Seeking For Alpha
INVESTIMENTOS

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Investor Letter

1st Quarter 2024

“Slow down you crazy child
You're so ambitious for a juvenile
But then if you're so smart tell me
Why are you still so afraid?”

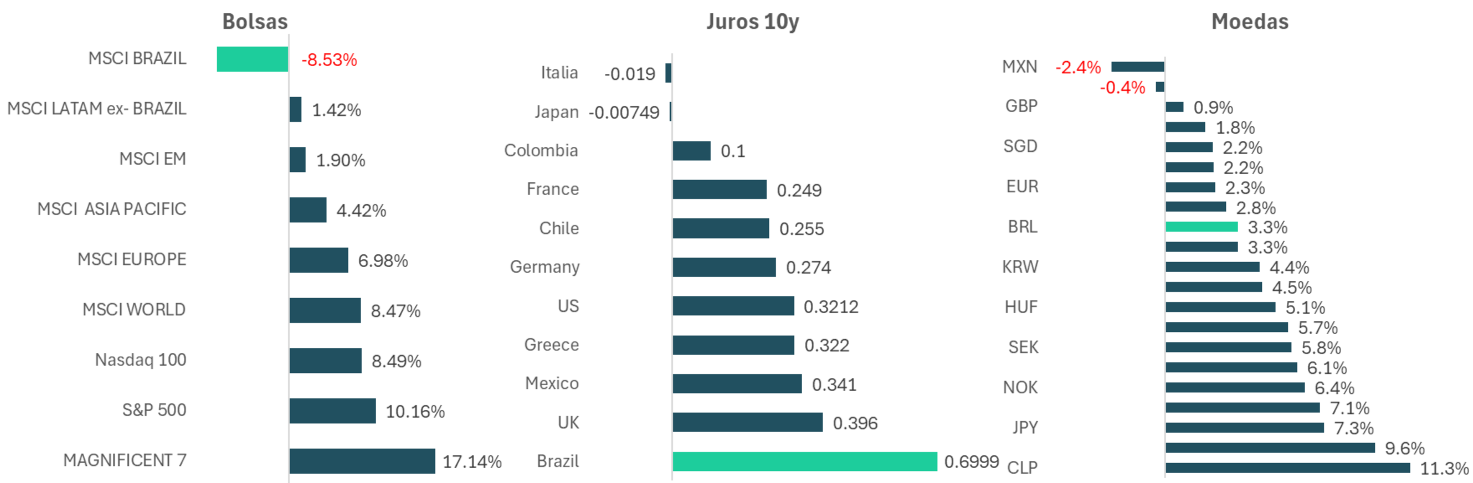
Excerpt from the song *“Vienna”* by Billy Joel.

The SFA EAC FIC FIA – BDR LEVEL I Fund closed the 1st quarter of 2024 with a cumulative return of -0.06%, outperforming its Ibovespa benchmark, which returned -4.53%.

Período	SFA EAC	Ibovespa	CDI
1T24	-0,06%	-4,53%	2,62%
YTD	-0,06%	-4,53%	2,62%
Últimos 3 anos	24,53%	14,32%	35,52%
Últimos 5 anos	90,26%	36,67%	46,18%
Desde o início	358,51%	139,42%	160,76%

How Was the First Quarter of 2024

Unlike how 2023 ended, the year 2024 began in a challenging environment for Brazilian assets. While the local interest rate curve and our currency followed the international deterioration, our stock market delivered a performance diametrically opposite to the rest of the world.



While we witnessed American exceptionalism, with technology companies tied to *AI* showing yet another year of strong performance, Brazil, once again, continues to stumble on its own feet.

With U.S. inflation data coming in above expectations this year and activity still strong, investor expectations for the Fed to begin cutting rates in 2024 decreased considerably, with negative implications for the rest of the world and especially for emerging markets such as Brazil.

However, we managed to put ourselves in an even worse position! The way we handle our local problems, especially our fiscal dynamics, continues to raise concerns among both local and foreign investors. In addition, the wave of redemptions in the local fund industry continues, further depressing asset values, as funds have no alternative but to sell their positions at deeply discounted prices.

One factor drawing significant attention is that both indices, here and in the U.S., conceal very disparate relative performances. The Ibovespa is well-known for being concentrated in *commodities* and bank stocks, which performed better than the rest of the market — meaning the reality is worse than it appears. But even in the U.S., we also see the effects of index concentration, with *big techs* accounting for around 30% of the S&P 500. We can take as an example the *software* sector, which for years was a darling of investors, but this year has suffered from questions about the impact of *AI* on these companies. While the MAG 7 (Meta, Amazon, Tesla, Nvidia, Apple, Microsoft, Alphabet) are up around 34% year-to-date and the S&P 500 around 14%, a *basket* Morgan Stanley basket of *software as a service* (SaaS) companies is down 12%.

At the end of the day, this dispersion of returns creates opportunities for investors like SFA, with a long-term perspective. Locally, our portfolio remains well-positioned to capture the decompression of risk in Brazilian assets, with businesses resilient enough to weather difficult periods. As for our international allocation, we remain invested in excellent companies with strong competitive advantages.

We thank you for your trust,

SFA Investimentos Team

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