OYAT ADVISORS – QUARTERLY COMMENTARY

3Q 2024

<u>Investment landscape</u>

The third quarter of 2024 was volatile but ultimately satisfactory for most asset owners. Investors got what they wanted in the form of interest rate cuts from multiple central banks, including the US Federal Reserve, which lifted equity and bond prices higher in the period. China added fuel to the fire by announcing substantial stimulus, and markets cheered and increased further. We profited in the period as well with the Oyat Investment Fund up a healthy double-digit percentage in USD for the period.

But from our desks in Switzerland, we also continue to notice some cracks in the market edifice through our long-term lens. Global equity markets returned nearly 6.5% in USD for the quarter, but in the firmer CHF, they were essentially flat (based on the MSCI World Index return). Markets might be moving up nominally in USD, but under the surface, all is not well. Inflation is still stripping consumers of their purchasing power and eroding the strength of the USD compared to more reliable currencies such as the Swiss franc or gold.

We can debate what the true inflation rate is currently, whether it will continue its downward path or spike once again, but the reality is that consumers in the U.S. (and other geographies) face prices that are over 20% higher than they were just 5 years ago, according to the Consumer Price Index (CPI) from the Bureau of Labor Statistics. The U.S. CPI is perhaps another symptom of the fiscal largess we see across the globe, with the U.S. staring down a deficit approaching $2 trillion for the current fiscal year, pushing on-balance sheet federal debt beyond the $35 trillion mark. The USD is suffering from the fiscal irresponsibility, as is the U.S. consumer the global economy so desperately needs. The edifice is cracking, and neither of the presidential candidates in the U.S. or their economic plans seem to have any intention of addressing the issue.

As such, it is perhaps no surprise that gold continues to hit all-time highs. Gold's strength is primarily a reflection of fiat currency weakness, and a growing recognition by central banks and investors alike of the unsustainable nature of our current fiscal and monetary system. Moreover, geopolitical events such as war in the Middle East and Ukraine have investors on edge. China's recent economic weakness and subsequent stimulus measures coupled with tariff threats and political jockeying all create uncertainty regarding global supply chains, inflation and global growth. In short, there is a long and growing list of concerns for investors to work through.

Despite this reality, we prefer to remind readers that there are effective ways to allocate capital in uncertain times. There are strategies founded on principles proven to work over the long-term and to perform relatively well through turbulent markets. Truly diversifying portfolios with real assets such as gold is an easy recommendation and has certainly worked well recently with the current backdrop of fiscal and geopolitical stress, but there are other more subtle avenues investors can follow with confidence. Equities can provide access to productive assets and generally deserve a healthy allocation even through uncertain times. But equity is a broad category with labels such as 'growth' or 'value', and even 'magnificent' thrown around and marketed depending on the current investing environment. Investors searching for real protection and appreciation (in that order) of capital through time and varying market conditions may do well to allocate to a type of equity that cuts across growth and value and that thrives particularly well in tough times – 'quality' equities. It is a broad term to be sure, but we can explain what it means to us and why we believe investing in quality companies will ultimately produce admirable returns with less risk and without the need for tricky timing decisions.

Quality companies offer sustainably high, long-term value creation by consistently earning a return on invested capital significantly above their capital costs. Quality companies occupy industry positions that are protected by characteristics such as strong brands or networks, sustainable innovation and product development or simply scale or cost advantages. Quality companies typically are well managed with an owner-type mentality and a long-term focus regarding investments that accentuates the long-term growth potential of the company. These companies often offer resilience through strong balance sheets, pricing power and predictable earnings trajectories. They are not defined by market capitalization, industry or geography. And ultimately, the best ones have proven track records of effectively producing cash flows and passing them onto shareholders through disciplined capital allocation.

It all sounds nice, but the proof is in the pudding as they say. Quality companies have a proven track record of outperforming the market and providing resilience in tough times[1]. They also do it with less risk, whether that is measured in volatility terms or from a fundamental perspective as we prefer to view risk.

