LTIF

Long Term Investment Fund

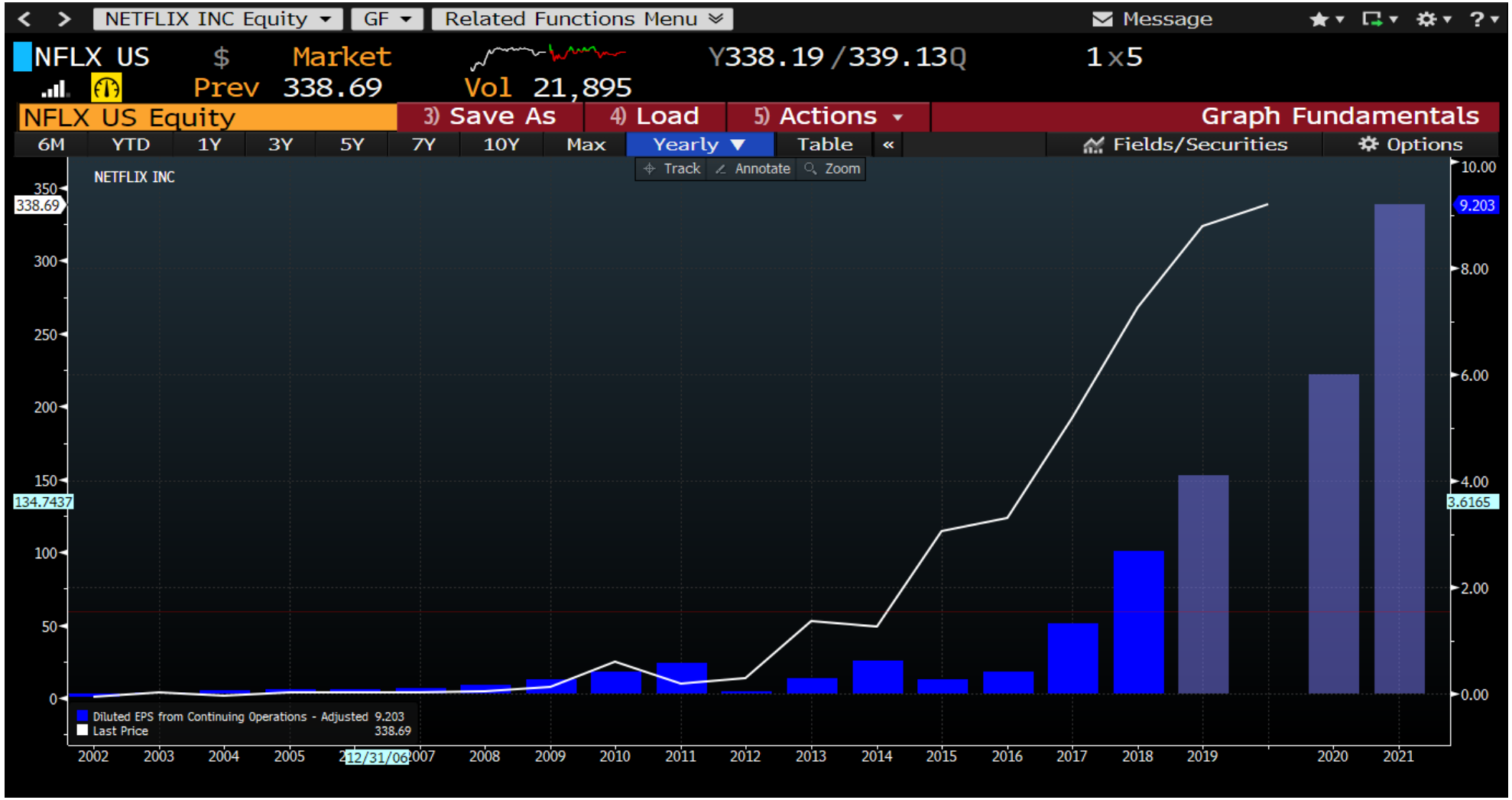
Value and Natural Resources
Back on Track

April 2022

Ratio Growth / Value

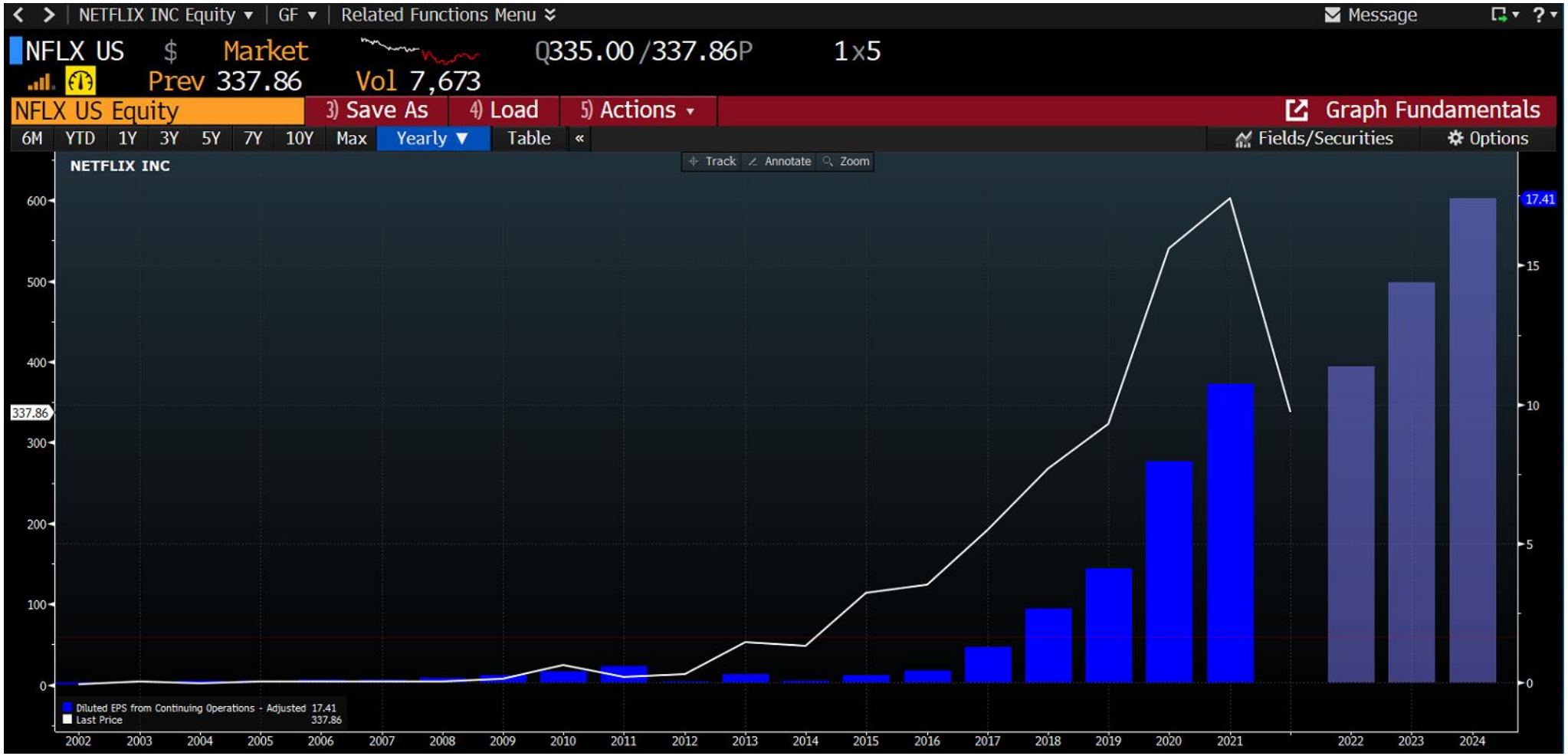
Source: Bloomberg

Year 2000 reloaded?



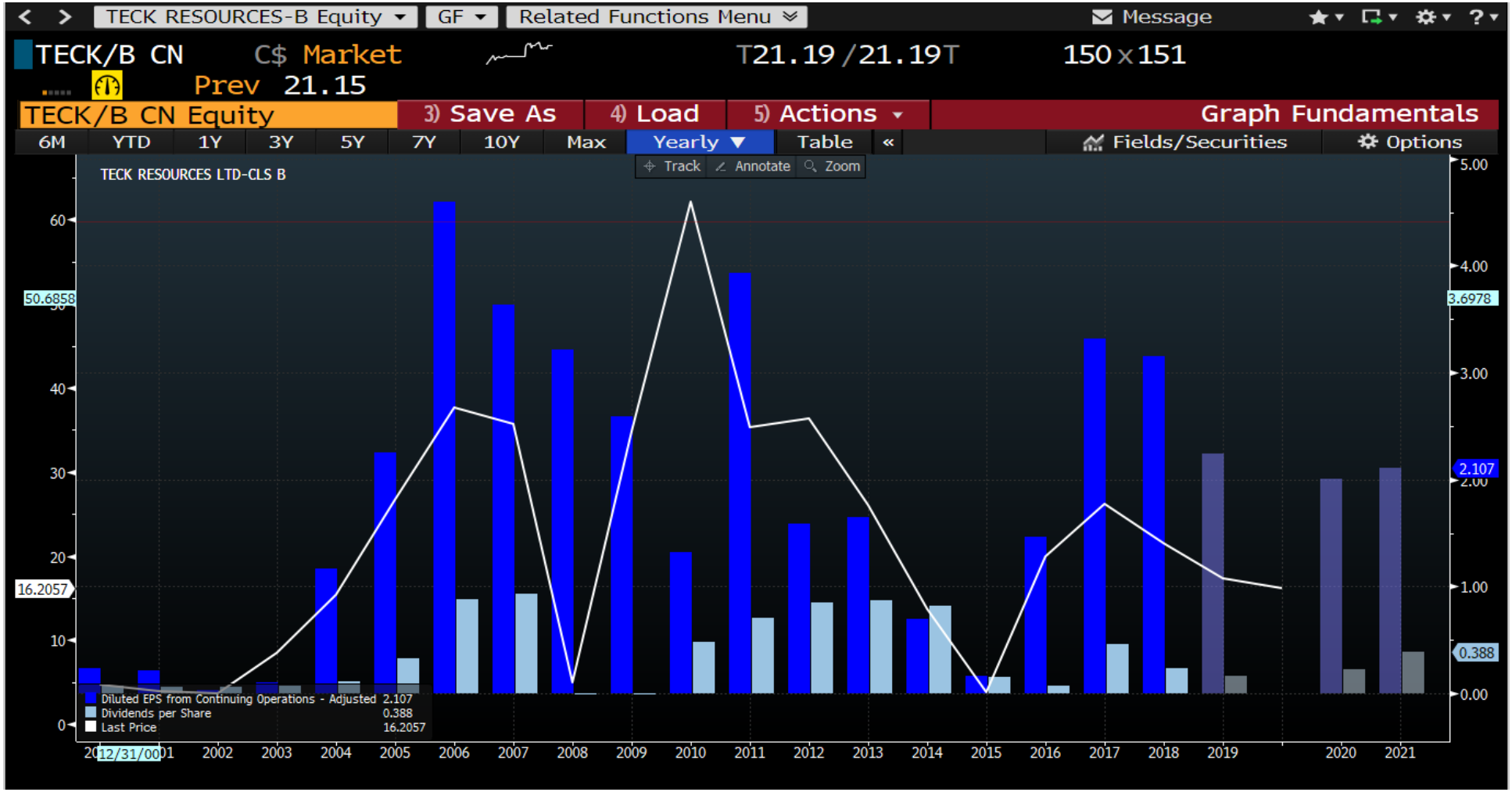
Source: Bloomberg

Year 2000 reloaded?



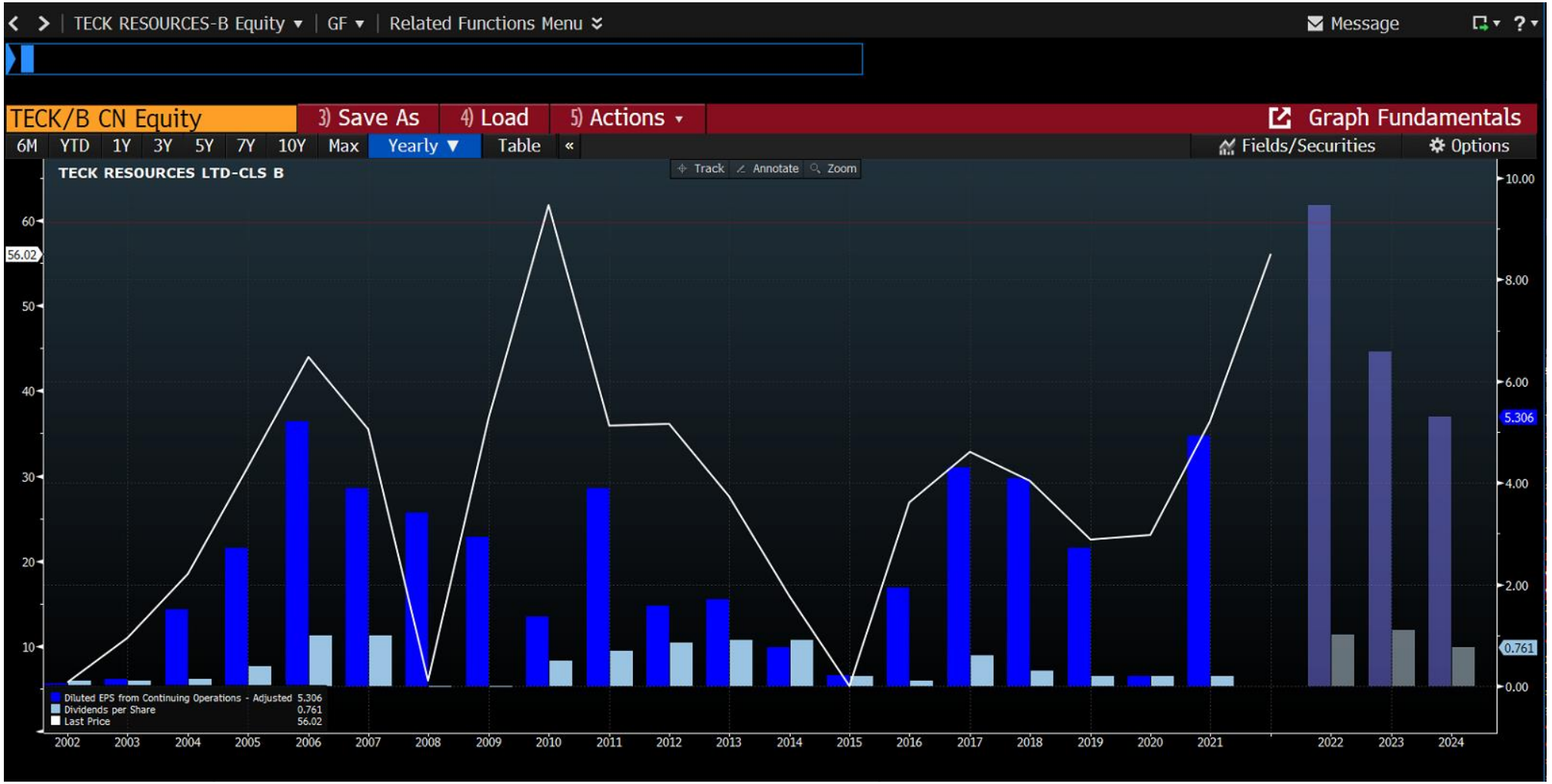
Source: Bloomberg

Year 2000 reloaded?



