




# GLOBAL VALUE INVESTING

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“Buy some stocks and wait for them to go up, and then sell them. If they don’t go up, don’t buy them.”

— Will Rogers





*"He'll be sorry he missed you. But I can assure you that at the time we all considered it a stock with strong growth possibilities."*

WISHING YOU ALL THE ENERGY YOU NEED FOR  
A HAPPY AND PROSPEROUS 1974.

J. BUSH & CO.  
Incorporated



LOOK PARTNERS FUND, L.P.



# THE OVERLOOK MODEL



# **Focused & Independent Structure**

- **The Overlook Partners Fund: Overlook Has One Boss**
  - One Investment Philosophy
  - One Asset Class
  - Focused Portfolio of 20-22 Holdings
  - Small Team Incentivized by Ownership & Long-Term Compensation
  - Benefits of Overlook Stay within Overlook
  - No Side Accounts, No Special Deals
- **O3G Co-Investment Partnership Established**
- **Major Contributor to Success**





# Proven Investment Philosophy

- **Components Provide Framework for Picking Stocks**
  - Superior Businesses
  - Management with Integrity
  - Bargain Valuation
  - Long-Term Investment Horizon
- **Rigid & Demanding, Yet Flexible**
- **Confluence Creates Value**
- **Past Success Suggests Investment Philosophy Works**
  - Implementation & Execution Are the Challenge, Not Creation





## Cultural DNA

- **Create an Organization Whose Common Goal Is to Invest Correctly in Asia**
  - Engage in the Art of Investing
- **Culture Formed Around Common Philosophies**
  - Value Investing
  - Focus on Cash Flow
  - Engagement with Management
  - Innovations
  - Capital-Weighted Returns
  - Long-Term Perspective
  - Contrarianism
  - Aligned Incentives





# Overlook's Tools

- **Disciplines, Procedures & Processes**
- **Tools Form Basis of Day-to-Day Work**
  - Extensive List of Applications
  - Created & Tailored Over 29+ Years
  - Vary from Simple Reports to Sophisticated Methodologies
- **Focus on Issues Critical to Overlook**
  - Profitability, Cash Flow, Drivers, Management, Valuation, Opportunities & Risks
- **Utilize Tools to Gain Insights**
- **MFT Enhances Investment Philosophy**







# Deliver Results to Limited Partners

- **We Measure Success by Capital-Weighted Returns**
  - Control Growth of Assets Under Management
    - Capital-Weighted Returns Confirm Value of Model
  - Attack Conflicts of Interest
    - No Soft Dollar Brokerage, No Employee Trading in Asia
    - No Side Accounts, No Special Deals, MFN
  - Share Benefits by Cutting Fees
    - 22 Times over 29+ Years
- **Simply Put: We Aim to Outlaw Greed**





# Manage Partnership For Bear Markets

- **Bear Markets, Not Bull Markets, Are Times of Greatest Value Creation**
  - Actions During Bear Markets Create Years of Outperformance
- **Goal Is to Be a Buyer During Bear Markets**
  - Maintain High Quality Investor Base & Backlog
  - Access to Capital in Bear Market Is Essential
- **Commitment Must Start Years Before Bear Market**
  - Fortitude to Underperform During Bull Markets
  - Returned US\$1.0 Bn on January 31, 2018
  - Returned US\$1.0 Bn on January 31, 2021
  - Unquestioned Commitment to Investment Philosophy
- **Not Prediction of, But Preparation for, Bear Markets**

