SIA Investment Philosophy
December 2025

Investment Philosophy

1.1 Investment Approach

Investment universe:	**Global equities**
Minimum liquidity requirements	EUR 1 billion market capitalization and EUR 1mn daily liquidity.
Top-down vs. bottom-up influence:	We consider ourselves as **stock-pickers** with a pure bottom-up selection. However our long experience in equities has led to a **deep knowledge of sectors and geographies,** which helps a better understanding and selection of companies.
Strategic value:	We call our investment philosophy **“strategic value investing”** which requires to buy good business, good managers and good balance-sheets at a good price. We seek an average of 10-12% net return per annum.
We adopt an “owner’s approach”:	**Our preferred investment horizon is “forever”** quoting Warren Buffett. We see ourselves as **entrepreneurs** investing in a holding of companies for the long term. Completely opposite to speculation or short-term trading.
Our commitment:	**To buy quality businesses at a discount, with a long-term horizon.** Over the short term, price and value may diverge, and we will take this opportunity to invest. We will not pursue momentum investing or similar strategies which are not based on fundamentals.
Performance attribution vs. MSCI (AC) World on regions, countries, stocks and capitalization:	**Our investment process is structured by risk,** through countries, sectors and companies. We do not follow any index but try to mitigate risk through our RAS (risk adjusted strategy) and our C&D approach targeting both concentration and diversification. Weightings are also challenged by the Investment committee to control risk. Through our strategic value approach (bottom-up stock picking) we systematically end up finding attractive sectors and regions. We **do not use a detailed performance attribution tool** because 1) we are heavily concentrated 2) we substantially deviate from the MSCI (AC) World and 3) we avoid trading.

1.2 Investment Philosophy

Our Investment Philosophy

- We invest with a **long-term ownership mindset**, as if we were the business owners.
- We invest in **good businesses**, run by **good managers**, with **good balance sheets**, at a **good price**, what we call the **4Gs**.
- For every holding, we build a **discounted cash flow (DCF) model** to estimate intrinsic value and expected internal rate of return (IRR). From this, we derive the fund's expected intrinsic value and IRR on a weighted-average basis.
- We do **not trade**, attempt to **time the market**, or rely on **short-term catalysts**.

Approach to Capital Allocation

We believe there are two fundamentally different approaches to using capital. The first is **speculation or trading**, and the second is **long-term or strategic investing**.

In a **trading or speculative strategy**, profitability comes from selling an asset at a higher price than the purchase price. Assets such as gold or bitcoin are clear examples: they do not generate cash flows and only produce value upon sale (net of storage or custody costs). Many market participants approach equities in the same way, buying assets regardless of their intrinsic value, as long as prices rise and the asset can later be sold at a profit.

By contrast, **long-term investing** derives profitability from the **cash flows generated by the asset itself**. These may take the form of rental income from real estate or after-tax profits from a company. While companies typically reinvest part of their profits rather than distributing all earnings as cash, reinvestment at attractive returns increases shareholder wealth over time, just as rental income can be reinvested to acquire additional properties.

In this framework, what matters is **not short-term price movements**, but the **income an asset generates over time**. For this reason, long-term investing can also be described as an **intrinsic value or intrinsic profitability approach**.

Speculation vs. Intrinsic Profitability

In theory, both strategies can coexist. For example, one might collect rental income from a property and later sell it at a higher price. However, it is essential to distinguish between these two sources of return, **as the skills required to achieve them are fundamentally different**, and successfully combining them is far from straightforward.

In a **trading strategy**, success depends on anticipating future price movements; in effect, guessing how the market will behave. This is why the approach is often described as speculation. Techniques such as technical analysis focus on identifying patterns in current and past prices to make bets on future prices. Mastery of this approach requires strong trading skills and a deep understanding of supply and demand dynamics.

In contrast, an **intrinsic value strategy** requires the ability to estimate **future cash flows**. For real estate, this means forecasting future rental income; for companies, it means analyzing future cash flows. This demands rigorous business and financial analysis, assessment of management quality, and an understanding of industry dynamics and long-term competitive positioning.

If an investor can estimate a company's future cash flows more accurately than the market, identify discrepancies between intrinsic value and market price, and invest accordingly, attractive long-term returns should be achieved.

Our Strategic Value Approach

Strategic Investment Advisors aims to deliver **net double-digit returns** for investors by following a **strategic value investing approach**. We will never recommend buying shares simply because we believe someone else may pay a higher price in the future. Our philosophy combines **strategic investing** with a **value discipline**.

