



***Picking passion***

“When you close your eyes at night, what is important? You’ve spent the day taking risks. You’ve made some people very happy. Each day, that’s my challenge.”

- Alain Passard, chef and owner of three star Michelin restaurant L'Arpège -

## Heyokha's menu

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## What we have learned this quarter

### Picking Passion

#### Chef's Table

**A**t Heyokha we foster our culture where independent thinking is the utmost priority. That's why we seldom talk to mainstream stockbrokers for investment ideas. Instead, we prefer to invest our time doing our own research. We read and travel a lot to understand the world. In fact, we try to look for inspiration in all kinds of places. Sometimes, we even surprise ourselves about where we find our investment ideas.

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**“Investors should be curious about everything because even though they may regard some issues to be irrelevant for their investment decisions, factors such as geography, history, tradition, religion, history, psychology, law, social structures, etc. may have an impact on the economy and on asset markets.”**

- Marc Faber -

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Of all places, we unexpectedly learned so much from watching the Netflix documentary series called “Chef's Table”. Each episode of this series features the life story of a remarkable chef.

Watching the paths these chefs have taken to shape their skills and philosophy made us realise that these chefs are very special people. And that it takes deep-rooted passion and extreme dedication to get to where they are.



*Heyokha team watching documentary series “Chef's Table” as part of learning (left). Very different from the night culinary scene in uptown Jakarta Menteng area., Chef school of hard knocks. (right)*

Source: Heyokha



*Dyson & Steve Jobs re-invented hair dryers and electronic devices radically through their huge passion for their products.*

Source: Dyson.com



*Grown uninspired by cooking meat, Passard made a pivot to ban all meat from his restaurant and focus on cooking with seasonal organic vegetables grown in his own gardens.*

Source: L'Express

A common misconception is that top chefs are just like artists. They are not. They are artisans.

An artist is free to express himself/herself however he/she wants. Yet, while the creations of an artisan may reach the expressive levels of an artist, the artisan cannot solely limit himself to aesthetics. His creations are required to be both functional and sellable. It is believed that Van Gogh only sold one painting in his life.

For a chef, being an artisan means beautiful dishes that taste good. For Enzo Ferrari, it is beautiful cars that win races. In the end, it's about running a sustainable business.

In every way, it's really like running a business except with even greater level of passion where literally your soul goes into it. Well, life is not fair, if you are making a hair dryer, not sure how much passion you can put into it.... unless you are Dyson.

In fact, we feel that the discipline, leadership skill, passion, drive and above all, creativity, of these Chefs tops some of the best CEOs in the world.

We picked three of our favorite chefs from the series, each with their own lessons, and unique insights behind truly amazing stories

## Alain "Pivot" Passard

*"We have never written down a recipe; we don't record anything; we don't write anything down. That forces us to keep looking".*

The French chef Alain Passard is famous for his three-starred restaurant L'Arpège in Paris and for an insanely brave decision that he made in his career.

His dedication to his core values was best shown when he amazed the food world in 2001 by removing all the meat dishes from the menu and devoted himself to cooking with vegetables.

Just imagine. This was a chef at the top of his game. And then, at the risk of losing his three stars, he decided to remove all the dishes that defined his restaurant! People thought he had turned insane. Yet, he retained his stars, and his restaurant is now seen as one of the best in the world.

The lesson here, is that companies need to reinvent themselves to stay relevant. And that making a pivot doesn't only have to happen during scrappy upstarts.



Massimo Bottura of Osteria Francescana and his "Oops, I dropped the Lemon Tart" dish.

Source: Massimo Bottura's twitter account, Sotheby's



The plateless dessert served in Grant's Alinea. An example of how Grant has liberated himself from all rules and tradition, plating right on top of a special table cloth and using it as a canvas on which he creates an edible abstract painting.

Source: Time.com

## Massimo "the philosopher" Bottura

*"If in your everyday life you leave a little space open for poetry, you can make visible the invisible."*

Massimo Bottura is the chef behind the World's No. 1 restaurant Osteria Francescana, in Modena, Italy. We feel Massimo is not just an artisan chef. He's a mad philosopher who influences culture in his home country Italy, using food to express himself and bring people together, helping them see the future without giving up their past.

Bottura describes his cooking as *"compressing passion into edible bites"*. He stresses that doing what top chefs do, requires a drive to know everything: *"You travel with your ears and your eyes open, or you travel to travel. You read a book to learn, or you read a book to read. Very different approach"*.

He advises to go deep into things, or else it's all superficial. Deep thinking is especially rare these days in a digitised world. We learn that in order to play at the highest levels and to be able to re-invent tradition, business leaders - and its employees - should have an innate passion and genuine, fanatical interest for what they do.

## Grant "the magician" Achatz

*"Why can't we make food that floats, or why can't we season with scent & emotion?"*

By 2007, Grant Achatz was already an accoladed chef. His restaurant Alinea, was named the best restaurant in America. Then, having earned a spot amongst the best in the culinary world, Achatz was diagnosed with stage four tongue cancer.

He was told that the only way to save him from dying, was to remove most of his tongue. Anxious to preserve his quality of life and ability to cook, Achatz sought out an alternative experimental treatment. Yet, while his tongue was not removed, the treatment caused him to completely lose his sense of taste.

Despite his condition, Achatz did not recoil and rarely missed a day of work. He learned to trust and delegate to his team, and learned how to cook with his other senses. In fact, the food had never been better. A few months later, Achatz was declared cancer-free, and not long thereafter, he received the James Beard Foundation Outstanding Chef in America Award.

It's hard to convey how much the story of Chef Grant has inspired us. He creates a dining experience akin to a magic show. How he has embraced innovation and change as his core identity. We also feel it's remarkable how Grant's passion for cooking led him to put his life at risk and try an alternative treatment for his disease. Not to mention how he has turned a weakness of not being able taste into a catalyst of his talents. It's just magical...

## Cooking! What have we learned?

- **Ask a lot of “why’s” and “how’s”.** Chef Grant is constantly questioning each element of a restaurant guests’ experience, and then thinks of how he can change it. Our readers who have kids probably had the experience that when their kids started to ask a lot of “Why” questions at a certain age, it made them realise how many concepts in life they have taken for granted, without fully understanding its workings or necessity. Questioning conventions, traditions and existing paradigms can lead to the most amazing ideas.
- **Ignore expectations.** A thing these outstanding Chefs seem to have in common, is that they acquire the perfect techniques and try to check all the boxes of what the culinary world expects from them, only to arrive at a point where they feel constrained. Then they take a leap and break the rules in order to reach their full potential. This is what Alain did when he scrapped all the meat dishes, what caused Grant to leave his former employer and start his own restaurant and how Massimo sold all his valuables to keep his anti-mainstream restaurant afloat in his early days.
- **You cannot be creative and innovative without being risky.** All of the above-mentioned chefs felt the need to be constantly reinventing themselves and dared to risk their business in the pursuit of doing something new.
- **Creativity needs hard work and study.** Both Massimo and Grant stress the need of knowledge and reflection to connect things and come up with new concepts. Alain and Grant consistently scrap dishes, forcing themselves to keep working on finding new things. Creativity is a less romantic process than we might think. It takes enormous effort.
- **Passion is required to keep up with the best.** Seeing the passion and drive of these chefs makes us understand why they are so much better than others. How can you compete with other people who are as fanatical and obsessed about their profession as these chefs and dedicate their lives to a single purpose since a young age, willing to risk it all to come up with something better, if you don’t have such passion yourself? They will completely blow you away.
- **It’s all applicable to investing** - the lessons summarised above are very useful for us in how we should conduct our own business. It reinforces our philosophy that we should have a pragmatic investment approach. Meaning that we take what works and throw the rest away; be inspired by tradition, not enslaved. It yells with our ambition to be contrarian, and to look for opportunities and investment ideas in all kinds of places.

