September 2024 Update

PROFETA INVESTMENTS

Profeta International Fund

September 2024

Dear fellow investors,

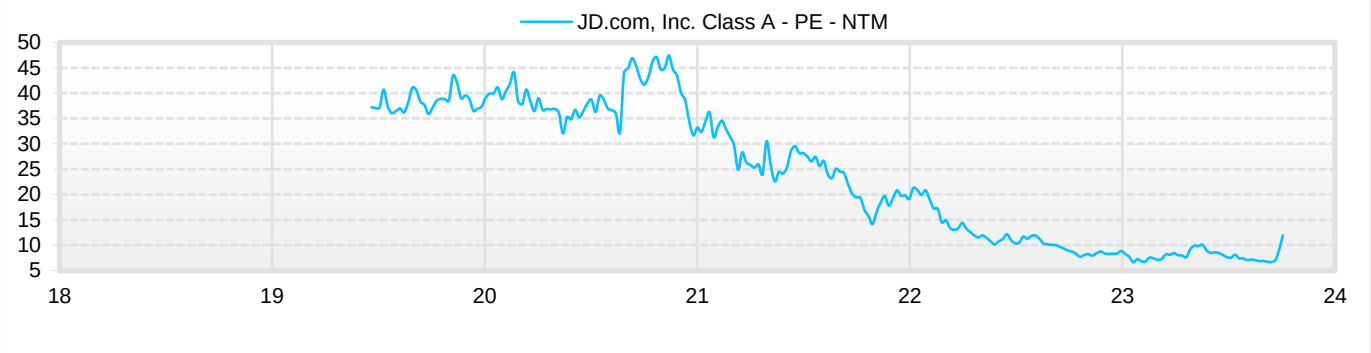
Our fund appreciated 2.9% in the September quarter. Despite some volatility in global markets in August and September, monetary policy stimulus in the US, Europe and Asia saw a rally in these markets during September. Chinese stocks saw a sharp rally in September as China's CSI Index and the Hong Kong Indices entered a bull market with a 20% rally just in the month of September. The rally in China was driven by a sweeping stimulus package which included interest rate cuts, freeing up of cash for banks as well as liquidity support for stocks. We have been sitting patiently in a number of deeply discounted shares listed in Hong Kong. We are happy to see this sharp rally but believe there is significantly more upside with companies like JD.com still only trading on a PE of 10x, after a 50% rally this month. The Australian dollar also started to rally in September, rising above 69c to the USD, levels not seen since 2022. We believe that Asian equities as well as the Australian dollar are still below fair value, and the last month has been a wake-up call to how quickly markets can move.

We would like to welcome Jared Tilley to the Profeta team. Jared is a small capitalisation stock investment specialist. Please give Jared a warm welcome if you hear from him!

