

Investor Letter for the calendar year: 2024

Author: Timo Buss

Re: Five-Year Review

Dear fellow investors,

Thank you very much for taking the time to read my investor letter. I have been advising the Patient Capital Fund for Hamburg-based fund boutique Covesto Asset Management since January 1, 2020 and I'll be acting as its CIO beginning May 1, 2025. Once a year, I would like to report to you the considerations which were important in advising the fund during the past calendar year, whether new significant investments were made, how the portfolio structure and performance at year-end turned out and, at the end, devote myself to one particular topic.

This year's particular topic is: **My Five-Year Review of the Fund's Progress.**

The investor letter begins with a table showing the portfolio structure and a performance overview.

Portfolio Structure of Covesto Patient Capital (ISIN: DE000A2PR0E7)

NAV* as of 31.12.2024	€158.46
Weight of the largest investment	9.6%
Weight of the five largest investments	39.6%
Weight of the seventeen largest investments	82.6%
Weight of cash	0.7%

*The NAV refers to the I tranche that was launched on 11.02.2020 at €100.00

My investment strategy for the Patient Capital Fund focuses on low trading activity with a very high concentration in the best investment ideas. The largest positions in the fund are regularly weighted near the maximum regulatory limit of 10% of the fund volume, the top 5 positions often make up ~40% of the fund volume (2024: 39.6%) and the top 17 positions represent >80% of total assets (2024: 82.6%). **I have invested ~100% of my liquid assets in the fund and will not make any investments in the capital market other than acquiring additional shares of this fund.**

On the next page, I would like to inform you about the ten largest holdings of the fund.

Alphabetical Listing of the Ten Largest Holdings of Covesto Patient Capital

Alimentation Couche-Tard

Alphabet → *current publication (Link): [How the EC Is Making Google a Worse Product \(Again\)](#)*

Fidelity National Information Services

Fomento Económico Mexicano

LVMH

Microsoft

VEF

VISA

Watches of Switzerland Group → *NEW*

Wise → *NEW*

The label *NEW* indicates positions among the ten largest holdings that were not part of the portfolio in the previous year (2024: 2). Out of last year's ten largest holdings, none was sold entirely. All other movements are due to price changes or additions/reductions of long-term holdings. In case you would like to check upon the holdings more frequently, you can access the portfolio structure which is updated daily [here](#) including a breakdown by country, sector and currency.

In the past calendar year, I recommended adding two new companies to the top 10: Watches of Switzerland Group and Wise, both described on p. 16. Eight of the fund's ten largest holdings were already part of the portfolio during the previous year and movements are primarily due to price changes.

Performance Overview Net of All Costs (ISIN: DE000A2PR0E7)

Period	Covesto Patient Capital*	DAX**	Delta
	(1)	(2)	(1)-(2)
2020	10.2%	3.6%	+6.7%
2021	22.4%	15.8%	+6.6%
2022	(21.6%)	(12.4%)	(9.3%)
2023	30.3%	20.3%	+10.0%
2024	23.2%	18.9%	+4.3%
cumulative since 2020	69.7%	50.3%	+19.4%
annualized since 2020	11.2%	8.5%	+2.7%

*The performance relates to the S tranche in 2020 only and to the I tranche from 2021 onwards (launch date: 11.02.2020)

**The fund is not limited to German companies. Therefore, I'm of the opinion that a tabular comparison with the domestic DAX index is only partially meaningful. A comparison with so-called world indices (in EUR), for which the renowned index providers regularly charge high fees, would be more substantiated in terms of informative value

The table shows the performance of the fund since I started advising it. This year – after five calendar years of performance – my plan was to provide a first detailed interim results discussion. My goal in advising the fund is to outperform both the national as well as a global index in the long run and I aim to achieve a performance of >10% p.a. on average for our investments in the fund. **Since 2020, the fund delivered an annualized return of 11.2% and a cumulative return of 69.7%, net of all costs.**

Five-Year Review

I will now dive into the particular topic, my five-year review. It's divided into four sections:

- I. Process (pp. 3-5)
- II. Outcome (pp. 6-7)
- III. Mistakes (pp. 8-13)
- IV. Outlook (pp. 14-17)

I. PROCESS

Trust the Process

In 2006, the Philadelphia 76ers face an undeniable truth: The Allen Iverson era is ending. Iverson was the first 1996 NBA draft pick, ascended to MVP status quickly and electrified the city. However, over time, his discipline wanes. He indulges in the city's nightlife, shows up to practice late and neglects his workouts and diet (culminating in his [iconic 2002 "We Talking About Practice" rant](#) where he says "practice" 22 times). A decade after his draft, Iverson is traded to Denver, marking the beginning of a new chapter for the Sixers. The team's owner, Comcast, tries to shop the franchise to controversial real estate developer Charles Kushner before selling it to David Blitzer and Josh Harris for \$280m in 2011.

