



QUERCUS
Fund

3rd Annual Event

December, 2023



Disclaimer

Legal Notice

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General Fund Risk Disclosure

The fund described in this presentation is not subject to the same regulatory requirements as mutual funds, including mutual fund requirements to provide certain periodic and standardised pricing and valuation information to investors. There are substantial risks in investing in a fund. Persons interested in investing in a fund should carefully note the following:

- A fund represents a speculative investment and involves a high degree of risk. An investor could lose all or a substantial portion of his/her investment. Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment in a fund.
- An investment in a fund should be discretionary capital set aside strictly for speculative purposes.
- An investment in a fund is not suitable or desirable for all investors. Only certain persons meeting certain additional eligibility criteria may invest in a fund.
- A fund may employ leverage and other investment techniques, and such leverage and other investment techniques may result in increased volatility of the fund's performance and increased risk of loss.
- A fund may trade in commodities, futures and other derivatives, which may increase the risk of loss of the fund. Fund investments are illiquid and there are generally significant restrictions on transferring interests in a fund. There will likely be no secondary market for the interests of a fund.
- A fund may have limited or no operating history.
- The investment manager of a fund may have certain discretionary authority over the fund's assets.
- A fund may invest in a limited number of securities or instruments, which could result in a limited degree of diversification and higher risk.
- A fund generally involves a complex tax structure, which should be reviewed carefully. A fund's investment strategy may cause delays in important tax information being sent to investors.
- The management fees of a fund's investment manager may be substantial regardless of whether the fund has a positive return, and will offset the fund's profits.
- A fund is not required by regulators to provide periodic pricing or to provide periodic pricing or valuation information to investors.
- There are likely to be a number of conflicts of interest or potential conflicts of interest in connection with an investment manager's management of fund assets.

The above summary is not a complete list of the risks and other important disclosures involved in investing in funds. Before making any investment in a fund, investors are advised to thoroughly and carefully review offering documentation with their financial, legal and tax advisors to determine whether an investment is suitable.



What is Quercus Fund Ltd.?

A professional fund licensed and incorporated in the Bahamas

- Administrator: CSC Intertrust
- Banker and Custodian: Credit Suisse | UBS
- Auditor: Baker Tilly Gomez
- Investment Manager: Quercus Ltd
- Minimum investment: US\$ 50,000
- Monthly subscriptions and semiannually redemptions

In order to invest in the fund one must be a professional investor

What is a professional investor?

(1/2)

- A. Any bank or trust company licensed under the Banks and Trust Companies Regulation Act of the Bahamas or licensed under the laws of another jurisdiction, whether acting in its individual or fiduciary capacity;
- B. Any firm registered under Part VI of the Securities Industry Act of the Bahamas which maintains a minimum of \$120,000 of regulatory capital or is registered or licensed to carry on equivalent securities activities in a prescribed jurisdiction;
- C. Any insurance company licensed under the Insurance Act, 2009 of the Bahamas or licensed under the laws of another jurisdiction;
- D. Any investment fund licensed or registered under the Investment Funds Act, 2019 of the Bahamas or regulated under the laws of another jurisdiction;
- E. Any pension fund where a professional investment fund manager has been appointed to manage the fund's assets;



What is a professional investor?

(1/2)

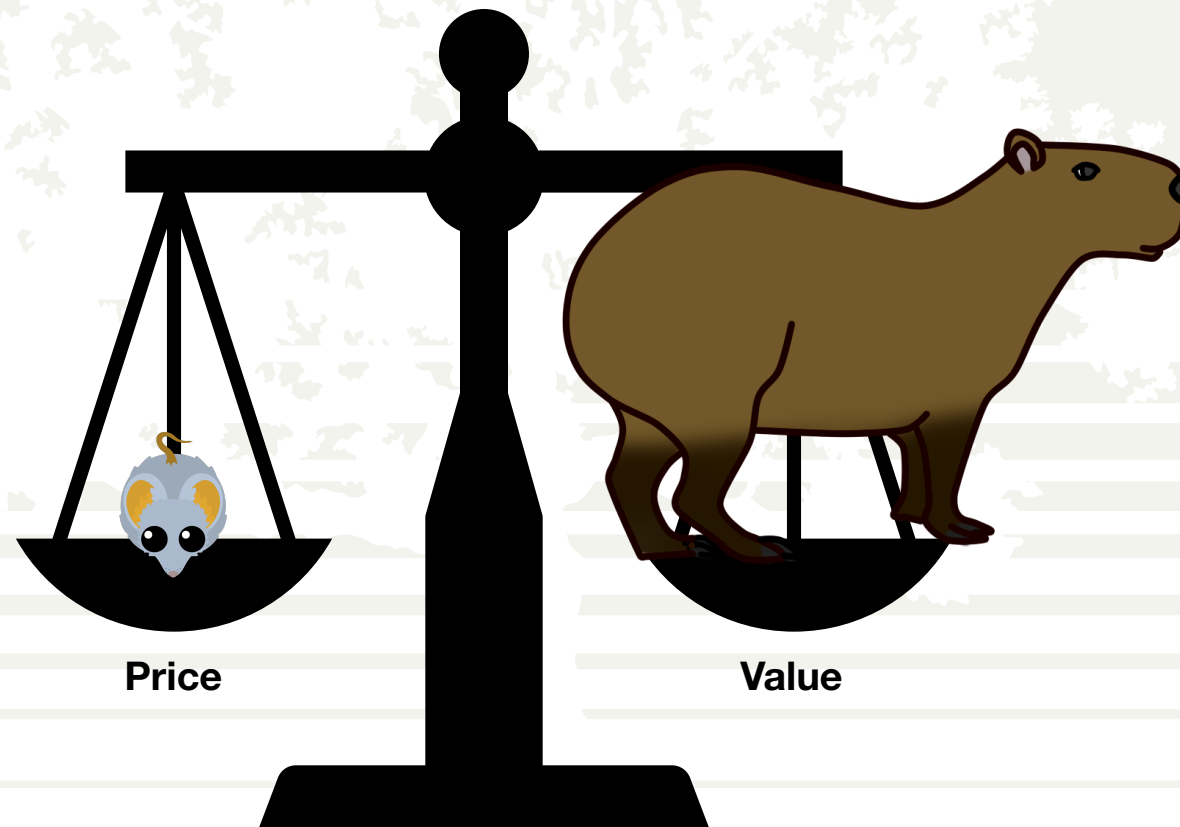
- F. Any natural person whose individual net worth, or joint net worth with the person's spouse exceeds one million dollars (\$1,000,000);
- G. Any natural person who had an individual income in excess of two hundred thousand dollars (\$200,000) in each of the two most recent years or joint income with that person's spouse in excess of three hundred thousand dollars (\$300,000) in each of those years and has a reasonable expectation of reaching the same income level in the current year;
- H. Any trust with total assets in excess of five million dollars (\$5,000,000);
- I. Any entity in which all the equity owners satisfy one of the requirements in paragraph (A) to (H); or
- J. Any entity with net assets in excess of five million dollars.

Contents

- **Investment philosophy**
- Fund performance and positioning
- Companies

Investment philosophy

Price vs. value



Investment philosophy

Main considerations

Price \neq value. Price is what you pay, value is what you get

By definition, value depends completely on the future, which is uncertain.

➔ **It is impossible to ascribe a precise value to an asset**

Objective: To buy assets at EXTREMELY low prices compared to their value, and wait until the market reduces this gap

Investment philosophy

How to find them in a competitive market?

In unconventional places:

Fish where the fish are.

Complex structures, small caps, low free float, overlooked geographies, spin-offs, distressed industries, little followed companies

With unconventional behavior:

Three possible edges: informational, analytical and behavioral.

The first two get rarer (and more expensive) by the day. Still possible in unconventional places.

The third is achievable, and at low cost. Discipline, equanimity, longer holding period.

Investment philosophy

Important ramifications of this approach

No restriction of concentration, sectors, countries, liquidity or size of the invested companies. Our portfolio holds no similarity to any index.

➔ **Benchmarks are neither standards nor tracking objectives, but mere measurement devices**

The holding period for the “price/value” gap reduction may be several years, notwithstanding what happens to the overall market or our securities in the meantime

➔ **Volatility as a measure of risk will be summarily ignored. Risk equates to the probability of permanent loss of capital**

Losses in short periods (months, quarters, and even years) will occur frequently. As the holding period extends, losses tend to fall drastically*

[*See appendix](#)

Alignment of interests

It cuts both ways

Assets Weird stuff that may be held for years in order to re-rate	Liabilities Usually close to zero
	Shareholder's Equity <u>Has to be kept steady through the ups and downs</u>

Holding periods,
expected returns, variability
of returns

Alignment of interests

Commitments

Management fee is zero

Performance fees will be charged only above a threshold.

I will get paid only if you make money.

Essentially all my money is invested in the fund

If the fund loses money, I will be the most harmed.

Investment team of one

I cannot guarantee that the alignment of interest of an analyst or PM will be as strong as mine.

No outsourcing of understanding investment cases.