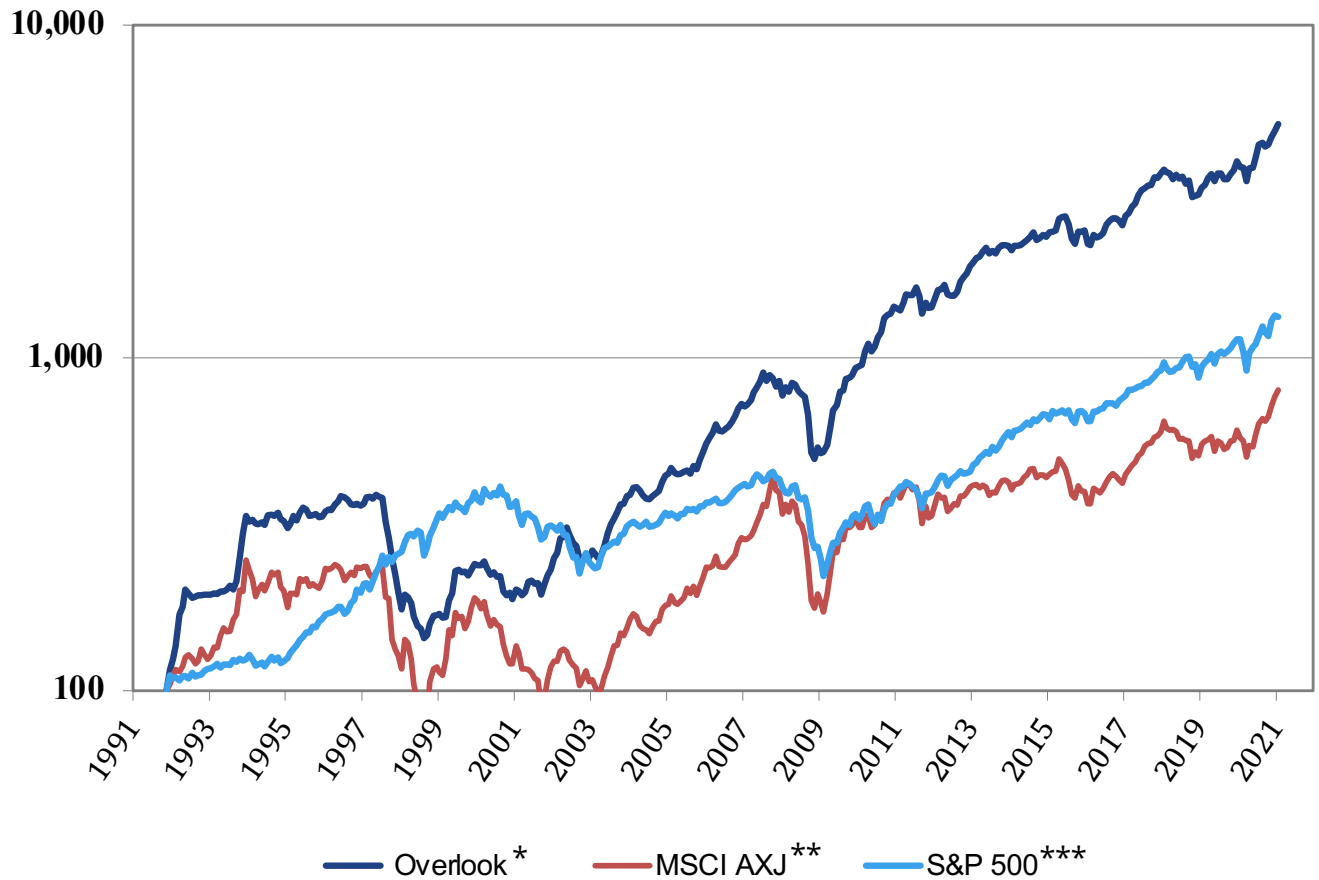


# Results of The Overlook Model

- **The Model Is Overlook's Strongest Asset**
- **6 Interlocking Components Provide Roadmap & Framework**
  - Simple Structure, Effective Investment Philosophy, Clear Objective & Long Track Record of Success
- **History Suggests Model Delivers Value**
  - Capital Weighted Returns  $\geq$  Time Weighted Returns
  - 14.3% CAGR Over 29+ Years
  - Significant Outperformance vs. Fund Benchmark
  - US\$6.8 Bn of Profits Since Inception
- **Implementation & Execution Critical Challenges**



# Performance vs. Benchmarks (Log Scale)



Multiplier	CAGR
50.4x	14.4%
10.5x	9.3%
8.0x	7.4%

\* Performance Figures are Net of Expenses and Before Performance Allocation  
 \*\* First 7 Years Based on Price Index, Rest of Series Based on MSCI Net Index  
 \*\*\* Total Return Index



# ▶ Path to Outperformance with Value Investing

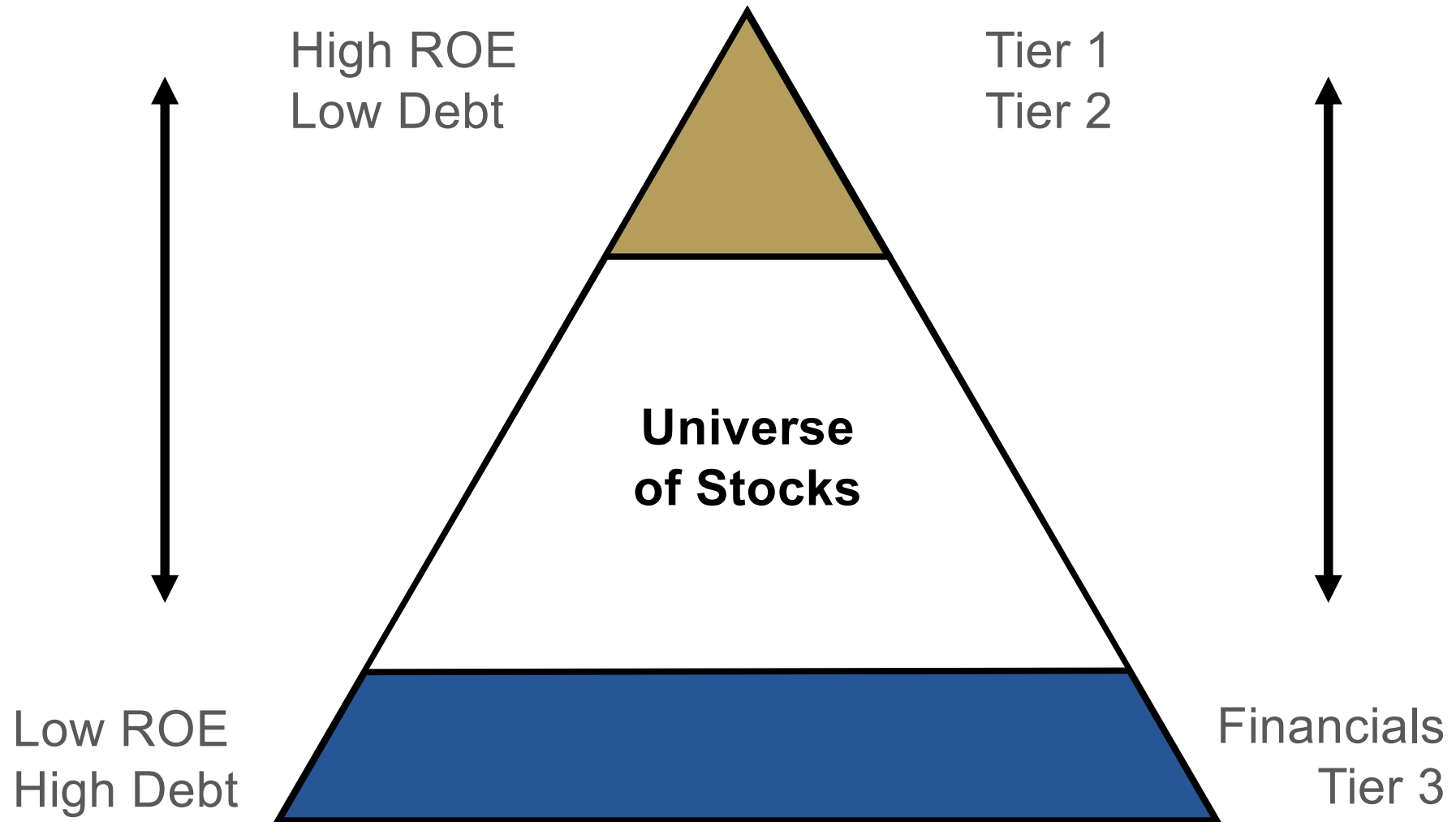
- **Concepts That Have Created Success**

