LTIF

Long Term Investment Fund

Strategic Value Investing

The control of the virus is getting closer, despite the 2nd wave

November 2020

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Presentation plan

- **Covid-19. 2nd wave ahead of the vaccine(s) / J. Carlos Jarillo**
- Our macro base case & the Classic Fund / Marcos Hernandez
- Investment cases: Sodexo & ING. Plenty of upside / Marcos Hernandez
- Natural Resources is a unique opportunity / Urs Marti
- It is time for value / Marcos Hernandez
- Conclusion and Q&A / Alex Rauchenstein

Key message: Despite the 2nd wave, the Covid19 is to be controlled in the next 2-3 quarters

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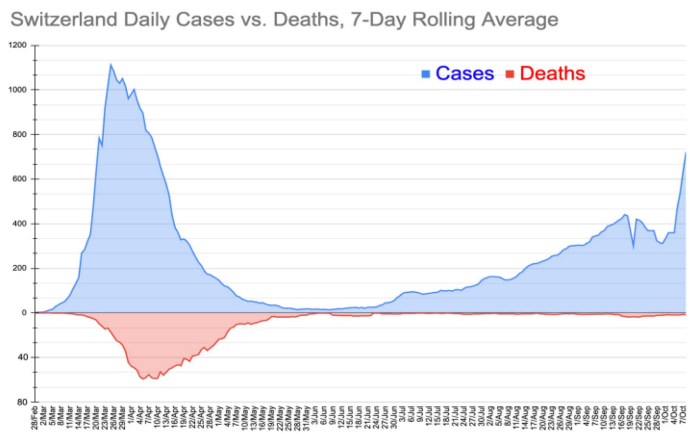
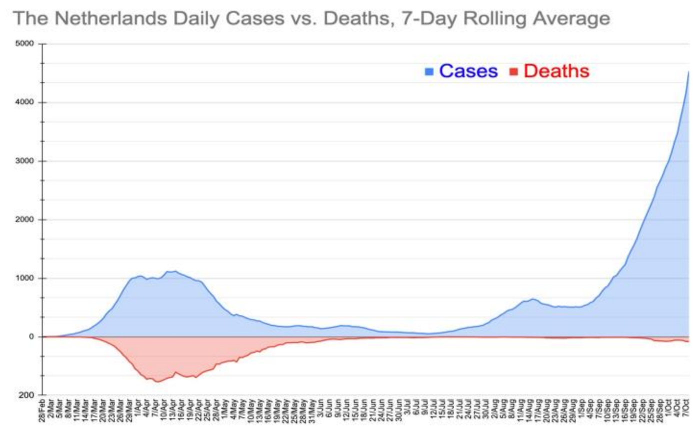
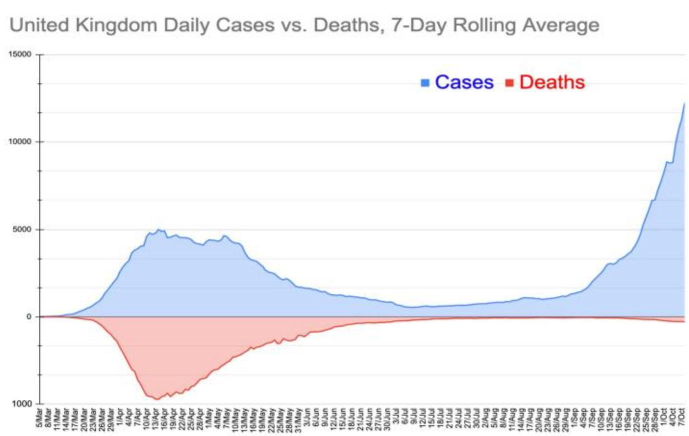
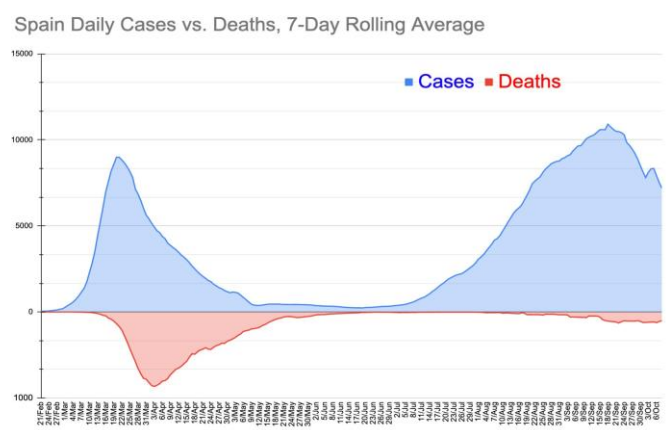
The second leg is worse than we expected



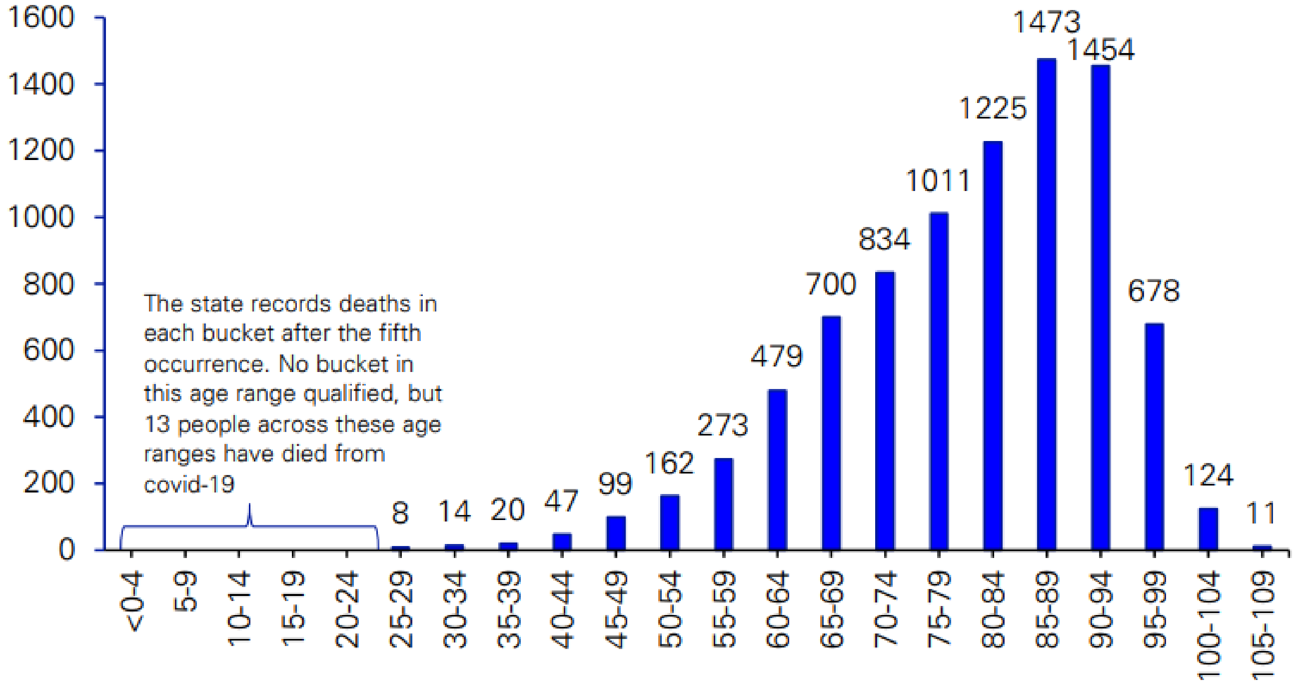






Fatalities are lower and 50 years old +

Figure 1: Reported covid-19 fatalities by age group in the US state of Pennsylvania (12.8m pop.) shows more people there have died of Covid-19 over 100yrs than under 45yrs



Source : Pennsylvania's Department of Health, Deutsche Bank

Partial lockdowns should be manageable

Most countries show a similar pattern. It's obvious by looking at it that:

1. **Lockdown works** as people stayed home in May; the virus almost disappeared
2. Traveling during the holiday period and then **returning to normal life contributed to the spread of the virus**
3. **The level of mortality is currently very, very low**

There are obviously many possible reasons for this drastic decrease in mortality, but it's clear that **the situation is currently very different from what it was in April.**

The world is learning to live with partial lockdowns until medicines/vaccines get approved

Vaccines & treatments are coming

- **As expected, a treatment based on monoclonal antibodies targeted at some key parts of the virus does work.** Regeneron and Eli Lilly have already obtained scientific proof of efficacy. A couple of million doses will be available before year end and many, many more as 2021 progresses. By drastically decreasing the virus’s mortality, they turn the pandemic into a much less severe problem. There are 70 companies more completing similar treatments right now.

- **First vaccines (Pfizer, AstraZeneca) should be available in western countries before the end of the year (one is already being widely used in China, and apparently in Russia).** Again, expect massive production in early 2021.

Impact on our companies

As “owners” what matters to us is the impact of all this on our companies. It varies a lot. There are four broad kinds of impacts:

- **Lottery winners**: companies that actually make more money thanks to the situation: an extreme example is Zoom. Three companies in that category that we have in our portfolio are Unilever, Henkel, and Reckitt, who are selling more disinfectants than before. This is of course a temporary phenomenon.
- **Unaffected**: companies such as Devro or Prysmian. For them, it’s basically business as usual
- **Temporary** hit: some companies are having a bad year, with profits way below normal. That’s in the end, why GDP is lower. But the companies themselves are not really affected beyond having a bad year. Once the pandemic is over, it will be business as usual. We have quite a few companies in this category: ISS, Sodexo, Suncor…
- **Crippled**: for some companies, losses are so deep that they have had to issue shares and/or take on debt to survive. Even when things are back to normal, a chunk of the value of the company will have been transferred to the new shareholders/creditors. This is irreversible. Think of airlines, cruise lines, etc.