Alignment of interests

Fee structure

	TYPICAL HEDGE FUND (2% + 20%)		FUND W/ THRESHOLD (2% + 20% over 6%)		QUERCUS FUND (0% + 25% over 6%)	
return before fees	fees	return after fees	fees	return after fees	fees	return after fees
6%	3,2%	2,8%	2,0%	4,0%	0,0%	6,0%
10%	4,0%	6,0%	2,8%	7,2%	1,0%	9,0%
20%	6,0%	14,0%	4,8%	15,2%	3,5%	16,5%
46%	11,2%	34,8%	10,0%	36,0%	10,0%	36,0%
60%	14,0%	46,0%	12,8%	47,2%	13,5%	46,5%
70%	16,0%	54,0%	14,8%	55,2%	16,0%	54,0%

Performance fees: 25% of the gains above 6% per annum

Contents

- Investment philosophy
- **Fund performance and positioning**
- Companies

Munger Partnership Performance



Year	Munger Partnership	Dow Jones	S&P 500
1962	30.1%	-7.6%	-8.8%
1963	71.7%	20.6%	22.6%
1964	49.7%	18.7%	16.4%
1965	8.4%	14.2%	12.4%
1966	12.4%	-15.8%	-10.0%
1967	56.2%	19.0%	23.8%
1968	40.4%	7.7%	10.8%
1969	28.3%	-11.6%	-8.2%
1970	-0.1%	8.7%	3.6%
1971	25.4%	9.8%	14.2%
1972	8.3%	18.2%	18.8%
1973	-31.9%	-13.1%	-14.3%
1974	-31.5%	-23.1%	-25.9%
1975	73.2%	44.4%	37.0%
Total Return	1156.7%	96.2%	102.6%
Annual Return	19.8%	4.9%	5.2%
Volatility	33.0%	18.5%	17.7%

Source: Damn Right



Fund performance

Inception to Nov/2023

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	SPY	ACWI	
2020												3.7%	3.7%	3.3%	3.4%	
2021	-1.9%	7.6%	5.7%	3.0%	0.7%	2.5%	-4.2%	7.5%	-0.4%	2.7%	-6.4%	5.2%	23.2%	27.0%	16.6%	
2022	-3.8%	-0.1%	-1.8%	-6.5%	-2.7%	-0.6%	0.8%	0.5%	-11.1%	-10.7%	14.5%	5.5%	-17.1%	-19.5%	-19.8%	
2023	9.0%	-9.7%	1.5%	4.4%	-0.6%	8.3%	1.1%	-1.4%	-6.6%	-3.9%	7.5%		8.0%	19.3%	16.3%	
													Accumulated	14.5%	26.1%	13.1%
													Annualized	4.6%	8.0%	4.2%

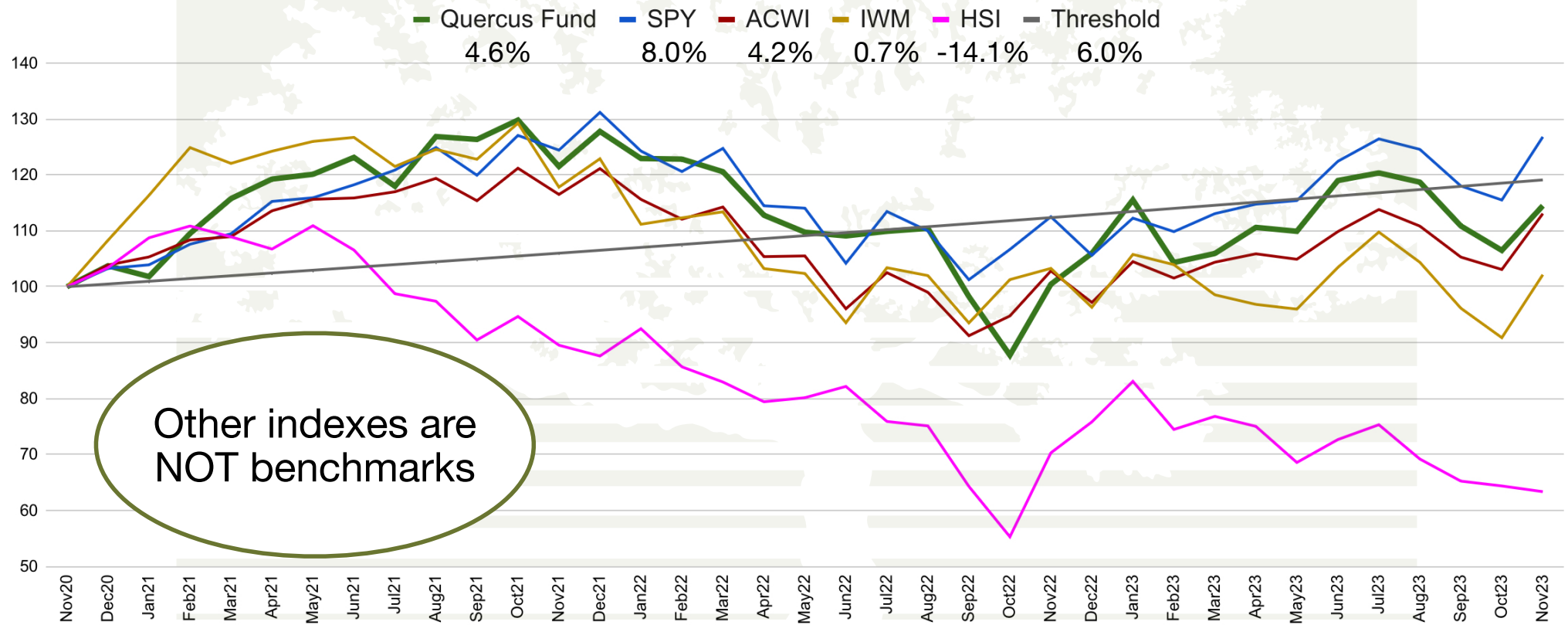
See the [appendix](#) for the performance of the investment manager's personal account before the fund was launched

Note: Nov/23 unofficial NAV



Fund performance

Comparison to global indexes (CAGR)



Note: Nov/23 unofficial NAV

Motivation

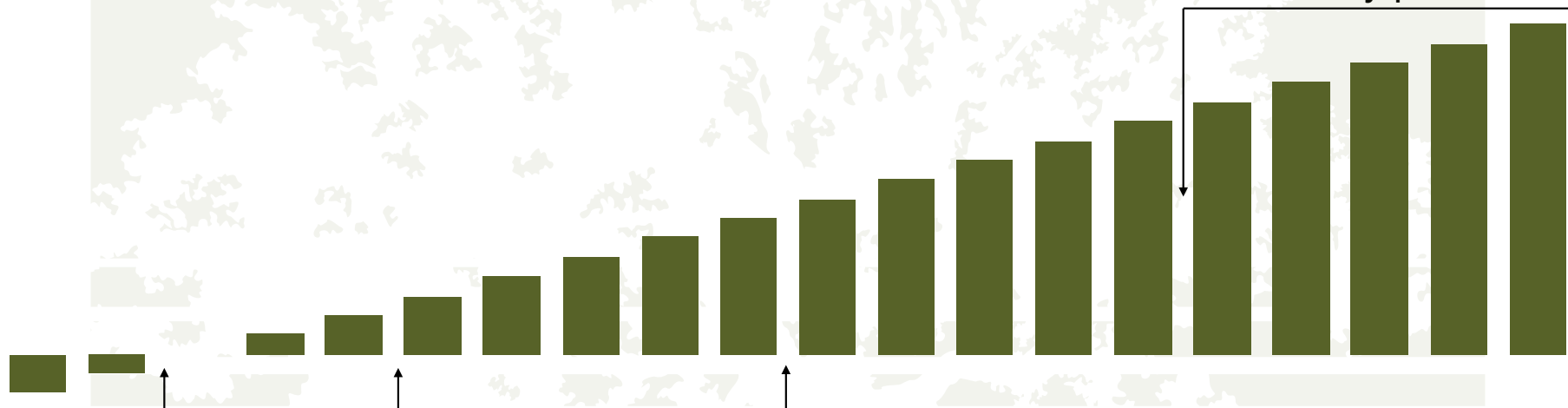
Nothing to despair

- “Low stock prices are the ally to the long term buyer” — **Doug Kass**
- “You shouldn’t own common stocks if a 50% decrease in their value in a short period of time would cause you acute distress.” — **Warren Buffett**
- “You must buy on the way down. There is far more volume on the way down than on the way back up, and far less competition among buyers. It is almost always better to be too early than too late, but you must be prepared for price markdowns on what you buy.” — **Seth Klarman**
- “When stocks are attractive, you buy them. Sure, they can go lower. I’ve bought stocks at \$12 that went to \$2, but then they later went to \$30. You just don’t know when you can find the bottom.” — **Peter Lynch**

Period of underperformance are expected

US mutual fund industry

Of the funds* with the best cumulative 10y performance...



