S I A
Strategic Investment Advisors Group

Long Term Investment Fund

Newsletter

of March 2024

SIA Funds AG Alpenblickstrasse 25 8853 Lachen Switzerland
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Figure 1: **LTIF Classic EUR**
vs. MSCI Daily TR Net World Index EUR

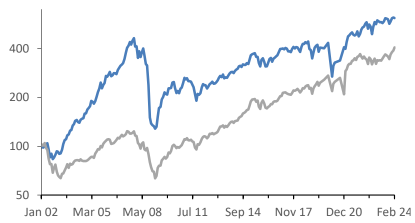
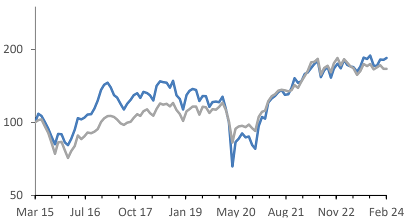


Figure 2: **LTIF Natural Resources EUR**
vs. S&P Global Nat. Res. Net TR Index EUR



“"I constantly see people rise in life who are not the smartest, sometimes not even the most diligent, but they are learning machines. They go to bed every night a little wiser than they were when they got up and boy does that help, particularly when you have a long run ahead of you."

Charlie Munger (1924-2023)

Overview of our funds

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

February 29, 2024	NAV	Δ 3m	Δ 12m	Annualized return (s.i.)	AUM *(in mio)*
LTIF Classic [EUR]	617.19	5.1%	4.5%	8.6%	96
LTIF Natural Resources [EUR]	152.74	8.1%	6.9%	2.3%	81

Source: SIA Group

I. THE 2023 CRISIS. *What crisis?*

An extremely mild slowdown, so far

2023 was a puzzling year: we expected a clear global economic slowdown that, in the end, did not materialize at all. It is true that countries such as Germany and the UK had close to zero growth at the end of the year, but, on average, the US, China, and Europe recorded a surprisingly robust GDP growth of between 2% and 5%.

In the chart below, we see the extraordinary strength of USA’s GDP, well above market expectations.

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Source: Bureau of Economic Analysis/ Haver Analytics (Seasonally Adjusted)

Summarizing the main factors, **we believe that 2023 was better than expected due to consumer behavior** (specifically due to developed countries' post-COVID fiscal support) **and the service sector,** which is obviously related to the consumer.

There is another important economic trend that, from a structural point of view, we did foresee, and which also occurred in 2023, namely **private investment and employment's significant strength**. **For a long time, we forecast a new investment cycle in the more traditional part of the economy to compensate for the long underinvestment phase, which simply could not last forever.** The global supply chains' strengthening (after Ukraine's invasion and problems with China) supported the above, as did the energy transition, both of which will have a very significant impact on industrial development in the coming years, possibly decades.

Does this mean that we are already in a new economic cycle and that 2023 was the low point? We don't know, but certainly the indicators we started tracking since the start of 2022's soft-landing (to assess where we are in the cycle) **continue to improve.** Two indicators (1) Macro-China and (2) inflation/interest rates are already moving toward a positive delta, despite the general pessimism about the Chinese economy; the remaining 3 are stabilizing, since (3) manufacturing indices appear to have bottomed out, (4) earnings downgrades are very mild on average, and (5) global liquidity is approaching a turning point, with expected interest rate cuts and expansionary fiscal policies in many countries.

We at SIA Funds do not try to forecast future macroeconomic magnitudes, nor do we base our investments on macro factors, but we do have a baseline scenario that helps us better manage the risks associated with our funds. **Looking ahead to 2024, we start the year with greater optimism, but with the awareness that the slowdown is not yet over. Whatever happens, our two portfolios, LTIF Classic and LTIF Natural Resources, are of a high quality, cyclical and non-cyclical, and are prepared for any downturn that might occur.**

Manufacturing PMI Indices appear to be stabilizing

The US and European Manufacturing Indices peaked in early 2021 and have, since then, been in an adjustment phase that took them to negative levels throughout 2023. They remain at these depressed levels, but stabilization occurred toward the end of the year, coinciding with the normal inventory adjustment. **We understand that the manufacturing sector is bottoming out and, with the expected rate cuts, will start a new recovery cycle throughout 2024 or 2025 at the latest.**

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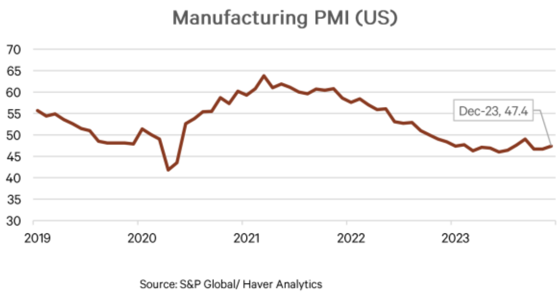
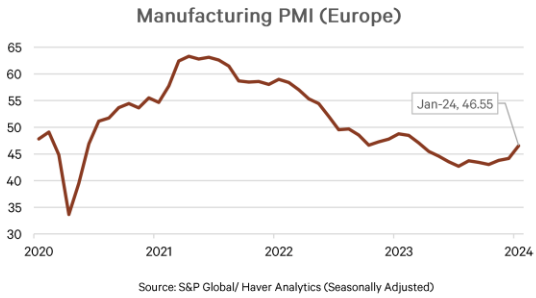
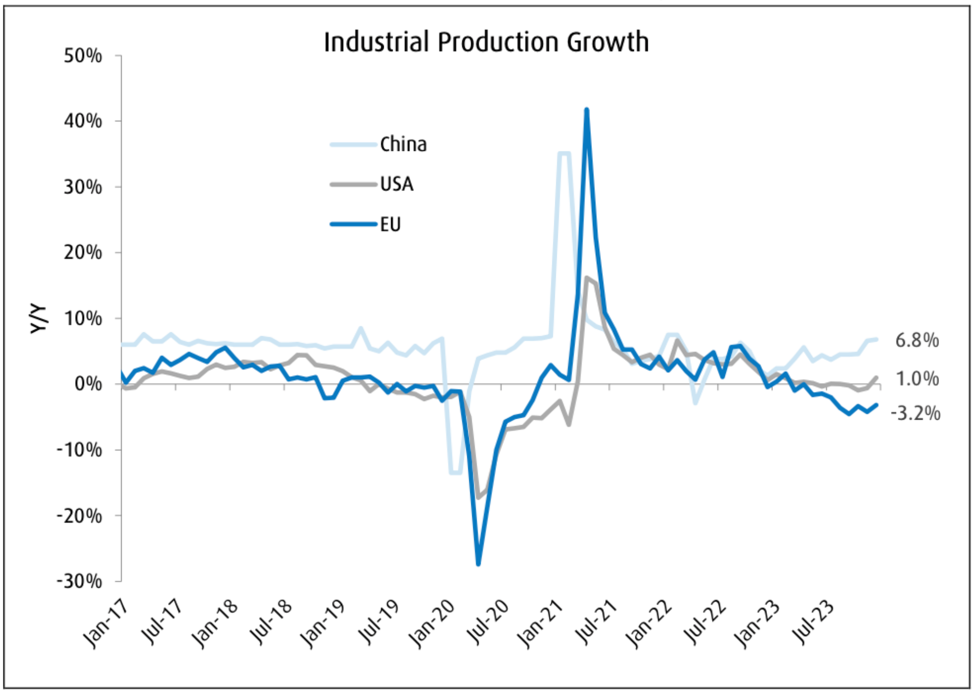




The following graph shows the different phases of the industrial cycle in the three most important economic areas of the world. **On the one hand China, which, despite the real estate crisis, continues to grow strongly, close to 7% levels; on the negative side, Europe, which, for two years, has been undergoing a strong industrial adjustment,** as the war in Ukraine, the cost of the energy increase in 2022 and 2023, and the continent's erratic energy policies have harmed the economy. The latter was especially due to the continent's policies not being clear about the need to maintain access to fossil fuels during the energy transition, or even clear about the more evident need to promote nuclear energy as a baseload.



