December 2023 Update

Profeta International Fund

December 2023

Dear fellow investors,

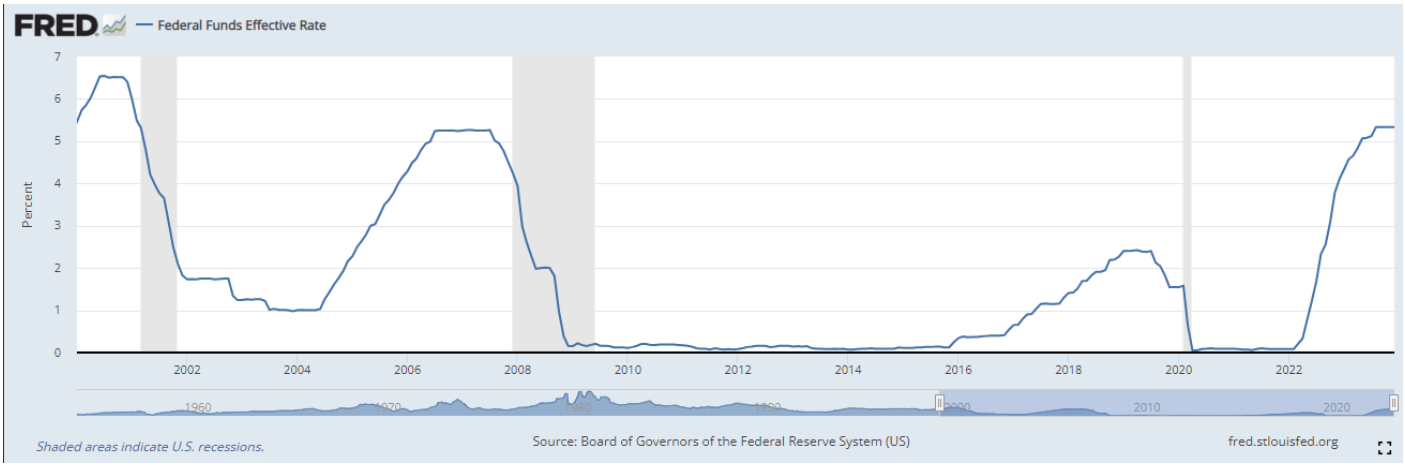
Our fund appreciated 8% in the December quarter and appreciated 3.5% for the month. This was 2.7% above the performance of the MSCI World Index in AUD for the quarter. Global markets rallied in the last quarter of the calendar year led by US equities. While the MSCI World Index and US's S&P500 rallied 11% in USD for the quarter, this was offset by the sharp rally in the Australian dollar vs the US dollar from 64 cents to over 68 cents.

Our fund has performed well since its inception on 1 July 2022, delivering a return of 26% over this 18-month period and outperforming the MSCI World Index in AUD. The fund is a mirror image of the long global equities positions in our alternatives Profeta Global Investments Fund. The Profeta International Fund is a plain vanilla long only global equities fund, but it takes a benchmark unaware approach and can hold up to 25% cash. The fund has delivered these strong results, whilst holding on average 15% cash. It is also positioned very differently to the MSCI World benchmark. Our fund only has 17% of its companies domiciled in North America, compared to 70% for the MSCI World Index, which is overly skewed to the "magnificent seven". We are also active in managing the currency exposure in our fund as absolute returns can be negatively affected by an appreciating Australian dollar.

We are soft closing our Profeta Global Investments Fund for the time being as we are excited about the prospects for its unlisted investments, which include York St Brands/ Boost Lab and a new technology investment called Vantari, which is a leading global virtual reality medical training company. For those of you in the Profeta Global Investments fund, we provide a detailed update on this company in the latest report. York St Brands represents 6% of that fund and is on target to increase its revenues by 5x this year. We have decided to soft close this fund to allow existing investors to get the full benefit of the uplift of this investment over the next few years, as we expect a liquidity event next year.