Harris, a Drexel Burnham Lambert alumnus and co-founder of PE firm Apollo, knows that significant changes are needed to revive the team. One of his first and most controversial moves is acquiring L.A. Lakers center Andrew Bynum against giving up Andre Iguodala (the team's best player), Nikola Vučević and Moe Harkless. Bynum arrives in Philadelphia with high hopes but suffers an unforeseeable knee injury while bowling in his free time. He ends up playing not a single game for the 76ers and the trade's outcome is a disaster for the new ownership. Subsequently, Harris seeks a talented new general manager with hopefully greater success in making these calculated bets. Despite his frustration with a single decision's outcome, Harris emphasizes the following at a press conference, foreshadowing his process-over-outcome philosophy: *"If I had to make that decision again, I'd make it again. Things don't always work out. You just make good decisions and over time they work out."*

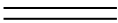
In 2013, 35-year-old Sam Hinkie, a former PE associate with an MBA from Stanford, is presented as the Sixers' new general manager. Hinkie is known for progressing the basketball analytics movement at the Houston Rockets and at his first press conference in Philadelphia, he echoes Harris, stating: *"We talk a lot about process here – not outcome."* He later adds that *"I don't even care if the shot goes in or not. I'm all about, should it go in. I can live with randomness [...] but I just want us to play the odds all the time."* Hinkie believes his ability to wield the "longest lens in the room" gives him an edge over competitors, allowing him to focus on the best outcomes 5 or 10 years ahead rather than managing for short-term gains. To win another championship, the 76ers must acquire a new superstar and Hinkie knows that an effective way to do so is through the annual NBA draft. Each year, the 60 best eligible

college and international players enter the league through the draft, with teams picking players in reverse order of their previous season performance. The worse a team’s prior year record, the better its chances at winning a high pick, ideally the no. 1 pick. Reflecting on the Sixers’ mediocre roster, Hinkie trades all remaining valuable players and intentionally fields less competitive teams to secure high draft picks, hoping to land a franchise-altering talent. The rebuilding strategy is quickly dubbed 'The Process' and fans brace for a dire losing streak in the short term in exchange for the chance at a richer future.

From here, things get ugly. During the 2013-14, 2014-15 and 2015-16 seasons, the Sixers win fewer than 20 out of their 82 total regular season games, resulting in the worst three-year stretch in NBA history under Hinkie’s rebuilding approach. The 2015-16 season, with a 10-72 record, is particularly brutal as the team loses 29 of its first 30 games, the worst 30-game start ever. Unsurprisingly, the Sixers’ open tanking doesn’t just create fans; it also sparks a showdown between Hinkie supporters and the team’s ownership, which faces mounting pressure from the NBA Commissioner and business partners to improve short-term results. In December 2015, Harris hires Jerry Colangelo as chairman of basketball operations, effectively undermining Hinkie’s authority, leading to his resignation in April 2016.¹



As the news breaks, disgruntled Hinkie supporters rally behind the slogans *Hinkie Died for Our Sins* and *Trust the Process* while other fans, alienated by the three-year losing streak, feel relief. No matter one’s perspective, right after Hinkie’s departure, the struggles of 2013-15 finally pay off as the Sixers win the no. 1 draft pick in 2016. They select Ben Simmons, which together with their 2014 third pick, Joel Embiid, nets the team two young superstar players. 'The Process' as one of the most aggressive rebuilds in NBA history combined with Hinkie’s patience let the Sixers return from a hopeless franchise to a consistent playoff contender. In 2019, they are one shot away from entering the Conference Finals but Raptors superstar Kawhi Leonard scores a [miracle buzzer-beater](#) in Game 7 of the semifinals. In the following years, a mix of bad luck and poor decision-making by the new front office ultimately prevents 'The Process' from delivering another long-awaited championship to Philadelphia.²



I’m recalling this story because of the many parallels between Hinkie’s probabilistic, long-term thinking and what it requires to manage a fund successfully through different cycles. Not every investment decision will be a success due to numerous risk factors in every thesis. However, over a long enough period and with a solid decision-making process, aggregate results should be compelling. I subscribe to Hinkie’s view that using a longer time horizon than everybody else can be a competitive advantage, in

¹ Hinkie accompanied his resignation with a 13-pp. letter: https://www.espn.com/pdf/2016/0406/nba_hinkie_redact.pdf
Image Sources (from left to right): Mitchell Leff/Getty Images, Dan Levy, Bleacher Report, Mitchell Leff/Getty Images
² NBA writer Yaron Weitzman has greatly summarized Hinkie’s tenure with the Sixers in his book “Tanking to the Top”

pro sports as in investing. While I often find it nearly impossible to develop a variant perception of how high earnings of a well understood company will be in the next quarter, competing for relevant information to form an educated guess about earnings 5 or 10 years ahead is far less crowded with a higher chance of success. A telling statistic in this regard is that the average holding time for stocks trading on the NYSE has come down from 8 years in 1960 to less than 4 months today.

A final observation from Hinkie's tenure with the Sixers is that he had to prove his ability to **delay gratification**. The team's record would not improve until after a three-year investment phase, during which short-term gains were sacrificed for high draft picks. Similarly, in investing, buying shares of an unpopular but economically strengthening company can also lead to short-term underperformance, as there is no guarantee that the share price won't decline further, making the bargain even bigger. In these moments, it's a fund advisor's job to catch the proverbial falling knife rather than avoid it. One would be remiss not to start acting as soon as an asset becomes cheap, even if the price of that bargain is an emotional one – accepting discomfort during short-term underperformance and risking looking foolish.

A well-known example of a 'falling knife' investment is Berkshire's acquisition of 10% of the Washington Post Company (WPO) during the 1973-74 market crash, summarized in their 1993 letter: *“In 1973, we purchased our 10% stake in WPO for about \$10m. Our holding now garners \$7m a year in dividends and is worth over \$400m. At the time of our purchase, we knew that the economic prospects of the company were good. But equally important, Charlie and I concluded that Kay would prove to be an outstanding manager and would treat all shareholders honorably.”* Katharine “Kay” Graham successfully led WPO from 1973 to 1991 after her husband, Philip Graham, committed suicide. During her tenure, WPO delivered annual returns of 20% over two decades, resulting in a 40-fold increase. A blowout success that every institutional investor should have eagerly picked up in 1973, right? Wrong!

