S I A
Strategic Investment Advisors Group

Long Term Investment Fund

Newsletter

of February 2023

Figure 1: **LTIF Classic EUR**
vs. MSCI Daily TR Net World Index EUR

Figure 2: **LTIF Natural Resources EUR**
vs. S&P Global Nat. Res. Net TR Index EUR

"The average holding period has decreased from 8 years in the 60's to 6 months today"

Source: Morgan Stanley Research

Overview of our funds

Table 1: **Net Asset Value - Net assets under management of our funds**

January 31, 2023	NAV	Δ 3m	Δ 12m	Annualized return (s.i.)	AUM *(in mio)*
LTIF Classic [EUR]	597.69	9.9%	14.2%	8.9%	95
LTIF Natural Resources [EUR]	149.91	8.8%	14.3%	2.3%	75

Source: SIA Group

I. POSITIONED FOR AN ECONOMIC SLOWDOWN

Showbiz culture gives way to cash flow gravity

During Christmas 2022/23, Mario Vargas Llosa wrote several articles that caught our attention. They summarized his thoughts (already published in his extensive bibliography) on civilization and the culture of spectacle, commenting that many of today's social spheres (politics, economy, etc.) are under enormous pressure from the media, social networks, entertainment, game, show... the culture of spectacle.

This trend also applies to the stock market, as well as to most asset classes, which are increasingly being influenced by the entertainment culture. Investing has become a *show* where commentators versed in oratory, but often untrained and inexperienced, explain their speculative thesis without any true intellectual understanding.

For the past decade, the environment of extremely low — close to zero — interest rates, and the huge increase in the system's liquidity (the monetary, fiscal, and infrastructure policies, which include new policies such as QE) have **generated a "festive" context for investment, favoring the "show".** A kind of *financial fantasyland* as put by a famous asset manager. The graph below illustrates this environment where, for the past few years, 10%-20% of bonds have on average had a negative yield.

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Total value of negative yielding bonds

Source: Berenberg research, Bloomberg

In this environment of cheap money, we have even seen new *animals* emerging: cryptocurrencies, SPACs, TFGs, CFOs (*Collateralized Fund Obligations*), meme-stocks, and a multitude of revolutionary business plans that have generated spectacular narratives. The public have applauded these, the media have amplified them, while certain investment gurus have transformed them into short-term speculative opportunities with which they have earned huge amounts of money.

But now the party is ending. We all need to be thankful that the starting point is not as high as the one in 2008 was. It's time for gravity. The *2010-2020 fantasyland* is facing reality and returns have started to normalize. *The long term is a weighting machine,* and it is time to return to a more normal environment: higher inflation and rates, less liquidity, more emphasis on cash flow & valuations, more value, less growth, less new stuff, etc. The show is over, or, rather, we have entered a normalization phase.

At SIA Funds we don't put on much of a show; in fact, we can often be repetitive and even boring, but the world spins at the speed it spins, and nothing you can do will increase the speed. Our portfolio does not rotate too fast, we do not have super-innovative ideas, nor do we burn 50-euro bills during presentations in order to talk about inflation. However, our investments and track record are solid, and we never stop learning on this road to value generation. **Investment is a very serious matter requiring training, experience, discipline, and seriousness.** We are obsessed with preserving our investors' capital, which limits our appetite for risk. This is definitely not a show; we need to protect our capital and generate a decent return. Humongous short-termism, greediness, and stock market showmanship continue to astonish us.

Our two funds performed well in 2022, above our target of 10% per year

In 2022, the return on the Classic (+14%) and NR (+13%) was slightly better than our target of 10%, which pleased us. Looking ahead to 2023, we expect more of the same. In other words, a lot of discipline, long-term *strategic value,* and no show at a time when, according to Morgan Stanley, the average holding period has been reduced to 6 months — down from 8 years in the 1960's. The current holding period is not investing, but it is the result of the *culture of spectacle* — a game of speculation.

We remain convinced that the "growth" cycle — fueled by low rates, liquidity, and spectacular business plans—has come to an end and value is once again going to be the winning strategy it always was. Value and growth overlap and, from a fundamental point of view, are difficult to separate. Nevertheless, it is

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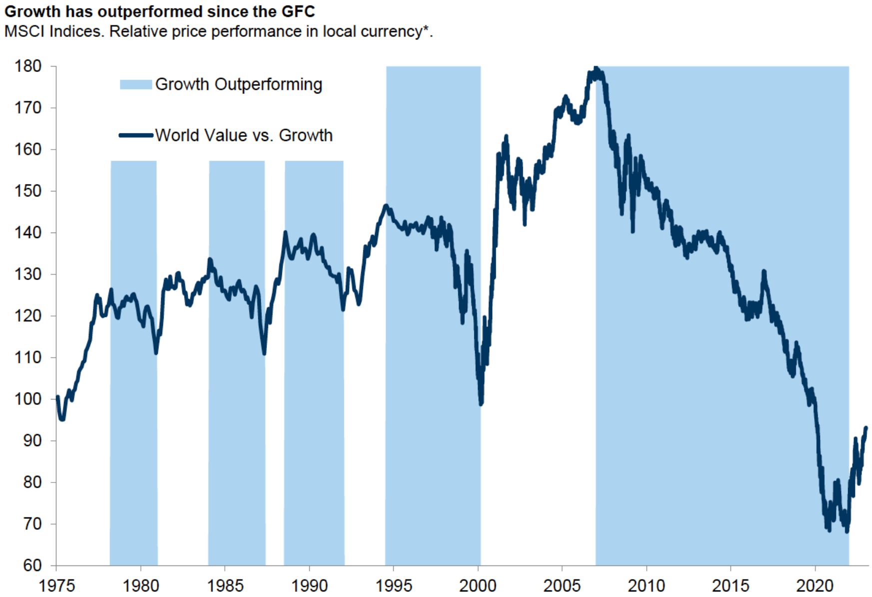
clear that the last 10 years have, from many points of view, not been normal years, but years during which the immense liquidity allowed everything, almost everything, to rise.

The outlook for 2023 is positive for both Classic and Natural Resources (NR) and we have no fear of a possible recession. All our investments' quality is high, the companies have good managers, and very healthy balance sheets. If prices do decline, we will simply buy more, thereby increasing our expected returns.



** Monthly Frequency until 1996. Daily Frequency from 1997 onwards.*

Source: Datastream, Goldman Sachs Global Investment Research

Global Investment Research

As we mentioned throughout 2022, inflation has already peaked

Throughout 2022, we anticipated that inflation would peak toward the end of the year and start to normalize throughout 2023. We were right – for once! Our baseline scenario still assumes that both inflation and interest rates (the latter with some delay) will normalize over the course of 2023. We have already seen the adjustment of goods prices and most of the services sector, as well as the adjustment of labor prices, which should occur in 2023 and 2024.

