



## Aion Investment First Half 2024

	1st H 2024	2023	Total	Annual
<b>AION INVESTMENT</b>	<b>43.40%</b>	<b>45.8%</b>	<b>109.1%</b>	<b>63.5%</b>
Target Return	7.10%	15.0%	23.2%	14.9%
Global Equity Index	15.1%	15.9%	33.3%	21.1%

\*Returns (EUR)

During the first six months of 2024, the positive tone in markets continued, supported by a more confident environment and the strength of U.S. equities. Globally, the **MSCI World Index** in euros delivered a return of **15%**, while the **S&P 500** in euros advanced approximately **19.8%**. This performance was driven by a small group of large companies (**Apple, Microsoft, Google, Amazon, Nvidia, Meta, and Tesla**), which accounted for a significant portion of the index's gains, supported both by strong corporate results and by expectations surrounding their substantial investments in artificial intelligence. At the same time, expectations of a future normalization of interest rates reinforced investor appetite for equities and other risk assets.

Although the companies in our portfolio do not belong to the sector that has shone the most in the market, **artificial intelligence**, we achieved a **strong return of 43.4% during the first half of the year**, as a result of the solid results reported by our holdings. The main contributors were **Terravest**, with a **62%** appreciation, **FitLife Brands**, up **60%**, and **Hipgnosis Songs Fund**, which gained **41%** in a special situation that was resolved in just three months.

Current Portfolio :

Company	W
TerraVest Industries	22.8%
Mader Group	22.7%
FitLife Brands	18.9%
Spyrosoft	16.0%
Monarch Cement	10.5%
Clarus	8.9%

When analyzing the current composition of our portfolio, a common characteristic stands out: most of our positions are in companies with a **market capitalization below \$1 billion**,

commonly known as **small caps**. In relative terms, these are smaller companies than those included in major stock indices. However, several of these businesses **operate internationally, employ thousands of people**, and own production facilities or operating centers in multiple regions, allowing them to run **established and diversified operations**.

While our investment philosophy **is not constrained by sector, size, or geography, smaller companies tend to represent a significant portion of our portfolio**. This is not the result of a deliberate preference, but rather because **this is the segment where we most frequently identify inefficiencies and attractive opportunities**. In addition, we benefit from a structural advantage in this space: **large asset managers**, due to the sheer size of the capital they oversee, **are unable to invest meaningfully in these companies**. This results in **less analyst coverage and less efficient pricing**. In such environments, we believe we can generate additional value.

Investing in small companies requires **patience, focus, and strong business discipline**. Their lower trading volume and liquidity often lead to higher short-term volatility, creating more noise and price movements that do not necessarily reflect the underlying business performance. This demands a **close monitoring of operating results and long-term prospects**.

Patience is also essential because a **small company does not become attractive or investable for large institutions overnight**. It takes time, consistent execution, and verifiable results for liquidity, analyst coverage, and trading volume to gradually increase. When business performance becomes firmly established, the market tends to catch up on its own.

Finally, investing in small caps across very **different geographies and industries** allows us to achieve **genuine diversification**. The business models are highly uncorrelated with one another. For example, within our portfolio there is no direct relationship between the **cement market in Kansas (Monarch Cement)**, **technology services in Poland and Eastern Europe (Spyrosoft)**, or **industrial tank manufacturing in Canada (Terravest)**. Although short-term correlations may arise due to broad market liquidity conditions, over the long term their performance is driven by **independent economic engines**. This enables us to achieve meaningful diversification while maintaining a focused portfolio with a limited number of positions.

### **Fairfax Financial (FFH):**

Unlike previous semiannual reports, on this occasion we will not discuss the companies we currently hold in the portfolio, but rather those we have decided to sell. I believe **divestment decisions** require greater **reflection and transparency**, as they reveal how we continuously evaluate the value and potential of each business. As you will notice, our **two most important positions** in recent periods have been **fully exited**. The first of these is **Fairfax**, a company that for years held a central place in our strategy. I have always valued its management culture, and in particular the **willingness of the leadership team to acknowledge past mistakes and adjust strategy accordingly**.

Although the valuation was already becoming demanding, that was not the primary reason for the sale. We exited the position **at around \$1,300 per share, approximately 1.5 times**

**book value.** What truly prompted our decision was a **report by Muddy Waters**, a well-known short seller. While several of its arguments struck me as incomplete or exaggerated, the report served as a catalyst to take a **deeper look at Fairfax's accounting and to reassess our level of conviction.**

During this process, we identified certain elements that, while not constituting fraud, did reflect **aggressive accounting practices.** The most evident case was the stake in **Quest Corp:** Fairfax carried this investment on its **books at close to \$1 billion**, while the market value of **the entire company was around \$477 million.** This difference, an 87% premium over the observable market price, was not justified by operating fundamentals, but rather by overly **optimistic internal valuations.**

Although such practices are permitted under the **Equity Method according to IFRS standards**, their implications are meaningful: they **allow losses to be avoided and present a balance sheet that appears stronger** than the underlying economic reality. While this investment represents a small portion of Fairfax's total assets, what matters is **not its size but what it reveals about the accounting judgment being applied.**

Since this was not an isolated case and we observed a **gap between economic reality and the accounting values** of other investments, **we chose to divest and prioritize companies where there is clear alignment.** In fact, I generally prefer conservative accounting, as it is most often aligned with long-term value creation. By contrast, aggressive accounting tends to **pull value forward as quickly as possible**, often at the **expense of future results.**

Spotify Tech (SPOT):

The second sale relates to a different case, but it was also a meaningful decision within the composition of our strategy. It concerns Spotify. Following **the strong increase in its share price throughout 2023** and into early 2024, **we decided to sell our entire position.**

Unlike Fairfax, this decision was not driven by the identification of negative aspects within the company, **but rather by the fact that, after a 100% increase over the past year**, the expected return was no longer as attractive as it had been at the time of our initial investment. We purchased shares when the company's market capitalization was between \$20 and \$30 billion, **with a targeted upside of 150–200% over a five-year horizon.** Today, just one year later, we have already achieved a 100% appreciation, and **the risk–reward profile relative to other holdings in our portfolio became less compelling.**

That said, **Spotify remains a company with a solid business model** and a highly **capable management team** whose incentives are well **aligned with those of shareholders.** We would not rule out investing again in the future, should valuation once again become attractive.



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