

VESPUCCI HOLDING

I would like to begin Vespucci Holding's first annual letter by thanking you, shareholders and friends, because your trust and support you have made the start of this journey possible.

Some of you may know that my interest in publicly traded companies and investing is not congenital, but was born almost by accident in April 2017. Among the suggestions offered by *YouTube* that day, I was offered an HBO documentary, "*Becoming Warren Buffett*." I did not know the story of the famous investor and do not remember why I was intrigued to find out about it, what I am sure of is that that day marked a watershed in my life.

With due proportion, I immediately thought of my maternal grandfather. He, too, like Warren, in his 90s, could be found at his desk, serenely reading for work or simply keeping up to date. With admiration I watched their cheerful dedication to their professions. While Grandpa was a lawyer, a profession that did not meet my aptitudes and interests, Warren, on the other hand, is an investor, an activity that immediately piqued my interest. From that day on, I have not stopped wondering how I, too, could become a happy and serene over-90-year-old.

I recently found a photograph of me as a little boy, sitting right on Grandpa's desk. I was struck by my smile: I looked amused, as if I was aware that I was occupying an important place - Grandpa's. Looking at that picture again today makes me smile even more, because after all, I continue to sit in an important chair: that of the Administrator of the capital of the Vespucci Holding shareholders.

I have a beautiful task with our Holding Company: to unite household savings with corporate capital, putting them at the service of growth and development. In this way, we invest today in creating value for tomorrow, contributing to a virtuous future of which we will all be beneficiaries. When done well, it is a beautiful profession.

Therefore, my commitment is to allocate Vespucci's available capital intelligently and prudently, selecting the best opportunities, avoiding the risks of permanent losses, maintaining adequate diversification and a long-term horizon.

I hope this will be a journey full of satisfaction and growth. I thank you one by one for the support because with you the Vespucci was able to set sail, and I am as happy as that child sitting in grandpa's seat.

Vespucci Holding:

Vespucci is an investment company that buys, sells, and holds interests in companies and industry groups. Not offering services or products, Vespucci has no customers. My family and I, like you, are partners in Vespucci and, through our shares, hold stakes in other companies.

Our goal is to protect the long-term purchasing power of the capital invested in the Holding Company and subsequently generate satisfactory returns. It is an ambition: that of achieving, over the years, overall better results than the general market. To aspire to that goal, we will acquire holdings in companies that reflect the criteria listed in Vespucci's cover letter-which you can find at vespucciholding.com.

Vespucci's business focuses on listed companies, but as the available capital increases we will be able to express the full potential of the Holding Company by investing in private companies as well. Having two oceans in which to navigate improves the chances of a great voyage.

Today we choose our best investments from among more than 50,000 listed companies around the world-it is a vast ocean that ensures we have a wide enough choice to identify the right companies for Vespucci.

Being a Vespucci member means, among other things, honing patience. Every day, the stock market offers the opportunity to buy or sell securities and instruments at constantly changing prices. The value of our holdings, along with the rest of the market, moves incessantly.

Over time, the market tends to transfer value from the impatient investor driven *price* trends and a short-term time horizon to the 'patient investor who invests looking at *value* and the long term.

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	MSCI World	S&P 500	World ex USA	FTSE Italy Star	Vespucci Holding
2024.....	17.2%	24.3%	4.2%	-5.6%	17.0%

The Vespucci and the market:

Along with the Vespucci results we will publish, consistent with our investable universe, the results of the MSCI World All Country index, an indicator of the overall market. The MSCI World index tracks the performance of 2,645 companies, well diversified, listed in 47 countries. In addition to the MSCI World, we will include other useful indices to put Vespucci's results in context.

The past year was marked by acceleration of the United States of America, represented by the S&P 500, which advanced 24 percent. The rest of the world grew more modestly by 4 percent, while the Italy STAR index (Segmento Titoli con Alti Requisiti) - the stock market segment from which we selected Vespucci's holdings - even contracted by 6 percent.

this market environment, while investing mainly in Italy and with exposure to the United States, Vespucci experienced 17 percent growth in 2024. Without hesitation, we can consider it a lucky year.

The opening monologue of Woody Allen's film *Match Point* comes to mind:

"The man who said "I'd rather be lucky than good" saw deeply into life. People are afraid to face how great a part of life is dependent on luck. It's scary to think so much is out of one's control. There are moments in a match when the ball hits the top of the net and for a split second it can either go forward or fall back. With a little luck it goes forward and you win. Or maybe it doesn't, and you lose."

Dear members and friends, I am not afraid to admit that, with such a concentrated portfolio, in a shrinking Italian market, achieving a performance similar to that of the MSCI World-which has 60 percent of its weight in the U.S.-was a lucky event, as well as a random one.