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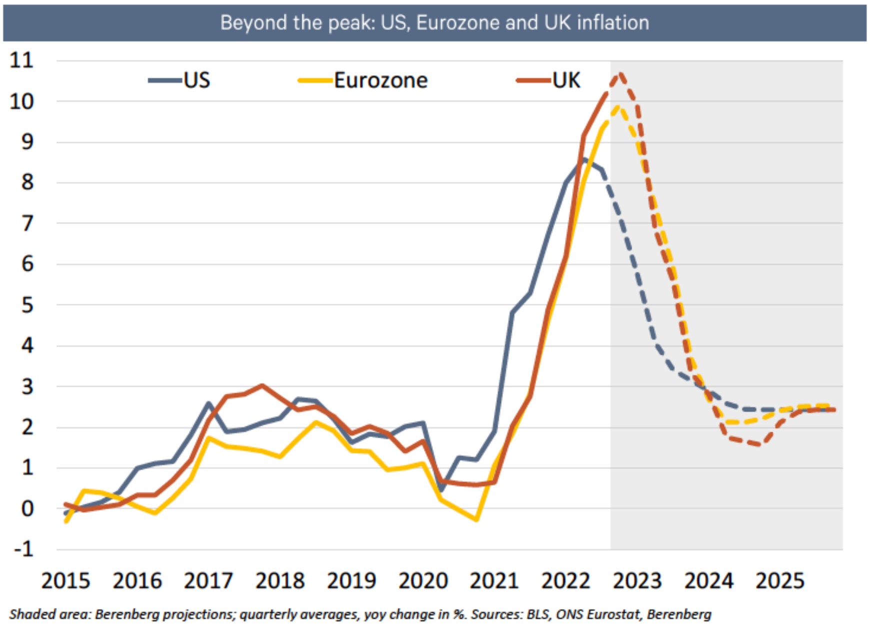
Inflation started its normalization phase



Some good news: China's reopening will accelerate the global recovery

The measures that the Chinese government adopted in the beginning of 2023 to accelerate the country's reopening were a dramatic change vs. the previous Covid-zero policy. **These measures will lead to a clear improvement in the country's economy and given its weight globally, those of the rest of the world**. The end of China's Covid-19 closures could mark the end of the global pandemic, which affected a very important part of humanity, but had a less serious impact than initially expected.

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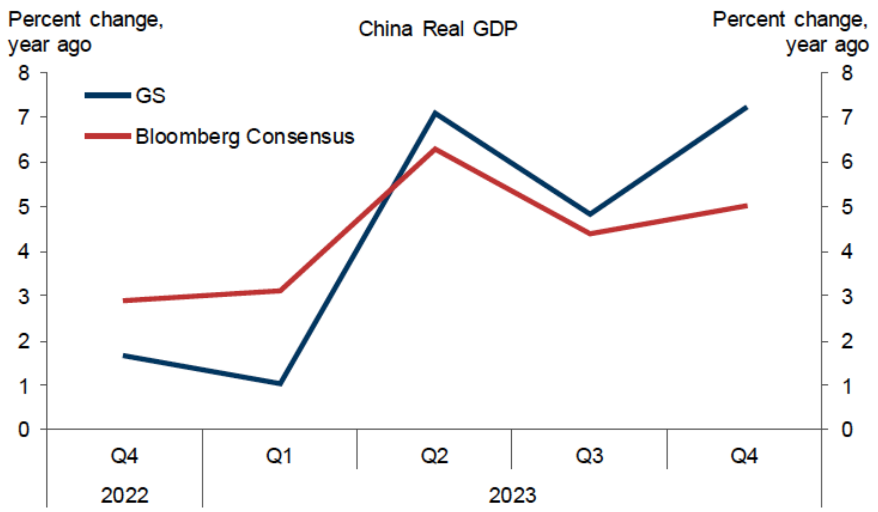
China's reopening: 2023 GDP estimates



Source: Haver Analytics, NBS, Goldman Sachs Global Investment Research.

Global Investment Research

Both our LTIF Classic and NR funds have a significant exposure to China, albeit indirectly, given that China consumes, on average, between 20% and 50% of all the world's commodities. Consequently, the country's economic recovery will have a positive effect on both funds. The Classic has a current exposure of 25-30% to commodities (including energy), while the LTIF Natural Resources' exposure is, obviously, close to 100%. We could say that, in view of the Chinese economy's imminent recovery, we are not badly positioned.

The Russian invasion of Ukraine is deeply entrenched: A black swan scenario should be kept in mind

We continue to believe that Russia's invasion of Ukraine will end in a negotiation, but this negotiation will only occur when one of the contenders makes clear progress on the battlefield. Currently there is no indication that this will happen. After a year of war, the initial economic impact has been almost fully absorbed, and the impact on the energy sector is not as bad as we expected.

For us at SIA, nothing has changed in economic and investment terms: The Russian economy is in recession and will suffer a lot in the medium and long term, while fossil fuel prices will remain at high levels for many years to come. The war is not the cause of the high prices, but it is going to have an accelerating impact.

We continue to look at the war as a black swan type factor, with the unexpected – whether positive or negative — happening at any time. **We are therefore managing our portfolios more cautiously than during more stable periods.**

The end of a long 10-year economic cycle characterized by ample liquidity

According to our analysis, we are still in the final part of the cycle that began after the 2008/09 global financial crisis — a very long cycle with three major shocks (European crisis 2011-12, Chinese crisis 2015, and Covid-19 crisis 2020). Currently, we should be in the final phase of a slowdown or economic recession, after which a new cycle will start. However, it is still too early to say what will happen and do not forget that the system is extremely dynamic.

