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# Interview #114 : Erling Sorensen (Aligned Capital Partnership)

Thinking in generations.

Capital Employed ×



For this issue we have the pleasure of interviewing Erling Sorensen from Aligned Capital Partnership.

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**Hi Erling, thanks so much for taking the time out to do this interview.**

**Can you please tell readers about your background, and how you got involved in investing?**

Thank you for the invitation to participate in the Capital Employed newsletter, Jon. Seeing what you have built is impressive, so this is a real treat for us.

Leaving home at the age of 15 to join the merchant navy as a deck officer cadet with Maersk, one of the largest companies in Denmark, I learned at an early age what it means to sacrifice, to work hard, and to work thoughtfully with others, as well as the importance of perseverance.

I have been engaged in the capital markets since 2010, as an investor, investment manager, as a business founder and as a business operator.

Before that, I spent ~20 years in global commodities markets, working out of Copenhagen, Singapore, Oslo, Melbourne & London.

My entire post-maritime career has been centred around optimising the allocation of capital and resources, coupled with rigorously

thinking about risk.

Core to the way I have sought to structure the Aligned Capital Partnership Investment Trust (the Partnership Trust) and the management thereof are:

- The importance of complete and uncompromised alignment with investors (we refer to them as co-investors) in the Partnership Trust.
- Treating our co-investors as true partners. This means complete transparency of what we own (all holdings) and why. And it also means not charging our co-investors *any* fees, other than a performance fee above a 7% p.a. compound hurdle.

Let me explain a bit more about each of these two points, because they really go to the heart of our existence and beliefs.

When establishing Aligned Capital Partnership, I was very clear with myself that I wanted to ensure all my energy and endeavors would always remain fused together with the Partnership Trust and continue to compound capital for its co-investors.

I wanted to ensure that there would always and ever be only one investment fund, one strategy. No separate classes of units in the Partnership Trust. Everyone is invested on the exact same basis.

And I wanted to ensure there would never be a splintering of my time and focus on interests that weren't aligned with the management of the capital that co-investors have entrusted us with.

For my wife and me, *all* of our money is invested in the Partnership Trust on the same terms and in the same class of units as all other co-investors in the Partnership Trust.

This goes to the absolute heart of what we do and how we do it. We are seeking complete alignment with our co-investors and believe that can only be achieved if we are not distracted by having *any* money invested elsewhere.

Additionally, we are and will always be the largest individual investor in the Partnership Trust. This way, none of our co-investors should feel that we are at risk of being influenced by a larger co-investor, and we can say to our co-investors genuinely that when things don't go well, then we will feel it.

Over the years I had observed that for many investment managers the skill of attracting money appeared more important than the skill of managing money.

For us, job 1, 2 and 3 is investment performance. Not gathering of assets. We believe that if we are reasonable at jobs 1, 2 and 3, then the interest in what we are doing will increase, and, if appropriate, over time the Partnership Trust will grow.

As we would be managing our own money this way anyway, I didn't think it would be right that we charge our co-investors a fee. There are virtually no incremental costs associated for us, so why pretend there is in charging for them.

The *only* fee co-investors in the Partnership Trust will incur is if the Partnership Trust has returned more than 7% p.a. compound. In such a case a performance fee of 20% of the returns generated in excess of a 7% p.a. compound return is payable.

Importantly, *any/all* performance fees that are earned by Aligned Capital Partnership, as the manager of the Partnership Trust, are reinvested in the Partnership Trust.

Finally, the manager of the Partnership Trust is structured such that it cannot be sold to another money manager. That way our co-investors can rest assured they will not wake up one day to someone else managing their investment, while I am catching a plane to the nearest beach. Our co-investors can sack us, but we won't sell them.

I hope that what comes across is that the concept of complete and uncompromised alignment with our investors is one we do take seriously. We would not manage money for other people any other way.

### **Why did you decide to launch your own fund? And whom do you manage funds on behalf of?**

After I decided to end my executive career towards the back-end of 2017, I set up Aligned Capital Partnership, with the plan of institutionalising managing my family's money.

