S I A
Strategic Investment Advisors Group

Long Term Investment Fund

Newsletter

of December 2023

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

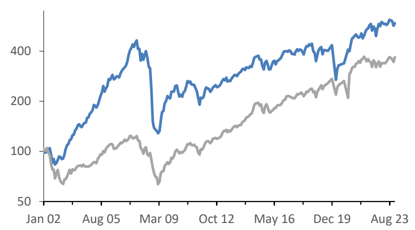
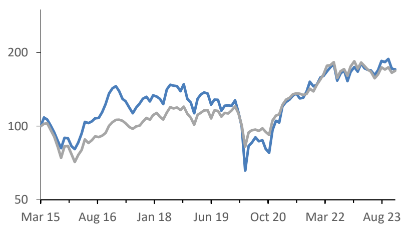


Figure 2: **LTIF Natural Resources EUR**
vs. S&P Global Nat. Res. Net TR Index EUR



"Buffett often advises investors to embrace uncertainty rather than fear it. He acknowledges that the future is inherently unpredictable, and successful investors should be prepared to navigate through uncertainties."

Warren Buffett

Overview of our funds

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

November 30, 2023	NAV	Δ 3m	Δ 12m	Annualized return (s.i.)	AUM *(in mio)*
LTIF Classic [EUR]	587.37	-4.0%	0.9%	8.4%	92
LTIF Natural Resources [EUR]	141.33	-6.6%	-2.3%	1.9%	76

Source: SIA Group

I. RECESSION? "The future is inherently unpredictable"

A very mild economic slowdown… for the time being

2023 has been a rather strange year: on the one hand, we expected a further slowdown or recession in the US and Europe, and, on the other hand, an improvement in the Chinese economy. This did not happen! Neither scenario has as yet materialized strongly enough; consequently, we are still stuck in the **same basic scenario: a global economic slowdown that might, or might not, end in a recession.**

We therefore continue to manage our assets with caution – more cash and less cyclicality in the portfolios, i.e., greater percentage of risk categories 1-2 – keeping our fishing rod at the ready. The latter is due to our extensive list of sectors and companies in which to invest should the market correct, which usually happens when the macro economy deteriorates. If it does, we will once again test, as we last did in March 2020, the power of rebalancing, reinvesting the excess cash we have, and overweighting category 3-4 companies. It's a bit counter-intuitive, but the bigger the correction, the more money we will make. It's that simple; we must just focus on our long-term perspective. If there is no recession, so much the better, we should again reach our average annual target of 10%. In this sense, it is advisable to remember another famous Buffett quote. "***Berkshire and its long-term shareholders benefit from a sinking stock market much as a regular purchaser of food benefits from declining food prices***."

From a macroeconomic point of view, the factors that surprised us in 2023 were the services and the consumer sectors' strength in the US and Europe, which, mainly due to fiscal aid and the post-COVID-19 effect, performed better than expected, while the property sector in China is still immersed in the downward cycle that began in 2021.

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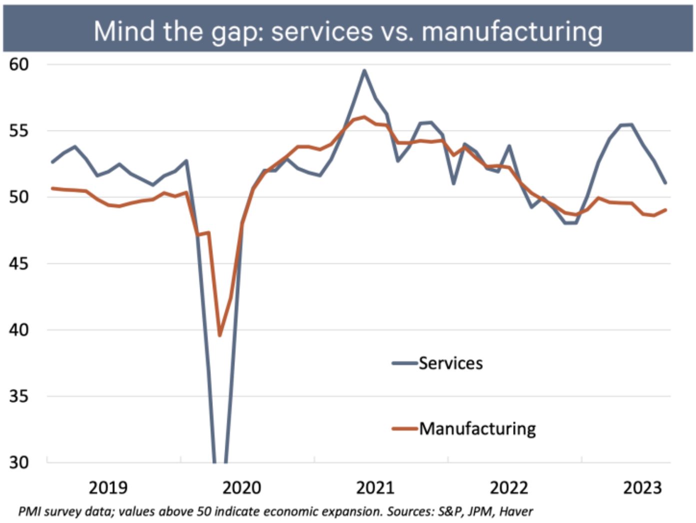
To sum up, nothing has really changed, and the world economy continues its mild economic slowdown. We maintain our base case scenario: on the one hand, in the US and Europe, the economic slowdown is still ongoing, and no one knows whether it will end in recession or not; on the other hand, China is once again maintaining its growth via many support measures and public investment in infrastructure and social housing.

Whatever the scenario, our portfolios are built to overcome any potential economic slowdown and, more importantly, to take advantage of it. Buffett did after all advise *investors to embrace uncertainty rather than fear it.*

Manufacturing's PMI indices continue to weaken. Now it is the turn of the service sector

The graph below shows exactly what happened in Europe in 2023 (with a similar trend in the US): the **manufacturing and industrial sector weakened gradually after mid-2022, but the service sector is still in positive territory.**

We fear that we have not yet reached the end of the road, because **interest rates take time to affect spending and consumption**, **while the fiscal stimulus that supported both the consumer and the services sector** (Post-COVID-19 subsidies as well as household and corporate savings) **is close to being absorbed.** We have at least two quarters of further deceleration ahead, in our view.



The following chart is a snapshot summary of the current situation **in the global industry as of December 2023, showing negative momentum in the US and Europe, while China remains in positive, albeit weak-ish, territory.** Our analysis suggests that there will still be at least two quarters of slowdown in the US and Europe.

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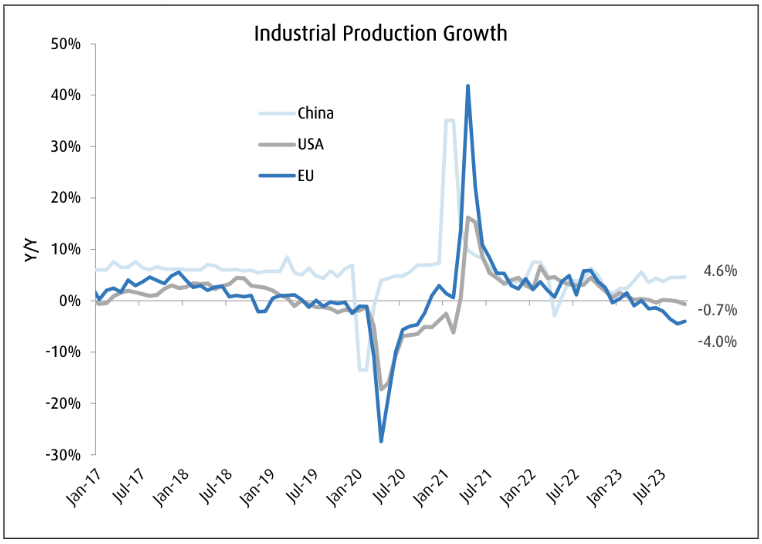
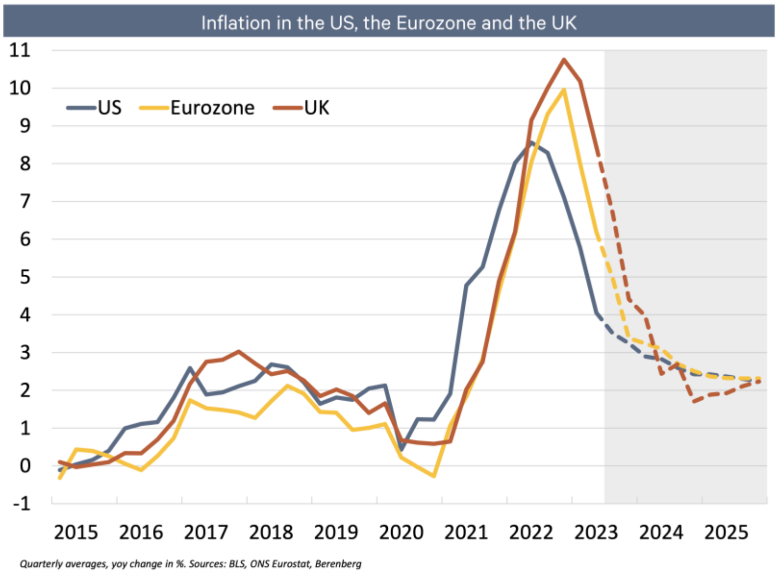


Source: BMO Capital Markets, Haver, Bloomberg. EU industrial production is a BMOCM estimate.

