

PACIFIC CURRENT GROUP



FROM OUR CEO

During the quarter PAC received a US\$50m line of credit from the venerable company, Washington H. Soul Pattinson. We are excited for the additional capital and the new partnership. The primary use of these funds will be to make new investments. We, of course, will endeavor to make the most successful investments we can; however, given that all investments have risk, the success of any one investment cannot be guaranteed.

This reality encourages us to elaborate on how we look at investments and the subsequent outcomes. As a simplification, investments can be lumped into a 2-by-2 matrix like the one below.

	Good Outcome	Bad Outcome
Good Decision		
Bad Decision		

Sometimes you will make the “right” decision and get a “bad” outcome and other times you will make the “wrong” decision and get a “good” outcome. Understanding that the quality of any one decision cannot be judged merely by the outcome is a critical concept if you hope to learn the right lessons from prior investments. If you invest long enough, all four boxes will be populated with investments you have made.

After the completion of every investment and periodically thereafter, we engage in discussions about what we did right, what we did poorly, and where we can improve. In other

words, we attempt to separate the quality of the decisions from the quality of the outcome.

Our view is that even the most successful investments have flaws, so we can always be learning from our mistakes. Perhaps we could have negotiated a lower price or should have been more willing to pay a higher price. Maybe we could have secured stronger governance/minority protections or greater downside risk protection. With experience, identifying and applying incremental learnings is possible and should improve the quality of our decisions over time.

Examples of some of the more general lessons we have learned over time and endeavor to apply on an ongoing basis include the following:

- People – The integrity of the people we invest in is the largest contributor to the success of our investments. If someone lacks integrity it will almost always come back to haunt us, so there should be no price at which we should accept this risk. In contrast, high-quality people view our success as important as their own, and everything else equal, we should be willing to pay a premium to partner with them.*
- Structure – How investments are structured is critical. In our experience, the total consideration paid for an investment in comparison to market value is fairly efficient, but often there are risk-mitigating features that can be secured for little or no consideration. Put another way, many firms just focus on maximizing how much they can make if everything works as expected and ignore the opportunity to reduce their risk, should trouble arise.*
- Listening – Everyone willing to sell part of their business has slightly different objectives, hopes, and fears. Certainly, price is frequently the most important consideration; however, we have found that the certainty of closing the investment, timing of payments, and/or personal chemistry between parties can also be key considerations. Genuinely listening and responding to what the seller is saying in both their words and actions can frequently be the difference between securing a deal or not.*

As we move into 2023, we will continue to apply our collective learnings to each new investment, with the knowledge that we can always get better but will never perfect the deployment of capital.

We hope the holiday season is enjoyable for you and your families, and as always, we appreciate your interest and support.

PAUL GREENWOOD, CEO & CIO



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