ValueInvestor INSIGHT

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Fertile Ground?

While many investors appear to have moved on from worrying about inflation, Horizon Kinetics' James Davolos doesn't happen to be one of them. Here's why he considers Bunge to be a prime beneficiary if his concerns prove out.

Equity investors' concerns about inflation have been all over the lot since we've been checking in with James Davolos, portfolio manager of the actively managed Horizon Kinetics Inflation Beneficiaries ETF [INFL]. Concerns were low [*VII*, December 30, 2020], then high [*VII*, April 30, 2022], and now again inflation seems down on the list of investor worries. His take essentially hasn't changed: "People chase the latest Fed minutes and CPI prints, but we view this as cyclical volatility in a longer-term secular trend of higher inflation and higher interest rates," he says. "Nothing has really been done to remedy the structural drivers of inflation, especially the widespread underinvestment in the supply of commodities and raw materials. To think higher interest rates in a vacuum fix the structural issues we'd argue is pretty myopic."

He cites agribusiness firm Bunge as an example today of an expected inflation beneficiary. The company under CEO Greg Heckman since 2019 has divested lagging non-core assets, reduced debt leverage and increased operating margins, but Davolos sees particular upside from its agreement last month to acquire Netherlands-based competitor Viterra. Combining the two businesses he says will make Bunge a more fully diversified global player, procuring a broader range of commodities, transporting, processing and storing them, and then merchandising and delivering them to end consumers worldwide. That should result, he says, in both higher company profitability and more stable, if still somewhat cyclical, operating performance.

Bunge will now be in the very top tier of a consolidating industry alongside global competitors such as Archer Daniels Midland [ADM] and Cargill, all of which should be well positioned to benefit from favorable agricultural-commodity supply and demand dynamics going forward. Davolos expects supply challenges stemming from declining farmland productivity gains, increasingly volatile weather patterns and, for some time at least, geopolitical disruption in the fertile Black Sea region. Food demand, on the other hand, should remain resilient, driven primarily by higher population growth coming from

INVESTMENT SNAPSHOT

Bunge
(NYSE: BG)

Business: Worldwide purchase, storage, transport, processing and sale of agricultural commodities and commodity products.

Share Information (@7/27/23):

Price	**107.85**
52-Week Range	80.41 – 109.54
Dividend Yield	2.4%
Market Cap	$16.25 billion

Financials (TTM)

Revenue	$66.68 billion
Operating Profit Margin	3.8%
Net Profit Margin	2.3%

Valuation Metrics
(@7/27/23)::

	BG	S&P 500
P/E (TTM)	10.6	20.4
Forward P/E (Est.)	9.5	20.7

Largest Institutional Owners
(@3/31/23 or latest filing):

Company	% Owned
Capital Research & Mgmt	13.5%
Vanguard Group	12.1%
BlackRock	9.5%

Short Interest (as of 7/15/23):

Shares Short/Float	3.0%

BG PRICE HISTORY

THE BOTTOM LINE

A recently announced acquisition should better position the company to benefit from favorable agricultural-commodity supply and demand dynamics going forward, says James Davolos. He sees the current 16% pro-forma free-cash-flow yield as "incredibly attractive."

Sources: Company reports, other publicly available information lower GDP-per-capita countries where rising wealth incrementally impacts food consumption.

Despite what he considers an improving outlook for both the company and its industry, Bunge's shares even after a nice run over the past month trade today at an estimated 16% free-cash-flow yield on estimated trailing numbers pro-forma for the Viterra acquisition. On those same pro-forma numbers, the stock trades at only around 6x EV/EBITDA, versus close to 9x for peer Archer Daniels Midland. "Unless you believe cash flow is going to fall off a cliff, and I believe the opposite long term, the valuation here to us is incredibly attractive," says Davolos. "The market is pricing these companies – we own ADM as well – as if everything soon goes back to the old normal. We think that's a thing of the past." VII

IMPORTANT RISK DISCLOSURES

Please consider carefully a fund's investment objectives, risks, charges and expenses. For this and other important information, obtain a statutory prospectus and summary prospectus by contacting 646-495-7333. Read it carefully before investing.

The Horizon Kinetics Inflation Beneficiaries ETF (Symbol: INFL) is an exchange traded fund managed by Horizon Kinetics Asset Management LLC ("HKAM").

Investing involves risk, including the possible loss of principal. Shares of any ETF are bought and sold at market price (not NAV), may trade at a discount or premium to NAV and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. The Fund's investments in securities linked to real assets involve significant risks, including financial, operating, and competitive risks. Investments in securities linked to real assets expose the Fund to potentially adverse macroeconomic conditions, such as a rise in interest rates or a downturn in the economy in which the asset is located.

The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund.

Fund holdings and sector allocations are subject to change at any time and should not be considered recommendations to buy or sell any security.

The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets.

The Fund may invest in the securities of smaller and mid-capitalization companies, which may be more volatile than funds that invest in larger, more established companies. The fund is actively managed and may be affected by the investment adviser's security selections.

Diversification does not assure a profit or protect against a loss in a declining market.

HKAM does not provide tax or legal advice, all investors are encouraged to consult their tax and legal advisors regarding an investment in the Fund. You may obtain additional information about HKAM at our website at www.horizonkinetics.com.

The Horizon Kinetics Inflation Beneficiaries ETF (INFL) is distributed by Foreside Fund Services, LLC ("Foreside"). Foreside is not affiliated with INFL or Horizon Kinetics LLC or its subsidiaries.

Median 30 Day Spread is a calculation of Fund's median bid-ask spread, expressed as a percentage rounded to the nearest hundredth, computed by: identifying the Fund's national best bid and national best offer as of the end of each 10 second interval during each trading day of the last 30 calendar days; dividing the difference between each such bid and offer by the midpoint of the national best bid and national best offer; and identifying the median of those values.

CPI: The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Dividend yield: Dividend yield equals the annual dividend per share divided by the stock's price per share.

Stagflation: Persistent high inflation combined with high unemployment and stagnant demand in a country's economy.

Duration: Bond duration is a measure of how much bond prices are likely to change if and when interest rates move.

Bloomberg Barclays US Aggregate Bond Index: The Bloomberg Barclays US Aggregate Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency). An investor cannot invest directly in an index.

Basis points: Basis points are a common unit of measure for percentages in finance. One basis point is equal to 1/100th of 1%.

Yield to worst: The yield to worst is the minimum yield that can be received on a bond, assuming the issuer doesn't default.

S&P 500 Index: The S&P 500® Index represents an unmanaged, broad-based basket of stocks. It is typically used as a proxy for overall market performance.

Beta: The beta of a security is a measurement of its volatility of returns relative to the entire market. It is used as a measure of risk.

EV/EBITDA: also known as the Enterprise multiple, is a ratio used to determine the value of a company. is enterprise value divided by earnings before interest, taxes, depreciation, and amortization (EBITDA), looks at a company the way a potential acquirer would by considering the company's debt.

Free cash flow: Free cash flow is the money that the company has available to repay its creditors or pay dividends and interest to investors.

TTM P/E: The P/E ratio stands for Share Price divided by Earnings Per Share (EPS). The (ttm) reference stands for Trailing Twelve Months, which means the last 12 months of EPS are used in the calculation.

Forward P/E: Forward P/E is a version of the ratio of price-to-earnings that uses forecasted earnings for the P/E calculation.