

ANNUAL SHAREHOLDER LETTER
2024

Alaamry Global Capital

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Our investment philosophy

Dear shareholders,

Over the years, I have had numerous conversations with friends and family about the stock market, investment strategies, and the current landscape of opportunities. Many have asked about the rationale behind our fund's strategy, particularly our exposure to Chinese equities, and how we approach decision-making in such a complicated environment. These discussions have made me realize the importance of educating investors on how to think about the market—focusing on fundamentals, research, and a disciplined approach to investing.

The purpose of this letter is to share insights into how we evaluate investment opportunities, both within our fund and as a general investment principle. I've included case studies and real-world examples to illustrate how we apply these principles, with a special focus on China, which we believe is an undervalued market with strong upside potential. Through this, I hope to provide guidance on how investors can make decisions based on data and facts rather than emotion or sentiment.

Just as learning is a continuous journey, identifying the next opportunity in an exceptional company is a continuous process with Alaamry Global Capital. We invest in above-average companies trading at below-average prices. We seek businesses that have a competitive advantage, are managed well, and have a track record of good capital allocation, a solid business model, and shareholder-friendly management. By buying such companies when they are trading at a discount to our estimated fair value, we build a margin of safety in our investments.

More often than not, companies with the above characteristics trade at high valuations, rarely falling below their fair value. The only times they do is when the economy is facing headwinds, the company suffers a setback, or the industry has an uncertain outlook. These circumstances worsen investor sentiment, bringing prices down to attractive values.

These short-term blips cause near-sighted traders to panic, which brings the stock prices down further. This is where we come in. We use this negative sentiment to our advantage to build a position. Since we have a long-term view of owning these businesses, we can easily ride out the negative sentiment. The short-term setback gives us a perfect buying opportunity.

Benjamin Graham, the father of value investing and the mentor of Warren Buffett, summarizes this phenomenon perfectly:

"In the short run, the market is a voting machine but in the long run, it is a weighing machine."

By comparing the stock market to a voting machine, Graham emphasizes how short-term traders determine the near-term direction of the market, invariably reflecting the existing market sentiment. However, in the long run, good companies return to their true value, bringing value realization for investors.

The short-term behavior of market participants has been exacerbated by the improvements in information technology. The quick access to news and the ease of trading has meant that the average investor holding period has now come down to less than 6 months from a peak of eight years in the late 1950s.

We use this investor behavior to our advantage and build positions in stocks trading at a discount to maximize our long-term returns.

In this letter you will find:

- An explanation of the research and rationale that led us to invest in China.
- An overview of the performance of our portfolio companies.
- A summary of our core beliefs.

Our focus on China – the research and rationale

Talking of discounted prices, there's one market that has been on sale for some time: China.

China is the second-largest economy in the world and only recently pulled off what is called the 'Chinese Miracle,' growing its economy by an average annual rate of 10% for three decades.

There are many reasons why China is an attractive investment opportunity.

The Hang Seng Index has had a steep drawdown

The Hang Seng Index, launched in 1969, is composed of the largest companies trading on the Hong Kong Stock Exchange. It peaked in 2021 at 31,000. Since then, it has hit a low of 14,687, a massive 53% correction.

To give you some perspective, even the much-touted market crash due to the covid-19 pandemic had a maximum drawdown of only 25%. The fact that the recent drawdown was over twice that amount is something that we welcomed with open arms, seeing it as an opportunity rather than a misfortune.

A historical perspective of previous US market setbacks:

Title	Start — end date	Duration (trading days)	% Drop
Black Tuesday / Great Crash*	Sep 16, 1929 — Sep 22, 1954	300 months (7,256 days)	-86%
Nixon shock / OPEC oil embargo	Jan 11, 1973 — Jul 17, 1980	90 months (1,899 days)	-48%
Black Monday**	Oct 13, 1987 — May 15, 1989	19 months (402 days)	-29%
Dot-com bubble	Mar 24, 2000 — May 30, 2007	86 months (1,808 days)	-49%
Global Financial Crisis	Oct 9, 2007 — Mar 28, 2013	65 months (1,379 days)	-57%
Covid-19 crash***	Feb 19, 2020 — June 20, 2020	4+ months (120+ days)	-34%

For some added perspective, a comparable drawdown in the US market happened during the Global Financial Crisis (GFC, 2007-08), when the market fell 57%. Further back, the dot-com bubble (1999-2000) had a top-to-bottom decline of 49%.

Comparisons with historic drawdowns can be hard to get your head around. Let's put the Hang Seng's drawdown in the context of the present S&P levels.

Currently, the S&P 500 has been trading just above 6,000. Pre-pandemic, it recorded a high of 3,393.

Where would it be trading if it had performed similarly to the Hang Seng Index?

- A decline of 25% from the 2020 highs would have given the S&P a level of 2,544.
- A recovery of 43%, similar to that which the Hang Seng enjoyed in 2021, would then have placed the S&P at 3,638.
- A further decline of 53%, which is what the Hang Seng has experienced most recently, would result in the S&P 500 index being at 1,928 points.

The S&P 500 would be more than three times cheaper than its current levels if it had endured a performance similar to that of the Hang Seng Index. Put another way, we believe the S&P 500 is three times more expensive today than the Hang Seng in that sense.

The last time the S&P reached those levels was in 2014, exactly a decade ago. So, a performance similar to the Hang Seng post-covid would have wiped out the gains of more than a decade.

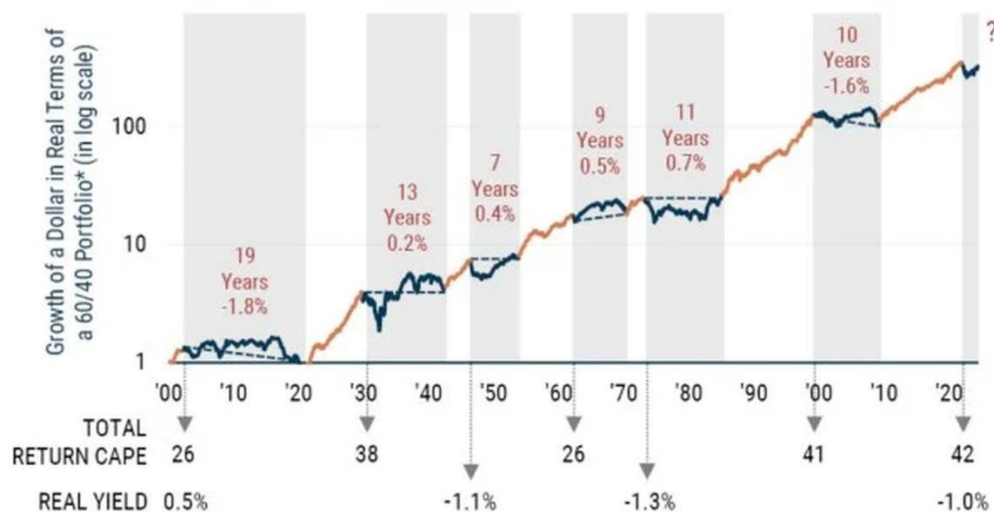
It is worth remembering Lenin’s words at this point:

“There are decades where nothing happens, and there are weeks where decades happen”

The last time the Hang Seng was at these levels was during the GFC, similarly wiping out 15 years of returns, excluding dividends.

