Noah Investment Management Co., Ltd.

2024 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%
2023	+29.8%	+18.7%
2024	+13.3%	-9.6%
Cumulative (2020.12.03 ~ 2024.12.31)	+47.4%	-10.3%

(Professional investor type, Time-weighted return)

Our 2024 return was +13.3%, outperforming the KOSPI's -9.6% by 22.9 percentage points. Cumulatively, we achieved +47.4% versus the KOSPI's -10.3%, an outperformance of 57.7 percentage points.

In last year's letter, I discussed my reservations about benchmark index selection and my skepticism toward relative performance against an index. In 2024, when the performance gap between U.S. and Korean markets widened dramatically, I believe everyone came to share that sentiment.

As in previous years, let me compare our performance to a marathon. We raced under very poor conditions -- snow, rain, and headwinds -- and while our ranking improved, our time fell short of our goal. Meanwhile, across the ocean, a local race blessed with tailwinds reportedly produced record after record. Investing is not a game of rankings but a game of records. Because this is the one and only record of a lifetime, we cannot simply blame our local conditions. We need strong legs and focus that can shorten our time regardless of the environment. The good news is that we have only run 8.5 km so far, and the wind is bound to change direction.

The Generosity of Investing

Looking back at our performance over the past two years, more than 95% of total returns came from investments in just two companies. During the same period, the success rate of our total investment decisions was less than 20%.

Mohnish Pabrai has said that the world of investing is an extremely forgiving business.

> *"so the investing business is a forgiving business extremely forgiving business if you ran a a 10 stock portfolio and you were wrong about half the stocks which is probably what you should expect would happen about half the stocks what you expect is going to happen ... because of the asymmetry of the way the investing business works with risk and reward you know an investor could would be extremely successful and do extremely well even if they were were right one out of 10 times"*

<Source: https://www.youtube.com/watch?v=0qxxVBKd8CI&t=677s>

I have proven Pabrai's words with my own experience. We can generate returns with a success rate of less than 20%, about once a year on average -- how generous is that? However, I believe that experiencing this generosity requires a few conditions.

First, you must understand the nature of the game of investing in businesses.

I believe this game is not about 30%, 50%, or 100% gains. It is a game of 3x, 5x, and 10x multiples. The reason is that a company's current value reflects outcomes far into the future, and if a small current change is structural, the 'total sum of its impact' on the company in perpetuity is likely many times larger than the current market capitalization. Moreover, when various human emotions get involved, the magnitude can be amplified even further.

However, due to the bias of underestimating far-future impacts and the time-value discount factor, the market reflects the 'total sum of impact' slowly. Therefore, even if your prediction was wrong or you made a mistake, if you possess intellectual honesty, you can recognize failure faster than most market participants, so the magnitude of losses is understated relative to the actual 'total sum of impact,' and with luck, you may even sell at a profit. (At worst, the maximum loss is -100%.) Conversely, for successful decisions, if you hold for a long period, the underestimation bias and time discount are resolved alongside the rise in stock price, allowing you to fully enjoy the multi-bagger outcome -- the 'total sum of impact.' Based on this asymmetry between losses and gains, when one successful decision's outcome overwhelms the rest of the unsuccessful ones, you can experience the generosity of this business.

The next condition for experiencing this generosity is concentrated investing.

No matter how well you play the multiples game, if you are excessively diversified, you cannot experience this generosity. One reason people hesitate to concentrate is that they cannot know which company will rise faster. In the Korean market in particular, where theme-driven spikes and crashes are frequent, repeated experiences of selling during lucky theme-driven surges for quick profits create a temptation to cast as many fishing rods as possible. With only three rods, you worry about missing something that might bite. But concentrated investing does not mean such luck passes you by. Even investing in one company per year gives you 20 companies over 20 years. Twenty rods are plenty to catch lucky fish. Rather, if you cast too many rods, even if one or two stocks get lucky, the impact on the total catch is small. And if you become obsessed with luck, you fall back into the percentage game.