We invest in companies because we believe they represent ownership in businesses capable of generating strong and sustainable profits over the long term. Similarly, we do not recommend selling shares solely because we expect short-term price declines. As long as a company's intrinsic profitability remains intact, we see no reason to exit the investment.

We begin with the premise that we have **no ability to predict short- or medium-term market movements**, whether for the market as a whole or for individual securities. Accordingly, we do not attempt to identify "shares that will rise in the short term." Instead, we focus exclusively on owning businesses that we believe can deliver **10–12% net returns** over the long term.

This philosophy requires patience and discipline. History has repeatedly shown that markets can **misprice securities—sometimes dramatically and for extended periods**. However, over the long run, share prices tend to converge toward intrinsic profitability.

For this reason, our investment process does not aim to outguess the market, but rather to **correctly anticipate the long-term profitability of the businesses we own**.

1.3 Stock Selection Criteria (Process)

Research and Screening Process

Our research process begins with a **quantitative screening** of the Bloomberg universe, covering around **45,000 companies**. This screening incorporates traditional financial metrics such as **P/E**, **EV/EBIT**, **ROE**, and related factors. In parallel, we conduct **informal qualitative screening**, including the review of professional literature, industry analysis, and selected third-party recommendations.

Over time, our screening methodology has evolved from a primarily quantitative approach toward a more **qualitative, business-focused process**, mirroring the evolution of our investment philosophy from **deep value** to **strategic (or qualitative) value investing**.

Universe Reduction (Quantitative)

Following the screening, we exclude companies with a market capitalization below **EUR 1 billion**, reducing the investable universe to approximately **5000 companies**. Our selection process reduces this list to around 100-150 names which comply with our criteria. This universe is relatively stable, with an average of **10–20 new candidates** every two weeks.

Strategic (Qualitative) Filter

The next stage applies our **strategic filter**, which consists of a comprehensive **fundamental and strategic analysis**—historically a core competence of **Prof. J. Carlos Jarillo**. This analysis evaluates key dimensions such as:

- Industry structure and characteristics
- Competitive dynamics
- Supply and demand conditions
- Growth prospects
- Sustainability of returns

Defining a “Good Company”

We define a “good company” as one that consistently generates a **Return On Capital above its Cost of Capital over the business cycle**. This outcome typically requires **structural barriers to entry or moats**, which prevent supply from fully responding to demand and thereby protect profitability.

Key sources of competitive advantage include:

- **Cost advantages**, such as economies of scale
- **Intellectual property superiority**, including proprietary products, processes, or strong brands
- **Switching costs**
- **Network effects**
- **Privileged access** to raw materials, customers, or regulatory frameworks
- **Other**

Ultimately, companies can sustain returns above their cost of capital only when they are **protected from full competition**. Assessing whether such protection exists requires a deep understanding of the **competitive dynamics of each sector**, which also evolve over time.

This rigorous strategic analysis is critical in **avoiding value traps**, which often appear attractive on purely financial metrics but lack durable competitive advantages.

