

“I’m always looking at the downside first. If you can’t lose money, you’re going to make money.”

Warren Buffett

We believe Artificial Intelligence (AI) stocks have reached valuations that many would consider to be a speculative bubble. That’s not to say that the technology isn’t ground-breaking, and in fact, we have been using it every day and continue to assess where best we can implement AI technologies to enhance our service offering and cut costs. However, the prices that this technology now demands rivals almost all the destructive manias of recent history, none more so than the TMT bubble of 2000. When these “bubbles” eventually burst they cause financial ruin for many investors, most of which were never aware of the risk in the first place. However, we also believe that there are some wonderful opportunities being created at the same time. Thus, we have broken down this quarterly report into two sections, Concerns and Opportunities (including Brazil).

Concerns

As alluded to, our first concern is the mania in AI stocks. The names you’ll be familiar with are **Nvidia**, Micron and perhaps TSMC and ASML.



A scary fact that we came across:

Germany has 416 companies listed domestically on their various stock exchanges. The most popular and widely followed index is the blue-chip DAX Index, which comprises of the largest 40 German companies. Some well-known names include Adidas, SAP, Allianz, BMW, Daimler Truck, Volkswagen, Munich Re, Hannover Re, BASF, Merck and Airbus, amongst many others. These 40 companies represent roughly 80% of the market capitalisation of the listed stock corporations in Germany.

The companies in the DAX are distributed between various sectors, such as:

- Automobiles and Parts
- Technology and Communications
- Financials and Insurance
- Chemicals and Pharma
- Industrials, Energy and Materials
- Consumer, Retail and Real Estate

This diversification offers protection, as when one sector performs poorly, other sectors might be doing well. The average price-to-sales ratio of these 40 companies sits at 0.97x. In other words, if you had to buy all the companies in the DAX index, you would pay just under 1 year of their sales/revenue. The DAX 40 typically

trades at a lower price-to-sales ratio compared to major US indexes (like the S&P 500) due to the heavy concentration of traditional industrial, automotive, and financial conglomerates rather than high-margin technology firms. Keep this in mind for the comparison that we're going to explain below.



Nvidia has become the most valuable company in the world by market capitalisation. Nvidia is an American semiconductor company that currently trades at a price-to-sales ratio of 18.21. If you were to buy Nvidia, you would be paying 18 times their total annual revenue.

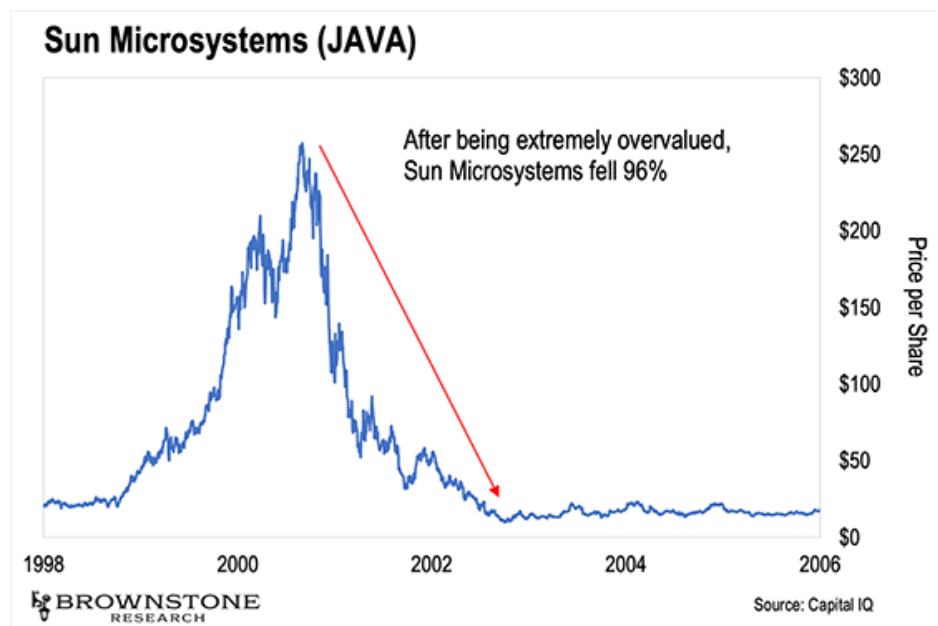
Similarly, Sun Microsystems was the market darling of the 2000 Internet bubble before drastically crashing in just 2 years (see graph below). The CEO was Scott McNealy. Sun Microsystems peaked at a \$200bn market cap in 2000, then crashed and was finally sold for \$7bn to Oracle a decade later. Their price-to-sales ratio at the peak was 10. Recall, Nvidia's price-to-sales ratio is presently 18.

This is what Scott McNealy eventually wrote to shareholders after the company lost 96% of its value:

"At 10 times revenues, to give you a 10-year payback, I must pay you 100% of revenues for 10 straight years in dividends. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes which is also very hard. And that assumes you pay no taxes on your dividends which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Do you realize how ridiculous those basic assumptions are? What were you thinking?!"

