mar asset management

letter: 2023, December

Land in sight?

Portuguese navigators in the Age of Discovery availed themselves of various methods of observation to adjust their navigational routes. Among the most interesting indicators was the sighting of large birds – which feed abundantly, thus indicating extensive land nearby.

Throughout 2023, we have intensively sought after albatrosses in the sky. At last, having spotted one, we chased it these last months and it looks like: "land ahoy!"

We have arrived at the end of 2023, a tough year with below-expectations performance. This moment prompts us to reflect deeply on how it unfolded versus what we predicted and how we responded to such discrepancy. An analysis of 2023 is crucial, not only to understand recent events, but also to organize our ideas for 2024.

Our November 2022 newsletter, entitled "Searching for the Gregorian Horizon"[1], described our doubts and how little could be seen ahead. Its cover depicted foggy skies merging with the sea, symbolizing the difficulty of making out the horizon. Now, as we look back and ahead, we ask ourselves: did the sea conditions we foresee for 2024 change in comparison to last year?

This newsletter seeks to go over 2023's events, as well as assess if the clouds blocking out our sight are beginning to dissipate, allowing for a clearer glimpse into what next year can bring us. Our focus is set on the interaction among consumption, inflation, monetary policy and its impact on economies and markets.

1 https://www.marasset.com.br/site/wp-content/uploads/2022/11/3095cdec61e14c067459837a1f0fd5d2-1669832669.pdf

The year 2023

Our greatest challenge in outlining a clearer macro scenario for 2023 laid within our non-mainstream economic predictions. Our expectations for robust GDP growth conflicted with the monetary tightening levels set in place in the economies we were watching.

Unlike the consensual market perspective, we projected a strong household consumption scenario, despite cycles of very aggressive monetary tightening implemented in the world's leading economies. We had not seen any relevant effect on economies' output gaps, which were stable or, in some cases, even tighter than before the onset of the interest rate hike cycle.

This strong economic activity made it that much harder for central banks to control inflation and, consequently, carry out a cycle of interest rate cuts.

The difficulty of observing the classic effects of the strong monetary tightening policy on economic variables entailed a relevant risk for central banks in terms of losing credibility. When this happens, there is an increase in inflation expectations and, as a result, a higher probability of an inflationary spiral scenario.

Two-digit inflation in developed economies, after 40 years of low and controlled price changes, combined with a feeble effect from monetary tightening on consumption, brings a tail event risk quite relevant for the global macroeconomic scenario. Our assessment showed that such a possibility called for extra care until the risk of runaway inflation or a need for stronger monetary tightening went away.

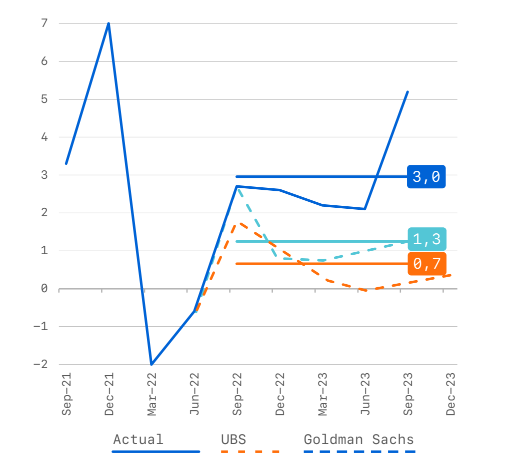
Despite, at first, stronger economic growth being positive for risk assets, the resulting product is not clear, should economies' strength demand an even more aggressive reaction from central banks. How are we to couple this perception of strong growth with stable, or even higher, interest rates to finally slow down economies and bring inflation back to its target?

Basically, we had two clear factors acting upon risk assets: robust economic activity pushing its prices up and historically high interest rates pulling them down.

The economic element refereeing to this tug-of-war between antagonistic forces would be the inflation dynamics. If inflation were to follow its historical/theoretical pattern and remain high due to closed output gaps, the risk assets would suffer. This scenario would further testify to the conviction that a strong slowdown of activity is necessary to control inflation and, most likely, demand more effort in terms of monetary tightening. If inflation were to show a benign behavior, despite stronger growth, then the risk of more interest rate hikes would decrease significantly.

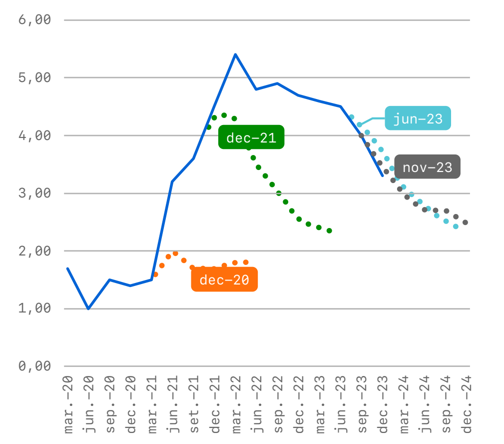
Later into 2023, we obtained our answer to this dilemma. Despite growth having surpassed even the most optimistic projections, the inflation dynamics were more benign than the market consensus, especially more than our own expectations (Figure 2).