Inflation normalizing and interest rates at peak

Our **inflation** estimates have been more accurate, and, despite the doom-and-gloom predictions of many experts, **inflation returned to acceptable levels early in 2023**. More of the same applies to 2024, when, according to our estimates, inflation in the US and Europe will be around 2.5%.

However, from a structural/long-term point of view, **we anticipate higher inflation in labor, energy, and food; consequently, we understand that we will not return to the near-zero interest rate regime experienced in the previous decade.**



China is in a recovery phase, albeit with delays, and, more importantly, with structural imbalances

China disappointed us in 2023, as we had believed that it would start a stronger post-COVID-19 recovery. The reality is, however, that the property sector is still in a down cycle, with housing falling at an annual rate of 20%. Given the sector's importance in China, we understand that it had some influence on consumers. In addition, the foreign sector is sluggish, foreign investment in China is falling, and the banking sector applies cautious criteria when increasing credit.

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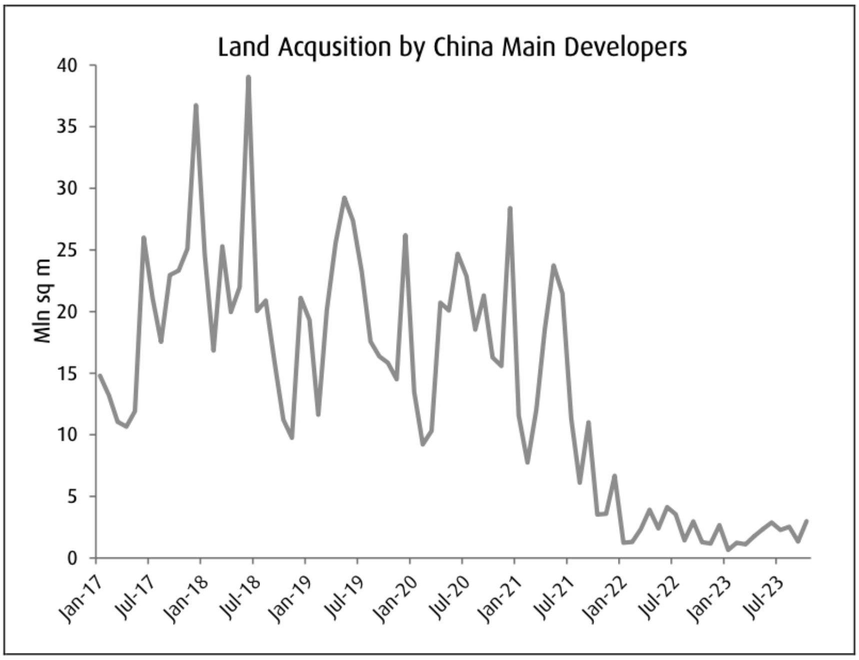
On the other hand, there are a multitude of government initiatives aimed at strengthening the property sector, the banking sector, local governments etc. and this in an environment of heavy investment in energy transitioning. **Here, we align ourselves with the consensus that China will have a soft recovery over the next 2-3 years, but rule out an economic collapse, given all the tools at the government's disposal.**



Source: China Real Estate Information Website, CEIC, BMO Capital Markets

2023 has been a strange year

Looking at global stock market indices' ytd. performance, 2023 appears to have been a great year (SPX up 16%+, Nasdaq up 30%+), but the reality is somewhat different: **the broad stock market, adjusted for the Big 7 or the Magnificent Seven, has more or less been flat for the entire year,** with a great deal of damage in many sectors, including small caps, small tech, banks, construction, property, commodities, cyclical industries, and many other. In our view, 2023 was much tougher than what a first glance shows.

This performance is not really surprising (we have seen it many times before) and **it is consistent with a surprisingly strong macroeconomy in 2023, especially in the US. There is nothing to complain about: excluding the Big 7, Mr. Market is in *wait-and-see mode* until the risk of recession materializes or not, which will become evident in 2024**. The following chart, which compares the SPX index with its equally weighted equivalent, shows us this.

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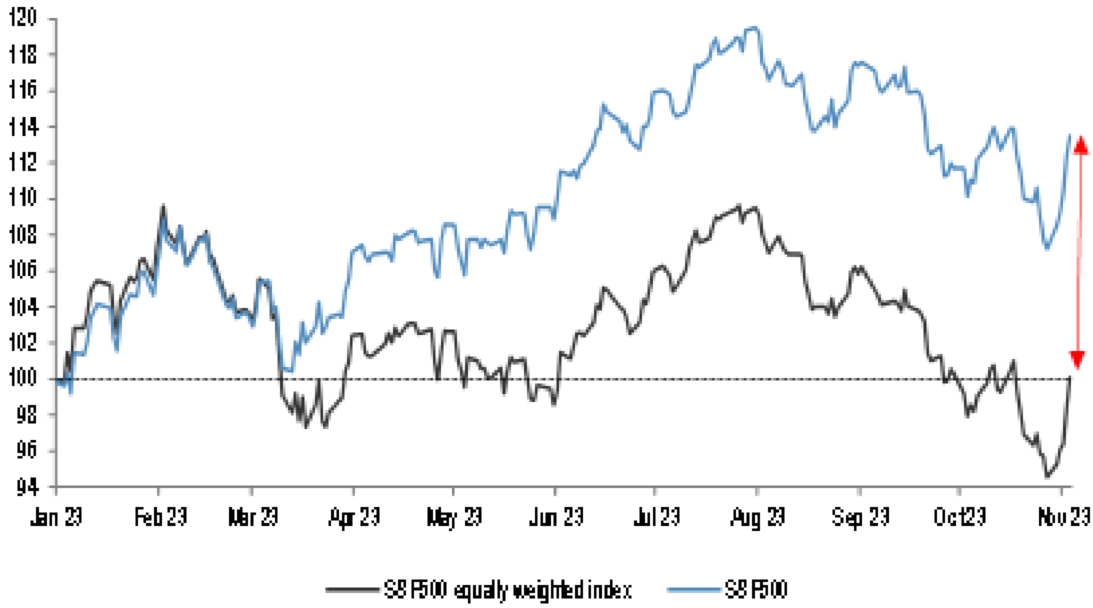
2023 performance S&P500 Equally Weighted – S&P500



From a valuation perspective, we are back to a similar divergence as the one seen in 2021: **the Big 7 trades at a P/E23 close to 30x, close to all-time highs, and the rest of the market, at around 16x, slightly below the long-term 17x average.**

Despite this, we do not foresee a tech collapse as in the 2000 tech bubble, since most of the Big 7 (Microsoft, Apple, Alphabet, and Amazon) enjoy great strategic positions. Concerning Meta, we are not able to add value ("too difficult"), Nvidia is a semiconductor company taking advantage of artificial intelligence's pulls, while, in our opinion, Tesla is the black sheep of the Big 7 (tough times ahead and valuation). However, no matter how consistent these businesses are, their size is going to make it impossible for them to achieve double-digit growth in the long term, so a P/E of 30x is hardly justifiable. It's time for an adjustment and there are plenty of negative options.

Since we are approaching the end of the year, we have decided to add a couple of tables that show where we are in terms of valuation. We can see that, **by geography, Europe and the emerging markets are trading at a discount, while there is no geographic index in bubble territory.** Beware of high inflation and risk economies (Russia, and Turkey) where this simple/numerical analysis is not very meaningful.

Index	**SPX**	**SXXP**	**NASDAQ**	**SHSZ300**	**BOVESPA**	**XU100**	**IMOEX**	**TOPIX**
Price	4.547	456	16.027	3.581	126.000	8.000	3.200	2.367
P/E 24	**18,7**	**12,0**	**24,3**	**10,6**	**8,1**	**4,2**	**3,2**	**14,5**
Long Term P/E	17,5	19,0	25,0	17,0	16,0	10,5	8,0	18,0
P/B 24	**3,8**	**1,7**	**6,0**	**1,3**	**1,3**	**0,8**	**0,4**	**1,2**
Long Term P/B	2,8	1,8	4,2	2,0	1,3	1,4	0,9	1,3

Source. Bloomberg, SIA Funds

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On the sector side, **we highlight Value, Consumer, Healthcare/Pharma, Energy, Banks, and Insurance as the cheapest sectors and only Technology is overvalued** compared to its historical levels. It all adds up.

