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Nomad Investment Partnership

Interim Letter

For the period ended June 30th, 2012.

Cumulative results to June 30 th , 2012.	<u>Nomad Investment Partnership</u>	<u>MSCI World Index (net) US\$</u>
Trailing:		
One year	-5.4%	-5.0%
Two years	64.2	24.0
Three years	126.8	36.6
Four years	89.5	-3.7
Five years	55.0	-13.9
Six years	100.7	6.8
Seven years	121.1	24.4
Eight years	179.2	36.9
Nine years	293.7	69.8
Ten years	384.2	65.6
Since inception (Sept 10 th 2001)	455.2	56.5
Annualized since inception:		
Before performance fees	17.2%	4.2%
After performance fees	15.1	
Value of a dollar invested at inception (pre-fees)	\$5.55	\$1.56

The figures above are unaudited, presented on a cumulative, percentage gain basis and, as ever, are before fees. We present results in this way as Nomad's refundable performance fee and time dependent performance fee hurdle mean that the net-of-all- fees results will vary with subscription date, and from investor to investor. Partners will, therefore, each have their own, unique, net-of-all fees experience of investing in Nomad. As a guide, we have also detailed the net-of-all-fees results from one point in time, in this case since inception. An index is used in the table to place our results in context with a broad swathe of share prices from around the world. One of the reasons that Nomad is Nomad is that Zak and I spend almost no time thinking about stock market indices. We do not feel strongly about the merits, or otherwise, of this particular index and we would encourage partners to employ another if they feel it is more appropriate. Whatever the yardstick, we ask only that Nomad be compared over the very long-term. Below, the same pre-fee results are presented in discrete annual increments. In our opinion, it is probably the upper table that is most useful in assessing long-term investment performance.

Calendar Year Results:	<u>Nomad Investment Partnership</u>	<u>MSCI World Index (net) US\$</u>
2012 year to date	23.3%	5.9%
2011	-9.9	-5.5
2010	43.9	11.8
2009	71.5	30.0
2008	-45.3	-40.7
2007	21.2	9.0
2006	13.6	20.1
2005	9.2	9.5
2004	22.1	14.7
2003	79.6	33.1
2002	1.3	-19.9
2001 (inception Sept 10 th 2001)	10.1	3.6

A US dollar invested in Nomad on September 10th 2001, when Zak and I began managing the Partnership, has grown to be worth \$5.55 before fees, as of June 30th, whilst a dollar invested over the same period in the average share, as reflected in the index above, would be worth around \$1.56. Put a slightly different way, net asset value (i.e. after fees) has compounded at 15.1% per annum, whilst the index has managed 4.2%.

Information as Food

The castaway for the seventieth anniversary edition of BBC Radio 4's Desert Island Discs was the naturalist, David Attenborough. Kirsty Young, the host, introduced David Attenborough as follows:

Kirsty Young: "He has seen more of the world than any person who has ever lived. The depth of his knowledge and breadth of his enthusiasm have had a fundamental effect on how we view our planet. From sitting higger-mugger with the mountain gorillas of Rwanda, to describing the fragilities of the flightless Kakapo: the wonders of the natural world are his stock-in-trade. His passion can be traced right back to the days as a lad when he cycled his bike through the Leicestershire countryside trawling for fossils. He says he knows of no deeper pleasure than the contemplation of the natural world. David Attenborough, you visited the North and South Poles, you witnessed all of life in-between from the canopies of the tropical rainforest to giant earthworms in Australia, it must be true, must it not, and it is a quite staggering thought, that you have seen more of the world than anybody else who has ever lived?"

David Attenborough: "Well...I suppose so...but then on the other hand it is fairly salutary to remember that perhaps the greatest naturalist that ever lived and had more effect on our thinking than anybody, Charles Darwin, only spent four years travelling and the rest of the time thinking."

Oh!

David Attenborough's modesty is delightful but notice also, if you will, the model of behaviour he observed in Charles Darwin: study intensely, go away, and really think. It is