Figure 1:
US quarterly GDP growth – effective vs projected on 3Q22



Source: UBS, Goldman Sachs, Mar Asset Management

Figure 2:
Core PCE – effective vs. projected in different moments



Source: Bloomberg, Mar Asset Management

The relevant global inflation reduction surprised us. We were not able to predict this movement in our portfolio. We knew industrial goods and food were to slow down on a global scale, due to the rebalancing of supply chains. However, we did not expect this slowdown to spread so intensely onto the services sector, historically more susceptible to economic cycles and the job market.

Surprised by downward inflation trends in services throughout the year, we undertook an assessment to understand this phenomenon and concluded it took place via transmission of a sharp fall in industrial goods' and food prices, which was much stronger than we had expected.

However, if inflation reduction in services occurred due to the transmission of slowdown in goods and commodity prices, what would happen to these prices when goods and commodities inflation went back to normal levels?

The first part of the answer seemed simpler and more conventional: when downward effects on goods and commodities cease to exist, services inflation will normalize, according to the output gap and/or the job market situation. That is, at first, every country showed inflation drop, including this sector - more sensitive to the economic cycle, due to the normalization of global supply chains and commodities' prices dropping. However, afterward, inflation in the cyclical sectors (services) would adjust to each economy's gap and job market reality.

We experienced the end of the great global economic sync set off in February 2020, ensued by the Covid-19 pandemic. We expect to see the end of the sync in 2024, but we have not seen it yet.

Transition from 2023 to 2024: land ahoy?

We believe the consistency of disinflationary processes towards the levels targeted by central banks around the world is a derivation of economic policy credibility and how much sacrifice rate each society, and its political modus operandi, tolerates.

The lesser the tolerance to the necessary sacrifice, the more limited central bank actions become and the less consistent its disinflationary process will be. In this regard, we labeled, in our September issue[2], the Chilean economic policy as "Hardish landing", the US policy as "Perfect Landing", Mexico's as "No Landing" and Brazil's as "Wonderlanding".

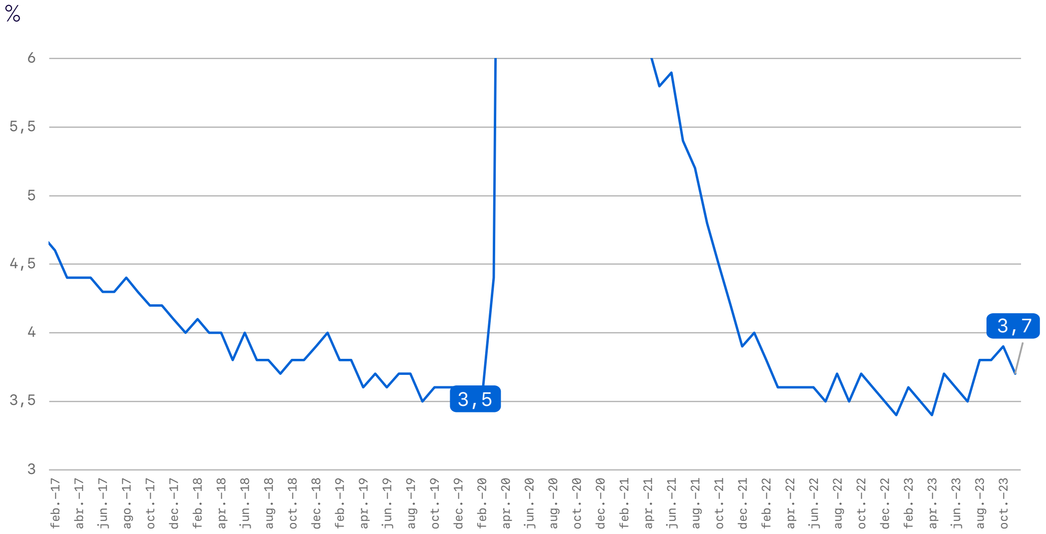
These last few months, we dove deeper into the US thesis and its "Perfect Landing". Unlike the other countries we studied, we realized the US's ability to attract foreign labor in a large scale puts them at a unique position

2 https://www.marasset.com.br/site/wp-content/uploads/2023/10/c863c48be6929f0d9e20b3ce682a902a-1696274661.pdf

in relation to its intra-continental neighbors in terms of stabilizing their job market.