On the other hand, it also helps us to pick better businesses to invest in, as we realise that the most innovative ideas must come from people who are super passionate about what they do. Of course, we recognise this is not the sole criteria of success (we will write more on what makes a good business in the next section). But we do feel that passion is a prerequisite to stay on the forefront of innovation. As such, picking passion will continue to be an important aspect of our investment approach.

## See's Candies: Berkshire's "perfect business", a case of investing in passion

A dinner at Chef Grant's restaurant Alinea will set you back about USD 500 per person. It is fair to say that fanaticism about the quality of the products and service commands a premium.

This fanaticism is exactly what Charlie Munger says is at the heart and soul of one of his favorite businesses, See's Candies. Since its foundation in 1921, artisan confectionists and chocolatiers have been working with the finest and freshest ingredients to create high quality chocolates and candies.

Nowadays, the company has some 200 stores across the US and remains committed to their motto: quality without compromise.



*That See's does not compromise quality is illustrated by the pictures above. When sugar was severely rationed during World War II, rather than compromising quality with inferior ingredients or altered recipes, See's decided to produce as much high quality candy as possible with the ingredients that were allocated to the company, and no more.*

*This turned out to be a smart marketing ploy, since the waiting crowds added to the candy stores cache.*

Source: Pinterest.com

Charlie Munger and Warren Buffet acquired the company in 1972 and according to Munger, it was the first high quality company that they ever bought.

While earlier in their career they first focused on acquiring undervalued assets that could be bought for a bargain, it was See's acquisition that influenced their dedication to buying businesses with a strong brand.

Buffett mentioned that every person in California has something in mind about See's Candies and overwhelmingly it was favorable.

They had taken a box on Valentine's Day to some girls and she had kissed him. See's Candies means getting kissed, so pricing is inelastic. See's Candies never fails as a gift.

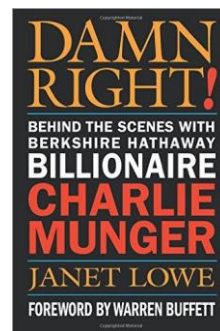
Traveling to the US late last year, we were invited to attend a dinner by an old friend. Looking for a last-minute perfect gift for the host of the dinner, we naturally entered a See's Candies store and were amazed by the quality level of their products and service.

What Buffett said is true: people just don't give second class gifts and See's means quality.



*Looking a last minute gift, we also chose the safe option and buy a good brand that we know lives up to its promise.*

Source: Heyokha



Re-reading "Damn Right, Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger" by Janet Low, we revisit the impact that the See's investment had on the brilliant investor duo.

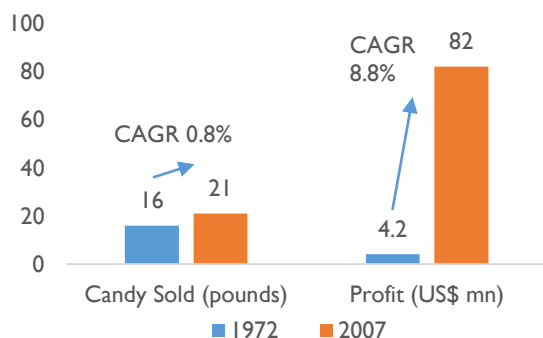
## What Munger and Buffet learned from See's

- **It taught them about running a business** – See's was their first wholly owned business. And the best way to learn about business is to actually run one; teaching them a lot of things they would have never learned from being a non-controlling shareholder.
- **It taught them about the importance of a strong brand** - the most important lesson from running See's as a business, was learning about brand power.

After some experiments, they realised that See's brand was so strong that they could raise prices without losing business to its competitors. So now, it has become a tradition to raise prices every year, right after Christmas.

This means the company can improve profitability without increasing sales volume. The graph below illustrates this perfectly, showing a moderate sales growth of 1% per year, while See's profit has grown by 9% annually over the same period.

**See's candies sales volume vs. profit growth**



Source: Berkshire Hathaway

- **It's a classic example of value creation** – due to the nature of the business with cash sales and short production times, See's working capital requirements are very low.

This, in combination with high margins, has enabled the company to earn very high returns on invested capital. The company is therefore drowning in cash, which has enabled Berkshire to make a lot of other investments.

- **It was the precursor to the acquisition of Coca Cola** – Munger indicated that if it wasn't for the positive experience with the acquisition of See's, they would have never invested in Coca Cola, one of their most successful investments to date.
- **It taught them that a volatile business can be a good business** – See's business is very seasonal, with more than 90% of sales being generated in the three weeks leading up to Christmas.

Yet, it is very profitable. In case other investors price in this "risk", you may find the price to be a bargain, according to Munger.

### Key take away

The main lessons here are that value does not need to come from high sales growth. A dedication to selling the best product and service is paramount to preserving pricing power, which in turn will protect ourselves from brutal price wars.

According to Buffet, buying commodities and selling brands has long been a formula for business success.

We will see in the next section that recent developments in the retail industry confirm this statement, as the ones who have another approach did not fare so well...

## Strong brands fill the void in Dutch retail space

Who cares about the Netherlands? Maybe most of the world population would not be able to pinpoint the country on a map.

However, with about 8-9% of retail sales transacting online in the Netherlands (one of the highest in the world), watching how the retail landscape reshapes itself there might give some clues about what's in store for other countries, where ecommerce is also expected to pick up.

### Widening gap between the “best” and the “rest”

Recently, we visited the Netherlands where the pace of changes in retail caught us by surprise.

Knowing that a lot of Dutch retailers went bust over the past years, we were struck last Christmas when we passed by the closed doors of once glorious local department store.

In our memory, the massive building - that ranks amongst the largest of the city - was bustling with people during Christmas.

But now its entrance was blocked by heavy roll-down shutters, through which you could see the empty show rooms and abandoned sales floors.

The mentioned department store is just one of the 127 sites operated by the company, which went bankrupt at the end of 2015, in an instant leaving 10,300 employees without work and 350,000 square meters of retail space unoccupied.

The company, Vroom & Dreesman, was established in 1887 and became a symbol of progressiveness.



After 129 years, the once glorious Dutch department store chain established in 1887 went bankrupt in 2015  
Source: Internet

However, it was sold to private equity funds many

times over and slowly lost its soul and identity in the process. The rest is history...

