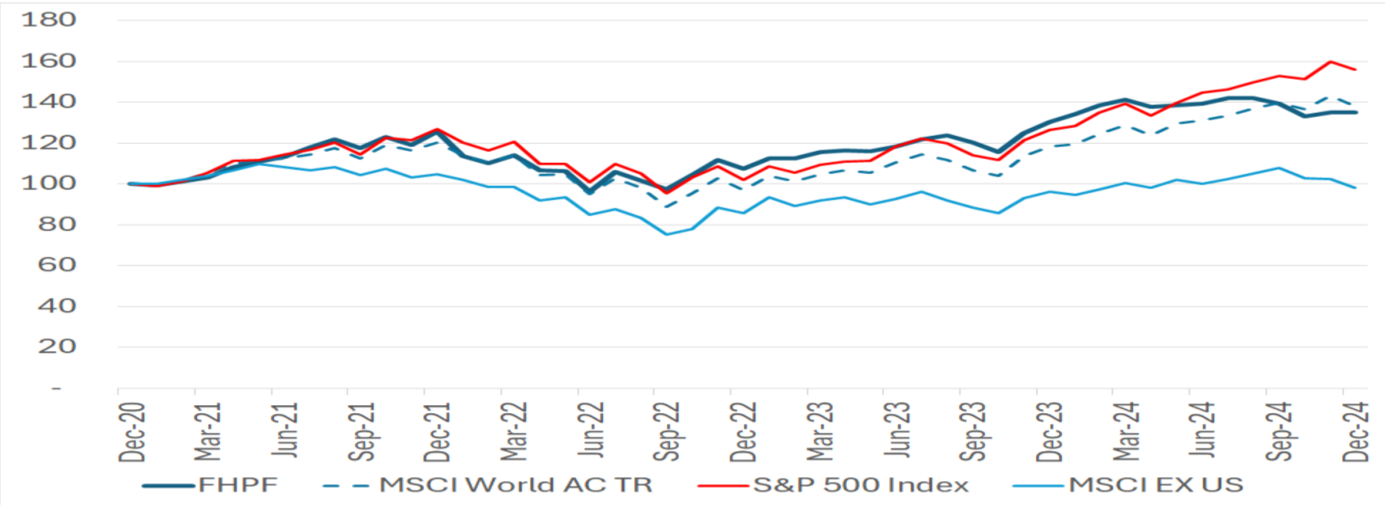
December 2024
Fountainhead Partnerships Fund
Investor Letter

The first rule of compounding: Never interrupt it unnecessarily- Charlie Munger

Fountainhead Partnerships Fund (FHPF) was flat in 2024 while MSCI World (ACWI) was up 15%. US stocks were the leaders during the year, as the market continued to prefer the AI driven US Mega cap/ technology stocks. S&P500 was up 23% during the year. The top 10 companies in the S&P 500 Index ended the year with avg. 2024 PER of 59x. While MSCI World ex US index has produced no return since 2021.

FHFP vs Indices: USD100 Invested on Dec 31, 2020



Source: Bloomberg and FHFP

Portfolio Performance Analysis:

Conviction in Strategy: Our largest holding in 2024 was and still is Novo Nordisk. A company whose profits grew by 26% in 2024 on top of an 80% increase in profits in the prior three years from 2021-2023. However, the stock finished down 10% in 2024. Our fund's strong performers were the companies in the insurance/insurance broking sector. Fairfax Holdings and Ryan Specialty delivered the highest returns while Berkshire Hathaway and Aon were among the top ten best performing stocks. The sector has benefitted from continued tailwinds of elevated insurance pricing from broad inflation, and higher returns on their investment portfolios.

Our mandate from our investors is to stay away from speculative endeavors, invest in proven profitable business models and show prudence in portfolio allocation. Prudence used to be an investment edge. Currently, we are in an environment where prudence has been a drag on investment performance, at least in the near term.

Our portfolio earnings grew by 13.5% in 2024, and we expect earnings to grow approximately 15% in 2025. This is similar to S&P 500 2025 EPS growth of 16% (which tend to downgrade as year progresses). On 2025 forecast earnings, **FHPF portfolio is currently trading at 19x while S&P500 is trading at 22x**. This is one of the largest valuation discounts to the market we have had in the last 8 years. Further, much of the S&P 500 'growth' is being traded at double the market PE. We expect our worst performers in 2024 to be the leading portfolio performers in 2025.