Having repeatedly being asked to do so by a number of people and institutions I had gotten to know and/or who I had managed money for during my executive career, I started considering potentially, eventually, opening up to like-minded investors to invest with me. We took in the first outside co-investors on the 1<sup>st</sup> of November 2021.

Before ending my executive career I noticed that for a large part of the money management industry the principal/agent problem was real and frequently somewhat pungent. I think it still is.

In many instances the principal (the investors) and the agents (the managers) had different priorities. I think they often still do. I believe there are really only two ways to approach this problem:

1. Maximise the conflict for the sake of maximising short-term revenues to the agent (which I think appears to be close enough to standard industry practice); or
2. Seek to minimise the problem through behaving and thinking like principals.

I didn't particularly like the first approach at all. And as I wanted for the Partnership Trust to be an investment that our co-investors would think of as one for the grandchildren of their grandchildren's grandchildren, plus the entire net worth of the family was invested (still is) and hence I was already a principal - I decided to follow the second approach.

My sole objective for launching the Partnership Trust is to make money *for* my co-investors and *with* my co-investors. Not *off* my co-investors. It was with this in mind, and taking inspiration from the partnership Warren Buffett ran in the 1950's, prior to taking over Berkshire Hathaway, that I created the fee model which I believe is right and fair.

In doing so, I concentrated on the correct philosophical approach to incentives, and so the job was easy:

- the management fee should not be a profit centre as we do not create value through managing Aligned Capital Partnership *per se*; and
- a performance fee should respect the notion of the opportunity cost of capital for our co-investors and me.

Hence, as I mentioned above, we do not charge any management fees. I want us to be the best investors we can be, and I want our co-investors in the Partnership Trust to benefit from what results.

Our goal is excellence in investing, which means achieving the returns our co-investors are seeking from their engagement with the Partnership Trust.

To achieve that, our aim, since day one, remains to spend high-quality time, studying high-quality people that are building high quality businesses, and in doing so finding high-quality investment opportunities for a group of high-quality investors.

We don't actively solicit or market to prospective investors for the Partnership Trust.

External investors in the Partnership Trust come in the form of family offices, business owners and ex-business owners, and individuals. Some invest in their personal names, some through their superfund (Australian for pension fund), some through family trusts and some through a company structure.

The Partnership Trust is open exclusively to 'Wholesale Investors' as defined under the Corporations Act 2001 (Cth) in Australia.

In addition to us undertaking no marketing of the Partnership Trust, probably the biggest reason for our obscurity stems from our fanaticism about only allowing the "right" investors to join. We understand the importance and value of selecting the right co-investors, and we know that the way to attract quality investors is to be one.

We remain open to external capital, albeit selectively.

We have concluded that in the absence of past precedent, we need to have enough reason to believe that potential new co-investors possess the same long-term, business-owner orientation as the rest

of us. Without this clarity, we risk initiating disagreeable relationships founded on shaky foundations.

That is not a risk we are willing to take. We want to continue enjoying the intellectual challenge of finding interesting investment opportunities through rigorous research while knowing we are in the company of people we trust and admire, and who knows, understands, and are comfortable with how we think and invest.

### **What type of businesses or situations do you like to invest in?**

We are old school. We mostly just sit around reading, thinking, discussing among ourselves, putting the occasional numbers into spreadsheets, and waiting. Frankly, our office probably feels more like an abandoned library with a few people loitering around.

Of course, we like a little action like anyone else. We just don't find ideas worthy of action on a regular basis.

As such, when we meet and discuss with prospective new investors, we rarely miss the opportunity to emphasise the importance of having the right co-investors. They, our co-investors, are what enables us to unleash one of our biggest weapons: inertia.

Our investment mentality puts a premium on figuring out what to avoid, rather than what to buy. We look to prioritise the simple and easy, and we seek quickly to discard the complicated.

We follow what we believe is a commonsense approach to solving the problem of investing - holding intellectual honesty and rigorous analysis as the keystones to success.

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We think that is the intelligent approach, regardless of whether someone chooses to characterise us as 'growth' or 'value' investors, or any jargonny variation thereof.

