

Annual 2021
Fountainhead Partnerships Fund
Quarterly letter

*Arrogance leaves us blind to our weaknesses. Humility is a reflective lens: it helps us see them clearly.
Confident humility is a corrective lens: it enables us to overcome those weaknesses*

– “Think Again”, our favourite book of 2021, by Adam Grant

Portfolio performance:

Fountainhead Partnerships Fund (FHPF) produced 26% return in 2021 with S&P 500 up 29% and MSCI_World up 18%. In Dec-2021 FHPF was up 5.3% vs S&P 500 4.8% and MSCI World 3.9%. On average the FHPF was 80% invested in stocks in 2021.

Alpha-Beta and Benchmark:

As an active investment manager we are judged on three factors by our investors: 1) Our ability to generate returns without deviating from the stated strategy; 2) How we fare against the major indices; and 3) Our temperament.

Fountainhead Partnerships Fund (FHPF) strategy has generated 64% return in the last two years and has now compounded annually at 23% since its inception. We have kept our core portfolio, over 70% of the holdings, consistent with our strategy since inception. We are not index-huggers. Our investment positions are spread across the developed markets. Nor do we match the weightings of our positions against any benchmark. But for investors’ reference we compare our performance against MSCI_World and S&P 500. We have beaten both performance benchmarks by a significant margin and have created significant Alpha¹ for our investors.

	2021	Jan 2020 to Dec 2021	Since Fund's Inception pa (Jan 2015)
S&P 500	29%	52%	14.3%
MSCI World	18%	37%	10.6%
Fountainhead Partnerships Fund (FHPF)	26%	64.0%	23.84%
FHPF Alpha over S&P 500	4%	22%	11%
FHPF Alpha over MSCI World	12%	34%	15%

The most important skill that we believe has and will determine our returns is our investing temperament. Although there is no precise scale to measure investment managers’ temperament - portfolio turnover, risk adjusted returns and walk and talk of the manager

¹ Alpha: <https://corporatefinanceinstitute.com/resources/knowledge/finance/alpha/>

amidst various real time situations usually provide good insight into its temperament. There are lots of interesting studies (link [here](#) and [here](#)) to understand and assess temperament.

Our favourite is Cognitive Reflection Test (CRT²) that we apply a lot on ourselves when managing investments and something we will talk in our letters about during the upcoming year. We continue to believe that our temperament will remain our key source of Alpha generation for our investors.

In this quarterly letter we will talk about:

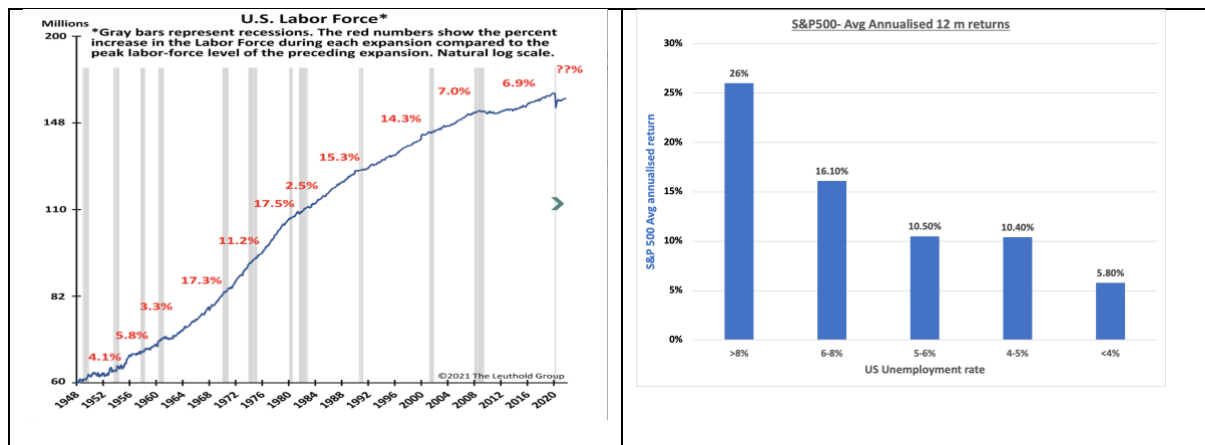
- How we look at 2022? Our positioning and approach
- Our Top picks for 2022

