

# Noah Investment Management Co., Ltd.

## 2021 Annual Letter

### Performance

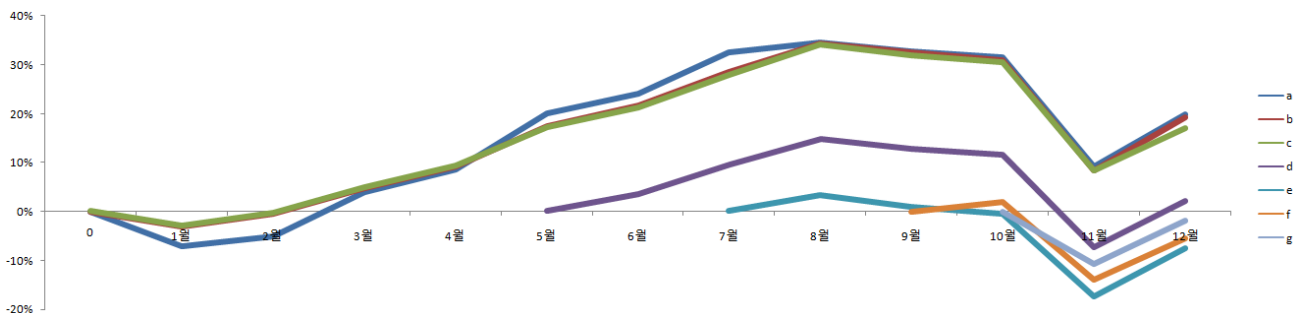
Noah Investment Management registered with the Financial Services Commission in October 2020 and welcomed its first client on December 3. Thus, 2021 marks the first full calendar year since the company's founding. Our operating performance for 2021 is summarized below.

Year	Noah Investment Management	KOSPI
2020 (2020.12.03 ~)	+3.1%	+7.4%
2021	+18.5%	+3.6%
Cumulative (2020.12.03 ~ 2021.12.31)	+22.0%	+11.3%

(Professional investor type, time-weighted return basis, excluding IPO products)

As of year-end 2021, the one-year return was +18.5%, and the cumulative return since December 3, 2020 was +22.0%, exceeding the KOSPI index by +14.9% and +10.8%, respectively. For clients who were invested for the entire year of 2021, there is no difference in performance. However, for clients who joined during 2021, performance varies depending on when they began investing.

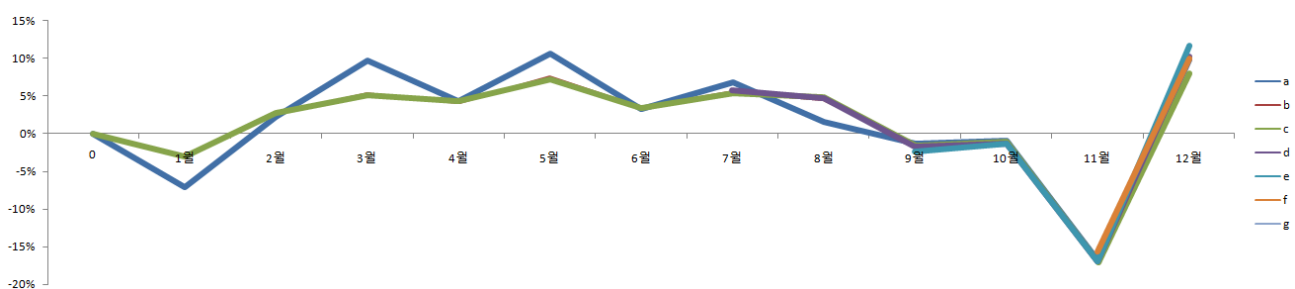
<2021 Year-to-Date Performance Trend by Client>



(Excluding IPO products)

Looking at the return trend by client in 2021, we can see that returns differ among clients depending on when they invested. On the other hand, examining monthly returns by client shows very little difference.

<Monthly Returns of All Clients in 2021>



(Excluding IPO products)

This is consistent with Noah Investment Management's principle of not differentiating among clients who share the same investment profile.

Then why do annual performance differences arise among clients? It comes down to volatility and investment timing. Looking at the fluctuation of returns over the year, at certain points in 2021 returns exceeded 40%, while in other months they fell below 10%. There were even months with swings of more than 20%. In such an environment, performance as of year-end 2021 can vary significantly depending on when during the year one invested. In fact, the maximum performance gap between clients who had been invested for over a year and those who entered at a specific point during the year reached as much as 28%.

### **Volatility and Investment Timing**

So should we reduce volatility and choose the right investment timing to narrow these differences?