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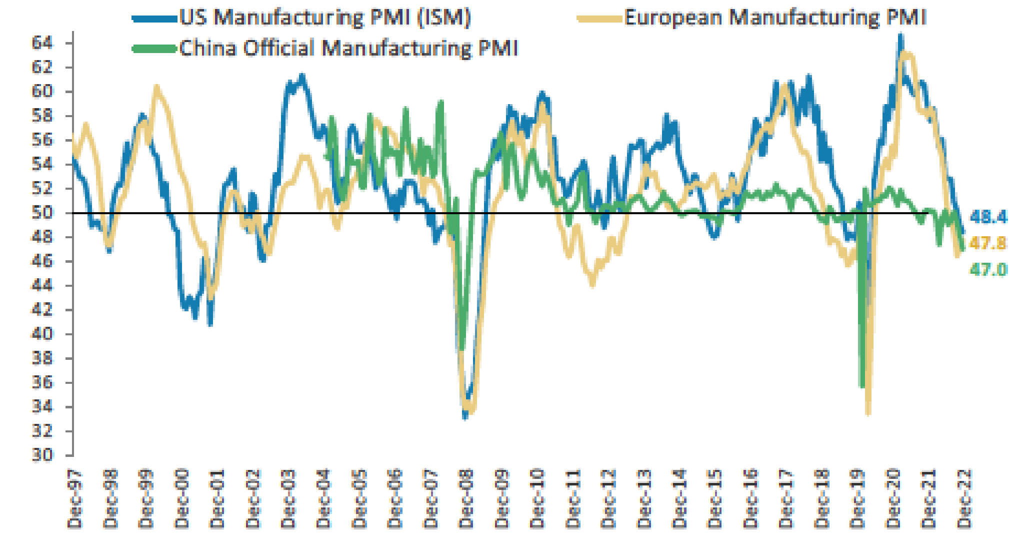
We basically follow 5 indicators to try to estimate the end of the current cycle, 4 of which still have a negative delta: inflation (+), rates (-), PMIs (-), earnings revisions (-), and liquidity (-). Our baseline scenario therefore suggests that we still have a few quarters of slower economic growth ahead (whether they will be a *soft landing,* or a *hard landing* remains to be seen) before starting a new cycle.

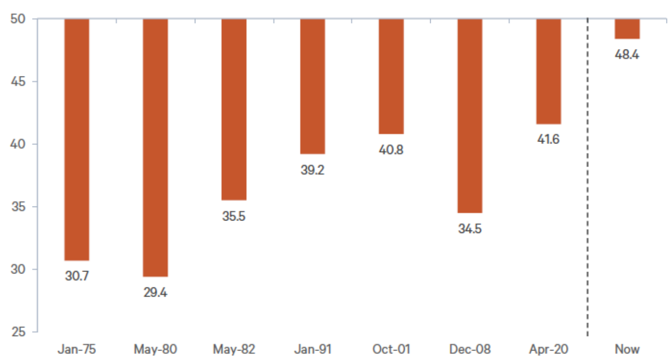
Global PMIs: a downward trend lasts 8 quarters from the peak and a year from the 50 mark



Source: Markit, ISM, Morgan Stanley Research

As we can see in the next chart, the US PMI has barely crossed the 50 mark, still far from the usual lows indicating a cycle's trough.

US PMI troughs in previous recessions:



Source: Berenberg research, Eikon

We once again reiterate that our macroeconomic analysis does not form the basis of our investments, but that we use it to avoid unnecessary risks.

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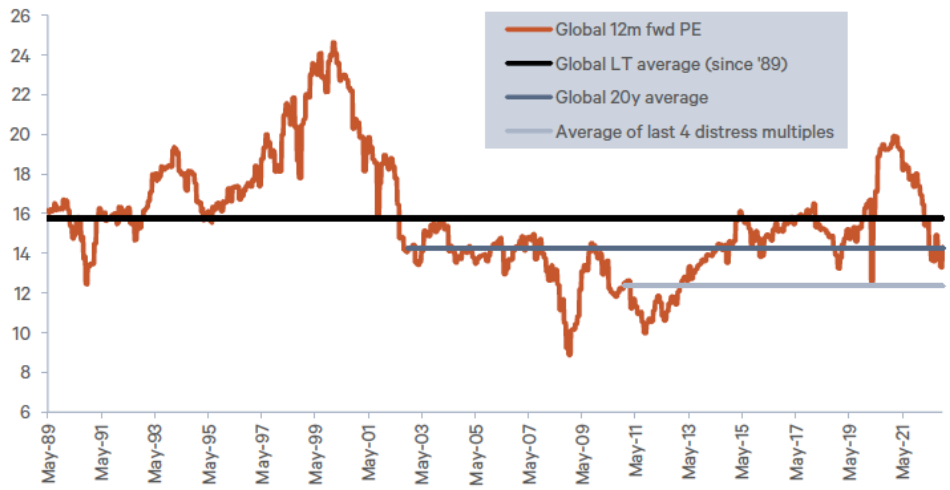
Valuations: Where are we?

As can be seen in the graph below, at a global perspective, the stock market is trading in line with the historical average, which is quite consistent with our valuation of the Classic and Natural Resources funds (*more later*).

12m forward PER Global equities



Source: Berenberg research, Eikon

At an Index level, we find only one index that is somewhat expensive, even after the sharp 2022 falls: the Nasdaq, the technology index. According to consensus, the Nasdaq trades at a P/E23E of 22x versus a historical average of 25x and a price-to-book value of 5.5x, above the historical average (4.2x). Given that we expect downward earnings revisions of more than 10%, we understand that the index's valuation levels are still too high, but there are good businesses within the technology sector that should be examined with more interest.

The world's leading market, the US (SPX), trades at a PER23E of 17.7x, the historical average, although in terms of the price to book value it is still somewhat above. We expect earnings cuts in 2023, which should bring the adjusted P/E closer to 20x. The key to valuation lies in the companies' current returns (RoIC, ROCE, and RoE), which are higher than the historical average in average terms. If these returns are sustainable (we believe they are), then the US market's valuation is very much in line with its historical averages.

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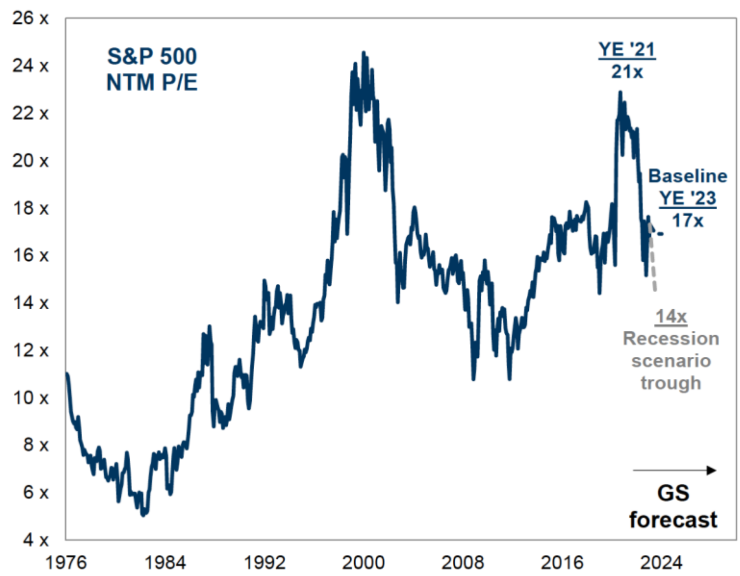