In spite of GDP and, especially, household consumption having widely topped market expectations in 2023, the unemployment rate is currently higher than the pre-pandemic level, when inflation was compatible with the target (Figure 3).

Figure 3:
US unemployment rate



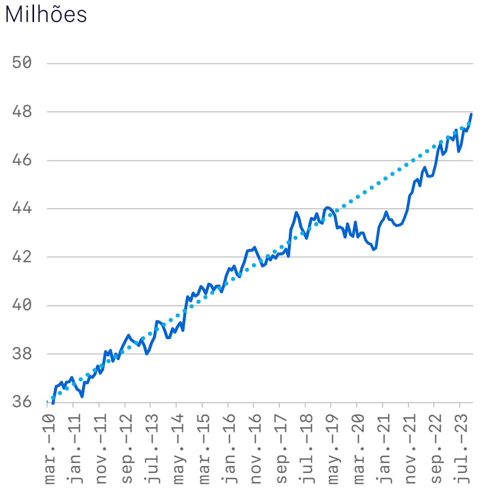
Source: BLS, Mar Asset Management

Taking in nearly five million foreign workers in the last three years generated a positive shock in labor supply, aiding the Fed in curbing the main risk surrounding periods of high inflation: continuous wage increases (Figure 4).

This leads us to believe the job market has reached or is very close to reaching a non-inflationary level.

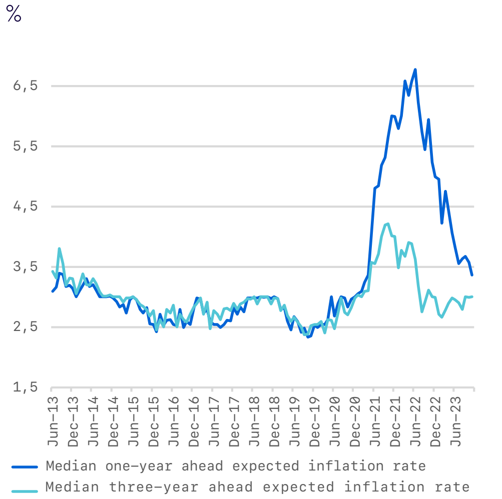
Our main concern in relation to US inflation was if the Fed would lose sight of inflationary expectations, which could in turn unleash a spiral of wages and prices. However, throughout 2023, we observed the Fed's credibility remain untouched. Inflation expectations remained anchored and wages did not spiral out of control (Figure 5).

Figure 4:
US foreign workforce



Source: BLS, Mar Asset Management

Figure 5:
US inflation expectations



Source: NY Fed, Mar Asset Management

Thus, the predominant risk to the US monetary policy became the possibility of the economy reaccelerating in 2024, threatening the inflation reduction process. So, our research and assessment focused on understanding the particulars of the 2023 household consumption dynamics and how it will behave on the road ahead. We conclude that the risk of the economy picking up is low.

Two variables are key in determining the basis of US household consumption: income and savings.

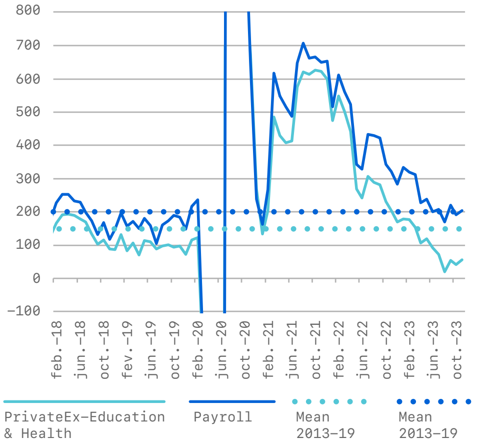
Concerning income, in 2023, we saw a significant increase in wages, due to adjustments making up for strong inflation in the previous period, while the sharp drop in the current inflation allowed for more budget spending. Looking ahead, we expect wages to follow a downward trajectory, compatible with a more balanced job market and decreased upward pressure via inflation inertia.

In addition to real wages, 2024 will not see three other important boosters for family income growth at the same rate. Firstly, as of October 2023, payments to student loan debts were reinstated. Secondly, growth of government transfers will be lower. Finally, the job market is already showing signs of cooling down. Most likely, this downward trend will become stronger in the following months, given that only two sectors

(Health and Public Sector) explain almost the whole of payroll gain in the last six months.

Figure 6:
US new jobs added

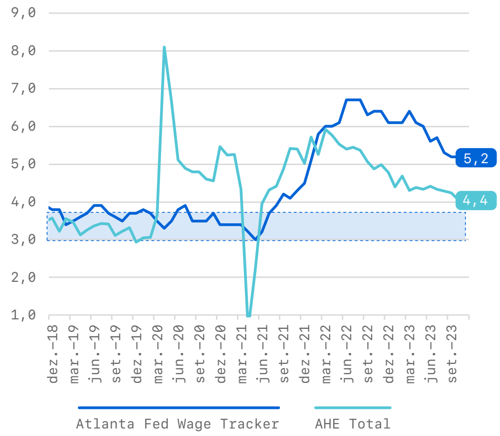
3MMA, thou.



