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Global Tourism Investment in 2023

The tourist activity during 2022 has been much higher than any of the forecasts that were made just a year ago. The speed of his return will have surprised those who predicted, during the pandemic, that tourism was never going to be the same as before. This was never our thesis. As we have indicated both actively and passively, since the start of the pandemic, we expected a quick recovery as soon as the Covid restrictions eased, as they have been.

Recently the CEO of the Marriott International hotel chain, Anthony G. Capuano, was asked if he had been surprised by this rapid recovery in tourism. He said no, as traveling "is part of the human condition." This has been our thesis from the beginning. We are pleased that the chief executive of Marriot, which has nearly 6,000 hotels worldwide and nearly 1.5 million rooms, is of the same opinion.

a) In the short term, the growth of global tourism will double the world economic growth.

According to the International Monetary Fund, world GDP will grow by +2.7% in 2023. The World Travel Tourism Council (WTTC), **tourism activity will grow by +5.8%, more than double, in 2023 and will continue growing more than the world over the next 10 years.** It is not surprising that the former British Prime Minister, Theresa May, has taken sides in favor of the word "Tourism" being selected as the word of the year 2023 by the Oxford Dictionary.

In this sense, investment in tourism currently acts, curiously, **as an antidote against a hypothetical low economic growth**, and even as a recession-proof investment. The concept of the tourism sector is even spread as a solution for the global economy.

There are several reasons behind this special speed of recovery:

- The "catch up" effect or recovery of time lost during the pandemic, the restrictions of which affected services in general and tourism in particular. There is a strong accumulated demand (pent-up demand). In Europe, for example, today 90% of people want to travel internationally. After the Covid, people have put Tourism as the first priority on their list, to the point that the demand has exceeded the supply.

- The high levels of employment (in all-time highs)

- The current absolute and historical record of family savings

- The reopening in 2023 of the places in the world that have remained closed or semi-closed in 2022 (China, Japan, and various Asian countries)

- A clear background trend in consumption that goes from "goods" to "services", and more specifically towards "experiences".

b) In the long term, has the "g" increased compared to 2019?

At the recent WTTC congress that was held in Riyahd, Saudi Arabia, at the end of November, in what is the main event of the tourism sector worldwide, there was an **uncontained euphoria**. The highest representatives participated in it, both at a public and private level. At the public level, there was the presence of 57 tourism ministers from different countries around the world, as well as the Korean Ban Ki-moon, who was Secretary General of the UN between 2007 and 2016; the current Member of the British House of Commons, Theresa May; or the former presidents of Mexico, Costa Rica or Indonesia, among others. At a private level, there was the presence of 250 CEOs of the sector worldwide, from companies such as Hilton, Accor, Hertz, Hyatt, etc, etc.

The underlying thesis is that, **after the pandemic, people will want to travel more than ever.** This was stated by Christopher J. Nassetta, President and CEO of Hilton Worldwide.

The sector expects to **double the maximum historical figures obtained in 2019**. The sector, necessarily labor intensive, which to date generates 1 out of every 9 jobs created in the world, is willing to create, in the coming 10 years, 1 out of every 3 new jobs created. After all, tourism is a business of people serving people, people have always been at the heart of tourism.

There is a very positive long-term trend in this regard. Beyond more well-known cases such as those of China, in countries like India, for example, with almost 1.4 billion inhabitants and a very young population, only 3% of its population currently has a passport. The inhabitants of India are very appreciated tourists in areas like Thailand (the second most numerous) or in the Middle East, for example.

The opinion of the President and CEO of Accor, Sebastien Bazin, about the fact that hotels need to be designed for locals, and that this way they will work better for tourists, was very interesting. He also indicated that business trips of less than 4 flight hours are already 100% recovered, as there is no substitute for human engagement. He highlighted new trends such as that of company visitors extending their visit a few more days, already on vacation, as for example 60% of company visitors currently do in Bali.

Tourism is seen as an activity that generates wealth, that encourages investment in infrastructure, that it is a very important driving force behind mobility, that accelerates social reforms, that leads to prosperity and that connects people of very diverse cultures. In reality, people are looking for authenticity, with local people in hotels and with employees who are also local and passionate about their work.