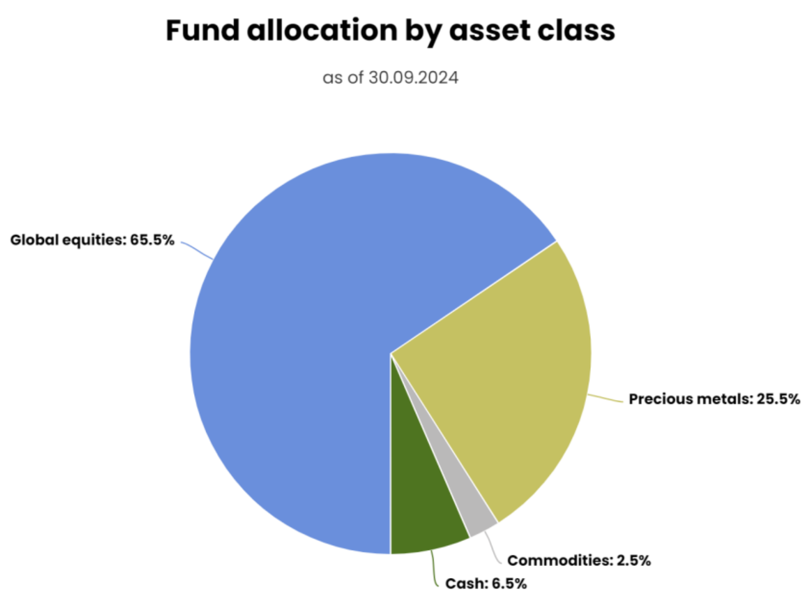
In a world defined by unpredictable interest rates and unsustainable fiscal policies, we prefer to focus on enduring strategies that offer the potential for outsized returns through almost any

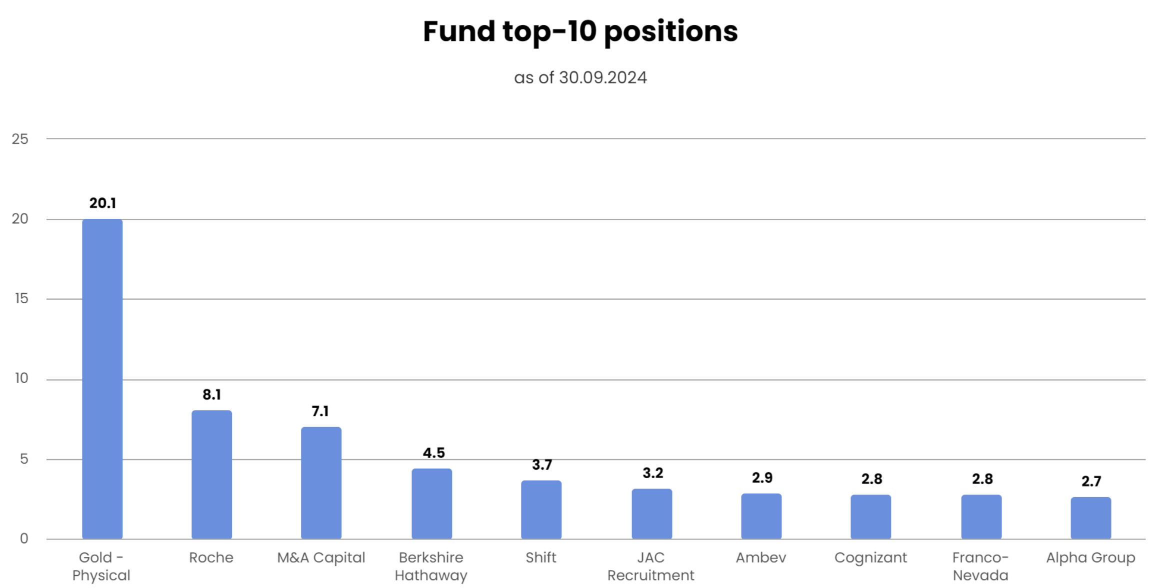
[1] MSIM Why Invest in High Quality Equities – Equity Style Upside and Bond Style Downside Participation