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

The inflationary spiral is under control

The following graph summarizes the inflation evolution in Europe in the medium term. The conclusion is clear: it has already normalized. The same applies to the United States, and to most countries, because it is now clear that the inflationary jump in 2022-23 was not structural, but conjunctural, and based on the following three main factors: (1) the post-COVID fiscal policies; (2) the post-COVID global logistical problem; and (3) the Ukraine war and its impact on energy.

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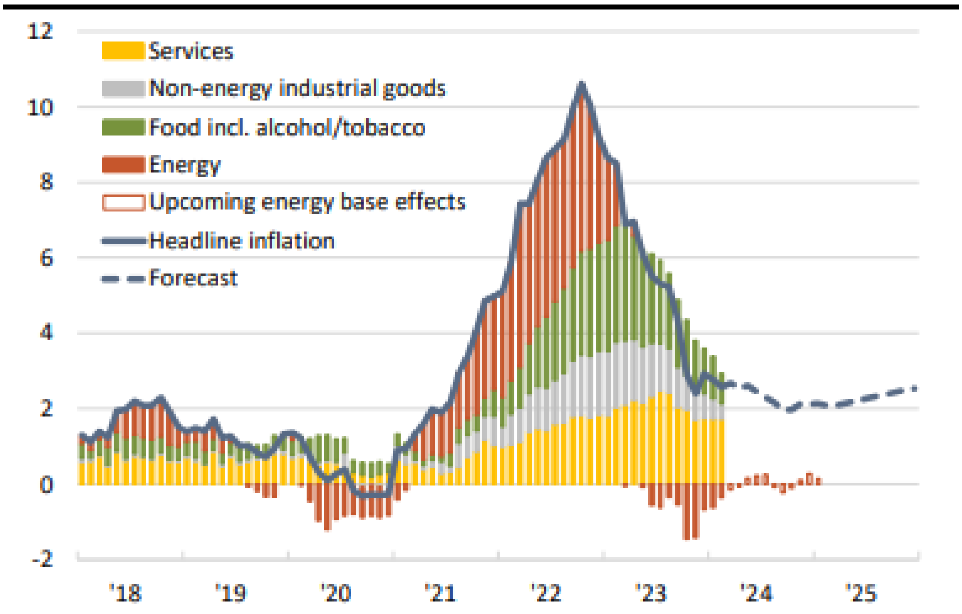
That said, two main factors that will keep inflation at somewhat higher levels than in the previous decade are: employment (unemployment rates are very low globally due to labor shortages) and energy for which we foresee high prices, especially in respect of oil.

Eurozone inflation (% yoy) and component contributions (ppt)



Not seasonally adjusted, monthly data; upcoming energy base effects: inflation contribution if energy prices were to stay at their February level. Sources: Eurostat, Berenberg projections

China: if we had had €1 million inflows for every time someone predicted the collapse of China...

We decided to attach a summary graph of the Chinese economy's performance in 2023 to visualize the main trend: **the real estate crisis is still ongoing**, which has a negative effect on consumers, **but the rest of the economy mostly shows positive values.** In summary, China's GDP is growing at 4-5%, its monetary and fiscal policies are expansionary, but contained; nevertheless, its real estate sector's adjustment (and that of the associated debt) is taking much longer than we thought—the adjustment has already lasted three years.

We are not going to try to estimate the Chinese economy's growth in 2024 (the official target is 5%), but we once again want to provide a clear message: **the Chinese government has the tools it requires for the economy to digest the real estate bubble and we see no risk of the country's economy collapsing**. We believe that 2025 will continue the trend set in 2024 and that, at some point, both the real estate and the end consumer will regain their lost confidence. It is just a matter of time and supportive economic policies.

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II. HOW ARE THE FUNDS FARING? “*What is your expectation for 2024*?”

For many years now, this question has been a tremendously recurring one in our day-to-day life; we are asked this by our families, friends, investors, journalists, distributors etc. It is an extremely difficult question to answer, let alone in 5 seconds, since we find short-term performance irrelevant (from the point of view that it does not have much meaning) and long-term performance, that which is really meaningful, does not interest very many people and takes a lot of time to answer.

Our two funds, LTIF Classic and LTIF Natural Resources had a good 2023, both +9% for the year, very close to our 10% target. We are aware that many short-planners will confront us with the fact that we have fallen short of most indices, to which we will reply that if we do 10% per year over the long term, we will beat most indices, always over the long term, given that, on average, these have historically achieved 6-7% per year: 3-4 alpha points, which is our *passive* target.

We are sorry to disappoint in this regard, but **we are only going to analyze our long-term performance to also draw conclusions for the long term**. In our opinion, any attempt to assess a mutual fund’s performance over a time horizon of less than 10 years is of little relevance, given that a market movement of +/-20 points, which occurs quite frequently, only ceases to have influence when divided by 10 years or more.

Starting with our inception (at the start of 2002), the numbers are as follows: **8.7% per year, with 2 alpha points per year and two sharp falls: GFC2008/09 and COVID2020, from which we have recovered without too much damage**. The GFC cost us a bit more, but thereafter we even evolved. On an absolute level, the Classic has slightly underperformed our target of 10%, but on a relative level, it reached an interesting alpha of 2pp per year.

As we have repeated many times, our potential alpha is a passive consequence of our modus operandi: **we target 10% per year with a solid portfolio, with very low real risk, and achieving this target will make us beat the indices, with 3-4 points of alpha per year.** In fact, if we had made 10% a year since 2002, the alpha would have been 3.3pp per year, confirming our calculations (note that *the Classic's performance is net, after fees and expenses*).

LTIF Classic since inception. 23 years, 8,7% CAGR, 2pp of alpha

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I could end here and move on to the next section, but we believe it is important to look at the performance following two relevant changes in the Classic and SIA Funds' history.

(1) First change: the implementation of the new risk-adjusted management strategy, or risk categories since Oct. 2011.

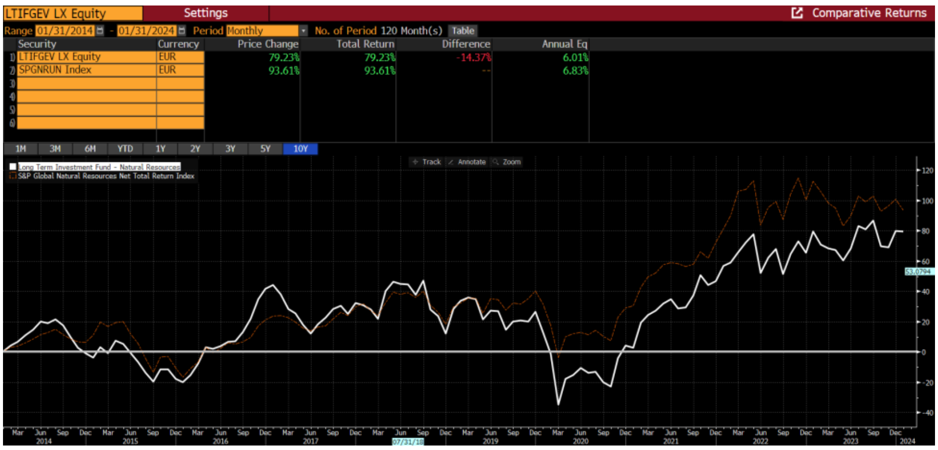
(2) Second change: the MBO of SIA Funds, followed by organizational changes, during the 2019 summer.

(1) The chart below measures the LTIF Classic's performance since October 2011 (i.e., 14 years), when we implemented the risk adjusted strategy, with an annual performance of 10.2%. Good on the absolute side and relative to other Value Funds, but disappointing on the relative (3.1pp below the MSCI World Index per year) mainly on 3 factors: the Magnificent 7's leadership (we only invested in Apple), the commodities' and energy's poor performance, sectors to which we have been exposed, and, finally, the poor performance of value versus growth during this period.