Source: BLS, Mar Asset Management

Figure 7:
US wages inflation – Average Hourly Earnings, Atlanta Wage Tracker

%, yoy



Source: BLS, Atlanta Fed, Mar Asset Management

However, the most striking variable in our opinion is the current savings rate. Currently, the rate is at the lowest levels in history (Figure 8). Coupled with the depletion of the circumstantial savings stock accumulated during the pandemic, it represents an important limitation to consumption picking up again.

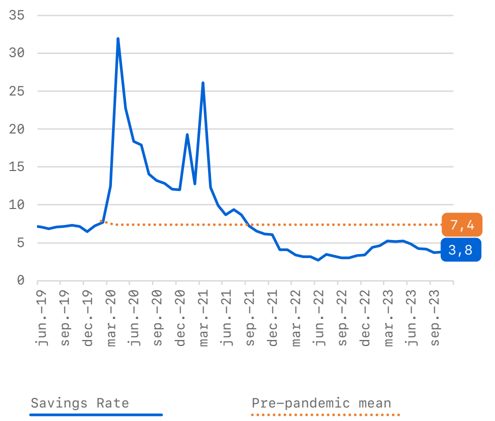
Household consumption is the resulting product of disposable income subtracted from the amount saved. The income proportion not spent on consumption is called savings rate.

To understand if the consumption pattern is normalized, we have compared the current savings rate with the historical average. If the savings flow is below the historical average, families are spending more than usual, which can be an indicator of consumption slowdown for the future.

Considering the robust 2023 household consumption, it is not surprising that the savings rate has been low. Assuming the savings rate makes a slow comeback towards normal levels, we would only see consumption picking up again if payroll were to add at least 300 thousand jobs a month (Figure 9).

Figure 8:
US family savings rate

% of Disposabe Income



Source: BEA, Mar Asset Management

Figure 9:
Simulations for household consumption in 2024 considering different scenarios for average payroll and savings rate growth

%

	50	100	150	200	250	300
3.50	2.6	2.7	2.9	3.0	3.1	3.3
3.75	2.3	2.4	2.6	2.7	2.8	3.0
4.00	2.0	2.1	2.3	2.4	2.5	2.7
4.25	1.7	1.8	2.0	2.1	2.2	2.4
4.50	1.5	1.6	1.8	1.9	2.0	2.2
4.75	1.2	1.3	1.5	1.6	1.7	1.9
5.00	0.9	1.0	1.2	1.3	1.4	1.6
5.25	0.5	0.7	0.9	1.0	1.1	1.3
5.50	0.3	0.4	0.6	0.7	0.8	1.0

Source: BLS, BEA, Mar Asset Management

The slowing down in new jobs measured by payroll, the consistent drop in nominal wages and the savings rate in such low levels considerably reduce the risk of the US economy picking up in 2024. This supports the disinflationary process in cyclical sectors, initially boosted by the normalization of supply chains.

The consolidation of a solid disinflation process in the US will be decisive for the price dynamics of risk assets in 2024. The lousy weather system blocking the horizon at the end of 2022 is now clearing up.

Waller/Taylor's Thesis

Christopher Waller, a permanent voting member of the Fed's Board of Governors, was the main advocate for a "soft landing". When the thesis was put forward in July 2022[3], it spawned a broad debate within the academic realm and among market economists, due to its originality and the strait

3 https://www.federalreserve.gov/econres/notes/feds-notes/what-does-the-beveridge-curve-tell-us-about-the-likelihood-of-a-soft-landing-20220729.html

trajectory the economy would have to tread to achieve such a goal. It gave rise to the typical argument: “this time is different”, for never before had one witnessed inflation reduction on such a scale without a significant economic slowdown.

Despite facing skepticism early on, his scenario has shown to be the most accurate. Waller has increasingly gained credibility among fellow members of the Board and within the financial market.

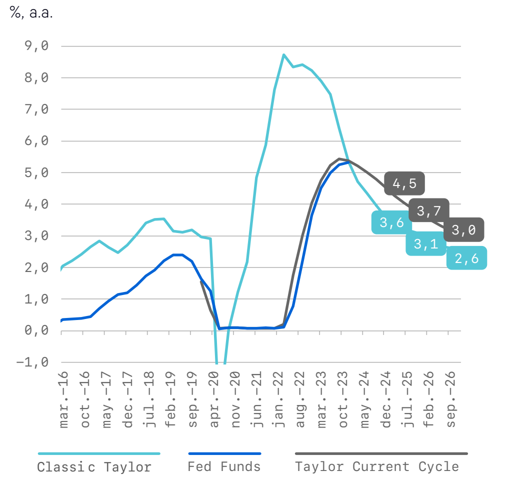
Recently, during a conference on November 28, Governor Waller caught the attention of our team and markets likewise, as he advocated for a debate on interest rate cuts on condition inflation remains benign, even without a strong economic slowdown[4].

