

A POSTCARD FROM LATIN AMERICA

I began writing this letter to shareholders in Mexico and completed it in Chile. Why particularly there? Well, Mexico and Chile happen to lie at the starting and ending points of a recent trip I took. Traveling the world provides equity investors a unique informational advantage that no analytical report can replace. Direct experience with different countries facilitates a better understanding of local economies, consumer behaviors, competition, and cultural nuances that often determine the growth rate of companies and entire industries. Investors on the road see how businesses really work, how people shop, what technologies they use, and what is the real state of infrastructure and regulations. This field observation strengthens the ability to make judgments, refines estimates, and helps identify opportunities and risks before they appear in the market consensus.

I enjoy traveling. In addition to providing entertainment and relaxation, it is probably the best way to get to know the world. Over the past 30 years of my professional life, I have always tried to look at the world around me through the eyes of an investor. It's a natural and inescapable professional inclination. In looking at the globe, I realized that my greatest travel and investment gap was on the Latin American continent. I had been there several times before, but quite long ago, and of the approximately 75 countries I have visited, only 4 are in Latin America, not counting the smaller island countries in the Caribbean.

Latin America is important to global development for several strategic reasons that are gradually gaining in significance. The region is a key producer of critical raw materials – from copper, lithium, and iron ore to natural gas and oil – and the global energy transformation is making these commodities even more important. At the same time, it is one of the world's largest food producers, so the stability of Latin America has a direct impact on global food security. From a geopolitical perspective, the region is an attractive space for promoting the interests of the U.S., China, and other players, making it one of the main competitive arenas for access to resources and markets. No less important are its demographics. Its young population and urbanization are creating demand for infrastructure, technologies, and financial services, meaning Latin America is and will be a dynamic environment in the long term. At the same time, however, the region provides valuable lessons, as alternating periods of growth and crisis can teach investors to understand the importance of institutional quality and political stability. The fact that I wanted to bring my own perspective on all these things up to date was one of the reasons I decided to visit nine Latin American countries during a single trip. In the following text, I am sharing what I think we be some useful insights for investing that I brought home with me.

Lesson number 1: A different perspective

The first thing that a person living in Europe once again realizes when traveling to another continent is just how huge are other continents in comparison to little Europe. Africa is about three times larger than Europe (into which I include the European part of Russia). Asia is larger than Africa and Europe combined and more than four times bigger than Europe. Europe accounts for only about 7% of Earth's

land area. The differences are even more striking when looking at distribution of the world's population. Asia is home to 60% of the world's people, Africa almost 20%, the Americas about 13%, and Europe approximately 9% (again including the European part of Russia). The biggest differences can be seen in the total GDP generated on each continent. North America and Asia each produce about 28% of global GDP, Europe approximately 22%. In contrast, South America produces only 4–5% and all of Africa together just 3%. Unfortunately, Africa is a very poor continent, but Latin America also generates much less economic output than would correspond to its population and natural resources.

We Europeans often tend to overestimate Europe's global significance, and during my travels I am always interested in how people who live elsewhere see the world. Their geographic location largely determines their view of the world, and oftentimes that differs greatly from how we see it. So how do people in Latin America see the world? Based purely on my observations of life there, conversations with local residents, and occasional glimpses into the local press, I have acquired the following (admittedly subjective) impression: The United States is generally regarded as the global leader. China is seen as a clear number-two, albeit at a considerable distance back. No other country is regarded to be of global significance. Countries such as Japan and India are respected for their size, advanced development, or location. Among European countries, Spain, with its many historical ties, is understandably well known, followed by Britain, Germany, and France. Russia is essentially irrelevant here. When a person mentions the European Union, no one really knows what it is, nor does anyone really care. The EU leaders' ideas about how they are an example to other countries in the world and how everyone follows them begin and end in Brussels. From a global perspective, Europe is losing its importance (mostly by fault of its own). This is nothing new. I have been observing this for several decades, and it is likely that this process will continue. Overall, I have once again been convinced that global development will be determined by just two global powers and the needs of the planet's five billion poor people who long for a better and more comfortable life.

