December 2024 Update

PROFETA INVESTMENTS

Profeta International Fund

December 2024

Dear fellow investors,

Our fund appreciated 3.4% in December. This is in stark contrast to the US's S&P500 which declined 2.5% and Australia's All Ordinaries, which declined 3.2%. Our fund is highly uncorrelated to major indices due to our concentrated positions in smaller capitalised companies around the world. While we think that there are overinflated valuations in some of the largest companies in the world, any correction in these securities and indices should not really impact our portfolio of quality, growing companies, trading at attractive valuations.

US and global markets gave back some of the performance generated in the month of November, following Donald Trump's election. The market continues to be volatile as the market places bets on what Donald Trump might do. He has threatened significant tariffs on imports from Mexico, Canada, China and Europe. Capital flows have moved to withdraw capital from these international markets back into the US, leading to a surge in the US dollar versus most currencies since October. The US market has also outperformed international markets as a result. However, the fundamentals of companies operating in these international markets have not changed. Their valuations have dropped, and the investments have become more attractive. As Jamie Dimon, the CEO of JP Morgan recently said, you need to read Trump's book "The Art of the deal" to understand how he negotiates. Most recently the Washington Post reported that Trump's aides were exploring tariff plans that would only cover certain sectors deemed critical to national or economic security. What he actually does is anyone's guess, but what we do know is that he will continue to use tariff threats as a bargaining tool to get other countries to follow his agenda. We have taken the opportunity to top up some of our positions in Latin America, Asia and Europe, which have been sold off following Trump's election. We don't think that tariffs will have a major impact on the operating earnings of these businesses, which are focused on selling goods and services in their domestic economies, like JD.com in China and XP in Brazil.

Performance

Our fund appreciated 3.4% for the month, 7.6% for the quarter and 14% for the calendar year.

The largest contributors to the fund in the quarter were Expedia, Direct Line and Alphabet. The largest detractors to the fund were MGM China and Pagseguro.

Our investments in Expedia and Alphabet performed well. Expedia has been winning back market share and while the stock has appreciated nicely this year, it still trades below the market multiple at only 13x FY25, compared to the S&P500 at 21.6x. Alphabet bounced back this quarter following concerns about its position in the Artificial Intelligence race during the middle of the year. The shares rallied in December following the release of their new generation chip, Willow, which helped overcome a key challenge in quantum computing.

Direct Line, one of the UK's leading motor and home insurers, received an increased takeover offer from Aviva. The initial offer of 2.50 pounds, a 45% premium to the share price, was initially rejected by the board, but a subsequent offer of 2.75 pounds has been accepted by the board. Direct Line recently appointed Adam Winslow as its managing director, who was previously the CEO of Aviva UK and prior to that the CEO of Global Life Insurance at AIG. Adam has implemented a program to cut out 100 million pounds of costs over the next year. This, on top of the substantial price increases seen over the past few years, are expected to see the group's insurance margin significantly improved to a targeted 13% by 2026. We also expect motor volumes to start growing again as the group has decided to put their core Direct Line brand onto comparison sites for the first

time. We think that Aviva has opportunistically decided to bid for the company, before we see the benefits of these initiatives. I spoke to the company a day before the bid was announced and am disappointed that we did not have time to accumulate more shares.

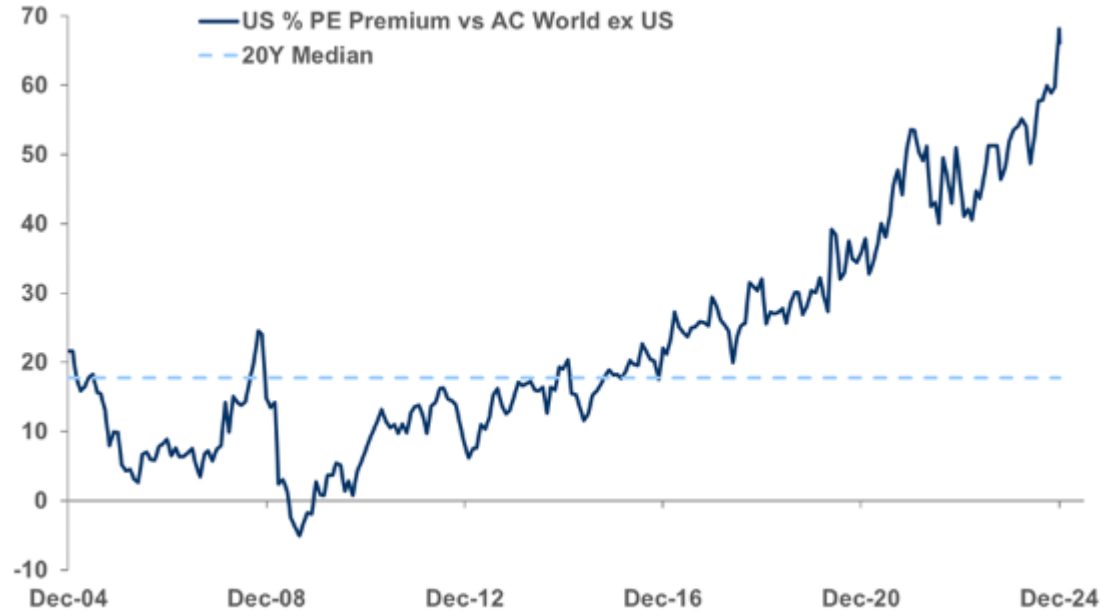
Our largest detractors for the quarter were our exposures in emerging markets as fears about Trump's tariffs saw a sell-off in most of these equity markets and currencies. MGM China and Pagseguro continue to perform well fundamentally with their earnings growing well in their domestic currencies.