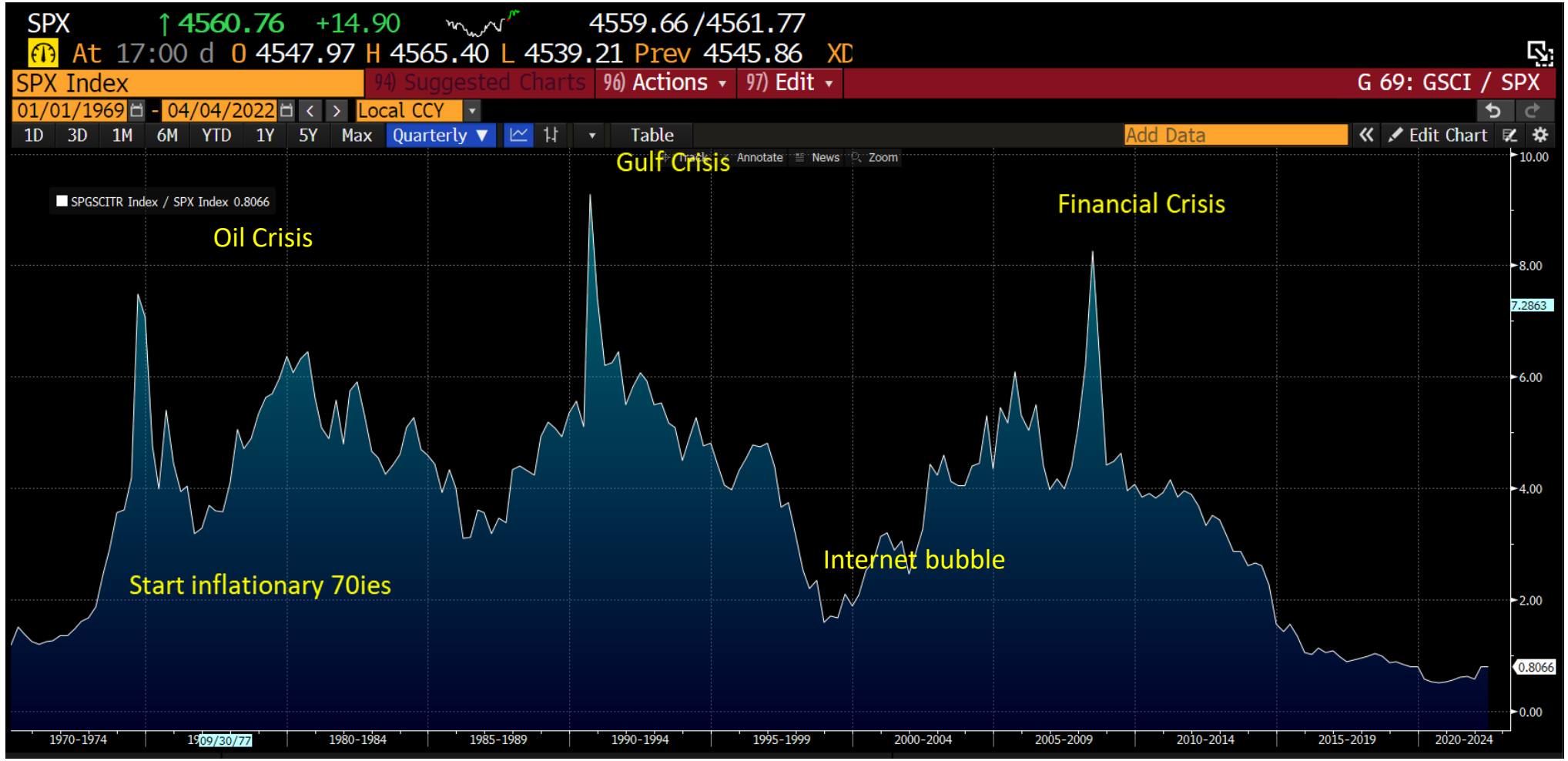
Source: Bloomberg

Year 2000 reloaded?



Source: Bloomberg

GSCI/S&P500 Ratio: As cheap as it can get?

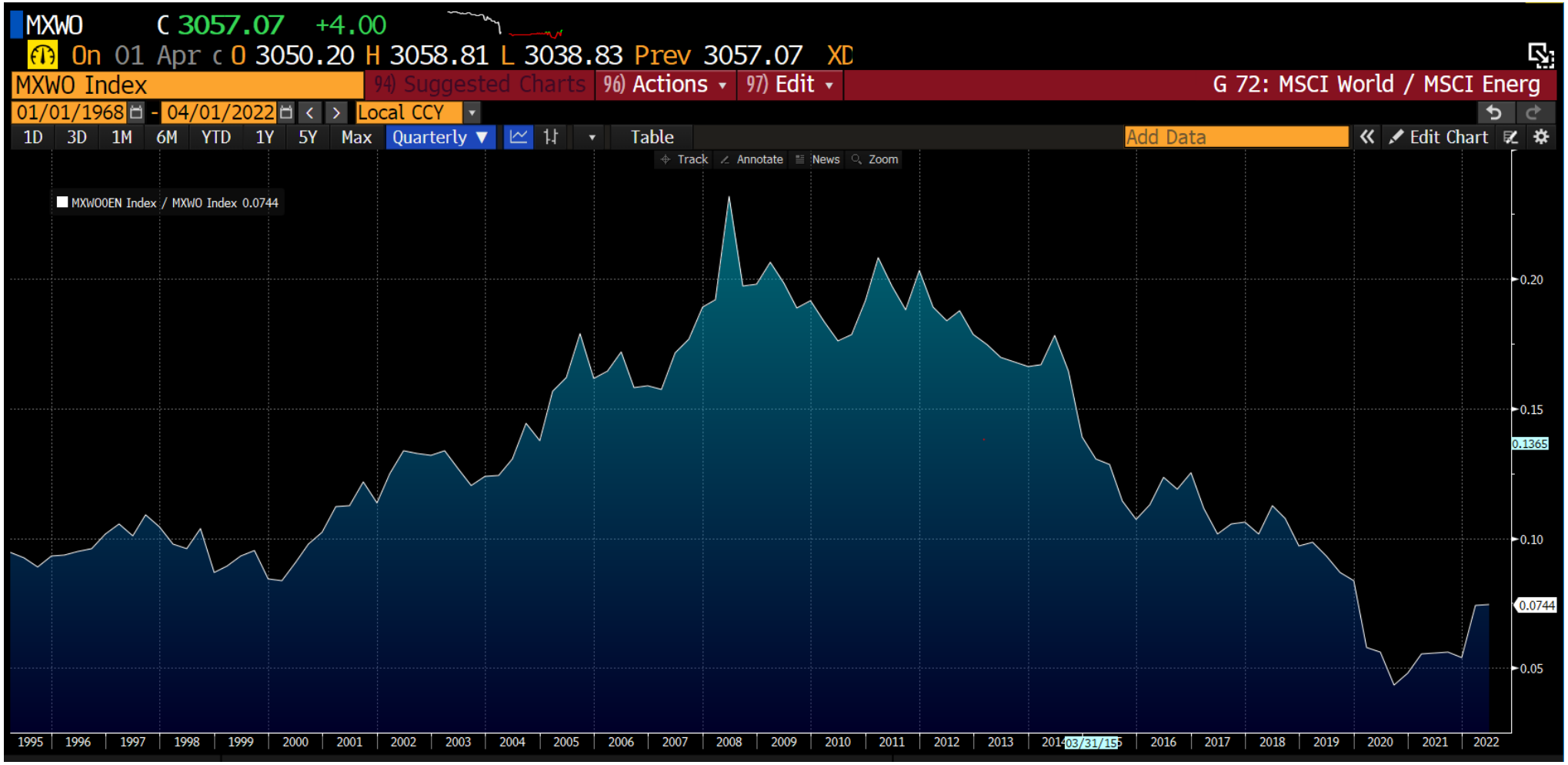


Source: Bloomberg

MSCI Mining /MSCI World, long trends are turning....

Source: Bloomberg

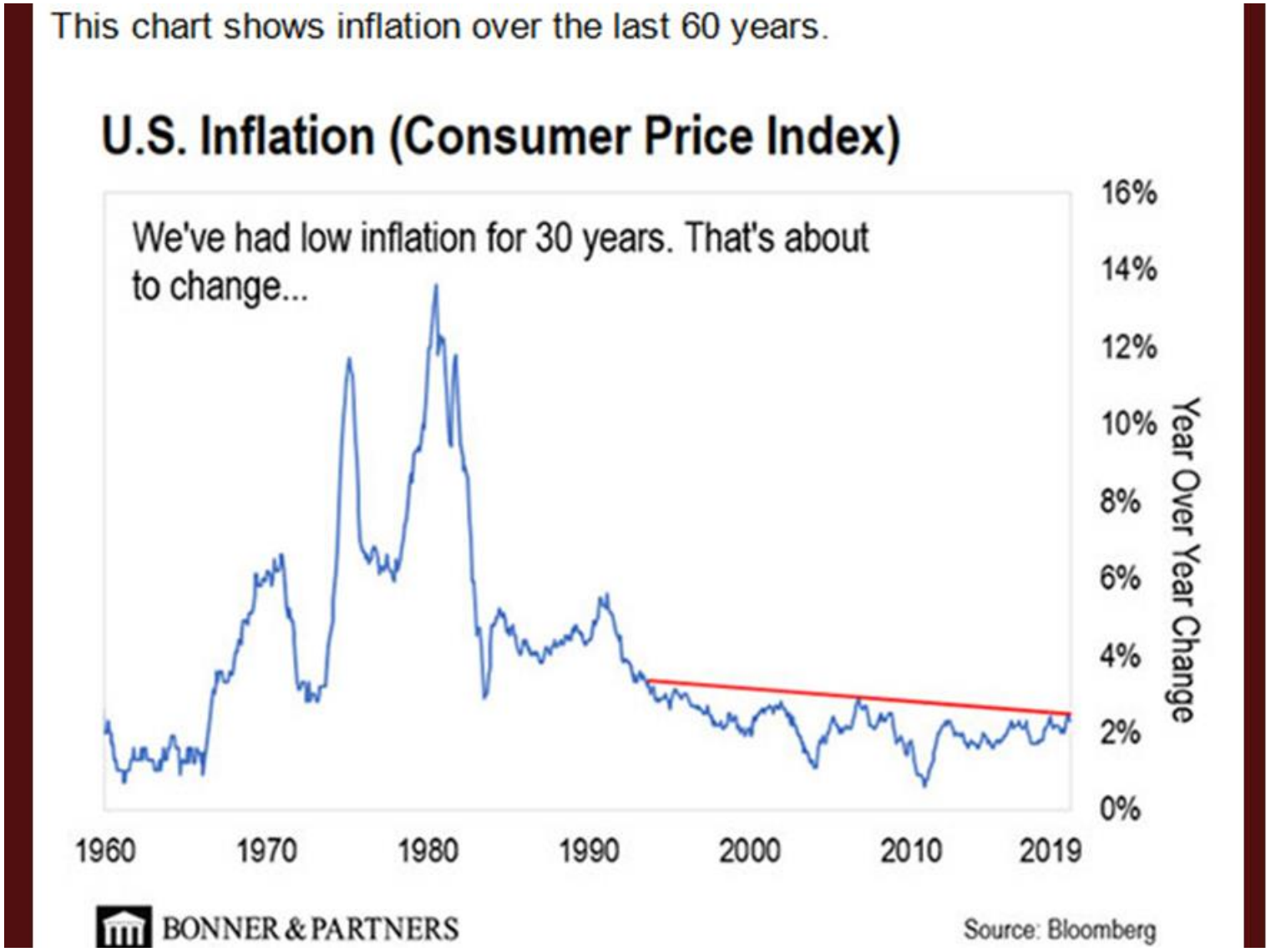
MSCI Energy /MSCI World, long trends are turning...



