



Macro Value Investing: Lessons From History – Navigating this Changing Market Environment

BEN GRAHAM CENTRE'S 3RD EUROPEAN VALUE INVESTING CONFERENCE

Presented by:

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Sionna Investment Managers*

Value Outperforms Over the Long Term

Value vs. Growth 10 Year Rolling Performance (Annualized)
(6/30/1926– 3/31/2019)

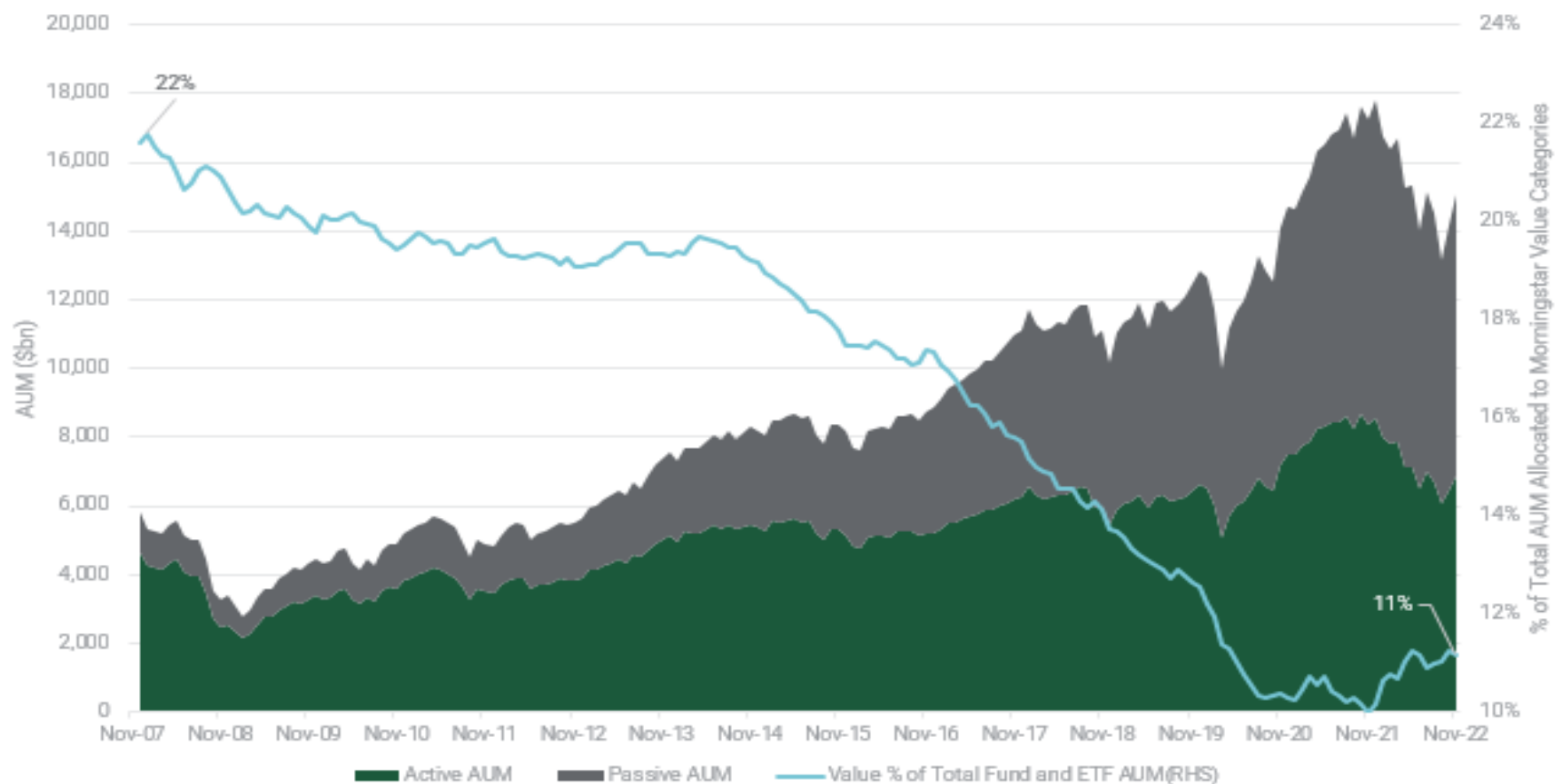


- Suggests that the value recovery has only just begun

Source: Eugene Fama & Kenneth French. Ronald Blue Trust. 2019.
2019-2022 is an estimate by Sionna based off of S&P 500 Value and S&P 500 Growth Index Data.

Contrarian Opportunity: Today, Most Investors are Under-Allocated to Value

As % of U.S. Mutual Fund and ETF AUM



Source: Brandes, Morningstar. U.S. Open End Funds and ETFs in International and US equity categories. Value categories include Small Value, Mid-Cap Value, Large Value, Foreign Large Value, Global Large-Stock Value, and Foreign Small/Mid Value.