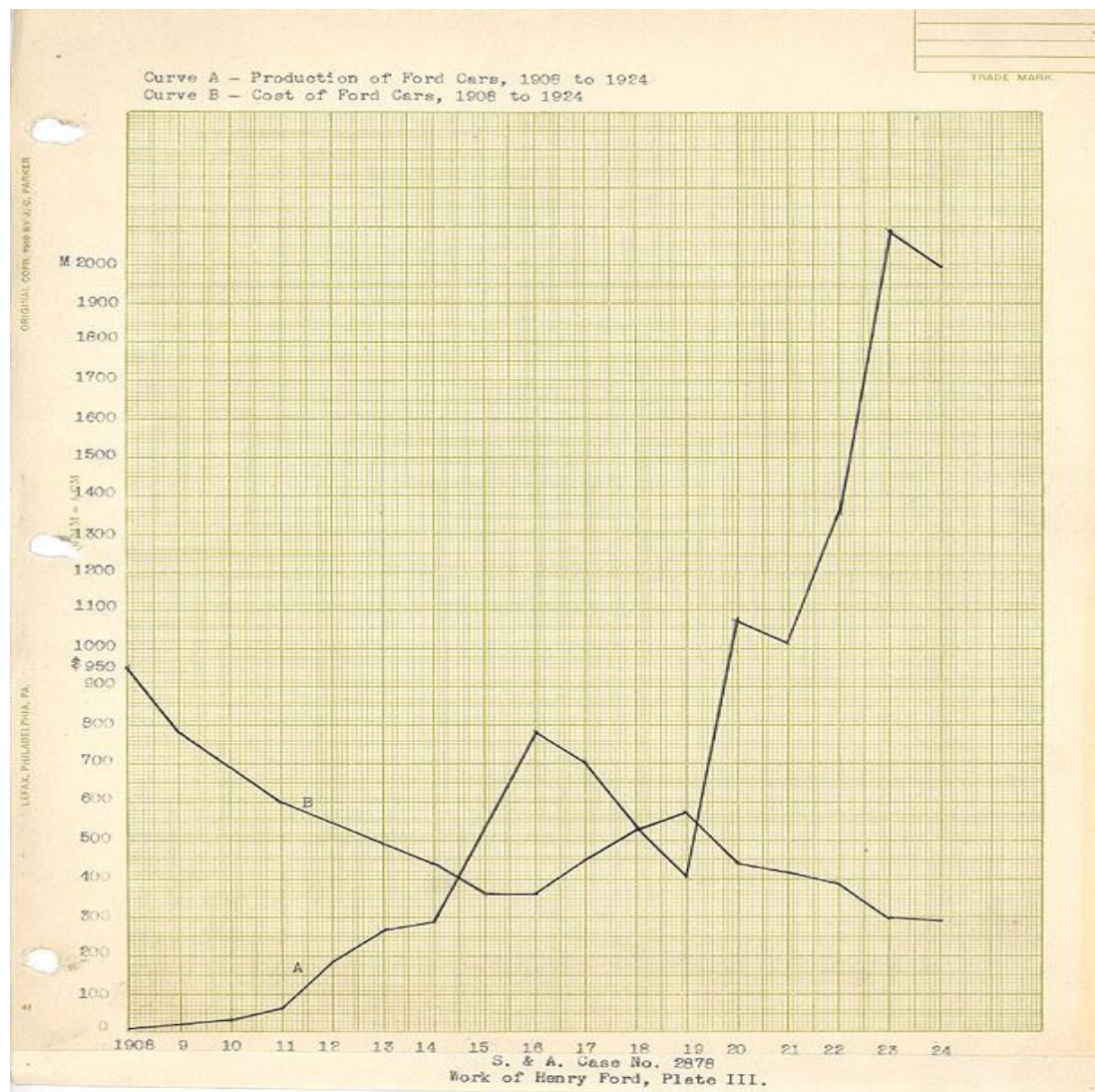
Darwin, he argues, who has contributed more. In other words, Attenborough is saying that the human mind trumps endless data collection. We could be more specific: the frontal cortex of the brain, which is charged with rational thought and information processing, can make more sense of the world, given enough time to think it through, than the senses themselves can make sense of the world.

In today's information-soaked world there may be stock market professionals who would argue that constant data collection is the job. Indeed, it could be tempting to conclude that today there is so much data to collect and so much change to observe that we hardly have time to think at all. Some market practitioners may even concur with John Kearon, CEO of Brainjuicer (a market research firm), who makes the serious point, "*we think far less than we think we think*" - so don't fool yourself!

Whilst Zak and I applaud John Kearon, we try to take Charles Darwin's approach: de-emphasise the data collection and think. When we study truly great businesses, we find that very often it has been simple human attributes that have led to their success: you feel differently drinking a Coke than a no brand cola or, you may feel differently towards a business that consistently undercuts the competition in price or, a delivery service that literally goes the extra mile and picks up returned items – and the reason you have these feelings, and the stimuli that produce them, have hardly changed in millennia. When we try to understand the factors that made great businesses great, in our opinion, there is lots of time to think.

For example, it is interesting to note that the business model that built the Ford empire a hundred years ago and is illustrated in the chart below (dated 1927), is the same that built Sam Walton's (Wal-Mart) in the 1970s, Herb Kelleher's (Southwest Airlines) in the 1990s or Jeff Bezos's (Amazon.com) today. And it will build empires in the future too. The longevity of the model is not difficult to understand as Jeff Bezos pointed out "*I can't imagine that in ten years from now customers are going to say: I really love Amazon, but I wish their prices were a little higher*" or Amazon was less convenient, or they had less selection.