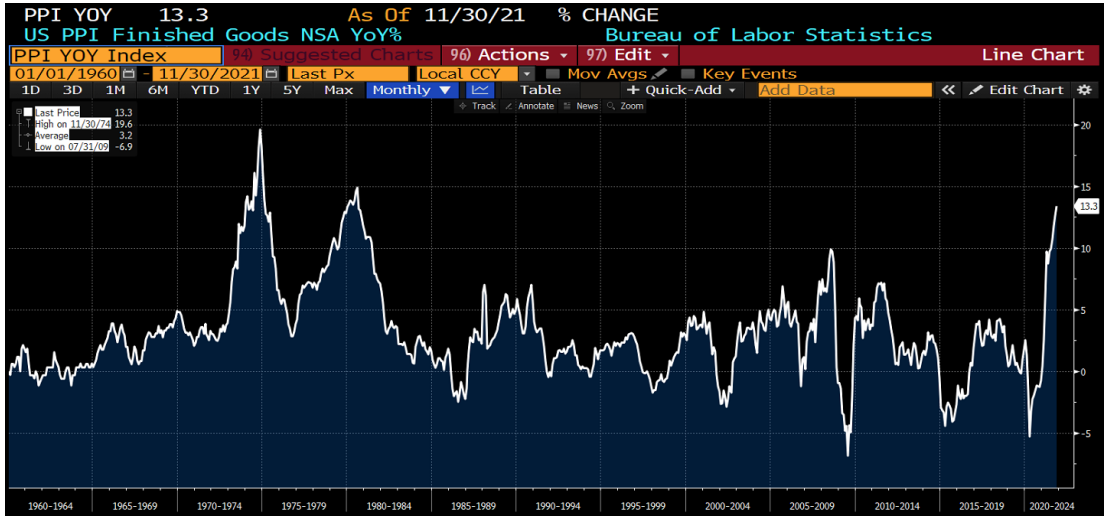
Source: Bloomberg

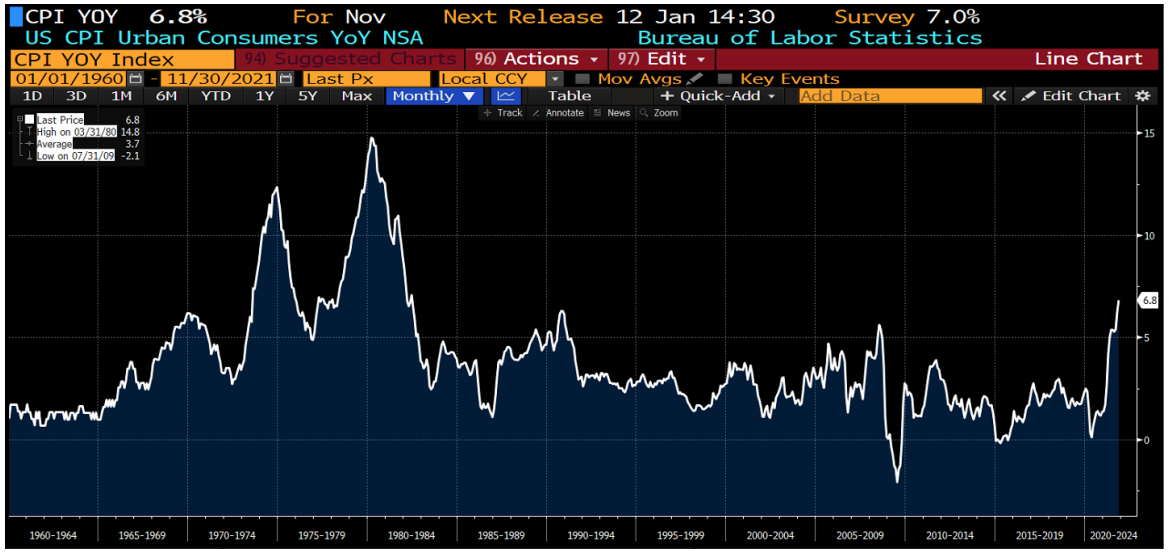
Inflation coming back?

This chart shows inflation over the last 60 years.



US PPI and CPI since 60 years





Source: Bloomberg

We call it Strategic Value Investing

So basically, **we buy good companies at inexpensive prices** or **extremely cheap companies**. Bad businesses are usually toxic at almost any price.

- We don’t look for “shares that will go up”
- We neither “play the markets” nor look for “catalysts” or in any way put our investors’ money in the hands of future price movements
- We never “chase” the markets. We use markets’ prices as opportunities to buy or sell. We never act on a view on what the markets will do, because we don’t know

WE BUY BUSINESSES, NOT SHARES

What is a good company

- A “good company” for us is one that delivers a return on equity well above its cost of capital, adjusted by risk, over the cycle
- This only happens when companies’ profits are protected by barriers to entry, i.e., ***when supply has structural difficulties to follow demand:***
  - Economies of scale
  - Privileged access to raw materials or clients
  - Proprietary products or processes
  - Reputation effects
  - Long lead times to add capacity
- In the end, companies earn returns above their cost of capital only if they are somehow protected from full competition
- To determine if that will be the case, a thorough understanding of the competitive dynamics of the sector is necessary
- **This is essential to avoid value traps: for instance, European banks, utilities, & telecom in the last few years…**

DEVRO

Why is Devro a good company?

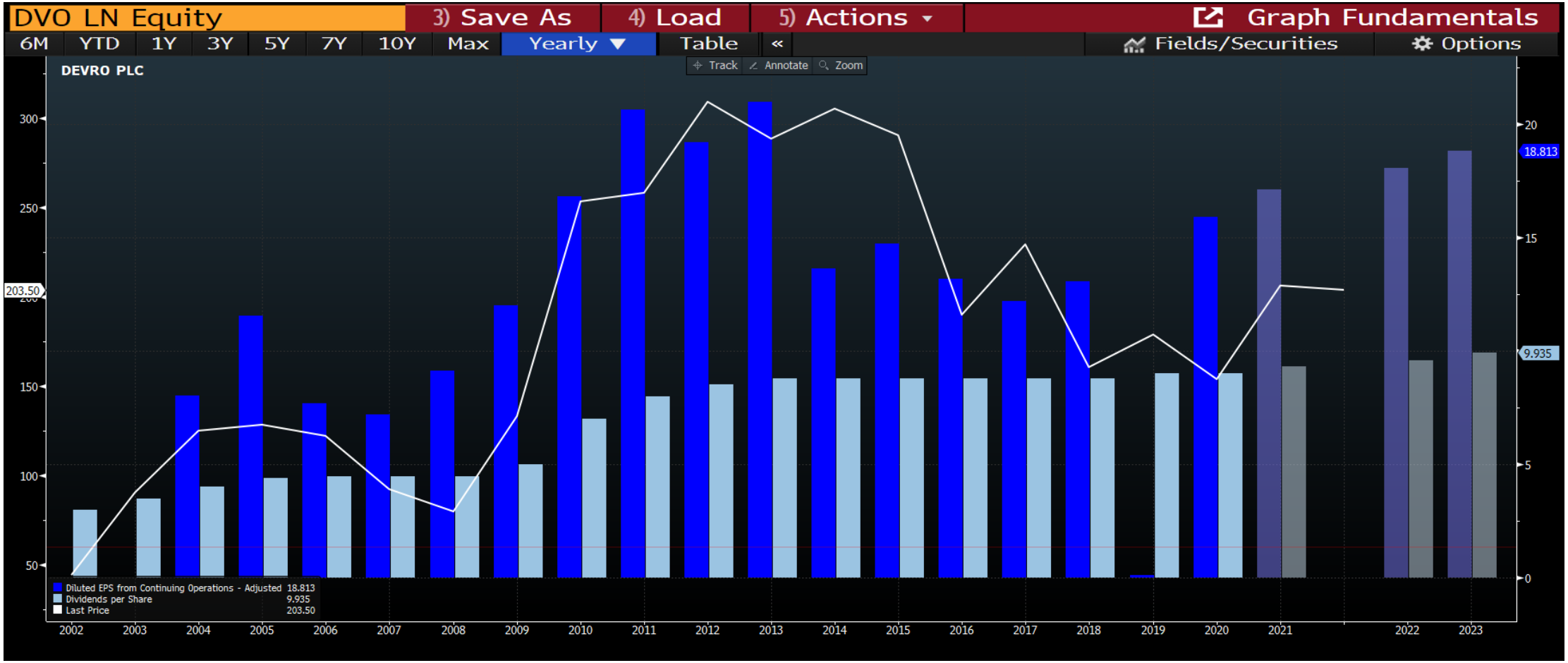
- **Leading** position in a **niche market**
- **Oligopolistic** structure and a disciplined leader (Viscofan)
- Economies of scale in production (and commercial) leading to a **cost advantage**
- Small ticket per unit & “helps” the client yield leading to **high switching costs** and ricing power
- Production know-how. **Intellectual Property entry barrier**

Why is Devro a good investment?

- **Growth**: can grow sales 4-5% p.a.
- **Margins:** The company has high margins (EBITDA 25%-26%) and they are sustainable
- **Historical median ROIC (25Y) is 13%** and our model suggests that convergence ROIC is 14-15%
- **Balance Sheet looks good:** no concern on liquidity or maturities as net debt is GBP 125mn, which compares with an EBITDA of around 60-65m GBP (2x vs. 1.5x target) and 5.5x interest coverage

Why is Devro a good investment?

- **PER 2022E: 11x (historical median 15x 25y)** EV/EBITDA 22 around 6.7x, 4.7% dividend yield.
- Converged Free Cash Flow of c. GBP 30mn for 2022 i.e. **10% Free Cash Flow Yield**
- **We do a 360º valuation:** apply median PE, EV/EBITDA, DCF at 10% discount, EV/IC and P/Book and we obtain an IV of 250p p.s., with an IRR of 11-12%
- **Why is it cheap?** Managerial mistakes before 2016, small, illiquid, few analysts
- **Viscofan?**



Source: Bloomberg

Look-through profitability

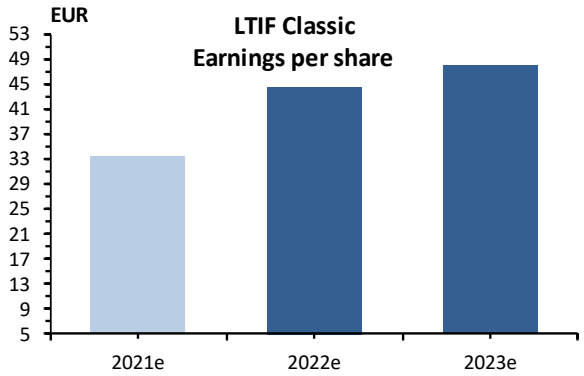
Reporting LTIF Classic as of 31.12.2021 (aggregated data in EUR)

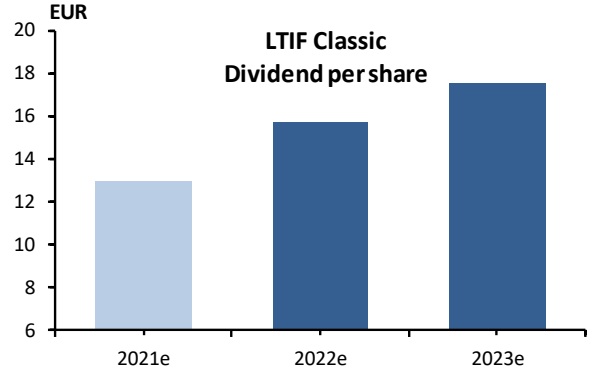
Date	NAV	%
31.12.2020	407.9	
31.12.2021	494.3	21.2%

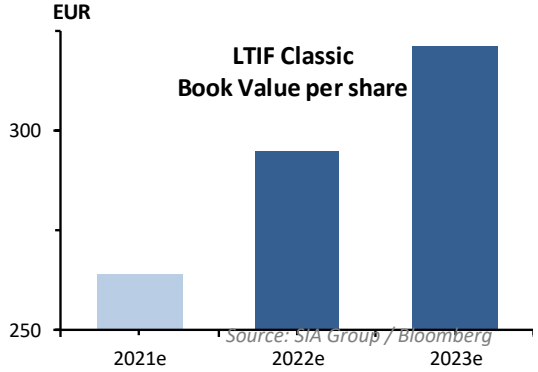
Year	EPS	%	P/E	EPS yield	MSCI World P/E	MSCI World EPS yield
2021e	33.5		14.8	6.8%	22.8	4.4%
2022e	44.5	33%	11.1	9.0%	17.7	5.6%
2023e	48.0	8%	10.3	9.7%	16.3	6.1%

Year	DPS	%	Div. Yield	MSCI World Div. Yield
2021e	13.0		2.6%	1.7%
2022e	15.7	21%	3.2%	2.0%
2023e	17.6	12%	3.6%	2.0%

Year	BPS	%	P/B	MSCI World P/B
2021e	264.1		1.9	3.2
2022e	294.6	12%	1.7	2.8
2023e	321.1	9%	1.5	2.6







Source: SIA Group / Bloomberg

Long Term Investment Fund Classic since inception (20 years)