While the highly concentrated S&P500 rallied 23% this year, the S&P500 equal weighted index only rose 10.9% and the Russell 200 value index was up 5.7%. This shows how a handful of US stocks have been driving the index as their valuations have increased due to money chasing the same 10 stocks. By contrast, international markets generated much lower returns with the FTSE 100 up 5.8%, France's CAC 40 down 2%, Australia's All Ordinaries up 7.6%, Brazil's Bovespa down 10% and Mexico down 14%.

Our portfolio is skewed towards growing small capiitalised companies around the world, which are generating high returns on capital and strong free cashflow. Our portfolio only trades on PE of 14x, with net debt/ebitda a very low 0.2x and a return on equity of 26%.

International equities trading at steep discounts to the US market

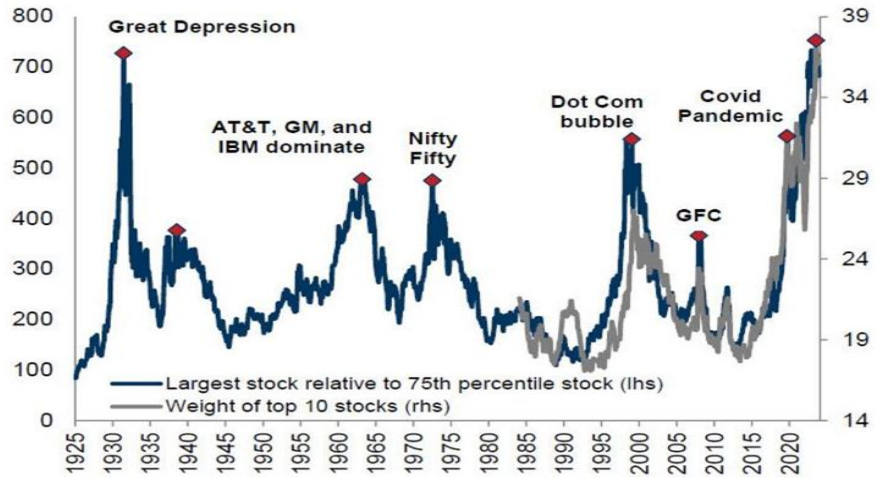
The US market currently trades at a 60% premium valuation to the rest of the world, compared to historical averages of 20%.



Source: FactSet, MS Alpha

We are benchmark unaware investors, looking for quality businesses trading at attractive valuations. This has meant that we have found much more exciting opportunities outside of the US market, with 77% of our portfolio outside of the US. While the MSCI ACWI index has a 67% exposure to the US and the MSCI World Index has 74% exposure to the US, we only have 23% of our portfolio in US domiciled companies. These indexes are also highly concentrated in the "Magnificent 7" stocks (Apple, Nvidia, Microsoft, Amazon, Meta, Tesla, Alphabet), which make up 24% of the MSCI world index.

