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HARRY QELM BAABSMAN

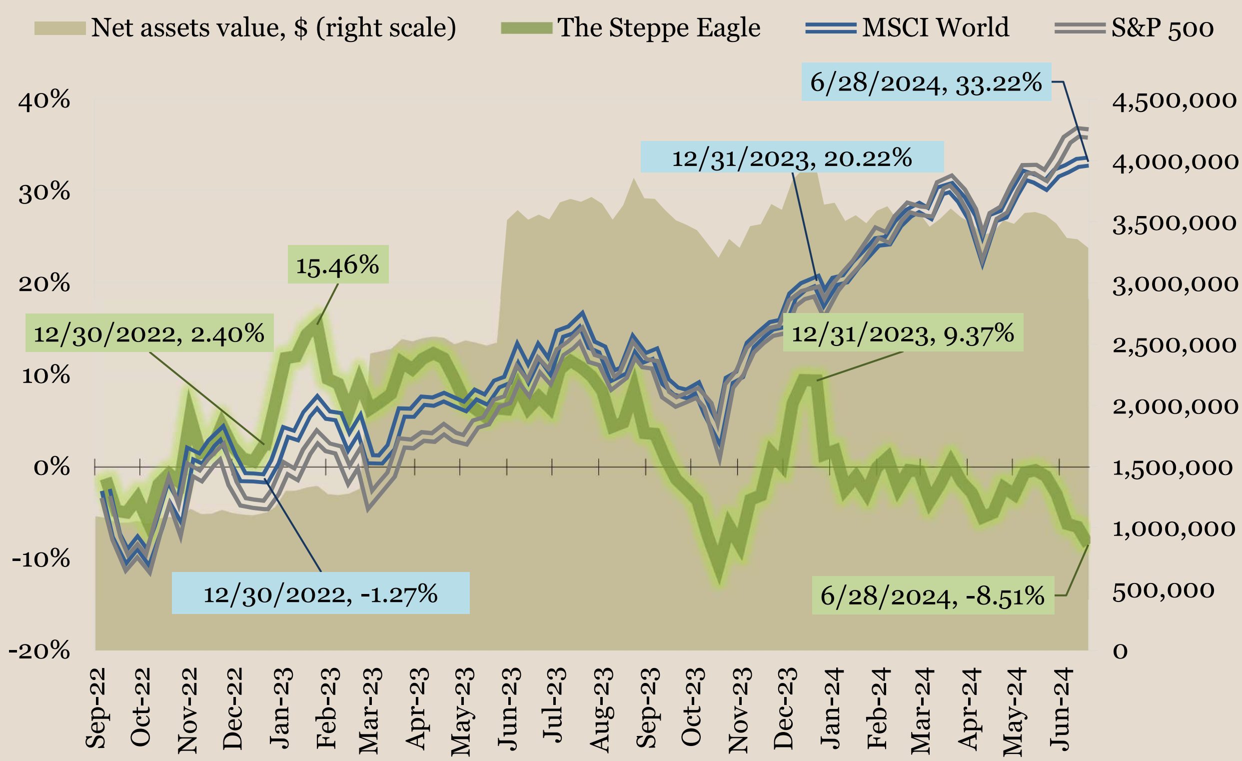
Eyrie of The Steppe Eagle

2024 Half-year Investment portfolio report

Fellow Investor, Unitholder, Reader,

Usually, the half-year portfolio report is brief and informative - the mid-way check. However, this time, we will add more information about the current state of the stock market, industries we feel worth be invested in, manias, and sound judgment. We must clarify that the way prices behave may trick us, investors, into confusing the price for value. Only passing time will eventually sort the wheat from the chaff.

The Steppe Eagle was down by -16.53% in the first six months of the year, our benchmark, MSCI World Index, yielded +10.81%. Since the inception, the Steppe Eagle arrived at -8.51% versus +33.20% for its benchmark. Mr. Market hasn't been particularly adequate. Lucky us then!



