

Briefings

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BY JENGA INVESTMENT PARTNERS LTD

OUR STORY REVISITED

A journey from the LSE
library to the realms of
value investing

Growth opportunities
in European equities

A luxury market reset

Notes from the Berkshire
Hathaway AGM



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Jenga Briefings

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Meet the Executive Team

Dede Eyesan

Dede serves as the Chief Executive Officer and leads the investment strategy and research

Anil Joshi

Anil serves as the Chief Operating Officer and sits on the board of directors



"Jenga IP's creation was spurred by our passion for investing in companies and creating a compounding machine for your hard-earned savings."

Letter from the CEO

It's been five years since we started laying the foundations of Jenga Investment Partners on the top floor of the LSE student library. When we began this journey, we had no idea where we could go with our passion for investing in companies.

With the support of 20 friends who provided £1,000 each, we got off the ground, investing and learning all we could about our craft and constantly improving our process, strategy, and outcomes.

Five years in, we still believe we are only at the foundational stage of building Jenga Investment Partners and we have a lot of work ahead of us.

I thank all our readers, clients and supporters. Without you, we would never have come this far and we hope to create even more value for you in the many years to come.

In this first Jenga Briefing magazine, we share some lessons learned during our journey of investing in companies and capital allocation.

Dede Eyesan
Chief Executive Officer

OUR STORY REVISITED

Jenga Investment Partners started as an investment club while Dede Eyesan was an undergraduate student at the London School of Economics.

The goal? Learn about the world, invest in good companies and create some value for the club partners.



The idea behind Jenga IP was born during a walk to university on Tower Bridge, London



Five years ago in September 2019, Jenga Investment Partners was born as an investment club with some unusual characteristics.

We had no experience in managing a Fund, no existing capital, track record nor any idea of how to actually set an investment club up.

What we however had was a deep passion for understanding how the world worked, learning about companies and entrepreneurship.

Luckily, a few friends at the London School of Economics believed in our idea and provided the initial £20,000 for the investment club.

After securing some capital, our next challenge was deciding exactly where to focus our initial investments.

Egypt or South Africa?

Jenga means "build" in Africa's most spoken traditional language, Swahili, and our initial goal was to build an African Equities Fund.

However, we soon realised covering a whole continent on day one was way too ambitious and after narrowing our list, we were left with either South Africa or Egypt.

Egypt was particularly tempting given its rich history but during our month long research, we became worried about the long term fundamentals of its economy and this was the first lesson for us on global investing:

"No matter how attractive an opportunity is, its environment matters." - Lesson 1



INVESTING IN SOUTH AFRICA

The Jenga SA Strategy was managed between October 2019 and October 2021 and provided the foundations for our global investing philosophy.

Despite never visiting South Africa, we determined that its economy offered the best environment for long-term investment, for three key reasons.

- Its equities market depth and liquidity
- Attractive companies priced at undervalued multiples
- Its economy's ability to weather external economic shocks

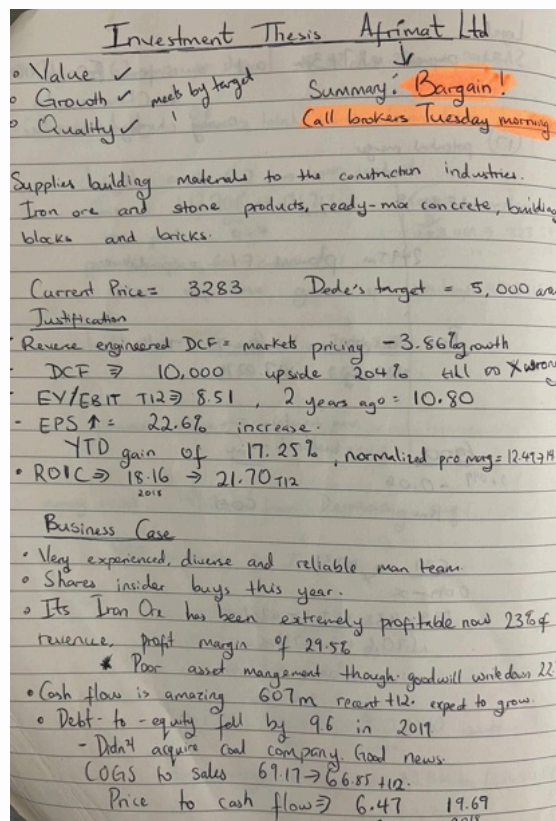
We launched our South Africa strategy on October 15, 2019, and spent the following weeks examining over 200 companies listed on the JSE All Share Index, ranging from smaller firms like AH-Vest (\$500,000 market cap) to giants like Naspers (\$120 billion).

For a novice investor, South African equities is the perfect ground to learn the principles of markets due to the sheer diversity of opportunities.

A typical day could start off reading about the poultry market and how dumping from Brazil affected profits in the local industry to examining why South Africa is so globally competitive in the software fleet telematics market.

In the first year, we invested in 13 companies led by our three largest positions; Shoprite, Cartrack (now called Karooooo) and Afrimat.

We invested in other industries we'd never thought we'll consider like platinum miners, tobacco manufacturers and HR consultants. In investing, you never know where opportunities will lead you to.



Our Initial Afrimat Thesis (Nov 2019)

"If the numbers do not scream at you on paper and pen, skip" - Lesson 2

The picture above shares our one page summary of Afrimat Ltd, a junior iron ore and materials company.

Since our investment five years ago, Afrimat Ltd has compounded its earnings by 20% CAGR, far higher than what we imagined, with its share price more than doubling during the same period.

SHOPRITE - AN SA CASE STUDY

Shoprite Holdings is an example of what we look for at Jenga IP - Companies that offer quality, value and growth. Over the past five years, Shoprite has delivered a total return of over 200%

Quality

Despite the staples retail industry being particularly low margin, it's produced some of the best compounders like Walmart, Costco and Shoprite. For a staples retailer to truly become successful it needs (1) **lowest-cost producer** (2) **widening product assortment** (3) **customer-focus** and (4) **management culture** that fosters **efficiency** and **growth**. Shoprite had all 4 attributes and had already cemented its position as the continent's largest and most successful retailer at the time of our initial investment (Nov 2019)

Value

The devaluation in the Angolan and Nigerian markets caused a fall in its earnings in 2018, with its price to earnings ratio falling from 26x to 13x in Sep 2019. These problems were fixable, all Shoprite needed to do was exit these markets and refocus its attention to the domestic SA market.



