



The Observer

15.12.2023

❖ Charlie Munger: The Multidisciplinary Mind Behind Berkshire Hathaway's Success

Charlie Munger, vice chairman of Berkshire Hathaway and Warren Buffett's longtime friend and business partner, died in November 2023 at age 99.

Munger, born on January 1, 1924, is an American investor, businessman, and philanthropist. Often recognised as Buffett's right-hand man, Munger has played a pivotal role in the success of one of the world's most renowned conglomerates. Beyond his association with Buffett, Munger is esteemed for his multidisciplinary approach to decision-making, his wit, and his deep insights into investing and life.

Early Life and Education

Munger grew up in Omaha, Nebraska, and displayed an early aptitude for mathematics. He attended the University of Michigan, where he studied mathematics for three years before leaving to join the U.S. Army Air Corps during World War II. After the war, he attended Harvard Law School and later joined a law firm in Los Angeles.

Investment Partnership and Berkshire Hathaway

In the late 1950s, Munger established his own law practice, but his true passion lay in investing. He started a partnership in the early 1960s, and through a series of mergers, it eventually evolved into the firm that would be later acquired by Berkshire Hathaway. Munger joined Berkshire Hathaway as Vice Chairman in 1978, marking the beginning of one of the most successful partnerships in the world of finance.

Munger's Investment Approach

Charlie Munger's investment approach is characterized by a set of principles and mental models that emphasize a comprehensive, multidisciplinary perspective on decision-making. While Buffett is often associated with value investing, Munger complements this approach with a broader array of influences, including psychology, economics, and various academic disciplines. Here are key aspects of Munger's investment philosophy:

1. **Latticework of Mental Models:** Munger is known for advocating a latticework of mental models, drawing insights from a diverse range of disciplines such as psychology, biology, physics, and economics. He believes that a broad understanding of different fields provides a more comprehensive view of the world,

enabling better decision-making. Likewise, we too, must use all our knowledge to understand both the fundamental and behavioural aspects of investing.

2. **Inversion:** Munger frequently employs the concept of inversion, which involves thinking backward by considering potential problems and obstacles. Instead of focusing solely on what needs to be done, Munger advises considering what should be avoided. This approach helps mitigate risks and enhances the quality of decision-making. Just as we rationalise why we should invest in a stock, we must also make an impassioned consideration of reasons why we should not invest in that stock for only then we would have considered the pros and the cons.
3. **Circle of Competence:** Like Buffett, Munger emphasises staying within one's circle of competence. Investors should focus on businesses and industries they understand thoroughly, allowing for more informed and rational investment decisions. Munger famously stated, "The game of investing is one of making better predictions about the future than other people." Put another way, only invest in what you understand.
4. **Economic Moats:** Munger and Buffett both place significant importance on identifying businesses with economic moats—sustainable competitive advantages that protect a company from competitors. Businesses with strong moats are better positioned to withstand challenges and generate long-term value.
5. **Margin of Safety:** Munger subscribes to the concept of margin of safety, which involves buying assets at a price significantly below their intrinsic value. This approach provides a buffer against unforeseen risks and market volatility. The moat and the margin of safety are the two Ms of investing – the stronger these shields, the greater the protection.
6. **Long-Term Perspective:** Munger encourages investors to adopt a long-term perspective. Instead of fixating on short-term market fluctuations, he believes in holding quality investments for an extended period, allowing the power of compounding to work in favour of investors.
7. **Independence of Thought:** Munger values independence of thought and urges investors to think for themselves. While learning from others is important, blindly following the crowd can lead to poor decision-making. Critical thinking and intellectual independence are crucial aspects of Munger's approach. Every bubble has its premise on crowd behaviour and we all know how those bubbles eventually turned out.
8. **Continuous Learning:** Munger is a voracious reader and emphasizes the importance of continuous learning. He believes that a curious and open mind is essential for adapting to changing circumstances and making informed decisions. Just as what we know is important, even more important is realising that there is much that we do not know. Utter humility and the disregard of ego are prerequisites for successful investing.

Charlie Munger's investment approach is distinguished by his multidisciplinary mindset, emphasis on mental models, inversion thinking, focus on the circle of competence,

recognition of economic moats, adherence to a margin of safety, long-term perspective, independence of thought, and commitment to continuous learning. Munger's wisdom and principles have not only contributed significantly to Berkshire Hathaway's success but have also influenced countless investors seeking a more thoughtful and holistic approach to the world of finance.

