



VMCH Corporation - Annual Report

VMCH Corporation performance (in USD)

Year	Annual percentage change		
	in Per-Share Book Value (NAV) of VMCH	in S&P500 with Dividends Included	in MSCI Europe with Dividends Included
2012	24.8%	16%	19.9%
2013	27.7%	32.4%	25.9%
2014	(2.7%)	13.6%	(5.6%)
2015	(1.4%)	1.3%	(2.3%)
2016	6.1%	11.9%	(0.4%)
2017	5.5%	21.8%	25.5%
2018	(8.9%)	(4.3%)	(14.8%)
2019	(12.4%)	33%	24.2%
2020	55.8%	18.4%	5.9%
2021	16.6%	28.7%	16.9%
Compounded annual gain	9.5%	16.6%	8.5%
Overall Gain	148%	367%	127%

“Don’t pass up something that’s attractive today because you think you will find something better tomorrow.”

Warren Buffett

Dear shareholders,

In 2021, NAV increased by 16.6% compared with an increase of 28.7% in the S&P500, including dividends. MSCI Europe increased 16.9% including dividends during the same period.

Comparison with major indexes was more challenging this year as stock prices rose without proportion to actual earnings. The Schiller price to earnings ratio of the S&P500 rose from around 30 two years ago to 40 today. 40 was the level reached just before the 2000 market crash. Even with low interest rates that would seem very high and I wouldn’t bet on this to continue much further. Additionally, the expected rise in interest rates just makes the situation that much worse.

The companies in our portfolio generally have much more modest price to earnings ratios while retaining higher than average growth rates at high returns on equity. Return on equity levels are generally between 20% and 50%, revenue growth rates 10 to 30%, and price to earnings (normalized) ratios are 4 to 18 depending on the specific company in the portfolio.



So, while I have some concerns regarding the S&P500 index in the future, I feel comfortable with staying invested in our portfolio companies.

Another thing we have been doing since 2020 and going forward is writing a limited amount of put options. Let me explain what that means.

Normally when you buy a stock, you simply pay for it when the price hits your desired buying price. However, there is a way to lower the purchase price if you are willing to commit in advance to buying at your selected price. This commitment to buy is a put option.

For example, let's say we want to buy a share of AerCap Holdings NV (AER) at 40\$. However, today the price is 67\$. If we commit to buy at 40\$ (the strike price) for the duration of one year, someone will pay us 3.5\$ for the commitment – and we get the money in advance. If we do that, the person that owns the put option that we sold (“wrote”) him can choose to give us the share in exchange for our 40\$.

In effect, we are buying cheap and getting paid 3.5\$ to do so. It suits us perfectly as when we know a company and the right price, we would be buying anyway – so why not to get paid for it along the way.

As tempting as it may seem, it also reduces our flexibility so this cannot be done on too large a scale.

The sensible limit we set ourselves is a commitment to buy up to 20% of the portfolio at any time (notional). We normally write at a substantial discount (30% below the market), to make sure that if we end up buying it is for a really, really good price. And finally, we only write put options on companies with sensible businesses that we understand and wouldn't mind owning at a bargain price.

I have calculated that this alone should add 2-3% per year to the total return of the portfolio just from collecting the premiums as described. We will not continue if we get less than 1% per year in premiums.

Finally, in August 2021 we transitioned back office operations (i.e. all operations not related to portfolio management) to Bolder Group. As the regulatory burden increased in the last several years, the paperwork was too much for me to deal with on my own. Going forward, Bolder will process subscriptions and redemptions by shareholders, perform KYC, and deal with other regulatory matters.

You can contact Bolder by sending an email to investors.nl@boldergroup.com.

If you have any further questions, I welcome you to contact me in person and I will be happy to discuss.

I hope you had as good of a year as I have, and I hope for many more years of good returns in the future.



Eduard Gouban