Impact on our companies

In the end, this is a bad year for owners of businesses: on a broad, diversified portfolio, profits are going to be lower than normal, and much lower than expected. No other harm will be done, but the year will be bad.

This is why equity investments are more profitable long-term than fixed income: equity investors accept the reality of random bad years. Fortunately, these years are in fact very rare and profits (and dividends!) return to normal very fast.

But diversification is key: some companies will be really crippled by this. And it was impossible to forecast ex ante.

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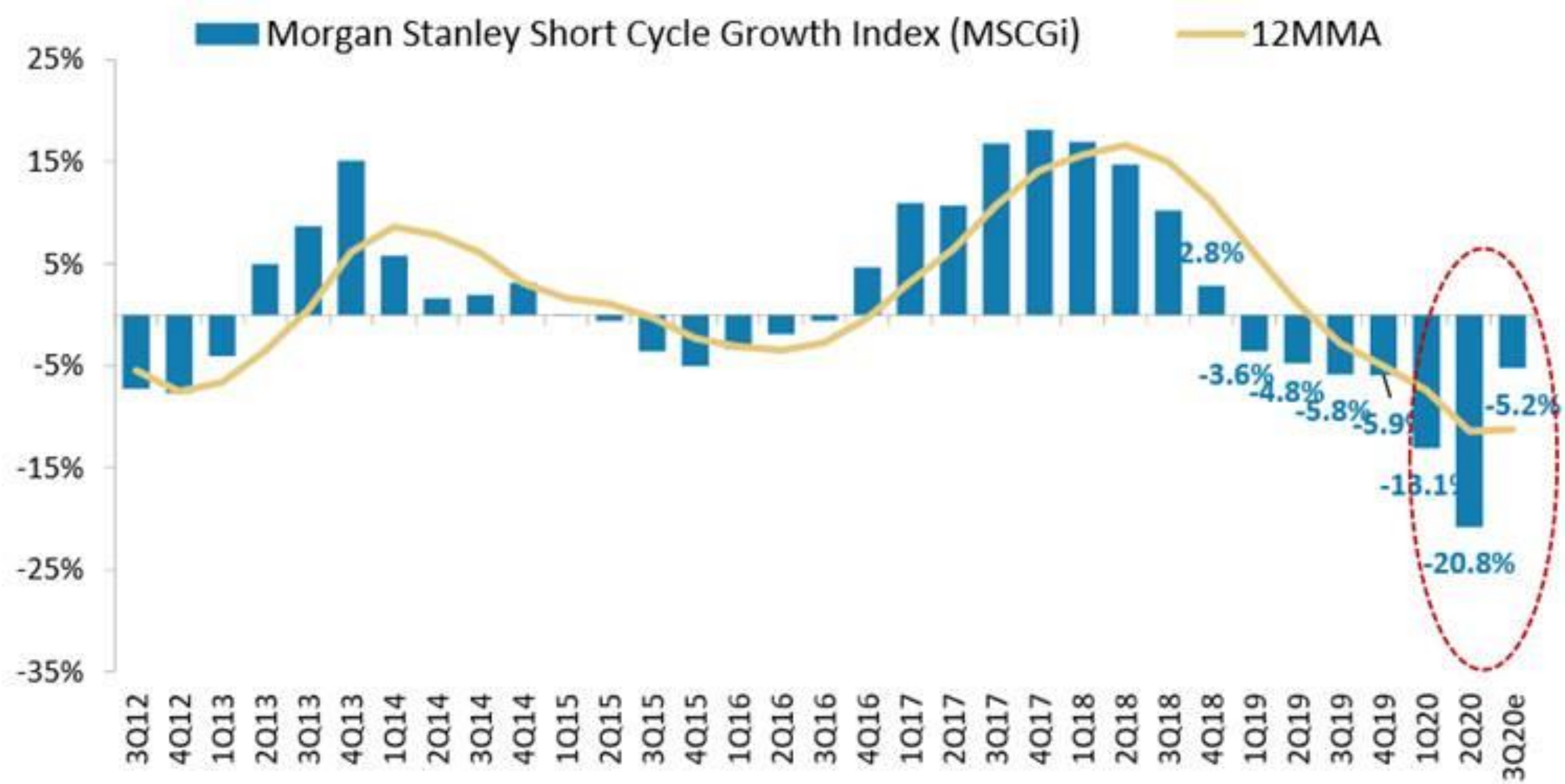
Key message: The Classic Fund - The recovery has started

The global economy troughed in Q2



Source: Morgan Stanley

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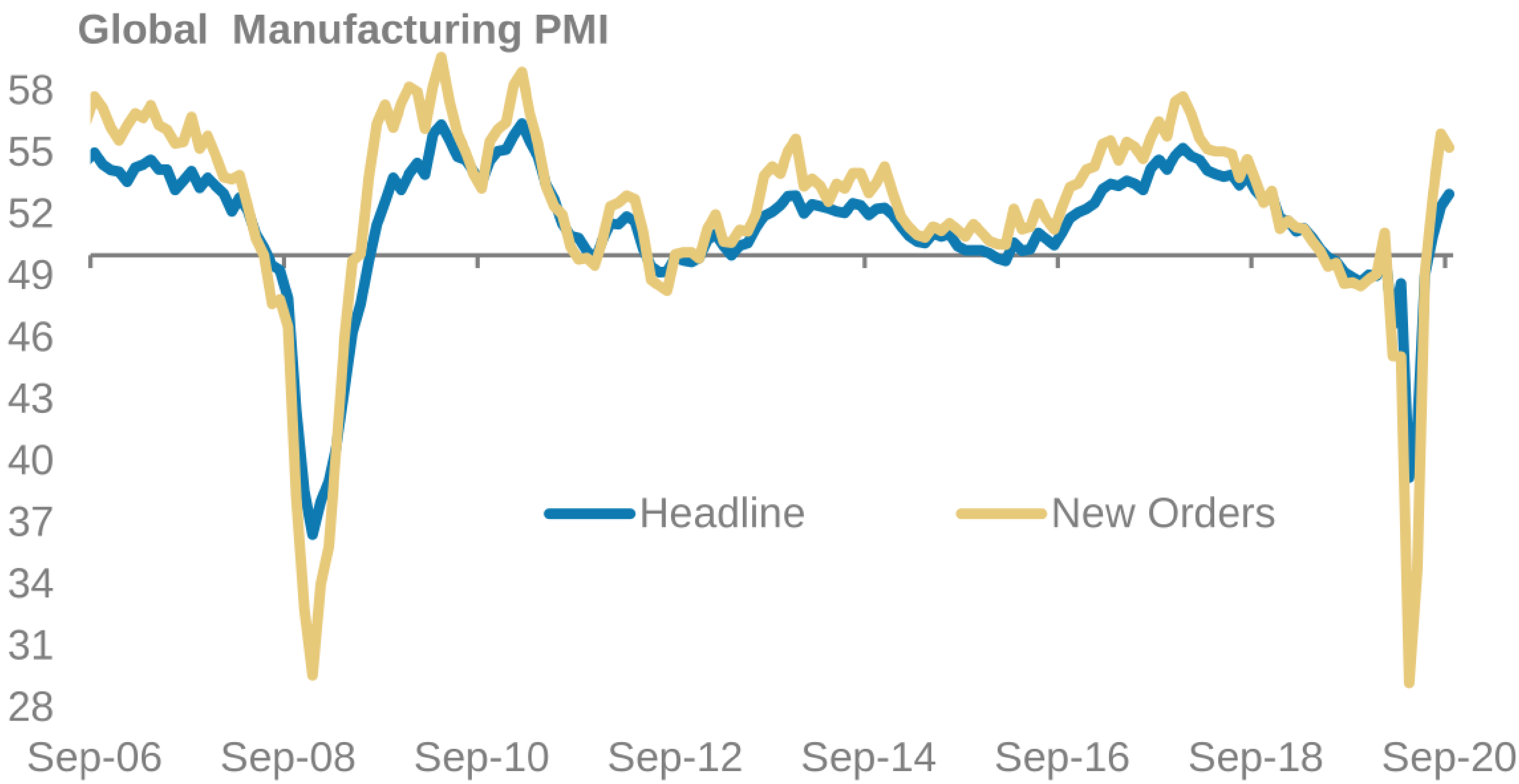
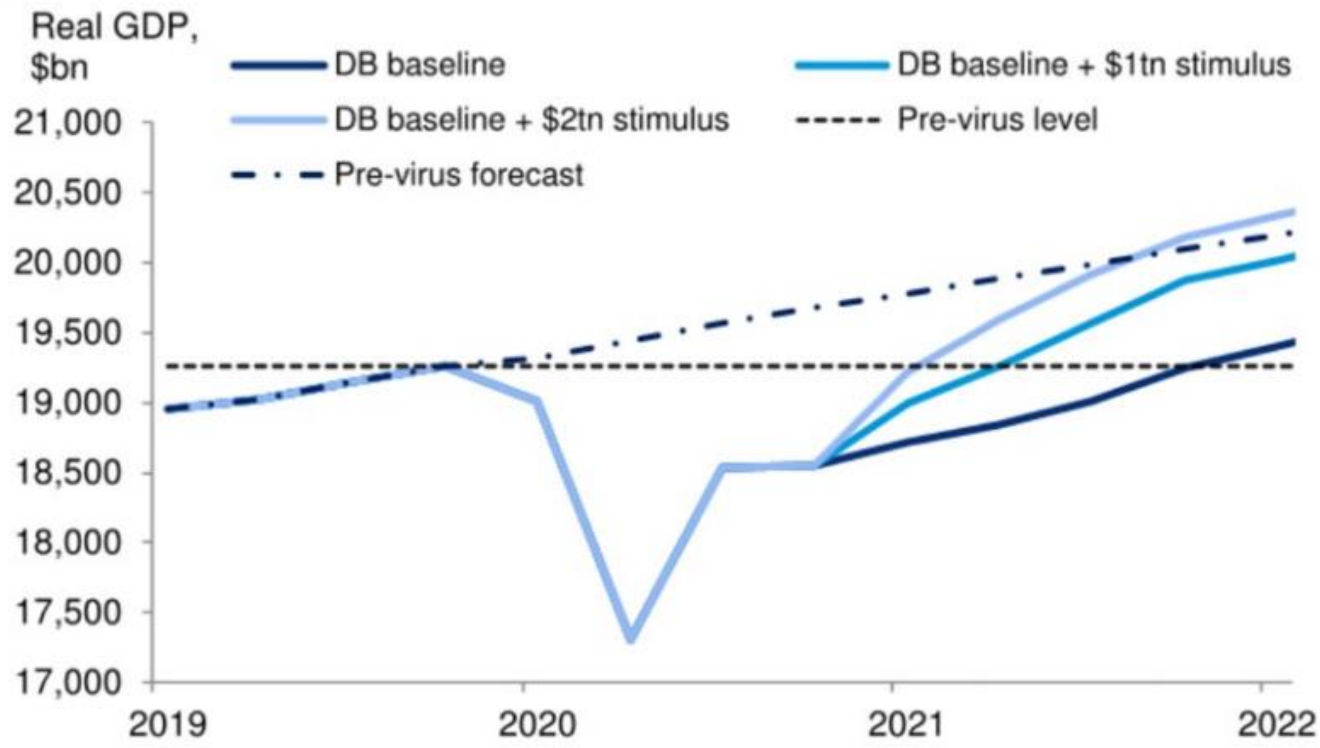
Manufacturing PMIs are looking good



