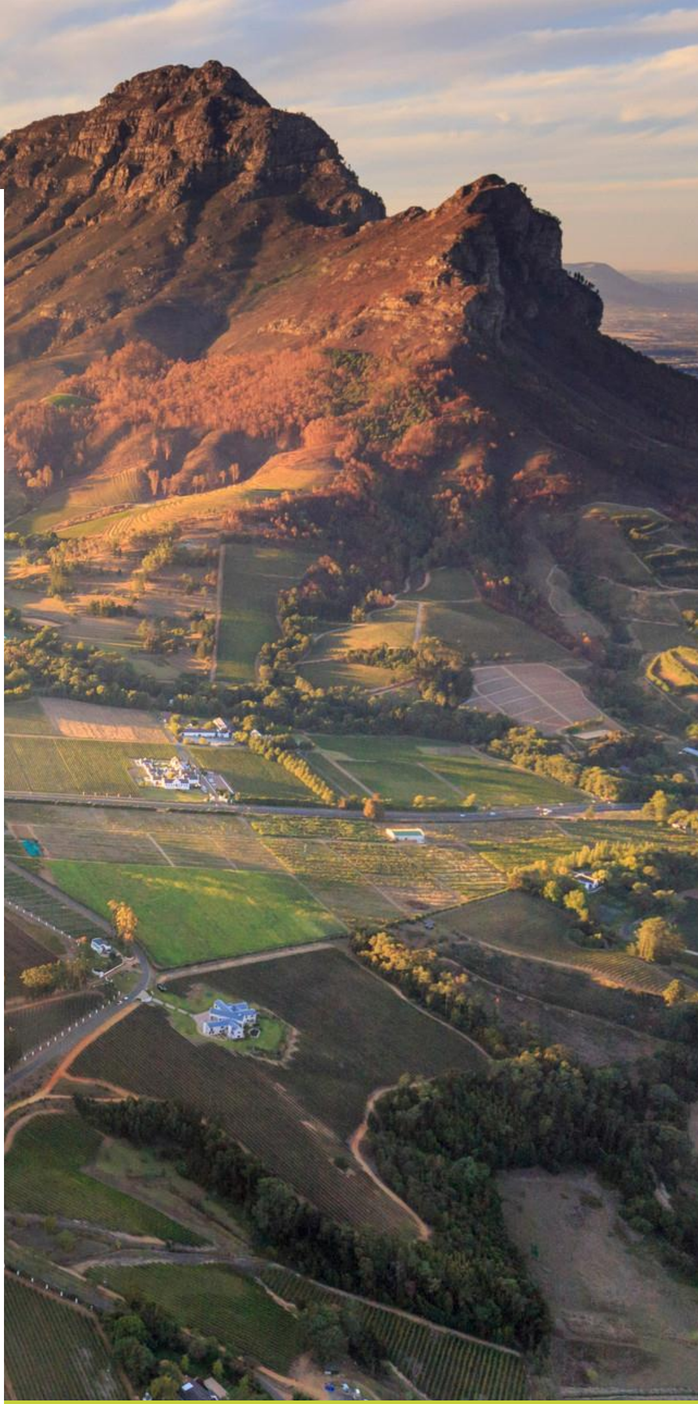


# Vineyard Holdings

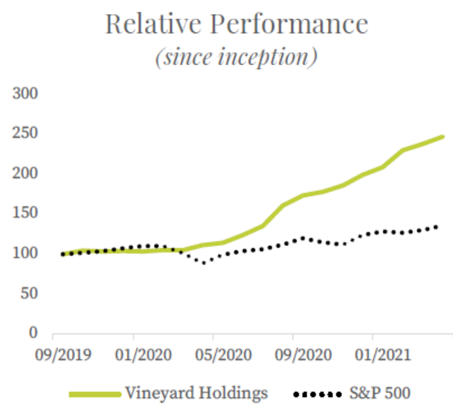
# 2021

MAY 2021

JORDAN NEL

VINEYARD HOLDINGS
Make it happen.

# May 2021




| Year | Vineyard Holdings (%) | S&P 500 |
|---|---|---|
| Sep - Dec. 2019 | 3.6 | 10.39 |
| 2020 | 101.6 | 16.26 |
| 2021 | 20.47 | 6.22 |
| *Annualised* | 74.0% | 10.9% |
| *Since Inception* | 151.6% | 36.3% |

*Figure 1: Annualized returns for Vineyard Holdings not accounting for currency.*

Dear friends,

It is with pride that I can highlight the performance in Figure 1 above. The 2021 return is year-to-date. The caveat to this return is to please not expect similar in future years. I have no idea how the market will perform, I can only look for companies with enough resilience to weather the storms, and enough optionality to continue growing as the years go by.

The fund's strategy – and my own learnings – continue to evolve and develop. It is still nascent, however in my last letter I outlined a portfolio management strategy that makes sense to me: buying high quality companies, with characteristics of resilience and optionality, and structuring those companies into a portfolio designed to adapt to the uncertainty of the market. This strategy comes from NZS Capital, and it is one of the many, many principles I have unashamedly cloned from more innovative investors than me.