Growth

Over the last 5 years, Shoprite has compounded its earnings by 12% CAGR, more than doubling the growth experienced by its peers like Spar Group and Pick n Pay. With the right culture, people and operational infrastructure, retailers can find various ways to grow. For Shoprite, this has been cutting costs in energy and logistics, adding more Checkers stores and increasing its product assortments and delivery speed to improve its customers wallet share.



"We are copied everyday and we don't worry much about it"

Pieter Engelbrecht
Shoprite's CEO

- Pieter was promoted to the CEO role in 2017, after 12 years as its Chief Operating Officer
- After 19 years of growth, Shoprite's profits dropped 12% in 2018, causing a 59% share price decline.
- The group had entered markets like Nigeria and Angola where it overestimated consumer incomes
- His first task was a full review of these markets. Shoprite decided to scale back its presence in these unprofitable markets outside SA
- With the rest of Africa headaches largely gone, management refocused their attention on winning market share in SA
- Innovation and customer obsession drive Shoprite's strategy. A key example is Sixty60, which allows customers to order groceries from Checkers and receive them within an hour.
- Since going public in 1996, Shoprite has compounded by around 62,620% (26% CAGR) in Rand terms

GOING GLOBAL

After a year of the SA Fund, we launched our global strategy in September 2020

Following a year of implementing our South African strategy, we introduced the Jenga Global Strategy in partnership with our existing club members.

Operating on a global scale offers several advantages: it provides a broader range of investment opportunities, reduces reliance on the economic fundamentals of any single country, and facilitates continuous learning across diverse markets.

Over the past three years, we have concentrated exclusively on our global strategy, gaining valuable insights into both its advantages and the inherent challenges of investing globally.

While our previous articles have highlighted the benefits of global investing, the upcoming section of this briefing will address some of the challenges encountered.



THE CHALLENGES OF A GLOBAL INVESTMENT STRATEGY

“The secret to global investing is gaining an insight into the hopes and desires of the people who live and work in the countries you invest in” - Mark Mobius

Despite common perceptions, global investing is not a recent development. The school of global value investing has been taught by several pioneering global investors, including Sir John Templeton, who founded the Templeton Growth Fund in 1954; Mark Mobius, who managed Templeton Emerging Markets from 1987 to 2018; the Chandler brothers and Allan Gray.

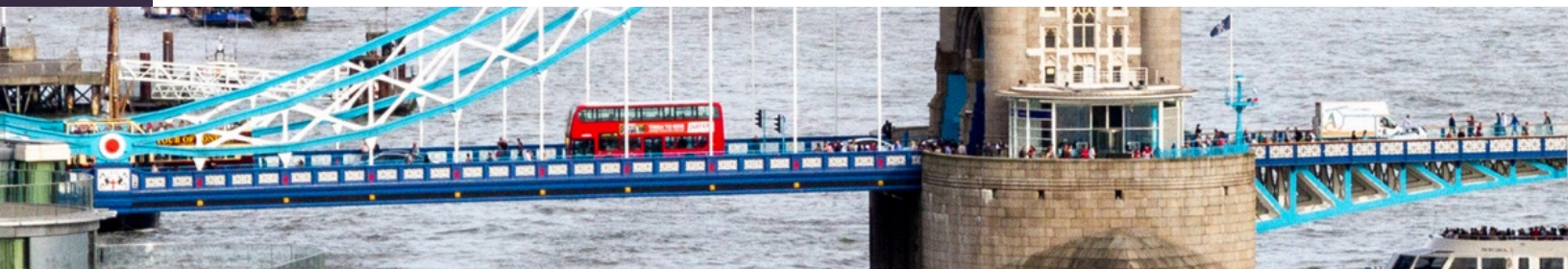
Our study of these global investors has revealed key principles and traits that contributed to their success. For instance, John Templeton's profound curiosity about understanding the operational dynamics of different countries was instrumental to his achievements.

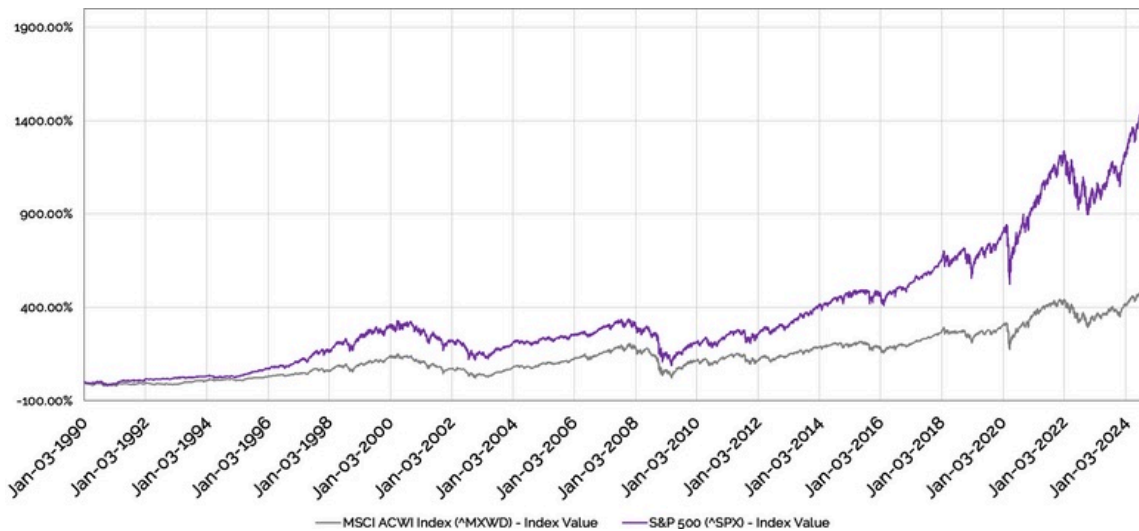
At Jenga IP, our objective is not to reinvent the wheel but to draw lessons from the investing legends who preceded us. We aim to understand their principles and how they adapted their strategies and incorporate these insights into our own investment approach.

Global investing is, however, not as straightforward as studying the methods of Sir John Templeton. It can be argued that investors undertaking a global mandate face greater risks with potentially lower returns compared to their domestically focused counterparts.

We can categorise the primary challenges faced by global investors into three main areas: costs, time, and risks:

- **Costs:** The costs of running a Global Fund from trading costs to research costs tend to be materially higher than managing a domestic Fund
- **Time:** Keeping tabs on a global portfolio of companies requires more time and effort
- **Risks:** The currency risks can be detrimental to your overall returns. Unhedged investors in a country as stable as Japan have lost -43% of their returns from the Yen depreciation since 2021





The S&P 500 Index (+1,097%) has more than doubled the return of the MSCI ACWI Index (413%) since 1990.

