Q3 2024

INDUSTRY AND EQUITY REPORT

Navigating Markets and Equity Landscapes

BvvK INVESTMENTS

THE REPORT

Welcome to the Q3 2024 Financial Report by BvvK Investments. The report is structured into two primary sections: Market Reca and Portfolio Performance. It is important to note that the report is published after each quarter. The Market Recap section delineates a general overview of the market and an industry-wise review of the principal markets. In the Portfolio Performance section, we delve into the BvvK portfolio. We look at the overall performance compared to the benchmark, and important changes that have been made.Also, iIn this section analysis on some of the positions currently in the portfolio.

This is not financial advice.

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MARKET RECAP

After an 8.5% retrace in early August, the S&P 500 rebounded and hit new highs driven by a 50-basis point rate cut by the Federal Reserve. Rate cuts which are expected to continue through 2025. Furthermore, bonds delivered positive returns, and US equities reached all-time highs by quarter's end, thanks to strong risk assets and safe havens. The best stocks for the quarter were Palantir and AppLovin, while the worst include DexCom and Moderna.

During July and August, there were rising doubts among investors about the health of the economy, due to higher than expected unemployment rates. However, these doubts were effectively allayed by a positive hiring rebound in September, alleviating fears of an imminent recession. In commodities, agriculture and precious metals (especially gold) saw gains, while energy prices declined.

Following a bearish summer, China introduced a significant stimulus package by the end of the month of September focusing on its property market and boosting global equity returns, particularly in emerging markets.

In the US, tech sectors lagged following investors' rotation towards smaller-cap and value stocks. Conversely, the utilities and real estate sectors outperformed. Moreover, the UK and the eurozone followed the US in the interest rate-cutting cycle, leading to lower yields across the bond markets.

UTILITIES

In Q3 2024, utilities have been the top-performing sector in this quarter, outperforming financial and real estate markets that often benefit from interest rate cuts. The sector has been booming since the end of last year, and there is no sign of stopping. The bullish narrative on the market is well justified after underperformance for the first three quarters of last year. However, recently the rally might be driven by overoptimistic investors' confidence, due to no apparent single cause of top-performance.

The current P/E ratio of the utility sector is 22.17, which makes it higher by 3.34 basis points compared to last year's average P/E, and higher by 6.06 relative to the average 20-year P/E ratio. Considering the fact that the market is viewed as a more conservative and safe choice for investment, it makes utility equity expensive and overpriced. These sentiments come from demand for energy supply induced by the growth of the AI sector. AI frenzy stimulates microchip production, which in turn increases aggregate use of those power-intensive components. There are two main reasons why investors are attracted to utility stocks stemming from that. First reason is the obvious desire to invest in energy suppliers, who are direct beneficiaries from the induced demand for energy. The other reason is previously relatively low prices for utility stocks, compared to those of AI. These factors drove the recovery of the utility market and kept pushing the prices even higher.

Top-performers of this quarter in the utility sector were GE Vernova (GEV), Vistra (VST), and Constellation Energy (CEG). GEV stocks soared over 50% with its this year's release of the aerospace compound, and its sound financial health. VST was the most prominent stock of the sector with an astonishing 60% increase in share price this quarter, making it the top-performing S&P 500 stock, surpassing NVDA. CEG didn't lag far behind its peer with stock price increase just shy of 50%, after Microsoft struck a nuclear deal called "Three Mile Island" with the utility company. These stocks reported such returns at its best during this quarter, putting the sector as the top-performing sector of this quarter.

Looking at the future of the sector, it seems like the upcoming U.S. presidential elections are unlikely to affect the growth on the market. Sound sector policies, stimulating fiscal policy, and demand for reaching environmental targets by managers are only going to propel the prices forward. On top of that, upcoming further rate cuts are going to help the companies manage their debts, especially because of the highly leveraged nature of the sector. More fundamental analysis shows that unbroken dividend growth by the companies are going to consolidate investors' confidence, and market sentiments. However, looking at past data utilities are likely to decline following periods of outperformance relative to other key markets. Nevertheless, the factors mentioned likely suggest the utility sector will remain among the top-performing sectors for the foreseeable future.

PORTFOLIO PERFORMANCE

General Portfolio

In the trailing six months, the portfolio has underperformed the benchmark by a significant amount: 6,98% versus 16,93%. Over the long term, the main goal of building a portfolio is outperforming the benchmarks. However, this underperformance is not per definition failure as portfolio managers. When investing based on fundamentals, investors try to get to know the companies and predict future market dynamics and company performances. forecasting company fundamentals is hard, forecasting market sentiment is near impossible. Sometimes there is a disconnect between company value and market price. Since the investments in the BvvK portfolio are made with a multiple year time horizon, this volatility on a 6 month basis is not really important, it merely reflects change in market sentiment.

