S I A
Strategic Investment Advisors Group

Long Term Investment Fund

Newsletter

of June 2024

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

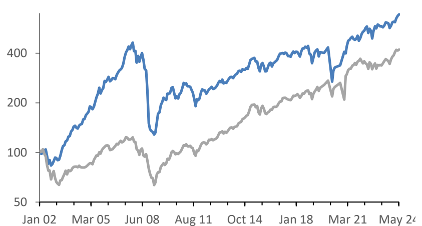

Figure 2: **LTIF Natural Resources EUR**
vs. S&P Global Nat. Res. Net TR Index EUR

"A foreign correspondent, after talking to me for a while, once said: 'You don't seem smart enough to be so good at what you're doing. Do you have an explanation?'"

Charlie Munger (1924-2023)

Overview of our funds

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

May 31, 2024	NAV	Δ 3m	Δ 12m	Annualized return (s.i.)	AUM *(in mio)*
LTIF Classic [EUR]	688.24	11.5%	20.0%	9.0%	101
LTIF Natural Resources [EUR]	180.35	18.1%	34.6%	3.1%	91

Source: SIA Group

I. Where are we in the cycle?

Still in a mild slowdown: optimistic, but cautious

At SIA we endeavor to understand where we are in the economic cycle not to drive our investment decisions but rather to avoid investment mistakes. We also like to present our views in the newsletters to better explain our current positioning.

So where are we in the cycle? We believe we are still **at the end of a very long up-cycle, which started after the global financial crisis (2009) and has had strong ups and downs over 15 years**: the 2011/2012 Eurozone crisis, the 2015 slowdown in China, the 2018 fear of global recession, and, finally, the 2020/21 COVID-19 crisis. Consequently, there was a large stone in the road more or less every 3 years, making this cycle a rather volatile and stressful ride.

The Covid-19's impact in 2020/21 was massive: the pandemic resulted in the world's major economies shutting down, and a deep (but brief) global recession, followed by strong fiscal support for households and businesses, as well as increased public spending, which produced a strong economic rebound and an inflation problem from 2022 onwards. **We believe that the Covid-19 phase has now ended, and that since the first 2022 interest rate hikes, the global economy is slowing down, albeit very gently, as it is still supported by the fiscal impulse. Consequently, we are in the final throes of the economic adjustment, which already calls for interest rate cuts.** Europe has already started, while the US plans to lower its rates at the end of the year.

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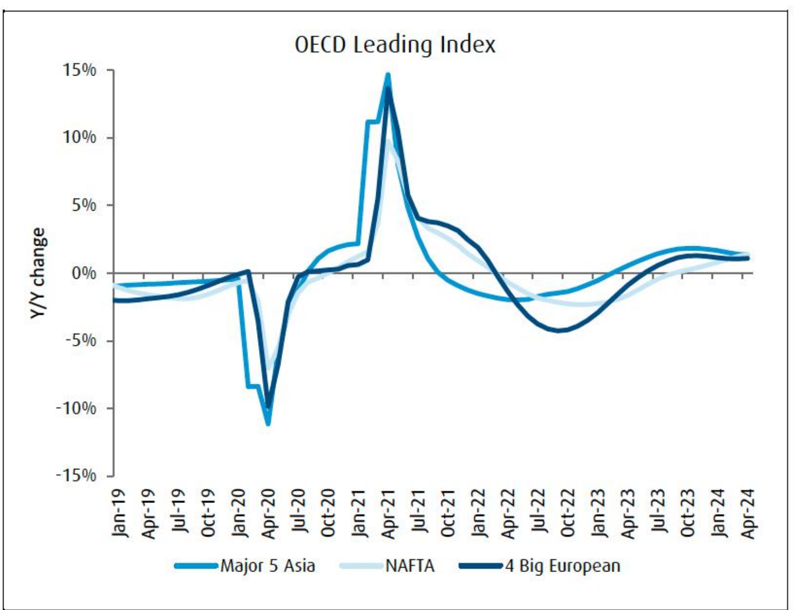
It is always difficult to anticipate whether the end of a slowdown will be traumatic or not (will we see a recession or crisis?). This time, however, we are optimistic, given that we have not identified relevant bubbles that need correction, nor significant banking problems, or structural problems in large economic sectors.

We therefore remain cautiously optimistic about the scenario in which interest rate cuts will fuel the global economy, whilst China keeps implementing gradual measures to also improve its economic growth. We are also clear that the recovery should not be too strong, given that the downturn has been very mild, unless the AI's impact on global productivity massively surprises the world.



Source: OECD, Bloomberg, BMO Capital Markets

Manufacturing purchasing managers indexes (PMIs) still weak

The manufacturing PMIs' trend remains intact, with the US and Europe below 50 and China only slightly above. In other words, nothing new. According to our numbers, inventories are close to completing their down-cycle, although the correction phase continues in Europe (Germany is still showing weakness), and **we foresee a new restocking cycle at the end of the year, or in early 2025, aligned with interest rate cuts.**

We therefore think that, from an industrial point of view, Europe and the US will not recover in 2024, and that recovery will rather take place in 2025.

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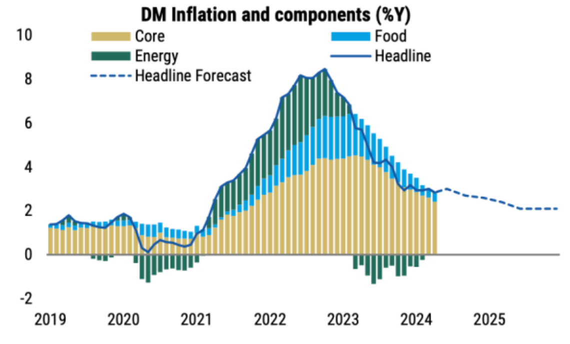
Source: Refinitiv Eikon, BMO Capital Markets. *Note: Caixin PMI for China, representative of small- to medium-scale enterprises. Markit PMI for the US.*

No need to panic – the inflationary spiral is already under control

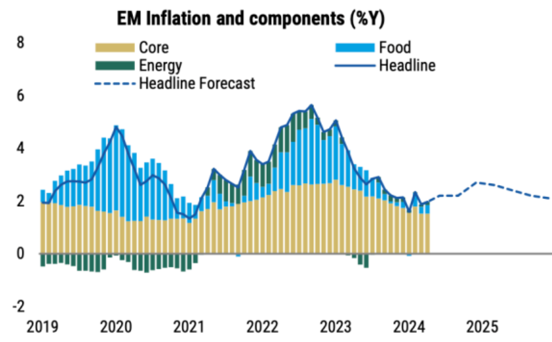
Inflation is moving closer to the central bank targets, with the US slightly above 3% and Europe above 2%. **Given the current economic cooling, we believe that we will be closer to the central bank targets by the end of the year, and that high inflation was not a structural problem,** but the result of aggressive post-COVID fiscal policies, and the logistical problems that the pandemic, the invasion of Ukraine, and the Israel-Hamas war caused.