LTIFCLA LX € NAV 565.44 --
On 18 Apr

LTIFCLA LX Equity | Settings | Comparative Returns

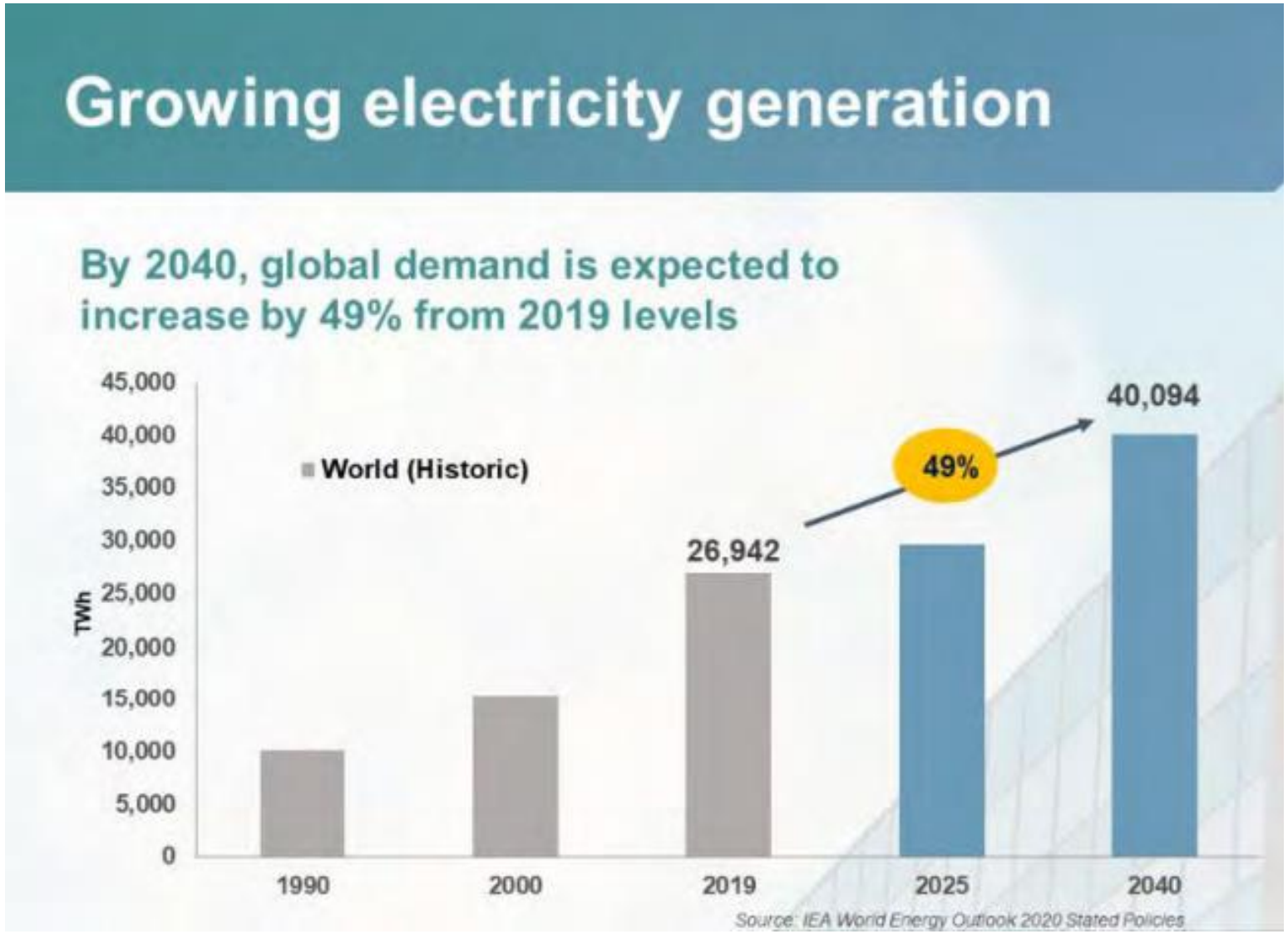
Range 01/14/2002 - 04/18/2022 Period Daily No. of Period 7399 Day(s) Table

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	LTIFCLA LX Equity	EUR	465.44%	465.44%	218.29%	8.92%
2)	MXW0000V Index	EUR	77.58%	247.15%	--	6.33%
3)	NDEEWNR Index	EUR	257.40%	257.40%	10.26%	6.48%
4)						
5)						
6)						

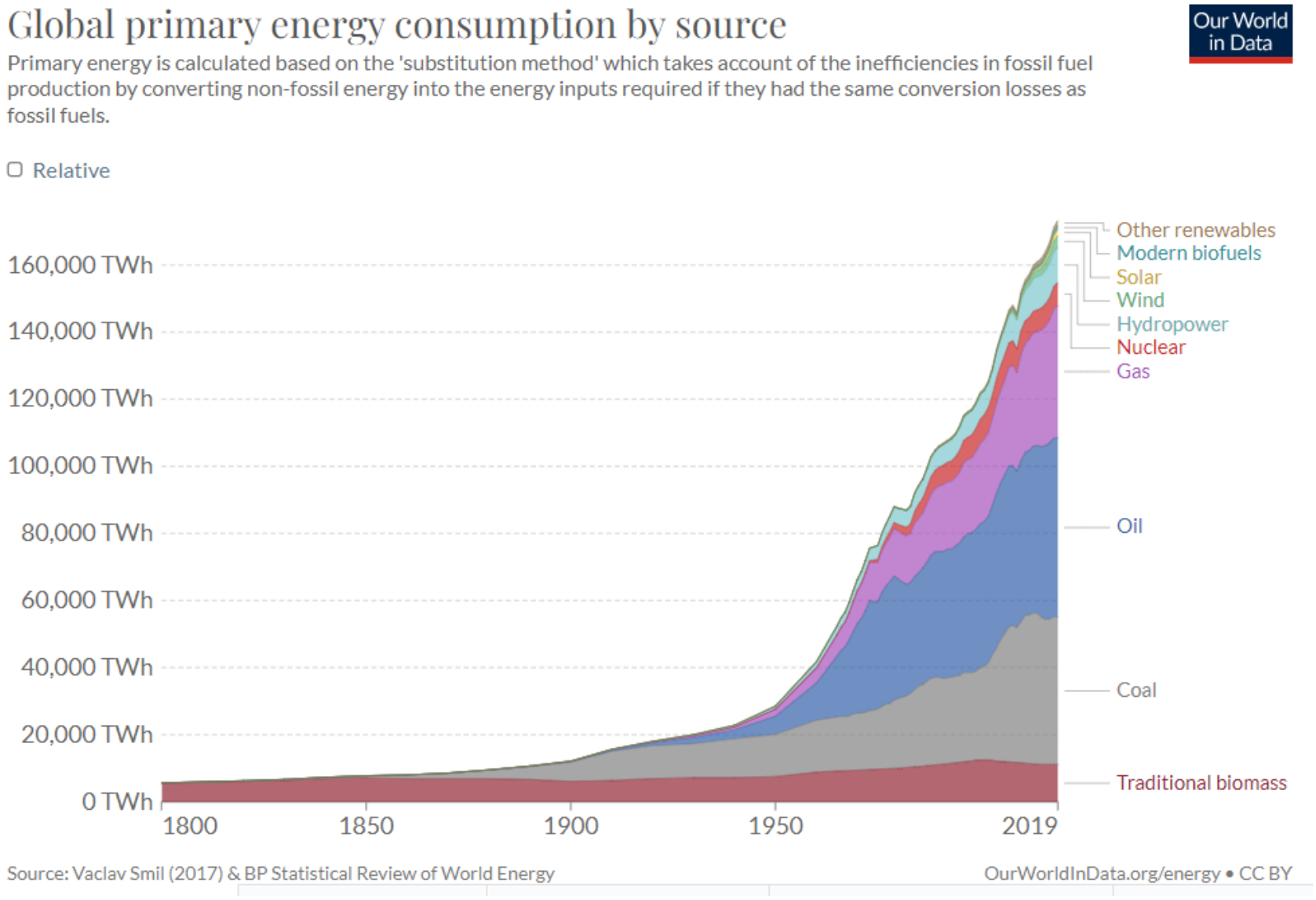
Source: Bloomberg

All, all, all, everything, everything is about energy!

Country/Region	Electricity consumption (kW·h/yr)	Year of Data	Source	Population	As of	energy per capita (kWh per person per year)	power per capita (watts per person)
World	21,776,088,770,300	2014	CIA	7,322,811,468	2016	2,674	309
China	6,310,000,000,000	2017	NEA[3]	1,403,500,365	2017	4,475	510
United States	3,911,000,000,000	2015 EST.	CIA	323,995,528	2016	12,071	1,377
India	1,547,000,000,000	2018	CSO[4]	1,352,642,280	2018	1,181	140
Russia	1,065,000,000,000	2014 EST.	CIA	142,355,415	2016	7,481	854
Japan	934,000,000,000	2014 EST.	CIA	126,702,133	2016	7,371	841
Germany	533,000,000,000	2014 EST.	CIA	80,722,792	2016	6,602	753
Canada	528,000,000,000	2014 EST.	CIA	35,362,905	2016	14,930	1,704
Brazil	518,000,000,000	2014 EST.	CIA	205,823,665	2016	2,516	287
Korea, South	495,000,000,000	2014 EST.	CIA	50,924,172	2016	9,720	1,109
France	431,000,000,000	2014 EST.	CIA	66,836,154	2016	6,448	736
United Kingdom	309,000,000,000	2014 EST.	CIA	64,430,428	2016	4,795	547

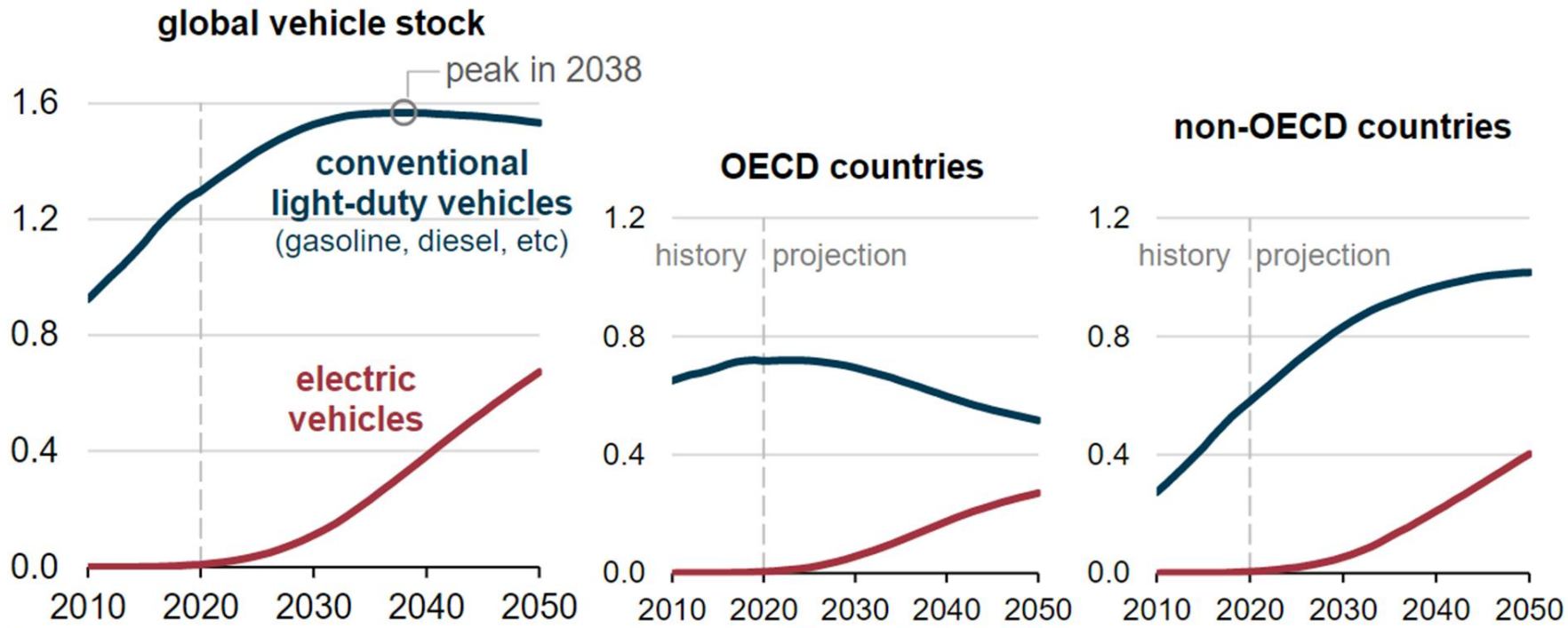


Industrial revolution was/is a carbon revolution



EV impact on oil demand takes much longer…

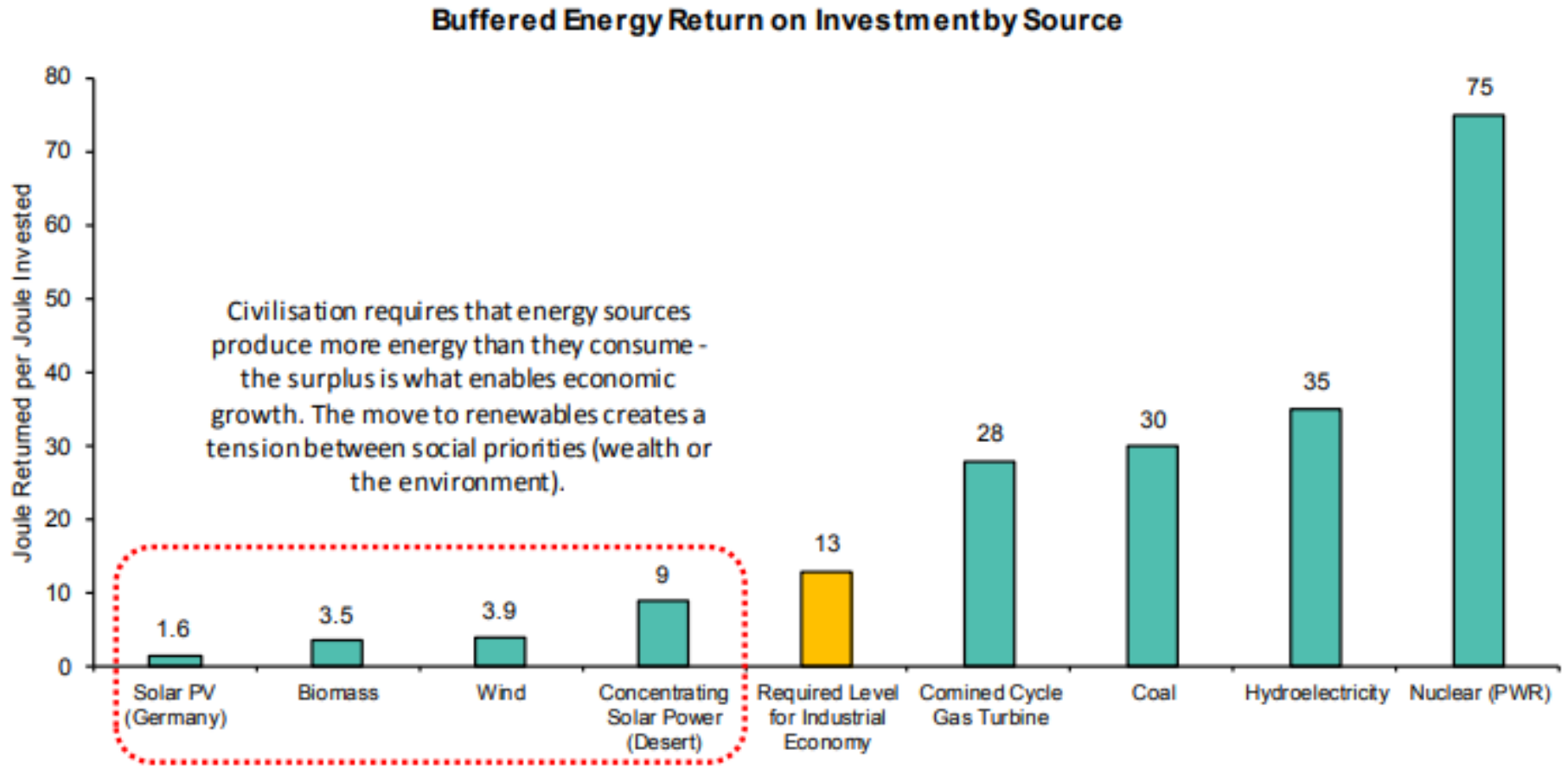
Light-duty vehicle stock in *International Energy Outlook 2021* Reference case (2010–2050)
billion vehicles