Range-Bound Markets are Frequent

U.S. Stock Market



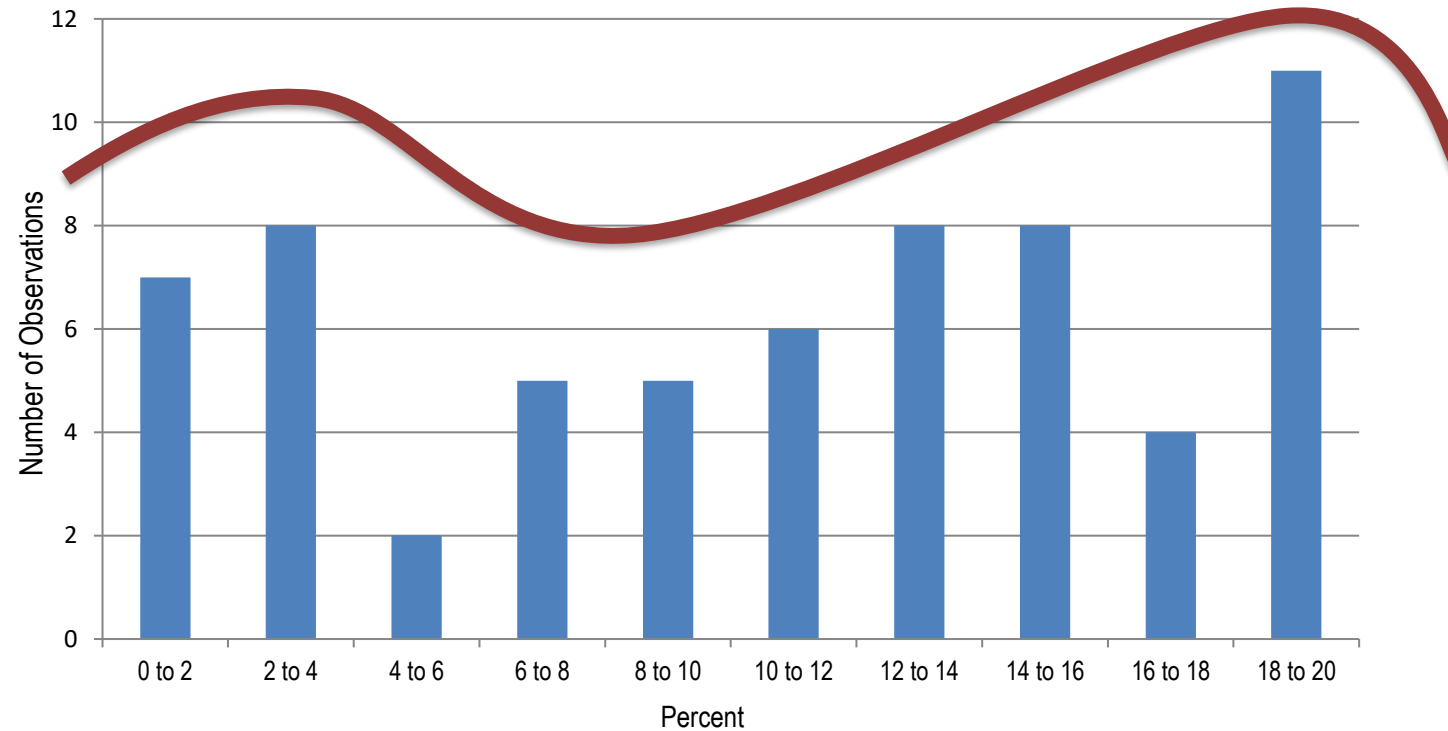
As of 2023:

- Markets have been range-bound 112 of the last 150 years
- Secular bull runs are a rarity, not the norm
- After major bull markets, markets have historically trended sideways for a minimum of 15 years

Source: Wells Capital Management. For illustrative purposes only. The above returns do not represent the performance of any product or security managed by Sionna and are provided for illustrative purposes only. The performance presented represents historical performance of an unmanaged index. Returns would have been lower if they were subject to management fees and trading expenses. Past performance is not an indicator of future results. The indices are unmanaged and have no fees. One cannot invest directly in an index.

