S I A
Strategic Investment Advisors Group

Long Term Investment Fund

Newsletter

of May 2023

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

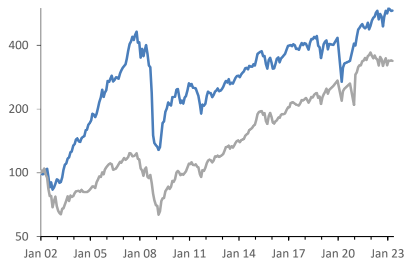

Figure 2: **LTIF Natural Resources EUR**
vs. S&P Global Nat. Res. Net TR Index EUR

"You never know who's swimming naked until the tide goes out."

"The banking business is not favorite to us. When assets are twenty times equity - a common ratio in this industry - mistakes that involve only a small portion of assets can destroy a major portion of equity."

Warren Buffett

Overview of our funds

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

April 28, 2023	NAV	Δ 3m	Δ 12m	Annualized return (s.i.)	AUM *(in mio)*
LTIF Classic [EUR]	583.32	-2.4%	2.4%	8.6%	93
LTIF Natural Resources [EUR]	139.93	-6.7%	-2.8%	1.9%	71

Source: SIA Group

I. THE TIDE KEEPS GOING OUT

Who is swimming naked?

As we discussed in the *December 2022 Newsletter*, **we are witnessing the end of a very long cycle - more than 10 years - of extremely low interest rates and very ample liquidity,** which, in *Buffettian* terms, is equivalent to a high tide.

We have also begun to see who was taking advantage of these levels of liquidity, by assuming too much risk (in other words, *skinny dipping at high tide*) **to generate above-market returns**. Corpses are appearing as we move into a tighter environment, namely SVB, Signature Bank, First Republic, and, most recently, CSFB.

They are not the first ones (Archegos, Greensill Capital, cryptocurrency platforms, UK real estate funds, etc. preceded them) and will not be the last in this cycle, given that the impacts of the rising interest rates and the progressive drop in liquidity are going to affect many sectors. Nothing really new... in fact, it will - as happens in all tightening cycles - be "business as usual".

We understand that we are not facing a systemic event but remain concerned about several important segments to watch: real estate, especially office and commercial, which has seen absurd valuations within a perennial hyper-bullish outlook; **private equity**, which uses massive debt at different levels to enhance expected returns and is not tied to

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mark to market; **venture capital**, which combines high indebtedness with massive exposure to technology and/or growth at the peak of the cycle; **long-term bond portfolios**, which have lost a great deal of value and will gradually reveal that risk teams have not managed their task well; **leveraged credit** and junk bonds (gravity time!); **SPACS, the cryptocurrency sector**, which will, in our opinion, slowly "disappear" and then suddenly.... These are just examples - there are many others.

In terms of timing, we still think that we are halfway through the process, which started at the end of 2021 and could be called an economic slowdown. We believe that there are still a few quarters left before the end of this slowdown. However, the end is very difficult to predict, because, as we have said many times, the global socio-economic model is extremely dynamic and has many many moving parts, starting with the Russian invasion of Ukraine.

At SIA Funds AG, the slowdown or economic recession generated a lot of stress not so many years ago, due to the usual market downturn and the subsequent drop in stock prices; nevertheless, we have for some time already regarded a slowdown/recession as an opportunity to buy cheaply. Our two funds, the Long Term Investment Fund Classic and the Long Term Investment Fund Natural Resources, are invested in quality businesses, with good managers, healthy balance sheets, and trading at a discount to intrinsic value. We are therefore ready to hit hard (buy aggressively) as soon as prices come within our range.

If our slowdown scenario is wrong and the markets do not cut back, so much the better, as there will be less stress and we will make our annual 10%. However, we have prepared ourselves for a somewhat more hostile environment, one that will generate opportunities and increase our long-term returns, because bear markets tend to erroneously assign ridiculously low prices to many quality businesses.

Low rates and ample liquidity characterize the end of the long cycle of more than 10 years

According to our analysis, we are still in the final part of the cycle that began after the 2008/09 financial crisis. This has been a very long cycle with four major shocks (the 2011-12 European crisis; the US economic downturn and China's mini-crisis in 2015; and the 2020 Covid-19 crisis). We are currently in the second or final phase of the slowdown (or economic recession), after which a new cycle will start. It is still too early to say when this will happen.

We basically follow 5 indicators to estimate the end of the current cycle, 4 of which still have a negative delta: interest rates **(-)** are still rising, although this should not continue for long; PMIs **(-)** have recently moved below 50, despite a rebound in Q123; the earnings revisions **(-)** are yet to come; and liquidity **(-)** is down, except in China. Only inflation is in a positive delta **(+)** already falling globally.

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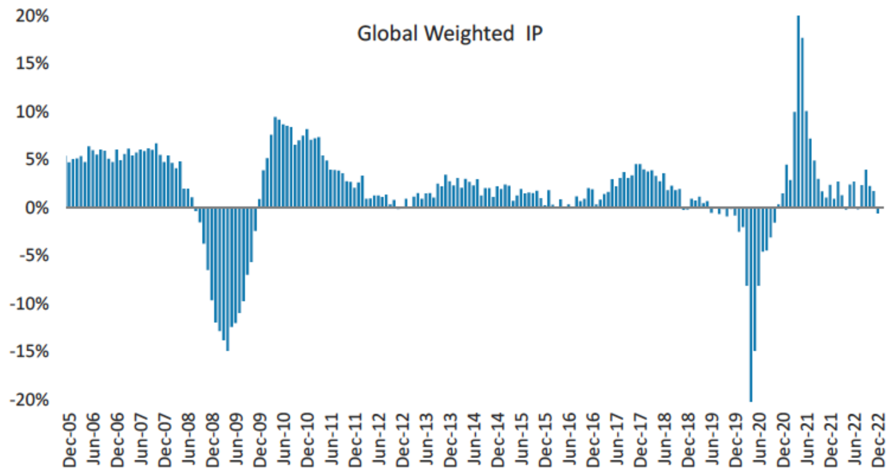
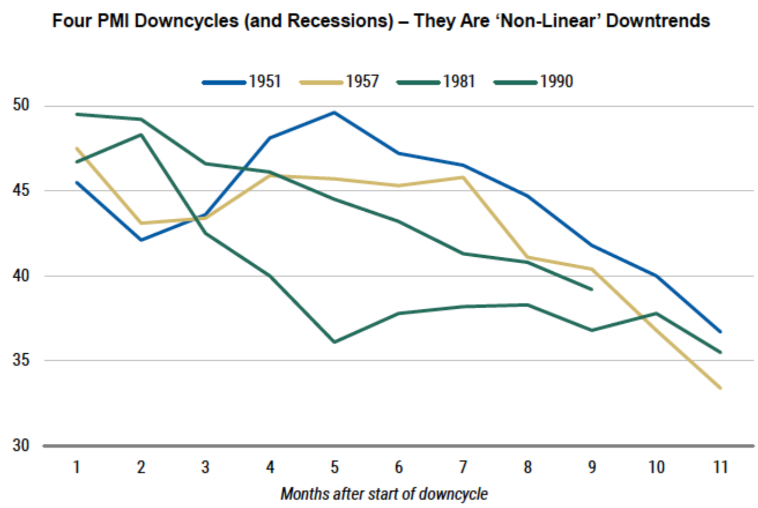
Industrial Production Growth Just Turned Negative for First Time in Two Years



Source: Morgan Stanley Research

Consequently, our baseline scenario suggests that we still have a few quarters of slower economic growth ahead of us (whether a *softlanding* or a *hardlanding* remains to be seen) before a new cycle begins. The chart below shows the level and timing of the *previous* cycle lows from a PMI perspective. On average, there should approximately be a year left, with the lower levels not yet predictable.