The Steppe Eagle OEIC Ltd was registered on 25th of July 2022; Started its operations on 8th of September 2022 and is managed by Harry Qelm Baabsman ltd, a CIS License holder at AIFC (AFSA-A-LA-2022-0006, active since 3d of February 2022). On the 28th of June 2024, The Steppe Eagle consisted of 359 116 150 Units; the Unit's price was $0.00915.

Warren Buffett once said that it's wise for investors "to be fearful when others are greedy and to be greedy only when others are fearful." Thus, when Mr. Market offers you a great deal: to buy something worth $1 for 30 cents – you say -Yes! Unfortunately, that doesn't automatically mean the price would not go to 20 or 10 cents before turn-around.

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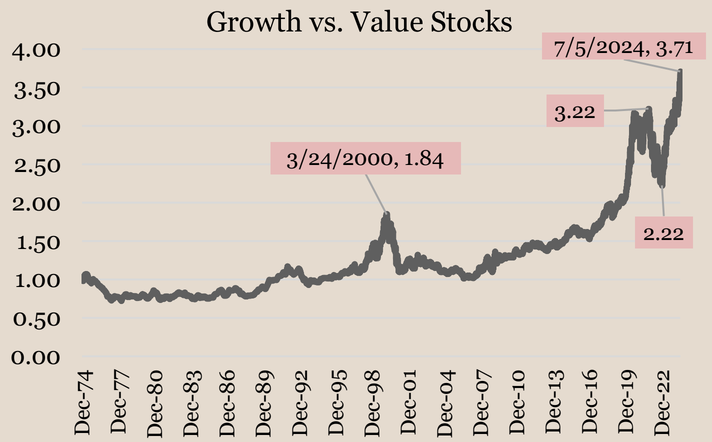
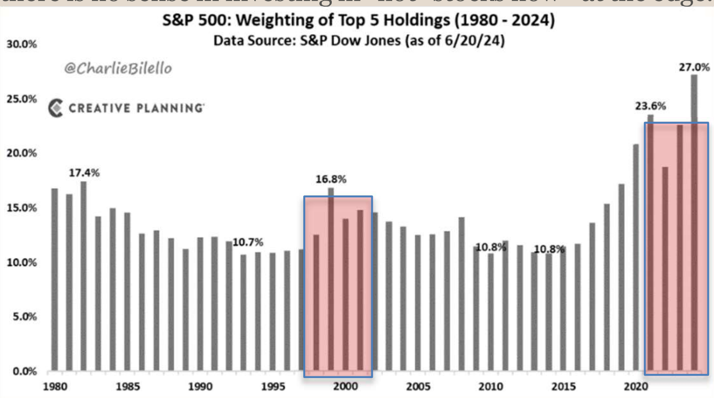
No man can predict the lowest point. We acted when wonderful prices presented themselves, and we shall certainly see the results of the **Value Investing** approach together. Market conditions are not normal now: most of the businesses we acquired during the late part of 2023 and in 2024 are excellent exemplars in their fields, boasting leadership roles, financial health, and a history of growing revenues. But these businesses aren't awarded with proper valuation now. The main culprit is that we should live through mania concerning AI, microchips, and mega-capitalized companies. Some investors of Nvidia stock or S&P500 or Nasdaq ETFs think they are invincible, but the extreme market concentration is unlikely to be sustained long.