This observation leads us to the question, when in history have we seen the US market produce flat or negative returns for a decade or more?

The chart below tracks the S&P 500 from 1880 through 2022.



The grey bars highlight the periods during which returns have been flat, improving marginally, or even negative. This chart clearly shows that it is not uncommon for the S&P to give flat or negative returns for several years. The

first decade of this century witnessed a negative return of -1.6%. Driven by the oil embargo of 1974, the 11-year period from the mid-seventies to the mid-eighties delivered a return of only 0.7%.

How did the market perform after these periods of low returns and poor investor sentiment? Let's take a deeper look.

- From 2013 till today, the S&P 500 has gone from 2,060 to over 6,000, giving a cumulative return of 291%.
- From 1990 to 2000, the index went from 720 to 2,770, gaining around 385%.

Price-to-earnings ratio points to great valuations

The opportunity in the Chinese market lies in its market valuation. Let us see how this compares with that of the US market.

China is currently trading at a price-to-earnings (PE) ratio of 10. The last time the US market traded at that multiple was during the GFC in 2009. The returns since then have been an impressive 878%, or 15.6% annually excluding dividends.

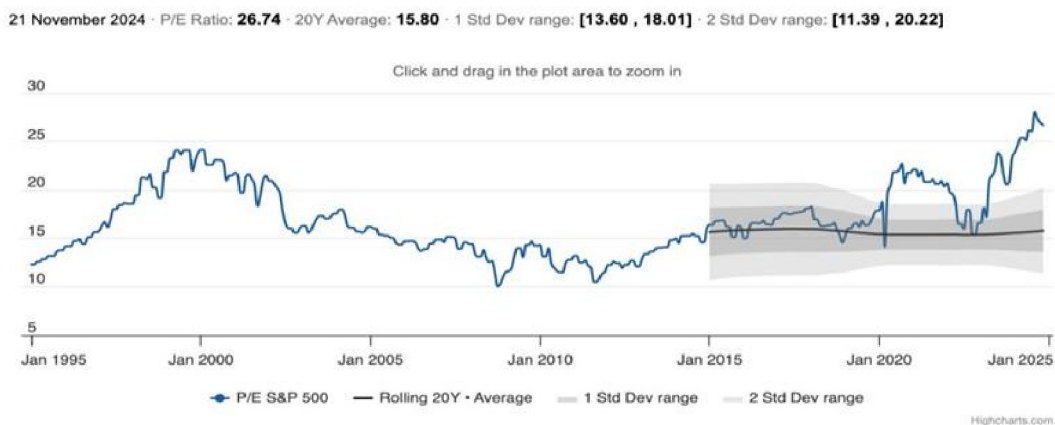
Warren Buffett put it nicely when he said:

"Be fearful when others are greedy and greedy when others are fearful"

His wisdom fits well into this example. People who bought discounted stocks when everyone else was running from the market reaped rewards in the next decade-and-a-half.

Having said that, these comparisons aren't entirely fair and have their own flaws. Let's add some historical perspective to the valuations and compare them with their long-term average valuation.

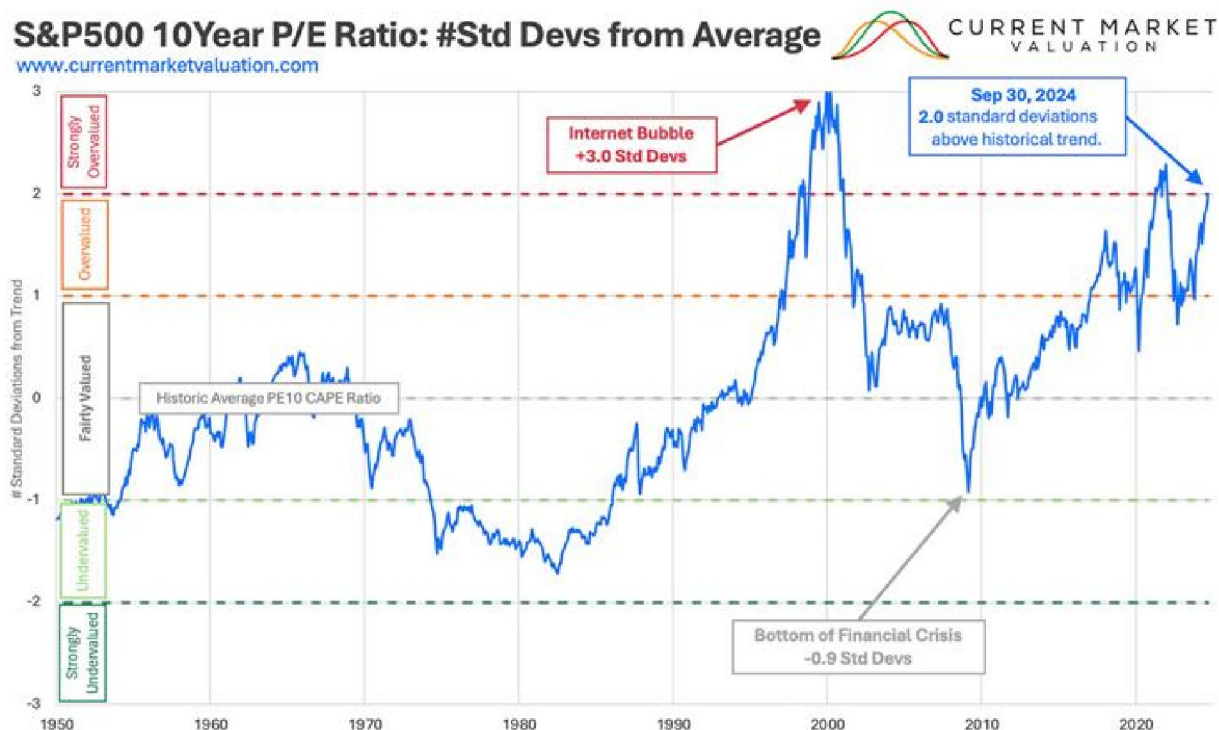
The chart below tracks the PE ratio of the S&P 500, along with the trailing 20-year average from 2015 onwards.



Source: www.highcharts.com

You can see that the S&P trades now at a PE ratio of around 27, which is quite close to the dot-com bubble valuation. It is, therefore, trading at almost twice its 20-year average of 15.8. The ratio bottomed at 10.05 in October 2008 before recovering to its current level.