As a long term investor, the next 12 months' outlook for the companies in our portfolio is not the significant part of our valuation paradigm and view. Generally, at year end, we do some reassessment on the basis of the operating and stock performances of the companies in the last twelve months and make some marginal changes in the portfolio holdings and size based on our macro outlook for the next 12 months. Here is our macro outlook for 2022:

Bullish Trends	Bearish Trends
Unemployment level is understated	Labor participation changes become permanent
Econ growth remains solid	Inflation stays elevated
Inflation comes back down	Virus mutates
Corp margins stay elevated	Central banks become less accommodative faster
Messaging from Financial markets	Risk seeking/multiples decline

² <https://fivetwelvethirteen.wordpress.com/2015/02/07/cognitive-reflection-test/>

An Indiscernible Labor Market



Source: Leuthold Research

Source: FHFP

In our opinion, the above two graphs define our macro view for 2022. These graphs highlight what should we expect in terms of equity returns depending on where we are in the economic cycle. The current unemployment rate in US is ~4%, eerily close to the full-employment level which is often a sign of the peak of the economic cycle. Since 1950, in every economic cycle, the labor force in the US has increased by about 9.5% from the peak employment of the last cycle. Mysteriously, right now about 1.4% of the employed work force in the US, or 2.4mn workers, that were employed in Feb 2020, have still not come back to work. If this economic cycle were to resemble the pattern of previous cycles in any way, we could be looking at an actual unemployment rate twice the current rate.

Here is our back of envelope calculation of US unemployment rate:

USA	
Current labor force	162.3 mn
Un-employed	6.32 mn
UE Rate	3.9%
Feb-20	164.58 mn
Dec-21	162.30 mn
Missing people	2.28 mn
Avg labor growth in cycle	7%
Potential labor force	176.10 mn
Potential labor joining this cycle	13.8 mn
Potential UE Rate	7.8%

Stock market returns heavily depend, as we showed in the above graph, on the unemployment rate now and how much potential work force is to join the employment market. This determines the monetary policy stance by the central bank, the direction of liquidity and

inflation in the system. There is an unprecedented uncertainty around whether we are very close to full employment or far from it. This indiscernible aspect of a usually very predictable labor market is in our opinion the biggest macro risk and opportunity of 2022.

Messaging from Financial markets for 2022

Financial markets are portending a slow and a more normal growth year in 2022 and inflation coming down from elevated levels. In our opinion, the US treasury yield curve is suggesting that inflationary pressures will soon abate as the economy decelerates significantly from 5% GDP growth in 2021 to close to 3% in 2022. The equity market is also giving a similar message, as all the economically sensitive sectors and stocks are down from the peaks they achieved in 1Q21. Both equity and bond markets are not flashing recessionary signals at the moment. However, the only worrying sign that is flashing amber is the Eurodollar futures curve that has recently inverted.

Our Positioning For 2022

Last year our allocation to stocks averaged around 80%. We are looking to scale it up to close to 90% during 2022. **The primary reason we are going to increase our allocation is the better visibility into the businesses that we own in our portfolio in 2022 versus last year.** Companies are much better placed to provide guidance about the target for this year which also improves our confidence in increasing our allocation. Although, we do not rule out increased volatility this year but we are overall positive. Why not 100% allocation? The answer is valuations. **Although we expect 11% revenue and 17% profit growth of our portfolio companies in 2022 which is 1.7x better than the overall market, valuations are still high.** We might use the corrections during the year to increase our allocation.

We often find ourselves in discussion focussing too much on macro with our partners. This is a reminder our focus as investors leans toward bottom-up selection of high-quality companies at attractive valuations.