We think success is based first, on the accuracy of analysis, not style categorisation; and second upon not overpaying for an investment. The traditional 'margin of safety', as first uttered in an investment sense by Ben Graham, and often emphasised by 'value investors', is one we believe has great utility and is something we seek to consistently apply.

The type of businesses that we favour investing in are probably similar to those that most favour. That would be a business that can generate a good return on the capital it employs, and one where its profits are not dissimilar to its cash flows. Ideally this business can reinvest a very high percentage of the cash it generates back into the business at similarly high returns.

The challenge we are faced with at the moment is finding businesses like this which we can invest in while upholding our investment principle of making sure a reasonable margin of safety exists.

When discussing investing in businesses such as the ideal one I just mentioned, the following quote of Charlie Munger is often referred to...

*If a business earns 6% on capital over 40 years and you hold it for those 40 years, you are not going to make much difference 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 will end up with a fine result.*

So, the trick is getting into better businesses.

I think this quote is most frequently referred to when someone is looking to justify a price they have paid for an investment.

Mathematically it is of course true what Charlie taught. However, what we believe is an important input that is often left out is that as investors we often do not earn the same return on capital as the business we invest in does, because we are required to pay a multiple of the capital that is employed in the business.

Therefore, in our opinion, the critical components of what Charlie said is that (1) the business must remain in business, and (2) it must continue to generate those returns for many years for us investors to eventually be able to generate the same returns.

In studying a great number of businesses in a great number of sectors in a great number of jurisdictions, over a long time horizon - we observe that it really is not that many businesses which (1) remain in business for that many years, and (2) that continue to generate high returns.

The important thing for an investor here is to be able to, with a high degree of confidence, foresee that a) the company will be around for decades ahead, and b) what the competitive landscape it operates within will look like and hence how it will be able to grow over those decades.

The higher the price we have to pay for a business, typically the longer we will have to be able to justify being able to look out and the more certain we have to be about the competitive landscape in those years out for that business.

Our job is to be intellectually honest and based on the current prices of high returning and or high growing businesses I referred to earlier, there are not many where we can build enough confidence on these matters.

We find the framework by Michael Mauboussin and Alfred Rappaport, from their book Expectations Investing, a tremendously useful one.

One of the most important questions we ask ourselves in our role of allocating the Partnership Trust's capital is...

*What do we have to believe about the future to generate a respectable investment return from here?*

The less ambitious assumptions we have to apply about the future, the better we feel about the investment.

Ultimately, we seek to assign realistic probabilities to likely outcomes. We are focused more on our slugging percentage than our batting average. For us the magnitude of correctness matters more than the frequency of correctness.

If we could fill our entire portfolio with companies of the like I described earlier (high returning, high reinvestment etc) at prices where we did not have to be heroic about the future then we would focus more on the correctness of frequency.

Markets are in our opinion not offering up that opportunity at the moment. It has at times in the past, and we believe it will at times again in the future.

In discussing the portfolio of the Partnership Trust, we refer to it consisting of three categories of investments:

- Good Batters
- Fertile Grounds
- Favourable Sluggers

**Good Batters** are companies where we believe we have a high probability of being able to assess what their future earnings profile looks like. These are companies that possess many of the qualities we desire, and where we have a high confidence level that they will be better businesses with higher earnings in the next five years +.

Because of our ability to hold high levels of confidence in the future profile of these businesses, we consider it likely that the returns we can generate will be lower (still above what we consider the opportunity cost of the Partnership Trust), but that the returns can be generated for a long period.

**Fertile Grounds** are companies where we believe we have a lower probability of being able to assess what their future earnings profile looks like than what we have for Good Batters. The qualities that these businesses possess are many of those we desire, albeit fewer than, or not quite at the same levels of, those of Good Batters.

Our confidence that these businesses will have higher earnings, and possibly be better businesses, in the next five years + remains high, albeit lower than that we have for Good Batters.