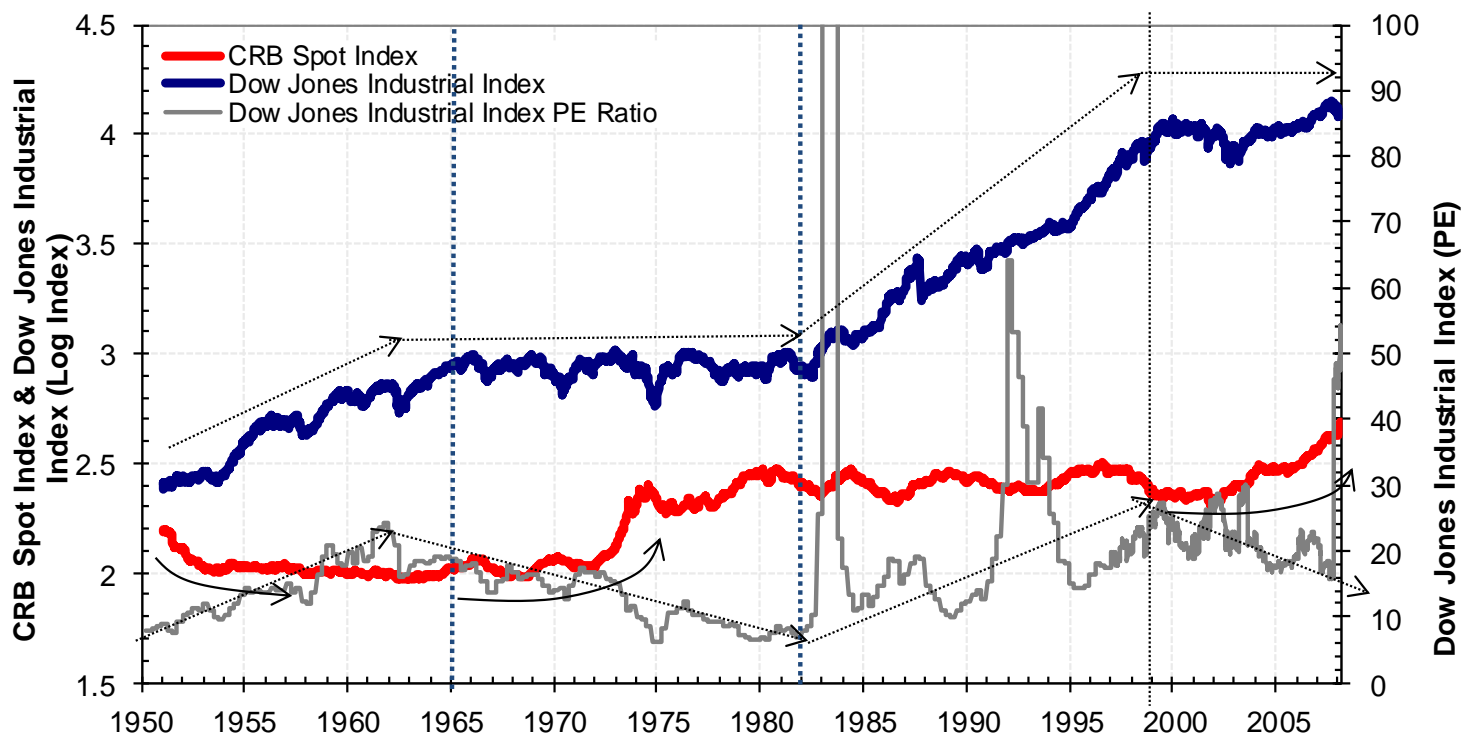
Market Returns Tend to be Bimodal

Frequency of US Returns Since 1872
(64 of 144 observations are between 0% to 20%)



Source: Robert J. Shiller, S&P 500 Price Returns, average annual returns since 1872 is 5.9%.

Last Full Sideways Market (1965-1982)



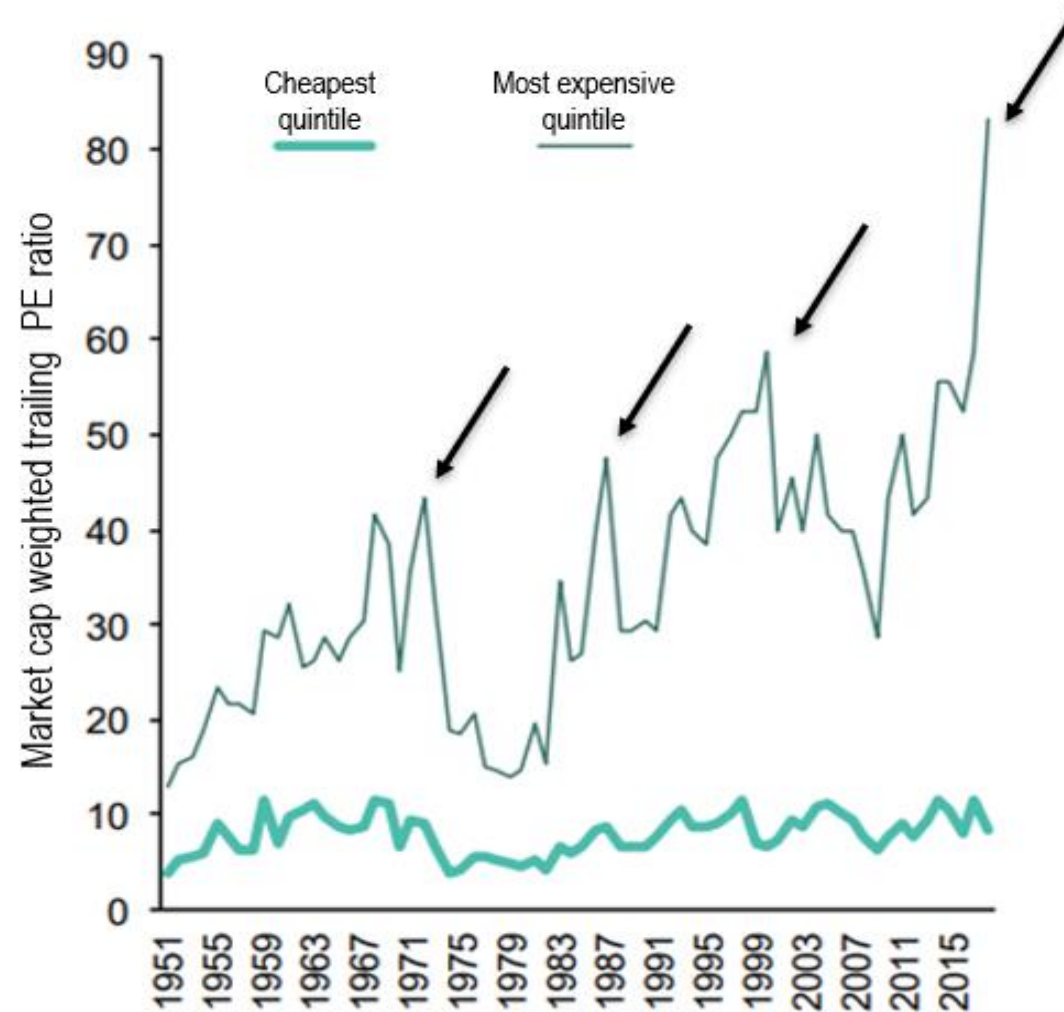
- Sideways markets typically end with single digit P/Es

- P/E multiples rise in bull market
- P/E multiples fall in sideways markets as excess gets removed

Source: Rathbones' Investment Strategy, February 2008. CRB: Commodity Research Bureau. P/E: Price/Earnings ratio

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Value Slice is Steady, Growth Slice is Volatile



Source: Bernstein: Opportunities for Value and Growth managers in US equities, July, 2019. Financial Times, February 12, 2019.

