

Noah Investment Management Co., Ltd.

2022 Annual Letter

Performance

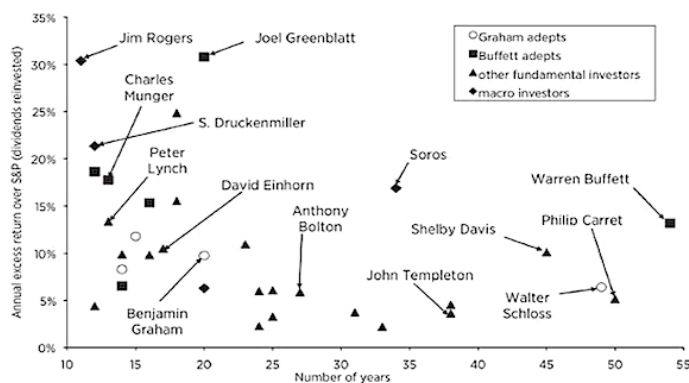
Year	Noah Investment Management	KOSPI
2020 (2020.12.03 ~)	+3.1%	+7.4%
2021	+18.5%	+3.6%
2022	-17.8%	-24.9%
Cumulative (2020.12.03 ~ 2022.12.31)	+0.3%	-16.4%

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

In 2022, our performance was -17.8%, and the cumulative performance since December 3, 2020 was +0.3%, outperforming the KOSPI index by +7.1% and +16.7%, respectively. While outperforming the index does not justify absolute losses, there is also no need to over-interpret a single year's loss during a market downturn. Over the 58 years Warren Buffett has managed Berkshire Hathaway, he underperformed the index a total of 19 times and experienced absolute losses in a total of 11 years (source: Berkshire Hathaway 2022 Shareholder Letter). As Terry Smith has said, one year is merely the time it takes for the Earth to orbit the Sun once; one-year relative returns against the index or annual returns hold little significance.

Outstanding investors are evaluated by their long-term track records. I believe that an annual average return of 30% over 20 years deserves a higher evaluation than 50% over 5 years or 40% over 10 years, because it is far more difficult to achieve. The chart below is a scatter plot of investors' investment horizons and excess returns.

(Source: Excess Returns by Vanhaverbeke Frederik)



All the investors shown are outstanding, but the reason Warren Buffett, who sits in the middle-right portion of the chart, receives the highest recognition rather than those with higher returns on the upper-left is because sustaining high returns over a long period is extraordinarily difficult. (Investors with fewer than 10 years of track record were not even plotted.) A Major League Baseball player does not get inducted into the Hall of Fame simply for having a few good years of batting average or hitting many home runs. They are evaluated based on the cumulative results of their entire career. The reason Warren Buffett is considered great is that his average annual return has been 20% over 58 years, which is why he sits at the very top of the Hall of Fame.

Therefore, how difficult a goal one pursues is determined by how long a time horizon one looks at. I can no longer aim for 58 years like Buffett, but I can take on the challenging goal of 20 years. With a 20-year time horizon, roughly speaking, a legendary investor would achieve an annualized return of around 30%, an excellent investor around 15%, and an average investor around the historical stock market average of 7%. In 20 years, my performance will fall somewhere in that range, and my goal is the highest level. Relative performance against the index or annual returns are merely milestones

along the journey toward that goal. After just over two years, these milestones are about as meaningful as gauging the final ranking of a marathon at the 4.2 km mark.

Ironically, clients must decide which investor to entrust their precious assets to based solely on such milestones. Moreover, it takes a very long time to know whether that decision was the right one. This may be even more difficult than an investor's task of finding companies that grow over the long term, requiring just as much insight. I don't think any amount of persuasion holds much significance for such a decision. Therefore, Noah Investment Management has decided not to engage in any sales or marketing efforts to attract clients going forward. We simply hope that, like a certain physics professor who drove 2,400 kilometers across the western United States to become Buffett's first outside client, someone will show up one day.

