



CLARENCE DRIVE CAPITAL PARTNER'S MANUAL FOR BUSINESS OWNERS

This manual is a guide to our partnership in business ownership, outlining my principles, methods, and the structure we share. Why a partner's manual? Because strong partnerships begin with transparency. Transparency builds alignment, and the more aligned we are in how we pursue our goal, the more likely we are to achieve it together. Inside, you'll find not just the principles, but the reasoning behind them, showing how decisions were made and how they are made.

1. Our approach is partnership

I think of my investors as partners, and of myself as the managing partner of long-term ownership interests in businesses. I hope investors feel they're joining a long-term venture akin to owning a private business, home, or farm in partnership with family members.

Partnership is not just a mindset; it's built into the structure. I invest virtually all my capital alongside you, sharing both the upside and the downside. This aligns our interests and reflects my conviction in the strategy. Alignment extends to remuneration: The firm operates at low cost, and those savings are passed to investors. As management fees are capped to cover only business expenses, they approach zero percent as assets grow, and the firm earns a profit only by delivering performance. The alignment is real: I succeed only when you do.

2. My primary economic goal is to deliver exceptional long-term returns, adjusted for risk

I aim to build an investment track record I can be proud of, on par with investors I greatly admire. This requires performance that exceeds both the opportunity cost of risk-free capital, represented by a long-term government bond, and the returns of the world stock market, which over time reflects the results of most of the investment industry. The next seven sections explain how our structure supports this pursuit. If I cannot deliver this performance, the firm should not exist. At the same time, it is important to note that no rate of return can be guaranteed for partners. My approach to managing risk is outlined in Section 16.7 of this manual.

3. We are long-term investors

Why long-term investing? A long-term approach capitalizes on a sustainable edge in investing — behaviour. Most market participants are trading shares based on short-term expectations where the competition is the greatest, while I invest based on long-term expectations where the competition is least. The market's short-term obsession causes significant fluctuations and mispricing, creating meaningful opportunities for investors with a longer-term mindset of business value. I typically invest when a business is worth at least twice as much in today's money based on where it will be in seven years.

How do I practice long-term investing? The approach requires diligence and patience. To best ensure that I can act in this manner and achieve our goal I have structured the business accordingly.

First, the firm's ownership structure achieves the independence necessary to implement this long-term approach. Many investment firms are pressured by external owners, leading to short-term thinking and reactionary decisions. Clarence Drive Capital is owned by the investment decision maker. This ensures there is no outside owner influence on investment decisions and a built-in commitment to a long-term investment strategy.

Secondly, I seek like-minded, long-term oriented partners — investors who keep long-term value front of mind and cultivate the emotional discipline needed to navigate short-term market swings. Driven by greed and fear, many investors buy at the top and sell at the bottom. My goal is to ensure the market serves my investors: to be fearful when others are greedy, and greedy when others are fearful. This discipline is the foundation of reward in the market. When share prices fall and I see extraordinary opportunities, investors are encouraged to consider deploying additional capital rather than succumbing to psychological pressure and redeeming. This patient, contrarian approach supports value creation, driving long-term investment performance.

4. The firm is structured to achieve a further distinct advantage: we are global investors with access to a broad opportunity set

We have a significant advantage in being a global mandate with a wide opportunity set as I can look far and wide and am not required to invest in assets that do not meet my criteria. Traditional fund management is typically bound by attributes such as asset class, geography, sectors, investment styles, and even the degree to which a fund tracks the index. As most fund managers are constrained by these mandates, excess returns should exist for those with a broader opportunity set.

The typical large South African fund manager has a universe of just 40–50 companies to choose from, many of which can remain overvalued and unattractive for years at a time. In contrast, my mandate gives me the flexibility to select from tens of thousands of companies, significantly expanding our investment opportunities.

I believe many investors suffer from home bias, investing most of their funds in the equity market of their home country. The idea of being restricted to one market strikes me as irrational. One can gain access to terrific businesses and fundamentals not available in the home country, obtain a significant advantage when comparing similar businesses across geographies, achieve better diversification and hedge against South Africa's economic and political risks.