97% spent at least 3y at the bottom half

79% spent at least 3y at the bottom quartile

47% spent at least 3y at the bottom decile

Best fund in the period:
18% CAGR

Average investor in that fund:
-11% CAGR

* 2000 to 2010. Source: The Big Secret for the Small Investor, Joel Greenblatt

Performance and positioning

Multiples

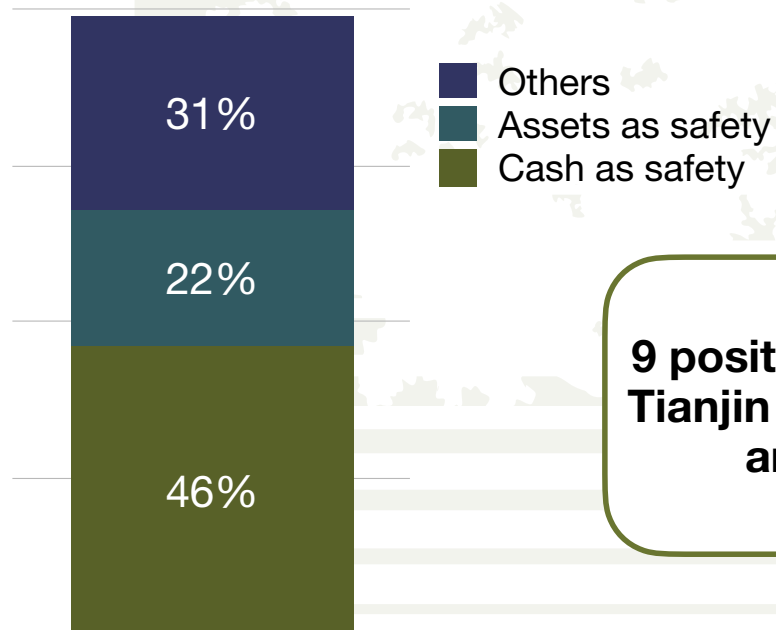


Note: Nov/23 unofficial NAV

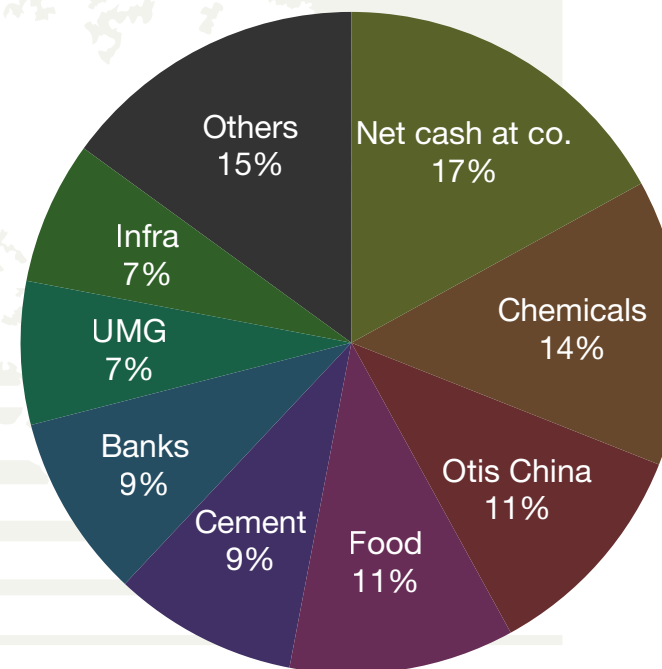
Performance and positioning

Concentration

By safety*



By line of business



**9 positions, of which
Tianjin + First Pacific
are > 40%**

* Cash as safety: at least 85% of mkt cap in net cash. Assets as safety: at least 120% of mkt cap in listed assets

Contents

- Investment philosophy
- Fund performance and positioning
- **Companies: post-mortem**

Post-mortem: Sonagi



SNG.LS 3.0200

yahoo!finance

Nothing happens, until it suddenly does

Sold at 7.10 EUR/share



VOLUME x ↑

2018

Jul

2019

Jul

2020

Jul

2021

Jul

2022

Jul

2023

8.5000

8.0000

7.5000

7.0000

6.5000

6.0000

5.5000

5.0000

4.5000

4.0000

3.5000

3.0000

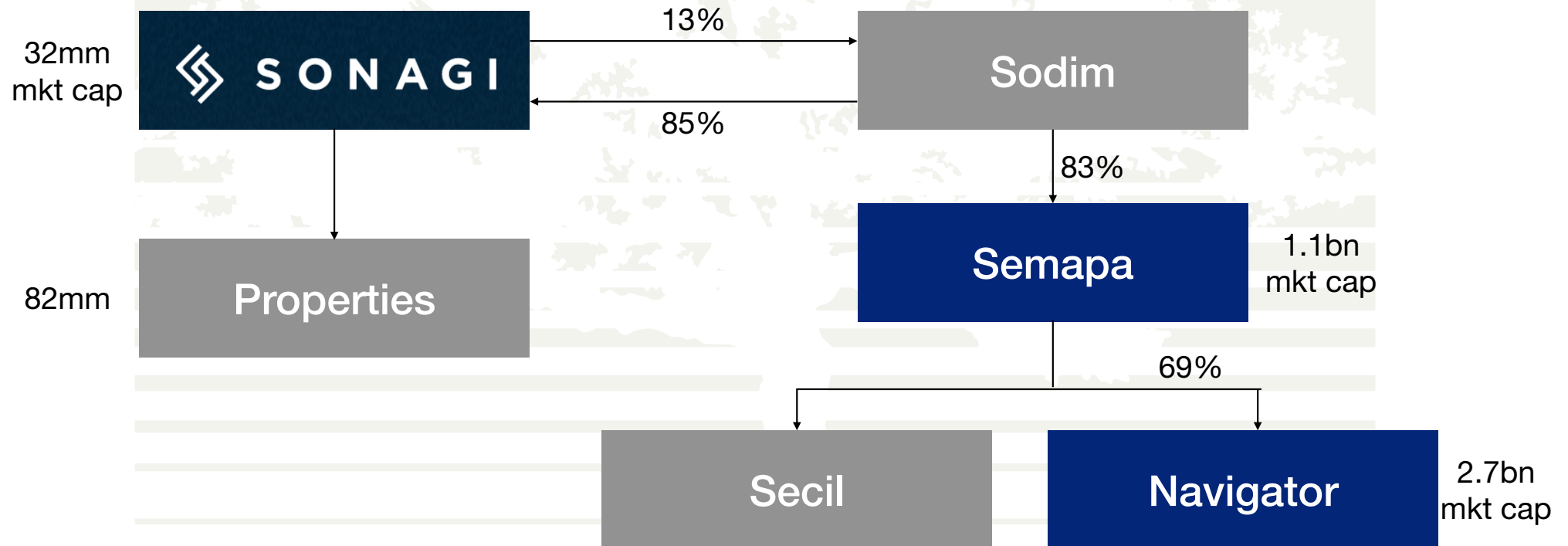
2.5000

100.0k

6.71K

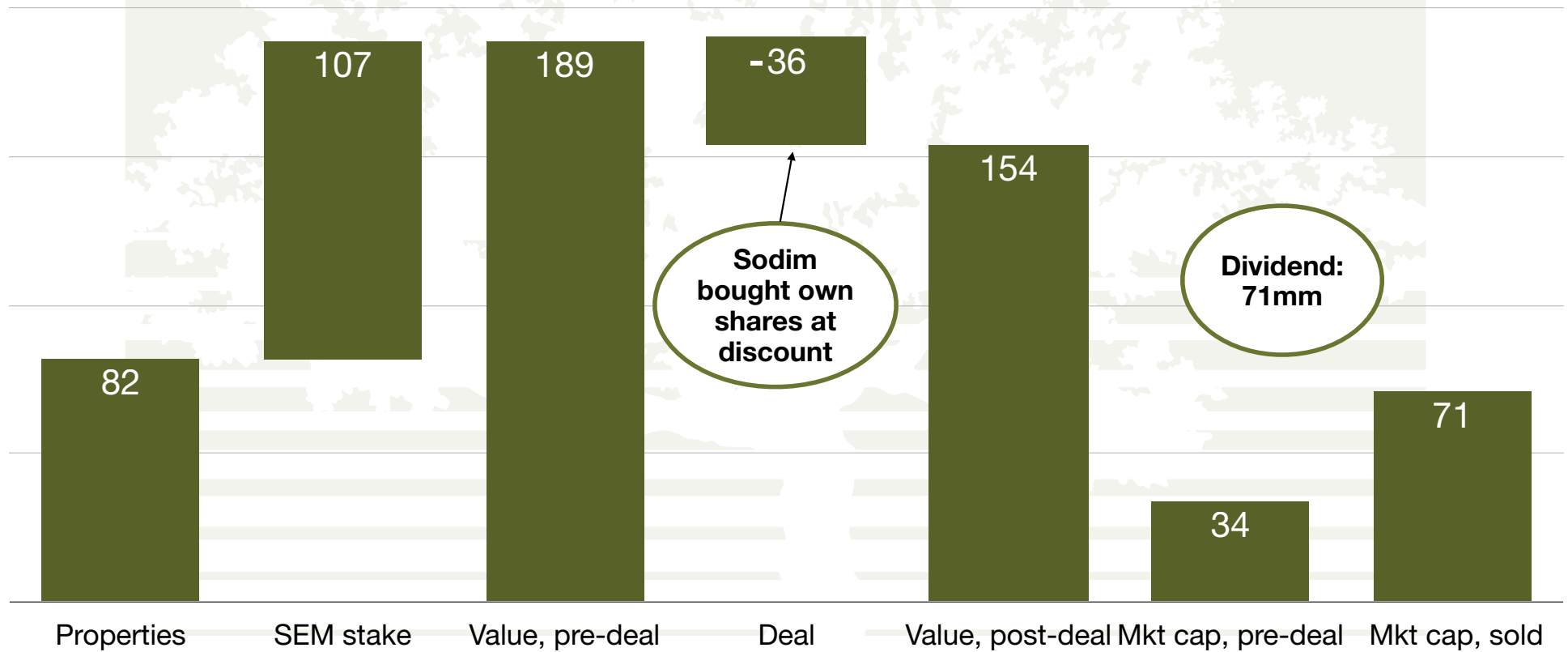
Post-mortem: Sonagi

Corporate structure (EUR)



Post-mortem: Sonagi

Value build-up (EUR mm)



Contents

- Investment philosophy
- Fund performance and positioning
- **Companies: core positions**

