



## Aion Investments 2024

	2024	2023	Total	Annual
<b>AION INVESTMENT</b>	<b>68.30%</b>	<b>45.8%</b>	<b>145.4%</b>	<b>56.6%</b>
Target Return	15.00%	15.0%	32.3%	15.0%
Global Equity Index	24.3%	15.9%	44.0%	20.0%

\*Returns (EUR)

During 2024, financial markets continued the momentum started in 2023, driven by a key shift in monetary policy. As **inflation gradually moderated**, major central banks began moving from a **high-rate environment toward more moderate levels**, improving financial conditions and **making risk assets more attractive**. This context **benefited equities**, which gained from increased investor confidence and a more stable economic environment.

In this scenario, the **global index in euros closed the year up 24.3%**, driven mainly by the United States, where the **S&P 500 rose 33.4% in euros**, of which approximately **six percentage points were due to the appreciation of the dollar**. Much of this performance was contributed by the so-called “Magnificent Seven”: **Apple, Microsoft, Alphabet, Amazon, Meta Platforms, Nvidia, and Tesla**, which not only delivered outstanding results but also positioned themselves at the forefront of artificial intelligence, the year’s central theme.

The enthusiasm for **artificial intelligence** reinforced appetite for tech companies, but **high valuations** and **uncertainty** over the true winners **led us to stay on the sidelines of those companies directly leading its development**. Even so, we believe the adoption of this technology will indirectly enhance the **productivity and growth of the companies in our portfolio**.

During the year, we achieved a **return of 68.33%**, well **above our long-term annual target of 15%**. This performance was primarily driven by the strong results of a few key positions, notably **Terravest**, with an annual return of **155%**, and **FitLife Brands**, which advanced **70.4%**.

While we celebrate this outstanding outcome, it is important to emphasize that **this represents an extraordinary and unlikely repeatable performance**. Therefore, now more than ever, we must maintain focus on the strategy’s real objective, keeping in mind what is reasonable to expect over the long term and **avoiding unrealistic expectations derived from an exceptional period**.

Current Portfolio:

Company	W
TerraVest Industries	34.7%
Mader Group	19.6%
FitLife Brands	19.2%
Clarus	13.7%
Atlas Engineered Products	12.8%

One point that stands out in the portfolio this year is **the small number of holdings**, as we **closed the year with only five positions**. Although our strategy is concentrated, we typically maintain between seven and nine companies. However, and perhaps counterintuitively, this reduction was aimed at lowering risk. Compared to the companies we exited, we believe the current holdings offer more attractive valuations, **providing a greater margin of safety** and, therefore, a **lower probability of value destruction**.

We believe the most **honest and sensible** approach is to maintain these five positions until new opportunities arise with an equal or higher risk–return profile. We do **not consider it responsible to add names just to increase the number of holdings**. Our analysis time is limited, and diversifying without conviction would **dilute our focus and monitoring of the companies in which we truly have confidence and feel most comfortable**.

**Diversification** is often emphasized, and in general, it is thought that the more positions a portfolio holds, the lower the risk. It is not uncommon to see portfolios with 90 or 100 stocks. It is true that diversification **“reduces risk without sacrificing expected return,”** though we put it in quotes because, as we will see later, there is an **associated cost that is rarely discussed**. Furthermore, risk reduction is not unlimited; its ceiling is closer than many believe.

To better understand this topic, the **CFA Institute** published a very interesting article titled *“Peak Diversification: How Many Stocks Best Diversify an Equity Portfolio?”* In the world of **small caps**, the effect of diversification is particularly relevant: a portfolio of **40 stocks can reduce volatility by more than 60% compared to investing in a single company**. Interestingly, the **first 10 positions account for almost 80% of that risk reduction**, while the remaining 30 contribute only the remaining 20%. In other words, adding more companies always helps, but **the marginal benefit diminishes quickly**.

Additionally, increasing the number of positions comes at a cost: **less time to analyze each company**. If we tried to **capture that final 20% of volatility reduction**, we would **dedicate only a quarter of our time to each investment**, which would affect the quality of our analysis. For this reason, **we prefer a concentrated portfolio**, with a few carefully selected companies where we can truly understand the business and its potential for value creation.

And many may be asking themselves: “You recently mentioned that volatility is not an adequate measure of risk, so why an entire page about it now?” The truth is we still believe that **volatility**, as a proxy for risk, **has many limitations**. However, in the case of diversification, observing how volatility changes allows us to visualize its **effect and how it**



**reduces portfolio risk.** That is, here volatility is not used so much as a risk measurement tool, but as a way to see the **tangible impact of implementing diversification.**

FitLife Brands (FTLF):

Now it is time to discuss **FitLife Brands**, one of our positions **held for over a year.** FitLife is a **nutritional supplements** company that has achieved an **outstanding transformation** since being on the verge of bankruptcy in 2017. Under the leadership of **Dayton Judd**, the company executed an exemplary **turnaround**, with drastic **cost reductions**, a focus on **high-margin products**, and the **development of a scalable, profitable e-commerce channel.** The result is a growing company with strong cash generation and, most importantly, a management structure **fully aligned with its shareholders.**

A key point regarding the **company's management** is that, **before becoming CEO and principal shareholder**, Judd was a board member and an **external investor** through his own **hedge fund**, where he invested both his own capital and that of his clients. Today, the situation is reversed: **his primary focus is FitLife**, and combined with his direct ownership and that of his clients, **he controls over 50% of the company.** This gives us great comfort, as strategic decisions are made with a **long-term value creation mindset**, taking risks only when the potential return justifies it.