Investment Without Selling

In the ongoing process of learning and evolving, the most significant change on the surface is that we now aim for 'investment without selling.' In the past, we invested in companies that were cheap relative to their value, sold them when the stock price reached our target level, and repeated this process, producing decent results. The performance alone was satisfying, but it differed from the investment behavior of the investors I consider ideal. They rarely sold once they had taken a position. Buffett and Munger were like that, as were Li Lu, Pabrai, Guy Spier, and Nick Sleep, whom I learned about relatively recently. They advised that if you accompany an outstanding company for a long time, long-term returns will also be outstanding, so you should not sell even if the stock price has risen significantly and appears expensive (even if it exceeds your target price). After much deliberation, I came to understand the meaning of 'investment without selling' and decided to climb that mountain. It is difficult to explain the reasons for this change in detail here, but it was not simply to imitate them. I realized that it is the easiest and perhaps the only way for me to overcome volatility and achieve high returns over a long time horizon. Selling at a target price may be an obsession with and overconfidence in one's own valuation, while not selling can be an exercise in humility.

In 2022, this change was out of sync with market conditions and had a negative impact on investment performance. Company A, in which we had made a concentrated investment, rose above our target price and then plunged sharply along with the broader market decline, resulting in poor performance. Had we followed the old approach, we would have taken profits near the target price, and overall returns would have been much better. Some people advise that, unlike in the U.S., it is nearly impossible to find companies in Korea that allocate capital well and grow over the long term, so one should invest in companies poised for near-term improvement and take profits once the stock price has risen above a certain level. This is a point I partly agree with, and judging by the 2022 results, it might be easier to accept that advice and return to the old, proven approach. However, because we hold the difficult goal of achieving high-level returns over a long time horizon, I believe we must take on the harder path. Without being swayed by short-term results, we will continue to pursue 'investment without selling' -- that is, investing to own forever.

True Failures: Mistakes -- Gold, Silver, and Bronze

A few years ago, I learned that Francois Rochon of Giverny Capital announces his best mistakes of the year -- gold, silver, and bronze -- in his annual client letter, and since then, I have been personally selecting mine every year.

(Source: https://www.youtube.com/watch?v=ejmn_pxJwtl&list=PLGGpadyh0wS53HdovgrEgRwEqHcWrJwgP&index=12)



In 2022, the failures were so clear that no deliberation was needed to choose the top mistake. The gold medal goes to not selling the previously mentioned Company A. It may seem contradictory to say that not selling was the biggest failure when I have committed to 'investment without selling.' But to confess, I was so consumed by the idea of 'investment without selling' that I ignored various signals the company was sending and failed to deliberate carefully and respond. Despite frequently visiting the company, attending multiple years of shareholder meetings, and even attending a subsidiary's franchise briefing, I dismissed the negative information uncovered in the process out of a sense of pride in practicing 'investment without selling.' It was only after the price had dropped sharply that I recognized the mistake and exited most of the position. The gold medal is well-deserved. Although it was a failure, I hope that by incorporating this mistake into my checklist and reflecting on it, this failure will serve as a foundation for developing a better eye for identifying companies truly worth never selling.

In truth, not selling is merely a result; what matters is investing in companies that you can hold without selling. 'If I were to own it forever, what kind of company should I invest in?' This will be the main topic for ongoing learning, and I can gain hints by studying investors who have climbed this mountain before me. A recent interview with William Thorndike, the author of *The Outsiders* (<https://www.50xpodcast.com/episodes/will-thorndike-the-power-of-long-holding-periods>, Korean translation: <https://blog.naver.com/thegeneralfox/222988928899>), is a good example. In the interview, Thorndike emphasized the quality of revenue, noting that if you started the fiscal year with 100 customers, the key question is how many remain at year-end. He explained that when customer churn is low, the predictability of cash generation increases, making it easier to plan efficient capital allocation. I was struck by this insight, and it reminded me how far I still have to go.

Limits of Concentrated Investment

The most common reason people avoid concentrated investment is the belief that if it fails, the consequences are difficult to recover from. Given that the failed investment in Company A has had a negative impact on overall performance from last year through this year, it is worth examining cases of concentrated investment failures.