PMI Downcycles – Too Much Emphasis on Monthly Prints; Focus on the Core Trend



Source: Morgan Stanley Research

A differential factor in the current cycle is that China is starting its economic recovery - in March there was a sharp rise in the money supply, public investments, improved consumption, and the first signs of

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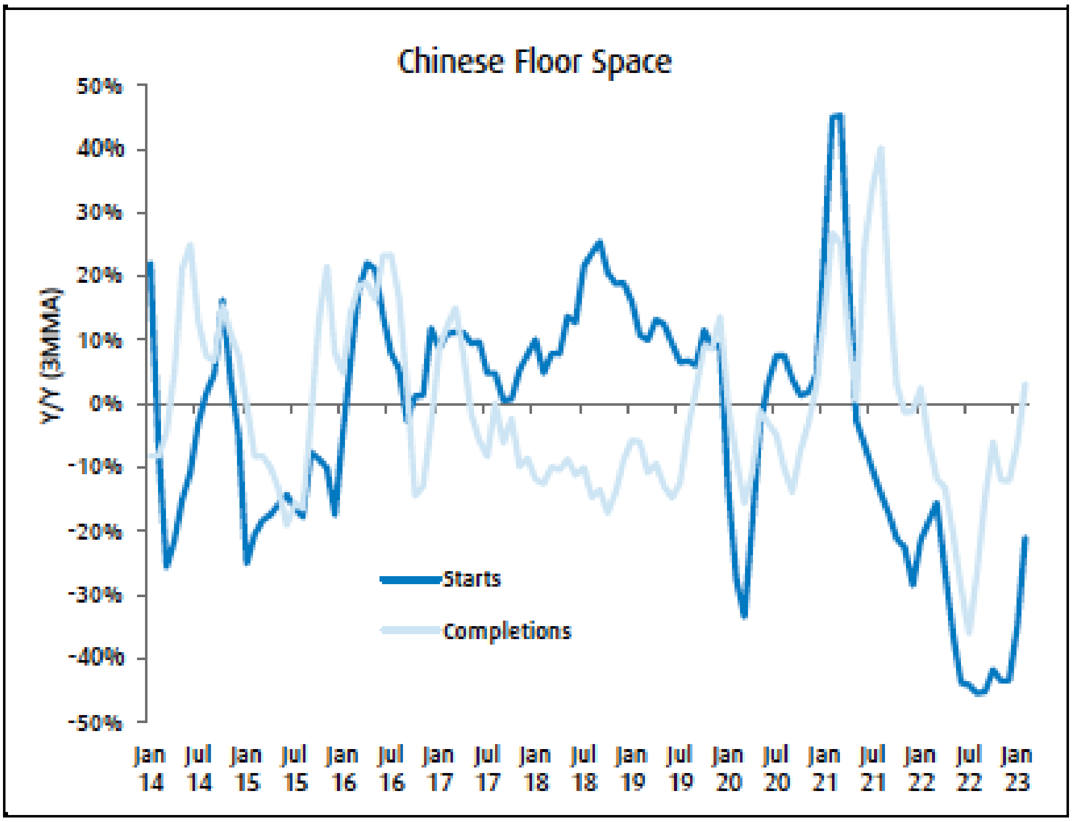
housing's stabilization. The recovery could therefore have a positive impact on both the global slowdown's duration and on its levels.

China's reopening will accelerate global recovery

China has released several figures for March that make us optimistic about the country's economic growth. In the first quarter of the year, its GDP grew by 4.5%, which was above expectations, consumption rose by 10%, and credit is still growing strongly. Despite the general negativity about China, we believe that the government will once again manage the cycle efficiently, invest in infrastructure, help the real estate sector find its footing, and lay the foundations of a consumption recovery. The chart below shows that the real estate sector has started to recover from its low in mid-2022.

China: Housing is stabilizing



Source: National Bureau of Statistics, CEIC, BMO Capital Markets

Classic and NR have a significant exposure to China, given that, on average, the country consumes between 20% and 50% of all the world's raw materials. Consequently, its economic recovery will have a positive effect on these funds. Classic has a direct exposure of 20%-25% to commodities (including energy) and, Natural Resources, obviously, close to 100%. We could say that, given the Chinese economy's incipient recovery, we are not badly positioned.

Inflation keeps normalizing

As we anticipated in some of our previous Newsletters, inflation has, in global terms, started its normalization phase. The latest figures are confirming this trend (see chart below) with the US at 5%, and Europe at 6%. In our view **only two issues of concern remain, namely rising wages** (more so in the US than in Europe) **and energy**, which, although it has come down a lot, will continue to give us headaches.

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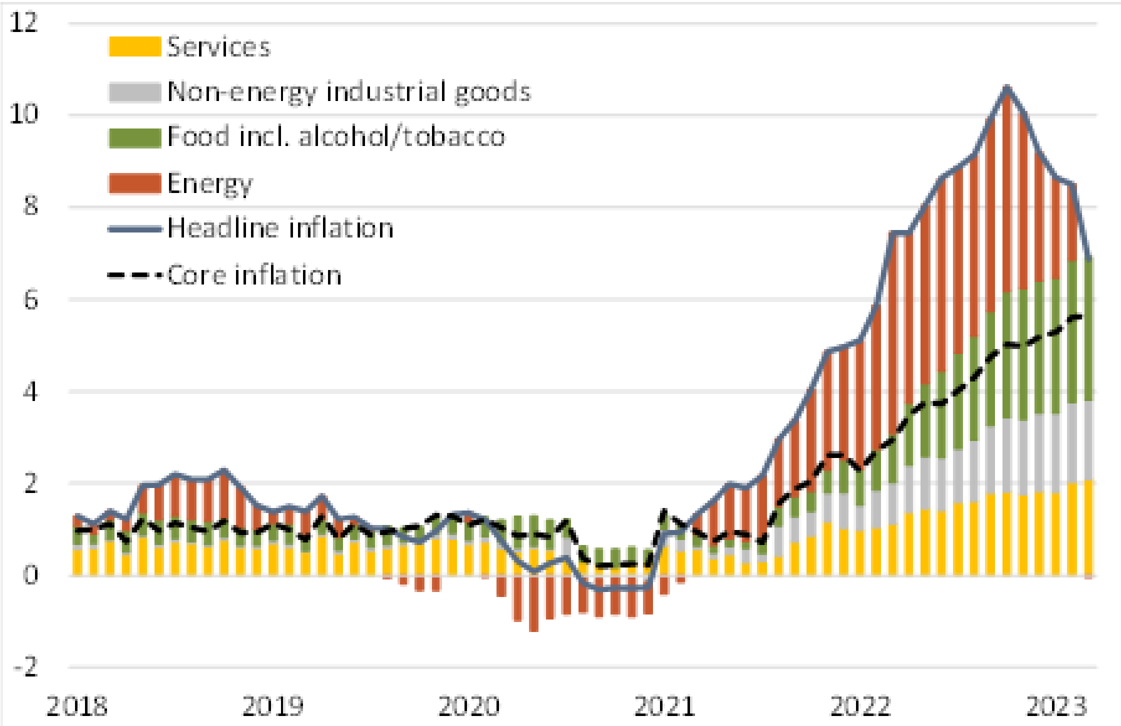
We are therefore approaching the peak in short-term interest rates, which will materialize in the coming months.