Global investing offers compelling opportunities, yet it has its challenges. One of the most notable challenges is the opportunity cost, especially when compared to the performance of the S&P 500.

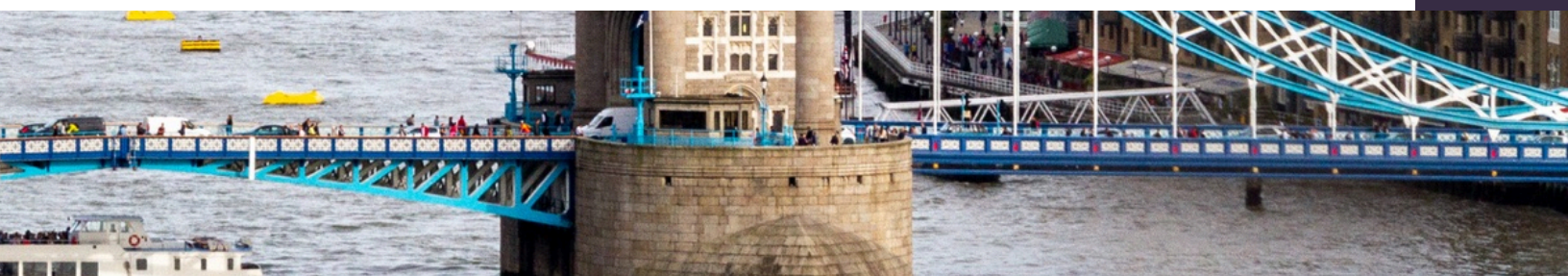
As the table above demonstrates, the S&P 500 has consistently outperformed the MSCI ACWI Index, leading to the question: Is global investing more about "diversification" than diversification?

Our comprehensive analysis of numerous investment opportunities reveals some validity to this concern, particularly in markets with low growth, poor governance, limited protection for foreign investors, and political instability.

Despite these challenges, our research in Global Outperformers (a Jenga book) indicates there is some merit in pursuing a global strategy. In response to these complexities, we have revised our Jenga Portfolio Guide with updated guidelines, a selection of which is outlined on the right.

Jenga's Global Investing Updated Guidelines

- The U.S. market warrants a valuation premium over other markets due to its strong regulatory framework, governance standards and investor protection laws
- To consider investments outside the U.S., the risk/reward profile must substantially exceed that of comparable sub-industry peers within the U.S.
- We conduct thorough due diligence on a country's investment climate and market before committing any capital.
- Our exposure to non-U.S. markets is carefully capped at a specific percentage of the overall portfolio to manage risk effectively.



MENTORS

ALLAN GRAY

A key aspect of our investment culture is seeking out mentors, who do not necessarily need to be individuals we can converse with directly or even those who are still living. We have gained invaluable insights into investing from Allan Gray, the founder of three successful investment firms.

Despite his remarkable achievements, Allan Gray remained a relatively obscure figure outside of South Africa, with only two known interviews available online—one published by Forbes and another by E Squared Investments, his South African Impact Fund.

Yet, Allan Gray delivered some of the most impressive returns in investment history. His South African Fund boasted a 29% annualised return from 1974 to 2004.

Meanwhile, the Orbis Global Fund, which he founded, achieved a 17.3% annualised return in its first decade, earning the title of the world's number one fund during the 1990s.

Given this formidable track record, we delved into the factors that contributed to Allan Gray's extraordinary success.

An Inquiring Mind

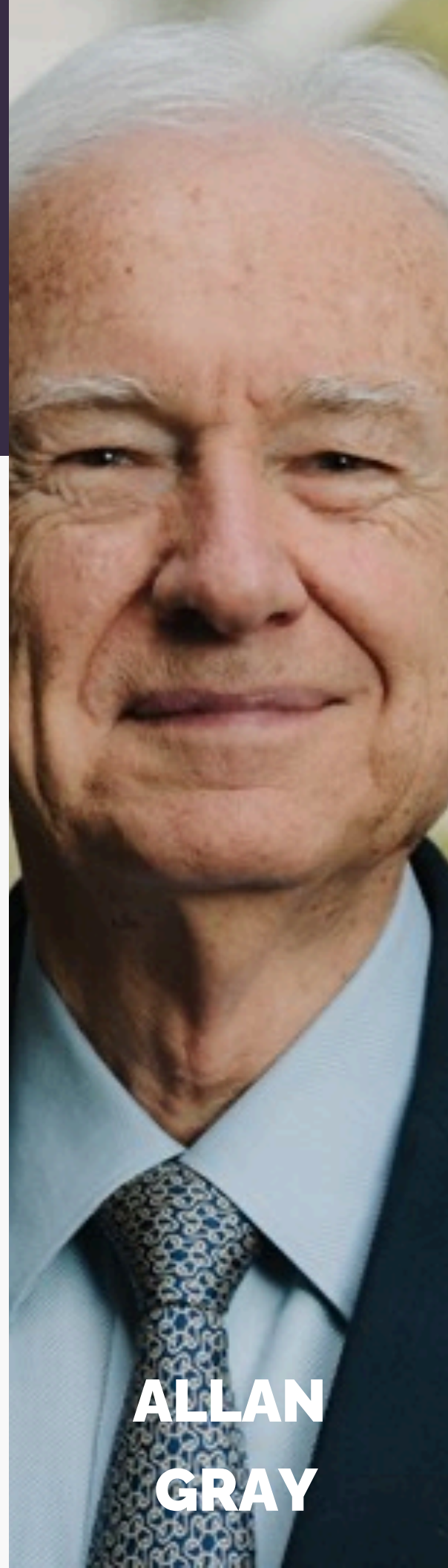
Analysts who interacted with Allan Gray often remarked on how exhausting a conversation with him could be—his sharp listening skills were paired with an unending stream of probing questions.

His deep curiosity about people, their motivations, society, and the underlying causes of events was a cornerstone of his success.

Willingness to be contrarian

Allan Gray first gained recognition during his tenure at Fidelity in the 1960s when the market plunged by 21.7%, yet his portfolio at Fidelity gained 10%. During the 1990s tech bubble; while the FTSE World Index dropped by 7%, Orbis soared by 21%.

For Allan Gray, being contrarian wasn't about standing out for the sake of it—it was a crucial strategy for preserving capital.



**ALLAN
GRAY**



**LAURA
SLOATE**

MENTORS

LAURA SLOATE

“I can do what anyone else can, just a little differently.”

It's 1968, and after hundreds of job applications and interviews, Laura Sloate has just been told by recruiters that she should forget a career in investing because she's a woman, blind, young and has no experience in finance.