In 2017, I came across a documentary about Bill Ackman's Herbalife position and, out of curiosity, looked into his fund's operations. At the time, he was managing over KRW 10 trillion (approximately USD 8 billion) with most of his investment concentrated in just four companies. Having already established a directional preference for concentrated investment but struggling to put it into practice, I remember being quite impressed by that level of concentration. Bill Ackman's concentrated investment in Valeant Pharmaceuticals failed starting in 2014, resulting in losses of over KRW 3.5 trillion from 2015 to 2017. Around the same time, his short position in Herbalife -- the subject of the documentary -- also failed, resulting in losses exceeding KRW 1 trillion. Consequently, Bill Ackman was frequently cited as a textbook case of concentrated investment failure. Yet here is Bill Ackman's track record through 2022:

(Source: <https://pershingsquareholdings.com>)

Annual Net Returns			
Year	PSLP / PSH	S&P 500	
2004	42.6%	10.9%	
2005	39.9%	4.9%	
2006	22.5%	15.8%	
2007	22.0%	5.5%	
PSLP	2008	(13.0%)	(37.0%)
	2009	40.6%	26.5%
	2010	28.7%	15.1%
	2011	(1.1%)	2.1%
	2012	13.3%	16.0%
	2013	9.6%	32.4%
	2014	40.4%	13.7%
	2015	(20.5%)	1.4%
	2016	(13.5%)	11.9%
PSH	2017	(4.0%)	21.8%
	2018	(0.7%)	(4.4%)
	2019	58.1%	31.5%
	2020	70.2%	18.4%
	2021	26.9%	28.7%
	2022	(8.8%)	(18.1%)
Compound Annual Return			
Since Firm Inception (1/1/2004) ⁽¹⁾		15.9%	8.9%
Since PSH Inception (12/31/2012)		12.0%	12.5%

Despite the poor performance from 2015 to 2017, his annualized return over the past 19 years stands at 15.9%, an excellent record compared to the S&P 500's 8.9%. Tracking the performance of Bill Ackman -- famous as a case study of concentrated investment failure -- over several years actually strengthened my conviction in concentrated investment.

As another example of concentrated investment, let me discuss Francis Chou, who runs Chou Funds. In 2020, after hearing Mohnish Pabrai mention Francis Chou as an investor he trusts, I read all of his Annual Letters spanning 20 years, from 1999 onward. He successfully invested in tech

stocks that had fallen below net cash during the 2000 IT bubble, and by holding over 30% in cash and waiting patiently for four years, he invested in financial stocks during the 2008 financial crisis. As of 2010, his 15-year annualized return was 13.6%, an excellent record compared to the S&P 500's 6.8%.

(Source: <http://choufunds.com>)

December 31, 2010 (Series A)	1 Year	3 Years	5 Years	10 Years	15 Years
Chou Associates (SCAN)	19.2%	3.0%	3.1%	9.0%	11.2%
S&P500 (SCAN)	8.3%	-2.8%	-0.9%	-2.7%	4.5%
Chou Associates (SUS) ¹	25.5%	2.8%	6.5%	13.6%	13.6%
S&P500 (SUS)	15.0%	-2.8%	2.3%	1.4%	6.8%

However, during the 2011 European financial crisis, he invested in Nokia when it became cheap and held it until it had deteriorated through 2015. In 2013, he invested in the American retailer Sears and held it until just before its bankruptcy in 2017. As a result, his 20-year return through 2022 came down to an ordinary level of 7%.

(Source: <http://choufunds.com>)

December 31, 2022 (Series A)	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Chou Associates Fund (SCAN)	9.3%	14.7%	7.1%	7.7%	6.0%	6.2%
S&P 500 (SCAN)	-12.5%	9.2%	11.1%	16.1%	11.1%	9.0%
Chou Associates Fund (SUS)	2.1%	13.1%	5.5%	4.4%	3.8%	7.0%
S&P 500 (SUS)	-18.2%	7.6%	9.4%	12.5%	8.8%	9.8%

The critical difference between Bill Ackman and Francis Chou, I believe, lies in their responses to failure. Both made concentrated investments in companies that ultimately failed. However, Bill Ackman acknowledged his failures and restructured his portfolio, while Chou held onto his failed investments until near-bankruptcy, with the phrase 'it is still cheap nonetheless' appearing repeatedly in his Annual Letters over several years. In 2022 as well, Bill Ackman recognized the failure of his approximately KRW 1.3 trillion investment in Netflix in less than three months and liquidated it, taking a loss of about KRW 530 billion. Regardless of the outcomes of his decisions, his flexibility is impressive.