Jerome Powell’s (Fed President) argument on balancing out two-sided risks of increasing interest rates, too little or too much, has received a new approach. Waller suggests that, from now on, in order to achieve a “soft landing”, the Fed must employ classic models of monetary policy, such as Taylor’s Rule, to inform decisions.

The Taylor rules are now pointing to the possibility of interest rate cuts for the first meeting of 2024 (Figure 10). This “reinstitution” of Taylor’s Rule, as a beacon for monetary policy decision-making, has brought about a strong downward pressure on the US interest rate curve, by bringing to the table the idea of anticipating the monetary easing cycle’s onset (Figure 11).

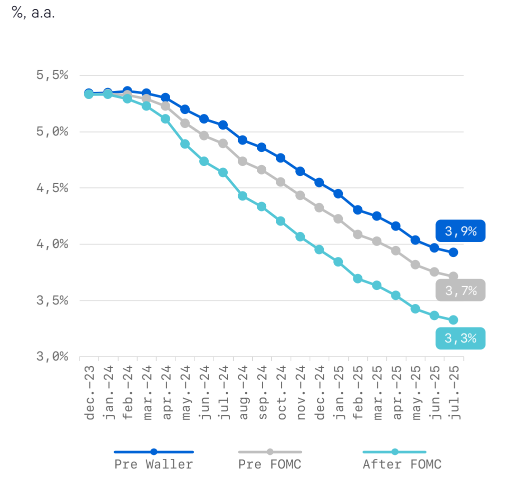
4 https://www.reuters.com/markets/us/feds-waller-increasingly-confident-policy-is-right-spot-2023-11-28/.

Figure 10:
Taylor's Rule vs current Fed Funds



Source: Fed, Mar Asset Management

Figure 11:
US interest rate curve in different moments – before Waller's remarks, before and after the Dec. FOMC meeting



Source: Bloomberg, Mar Asset Management

In the same speech, Waller touched on another crucial subject for markets and the debate on monetary policy: a change in the US neutral interest rate.

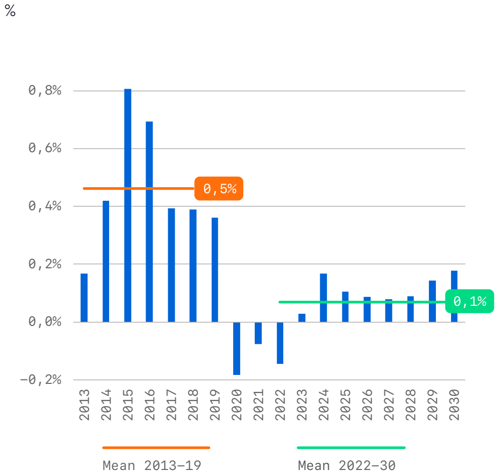
The importance of thinking this over is because the neutral rate is the main reference for the endgame of the monetary easing cycle to be carried out by the Fed.

According to Waller, and we are on board, there is no consistent data that indicates a relevant change to the neutral interest rate. The rate required by US bonds have consistently declined in the course of the last 20 years, although the investment payoff in the private sector has been stable. Up until the pandemic, the Fed's challenge was dealing with below-target inflation, why would this dynamics invert going forward?

We believe that the underlying inflation in the US economy is influenced by more structural variables, such as demographics, productivity, technology, well-anchored inflation expectations and the Dollar's credibility (Figures 5, 11 and 12). These characteristics do not seem altered, despite Covid-19-led macroeconomic shocks.

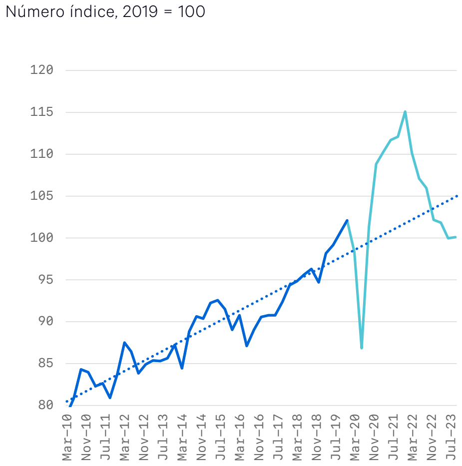
Once we have broken free from all shocks, we expect to witness yet again the rejection of a thesis, born out of the recent macroeconomic period and widely accepted by the market, which we regard as baseless.