LTIF Classic since 2011 when we implemented the risk-adjusted strategy (risk-categories)

On a side note, the LTIF Natural Resources has not had an easy ride either, and in 10 years we have made 6% per year, not too far behind Standard & Poor's Natural Resources which has made 6.8% per year.

LTIF Natural Resources. 10Y performance



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2) And we finally come to the September 2019 organizational change, checking how we have done since then.

LTIF Classic and LTIF Natural Resources since the MBO and organizational change

Since the MBO of SIA Funds (in the summer of 2019), when we changed the company's organizational structure, with Marcos becoming the new CIO and fund manager, and the Investment Committee being renewed with Alex Rauchenstein, José Carlos Jarillo, and Urs Marti, **the performance has been somewhat better in absolute terms (annual 11.4% for the LTIF Classic and 10.6% for the LTIF Natural Resources).** In relative terms, the Classic lost 1.2pp annually vs. MSCI World, but outperformed the MSCI World Value Index by 1.7% p.a., while the NR gains 0.9 pp annually as well.

It is still too early to draw long-term conclusions from these figures, given that the performance occurred in somewhat less than 5 years (we will draw a 5-year evolution conclusion in the summer of 2024), **but it gives us positive energy regarding our aim to achieve our medium and long-term objectives. We will see.**

3) Finally, how much can we improve?
Given the construction of SIA Funds' portfolios, which are well diversified and of high quality, i.e. risk-adjusted, we do not have a huge capacity for improvement. Let me explain this.

Both LTIF Classic and LTIF NR tend, in average terms, use to trade at an IRR on investment of 14-14.5%, which, after fees and expenses, would be around 12.5-13% being our theoretical target, assuming a few major errors, or errors compensated by successes. If we add portfolio rebalancing's contribution (an easy summary is buying what falls and selling what rises), we estimate that we could add 0.5-1pp per year at most, reaching a total net IRR of 13-14%.

In short, we have been making 11.4% per year for almost 5 years, compared to the theoretical maximum potential of 13-14%. So yes, there is some theoretical upside, but the truth is that reaching that 13-14% per annum is extremely difficult to achieve.

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So maybe there is a chance to improve and reach 11-12% per year on a long-term basis, but for the time being **we maintain our goal of making 10% per year with low-risk, high-quality portfolios, which is the same as doubling the investment every 7 years and multiplying it by 4 every 14 years.** We believe that we have learned a lot from the GFC and the COVID crisis, as well as from past cycles and mistakes, and that is why we keep our idea of retiring from SIA Funds in a couple of decades, if we are in good health, of course. **As per Charlie Munger, we are learning machines that focus on the long run, the factors that should keep SIA Funds rising**.

Two reasons for hope: our performance should improve once the new value cycle settles (we believe it started in 2021, but 2023 was a bump in the road) and once the commodities' new super cycle becomes even more evident.

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III. *OUT OF THE BOX* by Jose Carlos Jarillo

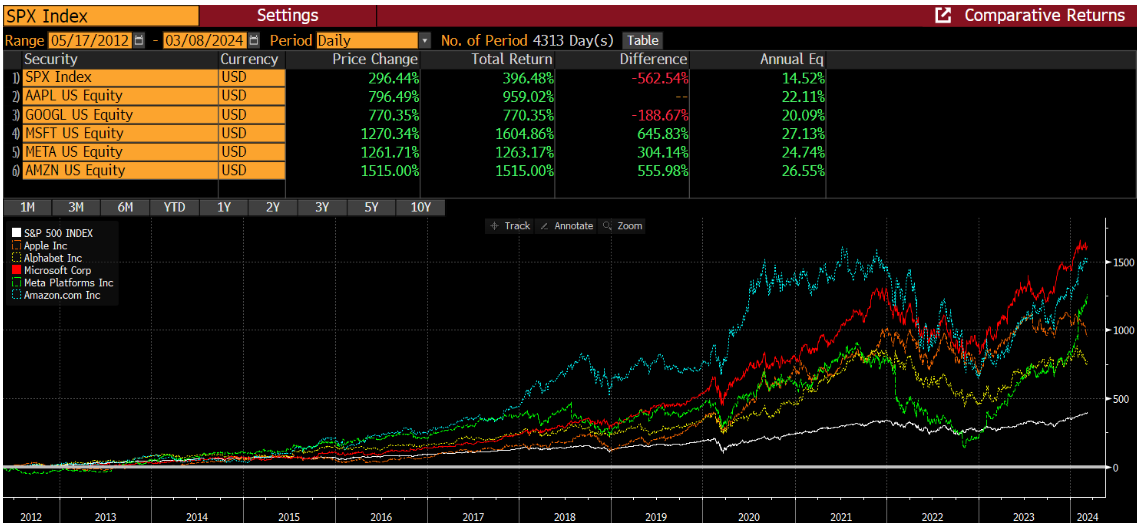
For quite a few years now, the **American and European stock markets' very different performances** have been a frequent discussion point**.** Figure 1 shows that difference quite starkly, using the two most representative indices of those economies, since the end of the Great Financial Crisis:

Figure 1: US & Europe's indices

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	SPX Index	EUR	775.13%	1071.98%	635.64%	17.81%
2)	SXXP Index	EUR	216.10%	436.34%	--	11.83%
3)						
4)						
5)						
6)						

Many reasons have, of course, been offered to explain this discrepancy, and there must be many causes of such a complex phenomenon. The most salient is probably **some very large firms with outstanding performances' dominating presence in the US market** (we don't include NVIDIA in the chart, because it goes up so much that it becomes unreadable!):

Figure 2: Performance of the "Magnificent 5" compared to that of the S&P 500 index



	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	SPX Index	USD	296.44%	396.48%	-562.54%	14.52%
2)	AAPL US Equity	USD	796.49%	959.02%	--	22.11%
3)	GOOGL US Equity	USD	770.35%	770.35%	-188.67%	20.09%
4)	MSFT US Equity	USD	1270.34%	1604.86%	645.83%	27.13%
5)	META US Equity	USD	1261.71%	1263.17%	304.14%	24.74%
6)	AMZN US Equity	USD	1515.00%	1515.00%	555.98%	26.55%

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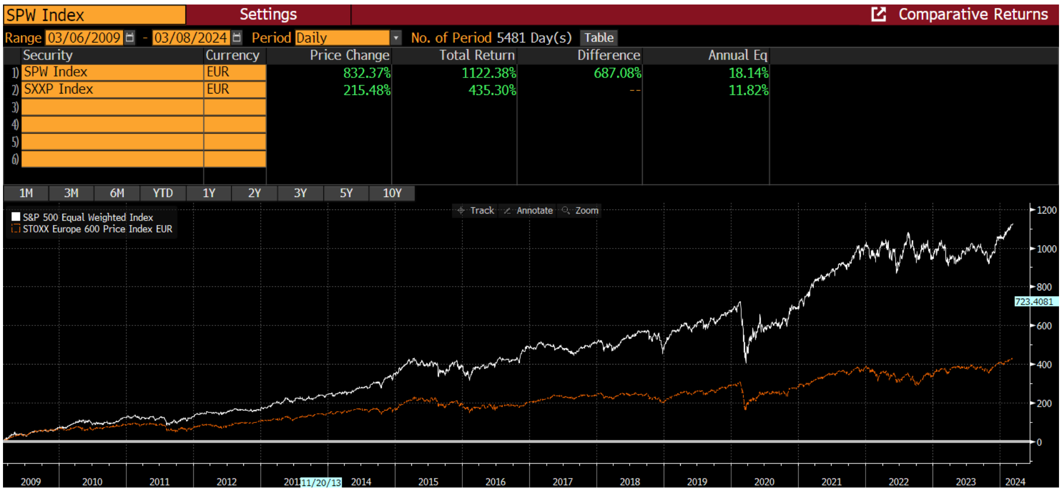
The outperformance may or may not be deemed “bubbly”, but **the profits of those large companies have undeniably grown and continue to grow to outstanding amounts.** In most cases, they have a lower PE today than a year ago.