When Berkshire bought into WPO, it was an unpopular stock that had just dropped from \$37 to \$16. At the time, WPO had a market cap of \$80m and based on a 1973 operating profit of \$26m, the company's intrinsic value was estimated to be around \$400m by many investors (not just by Buffett and Munger). **An interesting but lesser-known fact about this investment is that every large institution selling WPO shares to Berkshire in 1973 agreed that the company was worth at least 3 or 4 times what they were selling it for.** There was no information asymmetry, nor did Berkshire have a superior assessment of the company's intrinsic value compared to everyone else.

The sole reason sellers still parted with WPO shares so cheaply was their belief that the stock would keep declining next quarter. The prevailing narrative at the time was that political retaliation against the newspaper would only intensify after its leading role in uncovering the Watergate scandal. Even more intriguing is the fact that the sellers were initially right – WPO shares didn't just decline for another quarter but for the next eight(!) before bottoming out and becoming a decades-long compounder.

The takeaway: **Patience has always been a superpower.** As time horizons and attention spans continue to shrink, the behavioral strength to delay gratification, withstand short-term volatility and adhere to a disciplined investment process on the path to a richer future will become an increasingly valuable edge.

II. OUTCOME

Having focused solely on process in this and previous letters, I'll now discuss the outcome of my aggregate investment recommendations over the past five years. The table below shows Covesto Patient Capital's ten largest holdings from 2020 and how quickly they have grown earnings per share (EPS) from FY19-24. Eight of these ten holdings remain in the portfolio today, while two have been sold.

Holding	country	still in PF?	earnings ¹ in m LC FY19	earnings ¹ in m LC FY24	earnings Δ FY19-24	total return ² 5 years	annual return	EPS CAGR 5 years	EBIT margin FY24
Alphabet	USA	✓	34,231.0	112,390.0	+228%	184%	23%	27%	32%
CCL Industries	Canada	✓	787.3	1,142.3	+45%	44%	8%	9%	16%
FEMSA	Mexico	✓	47,152.0	70,668.0	+50%	1%	0%	6%	9%
Marel	Iceland	✗	173.4	140.0	(19%)	(27%)	(8%)	n. m.	9%
Microsoft	USA	✓	42,959.0	109,433.0	+155%	180%	23%	20%	45%
Prosus	Netherlands	✓	94,351.0	222,703.0	+136%	27%	5%	16%	36%
S&P Global	USA	✓	3,360.0	6,958.0	+107%	91%	14%	10%	49%
Spotify	Luxembourg	✓	-73.0	1,365.0	n.m.	199%	25%	n. m.	9%
TomTom	Netherlands	✗	65.8	(4.2)	n.m.	2%	1%	n. m.	3%
VISA	USA	✓	12,367.0	20,389.0	+65%	74%	12%	13%	66%
<i>average</i>					<i>+96%</i>	<i>77%</i>		<i>14%</i>	<i>27%</i>

¹Earnings represent the operating income for Alphabet, CCL Industries, FEMSA, Marel, Microsoft, S&P Global and Spotify. Earnings represent the net income for VISA and the Free Cash Flow for TomTom. For Prosus, earnings represent the net income of its core investment in Tencent. Prosus owns 24% of Tencent and the stake's market value of ~\$140bn represents about 80% of Prosus' NAV and almost 140% of Prosus' market cap

²Total return represents the total shareholder return ("TSR"; incl. dividends, in instrument currency) over the past five years (31.12.2019 – 31.12.2024) for all holdings that remain in the portfolio today. For the two holdings that were sold, Marel and TomTom, TSR represents the realized return over the holding period of 4 years for Marel and 2.5 years for TomTom

The fund's biggest winner in terms of earnings growth over the past five years was Alphabet, with a +228% increase in operating income from \$34.2bn to \$112.4bn and a five-year total shareholder return of +184%. Its EPS CAGR of 27% slightly outpaced its annualized shareholder return of 23%.

Among the top 10 from 2020, the fund had only one loser: Marel, which saw a -19% decline in operating income over five years, from €173.4m to €140.0m, resulting in a -27% realized return for the fund over a four-year holding period. Marel was sold in 2024, and I'll review it as a mistake in the next chapter.

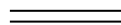
Overall, the fund's top 10 holdings from 2020 grew their earnings by +96% on average, translating to a 14% CAGR. The total return from holding shares of these ten companies over five years was +77%, aligning closely with the fund's cumulative return of +70%, net of all costs over the same period.

In my [2020 Investor Letter](#), I wrote: “My expectation is that the majority of the portfolio companies can increase earnings per share in the lower double-digit percentage range in most years, although the valuation does not fully reflect this. Since there is a fundamental relationship between the long-term profit development of the companies contained in a mutual fund and the development of its fund price, I aim to achieve a performance of >10% p.a. on average for your as well as my investment in the fund over the long run.”

Over the first five years, this expectation held true. On average, the portfolio companies compounded earnings in the low double-digits while valuations didn’t fully reflect this. The fund’s annualized return of 11.2%, net of all costs compares favorably to the national index DAX, returning 8.5% p.a. over the same period (see p. 2). A well-respected all countries world index (in EUR) performed slightly better at 11.7%.³ The latter operates with a ~65% USA allocation, compared to the fund’s ~45%.