1. The Triangle
2. Pricing Power
3. Cash Flow
4. High Profitability
5. Sustainable EPS Growth
6. Valuation Equations

- **Goal Is to Secure a Margin of Safety**



# 1. Path to Outperformance



**Hard for Top of Pyramid to Underperform  
Unless Valuations are Ignored**



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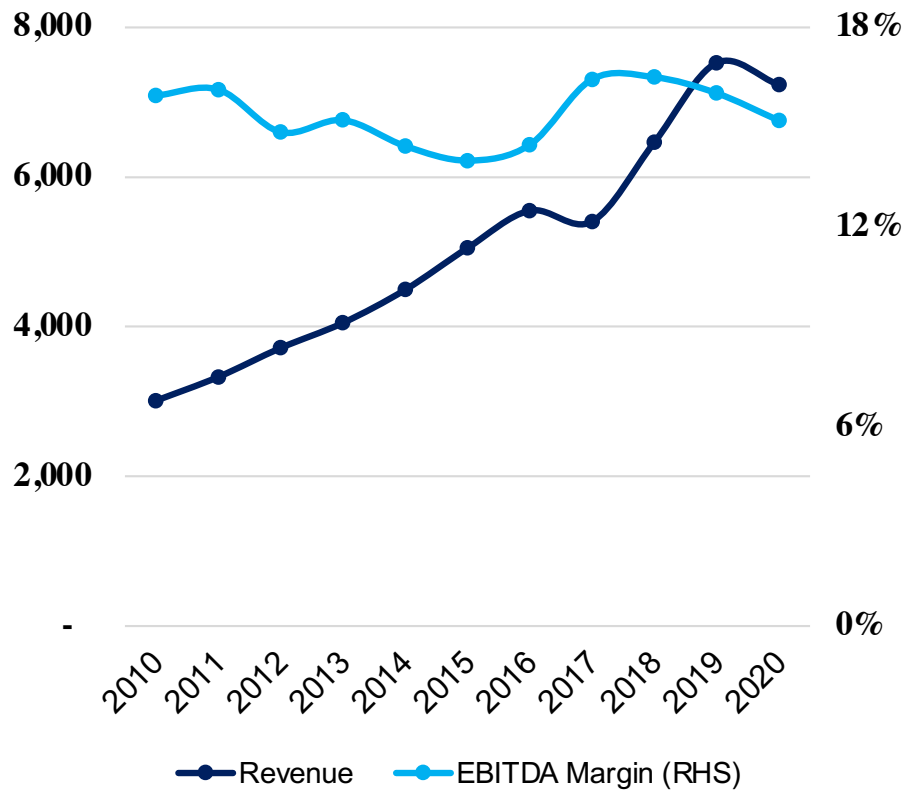
## 2. Pricing Power

- **Importance of Pricing Power Highlighted by All Successful Value Investors**
  - But How Can We Measure Pricing Power?
- **Can You Create One?**
  - Why Should Investors Want Pricing Power?
  - What are the Components of Pricing Power?
  - How to Quantify Pricing Power?
  - Where is Pricing Power Reflected on Income Statement & Balance Sheet?
  - How to Index a Pricing Power calculation?
- **Four Examples of Pricing Power**