Figure 12:
Population growth: 25-64 year-olds



Source: CBO, Mar Asset Management

Figure 13:
US total factor productivity



Source: San Francisco Fed, Mar Asset Management

The thesis that inflation would be structurally higher is anchored on factors, such as reshoring, energy transition and geopolitical risks. However, the current disinflationary process shows us a stronger and more structural drop in prices than we had projected, countering the permanent inflationary effects perception.

We also believe that after the supply and demand shocks experienced since the pandemic, we should move back closer to pre-pandemic inflation and interest rate levels. Still, a higher neutral rate is reflected upon market pricing, which excludes the Fed Funds going back to the long-term level indicated by the Fed.

Thus, the debate on US interest rate easing is taking place on two separate fronts: the start of the rate cutting cycle and the cycle's final rate.

Even though Waller has discussed both topics, the market has strongly reacted to the idea of anticipation, but not so much in relation to lower neutral interest rates.

The FOMC's pivot

It was not evident how the FOMC would react to a declining inflation and unmoving robust economic activity scenario, characterized as a "soft landing" scenario. Waller's thesis seemed coherent, but we still needed to know whether this thesis was an isolated opinion or a consensus within the monetary policy committee. The FOMC's December meeting confirmed the latter.

The meeting endorsed the idea that a mere inflation drop would be enough to kick start an interest rate reduction cycle. The FOMC's communication was explicit, as it introduced the discussion on initiating interest rate cuts as something natural, present both in the SEP (Summary of Economic Projections) and Powell's remarks at the press conference.

Figure 14:
Last SEP projections vs. September

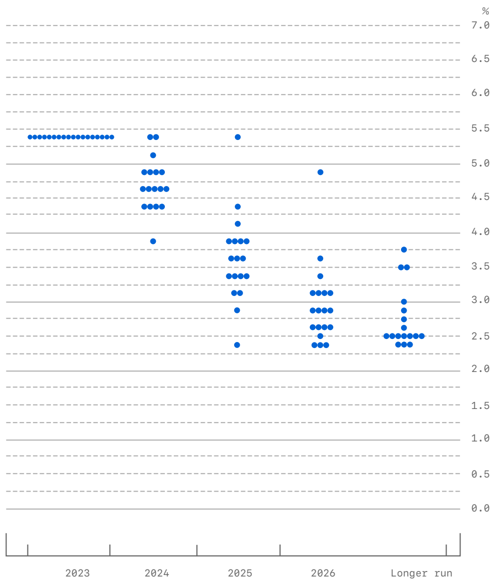
%

Percent					
Variable	Median				
	2023	2024	2025	2026	Longer run
Change in real GDP	2.6	1.4	1.8	1.9	1.8
September Projection	2.1	1.5	1.8	1.8	1.8
Unempployment rate	3.8	4.1	4.1	4.0	4.0
September Projection	3.8	4.1	4.1	4.0	4.0
PCE inflation	2.8	2.4	2.1	2.0	2.0
September projection	3.3	2.5	2.2	2.0	
Core PCE inflation	3.2	2.4	2.2	2.0	
September projection	3.7	2.6	2.3	2.0	
Memo: Projected appropriated policy path					
Federal funds rate	5.4	4.6	3.6	2.9	2.5
September projections	5.6	5.1	3.9	2.9	2.5

Source: Fed, Mar Asset Management

Figure 15:
Dec. FOMC meeting "Dot Plot"

Projeção individual de cada membro do FOMC



Source: Fed, Mar Asset Management

The President of the Fed has delivered several messages through the most dovish tone. For instance, he listed, more than once, a series of variables indicating a more balanced job market and has unequivocally asserted that the process was unfolding more easily than expected at this later stage in inflation target convergence.

More than a change of view on the prospective economic scenario, the December meeting made it clear that there was a change on the FOMC's reaction function. The Fed chairs are not being "dovish" because they hold a more optimistic view of inflation projection or unemployment rise, but rather because they deem the risk of uncontrolled inflation has substantially fallen these past months. Therefore, there can be adjustments to the level of restriction, so as not to jeopardize the other Fed's target - to achieve full employment. The market reacted coherently to this pertinent change.

At first, following Taylor's Rule seemed counterintuitive to the "higher for longer" interest rate policy outlook the Fed had been hinting at. However, a more detailed analysis reveals the terminology used by the Fed is in fact "restrictive for longer", in other words, a restrictive approach for a longer period of time.

The lexical difference is key here, for the concept of "restrictive interest rate" refers to real interest rates above the neutral rate.