Index	MXWO VALUE	MXWO GWTH	MXWO INDUSTRIALS	MXWO STAPLES	MXWO HEALTH	MXWO MATERIALS	MXWO ENERGY	MXWO IT	MXWO FINANCIALS	MXWO INSURANCE
Price	3.169	4.406	333	260	334	320	245	576	138	156
PER	**12,3**	**24,5**	**17,6**	**17,4**	**17,0**	**15,0**	**9,8**	**26,4**	**11,5**	**11,5**
Long Term PER	17,3	23,6	20,0	21,0	22,0	20,0	16,0	24,3	14,0	15,0
P/Book	**1,7**	**5,4**	**3,0**	**3,6**	**3,7**	**1,8**	**1,6**	**7,6**	**1,4**	**1,7**
Long Term P/B	1,7	3,5	2,6	3,9	3,8	2,0	2,0	3,6	1,5	1,4
IV	**4.590**	**4.628**	**361**	**301**	**399**	**359**	**475**	**469**	**200**	**249**
Upside	**45%**	**5%**	**8%**	**16%**	**19%**	**12%**	**94%**	**-19%**	**45%**	**59%**

Source. Bloomberg, SIA Funds

The Classic is up +4% ytd vs. +7% in September. We lost 3pp in 2 months. Good or bad?

The LTIF Classic had a disappointing October and November, **with a drop of 3-4% that could be summarized in respect of three negative news items:** Raytheon and MTU Aeroengines' problems with their GTF aircraft engine, the salmon companies' poor performance due to lower salmon prices and poor biological conditions, and First Quantum's problems in Panama, where the mine contract recently negotiated with the Government has been called into question.

In the short term, this underperformance is bad news, but in the longer term it is good news, because thanks to the falling prices, we are able to re-invest at much cheaper levels, thereby **enhancing our funds' IV and IRR** (we understand that these problems are only short-term issues that will be solved in due course). Again, as per Buffett, "*We must think that Berkshire* (SIA Funds in our case) *benefits from falling stock prices, like a fruit buyer benefits from falling fruit prices.*" **It is tough to enjoy when the fund is somewhat underperforming, but it is then when we generate the most value.**

We are very clear that both salmon and Raytheon/MTU are only short-term problems that provide the opportunity to buy great quality companies more cheaply, but in the case of Cobre Panama, the risk is greater. However, note that the Panamanian government renegotiates the contract with Cobre Panama every 5-6 years, so what is currently happening is nothing new. It is true that First Quantum will have to give up some value (although very possibly less than 60% of the share drop), and that there is a black swan type risk that the mine might end up in state control. As Édouard de Rothschild used to say (and Glencore repeats endlessly), "*You must buy when there is blood in the streets*", and this saying certainly applies to First Quantum.

Recently a potential new investor in our funds (of considerable size by the way) **blamed SIA for being unable to take advantage of the momentum factor,** a statement that caused me great surprise, and some uneasiness, as I understood that I had not explained our investment philosophy sufficiently, despite the meeting lasting a few hours. The fact is that this is true in respect of most of the investments we make because lack of momentum makes stocks cheaper, while momentum makes them more expensive. We are value investors and therefore very contrarian by nature. So yes, we are patiently buying MTU, Raytheon and salmon stocks (and ready for buying First Quantum), which is a total misalignment with momentum and a full alignment with value.

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

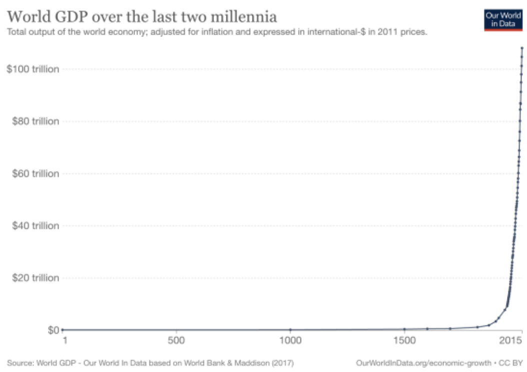
In the last few weeks, we had the chance to present our views of a controversial, but very **important topic** at Zurich and Geneva**: peak oil.**

The last time oil was scarce (it reached $148 per barrel in 2008, more than $200 in today's dollars), there was much talk about the **concept "peak oil", which Marion King Hubbert**, a geologist, **had developed** in the 1950s when trying to determine when the potential supply of oil would peak. But with oil prices first dropping in 2014 (to $60) and then thoroughly crashing in 2020 (to $15), talk began of a different kind of "peak oil": the world was really facing "peak oil demand".

This is obviously a very important subject for investors in natural resources, and, given the importance of oil for the world economy, for investors in general. **Are any of these "peaks" really imminent? If so, when? Let's first look at oil demand and its probable evolution, and then at supply.**

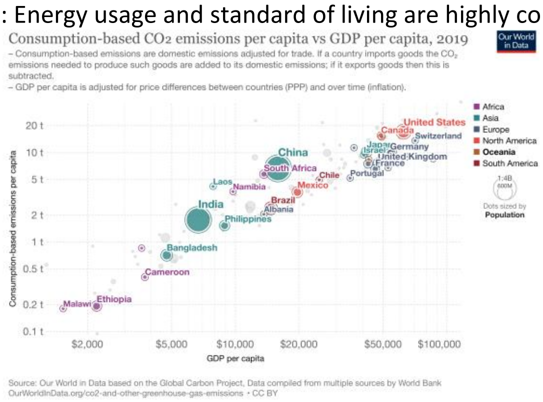
In previous newsletters and presentations, we have explained that **"energy" is not just another sector, but the basis of all economic activity.** Without abundant energy, we could not feed 8 billion people, let alone have the standard of living we now take for granted. Figure 1 shows how the ability to harness a hitherto unknown form of energy (coal fueling steam engines) created a completely new world about 300 years ago.

Figure 1: A big regime change



But, of course, the harnessing of energy is not uniform around the world: some countries are much more advanced in this process than others. Consequently, figure 2 shows that **energy usage, as represented by CO_2 emissions, and standards of living vary enormously from one country to the next, but they are highly correlated**. They are really the same thing.

Figure 2: Energy usage and standard of living are highly correlated



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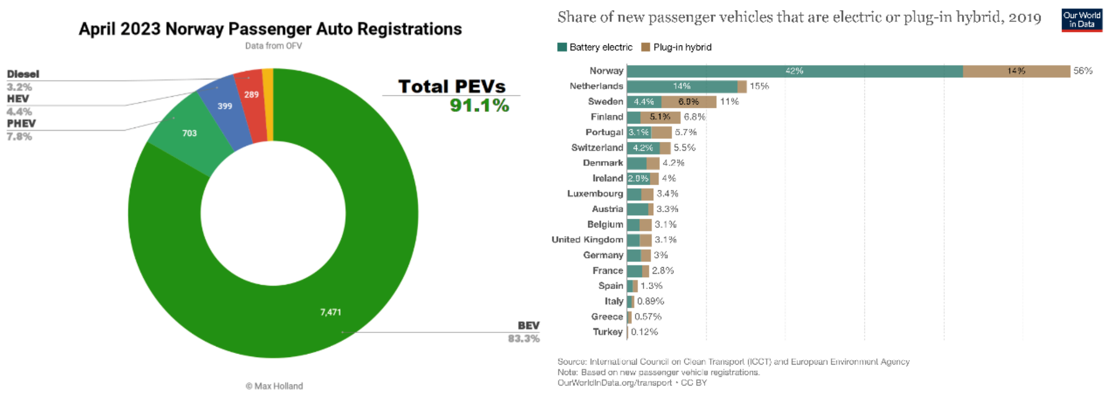
But not all energy is the same. Some sources of energy can substitute one another. Electricity can be generated by nuclear, wind, coal, gas… The inputs (and the technologies) might be very different, but the result is the same. **However, there is a source of energy that is very hard to substitute: oil. The reason for this is that oil is mostly used for transportation, and in transportation energy's density is crucial**: a moving vehicle cannot use something that is so heavy that it limits the vehicle's carrying capacity as energy. That's why planes (where weight is crucial) use kerosene, the most energy-dense petroleum product, rather than automotive gasoline or diesel. Over the years, oil has stopped being used to produce electricity and has been reserved for automation and some chemical processes, where it is a much better input than the alternatives, or even the only one technically possible.