Source: Goldman Sachs Global Investment Research. As of January 12, 2023. Global Investment Research

Despite the rise in early 2023**, the European index remains cheap: PER23 13x versus a historical average of 19x**, with a price-to-book value in line with the average. **Also, he main emerging market indices — China's Shenzhen300, Brazil's Ibovespa, Turkey's XU100, and Russia's IMOEX — are trading at a discount compared to historical averages.**

PER and P/Book of the main geographic indexes

Index	SPX US	SXXP EUROPE	NASDAQ US	SHSZ300 CHINA	BOVESPA BRASIL	U100 TURKEY	IMOEX RUSSIA	TOPIX
Price	3.973	453	11.619	4.181	108.900	5.560	2.180	1.945
PER	**17,7**	**12,8**	**22,1**	**12,3**	**6,3**	**5,6**	**3,4**	**12,5**
P/Book	3,6	1,8	5,4	1,6	1,1	0,8	0,6	1,2

Source: Bloomberg, SIA Funds

By sectors, we find that the *Industrial*, *Technology*, and *Growth* sectors are expensive, whilst *Banks*, *Energy*, *Materials*, and *Value* are cheap. *Consumer*, *Healthcare*, and *Insurance* would be trading at their average historical level.

PER and P/Book of main sectors

Index	MXWO VALUE	MXWO GROWTH	MXWO INDUSTRIALS	MXWO CONSUMER STAPLES	MXWO HEALTHCARE	MXWO MATERIALS	MXWO ENERGY	MXWO IT	MXWO FINANCIALS	MXWO INSURANCE
Price	3.191	3.619	310	270	345	338	255	418	138	151
PER	**12,4**	**22,8**	**16,5**	**19,1**	**17,7**	**13,5**	**8,5**	**22,5**	**11,3**	**12,3**
P/Book	1,7	5,0	2,9	4,1	3,9	2,0	1,7	6,1	1,3	1,6

Source: Bloomberg, SIA

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II. OUT OF THE BOX by José Carlos Jarillo

By starting to discount just a mild recession, or even a "soft landing", markets have been more optimistic in the last months. In other words, a slowdown in economic activity that is important enough to lower inflation to acceptable levels but is short of being a serious recession. The next few months will tell us whether this optimism is warranted. **However, an issue that we have already discussed (and will continue discussing, since it will not go away) could have a very negative impact on economic activity and is currently not being discounted: the lack of abundant, reasonably priced energy.**

Logically seen, mankind consumes as much energy as it produces. Inventories, however, make a difference. If we have ample stocks, we can consume more than we produce … for a while. Conversely, if we produce more than we consume, we need to put the excess amount into some sort of inventory, whose capacity will necessarily be limited.

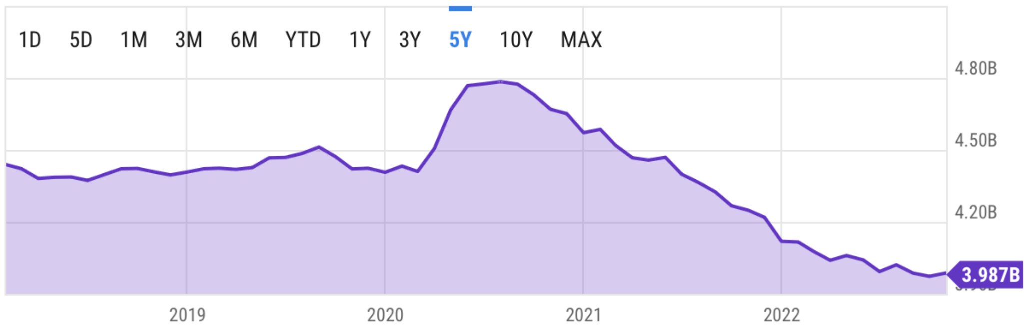
For physical reasons, stocks cannot be very large compared to consumption. The world oil stocks, for instance, fluctuate around the equivalent of 4 weeks of consumption. Natural gas is stocked during the summer and is basically consumed during the winter. Uranium, which is exceptionally energy-dense, can be stockpiled for a few years, but very few other commodities have stocks that are equivalent to more than a few weeks of normal consumption.

In reality, there are two kinds of stocks: those that are included in the previous paragraph (physical accumulations of the commodity in some sort of "warehouse"), and the amounts of the commodity lying underground in mines or fields that are already producing or are ready to produce. We don't count them as "stocks" (instead as "reserves"), but these are commodities ready to be produced if/when there is a need.

It's obvious that demand cannot exceed supply beyond the "cushion" provided by stocks. In other words, if stocks are not replenished, it is only a matter of time until consumption is cut, or production is sharply increased. In the real world, stocks cannot be reduced to zero, because any commodity's supply chain requires a lot of inventory for itself: In the case of oil, this is the content of pipelines, oil in transit on ships, minimum inventories in refineries, etc. This need for a minimum stock is especially pressing in terms of key commodities, since no country can afford to be deprived of energy for even a short amount of time (which would have economic and geostrategic consequences).

The world has spent the last few years running down its inventories of crucial commodities. First, the inventories "above ground", i.e., the visible ones:

World oil inventories (source, Energy Information Agency)



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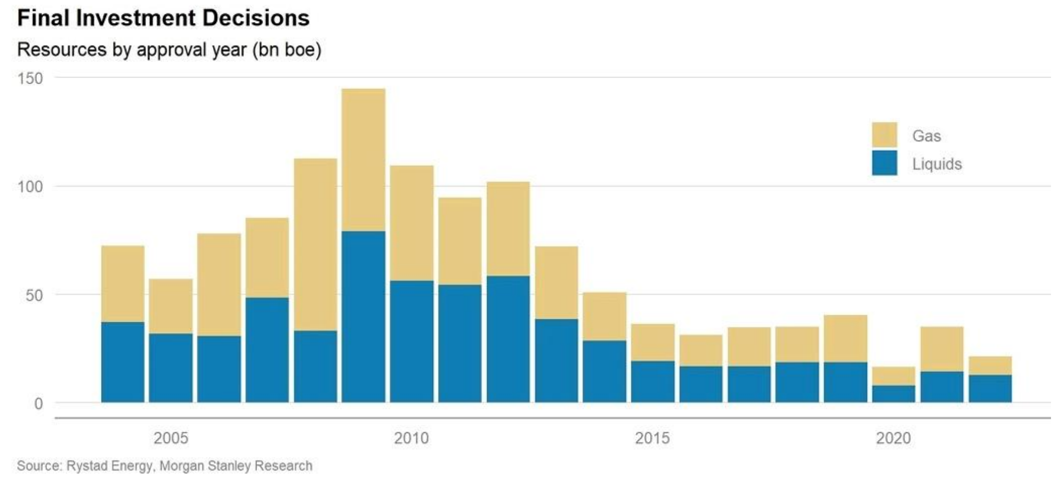
However, inventories "in the ground" are far more important, because they are much larger than inventories "above the ground". As we said, ready inventories amount to a few weeks of consumption, whereas producing reserves can go on for a few years. And these "in the ground" inventories are also declining fast.