Expected Return of Sideways and Bull Markets

	Earnings Growth + Change in P/E Multiple + Dividend Yield	
	Range-Bound Markets* Average	Bull Markets† Average
Earnings Growth	5.6	5.6
+/- P/E Growth	-4.6	7.0
= Stock Return	0.7	13.0
+ Dividend	5.3	3.7
Total Return	5.9	17.1
Inflation/Deflation	4.9	2.5
Total Real Return	1.0	14.2

Jan. 2000 – Sept. 2023	Annualized Return (CAD)**
S&P/TSX Composite	6.4%
S&P 500	6.3%
MSCI World	5.1%
MSCI Canada	6.3%

Top Table

*Range-Bound Markets: 1906–1924, 1937–1950, 1966–1982

†Bull Markets: 1950–1966, 1982–2000

Dividends are 90% of total returns in range-bound markets. Values in chart shown in percent

Source: Vitaliy N. Katsenelson “Active Value Investing – Making Money in Range Bound Markets”, 2007

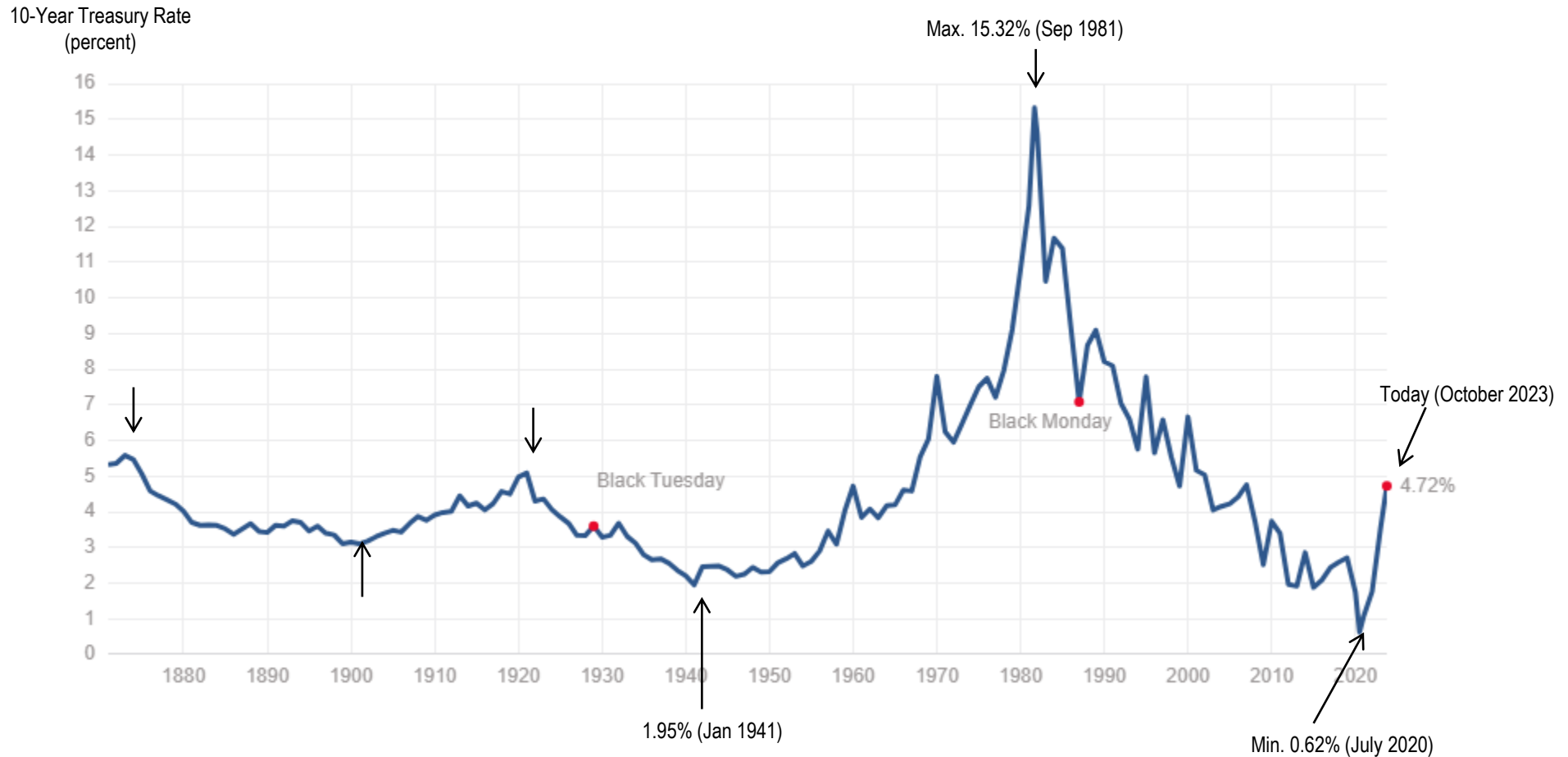
Bottom Table

**Gross Total Returns

Source: FactSet. S&P 500 CAD returns calculated using estimated exchange for periods between 2000-2002.

