



## Aion Investment 2023

In 2023, markets moved past the pessimism that had dominated the previous year and began to normalize following the adjustment triggered by the rapid rise in interest rates. Although inflation started to moderate, it did so gradually, keeping central banks firmly committed to still restrictive monetary policies. Even so, equities responded strongly. The **MSCI World Index in euros** ended the year up approximately **+16%**, while the **S&P 500 in euros** advanced around **+22%**, supported by the strength of large technology companies, which once again acted as the primary drivers of the indices.

The year also tested the resilience of the banking system. At the beginning of 2023, **Silicon Valley Bank** collapsed after a **massive deposit outflow** and its inability to absorb losses in its asset portfolio, becoming the **largest bank failure in the United States since 2008**. Shortly thereafter, **Signature Bank** was taken over by regulators and **First Republic Bank was acquired by JPMorgan Chase**, reflecting the stress affecting several regional banks with high exposure to uninsured deposits and interest rate related risks. In Europe, the **acquisition of Credit Suisse by UBS, backed by Swiss authorities**, represented a decisive step to preserve the stability of the European banking system and to mitigate potential contagion effects stemming from the US crisis.

Against this backdrop, our portfolio delivered a return of +45.8% during the year, well above our **long term annual objective of 15%**. The main contributors were **Spotify, which gained +135%**, and **Fairfax, our largest position, which rose +53%**. Nevertheless, we remain focused on the **long term horizon, mindful that our goal is not to maximize the results of any single year**, but rather to generate **sustained and consistent growth over time**.

What do we mean by long term?

In the investment world, the concept of the **long term** is often perceived in a vague manner. At Aion Investment, **we view a five year horizon as a reasonable framework**, as it allows sufficient time to **observe how a company's earnings power becomes established and how this ultimately becomes reflected in the price of its securities**. This approach prevents us from being swayed by short term market fluctuations and forces us to **focus on the true evolution of the underlying business**. Long term analysis provides perspective and helps us distinguish between temporary market movements and genuine changes in a company's financial health and operating performance.

In our view, a company's value is primarily grounded in its **ability to generate future profits**. This requires a detailed assessment of its **business model, financial position, growth potential, predictability of revenues, and most importantly, the quality of its management team**. By considering all of these factors in an integrated manner, we can form a reasonable estimate of a company's intrinsic value.



We place particular emphasis on management quality, as leadership judgment and vision play a decisive role in long term value creation. We seek leaders who demonstrate **humility, long term thinking, a commitment to continuous learning, and integrity**, qualities that foster strong corporate cultures and decision making aligned with the future of the business.

Once we understand the business and have estimated its intrinsic value, the next step is to ensure that the market price is reasonable or preferably below that value. When this is the case, the asset's current earnings can provide an attractive return, and any future improvement in its earnings power will increase both those returns and the price others may be willing to pay. Ultimately, **long term outcomes depend on correctly assessing fundamentals and paying an appropriate price for them.**

Portfolio as of 31/12/2023:

Company	Weight
Fairfax Financial	22.6%
Spotify Tech	15.3%
TerraVest Industries	14.9%
Monarch Cement	12.7%
CTT Systems AB	12.5%
FitLife Brands	12.5%
Apollo Global Management A	9.5%

Although it is not common, over the past six months **we have made several changes to the portfolio**. The reason some companies are no longer included is not that we identified problems or believed they would fail to meet our expectations. In fact, **it would not be surprising to add some of these names back in the future**. We have simply found **new ideas with greater potential**.

A strong example among our new additions is **Terravest**, a company that has delivered **nearly 30% annual returns over the past decade** and, in our view, still has the potential to generate annual **returns above 15% in the coming years**.

One of the aspects that gives us the most confidence in this investment is the **company's management**. Not only do they have an impressive track record of value creation, but **their incentives are fully aligned with shareholders**: base salaries are modest, **and most of the management team's wealth is invested in company shares**.



Terravest operates in industries that are **generally unattractive and historically low-yielding**, with its main segments being **storage tanks (58% of revenue)**, **industrial boilers and furnaces (22%)**, and **equipment for the oil and gas sector (20%)**.

What makes this company an attractive investment is **its roll-up strategy**, which consists of growing by acquiring smaller companies within the same sector and integrating them into a **common platform**. Value is created by purchasing these companies at **attractive prices** around **10 times earnings while Terravest itself trades at roughly 15 times earnings**. After **12 to 18 months of operational improvements**, integration, and efficiencies, the **effective acquisition multiple drops to approximately 7 times**, significantly increasing the return on invested capital.

