31 December 2024

HAVELOCK LONDON

HAVELOCK GLOBAL SELECT

FUND PERFORMANCE

Cumulative Returns

1 Month	YTD	1 Year	3 Years	5 Years	Since Launch
-0.7%	5.6%	5.6%	22.9%	45.1%	57.7%

Calendar Returns

Year	Q1	Q2	Q3	Q4	Annual
2019	6.2%	2.9%	1.9%	3.5%	15.3%
2020	-20.9%	13.9%	1.7%	11.8%	2.4%
2021	11.0%	2.8%	2.4%	-1.4%	15.2%
2022	1.9%	-4.7%	-4.6%	14.3%	5.9%
2023	3.4%	-3.0%	-0.1%	9.6%	9.8%
2024	2.6%	-0.7%	2.6%	1.0%	5.6%

This performance information refers to the past. Past performance is not a reliable indicator of future results. This information is denominated in GBP: returns may increase or decrease as the result of currency fluctuations.

FUND DETAILS

Fund Size	£186M
Fund Manager	Matthew Beddall
Fund Structure	OEIC (UK UCITS)
Fund Domicile	UK
Launch Date	21st August 2018
Base Currency	GBP
ISIN	GB00BFM7DN78
SEDOL	BFM7DN7

The Key Investor Information Document (KIID) and prospectus are available in English from:

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COMMENTARY

The fund's unit price increased by 5.6% in 2024, taking the total increase in unit price since inception to 57.7%. This marks the sixth consecutive positive calendar year for the fund.

This year felt, in many ways, like a repeat of 2023. The US stock market delivered another year of strong gains, underpinned by optimism on the impacts of artificial intelligence. This drove continued flows of capital into the US stock market from elsewhere in the world. I believe these increasingly high expectations make it more likely that investors will be disappointed in the years ahead, and I will elaborate on this shortly.

What was different to 2023 was the cycle of elections that put the Labour party into power in the UK, and will shortly return Trump to the White House. Across developed markets there has been a clear ascent of nationalistic "right wing" politics, which I believe is driven by many people being discontent on how "globalisation" has impacted their lives. I think this is a theme that is not going away, and will ultimately lead to changes in the global status quo.

The consensus view that inflation would dissipate in 2024 did not play out, meaning that interest rates have not fallen as quickly as expected. Long term rates in the UK and US have been hitting multi-decade highs, such that governments are spending more on servicing their debts than hoped. Despite this politicians on all sides show little appetite to reduce deficits or borrowing (an attempt to narrow the French deficit cost the Prime Minister his job). This is a another problem that is not going away, and it remains to be seen if markets continue to accommodate ever increasing government borrowing.

Although I am at risk of becoming a broken record, as I wrote this time last year, I continue to believe that we have not yet seen the full consequences of the end of the zero-interest rate era. I think it likely that we will see more over-leveraged borrowers who cannot meet higher interest payments, or refinance their debts.

<u>All of these concerns feed into our desire to have a portfolio which will be "robust in a range of scenarios"</u>. August served as a timely reminder of how quickly financial markets can reveal their fragility.

On a separate and more positive note, we were pleased to mark our second calendar year of Havelock London Ltd making a profit. This puts our company in a strong position, and I would like to thank the whole team at Havelock for their continued hard work.

I also want to thank our clients for their continued support. Despite the recent narrow breadth in markets, we remain focused on providing you with an investment that is both "different and useful". Whilst we are gratified to have seen assets in the fund increase this year, our primary focus is on doing a good job with your money. This is not entirely altruistic, since our own money is invested alongside yours in the fund!

In what follows I will start by offering important further context of this year's performance, and what I think it means for the future. I will then provide an update on all major changes to the portfolio, and end with a more detailed performance summary.

How Did We Do?

Investors are ultimately judged by their performance track-records, which in the short term can be as much influenced by randomness as skill.

Our value investing philosophy means that we focus on buying undervalued assets, where "value" is usually defined based on a business' ability to generate earnings and ultimately cash for shareholders. We do this in the belief that share prices will, sooner or later, move to reflect this cash generating ability. History tells us that in the long run share prices tend to reflect underlying business results, but that it often makes for a long and bumpy journey.