5. I offer only one product: my single best investment view

Many fund managers launch new funds for every trend or opportunity, which may make business sense but does not always serve investors well. In contrast, I offer only my single best investment view, shifting the portfolio towards the most favourable opportunities.

6. I hold a more concentrated portfolio than most investment managers, focusing on my best ideas to outperform the market

Many fund managers spread their capital across dozens or even hundreds of stocks. The reality is that compelling investments are rare, and when I find them, I concentrate our capital to maximize returns. This approach can lead to higher short-term volatility than peers who typically over-diversify, but it increases the potential for superior long-term performance.

I aim for sufficient but not excessive diversification, and the portfolio is likely to contain around 10 securities. Consider that Warren Buffett has 99% of his net worth invested in one company and Charlie Munger held only a few. Largely because they own too many stocks, most fund managers effectively track the index. This overdiversification that is commonplace in the industry has to do with reducing portfolio volatility, while at least avoiding underperformance. The main reason they do this is management of career risk. People realize that they get in trouble for being wrong on their own but not as part of a group, hence, why risk being different than the index.

The only way to succeed in investing is to be different from the crowd. A concentrated portfolio is rational when the objective is to outperform the market over time. Owning too many stocks dilutes focus which increases risk. At the same time, by investing globally, we inherently achieve greater diversification than by limiting ourselves to a single market.

In his 1964 Buffett partnership letter commenting on the inability of the overwhelming majority of investment managers to outperform the index Warren Buffett ascribed it to the product of: "(1) group decisions – his view that it is close to impossible for outstanding investment management to come from a group of any size with all parties really participating in decisions (committees); (2) a desire to conform to the policies and (to an extent) the portfolios of other large well-regarded organizations; (3) an institutional framework whereby average is "safe" and the personal rewards for independent action are in no way commensurate with the general risk attached to such action (career risk); (4) an adherence to certain diversification practices which are irrational; and finally and importantly, (5) inertia."

The antidote, he suggests, is having an independent investor willing and able to take contrarian action, holding a concentrated portfolio of compelling opportunities, constantly searching for the best ideas and being nimble enough to act when the opportunity arises. I believe that my approach is very well positioned in this context.

7. I do not time the market but invest bottom-up

I do not forecast stock market movements, and if asked, I will respectfully decline. I do not believe consistent market timing is achievable, nor do I consider it essential. Studies show that market timers often underperform because missing just a few of the best market days can significantly reduce long-term returns.

When I find a business that is attractively priced, it would be unwise not to act simply because of short-term predictions of what the market might do. I therefore do not adjust the portfolio based on forecasts of market movements. Instead, I invest bottom-up, focusing on the intrinsic value of individual businesses. Changes in equity and cash balances are a natural outcome of this search for opportunity. For example, when investments reach intrinsic value and attractive opportunities are scarce, the portfolio may temporarily hold more cash. I aim to remain fully invested in equities whenever possible, but never at the cost of overpaying. A higher cash balance may appear to reflect a market view, but it is simply the disciplined result of a bottom-up approach.

8. The partnership follows an absolute return mindset, not a relative-to-the-market one

Starting from cash, it seems rational to invest only when the expected return meaningfully exceeds the cash return, rather than selecting the least expensive components of an index that may itself be priced to deliver negative returns. My goal, therefore, is to invest only in businesses that are substantially undervalued, ensuring positive returns that significantly outperform the opportunity cost of capital. Over the long term, I have faith that this absolute return approach will also lead to outperforming the indices.

9. The partnership embraces market volatility

Over the long run, common stocks offer the highest returns among all asset classes, and you should expect the market value of your investment to grow. Over shorter periods, however, this may not be the case. Temporary declines in market prices will reduce the market value of your portfolio, but I focus only on whether the intrinsic value of the portfolio has changed. I seek to take advantage of these market fluctuations by concentrating on the long-term intrinsic value of the businesses I follow.