Charlie Munger might be dead, but his wisdom and teachings still live on and will continue to spread and stay with us forever.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 18 – 22 December 2023

For this week, the following are the AGMs/EGMs of companies in the Minority Shareholders Watch Group's (MSWG) watch list.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG's website at www.mswg.org.my.

Date & Time	Company	Quick-take
19.12.23 (Tue) 09.00 am	Borneo Oil Berhad (AGM)	<p>Despite a marginal decline of 2.87% in total revenue to RM84.99 million in FY2023, Borneo Oil turned loss-making in FY2023, with a net loss of RM13.2 million compared to a profit of RM54.1 million in the previous year.</p> <p>Except for the Head Office & Others, all the other business divisions underperformed in FY2023. The Head Office's profits for the fiscal year were predominantly fuelled by fair value gains on quoted securities.</p>
21.12.23 (Thur) 10.30 am	Seal Incorporated Berhad (AGM)	<p>In the fiscal year ended 30 June 2023, SEAL Group's revenue soared to RM51.5 million, representing an overwhelming surge of 440% year-on-year from the RM9.5 million recorded in the preceding year.</p> <p>SEAL Group posted a profit before tax of RM16.1 million in FY 2023, representing a sharp increase from RM3.9 million in FY 2022.</p>
21.12.23 (Thur) 09.30 am	MCE Holdings Berhad (AGM)	<p>MCE's revenue increased significantly by 46.37% y-o-y to RM154.89 million (FYE2022: RM105.82 million), whilst profit after tax significantly jumped by 91.42% to RM15.39 million (FYE2022: RM8.04 million) mainly due to increased demand for the Group's product arising from the increase in the sale of cars.</p>

		With the anticipated positive outlook of the automotive industry going forward, the Group's financial performance is expected to be positive.
21.12.23 (Thur) 11.00 am	MCE Holdings Berhad (EGM)	The EGM is to seek shareholders' approval for the proposed bonus issue of 61.78 million new ordinary shares in MCE on the basis of 1 bonus share for every 1 existing MCE share held. At the same time, it proposes to issue 61.78 million bonus warrants on the basis of 1 warrant for every 2 MCE shares held after the proposed bonus issue of shares on the warrants entitlement date.
22.12.23 (Fri) 10.00 am	Xidelang Holdings Ltd (AGM)	The Group recorded total revenue of approximately RMB451.3mil in FYE2023 compared to RMB443.9mil in FYE2022, representing a growth of 1.7%. The Group's strategic realignment to focus on the ODM segment has proved beneficial, with higher sales recorded from the ODM segment in FYE2023. The Group recorded a net loss of approximately RMB23.5mil in FYE2023 (FYE2022: Net loss of approximately RMB141.0mil), mainly attributable to an overall decrease in operating expenses
22.12.23 (Fri) 10.30 am	Iconic Worldwide Berhad (EGM)	Iconic Worldwide is seeking shareholders' approval for three resolutions below: <ul style="list-style-type: none"> - Proposed acquisition of equity interest in Goldenluck Development Sdn Bhd from Dato Sri Tan Kean Tet (DSTKT) and Tan Seok Ying for RM39.8 million in cash. Goldenluck owns 6.07 hectares land at Paya Terubong, Penang. - Proposed rights issue of up to 1.12 billion new shares on the basis of 2 rights shares for every 1 existing share held, together with up to 749.8 million free warrants on the basis of 2 warrants for every 3 right shares subscribed by shareholders. - Proposed exemption to undertake mandatory take-over offer by DSTKT and PACs arising from their undertaking to subscribe for the rights shares and exercise of warrants.