Table of Top and Bottom Performers and EPS Growth (in USD)

Top 5 performers in 2024			Bottom performers in 2024		
	Return	EPS Growth		Return	EPS Growth
Fairfax Financial	64%	4%	Carl Zeiss	-54%	-33%
Ryan Specialty	49%	30%	SMS Co Ltd	-46%	5%
Hikari Tsushin	47%	-17%	Kering SA	-40%	-58%
Citigroup Inc	37%	6%	Icon Plc	-26%	9%
Alphabet Inc	36%	38%	GMO Payment	-19%	37%

Source: Bloomberg

An All Bulled Up-Concentrated Market Sees no Risk:

In 2024, an all-clear environment prevailed for the stocks, from reversal in inflationary pressures, global central bank easing to favorable political climate, particularly in the US. There is no risk on the horizon, as most investors see it, for the market to continue to climb higher. Except the valuations, which are rather important, in our opinion.

S&P 500 Index (PE Multiple on Current Year Earnings)

S&P 500	Operating-EPS	Earnings growth	S&P 500 return	PE Multiple	S&P Index
2008	50			18.2	903
2009	57	15%	27%	19.6	1,115
2010	84	47%	12%	15.0	1,258
2011	96	15%	0%	13.0	1,258
2012	97	0%	14%	14.7	1,426
2013	107	11%	27%	17.2	1,848
2014	113	5%	14%	18.2	2,059
2015	100	-11%	0%	20.3	2,044
2016	106	6%	9%	21.1	2,239
2017	125	17%	19%	21.5	2,674
2018	152	22%	-4%	16.5	2,507
2019	157	4%	24%	20.6	3,231
2020	122	-22%	16%	30.7	3,756
2021	208	70%	27%	22.9	4,766
2022	197	-5%	-16%	19.5	3,840
2023	214	8%	20%	22.3	4,770
2024	233	9%	23%	25.2	5,882

Source: Bloomberg

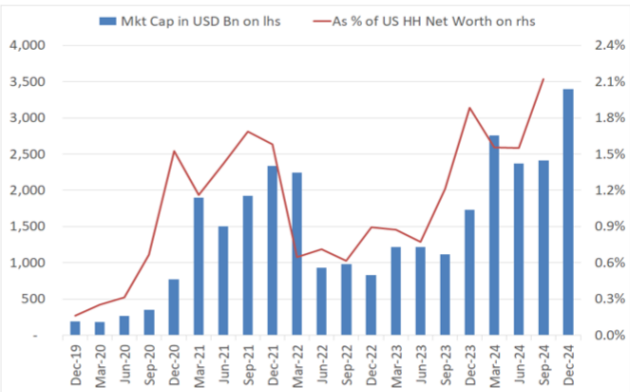
In the last 16 years, the US market had negative performance in only 2 years, a 90% winning ratio. Hence, the winning bet has been the market going-up next year as well. We have observed recently that one after another, even long-term Bears on the stock market, have given up on their forecasts. And to be fair to them it is very difficult to find a strong negative narrative, beyond valuation.

The biggest positive for the market in 2025 could be a significant decline in oil prices following the new US administration's strong emphasis on increasing oil production from the US. That may lead to significant disinflation and a faster interest rate cutting cycle than currently priced in the markets.

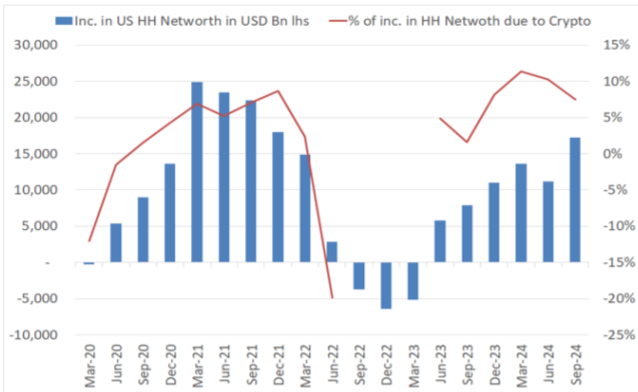
The key risk the financial markets may face is from the resurgence of inflation. Although inflation has been stubborn, so far, the data doesn't suggest a significant rebound in inflationary pressures yet. The US fiscal deficit and a bond market revolt could also threaten the stock market performance in 2025. Ten-year yields are creeping higher despite the Fed's moves at the front end.