Market Update for the Quarter

The decline in markets in October was quickly erased in November and December as evidence of inflation easing, continued strong employment numbers and dovish Federal Reserve meetings in November and December led to the market pricing in 75 basis points of interest rate cuts by the Federal Reserve in 2024. The sharp rate rises, that led to the market sharply declining in 2022, brought the fed funds rate to a range of 5.25-5.5% as can be seen in the chart below.



The anticipation of rate cuts follows inflation data which reflected the personal consumption expenditures price index ex-food and energy falling below the federal reserve's target of 2%, for the first time since 2020. Equity markets quickly priced in a soft landing in November and December with most sectors of the market rallying. The US index was driven by the technology sector rising 17%, financials up 13% and Industrials up 12.5%. Energy was the biggest laggard, declining 8% and consumer staples and healthcare continued to lag the index, rising 5% and 6% respectively.

Quarterly top performers and detractors

Our top performers for the quarter included Expedia, Euronext, Stoneco and AFYA, which each added 1% to the portfolio. Our top detractors were Pfizer, Baidu and Woodside Petroleum.

Healthcare, China and Energy were the weakest performing sectors and regions in 2023 and it explains the weakness in Pfizer, Baidu and Woodside. In 2023 the Energy sector declined 4%, Consumer staples declined 3.3% and Healthcare was flat. China was one of the worst performing markets globally and declined 15%. Despite Baidu and Alibaba delivering strong quarterly results, the stock prices of these technology leaders have been swept up with the weak Hang Seng index. These are some of the cheapest technology leaders globally and trade at valuations 50-70% lower than US peers.

We have also been puzzled by the relatively low valuations of Expedia, Euronext, Stoneco and AFYA in 2023 and were pleased to see a rebound in the last quarter. These are very high-quality companies which still trade at very attractive valuations, and we will elaborate on each of them in more detail below.

Expedia

Expedia is a company that I have owned for over a decade. It has been in our fund at Profeta for the past couple of years. The company has been a consistent performer with a strong management team tripling its earnings over the past decade and maintaining its strong market position in online travel globally. Despite this consistent performance, the stock price has only doubled over the past ten years as the valuation has fallen from a price to earnings ratio of over 20x from 2012-2018 to only 12x 2024 today. This compares to peers such as Booking.com and Airbnb, which still trade above 20x. Airbnb emerged as a new competitor over the past decade and Booking.com has been a fierce competitor, but Expedia has done a commendable job continuing to grow in the US and internationally. They are expected to deliver 40% earnings per share growth in 2023 and 28% in 2024, which is quite impressive. In their third quarter result announced in November, Expedia delivered 9% revenue growth, 21% net income growth and 33% earnings per share growth.

While most people would know of the core Expedia brand and its online portal allowing you to book accommodation, flights and other related travel products, the company has evolved over the years to

include a variety of brands such as Vrbo, Hotels.com, Stayz, Wotif and Car Rentals.com on the business to consumer side. They have about two million alternative accommodation listings through Vrbo and one million hotel and other accommodation listings on their other brands. They also have a sizeable business to business division called Expedia Partner solutions to make travel services available through third party branded websites. Expedia has been working over the years to integrate all their brands on to one technology platform and unifying their loyalty programs into one global program called “One Key”. We are starting to see the benefits of Expedia’s investments in technology and marketing over the past few years. They are both helping to drive revenue growth as well as delivering operational efficiencies with margins improving. While I have been frustrated with Expedia’s lack of detail about each individual listing compared to booking.com such as the size of each room and individual pictures, I was pleasantly surprised to see these issues fixed over the past few months. From a consumer’s perspective, Expedia now has a best in class offering with its scale in number of listings and technology improvements.