Lesson number 2: Wasted potential?

Before setting off on my trip, I began reading books about the history of Latin America, about its settlement, colonization, and struggle for freedom, as well as books about construction of the Panama Canal and about the Peruvian economy, which is largely based on informal structures. I have been active here as an investor for a very long time. My first private investment in Mexico dates back to the year 2000, and Vltava Fund, too, has held one investment in Mexico already for several years. We also have been following other countries for a long time, and especially Brazil, Argentina, and Chile. Several things have so far discouraged us from greater engagement. One of these is the contrast between the continent's natural wealth and the longstanding economic difficulties of many countries, especially in South America.

In the investment world, it is often asserted that South America is the continent of the future. The argument is simple: there are vast natural resources, a relatively young population, and the potential for convergence with the developed world. This narrative has accompanied investors for decades already, and yet it has never systematically come to fruition. It could be said that South America's

problem lies not in any lack of capital, raw materials, or talent, but in a long-term failure of its institutional framework.

South America has an economic weight of approximately \$5 trillion, which is less than Germany alone, but a population of more than 430 million and extraordinary natural wealth. Such a disparity cannot be regarded as coincidental or as a transitional phenomenon. It is a structural consequence of the state's repeated failure as a guarantor of stable rules. In this environment, capital is not a long-term partner, but rather a tactical tool that is welcomed in good times and called into question in bad times.

Historically, most of the continent has had a strongly left-wing orientation. There are countries with an explicitly socialist model (Cuba, Venezuela, Nicaragua), countries with repeated socialist experiments (Argentina, Bolivia, Ecuador), and countries that are not socialist but have strong left-wing populism (Mexico, Brazil). The connection between political orientation and unfulfilled potential is definitively not coincidental and should serve as a warning to other countries. Latin America is one of the best examples providing empirical proof as to how destructive repeated experimentation with socialism can be, even in its various milder or populist forms. From Cuba and Venezuela to Argentina, Bolivia, and Ecuador, we see the same pattern: the state assumes the role of main economic actor, weakens the protection of property rights, begins to regulate prices and capital, and subsequently loses control over the currency and public finances. The result is not social justice, but capital flight, inflation, low productivity, and repeated crises.

The three richest countries in terms of GDP per capita are Uruguay, Panama, and Chile. They are relatively stable, open to capital, and have long been the most business-friendly. At the opposite end of the spectrum is Venezuela. This country, which has the largest oil reserves in the world, is teetering on the brink of poverty. Venezuela is not a story of cyclical decline, but an example of how a combination of socialism, state control, and the destruction of institutions can, within the time of a single generation, destroy even an extraordinarily rich country. This is something that people in the Western world should be reminded of again and again. This is not about political debate – it is an empirical observation of how capital behaves in different institutional frameworks.

From an investment perspective, it is crucial to understand that natural resources do not generate wealth on their own. On the contrary, in an environment of weak institutions, they often lead to even greater weakening. Easy profits from commodities increase the motivation of politicians to intervene in the economy, redistribute wealth, and maximize their own popularity in the short term at the expense of long-term stability. The so-called "resource curse" is not an academic concept but the daily reality of many South American economies. For long-term investors, it is therefore more important to observe the quality of the state as an institution than to search for macroeconomic potential. Where the state protects property rights, respects contracts, and behaves predictably, capital accumulates and appreciates. Where the state functions as a political tool for short-term interests, even the greatest potential remains unfulfilled. South America is not a continent of wasted opportunities because it had poor starting conditions but because it has long failed in what is most important: creating an institutional environment in which it pays for capital to stay.