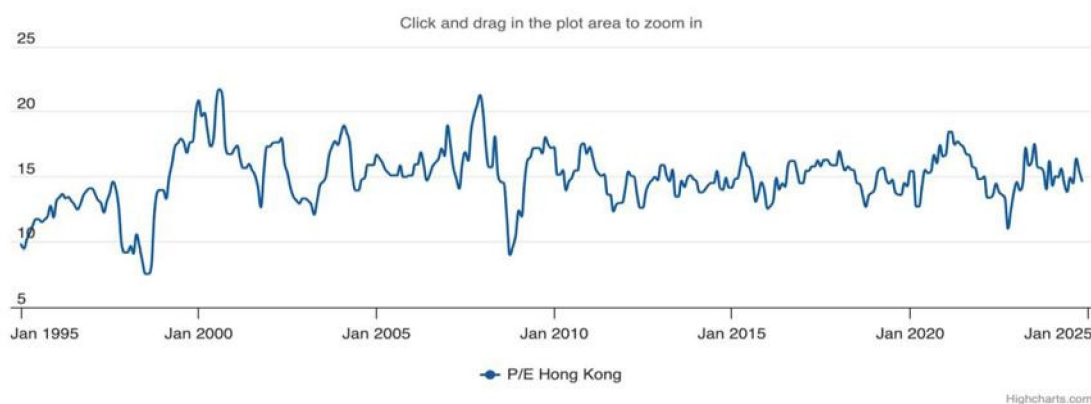
The following chart makes it more clear by tracking the standard deviation of the S&P 500 from the 20-year average PE ratio.



Source: www.currentmarketvaluation.com

The chart shows clearly the PE ratio moving beyond the two-standard-deviation range. At more than two standard deviations above the historical trend, the index is grossly overvalued and close to the dot-com bubble level.

Let's now look at the Hang Seng Index in comparison and track its PE ratio, shown in the chart below.



Source: www.highcharts.com

The index's PE ratio recorded a high of 21.2 in 2007 but, just a year later, the GFC caused it to shrink to 9.02. At that point, the 20-year average stood at 15.19, within 5% of the S&P long-term average.

If the current PE ratio of 10, which is just above the 2008 multiple, corresponds to an index value of around 20,000, it is worth calculating where the index would stand if the PE were to revert to the 20-year average of 15.19.

The rerating would bring the index to 30,000, a 50% upside from here. If the PE ratio on the index were to achieve its historic high of 21.2, it would stand at over 40,000 points, corresponding to a 100% upside from this point.

The Buffett Indicator points to an undervaluation of the Chinese market

The Buffett Indicator measures how overvalued or undervalued a market is. As is evident from the name, it is one of Warren Buffett’s favorite gauges for this purpose. It measures the ratio of total stock market capitalization to GDP – in other words, it compares the total capitalization of a stock market (which is, in effect, an investors’ price for the underlying economy) to the value of economic output, which is expressed as gross domestic product or GDP.

The chart below tracks the indicator over the last 25 years.



Source: www.gurufocus.com

The Buffett Indicator for the US market stands at 2.09 currently, more than four times the low of 0.5 experienced during the GFC. It was 1.5 at the peak of the dot-com bubble.

Here is how the indicator can be used to determine the valuation of the market:

Ratio = Total market cap / GDP	Valuation
Ratio ≤ 84%	Significantly undervalued
84% < ratio ≤ 108%	Modestly undervalued
108% < ratio ≤ 132%	Fair value
132% < ratio ≤ 156%	Modestly overvalued
Ratio > 156%	Significantly overvalued

Where are we today?

The indicator is at 2.09 = 209% - massively (not just significantly) overvalued.

Since the market is so expensive, the Buffett Indicator suggests a likely negative return of -0.4% per year for the next decade from this point onwards, including dividends.

In comparison, the same metric in China is currently at around 60% or 0.6 times – substantially (more than significantly) undervalued.



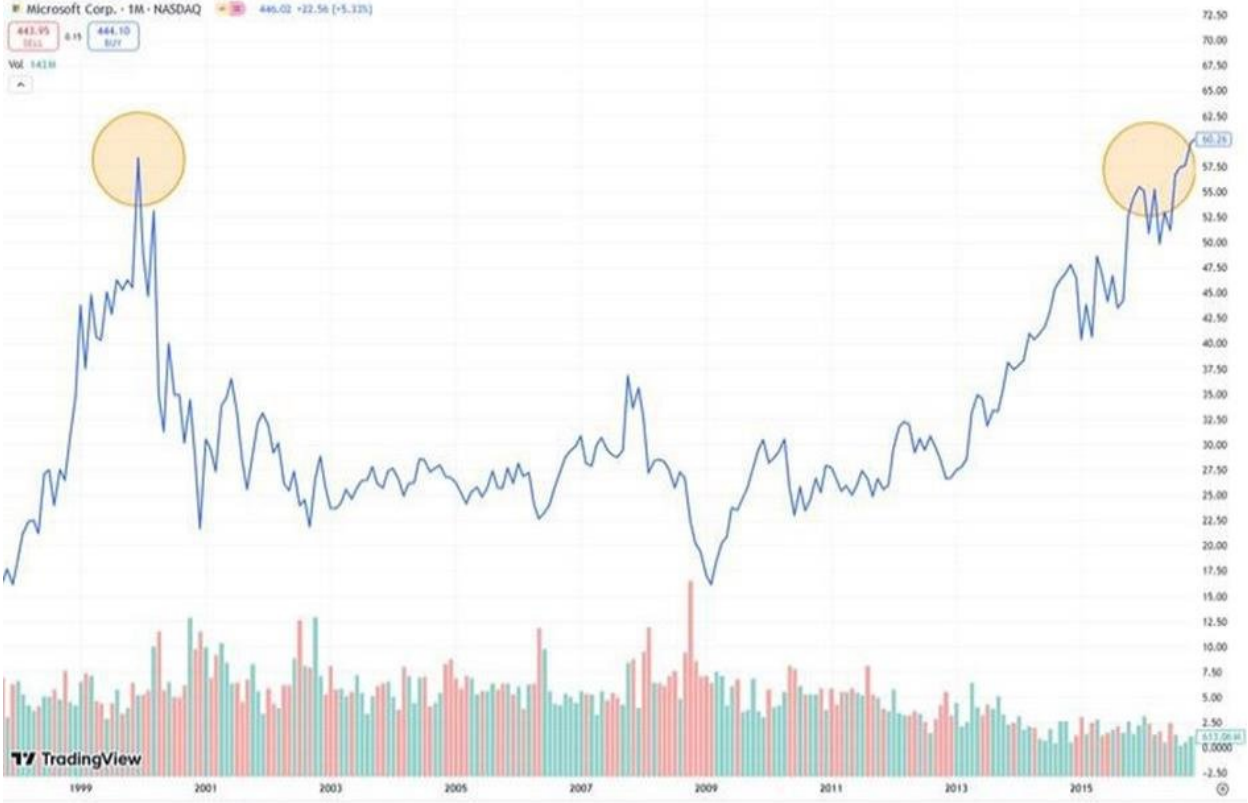
Source: www.gurufocus.com

This value is similar to where the US market was during the post-GFC low, standing at a 40% discount to GDP. With the Buffett Indicator at 209% in the US market, the Chinese market is nearly 3.5 times cheaper.