As we assign lower probabilities to Fertile Ground companies, towards some of the things we look for when making investments, than what we do to Good Batters, we consider it likely that the returns we can generate from Fertile Grounds will be higher than what we consider likely can be generated from Good Batters, but the returns generated will have a more inconsistent profile. We believe

there is a reasonable probability that Fertile Grounds companies can become Good Batters.

**Favourable Sluggers** are investments we make where the returns are driven by cyclical factors, are reliant on a change in the operating environment, or that are grossly mispriced.

The qualities the individual businesses in this category possess are less influential to our investment decision than is the case for Fertile Grounds and Good Batters. Our confidence level for the outlook for the drivers of the investment returns is lower than that for Fertile Grounds, but we consider it likely that the investment returns, adjusted for our confidence levels, will be higher, albeit with a more inconsistent profile.

As mentioned earlier, in an ideal world, nearly all, if not the entire, of the Partnership Trust portfolio would consist of Good Batters that we have invested in at attractive prices, and that never become exceedingly expensive.

Unfortunately, the world has not presented itself as ideal yet, so we resolve to patience in continuing to shape the portfolio, consciously aware of the principles and matters discussed above, while also weighing opportunity costs.

We currently have ~40% of the portfolio invested in Good Batters, and ~30% in each of Fertile Grounds and Favourable Sluggers.

**As you say on your website - finding, researching, and getting to know companies is a slow and time-consuming process. Once you find a company that interests you, what does your research process look like?**

Our approach to investing is described well by the following quote of Abraham Lincoln...

*Give me six hours to chop down a tree and I will spend the first four sharpening the axe.*

The Partnership Trust is not an overly active investor. Finding, researching and getting to know companies is a slow and time-consuming process.

We are seeking to build a strong multi-generational investment track record. In doing so we have found ourselves (again) to be guided by Charlie Munger's wisdom when he said, "avoiding stupidity is a lot easier than seeking brilliance".

Our aim is to be approximately right, on average, over time.

Our focus is on long-term outcomes, and we expect to be misunderstood in the short-term, frequently.

Our process, I would say, largely comes down to common sense, vigorously applied. In this respect, I think it is important to start by highlighting the things we DO NOT DO.

That includes shorting, employing leverage (at the fund level), hedging, trading frequently, relying on being able to sell to a greater fool than us, investing in certain sectors that we know nothing about, that we can't understand or where the odds are stacked against succeeding (eg biomed and exploration).

Conversely, some of the things we do set out TO DO include only investing when we believe a reasonable margin of safety exists, believe this time is never different, be patient, be prepared to be contrarian and be mindful of the balance sheet of what we invest in.

The core of our approach involves first determining what we estimate to be the true value range of the opportunity set we have determined, and then building a portfolio with a heavy bias towards the investments that provides the Partnership Trust with the greatest upside, after assigning realistic probabilities to realistic downside and upside scenarios.

In our minds, successful investing is not about perfect predictions. It is about understanding expected value in a complex, unpredictable world.

We look to read as many as we can get our hands on of a company's annual reports, transcripts, competitors annual reports. Doing this enables us to get a better understanding of the business model, the key drivers and levers in the business, and, very importantly, the durability of the business.

As I mentioned above, we think that having a realistic well-justified view of the durability of a business is absolutely essential.

In the majority of recognised valuation processes the vast majority of the valuation is found in the outer years, or in the terminal value. If that's the case, one would be wise to establish, ideally with high justified certainty, that the business indeed has a reasonable likelihood of still being around for those outer years. Our research suggests that not many do. Business disruption and erosion of returns on capital over time is real.

Sometimes, in discussions with co-investors, we are asked what happens if the market never recognises what we estimate to be the true value of an investment. In other words, they ask, can we be 'right' but forever 'wrong'? Is a 'bargain' a bargain, if it stays a bargain?

Our answer is that we might of course be wrong. And if (when!) we are wrong then a bargain will turn out not to have been a bargain! If we are right in our assessment of an investment, then it doesn't matter whether the market ever recognises the true value for our approach to generate good returns.