Despite this, and, as we discussed in previous newsletters, our baseline scenario is for inflation to be higher than in the 2010s due to the shortage of labor (skilled or not) and the price of energy, which we believe will increase.

In the chart below you see Morgan Stanley's estimates of the expected inflation in developed and emerging markets, and the core inflation, which is clearly close to 2%. These numbers are very much aligned with consensus.



Source: Haver, Morgan Stanley Research forecasts as of 29 April, 2024



Source: Haver, Morgan Stanley Research forecasts as of 29 April, 2024. EM inflation excludes Egypt, Turkey and Argentina. China's CPI weights are the ones inferred by Bloomberg

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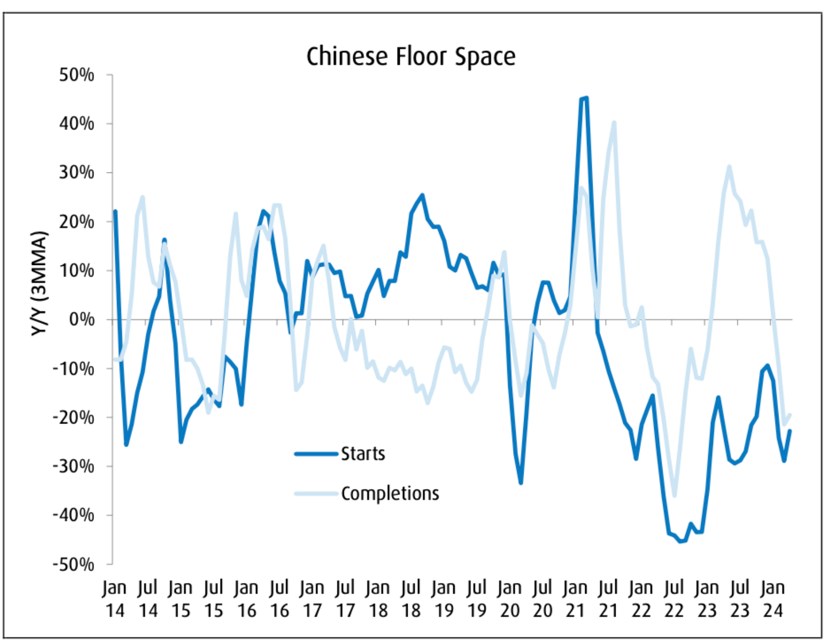
China: only marginal improvements

China has recently launched several measures to shore up the real estate sector, including a TLAC program to strengthen banks' balance sheets and a program for local governments to buy up vacant housing stock. The latter is for $40 billion when we estimate that the surplus stock is close to $400 billion, so the **plan is 10% of the effort that would be needed.**

It seems that the Chinese government is in no hurry to revive the real estate sector and continues to only approve support measures very gradually. **This strategy makes sense if the government seeks to balance the Chinese economy a bit more by reducing the real estate weight and increasing consumption, technology, and exports, while progressing in the energy transition.** This will obviously take decades, but all down cycles come to an end, as will the Chinese real estate cycle − possibly in line with the global recovery. Geopolitical risks are again back in the spotlight, with new tariffs applied between the US/Europe and China.



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

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II. Valuation review: Mr. Market is not expensive

As we have already mentioned, at SIA we follow the different stock markets and sectors' valuations closely, to gain an overall view of where we are in the cycle, from a valuation perspective. We have updated our models and reached several conclusions, which we detail below:

1. **Relative to growth, value is clearly undervalued.** We have used the *MSCI Value* and *MSCI Growth* indices to obtain a quick view of valuation. Value is trading at a steep discount compared to historical levels, while growth is above these. As we have previously commented, we are convinced that we are in a new value cycle, which started in 2022. A quick look at the P/E (simple, but homogeneous) confirms that, from a valuation point of view, value is far more attractive than growth.

MXWO Index	*Value*	*Growth*
Price	3.562	5.262
PER 2025	13,1x	25,2x
Historical PER	17,3x	23,6x

Source: Bloomberg, MSCI, SIA

2. **The regional MSCI indices are not trading above their historical P/E, excluding the US S&P500 index, which trades at a 2025 P/E of 19x vs. 17,5x historically.** This indicates that global markets do not have an overvaluation problem in terms of P/E ratios. On the contrary, Europe, Japan, and most of the emerging markets are trading at significant discounts, as can be seen in the table below.

Index	*SPX*	*SXXP*	*NASDAQ*	*CHINA*	*BRAZIL*	*TURKEY*	*RUSSIA*	*TOPIX*
Price	5.359	525	19.035	3.592	121.400	10.400	3.211	2.757
PER 2025	18,9	13,2	22,8	10,3	6,5	4,2	2,5	14,9
Historical PER	17,5	19,0	25,0	17,0	16,0	10,5	8,0	18,0

Source: Bloomberg, MSCI, SIA

3. **The only sector that trades above its historical levels is Technology/IT, at a P/E25 of 26x**. The rest of the sectors are trading below their historical average; consequently, again, there does not seem to be a market valuation problem, with the exception of technology, although it is not at bubble levels either.

High Index	*Industrials*	*Staples*	*Healthcare*	*Materials*	*Energy*	*Tech*	*Financials*	*Insurance*
Price	393,0	283,0	378,0	351,0	256,0	714,0	161,0	175,0
PER25	18,7	18,0	17,3	15,5	10,1	26,3	12,1	11,4
Historical PER	20,0	21,0	22,0	20,0	16,0	24,3	14,0	15,0

Source: Bloomberg, MSCI, SIA

(*) In the tables above, we only present the P/E multiples of the different indices for a quick approximation of the current valuation. It is perhaps too simple, but it helps gain a homogeneous view across markets and sectors.

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In conclusion, at a first approach, there does not seem to be a clear over-valuation issue in any sector or market. **However, looking a bit deeper, a fundamental concern shows up: returns on capital are all-time high and moving up.**

We have gone through returns (both on capital and equity) through markets and sectors to find out that on average they keep moving up, reaching again record highs in 2024 and 2025E (only excluding mining and energy). What does this mean? Simply that earnings estimates imply that current all-time high returns are sustainable and will keep improving in the next few years. Is that possible?

On the one hand, at SIA we expect higher funding costs, higher taxes, and increased competition in some sectors — factors that will exert downward pressure on margins and returns in the coming years. On the other hand, **from a social point of view, we feel that returns on capital have improved strongly over the last decades against a much lower increase in labor wages, something that at some point needs to either mean revert or could lead to social and political unrest.** This is obviously a very long-term issue, but we will have to be mindful of wage inflation and geopolitical risk.