Source: Morgan Stanley

The stimulus impact in the US GDP

Figure 1: A significant fiscal package could meaningfully accelerate a return to pre-virus levels of activity



Source : BEA, Haver, Deutsche Bank

Source: Deutsche Bank

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We keep our macro scenario unchanged

- **China is back to normal. The US, thanks to the stimulus package will normalize by 2021. These 2 economies account for 40% of the world economy**

- **Medicines and vaccines** against Covid-19 are imminent.

- **Government support measures, which on average terms will reach between 5 and 15% of GDP, are huge** and they will mostly replace the loss of private demand.

- Thanks to governments and central banks, **the flow of credit is being maintained,** and continues to work much better than in the Global Financial Crisis 2008/09.

1. Length of the crisis 2. Industrial base (labor) 3. Credit flow 4. Science

The Classic Fund: The recovery has started

- **The LTIF Classic recovered fast after Q1, rising by 40% in Q2 to stabilize in Q3 at around EUR 350 levels in November.** The Classic is in line with most value indices.

- **Cyclical stocks, small companies, and value, usually** outperform during the cyclical recovery phase.

- **The Classic is a diversified holding of 30-35 companies with little industrial risk** will overcome the crisis and be back to normal once the Covid19 is under control.

EUR 450 in Jan, EUR 250 in Mar,
EUR 350 now. Crazy

Where are we invested? Look through

These sectors/companies account for around 60% of the fund:

1. Aerospace sector (8% with **MTU Aeroengines, Raytheon** and **Thales**)
2. Catering and cleaning services sector (9% with **Sodexo**, **Compass** and **ISS**)
3. Salmon farms (7% with **Leroy Seafood, Grieg Seafood** and **Mowi**)
4. Healthcare (8% with **Grifols** and **Medtronic**)
5. Building materials (10% with **Wienerberger** and **Heidelberg Cement**)
6. Oil (8% with **Suncor, Cenovus, EOG, HESS, Premier Oil**)
7. Copper (10% with **First Quantum, KAZ, Hudbay, Antofagasta**)

40% of the fund in invested in **Prysmian** (cables), **Pandora** (affordable jewelry), **ING** (banks), **VISA** (cards), **ASML** (semiconductor equipment), and our "discounted" consumer compounders, which are **Henkel, Unilever, Coke** and **Reckitt**.

50% is invested in Cat1-2 risk & 50% could be seen as compounders

Still very cheap

- At the current prices, **the Classic Fund is cheap, yielding a 16% expected return**, with an updated I.V. of EUR 600.

- Should the global macro recovery materialize, **the NAV should be c. EUR 500 by the end of 2021.**

- We should recover most of the 2020 ”loss” and both value and commodities are starting a new upcycle.

The LTIF Classic trades at a depressed valuation

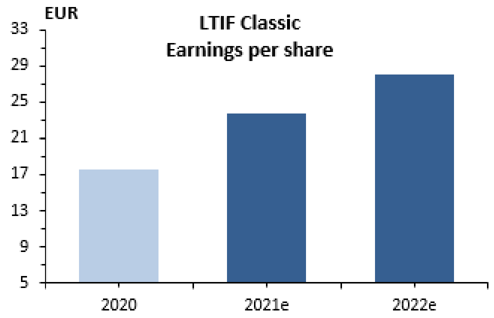
The Classic (3): 1.2x book value

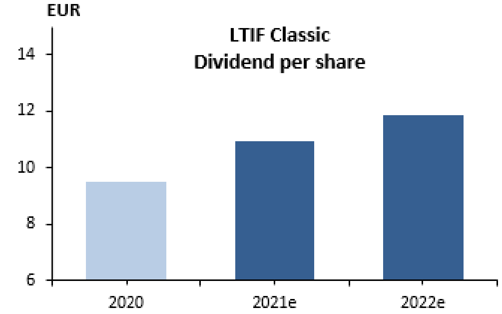
Date	NAV	%
31.12.2018	348.2	-14.8%
31.12.2019	434.2	24.7%
29.05.2020	328.3	-24.4%

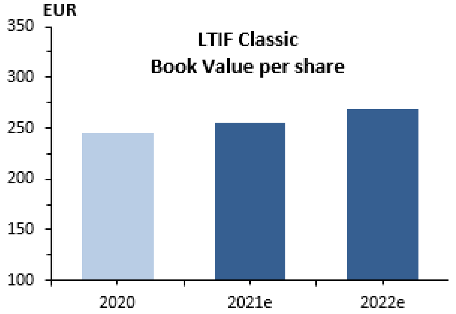
Year	EPS	%	P/E	EPS yield	MSCI World P/E	MSCI World EPS yield
2020	17.6		18.7	7.2%	21.9	4.8%
2021e	23.7	35%	13.8	7.2%	17.5	5.7%
2022e	28.1	18%	11.7	8.5%	15.2	6.6%

Year	DPS	%	Div. Yield	MSCI World Div. Yield
2020	9.5		2.9%	2.4%
2021e	11.0	15%	3.3%	2.5%
2022e	11.9	8%	3.6%	2.6%

Year	BPS	%	P/B	MSCI World P/B
2020	244.2		1.3	2.3
2021e	255.3	5%	1.3	2.2
2022e	268.7	5%	1.2	2.1







Normalised ROE of 15-16%

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Key message: All our companies have plenty of upside

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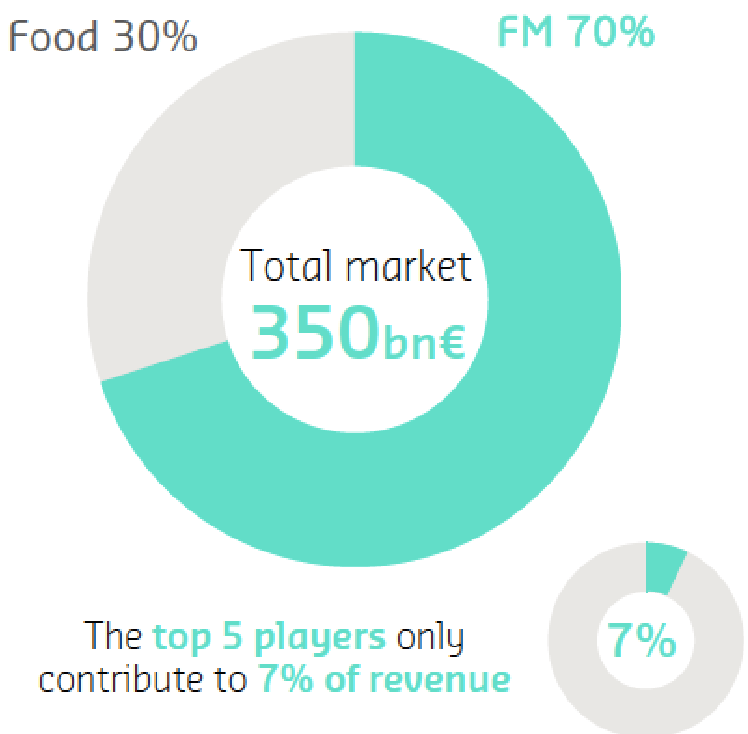
Investment Case 1



- Global leader in catering services: EUR 20bn sales
- 4 business lines: Business, education, seniors, healthcare
- Fragmented business in consolidation & outsourcing trend
- ROIC 10-11%, ROE19 17/18%, 5% annual growth
- Good business, very resilient, some growth

