TONUS CAPITAL INC.

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Meeting with Warren Buffett – Omaha – November 18 2016

I had the privilege to meet legendary investor **Warren Buffett** in Omaha in November 2016. He occasionally meets with university students and Concordia University, where I have been teaching since 2006, was selected. For more than two hours, a group of 15 students accompanied by a few teachers could ask questions to *The Oracle*. I have always admired the human and professional qualities of Warren Buffett. Not only is he an outstanding investor but he is also an excellent communicator. You will find attached to this email a summary of his comments.

His thoughts coincide with our advantageous structure at Tonus Capital. As expected, Mr. Buffett mentioned that few opportunities are present on the market. He recommends to remain very <u>patient</u> and to have a <u>concentrated</u> portfolio (he would personally have only 4 or 5 stocks in his). These are exactly the advantages provided by our investment policy; namely the flexibility to hold cash and wait for great opportunities and the concentration in approximately fifteen to twenty stocks. Over the past nine years, we have been building the image and reputation of Tonus Capital and we will continue to put investors' interest at the forefront in order to maintain **your trust**.

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People

At Berkshire, there are no contracts with senior managers. Being financially independent, they are passionate and driven. For them, working for Mr. Buffett and Berkshire is the opportunity of a lifetime.

Bonds

"Interest rates are to stocks what gravity is to matter". M. Buffett believes that long term interest rates are too low. He does not short sell at Berkshire but if he could he would short long-term bonds. He does not believe the stock market is currently overvalued and much prefers stocks over bonds right now. He mentions that if market participants believed that long-term rates would remain at current levels for some time, it would mean stocks are grossly undervalued. The reality is probably in between, and bonds are likely to lose some value in the future.

Active vs. passive investing

Because the market is an average, over time, both active and passive investing will yield similar (average) gross returns. To justify their higher fees, active managers must outperform over the long-term. Few will succeed, and the hard task for asset allocators (individuals, consultants, pension funds) is to identify these outperformers. Buffett considers the following factors enabling one to outperform the market:

- Being a good investor has nothing to do with IQ. It is more about emotional discipline and the talent to pick good stocks with good management. It is critical that the portfolio manager has a good temperament in order not to panic when fear prevails. Fear is very contagious in the financial markets.

- Smaller assets under management should increase the probability of outperforming. There are few great opportunities in the markets and when they arise, the manager must be quick and flexible.

- Buffet strongly believes in portfolio concentration. He would only have 4 or 5 investments in his portfolio if he was managing a smaller amount.

Technology

Many think that computers will replace humans in finance (and in many other sectors). Computers' advantage lies in their speed. Buffett thinks that the majority of these high frequency and algorithmic funds use the same strategy and make very similar trades which will likely lead to more volatility as they simultaneously try to unwind their trades. Fundamental investors with a good temperament should be able to take advantage of the opportunities created by such volatility. Buffett does not believe that computers can determine the durability of the long-term competitive advantages of a company nor can it assess the motivation and passion of

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management. Given fundamental analysis is not about speed, he does not believe computers will replace analysts.

National debt

As long as the Federal Reserve can print bank notes, Mr. Buffett does not believe that the national debt is a problem in the United States (but other problems could emerge from printing currency, namely, inflation). He thinks that health care costs, now representing 17% of GDP, are a bigger issue.

Philippe Hynes
President
Tonus Capital Inc