We anticipate somewhat worse returns on capital in the future due to energy costs, labor inflation, funding costs, and taxes and also increased competition in some sectors which are now enjoying times of bonanza. We would even add higher depreciation costs due to the required investment increase in traditional sectors and in the energy transition. The positive point is that this is a long-term trend, which is usually adjusted very gradually over many years or decades. We also think that concentration, scale, financial wisdom etc.… have damaged competition and this should somewhat be challenged. **We wonder if a potential solution for these structural issues could be the combination of AI and reduced working hours** (to be offset by the increased education time)**. Time will tell.**

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III. *Out of the Box* by Alex Rauchenstein

An asset allocation view of our Funds
We are often asked at meetings how a potential investor should view our two Funds from an asset allocation perspective:

Let me look into this by starting with our Long Term Investment Fund Classic, which is, as you know, a global equity value fund based on a simple bottom-up process, which we call "**strategic value investing**." Most asset allocators, however, prefer regional funds rather than global funds, since these allow them to select the region in which they want to invest, and to subsequently rotate the regions in keeping with their investment style.

In such a context, it is very difficult to find the correct box for our Classic Fund. To me it's a fact that all investors dream of generating great long-term returns for their clients or themselves, or what Warren Buffet and Carlie Munger achieved for Berkshire Hathaway, or what Peter Lynch achieved with his Magellan Fund, which he managed from 1977 until 1990.

Peter Lynch took over the management of the Magellan Fund in 1977, which, at that time, was worth USD 20 million. By the time he resigned in 1990, the fund had grown to USD 14 billion. He had an outstanding track record, compounding at almost 30% p.a. for more than a decade. It is, however, fascinating that Peter Lynch often claimed that many of his investors in the Magellan Fund actually lost money by buying and selling this great fund during these great years. This raises the question: How could you lose money by investing in a fund with such a great performance?

The answer is pretty simple: If you bought and sold at the wrong moment, you could have achieved the almost impossible, because fear and greed dominate many investors' decisions, and were responsible for this very strange investment result.

But there is another reason for this occurring, called action bias.
I found an interesting article that explained this bias very well. Since I am pretty sure that at least some of you are watching the European Championship football matches, which are currently dominating most TV stations in Europe, this is a good moment to explain the article's reasoning. According to this article, a study of football penalty kicks has shown that 80% of penalty kicks result in a goal. Given that it takes a fraction of a second for the ball to travel toward the goal, the goalkeeper only has this time to decide the direction in which he needs to jump – a decision he has to make without much information.

Although research has found that the optimal strategy for goalkeepers would be to remain in the center of the goal, they only do so about 6% of the time. This is action bias: It is better to look as if you are doing something, even if it is counterproductive! This same bias plays an important role in many investors' decisions.

Back to the topic of asset allocation: How could an allocator minimize these factors' impact?
Perhaps it would be worth fixing a client's absolute minimum equity exposure, even in the market's worst moments of stress. Let's say this was 20%. I am convinced that in this absolute minimum equity exposure box or chest's bottom drawer, one should put investments that you basically want to keep forever.

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https://www.pinterest.com/archicfurniture/

In this box, I would, for example, put 2-3 Value Funds, then close the drawer, and keep them there as long as the manager keeps doing what he supposed to do (i.e., not exhibiting style drift, etc.). I would only open the lowest drawer once in a while to rebalance the box's weighting, meaning adding back to 20%, if this had fallen, and vice versa if it had grown, and rebalancing the weighting of the specific 2-3 Value Funds. I am convinced that this method allows a client to generate very good long-term returns with the help of compounding and anti-cyclical rebalancing. Last but not least, this would avoid old mistakes and biases. I would do so by primarily keeping Warren Buffet's great saying "investing is simple, but not easy" in mind.

In the main equity quota (in the drawers above that bottom one), I would put index, regional, thematic funds, etc. where you are actually forced to somehow time the market on the basis of valuation, momentum or whatever other mechanism you use.

The Long Term Investment Fund Natural Resources actually belongs in the thematic funds' drawer. As mentioned at the start of this segment, it is not so simple to invest, because you cannot just apply a buy and hold strategy, as with a Value Fund. You actually have to time this investment, because it is somewhat cyclical (although in long supply cycles of around a decade). A reasonable question might therefore be how you should time this although we all know that it is impossible to time commodity prices, etc.

We agree that, in the short term, it is very difficult - or even impossible - to forecast these. But when people (like us) only focus on the demand / supply cycle forecasting becomes easier. Even more so if you look at commodity markets with a long lead time in which to add capacity.

Consequently, I would say that with regard to a thematic fund, it is perhaps worth listening to fund managers who know when their theme is out of favor or close to a cycle low or when their funds have become small. This has to happen – an underinvestment in the natural resources sector naturally leads to lower supply over time, which will lead to a shortage, which ultimately means a price increase. Conversely, I would start worrying if everybody were to talk about the same themes and Fund Managers were to be flooded with inflows and with organizing big parties.

From our point of view, we are still at the beginning of a new commodity cycle that will last at least for 6/7 years and will most likely become even more extreme than the previous cycle. As you know, with our Long Term Investment Fund Natural Resources we explore the whole range of possibilities, and do not restrict ourselves to a commodity segment of just metals or only energy. We are convinced that this way allows us to offer you a great tool to protect your client's purchasing power or your own in the coming years. In our view, this topic will become a crucial one in the years to come and should therefore be in a drawer that you should not need to open all that often.

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IV. The LTIF Classic: +8% ytd. to € 670 per share

LTIF Classic +8% ytd. to € 670 per share, close to our 2024 target

2024 is off to a strong start and the LTIF Classic is up to €670 per share, +8% year-to-date. In relative terms, it is behind the S&P, which is +15% for the year and marginally ahead of the European index which is +7% for the year.