The biggest reason people hesitate to concentrate is the high volatility, but over a 20-year horizon, volatility is sufficiently diversified. The concern is really about short-term volatility -- annual return volatility -- but in the long run, annual volatility is no problem at all, other than making it somewhat awkward for me to report returns in my annual client letter. Warren Buffett also addressed annual volatility and the multiples game in his 1992 shareholder letter:

> *"We will continue to experience considerable volatility in our annual results. That's assured by the general volatility of the stock market, by the concentration of our equity holdings in just a few companies, and by certain business decisions we have made, most especially our move to commit large resources to super-catastrophe insurance. We not only accept this volatility but welcome it: A tolerance for short-term swings improves our long-term prospects. In baseball lingo, our performance yardstick is slugging percentage, not batting average."*

<Source: Berkshire Hathaway 1992 Shareholder Letter>

When you understand the nature of the business investing game, concentrate on multiples, hold for the long term, and aim for extra-base hits, you can experience the generosity of the investing world and achieve difficult long-term goals. The Korean market in 2024 was one that desperately needed such generosity. The harder times get, the more we need to uphold the conditions of generosity.

The Gold Medal of Failure

Even if investing is a generous business, we cannot rely on slugging percentage alone forever. As stated earlier, most of our returns over the past two years came from specific investments, and our decision success rate was low. Reflection on our batting average is needed. So I documented the unsuccessful decisions and the circumstances at the time, and conducted a post-mortem. As a result, I was able to group the reasons for failure as follows:

- Insufficient analysis of the external environment
- Misjudgment of competitive moats
- Overestimation of the magnitude of change
- Excessive trust in company-provided information

If I had to award a gold medal for 2024 mistakes, it would go to 'Insufficient analysis of the external environment.' The others were things I already knew, whereas 'Insufficient analysis of the external environment' was something I newly recognized through this review process.

When analyzing companies, I meticulously studied their past and present and expanded my thinking in many directions to predict the future, but I realized that my consideration of the external environment was lacking. In particular, for external environmental factors that had remained unchanged for long periods, I often treated them as constants and incorporated them into my forecasts without deliberation. However, when something I had assumed to be a constant became a variable, my high-conviction decisions became incomplete ones. What made this even more critical is that, precisely because there had been no change for a long time, once change begins it is expected to affect the company for an extended period, making it difficult to maintain the original investment decision.

For example, everything assumed under the constant of Japan's zero interest rate policy, which lasted 20 years, became a variable (obvious in hindsight) once Japan began raising rates. For companies with heavy exposure to interest rates or exchange rates, the long-term impact is unavoidable, making it difficult to stick with the original investment decision.

Conversely, from an opportunity cost perspective, I missed good opportunities in industries like power equipment and cosmetics by assuming -- without any consideration of major shifts in the external environment -- that the historically short demand cycles from downstream industries would simply repeat this time as well.

I confess that I misinterpreted Warren Buffett's advice to 'not try to predict the macroeconomy' by equating the 'macroeconomy' with the 'macro environment' that a company operates in, and took it to mean I should simply assume that current conditions would persist indefinitely. Going forward, while I still will not be able to accurately predict changes in the external environment, I intend to assess whether the current environment is favorable or unfavorable, focus my investment reviews on companies in unfavorable environments, approach companies in favorable environments conservatively, and deliberate deeply on whether we might be at the beginning of a major shift. If the learning from 2024's failures can help improve my batting average going forward, I am already excited about what results might follow.