Lesson number 3: Inflation

When considering an investment in emerging markets (which include the larger Latin American countries), we consider currency risk to be one of the greatest risks. In many countries, this is so high that it excludes entire countries from our sphere of interest. Latin America is one of the most biologically diverse regions in the world, with an extraordinary variety and concentration of fauna and flora, from the Amazon rainforests to the high-altitude Andean ecosystems, savannas, pampas, deserts, and coral reefs. One of the things that has been growing well here for a long time is inflation. Over the past 40 years, Latin America has been a textbook case proving that inflation is not primarily a macroeconomic variable but, rather, an institutional phenomenon. Most countries in the region experienced episodes in the 1980s and early 1990s of annual inflation reaching hundreds of percent, and, in some cases, this escalated into hyperinflation, which destroyed savings, shortened the investment horizon to weeks, and forced currency reforms. Two extreme cases of recent decades are Venezuela (with a currency collapse and extremely high inflation during a period of institutional breakdown) and Argentina (with repeated returns to very high inflation resulting from chronic fiscal imbalances and weak confidence in the monetary regime). (At the same time, it is fair to add that a number of other countries – especially those with stronger institutions, more independent central banks, and greater discipline over public finance – have managed significantly to curb inflation since 2000.)

I have always considered inflation to be an investor's greatest enemy and, at the same time, one's greatest motivation to invest in the first place. Money loses value over the long term, and, for many reasons, this trend can be expected generally to accelerate. Even inflation of 2% per year erodes 40% of the value of money within a generation, and inflation of 4% per year erodes more than 60% of its value. These are very high and alarming figures. Compared to this, however, I cannot at all imagine how the behavior of people and companies will change in an environment where inflation is higher by an order of magnitude – or even two or three.

In a hyperinflationary environment, people's behavior adapts very quickly to the loss of money's function as a store of value and unit of account. Economic and social behavior becomes short-term, defensive, and transactional in nature. People try to get rid of cash immediately after receiving it and convert it into any asset that retains at least some of its value – foreign currencies, gold, real estate, stocks, merchandise inventories, or even durable consumer goods. Wages are paid more frequently, sometimes even daily, prices change several times a day, and everyday economic decisions are reduced to the question of what to buy now, rather than whether it makes long-term sense to buy anything. At the same time, trust in the state and institutions erodes. Tax discipline weakens, the credit market practically grinds to a halt, and contractual relationships are shortened or denominated in foreign currency. The economy shifts in part to barter or the informal sector because official prices and regulations cease to function.

From an investment perspective, hyperinflation is an environment wherein capital does not undertake risks but tries only to survive. Long-term investments disappear, business focuses on quick turnover, and the only winners are those who have access to real assets, foreign exchange, or political

connections. Hyperinflation thus not only damages the currency, but also destroys people's wealth and breaks down society as a whole.

My Spanish teacher, who lives in northern Argentina, related to me what it was like there when, just a few years ago, the inflation rate was over 100%. Prices in stores changed twice a day. No one wanted to hold cash. People considered cars a good investment, for example, because they saw that a used car could be sold for much more than a new one. Of course, this is when thinking in nominal terms. In real terms, a used car must logically be cheaper than a new one. It is difficult to think rationally in an environment of hyperinflation.

Long-term high inflation, which brings with it a sharp decline in the value of money, is reflected in, among other things, rapidly rising stock prices. If, for example, the Brazilian and Argentine stock indices and a U.S. stock index are plotted on a single graph showing their performance over the past 40 years, the curve for the South American indices will rise so much faster that the U.S. index will look like a poor relative, its growth scarcely even noticeable on the graph. With multiples in the thousands or even millions that we see in some South American indices, returns from major developed markets cannot compete successfully. If the local currency gradually becomes almost worthless due to high inflation, then the stock returns measured in that currency must be almost literally sky-high. As soon as we start looking at the performance of the indices in real terms, however, which is to say after correcting for inflation, or if we express them in another currency, such as dollars, then we get much lower returns.