This begs the question: how long can markets stay depressed, specifically the Chinese market? If fundamentals improve, would that automatically mean the valuations improve also? The answer is not straightforward.

Case Study: Microsoft's lost decade – low historical returns lay the foundation for high future returns

Let's take a look at how Microsoft's stock behaved from 2000 to 2016, represented in the chart below. It took 16 years to recover to its previous highs, reached just before the dot-com crash. It even traded sideways between 2000 and 2010, a time usually referred to as Microsoft's 'lost decade.'

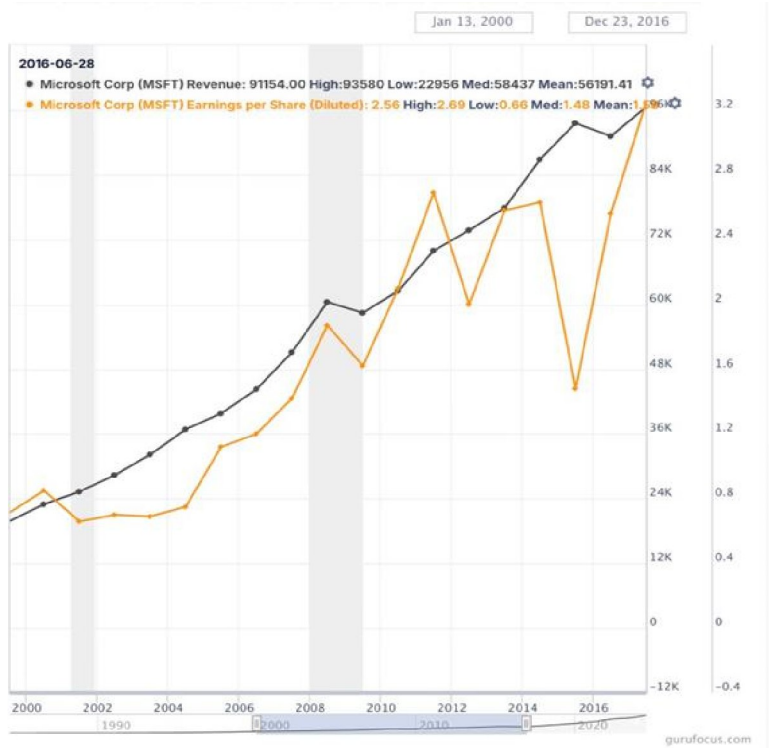


Source: www.tradingview.com

We know the stock didn't give any return during this period, but were the company's profits similarly depressed?

The answer may surprise you.

Here is how the company's revenue and earnings performed during the 16 years:



Source: www.gurufocus.com

The revenue increased four-fold, skyrocketing from \$22.95 billion to \$91.154 billion. Earnings per share (EPS) went up three times from \$0.85 to \$2.56. Yet the stock price went to retreat. At one point, it was even trading at a 70% discount to its previous highs.

Let us also take a look at the valuation.



Source: www.gurufocus.com

The PE ratio of Microsoft went from a high of 70 to a low of 8, and the price-to-sales (PS) ratio went from a high of 28 times sales to a low of 2.27. Clearly, the company's fundamental achievements were not reflected in the stock price.

Several questions arise from this:

- What made investors pay such lofty valuations just before the dot-com crash?
- Why have the valuations fallen by as much as 90% even though the company has continued to perform well, even better than most expectations?
- Are markets rational?
- Is investor psychology at play here?
- Why do investors continue to buy stocks when valuations are sky high?
- And most importantly, why do investors run away from stocks when the valuations drop and the prices are as attractive as they can get?

The answers to these questions require lengthy answers and we won't bore you with them in our letter. Nonetheless, they are worth contemplating.

Here's Warren Buffett's take on this counter-productive investor behavior:

"Most people get interested when everyone else is. The time to be interested is when no one else is. You can't buy what is popular and do well."

How did the Microsoft stock perform after the valuation crash?

From 2013 to 2024, Microsoft's revenue per share went up 3.5 times, from \$9.19 to \$32.82. The EPS went up eight times from \$1.48 to \$11.80 as shown in the chart here.



Source: www.gurufocus.com

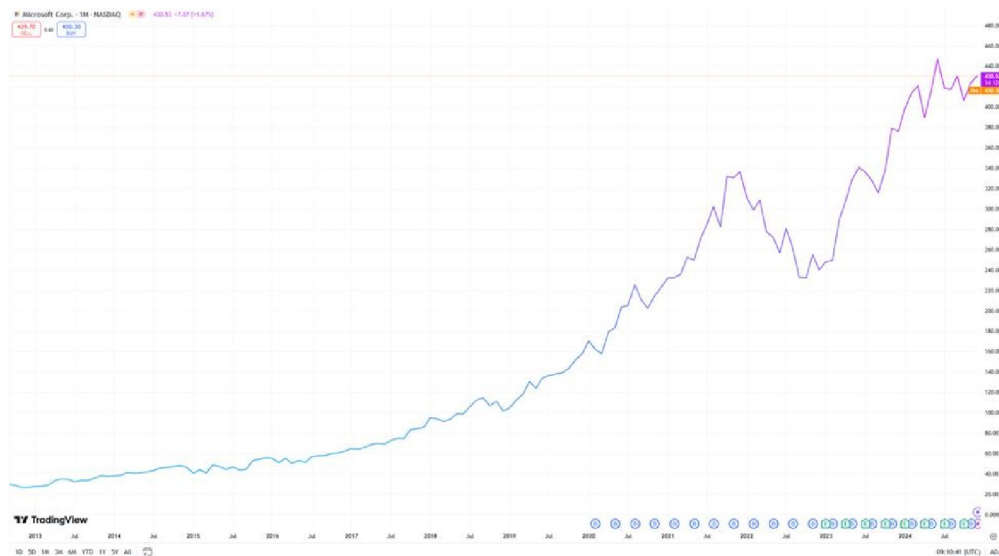
Let's now turn to valuations during the same period.



Source: www.gurufocus.com

Microsoft's PE ratio went from 12 to the current 34.4, a multiple expansion of 2.87 times. The PS ratio went from 3.2 to 12.6, a multiple expansion of 3.97 times.

So how did the stock price perform as a result of this combination of improving fundamentals and a valuation re-rating?