To reap the rewards from stock market investing, you must accept that your portfolio may experience declines of 40% a few times in your lifetime. While many investors perceive market volatility negatively, it is our basic advantage. Volatility creates opportunities to buy undervalued businesses and sell overvalued ones. It is a core driver of the long-term returns I aim to generate.

10. My long-term goal should be checked occasionally for results. While I prefer ten years, I feel five years is a minimum for judging performance

There will inevitably be years when my performance falls short, possibly well below that of the global stock market. Even the very best long-term investment track records involved underperforming the market 30-50% of the time. In the near-term results are unpredictable and are as likely to disappoint as they are to please. In the long-term results will reflect the performance and value of the businesses we own and do I expect us to do well.

Clarence Drive Capital invests long-term and is not suitable for those with timeframes less than seven years.

11. As short-term results are unpredictable my performance in any given year should not be judged by whether I achieve positive or negative returns. Instead, it should be evaluated in the context of how I perform relative to the global stock market average

If results surpass the performance of the world stock market average, I consider it a successful year, regardless of whether we post a gain or a loss.

To be clear, over the long term, our objective remains to deliver absolute positive returns that meaningfully exceed the opportunity cost of capital.

12. I will be transparent in my reporting to you, keeping you informed about the good and bad in the portfolio. My goal is to ensure that you have a clear understanding of my decision-making process and how we are doing

Over time, most of my investments have exceeded my expectations, but I will occasionally make mistakes—and I will inform you when I do. Consider that investors who outperform the market only 55% of the time still rank among the top percentiles of investors. Of course, the magnitude of gains versus losses matters, but investments that fail to beat the market are inevitable. I believe in learning from these mistakes as quickly as possible. Documenting them may be uncomfortable, but it is far preferable to selective reporting and failing to continuously improve the investment process.

I will discuss my new ideas to the extent that it does not interfere with my ability to acquire them at good prices. Good investment ideas are subject to appropriation. When discussing new ideas, I am mindful of the cognitive bias that, by publicly committing to an investment, it may become harder subsequently to change my mind. When the facts change, it is crucial that I change my mind.

You can expect from me an annual and interim letter and ad hoc investment articles in which I discuss my investment thoughts. I approach writing semi-annual letters with some hesitation, as they might inadvertently encourage partners to focus on short-term performance—a perspective that can be highly misleading. Try to keep this in mind and maintain a long-term perspective. From the administrator, you can expect a monthly report on your account where you are able to view all the holdings and actions taken. I believe these documents together should equip investors with the necessary information to assess my actions and performance effectively. Another opportunity for communication is the Annual Meeting, where I am delighted to spend a few hours or more answering questions about the portfolio. I remain accessible to my partners, who I hope to have reviewed my communications, and I welcome any questions regarding the portfolio.

13. Structure and how to invest

Clarence Drive Capital offers two primary investment vehicles:

1. **Segregated Portfolios – Each investor owns their own account in their own name, managed through Interactive Brokers**, a reputable US brokerage offering low trading costs and the broadest access to securities.

Clarence Drive Capital, as advisor, does not have direct access to your funds other than placing trades on your behalf. Because you retain direct control of your account, you can be assured that, should I be run over by a bus, Interactive Brokers will continue to honour redemption requests. In addition, I will provide recommendations to ensure a smooth transition should you wish to appoint another advisor.

2. **An additional optional tax-efficient vehicle** with seamless estate planning – **an Old Mutual life wrapper** which provides:

- Capital gains tax at the corporate rate of 12%.
- Dividend withholding tax recoupment above the standard 20% from SARS.
- Automated tax disclosure to SARS.
- Significant estate planning benefits, including bypassing all estate duties abroad, avoiding South African executor fees (typically 3.5%) and ensuring near-immediate access to funds. If a spouse is named as the beneficiary, South African estate duties (20%+) are avoided.

