

VALUE TRAPS AND GROWTH TRAPS

When Wiley is just now coming out with the English translation of my book *Hidden Investment Treasures: How to Find Great Stock Investments as the Investment World Goes Passive*. I am very happy about this. Now those of our shareholders who are not Czech-speakers also will have better opportunity to obtain comprehensive insight into our investment approach and underlying deliberations. The book is nevertheless intended for the general investing public, and I am curious to see how it will be received by readers. You can read more about the book at www.danielgladis.cz. And now, back to our regular programming...

Value and growth

Two of three new investments we added to our portfolio during the past quarter provided me with the topic for today's letter to shareholders. I'm calling it "*Value Traps and Growth Traps*." In investing, we often encounter the terms value stocks and growth stocks. At first glance, this division of stocks may seem clear and logical. I personally don't like it, though. The main reason is because growth and value are not opposites and not two separate worlds. On the contrary, they are two interconnected categories. Every stock has a present value that is its discounted future cash flows. And these, in turn, are a function of, among other things, growth and return on capital. In other words, without growth, value cannot be determined. Growth (both positive and negative) is therefore a component of value. Artificially creating these categories and setting them off against one another is illogical nonsense.

Although we regard ourselves as value investors, one look at our portfolio shows that its majority consists of growth stocks. We define a growth stock as one whose intrinsic value is rising at a rate of at least 10% per year. In our view, value investing does not mean buying value stocks, however they are defined. It means rigorously insisting that we select for our portfolio only stocks whose prices are significantly lower than their intrinsic values. An attractive price-to-value ratio can occur among companies that are growing very quickly, moderately, not at all, or even in cases where a business is in gradual decline. For all these types of companies, the opposite situation can also occur, where the prices of their shares significantly exceed their intrinsic values.

It is probably obvious that in this approach to investing the alpha and omega is the art of approximately estimating the intrinsic value of a company. I deliberately emphasize the word "estimate," because this cannot be determined precisely – nor is it even necessary to do so. An approximate (and, of course, subjective) estimate of intrinsic value is sufficient. When selecting stocks for a portfolio, this is then complemented by another important element: ensuring that there is a sufficiently large margin of safety between the share price and our estimate of intrinsic value. The larger that cushion, the greater the protection it provides, just in case our estimate of intrinsic value proves to be overly optimistic or that some possible negative development will arise. The main risk of investing is the risk of paying too much.

To estimate the intrinsic value of a sufficiently large number of companies to build a portfolio requires a fair amount of experience. Moreover, it is a very laborious task. This hard work is probably the main reason why only a tiny fraction of investors engages in value investing. It is much easier to speculate with money based upon often anonymous and dubious postings appearing on social networks than to try to analyze individual companies. For us, however, this creates an excellent situation and offers us a wide field for our activity. The ability (and willingness) to analyze individual companies is becoming an increasingly significant competitive advantage.

Value traps and growth traps

When estimating the intrinsic value of a company, it is necessary to work with estimates relating to the future. Sometimes, this even is a quite distant future. It is therefore inevitable that in some cases an estimate of intrinsic value made by an investor will prove to be incorrect. It may be too optimistic or too pessimistic. There exist two fundamental defenses against the inevitable errors. The first is the aforementioned margin of safety. The second is a reasonable degree of diversification. Despite occasional errors in individual investments, this approach should, on average, yield good returns with a low measure of risk. While I don't like dividing stocks into value and growth, it nevertheless makes sense to me to describe some investment errors using the terms value trap and growth trap. The risk of a value or growth trap lurks in virtually every investment. The two represent opposite ends of a spectrum of flawed thinking, but, interestingly, the two traps share a common psychological element: investors allow themselves to be blinded by a narrative – either a story of a cheap stock that is bound to return to its fair value or a story of limitless growth that justifies almost arbitrarily high valuation multiples. In both cases, investors neglect the reality of the fundamentals.

A value trap arises when an investor buys a stock because it appears to be cheap in relation to its current earnings, book value, cash flows, or other fundamentals. However, it may be cheap for a good reason. Perhaps the business has structural problems – maybe its products are outdated, competitiveness is declining, margins are under pressure, capital allocation is poor, or the regulatory environment is unfavorable. Such a company may seem attractive at first glance (if, for example, its P/E is around 5), but if the fundamentals continue to decline, then the relative cheapness will quickly disappear and the share price will stagnate or fall. A typical feature of a value trap is that investors underestimate the pace at which business is eroding and overestimate management's ability to reverse the situation.