Source: www.tradingview.com

It went from around \$27 per share in 2013 to \$420 in 2024, an 11-year total return of 1,550% and equal to an annual return of 28.3%.

From where did we get the 28.3% annualized return?

- Growth in EPS from \$2.53 to \$12.09 = 15.10%
- PE ratio expansion from 10.67 to 34.4 = 11.23%

These two factors combined to contribute 26.33% to the total 28.3% return.

Thus, despite performing well fundamentally, Microsoft stock had completely different returns during two different periods. Here's a recap:

- From 2000 – 2013 (13 years), the EPS annual growth rate was 9% and cumulative growth was 300%, whereas annual revenue per share growth was 12% with cumulative growth of 440%.
- From 2013 – 2024, EPS have grown at an annual rate of 14.63%, giving cumulative growth of 459%. Revenue per share grew at 12.27% annually with a cumulative growth of 357%.

Let's look also at the returns that Microsoft investors achieved during these two periods.

- Price per share went from \$50.5 to \$27 from 2000 to 2013. This corresponds to a negative total return of -47% and an annual negative return of -4.7%. The price only recovered in 2016, resulting in 16 years of zero returns for investors.
- The share price went from \$27 to \$420 between 2013 and 2024. This corresponds to a total return of 1,555% or 28.25% per year.

Despite strong financial performance, Microsoft's stock delivered significantly different returns across two distinct periods. Here's a summary:

Description	2000-2013	2013-2024
Revenue growth	440%	357%
EPS growth	300%	459%
EPS growth (annualized)	9%	14.63%
Stock return	-47%	1555%
Stock return (annualized)	-4.7%	28.25%

To recap, Microsoft's revenue and profits grew at 300%-400% during the two periods in question. Yet the shares' returns diverged astronomically. Again, this takes us back to the question, why do investors willingly pay higher prices when the markets are trading at their peaks but run away as valuations become more attractive?

Buffett's quote is worth mentioning here:

"Price is what you pay, value is what you get"

The takeaways from this case study:

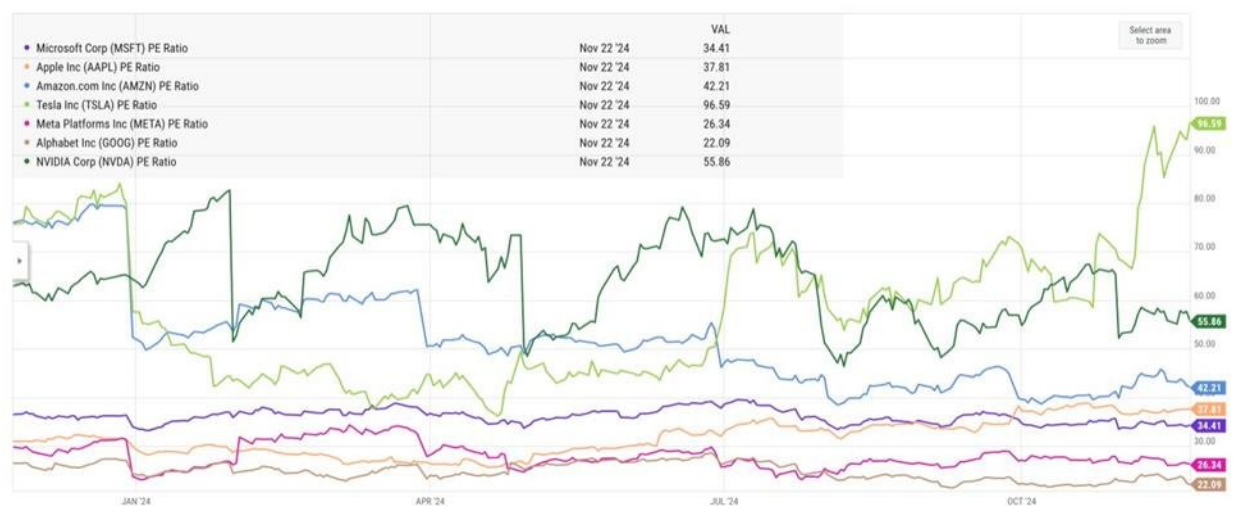
- Value, price, and fundamentals all matter in the long run.
- Short-term price fluctuations mostly reflect the near-term sentiment of investors.
- Low historical returns lay the foundation for high future returns.
- Investors are generally irrational and guided by herd mentality. They are most comfortable buying with the crowd at market highs rather than being prescient but one of the few at market lows.

Unfortunately, investors do not learn from the past and continue to make the same mistakes. Sometimes, success in the market can be as easy as doing the opposite of what the herd is doing. Here's how Winston Churchill put it:

"The farther backward you can look, the farther forward you can see."

The Magnificent Seven: US more concentrated and expensive

We have already seen how the US and Chinese broader markets compare. Let us now dig deeper and study each market at the company level. We start off with a look at the PE ratios of the Magnificent Seven US stocks. These are the seven tech behemoths whose shares have contributed significantly to the S&P 500's strength for some years recently. Their names are shown in the top left corner of the chart, below.



Source: www.gurufocus.com

As can be seen from the above, the lowest PE ratio within the group is 22 and the highest is 96, giving an average of 45, giving us an earnings yield of 2.22% earnings yield. That compares with the risk-free 10-year Treasury yield of 4.34%, which is almost double the average earnings yield of the Magnificent Seven.

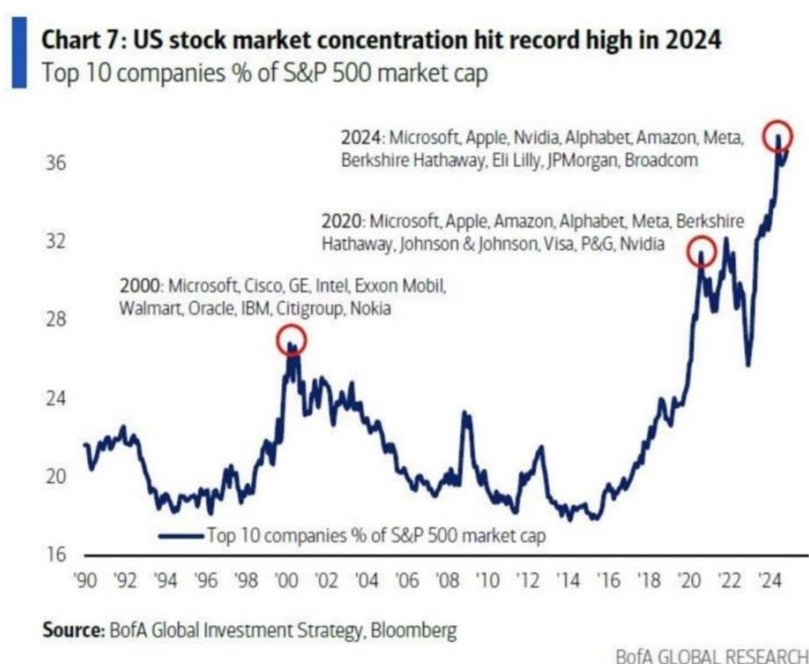
Another favored valuation yardstick of mine is price to free cash flow (P/FCF). The ratio for the Magnificent Seven is tracked in the chart, below.



