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❖ A few investing lessons from Warren Buffett's latest annual letter

Warren Buffett's annual letters to shareholders are masterclass in investing. His letters are candid, clear, transparent, and full of wisdom. A must-read for investors and CEOs.

Buffett recently released his 2023 letter to shareholders of Berkshire Hathaway. It's a good read, as always.

Buffett started the letter with a tribute to his long-time partner Charlie Munger who passed away – just a month shy of his 100th birthday – in November last year.

"Charlie was the "architect" of the present Berkshire, and I acted as the "general contractor" to carry out the day-by-day construction of his vision."

"Charlie never sought to take credit for his role as creator but instead let me take the bows and receive the accolades. In a way his relationship with me was part older brother, part loving father. Even when he knew he was right, he gave me the reins, and when I blundered he never – never – reminded me of my mistake."

"Though I have long been in charge of the construction crew; Charlie should forever be credited with being the architect."

Buffett will usually sprinkle some investing lessons throughout the letter.

Here are a few that stand out.

1. **Invest in wonderful businesses. Focus on companies with strong and sustainable fundamentals (high ROE, low gearing ratio, strong free cash flow generation etc), ability to reinvest capital at high rate of returns and run by able and trustworthy management.**

   "We want to own either all or a portion of businesses that enjoy good economics that are fundamental and enduring. Within capitalism, some businesses will flourish for a very long time while others will prove to be sinkholes.

   At Berkshire, we particularly favor the rare enterprise that can deploy additional capital at high returns in the future. Owning only one of these companies – and simply sitting tight – can deliver wealth almost beyond measure. Even heirs to such a holding can – ugh! – sometimes live a lifetime of leisure.

We also hope these favored businesses are run by able and trustworthy managers, though that is a more difficult judgment to make, however, and Berkshire has had its share of disappointments."

2. **Pay fair prices for wonderful businesses. Don't invest in lousy businesses even if the price is low. This is because wonderful businesses will continue to earn superior returns while mediocre ones are very likely to remain mediocre. However, wonderful businesses rarely go on sale. Therefore, investors should seize the occasional opportunity when the market offers them wonderful businesses at fair valuations.**

   "Charlie, in 1965, promptly advised me: "Warren, forget about ever buying another company like Berkshire. But now that you control Berkshire, add to it wonderful businesses purchased at fair prices and give up buying fair businesses at wonderful prices. In other words, abandon everything you learned from your hero, Ben Graham. It works but only when practiced at small scale." With much back-sliding I subsequently followed his instructions."

3. **Hold them for a long, long time. You just need to own a few wonderful businesses and sit still for a long, long time. Berkshire Hathaway is a good example. The stock has returned 4,384,748% over the last 59 years. If you have invested only US$1,000 in Berkshire at the beginning, and sit tight for 59 years, your investment will be worth US$43.85 million at the end of 2023! That's the power of compounding.**

   "When you find a truly wonderful business, stick with it. Patience pays, and one wonderful business can offset the many mediocre decisions that are inevitable."

   "One investment rule at Berkshire has not and will not change: Never risk permanent loss of capital. Thanks to the American tailwind and the power of compound interest, the arena in which we operate has been – and will be – rewarding if you make a couple of good decisions during a lifetime and avoid serious mistakes."

   "America has been a terrific country for investors. All they have needed to do is sit quietly, listening to no one."

In a nutshell, Buffett said,

- Invest in wonderful businesses.
- Pay fair prices.
- Hold them for a long, long time.

Simple but not easy.

Jackson Tan
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MSWG AGM/EGM Weekly Watch 1 – 5 April 2024

For this week, the following are the AGMs/EGMs of companies in the Minority Shareholders Watch Group's (MSWG) watch list.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG's website at www.mswg.org.my.

Date & Time	Company	Quick-take
02.04.24 (Tue) 11.00 am	Fintec Global Berhad (EGM)	Fintec proposed to consolidate every 30 shares in the Company into 1 Fintec share. Upon consolidation, Fintec's total number of issued shares will reduce to 197.46 million from 5.923 billion currently.
05.04.24 (Fri) 10.00 am	LPI Capital Bhd (AGM)	In FY2023, LPI reported higher net profit of RM313.73 million (+24.4% y-o-y) compared to RM252.22 million in FY2022, driven by higher investment income (RM123.5 million vs RM100.17 million) and fair value gain on investments of RM25.8 million versus fair value loss of RM8.3 million in the year before. Meanwhile, its Insurance Service Result grew marginally at 2.66% to RM293.72 million from RM286.1 million previously, primarily due to net reinsurance costs of RM661.2 million vs net reinsurance income of RM11.29 million in FY2022. It incurred higher reinsurance premiums paid, totalling RM610.17 million vs RM400.92 million in FY2022.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
LPI Capital Bhd (AGM)	1. As of September 2023, LPI's market share ranking in the Malaysian general insurance market had dropped two more notches to sixth, despite its market leader position in the Fire and Bonds segments. The further decline in market share ranking was primarily due to the market consolidation of two insurers, which resulted in the merging of their respective portfolios. As market players consolidate to form more extensive and formidable forces, what are LPI's strengths and weaknesses in dealing with competition from larger players? How does LPI respond to such an evolving landscape?

	2. LPI's net written premiums for climate-friendly risks totalled RM12 million in 2023, compared to RM8 million in FY2022. This number is insignificant compared to LPI's gross written premium of RM1.73 billion in FY2023. a) What is the market potential by market size for ESG-friendly insurance products in Malaysia? b) How comprehensive and competitive is LPI's green products offering compared to other market players? c) Additionally, Lonpac plans to offer coverage for electric vehicles (EVs) (page 26 of AR2023). With Malaysia reporting exponential growth in EV sales in 2023, how soon will Lonpac launch related insurance products to seize the fast-growing segment's underwriting opportunities?

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DISCLOSURE OF INTERESTS

•*With regard to the companies mentioned, MSWG holds a minimum number of shares in all* the companies covered in this newsletter.