March 2024 Update

PROFETA INVESTMENTS

Profeta International Fund

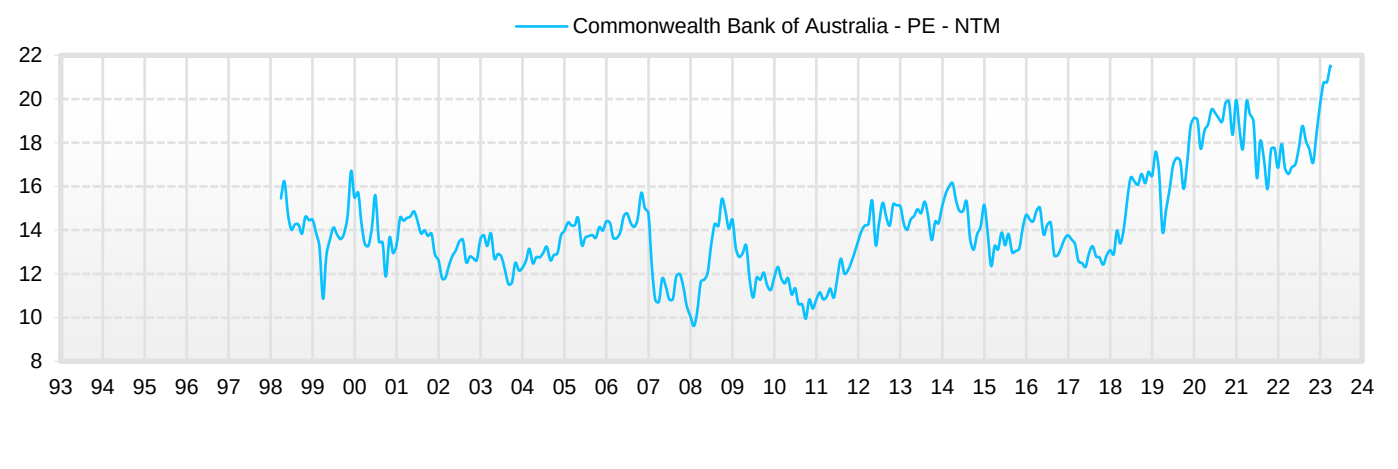
March 2024

Dear fellow investors,

Our fund appreciated 4.1% in March as some of our stocks such as Kaspi and Alight benefitted from corporate actions with Kaspi relisting on the Nasdaq and Alight divesting a segment for a good price. Equity markets continued to grind higher for the month with Australia's All ordinaries up 2.4% and the MSCI Index up 3% in USD.

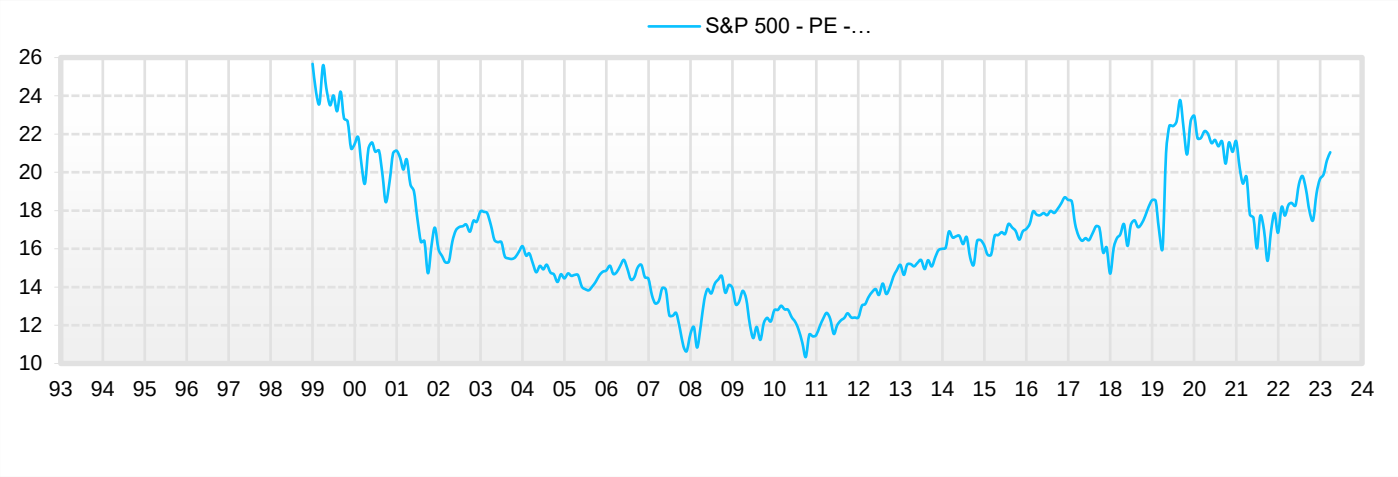
For the quarter, our fund appreciated 6.2% with small capitalisation stocks being both the largest contributors and largest detractors to our portfolio. This is because half of our portfolio is invested in small capitalisation companies with market capitalisations below $15 billion. Equity markets over the past year have been driven by exchange traded fund inflows and factor investing leading to increasing valuations for the largest companies in the world, such as the magnificent seven in the United States and Commonwealth Bank in Australia. Benchmark orientated funds also find themselves forced to own these companies despite seeing the fundamental reasons why they are overvalued. Just as a local example, the Commonwealth Bank of Australia is seeing its earnings decline this year and has not grown its earnings since 2017, yet its valuation has increased from a PE of 14x in 2017 to 21x, making it one of the most expensive banks in the world, even though it doesn't have a growth profile. By contrast, we have been accumulating shares in HDFC Bank in India, which is one of the largest private banks in India, growing its earnings at 15% per annum and only trading on a PE of 16x.

