Holowesko Partners Ltd.
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The past few months have provided global investors with increased volatility and diminishing stock prices. Complacency has gradually been replaced by uncertainty and a general sense of unease has now developed among investors.

We are operating in an investment environment with: heightened geopolitical risk, large spreads in valuation between US and non-US companies, historically wide value versus growth valuation spreads, huge amounts of fiscal spending by governments despite enormous debt levels and relatively full employment which is offsetting efforts to tighten by central banks, enormous drawdown of pent up savings accumulated during Covid which has been driving consumer spending, massive inequality of wealth and income, rising interest rates which has had less of an impact on consumers and companies due to balance sheets and terms of debt, and governments moving from providing cheap capital (which distorts pricing) to the redirecting of capital through legislation and bank guarantees (which also distorts pricing).

Turbulent markets are not new to us at Holowesko Partners. In fact, both now and during our time with the Templeton organization 23 years ago, we have generally performed well during turbulent times. The primary reason for this is our stock picking style, and the talented individuals in our organization. Our approach varies dramatically from those who focus on outlook and trend. It is also, in our opinion, well suited for the "new normal" or "sea change" global markets are experiencing today with higher for longer interest rates, bringing cost of capital, return on capital and value back into the investment spotlight.

There is a lot of discussion and commentary about value versus growth investing and the relative performance and valuation of both. It's probably wise to update you on our philosophy and approach to investing, the tools and techniques used, and the principles we operate under as custodians of your assets.

Philosophy

Investing requires a certain mindset. It requires patience, discipline, confidence, humility, flexibility, an uneasiness with conformity, and a keen sense of timing and risk. Our job isn't to avoid risk, it is to carefully analyze and determine if valuations fully discount the risk.

Patience is the ability to buy when others are selling, which is always easier if you have the **discipline** to complete rigorous analysis of a company. Investing takes both **confidence** (determining how much money you can make if you are right) and **humility** (understanding the potential for loss if you are wrong)**.** Humility should also be considered a strength if the potential for loss is calculated as carefully as the potential for gain.

Flexibility is required as markets are always offering you something, and the job of an analyst is to discover what is being offered at a discount and why. Mispriced securities are an outcome of different market environments, and where and how we uncover opportunities evolves and changes in various market conditions. One needs to have the flexibility to change tactics as the market changes.

Timing often depends on catalysts but can also be driven by the ratio of upside to downside expected in an investment. If the anticipated return is so great relative to the potential risk, often an identifiable catalyst isn't a necessity.

Risk mitigation is helped by buying securities at a discount to intrinsic value which creates a margin of safety. You can also substantially reduce risk by purchasing shares where the upside to potential downside ratio helps limit the amount of times you have to be right on purchases. For example, if you buy 10 companies with equal upside and downside, you have to be right on the vast majority of selections in order to make money. If you purchase 10 securities that have an average upside 4-5 times greater than the potential loss, then you don't have to be right even half the time to make money on the purchases. It is difficult in investing to be right more than 2/3 of the time on stock selection. For short positions, a checklist helps ensure risks have been considered and monitored. Managing liquidity also helps reduce risk. We try to maintain long positions that can be liquidated within a week using 1/3 of average daily market volume, and short positions using 1/5 of daily volume. Currency risk is also carefully evaluated. Analysts assess the currency impact on company fundamentals and we use forward currency contracts to hedge away unwanted currency exposure. Sizing of positions and the overall potential upside/downside of the entire portfolio is also a great monitor for risk.

Approach

We often describe our approach as a **global, fundamentally-driven, intrinsic value-based** investment process, emphasizing **catalysts and downside risk mitigation.**

Global obviously means we search worldwide. We don't limit our work by geographic boundaries, although we make no claim to expertise or exceptional knowledge in Eastern Europe**.** All of our analysts have wide latitude to search across all industries and countries for potential opportunities which involves extensive travel. Often we utilize proprietary screening to assist in narrowing our search and analysis. Our proprietary screens are also supplemented by work from both sell-side and boutique research firms. In some cases, we have created baskets if we believe it is the most efficient way to exploit an opportunity afforded by the market.

A **fundamentally-driven** approach to discovering value begins with the concept that stock ownership is fractional ownership in a business. As such, you need to look at the company and valuation like an owner. We concentrate on **intrinsic value** in our work to evaluate the worth of a business. The word "intrinsic" is important, as we are not trying to invest in markets or trends, but in company specifics.

Intrinsic value comes in many forms and usually falls into one or more of the following analyses: stocks that are cheap relative to cycle adjusted earnings, sum-of-the-parts calculations, discounted cash flow, free cash flow generation, private market value, future growth potential, capital returns, and quality business with high ROIC.

Cycle adjusted earnings can be both forward or backward looking. So many analysts focus on what a company might earn over the next quarter. If you focus and evaluate what a company can achieve over a full business cycle, you often find mispriced securities. This is especially true of economically sensitive firms.

Sum-of-the-parts analysis takes into consideration value in a business derived from examining various components, subsidiaries or investments.

Discounted cash flow analysis takes into consideration the cash being generated by a company over time and discounting these cash flows back to the present using a company's cost of capital.

Free cash flow generation looks at the amount of excess cash being generated by a company that is not needed to grow the business. In our approach, we calculate free cash flow as net income plus depreciation minus capital expenditures.

Capital returns are companies generating capital not needed by the business that can be returned to shareholders.

Private market value is looking at a company on the basis of its attraction to another competitor in the industry or a private equity purchaser.

Quality business with high ROIC provide excellent investments if purchased at the right price. Often certain events or perceived risks drive down the price of these companies.

Future growth is taking into consideration the growth in earnings going forward 3-5 years relative to today's price.

When looking at companies that fall into these various categories, we try and determine and quantify major issues impacting the investment, as well as understanding the country and industry framework in which the company operates. The more valuation boxes an idea falls into, the better. Analysts prepare reports with a valuation case, our variant perception, quantify upside potential versus downside risk, consider environmental, social and governance issues, identify a catalyst to correct the mispricing if possible, and define what would convince us when we are wrong on the idea. Catalysts are not always easy to identify but help determine not only what will drive the share price higher, but over what time frame**.**

Our investment approach also welcomes volatility. Only through excessive volatility will securities move substantially away from their true value. Although we welcome volatility in the market today, we do so with full knowledge of the considerable risks that still remain.