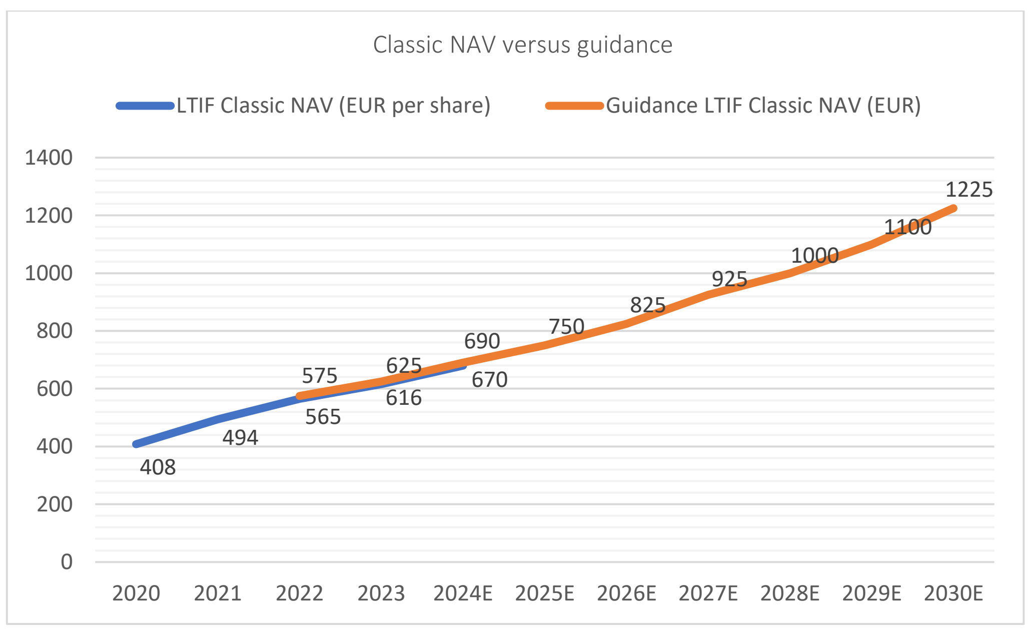
We are not far from our 2024 target of € 690 per share, but, as we always say, we should avoid short term trading and stay invested for the long term to take advantage of the fund's compounding. Again, let's leave market timing and trading to the clever ones (*not to those like Charlie, who didn't seem very clever to the journalist*), and **focus on the magic of compounding.**

The sectors that have done the best so far this year are: Industrials, Technology, Mining, and Cement, while, on the negative side, we highlight Pharmaceuticals and Salmon. On the positive side, with increases close to or above 20%, we highlight ASML, Raytheon, Cenovus, Suncor, Unilever, FirstQuantum, Antofagasta, Prysmian, Nexans Buzzi, and Heidelberg Materials. On the downside, there are mainly Grifols, ISS, and the salmon companies Grieg Seafood, Leroy Seafood, and Bakkafrost.

The updated IRR of the Classic stands at 14.5% with an Intrinsic Value (IV) of € 1019 per share

For the first time in the LTIF Classic's history (we have been on the road for 22 years), we have exceeded € 1000 of the fund's Intrinsic Value, with a value of € 1019 per share, a level where the NAV should move in 3-4 years' time. The intrinsic value's progression is obviously related to the portfolio's rebalancing (during which we almost mechanically buy the stocks that go down and sell those that go up).

As can be seen in the chart below, the Classic is very much in line with our objective of making 10% per annum. In normal markets (no recessions), we will reach that € 1000 per share around 2027/2028.



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As usual, 43% of the LTIF Classic invested in 10 stocks

In line with our investment philosophy of seeking quality, concentration, and diversification, **we continue to hold 43% of the Classic in 10 stocks, without a single factor that could damage the portfolio.** Some of the highlights are:

1. **Virtually all the companies are multinationals,** which means there is no specific country or currency risk.
2. **We have increased the weight of salmon farmers** to 15%, because we remain very positive on the sector and the average IRR on investment is above 14%.
3. **We (carefully) increased the weight in Grifols,** because we are convinced that the company is fulfilling its restructuring promises. Further, we value the incorporation of the new CEO Nacho Abia very positively, as we believe he will change the company's culture in the long term.
4. **We have also increased the ISS** position as we believe the business is much better than the market thinks, and that the current valuation is simply ridiculous.
5. **First Quantum, a Canadian copper company, appears on the list due to its strong performance,** and expectations that it will renegotiate the reopening of the Cobre Panamá mine with the Panamanian government in the medium term.

LTIF Classic Top10 Holdings (June 2024)	
Grifols SA	7,3%
ISS A/S	6,9%
Leroy Seafood ASA	4,2%
Reckitt Beckinser Plc.	4,2%
Unilever Plc.	3,6%
Medtronic Plc.	4,0%
Henkel AG	3,3%
Mowi ASA	3,3%
Grieg Seafood ASA	3,0%
First Quantum Ltd.	2,9%
TOTAL	**42,6%**

Source: SIA Funds

Quarterly Investment Case: ISS

We have chosen ISS as this quarter's investment case as we have been slowly increasing our position in the company to reach a 7% weighting, unusually high on our standards. Of course, we remain convinced that ISS is a great investment that is currently miss-priced.

In our view **the long restructuring process that seems to never end**, **is penalizing ISS heavily on the stock market, but this process is almost complete** after selling non-core businesses and non-strategic countries and re-negotiating contracts producing returns below the corporate targets. During this process, which started in 2018, there have been 3 CEOs, and the company has encountered many unexpected problems, such as the failure to restructure the business in France (which led to them ultimately selling it), and the problems with the large Deutsche Telecom contract (3% of sales), which

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has led to both the companies being involved in an arbitration process. What is our view on such complicated and long process?

The restructuring plan is almost complete, and the current situation is stable:

1. Currently, ISS has a top-class CEO and management team.
2. The company has sold businesses equivalent to 20% of the group to focus on its core areas and contracts. This has decreased the number of employees to 350,000 compared to the 500,000 at the time of the IPO.
3. The strategic plan is coherent, focused on disciplined bidding, growth in TIER1 clients, 4-5% growth, and operating margins above 5%.
4. The balance sheet is already at a sustainable level and meeting the company's objectives.

What is the negative market thesis?

1. *Working from home* could lead corporates to reduce their office space and facilities, i.e., meaning less business for ISS.
2. The arbitration with DT could have a negative outcome, and, even worse, this problem could be repeated with other clients.
3. There is a risk that the restructuring process could continue to reveal negative surprises in other geographies and contracts.
4. People fear inflation's impact on ISS costs.

What do we think?

1. The *working from home* process will be gradual and limited (perhaps 1 day out of 5 max.), with higher quality premises and services offsetting fewer square meters (in order to retain the company employees ie. talent in a world of labor tightness).
2. Following the COVID-19 effect, there has been a structural acceleration trend of outsourcing in cleaning, catering, security, facilities, etc., which has shown ISS services' added value.
3. ISS could take advantage of the digitalization process and use information and automation to improve its customer service and loyalty, thereby reducing its costs.
4. In our view ISS can grow 4% organically (includes pricing), and improve its margins by more than 5%, making the current valuation very attractive. ISS also structures its contracts to pass inflation to the end customer (with some lag), and to ensure the business remains viable.

