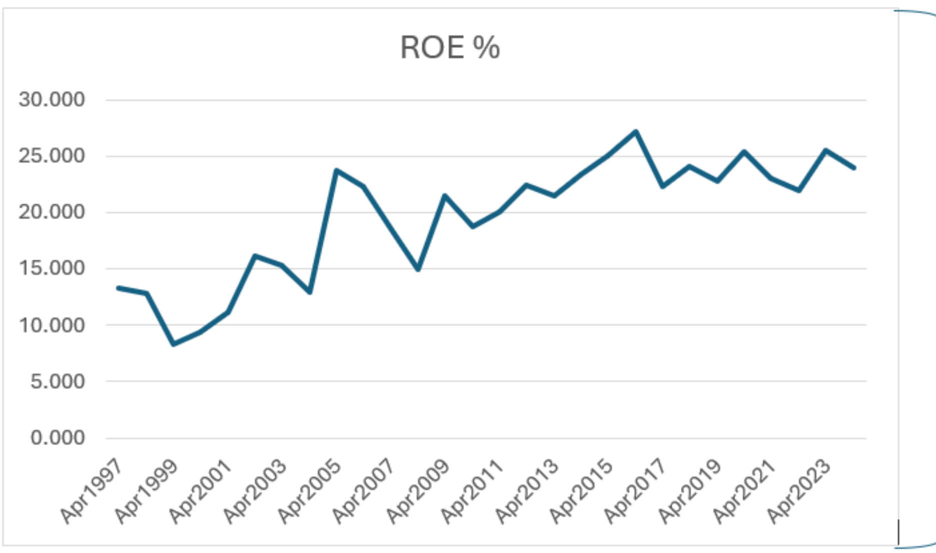
PORTFOLIO UPDATE

Jason Del Vicario, CFA®

I was recently preparing materials for our semi-annual PM webinar and was struck by the consistency of the returns on capital of one of HillsideCo's constituents: Alimentation Couche-Tard (ATD). ATD is the world's second largest convenience store operator (Circle K here in Canada). They have been around since 1982 (started with a single c-store in Quebec City) and during that time have generated annual returns on invested capital of ~20%. Is this good? Yes, quite strong… but there are many companies that produce 30%, 50% even 100% returns on capital. However, as you move up the return on capital ladder the ability to consistently generate high returns becomes increasingly difficult and scarce. Below is a time series chart ATD's Return on Equity (ROE) since 1997:



CONSISTENT!

Source: Gurufocus

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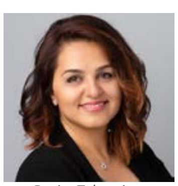

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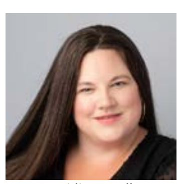

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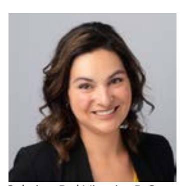

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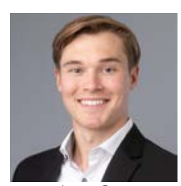

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A few things to call out:

1. The range in returns has been 8.3% to 25.4%.
2. For the past 18 years, the range has been 15%-25%.
3. Their returns have risen (slowly) as the business has scaled; impressive.
4. They have never produced a negative return year.

They have been amazingly consistent in a business that is frankly boring and not very sexy. How does this translate into exceptional results? Below is the stock chart for the same time period (1997 to present).

Source: Gurufocus

1. Stock price moved from a split adjusted price of $0.18 in 1997 to over $80 today.
2. This is 444 times your money. $10k invested in 1997 is worth over $4.4m today (excluding dividends).
3. Translated into a compound annual return, this works out to 25.3% which is quite similar to their return on capital (noted above).
4. The nature of compounding and exponential function is such that much of one's return is achieved in the later years.

Requirements to achieve exceptional results:

1. Ability to find companies that can consistently produce strong returns on invested capital; **this is our job**. "The person who turns over the most rocks win the game." – Peter Lynch
2. The patience to hold and allow the compounding the work its magic; **this is your job**. "The first rule of compounding is to never interrupt it unnecessarily." – Charlie Munger

At Hillside our goal isn't to be exceptional in the short term. Rather, we firmly believe that if we can invest in businesses that produce consistently strong financial results/returns we will achieve exceptional wealth creation for us in the long term. Why do I say 'us' instead of 'you'? Because, as a reminder, our capital is invested right alongside yours. We own exactly what you own.

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