In our opinion, a large risk building underneath particularly in the US, is Crypto driven wealth generation. Crypto Market Capitalization has reached USD3.4Trn and is now more than 2% of US Household Net Worth. In the last 12 months, the Crypto market value has increased by USD1.7Trn, contributing ~10% of the increase in US Household Net Worth.

Crypto Currencies Market Cap: Value in USD Bn and as % of US Household Networth



Change in US Household Networth and Change in Market Cap of Crypto as % of Change in HH NW



There are tens of thousands of digital coins available for trade on over 1,200 privately managed unregulated crypto exchanges. None of these coins/digital assets have any use case for payments or transactions. The entire value of these coins is in the eyes of the beholders!

In a research paper written by distinguished Harvard Business School and Northeastern University Professors earlier this year on "The Effects of Cryptocurrency Wealth on Household Consumption and Investment". The paper showed that there is a significant positive impact on US consumption from the Cryptocurrency wealth. If any time we see another significant correction in Crypto prices it may impact US growth quite significantly – particularly in discretionary spending.

The Moment of Truth in AI:

The most important trend in finance in the past 40 years is the emergence of winner-take-all industry structures in technology. We live in a world of network effects and increasing returns to scale. In industries from PC software (Microsoft), internet search (Alphabet), online retail (Amazon) and social media (Meta) to high-end consumer hardware (Apple), and to most recently AI Chips (Nvidia) most of the profits and market share have gone to one company. It is only a moderate exaggeration to say all that has mattered for investors in the past few decades was being on the right side of one or more of these winner-take-all stories. So, it was natural that everyone either has assumed, desired or feared that the next great technology trend, artificial intelligence, would have roughly this economic structure, until January 27th.

What changed:

A saying in the global corporate world is *US innovates, China replicates and EU regulates*.

DeepSeek, a Chinese AI company, has released an AI model called R1, that is comparable in ability to the best models from companies such as OpenAI, Anthropic and Meta, but was trained at a radically lower cost and using less than state-of-the art GPU chips. DeepSeek also made enough of the details of the model public that others can run it on their own computers (but not necessarily enough that others could re-create it).

This puts three punctures in the winner-take-all theory of AI:

1) deflates the idea that the best AI results could only be achieved with Nvidia's best chips and software;

2) that only the biggest tech companies could afford to build and run high-quality AI models; and,

3) the idea that only companies with their own AI models could offer great AI applications.

What kept Nvidia's stock rocketing for the past two years was sheer computational superiority. Its chips were miles better for AI. DeepSeek built R1 with Nvidia's older, slower chips, which US sanctions allow to be exported to China. This suggests the door is open to other competitors at the silicon level.

DeepSeek development has increased odds that AI is not a winner-take-all game anymore. It was always conceivable that the AI revolution would be like the invention of the automobile or the airplane. Those revolutions did lead to the creation of huge, durably profitable companies, but also lots of competition, ensuring that much of the value created went to consumers rather than shareholders. Now that looks like a more significant possibility for AI.

Next, cost. The biggest tech companies looked more or less insulated from competition on AI because, it was assumed, the only way to build a better AI model was to train it with more inputs using more computing power, at huge expense. The finished model would then be under the control of the big company that built it. The barrier to entry was money — partly why Big Tech has gone on a data centre spending spree. But R1 suggests that companies with less money can soon operate competitive models.

Finally, applications. "Inference". It was assumed that any application would depend on the bigger companies' models and servers for inference. But models like R1 might work well enough, and do inference efficiently enough, to run on the servers of all sorts of companies that will not need to "rent" from a hyperscaler. All this has big implications.

Stocks beyond the mania of AI and Crypto:

Beyond the manias of AI and Crypto, at Fountainhead Fund we remain focused on buying stocks that have a good growth trajectory at a reasonable price when the valuations are right. And hopefully, hold them for a very long time. We try to find quality companies, with good growth prospects globally, when everyone is just focusing solely on US exceptionalism.

We have recently bought the stocks of five very interesting companies with double-digit earnings growth prospects.