Just as I look for companies with wide "moats" – competitive advantages – I have also given substantial thought to my own moat as an investor. I have landed on three or four areas where I believe I have an advantage:

1. **I am young, and I have started this fund myself.** To quote Bezos's 2003 letter to Amazon shareholders:

> *"Long-term thinking is both a requirement and an outcome of true ownership. Owners are different from tenants. I know of a couple who rented out their house, and the family who moved in nailed their Christmas tree to the hardwood floors instead of using a tree*

*stand. Expedient, I suppose, and admittedly these were particularly bad tenants, but no owner would be so short-sighted. Similarly, many investors are effectively short-term tenants, turning their portfolios so quickly they are really just renting the stocks that they temporarily "own"."*

Not only do I have a long-term time-horizon built into my age. My age also brings with it a comfort with fast change and innovative products that many of my more aged competitors inherently do not have.

Since my default bent is also to look for companies which I can hold for decades on end, I believe the combination of long-termism and enthusiasm for innovation creates a behavioral moat that is tough for many larger funds to echo. These funds do not usually have all their liquid net worth invested alongside their partners, nor do they have the ability to stomach the vicissitudes of the market over time – a factor of having investors who view volatility as risk.

2. **I do not view volatility as risk.** As investors, we are part-owners of businesses. The mindset of an entrepreneur is therefore more apt than that of an investment banker: entrepreneurs are accustomed to the peaks and troughs; they expect their businesses to be volatile. Because of this willingness to hold fast through volatility, they create on average more global wealth per person than any other vocation class.

3. **I focus on high quality companies at fair prices.** I am not looking to buy a dollar for 50c. Rather, I am focusing on paying a dollar for a perpetual penny-factory. If I am going to be holding these high-quality penny-factories for a long time, I want them to seek win-win outcomes for their customers and communities.

   As an example, Nick Sleep writes about the concept of scale economics shared – that businesses who can pass on cost savings from scaling to their customers create a flywheel of customers-savings-more customers. These companies create extreme value for their ecosystems over time. Because of this, they also earn sustainable and superior returns over time. The picture below outlines my framework for a "high quality" company.


*Figure 2: Some of the traits we look for in "high quality" companies.*

4. **I do not charge high fees.** I am not in this game to make a quick buck. I really, really enjoy it. I would do it for free if I could. It is my dream to decrease management costs to nil beyond that which is required to run the barebones of the fund. It is performance which drives me, and so it is from performance which I believe I should earn my money. I have no analysts, no Bloomberg, no fancy office, and no high expectations of remuneration – partially a factor of my young age. If I am to get rich, it will be alongside my partners or not at all.

   I have pulled up a quick outline comparing my performance with other well-known global-facing South African funds. I would like to point out the inverse correlations between the Total Expense Ratio and annualized performance, as well as the correlation between concentration and performance. I believe there to be two reasons for this: a) when you earn your money from fees, you are incentivized to grow fees and not performance, and b) when you over-diversify, you sacrifice conviction for stability.

| FUND | ANNUALISED SINCE INCEPTION | 1 YEAR RETURN | TOTAL EXPENSE RATIO | TOP 5 HOLDINGS AS A % OF TOTAL |
|---|---|---|---|---|
| **Vineyard Holdings** | **73.95%** | **101.60%** | **0.50%** | **51.50%** |
| Coronation Market Plus | 15.00% | 45.30% | 1.25% | 21.20% |
| Allan Gray Orbis Global | 14.80% | 36.00% | 1.35% | 30.10% |
| Fairtree Global Equity Prescient | 14.50% | 27.86% | 1.28% | 13.76% |
| Old Mutual Global Equity R | 13.70% | 29.80% | 1.38% | 13.70% |
| *Average SA Fund* | *8.86%* | *1.90%* | *1.50%* | *N/A* |
| Fairtree Worldwide Multi-Strategy A1 | 6.31% | 24.75% | 2.33% | FUND OF FUNDS |
| Ninety One Worldwide Flexible | 4% | 24.70% | 2.22% | 14.90% |

*Figure 3: I would like to note, I by no means intend disrespect towards managers of these funds. This is simply my observation. I am an especially big fan of Fairtree for their committedness and tenure in performance.*

For these reasons, I believe Vineyard Holdings will draw like-minded investors who are focused on select, long-term, win-win companies creating shared value. These are the kind of investors who I hope will one day come to create another moat for the fund, for finding stable people to back you is one of the most important things an emerging manager can aim for.

I usually give a book recommendation with these letters. Today I recommend the shareholder letters of three great investors: Warren Buffett's Berkshire Hathaway letters are mandatory reading and need no further introduction. Nick Sleep's letters to investors of Nomad Investment Partners are excellent too, and I aspire to that level of simplicity in writing. Finally, Dennis Hong of ShawSpring Partners is one of the fund managers who's thinking around innovation and optionality has profoundly influenced my own. His letters are available on request from his fund's website.

*Vineyard Holdings is currently closed to new investors.*

If you have made it to the end of this letter, I applaud you. This section is reserved for commentary on life and investing in general, please feel no compulsion to read on. Below are the facts and stats about the fund as of May 2021.

Above even those leading to a healthy family life, a healthy body, and a purpose-filled vocation, I believe the most important decision-set one faces is which worldview one adopts. This will determine the lens through which you make sense of the world.

As investors, understanding the worldview you adopt is crucial. Is the world's improvement cyclical or progressive? How do we approach morality in deciding what to invest in? What motivates us to work? How does one add value to the world by investing on secondary markets?

These are questions which all investors must grapple with at some point. I presume I will still be grappling with them 50 years from now. However, as partners, it is important that you understand my worldview insofar as it will affect my decision-making. I will reserve these final paragraphs of each shareholders' letter for commentary on the lens through which I see the world, and welcome any and all responses to my writing here.

Warmest regards,

Jordan Nel.