ISS. Consensus Estimates 2024-2026

2024E	2025E	2026E
8,8	7,6	**6,7**
25%	25%	25%
2,1	1,8	1,6

Source: Bloomberg, SIA estimates

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V. The LTIF Natural Resources: +17% ytd

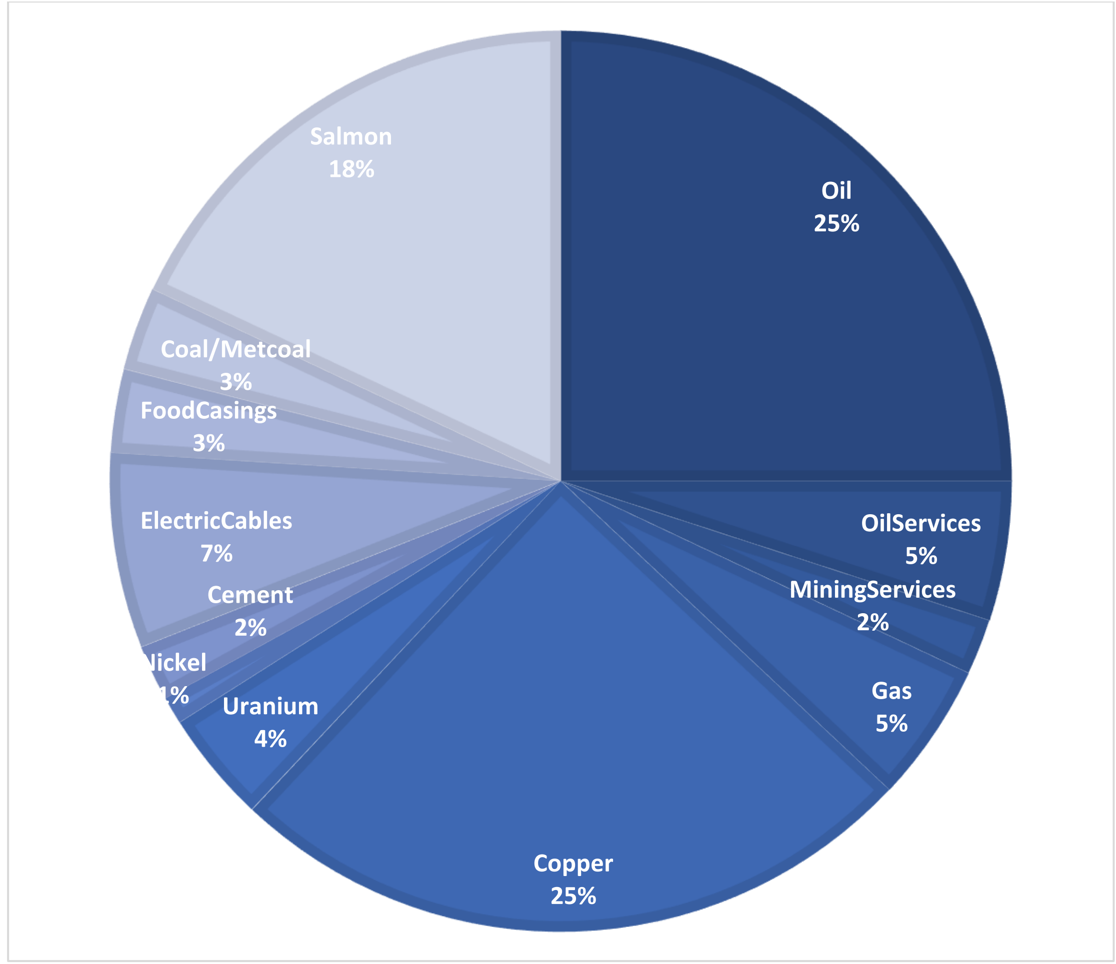
LTIF Natural Resources: +17% so far this year

LTIF Natural Resources continues its upward trend of recent years, being up 17% to reach €175 per share so far this year. The mining and infrastructure sectors are the best performers until now, up nearly 30%, while energy and oil are also up, but low single-digit only.

IRR of 13,3% and Intrinsic Value of EUR 240 per share.

As in our LTIF Classic, the rebalancing of the LTIF Natural Resources portfolio has had a positive effect on the **IRR and IV, which stand at 13,3% and € 240 respectively**. There is only one notable change in the portfolio — we have taken some profit from copper companies, which rose strongly in the first half of the year, reinvesting it in somewhat cheaper companies, such as oil, and in new portfolio entries, such as Barry Callebeaud.

The following chart shows the fund's distribution by commodity as of June 2024, highlighting its **strong exposure to oil, copper, and salmon, which currently account for around 65% of our investments**.



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Oil: the IEA report is truly bizarre

The International Energy Agency has recently published a report in which it forecasts that the world faces a "*sharp surplus of oil equivalent to millions of barrels per day by the end of the decade, as oil companies increase production, undermining the ability of OPEC+ to manage oil prices*."

They reach this chilling conclusion by assuming two main hypotheses:

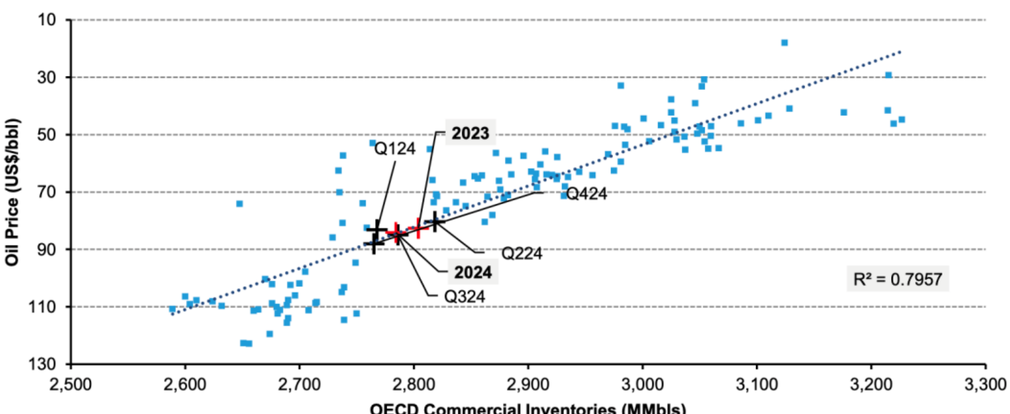
1) the start of a global drop in oil demand before 2030, i.e., peak demand in less than 5 years from now, and
2) strong growth in the US production in the coming years.

We absolutely disagree with this report, as our models suggest that:

1. global oil demand will continue to rise beyond 2030, including gasoline demand for passenger cars (due to the base effect, and demand growth in emerging countries)
2. global supply will struggle to grow in the next few years, due to the lack of investments since 2013/14. The US rig count is down ytd. for instance
3. and from a qualitative perspective, reports like this one are not going to help solve the structural lack of investment in a sector much hated by the general public.