Back to the comparison of the German stock market: If you added the market capitalisation (value) of all 416 companies listed in the world's third largest economy, Germany, they would only be worth 52% of Nvidia. You are paying close to 1x annual revenue for all the German companies, and 18x annual revenue for a single US chip company. While one could argue that the valuation of Nvidia is warranted given the introduction of AI, we prefer following the fundamentals of good investing: diversification, a margin of safety, and buying undervalued companies.

Another fantastic example of how extreme AI-related company valuations have become is to consider



just three AI-focused companies: OpenAI, Anthropic and SpaceX.

Their current valuations are worth more than the combined initial value of every single American technology company listed in America from 1980 to 2025. That's to say, there were 3,365 technology companies listed over that period and the valuations of Anthropic, OpenAI, with SpaceX is greater than the value of all the rest put together. Unprecedented!

Three Companies, Worth More Than 45 Years of Tech IPOs

Valuation of three AI-era giants vs. the combined first-day value of all 3,365 U.S. tech IPOs, 1980 – 2025

Steve Rattner



To quote Jim Osman on the markets we are currently in:

- Every dip gets bought.
- Every warning gets ignored.
- Every risk becomes another reason to buy.

When a market makes risk management feel unnecessary, that's usually when you need it the most. Fortunately, this disregard for risk control has given rise to plenty of opportunities, but only if an investor has the courage to take advantage of them.

Opportunities

Whilst the rest of the market is intent on chasing arguably the most expensive shares in history, we are targeting top-quality, beaten-down growth companies with excellent track records that are being sold indiscriminately. Two of those companies are leading Latin American technology companies: (1) Nu Holdings and (2) MercadoLibre.

1. Nu Holdings

Nu Holdings is a Brazilian company and the world's largest independent digital banking platform (known as a neobank), serving 140 million customers primarily across Latin America (Brazil, Mexico, and Colombia) as well as expanding into the United States.

Core Products and Services:

- Customer Base: 139M–140M+ active users.
- Digital Accounts: Mobile-first banking (NuConta) with high-yield balance features.
- Credit and Debit Cards: International Mastercard credit cards with zero or low annual fees (including the metal credit card and Ultravioleta tiers).
- Financial Solutions: Unsecured and secured personal loans, Pix instant transfers, and NuPay.
- Insurance and Lifestyle: Life, mobile, auto, and home protection insurance, plus services like NuTravel and NuCel (mobile phone services).
- Global Expansion: Nu Global multi-currency services reaching over 35 countries and operations in the U.S. market.



The Bull Case:

1. High Capital Efficiency and Profitability: Nu boasts a trailing 12-month return on equity (ROE) of around 30.7%, heavily outperforming traditional banking industry averages (11.9%). Its low-cost digital infrastructure scales users at near-zero marginal cost.
2. ARPAC Growth & Cross-Selling: Average Revenue Per Active Customer (ARPAC) continues to climb as users adopt multiple financial products—ranging from credit cards and personal loans to insurance, and investment accounts (NuInvest).
3. Massive Regional Runway: Tapping into underbanked populations and low credit-card penetration across Latin America (including major footprints in Brazil, Mexico, and Colombia).
4. Heavy Reinvestment and Geographic Expansion: Nu is committing substantial capital—such as a R\$45 billion strategic investment push in Brazil—while aggressively expanding in Mexico and the U.S., targeting 60 million U.S. Hispanics and the cross-border remittance corridor.
5. AI and Technological Edge: Management's pivot toward an AI-first banking model aims to further personalise customer service, automate underwriting, and lower fixed expenses.

2. MercadoLibre

MercadoLibre is the largest online commerce and digital financial technology ecosystem in Latin America, often described as the region's equivalent of Amazon, PayPal, and eBay combined.

Core Products and Services:

- Mercado Libre marketplace: an online trading platform.
- Mercado Libre Envios: an integrated logistics and shipping network handling fulfilment and warehousing.
- Mercado Shops, Mercado Ads and Mercado Play: extra services that assist merchants in building and running their own e-commerce stores, with ad and content support.
- Their Fintech and Financial Services offering (mercado Pago), which has rapidly become 65% of their core earnings, that offers a digital wallet and payment processor.
- Mercado Credito and Fondo: the lending and asset management divisions, which integrate easily into the existing suite of services.

The Bull Case:

- **Massive Secular Runway:** E-commerce penetration in Latin America sits at roughly 10% to the mid-teens, leaving a decades-long catch-up window compared to North America.
- **Integrated Ecosystem Flywheel:** Combining Mercado Libre (marketplace), Mercado Pago (fintech/payments/credit cards), and Mercado Ads (retail media) creates high user stickiness and repeat usage. Users active across both commerce and fintech grow rapidly.
- **Logistics and Cross-Border Scaling:** MercadoLibre built out its own proprietary logistics and fulfilment infrastructure (including strategic cross-border trade hubs like its China fulfilment centre) to overcome poor public delivery networks. Unit shipping costs in key regions like Brazil are dropping as volume scales.
- **Fintech and Credit Expansion:** The Mercado Pago credit card and lending portfolio has surged (growing 75% year-over-year to over \$16 billion), driving monetisation and banking the unbanked across Latin America.
- **Advertising Upside:** Mercado Ads is rapidly scaling as a retail media network, tracking toward a multi-billion-dollar market where ad-to-GMV penetration still lags global averages.