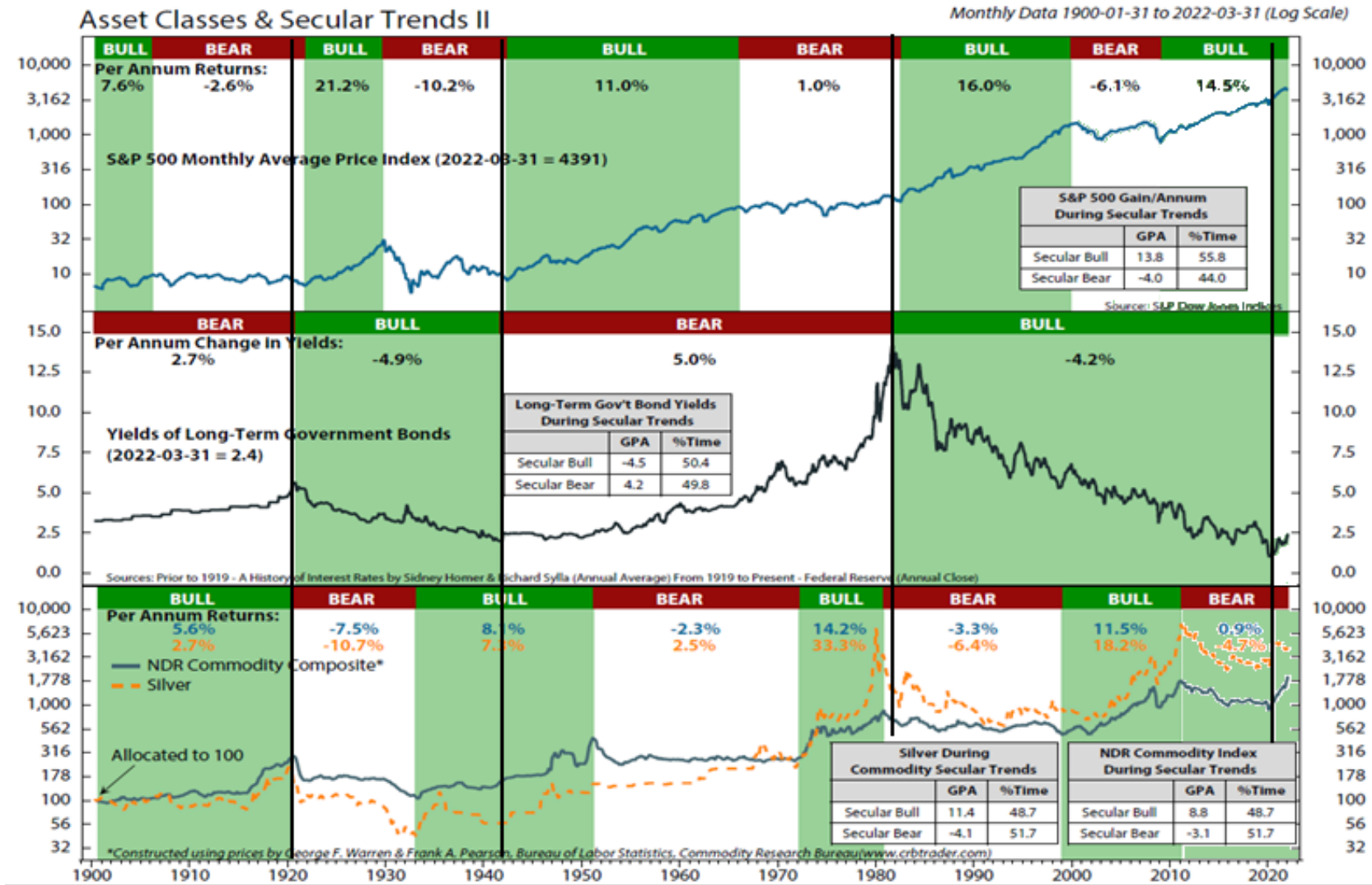
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Bond Yield Trends Tend to Last Approximately 20 Years and Symmetrical



Source: MULTPL. US Treasury, October 5, 2023.