source: longtermtrends.net

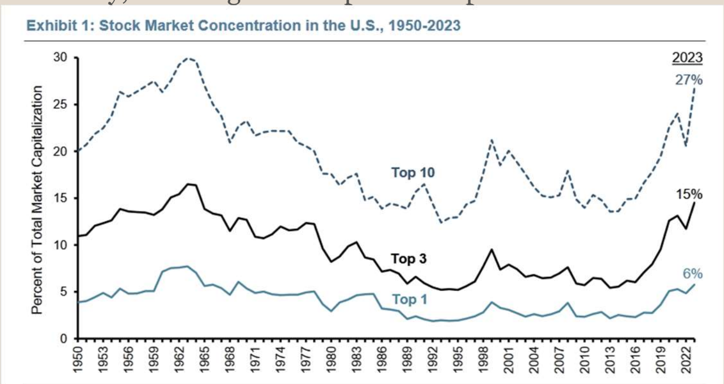
The dot-com bubble seen between 1997 and yearly 2000 at the chart above nicely illustrates what happens when markets are driven by manias rather than rationale. Reaching its highest point in March 2000, MSCI USA Growth Index declined by -44% by March 2001, whereas MSCI USA Value changed by only -7% in a year. For the next several years, the bubble continued to deflate; the famous technological Nasdaq Composites Index, for example, lost -80% by mid-2002. So, there is no sense in investing in "hot" stocks now - at the edge.



source: bilello.blog

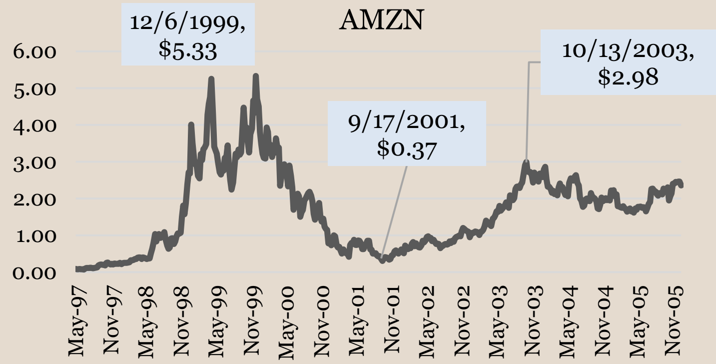
This chart tells the story of the herd behavior. When market actors just buy what's growing without any retrospective.

The situation now is even more dire; the concentration of top-5 holdings in the S&P 500 Index reached almost 30%, which is 10% more than it was during the dot-com bubble. Thus, the grand finale could be even more dramatic. As famously said by Mr. Benjamin Graham, the Dean of Wall Street: 'In the short run, the market is a voting machine but in the long run, it is a weighing machine.' We expect a lovely payback, eventually, for being able to spot and capture value ideas.



source: morganstanley.com

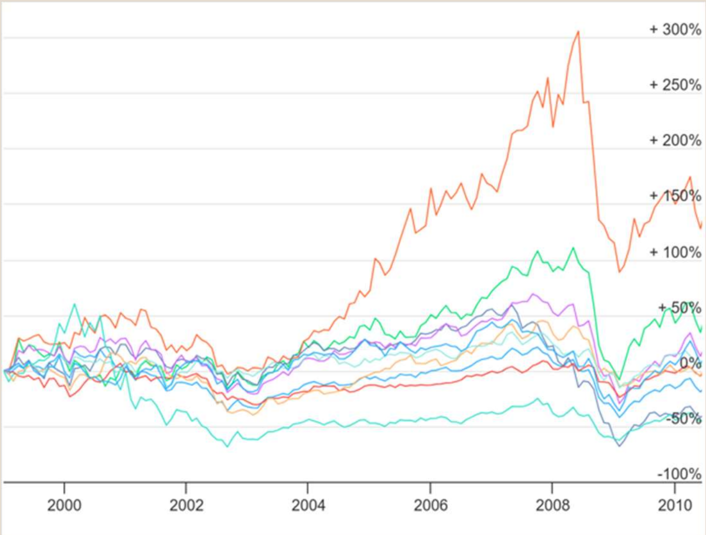
We emphasize that our primary focus is long-term success. A quarter or a year are mere steps. **The decisions we make today may negatively affect current returns, paving the way toward supremacy over the market and substantially lowering risks in the future.** Amazon's (AMZN) historical case is an excellent example of how short-term results could have been sacrificed to gain big time. This stock brought nothing but pain to early investors. At the height of the 2000's market peak, Amazon's shares traded at over $5 (over $100 before the split 1 to 20 in 2022). The business had already shown a financial rationale back then. When it fell by -70% to $1.59, it became a good investment for patient stock pickers who decided to step in. But, before any good happened, people would incur up -75% loss when the market bottomed in 2002 at $0.37. In 2003, the price was back to $3 or almost twice the $1.59. On June 28th, 2024, Amazon's price was $193 **(+11 963% gain)**. The old truth is **time in the market means more than timing the market.**