Source: U.S. Energy Information Administration, *International Energy Outlook 2021* Reference case

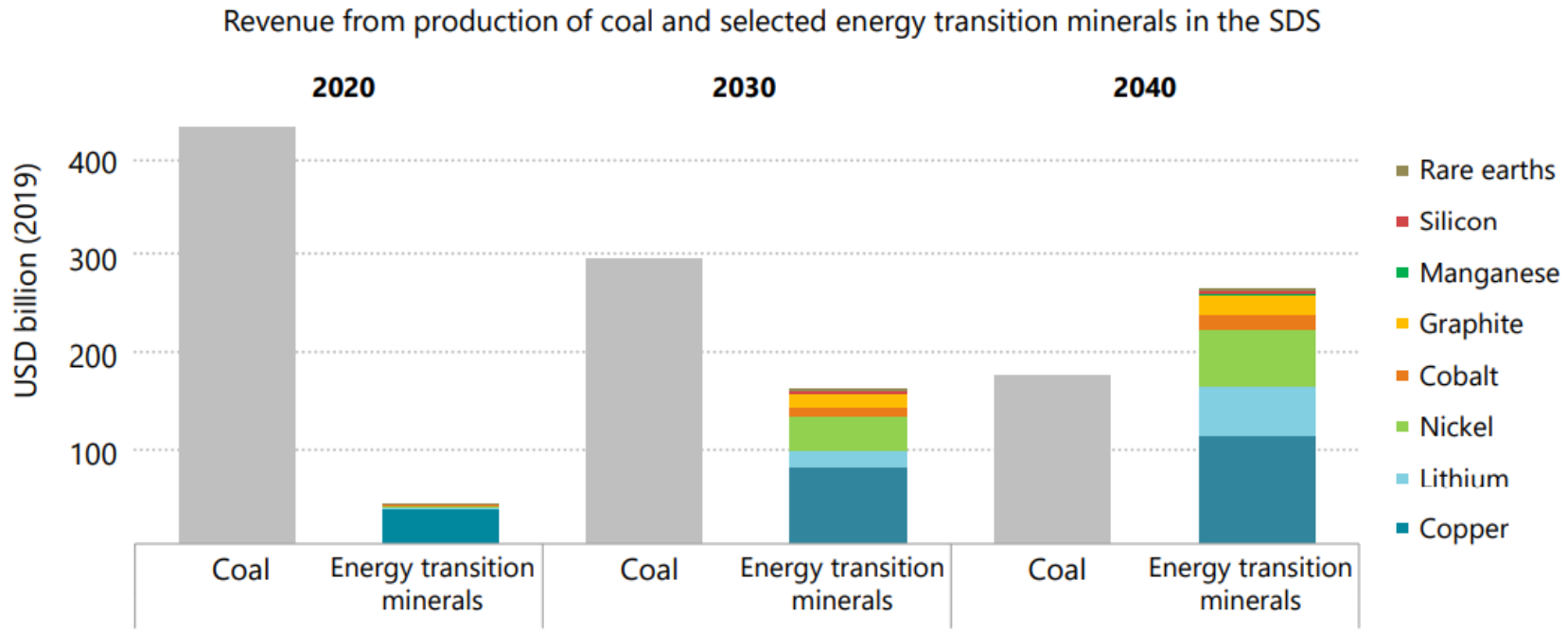
in 2021 the share of EV & Plug-In Hybrids is 1.3%

It is about density of energy



Source: Bernstein

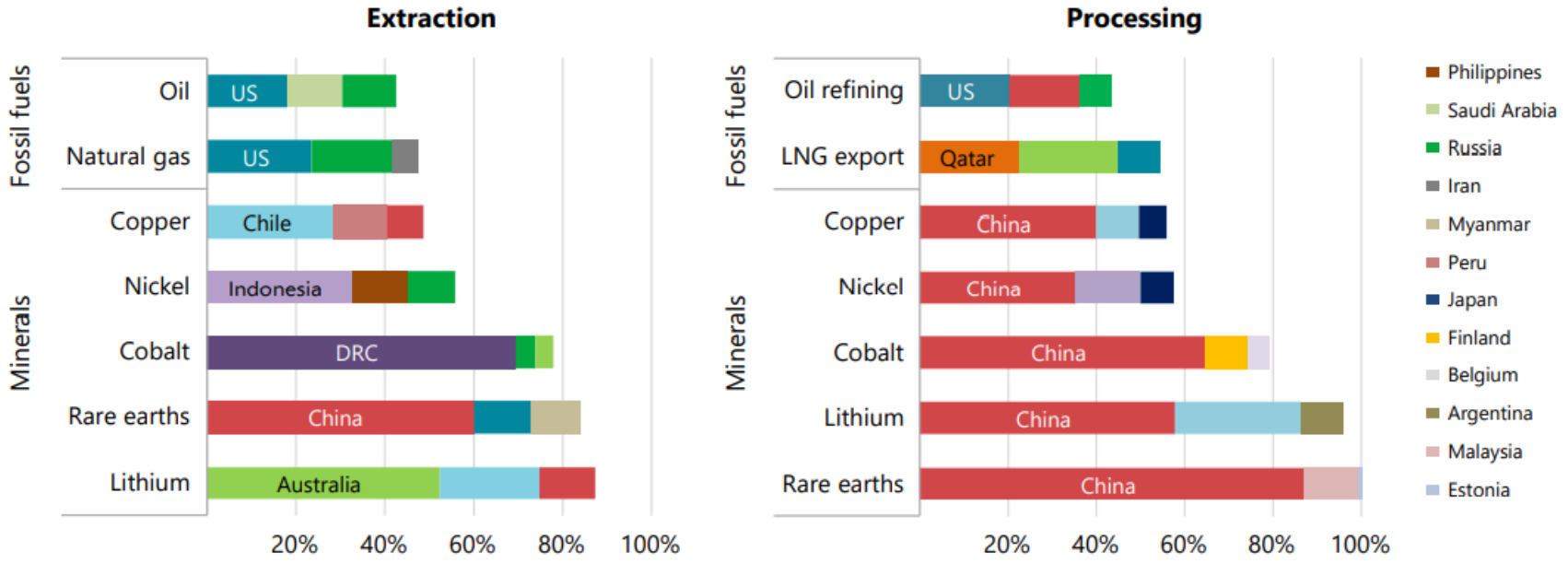
New reasons to go underground



Today's revenue from coal production is ten times larger than from energy transition minerals. However, in climate-driven scenarios, these positions are reversed well before 2040

Many mineral supply chains lack diversity

Share of top three producing countries in production of selected minerals and fossil fuels, 2019

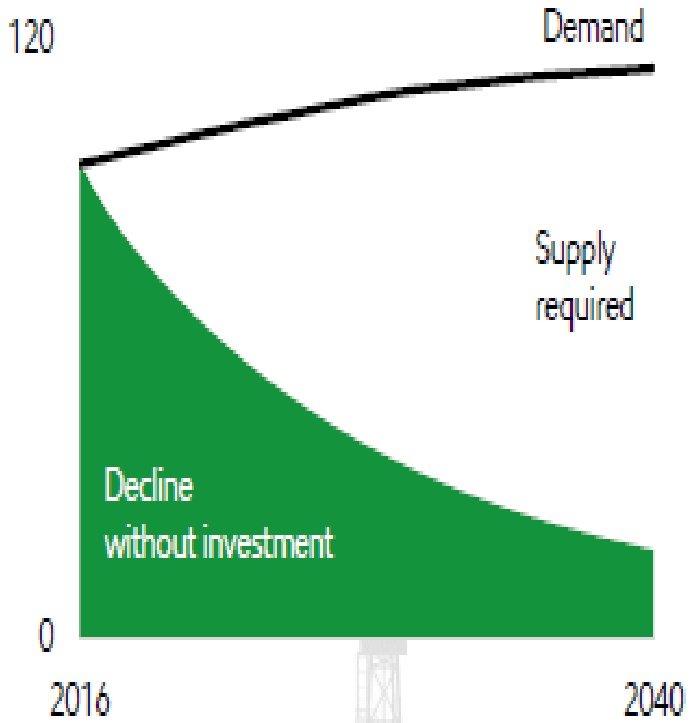


Production and processing of many minerals such as lithium, cobalt and some rare earth elements are geographically concentrated, with the top three producers accounting for more than 75% of supplies

One should better start to invest…

Oil supply & demand

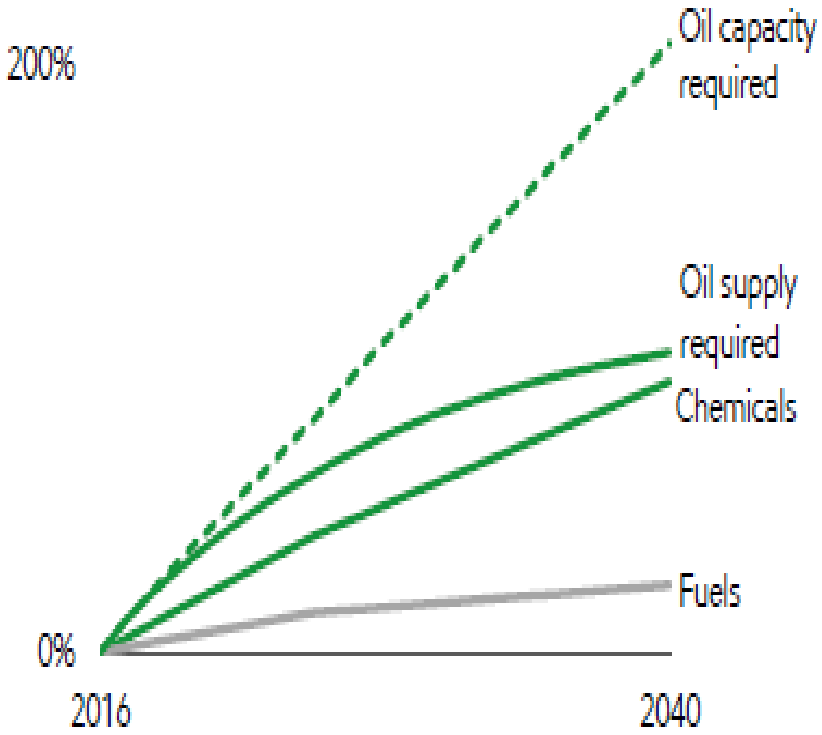
MOEBD



Source: 2018 Energy Outlook

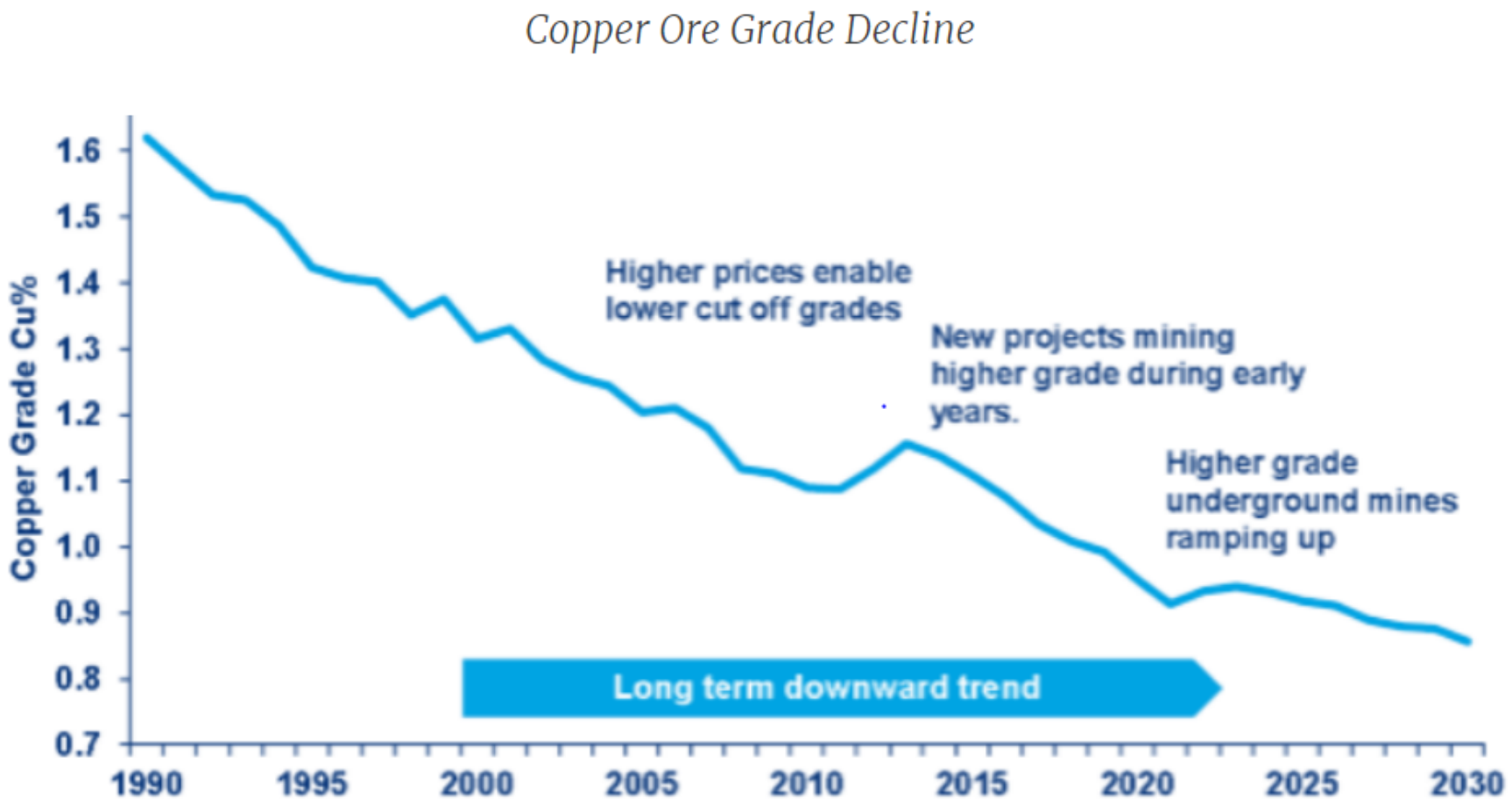
New supply requirement

Indexed to 2016



Source: 2018 Energy Outlook

Pick the low hanging fruits first, it does not get easier!