Given estate duty thresholds abroad, the Old Mutual life wrapper is generally sensible for investments of R2 million or more. Old Mutual's fees are on a sliding scale, ranging from 0.55% to 0.2%, depending on the size of the investment.

Next Steps

If you wish to invest or have any questions, please email me using the contact details at the end of this manual.

14. Partnership Fees

Investors who invest directly do not pay initial fees or redemption fees. I welcome direct communication with investors and believe initial fees or redemption fees unnecessarily hinder performance. As long-term investors portfolio turnover will be low, allowing me to keep transaction costs to a minimum and resulting in cost savings.

I have developed a unique approach inspired by the original Buffett Partnership, reflecting my philosophy that I should be compensated only when I create value. Accordingly, the management fee does not generate profit for the firm; I earn a performance fee only when I deliver results. Our performance objective is to deliver absolute returns, which fosters prudent investment decisions, particularly in periods when markets appear expensive. I aim to generate returns that meaningfully exceed inflation and the opportunity cost of capital. For reference, long-term government bond returns have historically been around 5–6% in US dollars (9-10% in South African Rand).

In this performance-based fee structure:

- The **management fee** is strictly limited to covering the fixed operational costs of the business and is **capped at 0.8%**. This ensures the firm does not profit from the fee, and I pass on the low operating costs of the firm to investors. **As Assets Under Management (AUM) grows, the management fee decreases as a percentage toward zero, directly benefiting investors.**
- The **performance fee** applies only after exceeding a **6% US dollar hurdle** (approximately 10% in Rand) and includes a **high-water mark**, ensuring I earn performance fees only when investors profit over the long term.

The performance-based fee consists of a 0.8% management fee on AUM plus 20% of profits above the 6% hurdle rate. The management fee is capped at 0.8% and reviewed annually each October, with any adjustment permitted only downwards.

For investors who prefer predictability, a **fixed-fee option of 1.4% per annum** is available. Fixed fees in both arrangements cover operational costs and help reduce the effective management fee under the performance-based structure toward zero.

Ultimately, the choice is yours:

- Performance fee structure: lower fees when returns are modest, higher fees when returns are strong.
- Fixed-fee structure: higher fees when returns are low, relatively lower fees when returns exceed a normalized outlook.

This structure reflects a true partnership: by minimizing costs and tying my compensation to performance, it aligns my incentives directly with yours. I succeed only when you do, reinforcing our shared goal of delivering long-term, absolute returns.

15. Capital Gains Tax

Paying taxes on capital gains is a positive outcome — it means we've made a profit.

Tax minimization usually involves reducing liability from realized gains by offsetting them with losses from other investments. While this can make sense in certain situations, prioritizing tax avoidance can often lead to suboptimal investment decisions. An unrealized loss occurs when a stock's price declines, but in most cases, I find the company more attractive at a lower price and am more likely to buy than sell. If a tax strategy would compromise an investment, I prefer to let taxes occur naturally rather than focus on avoidance. That said, if I can purchase a similar business at a comparable or greater discount, realizing a loss to offset gains may make sense.

16. MORE ON HOW I INVEST

Section 16 provides further insights into my investment process.

My approach entails studying businesses closely to assess their worth. I invest when a company is unpopular and trades at a significant discount to its intrinsic value, and I sell when it becomes popular and reflects its full value. My strategy prioritizes high-quality businesses because over the longest periods of time investment returns converge with the underlying performance of the business. As a long-term investor, I aim to identify such businesses trading at a discount, allowing me to compound capital effectively.

16.1 Defining quality

At the heart of capitalism is the principle that companies earning excess returns on invested capital inevitably attract competition, which drives those abnormal profits down. That is, unless the company has some enduring competitive advantage or moat that allows it to sustain its higher profitability.

High-quality businesses generate durable excess returns on invested capital, supported by sustainable competitive advantages and disciplined capital allocation. When these high incremental returns are combined with growth, the result is substantial value creation.

