Fountainhead Partnerships Fund

April 2022 update

FHPF was down 6% in April while S&P 500 and MSCI world were down 9% and 8% respectively. YTD FHPF is -15% vs S&P 500 and MSCI world are down 13%. The correction in stock prices continues this year as valuations reset in a higher inflation and interest rate scenario.

Here are some musings that we would like to share with our investors.

First a look at the Fund's comparison with some relevant benchmarks:

Some relevant performance benchmarks	2022 YTD
Apple	-18%
Microsoft	-24%
Amazon	-33%
Google	-21%
Russel 1000 growth index	-25%
S&P 500	-13%
MSCI World	-13%
NASDAQ	-27%
75% of NASDAQ stocks	-50%
FHPF	-15%
XLE (S&P energy ETF)	46%

Market's four-star generals; Apple, Microsoft, Amazon and Google were down on average 25% YTD, while 75% of companies in NASDAQ, which is a pure growth index, were down more than 50%. Quality of our equity portfolio and hedging activity reflected in our performance.

Why we were hedged 40%, but not 100%?

Answer is the ***earnings*** both at portfolio and stock market level. At Portfolio level most companies in the portfolio exceeded expectations and were up 5-10% on earnings announcement, only to trade lower in the subsequent sessions. E.g. Novo Nordisk, our largest holding reported 23% revenue and earnings growth, which was the fastest growth rate in 2 decades. Stock was up 6% on the results announcement and 20% in the quarter. However, it gave up most of the gains as the broader market sold off.

Also, the earnings of overall stock market, which were expected to grow 5% in the 1Q22 rose 10%. Still, the S&P 500 has sold off close to 17% from its peak.

So, we are in an environment where earnings are still growing nicely but the higher inflation and interest rates are resetting the valuations of the companies. We don't think that there is any systemic risk on the horizon like 2008 or 2020 that demands to fully hedge the portfolio.

The current environment is perhaps more akin to 2018 when interest rates rose and stocks took a similar beating. Hence, we tend to focus on long term earnings trajectory of the businesses and their growth potential. Historically, making in-and-out calls based on valuations has never been a very fruitful activity for investors.

What it means to be a long term investor:

Every time the stock market declines, fund managers start talking about long term investing. So what does long term investing mean to us? Here is an example from the recent past. Since January 2018, S&P 500 has seen three (3) corrections of 20-40%. One in 2018 (-26%), second in 2020 (-36%) and now third in 2022 (-19%). Still, The esteemed index is up 60% (12% per year) since Jan 1, 2018 despite sustaining three bear market corrections. Macro funds, who boast being experts at market timing, are in drum beating mode about how well they have performed this year, but have returned less than 7% annually since 01/01/18 as per HFRI. FHPF is up 54% since then and has returned 11% per year. And this is what we mean by long term investing in quality companies. Long term investors who are able to digest these corrections come out with decent returns if they just stay on course.

Berkshire Hathaway AGM

Asif made his annual pilgrimage to Omaha to participate in Berkshire Hathaway's Annual General Meeting (AGM) in April. Berkshire has been a core holding of the Fund for many years. The in-person meeting was held after a two-year break, and the enthusiasm of the crowd was evident at 5:30am when they started lining up at the CHI Centre in a cool, windy and drizzling Omaha. Warren and Charlie were in their prime form from the start and created a huge buzz in a forty thousand crowd when they revealed that Berkshire invested USD51bn during the first quarter correction of the stock market. While most investors around the world were reducing their exposures to the stock market, the Oracle of Omaha put more money to work in a quarter than he did even in the global financial crisis. Not that we were looking for one, but for us it was a huge validation of our increase in equity exposure in the first quarter. Another key takeaway of the meeting was Warren's highlight, while pointing to the current stock market turmoil, that how often investors turn the temporary loss into a permanent one by selling at the wrong time. The Berkshire AGM always provides a great opportunity to be part of an atmosphere that still belongs to value investing, watch some exclusive content about Berkshire's businesses and listen directly to the wisdom of two of the greatest investors of all time.

Thank You.