Expedia is an owner-managed business, and the company is run by a proven management team. Barry Diller is the chairman and owns 27% of the voting power of the company. He has successfully steered the company for the past few decades and stepped in to steer the company as an executive chairman during the 2020 covid period. Peter Kern has been Expedia’s chief executive officer since 2020 and has been a director of the company since it was listed in 1999. We have been impressed with the improvements Peter has made for the company over the past three years and expect the company to continue to grow profitably in the United States and international markets. Given that the stock price has not reflected the increase in the value of the company as earnings continue to grow quickly, the board has prudently been buying back shares. They recently approved a $5 billion dollar share buyback. We love investing in leading online businesses that generate strong free cashflow and have a savvy board that allocate capital effectively to maximise shareholder returns.

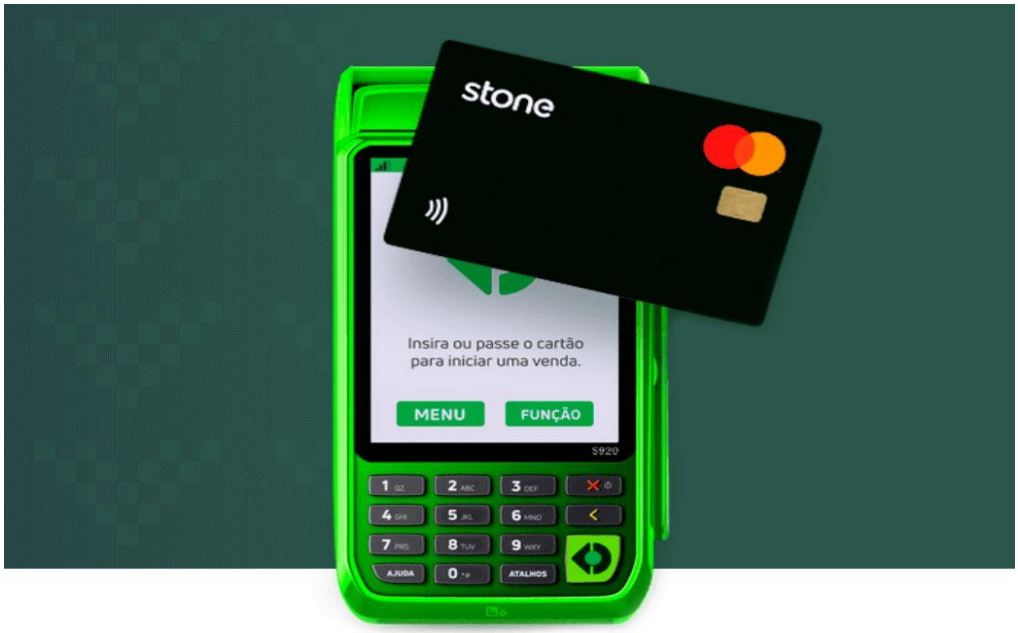
Stoneco

Stoneco is a leading financial services and technology provider in Brazil. We have been following the company since its listing in 2018 and were provided with a wonderful opportunity to buy shares in the company this quarter. Stoneco started off as a merchant acquirer in the financial payments sector and quickly took market share from the incumbents in the small to medium business market with their unique hub distribution offering providing first class customer service to Brazilian customers. Since the IPO, they have evolved their technology into an advanced cloud-based technology platform offering terminals to connect and process payments for merchants as well as software that both serves as a

customer relationship management system as well as software that helps the merchant to manage their own business, following the acquisition of Linx. They now serve over 2.6 million clients in Brazil out of the 13.9 million micro and small businesses in Brazil.

Stoneco is a growth stock currently trading at a value price. Since the IPO in 2018 the company has increased revenue by more than five times and earnings per share has tripled. Yet the share price is half of what it was on listing in 2018. Over this period they have taken share in the SMB market, launched new software products, entered into the banking market offering deposits, credit cards and loans and have recently entered the micro merchant market with their Ton product, which is quickly taking market share. At the company's investor day in November, they set out a plan which should deliver 31% net income growth per annum from 2024-2027. We expect to be happy long-term shareholders in the company.