Main positions



75%+ of the Fund



Compagnie de l'Odet



Main positions



OTIS



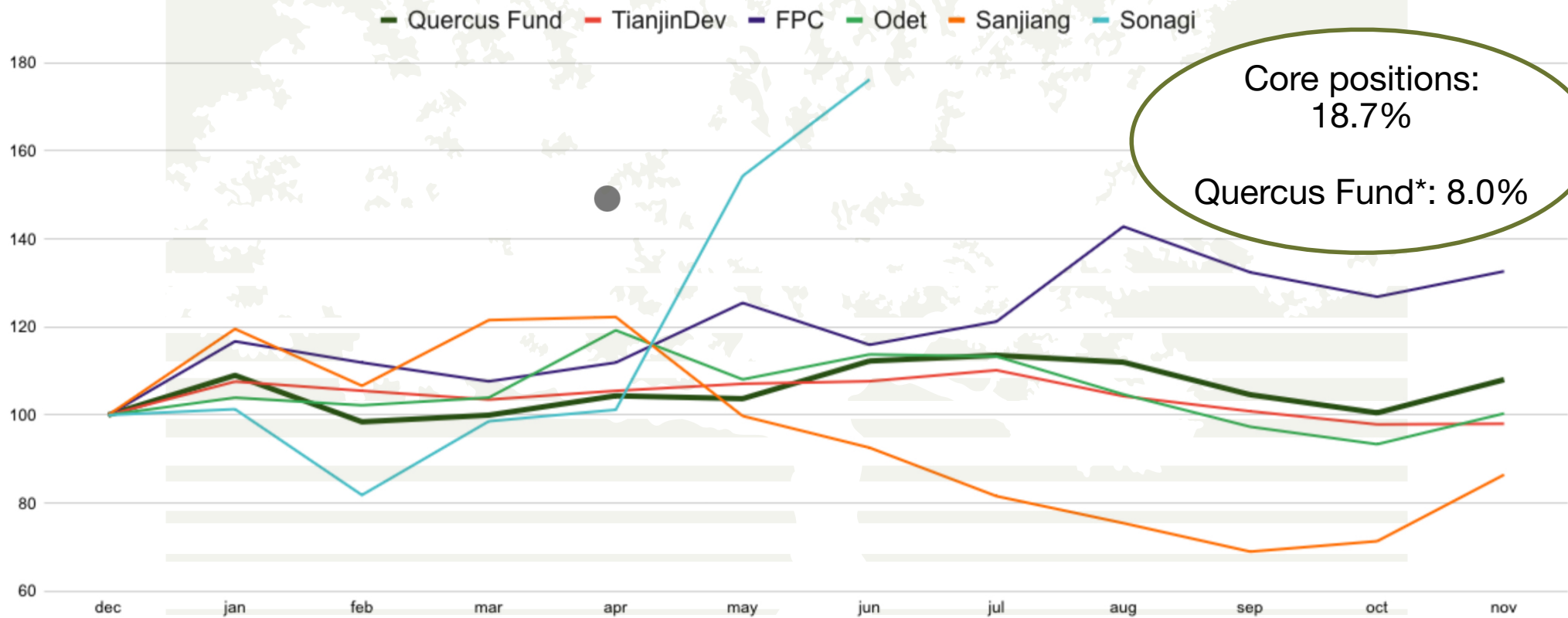
UNIVERSAL MUSIC GROUP

Large,
high quality
underlying
businesses



Fund performance

NAV vs core positions (YTD)



Core positions:
18.7%

Quercus Fund*: 8.0%

* Nov/23 unofficial NAV

Core positions: Tianjin Development

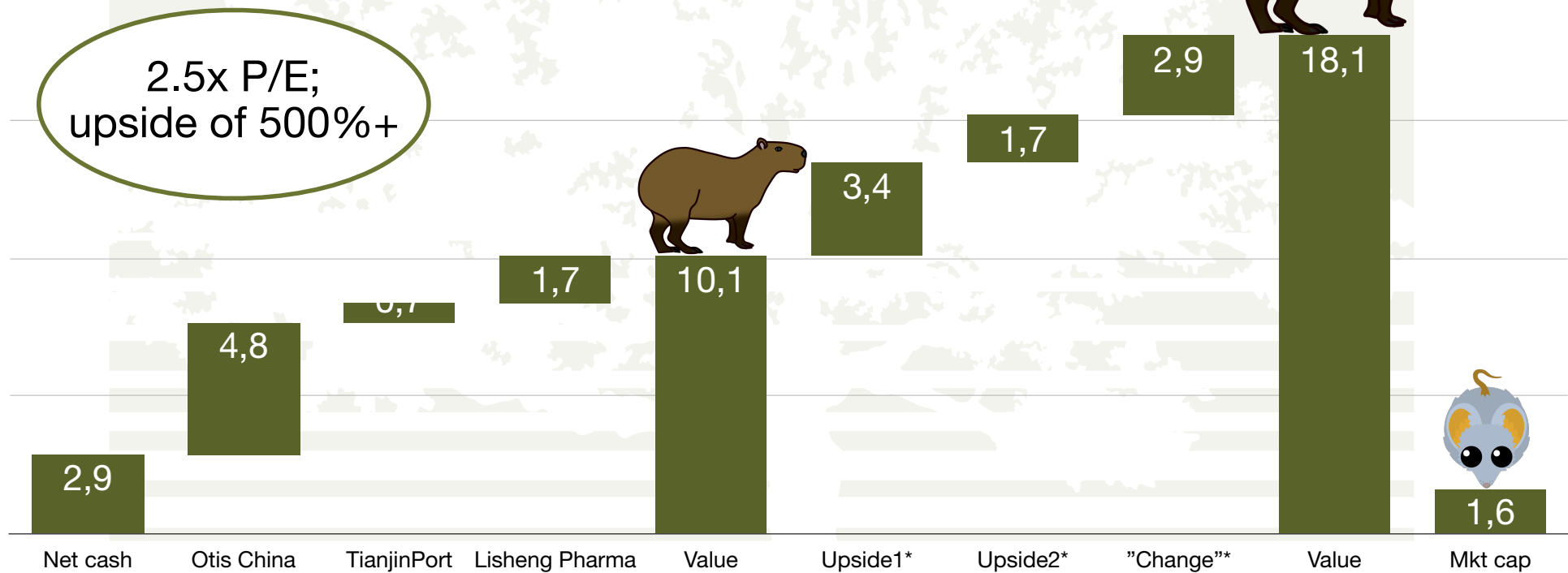


25%+ of the Fund

-2% YTD

Tianjin Development Holdings

Value build-up (HKD bn)



Notes: Otis China at 15x. TianjinPort and LishengPharma at market prices

* Upside1: Otis China at Zardoya's multiple (23.5x). Upside2: Port at Xiamen's multiple (0.85x BV). "Change": BV of remaining assets

Tianjin Development Holdings

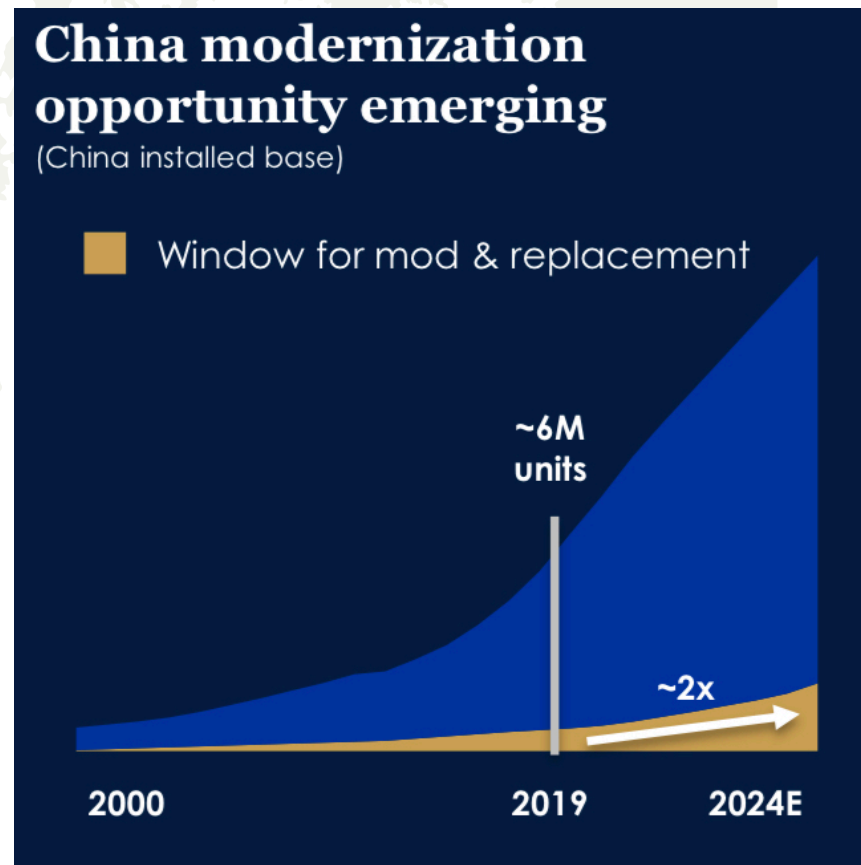
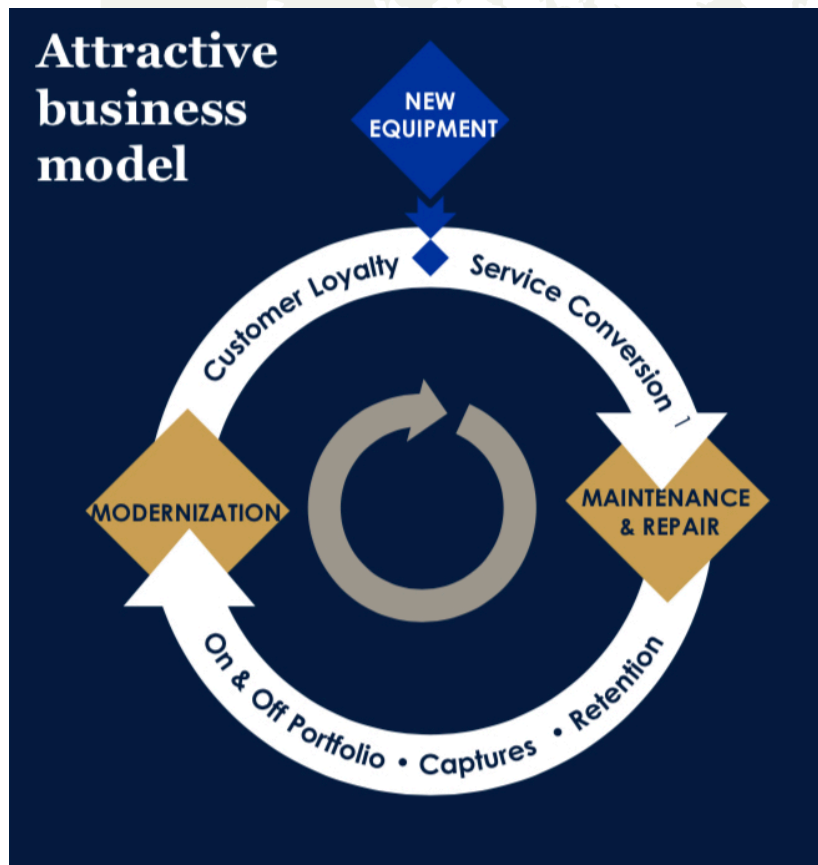
A diversified municipal holding company



- Net cash: 2.0x mkt cap
- 16.5% stake in Otis China, a >40% ROE business. Responsible for almost 50% its total recurring profits
- 34% stake in Lisheng, a listed pharma co with 40% of its mkt cap in cash and 25% in a stake in another listed company
- 21% in TianjinPortDev, a listed company that trades at 65% discount to its stake in the listed port + net cash (60% of its mkt cap is cash)
- Other assets worth more than its mkt cap

Tianjin Development Holdings

Elevator business model and China opportunity



Source: Otis presentations

Core positions: First Pacific Co.