This fascination in index and ETF investing does have its benefits in order to get a portfolio exposure, however I think its benefits are now being offset by the fact that these investors are getting an over exposure to overvalued large capitalisation stocks. I would go as far to say this is becoming an index hugging bubble. You can see CBA's forward PE in the chart below.



To use the US's S&P 500 as an example, the magnificent seven (Microsoft, Nvidia, Apple, Alphabet, Meta, Amazon, Tesla) make up close to 30% of the index. They also represent a big portion of technology ETFs and Nasdaq ETFs, so money flowing into these index ETFs continue to push these stocks up, irrespective of whether the valuations make sense or not. This explains why the valuation of the S&P 500 is getting close to all time highs, at 21x forward earnings. We tend to shy away from chasing momentum and intend try to find high quality

growing companies that are mispriced by equity markets. At the moment this tends to be in smaller capitalisation companies around the world.



Small capitalisation value stocks have actually lagged the S&P500's euphoric rise this year, with the Russell 2000 value index up 1% calendar year to date, but the valuations of these companies are still quite attractive at only 12x. These are the stocks that we have been investing in recently, buying into an exciting company called Alight. We have also been finding similar opportunities in small caps in Europe, Asia and Australia.

The euphoria and speculation that we saw in 2021 seems to be creeping into markets again in the US. Meme stocks are on the rise again and Trump Media is a great example of this rampant speculation. While the company only generates $3.6 million of revenue and loses money, it is now being valued at a market value of $9 billion, similar to Reddit, which generates over $800 million of revenue and we think Reddit is overvalued!

A Minnow in the Sea

Despite its lofty market value, Trump Media's business is tiny compared with rivals.

Company / Ticker	Recent Price	Market Value (billion)	Revenue (million)**	Price/Sales
Trump Media & Technology Group / DJT	$66.22	$9.0	$3.6	2,512
Meta Platforms / META	493.86	1,259	134,902	9.3
Pinterest / PINS	34.88	23.7	3,055	7.8
Reddit / RDDT	57.75	9.4	804	11.7
Snap / SNAP	11.45	18.9	4,606	4.1
X (formerly Twitter)*	54.20	44.0	5,229	8.4

*Twitter data as of Oct. 2022 when it was taken private at $54.20 per share; **Trailing 12-month revenue of reported financials