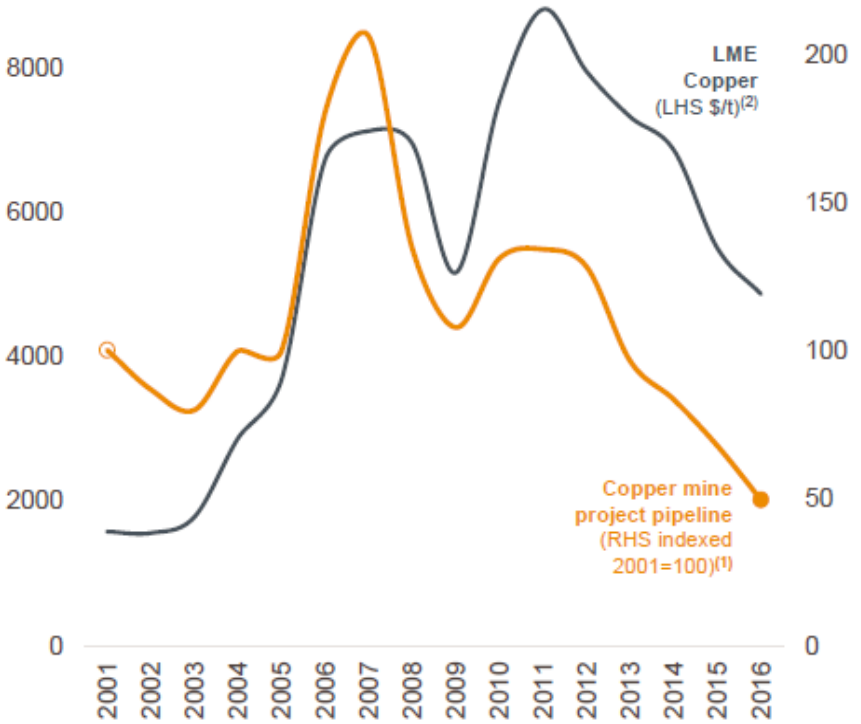


Source: Wood Mackenzie.

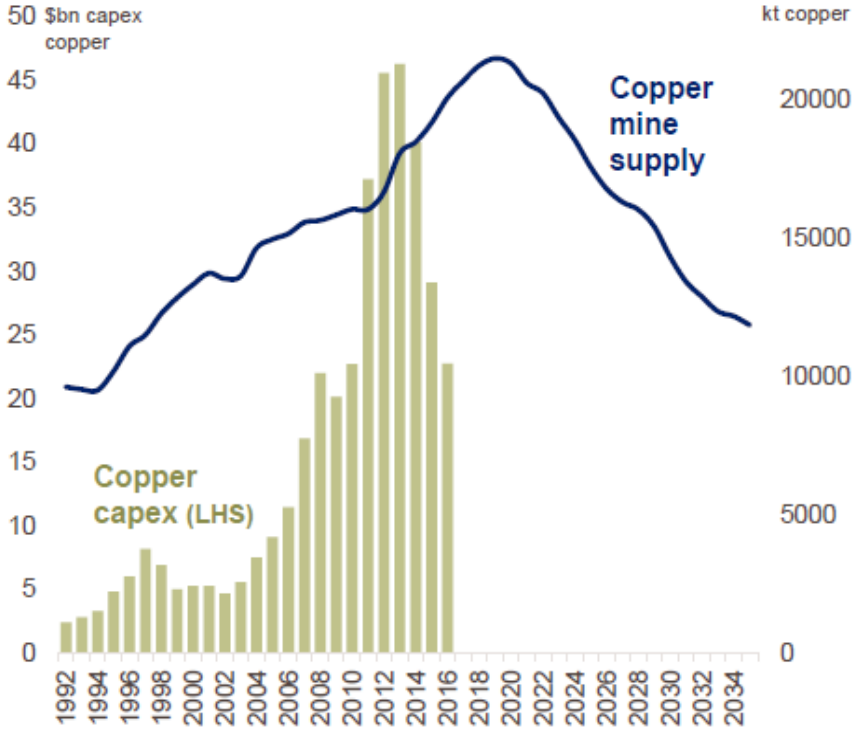
Project pipeline below pre-supercycle lows!

Sustaining copper mine supply is progressively more challenging

Copper mine project pipeline now below pre-supercycle lows



Supply is peaking in 2018 and declines thereafter at 3.5% CAGR with no reinvestment (3)



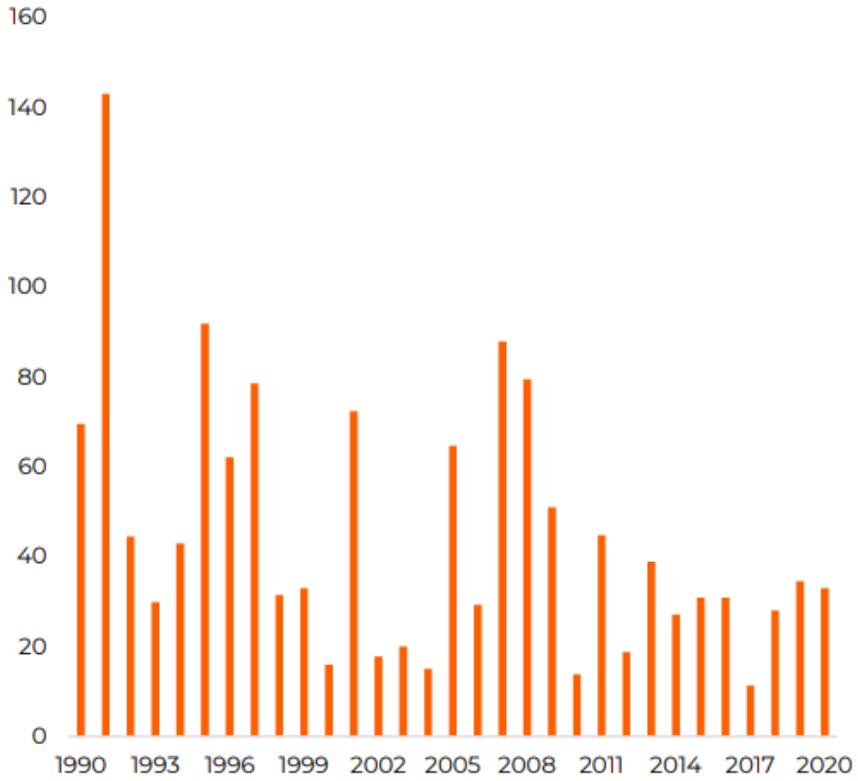
Source: (1) Copper mine project pipeline comprises the total production volume of projects categorised as highly probable and probable by Wood Mackenzie's Global copper long-term outlooks from 2001 to 2016, indexed change from 2001. (2) Annual average LME cash copper price, source Wood Mackenzie and Bloomberg. (3) Bernstein European Metals and Mining, 8 March 2017, Copper & Gold – Not a production wall … It's a production cliff!

GLENCORE

Time lag is a decade...

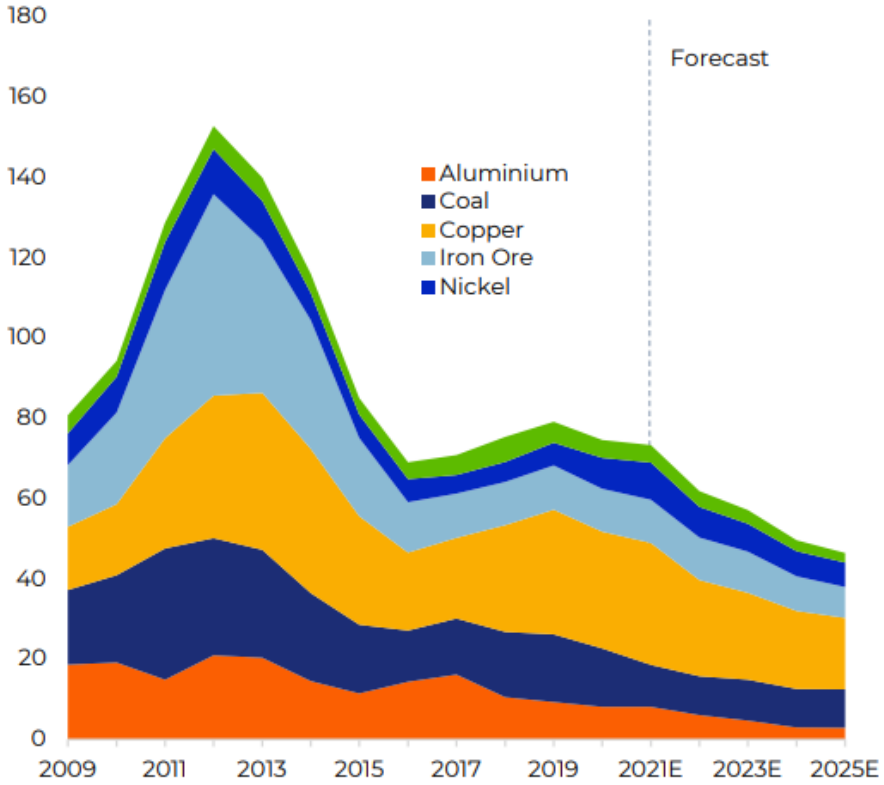
Discovery of new resources remains limited

Copper in major discoveries (Mt)[1]



Trajectory of Capex

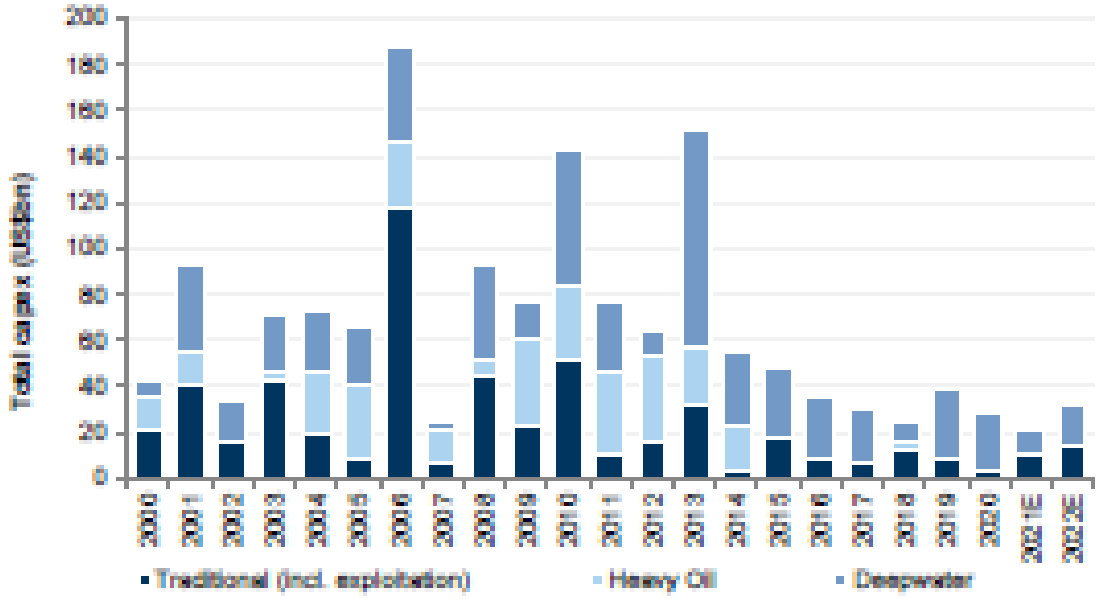
Expansionary and sustaining capex by commodity ($bn)[2]