FIRST
PACIFIC

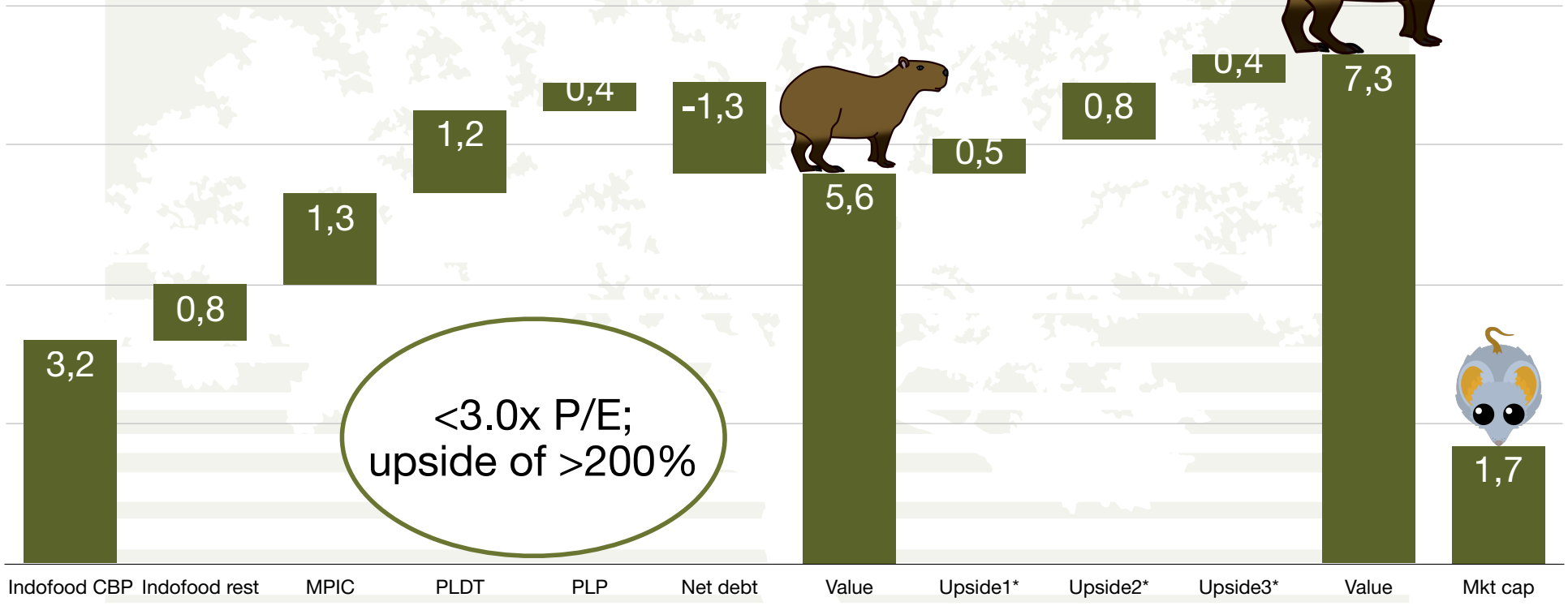
20% of the Fund

+33% YTD



First Pacific Co.

Value build-up (USD mm)



Notes: Indofood CBP and PLDT at market prices. Indofood rest at BV. MPIC at privatization price. PLP at cost

* Upside1: ICBP a 15x (instead of 13x). Upside: Meralco at mkt prices, rest of MPIC at BV. Upside3: PLP at 8x

First Pacific Co.

A large conglomerate in Southeast Asia

Long FirstPacific ex-PLDT
(partially short)



15%+ of the Fund (net)
+34% YTD

Consumer Food
Products



Telecommunications



Infrastructure



Natural Resources



First Pacific Co.

More than USD 30bn under control

A complex structure, with a myriad of non-wholly owned subsidiaries



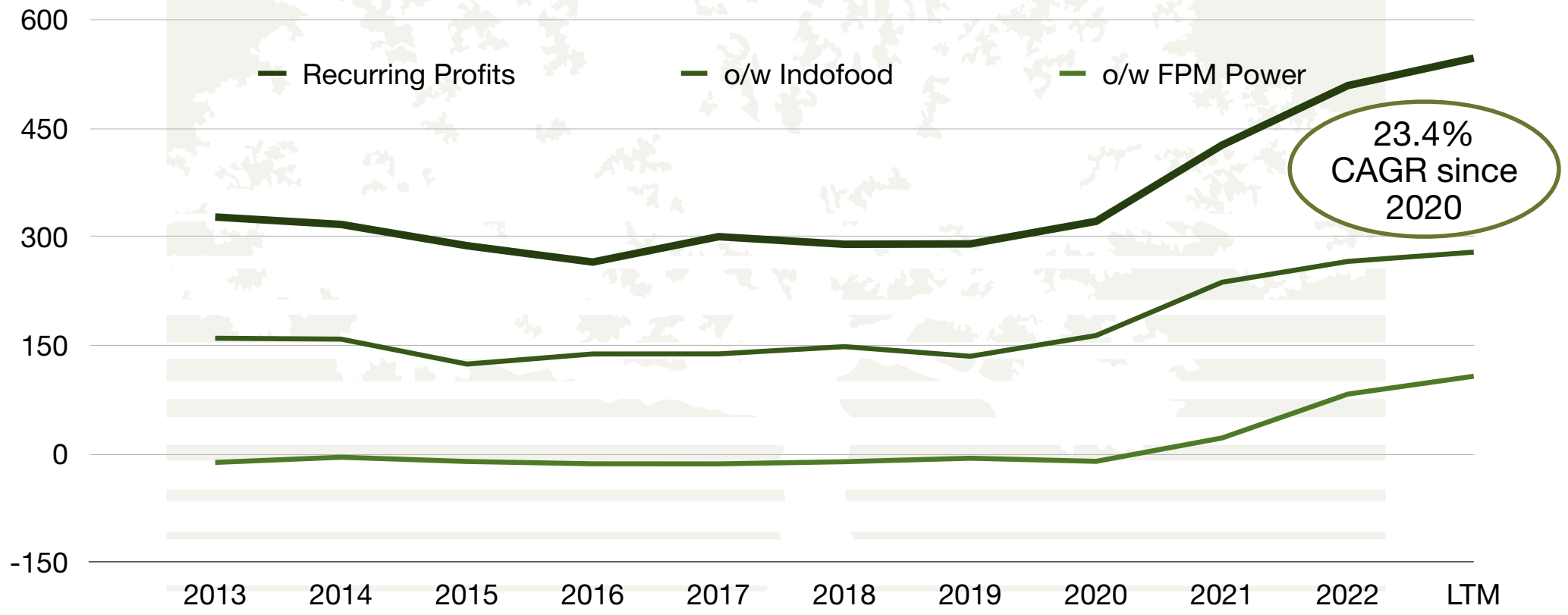
Double discounts



Data as at 30 September 2023.

First Pacific Co.

Profit evolution (USD mm)



