

Chatrier Value Fund

Investor Letter Q1 2024

Value Strategy

March 31, 2024

Top 10 Equity Positions (in %)

1.	HENKEL (HEND)	7,0 %
2.	SEABOARD (SEB)	6,6 %
3.	HAL TRUST (HAL)	6,4 %
4.	SWATCH GROUP (UHR)	5,9 %
5.	BASF (BASd)	5,1 %
6.	PHILIP MORRIS (PM)	5,1 %
7.	FRESNILLO PLC (FRES.L)	4,6 %
8.	NOKIAN RENKAAT (NRE)	4,5 %
9.	VOLKSWAGEN (VOW3d)	4,4 %
10.	3M Co. (MMM)	3,9 %
Summe		53,5%

Percentages rounded, as of 03/31/2024

Portfolio Changes

New pos.	FUTUREFUEL (FF)
New pos.	SILICOM (SILC)
Added	SWATCH GROUP (UHR)
Added	ASHMORE PLC (ASHM.L)
Added	FRESNILLO PLC (FRES.L)
Added	SEABOARD (SEB)
Sold	TIGERS POLYMER (4231.T)
Sold	TOKYO RADIATOR (7235.T)
Reduced	INTEL (INTC)
Reduced	SINTOKOGIO (6339.T)

Notable events

New positions in 2 US-listed Net Nets
 Silver and silver mining stocks historically cheap in relation to gold
 Momentum-, growth-, and mega gap- strategies with outperformance vs. conservative and price sensitive value-strategies in the first quarter

Dear Fellow Investors,

Chatrier Value Fund ended the first quarter of 2024 with a decline of -0.97%.

Our value strategy underperformed the market in the first quarter, partly due to our lower exposure to US tech stocks. The trend of a few mega-cap companies, primarily in the US technology sector, driving the overall market persisted through the first quarter. The recession fears from a year ago seem to have dissipated, and other risks like high government debt and significant devaluation threats to commercial and office real estate are largely being ignored by the market. In this environment, the actions of many market participants appear increasingly speculative. Conservative portfolio managers who emphasize high valuations, concentration risks, and potential issues in banks or heavily indebted companies are now rarely heard. Meanwhile, voices focusing on AI and Bitcoin have dominated the discussion.

Portfolio Update

Despite these exaggerations and warning signs in the market, there remains a neglected segment of the stock market where many undervalued and promising stocks can be found. We believe that the recent underperformance of value stocks in general, and our portfolio in particular, since the beginning of 2023, will reverse in the next market cycle. As a result, our strategy is almost fully invested as of early April.

In the first quarter of 2024, we successfully sold two Japanese Net-Net positions, Tigers Polymer and Tokyo Radiator, in their entirety and reduced our position in Sintokogio. Shortly after the New Year, we also reduced our Intel position. We used the proceeds from these sales to make Seaboard Corp (SEB) our second largest position in the portfolio. Despite the challenges in its pork business, Seaboard still reported a net profit of USD 226m in 2023. The discrepancy between the share price and book value is currently the largest in history. Seaboard's price-to-book ratio is currently 0.70x, while the average price-to-book ratio of Seaboard between 2000 and 2023 was 1.28x. The implied share price based on the historical average price-to-book ratio would be USD 6,085 per share.

In addition to increasing our position in Seaboard, we have also increased our existing positions in Ashmore, Fresnillo and Swatch, which were previously loss-making in 2024. All four of these stocks are trading at historic lows from a fundamental perspective. In February, we also added two new positions to our Net-Net basket: Silicom Ltd (SILC) and FutureFuel Corp (FF). We acquired both companies below their liquidation value, which corresponds to the lowest fundamental valuation in their stock market history, based on price-to-book and price-to-net asset value ratios. It is particularly noteworthy that both companies have a debt-free balance sheet with an equity ratio of 89% and 86% respectively. Silicom even trades at a negative enterprise value, which means that the market values the company lower than the available cash and other liquid assets.

New Position – Silicom Ltd. (SILC)


Silicom is an Israel-based company specializing in the development, manufacturing and marketing of connectivity solutions for server-based systems.

Silicom is listed on the Nasdaq and is currently in a period of declining sales due to increased customer inventory levels who have built up stocks during the COVID-19 period. CEO Liron Eizenman expects sales to return to a growth trajectory in 2025.