Deep capex cuts are a real problem

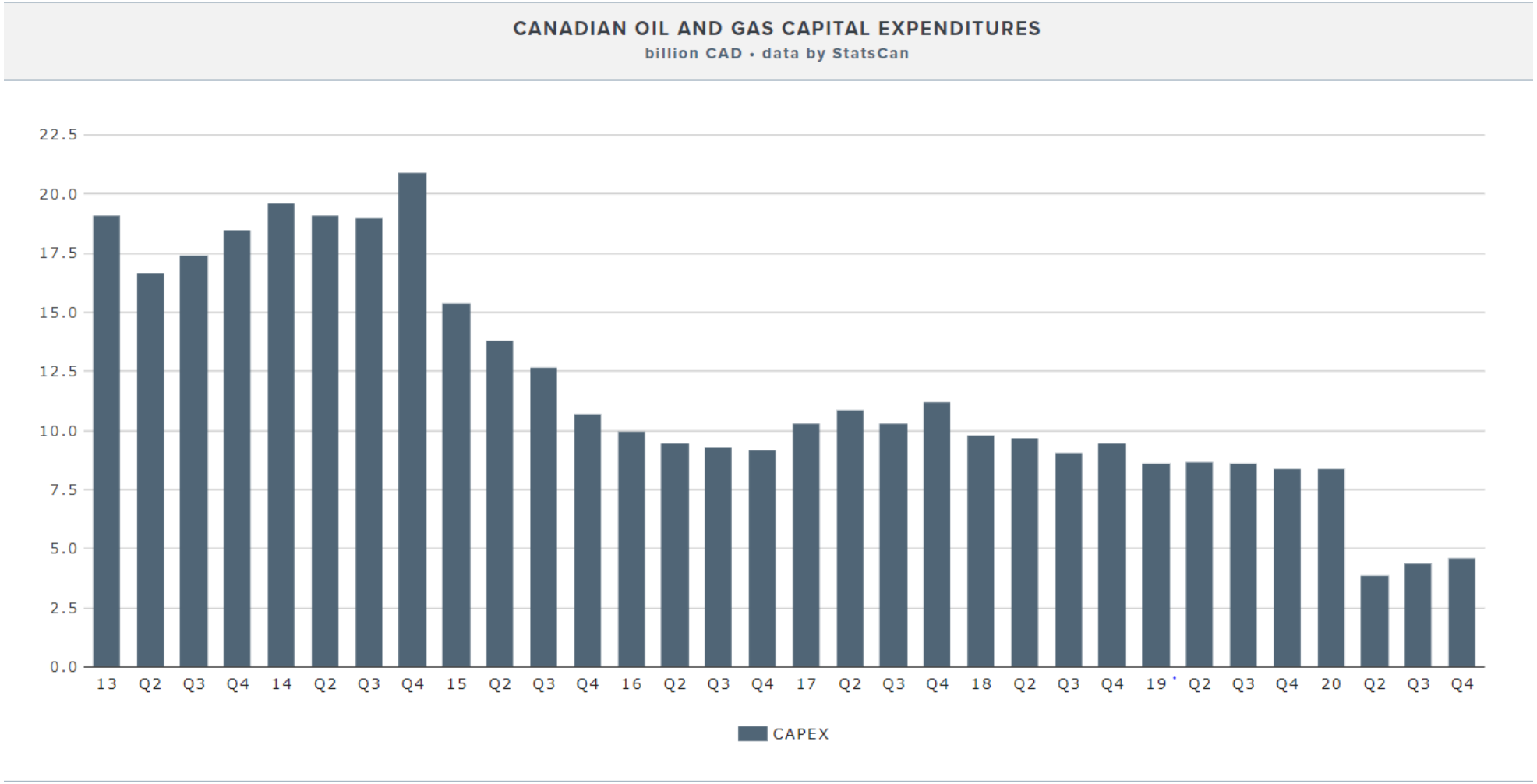
Exhibit 3: Capital commitment to new oil projects has reached a new trough...

Top Projects capex sanctioned in oil by year of sanction, split by winzone



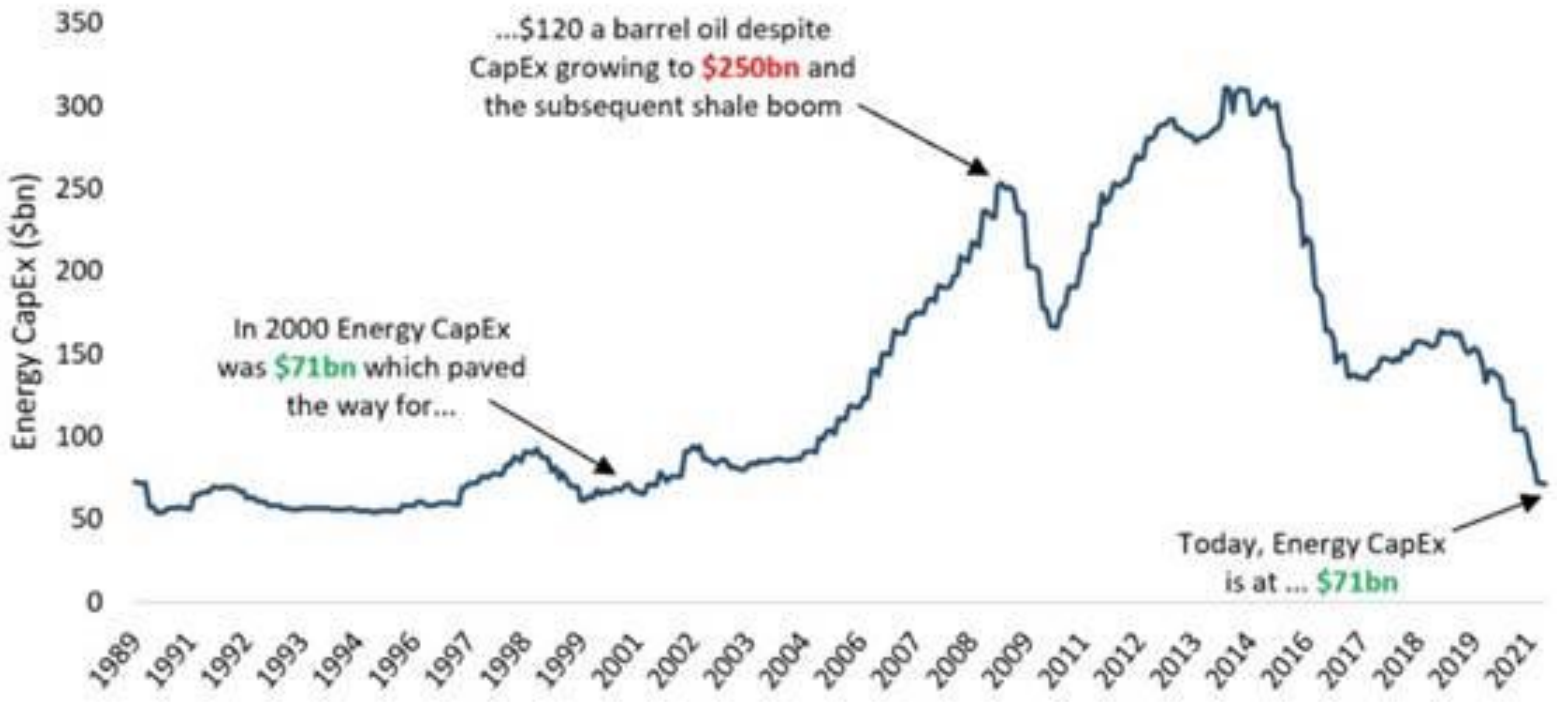
Source: Goldman Sachs Global Investment Research

Everywhere the same



There is a lot of capex inflation

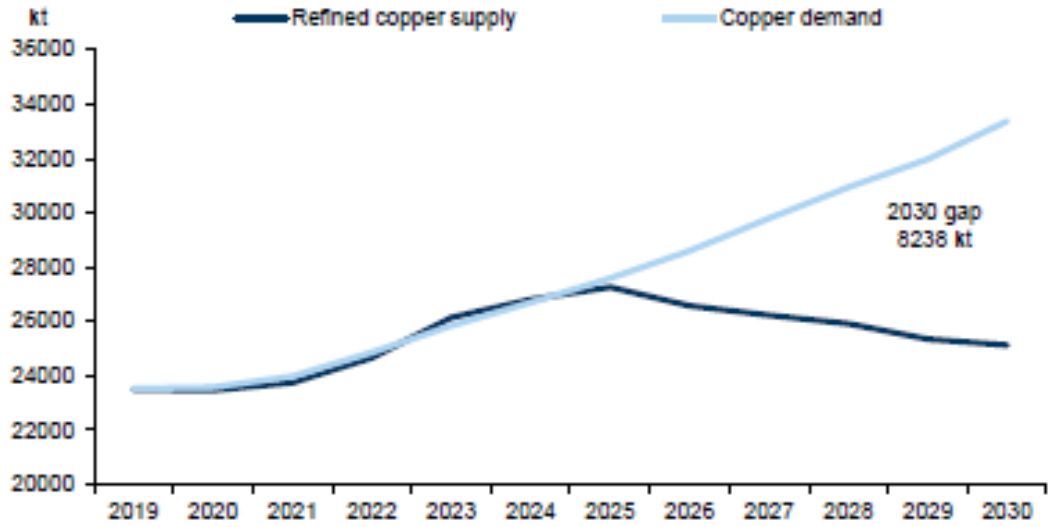
Fig. 1: Collapsing CapEx, ESG & "Peak Energy Demand" May Set the Stage for Higher Energy Prices



Source: Kailash Capital, LLC; Data from 12/31/1989-7/31/2021

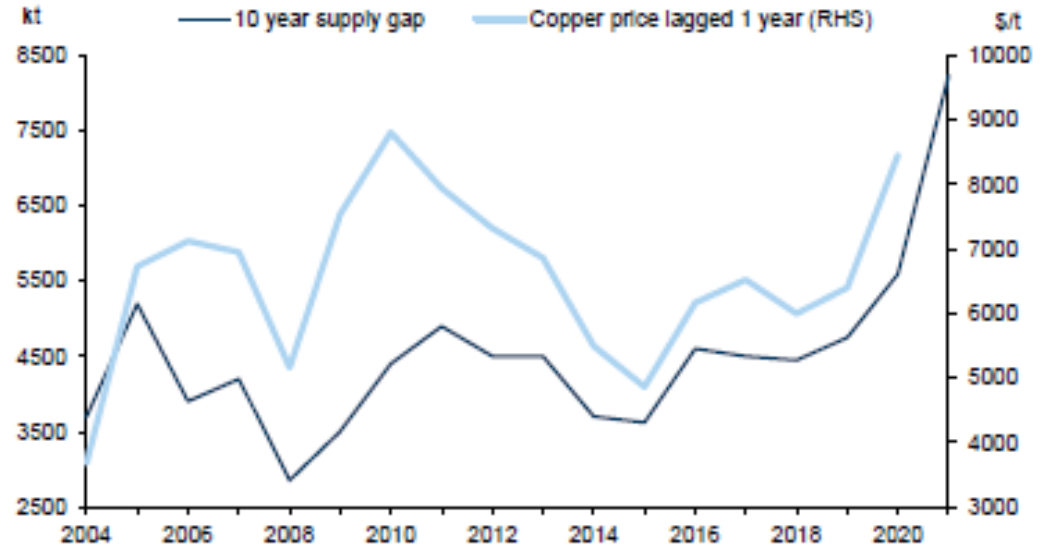
How should all this work??

Exhibit 32: Long-term supply gap now projected at over 8Mt by 2030
Refined copper supply and demand



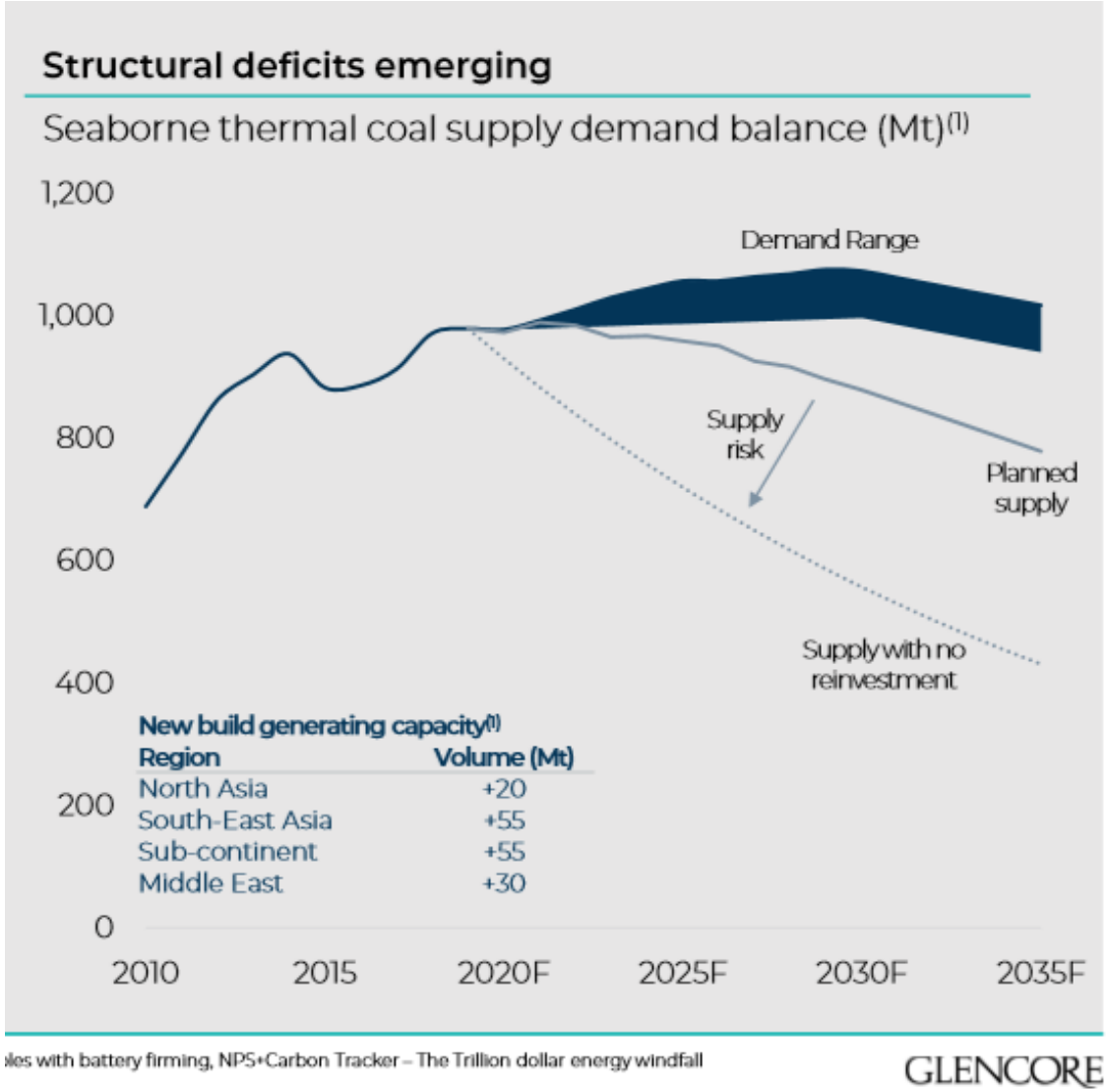
Source: Woodmac, Goldman Sachs Global Investment Research

Exhibit 33: Record long-term supply gap implies significant further upside to copper prices
LT supply gap and copper price



Source: Woodmac, Goldman Sachs Global Investment Research

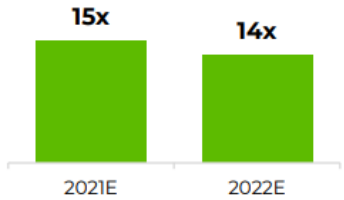
Time to dig out the old books about economics…



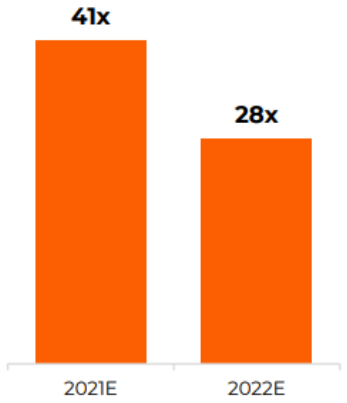
Rather 3 times EV/EBITDA on spot prices...