Core positions: Sanjiang Fine Chemicals

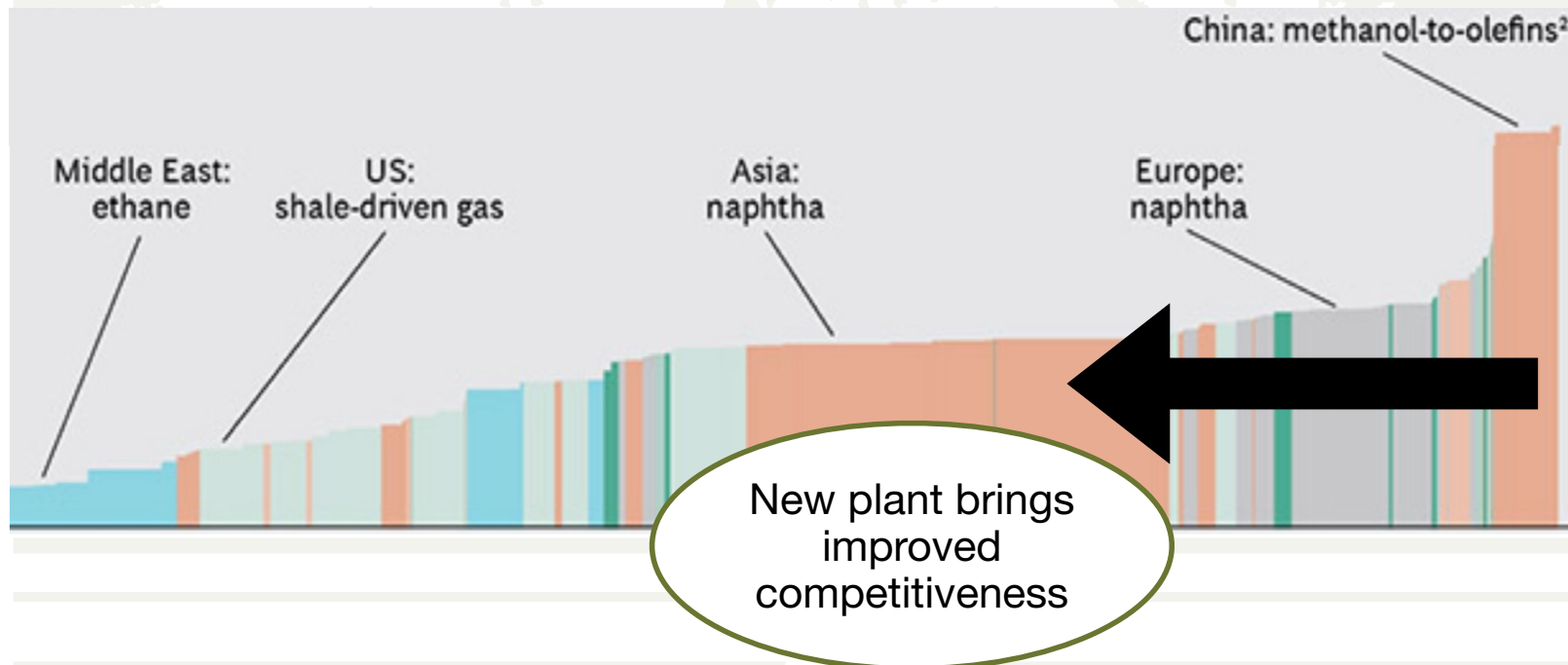


15%+ of the Fund

-14% YTD

China Sanjiang Fine Chemicals

Conceptual ethylene cost curve

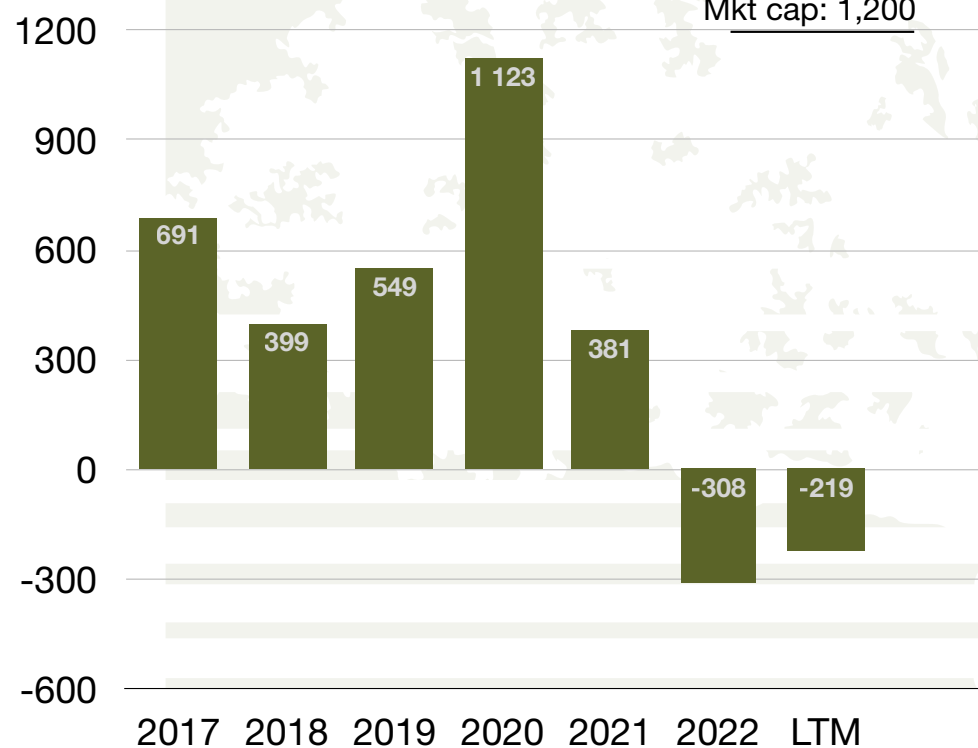


China Sanjiang Fine Chemicals

RMB mm

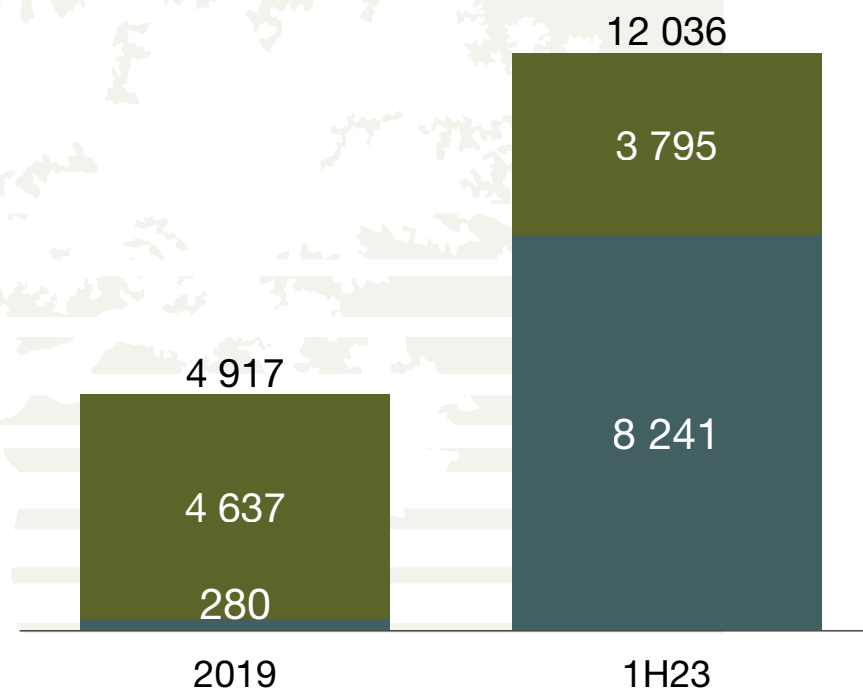
Net profit

Mkt cap: 1,200

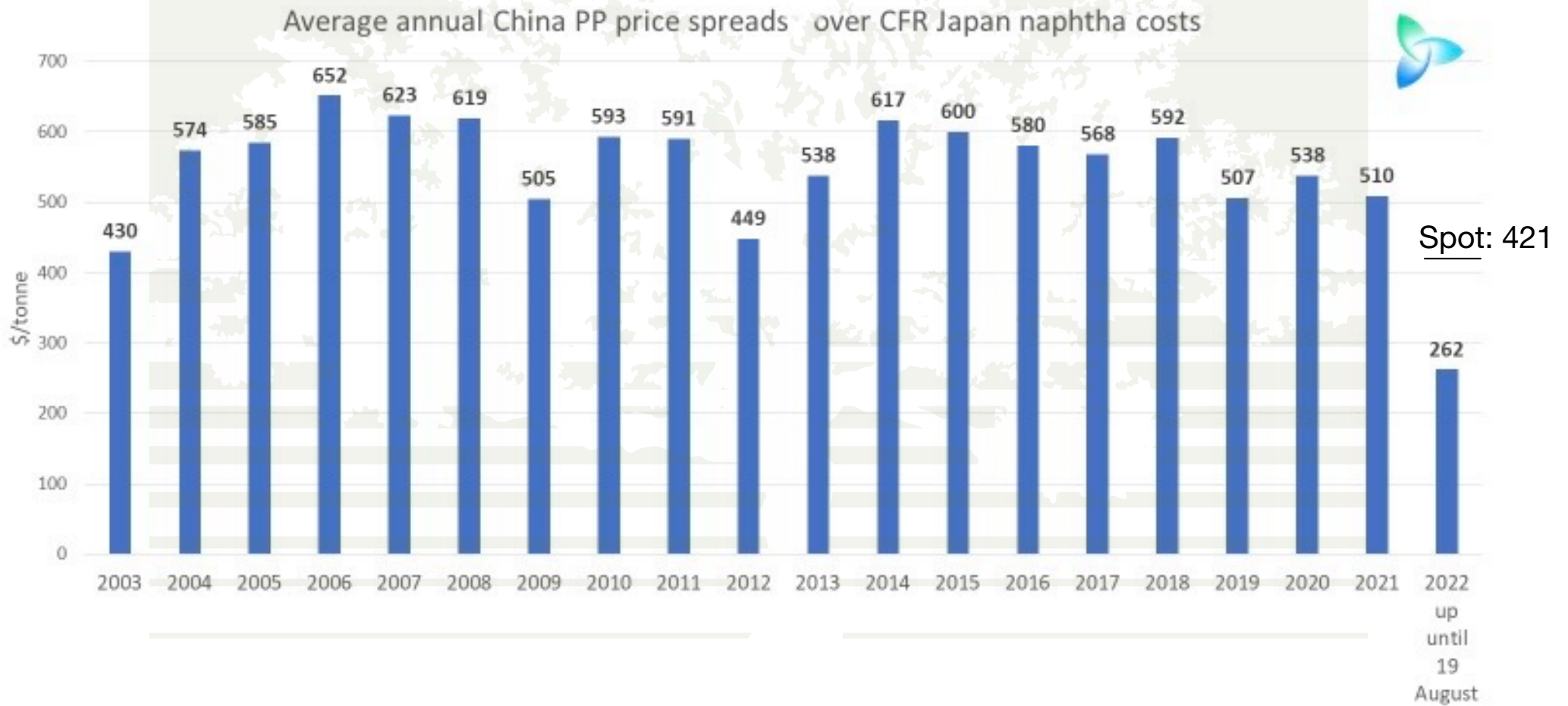


Property, plant & Equipment