However, it’s **not only such technological wonders that differentiate the US economy from Europe’s,** see the less frequently shown chart below:

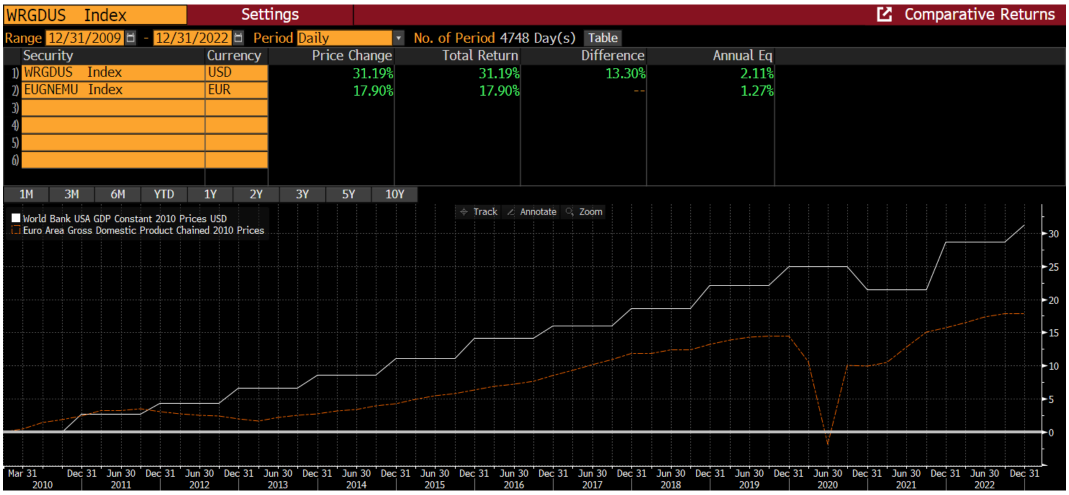
Figure 3: S&P 500 Equal Weight index vs. Stoxx 600 index



The S&P 500 equal weight index takes the same top 500 US companies as the “normal” index and weighs them equally, i.e., not by market share. Consequently, each company takes only 0.2% of the index and the famous “Magnificent seven” count for just 1.4% of it. **Even when just “neutralizing” the success of America’s top firms, these companies do much, much better on average than the European ones.**

At its core, this result is based on the two economies’ different performances:

Figure 4: GDP growth, constant 2010 currency



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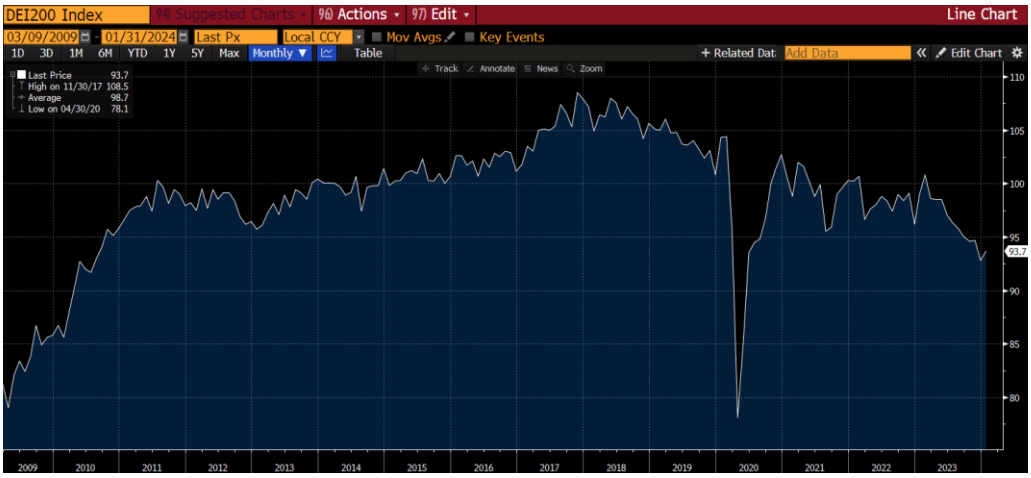
Again, there must be many reasons for the fundamental outperformance, although no scientific evidence accounts for it parsimoniously. **Nonetheless, we do find some reasons in a field apparently far removed from technology, namely manufacturing. Europe has long been a leader in advanced manufacturing, which has been one of the basic pillars of its economic well-being over the years. However, if we assume that Germany is the core area of this capacity, we see very worrying figures**:

Figure 5: German industrial production index



Again, many factors must be behind this decline, but, **if you ask actual European manufacturing managers, they only mention one variable that's making competition with American firms very difficult: energy costs.** Even the most value-added manufacturing uses a great deal of energy, either directly or indirectly, in its inputs. Many industries that form the basis of many others (chemicals, plastics, metallurgy, fertilizers, etc.) comprise little more than the capital costs plus the energy costs. Computer server centers forming the center of the "cloud" and AI, are some of the most energy-intensive industries in the world, while energy costs in Europe have gone through the roof. Two very mild winters have led to the horrible post-Ukraine invasion spike subsiding, but here is a comparison of natural gas prices in the US and Europe right now:

Figure 6: Evolution of natural gas prices in Europe and the US

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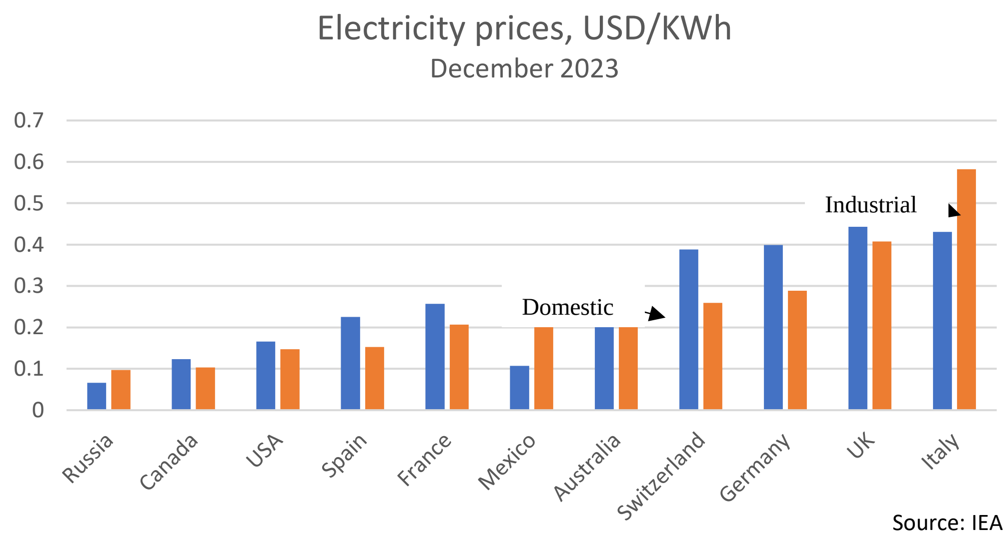
As of early March, **the benchmark price in Europe (TTF) has been about €26.5, which translates to roughly $8.15 per million British thermal units (MMBtu). The US benchmark price (Henry hub) is now about $3.50. European prices are thus 2.3 times higher those of the US.**

The US produces much more gas than it can consume, because gas comes out of the ground when extracting oil. The latter is very profitable at current prices, and the former is simply inevitable. I.e., gas is produced even if it sells for little more than the very low transportation cost via the pipelines that crisscross the US. In a "normal" market (such as oil) that cheapness would be arbitraged by exports to other parts of the world that need gas**. But exporting gas from the US requires liquefaction and very specialized, and expensive, tankers (and re-gasification plants at the point of destination).** Liquefaction plants take time (and licenses) to build and are subject to political constraints: the **US President has just halted all construction of new gas exporting terminals**. Only he knows the real reasons for this decision (fighting "climate change" has been mentioned), but the net result is that the US industry will continue enjoying the cheapest energy in the industrial world (together with Mexico, which is getting American gas through pipelines, and is seeing its manufacturing sector explode). **Europe, meanwhile, is closing its nuclear plants and has permanently banned fracking to produce natural gas.**