As you may expect, this was not the only retail bankruptcy in the country of cheese and tulips. In the past three years alone, the Dutch have witnessed more than 35 large national retail chains going bankrupt. As a result, vacancy rates for retail space were hovering at about 10% in 2016.

A powerful combo of economic downturn and the rise of ecommerce have triggered a natural selection process in the retail landscape.

Yet, when we were walking through Amsterdam, it seemed that retailers were alive and kicking, seeing one flag-ship store after another.

In fact, a walk from Amsterdam Central Station to De Munt, which is basically a mere 1.4km long shopping street you can cover in 20 minutes, takes you past seven H&M stores! (seven, no typo here).



Walking route through Amsterdam, encountering 7 H&M stores in 20 minutes  
Source: Internet

Where local entrepreneurs were previously being pushed out of main streets by national retail chains,

the national chains themselves are now being preyed upon by international chains.

Examples are the entrance of Hudson Bay and Primark to the Dutch market by occupying the former locations of now defunct department stores.

This process of internationalisation is creating shopping-street-clones across the world filled with the likes of Mango, Zara, H&M, Starbucks, etc.

But as retailers are getting more selective in choosing their locations, we see that it is primarily the major cities that benefit, while vacancy rates and the duration of vacancy of retail space are increasing in second tier cities.

## Chain fatigue and the need for passion

It may seem that the increasing internationalisation and homogenisation of shopping streets is the result of what the people want.

However, we noted an under-current that flows strongly against the tide.

We bumped into a new retail concept called “Gather”, where a rotating group of entrepreneurs and artists are selling hand-made leather goods, carpets, ceramics, fashion, etc. Later, we found that this area is used to be V&D department store!

On the store wall, there was 10-meter-wide artwork that depicted the “story” of Gather.

Basically, it represents a concept that is intended to be an antidote to the uniformity, predictability and cheapness of the Dutch shopping streets, caused in part by the dominance of retail chains.

It's a reaction to the lack of stories, the lack of amazement, connection, surprise and wonder in the customer experience.



Part of the 10-meter-long art work in *Gather*, depicting their story and view on retail  
Source: Heyokha

Through Gather, the founders intend to offer a platform where start-ups, designers and artists can present their products and collections, where brands can experiment and explore new directions.

Where the “makers” themselves can convey their stories and passion about the products and connect with the public directly.

We can relate to this story. We feel that highly passionate people can create something that stays unique and interesting, just like the chefs featured in Chef's Table create evocative experiences. Because passion is simply contagious.

What if retailers had as much passion as these chefs, how much fun would it be to shop in their shops?!

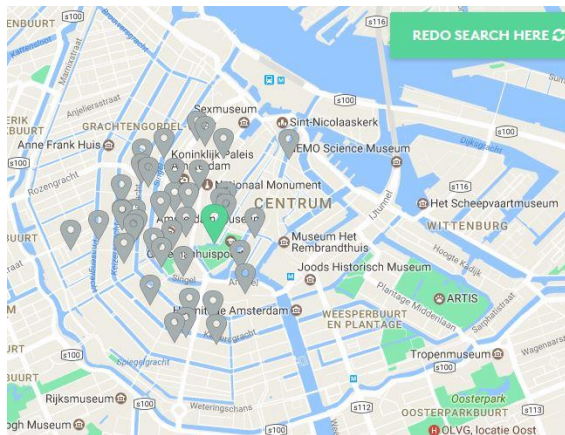
Would that not be more fun than buying online?

We certainly think so.

## How new things pop up

As a way of temporarily filling empty retail space, the concept of pop-up-stores became increasingly popular in the Netherlands, providing the landlord some financial relief while at the same time offering entrepreneurs, artists and brands a temporary stage to make a case for their products or a venue for an event.

Our colleague even had dinner in a pop-up restaurant that moves location every few months.



Pop-up locations you can instantly book in Amsterdam via the app of Storefront

With the current trend of “seeing” offline and “buying” online, we can imagine that brands are motivated to put their products in front of the customer, especially during special promotions or new product introductions.



E-commerce putting offline store out of business

For example, Vogue had a pop-up store in Amsterdam, where girls could have their make-up

done by make-up artists and then have your picture taken by a professional fashion photographer.

Goodie bags were handed out and a special subscription promo was offered for those who are interested.

We feel the pop-up-store concept is here to stay and will be a part of how the retail landscape is being reshaped thanks to the disruptive force of ecommerce.

## So, what's in store for retailers?

When we look at the pattern of bankruptcies in the Netherlands, we can see that the obvious suspects for bankruptcy are those who sell products that are subject to being digitised (like book stores, CD, DVD and game stores, etc.).

The retailers who “buy commodities and sell brands” are doing much better than those who buy and sell brands.

Single brand stores like Mango and Zara do very well, while the stores that sell a variety of third party brands have been decimated (think of department stores, electronic stores, travel agencies, etc.).

Notably absent from the bankruptcy list are F&B chains and we see brands like Starbucks expanding rapidly, but also see a rise of independent lunchrooms and coffee shops.

The retail sector is making creative moves to fill the void left by those who didn't make it. Offline players are investing heavily in ecommerce capabilities, while pure online players are exploring offline presence.

The result must be some form of omni-channel (combo of offline and online presence) retailing, but everybody is still experimenting to get things right.

We are not sure what developments will be a success in the end. We will certainly keep an eye on the retail landscape in countries where e-commerce is at advanced state so we can have some glimpse of the future.

While the aforementioned trend of strong species killing of the weak can be seen as a natural

phenomenon, it surely does not do a favor to the diversity of various cities.

This development is being noticed by the people, who feel that the whole shopping experience has become impersonal, experiencing a lack of amazement and wonder.

We are in need of the opposite of the giant grey department stores that lost their identity. We are in need of people with passion, who can tell you about the story of the products they made and perhaps teach you a thing or two.

## It's retail Jim, but not as we know it<sup>1</sup>

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**“To Walton, the inspiration came not simply from customer service but from service itself. Wal-Mart was what Walton built to serve his fellow human beings. To serve the community, to serve employees and to serve customers. Service was a higher cause.”**

- Simon Sinek -

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Heyokha recently completed a private investment into a Hong Kong based pet supplies retailer, Whiskers N Paws.



*Whiskers N Paws logo*

Why retail? Retail is classically regarded as a hard business with razor thin margins, complex supply chains and large investments in working capital that reduce economies of scale and consequently returns on investment.

As mentioned in our previous reports (also see Netherlands part), technology has disrupted retail and while the consumer has probably benefited in terms of choice and delivered price it poses an existential challenge conventional retailers.

We are looking for new service models that are emerging out of the chaos driven by creativity,

passion and the resilience of the entrepreneurial spirit.

Whiskers N Paws, or WNP to its many loyal customers, is redefining the retail pet supplies category as we know it.

## Lead as you live

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**“The customer never knows what they want until we show them”**

– Steve Jobs -

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Challenging convention is never easy. There are no precedents to follow, there are the numerous doubters trying to shoot you down and no one else to blame if it fails.

We have talked about Chef's Table and the qualities of some of these chefs on how they set out to do something completely original. And often it's not a solo endeavor, they also need to inspire their teams and even their customers to follow them in to the unknown.