This situation is currently being challenged. **The alarm caused by the increase in atmospheric CO_2 has pushed governments to strongly encourage the adoption of electric vehicles (EVs), to the point of banning the sale of internal combustion engines (ICEs)** in the relatively near future (2035 in the European Union), unless they are powered by "carbon neutral fuels", i.e., not oil based ones. **This political push has convinced many people that the demand for oil cannot but decrease over the coming years**, thus rendering oil investments unprofitable. In the following lines we will try to put some numbers to this narrative and see whether they're adequate.

We can start by looking at the country most advanced in this road: Norway. One of the world's largest producers of hydroelectricity, Norway can power itself with it, and export a lot to its neighbors. The government has deployed a whole panoply of inducements for people to switch to electric vehicles, such as reduced taxes, exemption from road tolls, very low electricity prices, etc. And this in a country with a very high standard of living, where people can afford the sometimes higher cost of EVs, which does not apply everywhere. The result is not surprising: people have embraced EVs wholeheartedly, as we can see in figure 3, but not so much in other countries.

Figure 3: EV vehicle penetration in several countries



This Norwegian adoption may not be surprising, but something is: figure 4 shows Norway's oil consumption during the last few years. It's down, but by very little. How can that be, if more than 90% of the people have bought EVs? Understanding this paradox will give us a strong indication of where things can go in the rest of the world, which differs greatly from Norway in many places.

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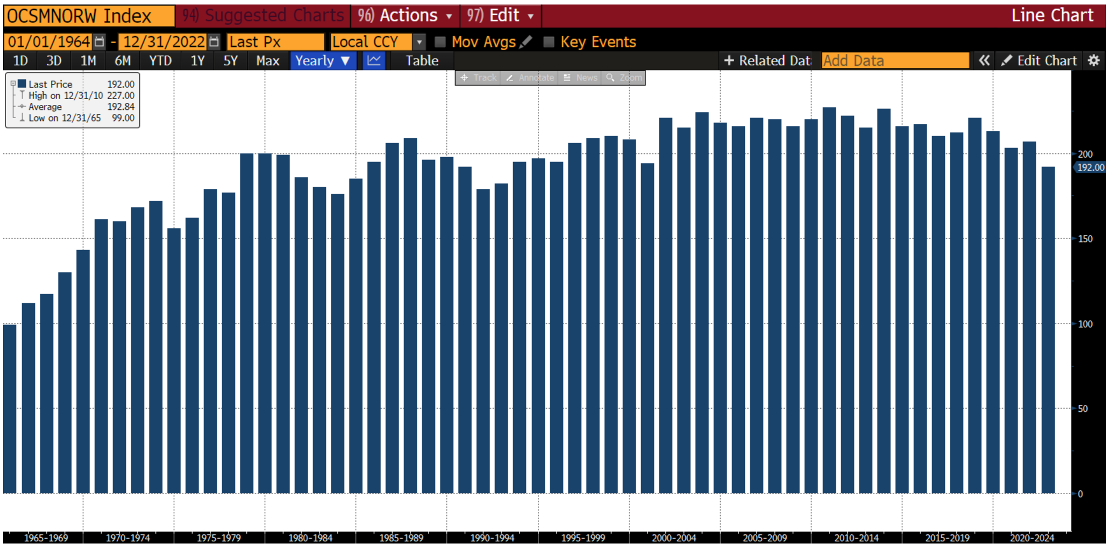
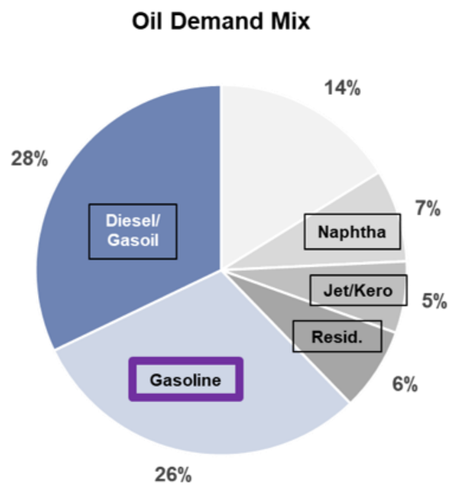
Figure 4: Total oil consumption, Norway



First, as figure 5 shows**, gasoline (the oil product that the EVs substitute) is only part of oil use. The other transportations fuels (diesel, kerosene, and bunker fuel for ships) are more important, while chemical and industrial applications are equally important. Therefore, even if many people buy EVs, trucks, planes, ships, and factories keep using exactly the same amount of oil.** In fact, more, since transportation is synonymous with trade, which is synonymous with economic growth. Norway's statistics show that.

Figure 5: Oil uses



But there is more. Cars last a very long time: nowadays, about 20-25 years before they are scrapped. All the cars sold this year make up just about 5% of the world total. If 10% of cars are electric, the impact on the total volume of cars in the world is 0.5%, which is less than car sales' rate of growth worldwide.

Figure 6 shows a very simple model of how this plays. There are currently about 1 billion cars in the world. Every year, sales are around 100 million, and about 40 million cars are scrapped. The new sold cars are scrapped 20 years later, and total demand grows gently, as the less developed world tries to

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increase its standard of living. Finally, just for the sake of the argument, we have assumed a relatively fast adoption of EV worldwide. The conclusion is that the total amount of cars using gasoline keeps growing, even if EV sales achieve almost total penetration worldwide (remember, trucks cannot be electric, at least not with current technologies).

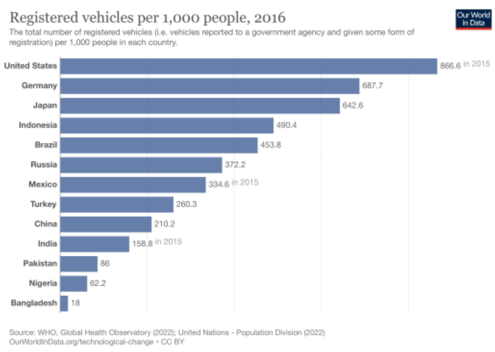
Figure 6: Estimation of total number of ICE cars on the road over the years

		2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**	**2038**	**2039**	**2040**
Initial stock	1 000	1 041	1 082	1 124	1 164	1 197	1 228	1 257	1 284	1 310	1 334	1 353	1 367	1 376	1 380	1 385	1 391	1 398	1 406
Sales	85	90	95	97	99	101	103	105	107	109	111	114	116	118	120	123	125	128	130
EV %	5	8	10	12	20	22	24	26	28	30	35	40	45	50	50	50	50	50	50
Amort.	40	42	43	45	47	48	49	50	51	52	53	54	55	55	55	55	56	56	56
Δ Non-EV	81	83	86	85	79	79	78	78	77	76	72	68	64	59	60	61	63	64	65
Final stock non EV	**1 041**	**1 082**	**1 124**	**1 164**	**1 197**	**1 228**	**1 257**	**1 284**	**1 310**	**1 334**	**1 353**	**1 367**	**1 376**	**1 380**	**1 385**	**1 391**	**1 398**	**1 406**	**1 415**

Even in the most threatening use of petroleum (passenger cars running on gasoline), we don't see demand decreasing for a very long time.

But there is more. As we said before, much of the world differs greatly from Norway. Figures 7 and 8 show car registrations and oil consumption per capita in various countries. One thing is clear: the citizens of the countries at the bottom of the table are doing everything they can to increase these numbers.