Although our annual 5.6% return for 2024 was "respectable" it was below the level that I believe we can deliver <u>on average</u> in the long run.

The lens through which I view this performance, is to decompose it into:

(1) how has the "earnings power" of the companies we own changed?

(2) how has the "multiple" that the market puts on these earnings changed?

This is because I think we have a much greater ability to influence (1) than (2), because (2) is much more subject to factors outside of our control.

The earnings of our portfolio changes both because of developments within the companies we own, and because we may choose to own a different set of companies. We can calculate the historic earnings yield of our entire portfolio, which together with the fund price[1] give us an estimate of the earnings per share <u>of the fund</u>. On this basis the earnings of our portfolio increased by 29.5% in the last 12 months, due in the most part to the earnings yield increasing. This is equivalent to the price earnings ratio of the portfolio falling (it moved from 15.7x to

[1] Earnings per share = Share Price x Earnings Yield = Share Price x (1 / Price Earnings Ratio)

12.8x). Taken at face value the extent to which earnings increased, is much more gratifying, than the actual performance we delivered.

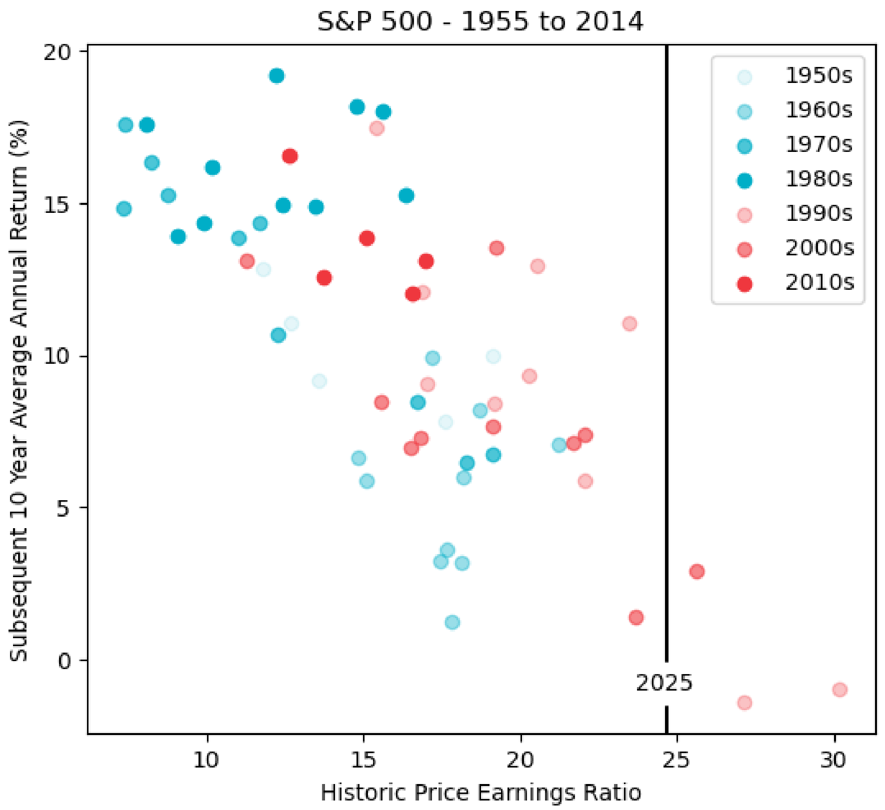
There are however ways in which this type of calculation can be misleading. If we had sold a bunch of really great "high multiple" companies, and replaced them with low multiple "junk", it would suggest a large gain in earnings. However, because the calculation is backward looking, the apparent improvement may be illusionary if, in the years ahead, the companies sold experienced much higher earnings growth than the ones purchased.

Our qualitative appraisal is that the companies in the portfolio at the end of the year are not of materially lower quality, or have materially lower growth prospects, than what was owned at the start of the year. This opinion is supported by repeating the calculation I describe using forecast analyst forecasts of earnings for 2025.