We get excited when we see some of these same qualities in entrepreneurs. Entrepreneurs that are not motivated by only a business plan, but hold a deep belief that there is a better way.

This belief is often expressed through their daily lives, they truly lead by example and their passion and commitment trickles down through everything they do. Vada, WNP's founder, is one such entrepreneur. From an early age she has followed her own path.

In the hectic urban metropolis of Hong Kong she has moved at a different pace from a very young age with a deep affinity for animals of all kinds: caring for them, rescuing them, healing them but most importantly respecting them.

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<sup>1</sup> Adapted from the 1987 song 'Star Trekkin', sung by The Firm which in turn is a misquote from Season 1 of the Star Trek series wherein Mr Spock, speaking with Captain James T. "Jim" Kirk, says "Within range of our sensors, there is no life, other than the accountable human residents of this colony beneath the surface. At least, no life as we know it."

To Vada, respecting the animal means letting it live the way it wants to live instead of insisting it must look this way or behave that way, developing a relationship around empathy, trust and loyalty. She believes deeply that connecting with animals makes us better people.

There is no distinction between Vada's personal beliefs and the WNP ethos. The WNP team has a flat hierarchy that is bound together by these beliefs and nurtured with continuous training.

Vada looks for people that genuinely care about animals and then teaches them how to care for customers. Vada believes her team needs to be happy before they can make customers happy and encourages each team member to use their WNP experience grow personally and professionally.



*WnP creates an experience where even pets gets excited visiting WNP store.*

Source: Heyokha

You can feel the enthusiasm in every interaction – in the store, on the phone, by messaging or at your doorstep upon a delivery.

Her team enthusiastically comes to work each day to make both human and animal customers happy



*A rare tranquil setting as oppose in a fragmented market of many moms and pops street store*

and go home with the satisfaction of having completed an honest days work in the “old fashioned” sense of the word.

That's totally out of character with the stereotypical “gen-Xer” we hear about from many employers.

### **This retailer has hospitality genes**

This is much more abstract than we expected, but the more time we spent at WNP the more it made sense. The people that visit WNP are much more guests than customers.



*Terrace outside of WNP store where dog and dog parents are part of the WNP community*

Source: Heyokha

They come to meet other guests/customers, engage with the WNP staff that are infused with a natural curiosity about animal nutrition and welfare or to share stories and their concerns about their furry family members.

There is an element of serendipity at play too as random connections between individuals, families, charities and various institutions cross paths and interact in unexpected ways.

WNP is the focal point of several communities and facilitates all sorts of activity from fostering and adopting animals, helping animals find a vocation as therapy dogs of many different kinds and touching the hearts of children that have grown up in a competitive and sometimes cold, unsympathetic urban environment.

We asked Vada what she thinks her job is, we did not anticipate the answer:

***“To bring people and animals together, help them feel connected and delight them.”***



*An example of community gathering driven by original content at WNP*

The details of running a rapidly growing operation are important to sustaining WNP's success – but that's “what” they do and every team member works hard to master their craft.

The “why” they do it is related to the joy they find in helping these cross-species interpersonal relationships, the intrinsic reward of making both people and animals happy.

WNP has created an oasis in this modern world of impersonal data and screens. WNP touches its guests/customers hearts, they feel refueled because WNP's people care and are brave enough to share who they are. WNP walks the walk, or as the management consultants say, WNP is authentic.

### The story of Jacky Pumpkin

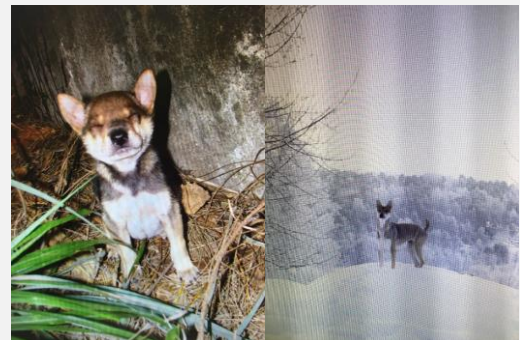
During Halloween few years ago, news reached Vada that there was an abandoned dog in Stanley, Hong Kong. When she arrived at the scene, she found an underfed dog covered by ticks that was no longer able to walk and see.

After an examination, the vet explained that the dog may never see again. Feeling sorry for the dog, Vada brought him into the store, where she and her employees took care of him and brought him back to good health.

After a few weeks, the dog – which they called Pumpkin - even started seeing again. Knowing that Pumpkin could not stay in the store forever, Vada started to look for a new home for him.

She was very selective in the process, making sure that the character of the new owners would match that of Pumpkin. Nowadays, Pumpkin lives a new happy life in Sweden under the new name Jacky.

### From the gutter of Hong Kong to a happy new life in Sweden



This story makes clear that Vada is passionate about animals. This is reflected in how she procures the products sold in her store, in what people she hires and how she trains them, it's all about the wellbeing of the pets and their owners alike.

## A new retail model is emerging

**“You seldom improve quality by cutting costs, but you can often cut costs by improving quality.”**

-Karl Albrecht, Founder of the supermarket chain Aldi-

WNP taught us that it is only when you look after people that you can start to help them look after their pet. With this strong guest/customer-centric perspective the distinctions between online, offline and omni-channel retail models become obsolete.

WNP is developing a seamless platform that integrates commerce, content and community wherever the guest/customer needs: an afternoon at the store, at home on the family computer or by mobile during the evening commute.

The product portfolio is lean compared to many other retailers, especially online retailers that believe one of the best ways to add value is to offer customers a long tail of obscure products.

Every product must be consistent with WNP's underlying values. The minimum test is each product should do no harm, a challenge for guests/customers to navigate by themselves given the breadth and complexity of global supply chains.

In practice though, the bar is much higher before WNP will present a product to its guests/customers. Each product should enhance the animal's physical or emotional well-being.

A general principle for selecting products, especially food, is that the less processing through production and the less intervention through the supply chain the better the product and in general the less one needs of it.

Products should not be based on entertainment value, but on how it enhances the richness of the companionship between both human and animal guests/customers.

This obsession does not mean higher prices. To the contrary, our research suggests WNP's prices are highly competitive when benchmarked across offline and even pure online retailers.

WNP is very competitive

Company	Times Cheapest	Product Compared	% Cheap of total
WNP	23	50	46.0%
Pet Sensei	19	23	82.6%
BCPet	1	23	4.3%
Epet	3	46	6.5%
Petistore	3	25	12.0%
Petpetorganic	1	40	2.5%
Vetopia	2	14	14.3%

*Note: Price comparison of 50 products among pet supply company*



WNP store lay out  
Source: Heyokha

Vada believes it has to be this way if WNP is to truly do its best for its guests/customers and community. We think it's a Darwinian response to the new retail model that is emerging and will lead sector ROCE.

A lot of care also goes in to developing the service offering. The test is based on value to the guest/customer over short-term profitability. Many of the WNP services are intangible and not monetised or commoditised.

They are closely related to lifestyle, the way we care for our furry family members just as any other family member and the sense of belonging to something much larger, and the WNP community.