Stoneco is led by an entrepreneurial management team. It was founded by its Chairman, Andre Street, in 2000 who is a fintech entrepreneur. Prior to its IPO, it attracted an investment by Berskhire Hathaway, which still owns 4% of the company. Pedro Zinner is the chief executive officer and has more than 25 years of experience in strategy, risk management and finance. Like Expedia, the company see their stock as undervalued and have been buying back shares. In November they announced an additional R$1 billion share buyback program.



Euronext and AFYA

Euronext and AFYA have been core holdings in our portfolio over the past year. We have written about them in previous newsletters so will just provide a brief update here.

AFYA continues to deliver consistent earnings growth each quarter. For the nine months to the end of September 2023, revenue grew 24.4% and EBITDA grew 21.8%. The number of medical students at their medical schools increased 20% to over 21,000 and total tuition fees increased 24%. AFYA's digital services division has over 285,000 monthly active physicians and medical students. The revenue growth from this division is also robust growing 22%. They have seen an expansion of the active payers in their Whitebook and Iclinic software products and a strong acceleration in the growth of their B2B business, selling technology services into pharmaceutical and medical companies. Despite the stock doubling since our visit to their headquarters in Sao Paolo in March, it still only trades on a PE of 13x, while earnings per share are expected to grow 40% in 2024.

Euronext delivered a strong 3Q23 result with revenue growth of 4%, net income growth of 13% and earnings per share growth of 14%. Their technology solutions division and advanced data services

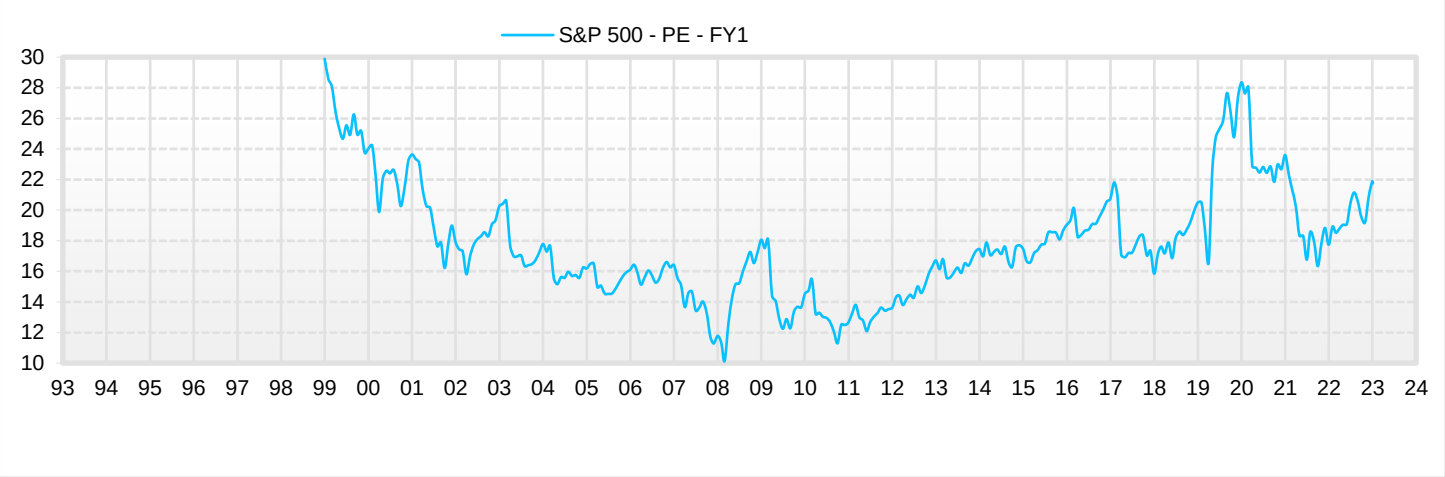
division grew 5%, benefiting from the internalisation of colocation services. Custody and Settlement grew 6.5% in constant currency. Non-volume related revenue has increased to 60% of total revenue, up from 53% a year ago. These businesses offset flat trading revenue due to a low volatility environment in cash trading. Euronext maintained their market leading position in cash equities in their European markets with their market share averaging 66.5%. The company is on track to deliver its targeted synergies from the Borsa Italiana acquisition. They have completed two out of the three phases in migrating Borsa Italiana markets to their Optiq platform and will complete the third phase in 2024 as they migrate derivatives instruments. The company has also bought back 60% of their 200 million Euro share repurchase program, announced in late July. Euronext has rallied 16% over the past few months but still only trades on a PE of 13x for a high-quality exchange operator with leading market positions in duopoly markets. We are happy long-term shareholders of this European franchise.