market environment. These strategies include focusing on quality companies in a diversified yet concentrated portfolio of approximately 25 positions, but also on valuation discipline, investing alongside our clients and sticking to a clearly defined investment philosophy and a structured process. As we look back on a strong 3Q24 performance, we remain steadfast in our belief that owning scarce and productive assets with a focus on quality businesses trading at reasonable prices, complemented by liquid reserves in the form of physical gold, will drive admirable risk-adjusted performance over the years to come.

Asset allocation

The graphs below display the Oyat Investment Fund's allocation of capital across asset classes, as well as the Fund's top-10 positions:





Performance

Performance as of September 30, 2024, in CHF

	3m	1yr	3yrs p.a.	5yrs p.a.	Since inception p.a.
Oyat Investment Fund	5.5%	18.0%	-	-	7.9%
MSCI World	0.2%	22.9%	-	-	14.5%

Annual performance as of September 30, 2024, in CHF

	2022*	2023	YTD	Cumulative
Oyat Investment Fund	-2.4%	3.0%	14.7%	15.3%
MSCI World	-5.0%	13.3%	19.8%	28.9%

**Inception Date: November 10, 2022*

In the third quarter of 2024, the Oyat Investment Fund returned 5.5% in CHF, versus 0.2% for the MSCI World Index. Since inception, the Fund's total return stands at 15.3% vs. 28.9% for the aforementioned reference index.

Physical gold once again contributed positively to the Fund's performance this past quarter, moving up substantially even when measured in CHF. Gold's percentage return wasn't the highest in the portfolio, but its status as the largest position ultimately meant it contributed the most to the positive outcome in the period. With fiscal and geopolitical risks still at elevated levels, we plan to maintain a sizeable position for the foreseeable future in what we view as the ultimate reserve asset, given its scarcity, permanence, and the fact that it carries no counterparty risk. Continued central bank buying of gold should also be noted and perhaps hints at intentions to bring back gold as an anchor to fiat currencies to some degree.

The third quarter also benefited from a recovery in Roche, another large position in the portfolio. The stock price was up over 8% in CHF from what we view as depressed levels. We sold some shares of the company in the third quarter, which had opportunistically been purchased at lower levels, in order to control the position size and provide liquidity for other opportunities. But we maintain a substantial position in the company as it continues to execute well on its pharmaceutical pipeline, as well as rollout innovative products in its diagnostics business. Despite some recovery, Roche is still well-off recent highs and materially below our estimation of fair value, providing an attractive backdrop for a company largely detached from the economic cycle that provides a reliable dividend in CHF.

A trio of our Japanese holdings were also important for the impressive performance in the quarter. M&A Capital Partners, JAC Recruitment and Technopro Holdings were all up double digits in CHF terms. M&A was added to the portfolio in late 2023, but JAC and Technopro were added in the second quarter of this year, and the investment cases were described in some detail in last quarter's commentary. Volatility allowed us to add to the M&A and JAC positions in the third quarter at attractive valuations. Ultimately, all three of the companies represented high-quality franchises with strong balance sheets and rapid growth potential that were trading substantially below our fair value estimates, and we are pleased to see the investment cases playing out over such short time frames. A fourth Japanese company, Shift, was also recently added to the portfolio. The Shift stock price was down marginally in the third quarter, but its recent volatility allowed us to increase our holding in the period as well.

Also on the positive side, we should mention solid performance from some of the more defensive positions such as Ambev and Gilead Sciences. Both stocks were up double digits in the period with Ambev's steady beer business ticking along as expected while Gilead has provided exciting results from the lab regarding its HIV product Lenacapavir and its potential to prevent HIV contraction in at-risk populations with only bi-annual dosing.