It should be noted that Asia (which has 8 of the 11 central banks) has possibly ended the interest rate hike cycle, and rate cuts could begin in late 2023 or early 2024. In fact, inflation in Asia is already within most central banks' target range.

Inflation slowly returns to more normal levels

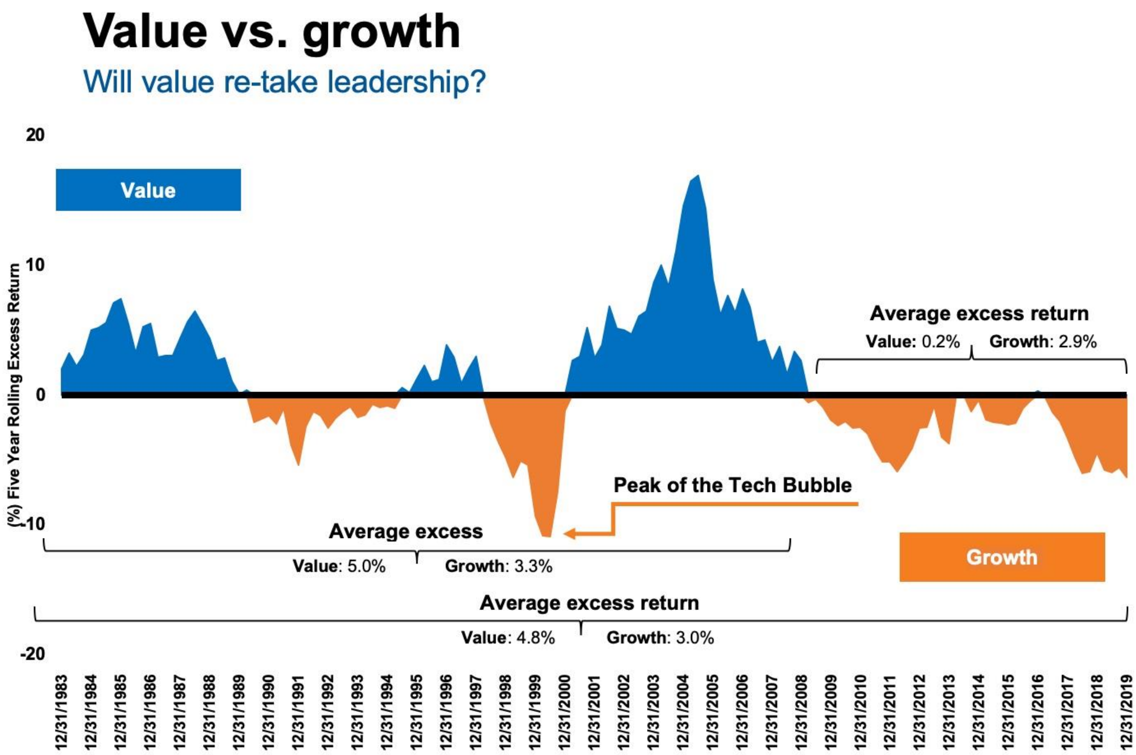


Source: Berenberg Research

Against this backdrop, our two funds started 2023 well

In the first quarter of 2023, the Classic and the NR (both +6%) returns were rather good. We remain convinced that the "growth" cycle, fueled by low rates, liquidity, and spectacular business plans, has come to an end and value is going to return to being the winning strategy it always was.

We found the following chart on the internet: it clearly shows the growth cycle that started in 2009, after the GFC, and which has lasted more than a decade. A new value cycle started in 2021/22 (not predicted by the chart), cycle which, as history shows, will be of long duration.



Two quick conclusions: 1) the value cycle has just started and will last for years, perhaps a decade; 2) value beats growth in the very long term; consequently, for once the short, medium, and the long term are aligned to invest in the value philosophy**.** Value and growth overlap and, from a fundamental point of view, they are difficult to separate. However, it is clear that the last 10 years have not - from many points of view - been normal years, but years during which the tide was immensely high for growth followers.

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II. *OUT OF THE BOX* by José Carlos Jarillo

Within investment circles, the most discussed topic is that of recession. **There seems to be a widespread consensus that a recession is coming, if not in a few months, then in a few quarters.**
We don't, of course, know what is going to happen, but we thought it might be useful to share a few thoughts and data on where the economy is.

First, what is a recession? The International Monetary Fund defines a global recession as "*a decline in annual per-capita real World GDP (purchasing power parity weighted), backed by a decline or worsening of one or more of the seven other global macroeconomic indicators: Industrial production, trade, capital flows, oil consumption, unemployment rate, per-capita investment, and per-capita consumption*". According to this definition, the world has only seen four global recessions since World War II, namely in 1975, 1982, 1991, and 2009, all of which only lasted a year.

In financial circles, however, a "lighter" version of this definition is now widely used: an economy is considered to be in recession *if its real GDP (i.e., total production adjusted for inflation) goes down for two consecutive quarters, even if it's just by 0.1%.*

If we take the established two-quarters definition, the following is what the US has experienced since WWII:

Period	Duration	GDP decline	Peak unemployment
November 1948–October 1949	11 months	1.7%	7.9%
July 1953–May 1954	10 months	2.7%	5.9%
August 1957–April 1958	8 months	3.7%	7.4%
April 1960–February 1961	11 months	1.6%	6.9%
December 1969–November 1970	11 months	0.6%	5.9%
November 1973–March 1975	16 months	3%	8.6%
January 1980–July 1980	6 months	2.2%	7.8%
July 1981–November 1982	16 months	2.9%	10.8%
July 1990–March 1991	8 months	1.5%	6.8%
March 2001–November 2001	8 months	0.3	5.5%
December 2007–June 2009	18 months	4.3%	9.5%
February 2020–April 2020	2 months		14.7%

About half the time (but no more), these recessions overlapped with drops in the stock market indices, i.e., half of the time, the markets went up even as the recession was happening. As we know, these recessions did not prevent the US GDP from growing enormously over time (more than eight times in real terms, thousands of times in nominal terms), as did the stock market (more than 11% per year, with dividends re-invested in nominal terms).

But… why do recessions happen? The trigger may obviously be many different events: a sudden increase in the price of energy, a sharp increase in the interest rates, a virus that forces many businesses to close. **In all cases, the trigger is something that lowers the economic activity and generates a vicious circle:** If oil is expensive, consumers have less money to spend on other things. The producers of those "other things", produce less of them, so they need to lay people off (and purchase fewer inputs). Since people then have less income, they consume less of many "other things", and so on.