Stable/decent prices for the next 2-3 years before the big move up

We estimate that the oil market will be sufficiently supplied in 2024 and 2025, and that OPEC+ will continue to manage its production to stabilize the price around $80-$90 Brent, which means we foresee flattish inventories and thus stable prices around 80-90 as shown in the next chart which shows the high correlation of OECD commercial inventories and prices.



Source: Bloomberg, IEA, Bernstein analysis

With respect to current demand, **we estimate that the demand will continue to grow by around 1.5 million barrels per day in 2024 and 2025,** depending somewhat on the macroeconomic context, with the following three factors continuing to pull strongly in the medium term:

1. Of the 5 parts of the world with around 1.5 billion inhabitants, 4 will clearly continue to grow their demand for oil: China, India, Southeast Asia, and Africa.

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2. Of the 4 end-demand sectors, 3 will continue to grow: Kerosene/Jet Fuel due to aviation's expected growth, Chemicals due to emerging countries' strong investments seeking higher industrial added value, and Diesel due to freight transport.
3. We also have a penetration model regarding electric cars, which suggests that the peak demand for gasoline will not occur until 2035 at the earliest.

In the table below, we see that these factors are already very evident in 2024, because the growth in demand is mainly from China, India, Southeast Asia, the chemical sector, and kerosene.

Oil demand growth

2024 vs 2023, average across forecasters (kb/d)

Region	LPG/ ethane	Naphtha	Gasoline	Jet/ kerosene	Gasoil/ diesel	Fuel oil	Other oil	Total liquids
North America	195	−15	−5	65	0	−10	−70	**160**
China	130	100	150	190	30	25	−70	**555**
India	35	20	65	20	70	0	0	**210**
Other Asia	40	60	55	140	75	20	−165	**225**
Europe	5	5	35	55	5	−20	0	**85**
Middle East	30	−10	40	40	35	25	−20	**145**
FSU	30	−15	10	10	5	−20	10	**30**
Latin America	−35	0	0	15	35	−15	60	**65**
Africa	10	0	5	5	60	10	−10	**75**
World	**445**	**150**	**345**	**540**	**315**	**15**	**−275**	**1,540**

Source: S&P Global Platts, Energy Aspects, Morgan Stanley Research

The lack of investment since 2013 will push oil prices way higher in 2-3 years, may be earlier

We reiterate that the most worrying of all is **the lack of upstream capex since 2013. The graph below illustrates this clearly by showing that capex reached $ 700bn in 2013 compared to the current investment of about $ 500bn**, both figures in nominal terms.

The world oil market has been well supplied, and therefore reasonably priced, due to shale oil, which produced practically nothing in 2013, but ten years later accounted for 10% of the world supply. **However, after 10 years of strong growth, shale oil is reaching maturity or peaking,** and our numbers indicate that it cannot grow significantly going forward. Consequently, within the next 10 years we will need a new resource, a new shale, a new Alaska, or a new North Sea... and about $ 300bn at least to finance it.

Currently, we are unable to identify such new oil resources. Even worse, very little is being invested in exploration and development**. Two questions that we would highlight…**

1) **What would have happened to oil prices if US shale oil had not worked?**

2) **What will happen to oil prices if we do not find another shale oil in 2-3 years' time? Demand inelasticity at play?**

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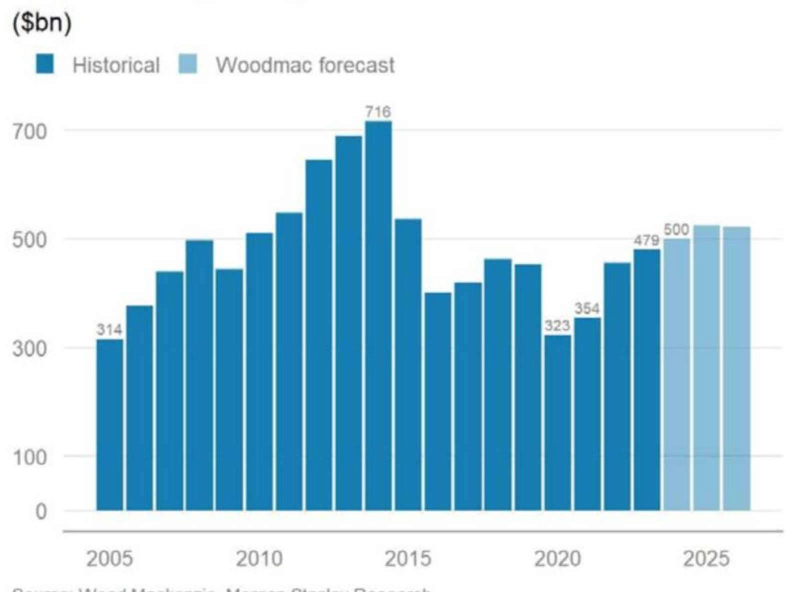

Copper appears to have entered a structural deficit

Our estimates of supply and demand in the copper market continue to suggest the same scenario**: a lack of projects after 2025, due to the current massive barriers to exploration, licensing, development, and mining operations in general.**

In this sense, BHP's bid for Anglo American clarifies that mining companies prefer to buy assets rather than start greenfields, which is leading to a new wave of concentration in the sector. We believe that this pattern will continue, and that, within a few years, there will only be a few copper mining companies left worldwide.

The graph below shows the degree of difficulty being experienced to increase the copper supply: the forecasts of new supply are revised downwards year after year, and in significant quantities. If, in 2014, some 35 million tons of production as well as probable and possible mines were expected by 2024, we are currently at significantly lower levels, while projects are moving to the right due to many license/development issues.

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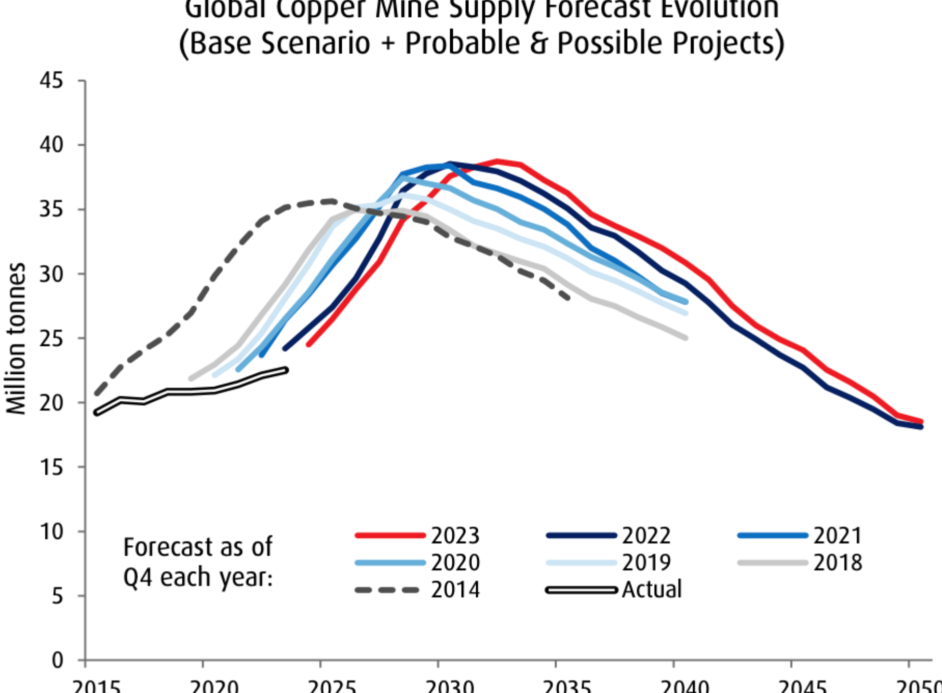