What are the sustainable competitive advantages that enable a company to achieve such excess returns on invested capital? I typically identify and invest in the following moats:

- **Network effects:** Consider companies like Meta, with Facebook, Instagram, and WhatsApp collectively reaching nearly 4 billion monthly active users. The value of the network grows as more participants join, while replicating it becomes extremely difficult once users are engaged and preferences are established. Networks often create natural monopolies or oligopolies, with first movers achieving dominance. Airbnb provides another example: more hosts attract more travellers, and more travellers encourage additional hosts, enhancing the platform's value. Marketplaces like Amazon work similarly: a large buyer base attracts more sellers, increasing product variety and competitive pricing, which in turn draws even more buyers, creating a virtuous cycle. One of the oldest network effects can be seen in stock exchanges, where more participants lead to greater liquidity, tighter spreads, and faster price discovery, making it hard for new or smaller exchanges to compete.
- **Other intangible assets:** **Strong brands** that lead to pricing power and/or consumer loyalty, **intellectual property** (patents, trademarks, copyrights and trade secrets) **and licenses** can also offer protection against competition. Brands must be able to influence consumer behavior to be valuable. If a brand can reduce the time a consumer has to spend on deciding or it commands pricing power, it is valuable. Patents are typically less durable due to their limited lifespan, after which competition inevitably arises. Licenses are particularly advantageous when regulatory approval is required to operate in a market, but prices or capital investments aren't regulated.
- **Switching Costs:** When customers face significant effort or expense to switch from one product or service to another, the business providing it gains pricing power. For example, the hassle of switching banks creates natural switching costs. However, if a company relies solely on these costs and stops innovating or improving, the presence of switching costs becomes far less compelling.
- **Cost advantages:** In industries where price is the key factor in purchasing decisions and substitutes are readily available, the lowest-cost producer typically wins. Cost advantages can arise from factors like location, which reduces transport costs; unique assets that lower extraction costs, as seen in mining; but typically scale - in other words being large relative to the competition in a high fixed cost business. Scale which includes distribution scale and manufacturing scale allows fixed costs to be spread over more units, lowering the cost per unit. For example, Netflix benefits from scale, as it can spread its high fixed content costs across a large subscriber base, making it more profitable. Scale can also entail dominating a niche market, where the size of the market makes it uneconomical for new entrants to invest the required capital, particularly if specialized knowledge or expertise is needed.

These competitive advantages often combine to create a powerful moat that results in excess returns that are difficult to erode. I typically look for companies where this translates to a superior value proposition to the customer, signalling an enduring ability to grow. My goal is to identify these excess returns on capital when they are out of favour, offering the opportunity to acquire them at a bargain price.

16.2 What makes a great management team?

Another key factor in a business's future returns and value creation is how effectively management allocates capital. I seek out entrepreneurial, owner orientated managements that treat their shareholders like partners – people with the character to pursue strategies designed to create *long-term* value and who have skin in the game and are therefore economically aligned with us. When evaluating management, I ask the following questions:

1. Is management able and trustworthy?

Are they honest and direct in their communication and deliver on their promises?

2. Are they owner-oriented – pursuing strategies designed to create *long-term* value?

- a. Is management mission driven and customer focused?
- b. How successful has management been in allocating capital? I assess their track record of reinvestment decisions, acquisitions, share buybacks, dividends, and debt repayment. Do they resist the institutional pressure to grow at any cost, and do they have the discipline and character to avoid misallocating capital by mindlessly following their peers? What is their current capital allocation framework, and does it make sense?
- c. Does management's current strategy deepen the competitive advantages of the business, what is the likelihood of success, and what is the likely return on incremental investments?
- d. Is management economically aligned with long-term value creation? Incentives shape behavior and the motivation of a company management can be a very important force in determining the outcome of an investment. I assess the management team's remuneration structure, insider ownership and director buying and selling. This indicates their alignment with long-term oriented shareholders.

16.3 Distinguishing between good and bad growth

While investors rightly focus on earnings per share (EPS) growth, not all growth enhances intrinsic value. Growth creates value only when it is achieved by investing capital at returns above the cost of that capital. Short-term EPS growth can be manufactured through investment, but if those investments fail to earn returns exceeding the cost of capital, the result is long-term value destruction.