Put simply, I believe that our portfolio "de-rated" during 2024, which created a performance headwind. However, with all else being equal, starting the year with a "lower multiple" portfolio should make it easier for us to deliver good performance in the future.

This is the reverse situation to the broad market capitalisation stock indices, with the MSCI World and S&P 500 having both seen their PE ratios increase last year. If I repeat my earlier calculation for these two indices, I estimate that the earnings power of the MSCI World index rose by 7.6%, and the S&P 500 7.5%. This compares with 19% and 25% performance gains respectively. Hence, these gains that index investors enjoyed, were not backed up by the performance of the underlying businesses.

I cannot know what will happen this year, or beyond, but history suggests that high PE multiples foretell weak long-term performance (and vice versa). The chart below contains historic data for the S&P 500, and plots 10-year average annual returns against the starting price earnings ratio of the index. Every year is represented with a "dot" which has been coloured according to its decade. It also has marked on it where we now find ourselves.



Source: Bloomberg, Havelock London calculations. Uses annual data from 1955 to 2024.

The chart shows that the S&P 500 has rarely been as "expensive" as it is today, and if you had invested at times of a high PE multiple, you would have experienced disappointing results. On top of this, developed economies are growing at slower rates than for much of their post-war history, which makes it harder for corporate earnings to grow, which in turn makes it less likely that future returns from investing in a broad stock-index will be as high as they have been in the past.

I am certainly more comfortable with my money invested in our current portfolio, at a 12.8x PE ratio, than I would be owning the S&P 500 on a 24.7x multiple.

Portfolio Update

During the course of the year, we sold 19 existing holdings, and purchased 19 new ones. This is a higher level of turnover than I would expect in a typical year, particularly so because much of it was within our "core" holdings. Our valuation discipline means that we will look to sell a holding when it ceases to be at a discount to our estimate of intrinsic value, and hence higher volatility in market prices tend to lead to increased turnover. It is also the case that with an enlarged research team, I think we found more scope to "upgrade" what we own during the year.

As a reminder, we bucket the portfolio into three categories; "asset based", "core", and "special situations". The first of these are companies with claims on "real" assets, where we see some protection against high inflation. The second are quality businesses that we believe to be under-appreciated, often due to their cyclical nature. The third are businesses that have been discounted due to a "bump in the road", but where we believe the quality of the business or the value of what they own, makes them investment worthy.

In the below I provide an explanation of our buying and selling decisions. <u>All performance numbers represent overall contributions at a fund level</u>. It just leaves me to say that you will see that I have sacrificed brevity for the sake of completeness!

<u>Core Holdings</u>

The fund owns a number of retail businesses and over the course of the year holdings in the British homeware retailer, Dunelm, and the Japanese clothing retailer, Shimamura were sold. The Dunelm holding contributed 1.4% to fund performance since it was established in 2022, and was sold due to the share price converging on estimate of intrinsic value. The Shimamura holding was established in 2023, contributed 0.15%, and was sold due to our other Japanese and retail opportunities having greater estimated upside.

Two new retail businesses were introduced; The UK greetings card retailer, Card Factory, and the luxury retailer, Watches of Switzerland. Card Factory has a vertically integrated business model, where it designs, prints, and distributes cards, which has helped it to deliver high returns on capital. Although small, we think the low level of research coverage on it means that our insights into the business can provide us with an edge.

As a luxury retailer Watches of Switzerland is very different to Card Factory. The company has distribution rights with a number of high-end brands, has been successful at growing in the UK, and is attempting to replicate its model in the US. Key to their success is having strong relationships with watchmakers, and the company has a credible strategy to leverage these to grow in the US, which is a fragmented market with many small independent retailers.

Over the course of the year, holdings in two food related businesses, Bakkafrost, a Faroese salmon farmer, and Toyo Suisan, a Japanese noodles manufacturer were sold.