Figures 7 & 8



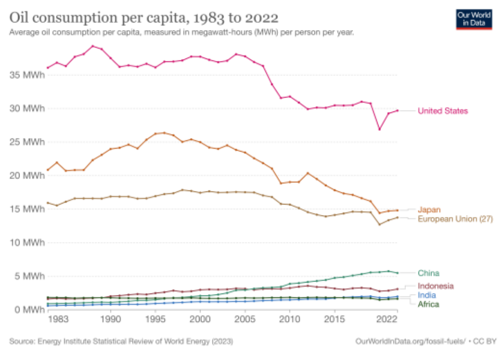


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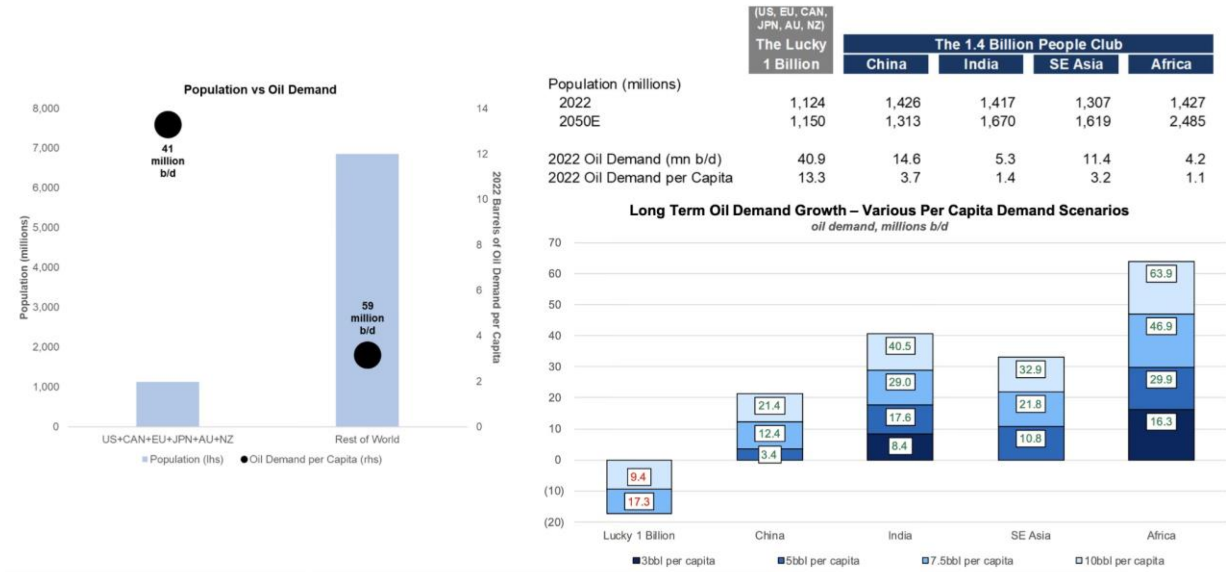
Figure 9 shows how personal oil consumption differs in five "clubs", each of which comprise about 1.4 B people: the "lucky" ones, plus China, India, Southeast Asia, and Africa.

Figure 9: The five "oil consuming clubs"



It also shows what happens to oil demand if (when) the less fortunate clubs start developing economically. Based only on demographic trends and mild economic growth, we see oil demand double in the next 25 years. This will probably not happen (later we will see why), but it's clear that the world won't even face a mild drop in oil demand in the coming decades. This truly flies in the face in the current narrative, but it's what an analysis based on reasonable assumptions shows.

Let us now turn to the second part of the question: will there be enough oil for all that? What about "peak oil (supply)"? Let's also look at what's behind this notion.

In 1956, a Shell geologist named King Hubbert suggested a relatively simple idea: when an oil field starts producing, it comes out strongly and grows production for a few years, but eventually, as the amount left in the ground decreases, so does the production, until the field becomes "depleted", i.e., it's no longer commercially viable. He went a step further than simply stating this: he developed an equation that estimated when the switch from growing production to decreasing production (the "peak") would happen. He thought that the peak happened when half of all of the originally contained oil had been extracted. Furthermore, he thought that this formula not only applied to a specific oil field, but also to a whole oil producing region, or even an oil producing country. Figure 10 shows his estimate for oil production in the US, published in 1959. It was very precise with regard to the first peak, which occurred in 1970, giving Hubbard an enormous reputation.

Thereafter, oil was discovered and developed in the Gulf of Mexico and Alaska's North Slope. After a production bump, oil delivery kept fitting the expected trajectory. When oil became scarce in 2008, extrapolations from the curve pointed to a terminal decline in worldwide oil production, with all kinds of dire consequences (it would indeed be very bad for the economy… or even civilization in general, as shown in the first part of this note).

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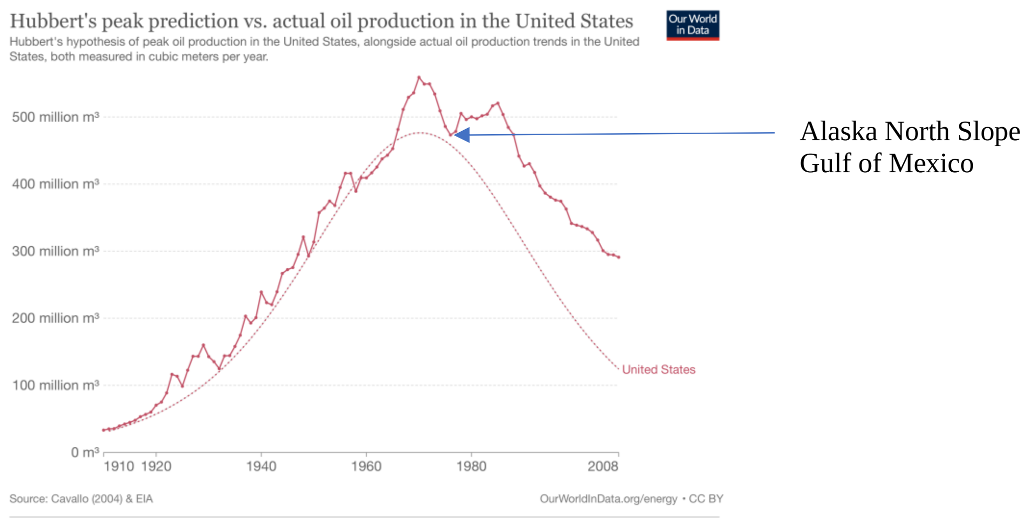
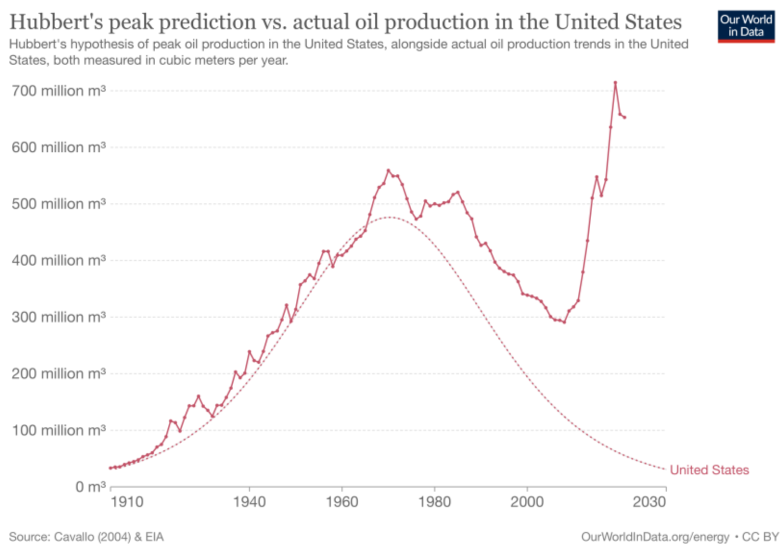
Figure 10: Oil production in the US and Hubbert's curve



However, one of the automatic consequences of high commodity prices is a renewed effort to produce more of the commodity, even using techniques not considered economic in the past, when the commodity price was lower. Consequently, "shale oil" was developed in the following years. This was oil that Hubbard had not included as "oil in the ground", because extracting it was very expensive. A redoubled effort to access that oil combined two known technologies (lateral drilling and fracturing the subterranean rocks) to make it accessible at last. This launched the "shale oil revolution", as seen in figure 11. Eventually, the oil price crashed amid excess production, and Hubbert's ideas were discarded.

Figure 11: Shale oil changes the curve



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Depletion is, however, an undeniable characteristic of oil fields: they eventually become exhausted. Figure 12 shows the production of an oil field called Cantarell, in the Gulf of Mexico. It went from being the second largest oil producing field in the world (just after Gawhar, in Saudi Arabia) to becoming almost irrelevant. As shown in figure 13, this decrease in production is occurring in many countries. Oil is a finite commodity and, eventually, all of it will be gone. Are we anywhere near this situation?