Our New Positions

During the fourth quarter we built six new positions in the following stocks:

Accenture- (ACN)

Market Cap _USD 90bn. 15-25% earnings growth expected in next 5 years

Accenture (ACN) is one of the largest strategy and consultancy firms in the world with \$50bn revenue in FY 2021. ACN clients are primarily large and medium size businesses. ACN helps them build their digital core, transform their operations, and accelerate revenue growth and

create efficiency. There are three primary reasons for our interest in this company, 1) Coming out of the pandemic they have significantly increased their footprint in the technology space and are providing solutions to drive enterprise-wide transformation—such as moving them to the cloud, leveraging data and artificial intelligence, and embedding security and sustainability 2) Accelerating margins. 3) Fast growing booking backlog.

Ryan Specialty Group (RSG)

Market Cap- USD 4bn. 25% p.a. earnings growth expected in next 5 years

Founded by Patrick G. Ryan in 2010, Ryan Specialty Group (RSG) are a rapidly growing service provider of specialty products and solutions for insurance brokers, agents and carriers primarily in E&S market. RSG provides distribution, underwriting, product development, administration and risk management services by acting as a wholesale broker and a managing underwriter.

The company operates in a unique Excess and Surplus (E&S) niche of the insurance market. Excess & Surplus (E&S) is a specialty market that insure things standard carriers won't cover. The difficult or high-risk exposures in which E&S carriers specialize may range from a mobile home or a day care centre to a multinational oil company, and anything in between. Ryan are the second-largest U.S P&C insurance broker according to premium volume reported in the 2020 Business Insurance broker rankings Special Report. Ryan addresses the growing need for specialists in the increasingly important E&S market. In 2020, 70% of the total premiums Ryan placed were in the E&S market.

Insurance carriers sell commercial P&C products in the United States through one of two markets: the Admitted or “standard” market and the E&S market. Approximately 83% of U.S. premiums are generated through the Admitted market, which has highly regulated rates and policy forms. As a result, products in the Admitted market are relatively uniform in price and coverage. The E&S market comprised \$65 bn of direct written premium in 2020. In the E&S market, carriers have more flexibility to customize rates and coverage. This facilitates the underwriting of risks which are characterized by a complex profile, unique nature, size or are otherwise difficult to place. The overall top five U.S. writers of E&S products in 2019 included: AIG, Markel, Berkshire Hathaway, W.R. Berkley and Nationwide, with whom Ryan maintain meaningful relationships. Lloyd’s, which represents a market of 88 syndicates, is also a prominent player in the E&S space and approximately 22% of 2019 E&S.

Our interest in Ryan is based on three key reasons: 1) The founder Patrick Ryan. Nobody understand the insurance broking business better than Patrick. He founded the Aon in 1980 and led the company to become the number one insurance broker in the world when he

retired in 2010. He then founded Ryan and focused on a niche knowing fully well the potential of this business. In the last ten years company has become a leading E&S broker in the US and Patrick owns 40% of the company. 2) Business model. E&S industry is a very fragmented industry with significant scope for consolidation. 3) Margin improvement.

Aon PLC

Market Cap USD 63bn. Around 10% p.a. earnings growth expected in the next 5 years.

Aon is the one of the leading B2B insurance brokers in the world and the largest in Asia. It primarily provides advisory and solutions to institutions globally in Risk, Health & Retirement segments. Risk segment, which includes commercial and reinsurance broking, is the main growth driver for the firm accounting for > 60% of revenues and generating margins > 20%. In 2021, Aon placed around USD 300bn in premiums across risk and health segments and had USD 3.4trn of advisory assets in retirement segment.

Risk segment has toll-booth attributes with ~70% of business as core, recurring and relatively immune along with very sticky customer relationships, limited capital requirements, and flexible cost structures. Aon customer retention rates are over 90-95%.

Our interest in Aon is based on three key reasons: 1) Resilient business model with high cash returns on capital supported by tailwinds from increasing demand for risk advisory, 2) Market share increase as Aon is positioned better and stronger than smaller brokers to cater to the needs of the stakeholders in the insurance value chain, and 3) expected margin improvement due to cost and revenue synergies from Aon's inhouse business services initiative.