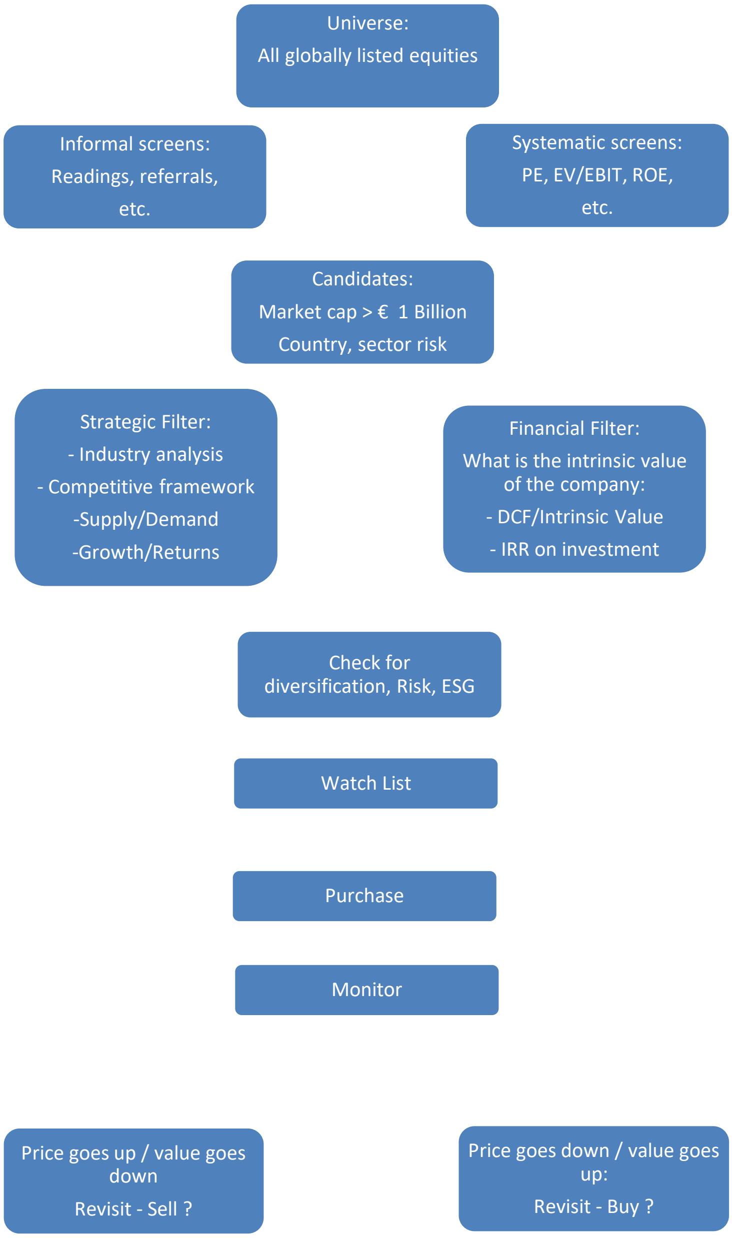
Financial Analysis and Watch List

Companies that pass the strategic filter are then subjected to an in-depth **financial analysis**. The objective is to estimate the company's **intrinsic value and return**, which are then benchmarked against the portfolio existing holdings and risk categories, while remaining alert to indicators of **structural or cyclical value traps**, or both.

Only after successfully passing all qualitative and quantitative assessments is a company added to our **watch list**, which effectively serves as the **gateway (and entry barrier) for potential inclusion in the portfolio**.

Re

Figure 1: Stock selection process of SIA Group



1.4 Portfolio Construction

SIA's portfolio construction is guided by the following principles:

1. **Strategic Value Focus**
   We invest in high-quality companies that meet our definition of **Strategic Value**, as distinct from traditional deep-value opportunities.
2. **The 4Gs Framework**
   All portfolio companies must satisfy our **4Gs criteria**: good business, good management, good balance sheet, and good price**.**
3. **Risk-Adjusted Strategy (RAS)**
   Portfolio construction follows our Risk-Adjusted Strategy (RAS), which allocates investments across four defined risk categories with the objective of enhancing overall risk management.
4. **Disciplined Concentration and Diversification**
   We apply a disciplined approach to concentration and diversification**,** maintaining a portfolio of 30–35 companies, while ensuring that no single factor dominates overall portfolio exposure**.**
5. **Valuation Discipline**
   Every portfolio company is supported by a discounted cash flow (DCF) model, providing an estimate of intrinsic value (IV) and implied internal rate of return (IRR). This allows us to calculate the fund's aggregate IV and expected IRR on a weighted-average basis.
6. **Sector Matrix and Watch List**
   Portfolio implementation is guided by a sector matrix (identifying sectors we favor or avoid) and a watch list, which acts as a formal entry barrier for inclusion in the portfolio.

Overall, our investment fundamentals remain unchanged: we maintain a portfolio of **rigorously researched companies**, held with **high conviction**, ensuring that our strategic principles continue to drive **long-term value creation** for our clients.

Risk-Adjusted Portfolio Structure

We build the portfolio from a **risk-adjusted perspective**, assigning each stock to one of four **fundamental risk categories**, each with a defined required return:

Risk Category	Description	Required Return (*)
Category 1	Low risk / global franchise companies	**10%**
Category 2	Solid, non-cyclical companies	**12%**
Category 3	Solid, cyclical companies	**14%**
Category 4	Higher-risk situations	**20%**

(*) *Expected returns. If a stock's expected return declines materially—either due to share price appreciation or long-term business deterioration—it becomes a candidate for sale.*

Portfolio Allocation and Rebalancing

As a starting point, the portfolio is constructed with an **even split** between lower-risk and higher-risk exposures:

- **50% in Categories 1 and 2**
- **50% in Categories 3 and 4**

This structure enables **countercyclical rebalancing**. Following market corrections, we may increase exposure to Categories 3 and 4, while in periods of elevated market valuations, we may shift weight toward Categories 1 and 2.