We share three of them in this letter.

Watches of Switzerland Group (WOSG)

A unique play on Rolex and luxury watches growth

Market Cap: USD 1.7bn

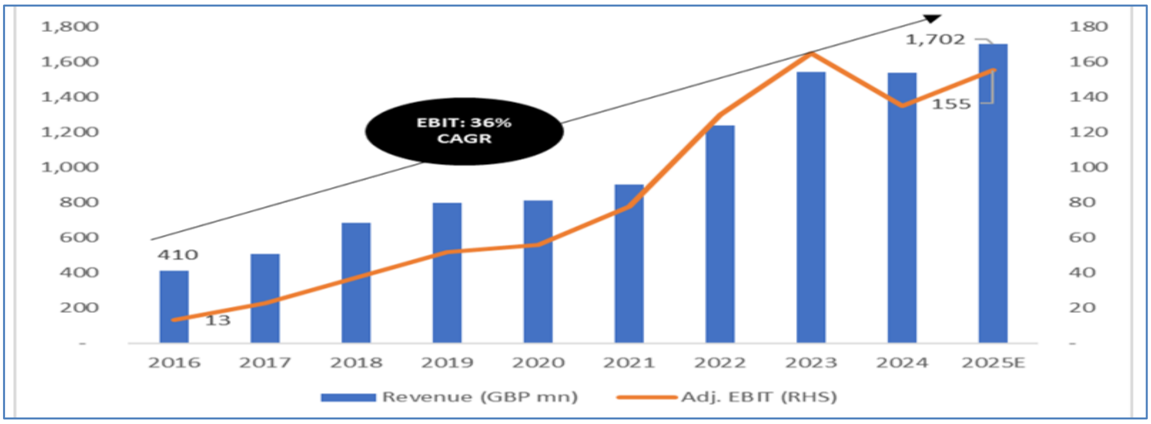
Rolex is considered as one of the highest quality brands of watches; some generational watch collectors believe it is the Ferrari or Porsche of the luxury watch industry. Regardless of which way you think - Rolex and Ferrari have a lot in common - from the number one in customers' choice, long-term visibility of order book and significant pricing power.

Watches of Switzerland Group (WOSG) is one of the few retailers handpicked by Rolex to sell their watches. Rolex is owned by the Hans Wilsdorf Foundation, a private family trust based in Switzerland. This ownership structure ensures that Rolex remains independent, focusing on innovation, quality, and philanthropy rather than short-term profits.

WOSG generates more than 50% of revenue from Rolex and other highly exclusive brands like Patek Philippe & Audemars Piguet. All these ultra-high-end watches brands operate on "registration of interest" basis implying a degree of predictability and visibility in future sales.

Over the last five years WOSG' revenues and profits have grown at a CAGR of 14% and 46%, respectively.

Revenue and EBIT Growth



Source: Company Reports and FHPF forecast

The company's expansion into the US market has been a resounding success and is the basis of our bullish thesis.

Since 2017, US revenues have surged 7x, demonstrating the successful replication of the company's proven UK model. This expansion has significantly diversified WOSG's revenue base. US contribution to revenue and profit is expected to exceed 50% in FY25.

Rolex Market Share in UK and US as of 2023

UK Store Economics		US Store Economics	
£mm (FY23):		£mm (FY23):	
WOSG Revenue	750	WOSG Revenue	587
% Rolex	45%	% Rolex	50%
Rolex sales	338	Rolex sales	293.5
Rolex market size	685	Rolex market size	2,812
WOSG market share	**49%**	WOSG market share	**10%**

Source: Company Reports

Business operations in UK & US only, sets it apart from other luxury bets available in the market which have a sizable exposure to Chinese consumers. Despite such a high visibility of revenues, the company has not been spared in the current sell-off in luxury sector stock prices. The share price was trading at less than 12x earnings despite having very strong prospects of growth. Our fund has built a sizeable position in the company shares in the last quarter of 2024.

WOSG has outlined an ambitious long-range plan (LRP 2028) that aims to more than double both revenue and profit from 2023 levels. This ambitious target is underpinned by several key growth drivers with acquisition a core pillar.