Source: www.gurufocus.com

The lowest P/FCF stands at 28.12 and the highest at 340.82, giving a mean of 84.83. This gives us a FCF yield of 1.17%. Again, that stands in contrast to the risk-free rate of 4.34%. The extreme concentration of the market’s performance in just seven stocks has been unheard of historically and these astronomical price gains have resulted in valuation levels higher even than those of the dot-com bubble or, back in the 1960s, the so-called Nifty 50 top-performing stocks.

The following chart illustrates this aspect:



Source: BofA Global Investment Strategy

The reason for citing Microsoft was to apply the same kind of example to the Chinese market. Let’s dive in.

Here is a graph of the PE ratios for seven market-leading large-caps in China, similar to the Magnificent Seven in the US:



Source: www.gurufocus.com

The highest ratio in the Chinese group is 20.57 and the lowest 9.79. That gives an average of 13.9, equal to a 7.2% earnings yield.

Let’s have a look at the P/FCF ratio.



Source: www.gurufocus.com

The highest is 18.22 for BYD (the Tesla of China), whereas the lowest is 6.87 for Baidu (the Google of China). The average is 10.94 or a 9.14% FCF yield.

As we can see from the above, both sets of results can be put together as:

- US stocks average PE ratio (excluding the highest) = 45, P/FCF = 84.83
- China stocks average PE ratio (again, excluding the highest) = 13.9, P/FCF= 10.94

The following observations are also worth noting:

- In terms of PE, the Magnificent Seven is 3.24 times more expensive than its Chinese counterpart.
- In terms of P/FCF, the US group is 7.75 times more expensive.
- On average, using both results, the US market is 5.50 times more expensive than the Chinese market.

Variance in Returns Across Two Different Periods

Recall our analysis, above, of Microsoft's performance after 16 years of depressed returns. Can we expect a similar scenario in China's large-caps? Will history repeat itself? We can never know but the odds surely seem in our favor at the moment.

As the American writer Mark Twain said:

"History doesn't repeat itself, but it often rhymes"

Knowing the discounts available in China, what would be a better investment? The comfort and high valuation of the US market? Or the 'uninvestible' but discounted Chinese market?

Investors who are able to break out of the herd mentality and follow value rather than comfort will eventually reap the rewards.

In a recent interview on Bloomberg, Howard Marks, the founder of Oak Tree Capital, gave his opinion on the situation in China.

"The Chinese market is bargain priced, many people in the investment community describe China as 'uninvestible', to me that word is music to my ears. I made my whole career buying assets that other people consider uninvestible and when you do that you have a chance of getting a bargain, so I think that clearly China is on the pile of things that people feel ill about and it's on that pile that you find the bargains. That doesn't mean that you should buy everything on the pile but that's where you look for the castoffs and the bargains. We have a good position in China and continuing to invest in China, the availability of assets at beaten down prices is a great starting point."

Insider behavior can give the game away

Let's look at the behavior of insiders in the US market.

The chart below tracks the ratio of insider sellers to buyers against the S&P 500 index.



Source: www.globalmarketsinvestor.xyz

As can be seen clearly, the insiders in US companies are happy to sell the stock of their companies at record rates, knowing the shares are at expensive valuations.

This reinforces our belief that the China market is where the opportunity lies. If insiders do not have confidence in their own companies in the US, why should we put our money in their companies?

The indicators stack up and lead to a China-heavy allocation

As investors, we at Alaamry Global Capital aim to make the most of our investible universe. We do not restrict ourselves to markets that are trending, we do not concede to the comfort of herd mentality, and we do not harbor a home bias. We evaluate carefully our opportunity cost and alternative investment options. In today's world, access to international markets is only a few clicks away and it is our responsibility to broaden our research and find great companies that trade at a discount to their intrinsic value.

We believe we should maximize the opportunities available to us. There is no excuse to restrict ourselves to certain markets only. As long as there is a great company in some corner of the world, we will not only unearth it but also invest in it, as long as it aligns with our interests as well as those of our investors.

We disagree with the current investor sentiment on China. People calling it uninvestible has helped cause the market to trade at bargain prices. This is exactly the right time to get in. As Baron Rothschild said some two hundred years ago:

"The time to buy is when there's blood in the streets."

Being a contrarian in the stock market pays off in the long run. Of course, this needs to be backed by facts and research in order to measure risk against reward and, thereby, tilt the odds in our favor. We believe we have done that and have no hesitation in embracing the opportunities available in the Chinese market.

Fundamentals of our holdings

This gets us to the fundamental part of our holdings in China. We look at our portfolio as owning pieces of multiple businesses. However, we combine our percentage holdings in different companies and their respective fundamentals to form a single entity which we can analyze easily.

Average valuation of the constituents of our China portfolio

Metric	Value
P/S	0.88
Price to EBIT	9.85
P/E	10.03
P/OPC	5.29
P/FCF	6.70
Cash / mkt cap	31%

Performance per \$1,000,000 invested

In combination, for each \$1,000,000 invested, our companies are making:

- \$880,000 of sales annually.
- \$99,700 of net income annually.
- \$101,522 of operating income annually.
- \$149,000 of free cash flow annually.
- \$189,000 of operating cash flow annually.

Please note that these are trailing twelve-months (TTM) figures and we expect our companies to grow substantially in coming years. Moreover, they have cash on their balance sheets worth 31% of their combined market cap. If we exclude the cash, these valuations are even more attractive.

Current valuation against the 10-year average and value unlocked in case of mean reversion

By comparing the current valuation to the 10-year average on which these companies have been trading, we can see the following results - just from mean reversion:

Metric	Value
Current P/E of the portfolio	10.03
Mean P/E of the portfolio	25.47
P/L % in case of mean reversion	154%

Metric	Value
Current P/FCF of the portfolio	6.70
Mean P/FCF of the portfolio	15.05
P/L % in case of mean reversion	124%

Profitability metrics

Metric	Value
ROE %	18.49%
5-year average ROE	19.35%
ROCE	17.00%
ROIC	13.99%
Estimated internal ROIC	24.20%

Our companies are achieving high double-digit returns on capital, giving an ROE of 18.5%. This is within 5% of the five-year average ROE, so we are not too far off in terms of performance.

Moreover, our Internally calculated ROIC stands at an impressive 24.2%. This means management is doing a good job. Through shrewd capital allocation, they are reinvesting profits back into their businesses at a high rate, thus compounding growth over time. This compounding effect is a major benefit to shareholder returns over the long term.