Eurofin Scientific

Market Cap EUR 21bn. Double digit revenue and earnings growth expected in next ten years

Eurofin Scientific is the world leader in food, environment, pharmaceutical and cosmetic products testing and in AgroScience CRO services. It is also one of the global independent market leaders in testing and laboratory services for genomics, discovery pharmacology, forensics, advanced material sciences and for supporting clinical studies. Eurofin fits in well in our portfolio of high quality medical devices companies and serves a unique market of cosmetic product testing. Based out of France, the company has very strong ties with large European cosmetic companies and also with large pharma and biotech companies for genomics. About 33% of the company is owned by the family of its founder Dr. Martin Giles. Eurofin was on our radar for a long time and a correction in the last quarter allowed us to build a position in the stock.

Bollore

Market Cap EUR 14bn. Sum of the parts thesis with significant upside and ongoing active catalysts for re-rate.

Bollore is a holding company within the Bolloré family interests listed in Paris. The company owns significant stakes in Vivendi, Universal Music and logistics business. The majority interest owning family has been moving to unlock the value presented by the current discount of the trading valuations of the holding companies to the listed assets.

The moves have included the recent spin-off of Universal Music (we own) from Vivendi and an ongoing aggressive accretive buyback of Vivendi shares. The ports and logistics business has received a takeover offer recently for EUR 5.7bn - the proceeds will be utilised at the Bollore level to buy-back shares and extinguish debt.

The kicker with Bollore is the complex ownership structure that implies Bollore owns a significant portion of itself. As this is unwound and the company approaches the sum of its parts – we think there is over 100% upside.

We have invested across this structure for some time now, initially seeking an allocation to the Universal Music spin.

S&P Global

Market Cap USD 100bn. Around 10% p.a. earnings growth expected in the next 5 years.

S&P Global is a global financial data co that provides Ratings, Benchmarks, Analytics, and Data to the capital and commodity markets worldwide, solutions that are mission critical for financial institutions and corporations. The company operates through four high margin segments: S&P Global Ratings (Ratings), S&P Global Platts (Platts), and S&P Dow Jones Indices (Indices), and S&P Global Market Intelligence (Market Intelligence) with the first three exhibiting moats of network effects and high switching costs.

S&P Ratings with 50% of revenues is the largest segment. It provides issuers with credit ratings that are promoted by regulations and are highly valued by asset managers, index providers, & financial institutions. It's a bullet proof business that is a clear need of debt issuers in order from them to reduce cost of capital. S&P Dow Jones segment is the leading index benchmarks having USD 12tn in financial assets linked to it. This business is monetized in three ways: index subscriptions, asset-linked fees, and transaction royalties. S&P Global Platts segment covers commodity data, analytics, pricing, and Indices. S&P Market Intelligence segment includes products like S&P Capital IQ and SNL along with data management and credit risk solutions

that consists largely of selling credit ratings research subscriptions and data feeds to asset managers and financial institutions.

S&P's business is majority subscription based and recurring with margins > 50% and capital allocation has been fantastic. Forthcoming acquisition of IHS Markit (Market Cap USD 50bn) is major test due to the size but it's being done at reasonable terms/pricing and makes a lot of economic sense. Key long-term trends for S&P remain corporate debt growth, China capital market reforms, investors need for unique data and ESG/Climate initiatives.

Our interest in S&P is based on three key reasons: 1) Monopoly business with ability to generate high margins and returns on capital in to distant future, 2) expected long term margin improvement from cost and revenue synergies post IHS acquisition, & 3) optionality from M&A into adjacent markets such as consumer credit scoring and benchmarking & Crypto etc.

Our top picks for 2022

	Company	Country	Business	Mcap USD	FCF Yield-2022
1	Greggs Plc	UK	Bakery Chain	4bn	6%
2	RYAN	USA	Specialty Insurance Broker	10bn	10%
3	SMS Co Ltd	Japan	HealthCare- Aging	3.8bn	2.8%
4	Bolllore	France	Media	17bn	10%
5	Icon Plc	USA	CRO	24bn	4.50%
6	Fiserv	USA	Payment Solution	70bn	7%

Thank You.