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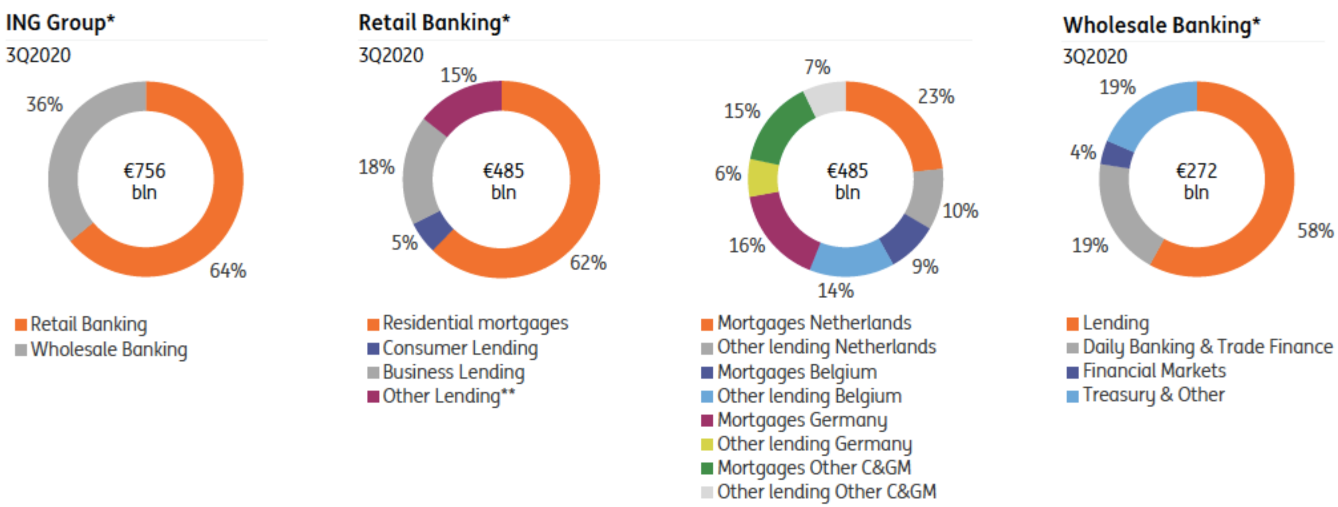
Investment Case 1

sodexo
QUALITY OF LIFE SERVICES

- SW FP was trading around EUR 100-110 per share before the Covid19 outbreak. Trades at EUR 58
- The Covid19 crisis is having an impact, lower sales and margins for 2020 and 2021 (August year end). However positive FCF
- Strong balance sheet, solvency and liquidity
- F2022 will be a normal year for Sodexo plus some tailwind in outsourcing and hygiene
- EUR 5 per share EPS19=EPS23. Applying historical average 21x we ger 105 EUR per share 2022
- 16%+ IRR . IV EUR 110

Investment Case 2. ING

Well-diversified lending credit outstandings by activity



- ING has a well-diversified and well-collateralised loan book with a strong focus on own-originated mortgages and senior loans; 64% of the portfolio is retail-based

- Leading European bank, present in most European countries
- Leader in digitalisation
- Limited growth but still 2-3% possible long term
- Good management, conservative approach to risks
- Good balance sheet. CET1 15%+
- Decent returns. ROTE has been 10-12%.

Investment Case 2. ING

ING Group financial ambitions

		Actual 2019	Actual 3Q2020	Financial ambitions
Capital	CET1 ratio (%)	14.6%	**15.3%**	~12.5%* (Basel IV)
	Leverage ratio (%)	4.6%	**4.7%**	>4%
Profitability	ROE (%)** (IFRS-EU Equity)	9.4%	**5.1%**	10-12%
	*C/I ratio (%)***	*56.6%*	***60.9%***	*50-52%*
Dividend	Dividend (per share)	€0.24***		50% pay-out ratio****

- Stock has collapsed from EUR 9-10 per share to EUR 5-6 per share
- Trades at 0,4x BPS. Applying the Gordon Model we get EASY a fair value of 1x Book Value (EUR 14.2 per share)
- PER22 5.7x
- 50% pay-out once the crisis is over means a dividend yield of 6-8%. Plus 2-3% buy back
- 20% IRR and EUR 15 IV

do your thing

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Key message: The commodity cycle has started to turn

The Natural Resources Fund

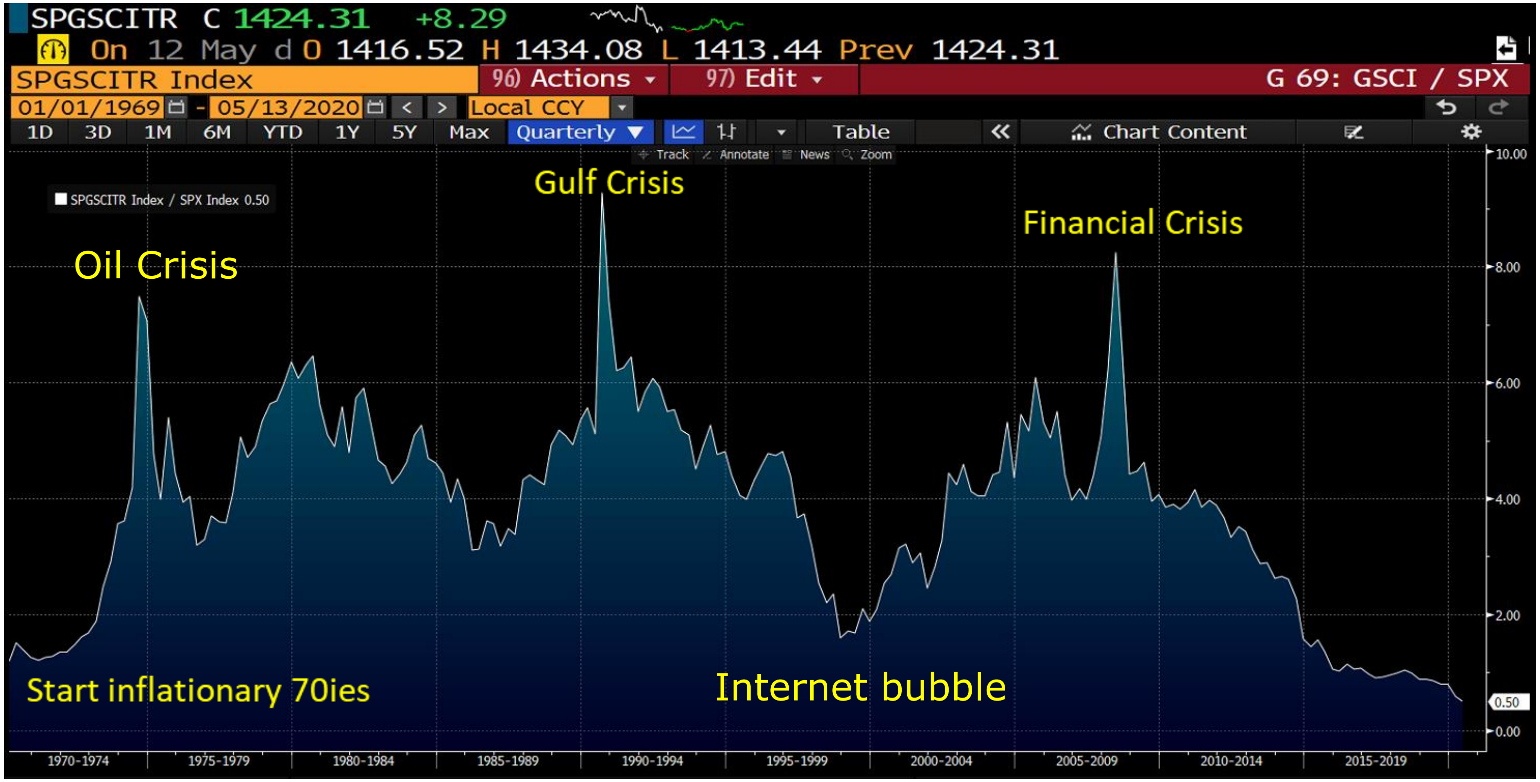
- **In Q2, the Natural Resources Fund recovered 50%+** from the March lows and stabilized around EUR 65/70 NAV per share, or -30% ytd.

- **The Fund remains incredibly cheap.** It has an intrinsic value of more than EUR 150 per share and, at current prices, an IRR of 22%.

- In October, the fund has **40% of its investment in energy/oil and another 40% in mines,** with only 20% in agri-food and infrastructures.

- We have been slowly **buying energy/oil.**

GSCI/S&P500 Ratio: As cheap as it can get?



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The GCC is just a pause in the oil upcycle

- The oil **market has gone into an undersupply situation faster than expected** following the OPEC+ cuts, shale collapse, and well shut-ins caused by low oil prices.

- Following the decision of the OPEC++ to cut production further, **inventories have peaked, and oil prices moved to marginal cash cost levels** (around USD 40 Brent).

- **Against a backdrop of undersupply, but high inventories, oil prices move up slowly** (from the marginal cash cost, but below the incentive price). Once inventories are back to normal (Q121), the oil incentive prices are usually reached ($ 70 Brent).

- **We should end 20 at $ 50 Brent and move towards incentive levels ($70) in 21**.
  1) shale does not work below USD 60 Brent, meaning that shale production could fall by c.3m b/d
  2) OPEC+, which has far lower costs, is slowly going to replace those 3m plus 1-2m b/d globally requiring higher prices.
  3) OPEC+ will try to manage prices and inventories in a USD 60-USD 75 range.