If one pursues concentrated investment, the question arises: what is the maximum percentage one can concentrate? I believe the limit of concentrated investment is the maximum size at which you do not project yourself onto the investment and your ego does not become entangled -- that is, the level at which you can

acknowledge failure and sell at any time. What that percentage is and how many stocks that involves will differ depending on each person's temperament and circumstances. And within this limit, I believe that even if a particular concentrated investment fails, one can still achieve excellent long-term results.

Alignment of Interests

Because Noah Investment Management does not charge a management fee, in a year like 2022 when losses occurred, we earned no fee income whatsoever from our clients. Furthermore, as I am personally the firm's largest client, I incurred losses at the same percentage rate as all other clients, and in absolute dollar terms, I suffered the largest loss.

When I first decided to adopt the same fee structure from Buffett's partnership era -- 0% management fee, 6% hurdle rate, 25% performance fee above the hurdle (i.e., 0/6/25) -- I deliberated over the hurdle rate. Back in 2020, market interest rates were near zero, and the 6% hurdle rate corresponded to the level of government bond yields during the high-interest-rate era when Buffett ran his partnership, so there was a temptation to lower it to match the reduced interest rate environment. Some clients even expressed concern that the hurdle rate might be too high. Now, just over two years later, with rising interest rates, the 6% hurdle rate looks appropriate. Since the market can change as quickly as a flip of the hand, and we cannot adjust the hurdle rate every year, I am relieved that we stuck with 6%. Even in setting a single element of the fee structure, I keenly felt the need for a long-term mindset rather than a short-term one.

Current Market View

As with last year, using the Buffett Indicator to assess the current market:

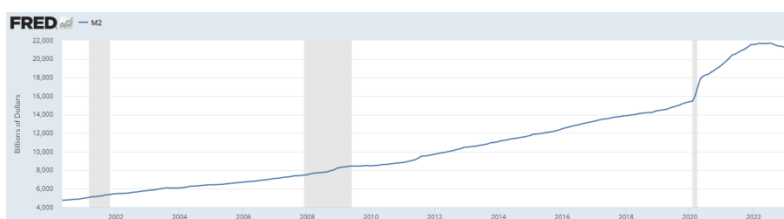
(Source: <https://www.gurufocus.com/stock-market-valuations.php>)



With GDP growing and the stock market declining, the ratio has narrowed from 200% in 2021 to approximately 154% currently. However, it remains above the 150% level that Buffett warned about, so it cannot yet be considered a favorable time to invest.

Personally, I do not expect inflation to stabilize at target levels in the short term through interest rate hikes alone. The quantitative easing measures implemented since 2008 were further and sharply expanded during the COVID-19 pandemic, and for inflation to return to historical levels, the quantitative tightening that began last year must continue until the money supply (M2) undergoes a significant level-down. Looking at M2 trends, however, it appears we are only at the beginning.

(Source: <https://fred.stlouisfed.org/series/M2SL>)



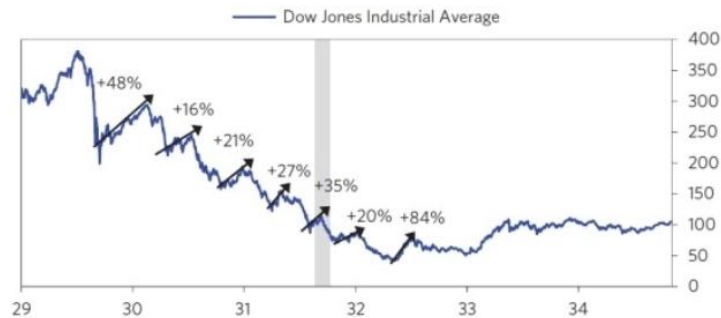
Because I believe that the magnitude of changes in M2 has a profound impact on stock market bubbles and collapses, there appears to be no need to rush into investments at this point. While reading Buffett's shareholder letter this year, there was one passage that struck me as chilling:

"Huge and entrenched fiscal deficits have consequences."