At present, tourism activity constitutes almost 10% of the World GDP, a figure that is expected to be significantly exceeded by the end of the decade. In countries like Saudi Arabia, after investing the enormous amount of 6 trillion USD in tourism until 2030, an amount of unprecedented magnitude, they want tourism to go from being the current 8.9% of GDP (with a strong weight of the pilgrimages to Mecca), up to 16% of GDP. I was greatly impressed to see how the current Investment Minister of the Kingdom of Saudi Arabia, and former CEO of Aramco, the country's oil company and the world's largest company, H.E. Eng. Khalid bin Abdulaziz Al-Falih, referred to tourism as the "new black gold". In the United Arab Emirates tourism already represents 13% of GDP, in Greece 25% of GDP, etc.

In other words, what is currently at stake is that the **sector is convinced that the long-term growth of tourism, symbolized by the "g" in company valuation models, is today higher than it was before the pandemic.**

This goes beyond our considerations, which are based on the fact that (i) there is a clear catch-up or recovery effect for lost time, and that (ii) the long-term trend of global tourism would remain intact after the pandemic. Which would not be diminished. The first is a reality. Thus, for example, in the third quarter of 2022, hotel reservations in North America and Europe have been 9% higher than those of 2019. Regarding the second, we continue to maintain the same "g" that existed in 2019. We have not still increased as can be seen from the euphoria of the sector, which does not mean that we should not do so in the future. Of course, increasing the "g" would increase the current value of tourism companies.

c) Sustainable Tourism: There is no other way

It is impressive to hear the Former UN Secretary General, Ban Ki-moon, saying on stage that during his long tenure of 9 years, what he was most proud, was having introduced the 17 SDGs (Sustainable Development Goals) in 2015, that today have a wide application both in the business world and in the investment world. In fact, **he said that the SDGs have been one of the greatest contributions that the UN has made for Humanity.**

According to the latest environmental study commissioned by the sector itself, tourism is responsible for 8.1% of CO_2 emissions, a figure lower than the 12% that is usually quoted. It is **considered essential to achieve a "decoupling" between the growth of tourism and the growth of CO_2 emissions**. At the moment, from 2010 to 2019, it has already gone from 0.63 Kg C02 per PPP $ GDP to 0.49. The tourism industry knows that it needs to do more, and that it needs to change the way it does more.

The consensus, within the tourism sector, that the only path is sustainability is unanimous. The huge tourism investments that Saudi Arabia is going to make, for example, will be based on solar energy and will be net zero carbon. It is expected that there will be a tendency to make fewer trips in a year, but of longer duration, that is, of higher quality as far as personal time management is concerned. Tourism willing to pay more for sustainable tourism options is detected, with greater sensitivity in those parts of the world that feel the effects of climate change more. Concepts such as reducing food leftovers, sharply reducing energy consumption (Iberostar, for example, wants to do it by at least 35%), valuing a responsible tourism model, recycling 100% of the waste from cruise ships, making ships more "eco-friendly", from the paint they use to the type of fuel they consume, etc. The aviation industry, which accounts for 2% of global emissions, must evolve towards zero emissions. In the short term, intensifying the use of sustainable fuel for aviation. In the medium term, hydrogen technology will, predictably, be imposed. It will start with the smallest aircraft, the "commuter" type, with up to 50 seats and flights of less than 60 minutes, going through the "regional" (up to 100 seats and up to 90 minutes of flight), those of "Short Haul" (up to 150 seats and 120 flight minutes), those of "Medium Haul" (up to 250 seats and 150 flight minutes), and finally those of "Long Haul" (more than 250 seats and more than 150 flight minutes), .

There is a consensus that companies are leading the fight against climate change, well ahead of the action of governments. As I see it, it is not altruism in its purest form, **but capitalism, which we could compare to a kind of virus, has realized that if it does not mutate it will kill the carrier (the world)**, given which it has effectively decided to mutate, even if it is, in the first instance, for its own good.