Chart 1: Production Volumes and Cost (to the consumer) of Ford Cars 1908 to 1924.



Source: The original 1927 report of the Franklin Institute of the State of Pennsylvania for the Promotion of the Mechanical Arts, recommending “Mr. Henry Ford, of Detroit, Michigan” for the Institute’s Elliott Cresson Medal. Line A illustrates the volumes of cars produced, in this case from zero to just over two million per annum. Line B describes the decline in cost (probably to the consumer) of the Model T Ford from U\$950 to around U\$300. The x-axis refers to the calendar years 1908 to 1924.

Whilst the basic business models that lead to success don’t change that much and there aren’t that many of them, there is still all that data to deal with. So, how should we think about information?

The journalist and technologist, JP Rangaswami, argues that the most helpful way to think about information is the same way we think about food. His analogy may even have some scientific grounding. In the “Expensive Tissue Hypothesis” anthropologists Leslie Aiello and Peter Wheeler state that for a given body size a primate’s metabolic rate is relatively static, what differs from primate to primate is the balance of tissues, most notably the tissues that are expensive to operate, principally the nervous system (including the brain) and the digestive system. In man we have small stomachs and large brains, in pigs the opposite is true. If you want a larger brain you have to live with a smaller gut, and of course the large brain provides the thinking power to organise the world in such a way that one is not required

to constantly graze.

Leaving the science aside, Rangaswami's analogy is wonderfully provocative: in the cultivation of food there are hunter gatherers who are free to roam, or farmers who put up fences to define ownership; the same is true in information, is this not what patent and copyright law is all about? In the preparation of food we can either choose distilled nutrition (a beef steak, for example) or a smorgasbord that allows for the mixing of raw nutrients; the same is true when we are served with a conclusion or instead ask for the underlying data.

And then there are the differences, for instance information does not always have food-like quality standards. There is little-to-no labelling of information presented on television, so fact and fiction can be deliberately fused and have given rise to "docudramas" and "mocumentaries". In literature the same phenomenon exists and has been popularised following the success of books such as Dan Brown's "The Da Vinci Code". To avoid confusion, one solution may be to label information for its fact content, in the same way we label food for its fat content.

And what of the implications of over-consuming? Clay Shirky, the writer and internet consultant, claimed that "*there is no such animal as information overload, only filter failure*" which, using Rangaswami's analogy, implies we need to think about data diets and information exercise to prevent the buildup of toxins and disease. "*When I saw [Morgan Spurlock's documentary film] 'Super-Size Me'*" joked Rangaswami in a recent speech "*I started thinking, now what would happen if an individual had thirty- one days nonstop Fox News?*" What, indeed?

Information, like food, has a sell by date, after all, next quarter's earnings are worthless after next quarter. And it is for this reason that the information that Zak and I weigh most heavily in thinking about a firm is that which has the longest shelf life, with the highest weighting going to information that is almost axiomatic: it is, in our opinion, the most valuable information. No doubt Charles Darwin would agree.

Our Management Fee

Nomad's cost-reimbursement management fee (Zak and I meet the costs of running the operation each month and are reimbursed at the beginning of the following month) will have an annual run rate of fewer than ten basis points in the near future. We may not quite get there this year, but we are going in that direction. Our management fee was a philosophical decision for us. We thought that in managing the Partnership we had not added value per se, and so the management fee should meet the Partnership's costs, but not be a source of profit. A by-product of this is that as the Partnership grows in size the management fee declines as a percentage of assets, and so the incremental dollar brings something to the party, as it were. In the last six years the management fee has fallen from circa fifty basis points to close to ten, and with little scrimping of costs: Zak's and my salaries have normalised after several years of being in family-holdback-start-up mode, we travel all we need, we purchase the research resources we value, and the rent has just gone up. The saving to our partners, who are mainly charities and endowments for charitable causes, is not trivial: approximately US\$15m per annum compared to the industry standard one percent management fee, or over US\$30m per annum compared to the hedge fund standard. We mention this to pop the illusion that investment management is a Giffen good (one where, paradoxically, demand rises with price). Indeed, Zak and I would take it a step further and say that incentives (and rules) can de-

moralise behaviour, and what the industry needs more than anything, perhaps, is a sense of right and wrong. It can be hard to separate right from wrong when there is so much money sloshing around. It is a contentious thought but, if one could lower management fees across our peer group, one may end up improving aggregate industry behaviour in the process!

Housekeeping

In March this year we registered as an Exempt Reporting Advisor with the Securities and Exchange Commission. Also earlier in the year Martin Byrne, who has been an independent director of Nomad since its formation, announced his semi-retirement and so resigned as a director. As Martin's firm housed the Partnership's registered office that has also moved (to: 1st floor, Landmark Square, 64 Earth Close, P.O. Box 715, KY1-1107, Grand Cayman, Cayman Islands). Martin has been excellent council over the years, and he knows we wish him well. His replacement is Ralph Woodford, a British Caymanian, former fund manager with Edinburgh Fund Managers and a private banker for Coutts. And of course, he knows we welcome him too.