There is an enormous amount of intellectual property that has been accumulated by WNP. This has been woven into a rich and complex community and is anchored by the smart use of technology.

We believe WNP has created a deep and wide moat that will be difficult for competitors to breach. Interestingly, unlike most e-commerce companies splurging on online ads, WNP online sales has grown to be one of the biggest compare to pure online player in Hong Kong without spending much if anything on online marketing. In the end of the

day, pet owners don't just go online to find the cheapest supplier like buying a TV or a pair of Nike. How do competitors reverse engineer WNP's passion and authenticity?



Event to educate local student on pet care

Source: Heyokha

Heyokha is excited to be part of this. Our investment will primarily be used to fund expansion of floor space/warehouse and on improving the online experience. No doubt the biggest challenge and opportunity will be by recreating the same offline community experience online.

Check out [www.wnp.com.hk](http://www.wnp.com.hk)



The screenshot shows the Whiskers Npaws website with a navigation bar including links for E-SHOP, GROOMING, ADOPTION, EVENTS, CAREERS, ABOUT US, and CONTACT. The 'Featured Events' section highlights two events:

- Dr. Dog & Professor Paws - Human & Canine Volunteers Recruitment**: Scheduled for Sat, April 16, 3-5pm. A 'LEARN MORE' button is present. An image of a dog ID card from AnimalsAsia is shown.
- Dr. Dog & Professor Paws Recruitment April 2016**: A text-based event asking if you have a dog that is gentle and enjoys socializing. A 'View Full Details' link is provided.

Example of community event in WNP

Source: WNP website

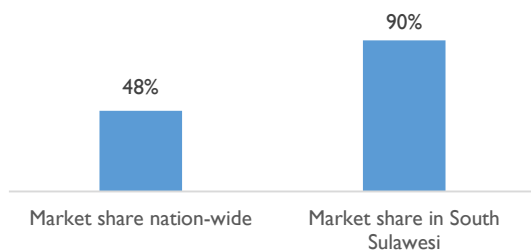
## Another story of passion, from the farmlands of South Sulawesi

**“A desk is a dangerous place from which to view the world.”**

- John le Carre, a former UK Secret Intelligence Service Agent -

Upon our extensive trips to the many farming areas of Indonesia, it came to our special attention that a seed maker company that we like, controls a staggering 90% of the South Sulawesi non-subsidised hybrid corn seed market. This is about two times as high as their nationwide market share of 48%.

**Our seed maker non-subsidised hybrid corn seed market share**



Source: Company data

In general, this seed maker already commands the biggest market share in the seed business in Indonesia, beating powerful multinationals.

In addition to strength in R&D, their national distribution network and a strong working relationship with the local and central governments, they have a uniquely powerful sales team that we feel sets them apart.

Traveling to South Sulawesi to research some companies, we took the opportunity to visit some farmers and speak to representatives of the seed maker.

We figured that their local team must be doing something special to command such whopping market shares.



Map of South Sulawesi, Indonesia

Source: Internet

### Our finding on the ground

We found that their South Sulawesi team, takes passion for salesmanship to the next level.

Every respectable sales person will claim that they know their clients well. But this seed maker's sales team in South Sulawesi is the embodiment of a "KYC" attitude.



The humble houses of the farmers. Our seed maker's sales people opt to stay in these simple places instead of convenient hotel rooms. A passion that wins heart and mind.

Source: Heyokha

Outstandingly, they make it a point to sleep in the farmers' humble house when traveling to the villages. This is definitely something that their competitors are not doing and probably will never do.

This simple but powerful act of sleeping in farmer homes (instead of a fully air conditioned and mosquito free hotel room) wins the heart of the farmers. In our view, this partially explains their 90% market share.

Again, the lesson to learn is that passion is a very important ingredient of a success story.



*In the mood for corn. The store of value (top right), hardworking people in South Sulawesi, working under the hot sun (top left), corn to be sent for processing (bottom left) and proud corn merchant (bottom right).*

Source: Heyokha



*Infrastructure build-up in South Sulawesi. Pro farmer policy in full swing.*

Source: Heyokha

## Two Years of Heyokha

**“The worst prison would be a closed heart.”**

-Pope John Paul II-

Decades ago, Bruce Lee rocked the martial arts world with a bold statement that the perfect style is no style. He is a believer in taking a little something from everything, good things from every discipline, use what works, and throw the rest away.

Initially seen with plenty of scepticism, Bruce Lee’s revolutionary idea of mixing different styles has fully embodied itself in the now mainstream Mixed Martial Arts (MMA).

Not intending to compare ourselves with Bruce Lee, when we started Heyokha in the summer of 2014, we set out to start with the same philosophy. That the perfect style is no set style and in our case means the most pragmatic investment approach. One of the consequences of adopting this philosophy is to have a wide mandate, combining public and private investment.



One of our research offices in 5 pictures. Top left is a mural that depicts a Heyokha, while the other pictures give an impression of our new meeting room, which is also a nice place to watch inspiring documentaries (like chef's table) after work.  
Source: Heyokha

From our off CBD office location, staff hiring, training, and travels, we aim to foster a culture that nurtures creativity and openness. With roots going back to our stockbroking years, we believe that research and investing is simply a natural progression to apply our knowledge and passion.

With this very humble beginning (especially compared to rather glamorous stockbroking background), we celebrate two full years of Heyokha.

## Our success and failure in the past two years

We can look back at some of the major calls that we made so far.

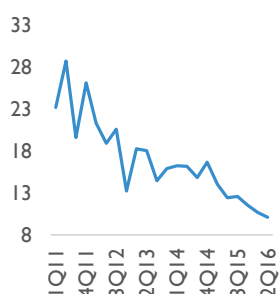
First, we would like to start with our notable mistake, with a call gone wrong. For sure we will continue to make mistakes going forward, but we believe that documenting our mistake and what to learn from it will make us a better investor.

We invested in the first class convenience store franchise. Our failure with respect to this call is that we extrapolated the same-store-sales to continue to grow in line with historic results. We did not take into account the high leverage on their balance sheet. Most importantly, we disregarded the poor quality of management. We wish we had watched Chef's Table back then.

Encouraged by the success story of convenience stores in other countries in the region such as Thailand and Philippines, we basically overlooked all the red flags.

### Deteriorating sales

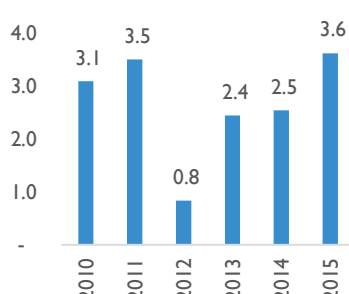
Sales per store/day in IDR million



Source: Company data

### Worsened financial leverage

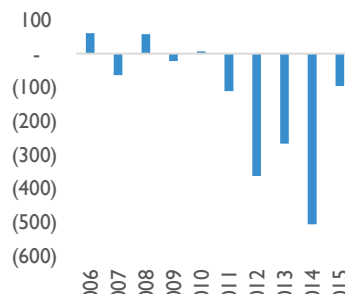
In IDR million



Source: Company data

### Poor free cash flow generation

In IDR million



Source: Company data

Moving on to our more successful calls, we would like to point out that each quarter we discuss our views on the market and on investment opportunities. In the table on the next page, we summarise our calls that we documented over time. Some of the ideas seem a bit repetitive as we do not intend to come up with a brokerage style call of having to come up with a fresh idea every time.