83% of travelers admit that sustainability is very important. According to the famous Hollywood actor, Edward Norton, especially committed to the cause of sustainable tourism, there are four questions that tourists should ask themselves when visiting a resort. (i) Where does the energy used in the resort come from?, (ii) Where is the water used in the resort collected?, (iii) What jobs does the resort provide to the local community? and (iv) Does it have a zero carbon footprint?

The number of tourists cannot be doubled without effectively and decisively addressing the issue of sustainability.

d) GVC Gaesco 300 Places Worldwide, FI. A very special investment opportunity.

We must take into account that **GVC Gaesco 300 Places Worldwide, FI is going to be managed, from January 1, 2023, as an article 8 fund effectively**. Despite the fact that the change in the prospectus from article 6 to article 8 is going to take more time, the effective change in the investment process has already taken place. In any case, it should be noted that the ESG rating of the assets of the GVC Gaesco 300 Places, FI fund at the end of 2022 according to the MainStreet Partners sustainability ratings is 3.44, on a scale that reaches a maximum of 5. The limit for sustainability is considered to be 3.0, so even without having previously explicitly applied ESG investment policies, our

investment process was already sufficiently robust in this regard, albeit indirectly. However, as of January 1, we expanded it and fully adapted it to the investment strategy, to article 8, with a simultaneous double maximization both in terms of the fundamental discount and the ESG rating when choosing assets in which we invest, the consideration of controversies both regarding behavior ("Red flag" and "Yelow flag"), as well as activity, and incorporating up to 8 PIAS, all of which as of today have 100% reliable data.
On the other hand, comment that **our investment strategy "300 Places" has already exceeded 300 million euros**, between the GVC Gaesco 300 Places Worldwide, FI fund, and the Japanese domiciled World Tourism Fund, reaching the maximum level of assets under management (AUM) since the strategy was implemented in 2014. For this year 2023 we expect the start of operations of the Luxembourg fund Pareturn GVC Gaesco 300 Places Worldwide Equity Fund, as well as our objective that we can reproduce the Japanese model in another country.

Finally, as far as financial aspects are concerned, we have seen, during 2022, that an important dichotomy has occurred: **although tourist activity has gone up sharply, widely exceeding forecasts, the prices of tourism shares have fallen in 2022**. Is it some kind of enigma or "conundrum" as Allan Greenspan popularized the term in 2005?

Let's see, in 2022 41% of the companies that we have in the fund have had higher sales than they had in 2019, before the pandemic. In 2023 it will be 2/3 of the companies that we have in the fund that will sell more than in 2019, and in 2024 it will already be 4/5 parts. **On a weighted basis, according to its weight in the strategy, in 2023 sales will be 12% higher than in 2019 and in 2024 24% higher.**

The two main adverse effects that the pandemic had on the global tourism sector were (i) dilutions due to capital increases and (ii) the increase in debt. Of the companies that make up the fund's portfolio, some have the same number of shares they had before the pandemic, others have taken advantage of the opportunity to actively buy back shares and have fewer shares, and a few increased capital heavily to weather the long downtime due the pandemic. **At the global level of the fund, there has been a dilution of 9.5% and the net financial debt has increased by 29.7%.** In both cases, these are very manageable figures.

In terms of **net profits**, in 2022 1/3 of the companies have already exceeded the profits of 2019. In 2023 half of the companies will exceed them, and in 2024 it will already be two thirds. **At the aggregate level of the fund, earnings in 2023 will match earnings in 2019 and will clearly exceed them in 2024.**

Regarding **earnings per share**, in 2022 1/3 of the companies have already exceeded the profits of 2019. In 2023 it will be 44% of the companies that will exceed them, and in 2024 it will be just over half. **At the fund's aggregate level, earnings per share in 2023 will be somewhat below 2019 earnings per share and will clearly exceed them in 2024.**

Regarding the net asset value of the fund, at the end of 2022 it will be -31% lower than it was three years before, at the end of 2019, in class A, and -28% lower in class I. We do not find no financial justification for this fact.

For all these reasons, we believe that the investment in GVC Gaesco 300 Places Worldwide, FI, is one of the most impressive investment options offered by the year 2023.

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