Capital returns (dividends and buybacks)

'Our' companies have increased their shareholder value through dividends and buybacks, as well as by reinvesting in their business substantially. The dividend yield of our China portfolio stands at 4% while only paying out 40% of earnings. These companies have bought back 2.16% of their outstanding shares. This results in a total historic yield to shareholders of 6.16%. This is what shareholders have received even before taking the benefit of any capital gains into account.

Dividends & share buybacks	Value
Dividend payout	40.27%
Dividend yield	4.02%
Buyback yield	2.16%
Dividend growth (3 years)	66.52%
Total shareholder yield	6.18%

Historical fundamental growth of the companies in our portfolio

Revenue	Value
10-year growth %	510.02%
5-year growth %	90.46%
1-year growth %	2.80%
FY '21-TTM FY '24 growth %	13.32%

EPS growth	Value
10-year growth %	726.93%
5-year growth %	464.69%
1-year growth %	7.98%
FY '21-TTM FY '24 Growth %	233.09%

FCF growth	Value
10-year growth %	766.99%
5-year growth %	407.67%
1-year growth %	13.33%
FY '21-TTM FY '24 growth %	51.50%

As you can see, these are high-growth companies. Despite a slowdown in the Chinese economy, their fundamentals continue to perform strongly.

The cumulative EPS growth rate between 2021 and 2024 was 233.09%, while free cash flow (FCF) growth was 51.5% during the same period - which, it's worth noting, was a bear market/Recession.

Going back to the pre-covid times of 2019, EPS have grown since then by 464.7% while FCF has grown by 407%.

One can also observe that the average five-year annual growth rate has accelerated past the 10-year average, so these companies are still growing by double digits even in a bear market and sluggish economy.

Core beliefs and alignment to investment philosophy

How does one investor make a loss while the other turns a profit? This is where our core beliefs help us make a difference.

We are both value and growth investors

Some believe that one must either be a value investor or a growth investor but not both. We do not recognize any such distinction. Investments should be made in businesses that can not only grow their future earnings predictably but are also available at attractive prices.

Warren Buffett expressed this sentiment perfectly when he said:

"Most analysts feel they must choose between two approaches customarily thought to be in opposition: "value" and "growth."

In our opinion, the two approaches are joined at the hip: Growth is always a component in the calculation of value, constituting a variable whose importance can range from negligible to enormous and whose impact can be negative as well as positive."

As the Late Charlie Munger said about the importance of a company's quality, profitability and return on Capital:

"We've really made the money out of high-quality businesses. Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns.

If the business earns 6% on capital over 40 years and you hold it for that 40 years, you're not going to make

much different than a 6% return—even if you originally buy it at a huge discount.

Conversely, if a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with a fine result.

So, the trick is getting into better businesses. And that involves all of these advantages of scale that you could consider."

To put our China portfolio in the context of the US market, we see that the S&P 500 has a long-term average ROE of 10%, exactly the same as its historic returns where as our portfolio has an average 18.5% ROE. The S&P 500 consists of the biggest 500 US companies. They are considered to be business leaders that are consistently profitable and of above-average quality.

Management interest should be aligned with shareholders

At Alaamry Global Capital, we care greatly about the management of the companies in which we invest. We look for a management team whose interest is aligned with shareholders and which takes decisions that benefit shareholders at least as much as the managers themselves.

About 85% of our companies are owned by insiders. On average, 30% of their total outstanding shares are held with insiders, a big number by comparison with other leading stock markets.

What's more, those insiders are led by their founders. Such businesses have performed well historically. The combination of founding members in the management and significant insider ownership gives us confidence that the interests of the management are well aligned with those of shareholders.

Charlie Munger said this about the power of aligned incentives:

"Never, ever, think about something else when you should be thinking about the power of incentives."

And again, he famously said:

"Show me the incentive, and I'll show you the outcome."

Let's highlight again the recent insider behavior we have observed. Not only do these insiders hold a decent chunk of the business, they are also buying even more. This is in addition to the companies' buybacks and dividends.

A trip down memory Lane

I want to digress briefly to revisit an incident that happened to me last year in China when I was on a business trip. I had a meeting with the founder and CEO of one of the companies I held in our portfolio. He was a great capital allocator and had been at the helm of the company since founding it over 30 years ago. He had turned his business into a multibillion-dollar enterprise, growing FCF by no less than 38 times in the last 10 years He had achieved a 10-year average ROE of 21.32%.

Despite these results, the CEO expressed to me his confusion as to why his stock was down 60% from its 2021 highs. Even though he was running the company, the market's response had him concerned about the health of his firm. I told him exactly what I have told you in this letter. Markets are irrational and investor behavior can be difficult to understand in the short-term.

I recounted how some of the stocks I owned had a drawdown of over 90% but they turned around eventually to become 10-baggers. I also reassured him that, as the CEO, he is best-suited to determine the health of the company he runs. Even the shrewdest of investors who went through the last 10 years of financial statements wouldn't be able to extract as much information about the business as he already knows.

After this discussion, the CEO's perspective changed. After a short period, I observed from financial disclosures that he had started buying stock in his company aggressively for his personal portfolio. I love to see managers who are put their hard-earned money into their own projects. This shows their confidence in the growth of their ventures and cements their alignment of interest with shareholders.

Conclusion

Not every good company is a good investment - and vice versa. We try to balance both valuations and quality to achieve higher returns.

To conclude our investment philosophy, let's summarize what **we don't do** rather than what we do at Alaamry Global Capital:

- We don't invest for the short-term (day trade, next quarter, next year).
- We don't engage in shorting.
- We don't engage in price action & momentum chasing.
- We don't predict the economy.
- We don't invest in nor predict "the next big thing."
- We don't invest in fads or 'hot' areas of the market.
- We don't invest in companies with management of questionable integrity.
- We don't invest in companies which disregard their shareholders' interests.
- We don't invest in companies that are loss-making or don't have a proven track record.

For many global fund managers, investing in markets like China which are unloved or are perceived to carry more risk would be career-threatening. They might not receive the required funding and could even face redemptions from existing investors.

At Alaamry Capital, we do not have to worry about these risks as we invest our own capital and are committed to long-term growth rather than short-term performance. We sacrifice short-term results for long-term wealth generation.

Warrant Buffet says it perfectly:

"We prefer a lumpy 15% return to a smooth 12% return. Investors who'd rather have the reverse...should ask themselves whether their aversion to volatility is mostly financial or mostly emotional."

Therefore, we don't hesitate to invest in opportunities that a less-demanding fund would avoid. We have invested in companies with market caps ranging from \$70 million to \$500 billion. We study these companies deeply and as long as they fulfill the criteria we have set out, we invest, regardless of the public sentiment for or against them.