The reality is, however, that the market does in fact recognise value – so long as you give it a reasonable amount of time to come to its senses. Indeed, while markets may be quite inefficient in the short term, they do a better job in the longer term.

When the Partnership Trust buys shares in a company, we are buying a piece of a company and investing with a long-term horizon; we are not buying a piece of paper on the premise of selling it to someone else in a year or two.

Our focus is determining the net surplus cash that will be generated by each of the companies the Partnership Trust is invested in. We have no expectation or need for the share price to rise. We are content to invest solely for the future free cash flows.

When we make estimations as to what we believe the true value range of an investment is, rarely do we incorporate any uplift in the multiple we assume the market will pay.

Of course, we are unlikely to be precisely correct in our estimations about the future, but the point is that the returns we estimate have less to do with the future market price of the companies the Partnership Trust are invested in and more to do with the estimated cash flows they generate.

Aside from factors relating to short term market sentiment, we recognise that the share price of a company will diverge from our

estimate of the true value primarily for two reasons: i) the market may be using a different discount rate; and ii) the market may have a different view on the future cash flows.

With respect to the discount rate, we believe that it is important to apply a consistent rate and that there is a great deal of empirical evidence supporting a rate in the range of 10%.

With respect to cash flows, while the market often reacts powerfully to short term events, it eventually will turn its focus to the longer-term fundamentals. Both with respect to discount rates and cash flow forecasts, we believe in a reversion to the mean.

**Are there any particular countries where you're finding good value at the moment?**

In short, no.

Howard Marks has a saying...

*There are old investors, and there are bold investors, but there are no old bold investors.*

As I mentioned earlier, most of our co-investors think of their investment in the Partnership Trust as being one for the grandchildren of their grandchildren's grandchildren.

Suffice to say, we aim to be "old" investors. We do not think the current environment lends itself for us to be "bold", hence we continue to err on the side of caution, predominantly investing in companies with robust balance sheets that we deem to be cheap relative to what we believe they are worth.

We do not track to any index, nor do we specifically attempt to meet or beat any index. The reality of running a relatively concentrated portfolio with some off-the-beaten-path businesses and investments, is that returns are often lumpy, and periods of underperformance relative to broader market indices are inevitable. Those periods are the price that value-oriented investors pay for future periods of same relative outperformance.

Historically, value investing has won the day over the long-term, and we have always suspected it will again as the march of time continues and yesterday's parade leaders slowly drift to the middle or back of the pack. Obviously, only time will tell.

The desire to fit in with your peers typically start some time early on in one's school life, and then for most, it doesn't go away. The pressure to conform in the investment management industry is tremendous, especially for relative return investors. As the name implies, relative return investors are measured relative to the crowd.

One wrong step and they may look different! Looking different in the investment management business can be the kiss of death. For some relative return investors, being different (known as 'tracking error' in investment jargon) is considered a greater risk than losing money. Losing client capital in the relative return world is even considered an accomplishment if it is slightly less than your benchmark!

We are seeing an increasing number of monthly fund manager updates stating that not owning something was among their most positive contributors, all while stating that not owning something else was among their most negative contributors. It is all relative. Clearly.

In our opinion, investing the same as our peers and benchmark indices conflicts with the main goal of our co-investors in the Partnership Trust – to provide higher returns with less risk. While this is what most all allocators say they want, how can fund managers deliver this by doing the same thing as everyone else? Maybe others can, but we cannot.

For us, to generate attractive absolute returns over a market cycle, we are often required to look very different from most others, and certainly from most benchmark indices. We rather like it this way. Investing differently and being a contrarian is easy in theory.

When the herd is overpaying for popular companies, avoid them. Conversely, when investors are aggressively selling undervalued companies, buy them. It's not that complicated, but in the investment management industry, common sense investment philosophies like buy low/sell high have been losing share to passive funds and active managers with minimal tracking error.

In effect, there are fewer and fewer managers remaining that invest differently. Of course, we know that being different isn't enough. We also have to be right, eventually. After the last significant cycle ended in March 2009, we learned many active funds failed to protect capital and even underperformed on the downside.