Overall, I’m satisfied with the fund’s progress since 2020. A positive gap is gradually forming compared to the sector average of active funds listed in the DACH region, and I will do my utmost to widen it in the future. For the next five years, my duty remains to advise that the fund be invested in outstanding companies, the majority of which have stellar returns on capital and double-digit earnings per share growth, while remaining mindful that the fund shall not overpay for these companies’ shares.

As a significant investor in the fund myself and having added to my position each year, I have high expectations for the long-term development of Covesto Patient Capital. This also makes it clear that, on our path to a hopefully compelling result, I am going to experience the same intra-year volatility as you. In January 2030 (after ten full calendar years of performance), I’ll have a next detailed results discussion.



This concludes the fun part for me writing this letter because next, I need to revisit two mistakes of commission from 2020: TomTom and Marel (D’oh!).

³ ISIN LU1829220216

III. MISTAKES

TomTom – A New Maps Product for Autonomous Driving That Never Took Off

TomTom is a company with an eventful past. Most readers know the brand from its heyday as Europe's leading manufacturer of personal navigation devices (PNDs) to be attached to a car's windshield. In 2007, TomTom sold 10m PNDs for a net revenue of €1.7bn and an EBIT of €0.4bn (25% margin). That year, its share price rallied to an all-time high of over €50 (split adjusted) and investors temporarily valued the firm at more than €7bn. However, 2007 was a landmark year for the company primarily for other reasons: First, TomTom acquired its biggest supplier, digital map maker Tele Atlas, for €2.9bn after a bidding war with Garmin. Secondly, Apple introduced the iPhone, ushered in the smartphone era and the collapse of the PND industry. With 90%+ hardware sales, TomTom had to reinvent itself.

Fast forward to 2019. TomTom had evolved to derive 60% of its revenue from selling software (Location Technology) while its PND business (Consumer) had declined by 90% vs. 2007 to ~30% of €0.7bn in group revenue. Meanwhile, gross margins had risen by 30PP from 44% to 74%. Amortizing the Tele Atlas intangibles against a lower revenue base pushed P&L earnings into the red. However, looking under the hood, Free Cash Flow (FCF) was a positive €66m or 9% of sales. Additionally, TomTom ended 2019 with a sizable net cash position of €437m or €3.3 per share. The company was still 44% founder owned and one of its four co-founders, Harold Goddijn, acted as its CEO.

There are only four global commercial mapmaking companies: Google, HERE, TomTom and Apple.⁴ The main buyers of digital maps are large enterprises who built location-based services into their products (€2bn market ex China) and auto OEMs (€1bn market ex China). In the enterprise market, Google dominates with a share of over 50% while TomTom has less than 10%. In automotive, TomTom holds the no. 2 position with ~25% market share behind HERE, about twice its size.⁵

When I started advising the fund, I recommended building a position in TomTom at an average price of €7.86 per share, translating into an EV of €600m or a valuation of 9x FCF. I modeled the PND business to go to zero. However, I deemed it possible that Location Technology could grow in the low double-digits, with FCF margin increasing from HSD to LDD. To offset declining hardware sales, I expected increases in Location Technology revenue solely due to rising navigation take rates in % of total car sales would not suffice. **Therefore, I hoped a new maps product could generate additional revenue in the triple-digit-million-euro range for TomTom at attractive margins. That product was HD maps.**⁶ TomTom had developed HD maps for autonomous driving for a decade and was now aiming to sell them to OEMs. In 2020, it pioneered the category and won over half of all early HD maps deals.

⁴ The open-source community effort OpenStreetMap (OSM) deserves an honorable mention as the fifth global mapmaker. Some commercial companies like Mapbox build on top of OSM

⁵ HERE was Nokia's mapmaking unit prior to being sold in 2015 to BMW, Daimler and Volkswagen for €2.8bn

⁶ Compared to an SD map, an HD map is more detailed (including traffic signs, lane-level geometry and roadside objects) and more precise (with centimeter-level accuracy). You can think of an HD map as another sensor of an autonomous vehicle alongside cameras, radar and LiDAR or as the car's memory that complements what it's seeing on the road. This is called sensor fusion, and it makes autonomous driving safer as it adds redundancy. HD maps support precise lane-keeping and path planning. They can also "see around corners" and are unaffected by visibility conditions

In my [2022 Investor Letter](#), I described why I saw Waymo as a potential winner in autonomous driving. Meanwhile, a battle was looming between Waymo's parent company's Android Automotive OS, Apple's CarPlay, and carmakers' control of the infotainment screen. Despite their lagging position, I imagined traditional OEMs wouldn't drop out of the autonomous driving race without a fight and would invest heavily in R&D. **Then COVID-19 happened, and I was wrong.** Reflecting on our investment in TomTom, I was wrong in almost every assumption I just recounted. Below, I explain why.

During the pandemic, OEMs cut all "unnecessary" investments where profitability was a long way out. On the other hand, Waymo kept investing and started building its own HD maps. So did HERE. TomTom had a promising new product, but no traditional OEMs were left to sell it to in large amounts.

Another thing I didn't see coming as quickly was carmakers surrendering the control over their user-facing software to Android and Apple. When Ford and Alphabet struck a multi-year distribution deal for Android Automotive OS⁷, its CEO stated in an interview that he believed regaining control of the infotainment screen was no longer a priority and he'd only want his teams working on navigation software if it was better than the one on phones. OEMs accepted the reality that many car buyers never use their in-car navigation system and flock to their phones instead due to a better UX. That again pressured the euro amount per car that TomTom can charge OEMs to use its products. As a result, TomTom's Location Technology revenue grew only at a modest 3% per year from 2019-2024, not enough to overcompensate its declining hardware sales or sustain its 2019 FCF generation of €66m.