This is a downward spiral that eventually stops, because the initial shock is absorbed and some economic activity must continue regardless: basic food, government services and most healthcare activities must continue being provided… Furthermore, modern economies have "stabilizers", such as unemployment

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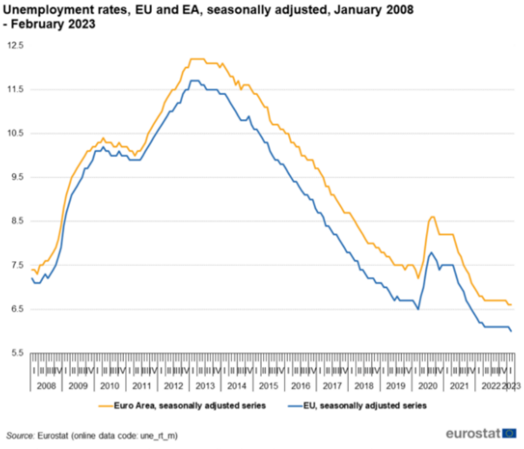
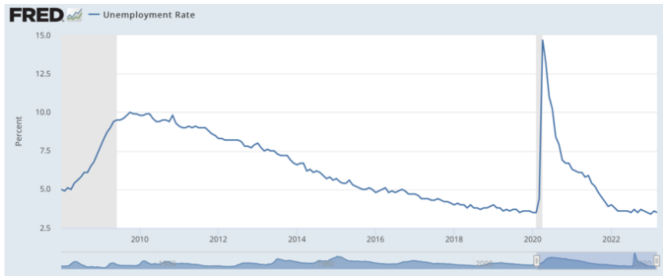
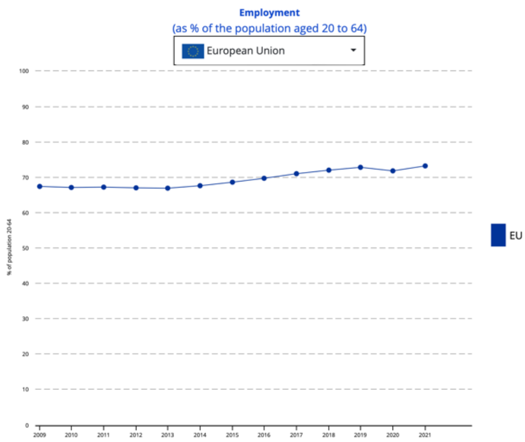
benefits, automatic lower taxes (due to lower income), and direct interventions, such as increased public investment or the lowering of interest rates.

Whatever the case, as investors, we are mostly affected by the drop in profits, which decreased activity entails. But **note that the drop in activity comes through increased unemployment**: unemployed people must lessen their expenditures. **But what is the current situation regarding unemployment? The following are the charts for the European Union and the US.**

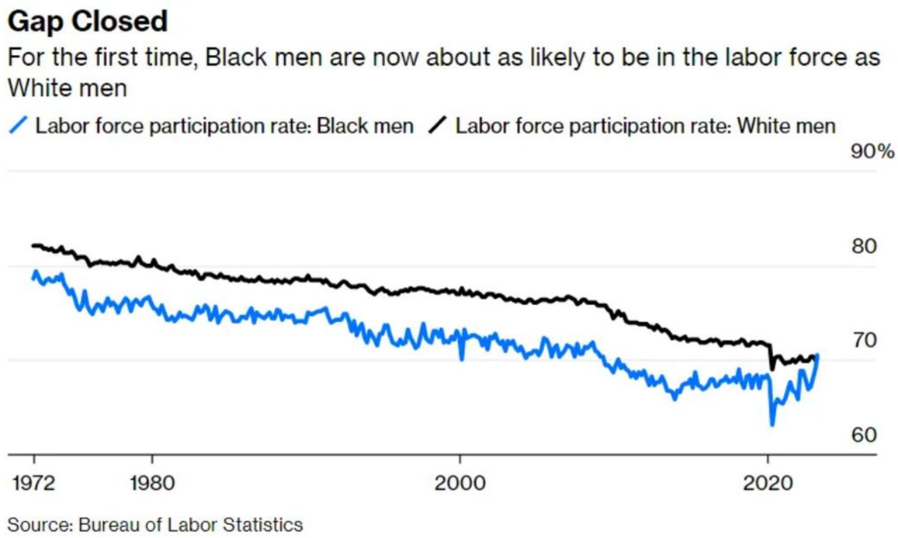




As we can see, **they essentially point to the lowest unemployment in history.** But the most important are probably the employment numbers:



Again, the best in history, with a twist: if we take the US, this is the chart for the employment of black vs white workers. **For the first time ever, black workers are on the same level as their white compatriots.**



All this shows that lower income families' economic position is very strong in historical terms. Given their number, and their strong propensity to spend their limited income, **it is precisely those families that determine the overall demand**.

We will therefore face a recession… eventually. Modern economies are such that they can't avoid come cyclicity, and unexpected shocks can always arrive. However, we are now in a strong position that should ensure that such a recession is not imminent and will be relatively mild when it does.

The economy is, of course, not the stock market. Some companies will do better or worse than others, recession, or no recession. This is why we insist that it is very important to analyze our portfolio carefully and ensure that we have investments that will do well over the long term, regardless of the transitory economic conditions.

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III. THE LTIF CLASSIC

The LTIF Classic is up +6% in Q123

The Classic started 2023 well: up +6% in Q123 to EUR 581 p.s.

The sectors that started the year well are: Industrials (aerospace, defense, cables), Consumer (staples and discretionary), Technology, and Infrastructure (Cement). The worst sectors were Salmon, Healthcare/Pharma, and Energy. Per stocks, we would highlight the rises of MTUAeroengines, Prysmian, Thales, Henkel, Pandora, ASML, Buzzi Unicem, and Heidelberg Materials, which are all above 10%. On the negative side: Leroy Seafood, Grifols, and the oil companies Harbour Energy, Cenovus, ConocoPhillips, and EOG have fallen more than 10%.

The updated IRR of the Classic stands at 13.6% with an Intrinsic Value (IV) of EUR 850 per share

Two factors temporarily dilute our expected IRR and the Classic's Intrinsic Value, which stands at 13.6% and 850 euros per share. **First, we are managing the portfolio with some prudence** (increased weight in risk categories 1 and 2, with some cash waiting for opportunities). On the other hand, **the fund has risen strongly in the last three years**; it is therefore normal for the IRR and the upside to be adjusted.

We believe it is very important to repeat that historically (the Classic was established in 2002, so more than 20 years of data) the fund's IRR has been between 12% and 17%, with an average of around 14-15%. So, in terms of valuation, it is only very marginally above the average. That said, **we need to think long term, and are very focused on achieving a NAV of around EUR 1000 p.s. in 2028, in line with our target of 10% per annum.**

40% of Classic in 10 names - as usual

We generally have half of the fund invested in about 10 stocks, thereby trying to combine concentration and diversification. Looking at the Top10 holdings table, it is easy to see that we combine value and quality, or strategic value, i.e., good businesses, managers, balance sheets, and prices, which form the 4Gs.

Regarding these 10 names, we highlight the following two interesting topics: first, **the drop in the weight of oil** (there is no longer any oil company in the top 10), given that, on valuation, we reduced the sector's weight in 2022. Secondly, **we tend to get into troubled businesses**: both Grifols and Unilever are immersed in a restructuring process; Sodexo, ISS, and Pandora have recently completed theirs, but the market does not yet agree. We believe that these five businesses are excellent franchises with good managers, and our strategic analysis suggests that their business plans will succeed.

LTIF Classic Top10 Holdings	
Sodexo SA	4,8%
Heidelberg Materials AG	4,4%
ISS A/S	4,4%
Grifols SA	4,2%
Unilever Plc.	3,9%
Pandora A/S	3,8%
ING Groep NV	3,6%
Thales SA	3,6%
Medtronic Plc.	3,6%
Leroy Seafood ASA	3,5%
TOTAL	**40,0%**

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Quarterly Investment Case: Nexans (EUR 80 p.s.). Expected IRR: 14%. I.V.: EUR 125 p.s.