No money, no drilling, no oil

Baker Hughes Crude Oil Rigs

1987-2020 Data | 2021-2022 Forecast | Calendar

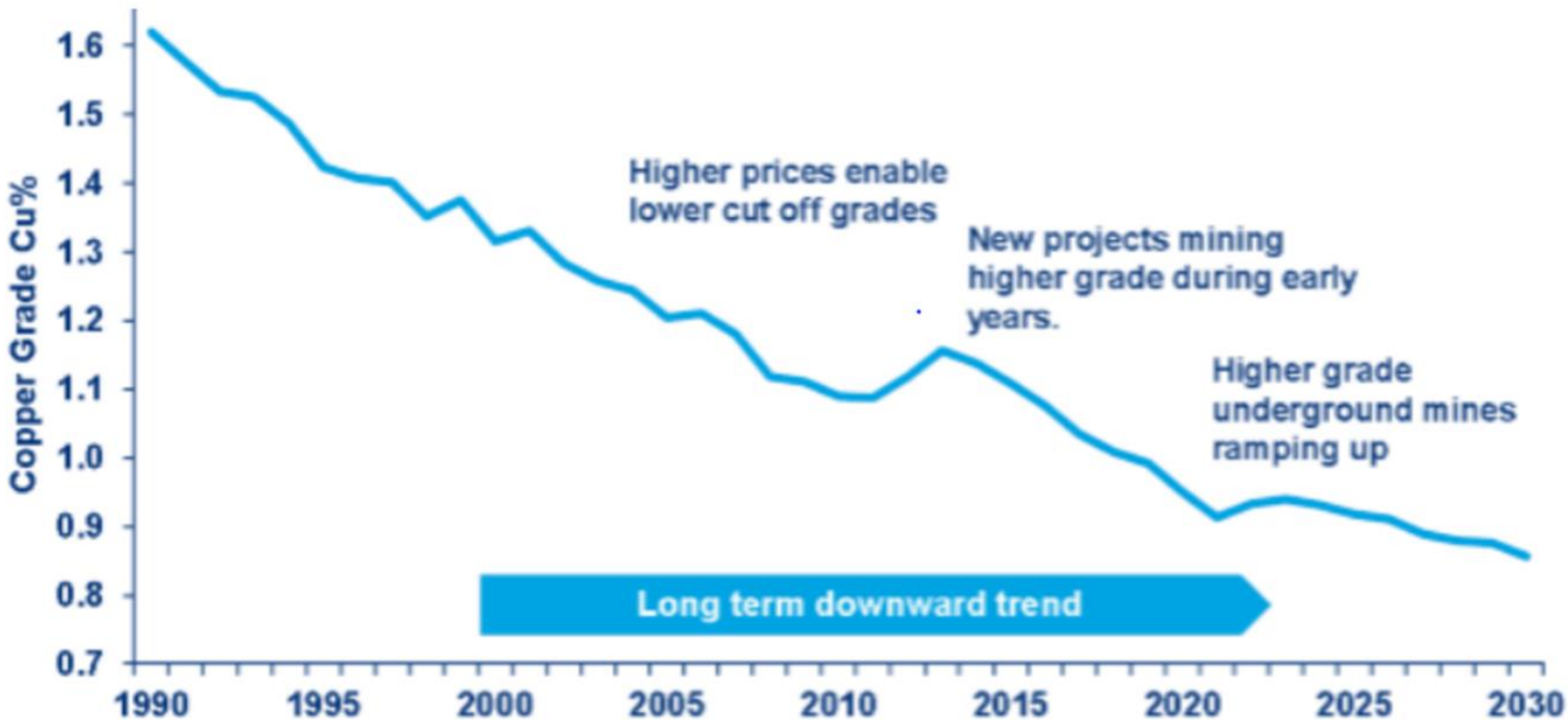
Summary Calendar Forecast Stats Download Alerts

Crude Oil Rigs in the United States increased to 193 in October 16 from 189 in the previous week.

1Y 5Y 10Y 25Y MAX Chart Compare Export API Embed

Pick the low hanging fruits first, it does not get easier!

Copper Ore Grade Decline



Source: Wood Mackenzie.

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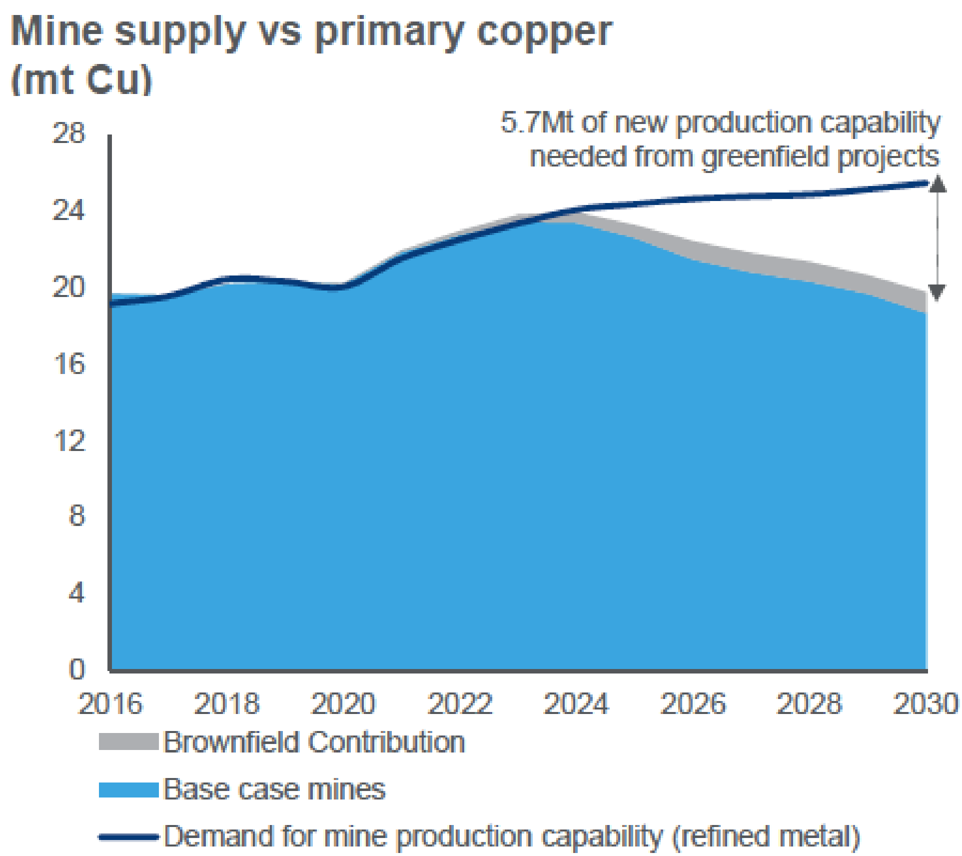
Copper is basic for electrification. Really?

- Global copper mine supply is around 20mn tns.
- There are new projects to meet demand but only until 2024.
- Large Expansions: Grasberg, Oyu Tolgoi, Chuquicamata. New mines: Cobre Panama, Quebrada Blanca, Kamoa Kakula
- No new mines after 2024. How long does it take to build a Cu mine?



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Key message: The renaissance for Value Investing