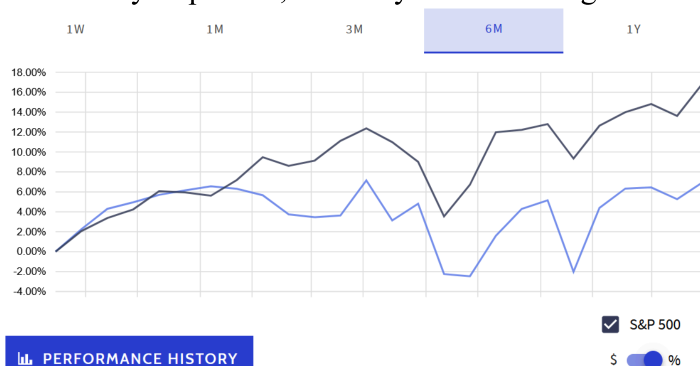

Fig 1: Portfolio performance of the BvvK portfolio versus the benchmark.

In the future, we will keep optimising the portfolio to the opinions of the members.

Specific Equities

The underperformance in the portfolio had been caused by some specific positions in the portfolio: Enphase, Inmode and StoneCo. To obtain the best results, it is a good idea to re-evaluate if these companies still fit the BvvK portfolio. While the sel-off in StoneCo seems to be more related to market sentiment and a shift in market focus, the other positions do have reasons for falling in stock price. Inmode is currently involved in a geopolitical conflict. In the last 12 months, they ensured investors that this would not affect the business performance. However, they came back on that statement, and it seems that the "short-term problem" is less short-term than previously anticipated. Enphase had to deal with negative sentiment in the solar industry, as well as analyst downgrades. Over all, the main theses for these stocks still remain intact and we remain positive on the outlook from here, as volatile as the journey might be.

ENPH	Enphase Energy Inc	$92.04	-$943.00 (-9.29%) ↓	$119.10	100	$9,204.00	-$2,706.00 (-22.72%) ↓
INMD	Inmode Ltd	$16.65	$0.00 (0.00%) —	$20.60	700	$11,655.00	-$2,767.00 (-19.19%) ↓
STNE	StoneCo Ltd - Ordinary Shares - Class A	$10.96	-$81.00 (-2.40%) ↓	$17.18	300	$3,288.00	-$1,866.00 (-36.20%) ↓

Fig 2: Lagging positions in the BvvK portfolio.

Luckily, some positions are outperforming the benchmarks, with SoFi and Hims and Hers health as the best examples. SoFi has a lot of tailwinds coming in the next 2 years, mostly to do with the lowering of interest rates. Money market funds are going to be less attractive, and trillions of dollars will be entering the stock markets. Or, as Buffet famously said: "Interest

rates are like gravity in valuations. If interest rates are nothing, values can be almost infinite. If interest rates are extremely high, that's a huge gravitational pull on values." This will influence all equities in the markets, but since the attractiveness of SoFi's products is greatly affected by interest rates, SoFi will experience a double positive tailwind. Hims and Hers is the best performer in the portfolio, percentage wise. It is up almost 200% since the addition to the portfolio about a year ago. The amazing company fundamentals finally seem to be appreciated by wall street. Some of this momentum seems to be caused by the weightloss section of Hims. As usual, the markets focus on details while missing the bigger picture in this growth story. This company will probably remain volatile for the coming 4 to 8 quarters. When the track record is a bit longer, and they can be valued based on profits, the stock will likely stabilise. Both these stocks have upside in them, and they will remain in the portfolio.

SOFI	SoFi Technologies Inc	$10.18	$350.00 (1.39%) ↑	$7.23	2,500	$25,450.00	$7,387.50 (40.90%) ↑
HIMS	Hims & Hers Health Inc - Ordinary Shares - Class A	$22.80	$23.00 (11.22%) ↑	$6.57	10	$228.00	$162.30 (247.03%) ↑

Fig 3: Leading positions in the BvvK portfolio.

Derivatives

A small part of the portfolio is allocated towards derivatives, in the form of Long-term Equity Anticipation Securities (LEAPS). These LEAPS expire in 2026, with strike prices of $25 for Hims and $10 for SoFi. At this moment, only the SoFi calls are in the money. It is interesting to see how these positions will evolve over time.

HIMS2616A25	HIMS 1/16/2026 $25.00 Call	$7.26	$180.00 (33.96%) ↑	$2.60	1	$710.00	$450.00 (173.08%) ↑
SOFI2618F10	SOFI 6/18/2026 $10.00 Call	$3.41	$10.00 (1.52%) ↑	$1.96	2	$670.00	$278.00 (70.92%) ↑

Fig 4: the derivatives of the BvvK portfolio.