Only a few years later, Laura Sloate established her own investment company named Sloate, Wiesman, Murray and Company, founded in 1974 and produced one of the best track records in the investment business, annualising over 20% in the 10 years to 1995, and also made positive returns in significant stock market crashes like the 2000 tech burst and the 2008 financial crisis.

Sloate's exceptional performance was no fluke; it stemmed from an unparalleled drive and passion coupled with relentless dedication. She often shared in interviews that her day began at 4 a.m., with the first hours dedicated to exercise.

Then at 6:30 am, she'll commence listening to the news with an average pace of 200-300 words per minute. This became a routine every day for several decades.

Investing is a journey of learning and unlearning, and there are no shortcuts. For us at Jenga IP, there's simply no substitute to hard work.

Perceived weaknesses into strengths

When looking for jobs, Laura Sloate was told she lacked a financial background as she studied American history. Her blindness was also seen as a total disadvantage and was dismissed once potential recruiters realised it.

For Laura, these 'perceived' weaknesses meant nothing to her in real terms and in her typical tough mindset, she focused on the potential strengths these factors created. In her interview with Vogue, she credited her blindness as one of her strengths over rival investment managers.

CLUB

TO

FIRM



Between 2020 and 2022, Anna Couri (right) joined us as a part-time Investment Analyst and was instrumental to our global coverage efforts

In mid-2022, we embarked on the transition from a club to a fully regulated firm.

Regulatory

Our initial challenge was navigating the regulatory landscape in the UK. To overcome this hurdle, we recruited Anil Joshi, our current Chief Operating Officer, and Steve Middleton, a former director and now operations consultant for the firm.

Both of them had over two decades of operational and compliance expertise and with their guidance and resources, we were well-prepared to submit our FCA application.

On December 1, 2022, we received the exciting news from the FCA: our license was approved!

The milestone allowed us to advance to the next phase—establishing our legal structure.

Legal

Unlike investing, there isn't much room for creativity in the legal aspects of managing a Fund and here, we worked with Ogier (offshore) and Haynes Boone (onshore).

From a legal standpoint, our goal was to create a fund structure and terms that would be both familiar and straightforward for our potential partners.

Given our global mandate, we selected the Cayman Islands as our fund jurisdiction and established a Master-Feeder Fund structure.

Additionally, to accommodate partners who preferred not to commit to a fund structure, we also developed Separately Managed Account (SMA) capabilities.

Operations

As we prepared for the Fund's launch on May 1, 2023, our final challenge was to build and solidify a robust operational infrastructure.

Anil Joshi, our current Chief Operating Officer, played a pivotal role in this phase. He guided us through establishing policies, reviewing terms and processes with service providers, and developing comprehensive training materials on fund operations.

The operational aspects have certainly posed challenges, but we remain committed to learning from our experiences and continuously enhancing every facet of the firm. We extend our gratitude to all our service providers—administrators, compliance consultants, and others—whose support has been invaluable in this journey.

INSIGHTS INTO EUROPEAN EQUITIES





INVESTING IN EUROPE

Over the past four years of searching for attractive investments around the world, we've invested in several European companies with some mixed results over the years. While the headlines typically paint Europe's listed market as a slow-growth market, Europe certainly offers high quality and growing companies.

In the Jenga research book *Global Outperformers*, among all the 10-baggers we studied, Europe represented 20% of all 446 multi-baggers, more than its share of global GDP, which shows some outperformance.

We pondered on the question how does Europe still present opportunities despite the low economic growth experienced in the regions and concluded opportunities on the continent can be grouped into three main types:

- Countries going out of favour
- Innovation-led new competitor
- Technical markets, global audience

In the next few sections, we examine current investments in each Europe investment type.

THE EUROPE EQUITIES PLAYBOOK

1 Countries out of favour



Extremely cheap companies driven by market panic for a whole country – i.e. Greece in 2012, UK in 2021, Poland in 2022

2 Innovation-led new entrant



Companies addressing a market previously dominated by slow moving European conglomerates – i.e. Wise Plc, Adyen, Shelly Group

3 Technical markets, global audience



Companies operating in technical markets with moats built over decades, serving a global customer base – Epiroc, Novo Nordisk, Atlas Copco, Ferrari

1. Countries Out of favour

Polish Equities

Poland is our second largest position by country and we continue to see very attractive, well-managed companies with growth prospects available for undervalued prices.



DEEDE EYESAN
CONTRIBUTOR



Our investment approach at Jenga IP is to focus on bottom-up opportunities in specific sectors and shortlist the most attractive companies.

Upon reviewing our shortlisted companies, we take note of the patterns and one of these was the presence of high quality and growth companies priced below the broader market in Poland.

Poland has come a long way since its 1989 Economic Reform (The Balcerowicz Plan), a period when its economy experienced hyperinflation, massive emigration, protests and a high reliance on SOEs.

Long term inflation has fallen from 45% in 1992 to 4.3% today, its GDP per capita has increased six-fold in the past 30 years, only behind Ireland and Romania in Europe, over the past 10 years.

Its ranking on key productivity metrics like education, technological capacity, healthcare have largely increased, contributing to lots of wealth creation in the Polish economy.

Today, indexes like the FTSE Russell consider Poland as a developed market and is typically seen as a case study to the rest of the Central and Eastern Europe region.

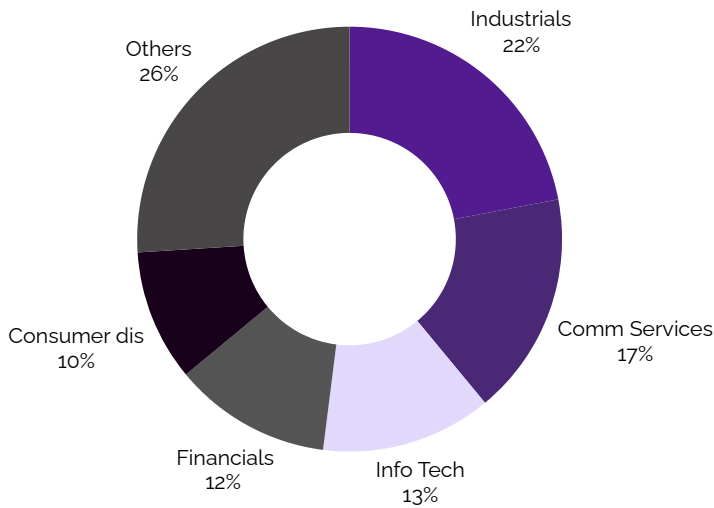
With that said, there's been a few reasons one might be bearish on the market.

First, the Russia-Ukraine has structurally impacted the country from population, energy and food costs and inflation, the currency volatility experienced in the past two years and internal tension.