22.12.23 (Fri) 11.00 am	EUPE Corporation Berhad (EGM)	<p>The Company is proposing the following resolutions:</p> <ul style="list-style-type: none"> - Proposed Private Placement of up to 19.2 million new Shares in EUPE, representing 15% of the total number of issued shares - Proposed Establishment of a Long-Term Incentive Plan ("LTIP") of up to 15% of the total number of issued shares - Proposed allocation of awards under the Proposed LTIP to every Board member and persons connected with the Group Managing Director.
22.12.23 (Fri) 11.00 am	AT Systemization Berhad (EGM)	<p>The Company proposed a share consolidation where every 30 existing shares held will be consolidated into 1 share. The lower number of shares available in the market may reduce the volatility of trading prices for the shares.</p> <p>The Company also proposed to reduce its issued share capital via the cancellation of the issued share capital which is lost or unrepresented by available assets of RM260.0 million pursuant to Section 116 of the Companies Act 2016. It allows the Company to reduce the accumulated losses and enhance the Company's credibility.</p>

One of the points of interest to be raised:	
Company	Points/Issues to Be Raised
Borneo Oil Berhad (AGM)	<p>Based on the announcement dated 27 July 2023, BornOil entered into a Share Sale Agreement (SSA) with Global 2332 Ltd (the Vendor) to acquire an additional 20% stake in Makin Teguh Sdn Bhd (MTSB) for RM40 million in cash (refer to as the Acquisition). Currently, BornOil holds a 29.71% stake in MTSB. Upon completion of the acquisition, BornOil will hold 49.71% of MTSB.</p> <p>a) The 20% stake proposed is lower than the 22% stake for RM40 million announced on 19 May 2023. The latter proposal will turn MTSB into a 51.27%-owned subsidiary of BornOil, thereby enabling BornOil to consolidate MTSB's financial results fully. In contrast, the current arrangement will retain MTSB as an associate of the Company, notwithstanding the significant 49.71% stake it holds. Why is the size of the stake being acquired smaller than before, rendering BornOil unable to reap the benefits from the Acquisition fully?</p>

	<p>b) Pursuant to the terms of the SSA, the Purchase Consideration shall be satisfied in the following manner:</p> <table border="1" data-bbox="635 291 1337 479"> <thead> <tr> <th>Payment terms</th> <th>Timing</th> <th>RM</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>First Payment</td> <td>Upon execution of the SSA</td> <td>34,000,000</td> <td>85</td> </tr> <tr> <td>Balance Sum</td> <td>Within 30 days from the fulfilment of the conditions precedent</td> <td>6,000,000</td> <td>15</td> </tr> <tr> <td colspan="2">Total</td> <td>40,000,000</td> <td>100</td> </tr> </tbody> </table> <p>Source: page 5 of announcement dated 27 July 2023</p> <p>As a comparison, the May 2023 proposal recommended payments to be made on a staggered basis of 30%, 45% and 25% of the total Purchase Consideration (page 5 of announcement dated 19 May 2023).</p> <p>Why did BornOil pay a substantial amount upfront to the Vendor before the fulfilment of the conditions precedent, more so without the control power of MTSB upon completion of the Acquisition?</p> <p>What guidance has the Board given to the Management when negotiating the payment terms?</p> <p>Is the money being placed in an escrow account currently?</p> <p>What is the status of the Acquisition?</p>	Payment terms	Timing	RM	%	First Payment	Upon execution of the SSA	34,000,000	85	Balance Sum	Within 30 days from the fulfilment of the conditions precedent	6,000,000	15	Total		40,000,000	100
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Seal Incorporated Berhad (AGM)	<p>The Group is venturing into biomass renewable energy that will enable it to develop a more resilient business model and generate more consistent revenue and profits. (Page 6 of AR)</p> <p>a) What is the Group's equity interest in the biomass renewable energy company?</p> <p>b) Has the biomass renewable energy business started operating? If not, when is it expected to start operations?</p> <p>c) When is the biomass renewable energy business expected to turn profitable?</p> <p>d) What is the selling price of the biomass energy kilowatt-hour (kWh)?</p> <p>e) Has the Group managed to secure a long-term contract on the sales of biomass energy? If yes, please name the buyer and the tenure of the contract.</p>																
MCE Holdings Berhad (AGM)	<p>Investment in subsidiaries (Note 5, pages 79 & 80 of AR2023):</p> <p>1. In the previous financial year, Multi-Code Electronics Industries (M) Berhad ("MCEI") had incorporated a wholly-owned subsidiary, MCE EV Solutions Sdn. Bhd. ("MESSB") with an initial issued and paid-up capital of 1 ordinary share issued at a price of RM1.00 per share. Subsequently, MCEI acquired additional 2,499,999 new ordinary shares of MESSB for a total consideration of RM2,499,999.</p>																