Volatility is inevitable when investing in the stock market. This is because the stock market is characterized by the participation of countless people driven by emotions and exposure to innumerable economic variables—it simply cannot be avoided. If you succumb to volatility, achieving good long-term investment results becomes impossible. Therefore, before investing in stocks, one must honestly assess whether they can withstand volatility. To endure volatility, one must be able to tolerate both its magnitude and duration. I believe that to achieve good long-term investment results, one must be able to endure a -30% annual decline for two consecutive years.

I discussed this in detail in my April 2021 blog post (<https://blog.naver.com/noaham/222303769693>).

If volatility is inevitable, it might seem that choosing the lowest point as your entry would maximize returns, but predicting the optimal investment timing is impossible. I believe it is impossible to forecast macroeconomic factors—interest rates, exchange rates, inflation—that are exposed to innumerable variables, and then predict short-term markets to find the optimal entry point. Interest rates and inflation trends can reverse overnight. Rashly judging bubbles or recessions to predict investment timing is also not a good approach. A bigger bubble can follow a bubble, and a deeper recession can follow a recession—attempting to time the market may result in paying a far greater opportunity cost. While there are many experts across various media, very few predicted the sharp market crash caused by COVID-19 in 2020, nor the subsequent sharp rally. Therefore, regardless of timing, one must always remain in the market, continuing the process of investing in good companies at attractive prices.

In conclusion, since it is impossible to eliminate volatility or time the market perfectly, short-term performance differences based on entry timing are inevitable.

### **Long-Term Convergence**

Short-term performance differences can be viewed differently from a long-term perspective, because over time these differences diminish and performance converges.

Assume that investors A and B, due to different entry timing, achieved +18% and -8% respectively in the first year, and then both earned 10% annually over the long term. While the gap in their annualized returns is large in the first year, after 5 years the difference narrows to 6%, after 10 years to 3%, after 20 years to 2%, and after 30 years to just 1%. Even if you assume 20% or 30% annual returns instead of 10%, the conclusion does not change materially.

Ultimately, even if performance differences due to short-term entry timing are large, over the long run returns converge to the annualized rate. What truly matters is not the timing of entry, but the investor's

long-term performance.

The same result applies when considering the companies we invest in. Comparing long-term ROE and investment returns when a company's valuation at entry is PER 5, 10, or 15:

		1년	5년	10년	20년	30년
연평균 10%	a	18%	12%	11%	10%	10%
	b	-8%	6%	8%	9%	9%
연평균 20%	a	18%	20%	20%	20%	20%
	b	-8%	14%	17%	18%	19%
연평균 30%	a	18%	28%	29%	29%	30%
	b	-8%	21%	26%	28%	29%

ROE	매수가격	1년	5년	10년	20년	30년
10%	PER 5	120%	26%	18%	14%	13%
	10	10%	10%	10%	10%	10%
	20	-45%	-4%	3%	6%	7%
20%	PER 5	140%	38%	29%	24%	23%
	10	20%	20%	20%	20%	20%
	20	-40%	4%	12%	16%	17%
30%	PER 5	160%	49%	39%	35%	33%
	10	30%	30%	30%	30%	30%
	20	-35%	13%	21%	26%	27%

<Assuming the company trades at PER 10 after the investment period>

Even if you pay 2x or 3x the price (PER), while short-term results will differ, long-term performance converges to the company's ROE. Of course, a 3% difference in 30-year annualized returns is by no means trivial, which is why we strive and exercise patience to buy good companies at attractive prices. However, from a long-term perspective, the single most important determinant of investment performance is the company's long-term ROE.

### The Nick Sleep Story

The greatest harvest of 2021 was discovering and learning from Nick Sleep. Through Mohnish Pabrai's recommendation, I read all of his Annual Letters and became convinced that this would mark a turning point in my investment philosophy. Nick Sleep founded his investment firm in 2001, but after years of maintaining a portfolio that had not changed and would not change going forward (Amazon, Costco, Berkshire Hathaway), he concluded that continuing to manage client assets was no longer meaningful and liquidated the firm in 2014.

Nick Sleep applied the insight from *Zen and the Art of Motorcycle Maintenance*—that satisfaction and peace come from pursuing quality—to investing. By pursuing quality in thinking, analyzing, and investing, he concentrated on companies with long-term growth engines (ultimately the three companies mentioned above) and achieved great success.

This link ([https://igyfoundation.org.uk/wp-content/uploads/2021/09/Nomad\\_Partnership\\_Letters\\_1-1.pdf](https://igyfoundation.org.uk/wp-content/uploads/2021/09/Nomad_Partnership_Letters_1-1.pdf)) is a collection of Nick Sleep's letters to clients from 2001 to 2014.

