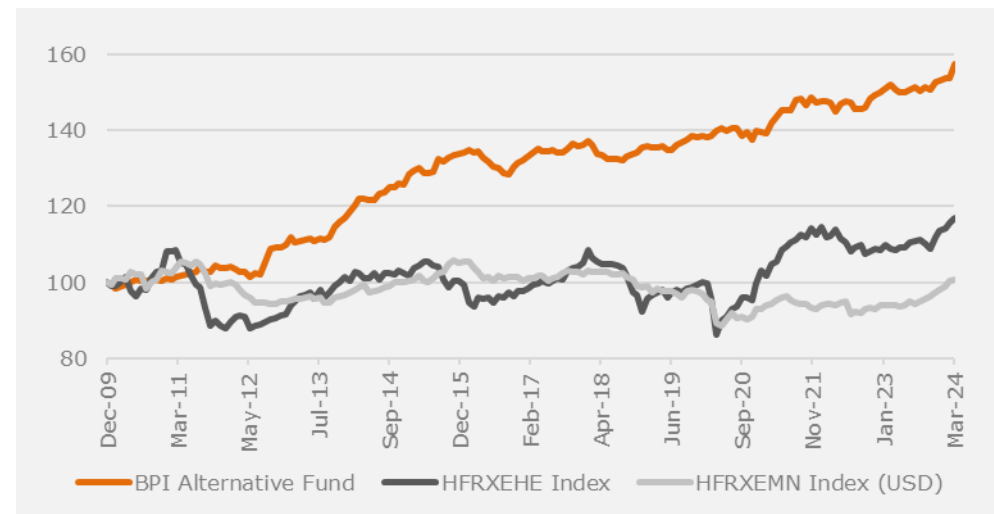


# BPI ALTERNATIVE FUND

## IBERIAN EQUITIES LONG/SHORT

### PERFORMANCE REVIEW



In the first quarter of 2024, BPI Alternative Fund had an extraordinary quarter going up by 297bps. This was our best quarter out of the last 24!

The positive contribution was quite widespread among sectors, but we highlight the contribution of Cyclical exposed stocks, Financials and Retail.

The cyclicals contributed with 77bps mainly due to our long in Indra and short in ACS. Indra went up every month of the quarter, first on positive expectations ahead of its upcoming Capital Market's Day (CMD), then on presenting 4Q23 results ahead of estimates and lastly, on actually delivering ambitious targets at its CMD. At this event, the company targeted organic revenues and EBIT of €5.3bn and €525mn by 2026 that mean 7% and 15% CAGR 2023-2026, respectively. Additionally, it forecasts €800mn of accumulated FCF in the period. At its 4Q23 earnings release, the company had already guided for 2024 EBIT > €400mn which was clearly above consensus expectations of €360mn.

In the case of ACS, the Supreme Court surprisingly rejected most of Abertis (ACS: 30% direct stake and 20% indirect through Hochtief) €3.2bn net claims in Ap-7 concession and only recognized a €32.9mn compensation. Given recent company's comments, investors were expecting that almost all claims would be recovered. More recently, the State of Texas surprisingly announced that it was considering terminating the concessions agreement for the SH-288 toll road and pay \$1.73bn (EV) to the concessionaries, as per the contract. ACS initially owned a 21.7% stake in this asset and acquired the remaining stake over 4Q22/1Q23 for an investment of €1.4/1.5bn. A few months ago, ACS sold a 56.8% stake to Abertis for €1.4bn valuing the 100% equity at €2.5bn that plus c.€500mn debt means €3bn of EV, which is clearly below the \$1.73bn (€1.6bn) that the State of Texas may pay. Considering ACS's direct and indirect stake in this asset this means around €900mn hit in ACS's current valuation.

### FUND INFORMATION

#### Manager:

Pedro Maruny

#### Fund AUM (€):

332.8 Million

#### Share Class:

Class I

#### Minimum Investment:

EUR 150 000

#### Inception Date:

January 2010

#### Fee Structure:

Management Fee: 1.5%

Performance Fee: 20% annual above high watermark from €STR

#### Bloomberg Code:

BPAIELI LX Equity

#### ISIN Code:

LU0784437740

The second-best sector was Financials with +75bps mainly due to our long in BBVA vs short in Santander and our long in Sabadell vs short in BCP/Unicaja. In the case of the global banks, both presented 4Q23 net income above market expectations but in the case of BBVA results were of higher quality with decent evolution of core geographies Spain and Mexico, while in Santander the beat was mostly driven by the Corporate Center (trading gains on FX hedges). Santander's core geographies such as Spain, USA and Brazil were all below consensus. For 2024, both banks guided for ROtE improvement but again BBVA gave more granularity on the path to achieve it and additionally announced a SBB of €800mn. Another reason for BBVA outperformance is the positive momentum for Mexico GDP's forecast due to the positive effects of nearshoring and the potential massive inflow of foreign direct investment in the country. Due to this outperformance, we trimmed our long/short position by c.-180bps/c.+180bps.