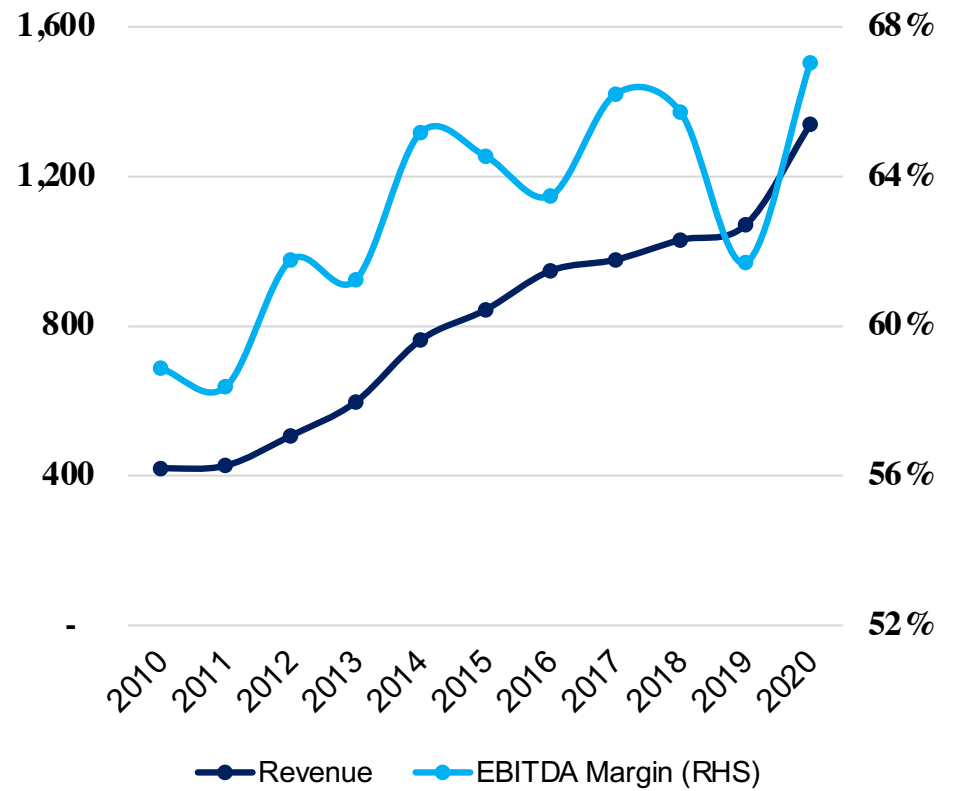


# Pricing Power In Action

## Vitasoy



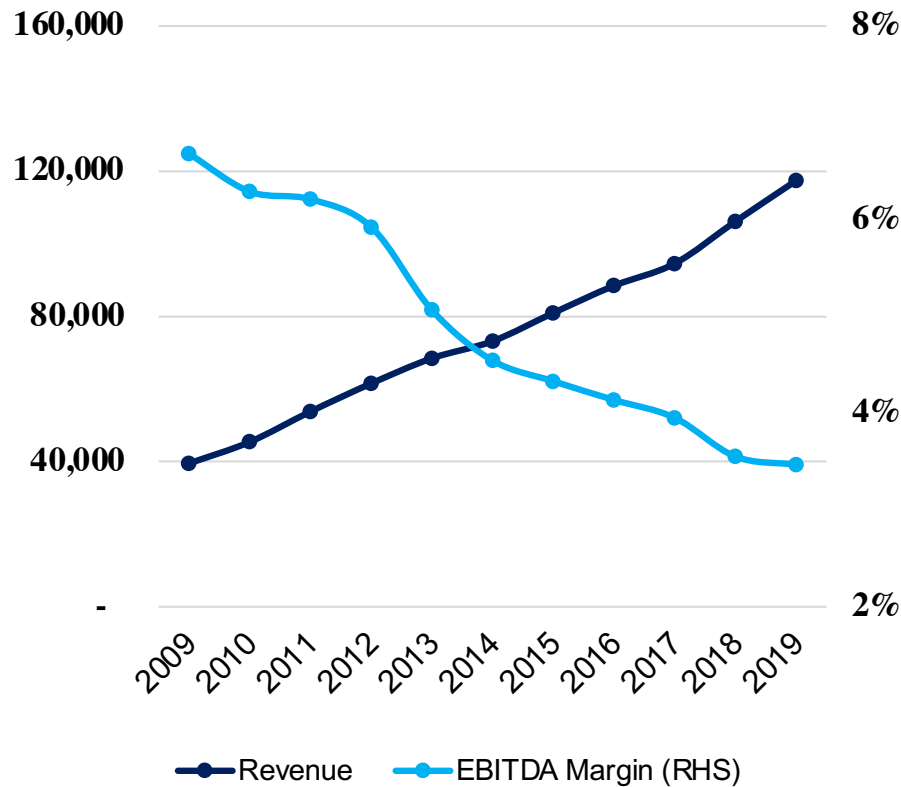
## TSMC



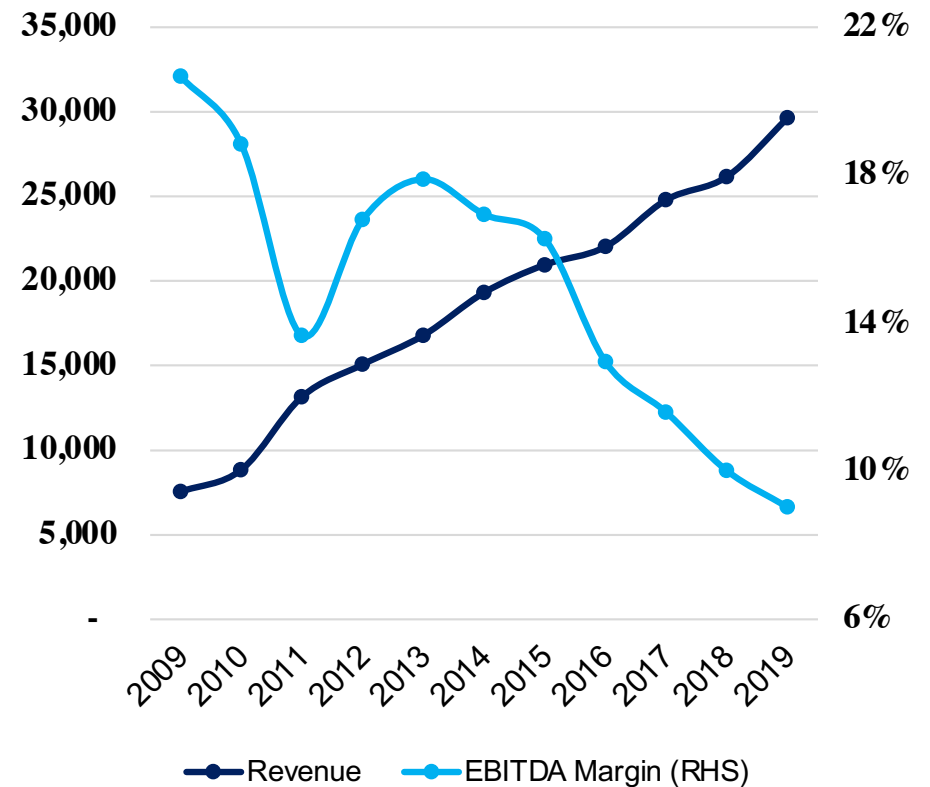


# Companies without Pricing Power

## China Communications Services



## Guangzhou Development Group



## 3. Cash Flow – Best Margin of Safety

- **Investors Must Be Specific When Saying “Cash Flow”**
- **Why is Each Type of Cash Flow Important?**
- **What Does Each Type of Cash Flow Tell Us about Health of Company?**
- **Four Specific Types of Cash Flow**
  - Net Income plus Depreciation & Non-Cash Items
  - Cash Flow Post Maintenance Capex
  - Cash Flow of the Corporate Structure
  - Working Capital Cash Flow





# Cash Flow – Best Margin of Safety

- **Places to Look for Attractive Cash Flow**

- Low Capital Expenditure
- High Operating Returns
- Negative Working Capital
- Incorrect Depreciation Policies