2023 market review

While the MSCI World Index, driven by the US equity market, which represents 70% of the index, has enjoyed a roller coaster ride over the past few years, largely driven by interest rates and recessionary fears, our funds have had a much less volatile ride. From the first of January 2022 to the 31st of December 2023, the S&P500 actually stayed flat from a starting point of 4766 to close two years later at 4770. In 2022 the S&P500 declined 19.4% and then had to rebound 24% in 2023 just to regain the losses from the previous year. This can be seen in the chart below.

The Profeta Global Investments fund only declined 3% in 2022 and appreciated more than the S&P500 over a two-year period. The Profeta International Fund had the luxury of starting mid-way through 2022 and has seen a stellar 26% return since this inception. In 2023 it delivered a return of 15.5%, while carrying on average 15% cash. While we did not rise as much as the MSCI world index in 2023, we did not have to recover heavy losses that the index did in 2022. We were surprised at the extent of the rebound in the US's S&P500 index which has seen a return to elevated levels of

valuations. This can be seen in the chart below, with the S&P500's PE rebounding well above long term averages despite interest rates remaining well above the average of the past twenty years.



The Nasdaq Composite, which is largely a technology index had greater levels of volatility over the past two years. It declined 33% in 2022 and then appreciated 43% in 2023. But mathematically this still does not get you back to the levels reached in 2021. We have seen many technology heavy funds touting their success in 2023 but ignoring their large drawdown in 2022.

Given our concerns about the elevated valuations in the US market, our exposure to the US is only 17%. Our portfolio is balanced around the world with 20% in Australia, 11.5% in the UK, 16.5% in the rest of Europe, 12% in Asia and 10% in Latin America. We have an overweight to small capitalisation companies given the relative attractive valuations that they are trading at. We have seen a wave of selling of small capitalisation stocks and most of the rebound in 2023 was in larger companies in the US, so there are still lots of opportunities for those willing to travel the world in search of hidden gems. This is what we love doing at Profeta.

I wish you all a healthy, happy and prosperous new year!

Your sincerely,

GARRY LAURENCE

	Portfolio weight	Stocks
Fintech/Exchanges	18%	Euronext
Technology	21%	Expedia, Rightmove
Consumer Staples	11%	Nomad Foods
Entertainment & leisure	7%	Bloomberry Resorts
Consumer Discretionary	8.8%	Alibaba
Industrials	7%	Siemens
Professional services	5%	Visional
Healthcare	5.6%	AFYA
Energy & Mining	3%	Woodside Petroleum
Banks	2%	HDFC Bank
Cash	12%	

Regional Breakdown	% of Portfolio
North America	17
Europe	28.5
Australia	20
Asia	12
Latin America	10
Cash	12

Profeta Global Share Fund	
Unit price $ (31 December)	1.26
1 month return (net)	+3.5%
3-month return (net)	+8%
6-month return (net)	+6.3%
Financial YTD (net)	+6.3%
12-month return (net)	+15.5%
Since Inception (net)	+26%

FX exposure	
AUD	45%
USD	23.4%
Euro	10.5 %
GBP	10%
JPY	6.5%
PHP	2%
SEK	2.3%

Portfolio Characteristics	Profeta
PE (FY1)	14.5
Cashflow Return on Invested capital	29%
Net debt to EBITDA	0.8
Portfolio beta	0.7