While we haven't been always right, looking at the major themes, we were fortunate enough to be pretty spot on most of the time.

Quarterly Report		Our call	How it played out
	<b>Q3.2014</b> <i>"Not Afraid to be Afraid"</i>	Bearish on JCI due to the election euphoria while the fundamentals were deteriorating.	Fundamentals continued to weaken but the stock market seemed oblivious in the short term.
	<b>Q4.2014</b> <i>"Still believe in Superheroes"</i>	Bullish on Jakarta reclamation project due to the "Ahok" factor.	Stock price of a reclamation play which we invested in almost doubled shortly after our call.
	<b>Q1.2015</b> <i>"Lesson from the Himalayas"</i>	Bearish on JCI as gap between expectations and reality widened significantly.	Not long after we reiterated our strong sell stance, JCI gave back all the gains it made in the previous five years.
	<b>Q2.2015</b> <i>"The way of the intercepting fist"</i>	Stressed today's relevance of innovation. Bearish on the disrupted retailers despite undervalued appearance.	Most disrupted companies we discussed continued to show weak performance. Leading tech disruptors are doing great.
	<b>Q3.2015</b> <i>"Apes speak no evil"</i>	Monetary policy just inflating bubbles. Bullish on precious metals as crowds may lose trust in central banks and institutions.	Dislocation allowed us to buy precious metal plays at attractive levels, after which prices started to move up.
	<b>Q4.2015</b> <i>"Sow, grow, reap, repeat"</i>	Bullish on BISI as our on the ground research suggests agri-reform is really taking off.	Continued improvement in agri reform theme. The seed maker saw bottom line more than doubled in 2016 vs. 2014.
	<b>Q1.2016</b> <i>"We hunt the ghost of time"</i>	Bullish on precious metal plays and Indonesian low end mass market consumer companies.	Prices of precious metals continued to rise. Our chosen mass market consumer companies showed great progress.
	<b>Q2.2016</b> <i>"Groundhog Day, no more"</i>	Bullish on inflation globally, arguing exposure to inflation plays. Also talking about a turnaround story for an Indonesian retailer.	Inflation is now almost a consensus view. Retailer turnaround is intact.
	<b>Q3.2016</b> <i>"Catching the Jet Stream"</i>	Reiterating our major tailwind call for grassroots plays in Indonesia. Bullish on Indonesian low end mass market consumer	This continues to play out, some bumps expected, recovery in commodity prices to lend support.

## The three major themes

To summarise, our main calls in the past two years basically revolve around three major interactive themes, being: **anger, disruption, and inflation.**

- **Anger:** we believe the cause of the people's anger about unfairness is the unintended consequence of central bank policies that increase the divide between the rich and poor.



### The current Zeitgeist: fed up with "unfairness" and current establishment

In order to capture the spirit of the time, a good place to start looking is at places where humanity is expressing themselves, such as in media headlines, art, books, films, social media and more importantly daily observations on the streets.

#### Headline news...

Just looking back at the past few months, news has been dominated by topics such as the Panama Papers, Brexit and the immigration crisis in Europe. We also have the rising popularity of sensationalist politicians such as Donald Trump and Duterte, as well as increasing doubts about the strength of world's biggest economies.



Source: BBC.co.uk, Internet

With respect to technology, we see that after the victory of Google's AI AlphaGo over human's cognitive ability in the game of Go, the hype about Big Data has made place for a heated debate about both the threat and potential of artificial intelligence (AI).

While Google is of the opinion that this development bodes well for solving human problems as it can find solutions that humans don't think of, a lot of people are getting scared of the notion that machines are starting to be able to think.

Even Elon Musk is terrified that Larry Page will accidentally create "evil" robots that take over the world.

#### Superheroes in, Bankers out

In the cinemas these days, it appears that the best Hollywood hits are always the superheroes movies. All kind of combinations are there. Batman vs. Superman? What's next?

The super heroes that fall out of favour are clearly the bankers.

It was not always like this.

In the 80s and 90s, everyone wanted to be a banker. Finance was probably the most popular major.

Even when movies like *Wall Street* (1987) feature cut-throat corporate finance folks like Gordon Gekko, young people back then felt it was really cool to be him and love repeating lines like "greed is good".



Everyone loved Gekko

Source: Internet

Page of our IQ 2016 report where we discussed our three major thematic calls, click [here](#) for our IQ16 report

- **Disruption:** we believe that the disrupting effects of innovation are accelerating the divide between winner and losers, resulting in increased deflationary pressure leading to more money printing and even bigger wealth divide.
- **Inflation:** while consensus was calling for deflation, we see deflation will very soon be leading into a new era of inflation.

We believe these three above are the *Zeitgeist*, the spirit of our time (please see our IQ 2016 report). Looking around us today, it is apparent that these trends are in full motion. With this in mind, we construct our portfolios around these *Zeitgeist*.

For anger and inflation, we believe that investors should have exposure to precious metal plays. In addition to its function as a hedge to political/economical/social unrest, precious metal plays should also do well in a period of accelerating inflation (more discussion on inflation, please see Appendix I on page 22.).

Also, having observed in Indonesia that President Jokowi is forcefully dealing with inequality by way of inclusive growth, we invested in a seed company that benefit from agri-reforms. Good seed to improve yield is the best medicine for anger.

To participate in disruption, or technological advancements, we invested in some very successful private start-ups. This includes Indonesia's leading transport tech company, leading e-commerce/logistics company, leading online travel agent company and a home-grown data analytics company.



Source: Sindonews

These companies are already the leaders in the segment. In a world whereby winner takes all, we are fortunate enough to have a portfolio of no. 1s.

**Enjoy reading our reports? Check out our [website](#) for more!**

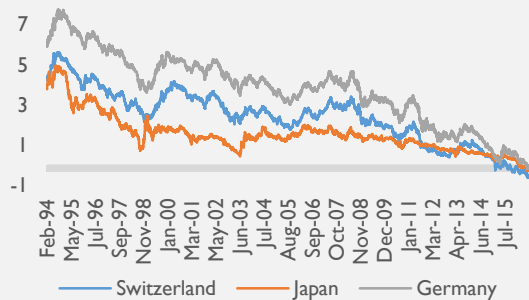
**-The End-**

## ----- Appendix I -----

### Seven flavours: The taste of inflation?

In our 2Q16 quarterly report, we made a case of inflation coming sooner rather than later. At that time, market consensus was all about deflation.

#### Developed countries 10-yr govt bond yield reached extreme level



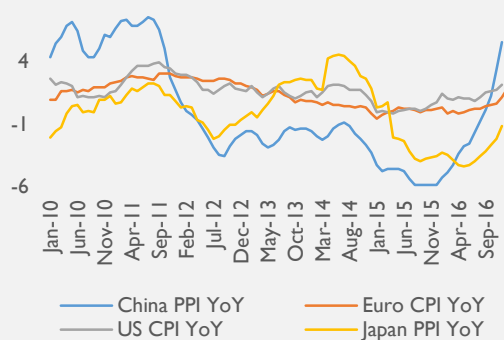
Source: Bloomberg



Please click [here](#) for our 2Q 2016 report (see page 3 of the report).