All of this shows up in Europe's electricity prices, of course:



As investors, we try to peer into the future, not the past. We also don't invest in countries, but in companies, although they necessarily operate in a territorial context. Even if they move their operations (which many European companies are doing), this has costs, and causes collateral damage to other industries (and services providers) around them. **Without a strong decision to improve Europe's energy supply, it's difficult to see how its economic performance gap with that of the US could be closed.**

This does not mean that European markets could not "catch up" with America. For all we know, the index performances might well reverse at some point. However, when analyzing companies, we must be aware of their context. A key part of this context is the growth rate of the economy in which the companies are imbedded. **And many people do not seem to understand that economic growth is just a manifestation of energy consumption growth.**

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IV. LONG TERM INVESTMENT FUND CLASSIC: *+9% in 2023*

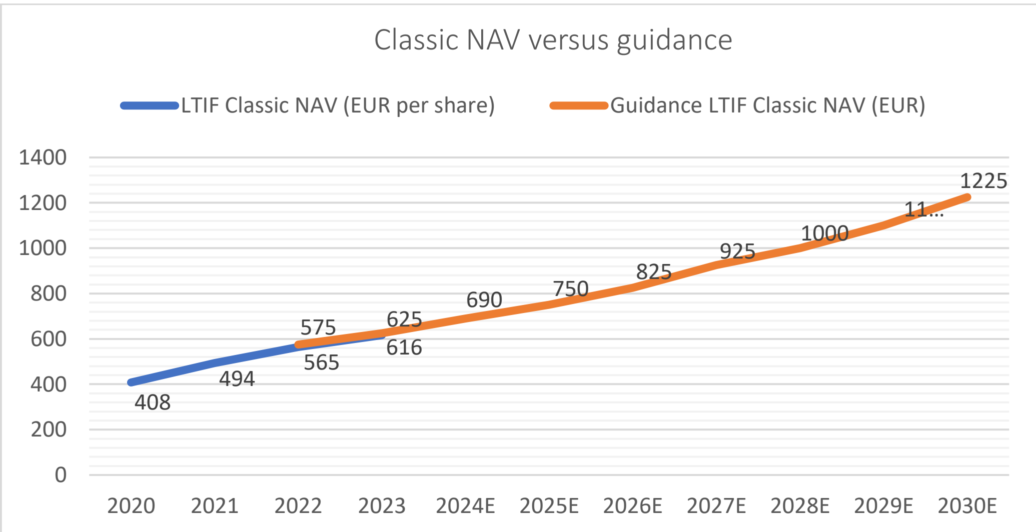
LTIF Classic gained +9.1% in 2023 to close at €616 per share.
LTIF Classic closed 2023 at €616.4 per share, +9.1%, close to our target of €625 per share. By sector, the best performers were Cement (+52%), Technology (+35%), and Pharma/Health, Financials and Consumer Discretionary with an appreciation of around 20%. On the negative side, Salmon (-8%), Energy (-4%), and Mining (-5%) were the fund's worst sectors.

In terms of companies the best performers in 2023 were Pandora (+90%), Buzzi Unicem, Heidelberg Materials, Grifols, and ASML, all above 30% and, on the downside, First Quantum (-62%) followed by Bakkafrost, Leroy Seafood, Cenovus, and Raytheon all with declines above 20%.

From a fundamental point of view, we are only concerned about two of our investments: First Quantum, **given that the Panamanian government has terminated the *Cobre Panama* mine** and declared the concession contract unconstitutional, thereby generating significant uncertainty about mining's future in the country, **and Grifols, which has suffered an attack by a short seller,** *Gotham Research*, thereby uncovering a series of issues, which, although known, highlighted the management team's weakness, that of the corporate governance, and that of the group's balance sheet (*see details in the Quarterly Investment Case*).

The updated IRR of the Classic stands at 14.3% with an Intrinsic Value (IV) of €941 per share.
The Intrinsic Value of the fund continues to rise (as it should, given that we tend to sell high and buy low, thereby over-weighting each review's cheapest stocks) and, at €941, we are approaching those €1000 per share. **At 14.3%, the IRR is at historical average levels (range 12-17%)**; consequently, we believe the fund is trading at normal levels, being neither too expensive nor too cheap.

The 2024 target, based on our companies' historical average multiples for the current year, stands at €690 per share, with a theoretical upside of 12%. These numbers are obviously just a benchmark (although since we started this exercise 2 years ago, we have never been far off the target), but with 5 years to go, that €1000 in 2028 does provide a reliable benchmark. It is an easy figure to remember, which is why we focus on it when talking about the medium/long-term objectives.



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42% of the LTIF Classic in 10 shares, as usual

As we repeat so often, **the LTIF Classic is a fund that seeks quality with diversification and concentration. As of today, 42% of the portfolio is in 10 companies, all of which are considered long-term partners,** and no single vector could damage the portfolio thanks to our business and geographic diversification.

Let's highlight 4 relevant ideas for LTIF Classic fund, which are already apparent in the top 10 stocks:

1) **Grifols, one of our largest positions, is under a *"pirate"* attack.** We discuss this in detail in the next section, but the conclusion is positive: we remain convinced that Grifols is moving in the right direction and is, ultimately, a great investment opportunity. If the short seller had discovered fraud or any other fundamental issue, we would have sold.

2) **We do get into a lot of trouble. Grifols, ISS, Reckitt, and Unilever (20% of the Classic) are companies undergoing restructuring.** Ultimately, a value fund looks for cheap companies, whether they are cyclical or not, and our strategy leads us to invest in companies where there is a problem that we judge to be cyclical or solvable. Pandora is the perfect example: it is a very strong company today, having undergone a long period of restructuring, which caused us many headaches.

3) **Strong exposure to salmon companies (16% of the Fund, Mowi, Salmar, and Leroy):** we are very optimistic about the sector. *More comments later in the newsletter*

4) **From a geographic perspective, we have a significant exposure to US (28%,** Medtronic/Raytheon in the top 10), **UK (20%;** Reckitt/Unilever), and **Norway (17%;** salmon, including Bakkafrost here).

LTIF Classic Top10 Holdings

ISS A/S	5,6%
Grifols SA	5,1%
Pandora A/S	3,9%
Leroy Seafood ASA	3,8%
Salmar ASA	3,7%
Medtronic Plc.	3,6%
Unilever Plc.	3,5%
Reckitt Beckinser Plc.	3,5%
Mowi ASA	3,5%
Raytheon Corp.	3,1%
TOTAL	**39,3%**

Source: SIA Funds

Quarterly Investment Case: Grifols and the *Pirates of Gotham*

After Christmas, we experienced the first scare of 2024, on January 9, if I remember correctly. This scare was due to a report by a short-seller, *Gotham Research,* on Grifols, alluding to conflict of interest, corporate governance, and accounting problems, concluding that <u>its value could be zero</u>, due

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to its indebtedness level. After the report's publication, the stock fell by more than 40%, and our heart rates accelerated to very unhealthy levels.

Moments later we took the time to read the report in detail, and our heart rates quickly returned to normal, because, although the report was overall consistent, **there was nothing relevant or new enough to change our investment thesis.** This is the summary of our conclusions:

1. ***Gotham Research's* disclosures are based on publicly available Grifols data that regulators audited and reviewed. There is no new, relevant data.** Moreover, *Gotham Research* misrepresents the data, manipulates the information, and draws erroneous conclusions.

2. **Grifols' problems have been widely known and evident since 2019/2020 (4-5 years ago already):** an overly aggressive acquisition policy, a conflict of interest between the Grifols family and the company, too much debt, bad results due to COVID's impact on plasma costs in 2020-22, and an accounting practice that, although legal and audited, was close to the limits. These issues had already seen the stock fall sharply since 2020 (close to 70% down from the highs of early 2020, prior to the *modern pirates'* report).