A growth trap is a less familiar concept, but it is the opposite in nature and has a potentially much more negative impact. An investor buys a stock because the company is growing rapidly and expects this trend to continue, even though the valuation is already very high. Growth traps arise when the pace of growth slows sooner or more significantly than the market expects. The disappointment is then twofold: not only do growth projections decline, but, at the same time, the valuation multiple (e.g., P/E or FCF/EV) often decreases dramatically because the market is no longer willing to pay a premium. Growth traps often occur in companies at the peak of the cycle, in sectors that have been hyped up, or in companies that finance their expansion with aggressive use of debt or share issues and whose model is not sustainable in the long term.



Investors should try to recognize both kinds of traps. In the case of potential value traps, it is necessary to ask whether the low price truly points to undervaluation or whether it is a reflection of a business's economic situation that is in permanent decline. In the case of potential growth traps, it is important to examine whether the growth rate is sustainable, whether the company has a sufficient competitive advantage, and whether the valuation perhaps includes overly optimistic expectations.

Ultimately, value and growth are two sides of the same coin. Every investment should combine a reasonable price with a realistic outlook. A value trap is a story of something cheap whose price never goes up. A growth trap is a story of something expensive that ceases to grow sufficiently fast. Both of these represent warnings that blindly following numbers or stories without deeper analysis can be very costly for an investor.

How the traps catch us

The two traps tend to play out differently over time. In the case of a value trap, the investor gradually adjusts downward his or her estimate as to the intrinsic value of the stock in the light of developments that are worse than originally expected. The share price tends to fall, too, however, so the difference between price and value may still seem large enough. Sometimes it can take a long time for an investor to realize that he or she has fallen into a value trap and to sell the shares. In the case of a growth trap, the shattering of false illusions can occur very abruptly. A change in expectations regarding the company's future growth in combination with a willingness to pay high valuation multiples for the shares can cause the share price to fall by tens of percentage points almost from one day to the next and the stock's price to slide to just a fraction of its earlier level in just a few months' time.

When I look back at our own historical investments, several of them can now be described as value traps. One of these (CVS), I describe in greater detail in my book *Hidden Investment Treasures*. So far, we have managed to avoid growth traps. That's good, because I would venture to guess that growth traps bring greater losses on average than do value traps. We managed, however, to take advantage of two former growth traps that have collapsed in recent months in order to buy new positions for the Vltava Fund portfolio in stocks we did not previously own.

Changes in the portfolio

Three new stocks appeared in our portfolio in the third quarter. The first two of these can be described as attractive opportunities following the collapse of growth traps. These are Novo Nordisk and Fiserv.

Novo Nordisk probably needs no long introduction. It is one of Europe's largest companies and a global leader in the treatment of two major lifestyle diseases – diabetes and obesity. The company has grown historically through the development and production of insulin and has held a dominant share of the global market in that group of products for decades. In recent years, obesity treatment has become its key growth segment. Its best-known product is Wegovy, which has proven to be highly effective in weight reduction. A smaller part of the business consists of drugs for rare diseases, particularly in the



areas of hemophilia and growth hormone therapy. Novo Nordisk has highly integrated production, from molecule development to fully automated filling lines for injection pens, and global distribution to more than 170 countries, with a focus on the United States, Europe, and a rapidly growing share in Asia. Its biggest competitor is Eli Lilly, and these two companies now effectively form a duopoly in modern treatment of diabetes and obesity. Barriers to entry into the industry are extremely high, due to long development times, regulation, and enormous investments in production and distribution.

We have been following Novo Nordisk through the entire existence of the Vltava Fund, which means for more than 21 years. We have never owned its shares, however, either because we found them too expensive or had other more attractive opportunities available to us. During 2023–2024, Novo Nordisk definitively joined the ranks of global leaders in a new era of medicine. The success of its Ozempic and Wegovy medications has shown that obesity treatment is not just a niche segment, but a huge growth opportunity with direct impact on the health of millions of people. Demand for these drugs far exceeded supply, and the company invested heavily in expanding production. The market began to appreciate that Novo Nordisk had moved beyond traditional diabetology and become synonymous with innovation and long-term growth in an additional market segment. This narrative was increasingly reflected in the share price. From DKK 400 in the autumn of 2022, the price gradually climbed to beyond DKK 1,000 in the summer of 2024, at which time the stock was trading at roughly 45 times this year's expected earnings. This price implicitly included very optimistic assumptions about future profitability.

However, this was followed by a dramatic decline. The company repeatedly lowered its revenue and earnings growth outlook, the expansion of its key products Ozempic and Wegovy ran into production constraints, and competition intensified, including from cheaper compounded versions in the US. Adding to this challenging situation were regulatory pressure on prices, high investment costs associated with expanding production, and uncertainty brought on by management changes and restructuring measures. Combined with the previously very high valuation, this led to a sharp share price correction. The growth trap snapped shut. As the share price fell, however, our interest gradually increased. The shares first broke through the DKK 1,000 mark, then 900, 800, 700, and continued to fall. Once the price reached an attractive level for us, we started buying the shares. We acquired most of our current position at between DKK 287 and DKK 312 after the largest single-day drop in Novo Nordisk's share price in its history. The development going forward will not be smooth, but we believe that this will be a very promising and profitable investment in the long term.