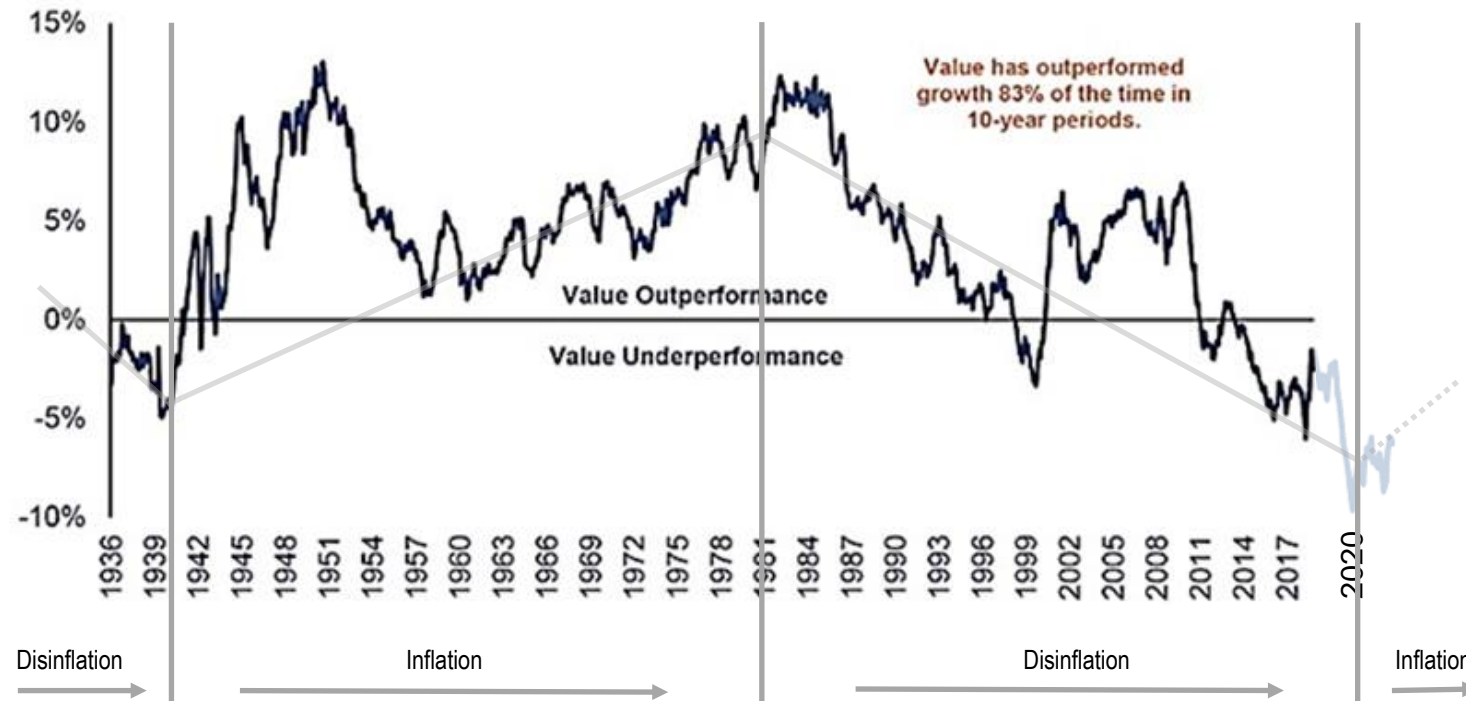
Interest Rate Changes Historically Signal Equity Bull Market



Source: Ned Davis Research Group, March 2022. The indices are unmanaged and have no fees. One cannot invest directly in an index.

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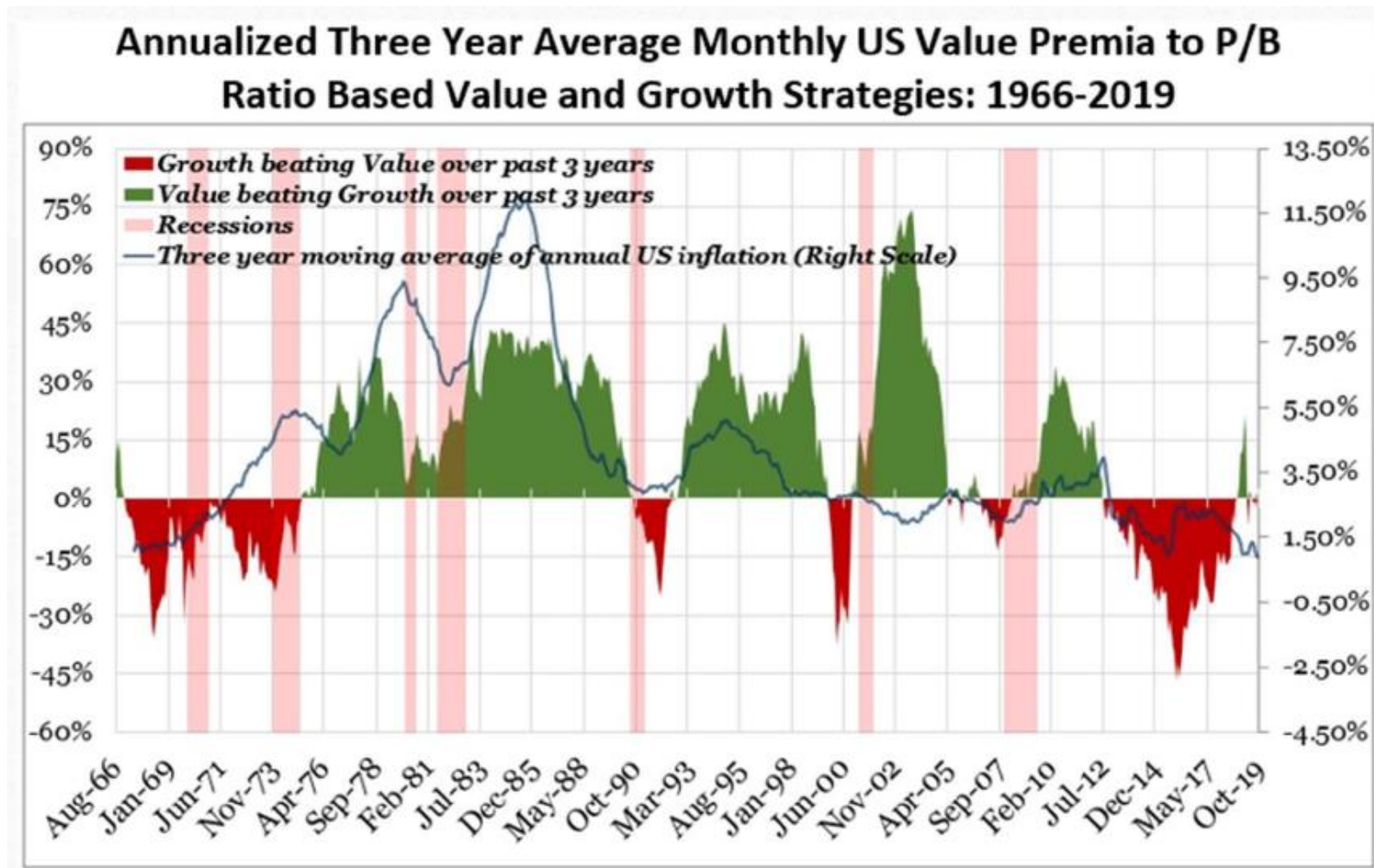
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- Suggests that the value recovery has only just begun