	<p>In the previous financial year, MCE Ventures Sdn. Bhd. ("MVSb") had incorporated a wholly-owned subsidiary, GEM Technologies Sdn. Bhd. ("GTSB") with an initial issued and paid-up capital of 1 ordinary share issued at a price of RM1.00 per share. Subsequently, MVSb acquired additional 599,999 new ordinary shares of GTSB for a total consideration of RM599,999.</p> <p>a) For the FYE 31 July 2023, both MESSB and GTSB are dormant despite the abovementioned capital injection into these 2 subsidiary companies. When will MESSB and GTSB commence operations? What will be their principal activities?</p> <p>b) To what extent will MESSB and GTSB contribute to the Group's revenue for financial year ending 2024?</p>
<p>Xidelang Holdings Ltd (AGM)</p>	<p>The Group's Gross Profit Margin (GPM) for FYE2023 stood at 9.4% (FYE2022: 10.2%); primarily due to overall increase in production costs post-COVID-19 pandemic, which was partially mitigated by overall increase in average unit selling price (Page 10 of AR2023).</p> <p>a) As the Group's GPM dropped slightly from a double-digit to single-digit, what is the outlook of the GPM in FYE2024? Does the Group expect the GPM to remain at the same level in FYE2024?</p> <p>b) How can the Group improve the GPM, i.e., Return to a double-digit GPM?</p>
<p>Iconic Worldwide Berhad (EGM)</p>	<p>The Subject Land located in Paya Terubong is zoned as a "Hutan" (forest) and located within the hill land above 76 metres elevation in the Penang Environmentally Sensitive Area, which forms part of Rancangan Struktur Pulau Pinang 2030.</p> <p>Therefore, the landowner must apply for rezoning with the State Government to develop the Land. Upon approval of the rezoning application, the landowner must pay a rezoning premium, estimated to be about RM4 to 5 million.</p> <p>Land designated as 'hill land' is often prone to issues like erosion, landslides and soil instability (page 9 of the Circular dated 7 December 2023). We are concerned that the rezoning application could be rejected.</p> <p>This is despite the remarks made by BYG Planner Sdn Bhd (the appointed firm to advise on the possibility of obtaining rezoning approval) that '<i>While the risks are considerable in this case, the application is still in equally good standing to obtain approval from the Penang State Planning Committee.</i>' (page 253 of the Circular)</p> <p>a) In view of IWB's low cash level (cash and cash equivalents of RM1.69 million as of 21 November 2023), what is the urgency of entering into a deal that comes with a high level of uncertainties, especially on the zoning status of the Subject Land?</p>

	<p>Instead, IWB may plough back the resources into new development projects on its existing landbank of 23.86 acres (page 41 of the Circular dated 7 December 2023) and glove manufacturing.</p> <p>b) Has the Board or Management considered other options, e.g., acquiring land with a lower degree of environmental risks? What options were put on the table before the Board agreed and tabled this Proposal to shareholders?</p> <p>c) In the event the rezoning application for the Subject Land is not approved, the Group will not be able to realise the expected benefits from the Proposed Acquisition, and the Group will end up holding idle land with limited growth potential.</p> <p>Besides, IWB will have to cover the cost of the rezoning process and the cost associated with the Proposed Acquisition.</p> <p>Why did Golden Luck not apply for rezoning before it was sold to IWB? Given the materiality of the matter, shouldn't the rezoning approval form part of the conditions precedent to be fulfilled (page 187, Appendix 1, Circular dated 7 December 2023)?</p> <p>Doing so will better safeguard the interests of IWB and its minority shareholders, as well as mitigate the operational risks of IWB.</p> <p>d) If the Subject Land fails to be rezoned, IWB will consider selling the Subject Land (page 136 of the Circular).</p> <p>What is the likelihood of the Subject Land being able to be disposed of if the State Government rejected the rezoning application?</p>
<p>EUPE Corporation Berhad (EGM)</p>	<p>If the Performance Targets and/or other conditions imposed (if any) are not fulfilled, the LTIP Committee may, in its sole and absolute discretion, determine the number of Share Grant Plan("SGP") Award which will be vested. (page 41 of the Circular)</p> <p>Why may the LTIP Committee grant SGP Award to Grantees if they do not fulfil the Performance Targets set for them? This is contrary to the spirit of SGP Award as the purpose of SGP Award is to motivate executive directors and senior management for high performance.</p>

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•With regard to the companies mentioned, MSWG holds a minimum number of shares in all the companies covered in this newsletter.

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