Fiserv is an American company. It is one of the world's largest providers of financial technology infrastructure and is a constituent of the S&P 500 index. The company operates in more than 100 countries, and its services are used by banks, credit unions, fintech companies, merchants, and government institutions. The main pillar of its business is the processing of payment transactions and card operations, complemented by a wide range of services for merchants, including payment acceptance, point-of-sale terminals, and e-commerce integrations. Significant growth came with the acquisition of First Data in 2019, which strengthened the merchant acceptance segment and gave rise to the Clover platform, now one of the fastest-growing POS platforms for small and medium-sized



businesses. In addition, Fiserv provides banks with comprehensive technology solutions for digital transformation, from core banking systems and online banking to tools for risk management and compliance. Another area is specialized payment services, such as ACH (automated clearing house) payments, real-time transfers, and card issuing services.

Fiserv's business model is attractive because of how it combines scale, diversification, and high barriers to customer turnover. The company serves thousands of financial institutions and millions of merchants with long-term contracts. This makes switching to another provider difficult and ensures a stable revenue base. Annual revenues exceed USD 20 billion, and the fastest-growing segment is merchant acceptance, where the fee model benefits from the ever-increasing volume of digital payments. Thanks to the strong scalability of its infrastructure and robust free cash flow generation, Fiserv has sufficient resources for both acquisitions and share buybacks.

It faces competition from companies such as Global Payments, Adyen, and PayPal, but Fiserv's advantage lies in its combination of extensive banking infrastructure and solutions for end merchants. Its strategic focus is on developing instant payments, expanding the Clover platform, utilizing AI and analytics for risk management and services personalization, and pursuing further acquisition opportunities. It is also preparing to launch its own stablecoin. Fiserv is thus a strong player at the center of global payment digitization, with a stable foundation and significant growth potential.

Fiserv's share price has weakened significantly since February, despite solid results. This was mainly due to overly high expectations at the time in the key merchant payments segment and for the Clover platform, where volume growth slowed below its previous pace. In addition, the company cut its organic revenue growth outlook to the lower end of its original range, and investors reacted sensitively to signals that expansion in the merchant business would not be as rapid as hoped. High valuations, which reflected very optimistic assumptions in the share price, meant that even a relatively small disappointment led to a sharper correction. Another growth trap snapping shut. The share price at the time of our purchases was about 40% lower than at the beginning of this year. In our opinion, the long-term growth trend in the company's profitability has not been disrupted significantly. At 13 times this year's expected earnings, our calculations show a large difference between the price and the intrinsic value.

The third new addition to our portfolio consists in shares of **Marex**. Marex is a diversified global financial services platform based in the UK that provides essential liquidity, market access, and infrastructure services to clients in the energy, commodities, and financial markets. The company's business is built on four pillars: clearing and exchange access, agency and execution services, market-making and hedging, and investment solutions. The company operates on more than 60 exchanges worldwide and is one of the 10 largest clearing houses (futures commission merchant). Its competitive advantages lie especially in its scalable global operating model, investment-intensive technology infrastructure, and strong capital base with an investment rating. Unlike large banks, which focus on the biggest clients and often are burdened by complex systems, Marex offers flexibility and an individual approach to a broader group of customers and with an emphasis on small and medium-sized clients. Compared to smaller competitors, it has advantages in terms of global coverage, product

breadth, and ability to serve not only medium-sized but also very large clients. A declining number of competitors in the industry and growing trading volumes put Marex in a strong position for further growth. Among other things, we like the fact that Marex benefits from a market environment with higher volatility.

Marex was established in 2005, but its shares have been traded on the stock exchange only since last year. For most investors, it is still a rather little-known company. Our relationship with Marex gives us a relatively good understanding of its business and competitive advantages. In our opinion, the market is not sufficiently reflecting the company's long-term growth potential into its share price. That is why we bought it.

All three new investments – Novo Nordisk, Fiserv, and Marex – represent opportunities wherein the market reacted too negatively in the short term to transient difficulties or underestimated long-term growth potential. We therefore took advantage of the closing of the growth traps in relation to Novo Nordisk and Fiserv and the relative obscurity of Marex to make purchases at prices that offer us an attractive price-to-value ratio. We are convinced that these investments can contribute significantly to our portfolio's returns in the coming years and thus to further growth in the Fund's value for our shareholders.

Daniel Gladiš, October 2025

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