The experience of Latin America shows that inflation does not appear suddenly, but creeps up gradually, which is why it should serve as a warning also to Western countries that currently enjoy relatively low and stable inflation. Most episodes of inflation in Latin America began not with hyperinflation but with long-term tolerance of fiscal deficits, weakening of central banks' independence, and political pressure for temporary solutions that gradually became permanent. Once confidence in the monetary regime and in the state's willingness to defend the value of the currency is undermined, inflation becomes difficult to control and a return to price stability is both painful and socially costly. It is therefore crucial for advanced economies to understand inflation not as a technical problem for central banks, but as a question of institutional discipline – because even long periods of low inflation can create a false sense of safety. *Memento inflationis!*

A piece of the mosaic

Latin America is beautiful and the people are very nice and friendly. Unfortunately, many of them are trying to leave the continent or at least their home countries. Emigration is huge in some countries, and especially in Venezuela (affecting a quarter of the population!), Haiti, Cuba, and Nicaragua. I believe that people emigrate not primarily because they are poor but because they feel excluded from the system and do not believe in the state's governance and its institutions. Here most probably lies the key to future prosperity for the continent, and already there are certain signs of change for the better. This was also the reason why I decided to travel to Latin America just now.

In recent years, there has been a partial but discernible shift in political sentiment toward the right in South America, although this is not a uniform or permanent trend across the region as a whole. After a long period of dominance by left-wing and populist governments of the so-called “pink tide,” right-wing or center-right politicians have come to power in a number of countries, often with strongly reformist or anti-establishment rhetoric. This has been most visible in Argentina with the rise of Javier Milei and, most recently, in Chile after public disappointment with more radical left-wing experiments. Change can be seen also in Ecuador and Bolivia, to give additional examples. This shift is largely a response to persistent economic problems, high inflation, weak growth, rising crime, and voter frustration with an ineffective state. At the same time, however, the region remains politically very heterogeneous, and some large countries, such as Brazil and Colombia, continue to be led by left-wing presidents. Overall, therefore, South America is balancing out ideologically after years of strong left-wing leanings, and some countries are returning to more right-wing, market-oriented policies, often for pragmatic rather than ideological reasons. If these changes show themselves to be permanent and translate into better functioning states and institutions, that could make some of these countries attractive investment opportunities once again. The potential here is enormous.

We do not know whether we will find additional good investments in Latin America. Time will tell. In any case, though, learning about it helps to add another piece to our mosaic of knowledge and insights of the world.

Changes in the portfolio

In the past quarter, Corpay shares were added to Vltava Fund’s portfolio. Corpay is a US based global technology company focused on corporate payments, expense management, and cross-border transactions with the goal of simplifying and automating business payment flows. Its customers – typically medium and large companies – utilize the Corpay platform to centralize payments, control costs, and streamline administration, all of which are time-consuming and capital-intensive tasks in traditional payment processes. The essence of this business is to replace fragmented, manual, and often nontransparent processes with a digital solution that provides companies better visibility into their cash flows and greater operational discipline.

An important component of Corpay’s business consists in commercial and fleet payment programs that cover specific expense categories such as those for fuels, travel expenses, tolls, and other operating outlays. These segments are characterized by a high degree of repeatability, long-term customer relationships, and relatively stable margins. Corpay benefits from its scale, data, and ability to offer customers not only payment itself but also analytics, reporting, and control mechanisms that increase their willingness to stay with a single provider.

A rapidly growing pillar of the group consists in international payments and currency conversion services, where Corpay helps companies execute cross-border transactions while managing exchange rate risk. This segment benefits from the ongoing globalization of business, the growing complexity of payment flows, and companies’ efforts to reduce costs associated with bank transfers. For Corpay, this

is an attractive area with higher added value, where the company combines payment infrastructure with FX margins and specialized services.

Overall, Corpay's business is built on a combination of recurring transactions, its technology platform, and high costs of switching between suppliers. Once a customer is integrated into the system and has its payment processes set up, switching to a competitor is complicated and unappealing. This enables the company to grow over the long term, increase efficiency, and generate strong cash flows that it can reinvest into further product expansion, acquisitions, and technological leadership. Corpay's management has many years of experience in identifying, integrating, and improving the operations of acquisitions, which, since 2009, have contributed to more than 20% annualized profitability growth. In our view, the present share price does not reflect the company's current financial metrics, efficient asset allocation, and long-term potential, which combines a structural growth trend with high-quality, recurring business and strong capital discipline.

Wishing you a Happy New Year.

Daniel Gladiš, January 2026

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