■ Construction in progress ■ PP&E, in use



China Sanjiang Fine Chemicals



Core positions: Compagnie de l'Odette



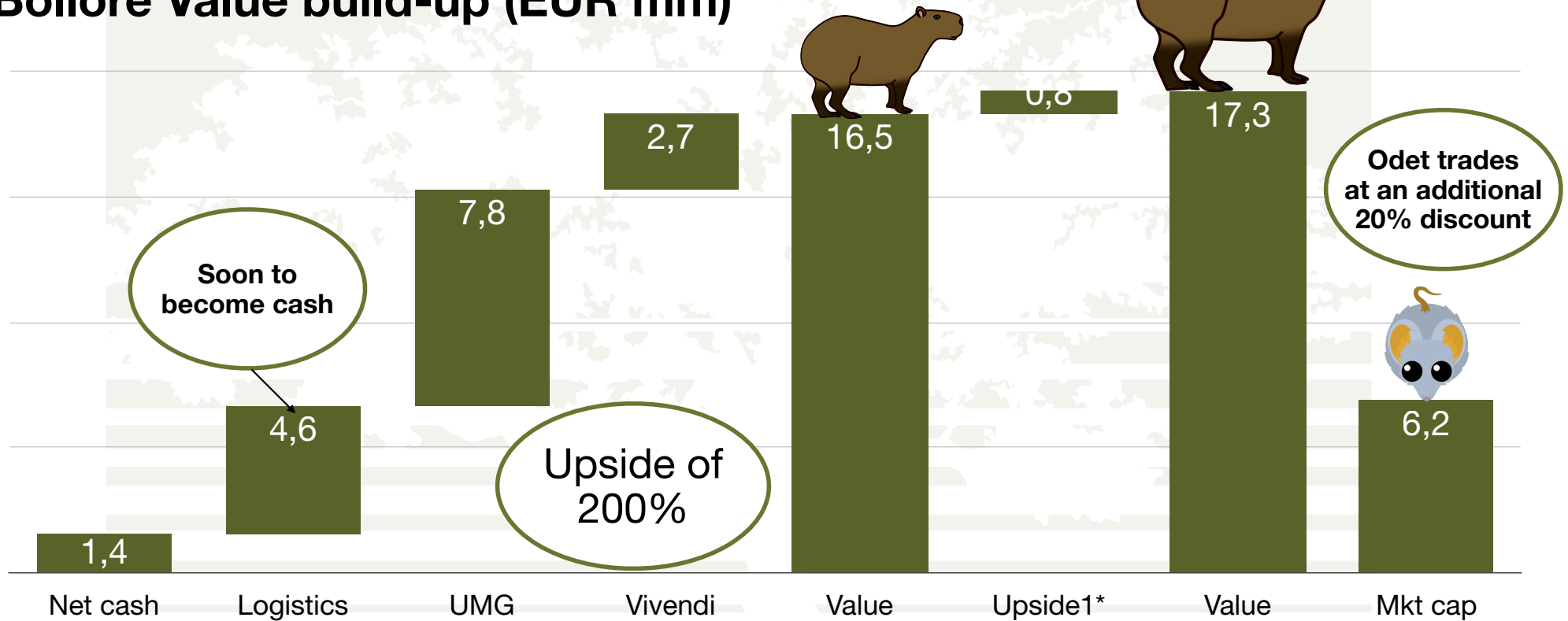
Compagnie de l'Odette

15%+ of the Fund

-1% YTD

Compagnie de l'Odette

Bollore Value build-up (EUR mm)



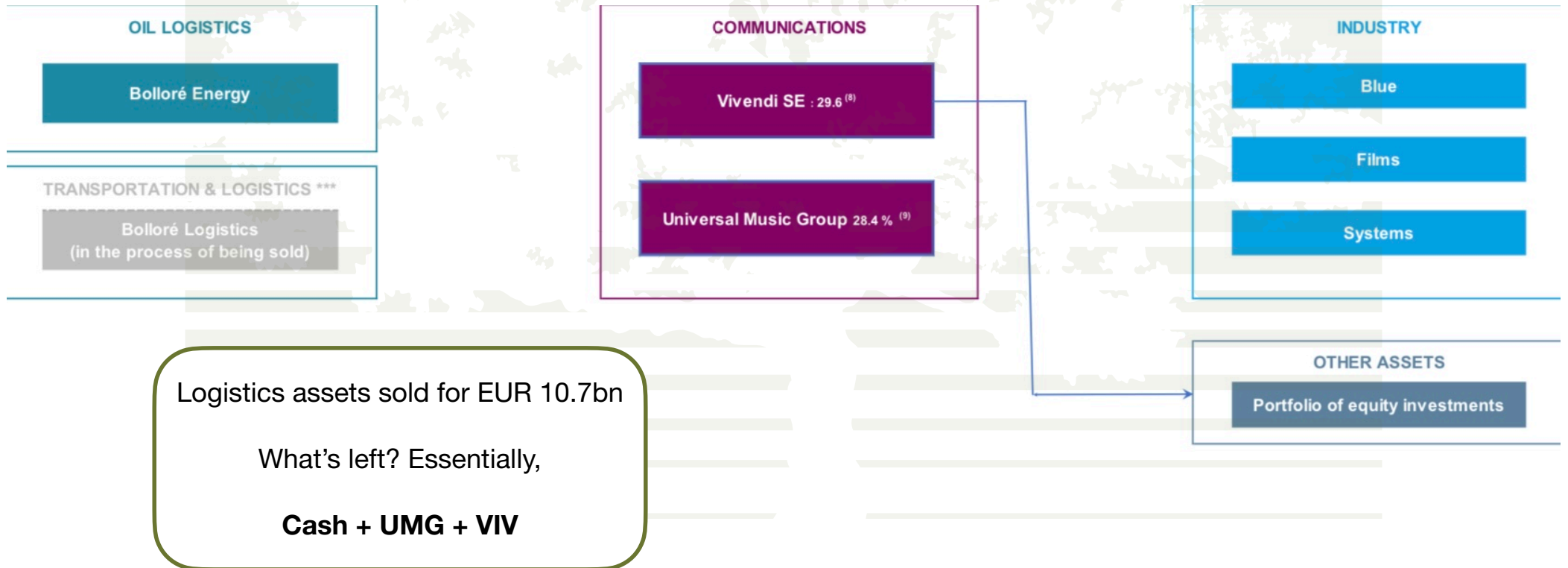
Notes: Logistics at CMA CMG bid price. UMG and Vivendi at market prices