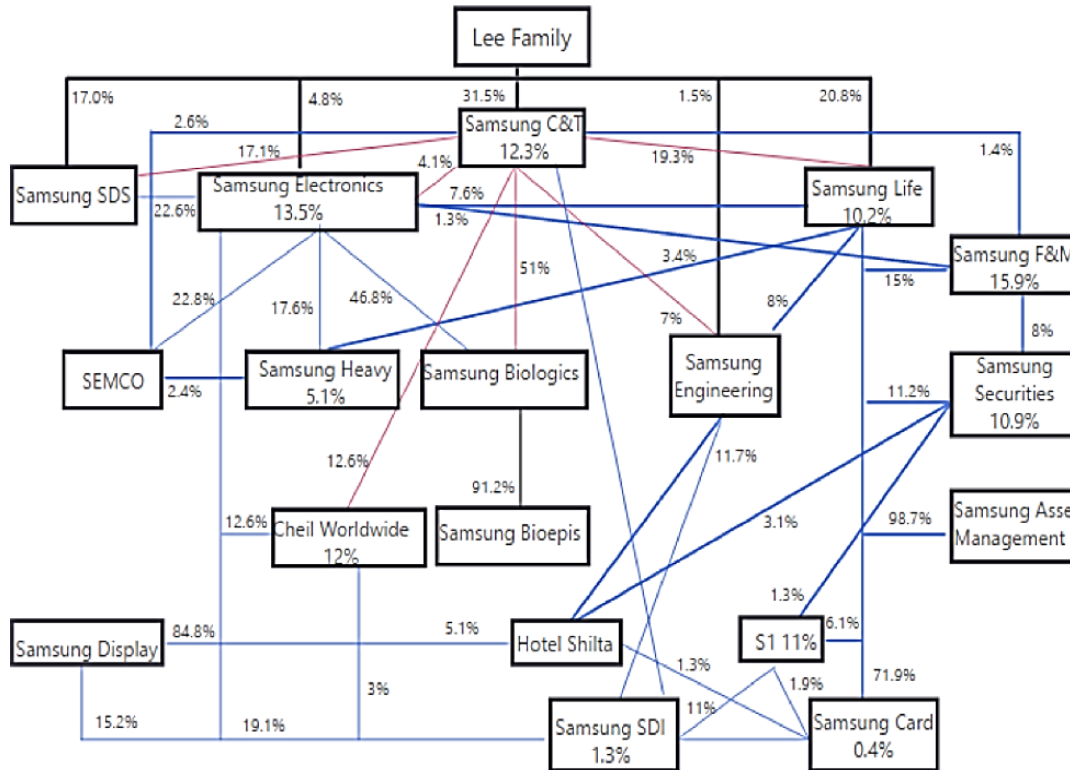
- **Reinvestment of Free Cash Flow is Critical, Particularly Over Long Periods of Time**

- Tells Us So Much About Risk/Reward of Management

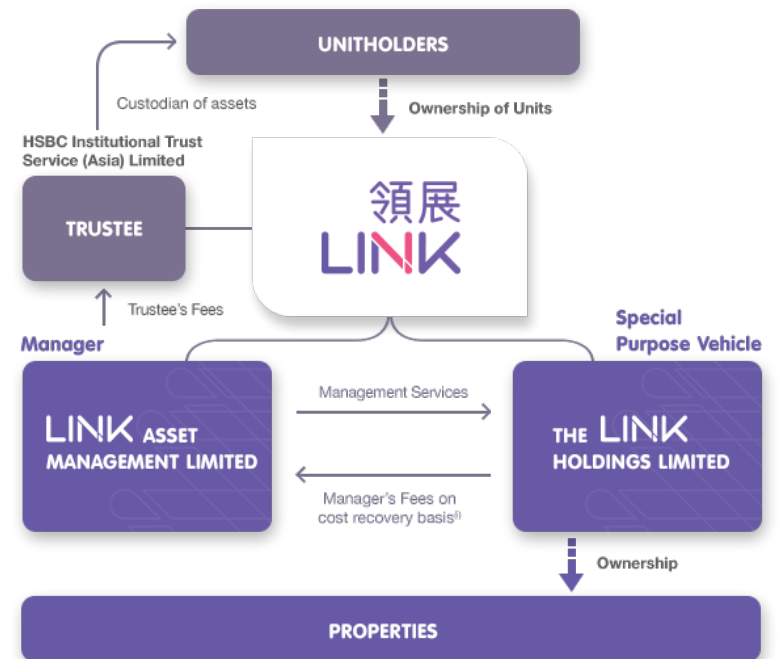


# Cash Flow of the Corporate Structure

Samsung Ownership Structure (% of Equity)