3. **The Grifols management team initiated a restructuring plan at the end of 2020, with a CEO change and the Grifols family stepping back from the company's management.** An unmistakable sign of change for the better. This restructuring plan seeks to change the company's culture, improve its efficiency, margins, and returns, and to bring its debt down to sustainable levels. On a cyclical level, the pre-COVID level has already been reached, 2023 was a good year, and, according to our estimates, 2024 will be significantly better.

4. **We believe that Grifols' Plan is a consistent and achievable plan, making the stock very attractive at current prices.** As expected by those who know us, we have increased our position in Grifols (at extraordinarily low valuation levels) by taking advantage of the market panic. Nevertheless, we do not want a *black dog* in the portfolio, which is why we have left the weight at around 5-6% of the fund.

5. **We have not found anything that involves fraud of any kind.**

We could go into all the allegations and refute them one by one, but that is too much detail for a *Newsletter*. We remain at our investors' disposal if they are interested in the details.

We summarize our main investment assumptions in the following four points:

1) **Change in the management team:** A new CEO (Nacho Abia Buenache) will join in April 2024. He has a positive track record in the pharmaceutical industry for a long period of time and will complete the numerous management changes initiated 3 years ago.

2) **Sale of assets to reduce debt:** the sale of 20% of the Chinese subsidiary *Shanghai Raas* for $1.8 bn., will reduce GRF debt from €9.4 bn. to €7.8 bn. by mid-2024. Grifols might sell more assets, but we have not included any in our estimates.

3) **Improved earnings after the COVID crisis:** The adjusted EBITDA will be above €1.8 bn in 2024 and €2 bn in 2025, with a more bearable debt ratio of 4.2x in 2024E and 3.5x in 2025E.

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4) **Cash generation as a priority from 2025 onward: the company announced a free cash flow target of between €2.0 bn. and €2.5 bn. within 3 years from 2025 to 2027,** which will be around €750 million per year and is in line with the company's historical FCF/EBITDA ratio of 0.3x.

Having said this, we are aware that, due to its high indebtedness, Grifols is a riskier investment, possibly a cat3 or cat4 risk category using our metrics and with one core risk: **fraud**. Fraud cannot be detected in either the annual accounts or in the analysis of audits, credit agencies, investment analysts, etc. but in this case, **we have known the company and its managers for many, many years and we are convinced that 1) no fraud has occurred and 2) the Grifols case is rather a sum of errors** (stemming from the conflict of interest between the company and the family) **which have led to an unsustainable debt situation.**

We do not rule out a capital increase, but this does not scare us, because it would solve the balance sheet problem, leaving an ample upside for the share despite the possible dilution. As we have mentioned, we do not believe it will be necessary (we estimate 3.5x net debt/EBITDA 2025), although we do anticipate a limited capital increase at the time when the common shares are merged with the preferred shares, as the company anticipates.

Will we win the war against the *Gotham Pirates*? Having analyzed the situation profoundly, we believe that *Gotham Research* has done us two favors: 1) it uncovered the company's weaknesses in more detail and 2) accelerated its restructuring, which both are positive factors in the process. Otherwise, we strongly oppose their conclusion that Grifols is a fraudulent company that might have zero worth.

Grifols has made mistakes but has a huge upside if it focuses on fixing them, which it has: **it started a very tough restructuring back in 2020, and has a plan that is achievable, realistic, and which we value positively.**

According to our numbers, Grifols has an IRR on investment of over 30% and our preferred shares which are trading at €5,6 have an Intrinsic Value of €21.

Grifols. 2024-2025 Consensus

	2023E	2024	2025
PER	18,5	9,2	7,6
ROE	4,4	8,7%	10,5%
P/Book	0,9	0,75	0,68

Source: Bloomberg, SIA estimates

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V. LONG TERM INVESTMENT FUND NATURAL RESOURCES: *+9% in 2023*

LTIF Natural Resources: +9% in 2023 to €150 per share

Even though 2023 was not a good year for commodities in general, LTIF Natural Resources is up +9% for the year, the third consecutive year with gains after the COVID-2020 crisis. Remember that the fund's low in March 2022 was c. €50 per share so it has multiplied by 3 in 4 years, since the Covid crisis. **The fund closed 2023 at €150 per share,** with two sectors up, Infrastructures (+20%) and Mining (+10%), and two down, Agri-Food (-5%) and Energy (-1%).

With respect to stocks, with increases of over 20%, we highlight Petrobras, Kazatomprom, Cameco, Ivanhoe, Southern Copper, Holcim, Heidelberg Materials, Prysmian, and Salmar. On the negative side, with falls of more than 20%, Cenovus, First Quantum, Panoramic, Bakkafrost, Grieg Seafood, and Leroy Seafood are prominent.

An IRR of 14.1%. An intrinsic value of €220 per share

The fund's updated IRR stands at 14.1%, with an intrinsic value of €220 per share, which we should reach in the next 3-4 years. As always, we clarify that all our numbers are based on mid-cycle estimates, or convergence, which means that if the commodity super-cycle were to materialize, the upside potential will be much higher.

Some investors ask us **why LTIF Natural Resources has an IRR like that of the Classic, and the answer is related to the above: our valuations are mid-cycle, or converged,** and therefore do not take a commodity upcycle or super-cycle into consideration (which, by the way, in energy transition's current context, could last decades).

The oil market is well supplied given OPEC+ the excess capacity

The oil market had a reasonably balanced 2023 due to the intervention of OPEC+, which cut its production, mainly to compensate for the sharp rise in the US shale oil production (following 2022's high prices and the increase in the rig count).

This has been changing in 2023, with the rig count decreasing throughout the year, due to the lower oil prices (around 70/80 WTI) and financial discipline in the US. Consequently, we do not expect the rise in US production to be repeated in 2024.

What about the future? We have decided to summarize the oil market's current situation by posing 3 key questions, which we hope will help our readers understand why we foresee a strong price increase in the medium term:

(1) Has shale oil, which forms 10% of the global supply, entered its maturity phase?

As we can see in the graph below, shale oil is reaching plateau and thus shale production be not able to increase much in the coming years. The equation is even more complicated if we consider that shale oil's decline, which is 30% per year in the first two years of production, and that increased spending is needed each year just to keep production flat.

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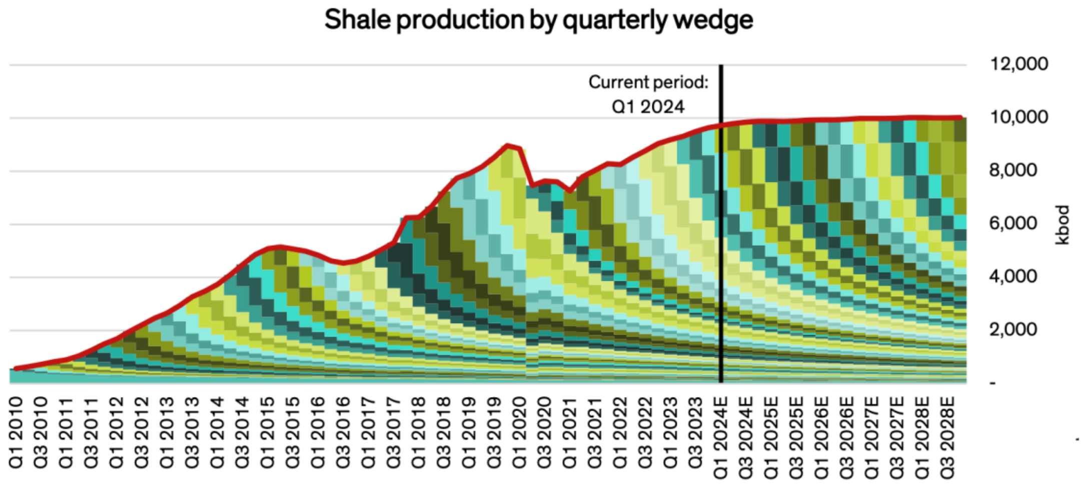