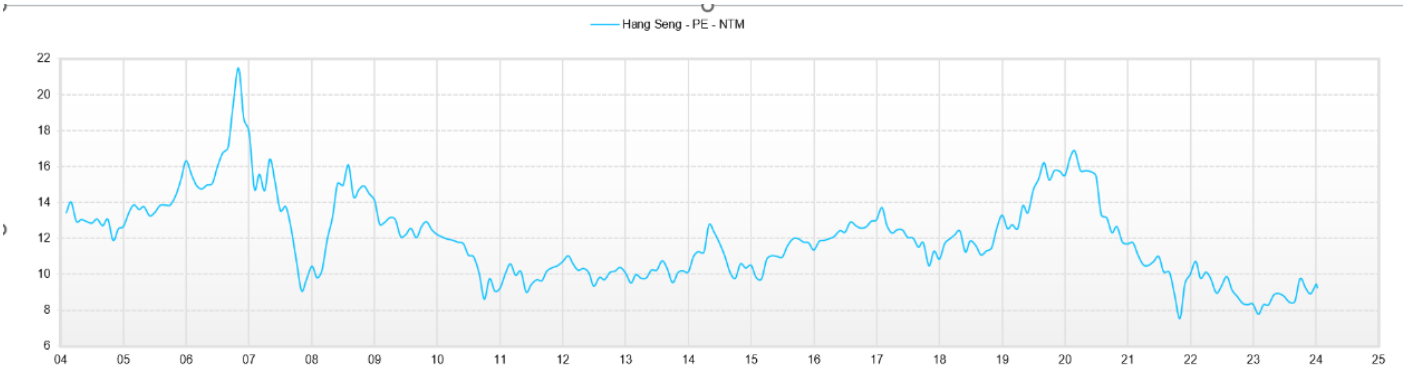
S&P500 concentration has never been this high



The US market rallied over the course of 2024, pushing valuations back to peak levels we saw in 2021. Retail volumes have picked up and we have seen a rally in meme stocks since the election. Tesla is a good example of this as its stock price has doubled in the past two months to a market capitalisation of 1.5 trillion. This is despite net income falling from $14 billion in 2022 to $11 billion last year and expected to come in at about $8 billion for 2024. All that has happened with the Tesla stock is that people have decided to pay a price to earnings multiple of 165x today compared to 30x in 2022. While Chinese EV manufacturers like BYD are winning market share around the world and only trades on a PE of 15x and high-end European brands like BMW trades on a PE of 6x. The stock market goes through periods of overvaluation and undervaluation which can last many years. We try not to get caught up with the herd and look to protect our clients' capital rather than get caught in a game of trying to track random indices. Given that the US is trading at very high valuations, we are limiting our risk to any valuation correction, which is what markets saw from 1999 to 2008, when PE multiples halved. The large correction we saw in 2022 was a multiple correction driven fall and even then, stocks just dropped to longer term averages.

We are finding value in Asia, Europe and Latin America

I spent several weeks in Asia this quarter and remain excited about the upside potential of our investments there. While the S&P500 is trading close to all time high valuations, Asian markets like Hong Kong are actually trading close to all time low valuations, as can be seen in the chart below.



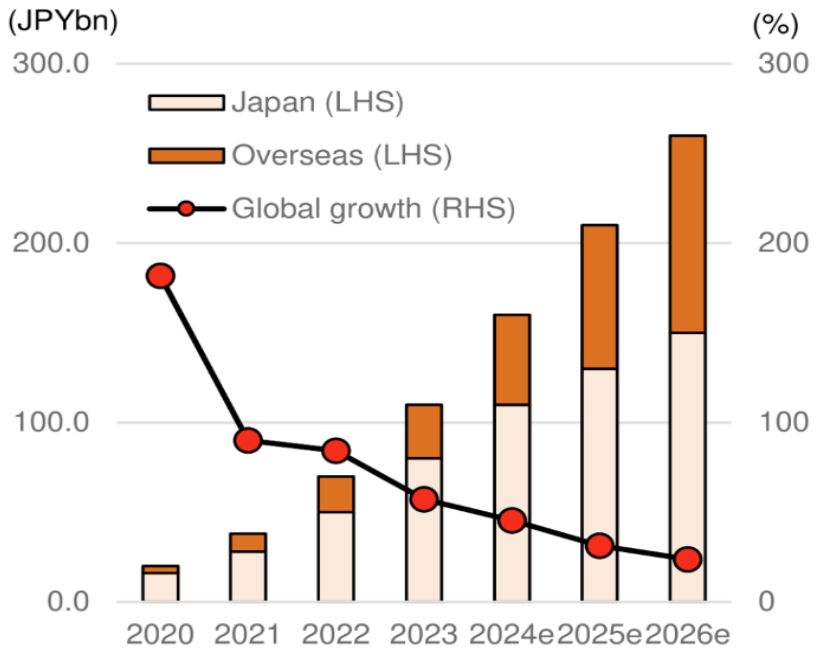
We continue to wait patiently for the wall of money to move from overpriced assets to these deeply discounted businesses. Our investment in JD.com saw a large appreciation in the September quarter, nearly doubling in the September month alone. However, in the last quarter the stock gave back some of these gains, falling 20% following Trump's election. The rally in September was due to hope about stimulus in China. The volatility in the stock price has had nothing to do with the consistent earnings trajectory of the company and all to do with the psychology and sentiment of the millions of individual stock market investors. The company is on track to deliver 30% earnings per share growth this year and is still one of the cheapest internet stocks in the world, trading on a PE of 8x 2025 earnings. It remains a high quality, owner managed business, under the leadership of its founder and chairman Richard Qiangdong Liu. We think the company is worth double the current valuation attributed by the vagaries of the stock market and are happy shareholders.