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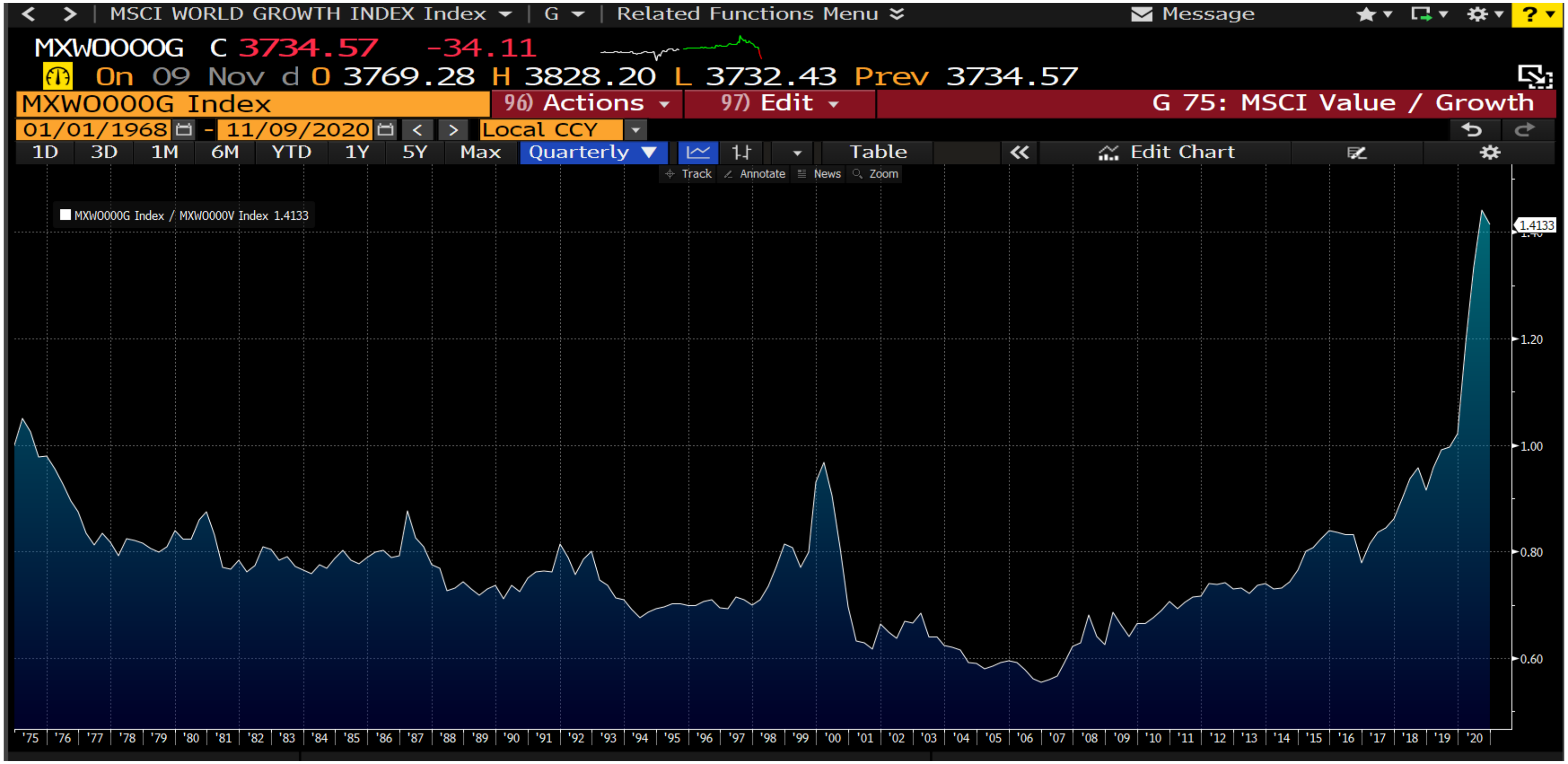
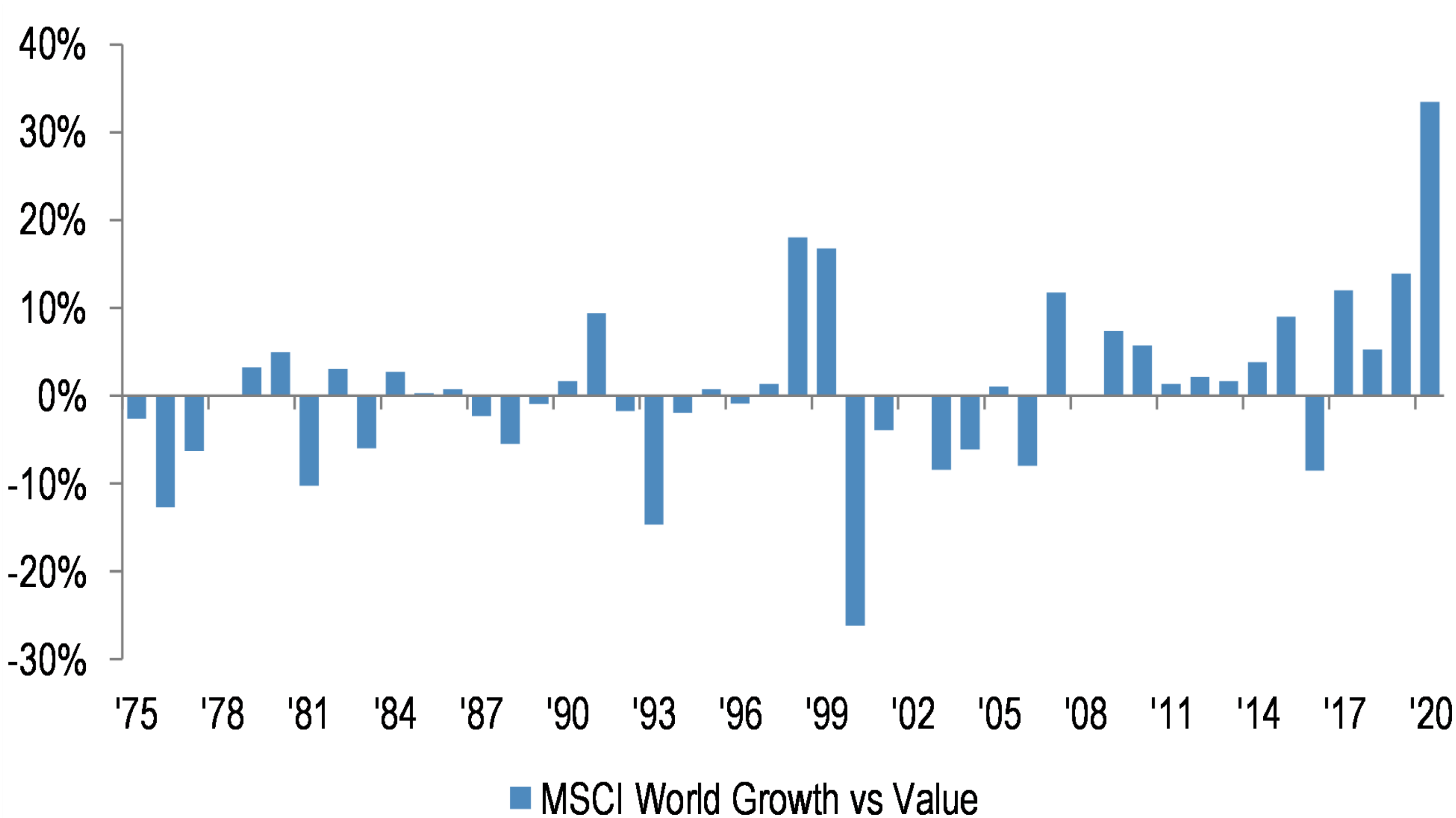
Time for value investing

MSCI World Growth Index / MSCI World Value Index (since 1974)



Time for value investing



Time for value

- **The MSCI World Value Index has done a 9% CAGR since 1974, same as the MSCI Growth, same as MSCI. Really?**

- Large global magnitudes can not defer too much from the core trend: **nominal GDP growth**

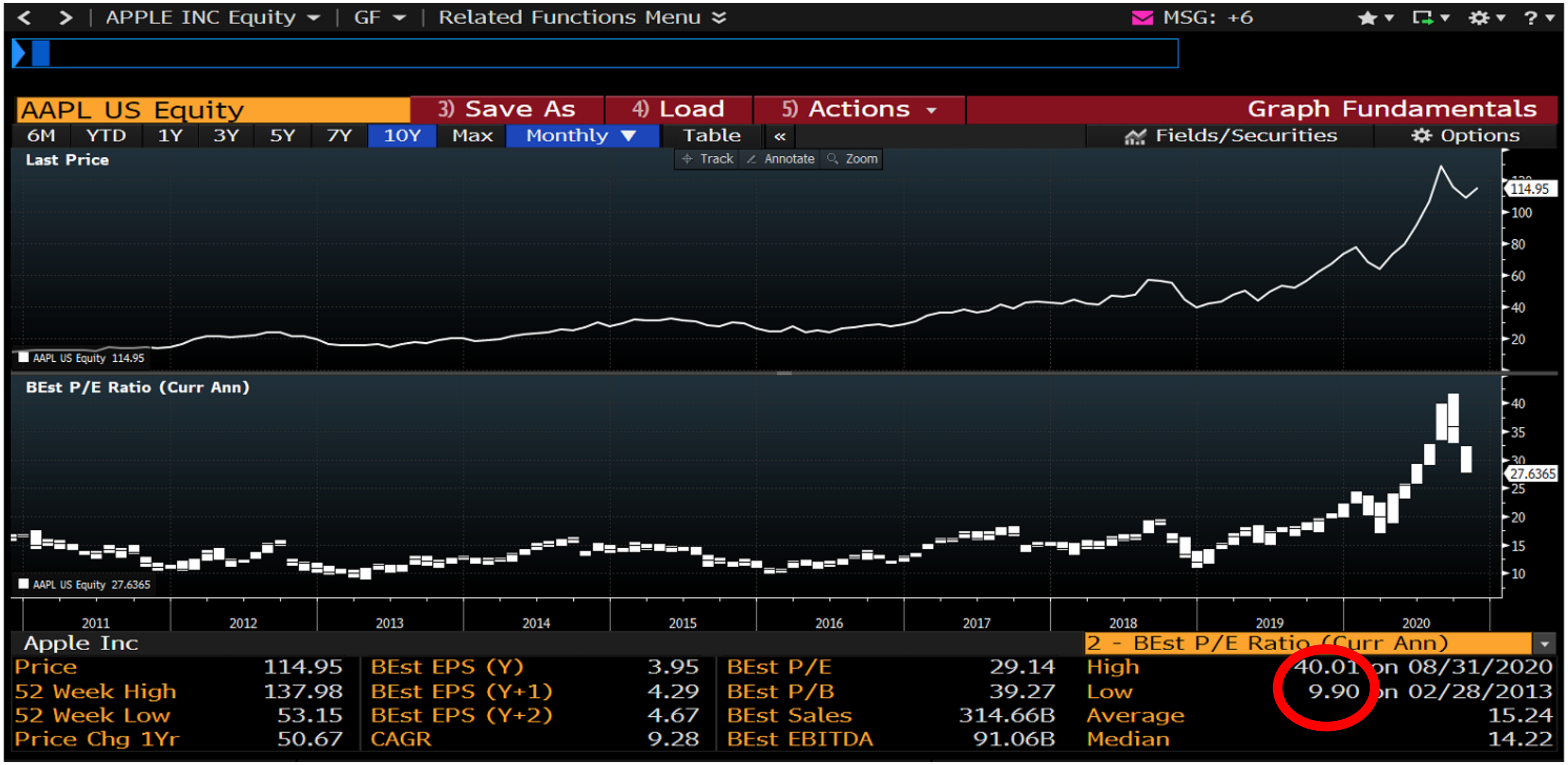
- Following a decade of underperformance, value & growth should mean revert. Question is not if but when. Value should have v good years ahead, supported by the economic cycle. **Why has value underperformed?**

- Tech is close to peak multiples (8x Book vs. peak 10-12 in the 2000 dotcom bubble) and energy is at 0.9x book value, well below its historical long term trough.