Li Lu's Gas Station

While reading a recent book[1] by Li Lu -- to whom Charlie Munger was the only person to entrust his personal capital -- I was deeply moved by the following passage:

> *"If you can avoid permanent loss in a bear market, then making money in a bull market is the most natural thing in the world."*

This may seem obvious, but having just experienced the gold medal of mistakes, I was acutely feeling how difficult it is to survive a bear market. And the assertion that making money in a bull market is a given resonated with me as a near-axiomatic belief in oneself. Through his lectures and writings, Li Lu has repeatedly emphasized 'intellectual honesty' as an essential quality for avoiding permanent loss in bear markets. He said intellectual honesty is attained by recognizing the following:

- What you know, what you don't know, what you don't need to know, and that there exists something you don't even know you don't know

This seems to be something one experiences sequentially as investment experience and analytical capabilities accumulate. At first, you focus on what you know, but as experience builds, you pay more attention to what you don't know. After being swayed by noise a few times, you learn the importance of distinguishing what you don't need to know. And just as confidence builds, a few failures teach you that there are things you don't even know you don't know, and you become humble.

However, you cannot invest infinite time to achieve intellectual honesty on every single investment. So when should you stop pursuing intellectual honesty?

Li Lu addressed this threshold through his gas station story.[2]

When Li Lu first started investing, he was studying a company that owned gas stations and began closely observing two gas stations near his home. He noticed something remarkable: the two stations appeared identical in location, price, and all other conditions, yet one did four times the business of the other. Only after extensive observation and inquiry did Li Lu discover the reason. Among several factors, the most fundamental difference was that one was run by an Indian immigrant who had invested his entire fortune and managed it personally, while the other was operated by a hired white employee. This difference in ownership and commitment resulted in differences in service quality and ultimately in business performance.

During analysis, you can experience 'aha moments' like Li Lu's gas station, where you come to understand the underlying cause of surface-level results through a combination of information. It might be a single graph, one line from a news article, a phrase tucked in a corner of an annual report, one Excel formula, or a combination of these. I believe that moment is when intellectual honesty is achieved. Before making an investment decision, you must ask yourself whether you understand the company's core as deeply as Li Lu understood his gas station. However, in many cases, even after investing considerable time, you may realize you cannot reach the 'Li Lu gas station moment.' In such cases, you should pass without hesitation.

Having a Li Lu gas station moment does not guarantee you will always accurately predict the future. But what makes the gas station moment important is that only after your intellectual honesty is established (whether it turns out to be correct or not) can you endure a bear market. And you can take the gains of a bull market for granted. Moreover, even if you made a mistake in your decision, you will recognize that mistake faster than anyone and minimize the damage.

[1] Civilization, Modernization, and Value Investing and China, Forest Books, 2024
[2] From a speech to students at Peking University Guanghua School of Management, November 2019

AI and Investing

Having passed the ignition point of the AI era, it is impossible not to discuss AI.

Personally, I have had a strong interest in AI since it first emerged, and in 2024 in particular, I invested significant time in utilizing AI at the API level through hands-on coding. While I could see areas where value will be highlighted in the AI era, unfortunately I was unable to find companies that directly benefit from AI and are trading at fair value.

However, I received tremendous help from AI in the process of turning over stones (searching for investment targets).

I believe coding gives AI wings when it comes to collecting and filtering large amounts of information.

Though I am a beginner, fortunately I had picked up some coding by watching over others' shoulders. Until now, I had only used coding at the firm to automatically process orders by splitting them into small pieces in random order to minimize market impact and ensure no differentiation among clients.

But AI enables even a novice developer like me to use coding to filter desired information from vast datasets and apply it to investing. AI dramatically assists with coding itself and also helps produce desired results -- killing two birds with one stone. Most of what I utilized in 2024 involved collecting massive amounts of information through code and extracting results via AI (what is called RAG). Here are some examples:

- Comparing new disclosure reports of all listed companies against prior versions to extract only newly added text
- Collecting keywords and analyzing trends related to all domestically listed companies
- Analyzing and filtering all published IR materials
- Sentiment analysis of all stock message boards
- Ranking, review counting, and full review sentiment analysis across various domestic shopping malls

As I began leveraging AI this way, the number of companies I can research alone increased dramatically. For overseas company research as well, accessibility has improved incomparably. For example, when studying Chinese companies, even finding a single disclosure used to be time-consuming, but now I can translate and simultaneously analyze ten years of disclosures using AI. As this psychological barrier has disappeared, I now feel I can analyze any company in the world if I want to. In particular, I benefit greatly from analyzing overseas competitors of domestic companies or studying overseas companies I discovered while researching domestic ones. As a natural consequence, I am currently considering expanding the investment universe for our discretionary clients beyond Korea to overseas markets.