We chose Nexans, one of the world's leading manufacturers of cables and related products for the transmission and distribution of electricity, for our quarterly investment case. Nexans recently entered the Classic, although it is an old friend of SIA Funds.

We find the power cable sector very attractive for the following reasons: **On the demand side, the sector entered one of the strongest growth phases in its history, due to the energy transition and the world economy's electrification.** Electric cables and associated products will be needed in transportation (cars, fleets, etc.), power generation plants (especially for renewables, solar, wind, etc.), power transmission, and in distribution networks (back-up systems, storage, etc.), in a process that will take decades to develop, with its expected growth exceeding that of the global GDP.

The supply side of this sector attracts us most, given that the more than a decade-long process of concentration and self-discipline has changed the sector radically, converging it into an oligopolistic structure. According to our figures, two companies (Prysmian and Nexans) account for more than 30% of the world production/installation of electrical cables and associated products and have a clearly favorable attitude to price over volume. Without underestimating smaller companies, such as NKT, the only real competitors are the large Chinese manufacturers, which have a huge market in China and Asia in the medium and long term. Consequently, they will not need to attack the USA and Europe (where they are also not welcome).

Prysmian has bought two large competitors (Drakka in Europe and General Cable in the US) during the last decade. Nexans, led by its excellent CEO, Christopher Guérin, made more selective acquisitions and implemented a radical transformation. The industry learned a great deal from past mistakes; companies in the sector, for which bidding, contracts, and risk are of enormous importance, now have a much-improved risk management. **This oligopolistic, growing sector, with its profitability and risk conscious companies looks really good.**

On the Nexans side, we like its management team very much. This team has carried out a very relevant restructuring process of the group, almost by the book, therefore reducing costs, focusing its efforts on the most promising market niches (e.g., high voltage and submarine cables), managing the stable niches as cash-cows, and putting the businesses they consider commodities (telecom and non-value-added cables) up for sale. The process is not yet over, but we have a lot of faith in its execution. Management teams can generally create lot of value by soundly executing a plan to disinvest in mature businesses and to invest in more attractive ones. There is risk, but we have full confidence in the CEO and his business plan.

Nexans is not extraordinarily cheap, but looking forward to 2025, it trades at a P/E of 11x, and a price to book value of 1.6x. Based on our numbers, **there is a good chance that they will be better than consensus** due to 1) the implementation of the portfolio management strategy and 2) the excellent growth opportunities. We also expect a gradual improvement in the group's profitability as the strategy unfolds. There is, obviously, some execution risk.

NEXANS. Consensus

	2023	**2024**	**2025**
PER	14,00	12,30	11,00
EV/EBIT	9,3	8,3	7,6
P/B	1,9	1,7	1,6
ROE	14%	16%	14%

Source: Bloomberg

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IV. THE LTIF NATURAL RESOURCES

In the wake of 2021 and 2022, LTIF Natural Resources was off to a good start in 2023

LTIF NR had a good 2022, with a 13% increase and started 2023 up 6% in the first quarter. Energy started the year weak, -6% in Q123, followed by Agri-Food, which is +0%, while the two sectors that are doing better are Mining, with +6% and Infrastructures (especially Cement) with +17%.

It should be noted that, following its strong performance in 2022, **we reduced Energy's weight in recent months** and that currently **Energy is 35% of the fund, Mining another 35%, with the remaining 30% divided equally between Infrastructure (15%) and Agri-Food (15%).**

Stocks with an above 10% performance in Q123 were: TGS, Cameco, Ero Copper, Ivanhoe, Southern Copper, Buzzi Unicem, Heidelberg Materials, and Prysmian. Stocks with declines above 10% were mostly oil companies (AkerBP, Harbour Energy, Cenovus, ConocoPhillips, EOG, and Pioneer), as well as Kazatomprom and Leroy Seafood.

An IRR of 14% and an I.V. of EUR 208 per share on mid-cycle numbers

LTIF NR is currently trading at EUR 147 per share with an IRR of 14% and an Intrinsic Value of EUR 208 per share, which means there has been no real change in recent months. We again emphasize that our estimates are based on mid-cycle commodity prices, margins, and returns, i.e., EUR 208 per share implies valuing the companies well below their potential in the current *supercycle*, which we understand will be far longer than a normal commodity cycle (which is usually 5-10 years).

We like to quantify matter and thus we like to present a calculation which despite not being at all robust, is somewhat illustrative: In the "*panic or bear market mode*", the market priced the fund at less than 50 euros per share in March 2020 (150 euros below its intrinsic value of around 200 euros); consequently, it follows that if a market that glimpses a supercycle and is in "bull" mode, we cannot rule out that it will go 150 euros above the intrinsic value, i.e. more than 350 euros per share.

It sounds crazy, and it is indeed true that these numbers are only a reference based on market psychology rather than fundamentals, but this is what has happened over many cycles: prices do not stop at mid-cycle or convergence estimates, but cross them to go from lows to high, or vice versa.

Whatever the case, **we believe that this fund has a clear long-term bullish cycle ahead and, in this scenario, the expected return will, in average terms, at least be in low double digits per year, which implies a doubling every 6-7 years (> EUR 300 per share, not far from the *pendulum* calculation).**

Oil has been falling sharply from its highs. What is happening?

The price of oil has fallen **from highs close to $140 Brent in March 2022 to levels of $80 in April 2023**, a significant downward adjustment. A multitude of factors has influenced this evolution; we highlight the **somewhat weaker demand due to the economic slowdown and the somewhat higher supply due to the use of the US strategic reserves and some of the countries aligned to it**.

Currently, including the recent OPEC+ cut, **there is a very low global spare capacity of around 3 million barrels per day. Demand in 2023 is expected to reach 102 million b/d and a supply of around 101 million b/d**. In other words, a projected deficit from Q223 of around 1 million b/d, within a backdrop of extremely low spare capacity, which will probably cause prices to start rising again.

According to the consultancy Wood Mackenzie, crude demand (despite the "Fear of Peak Demand"), and that of other liquids (NGLs and biofuels) will grow to more than 2 million b/d in 2023 and 2024 (see the graph below).