When I realized that the competition for supremacy in autonomous driving would likely be between two U.S. companies (outside of China) and that traditional OEMs would no longer invest significantly in TomTom's HD maps, I recommended selling the entire position. The fund sold at an average price of €8.03 per share, compared to the purchase price of €7.86. While the investment did *not* lose investors' money, my assumptions were incorrect. Therefore, I consider it a mistake.

Several well-known investors strive to make their mistakes *net present value positive*, meaning their learnings from mistakes optimally enhance long-term returns in excess of the mistakes' costs. From TomTom, I learned the following:

- 1) **Betting on new and unproven products is risky.** It's twice as risky when the share price already reflects success of these products. The fact that the fund bought its position in TomTom when investors were not optimistic about its prospects, coupled with a strong balance sheet helped a bit in allowing the fund to exit without a loss. However, it was primarily luck.
- 2) Despite an oligopolistic market structure in mapmaking, returns on capital are low. This is partly because building maps and navigation services doesn't need to be a profit center for most players – except for TomTom. **If your entire business model can be run as a cost center by your competitors while you must make money from it, it can lead to a precarious situation.**

⁷ not to be confused with the phone projecting Android Auto. Android Automotive OS works without an Android phone

- 3) Track record matters. TomTom's management paid €2.9bn for Tele Atlas and their biggest single capital allocation decision didn't create value. TomTom's market cap today is ~€0.5bn, share price is down over the past 10 years and leadership has consistently missed its own targets. While any single year, taken on its own, offers little insight, **a management team that hasn't delivered attractive results over the past decade is unlikely to do so in the next decade.**
- 4) **When facts change, change your opinion (and sell).** Once the facts implied that TomTom would not generate meaningful mid-term sales from HD maps, I course-corrected in 2022 and recommended a complete sale. Despite the fund's name, patience is no end in itself. I strive to hold on to my winners forever, but I'd also prefer to get rid of my mistakes as fast as possible.

TomTom is one of two former top 10 holdings that didn't make it past the five-year mark. The other one is my second mistake from 2020: Marel. Unfortunately, this mistake *did* lose investors' money.

Marel is a provider of advanced food processing equipment for the poultry, meat and fish industries. In the poultry segment, the company is the global market leader in automated processing plants and its machines play a crucial role in producing the same amount of meat with fewer live animals. Over the past decades, Marel's innovations helped to increase slaughter yields as percentage of delivered live weight from 60% in poultry in 1980 to over 75% today, and from 58% in fish in 1980 to 83% today. **Regardless of one's stance on animal protein consumption, most would agree that the food industry should be as efficient as possible, with minimal waste.** Yet today, more than 1bn tons of food – nearly one-third of annual global production – still goes to waste.

Marel started as a research project at the University of Iceland in 1983. Its goal was to integrate computer technology into food processing plants. Initial research focused on digital onboard scales for the fishing industry. In 1985, Marel achieved a breakthrough with motion-compensating scales that reliably determine the weight of catches despite continuous fluctuations on board. By the 1990s, Marel had 60% global market share in this category and reinvested its profits into developing new products including sorting, inspection, and portioning machines. In 1992, Marel went public with 45 employees and €6m in revenue. Following its initial focus on fish, it later entered the poultry, beef, and pork industries.

2005 marked the beginning of a new chapter for Marel as Icelandic investment holding Eyrir Invest acquired a 24.7% stake. Eyrir was founded in 2000 by former banker-turned-entrepreneur Arni Oddur Thordarson and his father, Thordur Magnusson, long-time CFO of shipping company Eimskip. Eyrir initially invested in domestic banks, including Arni's former employer, Búnaðarbanki. As activist investors, Arni and Thordur pushed for a merger between Búnaðarbanki and Kaupthing and later invested in the Straumur-Burdaras Investment Bank. During Iceland's stock market boom from 2003-2007, bank stocks soared by several hundred percent and Eyrir sold its holdings before the inevitable collapse in 2008. Beginning in 2004, Arni and Thordur redefined their strategy, seeking controlling stakes in industrial companies they thought could be transformed into global market leaders.

They found opportunity at Marel, where Arni became Chairman of the board from 2005 to 2013 before taking over as CEO. Marel held 4% market share, while its best competitors were twice as large. With many family-owned rivals approaching succession, Eyrir positioned Marel as the most active industry consolidator, aiming for durable size advantages in R&D and service network efficiency. Arni set ambitious 10-year goals for Marel, including quintupling sales to €1bn by 2015, increasing operating margins to above 10% and growing Marel's market share in poultry from 4% to 15-20%. While Marel didn't fully meet these targets by 2015, it surpassed them in 2017 with €1bn in sales, 15% operating margin and a clear no. 1 position in poultry with an 18% share, compared to 8% for the no. 2. For the expansion in poultry, Arni closed about one M&A deal per year. The 2008 acquisition of Dutch Stork Food Systems was transformational: Not only did it double Marel's size but it also closed technological gaps to make Marel a full-line supplier of integrated solutions for all processing stages.⁸

⁸ Another large deal, MPS in 2016, completed the full-line objective in meat processing

Fast forward to 2020. Marel’s poultry segment contributed 50% to revenue and 70% to EBIT. Revenue mix was 30% greenfield projects (marginally profitable), 30% standard equipment (profitable) and 40% aftermarket (highly profitable). Total revenue was €1.2bn and EBIT was €167m. Operating margin was 13%, net debt/EBITDA 1.0x and FCF €118m. From 2005 to 2020, under Arni’s and Thordur’s co-ownership, Marel had grown its revenue tenfold (17% CAGR) and its EBIT seventeen-fold (21% CAGR). Since going public, Marel delivered an attractive 20% annualized shareholder return.