To illustrate, let's consider an example. Suppose **Terravest is valued at 100 and generates earnings of 6.66** (implying a 15× multiple) and decides to acquire a small company for 20, which generates earnings of 2, so Terravest is buying it at roughly **10× earnings**. After integration and operational improvements, those earnings rise to **2.4**.

**Here is where the “magic” of the Terravest model comes into play:** those 2.4 in earnings are now valued at the same multiple as the parent company, around **15×**. As a result, the market assigns a value of roughly **36** to the acquired company. In other words, an **asset purchased for 20 becomes worth 36**, not only due to operational improvements but also because it is integrated into a larger group with greater visibility and credibility in the market.

Putting it all together, the transaction generates approximately **16% value creation**, plus an additional **2.4% annual yield from the incremental earnings**. Overall, the estimated **return on the transaction is around 18% to 20%**, a remarkable figure considering that such integrations are typically completed **within 12 to 18 months**. On top of this, **Terravest's recurring business contributes an additional 6% to 7% in annual returns**.

Terravest's approach to value creation leads us to ask whether a **15× earnings multiple is reasonable** and, above all, sustainable over time. The answer is yes. As long as Terravest **maintains its ability to identify and acquire new companies at attractive prices**, that multiple makes sense and could even expand.

This brings us to another question: why can Terravest buy companies at such low prices, and how sustainable is this advantage?

Terravest operates in sectors dominated by small companies, many of **them cyclical**, which creates opportunities from **sellers seeking liquidity or facing difficulties**. In addition, these are industries with modest growth and are generally **unattractive to the broader market**. In an environment of **high interest rates and more expensive financing**, both other small companies and private equity firms **have less capacity to compete for these transactions**, allowing Terravest to access deals on favorable terms. This type of opportunity is likely to persist in the coming years, given that the sector remains highly fragmented, **with hundreds of family-owned businesses still operating**.



Another company in the portfolio operating in a traditional—and often perceived as “boring”—sector is **Monarch Cement Co.**, in which we took a position during the past six months. Monarch produces high-quality cement and ready-mix concrete, serving regional markets in Kansas, **Missouri, and Des Moines, Iowa**. It operates in an industry with **limited supply and favorable structural tailwinds**, conditions that strengthen its competitive position and consolidate its ability to generate consistent long-term value.

**Monarch Cement** is a vertically integrated company with a market capitalization of approximately \$400 million. Its **main plant is located in Humboldt, Kansas** (2,000 acres, with the capacity to produce 1 million tons of cement per year and raw material reserves for 50 years), along with a **cement terminal in Des Moines** and **several ready-mix concrete businesses** serving primarily Kansas and neighboring states.

Essentially, **Monarch is a family-owned business**. Two families control the board: the **Wulfs** and the **Radcliffs**. Walter H. Wulf III currently serves as CEO and Chairman, representing more than a century of family legacy. The Radcliff family is also actively involved on the board, collectively holding approximately 8% of equity shares and 19% of Class B shares. This structure ensures that management’s interests are **aligned with those of shareholders**.

The cement business is **capital-intensive** and often behaves like a local **monopoly**. The required investment is very high, and it is not profitable to produce near already established plants that serve a region, as cement is a heavy product and **transportation costs are significant**. This creates a natural barrier to entry for new competitors.

Monarch has **successfully leveraged this dynamic**, consolidating competitive advantages through its historical assets, economies of scale, and local barriers. As a result, the company **has steadily improved its gross margins**, rising from 21% in 2014 to over 30% in its most recent financial results.

Currently, the shares trade around \$155, implying an **earnings multiple of approximately 8–9×**. In addition, the company maintains a **strong balance sheet**, with roughly \$40 million in cash, no debt, and private investments totaling \$83 million (around 20% of total assets). It also distributes a **dividend that grows year after year**.

A notable feature of Monarch is its **dual-class share structure**: there are freely tradable common shares and Class B shares, restricted to certain members of the founding families, which carry **10 votes per share**. Common shares carry one vote each. Class B shareholders can convert their shares into common shares for free trading, allowing family ownership to remain stable or even increase over time.

Unlike many family-owned businesses, Monarch **has achieved a balance between family control and minority shareholder protection**, ensuring that strategic decisions are made with the interests of all stakeholders in mind. Additionally, in its latest annual report, **Walter Wulf included a note highlighting the family’s interest in acquiring additional shares**, a gesture that reinforces capital stability and management’s conviction in the company.



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