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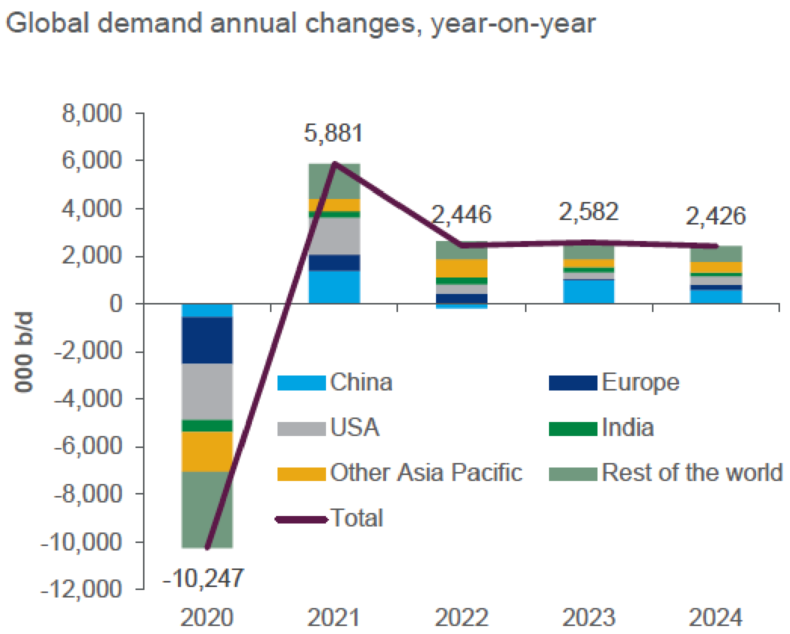
The problem is that we do not see where the growth in supply will come from: shale oil is growing at a very low rate (about 200,000 b/d if we annualize the April data), OPEC has only 3 million in spare capacity (at historical lows vs. global production, which is a huge risk if relevant conflicts were to arise), Russian production will be affected by economic sanctions (it has already announced a total cut of 1 million b/d), and there is only marginal growth in Brazil, Canada, and Guyana - **if all goes well.**

In summary, we expect supply growth to be lower than demand growth, mainly due to China's recovery and air travel, reaching back pre-Covid levels.



Source: Wood Mackenzie

According to our numbers and based **on far fewer investments in oil projects than needed since 2013, we will not only have a deficit in 2023, but in the following years as well. This means that in 2-3 years' time we will be consuming the spare capacity and prices will rise sharply**, possibly toward levels close to $150 per barrel, due to demand's inelasticity. Why $150? Because at this level the global economy and demand start to suffer.

Whoever thinks that we are hallucinating should ask themselves the following question: **What would the price of oil be today if the US had not been able to develop shale oil?** In the last 7-8 years, shale contributed more than 10 million barrels per year, more than 10% of world supply, although it was practically non-existent in 2014.

Without those 10 million barrels per year, 1) the price would have risen to a level where economy/demand fades; 2) such prices would theoretically have incentivized new investments, 3) but investments take 5-10 years to materialize at sufficient scale, and 4) a new oil up-cycle would have started in the mid-2010s.

Currently, the issue has become much worse because, on the one hand, **there is no new shale from which to extract another 10% in supply** and, on the other hand, **investments in oil projects are still very depressed** due to the ESG barrier (especially regarding CO_2 emissions) and the "Fear of Peak Demand" (FoPD), which assumes that oil demand has begun a relentless downward phase due to the economy's

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electrification. These two factors, which cannot be quantified, have become a massive constraint for oil development's capex.

In short, we have seen a pause in oil prices since the mid-2022, mainly due to the economic slowdown, but we fear that this is just a temporary pause. As usual, oil companies' share price has corrected, and we are likely to raise our exposure to the sector again in the coming months.

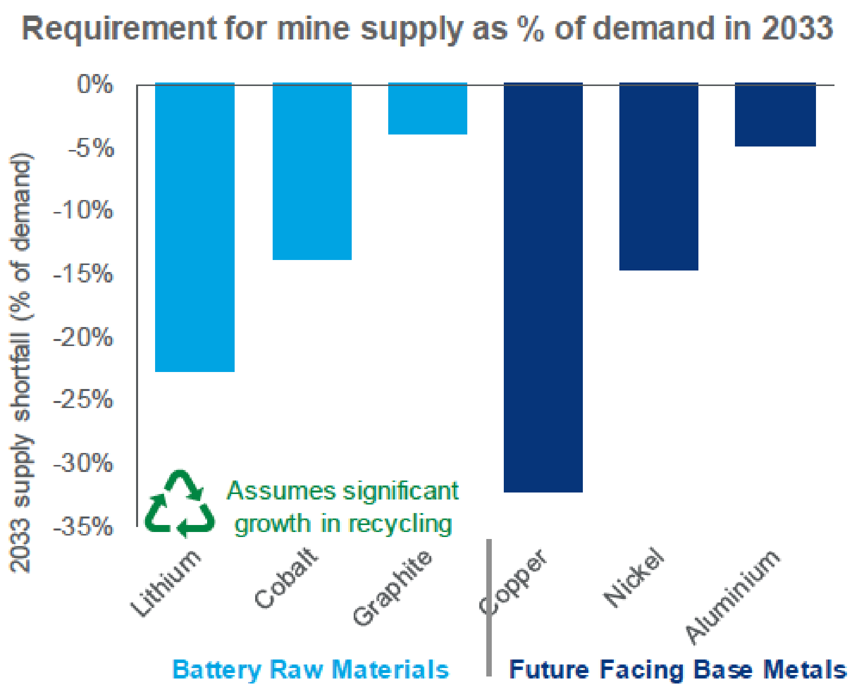
We are slowly raising our copper exposure

Toward mid-2022, copper companies' valuations fell once again to more interesting levels. **Consequently, we decided to start increasing our weight in the copper industry**, albeit slowly in view of the Chinese economy's performance uncertainty, since it consumes more than half of the global copper.

Over the last few months, **it has become clear that we are not alone in our intention to invest in copper** - the sector has seen large corporate deals. This not only demonstrated miners' interest in copper over the long term, but also the scarcity of buyable assets/mines. BHP launched a bid for OZ Minerals, Hudbay Minerals has agreed to merge with Copper Mountain, and Glencore has launched a hostile takeover bid for Teck Minerals, which is a large copper and metallurgical coal producer.

After analyzing the long-term copper supply and demand, we conclude the following: 1) there are **enough new mines or expansions to satisfy supply until 2025;** 2) there are **not enough projects to satisfy normal demand growth from 2025** onward; 3) **demand is going to grow far more than the historical 2% per year** due to the world economy's electrification; and 4) it is **extremely complicated to develop new mines**.

The following graph shows the projected shortfall in copper production relative to demand, which Wood Mackenzie puts at over 30% of demand in 2033.



The **price of copper will rise sharply in the coming years**, even to levels of demand destruction and substitution (e.g., for aluminum). Like oil, copper demand is very price inelastic, so prices will rise sharply in the medium term, very possibly above $5/Lb.

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We will continue to increase our exposure to copper, although it will be increasingly complicated due to the concentration process in this sector, where there will probably be fewer than half of the current listed companies in a few years.

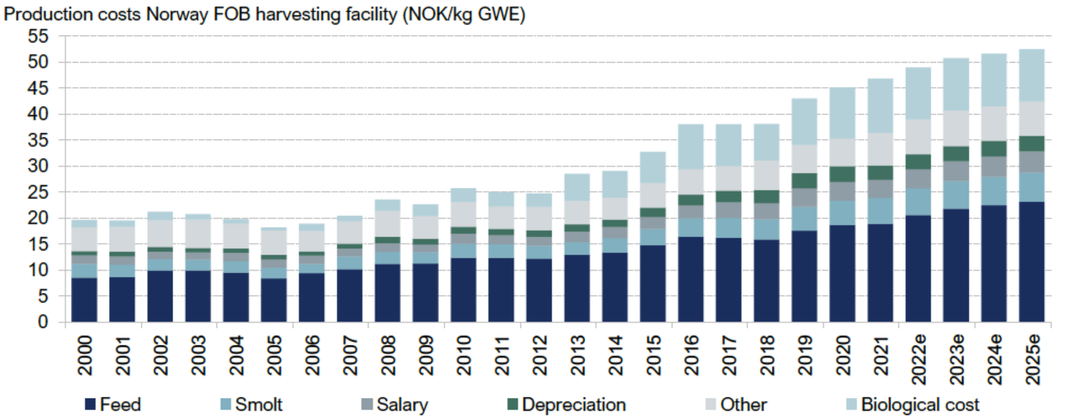
New start-ups and fantastic new projects will emerge, as they do in every cycle, but we will not invest in them.