“Large amounts of money aren't made by buying what everybody likes. They're made by buying what everybody underestimates.”

— Howard Marks

Study the chart above of MercadoLibre's price-to-Sales ratio: 1.84. Now compare that to Nvidia trading at 18x price-to-sales. MercadoLibre is up a mere 25% over the past 5 years. The growth potential of this company is staggering.

Brazil

Brazil is the largest holding in Coronation's Global Emerging Market fund and one of the largest regions held in the Coronation Global Optimum Fund. Recently, Brazil had a very positive election, with the right-wing candidate Flavio Bolsonaro outperforming the left-leaning President, Lula da Silva. They have a runoff election on the 25th of October.

Here are 5 compelling reasons why Brazil represents a fantastic opportunity right now:

1. Deeply Discounted Valuations and Great Dividend Yields:

The benchmark Ibovespa and MSCI Brazil indices trade at a low price-to-earnings (P/E) ratio, well below historical averages and cheaper than U.S. and broader emerging market peers. Concurrently, Brazilian equities offer high average dividend yields (around 7%+) alongside increasing corporate share buybacks, providing strong cash-return potential for value investors.

2. Commodity Strength and Trade Tailwinds:

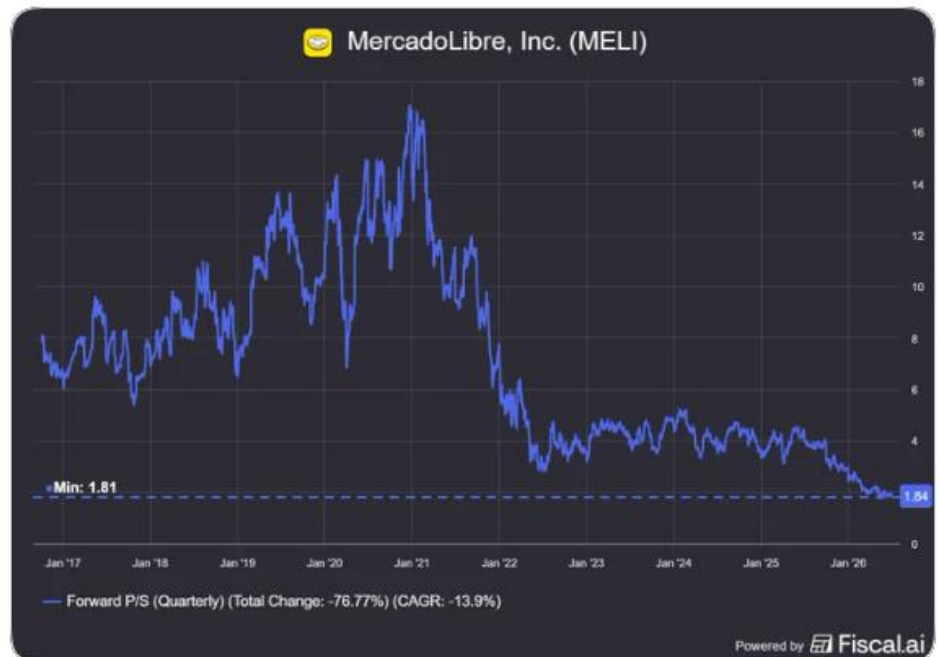
Brazil remains a powerhouse exporter of critical raw materials, including iron ore (led by Vale), oil (led by Petrobras), soybeans, and meats.

3. Global Capital Rotation and Emerging Market Outperformance

International institutional investors and global exchange-traded funds (ETFs) have seen renewed capital rotations into Brazilian equities as a rare bright spot for diversification away from crowded tech-heavy developed markets.

4. Financial Disruption and Tech Innovation

Brazil hosts a rapidly scaling financial technology sector, highlighted by major digital banking disruptors like Nu Holdings alongside dominant traditional banking leaders like Itaú Unibanco.



5. Renewable Energy Dominance:

Approximately 88% of Brazil's electricity is generated via renewables (hydro, wind, solar), positioning local utility and clean-energy companies well for structural domestic growth and rising global tech/data-centre demands.

If one studies the chart carefully, Brazilian equities have finally broken the multiyear downtrend against the S&P 500. The last time Brazil was in a secular bull market relative to US equities, was between 2002 and 2008. The Brazilian index rose 20x in USD terms.



Whilst the rest of the market is fixated on expensive American AI shares, we are quietly positioning our portfolios to deliver excellent returns in undervalued markets. We feel that it is our job to look further afield than just South Africa. There are far more exciting markets than the local one, with far less political risk, trading at compelling valuations.

Thank you for your ongoing support. This commentary was contributed to by Mike Carruthers, Matt Carruthers and Maryka Smit.

Kind regards