It didn't take long but certainly we are now seeing early signs of inflation.

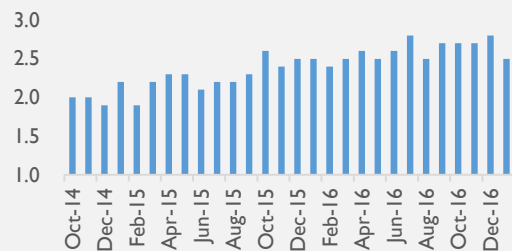
#### I. Price index around the world



Source: Bloomberg

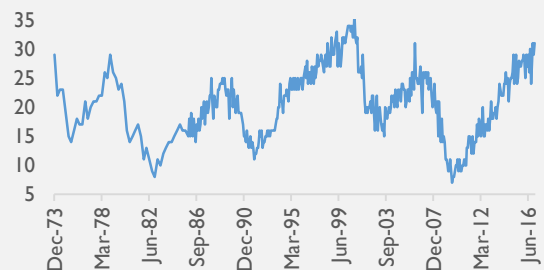
#### 2. US wages are rising

US hourly wage gains YoY



#### 3. NFIB Small Business Jobs' opening hard to fulfil.

In SA % balance/diffusion index



Employers need to pay up to hire workers.

#### 4. Copper price

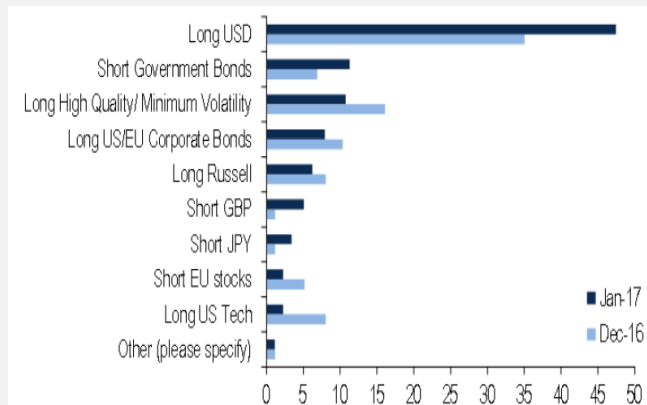
In US\$/MT



Historically a good leading indicator for inflation has ticked up

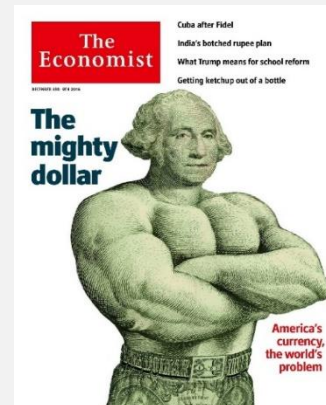
Source: Bloomberg

## 5. The most crowded trade



Source: BofA Merrill Lynch Global Fund Manager Survey

## 6. How mighty?

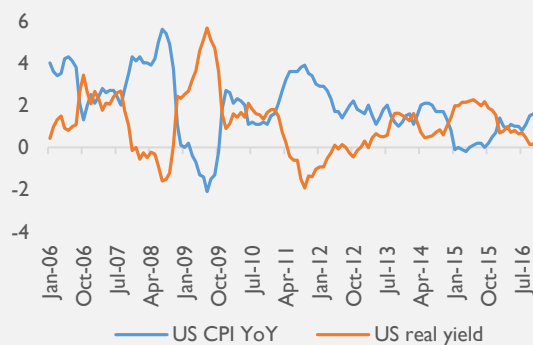


USD being the most crowded trade and magazine cover talking about the mighty dollar indicate USD is peaking?

Weak USD is associated with higher inflation.

## 7. Negative Real yield (10-yr yield - CPI YoY)

(US yield - US CPI YoY) vs. US CPI YoY



Negative real yields could drag down the value of the dollar

Source: Bloomberg

## Alain Passard, L'Arpège

**Story of Creativity, total reinvention, live your passion, change people's vision**

**A**lain Passard is a French chef and owner of the three-star restaurant L'Arpège in Paris.

The restaurant opened in 1986. It earned one star in the Michelin Guide in its first year, and a second soon thereafter. It earned three Michelin stars by 1996, which it has maintained since L'Arpège was famous for its meat dishes.



**Meet Alain Passard: The Frenchman who made vegetarian-cooking cool**

Audacious as it is, the man who loves vegetables won't serve you so even a slither of red meat – and that's what's earned him three Michelin stars

*“Slicing a shallot can be done in 25 different ways. However, there is one gesture to which we can add that elegance, that love.”*

Passard once described he liked the visual and acoustic feel of cooking on the flame. This type of cooking requires numerous hours of attention to cook pieces that the chefs and I observe, turn over, feel and listen to...The meat is cooked through yet keeps its tenderness

*“You can't be like, I received my third star, now I am comfortable and I can sit on my stars. No. I stay up and look even further like there was a fourth star. Always searching.”*



**“Haute Couture Poultry Duo.”  
Whole duck and a whole chicken,  
cut each in half, and sewed the two  
halves together**

In 2001, Passard had grown uninspired by cooking “animal tissues”, and introduced for the first time in a three-star restaurant, at least in France, menus that would literally put vegetables at the centre of the plate, effectively banning meat from his restaurant. Passard's conversion to vegetable cuisine was insane bravery.



*“I wanted a menu that was only vegetables. I was going to remove all the dishes that earned the three stars.”*

Since then, Passard has been planning his menu based on the seasons, sourcing natural and organically grown products from artisans and farmers, including his own.

*“I have never written down a recipe. We don't record anything. We don't write anything down. That forces us to keep looking. Next year, I don't want to make the same recipe that I did this year. I want things to continue to evolve, because without that, there is nothing.”*

*“When you close your eyes at night, what is important? You've spent the day taking risks. You've made some people very happy. Each day, that's my challenge.”*

*“I think he truly changed everyone's vision. Even the biggest meat eaters changed the way they eat. They have a different vision for the vegetable”*

*“If this story exists today, it is because I love my job more than anything.”*

*“I delighted in finding new combinations, but what made me the happiest was that I had a new hand, new outlook, I had new tastes, I had new smells, I had new sounds, the sound of different cooking. And for me, that was the most important thing. I found pleasure in cooking again.”*

## Massimo Bottura, Osteria Francescana

**Italian philosopher-chef Massimo Bottura bridges past and future, folklore and post-molecularism. The genius of Bottura—who, at 52, seems like a philosopher one minute and an out-of-control schoolboy the next—lies in his ability to transcend opposites – Anya Von Bremzen on Foodandwine.com**

**M**assimo was born and raised in Modena in the Emilia Romagna region of Italy.



Italian chef Massimo Bottura poses at the entrance of his restaurant, Osteria Francescana, in Modena.

