ITS ALL ABOUT TIMING.

004: Letters from the desk of the CIO.

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To:

[for SAIL Website and select LPs]

From:

Johnny Brom, SAIL Chief Investment Officer and Founder

Dear All,

'Time is money' is a collective wisdom as old as…time. But are we getting worse, much worse, at understanding time's true *worth*?

Time has many aspects. We have ***finite*** amounts of time at our disposal. Yet we struggle to acknowledge the shortness of our lives. We misprice this resource by failing to recognise its scarcity. As a result, we waste time scrolling social media, we take forever to try something new, we spin our wheels fulfilling roles set for us by society without question, and so on. In fact, we likely waste more than half of our time on earth "busy" with things that do not take us forward, and delay taking beneficial actions on the basis that 'we always have tomorrow'. We tell ourselves there is time, we can change in the future. This is Becket's 'denial of death'[1] syndrome pushing us back into the comfort of time wasting because the reality of one's limited time is so much harder to confront. But perpetually pushing things out to tomorrow… means that tomorrow never comes. The only remedy: to maintain awareness of the limited time we have (however unsettling that may be) is to take action.

On the flipside, but still mispricing, of time, there is the ***compounding power*** of time. When we act intentionally, we position ourselves to take advantage of time's compounding effects: the compounding nature of doing a 30 minute walk every morning; the compounding impact of writing

[1] Ernest Becker's central premise in The Denial of Death is that human behavior is primarily driven by an unconscious, consuming terror of our own mortality.

every day; the compounding nature of capital; and (something that is always at the front of my mind) the compounding nature of building something durable and scaling it.

If you think of any impactful innovation (say Steve Jobs and the iPod or Henry Ford and the Model T) those ideas generally came from the 'adjacent possibility'[2] in the sense that they were the next step in a series of designs. However, if you look at the underlying businesses, Apple and Ford took years to scale, and decades before their 'moment' arrived. Another example is Nvidia, which in the popular consciousness seemed to became an 'overnight' sensation. But when asked whether he would do it all again, founder Jensen Huang, says 'probably not'. It was so hard, so much humiliation and pain. That may be surprizing to those familiar with Nvidia's success, but we don't remember that the company's inception date was 1993. We just see Steve holding the iPod, Jensen crossing a trillion-dollar market cap in a flash (did you see that chart?) and then boom! We tend to skip over the slog. Quite simply: the "chug-chug" of consistent, skilled effort isn't an exciting narrative.

This is not specific to the business world. I read an article recently,[3] about what makes top swimmers great. Although old, the findings of the article are still true of what secures top performance today: it boils down to the 'mundanity of excellence'. The way in which the "chug-chug" stuff is done. The dive into the pool. Your tumble-turn.

At SAIL, we have a somewhat radical approach to corporate credit in that we are embedding future-looking covenants ('you shall do xyz by T+2yrs date') in our financing transactions and these link to actual operational actions the borrower takes. This means we have specialists (both inhouse and external) who work on the front end of deals to bring that expertise into the DD process and help us create a future 'derisking machine' before we provide the credit. Our investees accept these terms because they are aligned with SAIL that taking these steps will improve their business over time. Together, we take action and build a strategic partnership which will bear fruit over time.

One might say that this approach is more difficult – than say normal credit – because it takes longer, *i.e.*, lengthier deal cycles. That increases our risk of deals falling off, losing momentum, external factors shifting, higher costs, etc. In an industry that is all about the operating leverage elixir, accepting these factors feels fundamentally at odds with the prevailing mindset when regulators are upping costs and investors are focussed on lowering fees. Just recently in the media, one of the largest private credit managers globally, claimed that it is "not managing enough capital" even though it manages over USD 300 billion. That manager, like many others, is looking for value in volume.

The truth is volume can only get you so far. The biggest wins, however, are founded on the "chug-chug" compounding of an idea (strategy) being put into action (implementation) consistently over time. And this holds true in business across all sectors, even the most basic structural processes. Everybody talks about tech in the same breath as AI these days, but planting some shade trees to protect your coffee from record heat in summer is also a very smart technology, if you are a coffee farmer in Vietnam.

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[2] The **adjacent possible theory** states that a system can only evolve, innovate, or grow into new states that are directly adjacent—or one step away—from its current configuration. Originally introduced by theoretical biologist Stuart Kauffman, the concept was popularized by media theorist Steven Johnson to describe how good ideas and technologies emerge.

3 It is freely available here: themundanityofexcellence.pdf.

At SAIL, our 'technology' is that we help companies adapt and change, using sustainability (specifically around climate and nature) as an additional, and resilient, driver of their economic model. Every industry is relevant for us ultimately but the 50% of global GDP highly or moderately dependent on Nature[4] is a good starting point.

SAIL is ten years old next year (2027). The experience we have in applying our investment strategy cannot be bought. The "chug-chug" of the compounding of experience is what counts for us. And more and more both sides of an asset managers' balance sheet, investors and borrowers/investees, are seeing the value of embedding sustainability in business models. Our approach may be simple at its core. But it requires real people to roll up their sleeves and apply years of actual experience in engaging with companies, people, and nature. Partnering with corporates all over the globe and building a plan for the future which makes them more resilient, is in and of itself an antifragile strategy, but you need to allow for the time. For the learnings.

Warren Buffet earned more than 90% of his fortune after his 70th birthday. The beauty of Berkshire Hathaway is partly the amazing stock picking ability of the man, but it is mainly the effects of patient consistency. Compounding focussed simplicity.

At SAIL we are in our own lane focused on a simple investment strategy. but one that requires a lot of humanity, which requires time. It is time we remain willing to commit given the long-term upside.

On my wedding day, I quoted Andrew Carnegie, saying 'put all your eggs in a basket… and watch that basket." As I mentioned then, integrity and empathy are paths to enduring success. Maybe it is about time (excuse the pun – I held off as long as I could) that the investment industry, once again took a step back, saw the forest for the trees and considered the simple, but durable propositions.

Yours Sincerely,

Johnny Brom
Founder and Chief Investment Officer

[4] https://www.weforum.org/media/half-of-world-s-gdp-moderately-or-highly-dependent-on-nature-says-new-report/,