Sources: Bloomberg, company reports

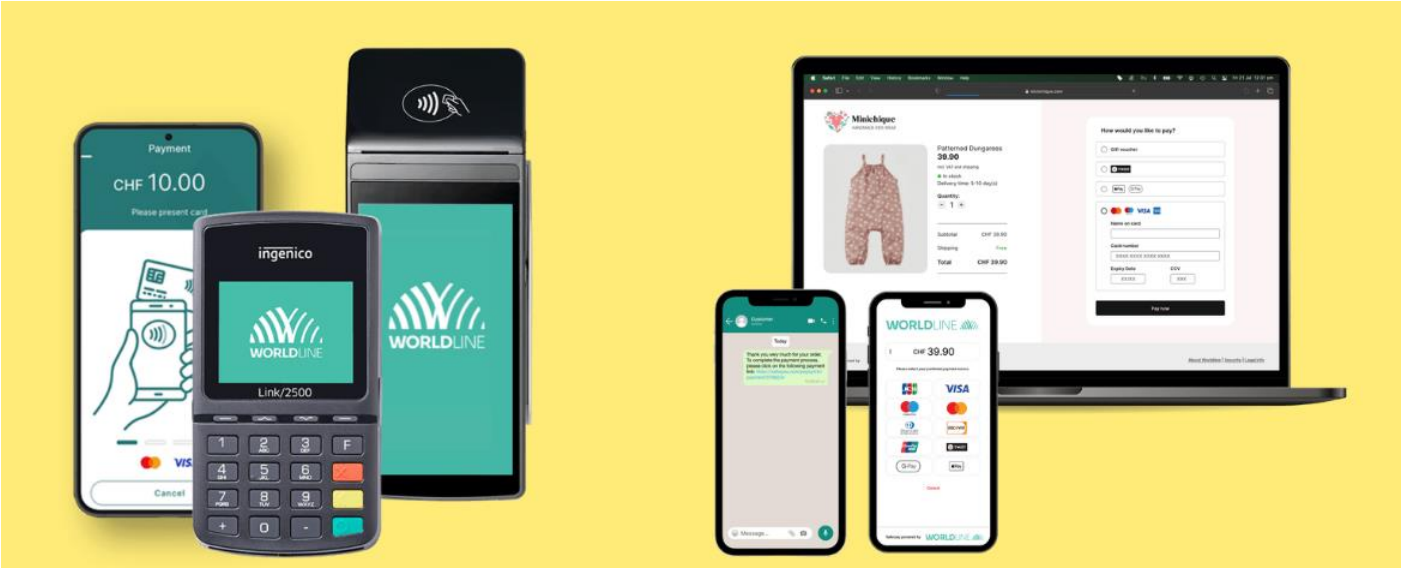
Quarterly top performers and detractors

Our top performers for the quarter were Nomad Foods, Kaspi and Euronext. While our key detractors were Worldline, AFYA and Baidu.

Euronext delivered a strong 4Q23 result with revenue growth of 9% in constant currencies and profit growth of 25%. Their non trading businesses of listings, clearing and settlements delivered high single digit revenue growth. Their trading revenue also saw a pickup in growth to 8.5%, driven by fixed income trading, which grew 39%. The Borsa Italiana acquisition delivered an incremental 26 million euro in synergies in the quarter and is on track to deliver another 40 million euro of synergies in 2024.

Kaspi delivered a very strong full year 2023 result with revenue growth of 51%, net income growth of 44% and earnings per share growth of 45%. Their marketplace business delivered revenue growth of 87% driven by e-commerce growth and the acceleration of new product verticals such as travel and e-grocery. The payments business grew revenue by 44% and their online banking business grew revenue by 38%. Despite this rapid growth in their digital businesses in emerging eastern European markets, the stock still only trades on a PE of 11x. The company has recently changed its listing from London to the Nasdaq and we expect this to support the stock as new buyers discover this mispriced growth company.

Worldline



Worldline is an example of one of the many small cap holdings we have been accumulating in Europe. Worldline is a fintech based in France with a market capitalisation of 3 billion euro. This is well below the 20 billion euro it was trading at just a few years ago. We have watched the company for the past decade and always felt that Wordline is a high-quality company but the valuation was never attractive enough for us. Now it is!

Worldline is a leading merchant acquirer and one of the main online payment services providers in Europe. It was founded in 1990 and through a combination of organic growth and acquisitions it holds leading market positions in Switzerland, Austria, Luxembourg, Belgium, the Netherlands, Germany, Latvia and Lithuania, and is present in over 40 countries. It is also a major merchant acquirer in Australia following its joint venture with ANZ bank in 2022. The joint venture has 20% share of transaction volumes processed in Australia. It provides payment devices and software covering the full retail value chain whether it be online or in store. The company also provides payment solutions and processing for financial institutions for payment and card related transactions.