Buying (and eating) more salmon due to a cheap valuation (and salmon prices)

A last brief comment on salmon farms, in which we have patiently **continued to increase our exposure to about 15% of the fund with average IRRs of 13-15%.**

The sector is being rather disappointing in 2024, mainly due to biological issues, which have led to high costs per kg due. All the issues led to fewer kilos being produced to absorb the fixed costs, plus the disease treatment costs, and, in some cases, even the forced harvesting of sub-optimal fish. This led to disappointing earnings, even in the high price environment of Q124. Consequently, the shares have moved sideways this year.

We understand that this is a cyclical problem that does not change our thesis that supply cannot keep up with demand, and that prices will therefore continue to rise quietly to levels at which substitution appears.

The following two graphs show that salmon prices have moved to a new trading range above NOK 80 per kilo since 2022. This was due to the difficulty of growing the production, and the strength of the demand. The graphs also show that the current valuation of salmon farms is very attractive, with many of them trading with PER 2025 below 10x.

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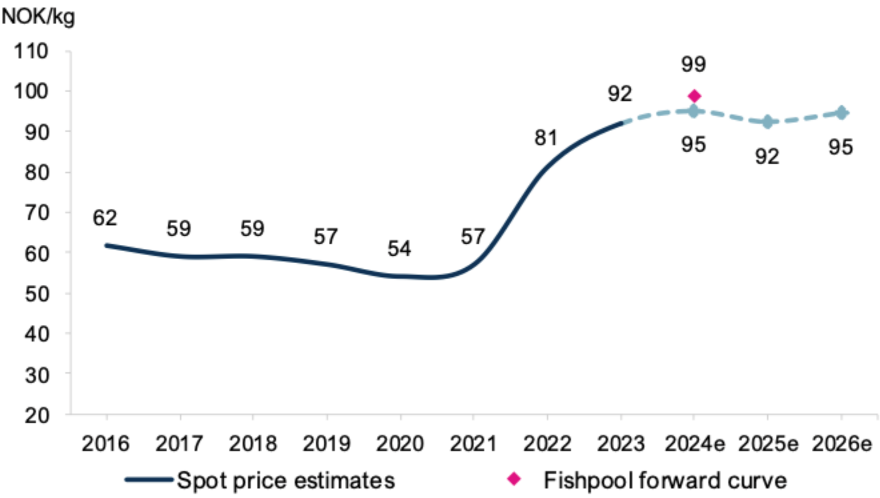

Valuation of salmon farming companies

	# shares	Price	Mcap	24e NIBD	24e EV	24e Volume	24e EV/kg*	P/E 2024e	P/E 2025e	P/E 2026e
AFISH	32	51	1,626	1,247	2,873	10	286	15.0	6.8	4.5
BAKKA	59	562	33,209	3,440	36,666	91	401	15.8	13.8	13.1
GSF	113	70	7,914	5,686	13,599	78	174	14.2	6.7	5.2
IFISH	122	28	3,423	1,411	4,834	20	236	27.7	7.1	5.5
ISLAX	31	112	3,468	522	3,989	15	266	41.6	8.1	5.0
LSG	596	44	26,345	4,091	30,436	168	181	10.6	7.8	6.6
MOWI	517	185	95,740	13,190	108,930	499	218	11.1	8.8	8.1
SALM	132	585	77,243	7,685	84,928	259	328	15.5	12.0	10.4
SACAM	74	25	1,825	1,269	3,295	55	60	10.8	5.3	4.2
Sector			**250,793**	**38,541**	**289,552**	**1,197**	**242**	**13.0**	**9.7**	**8.5**

**NIBD adjusted for dividends*

Source: Pareto Securities and Factset

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VI. *Natural Resources Thoughts* by Urs Marti

In our last report, we elaborated on **the tightening supply of metal concentrate, especially copper.** We have often explained the problem of financial traders/speculators (CTAs, etc.) taking a very bearish view of commodities, therefore positioning themselves short in the future markets (when often commodity producers do the opposite). This also applied to metals, since everybody was scared about a “recession”, (whatever this is, and wherever it occurs).

Unfortunately, these financial players cannot deliver physical material in respect of their obligation. This is the reason for the recent sharp squeeze in copper: financial players were unable to deliver, therefore had to cover their obligation, and physical premiums increased to USD 1000 — for which “speculation” was blamed. Nevertheless, the problem is not going to disappear structurally, an issue we have elaborated on in detail.

Taxes through inflation versus other taxes. The first one can always be blamed on the weather, speculation, etc., while everybody acknowledges that government policies are responsible for the latter. This is the reason why inflation policies are always preferred rather than tax hikes.
I have followed these markets very carefully for 25 years, and have noted that energy tends to lag metals, which might be coincidence or not, but the same set-up shapes energy. Financial participants have therefore taken a very bearish view, while people in the industry constantly warn that there is a structural problem, which we have outlined countless times.

Bearish Oil Futures

Oil futures traders have opened an unusually large speculative short on Brent in recent weeks, with the latest CFTC and ICE positioning data revealing that the bearishness in funds intensified after the 2 June OPEC+ meetings. Standard Chartered’s proprietary money manager positioning index for ICE Brent fell 48.1 w/w to the maximum bearish reading of -100.0, for the first time since March 2020, which was at the start of the pandemic. Meanwhile, the oil bulls have been totally crowded out, with money manager net longs in ICE Brent at just 1.51% of open interest, a record-low since 2010.

As the table shows, the EV hype is over, due to obvious reasons. We took a closer look at Albermarle whose shares we once owned but refrained from investing. Lithium prices might be bottoming out, but the shares are still expensive. At these prices, it is not economic for a major part to represent the market cap. Most capex/future business is invested in Chilean brine production, and in conversion in the US, in order to counter the heavy dependance on Australian hard rock mining and conversion in China. It was a brilliant idea to become independent from China at lofty prices; unfortunately, the latter is currently 3 times more economic.