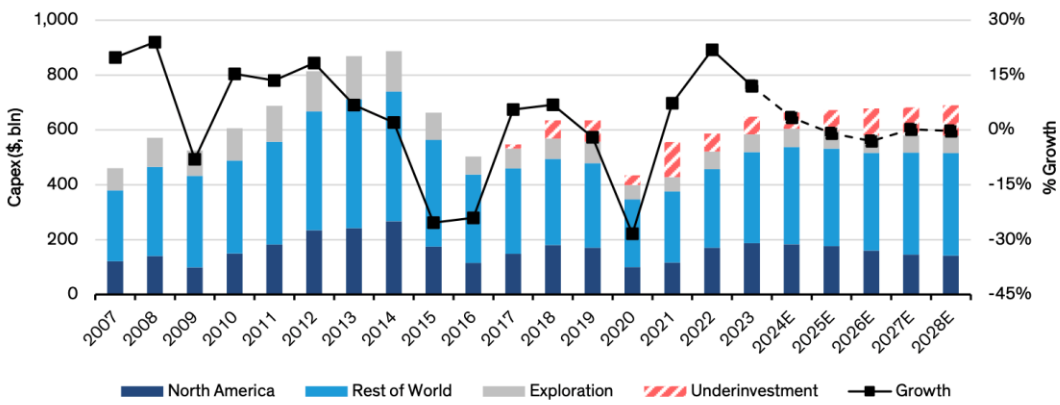
Source: Enverus, EIA, Baker Hughes, Primary Vision, Bernstein analysis and estimates

Our hypothesis 1 is therefore that shale oil has entered a maturity phase and can no longer grow significantly, an idea reinforced by the fast consolidation happened in 2023 (Pioneer, CrownRock, PDC, Hess, etc.). We are convinced that out of the 3 largest shale players (Bakken, Eagleford, and Permian), only Permian has the capacity to grow, while the rest will need much higher prices to add capacity.

(2) Will the under-investment in the sector since 2015/16 turn around leading to higher upstream spending in the coming years?

As we can see in the chart below, global oil capex peaked in 2014 and since then growth rates have been hovering around zero.

Global Upstream Oil capex



Source: Company reports, Rystad Energy, IEA, EIA, Bloomberg, Bernstein analysis and estimates

The sector has been under-spending by around $75bn per year with a total figure of $500 bn of underinvestment in the past decade. This might not have a short-term impact because we are living on the previous capex wave but will certainly have a long-term one. Moreover, we do not see this trend

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changing in the next few years as fear of peak demand and ESG constrains are difficult barriers to overcome.

(3) Where will we get the 7 million barrels per day we will need until 2030?

The easiest way to understand the current situation is as follows**: between 2014 and 2024 shale oil provided 10 m. b/d in new supply. Where will the next 10 m. barrels come from?** Worse still, who is going to invest in long-term oil projects if the world is convinced that oil consumption is going to fall?

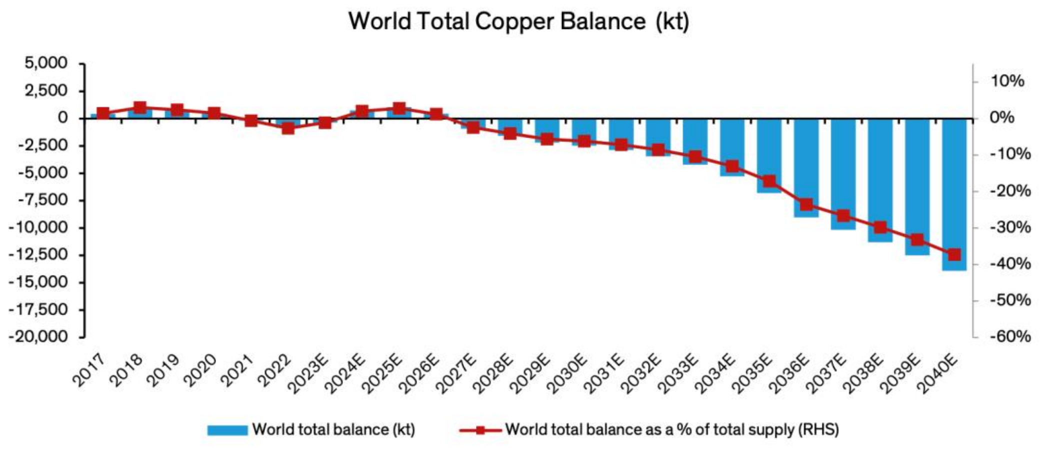
The copper market is rapidly moving to a structural deficit

In its December 2023 quarterly commodity outlook, BHP Billiton clearly outlined that following the closure of Cobre Panama (some 400,000 tons per year), the cut in Anglo American's forecasts (some 300,000 tons less), and other disruptions at several mines in 2023, **the supply and demand model that forecast sufficient production to meet demand until 2026/27 became misaligned. As early as in 2025/26 there will no longer be sufficient production.** Put simply: copper is going to enter a structural deficit from 2025/26, i.e., next year!

Consequently, we need more mines and fast… But again, when it comes to building more copper mines there are serious structural problems. We highlight the 4 most important:

(1) A copper mine takes a decade to put into production IF it is licensed;
(2) the current price of $3.8 per pound is not enough to incentivize greenfields;
(3) there are structural barriers to mining that are hurting new investments, such as ESG, taxes, and resource nationalism; and
(4) most of the resources are in riskier countries (Congo, Zambia, Peru, Chile, Russia etc.).

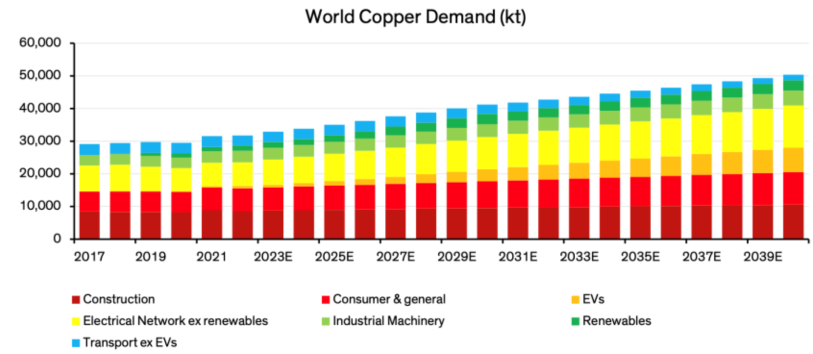
It looks bad, very bad, as the following chart shows.



Source: WoodMac, Bernstein analysis and estimates

These supply issues are happening in a moment of rapidly increasing demand due to **the energy transition, which will result in copper demand growing by 1 million tons per year compared to half a million in the last decade**. Electric cars, batteries, wind turbines, solar panels, grids, buildings, etc. all need huge amounts of copper.

See the acceleration in demand in the next chart: moving from 30 million tons in 2020 to close to 50 million in 2040, requiring 20 million net tons (after the mine decline) i.e. at least 60 Cobre Panamá's or 40 Kamoa Kakula's within 20 years.



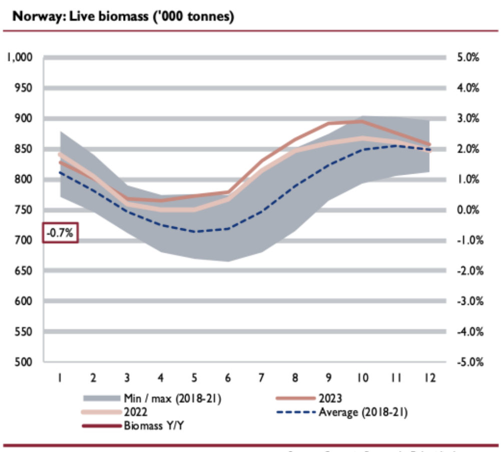
Source: WoodMac, Bernstein analysis and estimates

Where is all this copper going to come from? What is the incentive price? How long will it take? What about the ESG? Can any government close a mine having just invested $10 billion? Many, many questions remain to be answered.