Figure 20 shows the amount of new oil and gas that developments approved for investment each year can produce. **For the last few years, the world has been approving a production capacity equivalent to about one third of what we are consuming for development**. Although, "above ground" inventories are not yet zero, the total amount of oil and gas available for consumption is decreasing relentlessly.

As soon as the above ground inventory hits uncomfortably low levels (which is about to happen in the next few quarters), the world will realize that there are no oil or gas fields capable of refilling them while maintaining the usual level of demand. An important price spike can be expected.

Exhibit 20: Projects that passed FID in 2022 account for just 12.7bn barrels of future oil production; after 2020, the lowest level in ~20 years.



Will this derail inflation's current positive trend? Possibly. But, whatever the case, it will make maintaining an orderly economic activity without enough energy extremely difficult.

In fact, it's interesting to note that when "normal" energy is not available, societies turn to whatever is at hand to keep functioning. The following chart shows that amount of CO_2 generated in Europe and the details regarding Germany. This country, with its Green Party in government, and whose conservatives proclaimed its "Energiewende", is burning record amounts of low-quality coal (abundant in Germany) to keep everything going, even though it is only facing a smidgeon of natural gas scarcity.

We will see this kind of behavior increasingly within the next few years.

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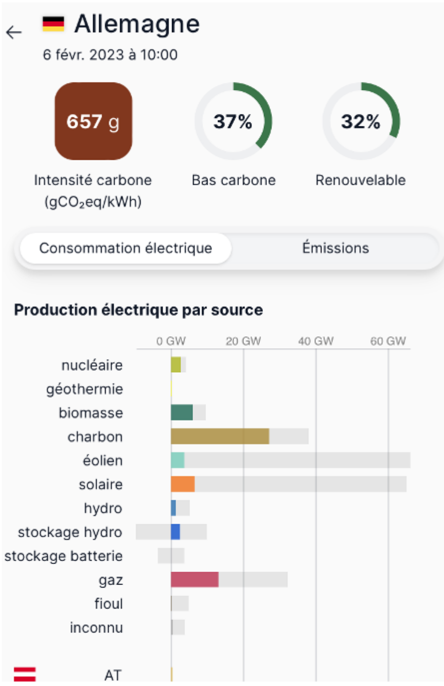

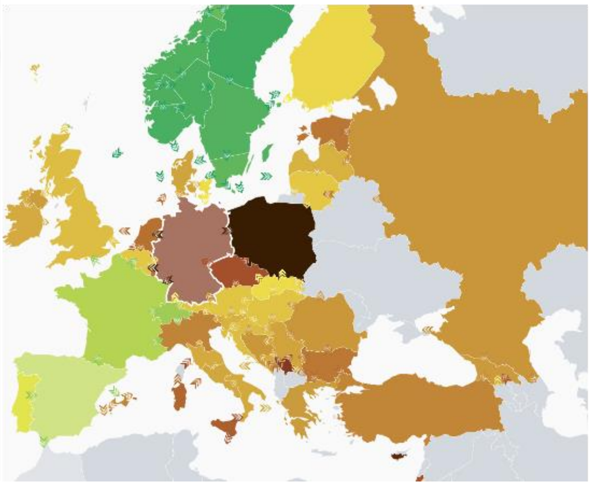

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III. THE LTIF CLASSIC

The Classic was up +14% in 2022 and has started the new year well with +6% ytd.

The Classic has had a good 2022, with a rise of 14%, slightly higher than our target of 10%. This is quite normal given that we are recovering points we lost by buying sectors such as energy and commodities on the downside.

The best sectors for 2022 were Industrials (defense, cables, and aerospace), Energy (oil), and Consumer (due to the Devro takeover bid and Services such as cleaning and catering). The worst sectors for the Classic were Salmon (taxes), Health (Grifols), and Technology (ASML). The best sectors by stocks were Thales, Devro, Cenovus, EOG, Hess, and ConocoPhillips, while the worst were LeroySeafood, Mowi, Pandora, Grifols, Medtronic, Harbour Energy, and Hudbay.

Some investors do not find the Classic interesting enough, because it does not have a theme, an idea, or a narrative with great prospects that captivates investors. Our answer is twofold: 1) the Classic's main factor, long-term value, beats growth and global stock indices in the long run. 2) We don't just have one theme, but many: supply scarcity of Salmon, Aerospace growth, Defense spending, Power Cables in the face of the energy transition, undersupply of Fossil Fuels, Metals in the energy transition, Digital Payment methods, cleaner Cement, Semiconductors in a digitized world, increased use of Plasma Proteins, and some other. **This is pure Classic: sectors with solid prospects, quality companies, all at an interesting discount. We call it *Strategic Value.***

The Classic's updated IRR stands at 13.6% with an Intrinsic Value (IV) of EUR 850 p.s.

The takeover on Devro (we still hold some shares) and a somewhat conservative portfolio management after the recent strong market recovery have had a slightly diluting effect on the IRR and IV. We will not go into more detail, but as mentioned, we are ready to buy should a market correction occur. If there are no further corrections, then all is good, because we will meet our profitability target. If there are corrections (with or without a recession), we have room to bat hard (*straight balls only, of course, dear Warren*).

Based on our estimates and average market valuations, we should be between EUR 600 and EUR 650 NAV per share by the end of 2023, thereby meeting our +10% target. Consequently, **we set our NAV target at EUR 625 per share by December 2023.** Moreover, through the magic combination of compound interest and the long term, we should not be far from EUR 1000 per share in 5 years' time (2028).

It remains to be seen whether we deliver or not, but, whatever the case, we will provide detailed explanations of our performance and keep learning. As we have repeated many times, the **Classic's alpha is not a goal in itself, but the consequence of our goal of generating a 10% annual return**. If we do this, we will generate an alpha of 3-4 points per annum, since the market has, historically, achieved 6-7% per annum. This percentage cannot change much, given its strong correlation with nominal GDP growth across the globe.

As usual, half of the Classic in 10 stocks

As in most of our Newsletters, we attach a list of the fund's top 10 holdings, which are normally close to 50% of the assets. Our objective is to demonstrate the high quality of our investments, the concentration, and, simultaneously, the diversification of the portfolio. In only 10 names, we have banking, cleaning, plasma proteins, catering, oil sands, cement, food and cleaning/hygiene, defense, and aerospace — concentration and diversification at the same time.