More on the negative side, Focusrite and IPG Photonics were the largest detractors. Focusrite has struggled with the supply chain for its music and audio products as well as inventory levels as revenues have normalized following a pandemic related bump. Ultimately, Focusrite's products remain well placed in the audio market and financial metrics should recover with stability or an improved macro backdrop. As such, we made a small incremental share purchase just at the end of the quarter. IPG Photonics is a trickier story. We did well to trim our position near the 2023 high but rode a smaller position down to the current depressed levels. It's complicated to separate the status of the company's fundamental market position in the fiber laser industry with potentially temporary headwinds related to the Ukraine war, the exiting of its Russian business and the recent weakness in its key electric vehicle end market. We are scrutinizing the investment case and the company's new CEO but are encouraged by the share price recovery which started toward the end of the quarter.

In addition to what has already been mentioned, there was some trading in the period. Our positions in GQG, Gilead and Enbridge were trimmed after strong performance pushed share prices toward our estimated fair values. We added to our Ambev and Jeronimo Martins positions in order to top-off defensive consumer staples exposure at attractive valuations. Two positions were exited in the period. Hargreaves Lansdown agreed to be taken over by a private equity consortium, solidifying our perceived upside in the name and forcing our exit of the position. We also exited our SGS position in the period. The Swiss testing and certification company's share price appreciated materially in recent periods due to strong performance and a well-received expansion agenda by the new CEO. Ultimately, the share price exceeded our fair value estimate and prompted the sale of our position.

We are also excited about two new positions added to the portfolio in the third quarter. We added a position in Hugo Boss, a leading global fashion brand. We have owned the company in the past and recognized a compelling value case following a share price drop of more than 50% from the recent peak. The management of Hugo Boss has done an excellent job of improving efficiency in costs and inventory in recent years, optimizing margins and cash flows. It's understandable that recent concerns around consumer spending have raised uncertainty about the company's top-line trajectory for the coming quarters, but Hugo's brand and market position are firmly entrenched and purchasing such a quality franchise with material upside in our modelling was an easy decision. Our valuation view was supported by double-digit free cash flow yields and a single-digit price to earnings ratio.

We’re also very excited about a newly-initiated position in Alpha Group, a British company recently added to our conviction list. Alpha Group is a non-bank provider of financial services targeting corporates and institutions globally with a focus on FX risk management and bank accounts, the latter targeted at the alternative asset management industry. Alpha Group was founded in 2009 but has grown rapidly in its relatively short history, reaching well over £100 million in revenue by the end of 2023 with a team that speaks over 30 languages, works with clients across more than 50 countries, and operates from 10 international offices. Alpha Group is still a relatively new and small player in the financial services sector, but the company has carved out a solid market position in FX risk management which it is leveraging to expand into alternative banking and related functions. Being new and small is also not necessarily a negative in an industry full of stodgy traditional banks that have grown too large to focus on smaller corporate clients. Low interest rates and regulation have also weighed down the traditional banking business model leaving the industry ripe for disruption and opening the door for dynamic young companies with a competitive product offering such as Alpha Group. Being small and nimble also leads to a substantial growth runway for Alpha Group as it has only scratched the surface in terms of market share in its business areas. Growth outside of the company’s traditional FX management business highlights the various paths forward as new services such as fund finance are added. Alpha Group has grown with admirable profitability and without levering its balance sheet – as is evidenced by the substantial net cash position. Our reasonable base-case valuation certainly suggests the current price is an attractive entry point for a company offering double-digit growth potential on top of impressive value creation and a pristine balance sheet.

Ultimately, the third quarter was a period of continued positive performance. We remain convinced that the Fund’s collection of quality companies at attractive valuations, complemented by a healthy dose of precious metals exposure, is the optimal setup to navigate today’s complicated markets.

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