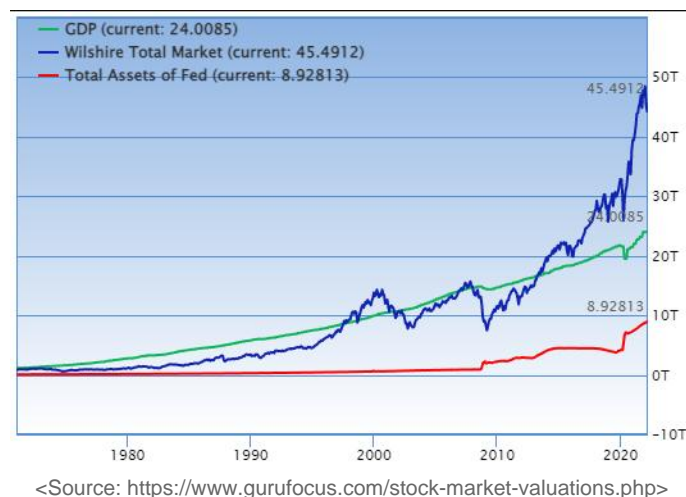
In his letters, Nick Sleep uses Costco as an example. He demonstrates that if you understood Costco's growth engine, then despite the stock never being cheap on a PER basis, investing at any point and holding for the long term would have produced outstanding results. He argues that investment performance is ultimately determined not by entry timing but by the company's long-term growth engine. Through Nick Sleep, I was able to understand and accept Charlie Munger's teaching that long-term investment returns converge to ROE—and that is what I have explained earlier in this letter.

In his 2005 letter, Nick Sleep noted that predicting a company's distant future inevitably widens the radius of uncertainty. He quoted Bill Miller: 'The investor's job is to find, among the futures that could happen, the few that actually will.' I deeply agree with this view of the investor's role.

Nick Sleep wrote, 'Upon reaching a certain hilltop, I found traces of predecessors who had already arrived.' As of 2005, Nick Sleep said he was '50 years behind Buffett and several years behind Bill Miller.' Mohnish Pabrai has said that discovering Nick Sleep in 2021 completely transformed his investment philosophy. I am climbing this hill now—no matter how fast I go, I am at least 67 years behind Buffett, over 30 years behind Bill Miller, 17 years behind Nick Sleep, and 1 year behind Mohnish Pabrai. I feel fortunate to be climbing this hill at all. I don't know when I will reach the summit, but since I have come to look at businesses before prices and to focus on long-term growth engines rather than short-term earnings or target-price-based trading, I believe I will arrive soon.

### Despite All This, the Current Moment

Although I do not attempt to predict or select investment timing, when someone asked me in 2021, 'Is now a good time to entrust money to you?', I answered, 'Probably not.' The basis for this thinking can be explained by the Buffett Indicator. The long-term graph of total U.S. market capitalization relative to GNP—known as the Buffett Indicator—is shown below.



Buffett has said that a level around 75% of total U.S. listed market capitalization relative to GDP represents a suitable time to invest. While the Buffett Indicator is not perfectly logical since it can vary depending on whether large companies are publicly listed—and I personally do not use it as a basis for investment decisions—I believe it is sufficient for seeing the big picture. During the 2000 IT bubble, Buffett warned when it exceeded 150%, yet in 2021 it surpassed 200%, making it clear that conditions were not favorable. Nevertheless, because I view clients as long-term investment partners, I welcomed clients at any point during 2021 without much concern. As explained earlier, over the long run, performance will converge regardless of entry timing.

As of March 2022, when I am writing this letter, the KOSPI index has fallen -13% from last year-end and -21% from last year's peak due to the Ukraine war and interest rate hikes. If someone asked me how things look now, I would say it is better than 2021, but still not a good time. The Buffett Indicator still exceeds 180%.

Looking at Buffett's 2002 shareholder letter, published in 2003:

*'Despite three years of falling prices, which have significantly improved the attractiveness of common stocks, we still find very few that even mildly interest us. That dismal fact is testimony to*

*the insanity of valuations reached during The Great Bubble. Unfortunately, the hangover may prove to be proportional to the binge.'*

Source: Berkshire Hathaway 2002 Shareholder Letter, <https://www.berkshirehathaway.com/letters/2002pdf.pdf>

The NASDAQ index fell from 5,048 at the peak of the bubble in mid-2000 to 1,139 by the end of 2002—a decline of -77%, reduced to a quarter of its value. Even at that point, Buffett said there were still no good investment opportunities. That era was the bubble; the current moment was not yet an opportunity.