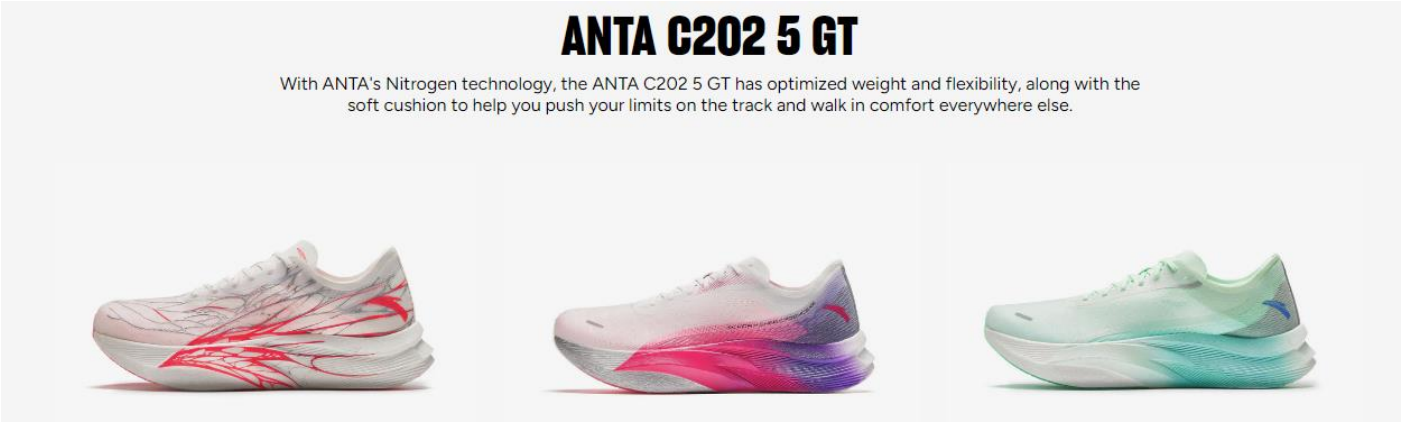
Quarterly performance

Our top performers for the quarter included JD.com, Nomad Foods and Anta Sports. Our largest detractors were Worldline, Enquest and Nerdy.

In our June quarterly newsletter we highlighted our technology investments in Asia, with a stock piece on JD.com. While JD has more than doubled its earnings per share over the past 4 years, its stock price dropped 70% over that period, giving us the opportunity to buy a high-quality company at a deeply depressed price. Over the past month, JD.com appreciated 50% with its valuation rising from a PE of 6.5x to 10x. This is still significantly below the levels of global technology companies, and we think that there is still significant upside in our position in JD.com.



While there has not been any stock specific news, the Chinese stimulus package has switched the flow of funds flooding out of China to flooding back into China. We also recently bought a position in Anta Sports, one of China's leading sports shoe and sportswear brands. I have been following the company over the past fifteen years and have visited the company several times in China. Anta Sports is a home-grown hero, winning market share in the sportswear category, much like the way Nike grew from the ground up many years ago.



Worldline has been a disappointing investment over the past year. While we invested in the company thinking that we were taking advantage of a market over reaction to an earnings downgrade, the company has proceeded to decrease sales and earnings forecasts three times over the past six months. Despite an expectation of continued revenue growth this year, even after all these downgrades and a cost cutting initiative that will improve margins next year, the stock market has been savage to the shares with most investors shooting first and asking questions later. The board decided to replace the current CEO, Gilles Grapinet, alongside the latest earnings downgrade, which led to the recent drop in the share price. I met with Marc-Henri Desportes, the current acting CEO, in Paris. He was adamant that the company is still signing up new merchants in their core European markets, but the economy, especially for retailers, is slowing in Europe. This is evident by the results of retailers especially for luxury brands like Gucci. After pressing Marc Henri several times, he did admit that the company is losing share in Asia Pacific, especially in Australia. We will continue to watch the company closely to see who they appoint as the new CEO. We have reduced our position following the meeting in Paris.

I also met with Jonathan Copus, Enquest's Chief Financial Officer, while in London. While the oil price has been falling recently and there continues to be more sellers than buyers of Enquest, we continue to be confident in Enquest's assets, management team and the significant discount to fair value that the shares are trading at. It feels like Chinese stocks a few months ago! Enquest's core energy assets in the North Sea and Malaysia continue to perform with circa 150m pounds of free cashflow expected for a company with a market capitalisation of 200m pounds. The real opportunity in Enquest is the value of their tax losses, which will be unlocked once they complete the next M&A transaction. Management are conservative in their approach to M&A and we are waiting patiently for this unrealised value to be extracted.

Uncovering high quality businesses in Europe

I travelled to Europe this month, visiting most of our European investments. Nomad Foods, Euronext and Rightmove are some of our largest positions and we continue to be impressed with the quality of these businesses and the direction the management teams are taking the companies. I met with thirty companies including several of our investments in Brazil at a Latin America conference.

I had breakfast in London with Stefan Descheemaeker, Nomad Food's Chief Executive Officer, and one of its founders. Stefan founded the company with Martin Franklin and Noam Gottesman in 2014 and have built it up to being the leading frozen foods business in Europe. Over the past decade Stefan has executed on building out a market leader in frozen fish, vegetables and poultry. The business has doubled earnings over the past decade and is expected to continue to grow earnings per share at a double-digit rate. The United Kingdom is their biggest market with about 1 billion of sales, led by the Birds Eye brand. They have been winning back market share off private label this year, following some share loss in the last few years as Nomad decided to hike prices aggressively in order to maintain margins, during this period of high inflation. Now inflation is coming down and Nomad is reinvesting some of these gains into more advertising and promotions. The business is also growing well in Italy and is just launching a new poultry product range in Germany. They also own Ledo, the leading ice cream brand in Croatia, which has 70% market share. They have started selling Ledo ice cream in Austria, where the brand has strong recognition amongst consumers.