Companies often chase growth in low-return areas outside their core strengths, overpay for acquisitions, or repurchase shares at inflated valuations — all of which erode value. New industries may appear to offer compelling growth opportunities, but if barriers to entry are low, and influx of competition will drive returns on capital down, undermining value despite apparent growth.

By combining my analysis of a company's sustainable competitive advantages, management's capital allocation decisions and the fundamentals driving growth, I gain a clearer picture of the company's ability to grow *profitably* and create long-term value.

16.4 Investing with a margin of safety

I always acquire assets at a substantial discount to my assessment of their intrinsic value. By investing with a margin of safety, I seek to minimize the risk of loss and maximize returns. Furthermore, to avoid overpaying for businesses, I carefully analyse the reasons behind any mispricing and assess whether I have an advantage over the market.

This edge typically stems from two factors: analytical and behavioural. My analytical edge often comes from drawing conclusions based on publicly available information that differ from the consensus view. My behavioural edge typically stems from the emotional discipline of maintaining a long-term focus — weighing what a business is worth, while the market votes on the present.

16.5 Businesses I aim to avoid

As Charlie Munger wisely said, “All I want to know is where I’m going to die, so I’ll never go there.” I take the same approach in investing — by inverting the question. Instead of focusing solely on what I should do, I ask myself what I must avoid.

I seek to avoid risky, structurally disadvantaged businesses that generate poor returns on capital or whose long-term fundamentals indicate declining business value. In addition, I steer clear of companies where management is not aligned with long-term value creation, where current capital allocation is poor, or companies with too much debt.

While waiting for the discount to close, the underlying value of your investment in such businesses is more likely to erode than grow. In these cases, time becomes your enemy. In some instances, when declining business value is coupled with excessive debt, equity shareholders may not survive a downturn at all.

For businesses that meet my investment criteria but are not of the highest quality, I insist on a wider margin of safety and usually exit as prices near fair value. In contrast, for high-quality businesses capable of compounding intrinsic value over time, it is often more rewarding to hold them for the long-term and let compounding work in our favour.

For cyclical businesses, I only consider investing at the low point of the cycle — when returns on capital are depressed, capital is exiting the industry, and the business is trading at a significant discount to its intrinsic value over the full cycle. This approach may cause me to forgo certain cyclical opportunities.

16.6 How I strive to stay rational

To succeed in investing, one must balance both confidence and humility. I need the confidence to act decisively when I have done the necessary work and formed a well-reasoned, differentiated opinion. At the same time, I must remain intellectually honest, acknowledging that the other side of the trade may be correct, and I may be wrong.

I find that a focus on potential risks, rather than risking overconfidence by focusing only on what can go right, is a productive starting point. As Mark Twain wisely said, “It’s not what you don’t know that gets you into trouble, but what you know for sure that just isn’t so.” And as Charlie Munger reminds us, “The human mind is like the human egg. Once an opinion gets in, it shuts itself off to other opinions.” People tend to cling to their conclusions, even when they may be incorrect. I believe in reserving judgment until I have thoroughly worked through my mental models, rather than jumping to conclusions based on one appealing aspect of an investment thesis. In this way I hope to stand a better chance of not deluding myself and staying rational. When new information arises, I strive to avoid inertia. I revisit my thesis and investment markers regularly, so when the facts change, I can adapt my thinking. As Charlie Munger aptly put it, “Any year that you don’t destroy one of your best-loved ideas is probably a wasted year.”

To outperform, I must identify instances of market irrationality. The discipline that helps me stay rational includes:

- A sound framework for independently analysing businesses before forming conclusions — the checklist.
- Emphasizing probabilistic thinking over certainty, with a focus on understanding and managing the consequences of being wrong.
- Maintaining a long-term perspective on competitive positioning and intrinsic value to maintain emotional control.
- Having the patience to wait for an appropriate margin of safety before making an investment.
- Documenting investment decisions and learning from mistakes.
- Tracking my investment thesis and being open to changing my mind when new information emerges.
- Revisiting a behavioural checklist to guard against common biases.