Time for commodities

Conclusion and Q&A / Alex Rauchenstein

APPLE was very good investment for us



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Why was APPLE so cheap

ATTENTION APPLE FANS: Samsung Blowing Past Apple To Become The Biggest Smartphone Vendor Is Not Good News

Henry Blodget Oct 29, 2011, 8:31 PM

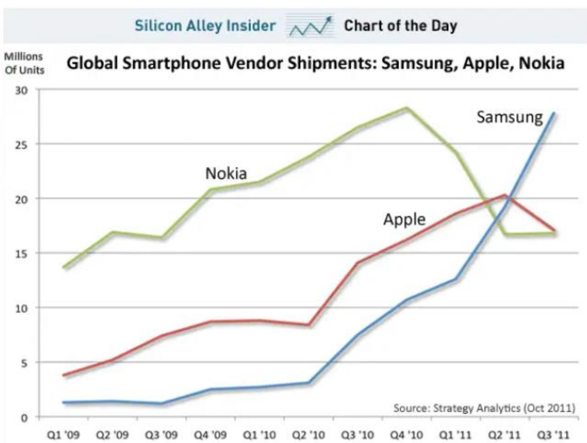


CHART OF THE DAY: Samsung's Meteoric Rise In The Smartphone Market

Jay Yarow and Kamelia Angelova Oct 28, 2011, 10:21 PM

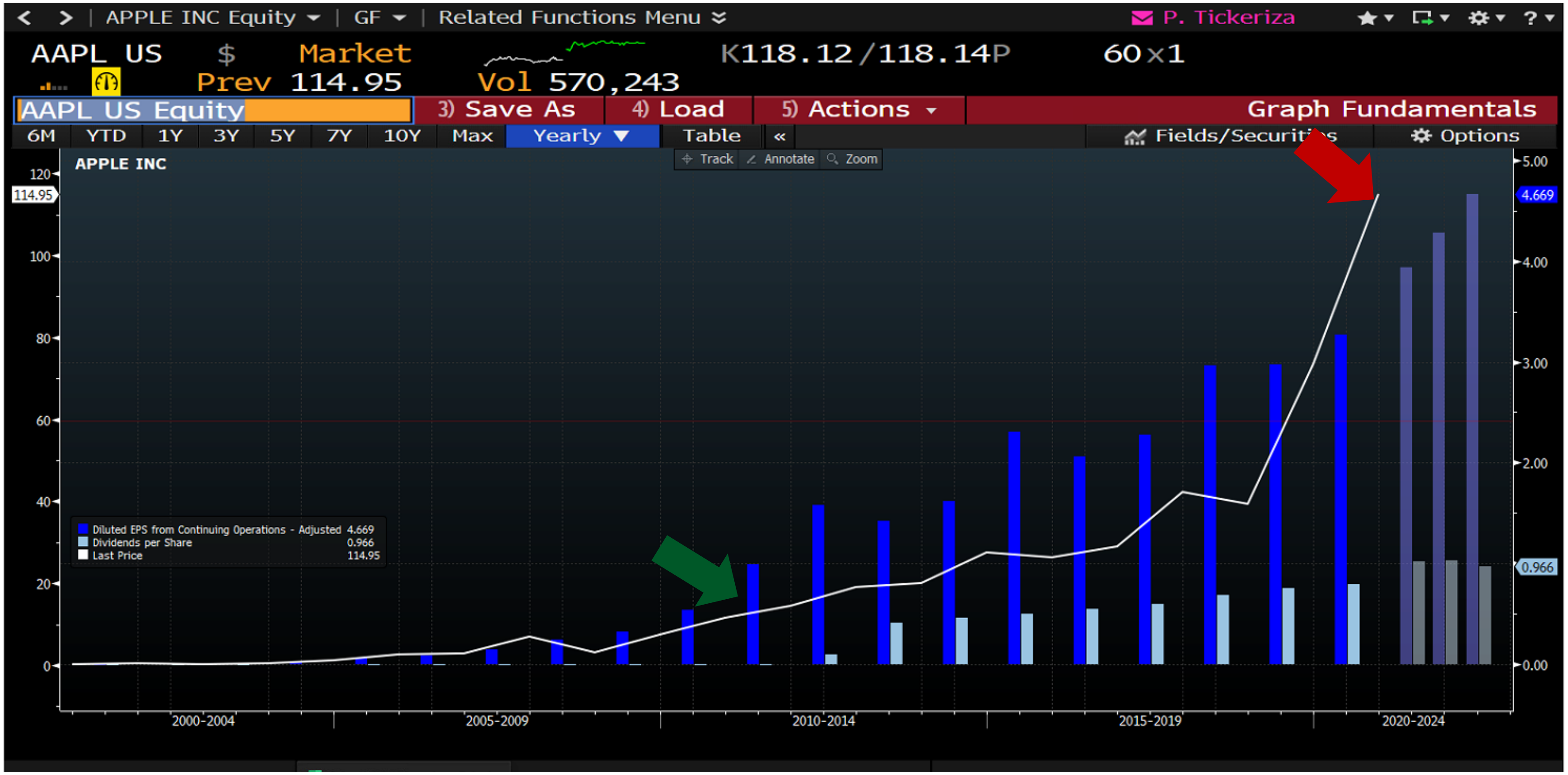
Tappt Apple mit dem neuen iPhone in die Nokia-Falle?

Apple's market cap crosses $500 billion: a look back at Apple's value over the years

Apple's stock price closed at $535.41 yesterday, which put the company's overall market cap at just a hair under $500 billion — fairly unprecedented territory.

By Nathan Ingraham | Feb 29, 2012, 12:05pm EST

APPLE Inc.



APPLE INC Equity
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3) Save As
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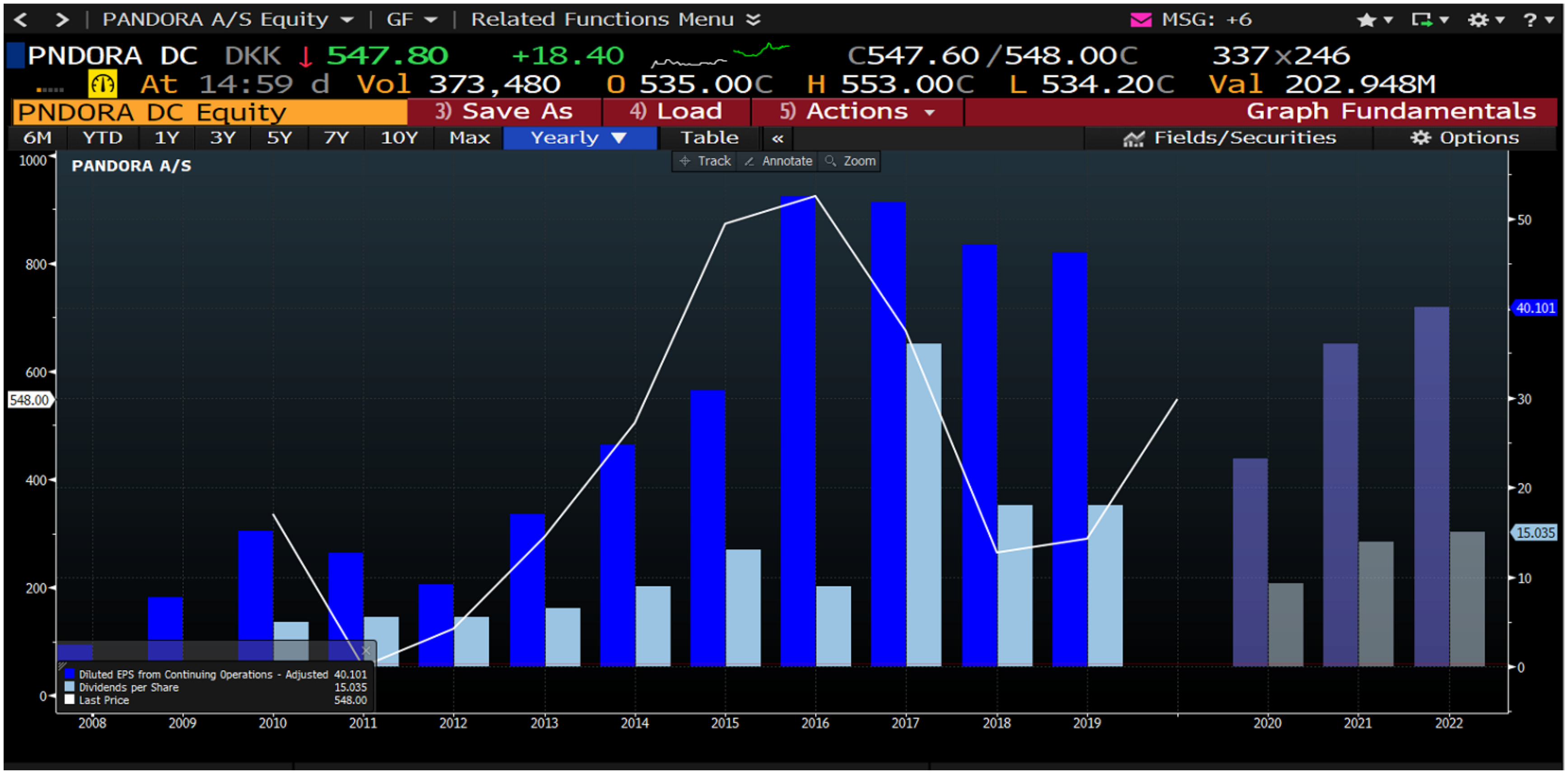
Graph Fundamentals
6M YTD 1Y 3Y 5Y 7Y 10Y Max
Yearly
Table
Fields/Securities
Options
Track Annotate Zoom
APPLE INC
Diluted EPS from Continuing Operations - Adjusted 4.669
Dividends per Share 0.966
Last Price 114.95
2000-2004
2005-2009
2010-2014
2015-2019
2020-2024