Given its larger size, I didn’t expect Marel to continue growing earnings at 20% per year. However, I deemed it possible for sales to grow 13%, thereof 7PP from M&A and 6PP organically, due to rising automation demand in food processing and a channel shift in Asia and Africa from “wet markets” to supermarkets. Expecting an EBIT margin of 16% over time, I estimated earnings could grow 14% per year and recommended building a position in Marel at an average price of €3.87 per share or 25x FCF.

Different from my investment mistake in TomTom, Marel traded at a higher starting valuation relative to its earnings power. That, per se, is not a problem if the company keeps growing FCF at a double-digit rate for several years to come and at an MSD rate thereafter. An oversimplified method to value any company is discounting its future benefits to owners using the following cash flow perpetuity formula:

$$Value = \frac{FCF_{t=1}}{\text{cost of capital in \%} - \text{growth rate in \%}}$$

If we know the required rate of return (i.e. cost of capital) and assume a perpetual growth rate, we can express the formula as a multiple of the company’s upcoming FCF. For example, a company growing steadily at 5% into perpetuity with a 10% cost of capital, could be fairly valued at 20x its upcoming FCF → Value = FCF_{t=1}/(10%-5%) = 20x FCF_{t=1}. **The formula shows that when investors pay 20-25x FCF for a company, at least 5-6% long-term earnings growth is likely priced in.** That’s fine if a company continues to deliver but if that growth trajectory is ever questioned, the share price will likely take a hit. In Marel’s case, I was betting on two factors to support a high growth rate: 1) a rational owner-operator who would lead the company for years to come and 2) the company’s good M&A track record where they didn’t overpay but instead acquired Stork Food Systems for 9x EBIT and MPS for 11x EBIT.

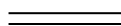
I got neither. Instead, one negative surprise followed another. Let’s break it down.

In 2022, Marel announced its largest acquisition ever: Wenger, a processing equipment manufacturer focused on pet food and plant-based proteins. It was a \$540m deal, compared to Wenger generating \$190m in revenue and \$27m in EBIT (14% margin). I was negatively surprised by the multiple of 20x EBIT, almost double what Marel paid for large deals before. Buying Wenger would also elevate Marel’s leverage from 1.0x net debt/EBITDA to 3.6x, leaving little margin of error for a machinery company. Moreover, after the pandemic, Marel struggled to pass on higher costs and was on track to deliver only a 9.6% EBIT margin in 2022, down from 14% historically. One could have already sold at this point, but I gave management the benefit of the doubt to turn things around due to its strong track record.

What happened next, I believe, was on no one's bingo card. A rumor spread in Iceland that Eyrir, Marel's largest shareholder, was ill-suited for a scenario of rising interest rates, having backed its investments with too much debt. When a decade of "free money" suddenly ended in 2022, as central banks started hiking rates due to high inflation, Eyrir allegedly needed an €80m capital raise in 2023.⁹ Next, it was rumored that Arni and Thordur might not be able to participate in any round due to personal debt turbulences, prompting their lending banks to reposses their shares in Eyrir as collateral.

As Arion bank took over a part of Arni's shares in Eyrir, Marel issued a short press release¹⁰ together with the announcement of his resignation. A day later, Arni said that he was granted a moratorium under the Iceland Bankruptcy Act No. 21/1991 and that his lawyers were in a dispute regarding the legality of Arion's actions.¹¹ As soon as the first press release was issued, I stayed on my phone and tried to get in touch with the company. All my calls went unanswered. However, at 10:30 PM I received an e-mail from the IR team offering a short call the next day. I found the answers to my questions unsatisfactory and recommended selling the majority of the fund's shares in Marel immediately afterward.

A brief epilogue: Marel was later taken over by the most logical strategic buyer, JBT. Eyrir tendered all its Marel shares in exchange for a mix of cash and JBT shares, using some of the proceeds to pay off its lenders. It's now a debt-free investment holding with a 6.6% stake in JBT Marel Corporation.¹²



I've often seen investors rightfully emphasize the value of an owner-operator to a small- or midcap company, yet when that person suddenly leaves, they hold on to their shares as if nothing of the thesis has changed. Unfortunately, we can't have it both ways. As I realized – possibly later than necessary – that the facts underlying my thesis on Marel had changed, I changed my opinion and recommended selling. However, unlike my mistake with TomTom, this investment did lose money. The fund sold at an average price of €2.82 per share, 27% lower than the average purchase price of €3.87. From Marel, I learned the following:

- 1) **Beware of paying up for machinery companies.** The fund bought its position in Marel at a starting valuation of 25x FCF. While there's mathematically nothing wrong with that, as I illustrated earlier, it implies that investors are paying for a certain annual growth assumption. Some of the fund's holdings can easily achieve that growth rate *solely* through pricing power, but for machinery companies, it can be harder to surpass the same hurdle throughout the cycle.
- 2) **Looking for owner-operators with strong track records still makes sense.** When reflecting on mistakes, it is important not to draw incorrect conclusions or overly restrictive lessons. Even though it didn't work out this time, the pattern I looked for in Marel remains a sound one.