In discussions with investors, the Board outlined a five-year plan for Silicom, aiming to restore earnings per share (EPS) of USD 3 per share by 2028. To achieve this objective and enhance the company's capital structure efficiency, the Board has endorsed a comprehensive share buyback program. This program entails the repurchase of 1.6 million shares, representing approximately 26% of the company's shares (at current prices), during 2024 and 2025.

We were able to buy shares at 55% of book value and at a 22% discount to liquidation value.

Overview (Figures in million USD)
Business model
Company headquarters
Investment criterion
Market capitalization
Equity
Equity ratio
Founder & Anchor Investor
Net financial position
Price below NCAV at purchase
Price to book value at purchase


Connectivity Solutions
Israel
Net Net
98
148
89 %
Avi Eizenman
61
78%
0.55

New Position – FutureFuel Corp. (FF)


FutureFuel Corp., a company based in Missouri, USA, produces and distributes biofuels and chemical products.

Similar to Silicom, we were able to acquire FutureFuel for the liquidation value of USD 5.76 per share. A few weeks after our purchase, FutureFuel announced that it would pay a special dividend of USD 2.50 per share. This corresponds to a dividend yield of 43% in relation to our purchase price.

At current levels, the biofuels business is completely ignored in FF's valuation and any improvement in this area should lead to significant upside potential.

The recent decline in the profitability of the biofuels segment is due to an increase in renewable diesel production and a decline in the spread between soybean oil and heating oil blends.

Overview (Figures in million USD)
Business model
Company headquarters
Investment criterion
Market capitalization
Equity
Equity ratio
Net financial position
Price below NCAV at purchase
Price at book value at purchase


Production of Biofuels and Chemical Products
USA
Net Net
203
205
56 %
201
78%
0.81

Fresnillo PLC - When will the silver price follow the rise in the gold price?

With Fresnillo PLC (FRES.L), we have recently increased our holdings in the world's largest silver producer and the largest gold producer in Mexico. Approximately half of the mine operator's revenue stems from the exploration, production, and subsequent sale of gold, while the other half is derived from the sale of silver. Despite the price of gold surpassing \$2,300, the price of silver, currently just under \$30, continues to trail behind gold in terms of the historical gold-to-silver ratio.

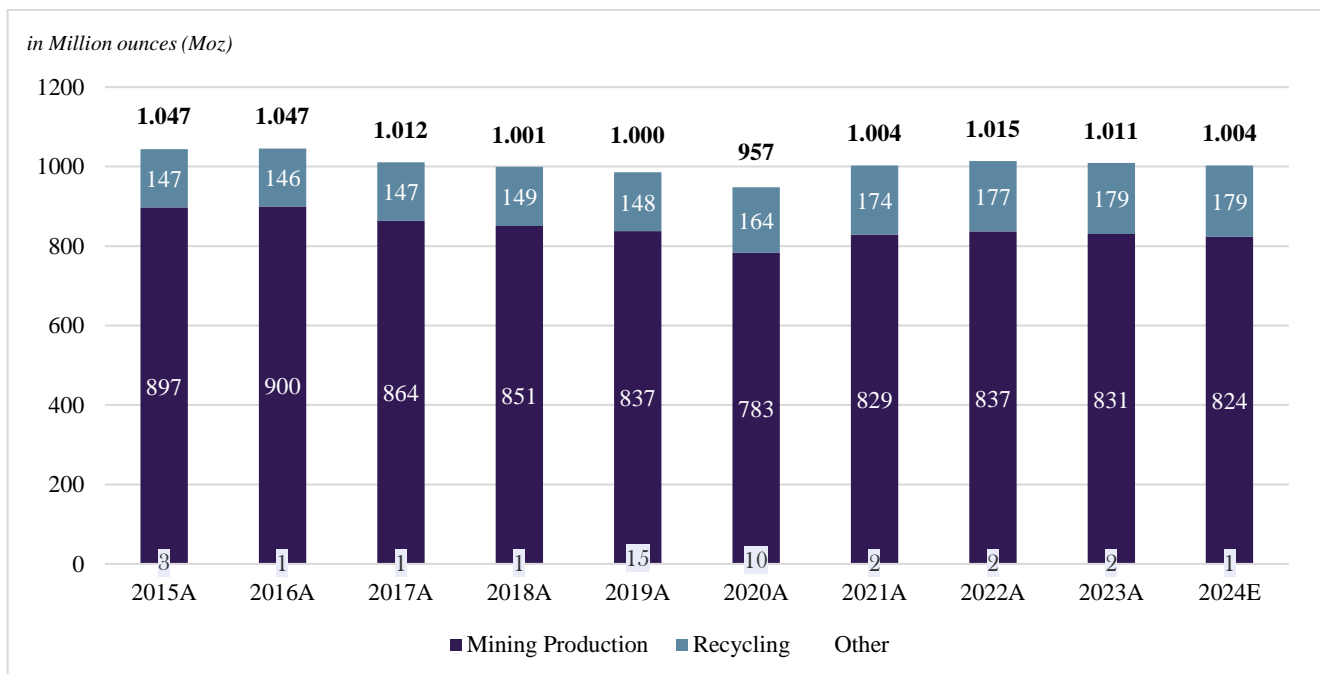
In contrast to gold and several other metals such as copper, lead, nickel, zinc, iron, platinum, rhodium, and palladium, silver remains below its 1980 highs. Returning to the historical median gold/silver ratio of 30:1 would imply a silver price of \$80, based on a gold price of \$2,400.

