



Dear Investors,

2016 was a good year for your Sextant funds, as performances were satisfactory in both absolute and relative terms. We are pleased, but not satisfied. 'Pleased' because we have seen your savings bear fruit for 15 years, outperforming Mr. Market regularly. Fortunately, we chose the right investment strategy (not an easy task over 15 years ago), and implemented it successfully (more difficult, but not rocket science either). 'Not satisfied' because our objective is to return your capital with its offspring after a period of 20-30 years (renewable). So the game is far from over. Let's talk in 2037!

A quick word about our company, as it is important that you know who we are. We now manage over €3 billion. That's not small change, and it's a lot more than in early 2016 (€1.2 billion). Thanks to our system of sub-portfolios and teamwork, we have a scalable model that we have used to maximum advantage. Since 2015, we have created a fixed-income team with two managers, David Poulet and Jacques Sudre.

We also have a small team of equity analysts, Jacques Gout-Lombard, Youssef Lboukili and Julien Faure. In a few weeks there will be six players on the team. We have opened a research satellite in Singapore, – a project that has been in the pipeline for 20 years. The objective is to build a multi-cultural team of analysts and investors, which will take a few years. For the moment, the office is Franco-Chinese, with François from Paris (via Barcelona) and our young trainee Shuqing (a pianist, a mathematician and, naturally, a basketball champion) from Xián.

Equally important, we have muscled up company management with Nicolas Komilikis, who is now Deputy Chairman. The idea is to allow fund managers to focus on their portfolios, rather than

on the company's development and strategy. At Amiral Gestion, if you need to talk to the boss, you knock on his door.

There is also the small matter of our fees. On 1 January, we lowered them – notably the fixed commission for Grand Large which was cut from 2% to 1.7%.

We manage more funds, so it is a natural that we charge less. Reduced commission for us implies increased performance for you. Our goal is outperformance – perhaps not every year, but over the long haul. So management fees must be fine-tuned to attract the most talented people, without becoming an overly-complicated obstacle to good performance.

While we are on this subject, I strongly advise you to read pages 21-25 of the most recent Berkshire Hathaway letter to shareholders. Warren Buffett recommends passive (index) investing, as opposed to actively-managed funds (i.e. those whose objective is to outperform the market). It's a little embarrassing for us, obviously. Should you sell your Sextant funds? Below, we provide several possible answers, with the logical conclusions. I leave the choice to you, but please talk to our sales team before taking any hasty decisions.

Answer 1: Some people say that Warren Buffett is always right. It's almost true. In any case, we have tremendous admiration and respect for him.

Conclusion: Sell your Sextant funds and buy the index – but which one? It's your decision, so you decide :-)

Answer 2: "When a heavyweight boxer speaks, the lightweights listen."



It's like that with Buffett. When he speaks, people listen.

For this reason, Buffett cannot say much more than « Buy passive funds », either to his friends or in public. According to the theory of rumour or three degrees of separation, if Buffett recommends a fund to his friends, a few days later the whole world would know. The fund would attract dozens – even hundreds – of billions of fresh money, and the poor fund would have difficulty reproducing the index, less fees charged (for an explication, see Buffett's letter of 2016, or our investor letter of April 2007. For once, we were ahead of the pack).

Conclusion: Keep your Sextant funds, but say nothing to Buffett.

Answer 3: There is no single right answer because, like all great prophets, Buffett speaks in parables. His disciples must interpret his words.

Warren Buffett is simply saying the market cannot outperform itself and, overall, fund managers can at best reproduce the index, less the commissions they charge their clients. And since fees are fairly standard across the industry and much the same for good funds as for not-so-good ones, Buffett is just telling fund managers that they are too expensive on the whole. Collectively, fund managers' only service to the community is to reproduce the performance of indices. They should, therefore, charge very little, because their value added ranges from low to very low. So what should you do with your Sextant funds? Would passive funds serve you better? Buffett is simply recommending that you be wary, and pointing out that, overall, retail investors would do better if they invested in passive rather than actively-managed funds. And he is right, of course. However, if you read this letter you are among a rare species of investor who goes to the trouble of finding fund managers that outperform. Buffett admits that there are fund managers who know how to outperform the indices. The difficulty is to find

them while there is still some potential. Being a good Sextant investor involves work too!

To conclude, you could say that we got the timing right. A few weeks before Buffett accused "Wall Street" of charging "Main Street" too much for mediocre results, we lowered our fees after 15 years of outperformance. It was in response to rising funds managed, but not only – and not mainly.

In reality, we have been working towards this goal since 2002. To manage more funds is not our objective, but simply the inevitable result of work well done. Since we are convinced that we will enjoy good results over the long run, we are confident that funds managed will rise over time. And for that reason, we try to be always ready to manage more capital. Our winning formula, as you know, is teamwork.

At Amiral Gestion, we have a good track record, but we have also built up a team of talented managers. They are not stars, just people who enjoy working with each other on matters that interest them deeply. Our latest challenge is to reproduce this model in Asia from our Singapore office, which should allow us to widen our investment horizons significantly. A few decades of work lie ahead.

François Badelon