⁹ <https://vb.is/frettir/segja-eyri-aetla-ad-saekja-allt-ad-12-milljarda/>

¹⁰ https://marel.com/media/vs3fkv13/2023-11-07-marel_managers-transactions-ao%C3%BE.pdf

¹¹ <https://vb.is/frettir/arni-oddur-faer-greidslustodvun-samthykkta/>

¹² <https://vb.is/frettir/eyrir-invest-ordid-skuldlaust-felag/>

IV. OUTLOOK

Looking ahead to the next five years, for the fund to continue its targeted long-term performance of >10% p.a. on average, it needs to be invested in a collection of outstanding companies that may achieve an operational compelling development. Below are the fund's ten largest holdings as of January 1, 2025.

Alimentation Couche-Tard (ATD): ATD is a leading convenience store chain with 17k stores in 29 countries, most of them under the Circle K banner. Globally, the U.S. is the largest c-store market and ATD is the local no. 2 player with a 5% share behind 7-Eleven with 8% and in front of Casey's with 2%. With inside sales growing for the 18th consecutive year according to NACS, c-stores are an attractive industry with consolidation opportunities as 60% of all U.S. stores are run by single-store owners. ATD has a strong M&A track record, with over 70% of its current store base resulting from acquisitions and its founder remains actively involved. ATD targets LDD earnings growth, shares trade at 16x NTM P/E.

Alphabet (GOOG): Google's parent company is the world's largest search and advertising company, with revenue of \$350.0bn in 2024 and an operating margin of 32% (\$112.4bn EBIT). GOOG's two most promising non-advertising businesses, Cloud and Waymo, are making rapid progress. Cloud reached 12% of FY24 revenue, growing 31% and delivering a 14% operating margin, with significant headroom. Waymo provides nearly 1m paid trips per month, has surpassed 50m miles of self-driving on public roads with 80% less accidents than a human driver and will soon test its robotaxis in ten new cities, including Tokyo. However, GOOG's future hinges on the fate of its central cash cow: Search. Despite founder Sergey Brin's return to lead GOOG's AI initiatives, AI Overviews remain an insufficient answer to the self-triggered, LLM-driven Search revolution. Luckily, the recently unveiled AI Mode in Labs could be a promising step forward. In its ongoing antitrust saga, GOOG can expect a remedy ruling in H2/25. It will then appeal, and the case goes up to the D.C. Circuit. I have written extensively on GOOG's business model [here](#) and its legal affairs [here](#). GOOG trades at 15x NTM P/E.

Fidelity National Information Services (FIS): FIS' roots lie in core banking solutions for large banks, monetized primarily through per-account fees under long-term contracts, with near-zero churn due to high switching costs. Furthermore, FIS operates a sizable issuer processing business, connecting banks to major payment networks (e.g. VisaNet) and managing the backend of banks' card programs. Unlike merchant acquiring, which is tied to transaction volume, issuer processing follows a long-term contract model, aligning with FIS' focus on more stable, recurring revenues. In total, FIS' banking solutions segment accounts for 70% of total revenue, with the remainder coming from the capital markets segment, primarily through software sales to investment firms. Overall, FIS generates \$10bn in revenue, \$4bn in EBITDA and \$3bn in net profit, with 80% of revenue recurring. Shares trade at 11x NTM P/E.

Fomento Económico Mexicano (FMX): FMX operates Mexico's dominant c-store chain, OXXO, and is 39% owned by its founding families. Furthermore, it holds a 47.2% stake in the world's largest and most profitable Coke bottler, Coca-Cola FEMSA (KOF), as a second major asset. FMX's total c-store footprint comprises 24k units and it plans to almost double that number over the coming decade. It also recently expanded into the U.S. through acquiring 250 DK stores in Texas. FMX generates revenue of

\$43bn, \$1.5bn in net income and targets LDD earnings growth. Its market cap is ~\$35bn and the company will return \$5.3bn to shareholders over FY25-26. I have written extensively on FMX [here](#).

LVMH (LVMH): LVMH is the world's leading luxury group with several of its brands' origins going back to the 1700s and 1800s. With 6,300 stores and 75 brands – including Louis Vuitton, Christian Dior, Loro Piana, Dom Pérignon, Tiffany & Co. and Rimowa – LVMH generated €84.7bn in FY24 revenue and €19.6bn in EBIT (23% margin). The company is 49% owned by the family of Bernard Arnault, Europe's richest man, and has achieved an impressive 9% annual organic growth over the past 35 years. LVMH's Fashion & Leather Goods segment contributes 50% to group sales and 75% to EBIT, with Louis Vuitton being one of the highest margin brands inside F&L, estimated to represent ~60% of segment revenue and around half of total group EBIT. China exposure is 30% and LVMH could potentially grow MSD through a combination of price, mix and volume. Shares trade at 18x NTM P/E.

Microsoft (MSFT): MSFT is the largest software firm in the world with undisputed market leadership in Office suites, PC operating systems as well as a strong no. 2 position in hyperscale cloud services. In FY24, MSFT generated \$245bn in revenue and an operating income of \$109bn (45% margin). In FY25, Azure is expected to be the largest revenue contributor, surpassing \$80bn in run-rate revenue with 30% growth. Office should contribute over \$60bn, growing in the double-digits. Together, Azure and Office represent about half of MSFT's topline with potential for continued success. Office 365 has 400m+ commercial paid seats out of more than 1bn knowledge workers globally, providing room for further seat growth and upselling customers from E3 to E5 to potentially even higher priced plans featuring varying GenAI capabilities. With less than half of total workloads currently running on public cloud platforms, Azure benefits from ongoing migration while Gartner estimates that 90%+ of new workloads will be deployed cloud-natively. MSFT also has a ~\$25bn on-premise server products business, which it may partially convert to Azure over time with a revenue uplift. MSFT trades at 24x NTM P/E.