GUEST AUTHOR:

THE STATE OF THE DUTCH RESIDENTIAL REAL ESTATE MARKET

The Influence of the *Wet Betaalbare Huur*

In recent years, the Dutch residential real estate market has been weighed down by an intense housing shortage. To put this into perspective: the current housing shortage is larger than directly after the Second World War with a shortfall of about 401.000 homes. This shortage has led to record high housing prices; homes were sold for € 473.000 on average in the third quarter. Not only is the shortage reflected in selling prices, it is also reflected in the increases in rents: the past year saw the largest rent increases in 30 years.

To combat these skyrocketing rents, former minister of public housing and spatial planning Hugo de Jonge introduced the *wet betaalbare huur*, or the affordable rent act. The goal of this legislation was to put a halt to exorbitant rents paid for homes that should be affordable. However, despite the intended consequences of more affordable homes for especially middle income households, we've seen a sharp decline in rental housing stock and skyrocketing rents. What happened?

The Dutch Rental Sector

Before delving deeper into the effect of the new legislation on the Dutch rental market, a little explaining is necessary as to how the Dutch rental market currently functions. The Dutch residential rental market consists of two categories of housing: the regulated sector *(gereguleerde huurwoningen)* and the free sector *(vrije sectorwoningen)*.

The regulated sector consists of housing that is for the most part owned by social housing corporations whose function it is to provide affordable housing for single person households with an income less than € 47.699 and multiple person households with an income less than € 52.671. The maximum rent for such units is determined to be € 879,66 for this year and is based on a point scoring system of what the home contains; floor space, heating and other amenities provide points which determine the maximum rent. A property in this regulated sector had a maximum points tally of 143 and was deemed as social housing.

Meanwhile, all homes that scored more than 143 points via this system were granted free sector status. For investors, this meant that a home that exceeded this tally has no rent restrictions, so one could therefore ask market rates. This would include homes deemed for both the middle as well as the upper class. However, due to the housing shortage, market rates were pushed higher and higher, eventually pushing past levels that were deemed exorbitant and outright antisocial, especially for middle income households.

This is where the affordable rent act comes into play. The goal of this act was to increase the supply of affordable homes, specifically for middle income households. This act therefore stated that the regulated sector would have a higher maximum points tally; going up from 143 to 186 points. By increasing the maximum points, a previously large part of housing stock that was in the free sector now found itself in the regulated sector, meaning that for these homes, landlords could no longer ask market rates and are now capped at € 1.157,96 per month.

For tenants with existing contracts who now fall under this new system, this has been good news. It has meant that they are now able to fight their rent at their local rent commission *(huurcommissie)* and have them lowered to be in line with the new regulations. However, this act has been disastrous for increasing the actual supply of affordable homes.

Effects on Supply

The new regulations have created a double whammy when it comes to supply: existing supply is dwindling and less new rental homes are being built.

By further capping the maximum rent, It has become nearly impossible for investors to exploit these homes in a profitable manner; the cost of financing, taxes and maintenance have reached a point where some investors barely break even or even turn a loss. This has meant that more landlords are considering or already actually have sold off their properties to at least cash in on the risen property values of the last decade, thus leading to a dwindling supply.

This large outflow of rental stock has disastrous consequences for the people that actually need such affordable housing. Take for example the situation in the city where I studied, Delft. In a survey undertaken by the *Delftse Studenten Corps* under their 2.000 members, they found that around 10% would have to leave their homes within 6 months and that in the first half of 2024, multiple student houses were already lost to these new regulations. What usually follows is that landlords do one of two things; they either convert such houses to smaller studios or sell the property entirely, the latter happening most of the time.

When it comes to new additions to the rental home stock, these capped rents play a large role. By not being able to ask market rates, combined with higher construction costs, investors and real estate developers can't profitably develop or exploit new units, leading to decrease in supply addition. This in turn decreases overall supply, further raising rents in what is now the new free sector above 186 points.

The Unaffordable Rent Act

In short, the new affordable rent act has enabled existing tenants to claim lower rents, but has decreased both existing as well as potential new rental housing stock, pushing prices further. The name of the unaffordable *rent act* would therefore have been more appropriate in my opinion. The introduction of this act, has therefore only exacerbated an already existing affordability and supply issue. Multiple companies, think tanks as well as other politicians have warned for these side effects. The adverse effects of rent controls have been studied well over the years and are widely known. As a matter of fact, Swedish economist Assar Lindbeck stated in 1971 that *"Rent control appears to be the most efficient technique presently known to destroy a city — except for bombing"*.

What does this mean for potential investors? Well, from my perspective, it has become largely unprofitable to exploit rental units in the Netherlands for the time being. With decreasing interest rates however, it could spell more lucrative conditions for financing rental units. However, the current shortfall that will most likely hold out for the coming decade, will keep pushing home prices up combined with lower interest rates. Only high demand locations where homes can be rented out for high income groups and that fall outside of the points system are worth looking at.

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