Anycolor

A recent addition to our portfolio in Asia has been Anycolor in Japan. Anycolor is a leading digital agency in Japan focusing on the Virtual Youtuber market. Anycolor manages the business for the operator of a youtube channel where the star of the show is an avatar. The avatar might be an anime character, popular singer, television personality or comedian. Anycolor owns the Vtuber's intellectual property and generates revenue from events, selling commercial merchandising and livestreaming fees. The industry was developed by Anycolor and another Japanese company called Cover. Since 2017 they have grown the market to over $1 billion revenue with 70% of the global market based out of Japan. Cover and Anycolor have 57% of the total market and Cover has 95 million viewers compared to Anycolor with 80 million. 60 million of Anycolor's viewers are in Japan and 16 million in the US.

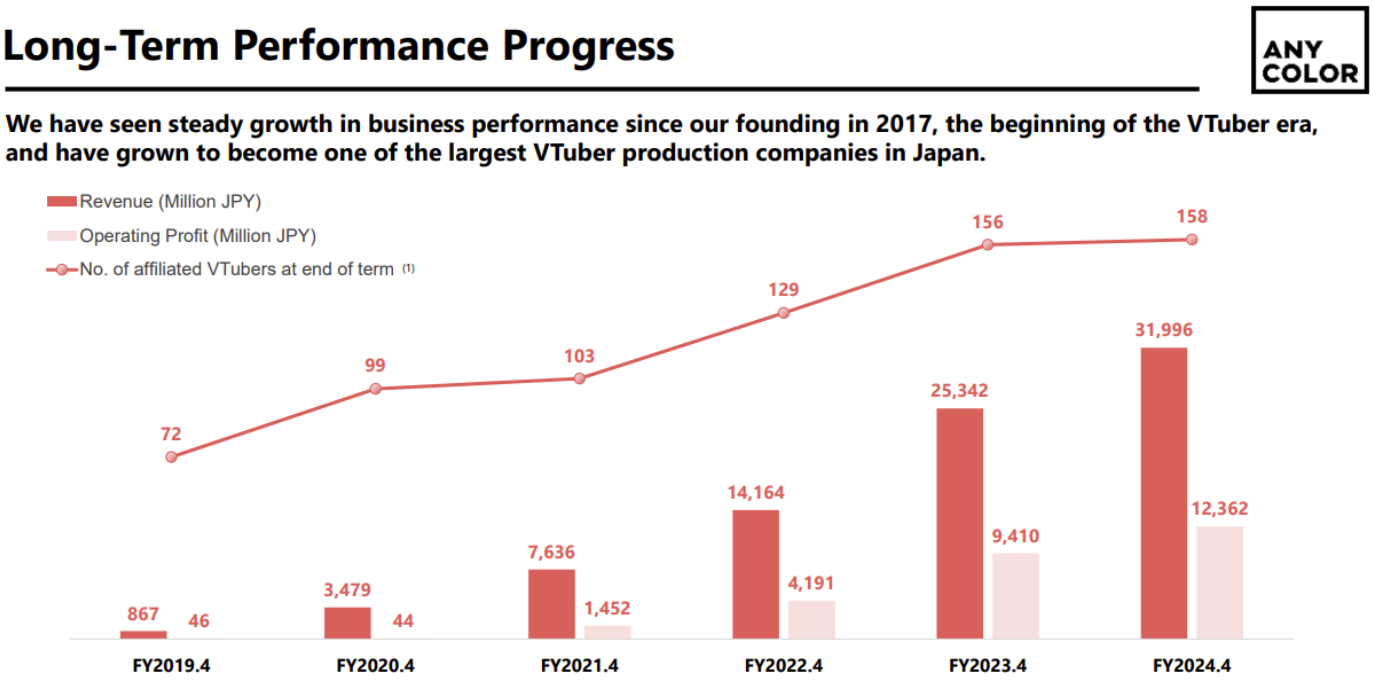
Anycolor was founded by its CEO, Riku Tazumi in 2017. Anycolor and Cover have basically created the industry and it has grown quickly since their inception. We expect revenue and earnings to continue to grow at a fast pace as Anycolor monetises its user base in Japan and grows internationally.