VEF (VEFAB): VEF is an investment holding taking minority stakes in emerging market fintech companies. Its most important holding is an 8.8% stake in Brazilian unicorn Creditas, an online lending platform for secured loans. In a country where consumers pay 100%+ annual interest rates, Creditas charges 50-75% less through a mix of innovative credit scoring and accepting borrowers' cars or real estate as collateral. The company's loan portfolio was \$1bn last year, revenue was \$375m and it was cash flow breakeven. After some more years of planned 25% growth, Creditas is eyeing an IPO which could serve as a catalyst for VEF's share price. VEF's stake in Creditas alone represents 85% of its market cap of \$165m and VEF's total portfolio including Juspay and Konfio has a NAV of \$350m.

VISA (V): Outside of China, V operates the largest credit and debit card network in the world with a market share of 60% and a lead of 1.6x over its closest rival Mastercard. In its core C2B business, V remains a toll booth on consumer spending, albeit the delta between its consumer payments volume growth and the overall consumer spend growth will narrow. However, with VAS and CMS growth exceeding 15%, these revenue sources could a) account for over 50% of V's net revenue in the future and b) enable V to grow its topline by 9-12% per year, as outlined by management in an illustrative framework at its recent Investor Day. Shares trade at a 4% NTM FCF-Yield. I wrote more on V [here](#).

Watches of Switzerland Group (WOSG): WOSG is the UK’s largest authorized luxury watch retailer, with a growing U.S. presence and a store base of 217. WOSG generated £1,538m in revenue and £118m in FCF (8% margin) in FY24, with 87% of sales from luxury watches and the rest from jewelry and services. Revenue is split evenly between UK/Europe and the U.S. Rolex accounts for ~50% of sales, with another 10% from Audemars Piguet and Patek Philippe. These three brands have achieved the holy grail in luxury – selling on a waitlist basis – which enhances customer desirability and strengthens WOSG’s revenue quality. WOSG holds an estimated 40-50% market share of all Rolex UK sales vs. 5-10% in the U.S., its main expansion market. Long term, luxury watches are a growth industry, driven by annual price increases of 5%. Additionally, Rolex is significantly ramping up production until the end of this decade and WOSG will likely be a key partner in selling these additional volumes in a trusted, controlled brand environment. Amid U.S. tariff risks to profitability, WOSG trades at 7x FY24 FCF.

Wise (WISE): WISE is a UK fintech with a clear mission to reduce the costs of cross-border money transfers for consumers and businesses. A transfer via the traditional correspondent banking system often incurs fees of 3% or more due to multiple bank intermediaries, whereas WISE charges only 0.6% on average. WISE lowers costs by often not making the money cross borders at all, instead paying recipients from local accounts at partner banks in 160 countries, integrating into domestic payment schemes and matching transfers in the same corridor. In FY25, WISE generated £1.4bn in revenue and £0.5bn in pre-tax income. Over the last four years, active customers grew by a 27% CAGR to 15.5m and cross-border volumes by a 28% CAGR to £145bn. With a \$4tn TAM for cross-border transfers from individuals, WISE holds 5% market share. However, considering a \$25tn+ TAM in B2B and the early success of 'Wise Platform' for large bank customers, every trillion in volume captured at a long-term 0.1% take rate could double the company’s revenue from its current size. Shares trade at 25x NTM P/E.

Video recommendation

When I began advising the fund, I stumbled upon a video about pursuing your “dream job”. To my surprise, it had only a few thousand views, despite the presenter being a well-known financier with a large social media following. That video is Benchmark’s Bill Gurley presenting *Runnin' Down a Dream: How to Succeed and Thrive in a Career You Love* and you can watch it [here](#) on YouTube.

It’s 60 minutes long, but worth your time. It highlights the uncommon career paths of several luminaries, including a callback to the Sam Hinkie story you read at the beginning of this letter, and outlines five key principles for a rewarding career.

* * *

The bottom line is the following: *I’m extremely grateful for the opportunity to pursue my dream job as a fund initiator and advisor.* Being in my 30s, I hope to compound our investments in the fund for decades to come and – despite some recent media headlines suggesting otherwise – I remain deeply optimistic about the future. The global middle class is steadily expanding, especially in Asia and Africa, and by 2040, 60% of rich consumers will be non-Westerners. Since Apple introduced the iPhone in

2007, smartphones have reached 5bn people worldwide and it's not hard to imagine a future where every child has a personalized AI tutor, democratizing access to modern education. Over time, this will enable billions more people to contribute their full potential to the global economy. Moreover, we are currently experiencing multiple technological S-curves simultaneously, spanning GenAI, renewable energy advancements to combat climate change, autonomous driving, space exploration, biotech, robotics and accelerated computing. As Amazon founder Jeff Bezos recently put it, "*The world is so interesting right now; we're in multiple golden ages at once*". It's difficult to look at all this potential and the incremental market value it will generate and *not* be optimistic about the future.

One of the biggest benefits of my job is the fascinating people I meet along the way, including the great co-investors who have joined me since 2020, helping assets under advisory grow tenfold from a small base. The fund welcomes new like-minded investors, so if you know someone for whom the investment approach could be a good fit, please contact me [here](#).

As has become a nice tradition, I plan to revisit California in September. Please say hi if you're around and would like to grab a cup of coffee. Thank you!

April 7, 2025

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