Their market share in merchant acquiring in Europe is about 15%, with leading market positions in Germany, Belgium and Switzerland of about 45%. Their growth in merchant services is driven by winning market share off the major banks, which still have more than 50% share. Organic growth is also driven by retail sales growth and a continued shift from cash to card, where countries like Greece and Italy are still well behind developed markets in this shift. Wordline recently announced a joint venture with Credit Agricole to grow their share in France, which should deliver good growth in their home market.

The company's share price witnessed a precipitous fall in October 2023 after it was announced that following a review by the German regulator, Bafin, the company decided to stop doing business with any merchants whose transactions looked suspicious. This is expected to cost the company 130 million in revenue. At the same time of the announcement, the company announced a cost saving program, which will cost the company 250 million euro, mostly in 2024 and focused around redundancies, which is expected to save the company 200 million. The market got spooked by this hit to revenue and free cashflow and the stock fell 60% in one day. We have been accumulating the stock which now trades on a PE of 5.5x and a free cashflow yield of 10% this year and 15% next year. This is for a company that is expected to grow earnings per share by 9% this year and 15% next year and still commands leading market positions in many global countries. Credit Agricole, bought a 7% stake in Worldline in January 2024, reflecting a similar view that we have that this is a unique opportunity to acquire a market leader at a deeply discounted valuation.

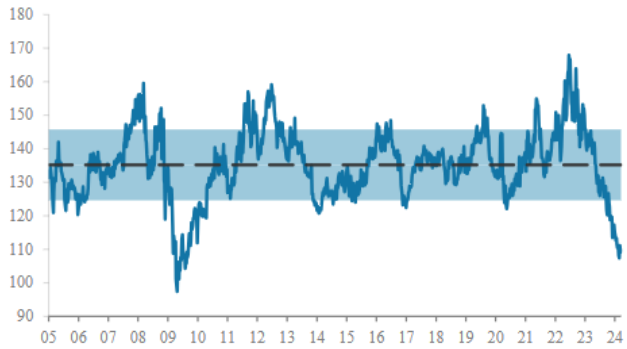
Wordline is led by Gilles Grapinet, who has been its Chief Executive Officer since July 2013. Over this time he has quadrupled the company's revenues through organic growth as well as acquisitions that included Six Payments Services in Switzerland and Ingenico. Six Group is the major shareholder, owning 10.5% of the company.

We don't expect the company to return to the peak multiple of 40x earnings reached in 2020 but even a market multiple of 16x would see the stock triple from current levels.

Consumer Staples

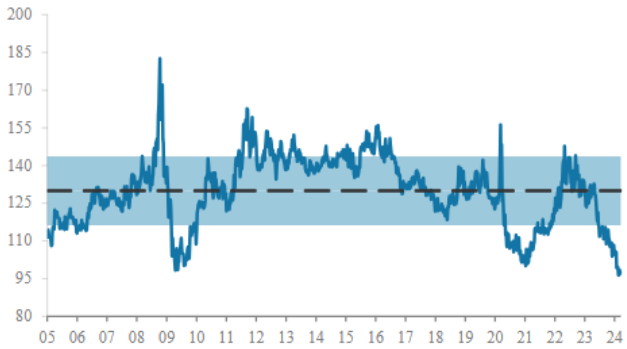
Despite a rebounding equity market over the past year, defensive sectors such as the consumer staples sector and utilities have been flat. We have seen a significant de-rating in small capitalised consumer staples stocks which have not seen the same inflows as cyclical sectors. Having invested in global equities markets for over 20 years, I have never seen high quality consumer brands trading at such discounted valuations. Normally these brands trade at premiums to the market due to the predictability of their earning streams irrespective of economic conditions. However, over the past few years, this premium has turned into a steep discount. In the charts below you can see that global food producers are now trading at discounts to the MSCI World index PE multiple, which rarely occurred over the past twenty years.

