31 March 2025

HAVELOCK
LONDON

HAVELOCK GLOBAL SELECT

FUND PERFORMANCE

Cumulative Returns

1 Month	YTD	1 Year	3 Years	5 Years	Since Launch
-1.7%	0.8%	3.8%	21.6%	84.9%	59%

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%
2025	0.8%				

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	£176M
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:

Havelock London
19 Eastbourne Terrace
London, W2 6LG
Tel: +44 (0)20 3637 7300
www.havelocklondon.com

Waystone Group
PO Box 389
Darlington, DL1 9UF
Tel: +44 (0)345 9220044
www.fundsolutions.net

COMMENTARY

The fund's unit price increased by 0.8% in the first quarter, taking the total increase in unit price since inception to 59%.

Headlines in the quarter have been dominated by President Trump's return to office, with the build up to, and announcement of, trade tariffs becoming a singular focus in markets. European equity markets stole the show in the first quarter, with the DJ Euro Stoxx index delivering 7.7% (including dividends), versus -4.3% for the S&P 500, and -16% for the equal weighted "Magnificent Seven" Bloomberg index (BM7T:IND). Relative valuations between the US and other countries had looked "stretched", and these moves have slightly redressed this.

Last year's strength in US markets had been accompanied by a narrative of "US exceptionalism", justified by resilient GDP growth. The backdrop to this, however, is levels of government stimulus in America both during and after COVID that were far larger, in relative terms, than other countries. The fall in US stock markets has been accompanied by this "exceptionalism" being called into question, and if the Trump administration is serious about reducing the deficit, GDP growth will likely be harder to come by.

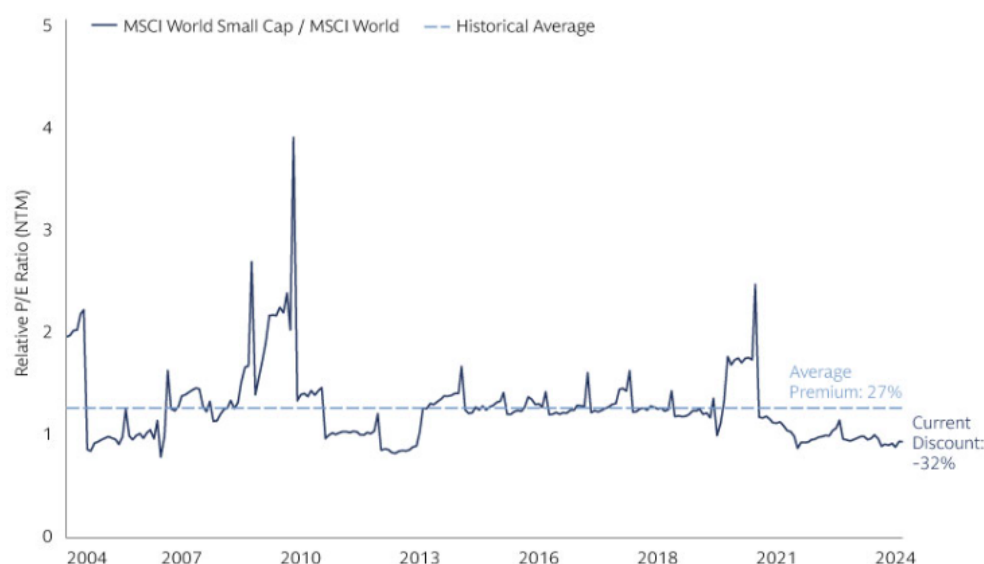
The opening week of the second quarter saw large market declines following the US tariff announcement. I think it likely that Trump's initial tariffs will be just the first chapter in a long story. Treasury Secretary Bessent, who was George Soros' "right hand man", clearly has a deep understanding of markets, and so I think it a mistake to underestimate the thinking behind what they are doing. It seems likely to me that the initial tariffs are part negotiating tactic and part showmanship for the US electorate. For this reason, I am cautious about

overreacting to them in the short-term but think it likely that there is a longer-term change to the world order in play.