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Company	Performance (from highs)	Current value of 1'000$ invested
FISKER BANKRUPT	-100%	- USD
LORDSTOWN BANKRUPT	-100%	- USD
PROTERRA BANKRUPT	-100%	- USD
ARCIMOTO BANKRUPT	-100%	- USD
ARRIVAL BANKRUPT	-100%	- USD
MULLEN	-99.997%	0.03 USD
Faraday Future	-99.99%	0.1 USD
CANOO	-99.7%	3 USD
WORKHORSE	-99.7%	3 USD
NIKOLA	-99.5%	5 USD
HYLIION	-97%	25 USD
LUCID	-96%	40 USD
RIVIAN	-94%	61 USD
NIO	-93%	66 USD
XPENG	-90%	98 USD
TESLA	-55%	452 USD

Vincent Galan - June 2024

New Caledonia helps the nickel market slow rebalancing. The historic (colonial) presence of France (and other countries) abroad, continues to be under pressure. Violence broke out in New Caledonia following a controversial voting reform aimed at preventing a fifth of the population from voting in elections**. It should be kept in mind that New Caledonia accounts for 6% of global nickel production.**

Given the mentioned development and subsequent changes in valuations, we have shifted some of our exposure from copper to oil. We have started buying some exposure in more diversified mining companies, like BHP and Rio Tinto. Beside their very profitable (oligopolistic) iron ore business, these companies are running the best, lowest cost mines in metals, and therefore have a somewhat more defensive character.

Niger's military government has revoked state-owned Orano's license at one of the world's largest uranium mine, and continues cutting its ties with France. This country is a major producer of Uranium, and particularly important for France, which has the second largest running fleet of nuclear power plants after the US, but will soon be overtaken by China.

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In the rest of the world, corporate activity continues unabated, which is quite normal for the stage of the cycle in which we currently are. Buying is still cheaper than building, and companies have deep pockets. Hess accepted the bid from Chevron. BHP walked away from its Anglo takeover attempt, which would have been too expensive. US shale consolidation continues.

After 12 years and C$34 billion, Canada's Trans Mountain pipeline expansion began commercial operations. Pipeline constraints forced Canadian oil producers to sell at a discount for many years, but now it can triple the flow of crude from landlocked Alberta to Canada's Pacific coast. Canada is the world's fourth largest oil producer, and the additional pipeline capacity is set to boost its crude prices, lift its national GDP, and expand its access to Asian oil markets.

Mulino won the election in Panama, while Martinelli, a former President, was barred from running due to a money laundering conviction. As usual, the country's hard stance against the mining business has not lasted for very long, since the implications would have been profound. We explained Panama/Cobre Panama's special situation in a previous newsletter.
First Quantum is seeking USD 20 billion from Panama with regard to a free trade arbitration case. This amount represents the "minimum value" according to FM.

The International Zinc Association expects a doubling of huge Indian infrastructure requirements within the next 5-10 years. Large investments in additional steel capacity need to be stimulated. There are already large plans for and investments in the ongoing galvanizing capacity.

Adding cocoa to our portfolio

One of the most difficult tasks on earth is finding a person who is happy with the weather. The weather is blamed for everything; definitely for the recent volatility in various agriculture commodities. These production losses, which always occur, act as a trigger for a structural situation that is the same everywhere, namely years of structural underinvestment in primary products' production capacity. On the other hand, there is no lack of legal & compliance, bureaucracy, equality, ESG, etc. In addition, unprecedented floods have hit Brazil's Rio Grande do Sul, where an area the size of Italy has been flooded. This area produces Brazil's largest rice and summer corn harvests, and the country's second largest soybean harvest. Brazil is one of the major agricultural exporters in the world, while its southern state is Latin America's corn basket. This bad news is not limited to Brazil, but comes from all over the world. **Consequently, we added a position in Barry Callebaut, a company that buys 50% of the cocoa harvest**; Cargill, which buys 20% of the harvest, is the second largest buyer. Callebaut has a market-to-market loss on its hedges; on the other hand, however, given its long-term contracts with the farmers, it has a structural long position. Ultimately — as always — consumers are going to pay the price, not the company.

We also started buying a position in Nutrien

Having reached a peak of USD 1200 in the spring of 2022, potassium chloride trades at USD 300/mt. Potash consumption dropped by 12% in 2022 versus in 2020, compared to the 9% drop of phosphorous and the 5% drop of nitrogen. Fertilizer consumption has fallen globally in recent years, due to the same affordability issue and the declining grain prices. The outlook for 2024 suggests potash application could increase by about 5%. The application of fertilizer is less price-sensitive than perceived. The productivity gains in yields are so large when fertilizers are applied that farmers always do so. The whole cycle is an inventory cycle rather than anything else. Further, farmers stock up on fertilizers when the prices are low, and don't buy them when they are expensive. Nutrien is the world's largest crop nutrient producer, accounting for nearly 30% of global potash. This means that Nutrien's market position is comparable to that of OPEC in terms of oil. One third of fertilizers' global supply comes from Canada, while another third comes from Russia/Belarus. Given the European energy disaster, production in Europe became

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structurally uneconomic. European imports from Russia have therefore recently doubled. Soon there might be tariffs on such imports, and Europe will be forced to buy more expensive North American imports; the same applies to LNG, which is another example of how forced European deindustrialization benefits North America.

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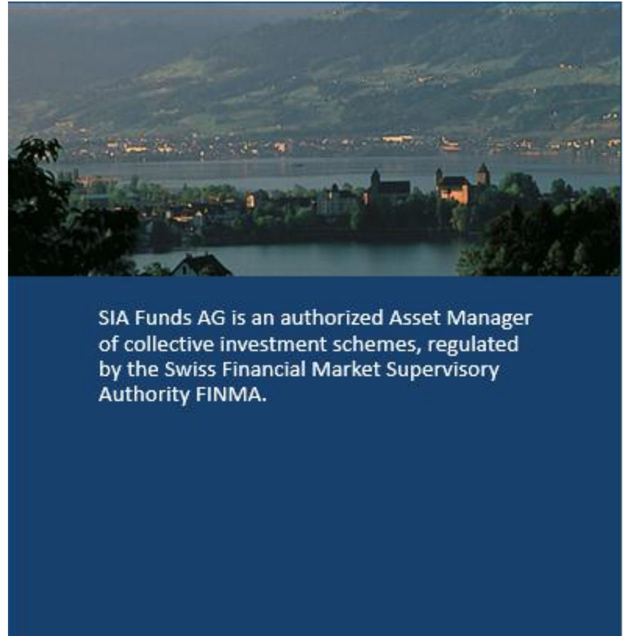

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