Conversely, the same situation may apply when looking at the Korean market from abroad. From the perspective of overseas investors, the Korean market has historically been difficult to access due to its closed information sharing and language barriers. However, as AI becomes more prevalent, their research on the Korean market will become easier, and if attractive investment opportunities exist, they too will invest without psychological barriers. This could naturally shorten the time it takes for undervalued domestic companies to be discovered. Consequently, I believe that the depressed Korean market as a whole could be positively impacted by AI.

We also need to consider situations where AI may eliminate informational advantages. As a real example, last year while analyzing a specific company, I found content related to that company buried in a quarterly report disclosed by a small Taiwanese competitor, and I wondered how many people could have found this. This year, as soon as search agents and DeepSearch launched, when I analyzed that company using DeepSearch, the very same content popped up, and I observed it being mentioned here and there for the first time. It seems I no longer need to worry about when the market will recognize my idea. The market will either know soon, or never know at all -- it is likely one or the other.

As I have gotten older, I had begun to feel that the trajectory of my investing life was largely determined within a certain range. However, when I compare my age to that of Buffett and Munger at the time of their See's Candies investment -- which marked the beginning of their golden era -- I am now slightly younger than Charlie Munger was and slightly older than Warren Buffett was at the time. Their actual ages then were much older than I had expected, which surprised me. The arrival of AI at a time when I might have been losing some drive may be something to be grateful for. The renewed enthusiasm I feel while using AI gives me hope that, like them, I may be able to continue actively investing for a very long time.

In 2025, I will continue to invest with concentration to play the multiples game within the generosity of investing, hold for the long term, and refine my slugging percentage. Furthermore, I will do my best -- together with AI -- to find the 'Li Lu gas station moments' that build intellectual honesty and raise my batting average.

February 2025

Sincerely,

Jonghyun Shon

Noah Investment Management

Appendix

<Returns>

번호 (정렬기준 유형순, 가입일순)	기간	기간 수익률	비고	수수료율
1	2024.01.01 ~ 2024.12.31	13.1%	전문투자자	기본보수 0%, Hurdle rate 6%, 성과보수 25%
2	2024.01.01 ~ 2024.12.31	13.0%	전문투자자	기본보수 0%, Hurdle rate 6%, 성과보수 25%
3	2024.01.01 ~ 2024.12.31	15.0%	전문투자자	기본보수 0%, Hurdle rate 6%, 성과보수 25%
4	2024.01.01 ~ 2024.12.31	16.4%	전문투자자	기본보수 0%, Hurdle rate 6%, 성과보수 25%
5	2024.01.01 ~ 2024.12.31	13.8%	전문투자자	기본보수 0%, Hurdle rate 6%, 성과보수 25%
6	2024.01.01 ~ 2024.12.31	14.4%	전문투자자	기본보수 0%, Hurdle rate 6%, 성과보수 25%
최고	2024.01.01 ~ 2024.12.31	16.4%		
최저	2024.01.01 ~ 2024.12.31	13.0%		
평균	2023.01.01 ~ 2023.12.31	13.3%	시간가중평균	

Disclosure

This document is an Annual Letter sharing the overall operational status of Noah Investment Management Co., Ltd. over the past year and is not an investment advertisement or solicitation material. This document provides information regarding fees, commissions, returns, and portfolio details of financial investment products managed or sold by Noah Investment Management Co., Ltd. in a standardized format through Noah Investment Management's internet and mobile homepage. This document includes the weighted average return by type, as well as the highest and lowest returns, for a specified period.