* Upside1: Vivendi at 8x operations + market value of listed stakes

Compagnie de l'Odet

From a global conglomerate to a media holding company

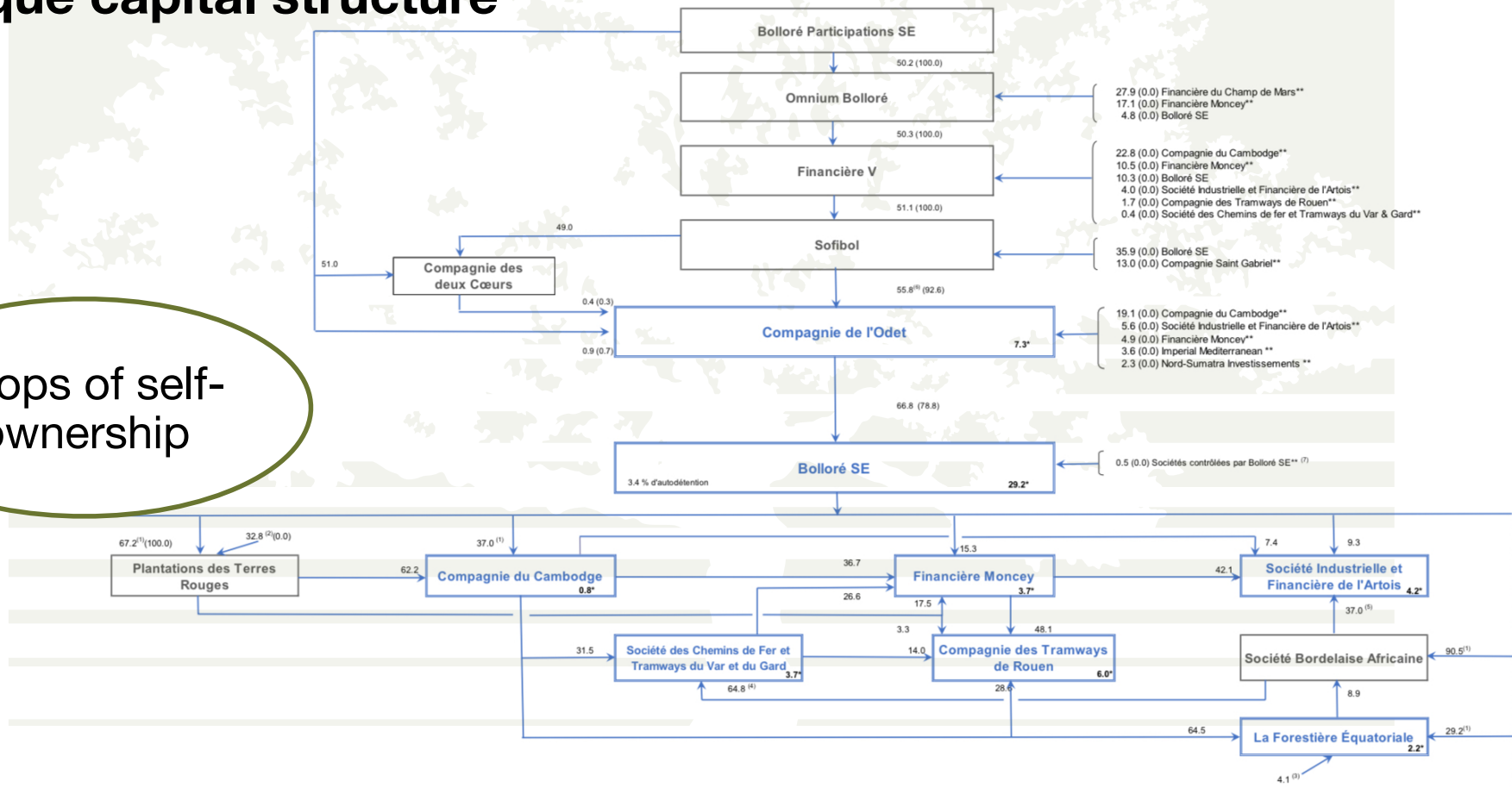
Compagnie de l'Odet



Compagnie de l'Odé

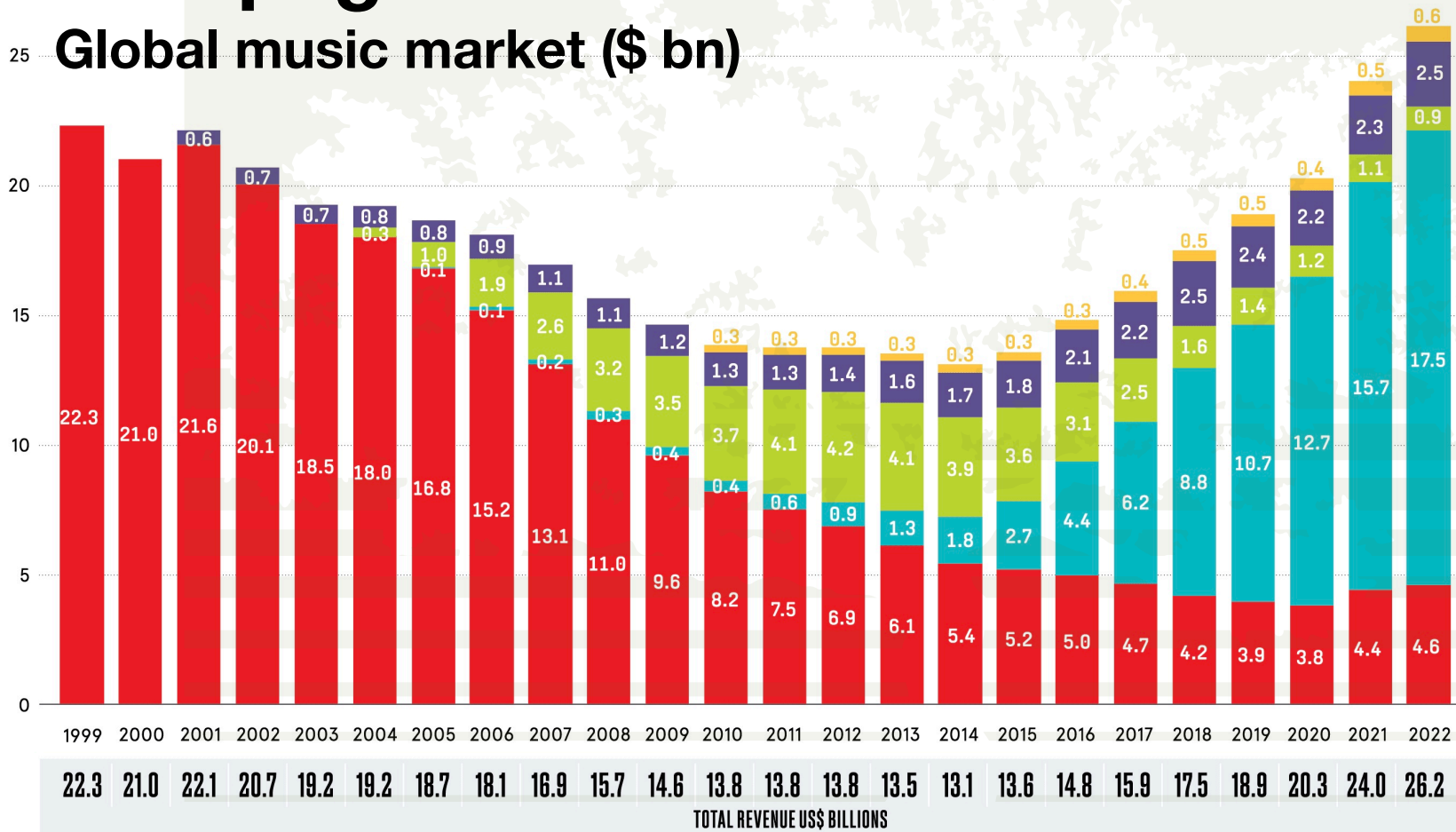
Opaque capital structure

Loops of self-ownership



Compagnie de l'Odet

Global music market (\$ bn)



CAGR from 2018 (pre-IPO)

Market size: 10.6%

UMG EBITDA: 19.2%

● Total Physical ● Total Streaming ● Downloads & Other Digital ● Performance Rights ● Synchronisation

Next core positions?



- >30% market share
- >30% ROE, 5% ROA
- <3x P/E; >15% dvd yield



- 28% PP&E CAGR since 2019
- To become 2nd largest in Africa
- <3x P/E



QUERCUS
Fund

Diego B. Milano
Investment Manager
diegobmilano@quercusfund.com

Appendix



Personal account performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Full Year	IBOV / S&P	Alpha
2014	-5.2%	3.1%	10.1%	0.2%	10.1%	4.2%	-0.8%	10.3%	-14.0%	8.1%	-0.9%	-5.7%	17.5%	-2.9%	20.4%
2015	-12.9%	3.5%	-4.1%	11.1%	-0.6%	-1.9%	-4.0%	-1.6%	-3.3%	9.2%	2.6%	-8.9%	-12.6%	-13.3%	0.7%
2016	-2.4%	2.5%	20.7%	13.5%	-4.4%	-5.6%	0.5%	17.7%	4.5%	8.1%	-1.9%	7.4%	74.2%	38.9%	35.3%
2017	4.7%	-0.3%	0.5%	5.1%	0.7%	-1.1%	10.3%	5.1%	7.2%	9.9%	-3.7%	1.5%	46.6%	26.9%	19.7%
2018	13.5%	-5.1%	-1.0%	-2.5%	-2.1%	-0.7%	1.0%	-0.7%	3.2%	-7.8%	-1.4%	-2.1%	-6.8%	-6.3%	-0.5%
2019	13.6%	3.0%	12.3%	-7.6%	6.2%	11.6%	-4.0%	-5.8%	4.0%	2.2%	0.2%	8.7%	50.6%	28.8%	21.8%
2020	-1.2%	-5.4%	-16.6%	8.5%	-2.8%	10.5%	-2.6%	10.3%	-3.1%	6.0%	8.3%		8.5%	12.5%	-4.0%

Notes:

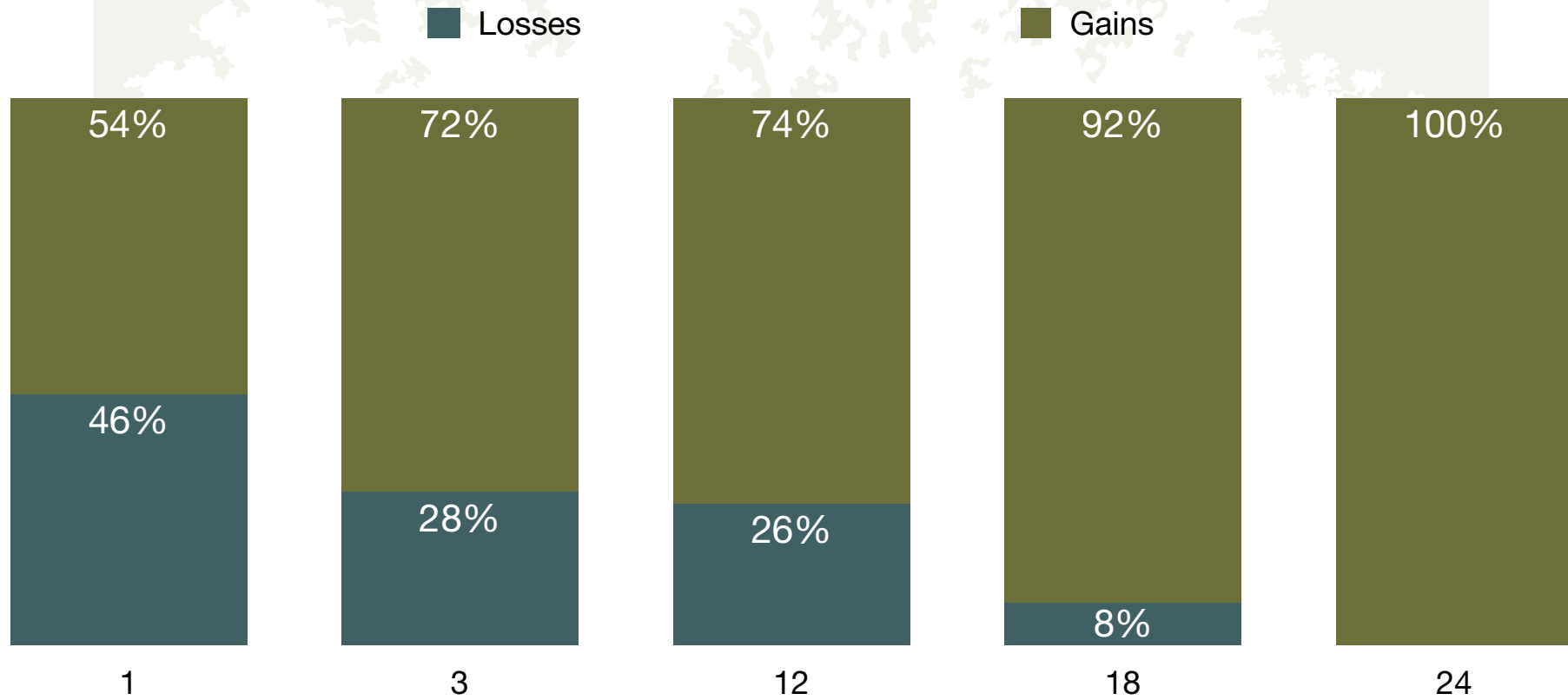
From 2014 to 2017: personal account, in BRL terms (compared to Ibovespa)

From Jan/18 to Sep/18: personal account, in USD terms (compared to SPY)

From Oct/18 to Nov/20: Quercus Enterprises, in USD terms (compared to SPY)

Personal account performance

% of windows with + and - cumulative performances



[See appendix](#)



Investment Manager

My relevant experience

- 6 years as Founder / CIO of Quercus Enterprises Ltd and Quercus Ltd
- 7 years as Portfolio Manager and Trader at Itau BBA S.A.
- 2 years as Research Analyst at GWI Asset Management
- 2 years as Business Analyst at Gradus Management Consultant
- Aeronautics Engineer at Instituto Tecnológico de Aeronautica (ITA-2003)