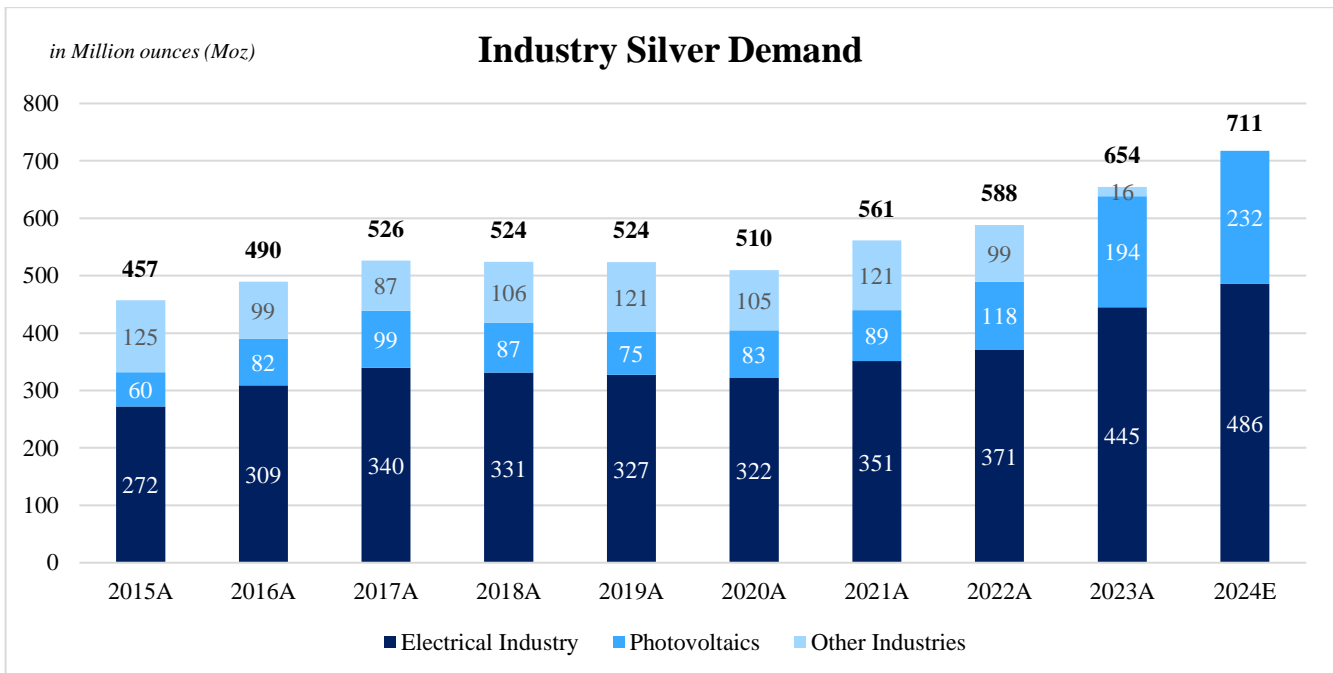
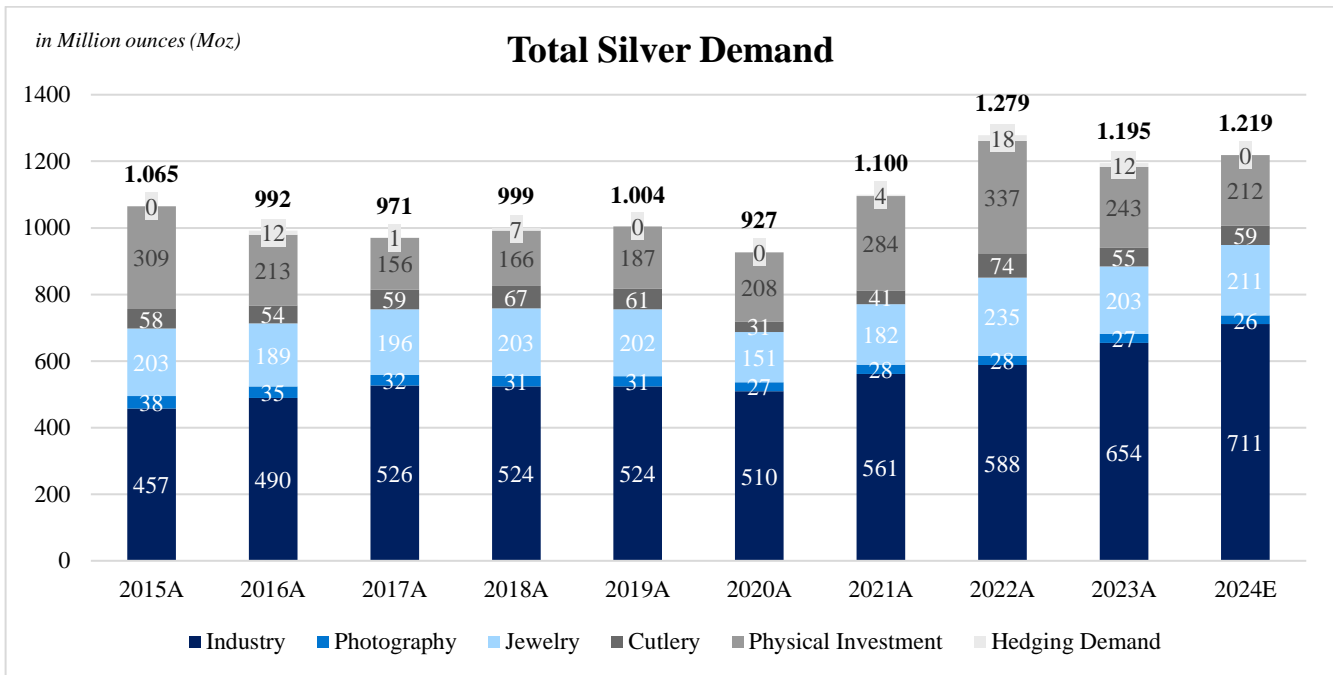
According to the independent research house "The Silver Institute," a total of 1,010.7 million ounces (Moz) of silver was produced worldwide in 2023, representing a slight decline of 0.5% compared to the previous year. This decline was primarily attributed to the strike at Newmont Corp.'s Peñasquito mine in Mexico, which remains the most significant country for silver mining.