Pandora A/S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PANDORA A/S
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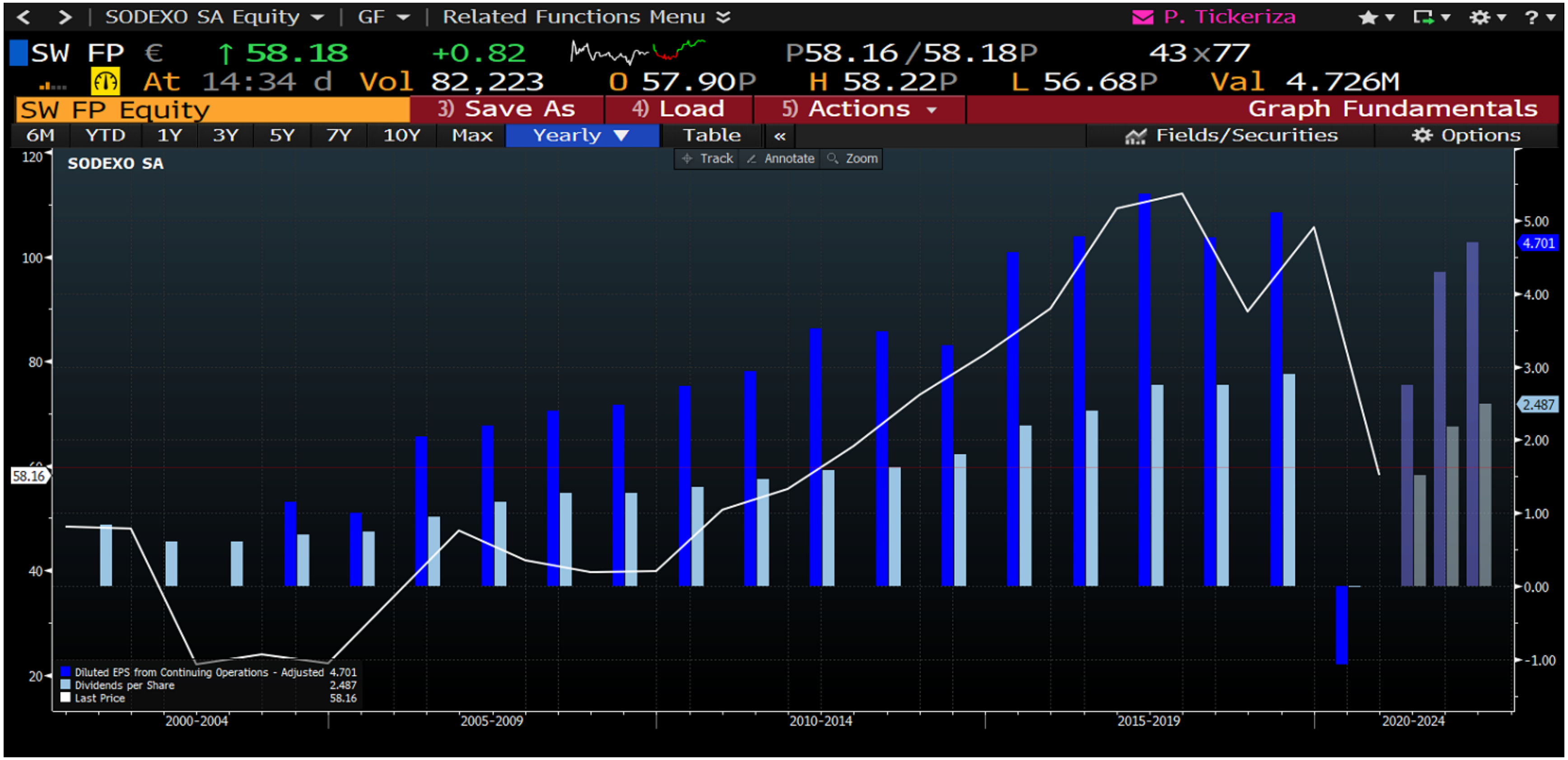
Dividends per Share 15.035
Last Price 548.00
2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022

Sodexo SA



SODEXO SA Equity
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Related Functions Menu
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P58.16 / 58.18P 43 x 77
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SW FP Equity
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Graph Fundamentals
6M YTD 1Y 3Y 5Y 7Y 10Y Max Yearly Table
Fields/Securities
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Track Annotate Zoom
SODEXO SA
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4.00
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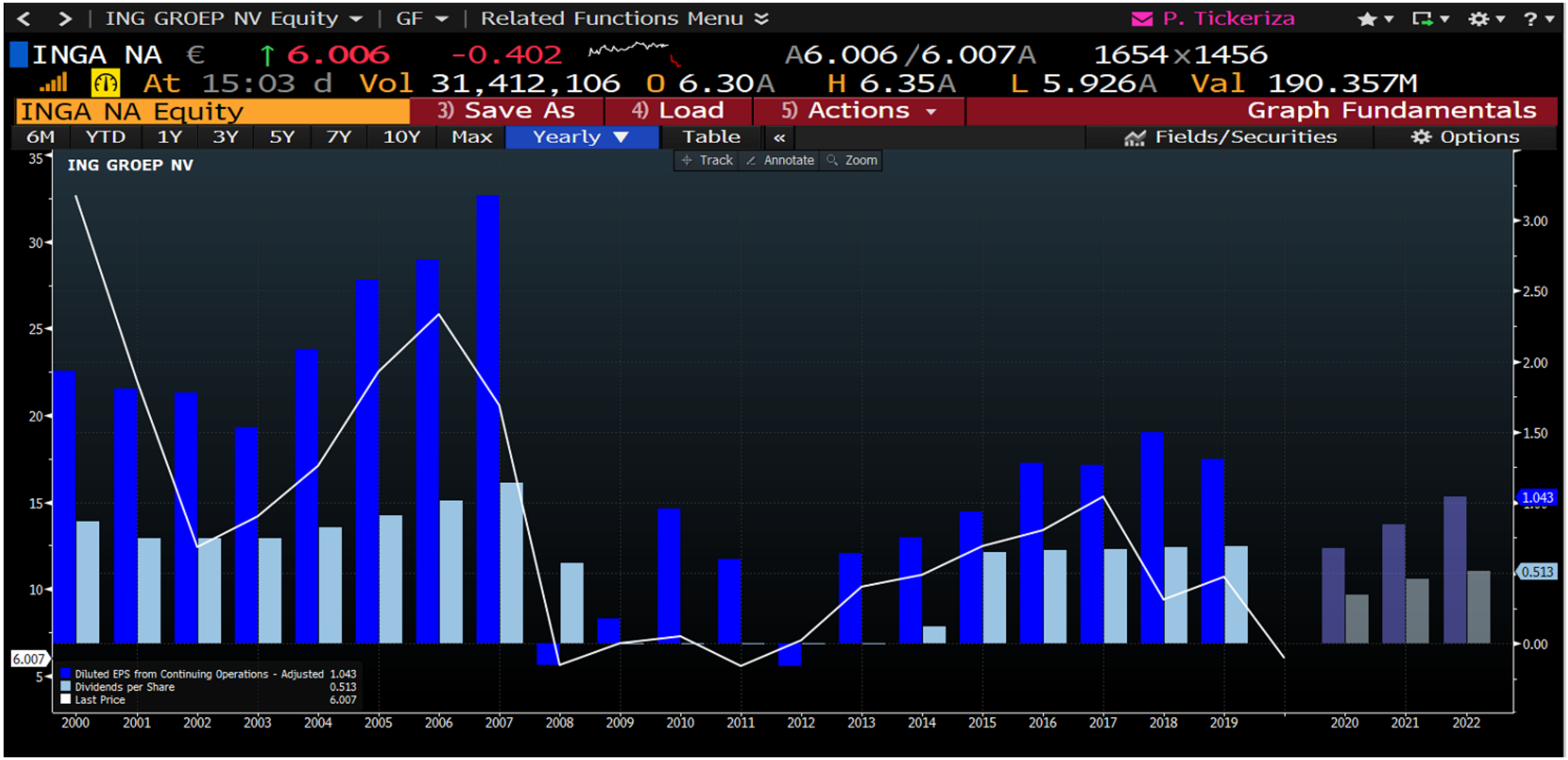
0.00
-1.00
Diluted EPS from Continuing Operations - Adjusted 4.701
Dividends per Share 2.487
Last Price 58.16
2000-2004
2005-2009
2010-2014
2015-2019
2020-2024

ING Groep NV


ING GROEP NV Equity
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Related Functions Menu
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INGA NA Equity
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Graph Fundamentals
6M YTD 1Y 3Y 5Y 7Y 10Y Max Yearly Table
Fields/Securities
Options
Track Annotate Zoom
ING GROEP NV
Diluted EPS from Continuing Operations - Adjusted 1.043
Dividends per Share 0.513
Last Price 6.007
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6.007
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022

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LTIF (SIA) Classic, Stability A Cap, SRI and Natural Resources

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