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When Inflation Rises Above 2.5%, Value Begins to Outperform

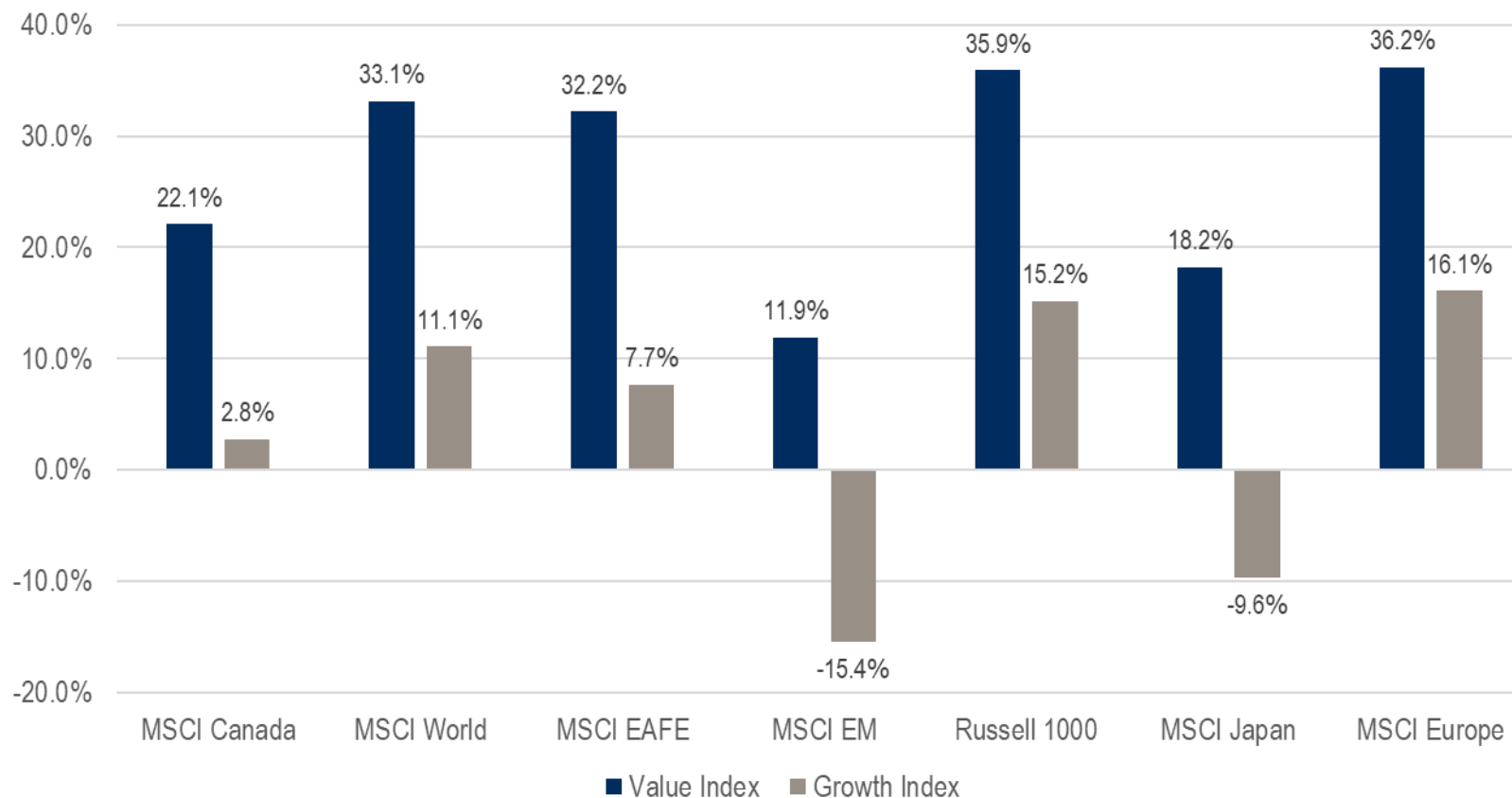


- Between 1930-2020 when inflation is above 2.5%, median value premium was 11.04%