However, increased production costs driven by rising cost inflation have led to mining costs per ounce rising to around \$20. Consequently, many smaller mine operators are finding it challenging to maintain cost-effective production at silver prices around \$20.

Annual demand for silver also experienced a decline, decreasing by 7% to 1,195 million ounces (Moz) or 37,169 tons. This decline was primarily driven by reduced demand in categories such as jewelry, silverware (cutlery), and physical investments. In contrast, demand from the photovoltaic industry saw a significant increase, rising by 64% disproportionately.

Figure 1: Development of silver supply and demand since 2015

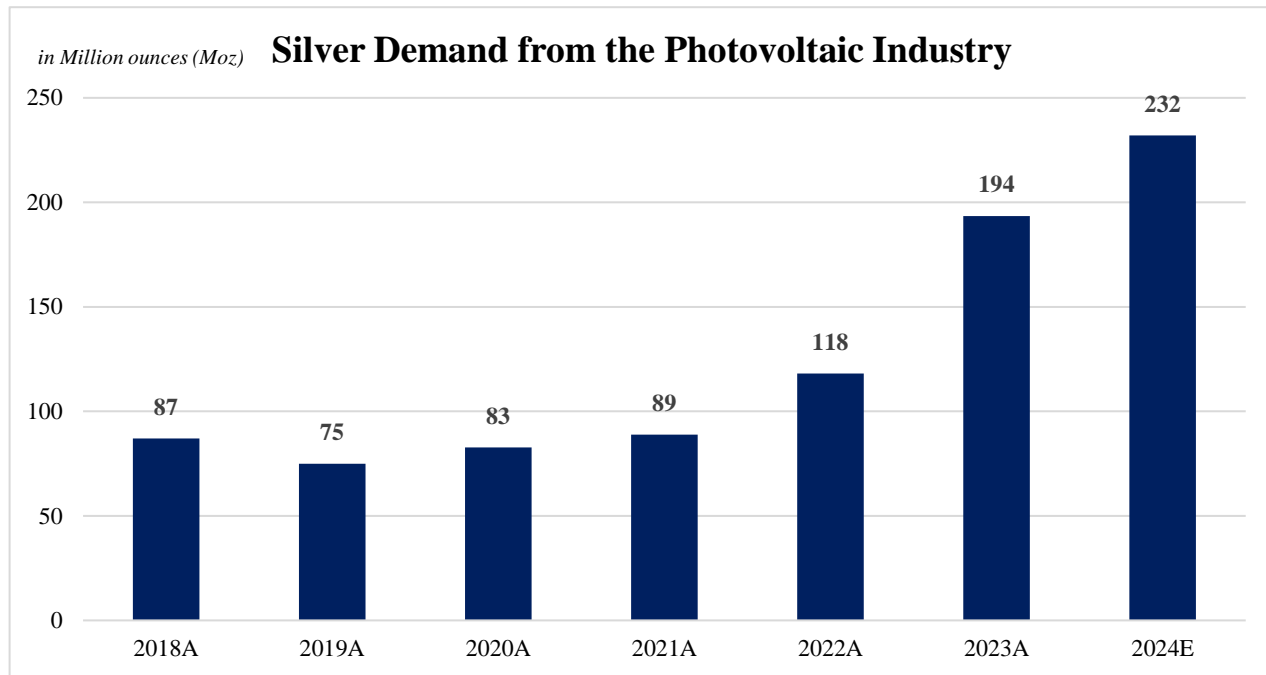




Source: Metals Focus, The Silver Institute, Graphs: Pecora Capital

While gold is primarily utilized as a capital good and is less essential for the production of industrial goods, around 60% of silver's demand originates from industry, with only approximately 20% serving as a capital good. The photovoltaic industry stands out as the industrial segment with the highest demand for silver in 2024. In the previous year, this industry accounted for 193.5 million ounces (Moz), representing nearly 20% of global silver demand for the production of solar panels.

Figure 2: Strong increase in demand for silver from the photovoltaic industry



Sources: The Silver Institute, World Silver Survey 2024, Graph: Pecora Capital

For silver investors, the critical factor lies in the expected surge in the nominal photovoltaic (PV) capacity installed globally, leading to a substantial increase in silver demand. This surge will ensure the continued affordability of solar modules while allowing the silver price to rise without compromising silver demand. Even with the anticipated slowdown in new installations in China, from 217 gigawatts to 190 gigawatts next year, silver consumption in the solar industry is projected to escalate by 20% to a record of around 232 million ounces by 2024.

With each additional year of a supply deficit, the likelihood of a significantly higher silver price amplifies. This is due to the extended lead times for silver mining projects, averaging around 15 years. Parallels can be drawn with the uranium industry, where a ten-year supply deficit encountered a sharp surge in demand in 2022, propelling the uranium price upward.

As always we encourage any comments, questions or feedback.

Sincerely,
INFIBA Vermögensverwaltungs AG, Liechtenstein

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