Vtuber industry revenue growth



At the moment only 3% of their current viewers purchase merchandise and pay their vtubers. We expect this to rise over time. Anycolor manages over 150 vtubers, compared to only about 80 at Cover. Their viewers are predominantly female compared to a predominantly male viewer base at Cover. So while both companies seem to be competing in the industry they created, they are running their own race.

Anycolor was one of our top performers for the quarter as they delivered a strong quarterly result. Revenue grew 51.5% in the second quarter and net profit increased by 65%. This was driven by 75% growth in their merchandise sales. The company expects continued strong growth into the 3rd quarter with a net profit growth target of 36%-48%.



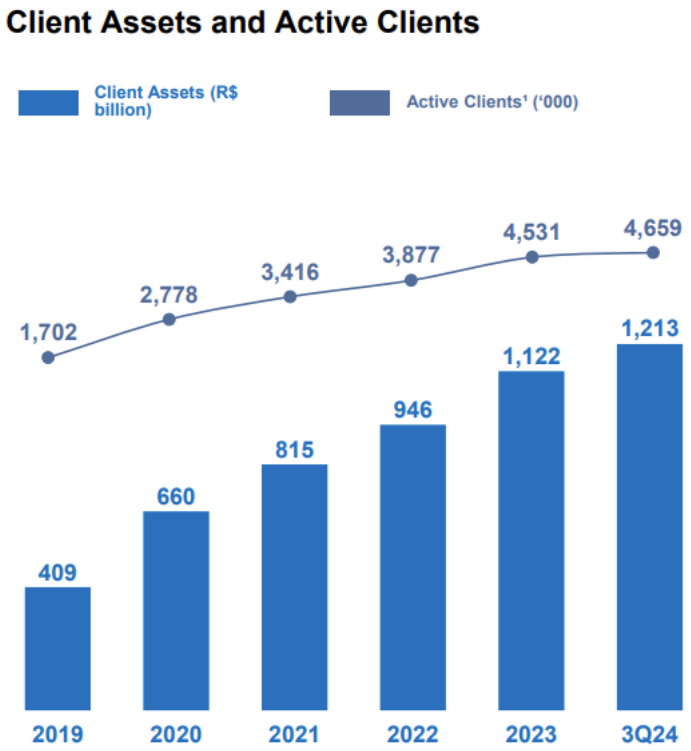
XP

XP is Brazil's leading technology-driven financial services platform, providing this platform to independent financial planners, its own financial planning network as well as retail and institutional investors. It has often

been described as the Charles Schwab of Brazil and is led by its entrepreneurial founder and Chairman, Guilherme Benchimol. We have been following the company since its IPO in 2019 and have been amazed at the significant de-rating the stock has seen despite increasing earnings per share by 4x over this short period. The company has been swept up in the sell-off in Brazilian shares as the central bank has lifted interest rates to 12.25%.

We have been accumulating shares in the recent sell off as it is rare that we see such a high-quality company trading at an all-time low valuation of only a PE of 7x. This compares to Charles Schwab in the US at 23x.

I visited XP at their offices in Brazil in 2023 and met their CEO, Thiago Mafra, at a conference in London last September. Thiago has done a wonderful job since becoming CEO in 2021. Over the past three years the company has built a number of new verticals and revenue streams including foreign exchange and credit. They currently have 5 million active retail clients serviced by them directly or through 14,000 independent financial planners in Brazil. Irrespective of the macro, the company expects to win 1% of market share each year and they expect their operating margin to improve from 28% to 30-34% by 2026. We expect this to deliver continued strong earnings growth and free cashflow and are happy shareholders, albeit puzzled by the current share price.



We wish you all a healthy, happy and prosperous 2025.

Your sincerely,

GARRY LAURENCE

Profeta Global Share Fund	
Unit price $ (31 December)	1.435
1 month return (net)	+3.4%
3-month return (net)	+7.6%
6-month return (net)	+10.7%
Financial YTD (net)	+10.7%
12-month return (net)	+14%
2 years (net annualised)	+15%

FX exposure	
AUD	30%
USD	38%
Euro	14%
GBP	2%
JPY	7%
HKD	5%

Portfolio Characteristics	Profeta
PE (FY1)	14
Cashflow Return on Invested capital	32%
Net debt to EBITDA	0.2
Portfolio beta	0.54

Regional Breakdown

	% of Portfolio
North America	27
Europe	29
Australia	12
Asia	13
Latin America	10
Cash	11