When inflation drops, real interest rates rise. Thus, in order to maintain real interest rates stable, the Fed should reduce the nominal interest rate, the Fed Funds rate, *pari passu* with the inflation rate fall. This thesis would make room for cuts in the short run, should inflation keep on displaying a benign dynamic, as seen these last months..

The greatest risk for the "restrictive interest rate" thesis was that a premature cut could rev up consumption again and halt the inflation convergence process. Again, we see consistency in the disinflation trend and a low risk of intense US activity picking up once more.

On the other hand, the Fed will want to consider the "higher for longer" risk, that is, maintaining the nominal interest rate stable for a long period and, as a result, more restrictive in terms of real interest rates. It represents the possibility of force driving the economy into a "hard landing".

We have seen the Fed watchful over this risk. Although we have identified very few signs of a possible recession in activity data, we cannot rule out cumulative effects still not perceivable from monetary policy on activity. Right now, circumstantial savings are depleted, current savings remain historically low, the fiscal boost should be void or negative for 2024, and the expected "wall of maturity" – a pool of corporate accounts payable that would need to be put off at higher rates – is closing in.

Regardless, we find the "hard landing" scenario unlikely. Under current pricing, we believe there is more room for market convergence to the cycle's final rate of around 2.5% than in big surprises concerning a potential easing cycle anticipation. Should a sharper deceleration take place, the "Fed Put" should come into play. Our exposure would benefit from the anticipation of interest rate cuts, which should partly curb increased volatility and decreased stock prices.

Bets on US short-term interest rates have been our main macro strategy lately.

Brazil

In Brazil, the Central Bank adopted a similar thesis to initiate its cuts cycle in 2023. In our June newsletter, "Not necessarily about monetary policy"[5], we expressed concern in believing in the consistency of this disinflationary process. Unlike the US, we see a fragile Brazilian scenario. Long-term inflation expectations remain above target. Economic activity, especially household consumption, surprises the consensus each time the GDP is disclosed. The job market is unbalanced, with the unemployment rate at levels that are historically incompatible with inflation on target.

Fiscal policy remains loose and worrisome, especially when combined with the political cycle. Lula's administration and his party's approach towards economic policy throughout electoral cycles is yet another variable that poses risk to the fiscal scenario.

These aspects tell us the Brazilian disinflation process is temporary. There was a sync in the global disinflation due to supply chains going back to normal and commodities dropping, but the desyncing of this process will come about due to specific traits in economic and social policy in each country, which limits central banks' actions.

In Brazil specifically, we believe these limitations are real, for the resistance to economic slowdown and unemployment rise, which should promote a job market rebalancing, is politically intolerable.

5 https://www.marasset.com.br/site/wp-content/uploads/2023/07/a850c29b3c8b609d018675d052593615-1689779229.pdf

The risks of reverting strong services disinflation, as seen in 2023, are relevant for 2024. If we are correct, as downward inflation shocks dissipate, services inflation will respond to the job market situation and so it will stabilize well above the 3% target.

A combination of some economic slowdown and pre-electoral tension, which will define the basis for municipal support in the 2026 elections, will forge a Brazilian political-economic scenario much more complex than in the US for 2024.

Even so, despite the desyncing in inflationary landing and the particulars of each economy, we cannot ignore that, if our scenario for the US economy proves true, we will have a very positive year for risk assets in general in the course of 2024.

Despite our perception of a less solid macroeconomic ground in Brazil, a more stable global environment could make market agents less demanding towards the national economic policy. We believe the key to Brazilian markets' stability was the sequence of downward inflation surprises in 2023. If these dynamics changes, Brazilian assets' equilibrium will also be affected, as will the national political environment.

Stocks

After a year of high volatility, the Brazilian stock market closed 2023 in good shape. Concerning our exposure to stocks, after a year of low allocation given the structural uncertainties considered, we gradually increased our exposure throughout the second quarter, with extra care in selecting companies. We prioritized companies able to navigate well even in a complex macroeconomic environment, pinpointing opportunities with favorable perspectives for the following years.

For 2024, we foresee a more stable global market environment compared to a year ago, which boosts our confidence that the business capacity of the companies listed in our portfolio will be the chief influence over their stocks' prices.

Our strategy for investing in stocks follows a concentrated approach, with the bulk of allocation devoted to some specific theses. Concerning the portfolio we put together for the year ahead, there are companies in which we maintained our stances for longer and that are still traded below fair price, so we believe, such as Equatorial, BTG Pactual and Eneva.

We find it worthy to share, even if briefly, why we keep investing in two of the main theses.

Equatorial is consensual among most Brazilian stock funds, which makes us rather suspicious of the real investment opportunity. With an accumulated return on investment of around 25% yoy since its IPO, we have long dwelled on this issue. After all, is it possible for the company to keep on generating returns at a rate significantly above its cost of capital? Therefore, we have doubled down on our assessment efforts, and the answer so far has been nine out of 10 times the same: we still envision quite a high potential return.