Bakkafrost purchased a Scottish salmon business, and are executing a turnaround plan that requires heavy capital expenditure. They faced a number of challenges with this plan, which caused us to lower our growth expectations for the business, which in turn reduced our estimate of intrinsic value. The Bakkafrost holding was established in 2021, and has made no material contribution to performance over this time.

The Toyo Suisan holding has contributed 0.45% since being established in 2023. The company's main business is selling instant noodles in the US and Mexico, with their profits having benefited both from exchange rate moves in the Yen and price rises. It was a relatively small holding, and the appreciation in its share price meant that it had converged on our estimate of intrinsic value.

The remaining holding in the small British agriculture business Wynnstay was sold. It is a holding that we established in 2020 and has since contributed 3.4%. The holding had reduced over a long period of time, as we decided it no longer met our liquidity criteria.

Sticking with the theme of agriculture, a holding in CNH Industrial was established, it being one of the three large global tractor manufacturers. We believe it has a strong competitive position and see the Agnelli family's ownership stake as a positive influence. It operates in a deeply cyclical end market, but one where we think long-term demand is relatively assured. This year has been one of declining earnings in the entire sector, which we think unfairly marked down the share price, putting it at a steep discount to our estimate of what it is worth.

There are a number of mid-size industrial businesses in the portfolio, where we also see their share prices anchored towards short-term earnings more than a realistic appraisal of long-term prospects.

Within this theme holdings that were sold were; Krones, a manufacturer of machines for the beverage industry; Hexpol, a manufacturer of specialist rubber compounds; Horiba, a manufacturer of equipment for the semiconductor and automotive industries; and Nabtesco, a manufacturer of specialist motors. Krones had contributed 1.4%, Hexpol 1.1%, Horiba 1.6%, and Nabtesco, -0.5%. All were purchased during 2022, with the first three being sold due to their share prices appreciating towards our estimates of intrinsic value. Nabtesco was sold due to us revising down our original valuation to reflect concerns about lack of growth in their end markets.

Holdings in three new industrial businesses were established; TKH Group, which is best known for manufacturing tyre-building machines and specialist cables; Verallia, a European glassware manufacturer; and Tsubakimotochain, a Japanese chain manufacturer. All are industrial companies with aspects of their businesses that we think provide a competitive edge. However, they all operate in cyclical end markets.

The holding in the memory semiconductor business, Micron, was sold within the first two weeks of 2024. It had contributed 2.3% during its time in the portfolio. The holding in the shipping and logistics business, Moller Maersk, was also sold, with it having made a negative contribution of 0.3%. The Micron holding was purchased at the end of 2022, and the Maersk holding in 2023. In the case of Micron, it was sold because it was no longer at a discount to our valuation, whereas for Maersk, I decided my original valuation was too optimistic as it was not underpinned by enough knowledge of their end market.

The holding in inter-dealer broker, TP ICAP, which was established in 2023 was also sold after having contributed 1.4%. The share price had rallied towards our valuation, which was relatively pessimistic due to the unknown risk of a large potential legal action the company could face.

Holdings in the outsourced customer service provider, Teleperformance, and the outsourced market research firms, Ipsos and YouGov, were established. We started the year with a holding in Ipsos, but not YouGov, but both are examples of us having sold the holding only to subsequently buy it back again. Although it is not our "modus-operandi", both decisions were the consequence of share price moves in excess of 30%. This as an example of how high levels of volatility can drive turnover due to large deviations in the discount to our estimate of value.

Asset Based

We undertook a research project in the year that was motivated to increase the breadth of this part of the portfolio. We were specifically interested in adding in additional claims on "real assets", where we saw both upside from low valuations and the scenario that higher levels of inflation persisted.

We added two agriculture businesses, Golden Agri Resources, which is an Asian agricultural producer that owns large amounts of land, and Nutrien, which is a fertiliser business that owns, among other things, potash mines. In both cases we believe their share prices do not properly reflect the significant, and scarce, natural resources that they own. We also think that both would be well placed in a period of high inflation.