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I may be repeating myself, but quality at a good price, concentration, and, simultaneously, diversification are our values when building the Classic. I have heard teasing comments about our policy comprising four Gs' (which are summarized by a single G for Good): Good business, Good management, Good balance sheet @ a Good price. **At first glance this seems very basic, but the four Gs' are only the tip of the iceberg of our investment approach.**

LTIF Classic Top10 Holdings	
ING Groep NV	5,4%
ISS A/S	4,9%
Grifols SA	4,9%
Sodexo SA	4,5%
Cenovus Energy Inc.	4,5%
Heidelberg Cement AG	4,1%
Unilever Plc.	3,9%
Thales SA	3,7%
MTU Aeroengines AG	3,6%
Suncor Inc.	3,5%
TOTAL	**43,0%**

Quarterly Investment Case: We have three 3 extremely undervalued companies

We have 3 companies with an Intrinsic Value twice the current share price: Pandora, Grifols, and Harbour Energy. The fund's total position in these three companies is 13% of assets. Should our investment cases prove to be correct, we have 13% to recover in the next few years with just three names.

All 3 stocks have been with us for years, we know them well, and we expect them to be a source of value generation for the Classic in years to come.

- **Pandora (DKK 625):** We believe Pandora is extremely cheap due to 2 factors: recession fear (Pandora is a consumer discretionary business, thus cyclical) and the company's poor track record in the past few years (which led to a new management and deep restructuring). Our view of the company differs from consensus for three reasons: 1) the restructuring is progressing well, and the company is ready to continue growing, except in China, where growth will take longer; 2) Pandora's exposure to the cycle will not cause structural damage and, since it offers affordable jewelry, it should even benefit from some trade down; and 3) the management team and balance sheet are very solid. If the stock keeps falling, we will buy more. **PER23 10x. IV: 1200 DKK. IRR: 21%.**

- **Grifols Pref. (EUR 8.4):** We maintain our confidence in the strategic shift at Grifols' management. We also foresee a gradual improvement of the business in the coming years, after Covid-19's strong impact on the group and some management mistakes, such as leverage and the overly accelerated pace of acquisitions. We believe that, in the coming years, the company will recover its pre-Covid-19 profitability, fix its balance sheet and be more focus on returns on investment and minorities. **PER23E 11x. IV: EUR 23. IRR: 22%.**

- **Harbour Energy (317 GBp):** We have known Harbour Energy for more than a decade: it is the company resulting from the merger between Premier Oil and Chrysaor. We have known 3 of its management teams over the years and, truth be told, we would be happier not having invested in it. However, Harbour's valuation is clearly a market mistake: Its 2022 free cash flow is $2bn.

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vs. a market cap of $3bn. and a debt that will be zero at the end of 2023 (E&Ps do hedge). There are many reasons not to buy Harbour: It is a small E&P in the North Sea, pays increased high taxes, has only 7-years' reserves (below the 10-year normal), and it is exposed to the oil and gas cycle. Thus, it is a high-risk business (risk category 4; highest for SIA), but in our scenario of high oil and gas prices, Harbour could buy back the entire company in 1.5 years. If we were managing private equity, we would buy it tomorrow. True, the assets are TIER3 assets, but they have been operating normally for many years, the management team is excellent, and they are virtually debt-free. **PER23E 3x. IV: GBp 750. IRR: 23%.**

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IV. THE LTIF NATURAL RESOURCES

LTIF Natural Resources has had a good two years, and they're just the beginning

LTIF NR has had a good 2022, up +13%, although we continue to value the 3 Russian stocks at zero, so the real "mark to market" has been somewhat higher, close to +17%.

The energy sector (oil and gas) in which we have, on average, held 45-50% of the assets, was clearly the star sector of 2022. This sector appreciated by 50% in 2022 compared to the mining sector (30% of the fund in 2022), which ended the year with a slight decline, as did the infrastructure sector (10% of the fund). The only bad year we had was in agri-food (10% of the fund), which fell an average of 10%.

By stocks, Hess, Occidental Petroleum, ConocoPhillips, Teck Resources, Glencore, Devro (IPO), and Viscofan are conspicuous for their strong rises, while we highlight the salmon companies (new tax), Harbour Energy, Atalaya Mining, and Hudbay Minerals on the negative side.

We have had two good years (+41% in 2021 and +13% in 2022) and are convinced that this is only the beginning of a long commodity super cycle.

IRR of 14%. Intrinsic Value of EUR 208 p.s., with mid-cycle valuations

The LTIF NR is currently trading at EUR 150 p.s. with an IRR of 14% and an Intrinsic Value of EUR 208 p.s. using converged valuations i.e., incentive prices for commodities (not higher) and converged DCFs.

However, within our commodity super cycle scenario's the potential is way higher. As an example, we would like to explain what happens when we try to value Cenovus, the Canadian oil sands oil company. At an oil price of $75-80 WTI, Cenovus generates an annual free cash flow close to 20% of the market capitalization, which means that in a DCF model, you "eat" the entire capitalization in the first 5 years. How much is Cenovus subsequently worth if the price were to remain at $80+ over a longer period, say 10 years? And how much is Cenovus worth if the oil price were to stabilize at $150 per barrel? This is what we mean when we talk about a super cycle: prices and profits well above the average cycle level for a long period of time.

Then the question is: How much would the LTIF NR be worth if we would use peak earnings for longer? Well, a lot. We could even measure it, but why? *Just enjoy the ride.*

Our first estimate of a barrel of oil's incentive prices in the new cycle

For some quarters now, we have had the problem of quantifying the oil price that should incentivize new investments. Technically, the cost curve (which, by the way, continues to rise) places the marginal level between $80 and $90 per barrel, but in reality, at these levels capex is not responding.

As we have seen in recent years, investments in oil projects have dropped a great deal — from around 50 FIDs (Final Investment Decision) per year a few years ago to 25-30 FIDs in the last 2 years. In 2022, with its high oil and gas prices, only 28 new projects were approved.

All graphs of investment in the sector reflect a very significant underinvestment since 2014, which was normal due to the low prices, but we have had two years of high prices and still investment is very depressed. Why? There are mainly three "new" factors: the sector's discipline — it now focuses on returns; the ESG factor, which greatly complicates any polluting or CO_2 emitting project; and, finally, the general opinion that we are currently facing peak demand (FOPD, *Fear Of Peak Demand*).