Based on the valuations of today's buy-side favourites, we think there is a not insignificant risk that some active managers will again have difficulty protecting capital when things turn.

Investors, and especially those who chose the label of 'value investors', often talk about being fearful when others are greedy and greedy when others are fearful. While these are great talking points, from a business perspective it can be easier and more profitable to

label yourself as a value manager or contrarian, while avoiding investing like one.

Instead, simply own that which is working, which are often larger weights in the benchmarks. You know, the feel-good companies. It would seem playing along is easy. Investing differently is not.

Since we opened to outside investors, we have delivered a return that is nearly 6% higher than an investment in the S&P500 would have delivered, and more than 12% higher than an investment in the ASX200 would have yielded (as at mid-May 2025). But, irrespective of the results we have generated to date our focus is on long-term outcomes.

In a world that is increasingly geared toward short-termism and instant gratification, we think a tremendous advantage can be gained by those who move consistently in the opposite direction. As such, we expect to be misunderstood in the short-term, frequently, and so too should our co-investors.

### **How concentrated do you like to get in your best ideas?**

The Partnership Trust's portfolio is not constructed with any regards to any share market indices whatsoever. It is currently largely invested in a collection of what appears to be perceived as "orphans and misfits," and we are often buying when others are selling.

This does not mean the Partnership Trust's investments are broken or poor businesses. Some of them are just out of favour. Compared to the alternative, we rather like it that way.

The portfolio currently consists of 11 investments.

We find ourselves disagreeing with the theory of diversification. We believe that if knowledge is a source for a money manager to value-add, and that few things can be known for sure, then it logically follows that holding more investments does not lower risk but raises it.

**I appreciate you don't normally share ideas but can you talk about a specific company you're bullish on? What was the thesis for investing?**

As a matter of principle, we usually only speak to our co-investors about investments we make or have made.

At the moment, the Partnership Trust has part ownership in a few retailers of different varieties, a finance company, a cement company, a bank, a property company, a gaming company, a technology manufacturing business, an industrial equipment business, and a mining company.

Some of these can reinvest the cash they generate at good returns, and importantly they do just that. Some of them have less reinvestment opportunities and return capital to us typically in the form of dividends, although we tend to favour buybacks if they are trading cheaply, and we engage actively to make this view known.

And some of these are generating operating cash at what we believe (based on history) are low points of a cycle, with what we deem to be solid balance sheets.

Virtually all are trading at low valuations relative to what we estimate their conservative value is. We do not have to believe much about the future for these investments to work out just fine.

Investing is a game of probabilities and when we encounter a time or a scenario that contradicts historical trends, we prefer to remain on the sidelines, seeking alternative, simpler ways to invest.

We remain cautious, preferring investments in companies with more predictable, proven, probable returns and sometimes possibly even some earnings growth.

Where sensible, our objective is for the Partnership Trust to own shares for multi-year periods and so our continued investment success has far more to do with the economics of the underlying businesses than it has to do with their last share price quote.

As such, the trick, it seems to us, if one is to be a successful long-term investor, is to recognise the sources of enduring business success, seek to get in early while not paying too much and own enough to make a difference.

We can all observe that share prices, set in an auction market, are more volatile than business values. Several studies and casual observation reveal that individual prices oscillate widely around a central price year in year out, and for no apparent reason.

While share prices do fluctuate, sometimes wildly, business values do not. Over time, this offers the prospect that any business, in fact we venture that indeed all businesses, will be meaningfully mis-priced.

Investing sensibly is definitionally long-term investing. Particularly in listed markets where the short-term results can often be driven by investor sentiment, human emotions, passive investment flows and other temporary factors that we believe are incapable of accurate prediction.

We attempt to use these swings to our investors' advantage. But over the long term the weight of earnings becomes the powerful primary factor determining share prices and hence investment performance.

Our preference is to focus on the underlying earnings of the businesses we invest in, and the risk we focus on is the actual earnings power of the business over time. Our first focus is on determining the risk to future earnings for a given company.