We are also buying salmon

The Norwegian government has made a new, somewhat softer, proposal regarding the new Resource Tax on salmon farms. However, ultimately this did not differ very much from the initial proposal. Rejected by the Conservative party, both parties are still negotiating and visited the Faroe Islands to explore how they designed their taxes. This is good news, given that taxes in Faroe are progressive (they go up when prices and margins rise above "normal" prices) and take cost levels into account. Further, it is a model that Norway might well adopt. We shall see.

In our view, **the new salmon tax should also consider the increase in salmon farming costs, which have risen from NOK 25 per kg when we started analyzing the sector back in 2011 to NOK 50-55 per kg,** mainly due to the cost of feed. If we start from an average capital employed of NOK 150 per 1 kg of salmon (historically lower, but also higher for new investments) and assume an expected return of 10% net of tax, at the current 25% in taxes, the operating profit after taxes should stand at NOK 20 per kg. Added to the costs of NOK 55 per kg, this would imply a break-even price of NOK 75 per kg. If the tax were to be 60%, the net operating profit needed to obtain that 10% return is about NOK 40 per kg, which means the break-even price would be NOK 95 per kg. **Higher taxes will mean less salmon (less capex) and higher prices for consumers.**

Estimated average production costs in Norway, 2000-25e



Source: Pareto Securities

Ahead of the government decision, we have mixed feelings: **common sense suggests that Norwegian politicians will reach a more balanced agreement** that will put the industry back on to a path of profitability and interesting growth. However, **experience tells us that governments are often tax insatiable**, and that the proposal is not going to change much. **This is the definition of risk: We simply don't know.**

We see two scenarios: 1) the government maintains the tax as presented, which is a *disaster* for the sector, but this is already reflected in the share prices; 2) there is an agreement on a new, more balanced tax framework, which the listed companies will reflect positively, returning to pre-new-tax levels. This means a contained downside and an interesting upside. Our base case scenario is for a more progressive

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and balanced tax, if not in 2023 then probably in 2025, when there is a general election with the Conservatives currently leading in the polls.

Simultaneously, something important is happening (structural but still in the background): **The sector remains undersupplied and salmon prices have soared above NOK 110 /kg. Furthermore, supply is not expected to meet potential demand in the coming years**. This means higher prices.

A final question: how long will it take Chile to raise taxes on salmon? And then what? Less and more expensive salmon? Great example of a huge miss-alignment between politicians and consumers.

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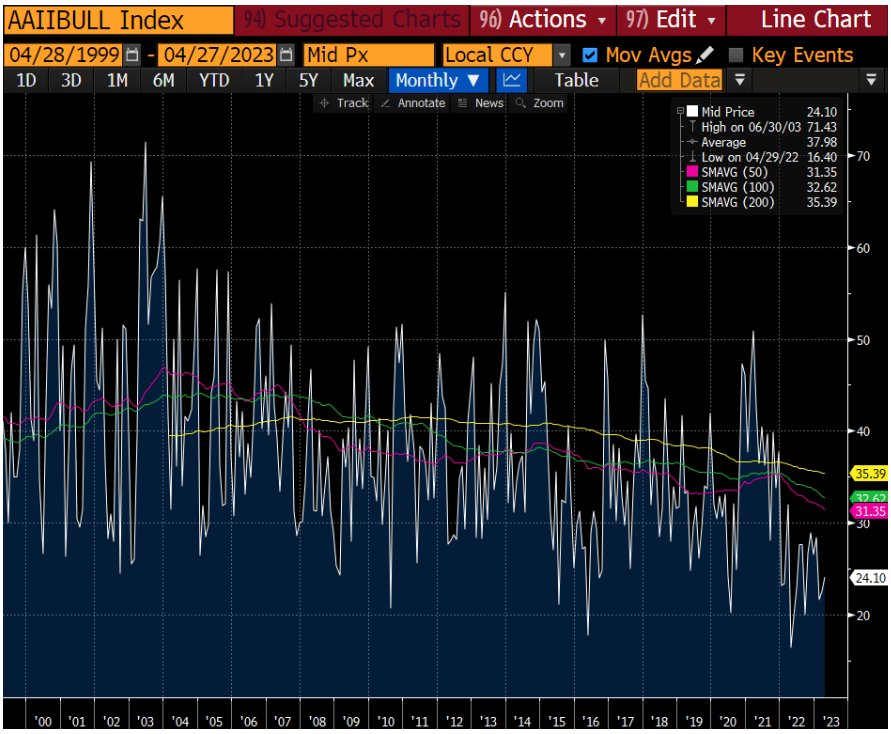
V. NATURAL RESOURCES THOUGHTS by Urs Marti

During the last few years, we frequently outlined the financial industry's negative market sentiment/positioning. This seems to have been a structural issue since the start of the millennium.

The following graph shows the percentage of investors who, according to the US association of individual investors, are bullish on the S&P 500. At the extreme points, it is a reasonably good tactical (counter) indicator. Structurally, investors have become more cautious since the millennium.



"Negative news sell". It might surprise people, but there are stock markets like the French CAC40 that are breaking out/have broken out to new all-time highs.

Thanks to our mighty central banks, there has been a huge misallocation of capital, which resulted in over/underinvestment. Global liquidity (graph below) saw a short intermezzo on the downside until the autumn. Since then, it is on the rise again (as always), particularly due to the policies in China, Russia, and in many other countries outside the Western bloc. Since the recent banking saga, this trend has reversed in the Western bloc as well. Although the US real estate market depends on the local US (Fed) policies, commodities and other sectors do not. These are global products and the demand for them depends on global needs. It could also be argued that their demand/usage has increased in a straight line ever since World War II.

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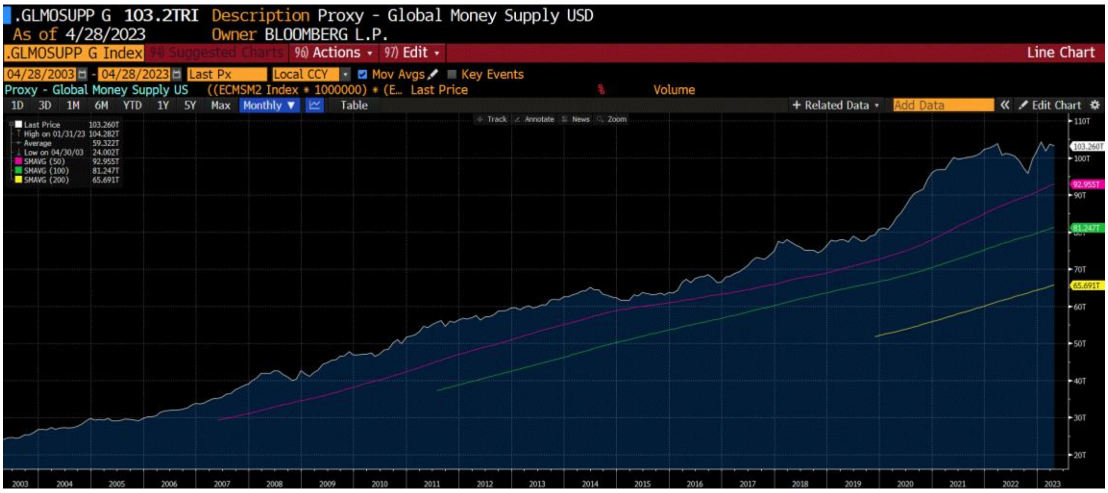

Given the policies (and their consequences), one should think twice about holding cash that is constantly diluted. There are many examples in history of this.