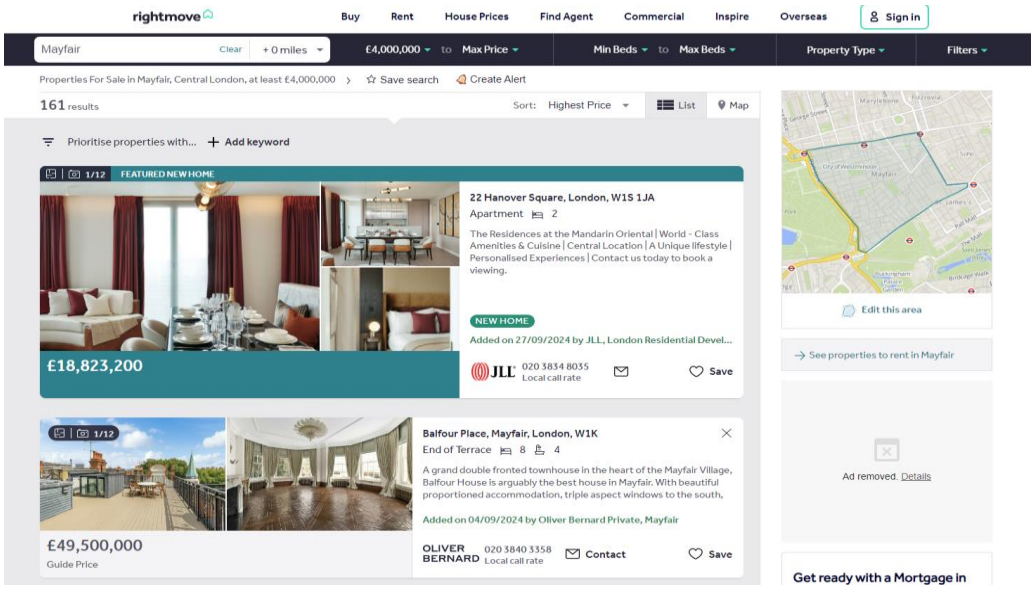
We have been following Nomad Foods since it listed in 2014 and have been impressed by Stefan and the team's execution in the food industry over this time. We have also been impressed with the capital management steered by the other two founders, Martin Franklin and Noam Gottlesman. We like to invest in owner managed businesses as management are aligned with shareholders. In this case, we have this benefit as the founders still own 17% of the company, but we also have highly experienced billionaire financiers in Noam and Martin making the capital decisions. While Nomad Foods is currently being mispriced by the market, the board is more likely to use its over $300 million in free cashflow each year to buyback shares. We are happy long-term holders of this company.

NOMAD FOODS BRANDS

After several days of meetings in London, I jumped on a train to Paris to meet another one of our largest investments, Euronext. I met with Georgio Modica, Euronext's Chief Financial Officer (CFO). Georgio has been the CFO at Euronext for the past eight years, over which time earnings per share have more than doubled. Alongside Stéphane Boujnah, the CEO, the management team and board have done a tremendous job in consolidating the European exchanges industry and building out the business both organically and through acquisitions. Their recent acquisition of Bolsa Italiana has been a success with most of the cost synergies delivered and all the clearing from London clearing house migrated to their own platform. This has given them more flexibility to launch new derivatives products and Georgio is excited about the outlook for organic growth. Their commodities derivatives are seeing strong growth with a large increase in the number of professional trading members. They are also set to launch power derivatives in the Nordics. In the last quarter fixed income, FX trading and power trading saw greater than 30% growth and Georgio expects continued strong growth out of fixed income and power trading.