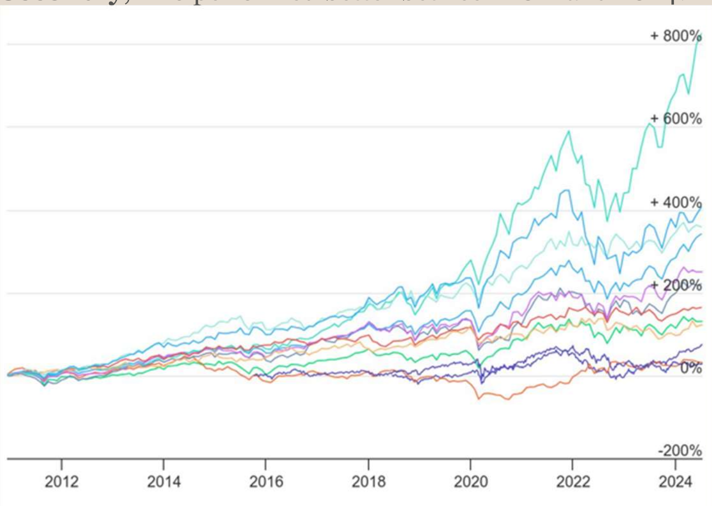
Our principles are:

- No debt or derivatives;
- No shorting;
- No market timing;
- No index hugging;
- No agitation about short-term fluctuations;
- No diversification for the sake of diversification.

The question of economic and market cyclicity has arisen acutely. Let's investigate the following charts to demonstrate how different US-market sectors behaved over time. **Firstly,** guess who were the best and worst performers between 1999 and 2010?



Secondly, who performed better between 2011 and 2024?



source: longtermtrends.net

Answers: the US-Energy sector performed almost **+300%** for the first decade of the new millennium, especially in 2008, and the worst performer with **-32%** was the Information technologies. Fast forward to the 2011-2024 period: the best sector with an **+850% gain** is Information technologies, and the worst is US-Real estate with a **+28%** total gain; the US-Energy sector gained **+42%** since 2011.

There is an objective reason to expect a few cycle shifts in the next 5-10 years. Today, one of the worst-performing sub-sectors has been Clean Energy, which we are very fond of for purely economic reasons. It would be thoughtful to expect a considerate level of normalization and boosted performance within this sub-sector in the coming years.

Our motto: **bring returns through intelligent investing into friendly to the environment and shariah-compliant businesses across developed economies**.

- The companies that are already mature enough to function with numbers close to or well beyond one billion US dollars;
- Which already faced and coped with crises in the past;
- Can efficiently operate without excessive debt;
- Companies whose advantages are difficult to replicate and can sustain a high return throughout many years;
- Work in agreeable industries, especially clean energy, recycling, conscious consumer goods and services, IT and software;
- Businesses that Mr. Market is occasionally offering with a significant discount to intrinsic value;
- Totally having in mind Mr. Buffet's saying: "Our favorite holding period is forever."