(Source: Berkshire Hathaway 2022 Shareholder Letter)

Whatever consequences Buffett envisions, it is better to take the blow sooner rather than later. In that same vein, for those who are comfortable with volatility, sharp corrections like 2022 can actually be welcome. If M2 quickly reaches its normal level and one or two more corrections like 2022 follow, we could arrive at a favorable time to invest sooner. On the other hand, if the Fed fears volatility and succumbs to the temptation of engineering a soft landing, we may face a long and tedious period of adjustment.

(Re-sourced from: <https://blog.naver.com/tosoha1/222940014622>)



출처 : Ray Dalio - Big Debt Crises

While the chart from the Great Depression era represents an extreme example, during the prolonged market decline, each time a strong rebound suggested that the tide had turned, the market plunged again -- a cycle that repeated for years and reportedly drove even the great investor Benjamin Graham into depression. In contrast, Charlie Munger urged that one should never lose composure and grace even in difficult circumstances:

"If you're going to be in this game for the long pull, which is the way to do it, you better be able to handle a 50% decline without fussing too much about it. And so my lesson to all of you is conduct your life so that you can handle the 50% decline with aplomb and grace. Don't try to avoid it."

(Source: Daily Journal 2017 Annual Shareholders Meeting)

Even assuming the worst-case scenario of a long and tedious period of adjustment, in order to maintain grace without frustration, it seems wise to lower expectations and take a step back from the numbers in the market and in our accounts, observing with detachment.

My views on the macroeconomy do not influence investment decisions. Furthermore, targeting the highest level of 30% annualized over a 20-year time horizon does not mean this year's target is 30%. Just as a .300 hitter doesn't aim for one hit every three at-bats but tries to get a hit in every plate appearance, I too aspire to higher returns each year. If I can buy companies worth owning forever at reasonable prices, I will not hesitate to invest in 2023.

Noah Investment Management

Sincerely,

Jonghyun Shon

Appendix

구분 (정렬기준: 우열순, 가입일순)	기간	기간 수익률	비고	수수료율
1	2022.01.01 ~ 2022.12.31	-18.3%	전문투자자, 상장 주식	기본보수 0%, Hurdle rate 6%, 성과보수 25%
2	2022.01.01 ~ 2022.12.31	-18.1%	전문투자자, 상장 주식	기본보수 0%, Hurdle rate 6%, 성과보수 25%
3	2022.01.01 ~ 2022.12.31	-16.0%	전문투자자, 상장 주식	기본보수 0%, Hurdle rate 6%, 성과보수 25%
4	2022.01.01 ~ 2022.12.31	-16.3%	전문투자자, 상장 주식	기본보수 0%, Hurdle rate 6%, 성과보수 25%
5	2022.01.01 ~ 2022.12.31	-18.0%	전문투자자, 상장 주식	기본보수 0%, Hurdle rate 6%, 성과보수 25%
6	2022.01.01 ~ 2022.12.31	-17.4%	전문투자자, 상장 주식	기본보수 0%, Hurdle rate 6%, 성과보수 25%
7	2022.01.01 ~ 2022.12.31	-16.9%	전문투자자, 상장 주식	기본보수 0%, Hurdle rate 6%, 성과보수 25%
전문투자자, 상장주식 최고		-16.0%		
전문투자자, 상장주식 최저		-18.3%		
전문투자자, 상장주식 평균	2022.01.01 ~ 2022.12.31	-17.8%	시간가중평균	
8	2022.01.01 ~ 2022.11.30	9.6%	공모형	기본보수 0%, 성과보수 실현수익의 20%
9	2022.01.01 ~ 2022.12.31	-1.3%	공모형	기본보수 0%, 성과보수 실현수익의 20%
공모형 최고		9.6%		
공모형 최저		-1.3%		
공모형 평균	2022.01.01 ~ 2022.12.31	1.4%	시간가중평균	

Disclosure

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