We added two oil and gas businesses. Range Resources is a US natural gas producer, and our thesis is that the supply and demand dynamics mean that the extreme discount of US natural gas to global markets is unlikely to persist. Serica is a UK listed North Sea oil and gas producer, which means that it exists in one of the most unloved area of the capital markets. Our view is that, even with a transition to lower CO_2 alternatives, the UK needs North Sea energy in the years ahead, such that this cashflow generative company should not be priced for extinction.

We also added a holding company, Yellow Cake, which owns a stockpile of Uranium predominantly stored in Canada. Data on the uranium market tells us that it has moved to become very supply constrained, at the same time that demand from new power stations is increasing. The company has a preferential supply agreement in place to accumulate further resources, and trades at a discount to the fair market value of the uranium it owns.

The lime-stone aggregates business, SigmaRoc, was added. Due to the cost of transporting stone, and the difficulty of getting extraction permits near to where it is needed, we believe it owns a scarce valuable resource. Lime is important for the agriculture and chemical industries, such that end demand is not as you would expect dominated by construction markets.

Only one holding was sold in the year, which was Argonaut Gold. It had detracted 0.8% in the time that it was in the portfolio. We purchased the company because of the extreme discount to the value of the gold resources that it owned, but were too optimistic about the operational risks in the business. The experience was a reminder that no matter how valuable a resource a company owns, it is cashflows that keep the "wolf from their door".

Special Situations

Returning back to the theme of retail, a holding in the American lingerie business, Victoria's Secret was established. It is a company with a storied past, in part due to its iconic annual "Victoria's Angels" fashion show. The business dropped the show, and attempted to shift its brand messaging to be more inclusive and less "aspirational", which in turn led to a period of declining sales. Following the appointment of Hillary Super as CEO, the company has reversed course and relaunched the annual show. Super was the CEO of Rihanna's Savage X

Fenty lingerie business, which makes her well placed to turn around the business by making it more relevant to younger generations.

Holdings in the UK listed companies, Next 15, Future and H&T Group were all sold. Next 15 is a small conglomerate of marketing, PR and technology businesses, that was purchased in 2023. It contributed 1.6%, and was sold based on both the valuation and concerns about an area of the business that were subsequently proved to be well justified. Future is a digital publishing business, that was again purchased in 2023. It contributed 3.1%, and was sold based on our valuation. H&T Group was a small holding that was established in 2023, which had made no material contribution to performance in the time that we owned it, and no longer met our liquidity criteria.

The holding in Johnson Matthey that had been in the fund since 2020 was sold. In this time it lost 0.9%. The company is best known for making catalytic convertors, but has attempted to diversify into clean energy businesses with little signs of success. The core business is cashflow generative, but after a prolonged period of patience we decided to "walk away". We had concerns about their embryonic hydrogen business, and were disappointed to see the CFO resign. Since selling a major shareholder has launched a public campaign to change both the board and strategy. This is an example of how qualitative factors can overrule our quantitative estimate of value.

The holding in the European education business, AcadeMedia, that was established in 2023 was sold. In an unusual twist of events the company accepted a takeover offer from a foundation who wanted to make it a not-for-profit enterprise. In the face of this we sold the holding, with it having made no material impact on performance.

A number of Japanese holdings sit within our "special situations" category, because despite healthy core businesses, they have hoarded cash such that returns on invested capital are unacceptably low. They are all candidates for "governance reform" where returns could be easily lifted by paying out excess cash to shareholders. Within this brief, Transcosmos, Shinnihon, Nippon Television, and Fukuda Denshi, were all added this year and Stanley Electric was sold. Stanley Electric manufactures lights for cars, and is a holding that was added in 2023. We decided to sell it so as to increase our holding in the Japanese car company, Subaru, following its price falls. This is because of the two, Subaru was the more exciting opportunity, and we wanted to limit overall exposure to automotive markets.

Performance

The overall increase in fund unit price during 2024 was 5.6%.

The first table below shows a decomposition of this result, into our "opportunity" categories.

Category	Contribution
Asset Based	2.3%
Core	0.7%
Special Situations	3.4%
Cash	0.1%
Fees and Charges[2]	-0.8%
Total Return	5.6%

[2] Note that this information is an aggregate across all share classes within the fund.