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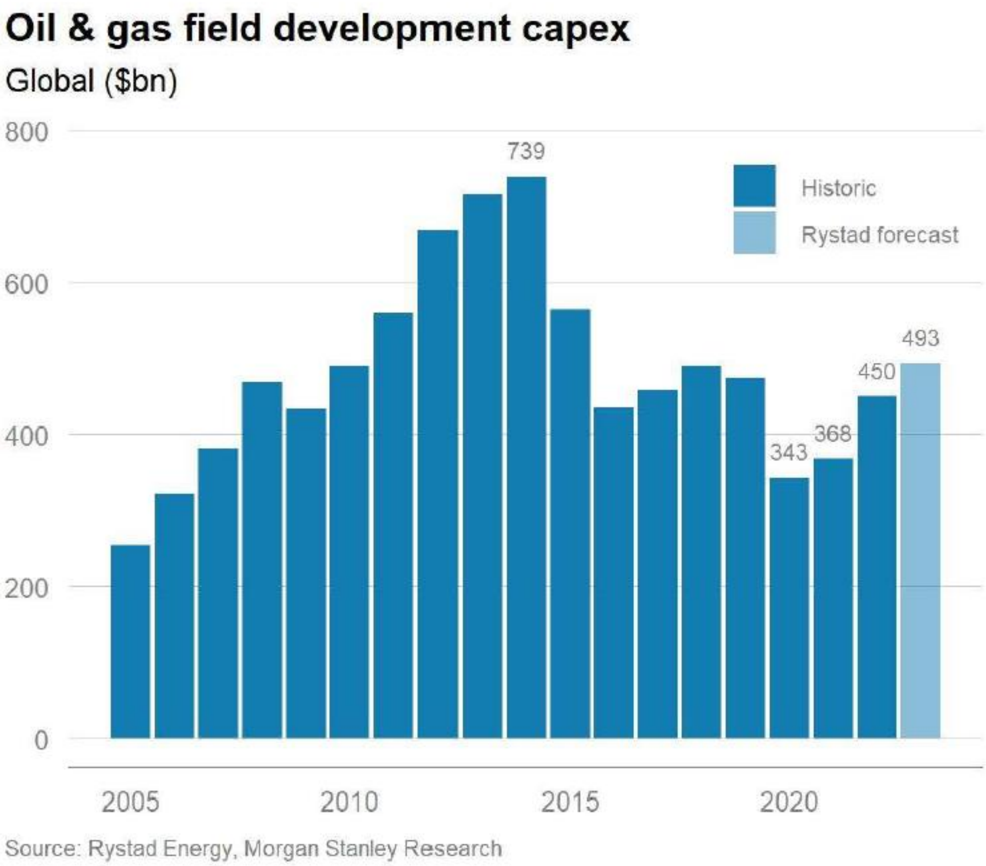

We were very surprised by the figure of only 28 FIDs in 2022, **but the IRRs of those 28 projects were even more surprising: an average IRR of 28%,** much higher than the historical 15% that companies use to approve new projects. The cost of capital has therefore risen sharply to compensate for the three issues mentioned above.

Roughly speaking, a required IRR that has almost doubled would be equivalent to an oil price much higher than the $80/90 per barrel that we currently use in our modelling — approximately $150 per barrel. Is this the price that the sector needs to incentivize new projects at scale? $80/$90 is certainly not sufficient (empirically), and the price must be much higher (and stable) to attract capital.

The same applies to copper

Our estimates of supply and demand in the copper sector suggest that there is sufficient supply to meet demand until 2025 (in broad terms), but after that a huge gap opens, reflecting a significant structural deficit. According to Freeport McMoran, 50m tons of copper will be needed in 2050, vs. only 22m tons are currently mined. If we were to annualize these figures, they would be equivalent to a growth of 1m tons per year (obviously not linear, but useful as an observation), which compares with recent years' growth in demand of around 500,000 tons per year.

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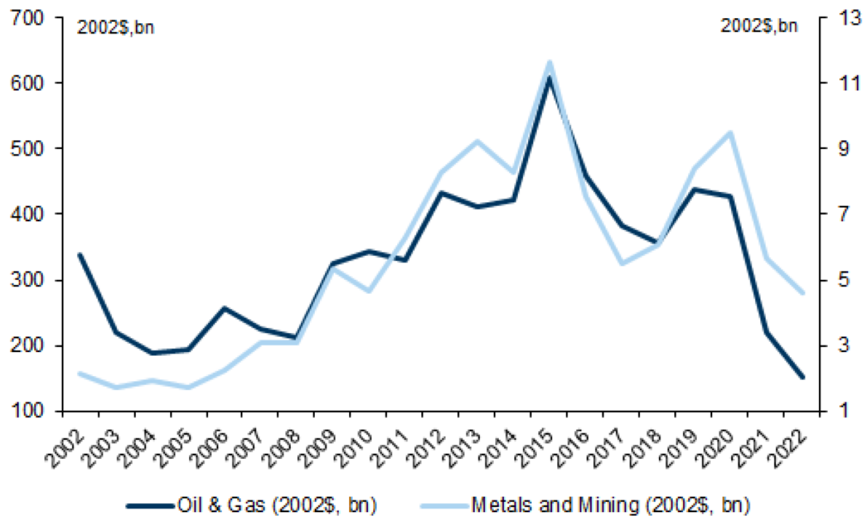
Oil & Gas and Metals and Mining (rhs) real capex in 2002 dollars



Source: Goldman Sachs Global Investment Research, Baker Hughes

We are going to need new mines, but here too we run into barriers: 1) **country risks,** since most new reserves are in emerging/developing countries; 2) **ESG,** which at the very least makes projects more expensive and often bans them; and 3) ***rising taxes,*** since most governments regard high commodity prices as an excuse to raise taxes.

Consensus continues to use $3.5 per pound as the incentive price for copper. The consulting firm Wood Mackenzie recently mentioned $4 per pound as the real incentive price, but the CEO of Atalaya Mining, *Alberto Lavandeira*, told us that, according to his numbers, the price is more likely to be $5 per pound. This means that consensus numbers and valuations are way too low.

The discussion on incentive prices, capex, margins, returns etc.… all this hard data discussion is very enlightening but mainly on a theoretical level because the reality is **that there will not be enough copper to meet the needs of the world electrification. Then if there is not enough copper, what numbers should be used?**

Why have we increased the weight of salmon farming?

Salmon farming shares fell quite heavily following the intention of the Norwegian Government to apply a new Resource Tax, which would raise, roughly speaking, the effective tax rate from 25% to 65%. The new Resource Tax is now being discussed and negotiated between all involved parties and we will soon get the final tax regulation.

We did some due diligence on the sector and found an interesting idea: the negative impact on earnings of the new tax regime would be almost completely offset by a rise of 20% of salmon prices. This is interesting because higher taxes in Norway mean higher costs for 50% of the supply curve, and thus less capex and less supply, leading to higher prices. How much? Difficult to quantify because there is substitution for salmon (other species or a chicken sandwich) so there would be a limit on price increases due to the high demand elasticity.