Management discussion

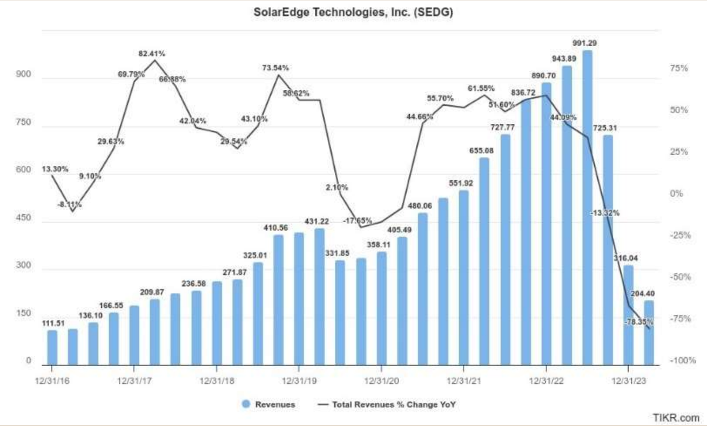
It is premature to draw conclusions about the results because another six months still remain. However, naming primary obstacles for the Steppe Eagle in the first six months of 2024 would be an open policy for the fund manager. They are:

1) Extreme weakness in the Clean energy sector caused by the economic downward cycle in this sector that prevented many fantastic companies from operating at levels seen between 2019 and 2022. Especially SolarEdge (SEDG);
2) A lackluster performance of European stocks, especially retail HelloFresh (HFG_GR) and Zalando SE (ZAL_GR);
3) Some of the biggest winners gave up some of the gains seen in early 2024, Salesforce, Adobe, and Shopify;
4) There has been an optimistic story of TPI Composites, that went from $1.63 in October 2023 to $5.75 in May 2024.

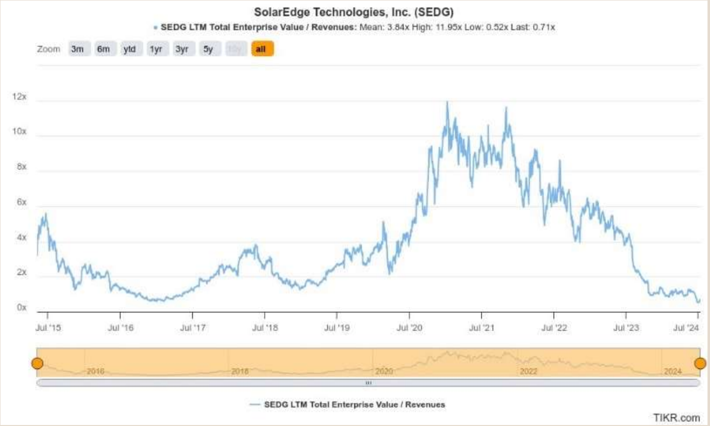
Starting with **SolarEdge (SEDG):** The company is a fast-growing, financially viable business. It is one of the best, alongside Enphase (ENPH). But, alas, it is prone to energy cycles. It produces power optimizers and string inventors for the solar energy sector for homeowners and companies; it also manufactures battery solutions and power trains for commercial EVs. It grabbed our attention because it could increase its sales every year at a 25-35% rate, increasing its operating profits using a considerably small amount of debt. For five years, from 2017 to 2022, the company grew its sales from a meager $601 million to $3.1 billion. This business is working at both great markets for solar energy (the US and the European Union). As we mentioned in the Fiscal 2023 Investment report: '2024 could be dangerous for them because of oversupply issues in the solar energy sector, which tend to appear every 3-5 years.' **This risk occurred in full force.** However, having in mind the bigger picture, **fund manager is waiting for another big step up for the portfolio companies.**

In 2022, the world installed 1185 Gigawatts of solar energy, greater than any other energy source installation. And though the data for 2023 is not fully published yet, the capacity is expected to surpass 2022's amount. This winning streak has been intact for more than five years by now, on purely economic footing. **The especially fruitful year could be 2025, with a full recovery of the sector.** The world spends over $300 to $350 billion yearly on new solar projects.

As the following Exhibit shows, SolarEdge was growing its sales at a high double-digit rate, but during solar energy cycles, the rate would fall to a negative area every 3-5 years. Yet, the current cycle is the worst of them all; sales for the 4th quarter of 2023 and the 1st quarter of 2024 fell -70% due to oversupply issues caused by rescheduling projects to 2025 after the glut of war-instigated panic installations in 2022. That is bound to change in late 2024 and the following year in full force.