Risk Classification Through Strategic Analysis: the example of Viscofan

As a second step, we assign each stock to a **risk category** based on our **strategic analysis**.

Viscofan, the global leader in sausage casings, serves as an illustrative example. Our assessment includes the following dimensions:

- **Intellectual Property / Technology**
  The sausage casings business requires specialized and evolving technology, creating meaningful barriers to entry.
- **Growth and Returns**
  The industry exhibits an oligopolistic structure within a staple end market, enabling Viscofan to generate consistent double-digit returns.
- **Cost Position**
  Viscofan maintains a strong focus on cost efficiency and return optimization, supported by its position as the global market leader.
- **Foreign Exchange Exposure**
  Production is geographically diversified and located close to end customers, mitigating currency and logistical risks.
- **Regulatory Environment**
  Stringent quality and food safety regulations act as effective entry barriers within the food sector.
- **Financial Profile**
  The company follows a conservative balance sheet management approach.
- **Switching Costs**
  While switching suppliers is possible, customers face meaningful frictions, reinforcing client retention.

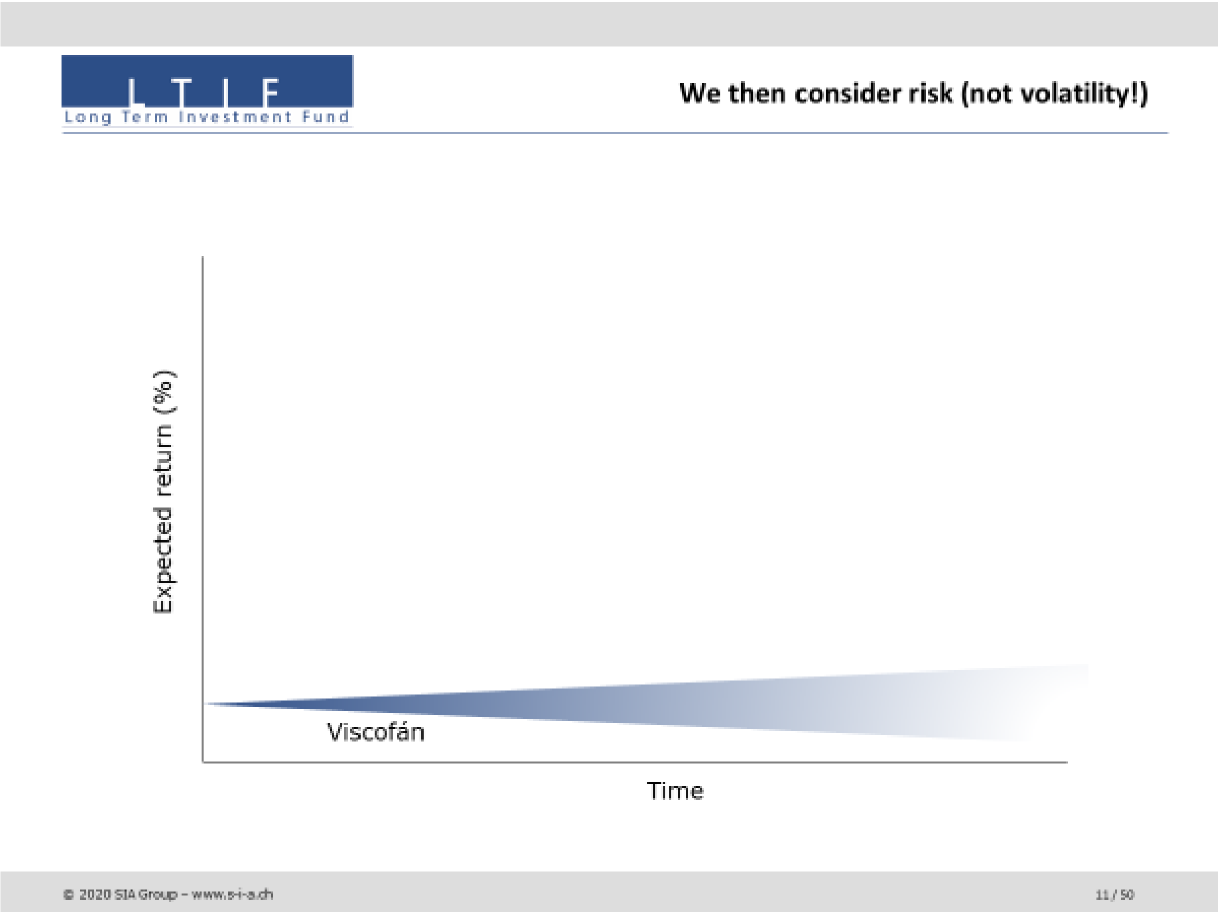
Based on this analysis, Viscofan qualifies as a **Category 1 stock** (or a Category 2, and this leads to a useful debate) a *low-risk global franchise*. Such companies are characterized by **high visibility of expected returns** and **low earnings volatility**.