The next two tables show the top ten and bottom ten contributors to performance.

Top 10 Performers	Contribution
Victoria's Secret	1.91%
Future	1.90%
Nippon TV	1.04%
Air Lease	0.96%
Berkshire Hathaway	0.92%
Watches of Switzerland	0.92%
Range Resources	0.77%
TP ICAP	0.67%
Prosperity Bancshares	0.61%
Subaru	0.54%

Bottom 10 Performers	Contribution
Teleperformance	-1.29%
Verallia	-1.00%
Rohm	-0.88%
TKH Group	-0.65%
LG Corp	-0.53%
Bucher Industries	-0.44%
Aalberts	-0.44%
Argonaut Gold	-0.43%
Yellow Cake	-0.35%
Dowa Holdings	-0.34%

The top three positive contributors were all "special situations", where in each case our thesis played out as we would hope. The relaunch of Victoria's Secret was a success, with more shoppers heading to their stores; The robustness of Future's publishing business was shown to be better than most investors had expected; And Nippon TV appears to be moving to make shareholder returns a greater priority.

Air Lease, Range Resources, and Prosperity Bancshares are all in our "asset based" category. With all three we had clear theses around each of their businesses, that again have played out as we would hope. The Silicon Valley Bank debacle, meant that we've had to be patient to see our views recognised in Prosperity's share price. Conversely, Range Resources was a relatively recent addition that "hit the ground running", helped by Trump's pro-energy rhetoric.

Given that our "core" category has the highest weight in the portfolio, it was clearly the primary source of weak performance. Five of our ten performance detractors were from this category. Aalberts, Bucher, TKH Group and Verallia are all cyclical European industrial businesses where we see the negative performance stemming from concerns over short term earnings weakness. Teleperformance was impacted by both concerns about margin pressure, and a surprise change of CEO-designate. Additionally, Teleperformance and Verallia are both French listed companies, which we believe caused a performance drag due to concerns about political stability, despite neither being predominately domestic focused businesses.

There was however some positive news within the "core" category, with Berkshire Hathaway, Watches of Switzerland, TP ICAP, and Subaru all featuring in the top ten list.

Finally...

We go into 2025 full of optimism about the potential for the companies held in the fund to increase its unit price. This optimism stems from understanding the quality of each of their businesses, together with the potential upside based our view on their intrinsic value. With that said we cannot know if this optimism will be well placed in the short-term. What we do know is that in the long-term market prices have always tended to move to reflect business fundamentals, and it is for this reason that we would remind you that investing in the fund requires a 3 to 5 year horizon. We will be doing everything in our power to ensure that your patience is rewarded.

Matthew Beddall
CEO, Havelock London

IMPORTANT INFORMATION

This is the opinion of the author at the time of writing and it may change. The company examples used are for illustrative and information purposes only. Every attempt is made to ensure this information is correct or up-to-date. This is not a recommendation or investment advice and you must not use it to make investment decisions.

Investment Risks

The value of investments in WS Havelock Global Select (the fund) may fall as well as rise. Investors may not get back the amount they originally invested. Investments will also be affected by currency fluctuations if made from a currency other than the fund's base currency. Past performance is not a reliable indicator of future results.

Potential investors should not use this document as the basis of an investment decision. Decisions to invest in the fund should be informed only by the fund's Key Investor Information Document (KIID) and prospectus. Potential investors should carefully consider the risks described in those documents and, if required, consult a financial adviser before deciding to invest. The fund can invest more than 35% of its value in securities issued or guaranteed by an EEA state listed in the prospectus.

Performance Data

All performance information is for the A-Accumulation share class, which is the longest running share class for the fund. This performance information refers to the past. Past performance is not a reliable indicator of future results. This information is denominated in GBP: returns may increase or decrease as the result of currency fluctuations.

The data in this document is sourced from the fund accountants unless otherwise specified. The data used to calculate the price to earnings ratio is sourced from Bloomberg.

Other Information

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