The sense of the bigger picture and confidence in the company's ability to weather this storm, emerge victorious, and lose some weight created a market opportunity to invest more. It is impossible for any market participant to call a "Bottom." We used steps of every -15% price change to buy this stock, 1-1.5% each time in 2023 and 2024 after SEDG's price fell -50% from its high of $350. The current Economic Value to Revenue (EV/Sales), which is our favorable metric for fast growing companies, is below 1. The average level of EV/Sales is 3.85, which gives birth to a raw but reasonable expectation of tripling the price from this level. In fact, we expect more. The following Exhibit demonstrates the corridor of EV/Sales that can be used for projections.



Our company won't be shocked to see SEDG stock at $110-150 in two years from now.

Global Investment in New Power Capacity, by type

	2022	2021	2020	2019
Renewable	78.73%	77.28%	77.07%	72.51%
Fossil Fuels	14.27%	15.99%	16.69%	21.54%
Nuclear	7.00%	6.73%	6.24%	5.95%
Non-Renewable	21.27%	22.72%	22.93%	27.49%

source: international energy agency

HelloFresh SE (HFG GR)

HelloFresh is a fast-growing founders-led business with a turnover of 7.6 billion EUR that delivers the "cook and eat" sets. Subscription-based ready-to-cook ingredients are straight from producers and farmers. It is a geo-diversified (EU and US) business with sound growth. It is slightly profitable, has excellent potential, and its debt-to-assets ratio is below 30%. Our strategy is to keep that superb specimen for as long as possible. The company is the worldwide market leader in its sub-industry, **with nearly 80% market share in the US and a comparable share in key European countries**. The business suffered through a period of slow growth in 2023, mainly owing to inflation-related issues, but also a shift in post-pandemic consumer behavior resulted in slow growth. The management is currently busy making the business more efficient and re-inventing its growth strategy, which is achievable given the scale of operations and leading role in the sub-industry.

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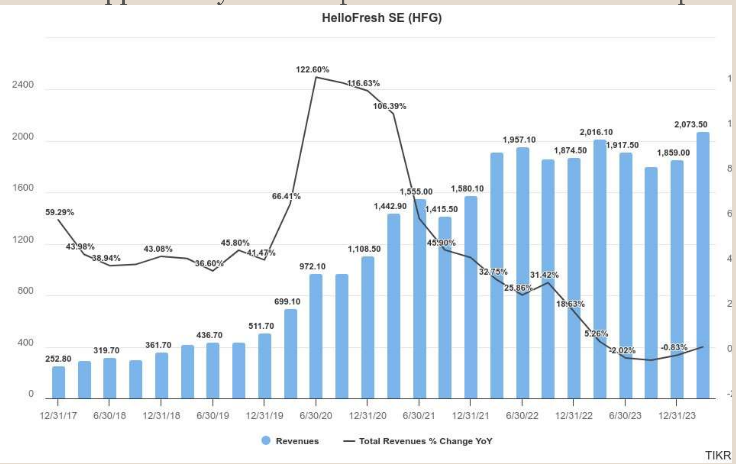
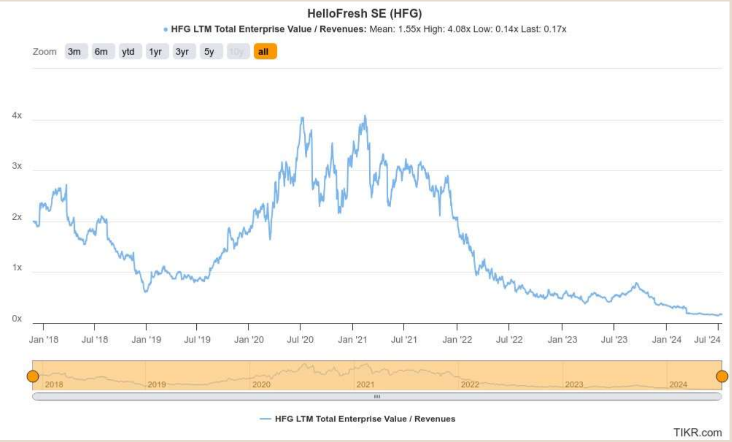
The chart below explains the story of delayed growth. The business didn't suffer any significant setbacks; it just needs a moment or two to find a firm ground to push off. It is uneasy to figure out when exactly this will happen, so we decided to use the opportunity to load up this stock while it was cheap.