Exhibit 22: Global Beverages vs. MSCI World



Source: Thomson Reuters, Morgan Stanley Research

Exhibit 23: Global Food Producers vs. MSCI World



Source: Thomson Reuters, Morgan Stanley Research

We now have 18% of our portfolio invested in a variety of leading brands across the world. We have investments in leading beer brands in Latin America, Japan and Australia from our investments in Ambev and Asahi. We also have investments in global condiments brands like Heinz, frozen foods brands like Birds Eye and confectionary brands in the UK, central Europe and Scandinavia from our investments in Nomad Foods, Kraft Heinz and Cloetta. All these investments are trading at half the earnings multiples they were trading at ten years ago and provide us with a unique opportunity to buy companies which we view as having limited downside and over 50% upside, irrespective of what happens to global economies.

Nomad Foods was one of our best performers in the quarter and despite its 29% increase in share price since our investment in November last year, the stock still only trades on a PE of 10x. We have been investors in the

company over the past ten years and were able to take advantage of share price weakness last year to take a position in the company for Profeta clients. Nomad Foods delivered a good quarterly result and the impacts of the inflationary environment on their business seem to be coming to an end. Their frozen food brands in Europe are performing well and the company guided for 9-12% earnings per share growth in 2024 with 3-4% organic revenue growth and margin improvement. We know we are investing with a safe pair of hands as Stefan Descheemaeker, Nomad's CEO, and Noam Gottesman , Nomad's Chairman, have done a commendable job over the years building a European foods powerhouse through both organic growth and acquisitions.

Asahi Group

Asahi Group is also a company that we have followed for many years and have recently accumulated a position. While most people know of the Japanese Asahi beer brand, the Asahi group is much more than that, following numerous acquisitions over the years. The business today is a truly global business with 40% of earnings derived from Japan, 35% from Oceania (predominantly Australia) and over 20% from Europe.

Asahi Group has a long history, established in 1889 in Japan as Osaka Breweries. It is now the largest brewer in Japan with over 40% market share of the beer market. Asahi Super Dry is their flagship brand in Japan and growth has been driven by premiumisation as well as the launch of new brands such as Asahi Zero, which is their non-alcoholic beer brand that is higher profit and growing quickly.

Asahi has been quite acquisitive in Oceania over the years, acquiring Schweppes Australia in 2009, Mountain Goat and Cricketers Arms in 2015 and then making one of its largest acquisitions acquiring Carlton and United Breweries for $16 billion in 2020. This gave the group around 50% market share of the Australian beer market with iconic brands such as VB, Carlton and Great Northern. The Oceania business is expected to grow revenue by 7% in 2024 and profits by 10%, with growth driven by Great Northern, a shift to premiumisation with growth in their craft beers such as Balter and continued growth in their international brands such as Asahi Super Dry and Peroni.

Asahi's European business was also built through acquisitions with the group initially buying Grolsch Brewery and Peroni Brewery. In 2016 they proceeded to acquire SABMiller's Eastern European businesses in Poland, Czech Republic and Hungary, giving them brands such as Pilsner Urquell. By combining these premium brands with the Asahi brand, their European business has grown revenue at 10% last year and is expected to grow by 7.5% in 2024.

Asahi has managed to nearly triple its earnings per share over the past decade, yet its Price to earnings ratio has fallen from 25x in 2014 to 14x currently. This is similar to how global beverage brands have significantly de-rated over the past five years. This is despite owning market leading brands that have high margins, generate strong free cashflow with high returns on capital. While Japanese and global investors have been chasing semiconductor stocks and cyclical companies in Japan over the past year, they seem to have neglected this successful global beverage business.

Your sincerely,

GARRY LAURENCE

Profeta International Fund	
Unit price $ (31 December)	1.34
1 month return (net)	+4.1%
3-month return (net)	+6.2%
6-month return (net)	+14.6%
Financial YTD (net)	+13.2%
12-month return (net)	+16.9%
Since Inception (net)	+34%

**Inception 1July 2022*

FX exposure	
AUD	45%
USD	23.4%
Euro	10 %
GBP	10%
JPY	4.5%
SEK	5%
CAD	1.5%

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

Regional Breakdown	% of Portfolio
North America	19
Europe	33.5
Australia	16
Asia	13
Latin America	6.5
Cash	10