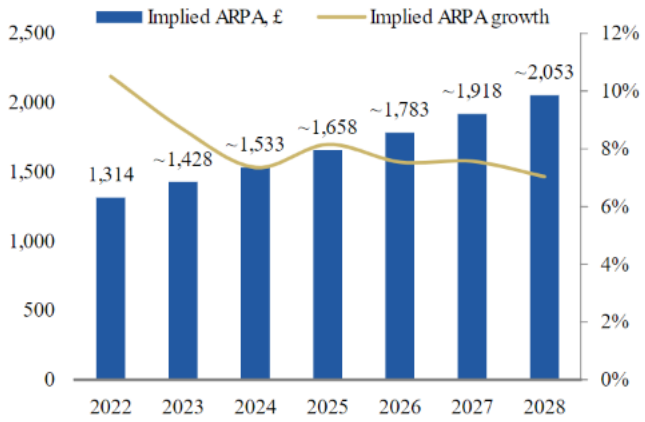
We invested in Euronext last year and have been pleased to see a 50% appreciation in the share price since our investment. We expect to be holders of the company for many years to come.

Rightmove



While I was in London, Rightmove received a takeover offer from REA, Australia's leading real estate portal. I have been following the global real estate portals closely over the past twenty years and we invested in Rightmove last year. Rightmove was established in 2000 and has grown into the UK's leading online digital property advertising and information portal, capturing 86% of all time spent on property portals in the UK. Most real estate agents are customers of Rightmove, which has about 19,000 customers. The real driver of their growth going forward will be the growth of the average revenue per agent (ARPA) as well as growth in their new product verticals in mortgages, rentals and commercial listings.

The table below highlights the growth in ARPA over the past few years as well as the projected growth, which has trended around the high single digits range.



We believe that there is potentially a higher rate of ARPA growth that can be achieved if Rightmove shifted towards a payment model which encouraged the homeowners to pay for listings, rather than the estate agents, and an increased emphasis on depth products and payment for a higher listing and featured listings, similar to the REA model. While REA stopped publishing its average revenue per listing, we think that it is probably double the level that Rightmove is currently charging, as it was double Righmove's level in 2014, the last time the data was published. Classifieds advertising as a % of the real estate industry revenues in the UK has dropped from 11% in 2007 to 7.5% this year. This is despite agents still allocating 15% of their revenues to marketing. We see the potential for Rightmove to increase prices to win back this share of advertising.

Rightmove appointed Johan Svanstrom as its new CEO in March 2023, and we think Johan has taken all the right steps to reposition the company for accelerated earnings growth. Johan is a seasoned digital executive, having spent 14 years at Expedia managing a number of their brands across Asia and Europe. In his first year at Rightmove, he has accelerated investments in technology and products, which has had a short-term impact on margins, but we expect this to accelerate revenue and earnings growth going forward. They have been building out their rental services product, whereby a renter can fill out information about themselves and then engage with the real estate agent to book an appointment. Tenants are able to search for a rental then get a reference and insurance. Scout24 in Germany has built out a meaningful revenue stream from rentals and we expect Rightmove to do the same over the medium term. Their mortgage business is also growing quickly as they look to win share off price comparison websites. They have been connecting estate agent brokers to the online application journey and expect revenues to accelerate in 2025. Finally, their commercial real estate advertising product is growing at a double-digit rate. They are the leading commercial properties portal but are five years behind their residential portal in terms of monetization.

We think that REA/Newscorp's attempt to takeover Rightmove was opportunistic and despite their fourth offer, valuing the business at 7.75 pounds, well above current levels of about 6 pounds, this still significantly undervalues the upside potential of the company over the next five to ten years. REA trades at a significantly higher multiple to Rightmove, as does some of its European peers like Hemnet. We expect Rightmove to see both strong earnings growth and valuation multiple appreciation over the coming years.

Your sincerely,

GARRY LAURENCE

Profeta International Fund	
Unit price $ (30 September)	1.334
1 month return (net)	+1.2%
3-month return (net)	+2.9%
6-month return (net)	+0%
Calendar YTD (net)	+6%
12-month return (net)	+14.1%
2 year (net) p.a.	+12%
Since Inception (net) p.a.	+15%

**Inception 1July 2022*

FX exposure	
AUD	30%
USD	36%
Euro	8%
GBP	11%
JPY	4%
HKD	11%

Portfolio Characteristics	Profeta
PE (FY1)	14.5
Cashflow Return on Invested capital	29%
Net debt to EBITDA	0.8
Portfolio beta	0.6

Regional Breakdown	
	% of Portfolio
North America	25
Europe	27
Australia	6
Asia	15
Latin America	13
Cash	14