Figure 12: Oil production at Cantarell

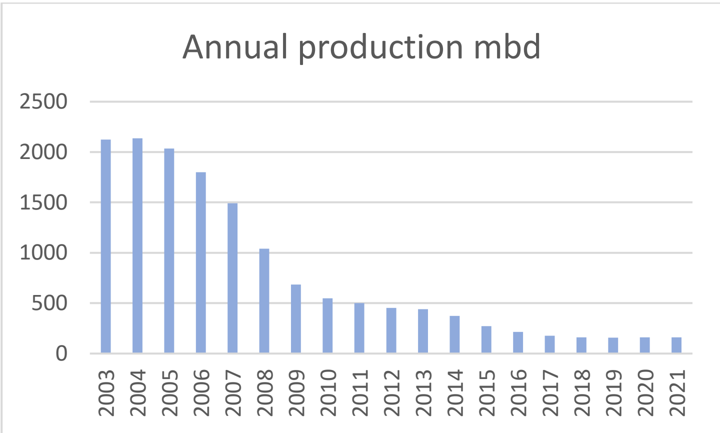
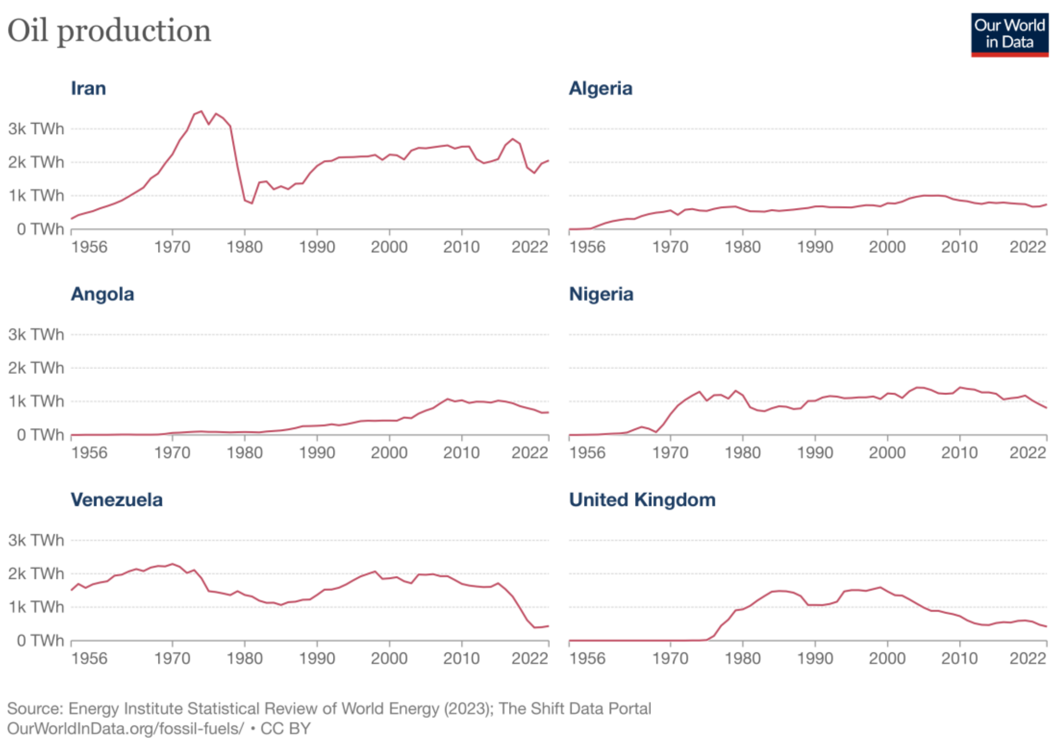
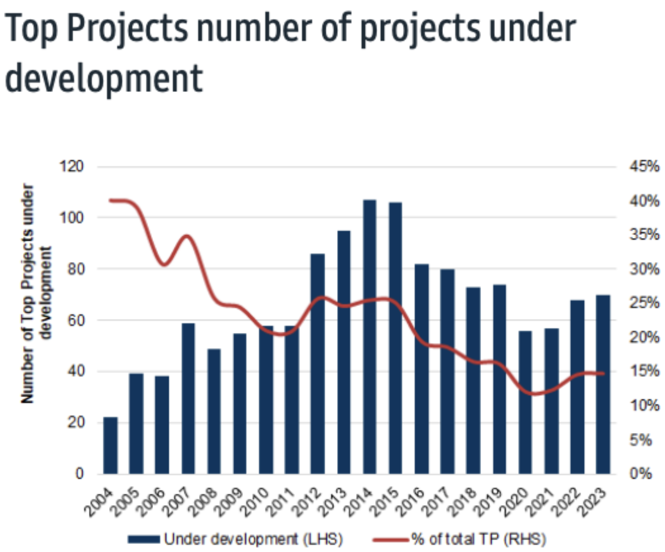


Figure 13: Oil production by several countries



As the story a shale oil shows, we must understand that oil supply is not a number, but a line, depending on its price. At $5 per barrel, there is no oil left in the world: all oil costs more than it does to extract. At $100, most of the current operations could continue for quite a while. At $200, deposits not currently being developed, because they are remote or very complex (in the Arctic Ocean, for instance), become interesting. The total amount of oil on planet Earth is, of course, limited, but how much of this we can actually use depends on technology and the price. Few new discoveries are made. The largest discovery over the last 20 years has been the "pre-salt" fields off Brazil. It's estimated that they contain a total of 50 to 100 billion barrels, of which perhaps half can be extracted at "reasonable" prices. To put this in context, the world consumption for the whole of 2023 will be 35 billion. The second largest discovery, in Guyana, is estimated to contain between 10 and 15 billion barrels. And, in the shorter term, perhaps driven by the "peak oil demand" narrative mentioned above, investing in new oil production has been extremely low, as shown in figure 14. Given the nature of the industry, once producers decide to invest, it will take several years to increase output.

Figure 14: Spending on oil still subdued



To summarize, our analysis strongly suggests that oil demand is nowhere near peaking, but that, at current prices, oil production is challenged. This does not mean that oil prices might not drop next week due to recession fears or OPEC disagreements. However, the direction mid-term, though volatile, is unequivocal.

III. THE LTIF CLASSIC

The LTIF Classic made +4% ytd. to November, a bit below the year's run rate (EUR625, +10%)

LTIF Classic closed September up 7%, but had a rough October and November to close around +4% ytd. This is well below the SPX (+18%) and the Nasdaq (+45%), and a bit more in line with Europe (+7%) and small caps (Russell 2000 +2%). Growth has also been a big gainer (MSCI World Growth Index +30% to November) versus a much-depressed value index (MSCI World Value Index +2%). **With one month to go, the 2023 performance is a bit below our target of ending the year +10% at EUR 625 per share.** As we always say, we do not care about others, we target a 10% per year, enough to beat global equities in the long term.

As we mentioned, the top contributors to the indices' outperformance are the Big 7 and large tech (FAANGS), which distorts most readings. Many stocks are down for the year (small caps, cyclicals, industrials, small tech. etc.), which the indices do not reflect.

In the Classic, by sectors, Technology, Cement, and Financials stand out on the positive side, while Salmon, Aerospace, and Mining have been disappointing. The stocks that rose more than 20% this year are: Pandora, Buzzi Unicem, Heidelberg Materials, and Salmar. Those that fell more than 20% are: Raytheon, Leroy Seafood, Bakkafrost, and ISS.

As always, we constantly rebalance our LTIF Classic positions, buying those stocks that are falling after reviewing our investment thesis, and reducing weight in those stocks that are rising strongly and approaching our targets. The impact is surprising, as it raises the fund's IV and expected IRR. It is counter-intuitive, but the worse, i.e. the more our stocks fall, the better, because we buy cheaper and lower the average purchase price.

The updated IRR of the Classic stands at 14.8% with an Intrinsic Value (IV) of EUR 920 per share

The fund's updated IRR has improved somewhat, with a current 14.8%, and the Intrinsic Value also rose to €920 per share. The expected IRR of 14.8% suggests that the fund is neither expensive nor cheap relative to its historical trading range (over 20 years) which has been 12%-17%.

For the Classic to trade at an IRR of 17% (assuming Mr. Market moves to panic territory, such as in the lows of March 2020 due to the COVID-19 crisis), the NAV would have to fall to around 425 euros per share, 30% below the current level. At that level, we would do three things: invest the cash we have, reduce risk categories 1 and 2 to overweight risk categories 3 and 4, and buy several companies that are currently on the watch list waiting for better prices. We did this in 2020, and, since the March low, the fund has multiplied 2.5x in 3.5 years. The truth is that when the stock market corrects, there is a lot of concern and stress, and some investors withdraw their money, but we take advantage of these moments to buy as much as possible.

This is a bit anecdotal, but over the years we have been fortunate to know several professional investors who have repeatedly withdrawn their investments at the bottom of the market, helping us identify the low point. It is amazing how consistent these investors' endurance limit is and how strong is the signal. Over the years we have developed our internal models (hard data) to identify these levels but this soft data or soft signal is also extremely consistent.