I personally believe that a bubble formed in the market as an enormous amount of money was injected due to COVID-19 in 2020 and 2021, and the correction in 2022 does not seem sufficient to create a good entry point. While I hope otherwise, I believe that the rebound after this downturn may not come as quickly as the COVID recovery, and that, like Buffett in 2003, we may need to wait more than two years.

Taking the lesson from Buffett in 2003, I intend to resist the illusion of cheapness as much as possible over the next 2–3 years and take a conservative approach. Even if the market falls 30% or 50% from its peak, that era may have been a bubble and current prices may still not be attractive. I believe the next 2–3 years will be a long battle against such temptation.

### **Concentrated Investment**

Noah Investment Management invests in a concentrated manner in a small number of companies. Given our current scale of operations, I believe concentrating on 3–4 companies is ideal. Investing in your fifth-best idea instead of your best idea is not a good decision. I believe that by investing in companies with long-term growth engines at attractive prices and accompanying them over the long term, we can maximize long-term absolute returns. My job is to continually search for the best concentrated investment targets that can maximize returns on behalf of our clients, every single day.

In 2021, I studied numerous companies relentlessly, but in what was a somewhat bubbly environment, it was difficult to find a company that could replace the existing investments in our concentrated portfolio. Charlie Munger has said that he gives himself a gift when he breaks his own ideas. In that sense, I did not deserve a gift in 2021. However, unless a company clearly surpasses our current holdings, I will continue to exercise patience (even if I cannot receive a gift every year). Meanwhile, the performance achieved over the past year (regardless of stock price movements) and the outlook for the long-term holdings we are closely monitoring remain positive.

Having a conservative view of the market does not mean I incorporate macroeconomic forecasts into investment decisions. In 2022 as well, if companies with long-term growth engines are available at attractive prices, I will invest aggressively regardless of timing—and especially in times like these, I intend to focus on the intrinsic value of businesses.

Concentrated investment inevitably brings short-term volatility. I sincerely hope that you will be a long-term investment partner who can withstand this volatility.

Noah Investment Management  
Sincerely,  
Jonghyun Shon

## Appendix

### <Returns>

번호 (정렬기준: 유령순, 가입일순)	기간	기간 수익률	비고	수수료율
1	2021.01.01 ~ 2021.12.31	20.0%	전문투자자, 상장 주식	기본보수 0%, Hurdle rate 6%, 성과보수 25%
2	2021.01.01 ~ 2021.12.31	19.2%	전문투자자, 상장 주식	기본보수 0%, Hurdle rate 6%, 성과보수 25%
3	2021.01.01 ~ 2021.12.31	17.0%	전문투자자, 상장 주식	기본보수 0%, Hurdle rate 6%, 성과보수 25%
4	2021.06.22 ~ 2021.12.31	2.2%	전문투자자, 상장 주식	기본보수 0%, Hurdle rate 6%, 성과보수 25%
5	2021.08.05 ~ 2021.12.31	-7.6%	전문투자자, 상장 주식	기본보수 0%, Hurdle rate 6%, 성과보수 25%
6	2021.10.05 ~ 2021.12.31	-5.3%	전문투자자, 상장 주식	기본보수 0%, Hurdle rate 6%, 성과보수 25%
7	2021.11.04 ~ 2021.12.31	-1.7%	전문투자자, 상장 주식	기본보수 0%, Hurdle rate 6%, 성과보수 25%
전문투자자, 상장주식 최고		20.0%		
전문투자자, 상장주식 최저		-7.6%		
전문투자자, 상장주식 평균	2021.01.01 ~ 2021.12.31	18.5%	시간가중평균	
8	2021.01.01 ~ 2021.12.31	69.3%	공모형	기본보수 0%, 성과보수 실현수익의 20%
9	2021.01.01 ~ 2021.12.31	105.4%	공모형	기본보수 0%, 성과보수 실현수익의 20%
공모형 최고		105.4%		
공모형 최저		69.3%		
공모형 평균	2021.01.01 ~ 2021.12.31	89.7%	시간가중평균	

### Disclosure

This document is an Annual Letter sharing the overall operating performance of Noah Investment Management Co., Ltd. over the past year. It is not investment advertising or a solicitation for investment. This document provides information on fees, commissions, returns, and portfolio details of financial investment products managed or sold by Noah Investment Management Co., Ltd. in a standardized format through the company's internet and mobile homepage. This document includes the weighted average returns and the highest and lowest returns by investment type for the relevant period.