As for Sabadell vs BCP/Unicaja, the gain came mostly from the underperformance of BCP vs peers in a period where banks had a strong run on the back of interest rates evolving stronger and deposits beta advancing slower than forecasted at YE23. One of BCP's main shareholder, Fosun, sold a 5.6% stake through an ABB at 3% discount. After this sale, Fosun reached a 20.03% stake in BCP, meaning that they have sold a 4.3% stake in the market prior to the ABB. Considering, Fosun's weak financial position the market is fearing overhang in the short term. On the operational front, we believe that BCP's share price may have suffered from being the bank that will see sequential NII dropping more pronouncedly, after being the Iberian bank with higher NII growth in 2023.

The Retail sector contributed with 66bps both to our long in Inditex and short in Jeronimo Martins. Inditex presented 4Q23 results which came in line with expectations, but the stock outperformed on the back of a strong 1Q24 trading update. In the first six weeks of the 1Q24, constant currency sales grew by 11% vs 8.5% expected. In the case of Jeronimo, it underperformed mostly with 4Q23 earnings release in which LfL sales in Poland came at 5.1% vs c7% expectations but margins only drop 15bps vs -20bps expected. In terms of outlook, the company warned that it expects food deflation at least for the first half of the year which combined with growing costs may result in EBITDA margin being more pressured than in 2023.

The main detractor of the quarter was the Pharma sector with -80bps as our small long position in Grifols suffered a huge meltdown not compensated by our position in Rovi (long until end of February and short afterwards after stock's great performance) and short in Almirall. At the beginning of the year and after the announcement of a 20% stake sale in Shanghaai Raas, it seemed that Grifols had everything to deliver an excellent performance. However, on the 9th of January a well know market short seller, Gotham City Research, has released a research report claiming that Grifols was overstating EBITDA, understating debt, and has realized strange transactions with its main shareholder. Considering, Gotham's track record the stock price suffered a meltdown. Later, at the end of February, the company released 4Q23 results and a 2024 EBITDA guidance in line with expectations. But, on the 4Q23 conference call the CFO stated that the company was not going to generate any FCF in 2024 which shocked analysts that were expecting a figure around €400mn after the restructuring plan implemented in 2023 and the recent huge working capital investments. The stock price that had been recovering since the first hit with Gotham's report suffered another setback and fell by 35% on that day. We reduced our position from 1.5% of the Fund to 1%, with the stock dropping by only 6.5%. In the day after, the company released a statement to clarify the FCF evolution in 2024 and the main FCF burn will come from the payment of acquisitions that the company did back in 2021. We believe that these commitments were not well clarified neither in its annual accounts nor on company's communication with analysts and investors. Due to this, already in March, we reduced our position again and ended the quarter with a position of 0.8% of the Fund.

As for the main changes in the quarter, we reverted Acciona Energia from short to long after its weak performance penalized by energy prices in Spain. On another sector, we also reverted CTT from short to long as the outlook for its Express & Parcels business is considerably improving and it's the main source of potential growth and valuation upside for the company. We reverted Acerinox from long to short as one of its competitors, Outokumpu, provided a lackluster message on the stainless-steel demand in the US, with potential sources of pressure in prices. As mentioned previously, at the beginning of March we reverted our position in Rovi from long to short as we believe that the possibility of signing new manufacturing contracts is already reflected on its share price. Lastly, we have also trimmed our pair trade long Repsol / short Galp as the latter has an 80% stake in a well in Namibia where the company confirmed a discovery of a significant column of light oil. The company is still assessing the commerciality and quantity of those discoveries.

**INVESTMENT CASES****CTT**

CTT is the incumbent Portuguese mail operator with four main business segments: a) the pure Portuguese mail market; b) Express & parcels; c) Financial Services and the d) Postal Bank.

Throughout the last few years, the company has been in a transformational process that meant that its mail business activity in the past represented almost 100% of the company's profitability and in 2023 contributed with only c.7% of the company's recurrent EBIT as this activity was strongly penalized by the structural decline of volumes. In terms of revenues, mail business weight declined from 66% in 2019 to c.45% in 2023, proving a successful strategy of the company in terms of diversification into the growing segments of E&P and the Postal Bank. For the mail business, company strategy is to preserve the level of revenues, compensating the volumes decline with price increases and at the same time implement some efficiency measures that should slightly improve the segment's profitability.