One way we achieve this is by asking ourselves: Would we continue to own this business if the stock market was closed for the next 10 years? This helps us disregard short-term price fluctuations and treat the company as a business we own.

This also aligns with Warren Buffet's philosophy:

"If you aren't willing to own a stock for 10 years, don't even think about owning it for 10 minutes."

The majority of investors do not adhere to this philosophy and, by following the herd, they develop a speculative attitude, like gamblers, investing in companies without knowing them or their fundamentals. Such investors would happily buy something at top dollar, but refuse to invest in a market or a company that's trading at a discount.

A recent interview with the famous value investor François Rochon describes this behavior:

I don't exactly remember what I wrote, but I think it was in that letter I talked about the importance of what I call the missing gene. My theory, because I have not proven it scientifically, but my theory is that most humans are born with a tribal gene in their DNA.

Just how our species works. That gene has been transmitted for generations because, 10,000 years ago when we lived in huts and small villages and there was a tiger that would come to the villages and people would start running.

The intelligent thing was not to ask too many questions and start running yourself because you don't want to be the lunch of the tiger.

The urge to follow the tribe has been genetically embedded in our DNA. Just for a probably useful reason, at least 10,000 years ago. And most humans, most normal humans have that gene.

My theory is that probably some 5 percent of human beings don't have that gene. Whatever the reason, their DNA is not totally as accurate as others. We could say that.

I don't know if it's a handicap or let's say that they just don't have that gene. So, I call it the missing gene and those people are able to not follow the tribe whenever it was running, when everyone's going right they are able to go on the left.

So, the problem is not that people are doing the wrong thing; it's just that most people are doing the same thing. They're just following the tribe.

It's most of them on an unconscious level probably. And so, when the market is going down, a lot of people will be selling and it's just because they have the tribal gene that cannot help themselves.

And when a stock is very popular and they want buy it, but you have that 5% of the population that probably they can become artists, writers, scientists, and have novel ideas.

They are able to go into a new path of discovery, whatever field they are. So, in the investment world, those 5 percent are able to buy something that everyone is selling. They are able to invest in the stock market when everyone is depressed and panicking... And they're able to not succumb to the latest fab, whatever it may be.

So, when everyone wants to invest in intelligence, artificial intelligence or the internet or whatever fashion there is, they are immune to this idea of following the tribe.

So, I think those 5% are able to generate superior returns because they are able to do things differently than the

others. And we're talking about John Templeton and they said that the first ingredient if you want to do better than the others, you have to do something different from the others.

So, following the tribe isn't the way to do it if you want to have superior returns.

So that was my theory. And I still think that's the right approach. Like I said, at the beginning, it's not a question of intelligence and hard work and resources. First thing you have to be able to do something different.

So, you have to have that missing gene or you need not to have the tribal gene, that's probably the first ingredient to have some odds of doing better than the index.

We know that we have that gene at Alaamry Global Capital. I bought my first stock more than 15 years ago even before I enrolled at university, majoring in Accounting and Finance.

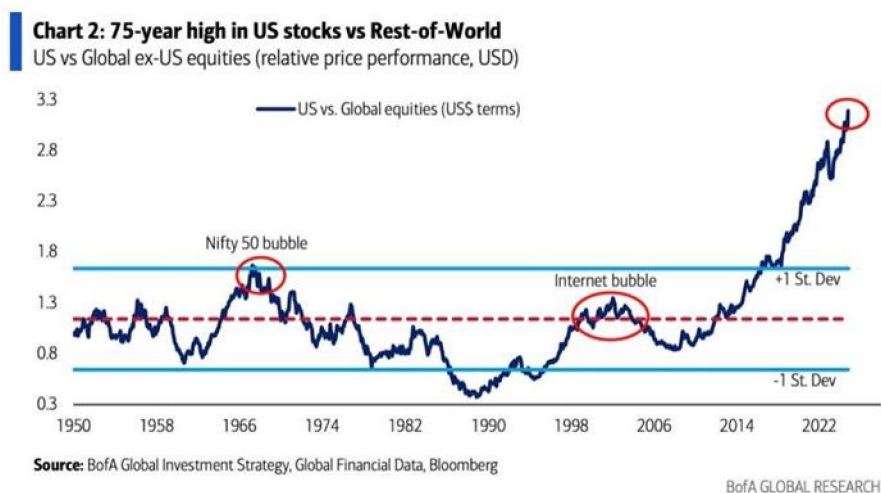
I always found it attractive when shares were trading at a discount rather than trading at a premium. It was the tsunami in Japan that first exposed me to well-known and solid companies that were trading at a discount. I found it very interesting to dig into their financials and learn about their business. It was my first experience of seeing companies trading below their intrinsic value for reasons that had nothing to do with their business. This was an ideal time to buy them.

The gains I made from those investments strengthened my belief in my approach and, as a result, I continue to follow that philosophy to this day. The resulting success of my approach has helped me progress in my career. I intend to use this success for the better of my community and that of the economy of the country I reside in, the Kingdom of Saudi Arabia.

To conclude, we continue to find and invest in these amazing companies that have great managers yielding high returns on capital. These companies are founder-led, have solid insider ownership, and are available at discounted prices.

They are trading at single-digit valuations which are 70% cheaper than their US counterparts. In a certain aspect, if you're getting a company that is twice as good at half the price, it is four times better as an investment.

But investors still continue to concentrate their investments in the US market, driving up the valuation gap with global equities, already at a 75-year high.



Source: [BofA Global Investment Strategy](#)

There is a lot of value in the Chinese market right now. I have proved it with historical evidence and facts. During the GFC, Warren Buffet said: 'Buy American, I am'. Likewise, I have great conviction in my China investment thesis and can confidently say: 'Buy China, I am'.

I certainly did not expect that my letter would end up this long, but I thought it necessary to dive into the details to give you an accurate picture of our investment philosophy. I have benefitted greatly from reading other investors' shareholder letters and books and hope people who read my letter can also use my perspective to strengthen their own investment philosophy & to avoid losses in the markets.

I believe education is a life-long journey and Charlie Munger has put it neatly by saying:

"There is no better teacher than history in determining the future. There are answers worth billions of dollars in a \$30 history book."

My commitment to sharing this information stems from my belief in the importance of spreading knowledge, as sharing knowledge is a way of giving back, as I hope to do so to my community and the Kingdom of Saudi Arabia. I hope that individual investors will view the stock market as an effective investment tool, based on facts and deep understanding, rather than engaging in speculative activities that often lead to financial losses. This approach not only enhances individual success but also fosters a positive and sustainable investment environment that benefits everyone.

Kind regards

Khalid Saud Alaamry

Alaamry Global Capital

Disclaimer

- None of the content contained in this letter should be taken as investment advice. You should do your own due diligence prior to investing.
- Alaamry Global Capital exclusively invests its own capital, along with funds from close friends and family, and does not currently accept external investors.

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