Valuation and Expected Return

For every company under coverage, we build a **discounted cash flow (DCF) model** to estimate both **intrinsic value** and **expected internal rate of return (IRR)**.

All DCF models are fully **converged**, focusing on **long-term sustainable assumptions** for key drivers such as growth, margins, returns on capital, capital expenditures etc.

In the accompanying chart, Viscofan's **expected return is plotted against risk**. Generally speaking, and following the axes, when the expected return increases, the width of the triangle expands, reflecting the **higher level of risk** associated with higher-return opportunities.



1.5 Marginal Volatility

In addition, our portfolio is permanently checked for diversification with the help of a proprietary tool called "Implicit Marginal Volatility":

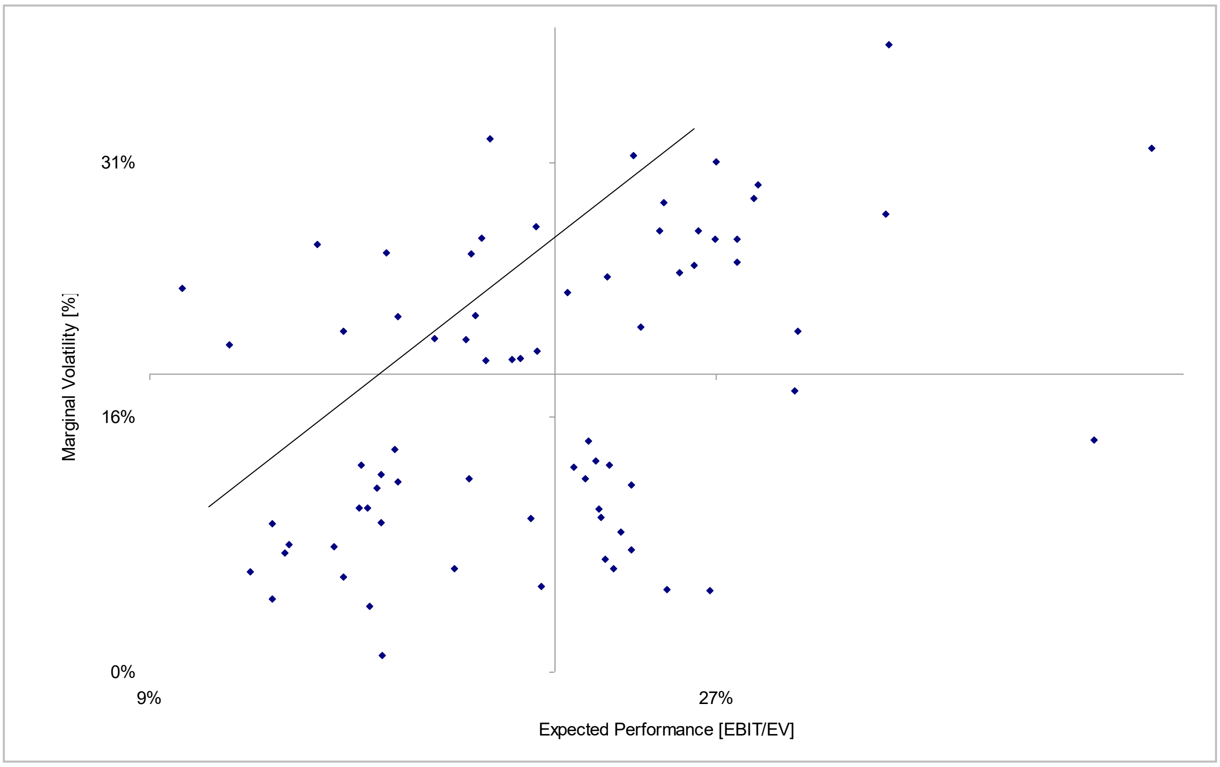


Figure 2: Marginal Volatility

The matrix of "marginal volatility/expected return" helps to get a better understanding of returns, risk and volatility.