Looking into the future, Express & Parcels will be the main growth area in top line and profitability and the main driver of the equity store for the next couple of years. The company proved that its bet in Spanish E&P was the right option, and after some years below breakeven, 2023 was a very positive year for this activity with revenues increasing by 52% in Spain and its EBIT improving from 0 in 2022 to 6.5M€ in 2023. The company was very successful in onboarding some large international e-sellers in the second half of 2023, which leads to a volume growth in Spain of 69% in 3Q23 and 126% in 4Q23, improving its market share from 4% in 2021 to c.6% in 2023. We expect this positive dynamic in Spain to continue in the next quarters, which, combined with its market leadership in Portugal, positions the company in a good place to capture the expected e-commerce penetration increase in Iberia for next years, the 4th largest European market after UK, Germany and France.

In the Bank, results should continue growing, benefiting from interest rates at a more normalized level (after several years below zero) and from the bank continuing growing in number of clients.

We recognize that for 2024, financial services segment is the greatest uncertainty after the remuneration cuts in Portuguese saving certificates and its limitation to €50k subscription per account implemented last June 2023. After these changes, public debt placements have been very weak with only €333M placed in 4Q23, which means that the €3bn of placements targeted by the company for 2024 could be seen as aggressive. The company states that the limits implemented last June had the intention to reduce the placements in the 2H23 after a very strong 1H23, but now these limits should be reviewed upwards in order to achieve a more normalized level of placements and reach the €3.7bn foreseen in the 2024 State budget. These limits' revision was probably delayed due to recent elections and subsequent changes in government.

Summing up, considering the big growth potential of the Express&Parcels business combined with a good management team very focused in cost control and in this transformational process, we believe that the shares are an interesting investment opportunity at current prices.

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To the attention of Swiss investors:

- The marketing of the class I (EUR) is restricted to qualified investors under revised CISA Art 120 §4 in Switzerland

To the attention of French investors:

- BPI Global Investment Fund – BPI Alternative is a Luxembourg undertaking for collective investment in transferable securities (UCITS) authorised for cross-border distribution in France under Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)
- The French centralizing agent is Société Générale Securities Services, 189 rue d’Aubervilliers, 75886 Paris Cedex 18, France
- The prospectus, the annual and semi-annual reports and the management regulations in English language can be obtained free of charge on request from the French centralizing agent
- The KIID(s) in French language can be obtained free of charge on request from the French centralizing agent

To the attention of German investors:

- BPI Global Investment Fund – BPI Alternative is a Luxembourg undertaking for collective investment in transferable securities (UCITS) authorised for cross-border distribution in Germany under Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), and is registered with the BaFin under BaFin-id 70147687
- The German information agent and paying agent is BNP Paribas Securities Services S.C.A. Frankfurt branch, Europa-Allee 12, 60327 Frankfurt, Germany
- The prospectus, the annual and semi-annual reports and the management regulations in English language can be obtained free of charge on request from the German information agent
- The KIID(s) in German language can be obtained free of charge on request from the German information agent

To the attention of Italian investors:

- BPI Global Investment Fund – BPI Alternative is a Luxembourg undertaking for collective investment in transferable securities (UCITS) authorised for cross-border distribution in Italy under Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)
- The marketing of the class I (EUR) is restricted to institutional investors in Italy

To the attention of Spanish investors:

- BPI Global Investment Fund – BPI Alternative is a Luxembourg undertaking for collective investment in transferable securities (UCITS) authorised for cross-border distribution in Spain under Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), and registered with the CNMV under number 600

To the attention of Portuguese investors:

- BPI Global Investment Fund – BPI Alternative is a Luxembourg undertaking for collective investment in transferable securities (UCITS) authorised for cross-border distribution in Portugal under Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)
- The Portuguese paying agent is Banco BPI, Rua Tenente Valadim, 284, 4100-476 Porto, Portugal

To the attention of UK investors:

- BPI Global Investment Fund – BPI Alternative is in the temporary marketing permissions regime (TMPR) under reference number 745800; this fund is a Luxembourg undertaking for collective investment in transferable securities (UCITS) authorized as a recognised UCITS scheme in a European Economic Area (EEA) country, and is expected to remain authorised as a UCITS while it is in the temporary marketing permissions regime.
- The UK facilities agent is BNP Paribas Securities Services, 10 Harewood Avenue, London, NW1 6AA, United Kingdom