Link REIT Group Structure

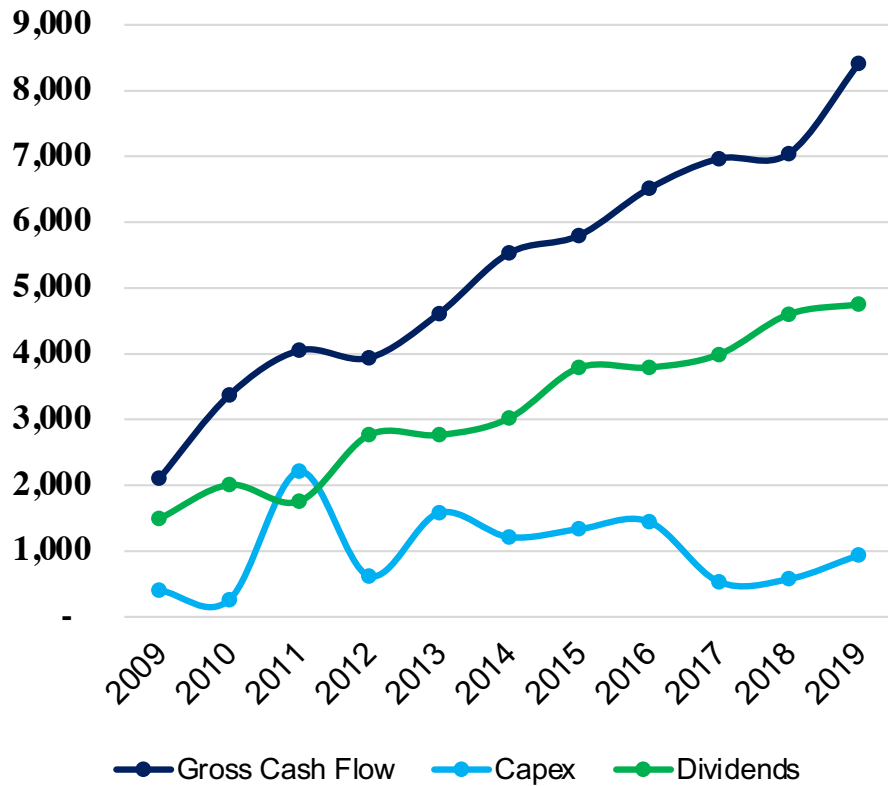


Source: One Road Research, Company Websites

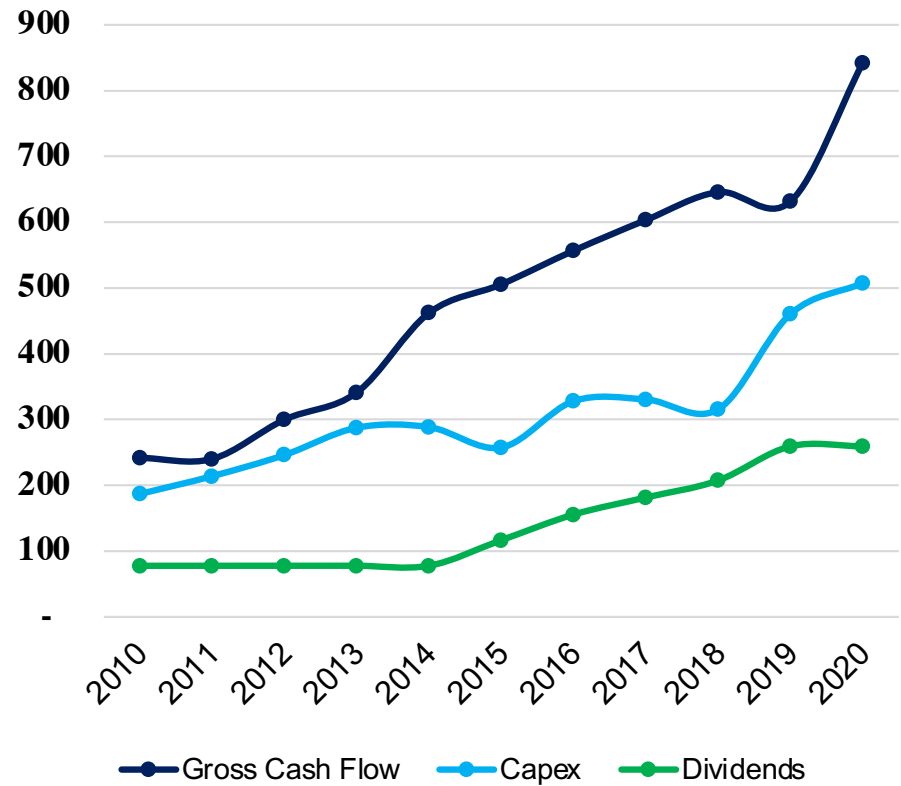


# Different Utilizations of FCF

## Advantech

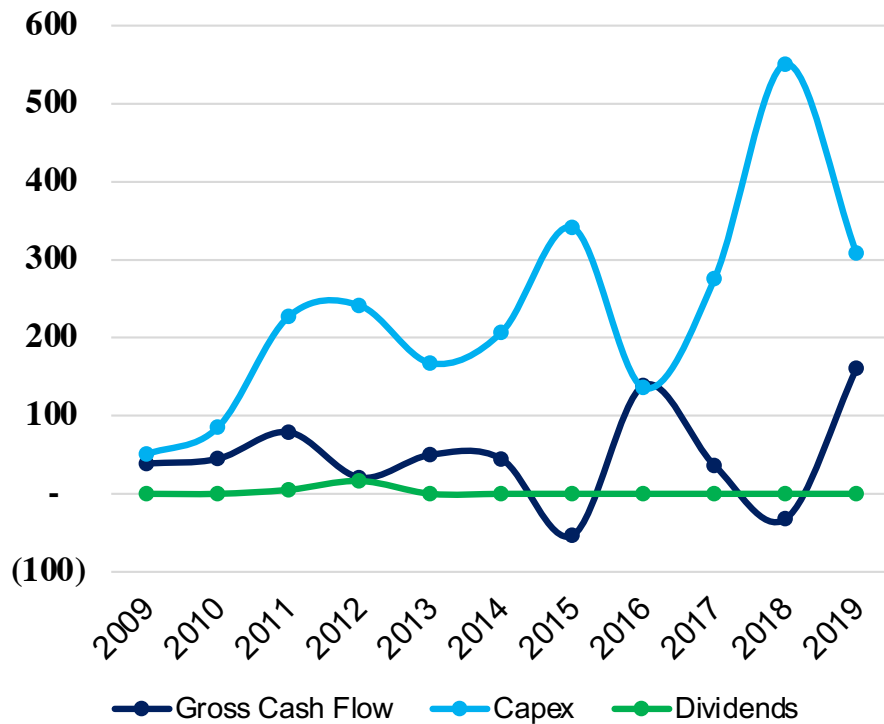


## TSMC

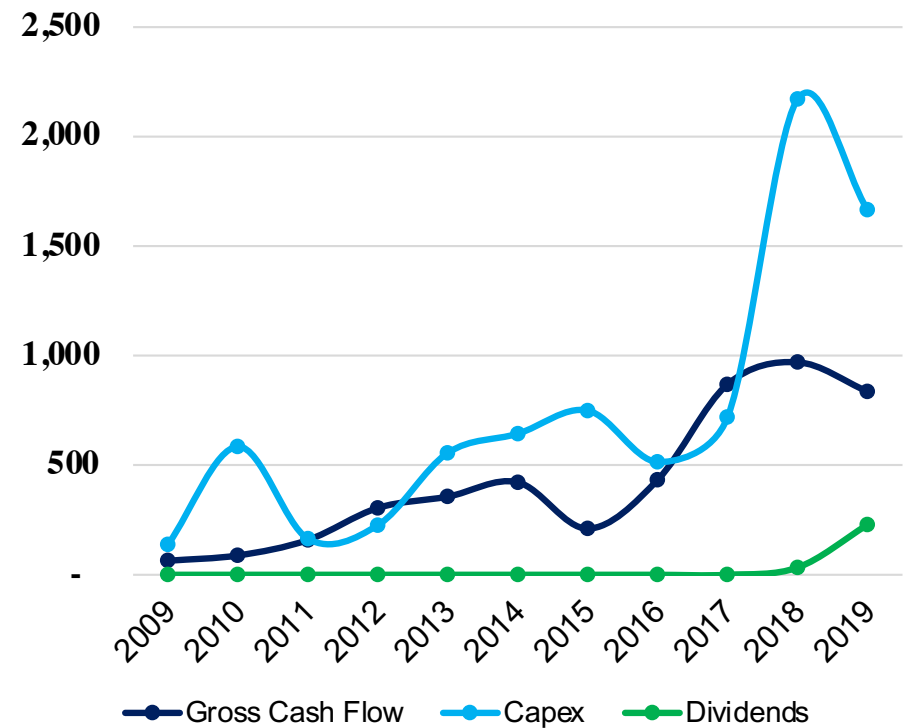


# Different Utilizations of FCF (2)

## Pengdu Agriculture & Animal Husbandry



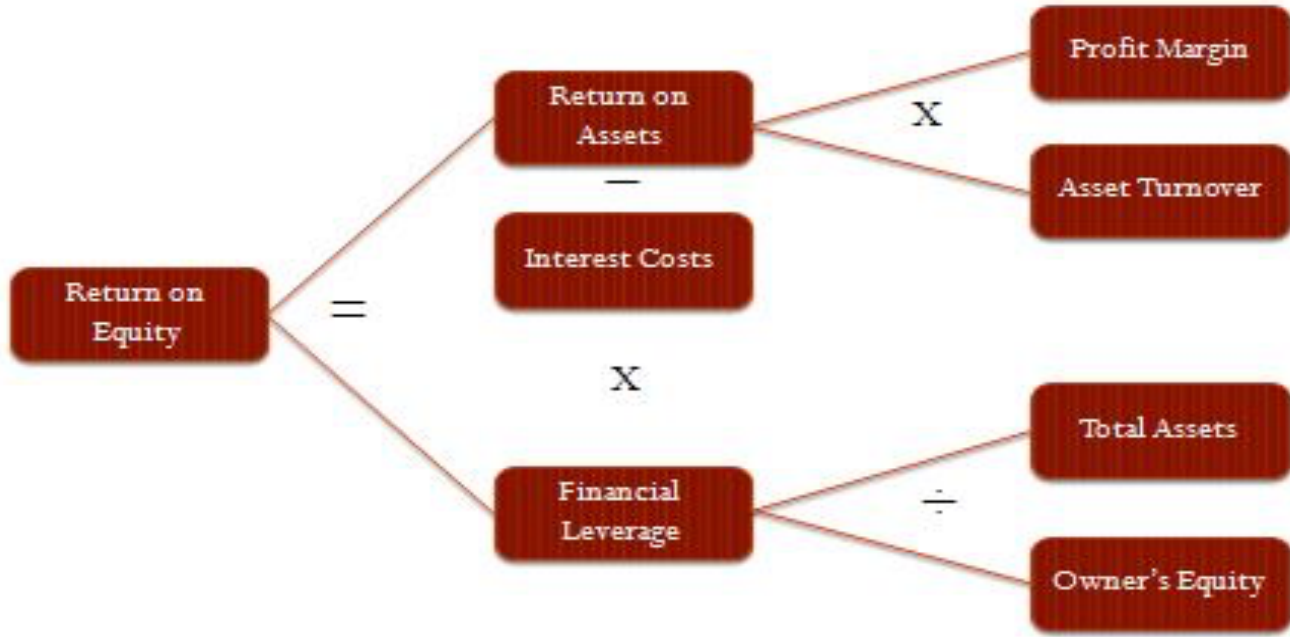
## Zhongyu Gas





# 4. High Profitability – DuPont Model

- How Do We Measure Profitability?
- What are Benchmarks for Profitability?
- DuPont Model – Best Structure Available
  - Margins
  - Asset Turnover
  - Taxes
  - Leverage





# High Profitability – Top of the Pyramid

- **Return on Equity**

- Mistaken Distinction Between High- & Low-Quality ROE
- Why Does This Occur?