Politically, there's been increased tension with Europe and media freedom and the government's influence on the public.

“ *During our visits to Polish companies, we've been impressed with the level of transparency, drive for growth opportunities and the culture for innovation.* ”

Poland GICS (by number of listings)



Despite the strong performance of the Polish Economy, an investment in the MSCI Polish Index would have returned just 2.5% annually, compared to 8% in the MSCI ACWI index, over the last 30 years.

As we have previously learned, while a good economy might be a boost for an investor, it doesn't necessarily lead to spectacular results.

The reason for this is two fold;

- divergence between large and small caps
- Limited float in most companies for large institutional investors.

Poland has over 600+ listed companies but only 25% (173 companies) have a market capitalisation above \$50 million and 6.5% (44 companies) above a market capitalisation of \$500 million.

From a float availability lens, only 13 Polish companies are accounted for on the MSCI Poland Index.

In the chart above, we segment the Polish market into its top industries (GICS) from a number of listings perspective, led by industrials (22.7%), Communication Services (17.6%), and Information Technology (13%)

Among these industries, two stand out relative to the global distribution, Industrials and communication services.

There are many family-owned and niche industrials businesses listed in Poland concentrated in sub-industries like PVC windows, automotive parts and other building products.

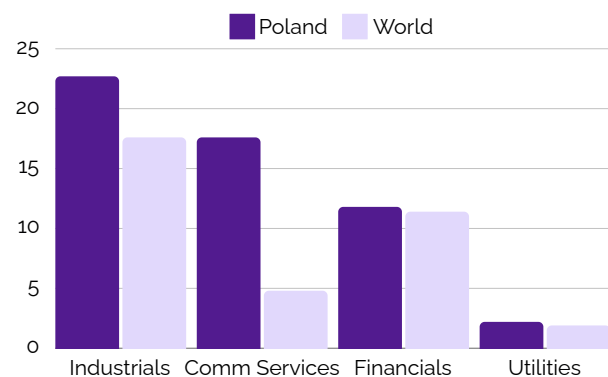
The large proportion of communication services (17%) which is only 4.8% of all listings globally (chart below), is largely due to the number of listed video game developers in Poland. A quarter of all listed gaming developers are Polish companies.

For us at Jenga IP, our interest in Poland is particularly concentrated on two key themes; its growing technological competitiveness and its expanding consumer market.

In the latter, LPP SA, the clothing retailer having compounded by 31% since going public in 2001 has portrayed the opportunity in serving the Polish consumer market over the years.

Today we see many more consumer-oriented companies and we recently invested in Dino Polska, a grocery retailer we discuss in the next section.

Poland GICS versus the World average



CASE STUDY: DINO POLSKA

A Polish grocery retailer

Dino Polska is a fast growing Polish grocery retailer serving rural and underserved regions in Southern Poland. Founded in 1999, Dino Polska currently has over 2,500+ stores from 410 stores 10 years ago and continues to grow its presence into new regions and communities in Poland. We recently invested in the retailer.



Food retail, at first glance, might look like an unattractive market, as we learned from our case study on Shoprite, but the high barriers to entry and success, oligopolistic market structure and opportunity for store growth serving large addressable markets present an opportunity for a few companies. We believe one of these is Dino Polska.

The media-shy Tomasz Biernacki founded Dino Polska in 1999 after several unsuccessful retail ventures. He partnered with a private equity company to expand grocery retail to rural communities in Poland.

Today, Dino Polska maintains one of the best food retail unit economics, growing its store count by 19.8% over the past decade.

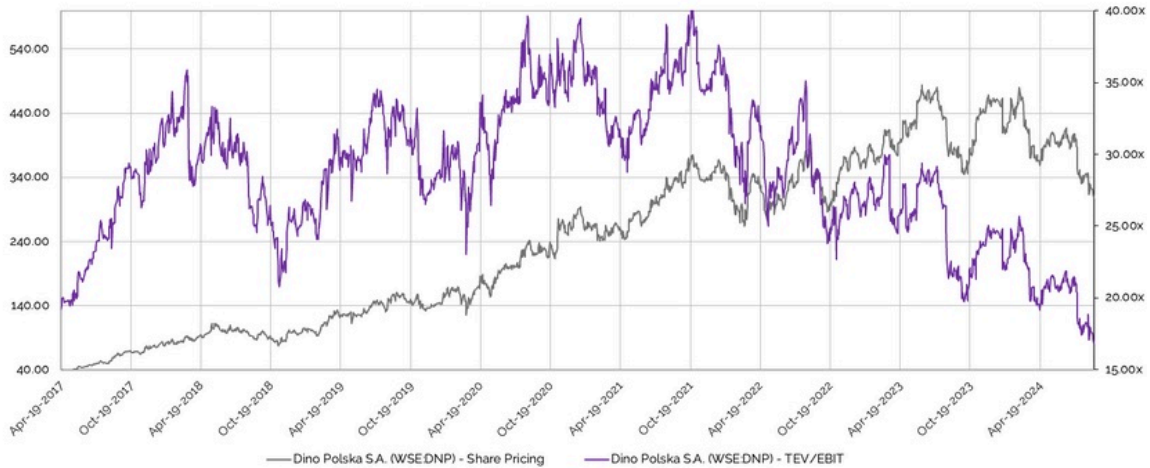
The Dino Polska secret sauce

At their core, successful retailers share a strong culture, effective capital allocation focused on cost management, and an obsession with meeting customer needs.

Given these customers needs differ in markets and cultures, the store formats in food retail is quite broad.

Dino's unique insight into its Polish customers boiled down to two things;

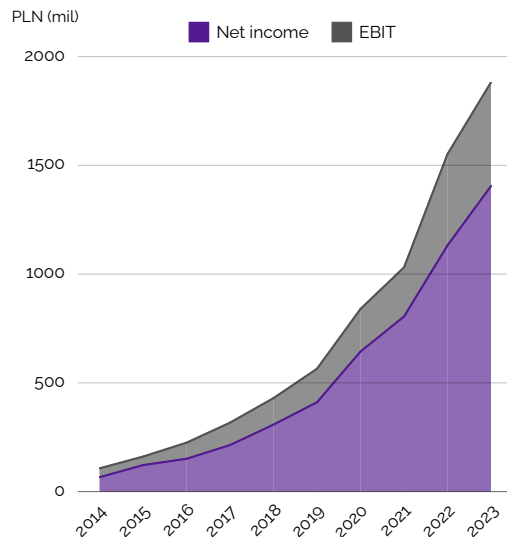
- Underserved opportunity in rural Poland
- Preference for meat counters within stores and at low prices



Dino Polska currently trades at its lowest EV/EBIT (16.8x) since its IPO in April 2017.