We raised our exposure to salmon

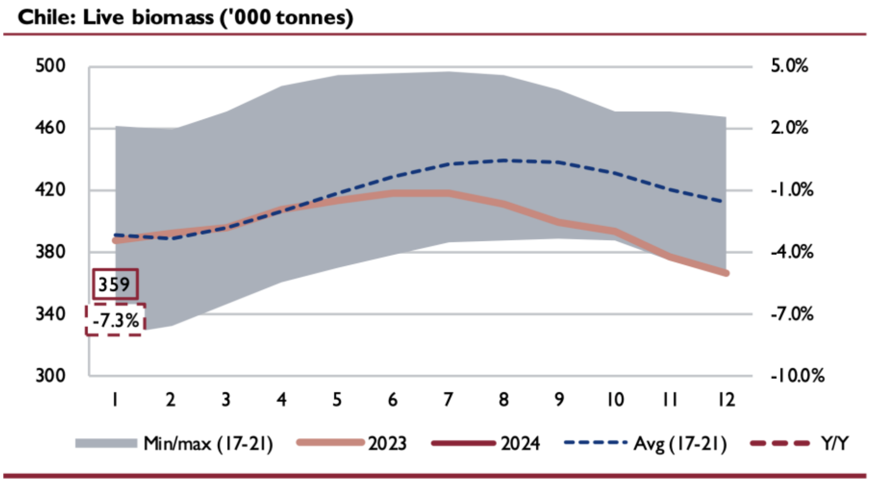
We have raised the sector weight to around 20% of the Fund for two reasons: the shares are down and thus cheap (due to new resource taxes in Norway, the lower salmon prices in H223, and various biological issues that continue to have a negative effect on the costs), **and the sector has a significant production/supply problem**. All this resulted in fairly mediocre 2023 results, with the market losing hope.

Two supply data to cheer us up:
(1) **In Norway, biomass fell by 0.7% at the end of January 2024; consequently it is going to be very difficult for Norway, which produces 50% of the world's biomass production, to grow it significantly this year and 2025.**



Source: Carnegie Research, Fiskeridirektoratet

(2) **The second figure relates to the Chilean production: 25% of the world's production. Salmon biomass fell by 7% at the end of January,** which means it is also very unlikely to see production growth in Chile in 2024/25.



Source: Carnegie Research, Aquabench

If supply does not increase, and since demand at stable prices has historically risen by 6-8% per year, which factor will adjust the market? Prices. And in which direction? Up. What impact will this have on the producers' results? Very positive.

The sector looks very good in the medium term, we should be making some money here.

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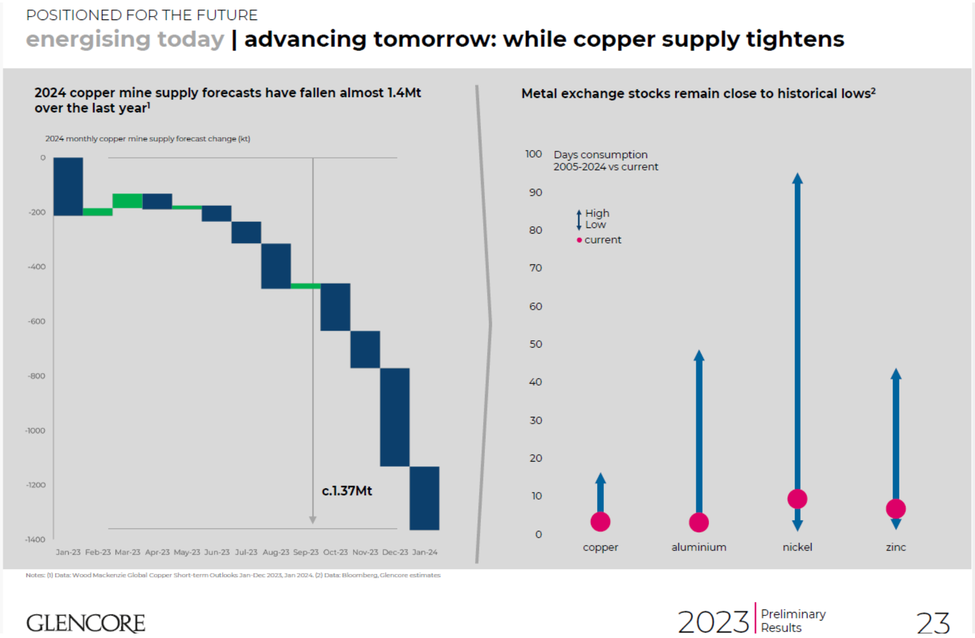
VI. NATURAL RESOURCES THOUGHTS by *Urs Marti*

"The cure for low prices is low prices, and vice versa."

This rule explains the shorter-term cycles in commodities. Prices fall enough to destroy the marginal supply and increase enough to allow the marginal supply back into production. In our previous report, we explained that $100 uranium price would bring back all the idled supply. This time, we want to draw our readers' attention to base metals. After 2 years of consolidation, the opposite is happening in this segment. Prices, combined with higher costs, have become too low for marginal supply and needed spending being cut.



The above Glencore chart illustrates what happens. 1.4Mt decline in supply compares to a total production of 22Mt in 2022. This is more than 6 % of total production. To illustrate this, Escondida, by far the biggest mine, produced 1Mt in 2022. This is even more impressive, as the copper price did not actually decline, but instead consolidated on levels close to $4, after having risen from a low of $2,15 to $4,5 in 2020/21. The development was more extreme in other metals like Nickel, Zinc, etc., whose volatility was even more extreme. The latter was also due to the massive bullishness related to the "battery" revolution.

Amazing how 24 months can change everything

Currently, the sentiment is the complete opposite: financial participants are maximum bearish toward industrial metals due to the fear of oversupply and recession. However, everybody whose horizon is a bit wider than just the "Western press", sees a world in which global trade between 80% of world's population (BRICS, Emerging markets, etc.) is growing at a high speed. A 7% GDP growth in India is just one of many indications. Even in China, with its housing problem, the underlying demand is much better than perceived. Rio Tinto's observation of a steel market that is "producing flat out", is a typical example of a different reality than the bearish Western financial speculators want to see. Booming infrastructure and/or automotive sectors are offsetting the housing market problems.

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Chinese nickel miners in Indonesia face threat from falling prices

A decade-long rush by China-based metal producers may end

Analysts always have difficulties anticipating changes in economics and hence the future demand/supply balance. Nobody and no country are immune to such movements. In Indonesia, Nickel's situation is anyway less extreme than people believe. In short, Indonesia banned the export of unprocessed Nickel as a strategy to retain more of the value chain inside the country, to build a processing and refining industry than could benefit from the country's natural resources, instead of exporting them cheaply, without the country gaining any further benefit.

Something similar happens all over the world. The Petrobras strategy is similar. Given the huge up/mid/downstream potential, it is better to invest in the business than paying out too much in dividends. In the case of Nickel/Indonesia, there were huge investments in refining Nickel, mostly by China. However, only a part of the export boom is "new". A few years ago, only Nickel ore was exported. Currently, it is refined Nickel. The difference is that just the latter finds its way into statistics, as ore is not a clearly defined product.

To summarize, with marginal supply disappearing, base metals are now a good entry point. Massive investment cuts by large companies like Anglo, mine closures like Glencore's copper operation at Mount Isa, and the closure of First Quantum's Ravensthorpe mine in Australia are just a few recent examples. The situation in energy commodities is similar. Financial participants have the most bearish position ever, while, conversely, people in the industry warn of future shortages due to the structural underspending, which we have explained many times.

Occidental's CEO Sees Oil Supply Crunch from 2025 | OilPrice.com
Oil supply future at threat from underinvestment, Aramco CEO says (cnbc.com)
Rosneft CEO says growth of global oil price inevitable due to shortage of investment - Business & Economy - TASS

(Nasser -Aramco- and Sechin -Rosneft- manage the two largest oil businesses in the world. While these businesses might not qualify for investing, because they are perceived as originating from pariah states, Vicky Hollub -Occidental- could pass the political test despite originating from Alabama, the republican stronghold state. She manages one of the largest on-shore producer of the US, the largest oil producer in the world.)

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March 2024

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