Lastly, thank you for your patience and the trust implied in continued subscriptions. The last time we wrote to you announcing Nomad's reopening was in October 2008, in the pit of the stock market cycle and, with the exception of a few hardy types who subscribed, you could have heard a pin drop! We had that experience in mind when we decided to reopen in the New Year, but this time demand was such that within two weeks we had to close again – quite a contrast! Zak and I do not like being open, and we are happy with our hermit-like state, minding our own business and getting the job done. Nomad is also of such a size that we may risk storing up problems for the future should we grow too large. We do not think we are navigating those waters yet but we keep an eye out for rocks, nonetheless.

As always, we thank you for your gentle approach,

Yours sincerely

Nicholas Sleep

Our Footnotes

There is, we are told, a ticket kiosk at a railway station somewhere in India with a sign above the window that reads, "*No Bamboozlement Here*". It is in the same spirit that we attempt these cautionary words. Disclaimers boil down to the following statement – if you choose to believe any of this, then you are on your own. Yikes! It will be hard for us to escape this conclusion too, and it makes little sense for us to do anything but disclaim liability for errors, omissions and offer no warranties – please, check everything we say, let us know when we are wrong and forgive our errors. We do promise you this: we are human, we make mistakes, but our mistakes are honest ones. Although we do not intend to mislead, we also cannot guarantee the information in these letters, or that some of our ideas may be interpreted in ways we do not intend. As investors we are trying to do as good a job as we can and we write these letters in good faith to inform and educate partners on our actions and thinking in the context of the Partnership. We hope that they will be read in the same spirit in which they are written.

Common sense tells you that the price and value of shares can vary greatly, and whilst we do not aim for this, we also recognize that permanent impairment of capital is possible. Our Partnership is concentrated in relatively few investments, perhaps more concentrated than many others, and as such our results will be more volatile than

many of our peers. Nomad is also a very long-term Partnership. We do not think it is suitable for investors with time frames less than five years. We also do not think Nomad is suitable for investors overly conflicted with principal-agent issues. If you are at all uncomfortable then, we suspect, Nomad is not for you.

The Nomad Investment Partnership has had two General Partners, Marathon Asset Management for the period from inception in 2001 to September 2006, and Sleep, Zakaria and Company from September 2006 until the present day. Zak and I have been responsible for the investment decisions of the Partnership since inception, formerly as employees of Marathon and then at our own firm, which was set up for the purpose of managing Nomad. The adventure continues...

Some Notes on Housekeeping (stay awake at the back!)

This is the interim letter and, combined with the annual letter sent to investors in January, is the main format we use to communicate to our partners. In these letters we have tried to honestly and thoroughly provide all the information we would seek if the tables were turned and we were investors in someone else's fund. We own shares for very long periods and we are conscious that more frequent or detailed reporting may be unnecessary and even counterproductive. A copy of our magnum opus, the full Collection of Letters, is available upon request from Amanda at Galactic HQ (amanda@sleepzakaria.co.uk). Lots of coffee required. Partners in Nomad will also receive a full copy of our Schedule of Investments by separate post, every six months, which lists all of our investments in detail. In addition, in the Spring you will receive Nomad's annual accounts, audited by Grant Thornton. Each month statements of account are sent to you by Nomad's administrator (not us!), Phoenix Financial Services in Dublin, Ireland. Please call Gavin Gray and his team (+353 18 450 8161) with your statement queries. As should taxable US investors as Gavin and his team prepare their tax certificates (1099s) as well.

Partners should always consider Zak and me to be available at the end of the phone and our (somewhat shabby) front door open to visitors. And whilst we welcome your company, please don't be too disappointed if we don't have much that is new to say: we hope it is in the letters already.

Legal Footnotes

Performance numbers are produced by Phoenix Fund Services, Nomad's administrator, and are audited by Grant Thornton in their annual audit, which follows publication of our letters.

In our letters we refer to both limited partners in the Partnership, and common shareholders in the Nomad Investment Company (feeder fund) as "Partners". We do this to convey a relationship we seek in which our investors are partners in a shared experience and destiny, in which they too have something to contribute. We do not mean to suggest that there is a partnership, in the strict, legal, sense of the word, between the shareholders in the feeder fund and Nomad, or Sleep, Zakaria and Company, Ltd.

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The Nomad Investment Partnership is not a recognized scheme under the Financial Services and Markets Act 2000 ("FSMA"). Given the nature of Nomad's investor base, recourse to the FSA and the Financial Services Compensation Scheme may