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This analysis led us to start buying shares in some salmon farmers. We have been possibly lucky because recent news suggests a possible re-design of the new Resource Tax to a lower level. We think this makes a lot of sense, and if the news is confirmed, the salmon farming sector will continue to be a very interesting sector for SIA Funds. We will continue to fish in troubled waters. Good news for once, for the time being.

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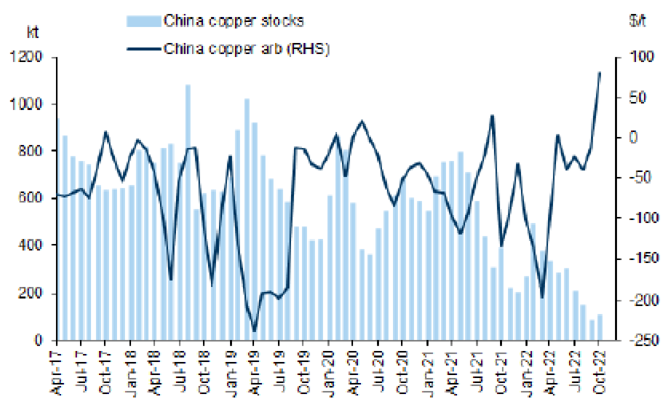
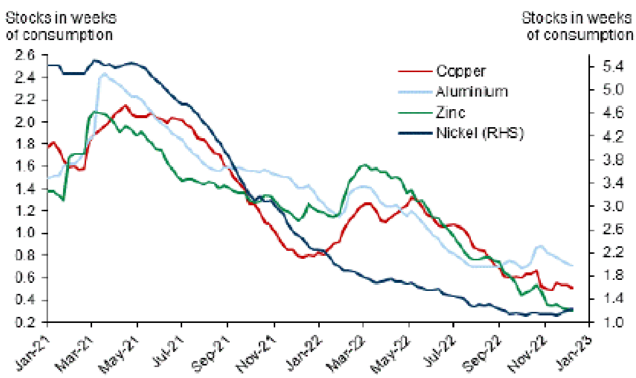
V. NATURAL RESOURCES THOUGHTS by Urs Marti

In our last report, we outlined the extremely negative market sentiment/positioning of the financial industry due to the fear of a recession. This situation, however, contradicts the information we obtain from physical market participants (miners, traders, and consumers). Global visible metals inventories and Chinese onshore stocks are at record lows. As we can see in the next charts, the physical market is very tight.

Scarcity of onshore inventory means risk skewed toward restocking



Global visible metals inventories



Source: Goldman Sachs

As usual, such extreme positioning leads to the opposite of what the crowd expects. The pain trade is on the upside and the news of China easing its Covid-19 restrictions have both led to some short covering.

The press continues to run with the news of nuclear energy's renaissance. This refers to long-term development strategies, the extension of licenses, the restart of reactors, and new builds. India, Poland, Saudi-Arabia, Belgium, Japan, Korea, Germany, Sweden, South Africa, Egypt, Holland, UK, Hungary, and China are just a few countries that have made headlines during the last few weeks. To summarize, the whole world is in the process of waking up to the fact that it needs a massive increase in nuclear power to keep the lights on (to catch a glimpse of the effect of a misguided energy policy, readers should take a look at the South African Eskom disaster).

Apart from plans to build a nuclear power plant at Norilsk, Nornickel signed an agreement with Rosatom to expand the fleet of nuclear-powered icebreakers (check out the future of the Arctic Route…). Small nuclear power plants are more than just an idea, they already exist. Unlike to the West, Russia never abandoned nuclear technology. A look at Rosatom's homepage is recommended for readers to see the range of opportunities that exist and not just in the field of electricity production.

During 2022, the uranium industry reported a substantial increase in long-term contracting. A shift from underfeeding to overfeeding is expected to add another 20 million pounds to the demand equation. Kazatomprom has a net cash position and completed the first trans-Caspian delivery from its Inkai JV with Cameco. The material arrived at Cameco's Blind refinery in Canada. Should the main route through St. Petersburg become unavailable for whatever reason, the middle corridor through the Black Sea will mitigate Kazatomprom's risk.

In a first reaction, market participants disliked Cameco's acquisition of a major stake in Westinghouse. With hindsight, the move will be viewed completely differently. It shifts the company from being a purely mining company to an integrated provider of a wide range of products and services to the nuclear industry — right at the beginning of the biggest bull cycle. With the Western world neglecting the nuclear industry, Russia's Rosatom developed a dominant market position with, for example, Russia owning 40%

of the world's conversion infrastructure and 46% of the total enrichment capacity. The political situation has also led to Russian products being irretrievably redirected to the East. Consequently, Cameco will have a dominant market position in the Western world for many years to come.

In the Agri/food space, one of our main holdings, Devro, received a takeover bid from a food company owned by one of Germany's wealthiest family. The price offered was 60% higher than the last price and close to our calculated Intrinsic Value. It shows that our private equity approach to quoted companies works. The value gaps will eventually be closed; it is just a question of patience. In addition, time will tell how our approach will play out in other segments. In mining, corporate action (e.g., BHP-Oz Minerals and Rio-Turquoise Hill) has shown that transaction prices also differ completely from market prices. Capital (capex) discipline doesn't show any sign of change in the foreseeable future. For example, Glencore made it clear that it is only interested in adding capacity when prices reach levels where demand destruction starts, which can be very high for goods with an inelastic demand curve.

In the oil space, there has been wide comment on Chevron's announcement that it would be buying back nearly a quarter of all its shares. One does not need a crystal ball to see these events coming. One only needs to look at the cash flows and the relation to the market cap/debt/expected capex, and there you go. There are/will be many more extreme examples, like Petrobras, which paid a more than 60% dividend yield last year, and Harbour, which is trading at 0.9 times EV/EBITDA 2023. The remaining debt will be gone in a few months and the capex is being cut due to the UK tax situation. The shares should therefore soon become attractive for money market funds.

Owing to its full valuation, our salmon exposure was mostly sold before the tax issue arose. It was partially bought back after the decline. Given the poor license auction, the Norwegian Government has already lost more money than it will collect with higher taxes. The proposed regime will lead to the capex collapsing completely and, consequently, resulting in lower volumes and higher prices. An old credo of commodity legend Ivan Glasenberg was: prices are for free, capex costs money, and brings hassle. Estimates conclude that the tax effect equals 15% in prices, which is not that much. Experience, however, shows that 1% percent on the supply side has a multiplier effect on the price.

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