

To: Highway One Fund Partners

From: Stefan Culibrk

Subject: Unity of purpose

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Govindappa Venkataswamy, known as Dr. V, worked as an ophthalmologist in rural India. Every day, he encountered blind patients who, due to a lack of primary care, had become dependent on their families and communities.

In his late fifties, Dr. V founded the Aravind Eye Hospital to address the needless suffering surrounding him. From day one, Dr. V instilled a unity of purpose at Aravind: to treat as many people as possible in the shortest amount of time.

Dr. V knew he needed to remove complexity from the cataract procedure to increase volume. For inspiration, he turned to the most predictable service on Earth: McDonald's. Cataracts and Big Macs share more commonalities than one might expect. Standardizing procedures led to a significant increase in doctors' productivity; more operations per doctor meant lower costs per operation and fewer complications due to accumulating experience.

Both the wealthy and the poor sought Dr. V for procedures. He never wanted price to prevent him from caring for the blind. The wealthy appreciated the expertise of Dr. V's doctors and were willing to pay for comfort. Those revenues subsidized the budget to treat the poorest patients.

To treat patients outside his region, Dr. V taught competitors in India and clinics globally. Since its founding in 1976, doctors at Aravind have examined one hundred million people and cured millions of cases of needless blindness.

Only a founder who profoundly understands their industry can choose a unity of purpose that remains relevant to users for decades. When this unity is present, all employees are aligned in supporting the company's mission. Founders often sacrifice immediate profits in pursuit of a vision, knowing that good things happen to those who bring value to customers.

Unity of purpose at Highway One companies

Since 1993, senior management at Interactive Brokers has relentlessly focused on reducing client trading costs. A natural step toward cost reduction was the automation of internal processes. Since its inception, Interactive Brokers has avoided processes it cannot automate.

Founder Thomas Peterffy is wise enough to know that beyond low transaction costs, users prioritize the safety of their investments. The company addressed safety concerns by retaining three-quarters of its profits to serve as client protection.

Accepting a unity of purpose means rejecting anything that conflicts with it. In 2017, Thomas Peterffy closed the market-making operations from which Interactive Brokers originated because they conflicted with client protection.

Compared to its competitors, Interactive Brokers offers the lowest prices, grows the fastest, and commands the highest margins. In June 2024, the company added 60,000 new users—more than in the entire year of 2015, when I first bought shares for my personal account. Interactive Brokers is currently the fund's largest investment.

Ryanair offers a similar lesson. Shortly after becoming Chief Financial Officer in 1988, Mike O'Leary realized that founder Tony Ryan was leading the company to ruin. Searching for a winning business model, O'Leary met Herb Kelleher, the founder of Southwest Airlines and a pioneer of low-cost, short-haul flights. Kelleher was adamant: passengers want to fly safely and cheaply and do not value in-flight or pre-flight services enough to pay a premium for them. O'Leary took this simple insight very seriously.

The airline has diligently lowered costs for decades. Ryanair established bases at airports outside major cities because they are cheaper and allow quicker aircraft turnaround times. The company standardized on a single aircraft manufacturer to improve negotiating positions and simplify employee training. Low costs allowed for low fares, democratizing air transport for less affluent customers. Without significant debt or aircraft leasing, Ryanair has become the largest airline in Europe because it offers the lowest prices which, driven by operational efficiency, yield the highest margins. Ryanair is the fund's third-largest investment.

Let's invert the situation: how difficult is business without a unity of purpose? What is the unifying goal behind the decisions made at Lufthansa or Air France KLM? Consultants are turned into permanent employees who insist the company follow the latest trends. Politicians and unions insist on full employment. Management listens to both, but has its own agenda and keeps one eye on the next job. The board of directors, politically correct, resembles a club more than stewards of capital.

Replicating a business like Ryanair is as futile as dismantling a flower, petal by petal, and attempting to reassemble it. Unity of purpose is not a service on a consulting firm's menu, nor does it emerge as the conclusion of a well-paid board meeting. The founder brings the insight and takes responsibility for creating a culture that takes that insight seriously. Unity of purpose, once defined, must be maintained.

The media simplifies investing by focusing on ratios and categories. Unfortunately, recalling ratios does not equate to understanding a business. Recognizing a company with unity of purpose is a comprehensive endeavor; it involves understanding power dynamics within the value chain, participant incentives, and the motivations of key employees. Ryanair's business model is no secret, yet a

myopic worldview prevents most investors from grasping its value. Successful investing requires measuring the hard-to-measure.

Currently, our portfolio includes four companies defined by unity of purpose: Interactive Brokers, Ryanair, Dino, and Nintendo. All possess high margins relative to their industry and hold significant excess cash compared to their competitors and short-term needs. They have never had a transformative acquisition, choosing instead to consistently strengthen their well-established competitive advantages. We will continue to invest in companies with a clear unity of purpose as soon as they become available at a suitable price.

Unity of purpose at Highway One

Regular readers know that the Highway One Fund exists to achieve the maximum long-term rate of return for investors. While the word "maximum" might imply taking unnecessary risks, I am deeply aware that protecting assets is the foundation of their growth.

Assets are best protected and enhanced by owning a few exceptional companies. When such companies are unavailable at appropriate prices, we will buy short-term bonds and wait.

Beyond investment choices, operational decisions are crucial for achieving our goal. The minimum investment in the fund is a function of the time I can dedicate to a new investor. The fund will grow to a size that provides an adequate budget for long-term thinking and on-the-ground research; however, it will be closed to new investors when asset size threatens to jeopardize returns for existing investors.

Achieving our goal requires a positive emotional experience for all participants. Our shared task is to ensure you feel comfortable about your investment during both fertile and lean years (they are a matter of time). The better you know the companies we own and the process behind my decisions, the more likely you are to make the right decision. In our joint pursuit of superior long-term returns, your input will prove as valuable as mine.