- **Operating Return**

- Purest Measure of Profitability
- EBIT/Average Operation Net Assets

- **High Profitability Leads to Quality Governance**





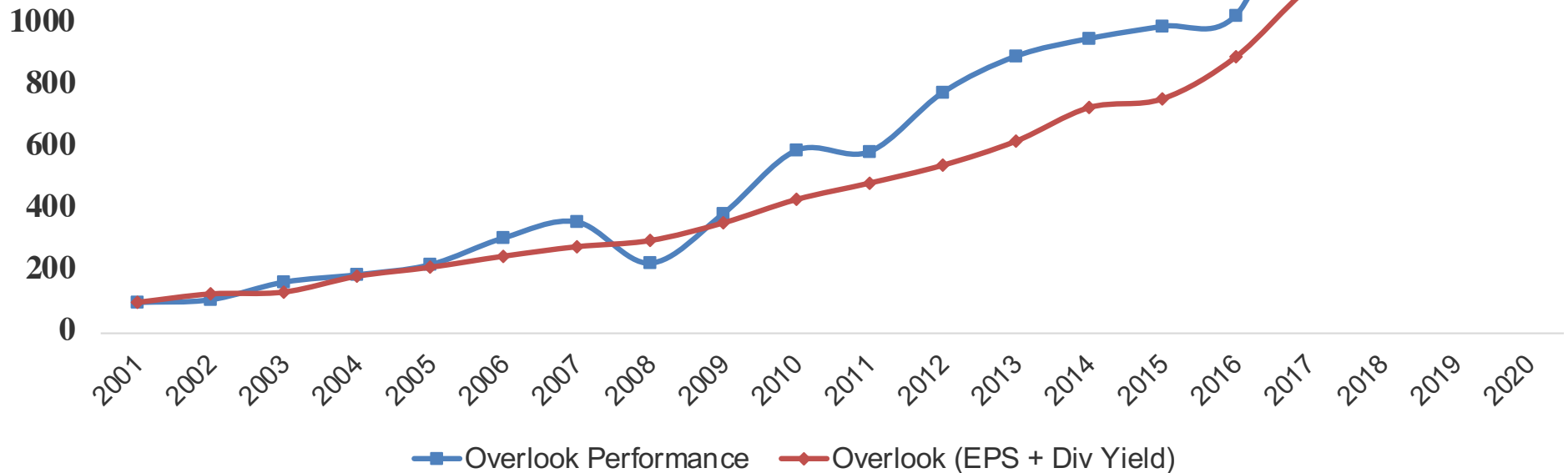
## 5. Sustainable EPS Growth

- **Earnings Growth Critical to Long-Term Performance**
  - Last 19 Years at Overlook EPS Growth plus Dividends Contributed 91% of Performance
- **Drivers of Sustainable EPS Growth**
  - Low Cyclicalities of Business
  - Ability to Increase Market Share
  - Large Number of Customers & Suppliers
  - Proven Low-Cost Status
  - Management Has Proven Track Record of Growth
  - Bomb-proof Balance Sheet
  - Other Ideas?
- **Strong Businesses Can Offset Most Risks**



# EPS Growth: Critical to Success

2000	<u>Overlook Since 2001</u>	<u>CAGR</u>
1800	EPS Growth	12.5%
1600	DPS Yield	3.2%
1400	Rerating	1.5%
1200	Net Total Performance	17.2%



Notes: Overlook Performance and (EPS + Div Yield) are Each Indexed to 100 Starting 2001  
 Performance is Net of All Fees and Expenses and Before Profit Participation



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## 6. Valuation Equations

- **Equations – Benefits**

- De-emotionalize Valuation Process
- Push You in the Right Direction
- Help Identify Extremes of Cycles

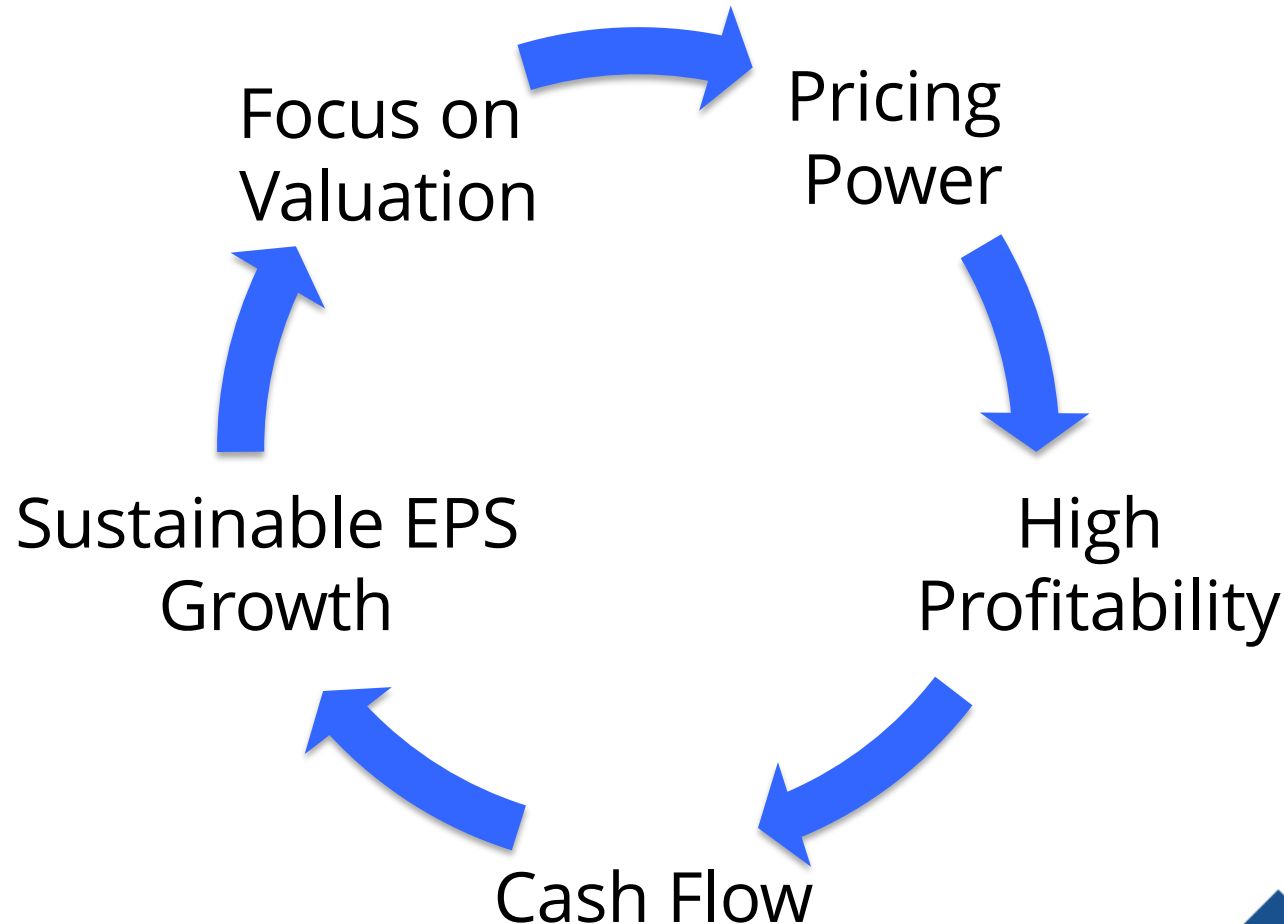
- **Examples of Useful Equations**

- Ben Graham's
  - Price / Book Value Times P/E < 22.5
- John Neff's
  - EPS Growth Rate, Plus Dividend Yield / P/E
    - ~ Measures Relative Value within Portfolio
- Overlook's
  - Sum of ROE Plus Normalized EPS Growth Rate / 4
    - ~ Example:  $(30\% + 14\%) / 4 = \text{Target P/E of } 11x$



# Virtuous Cycle Provides Margin of Safety

In Closing, It Helps to Recall This Chart during Confusing Times





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