In 2023, FitLife completed two highly attractive acquisitions from a valuation perspective, **Mimi's Rock** and **MusclePharm.** Both were acquired at **low multiples** with significant operational improvement potential, whether due to **financial distress** or **bankruptcy.** The underlying idea was to **replicate the same value creation process** that saved FitLife years ago.

Among these acquisitions, **MusclePharm** stands out as the opportunity with the highest value creation potential. It was acquired for **\$18.5 million** when it generated approximately **\$17 million in sales** and **\$3–4 million in normalized EBIT**, implying a multiple **near 5x EBIT**, particularly attractive for a brand with **strong global recognition.**

While the recovery process is taking **longer than initially expected**, progress is already visible through concrete milestones such as the relaunch of its **flagship product**, **Combat Sports Bar**, **returning to major retailers**, revitalizing its main **e-commerce channel**, and **regaining** some previously lost **strategic customers.**

Although **the goal of doubling revenues** from \$10 million to \$20 million may take a **bit more time**, **current levels near \$12 million reflect steady progress.** Knowing Judd's management style, favoring conservative estimates and letting results speak for themselves, **we maintain high conviction** in our thesis and the potential value still to be unlocked.

For 2025, we estimate that FitLife will generate between **\$14 and \$16 million** in free cash flow for shareholders, representing an annual return exceeding 10%, based on its current capitalization of approximately \$140 million. This cash flow is not only expected to be sustained but also **to grow as revenues from MusclePharm and Mimi's Rock increase,**

and as **Dayton identifies new acquisitions**, further consolidating FitLife as a **leading holding in the nutritional supplements sector**.

Mader Group (MAD):

Another company I want to discuss, and the **second largest position** in our portfolio, is **Mader Group**. Unlike other companies in our portfolio, Mader operates in the services sector, specifically in the **maintenance of heavy machinery for the mining and energy industries**. It is a company where **corporate culture** and **operational excellence** are fundamental to our investment conviction.

Mader Group was born from the experience of **Luke Mader**, who recognized **that equipment manufacturers (OEMs)** offered **slow, fragmented, and costly** after-sales service, **focused more on selling machines and spare parts** than on efficiently repairing equipment. The company addressed this issue by providing **fast, cost-effective, and brand-agnostic maintenance** capable of repairing any machine directly on-site. This translates into prices approximately 30% lower than those of OEMs and significantly faster response times, **creating tangible and consistent value for clients**.

Today, the company has a network of **3,000 highly skilled technicians**, compared to fragmented competitors with much less reach. In short, Mader Group combines **operational efficiency, full coverage, and lower costs**, consolidating a **clear and sustainable competitive advantage** in a market **critical to mining operations**.

Currently, **Australia accounts for 73%** of Mader's revenues, while **North America contributes 24%**, despite the company only starting operations in Canada in 2022. This is significant because **Canada is the world's largest metal producer**, with more than **double** Australia's output, indicating an underpenetrated market with **enormous growth potential**.

Mader has demonstrated **consistent growth**, and we believe it can maintain this pace, primarily driven by its expansion in North America. While at first glance its cash generation may appear limited, its **capex has quadrupled since 2021**. This increase reflects the rapid **expansion of its fleet**, particularly in **North America**. Once this asset base is consolidated and operations are optimized between 2025 and 2026, we expect greater operating leverage and a progressive improvement in margins.

A key **aspect of Mader's financial strategy is its depreciation** policy on vehicles and machinery, which account for nearly all of its assets. This policy is **conservative and accelerated**: during the first 2–3 years of a vehicle's life (with an estimated useful life of 8 years), the company records approximately **25% of its value annually as an accounting expense**.

To put this into perspective: if Mader acquires a truck for \$100,000, it expects to use it for about **8 years**. Instead of spreading the cost evenly, **\$75,000 is recorded as an expense during the first three years**, leaving the remaining **\$25,000 for the final five years of useful life**. This **reduces accounting profits initially**, even though the vehicle or machine continues to generate revenue normally. At first glance, it may appear negative, but in reality, it **protects capital and enhances the quality of future earnings**, as expenses for the

same asset decrease in subsequent years, more clearly reflecting the company's **true ability to generate profits.**

Considering all this, we calculate that at current prices, we are acquiring the company at approximately **six times the estimated cash generation for 2029**, a compelling valuation for a business of this **quality, visibility, and growth potential.** Additionally, we feel comfortable investing our capital alongside **Luke Mader**, in whom we trust for his proven ability to allocate capital and generate value sustainably.

Finally, I would like to explain the exit from **Monarch Cement**, one of the companies mentioned in previous reports. Although we still consider it a **solid business with attractive prospects**, its price has increased nearly **50%** since we added it a year ago, achieving in such a short period the return we had expected over three years. This revaluation significantly **reduces expected returns for the coming years.**

Nevertheless, **Monarch Cement** remains a company we value and will continue to monitor closely, as it perfectly represents the type of companies in which we like to be invested.



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