After the financial crises, interest rates trended toward zero. This helped widen the wealth gap and enriched a small group of people (the rich ones, of course). Inflation showed up in a narrow segment (asset prices/luxury goods/art, etc.). Currently, that money again reaches everyone.

Fully employed people with no fear of losing their jobs tend to spend their money. Infrastructure spending creates demand for materials (e.g. cement) and labour. Cement prices are surging on both sides of the Atlantic as producers kept passing on higher energy and pollution-compliance costs to consumers. Subsequently, they kept hiking their prices, although their gas and electricity bills decreased. Owing to their bulk and comparatively high transportation costs, cement and concrete are usually found close to where they are used, and their prices are inelastic, because they can't be substituted. Concrete is only a small proportion of construction's overall costs and any delays are costly. One should consider oneself lucky to have an opportunity to invest in such a monopoly - companies with multiples of 5 times EV/EBITDA, often with zero net debt.

The commodity sector is suffering continuous tax increases, ESG costs, etc. The outcome will, as in the case of cement, be the same everywhere. Consumers will ultimately pay for all costs. But it will not stop there. Supplies/investments are being reduced and prices tend to go up to further increase the margins, profits, dividends, and share buy-backs.

Ongoing consolidation. Glencore launches a hostile bid for Teck

The major topic in the mining industry is Teck's announced spin-off of its (very good) coal business and Glencore's subsequent take-over approach. Everybody wants to increase their copper exposure, but there is not much available to buy. First Quantum might be the last remaining target.

The majors (Rio, BHP, and Vale) are too big, although Anglo/Freeport could be an exception. Rio, BHP, and Vale are iron ore companies anyway. Others like Codelco, KGHM, and Zijin are state owned or family owned/partnerships like Southern Peru Copper, Glencore, Antofagasta, Norilsk, Ivanhoe, and Lundin. Thereafter, one arrived at the level of companies with just one mine, marginal assets, etc., which is of no help for large companies. Other base metal companies are even smaller and more concentrated. High grade nickel belongs to Vale/Norilsk/Glencore/BHP. Zinc-concentrate is mostly controlled by Teck/Glencore.

Glencore has its roots in trading and deal making. As such, it tends to act faster than the rest. One of the company's credos is buying instead of building. This is pretty obvious when one can buy at 4 times EV/EBITDA (debt free) at the beginning of a major bull cycle, instead of building a project that takes years and one has to cope with capex inflation, legal/permitting hassles, etc. Antamina is one of Teck's key assets. It is a JV between Teck (22.5%), BHP (33.75%), Glencore (33.75%), and Mitsubishi (10%). We will not be surprised to see a bidding war with BHP entering the stage. This happened during the last cycle with Western mining, Inco, Phelps Dodge, and Falconbridge to name just a few. Further, the companies are virtually debt-free, dividends are already high, the valuations are cheap, and the deals are accretive from day one. Smaller companies will consolidate smaller mines of which Hudbay/Copper Mountain is an example.

Some companies might/do expand into new businesses, like BHP into potash or into uranium. Cameco/Kazatomprom controls 50% of the primary uranium supply. BHP is a not an insignificant uranium producer of copper/gold as by-products at its Olympic Dam mine. Rio used to be a large uranium producer in Australia/Namibia. Given valuations, the oil industry would be an obvious target. One could buy a substantial share in North Sea for just USD 10 billion. But, as we know, the trend differs. Particularly the politically spoilt Western majors prefer to give their precious oil assets away at the bottom of the cycle. French Total just announced the sale of its Canadian business to Suncor. We continue to favour companies like Suncor that strengthen their oil business, instead of European majors that give their oil assets away at rock bottom prices. As usual, the Americans are more business minded, which Exxon's interest in Pioneer (a holding in the NR fund) shows.

Lithium has huge demand growth expectations, as well as a wall of supply.

Ultimately, we want to draw attention to the analysis of capex/investment/supply and its importance in the commodity space. We have discussed the topic countless times. Commodity demand/usage is mostly the GDP of all commodities. Neither a super cycle nor technological wonders seem to have an immediate effect. These are stories that lead to speculative inventory build and overinvestment, as well as underinvestment in the case of carbon, which lies at the other end of scale. The world develops constantly, and it constantly needs more resources of all kind. Technological advance is a normal development that has always been seen. The graph is a typical example of a hyped story that resulted in overinvestment. For many reasons, although this has grown, all traffic is not yet electric and won't be in the foreseeable future. This prediction is not only based on lithium, but on many things, among which are power (coal, nuclear, or gas), infrastructure (copper and cement), etc. Such overinvestment will take time to normalize. Companies will disappear, marginal mines will stop producing, projects will be abandoned, and a great deal of money will be lost. Finally, the oversupply will be corrected, and an investment can be considered. Albemarle is the best company in the lithium space. It was a holding in our NR fund some years ago before the hype started and it got too expensive. At substantially lower prices, it could again be an interesting target in the future.

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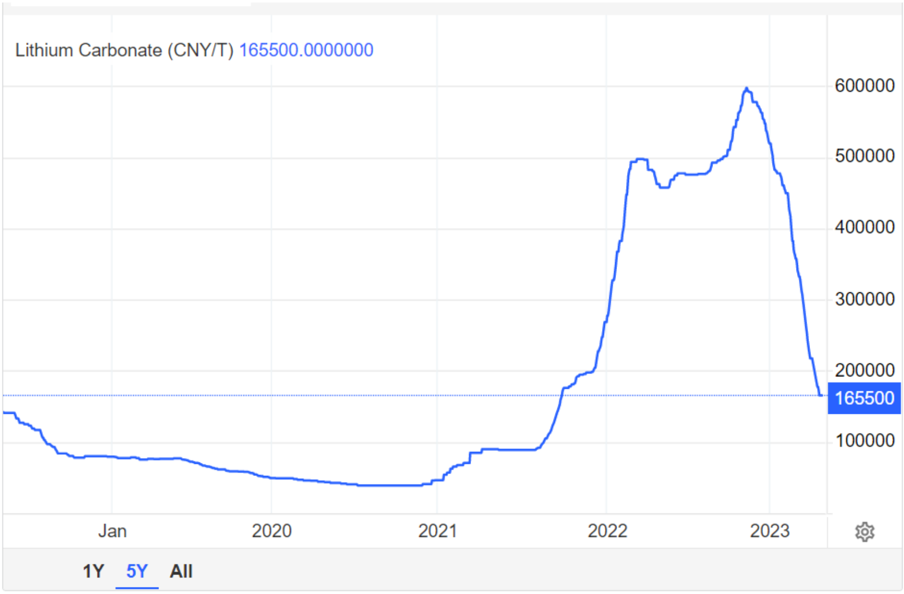

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SIA Funds AG is an authorized Asset Manager of collective investment schemes, regulated by the Swiss Financial Market Supervisory Authority FINMA.

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