With these two key insights, Dino Polska formed a formidable business which has steadily grown organically from 400 stores in 2014 to 2,500 stores today.

Dino maintains among the best unit economics we've seen in food retail due to its centralised logistics supply chain, minimal rent expenses (Dino owns the land of all of its stores), its emphasis on local sourcing for fresh food, minimal balance sheet debt and its lean management team.



Dino Polska has compounded its EBIT (37.5%) and net income (40%) over the past 9 years

Challenges in the current Polish food retail industry

The opportunity to invest in Dino Polska at what we believe is an undervalued trailing multiple of 16.8x EV/EBIT (chart above) stems from the recent pressures in Poland's food inflation.

After the outbreak of the Ukraine-Russia war, food inflation increased from 1.1% in H1 2021 to 19.7% by the end of 2022. Today, food inflation has decelerated to 2.3%, which caused an aggressive price war in the Polish grocery market led by Biedronka, Aldi and Lidl.

From our view, Dino has the best balance sheet among its peers and given its superior economics, we see this as a short term blip in its longer term growth potential.

Jenga's Dino Polska View

- Among the 129 staples distribution and retail companies with a market cap above \$1 billion, only 21 have consistently earned a return on equity above 20% in each of the last 5 years.
- For these 21 companies, only Dino Polska is expected to grow earnings above 15% over the next 3 years by sell side analysts, Yet, Dino Polska trades at a forward multiple (14x EV/EBIT) below its Emerging Market quality staples retailer peer basket.





2. Innovation-led new entrant Shelly Group (Bulgaria)

Earlier this year, in April, we had the wonderful pleasure of welcoming the CEO of Shelly Group, our current largest position, to our office in London. Shelly Group is a remarkable growth story coming from an unlikely area, Bulgarian innovation.

Its co-founders, Dimitar Dimitrov and Svetlin Todorov, who both own a 32.4% stake each (65% combined) in the company, spotted an opportunity in the European smart home market after years of operating Shelly's parent company, Allterco, in the telecom equipment market.

Their thesis was simple – as internet bandwidths increased, people wanted smarter, more efficient and easier-to-manage home solutions.

They noticed that the market for these devices was split into three key players:

- Conglomerates with expensive solutions: Large companies like Schneider Electric who mainly focus on industrial/warehouse clients.
- Chinese players: Very cheap but mid-quality Chinese makers like Sonoff and TP-link that lack European compliance certificates.
- Specialists: Companies that focus on one area of the home. e.g., Plejd, with lights and an Alarm.com in home security.

Shelly's market opportunity lies in delivering an expansive range of products that are more cost-effective than those offered by competitors like Schneider Electric. Additionally, Shelly ensures full compliance with regulatory certifications, setting it apart from lower-priced Chinese alternatives that often lack such credentials.



L-R Arash Roshan Zamir (Montega), Dede Eyesan (Jenga IP), Wolfgang Kirsch (Shelly Group CEO), Joshua Cole (Green Investment Partners)



Today, Shelly has grown from a small project within Allterco to representing 99% of its revenue, which led the renaming to Shelly Group.

Its products (picture above) are fairly diversified with applications addressing several parts of the home and use cases ranging from energy efficiency, smart doors, blinds and garages, heating, security, lighting, smart assistants like Alexa and also non-residential applications for offices, restaurants and hotels.

By combining quality products at affordable prices, with a deep and direct customer touchpoint, Shelly has grown its share in Europe and more recently, North America.

Today, Shelly has sold over 15 million devices and operates in 3.3 million homes. We continue to see good customer reviews and a strong pipeline of product launches at the group.

Shelly's progress has been reflected in its financial performance. Its revenue and earnings have compounded by 27% and 66%, respectively, over the last 5 years. From a balance sheet lens, Shelly maintains a near debt-free balance sheet (2% debt/capital), minimal goodwill and intangibles and a reasonable cash position at 24% of total assets.

Shelly's Quality Shortcomings

1 Frequency of product demand

We prefer companies with frequent purchasing patterns, such as those in the beverage industry, or subscription-based models that support recurring revenues. Shelly's products, however, have a long shelf life, making their revenue less recurring and reliant on acquiring new customers for growth.

2 Test of time

One of our key quality attributes is investing in companies that have stood the test of time. While Allterco has been around for decades, Shelly's products have yet to prove their resilience through challenges such as recessions, aggressive competition, and natural events, among others.

3 Market & its positioning

The smart home and IoT device market is highly competitive, with numerous players addressing various challenges. While Shelly has adopted a diversified product catalog approach, the market remains vulnerable to disruption from large technology companies and conglomerates like Schneider Electric. This competition poses a challenge to Shelly's ability to sustain global dominance.

4 Pricing power

In markets with a large number of players, pricing power tends to be limited. Shelly's growth is therefore more likely to come from volume expansion rather than pricing power. If the market sees an influx of new competitors, it could pressure Shelly's ability to sustain its current EBIT margins, as increased competition typically impacts profitability.



3. Technical Markets, Global Audience - Luxury Goods

European companies have a structural advantage over global peers in the Luxury Goods market

Europe's competitiveness in the luxury goods market stems from a blend of historical, cultural and economic factors. Countries like France, Italy and Switzerland have a long-standing tradition for craftsmanship and many luxury brands have been in existence for centuries, gaining trust and prestige due to their emphasis on high-quality products.

These brands have strong legacies and have pioneered in international expansion while maintaining their exclusivity, craftsmanship and cultural heritage, thus building high barriers to entry for new startup brands.



Jenga IP's Investments in Luxury Goods

Over the years, we have invested in four companies within the luxury goods sector - L'Oréal, LVMH, Ferrari and Kering.

Our interest in the luxury goods market is driven by the appealing unit economics, the enduring nature of prestigious brands, and the strong competitive moats established by leading players in the industry.

To date, we have exited our positions in three of these companies—L'Oréal, Ferrari, and LVMH—while maintaining our investment in Kering, which remains the smallest position in our portfolio.

A case study on Quality In Luxury Goods



At Jenga IP, we take great interest in analysing companies that have generated significant shareholder value. One notable company that we initially shortlisted but passed on was Hermès. With more research, we have gained a deeper understanding of the brand and developed a greater appreciation for its exceptional business model.

Unlike the other large luxury groups like Kering, LVMH and Richemont, Hermès has maintained its single brand focus ever since. Today, Hermès is led by the sixth generation of the Dumas family.

Initially, we saw their single-brand focus as riskier compared to diversified peers, but after deeper analysis, we understood why this model has driven superior returns.