42% of Classic in 10 companies

Below is the table showing our 10 largest holdings. As usual, they are quite concentrated, but also well diversified.

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LTIF Classic Top10 Holdings	
Grifols SA	7,3%
ISS A/S	5,3%
Pandora A/S	4,4%
Sodexo SA	4,1%
Unilever Plc.	3,7%
Medtronic Plc.	3,7%
Leroy Seafood ASA	3,5%
VISA Inc.	3,5%
Reckitt Beckinser Plc.	3,4%
Salmar ASA	3,3%
TOTAL	**42,2%**

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Quarterly Investment Case: Pandora

We have chosen an old friend as our investment case of the quarter: Pandora. Pandora has appeared in our investment cases many times due to its massive price moves, but we wanted to highlight an important event.

Pandora held a Capital Market Day in October 2023 that left us perplexed. In a macroeconomic environment of strong uncertainty, the company communicated some surprising targets: an organic growth of 8% per year 2023-26 (including 3pp of openings) and an operating margin on sales of 26-27%. **The result of these forecasts or ambitions will be an EPS growth of 15-20% in the next three years** and a 20% free cash flow yield over three years (7% per year between the dividend and the share buyback). These are impressive numbers, much higher than we assumed in our DCF, with growth of 3% and sustainable operating margins of 25%.

The stock rose strongly after the CMD and it is relatively straightforward to value Pandora using the new targets: w**e easily approach a range between DKK 1300 and 1500 per share, compared to the current price of DKK 900 per share.**

Warren Buffett always says that **one should not believe company forecasts, because no one can foresee the future and it is advisable to focus on the current figures**. We agree with this, but the most relevant point for us was not the guidance, but the ongoing company's strategic and qualitative change, which we highlight:

1. Top class **management** team, led by a top-class CEO, Alexander Lacik.
2. Strong **brand** with well-structured investments to reinforce it globally.
3. **Network of stores in constant renovation** with trained employees looking for a unique experience.
4. **Focus on the company's core Moments collection**, which continues to perform well, and on bracelets and charms, which are the group's main product.
5. **New collections that reinforce the group's diversification,** including an interesting potential in the new *Diamonds by Pandora* collection, which draws on lab-grown diamonds at an attractive price point.
6. **New IT system, including new ERP,** which is already noticeable in the company's management.
7. A very clear **digitalization strategy**, with 20% of current sales through digital channels.
8. A healthy **balance sheet**, with no funnies in inventories, distribution channels, franchises, etc.

We could go into far more detail about the group's strategy and how it plans to continue improving in the coming years. You will find a summary presentation at *www.pandoragroup.com,* which fits perfectly with our investment philosophy: good business, good management team, good balance sheet, all at a very interesting price (strategic value), since Pandora trades at a P/E of 11x 2025.

We have 4-5% of the LTIF Classic in Pandora and, at the current price (900 DKK), we estimate an IRR on investment of 13-14% and an intrinsic value of 1200 DKK, with the option of reaching almost 17% – 1500 DKK if the company's forecasts are met. Let's enjoy the ride and when the bumps come (recession and lower consumption in 2023 and 2024), let's use the opportunity to buy even more shares.

Pandora Group. Consensus

	2023	**2024**	**2025**
PER	14,7	12,8	**11,1**
EV/EBIT	12,2	11,2	10,3
ROE	73%	82%	83%
FCF Yield (*)	7,1%	7,5%	7,9%

Source: Bloomberg, (*) SIA estimates

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IV. THE LTIF NATURAL RESOURCES

LTIF Natural Resources: +2% ytd. to November

The LTIF Natural Resources was +13% through September but lost most of the gains in October and November on a weak performance across the board. The best sector ytd. has been *Infrastructures* (up 11%), led by the *Cement* exposure, followed by *Mining*, up +2% thanks to our exposure to Uranium. Energy and Agrifood are both down -3% ytd. on lower oil, gas, and salmon prices compared to 2022.

CNQ, Petrobras, Kazatomprom, Southern Copper, Cameco, Salmar, Heidelberg Materials, and Buzzi Unicem are all up more than 20%. On the negative side, with falls of more than 20%, Harbour Energy, Panoramic, First Quantum, Leroy Seafood, Grieg Seafood, and Bakkafrost stand out. Their performances exclude dividends.

IRR of 15.6%. An intrinsic value of EUR 225 per share, always using mid-cycle estimates

The fund's updated IRR stands at 15.6% and IV at 225 euros per share, using commodity prices and mid-cycle company valuation models. These levels show that the commodities sector continues to trade at depressed levels due to the fear of a global recession and the Chinese economy’s current weakness.

The oil market seems to be in balance, if all goes well of course

We updated our oil supply and demand estimates for the next two years, assuming everything goes as planned (despite this almost never happening) and drew several relevant conclusions.

1) Supply grew more than expected in 2022 and 2023 due to high oil prices, mainly led by US shale oil and Iran.
2) The oil market appears to be balanced as of December 2023, thanks to the intervention of OPEC+, which, according to our estimates, has an effective spare capacity of around 4m b/d.
3) We see supply (excluding the return of OPEC+) growing by about 900,000 b/d in 2024 and 2025 at current prices (75$ WTI, 80$ Brent), which will be below demand.
4) OPEC+ will have to raise production by 500,000 b/d per year in both 2024 and 2025 to keep the market well supplied.

	2022	2023E	2024E	2025E
Demand m b/d	**100,0**	**102,0**	**103,5**	**104,5**
Growth m b/d		+2,0	+1,5	+1,0
Growth %		2,0%	1,5%	1,0%
Supply m b/d	**99,5**	**102,0**	**103,4**	**104,8**
Growth m b/d		+2,5	+1,4	+1,4
Growth %		2,5%	1,3%	1,4%
Balance	**-0,5**	**0,0**	**-0,2**	**0,3**

In the following table, we summarize the main countries’ net contributions over the next two years. These production estimates depend of course of oil and gas prices and our models use, as stated, 80$ Brent and 3,5 $ MMcf HH gas.

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Relevant Net Contributors (Supply) for 2004 and 2025

b/d	**2024E**	**2025E**
US	300.000	300.000
Canada	150.000	150.000
Brazil	200.000	200.000
Venezuela	100.000	150.000
Irán	150.000	150.000
Russia	*100.000*	*100.000*
S.Arabia	*200.000*	*200.000*
OtherOPEC	*150.000*	*150.000*
TOTAL	**1.350.000**	**1.400.000**

Source: SIA funds

This scenario is an optimistic one because it does not consider the decline in production (estimated at 3-5% per year), which is not usually included in the different countries' forecasts. Nor do we include the risk that shale oil may begin to decline earlier than expected, therefore requiring higher prices than the current ones to maintain production.

In summary, we estimate that, for the time being, and assuming a macroeconomic scenario of an economic slowdown in 2024, the oil market should remain in a similar price range to the 2023 one, around $80 Brent. At these prices, the sector is still very cheap, not at all reflecting the upward cycle that we anticipate in 2-3 years.

Let's remember that thanks to shale oil (which began to be developed a decade ago and currently provides about 10m b/d), **the world has been able to consume 102 m/b per year, but what would have happened if it had not been found? Well, we will see it once OPEC+ returns to full capacity, within 2-3 years.**

Copper is set to rise sharply if China's economy recovers

We continue to hold a strong copper position in the LTIF NR (23%) and our supply and demand estimates (very much in line with those of the ICSG) suggest the following: **enough projects are being developed to meet demand in 2024 and 2025, but beyond that, there are no more brownfields or greenfields with scale, leading to a significant shortfall, fueled by electrification-induced demand.**

Both Robert Friedman (Ivanhoe) and Alberto Lavandeira (Atalaya Mining) have, in recent calls, mentioned that the **copper price needed to develop new mines will be much higher than that of today, and above $5 per pound of copper.**

Our numbers suggest the same, but, more importantly, there is a huge qualitative issue: who is going to spend $8-10B on a new mine in Peru, Chile, Panama, Congo or Zambia? Or even in Alaska? Or Russia? Geopolitical issues, ESG, taxes, resource nationalism, and country risk are making investing in new mines extremely hard. See the result in the next chart.

