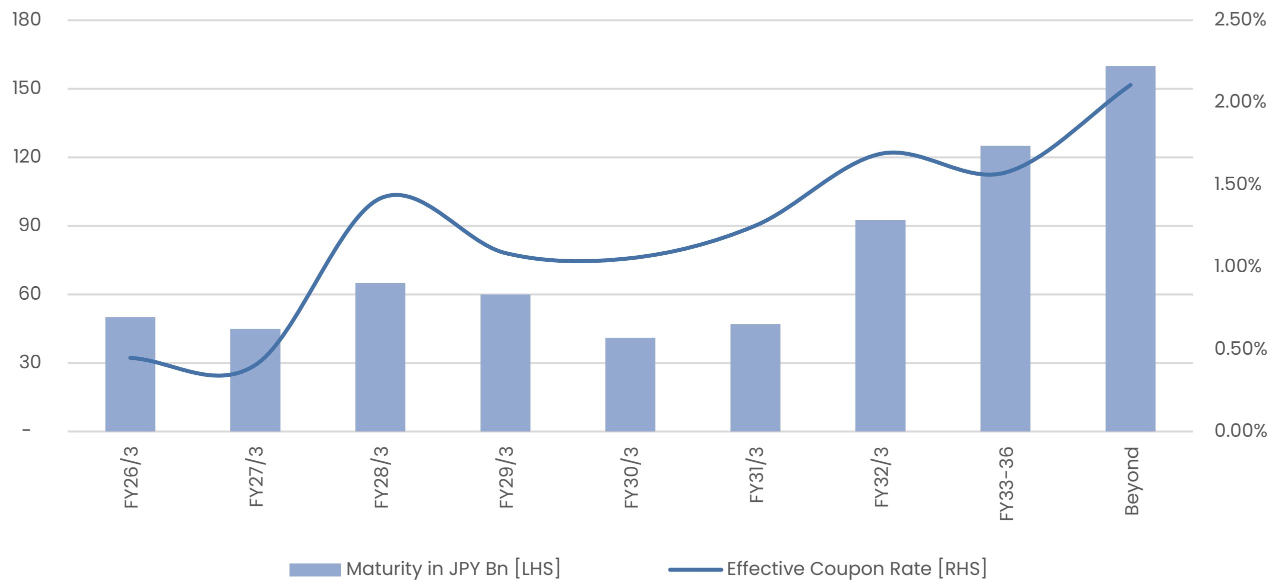


Even after such a dream run, particularly for a Japanese company, the stock is very cheap on 8x PE. We expect to own Hikari for a very long period in Fountainhead's portfolio.

Potential risks to our investments in Hikari

Japanese Interest Rates

Heavy leverage to the Japanese Bond market entails refinancing risk in case interest rates in Japan go up significantly. Management has been carefully managing this and has spread bond maturities over a long-time horizon. Of the total bonds outstanding of JPY685bn, only JPY160bn are due over the next three years. Refinancing them will add to cost but not significantly. Bonds totaling JPY378bn (55%) will mature after March 2031.



Foreign Exchange Risk

The foreign investment portfolio of approx. USD1.4bn has been financed using JPY bonds/cashflows. Strong JPY vs USD results in an FX loss in the reporting currency. Using the FX gains/losses in the 3 quarters of FY25, change of every JPY1 against USD impacts profit by JPY2mn (around 1.5% of net profit and 0.3% of equity). If the USD depreciates to JPY100, book value will come down by 15%.