Source: Internet

He developed an interest in cooking from a young age after watching his mother, grandmother and aunt in the kitchen preparing family meals.

In 1986 he was studying law when he heard that a roadside trattoria was for sale on the outskirts of Modena. He put his studies on hold, bought and renovated the building, and opened Trattoria del Campazzo, his first restaurant, a week later.

In 1995 Bottura opened Osteria Francescana in the medieval city centre of Modena. His concept was to juxtapose culinary tradition and innovation with contemporary art and design.

Bottura then spent a summer at elBulli with Ferran Adrià, which encouraged him to continue pushing boundaries and re-writing rules with his cuisine.

In 2012, shortly after Osteria Francescana was awarded its third Michelin star, the restaurant closed for the summer for a period of refurbishment and opened with an updated insight into Bottura's two biggest passions - contemporary art and avant garde cuisine.



Hare in the woods – a dish of jugged hare liver and 14 other ingredients in form of powder that resembles an abstract painting

Source: Internet

His cooking fuses sci-fi technique and avant-garde energy with a distinct Slow Food preservationist.

Writer Anya von Bremzen traces it all back to his autobiographical tortellini.



Tortellini play a major role in Bottura's conviction that, after the "corruption, kitsch and materialism" of the Berlusconi era, food

can rescue Italy from its current identity crisis. "How can a bowl of pasta save Italy?"

I ask. "Italians taste it and understand that their past can be preserved while also evolving," Bottura replies. "A great dish can make them proud of their culture again." I'm not surprised to hear that finally—finally—the Modenese eat these tortellini and say, "It's better than my nonna's."

If you live your life and you lose yourself in everyday life, you would never imagine "Oops, I dropped the lemon tart." But, if in your everyday life you leave a little space open for poetry, you can make visible the invisible.

And the invisible was a broken lemon tart that Taka just dropped. So that's the point.

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*"The secret of life, of a happy life, is: leave a little space open for poetry in which you can jump in and imagine the unimaginable."*

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*"You have it inside, or you don't have it. That's a very important part. You travel with your ears and your eyes open, or you travel to travel. You read a book to learn, or you read a book to read. Very different approach"*

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*"Tradition ties us to a culture and place. But it must be seen from 10 kilometers away"—meaning from a critical distance. At Francescana, we pry, poke and question the authority of our...traditions"*

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## Grant Achatz, Alinea

### The beginning of a new train thought – meaning of Alinea symbol

**O**f all the chefs featured in the series, Chef Grant Achatz is really the pinnacle story of creativity. Strive for the best, to be the best, nurture your curiosity, leadership, work with people, listen to them

*“You add salt, you add sugar, you add vinegar, and you add nostalgia.”*

Alinea is not a restaurant, or at least not in the conventional sense. So say Alinea’s founder, chef Grant Achatz. Instead, it continues to push the boundaries of a meal with dishes that are fun, emotional, provocative, and blur the lines between art and food.

Achatz’s early culinary career included time spent working in his parent’s diner as a teenager. Following graduation in 1994, Achatz landed a position at Charlie Trotter’s, one of the earlier celebrity chefs in the US.

“I didn’t know what fine dining was. I walked into the kitchen, it was nothing like I’d ever experienced. It was....cutthroat. The cooks would sabotage you. They wanted to see you fail. There was no teamwork.”



Plate-less dish

*“Rules? There are no rules. Do whatever you want. I had to leave those confines of the rules.”*

*“If you are able to move people, we’re moving on to something else.”*

After a time, he found a position at Thomas Keller’s highly acclaimed restaurant, The French Laundry. Keller was an important mentor for Achatz.

In 2005, Achatz went out on his own, opening Alinea in Chicago. In 2012 when Alinea was the only restaurant to receive three stars in the Michelin Guide for Chicago.



*“Maybe our course is inside there!” but then said that there probably was no way since it didn’t look like there was room for food for all four of us. Well, it was. As our fire died out, our server came over and carved the most melt-in-your-mouth pork belly table side for our viewing pleasure.*

Achatz who thinks of insane things like: why can’t we make food that floats, or why can’t we season with scent & emotion?

*“It’s about having a restaurant with philosophy where the creativity is the priority.”*

*“It wasn’t about physical cooking for me, it is about curiosity, about toying with things. The thing that is important to me is the guest has the a-ha moment, where they feel that they have discovered something.”*



Earl grey-scented air

So his restaurant Alinea, made a sugar balloon flavored with apple helium, and served an entree on a pillow filled with nutmeg scented air.



Floating green apple dessert

In 2007, Achatz announced that he had been diagnosed with stage 4 squamous cell

*“I just become passionate about the pursuit of perfection.”*

carcinoma of the mouth completely impairing his sense of taste.



"I know it sounds crazy, but I really believe that having cancer has made me a much better chef and entrepreneur and improved my life. The experience taught me it was okay to let go of some of my control in the kitchen and trust the talent of my staff so they could grow in their careers. It also gave me a greater willingness to take chances, which led to the opening of two more restaurants."

I realised that to make a world class restaurant, you can't do it yourself. You have to take the voice of all these people.

"But when I couldn't taste any more, I had to rely on the team. I learned about delegation and trust by looking at the sous chefs and looking at the chefs de cuisine and being like, 'How does that taste?' The most basic thing that a chef can do is evaluate the food. I couldn't do that, so I had to rely on them.

I would be like, 'Does this need more salt?' It made me realise that they're all good, and in order for me to grow as a chef, in order for the restaurant to grow, that trust was essential."

On January 1, 2016, with Alinea at its peak, Achatz decided to close it indefinitely for renovations. He planned to operate pop-up restaurants worldwide before reopening after an extensive remodel and a complete overhaul of the menu.

Minutes later, the room plunged into near darkness to the ominous guitar intro of "Paint It Black." Servers described the next dish in a frantic manner: a duck stew with mushroom, blackberry and Chinese vinegar

reduction, blackened forbidden rice and fried black lentils. The food was so dark, it was difficult to tell if one had finished it.

That one-two punch, Mr. Achatz later said, was meant to convey a sense of tension and release, a ride from valley to peak along the emotional sine curve.

He's now planning for the future, seeking to turn meals at Alinea - already innovative and dramatic - into a more theatrical and interactive experience.

Mike and I have this conversation where I go,

*"Doing the same thing over and over again feels boring to me".*

*And then he will say, "Well, If you look at the reservation sheet, none of the guest that are coming here tonight have ever been to this restaurant before. So for them it is all new".*

And I go, "Yeah, but,.....what about us?

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*"We're ripping apart a restaurant that is working incredibly well. It's the busiest it's ever been. Why fix something that is not broken?*

*Well, because if we're whole heartedly going to uphold that philosophy that we started ten years ago 'the beginning of a new train thought'.*

*I feel like that is our obligation. We have to just make it a clean slate. "Can we eliminate what we have been doing for the last ten years and start over?" The answer is Yeah."*

*To me, the evolution of the experience is almost more important.*

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*"Everybody just need to believe the fact that we are about to open the best restaurant in the country, and anything less will be a failure"*

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*"New is a way of feeling like he is propelling himself forward."*

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