The speed with which certain titles of ours have appreciated compensating for titles that, on the contrary, have depreciated is something far our control. Let us rejoice that this year, bouncing on the net, the ball went into the opponent's court and we gained the point; because in other years the ball will bounce on our court and we will lose the point, but that will not have made us any less good.

The illusion I would like to overcome is the one whereby our annual result is the result of a special skill, because in twelve months any result is indistinguishable from chance. Indeed, choosing to invest in Italian small and medium-sized companies, in a declining market, could even be seen as a mistake, at least as long as (for now) the U.S. continues its run.

The growth of a tree:

Some results require time, patience and discipline. No matter how much effort or resources we put in: you cannot achieve a 100-year forest by planting a hundred young trees.

Investing for the long term is a bit like planting a seed and then watching a tree grow. For while it seems that our efforts do not bear fruit; in fact, sometimes we see our holdings dwindle. Yet even in those moments, the roots are strengthening. Then - all of a sudden - the stem is born.

Similarly, our investments will be subjected to both the vagaries of the market and the fluctuations in the consensus of traders. If we can remain equanimous respect to the short-term performance of the Vespucci, we will be in the front row when, on our tree, the foliage begins to sprout.

Our nature:

According to Darwin, evolutionary success of the *sapiens* species is due, in part, to our extraordinary ability to adapt to the environment. This resilience, honed over more than 300,000 years of evolution, has equipped us with cognitive biases that were once essential for survival, but in today's world do not always offer us reliable guidance.

For example, the loss aversion *bias* was crucial when we lived in small groups in hostile natural environments. Faced with uncertainty, as in the case of potentially poisonous mushrooms or fruits, it was preferable to forgo the meal rather than risk poisoning.

By investing, our cognitive bias with respect to loss is constantly urged. We tend to value what is generally perceived as a market-valued investment more highly than other opportunities, thus generating price distortions, even large ones.

We were taught that it is better to have an egg today than a chicken tomorrow....

This short-term view, fueled by *loss aversion bias*, is clearly visible in the markets. We often observe how most traders prefer appears to be certain: investments that are "safe," that is, buoyed by a favorable wind, but which risk being overvalued, exposing those who buy them to losses in the long run.

At the same time, sectors and companies perceived as "uncertain" are avoided-or sold, even if only temporarily, despite a solid long-term outlook, simply because they may lose value in the short term. Thus creating opportunities for patient investors.

By nature: it is far easier to buy stocks that are going up, that are gaining, than to sell them. Selling that which is downward trending, which makes us lose, gives us relief. is how loss aversion drives us to sacrifice potential futures in the name of a reassuring (but illusory) present certainty.

I agree when it is said that, for the good investor, the most important quality is not his IQ, but his temperament. Investors who can accommodate greater volatility in the short run will enjoy greater results in the long run.

Arbitrage of talent and capital:

My decision to found an investment holding by initially focusing it on small and medium-sized Italian listed companies raised more than a few eyebrows. Today, the focus tends to be on *venture capital* or *private equity* funds, and when you think of the market, you at least expect technology and algorithms.

Yet unlike gymnastics or diving competitions-where the execution of a difficult movement is rewarded-in the investment world there is no reward for complexity.

Personally, I have always felt that chasing very crowded areas is not the best use of my energy. I therefore prefer, given the same complexity, to explore spaces that are less competitive and richer in opportunities.

Vespucci came about in response to an arbitrage that I believe exists in certain areas of the stock market. Many young graduates today take it for granted that markets are efficient and that passive funds are the future. Attracted by more ambitious careers in *venture capital* or *private equity*, they have left open spaces in the very listed market.

It was in response to this area of decreased attention that the Vespucci was born.

Holding Company Assets:

Confirming the skepticism of many-for the fifth year in a row-the FTSE Small-Cap Italia and STAR indices have lost ground both relative to each other and in absolute *terms (ouch!)*. To date, the five-year performance of these indices is -13% for the FTSE Small Cap and -30% for the FTSE STAR.

In contrast, the United States has enjoyed five years of robust growth: +83 percent for Standard & Poors 500 Index and an extraordinary +118 percent for NASDAQ Technology Index. A party with a different tune altogether, for those who preferred the star-studded market. Remember the *loss aversion bias*?

We actively seek our investments in Italy, in companies whose stock market value is less than a billion euros. I believe my time is well spent in this area of the market: little frequented by large funds, peripheral and difficult.

Investing in Italy allows me to meet with many of these companies in private or small group meetings-valuable opportunities to learn directly from the directors, and to be able to ask (often many) questions.