This dictates a focus on businesses which we deem to have a low probability of being replaced. Secondly, we focus on how that company is financed and on not paying too high a price for it. We adopt a value focused approach, where we look to pay a fair price or better for the investments we make.

We expect to be able to continue our track record of generating solid returns over the medium to long term by sticking to our investment philosophy, which can be summarised as follows:

- target investments that can generate strong returns with an adequate margin of safety;
- aim to hold a high conviction, concentrated portfolio; and
- invest based on fundamental analysis.

We think the four most important principles for an investor to flourish are: Patience and Discipline, and more Patience and Discipline.

The share prices of the companies the Partnership Trust are invested in can gyrate over very large ranges and only occasionally represent a reasonable proxy for fair value.

Many people have trouble understanding how mispriced companies can become at times. However, that is understandable given the dominance of the efficient market hypothesis which has been around for more than 60 years.

To appreciate how inefficient the market can be, it is important to grasp that the market is composed of both investors and speculators.

Investors focus on the certainty, quantity, quality and timing of the cash that will be returned to them from the companies they own, while speculators worry about what other people will pay for their holdings.

Investors treat their shares as fractional ownerships of underlying businesses while speculators focus on how they believe others are going to next act.

Investors take a long-term view and try avoiding spending time or energy predicting market price movements while speculators are wholly consumed with predicting the unpredictable, short-term direction of share prices.

On behalf of the Partnership Trust, we do our best to think, act, and behave as investors.

We think that what we have discussed at some lengths so far are what really matters to investors.

That said, given your persistence and twisting of arms for us to provide one company in which the Partnership Trust is invested we will mention ASX-listed Jupiter Mines.

 **Jupiter Mines (JMS)**

JMS owns a significant share of a mine located in South Africa which produces a critical element used in carbon steel production, with no substitutes for this element existing.

The mine is a top five producer globally, operating at a low part of the industry cost curve. The mine has a mine-life comfortably exceeding 100 years.

The current price for the mineral is ~30% below the last 6-year average. At current prices some ~50% of the cost curve is unprofitable, and hence the price is unlikely to remain at these levels for sustained periods. JMS has no debt and holds cash equivalent to ~30% of the current market capitalisation.

The mine is cash generative at current mineral prices and hence so too is JMS. The share price of JMS had fallen to a level where an investment has been made at a market capitalisation of ~0.5x its book value.

Since the IPO of JMS in 2018 the average price/book ratio has been 1.1x with a high of 2x. On this measure, JMS has rarely been cheaper.

JMS runs a frugal structure which we applaud. No need to layer with bureaucracy and reams of people to undertake the collection of a dividend once or more a year from the mine.

The dividend is near-enough paid out in full to shareholders of JMS. Since listing in 2018 JMS has paid out a dividend that in aggregate is the equivalent to ~130% of the current market capitalisation.

Simply put, the mine and JMS generate more cash than they can sensibly reinvest. Both the mine and JMS have proven to do the sensible thing; distribute the excess cash to their respective owners

and leave it for them to decide what to do with the cash. This is an arrangement we favour strongly.

We do not think the use-case for steel will be replaced by an alternative. As such, the use-case for the mineral the mine in which JMS owns a significant stake will remain.

Existing resources of other large producers of the mineral are coming to an end while the mine life of JMS's mine literally extends beyond a century, there is cost-curve price support for the mineral, the mine has remained operating cash flow positive despite the recent low-price points for the mineral, neither the mine nor JMS employs any debt, and JMS employs a sensible approach to cost management and capital allocation.

Additionally, and finally, following recent corporate action for the shareholding in the mine that JMS does not hold we believe there is a high likelihood that the share price of JMS over the next 12-18 months will rerate to at least the levels at which this recent corporate action was done, which is some 75% higher than current levels.

Even at the current price of the mineral mined, and with no further corporate action playing out, we believe the Partnership Trust will generate a fine annual return based on the price at which the investment was made, and hence it is an investment we ideally would like to be part of the portfolio for approximately the same duration as the current mine-life.

**To learn more about Aligned Capital Management visit**  
[alignedcap.com](https://alignedcap.com)

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