Hermès' single brand focus has allowed its management deliver a better brand identity, product quality and control, and higher focus on its heritage.

“ Since going public in 1995, Hermès has delivered a total return of 23.9% CAGR (50,126%), producing among the best shareholder value creation in European equities. ”



THE LUXURY RESET

After experiencing growth for the past few years, including during the pandemic, the luxury market has been dealt with a slowdown in key markets like the US and China

The S&P Global Luxury Index has declined by 6% over the past year, in contrast to the 23% gain in the MSCI ACWI Index during the same period.

As with all consumer discretionary sectors, the luxury market is subject to cyclical fluctuations. However, we underestimated the extent of the downturn's impact on portfolio companies such as Kering.

There are two primary factors contributing to this decline. First, China's property-led economic slowdown has reduced disposable income and dampened demand in the world's largest luxury market.

Second, following a surge in "revenge buying" during the pandemic, consumers have shifted their spending to broader leisure activities, such as travel, dining, and hospitality.

Lessons From Our Kering Investment

Kering, the parent company of luxury brands such as Gucci, Yves Saint Laurent, and Alexander McQueen, has been part of our portfolio since 2020. However, the company has underperformed in terms of our expectations and its share price. This experience has provided valuable lessons on investing in the luxury industry.



1 Accounting for fashion risks

One of the key challenges for luxury companies with high apparel inventory, like Kering, is the heightened fashion risk with unsold stock. This increases uncertainty and makes long-term earnings forecasts more difficult. To mitigate this risk, it becomes essential to demand an even larger margin of safety in our investment approach.

2 Impact of strong competitors

The luxury goods industry is highly competitive, with several players boasting strong balance sheets, owner-oriented management, and robust company cultures. As a result, any complacency can impact a company's growth and profitability. Kering's recent challenges, have created opportunities for peers like Richemont and LVMH to gain ground.

3 Management challenges

Management at luxury groups like Kering often face the challenge of balancing multiple stakeholders, which increases the potential for internal issues. It's easy to underestimate the impact of this, but the challenges at Gucci's Italian offices have highlighted just how critical it is to address these risks for maintaining long-term fundamentals.

4 Paying the appropriate price

The key takeaway from these points is the importance of paying the right price and multiple for cyclical luxury companies like Kering. Given the inherent risks, we would not consider buying Kering's shares at 25x its through-cycle earnings.





BERKSHIRE HATHAWAY

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ANNUAL SHAREHOLDERS MEETING



We attended our first in-person Berkshire Hathaway AGM in May and had the opportunity to listen to the greatest investor of our time reflect on the conglomerate's performance over the past year.

While I'd always admired Warren Buffett, I never thought I'd get the opportunity to attend the AGM while he was still alive, so this was a special experience for me.

Dede Eyesan

Berkshire After Charlie Munger

In late 2023, Berkshire Hathaway faced the significant loss of Charlie Munger, one of the world's most influential minds and the firm's chief architect. Replacing someone of Charlie Munger's stature is undoubtedly a monumental challenge. However, the more pressing question is whether Berkshire Hathaway can continue to thrive without him and Warren Buffett.

While only time will provide a definitive answer, several factors suggest that Berkshire Hathaway is well-positioned to endure. Firstly, Ajit Jain and Greg Abel, the company's operational leaders, have demonstrated exceptional track records in business execution, growth, and fostering the right corporate culture.

During the recent AGM, we gained further insights from Greg Abel, who addressed various operational aspects, including Berkshire's utility operations, strategies for navigating the energy transition, and current challenges in its railroad sector. While the AGM may have shifted focus from the philosophical to the practical, we are confident that Berkshire's operational management will remain robust.

Secondly, from a governance perspective, Berkshire Hathaway has assembled a formidable team with deep expertise and experience, all while maintaining a culture that prioritises long-term value. This robust governance framework will be crucial in guiding the company through this transitional period.

Directors such as Kenneth Chenault, Ronald Olson, and Susan Decker bring a deep understanding of what drives Berkshire Hathaway and other successful businesses. They strike a commendable balance between having significant skin in the game and maintaining a degree of independence from day-to-day operations.

Additionally, Berkshire's investment portfolio, which includes a substantial \$135 billion stake in Apple, has benefited immensely from the strategic insights of both Charlie Munger and Warren Buffett. The challenge of replacing Charlie's input in the investment segment will be one of the most challenging tasks facing Berkshire. A recent Financial Times article delves into this issue, highlighting the difficulties Berkshire may face in managing its growing cash pile and investment strategies without Charlie's guidance.

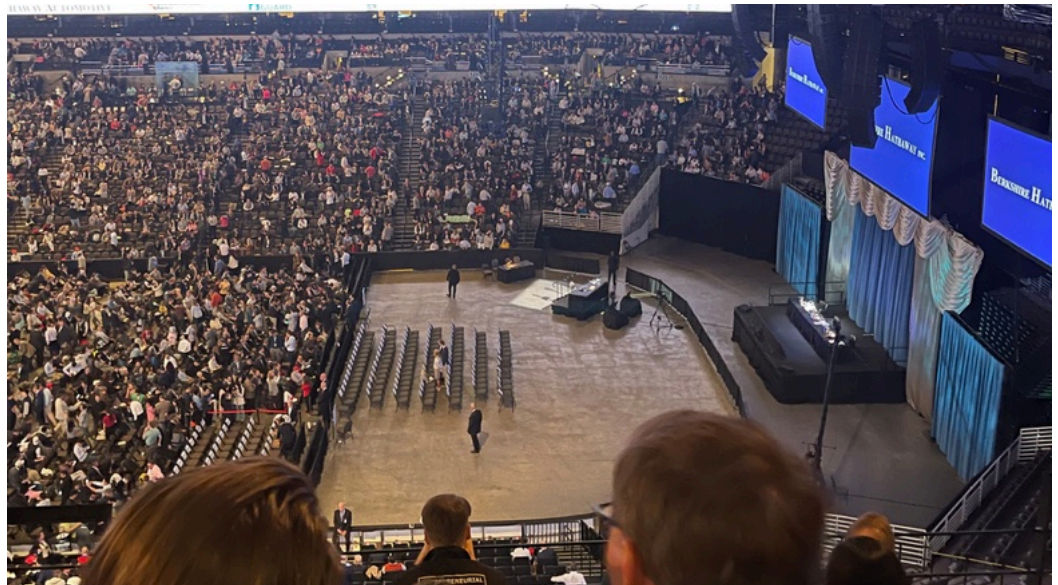
Currently, Berkshire Hathaway provides limited insight into the decision-makers behind each stock pick. While the size and nature of their investments offer clues, shareholders can only speculate whether Warren Buffett or the investment team—comprising Todd Combs and Ted Weschler—are behind specific decisions.