These last three years, the company went through one of its greatest M&A activities. With a successful history of assertive capital allocation, the company has carried out investments at rather high volumes, of about R$22 bn. Despite its leverage having reached historically high levels (about 4x the Net Debt/EBITDA), the acquisitions carried out make us optimistic regarding the opportunities we see down the road. Especially, the perspective of concessions to operate in Goiás State (CELG-D) and Rio Grande do Sul State (CEEE), are quite exciting.

These concessions' turnaround follows a well-trodden path that has worked in other areas managed by Equatorial, a process which we pay close attention to, both as investors and as members of the company's Board since 2016. We believe these new assets (that also include a concession to operate in Amapá State) could represent 30% of the companies' equity value in the next three years.

With the recent acquisitions, in addition to scheduled organic investments for more mature concessions, such as Maranhão and Pará States, as well as those at a later turnaround stage, such as Piauí and Alagoas State, we predict an expansion of nearly 40% to its Regulated Asset Base (RAB) by late 2026, with high return on investment. Besides distribution assets, electric power transmission and generation will also play an important role in cash flow revenue.

Looking ahead, we believe the upcoming years will decisively “de-risk” this investment thesis, with strong deleveraging and consolidation of acquisitions already in place, lifting the company to a privileged position for new investment opportunities. We expect operational improvements and a re-rating of the company, better reflecting the business risk, will keep the company in the same path it has treaded up to here, with a potential return above 25% a year for the upcoming years.

Our history betting on BTG started on the first day of Mar Absoluto fund, back in February 2019. At that time, we believed the bank had overcome its corporate image problems, which became clear by observing re-growth in its client fee business. We also saw an interesting opportunity being built with its retail venture, both in digital banking and replicating XP Investimentos’ model with Independent Investment Brokers offices.

Its implementation was flawless, taking a R$2.8 bn profit in 2018 to more than R$10 bi. in 2023. Moreover, its distribution network expansion – made clear by observing deposit growth, which went from R$17 bn/1T19 to R$108 bn/3T23 – drastically reduced its risk level and capital cost for a company run by a businessman capable of identifying excellent capital allocation opportunities.

Even upon the great challenge of expanding profit starting from this new threshold, we saw many opportunities in the various lines of business the Bank operates, be it expanding its credit to businesses’ portfolio, presently at R$160 bn (vs. Bradesco’s R$517 bn, for instance), be it in the client fees area (such as asset and wealth), be it as a result of an ultimate capital market recovery (which has not seen a single IPO in the last two years).

The Brazilian financial deepening is here to stay. The number of individual taxpayers investing in the B3 has grown 10-fold since 2018, banking coverage ratio has reached close to 100% of the adult population (with an average 5 bank accounts per person), and access to any financial product is as simple as entering a passcode or Face ID. The capital market will mature further in the years to come, and investing in BTG, with a R$140 bi. market value, or a little over 11x the expected profit for 2024, still looks like an excellent opportunity.

In addition to the longer-lasting investments, we have also identified new opportunities in the course of 2023, such as Alupar, GPS, Hapvida and Vivara.

Broadly speaking, our portfolio is composed of companies with assets capable of generating a lot of cash flow and a wide avenue to reallocate this capital at a right return rate for the years ahead. Such a combination has not yet been totally reflected in its market value.

On the other hand, we pulled out of one of the main theses regarding stocks in 2022, namely Petroreconcavo. This was the great mistake of the year, although it has been a winning hand for the fund from the start.

What led us to invest in this company at first was its potential in becoming a gas producer with higher demand stability and longer contracts, while concurrently generating enough cash flow to supply great volume of investment during this transformation. However, new information disclosed in 2023 ended up discrediting our initial thesis, by revealing the cost for production ramp-up in acquired fields would be much higher than we had estimated, thus eliminating a considerable part of the cash flow to stockholders and considerably increasing risk to the investment.

So, the thesis' risk-return ratio became unattractive, especially because we prefer being extra careful in the commodities production sector.

The year 2023 called for intense reflection, and evolution, regarding how we invest in stocks, which we shall share with you soon enough. Still, to those who are eager to learn more about our specific thesis, we have made them available in great detail on our website[6] (portuguese only).

6 https://www.marasset.com.br/conteudo-mar

All in all, we would like to express gratitude for the support and trust from our investors, who we prefer calling partners. There were times in which our performance did not reflect our dedication and effort. As seasoned, dedicated and creative as we may be, the trust you put in our capital allocation ability comes to our aid in keeping us focused, as we strive to boost the share value of our only investment strategy.

Happy 2024.

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