



The Cavendish Partnership

January 2021

Dear Partners,

Welcome to The Cavendish Partnership, where you join my family on an investment journey that we expect to continue for many years and hopefully decades to come. Our shared goal is to achieve satisfactory long-term capital growth by employing a truly patient approach that searches globally for the most overlooked and misunderstood companies. But this partnership is also an opportunity - a chance to build a community who share values and hold similar ideas on business and investing, creating a rich and valuable experience for everybody involved.

This first letter sets out the foundations of our journey, focusing on the fundamental ideas that define our partnership. Establishing (1) Our Values, (2) Our alignment of interests, and (3) Our Common Objectives.

Our Values

The Cavendish Partnership is not a partnership in its legal structure, it's a partnership in the way that we treat the people who invest alongside us. The Partnership represents an approach based on shared values. Why? Because we know that it is the long-term relationships with our partners that will ultimately determine the success of this venture.

My formative years were spent within a military environment where trusting relationships must be built quickly around a need to rely on others. I attended the Royal Military Academy Sandhurst and have led elite teams as part of The Royal Marines and The Parachute Regiment on three operational tours of Afghanistan. Through these experiences, I learned that the most solid foundations of trust are created when they are based on a mutual system of values. For the British Army these values are defined as Selfless Commitment, Respect for Others, Loyalty, Integrity, Discipline, and Courage (moral & physical).

For the military, these are not just arbitrary words but are engrained into every interaction. They determine a standard of behaviour that everyone must follow and a handrail to guide decision-making in some of the most complex and difficult environments a person could ever experience. It's been almost a decade since I left the military, but these values continue to

guide my decisions today and have provided the strong foundations for my most cherished relationships, with my family, friends, and my business partners.

Our values-based approach means this partnership is *not* a search for *gains at any cost* or a chance to merely pursue financial or personal rewards. By investing your capital, we recognise and value your position of trust, and as such you will be treated as our respected business partners, not simply a fee-paying client.

We want to start on a journey that begins with trust.

Our alignment of interests

As we start out, the assets within the partnership will be small and my family's capital (that represents much of our net worth) will be a material portion. All our investments are in the same strategy as yours so we will share in the good times with you. Conversely, in the years where we make investment blunders, these will be equally painful for us all. My fee (1% of the assets in the partnership) will be relatively small and will simply cover the costs of establishing and running the business.

Within the Partnership we want to highlight potential misalignments because we believe that building long-term relationships (and long-term results) is more important than short-term asset gathering. As we grow, our fixed fee structure could in principle shift my financial incentives from my family's (and your) long term performance towards growing our assets and marketing the Partnership. I would expect this shift to start occurring when our Assets Under Management (AUM) reach £5 million (or when my annual fee income hits £50,000, £5 million x 1% = £50,000).

Therefore, to maintain our alignment as we grow, when we reach £5 million within the Partnership, we will replace our fixed fee structure with an option based *on performance only*. When this happens, our earlier partners will be in the fortunate position of choosing whether to keep their current fixed management charge of 1% or switch to the new performance-based fee structure.

We focus on your long-term results over our short-term fees.

Our Common Objectives

Our objective is to achieve double digit annualised returns over the long term with minimal risk of permanent capital loss. With this absolute return mindset (focused on annualised growth of *over 10%*) we have no requirement to track stock market indexes. We therefore have the advantage of stepping away from short-term market chasing to focus on multi-year decisions. This is in contrast to many relative return investors, who instead of comparing their performance to the market over many years get drawn into doing so on a quarterly, weekly, monthly, and even a daily basis.

It's not that our partnership will ignore or be immune to market forces – over short periods, the fear and greed that frequently leads financial markets will unfairly punish or reward the companies we hold. This is expected. As business analysts (not stock price watchers) we prefer to step away from price movements and focus on valuing the expected cashflows from the businesses we own. These cashflows are often lumpy and the timing difficult to predict

and therefore we think about measuring our performance over at least five years, but ideally over an entire decade. Positioning ourselves with this extended time horizon gives us a huge advantage, because unlike many others we are able act with a truly long-term outlook, remaining *patient* in most environments and *acting decisively* only when the odds are stacked heavily in our favour.

Our absolute mindset approach is employed in areas where we are best positioned for success: away from major stock market indexes, and away from institutional investors with their teams of professional analysts. Who, because of their size, are forced to focus on gaining miniscule advantages in the most competitive arenas: investing in the largest companies located in a single country and a specific style box.

Within the Partnership our focus is on true bargains, searching globally for areas that have been discarded by most investors. We like to pay rock-bottom prices and target companies with strong balance sheets run by honest and well-aligned managers, preferably in uncomplicated industries. Obviously, these hidden gems do not come along every day. Yet our global approach and our focus on smaller companies gives us the best possible chance to find the opportunities that reward us handsomely for our efforts.

We search globally for overlooked companies and employ a truly long-term and patient approach.

I'd love your feedback on the reporting you'd like to receive. I'm planning to write to you bi-annually with the next letter being sent to all partners in July 2021. You'll be pleased to hear that our letters will contain very little market commentary and instead will focus on information with a much longer shelf-life - updating you on our progress, our investment strategy, and providing detailed information on 1-2 of the businesses we own.

I wish you a happy new year and I look forward to our *tête-à-têtes*. Take care and stay safe.

Warm regards,

Adrian