As the company adapts to these changes, shareholders may need to adjust their expectations regarding the investment portfolio, recognising the impact of Charlie's absence and the increased complexity of managing a larger asset base.

Dede Eyesan and HK Kim (Tcha Partners Asset Management) prepare for the Markel Group Omaha Brunch



Our view of the CHI Health Center during the Berkshire Hathaway AGM



Dede Eyesan poses with Mohnish Pabrai at the ValueX conference hosted by Guy Spier



The Buffett Triple Dip Investments

Warren Buffett's 10 Comparable Investments						
	Year purchased	P/E multiple (at purchase)	ROE - 5 years after purchase	NI margin - 5 years	Share price return - 5 years	Share price CAGR - 5 years
Washington Post	1973	6x	31%	10%	335%	34.2%
GEICO ¹	1976	7x	12%	11%	324%	33.5%
Coca-Cola	1988	15x	52%	16%	327%	33.7%
Freddie Mac	1988	8x	22%	39%	192%	23.9%
Gillette	1989	15x	52%	12%	256%	28.9%
Wells Fargo	1989	7x	22%	19%	163%	21.3%
American Express ²	1994	10x	25%	13%	375%	36.6%
Moody's	2000	36x	96%	32%	285%	30.9%
BYD	2008	12x	3%	1%	204%	24.9%
Apple	2016	11x	147%	26%	407%	38.4%
Median		11x	28%	14%	305%	32.2%

In a 1988 Fortune magazine interview, Warren Buffett described Freddie Mac, a US Government Sponsored Enterprise (GSE) that provides a secondary mortgage market as a "triple dip"

*"Freddie Mac is a **triple dip**. You've got a **low price/earnings ratio** on a company with a **terrific record**. You've got **growing earnings**. And you have a stock that is bound to become much **better known to equity investors**."*

- Warren Buffett

Buffett's concept of Triple Dips brings the worlds of quality, growth and value together as he describes in the quote above.

Freddie Mac wasn't the only "Triple Dip" investment Buffett made over the years. As shown in the table above, Buffett's classic investments, on average, were acquired at a multiple of 11x earnings for companies with an average ROE of 28% and earnings growth of 12%.

The only exception was Moody's, purchased at 36x earnings, yet it still delivered outstanding results thanks to its higher growth (29% earnings CAGR over five years) and superior return on equity.

By combining quality, value, and growth, Buffett achieved a compounded annual growth rate (CAGR) of 32% in the five years following these investments.

Investment	Year	Purchase frequency	Pricing power	Lowest cost	Switching cost	Market structure	New entrants	Balance sheet	Value chain
Washington Post	1973	2/3 years	Yes	No	Habit	Oligopoly	Medium	Strong	No
GEICO	1976	Yes	No	Yes	Effort	Oligopoly	Difficult	Strong	Yes
Coca-Cola	1988	Yes	Yes	Yes	Habit	Duopoly	Difficult	Strong	Yes
Freddie Mac	1988	Yes	No	Yes	Regulatory	Duopoly	Impossible	Strong	Yes
Gillette	1989	Yes	Yes	Yes	Habit	Oligopoly	Difficult	Strong	Yes
Wells Fargo	1989	Yes	No	No	Effort (low)	Oligopoly	Easy	Strong	No
American Express	1994	Yes	Yes	No	Effort/habit	Oligopoly	Medium	Strong	Yes
Moody's	2000	Yes	Yes	*Joint Yes	Regulatory	Duopoly	Impossible	Strong	Yes
BYD	2008	Infrequent	No	Yes	Quality	Oligopoly	Difficult	Medium	Yes
Apple	2016	2/3 years	Yes	No	Habit	Oligopoly	Difficult	Strong	Yes

Of course, identifying these companies isn't just about getting the metrics right. As outlined in the table above, we highlighted the same ten Buffett investments based on eight of ten qualitative quality factors, ranging from purchase frequency to value chain control.

- **Oligopolistic markets:** Each company operated in either an oligopolistic or duopolistic market. Minimal competition in such environments supports the potential for abnormal profits.
- **Pricing power or lowest-cost producer:** The companies either had significant pricing power or were the lowest-cost producers. They benefited from both in some cases, as seen with Coca-Cola, Gillette, and Moody's.
- **Switching costs or high purchase frequency:** While all ten companies had switching costs, in cases where these were lower, they compensated with high purchase frequency by customers, such as Wells Fargo.

Jenga's Triple Dip reflections

One of our key internal projects during Q2 and Q3 was assessing Jenga's portfolio in comparison to these "Triple Dip" investments. Upon reflection, we identified only two companies with triple dip potential: Kaspi and Luzhou Laojiao.

Both companies possess deep structural moats in their respective markets, a strong track record of growth, trade at attractive multiples (under 12x earnings), and continue to expand their shareholder base.

However, we believe we can improve on this. A central focus of our investment strategy for the coming years will be identifying and investing in more companies with the potential for "Triple Dip" economics and returns.

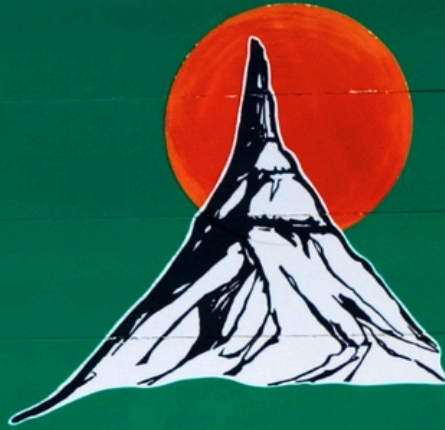


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THE JENGA RESEARCH DIARY

SEPTEMBER

2024

- Industry Screen: Consumer Staples (Food and Packaged Goods)
- Company dive: A Japanese healthcare platform

OCTOBER

2024

- Industry Screen: Industrials - Capital Goods (Trading and Distribution companies)
- Management meetings: 15 listed companies in Sweden and Greece

NOVEMBER

2024

- Industry Screen: Consumer Staples (Food and Staples Retailing)
- Management meetings: 10 listed companies in Poland and France

DECEMBER

2024

- Industry Screen: Financials (Financial Exchanges and Investment Brokerages)
- Company deep dive: Two US Non-banking financials

JANUARY

2025

- Industry Screen: Industrials (Aerospace and Defence)
- Company deep dive: Two Swedish Serial Acquirers

FEBRUARY

2025

- Industry Screen: Financials (Capital Markets and Consumer Finance)
- Management meetings: 15 listed companies in the US and Capital Markets Days

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