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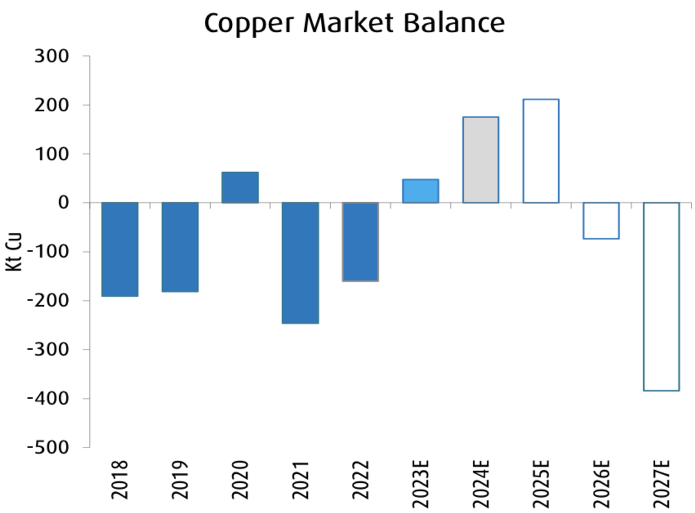

Source: ICSG, BMO Capital Markets

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V. NATURAL RESOURCES THOUGHTS by Urs Marti

Market participants continue to have a negative view of commodities due to recession fears
Financial participants are currently positioned to make money on the downside. Usually, their estimates are wrong, and the market does the opposite. The industrial recession is more than 1.5 years old, and the industry already started reducing inventories at the beginning of 2022. The iron ore inventories at Chinese ports are a good proxy (China accounts for 55% of global steel). The steel market was down 4% last year. Global liquidity is better than perceived, as the central banks in emerging markets (80% of the global population) already reversed the tightening in autumn 2022. There is a creditor for every debtor. The so-called "Western world" suffers from interest rates and inflation. But not everybody is in the same position. India expects 6.4% GDP growth next year. Net exporters of commodities enjoy a rising income, investment, and an economy which does well.

Governments continue their hunt for taxes. Underspending persists
Energy tax in Austria, taxes on banks in Italy and in the Netherlands, and royalties on coal in Australia are a few recent examples of governments' hunt for taxes (when these things occur in so-called third world countries, the outcry is massive).

State owned Codelco, the largest copper producer in the world, is starting to suffer from years of underinvestment due to the output beginning to decline structurally. There is even talk of the risk of insolvency due to rising costs and a growing debt pile (we have discussed this issue for years). This doom prophecy will intensify for most/many materials. Glencore announced the closure of Mount Isa copper production in 2025. It is the largest industrial complex in Australia and one of the largest producers of zinc and silver in the world. It is Australia's second largest copper producer and was, for a short time during the 80's, the largest company in Australia.

In oil, M&A accelerates, which is a typical phenomenon at this stage of the cycle
Debt has been reduced, cashflows are good, and shareholder distribution is already high. Knowing the lead time, capex, the hassle, etc., obviously starting a project from scratch is less attractive than just buying an asset at a cheap valuation.

In this sense, we are seeing an intense M&A wave with Suncor (a position in the fund) buying out Total's stake in Fort Hills; Exxon buying Pioneer (a position in the fund); and Chevron buying Hess (a position in the fund).

On the other hand, the whole energy transition bubble is under review (Orsted, US-UK offshore wind, subsidies, nuclear…). The whole idea is ideologically driven and rejects the laws of gravity and reality. Investors/governments will finally wake up to reality, and their willingness to pour funds into it will need to be massively adjusted (rising capital costs always make people calculate more accurately).

The shares of First Quantum collapsed given the fear of nationalization. Elections in April
Usually, the stock market tends to discount negative news to the extreme. In Norway, salmon stocks halved, but, in the case of Mowi, the tax effect looks like being around 12%. Cobre Panama accounts for half of First Quantum and 6% of Panama's GDP. It is not that easy to expropriate a North American company without a massive backlash. Apart from the direct impact on the GDP, tax income, and employment, there will be many more far-reaching consequences.

North America is the largest trading partner, accounting for 26% of all trade. The USD is the official currency in Panama. The economy is mainly based on the service sector, particularly on trade, commerce, and tourism. The Panama channel is one of the main sources of national revenue. After being controlled by the US for 85 years, it was handed back to the Panamanian government in 1999. The banking and financial sector is another leading source of employment and revenue. It accounts for 10%

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of the GDP. Panama is a leading offshore place and home to more than 500,000 corporations, making it, beside Hong Kong, the second most popular jurisdiction to incorporate in the world.

According to the IMF, Panama is the richest country in Latin America. Together with Puerto Rico, it has the highest per capita income. The Colon Free Trade Zone is a free port in Panama dedicated to re-exporting a wide variety of merchandise to Latin America and the Caribbean. It is the largest port in the Americas, the second largest in the world. After Hong Kong, it is the largest free zone in the world. It is very hard to imagine that such a small country, extremely dependant on North America, can expropriate the largest asset in the country from North America (Canada, geographically trapped between Alaska and the rest of the US, is completely integrated economically).

Uranium producers accounted for 10% of our assets for a few years

There are many presentations and interviews on our homepage about the market's structural situation. The Uranium price found its low at 18USD per pound in 2019. "*The cure for low prices is low prices*" is a familiar quote in our industry. Cameco's McArthur River mines 15% grade, which is spectacular, and makes it the best Uranium mine in the world. Even this mine has cash costs of nearly 30 USD. The company decided to shut the mine, save the reserves, and buy on the spot market to deliver into the contracts. The obvious happened and, given the lack of spot supply, the market went into backwardation. The Uranium spot rose to 80 USD.

Currently the opposite is happening. Cameco will bring back 18 M pounds, Kazatomprom 12 M pounds, and Langer Heinrich in Namibia another 6 M pounds. This accounts for 36 M pounds additional supply until 2025 (the actual mine supply is around 120 M pounds). Half of the world's supply comes from Cameco/Kazatomprom (positions in the fund). The other half of supply is more difficult to follow, as these comprise non-public companies like Rosatom, Navoi in Uzbekistan, or by-products from, for example, BHP's Olympic dam copper/gold mine. However, the development hardly differs.

With a P/E of around 30 in 2024 and the first (easy) wall of supply returning, Uranium might need some time/correction to digest (we have seen the same in other metals/commodities during the last two years). We have started reducing our Uranium exposure, particularly Cameco. The value seems to lie more in commodities that suffered from the industrial recession and where people have a very negative view (base metals, iron ore, met. coal, alu, oil, gas, etc.).

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"It is not personal; it is purely business." Is a famous quote from Don Corleone (a character from fiction). Value is to be found where nobody wants to be involved, for which there are different reasons. One of the credos of Glencore (a position in the fund) is that you *always go where everybody else runs*. The company has consequently snapped up coal assets ever since the climate mania started.

Recently, the company agreed to buy the met coal business from Teck (a position in the fund) for 2.3 times 2023 EBITDA. The asset is debt free. Metallurgical coal and iron ore are the raw materials for steel. Given the recession, the met coal prices more than halved. Last year, this business made more than 6 billion EBITDA (the transaction price is 8.9 billion USD).

Another area of the deep value is European E&P oil companies

The fund holds a position in Harbour Energy and AkerBP. According to Bloomberg, Harbour will make 3.5 billion EBITDA 2024 on a market cap of 2.2 billion (the company is virtually debt free)! During dark days (at the bottom), it was good to know that one was not totally lonely, like Sam Zell buying up US energy assets at the bottom.

Carlos Slim, one of the wealthiest persons in the world, bought a 5% stake in Harbour recently (given his estimated net worth of 90 billion, the price was pocket money to him). Glencore announced having undertaken a 400 M financing for Tullow oil, another UK oil small cap. A much smaller company with a potential debt problem, it is therefore not a position in the fund. Glencore, according to Bloomberg, obtains a 15% yield on the financing, and this for an asset that trades on the same 0.5 times 2024 EBITDA multiple. Either they will obtain the asset or get a good yield on the loan.

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December 2023

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ISIN:	LU0244071956	LU0301247077	LU0301246772	LU1449969846
Telekurs:	2'432'569	3'101'820	3'101'817	33'180'015
Bloomberg:	LTIFCLA LX	LTIFCLU LX	LTIFCLC LX	LTIFCLD LX

	LTIF – Natural Resources EUR	LTIF – Natural Resources USD	LTIF – Natural Resources CHF
ISIN:	LU0244072335	LU0301247234	LU0301246939
Telekurs:	2'432'575	3'101'839	3'101'836
Bloomberg:	LTIFGEV LX	LTIFGEU LX	LTIFGEC LX

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