Value Recovery Since September 2020

Value vs. Growth Index Performance

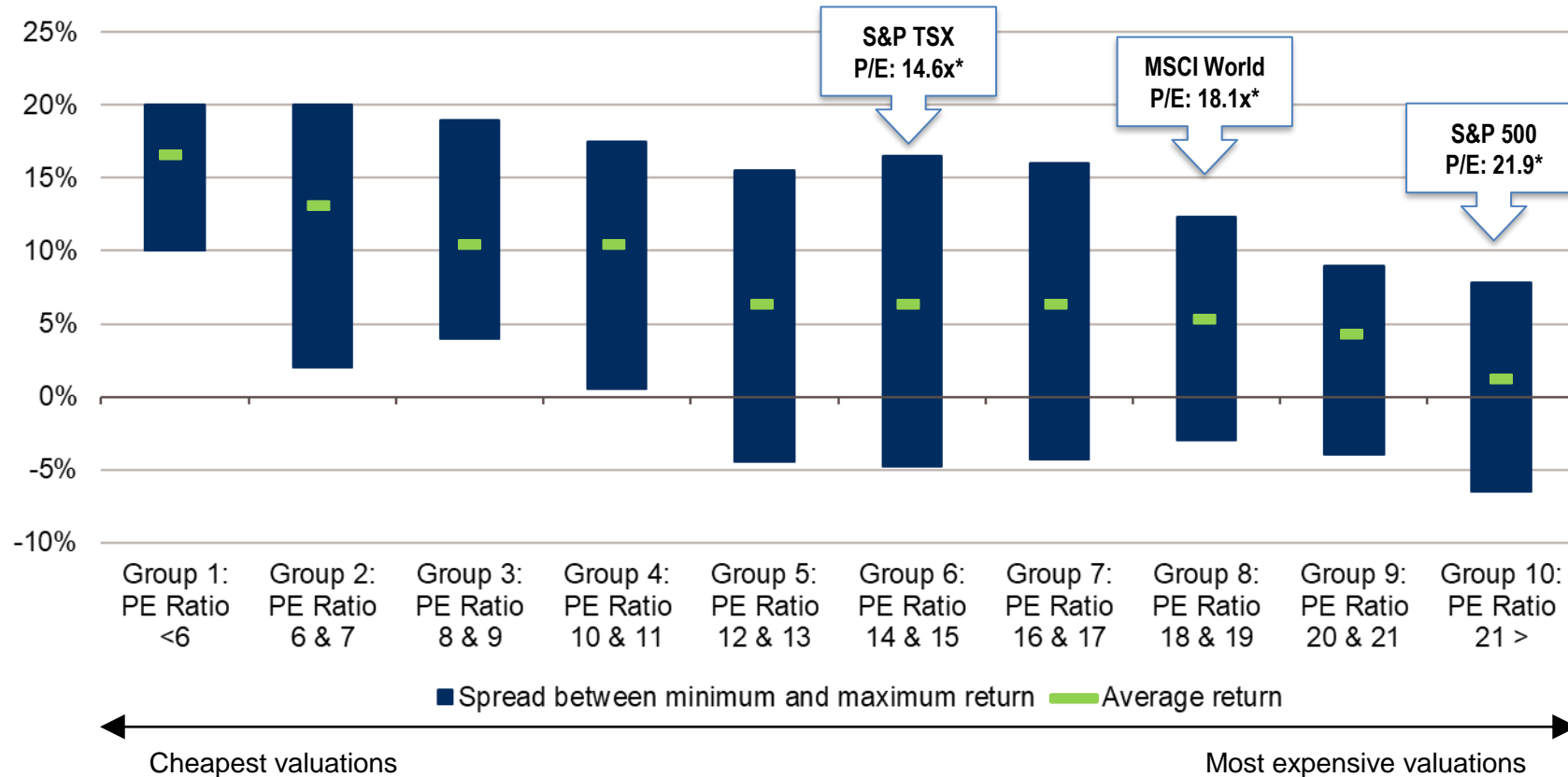
September 30, 2020 to March 31, 2023, Annualized



Source: FactSet, MSCI, Sionna Investment Managers

The Price You Pay Impacts Returns

Subsequent 10-Year Returns Based on S&P 500 P/E Ratios from 1871 - 2012



- Canada is the cheapest market with better expected long-term returns
- Canadian yields double US, Canada P/BV approximately half of US

Graph Source: Plexus Asset Management (based on data from Prof Robert Shiller and I-Net Bridge). As at September 30, 2012.

*Source: FactSet, as at September 30, 2023. S&P 500 PE (CAD)

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Macro Value Investing Suggests

- Bond prices bottomed spring 2020
- Entered minimum 20 years of inflation/rising rates
- Shift from disinflation to inflation leads to value likely outperforming growth for next 20 years
- This shift from deflation to inflation may lead to commodities having an extended 5-10-year bull
- Value should outperform growth at 11% annualized (Professor G. Athanassakos)
- Equities expected to weaken in near term, led by growth stocks normalizing
- Equities will then enter a stealthy and lengthy bull market, initially led by value stocks
- Active investing should beat passive
- Trim expensive U.S., buy Canada which is 2 standard deviations cheaper

Incorporating Macro Value Investing, adds insight to your value toolkit, possibly contributing to more excess returns

Sionna Stock Pick

- Canadian value idea; a world-class leader:
 - P/E: 4.6x trailing, 11.7x forward
 - P/BV: 1.2x
 - Yield: 3.5%
 - EV/EBITDA: 6.5x forward
 - D/E: 0.5x; Net Debt/EBITDA trailing: 0.9x
- Valuation:
 - Current Price: ~C\$80/US\$59
 - Recent High: C\$147/US\$117 (April 2022)
 - Our estimate of Intrinsic Value at mid-cycle pricing today: C\$128; US\$94

Nutrien

World's largest producer of fertilizer; operations primarily in North America, South America and Australia.

Thesis

- Low-cost access to natural gas feedstock and large potash deposits in Canada
- Global fertilizer demand should grow long term with some cyclical. CAGR 2.8% since 2000
- Global agricultural production is increasing, while emerging economies are intensifying fertilizer use as population growth continues to expand
- Stocks of grain and oil seed supplies to use, lowest since 1996/1997
- Farmer economics robust, more acreage planted in U.S., healthy grower expected margins
- Extensive network of retail stores in remote locations provides economies of scale
- Since March 2021, Nutrien has retired 14% of shares outstanding



Thank You

Others who speak or write on Sideways/Range-bound Markets:

- *Vitaliy Katsenelson*
- *Jim Paulsen*
- *Crestmont Research*
- *Ned Davis Research Group*

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