

The family is the foundation of the company

Among all the stupid communist slogans I used to hear when I was a kid, there was one I liked then and I still like it now: The family is the foundation of the state.

I always believed that families were the basic building blocks of any society, the foundations of education and mutual care. It makes me sorry to see that in the current post-modern society of sharing everything with everyone and unclear gender definitions family is being forgotten. The importance and strength of family can be seen also in the corporate world. Many of history's most successful companies can be called family businesses.

If we define a family business as one where the founders or their direct descendants own at least 20% of the shares or have at least 20% of the votes, then among the best-known publicly traded companies are included, for example, Alphabet, Facebook, Alibaba, Berkshire Hathaway, Samsung, Walmart, BMW, Oracle, Inditex, Heineken, and many others. All of these are very successful companies.

What is more important, however, is that over the long term family businesses fare better than do other companies. Two years ago, Credit Suisse put together data about shareholder returns for approximately 1,000 top companies in the world and determined that over the long term stock returns of family businesses surpass those from the shares of

other companies. The difference for 2006–2015 was 4.5% per year. In ten years, that difference compounds to 55%.

The performance difference is the largest in family companies managed by the first or second generation. In such cases, the difference is about 9% per year. The gap diminishes with each successive generation. The better performance of family businesses is visible in various countries and on various continents as well as in all industries, and it is independent of company size. Moreover, the shares of these companies are not more expensive on average than those of other companies.

Why do family businesses fare better? I would say there may be two reasons. The first one is the thesis that company founders are on average more capable than hired managers. This is quite possible. Establishing a company requires courage, vision, the ability to undertake risk, and certain managerial abilities. Because we only see the ones that succeeded, this sample of people can have really above-average characteristics.

But I think the second reason will be more probable. Family companies as a whole differ from others in their longer-term view, emphasis on financial strength, and their conservative methods of financing and of motivating managers that are closer to shareholders' long-term goals. All this means



that allocating capital – one of the two main tasks of management – is usually more efficient, and in the long view this means faster accumulation of capital and faster growth in company value.

Our own investment experience supports this view. In companies which may be characterized as family businesses we see a truly long-term view and an effort for efficient capital allocation. On the other hand, we have seen the most serious managerial errors in companies with highly dispersed ownership, hired management, and excessive pressure for short-term results.

Invest with care!

Daniel Gladiš, 14 November 2017

For more informations

Visit www.vltavafund.com

Write us investor@vltavafund.com

Follow us www.facebook.com/vltavafund

Today, we have 23 stocks in our portfolio. Twelve of these are companies managed by their founders or their direct descendants. In percentage terms, these account for 52% of our assets. The equities market allows everyone to be a co-shareholder and partner of a family in the diverse offer of family businesses traded on stock exchanges. In this way, an investor can put one's own property into the care of the world's most capable businesspeople and benefit from their abilities over the long term. That is the most beautiful thing about shares.

Disclaimer :

Our estimates and projections concerning the future can and probably will be incorrect. You should not rely upon them solely but use also your own best judgment in making your investment decisions.

This document expresses the opinion of the author as at the time it was written and is intended exclusively for educational purposes.

The information contained in this letter to shareholders may include statements that, to the extent they are not recitations of historical fact, constitute "forward-looking

statements" within the meaning of applicable foreign securities legislation. Forward-looking statements may include financial and other projections, as well as statements regarding our future plans, objectives or financial performance, or the estimates underlying any of the foregoing. Any such forward-looking statements are based on assumptions and analyses made by the fund in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the given circumstances. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks, assumptions and uncertainties. In evaluating forward-looking statements, readers should specifically consider the various factors which could cause actual events or results to differ materially from those contained in such forward-looking statements. Unless otherwise required by



applicable securities laws, we do not intend, nor do we undertake any obligation, to update or revise any forward-looking statements to reflect subsequent information, events, results or circumstances or otherwise.

This letter to shareholders does not constitute or form part of, and should not be construed as, any offer for sale or subscription of, or any invitation to offer to buy or subscribe for, the securities of the fund.

Before subscribing, prospective investors are urged to seek independent professional advice as regards both Maltese and any foreign legislation applicable to the acquisition, holding and repurchase of shares in the fund as well as payments to the shareholders.

The shares of the fund have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act") or under any state

securities law. The fund is not a registered investment company under the United States Investment Company Act of 1940 (the "1940 Act").

The shares in the fund shall not be offered to investors in the Czech Republic on the basis of a public offer (veřejná nabídka) as defined in Section 34 (1) of Act No. 256/2004 Coll., on Capital Market Undertakings.

The Fund is registered in the Czech National Bank's list in the category Foreign AIFs authorised to offer only to qualified investors (without EuSF and EuVECA) managed by AIFM.

Historical performance over any particular period will not necessarily be indicative of the results that may be expected in future periods.

Returns for the individual investments are not audited, are stated in approximate amounts, and may include dividends and options.

© Copyright 2017 Vltava Fund SICAV, plc a www.vltavafund.com – All rights reserved.

This document cannot be used in any publication, and it may not be disseminated, distributed or copied without prior written consent from Vltava Fund SICAV, plc.