Firstly, the company is expanding its showroom network to capitalize on the growing demand for luxury timepieces. Secondly, the burgeoning pre-owned watch market (~$20-25bn) represents a significant opportunity. WOSG is strategically positioned to capitalize on this trend through its Rolex Certified Pre-Owned (CPO) program (full roll out in all showrooms by 2024 end) and its acquisition of Analog Shift, which specializes in the pre-owned market beyond Rolex. Finally, WOSG's recent acquisition of Roberto Coin US for $130mn provides a new avenue for growth and diversification into the Jewelry segment. Roberto Coin is the 6th largest Jewelry brand in the US and has grown its sales by 12% p.a. in the last four years.

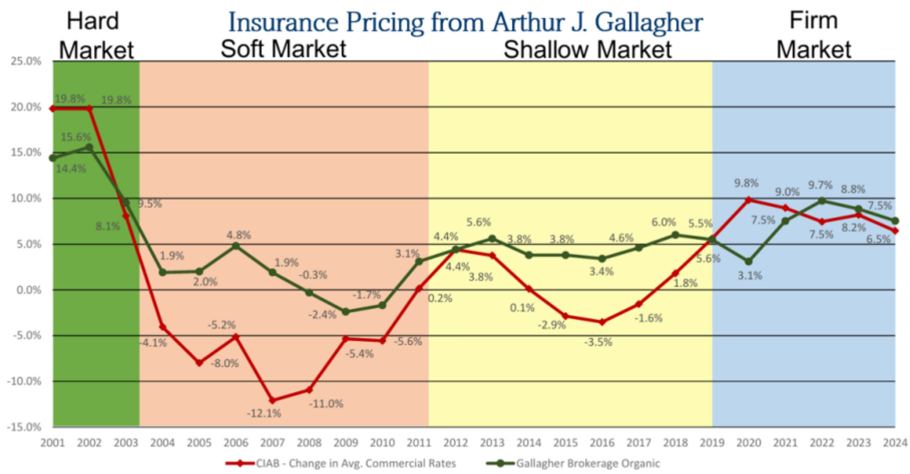
Fear from Rolex's acquisition of Bucherer (due to succession issues coupled with softer macro environment) provided us with an opportunity to become part of this multi-year growth story at a reasonable valuation of ~11x PE 2025 with earnings likely to grow 20%+ for the next 5 years.

As the current macroeconomic environment presents uncertainties, there remains a possibility that the company revises downward its LRP guidance which may cause a sharp negative stock price reaction which we think would be an ideal time to size up our initial position and make it a more meaningful part of our portfolio.

BROWN & BROWN INC (BRO)

Market Cap USD 30bn

BRO is a high growth company in the attractive insurance brokerage sector. It has been delivering high revenue growth and margin expansion due to the combination of 1) favorable pricing environment, 2) aggressive marketing of its products, 3) acquisitions and 4) operational efficiencies, especially in integrating new businesses. Our preference for insurance brokerage over insurance is due to better earning visibility as it is less impacted by claim losses and return on investment portfolio.



The global insurance brokerage market was calculated at USD288bn in 2023, by Precedence Research. Property & Casualty Insurance is 70% of the insurance industry. BRO is the 7th largest US Insurance brokerage company with revenues of USD4.3bn in 2023.

Overall industry remains very fragmented and larger players are actively engaged in acquisitions to supplement organic growth. BRO is of an optimum size where bolt-on acquisitions make a material impact on growth. All its acquisitions are on cash basis that are seamlessly integrated into existing operations by retaining the front office staff and merging the back-office operations. These acquisitions have added 6-7ppt to its organic revenue growth, supported margin expansion and have been EPS accretive.
[Insurance Brokerage Market Size to Surpass USD 757.80 Bn by 2034]

Revenue Trends	Size in 2023	CAGR	
	USD Mn	2016-19	2020-24E
BRO	**4,257**	**10%**	**15%**
MMC	22,736	7%	8%
AON	13,376	4%	7%
AJG	8,247	9%	14%
RYAN	2,077	NA	27%

Organic Revenue	CAGR	
	2016-19	2020-24E
BRO	**4%**	**8%**
MMC	4%	7%
AON	5%	6%
AJG	5%	9%
RYAN	NA	18%

While valuation is at a premium, we like the current entry level. Acquisitions have been relatively fewer since 2023 which has reduced Net Debt to Equity to 0.4x.