Major diversified miners EV/EBITDA(1,2)

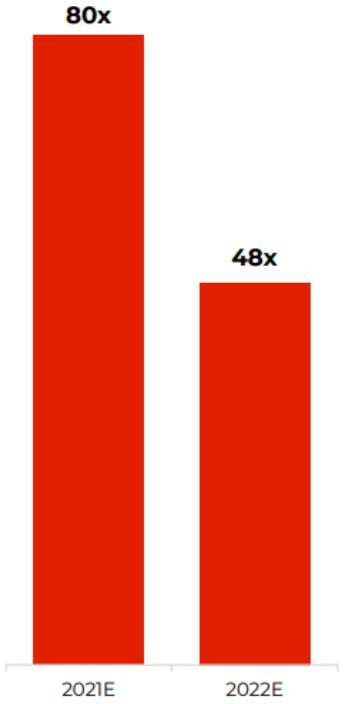
Renewable energy: A leading wind turbine producer EV/EBITDA(2)



EV Batteries: A leading producer EV/EBITDA(2)



Electric vehicles: A leading producer EV/EBITDA(2)

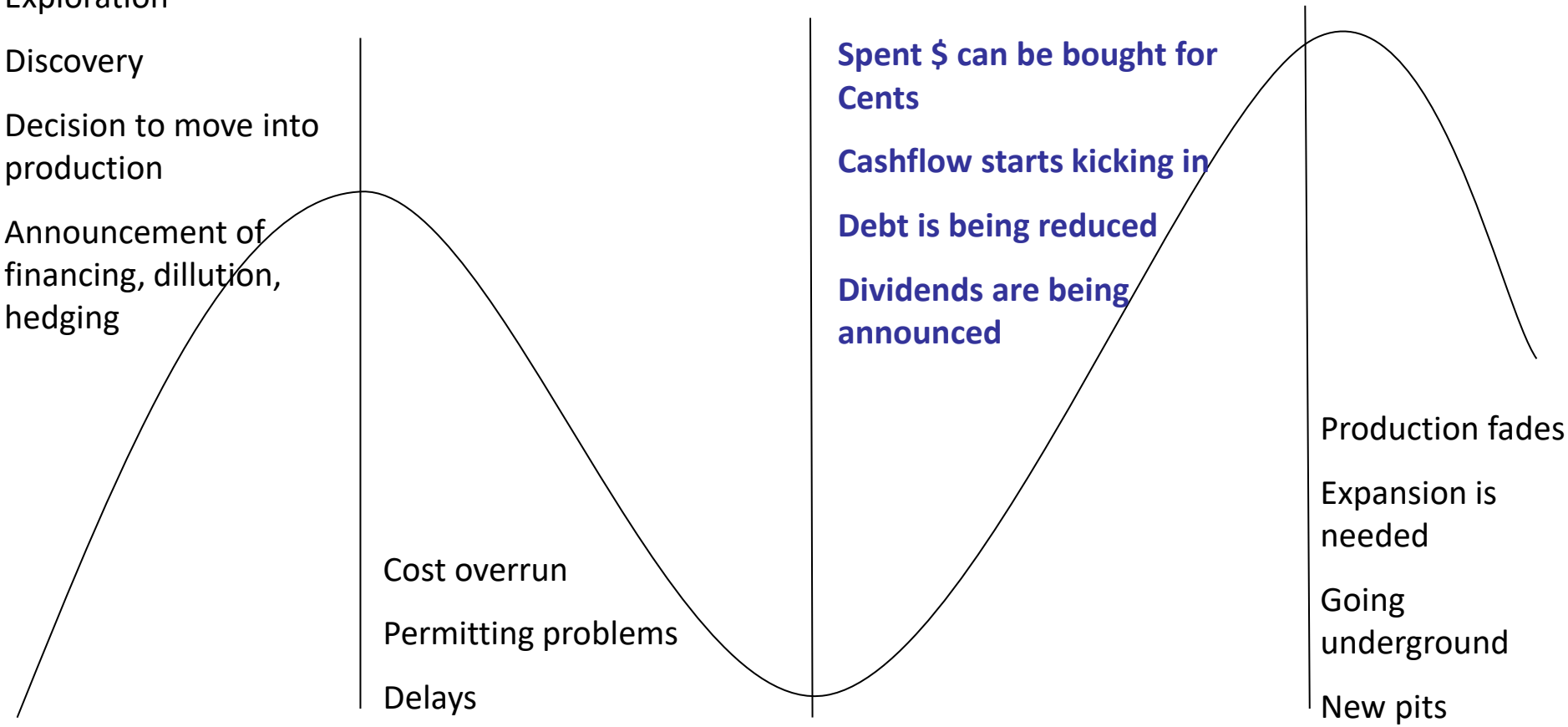


Notes (1): Includes Anglo American, BHP, Glencore and Rio Tinto. BHP FY21. (2) Source: Morgan Stanley Research, Capital IQ.

GLENCORE

2022 BMO Global Metals & Mining Conference

”The SIA value bracket”



Majors are defensive, underperform in bull market

ROYAL DUTCH SH-A Equity | COMP | Related Functions Menu | Message

RDSA NA € ↑ 17.860 +0.392 A17.860 / 17.864A 400 x 1542

At 15:32 d Vol 7,928,386 O 17.624A H 17.874A L 17.602A Val 140.984M

RDSA NA Equity | Settings | Comparative Returns

Range 07/02/2002 - 06/29/2007 Period Daily No. of Period 1823 Day(s) Table

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	RDSA NA Equity	EUR	8.99%	34.52%	-467.52%	6.12%
2)	CNQ CN Equity	EUR	479.32%	502.04%	--	43.25%
3)						
4)						
5)						
6)						

1M 3M 6M YTD 1Y 2Y 3Y 5Y 10Y

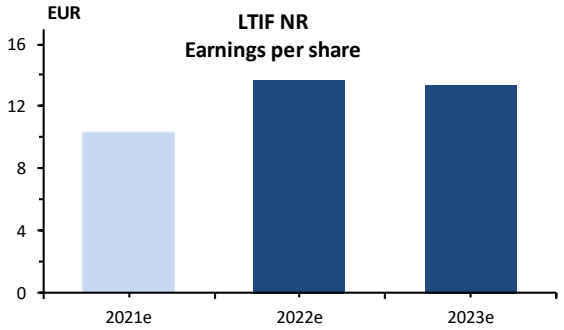
Source: Bloomberg

Look-through profitability

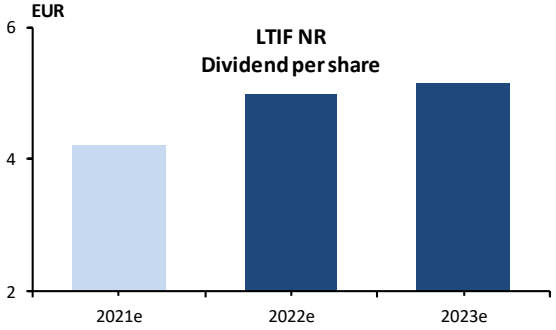
Reporting LTIF NR as of 31.12.2021 (aggregated data in EUR)

Date	NAV	%
31.12.2020	87.1	
31.12.2021	122.5	40.7%

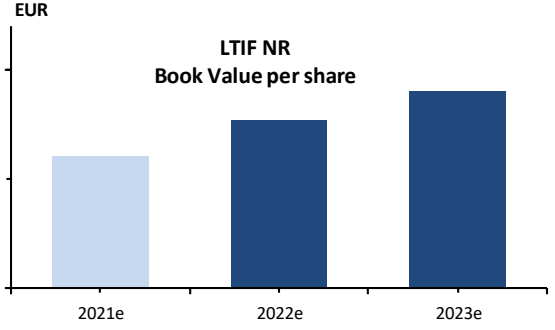
Year	EPS	%	P/E	EPS yield	S&P NR P/E	S&P NR EPS yield
2021e	10.4		11.8	8.5%	11.6	8.6%
2022e	13.7	32%	8.9	11.2%	10.4	9.6%
2023e	13.4	-3%	9.2	10.9%	10.7	9.3%



Year	DPS	%	Div. Yield	S&P NR Div. Yield
2021e	4.2		3.4%	4.0%
2022e	5.0	18%	4.1%	4.0%
2023e	5.1	3%	4.2%	3.9%



Year	BPS	%	P/B	S&P NR P/B
2021e	80.0		1.5	1.8
2022e	88.4	10%	1.4	1.5
2023e	95.2	8%	1.3	1.4



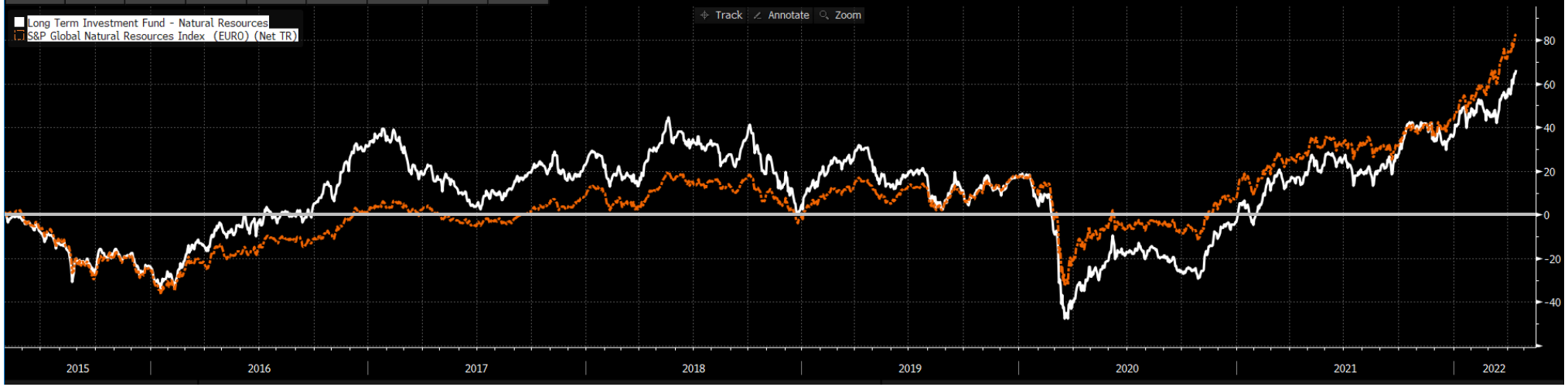
Source: SIA Group / Bloomberg

LTIF NR vs Benchmark very strong in positive markets

LTIFGEV LX € NAV 149.75 --
On 18 Apr
LTIFGEV LX Equity | Settings | Comparative Returns
Range 05/01/2015 - 04/18/2022 Period Daily No. of Period 2544 Day(s) Table

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	LTIFGEV LX Equity	EUR	66.22%	66.22%	-16.44%	7.56%
2)	SPGNREN Index	EUR	82.67%	82.67%	--	9.03%
3)						
4)						
5)						
6)						

1M 3M 6M YTD 1Y 2Y 3Y 5Y 10Y



Source: Bloomberg

LTIF NR vs Benchmark very strong in positive markets

LTIFGEV LX € NAV 149.75 --
On 18 Apr

LTIFGEV LX Equity | Settings | Comparative Returns

Range 03/23/2020 - 04/18/2022 Period Daily No. of Period 756 Day(s) Table

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	LTIFGEV LX Equity	EUR	217.74%	217.74%	47.85%	74.74%
2)	SPGNREN Index	EUR	169.88%	169.88%	--	61.50%
3)						
4)						
5)						
6)						

Source: Bloomberg

LTIF NR was the winner on SharingAlpha in its category in 2021

Long Term Investment Fund (SIA) structure

Compartments	**LTIF Classic Series**			
Investment style	Long-only			
Management fee	1.5% pa			
Performance fee	15% (HWM and Hurdle Rate)			
Currency	EUR	CHF	USD	EUR
ISIN number	LU0244071956	LU0301246772	LU0301247077	LU1449969846
Telekurs valor	2'432'569	3'101'817	3'101'820	33'180'015
Bloomberg ticker	LTIFCLA LX	LTIFCLC LX	LTIFCLU LX	LTIFCLD LX
Distribution	reinvested	reinvested	reinvested	distributed

Compartments	**LTIF Natural Resources**		
Investment style			
Management fee	1.5% pa		
Performance fee	15% (HWM)		
Currency	EUR	CHF	USD
ISIN number	LU0244072335	LU0301246939	LU0301247234
Telekurs valor	2'432'575	3'101'836	3'101'839
Bloomberg ticker	LTIFGEV LX	LTIFGEC LX	LTIFGEU LX
Distribution	reinvested	reinvested	reinvested

- Daily liquidity, cut-off time previous day at 4:00 pm CET
- Performance fees are assessed and paid yearly, subject to High Water Marks and Hurdle Rates

Contacts

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Disclaimer

LTIF (SIA) Classic and Natural Resources

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