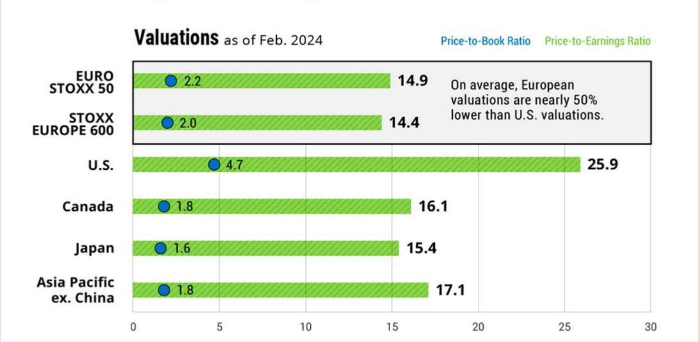
The current market capitalization of HelloFresh is below 1 billion EUR, which is ridiculous for a company with almost 8 billion EUR in revenue, resulting in a 0.17 EV/Sales ratio. The all-time average for EV/Sales is 1.5, enabling 400% to 700% growth from the current price. The most pessimistic DCF model gives us 14 EUR per share versus 5.8 EUR presently.



One last issue we are dealing with is the inadequate assessment of cross-market investment opportunities. We deal in many developed markets, believing that if a company a) Collects revenue of several billion each year, b) Can grow, and c) Operates with a low debt-to-assets ratio, then its valuation should be equal among all developed markets with comparable tax bases and risks.

Nevertheless, only the US stock market is overcrowded and overbought now. For some unreasonable opinion, international capital prefers to buy expensive companies, sacrificing long-term results instead of searching for more opportunities in other developed markets. This tendency will eventually reverse, especially in the light of tamed inflation in Europe.

The next Exhibit shows that an average European stock is twice as cheap as an average American stock.



source: visualcapitalist.com

TPI Composites (TPIC)

This company was a main headache for the Steppe Eagle portfolio in late 2023. The share prices dropped from \$14 to \$1.63 (lowest point) out of fear that the company is losing its grasp with its customers, the wind energy titans (Vestas, GE, Nordex). That proved false because sales figures for the last quarters show that business is still big and its ties with titans are strong.

In the previous report, we wrote that "*the company's stock is undoubtedly depressed much more than it should have been. It will require more time for the dust to settle and for TPIC to recover above \$6 or \$9 per share*". In May 2024 TPIC climbed as high as \$5.75 making a +250% comeback from the lows. We decreased our risk here by 60% above \$5 without any considerable loss. **Time and patience are crucial in dealing with Mr. Market.**