This gives considerable room for either acquisitions or to return money to shareholders via share buybacks.

FREEE K.K.

Market Cap: USD 1.1bn

Japanese companies have become increasingly attractive investments in recent years. This appeal stems not solely from persistent valuation discounts relative to global equities, but from a discernible cultural shift within some high-quality companies. Often, younger management teams are driving these changes, capitalizing on nascent market positions within Japan compared to their global peers.

Freee K.K. (4478 JP), a leading cloud-based integrated enterprise resource planning (ERP) provider in Japan, exemplifies this trend. Freee began with cloud-based accounting software for individuals and small businesses, analogous to Xero (XRO). Despite being less mature, Freee trades at a significant discount to Xero on a price-to-sales basis.

FREEE vs XERO User and ARPU CAGR

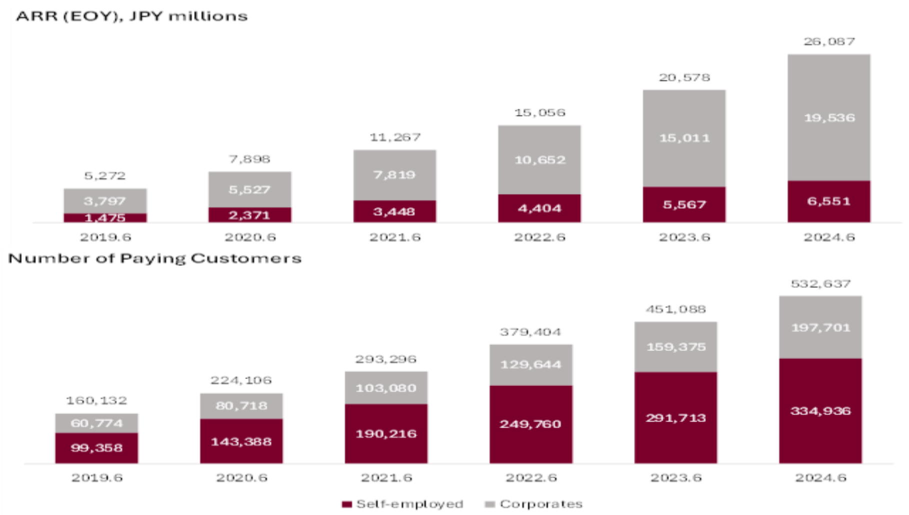
	21	22	23	24	CAGR
Freee					
Clients	281,522	384,871	454,088	532,637	**17.3%**
ARPU JPY	37,377	37,861	45,621	48,977	**7.0%**
Xero					
Clients	2,746,000	3,268,000	3,775,000	4,160,000	**10.9%**
ARPU NZD	352	404	415	471	**7.6%**

Source: Company Reports

With an estimated 56% market share, Freee dominates its specific portion of Japan's cloud accounting software market. This position reflects Freee's best-in-class product offerings and focus on SMB needs.

We also analyzed competitor **Money Forward (3994 JP)**, noting its differentiated model but overlapping audience and excellent growth. Our view is that these two companies form a profitable duopoly, which we anticipate will generate significant returns over our 3–5-year investment horizon.

Freee's superior balance sheet led to its selection over Money Forward.
Since its 2019 IPO, Freee has demonstrated over 30% top-line growth. We see substantial runway for continued high growth given Japan's low cloud accounting adoption rate. Growth has come from both new customers and higher ARPU driven by new service offerings. Churn is extremely low, a key sign of quality for a subscription business.



Source: Company Reports

Cloud ERP adoption among Japanese SMBs is currently only 34%. However, government initiatives promoting electronic accounting and lodgment, coupled with accountants advocating for cloud solutions (similar to Xero's experience), suggest this adoption rate could double rapidly.

Freee provides annual guidance and has historically prioritized investments in sales and product development to expand its customer base and revenue, at the expense of short-term profitability. They are guiding for breakeven in 2025. Based on company data and our analysis, we project aggressive margin expansion to 20%, while top-line growth continues at 20-30% per annum.

Freee utilizes conservative accounting practices and trades at significantly lower metrics than global SaaS peers. With its high growth, young, entrepreneurial management, and early-stage industry position (informed by our international experience), we believe Freee represents a compelling investment within the Japanese market.