16.7 How I manage risk

Nothing is more important to me than the ability to sleep soundly at night. Consider that risk and return are not always positively correlated, as is often assumed. The riskiest assets do not necessarily deliver the highest returns; taking on more risk can reduce returns if it leads to losses. Warren Buffett have said it many times that the first rule of investing is to not lose money, and the second rule is to not forget the first rule. My goal is to make money but with limited risk. Over time, by consistently avoiding losses, you pave the way for healthy gains.

Risk control is fully integrated into my investment process. I adhere to a common-sense view of risk, namely *what is the probability of loss and how much of an investment I can lose permanently if I am wrong*. I manage risk for each position and at the portfolio level.

1. Risk management at security level

- I clear a high bar before making an investment. I have a minimum set of criteria for each business. I may disqualify a business if it does not meet some of the following qualitative elements: a strong competitive position or moat that sustains business success and high returns on capital; fundamentals that imply stable to growing business value; an able, trustworthy and owner orientated management team; low cyclicity or low in the cycle; unpopularity; conservative financing; and where I have an edge over the market.
- Buying undervalued securities offers a margin of safety i.e. it lowers the risk of loss. I therefore seek to control risk investment by investment by methodically evaluating each opportunity and buying at a discount to my estimate of intrinsic value.
- Risk means many outcomes are possible but only one outcome will occur. I therefore believe that the key is to limit one's bets to situations where the probability of being right is way above 50% and even if I'm wrong and the low probability event occurs, that the downside risk is limited.
- I stay on the side of conservatism when valuing businesses.
- I require adequate compensation or margin of safety given the risk. The prospective return must be generous relative to the risk incurred. I therefore require a significantly higher discount or margin of safety for a riskier business with a less predictable cash flow stream, where the upside must be many multiples of the downside, than for a less risky more predictable business.
- Risk is also mitigated by ongoing monitoring of the portfolio positions and knowing why each investment I make is mispriced.
- Sell discipline - By selling near intrinsic value, I avoid the permanent loss that is likely to result from continuing to hold an asset that ultimately corrects back to or below fair value.

2. Risk management at portfolio level

- I further control risk via position sizing. Higher quality lower risk businesses with more predictable cash flow streams and high conviction ideas with very little downside risk can achieve a higher weight in the portfolio. The best assets and the best ideas (lowest risk of loss) receive the highest weight. Few positions will exceed 10% of assets at cost.
- I further reduce risk through diversification across business, sector, and geography. The combination and variety of individual margins of safety creates a safe portfolio.
- Cash. I may reduce risk by my willingness to hold cash when I am unable to identify attractive opportunities.

17. About Clarence Drive Capital

Clarence Drive Capital is an independent investment management firm established in 2024, specializing in global equities.

The firm was founded by me, Johannes Visser, after serving as analyst, head of research and global portfolio manager for fifteen years at leading boutique asset managers in South Africa.

I became an investor to make a real difference in peoples' lives and for the appeal of a multi-disciplinary pursuit.

I invest partner's money as I invest my own, incorporating a broad opportunity set and aligning my capital alongside partners to my one best investment view.

I practice a long-term approach that seeks to identify businesses that are significantly undervalued. My strategy prefers high-quality companies that have the potential to compound value.

I believe that a focused portfolio, constructed from my most compelling opportunities around the world, is the most effective path to achieving superior long-term risk adjusted returns.

My attention is to ensure the firm's competitive advantages are reflected in the portfolio to drive long-term results. This edge stems from a genuinely long-term approach that allows me to look past short-term swings in sentiment, a broad global opportunity set that enables high selectivity and an ownership structure and clients that empower me to act long-term.

18. Contact me

If you're interested in learning more, I'd love to hear from you. Reach out to me at johannes@clarencedrivecapital.com.