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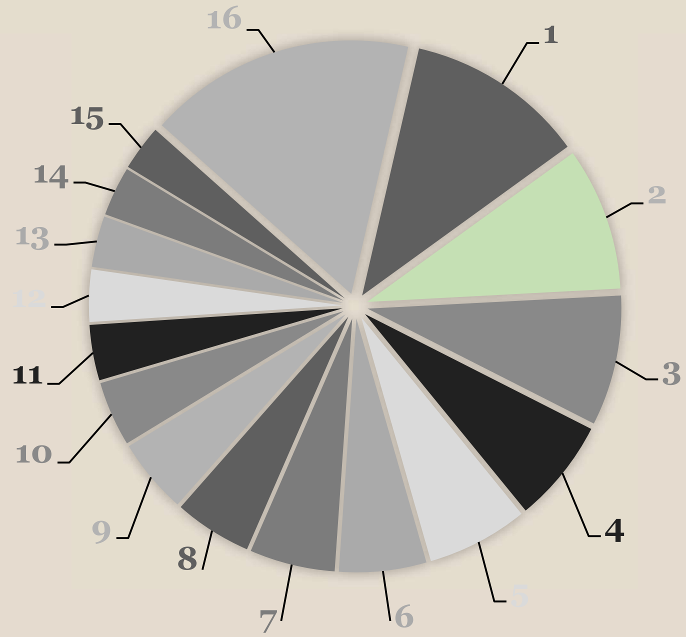
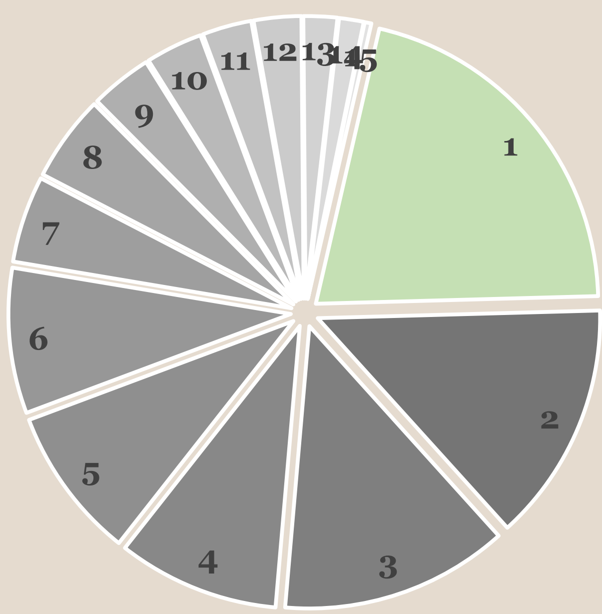
Composition of the portfolio by position:

1	*Salesforce.com*	*...11.42%*
2	*Cash*	*...9.13%*
3	*Signify NV*	*...8.32%*
4	*Zoom Video Communic.*	*...6.61%*
5	*Alphabet Inc.*	*...6.46%*
6	*Zalando SE*	*...5.55%*
7	*Sprott Physical Silver*	*...5.44%*
8	*PUMA SE*	*...4.96%*
9	*Vaneck Merk Gold trust*	*...4.78%*
10	*TPI Composites*	*...4.13%*
11	*Adobe Inc*	*...3.55%*
12	*Canadian Solar*	*...3.32%*
13	*Sprott Physical Uranium*	*...3.25%*
14	*ASOS*	*...3.14%*
15	*SolarEdge Technologies*	*...2.91%*
16	*other bets*	*...17.03%*



Composition of the portfolio by industry:

1	*cash & precious metals*	*...20.96%*
2	*IT: Cloud marketing*	*...13.73%*
3	*IT: Internet & data*	*...13.07%*
4	*Clean energy: solar*	*...9.25%*
5	*Consumer: cloth-marketplace*	*...8.70%*
6	*Greener: lights & efficiency*	*...8.32%*
7	*Consumer: clothing*	*...4.96%*
8	*Clean energy: wind*	*...4.95%*
9	*IT: SaaS design and marketing*	*...3.55%*
10	*Cmdty: uranium*	*...3.25%*
11	*Consumer: food delivery*	*...2.83%*
12	*Recycling: metals*	*...2.71%*
13	*Transport: taxi & delivery*	*...1.93%*
14	*Consumer: sustainable cloth*	*...1.41%*
15	*Consumer: web-retail*	*...0.39%*



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Events after reporting date

Just in two weeks of July, the Steppe Eagle OEIC has improved by over +$200,000, decreasing loss from -16.35% to -11%. And we reasonably expect this trend to continue in the year's second half. The predominantly fruitful period should be 2025, when absolute returns for the fund investors could be much more competitive.

We are sincerely thankful to our Fund Investors for their patience and courage. It helps us to stay focused and continue investing in all market weather.

Thank you for reading!

HQB

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