During these meetings, as I look around, I think, "*There are only a few of us investors and often always the ones...no wonder the lack of attention can create opportunities.*"

I feel as one might feel as an art enthusiast exploring secondary markets, where important paintings may be hidden, confused among amateur paintings. Once purchased and taken to a big city gallery, we can be sure that the market will recognize its value.

With more than 300 listed companies with capitalization of less than 1 billion euros, the Italian market offers us a sufficiently large universe to monitor. I am proud to value Italian companies and happy that, at this historical moment, so many opportunities can be found.

The geographical concentration of our investments is compatible with goal of having a well-diversified Holding Company, because both the companies and the sectors in which they operate are very diverse. We have invested in variety of sectors, including: publishing, luxury manufacturing, energy, and shipping, as well as several service and financial companies.

In addition, the companies in which we have invested are also diversified because some serve domestic customers and others have almost all of their sales Italy. The different stages of maturity and of the related cyclical, non-cyclical and countercyclical economic realities make the results of our companies, in fact, uncorrelated.

This year our companies have seen their profits grow and reduce, where present, the debt they had. Because of their excellent return on investment, they were able to reinvest profits for growth, some by completing acquisitions and, in almost all cases, rewarded us with dividends and share buybacks.

ETFs and market efficiency:

Assuming that, if history were indicative of the future, the stock market would be full of booksellers, I note a dominant narrative for which savings would be smart if invested in stock market indexes via Exchange-Traded Funds (ETFs), preferring S&P500 or MSCI World, having historically outperformed

most active management and achieved nominal annualized returns of 9 percent and real (i.e., net of inflation) returns of about 6 percent.

This narrative I believe has become *mainstream* because, to date, more private savings are invested in these passive funds (ETFs) than in active funds. In fact, according to a study by the Investment Company Institute, in 2024, 57 percent of the world's savings were allocated in equity index ETFs, compared to 36 percent in 2016.

Every day the share invested in these passive funds increases because most of the new savings flow into them, while active funds are sold off in favor of ETFs. The risk is typical of herd behavior: initially someone buys passive funds because they beat the alternatives, and later, as these purchases are repeated, the expected returns tend to decrease, until they become negative.

Buying the same basket of stocks en masse, seeing them rise, then thinking you have made a good investment and repeating the transaction-perhaps recommending it to others-does not in any way improve the characteristics of the underlying companies. In fact, it can make the market more unstable.

Initially the effect is pleasantly positive, our ETFs rise in price, and, like self-feeding cycle, more and more investors decide to invest, bringing us dangerously close to other historical periods where investors and markets ended up chasing each other.

I find risky the areas of the market that benefit from these flows, fueled by the belief that buying an equity index-at any price-can be a smart choice. Currently, the long-term prospective returns of many instruments look unattractive to me. We shall see.

We will stay well away from this dynamic, foregoing the positive aspects but protecting ourselves from the inevitable surprises. By continuing to keep busy with our companies, valued under a billion, somewhat forgotten, knowing that - just like fashion - it all comes back.

Final considerations:

Vespucci Holding's goal is to protect the long-term purchasing power of invested capital and thus to invest - within my circle of competence - in well-run companies with little or no debt and a sustainable competitive advantage that results in a high return on investment. This we will have to compare to a market price that offers a margin of safety for us investing.

In the course of time, the Vespucci will be called upon to face all kinds of bad weather in the market and thus be measured by periods when the wind will be unfavorable as well as those where the wind will be stern. If we invest for a long time we will inevitably suffer a decline in the countervalue of our investments. This is what will happen to *prices*.

The value of companies, on the other hand, is a variable independent of market moods and liquidity. A company's *intrinsic value* does not fluctuate so drastically. Think of the English piano company Broadwood & Sons, founded in 1728: if it were listed, it, too, would see the equivalent value of its shares fall. At the dawn of its three-hundred-year history, would it be worth less that year if it suffered the subtraction of liquidity in the market? I don't think so.

The success of our partnership will depend on the quality of its investments and the patience of its investors. We will face periods of expansion as well as periods of recession, with results that, in the short term, may be good or bad, better or worse than the market. However, by maintaining an attitude of detachment from short-term price trends, we are confident of achieving satisfactory results for a long time.

Thank you for your trust.

You are invited to the Vespucci Holding 2025 annual meeting

on Thursday, April 3, 2025 at 6:30 p.m. in Milan, Italy

After a brief presentation by Vespucci:

First quarter 2025 results and space for questions and insights.

RSVP

I look forward to seeing you,

Milan, March 29, 2025

Vespucci Holding S.r.l.
Mario Cupello Castagna