By way of example the 24% tariff on Japanese imports led to large falls in the share prices of Japanese export companies and has been called a "national crisis" by the Japanese Prime Minister. However, Japan is the largest foreign owner of US Government debt, and so they are not without bargaining chips when it comes to negotiating!

Portfolio Outlook

Our portfolio is skewed towards small and mid-sized companies, because this is where we have seen the most opportunity. The chart below is from a Goldman Sach's thought piece at the end of last year and shows the relative price earnings ratios of the MSCI World Small Cap and MSCI World index. This illustrates the extent to which smaller companies look undervalued. Whilst I believe this presents an opportunity, I also believe that the increasing discount has been a performance head-wind for us.



Source: Bloomberg, MSCI and Goldman Sachs Asset Management. Monthly data as of September 30, 2024. Chart shows the P/E Ratio (NTM) of MSCI World Small Cap vs MSCI World over time, highlighting a current -32% discount vs. the 20Y Average, a -76% Discount vs. 2010 Peak and -62% Discount vs. 2021 Peak.

Source: Time to Shine? A Small Cap Reversal of Fortune, Goldman Sachs

The opportunity from owning smaller companies conveyed, "top down", by this chart is what we see "bottom up", and is the real reason for our tilt towards them.

Our holdings are also skewed towards the UK, where the valuations of many companies either ignore their international nature, or appear to "double" or "triple" count the domestic headwinds that they face. Whilst the FTSE 100 index had a total return of 6.1% in the first quarter, the FTSE 250 index had a total return of -5%, illustrating the divergence in valuations between larger and smaller companies.

The Financial Times wrote an article[1] in the quarter arguing that valuations suggest that UK small-caps are the "most unloved" companies in the world. I know full well that the domestic UK economy faces challenges but believe individual valuations do not reflect the nuanced extent to which each company might face headwinds. For example, one theme that we like is

[1] UK small caps "most unloved" stocks in the world

“discount” retailers, where we expect them to have some resiliency during a recession as the benefit from wealthier consumers “trading down” has historically acted as a shock-absorber.

I know that many readers patience will have been “worn thin” by the narrative of UK equities looking cheap. History is on the side of value investors being rewarded from buying attractively priced out of favour assets, but it equally would have required monumental patience. The longer thought piece that I have written below looks further at potential performance catalysts in our portfolio and is my attempt to offer you something beyond just “hope” as a reason to think our approach will be rewarded.

I provide a full explanation of performance twice yearly, in my Q2 and Q4 letters, but given the high level of volatility, I thought I would offer a couple of highlights. By and large we saw many of last year's loss-making holdings profit in the quarter, offset by the reverse happening to some of last year's more profitable holdings.

The gold miner, Newmont, was by far our largest positive contributor, followed by the limestone aggregates business, SigmaRoc, and the Swedish Bank, Handelsbanken. Several of the top contributors outside of this were holdings in European industrial companies, that have reversed last years losses off the back of “reassuring” year-end updates. The largest loss-making holdings in the quarter were all retailers: Victoria's Secret, Watches of Switzerland, and Card Factory.

Victoria's Secret has seen some extremely large price moves, it having gone from being our top contributor in 2024, to our largest detractor in 2025. As a result of selling down part of the holding last year, it had however delivered an overall profit as of the end of the quarter. The price action has been particularly extreme and is reminiscent of the “meme stocks”. We have observed an unusually high amount of short-dated options trading, which I suspect is the driving force behind this volatility. My hunch is that it is due to some combination of retail and hedge fund speculators. The Australian retail magnate Brett Blundy has been acquiring more shares in the business following the price falls, which we see as an endorsement of our underlying thesis on the business.

The table below is a summary of Morningstar's “Portfolio Style Measures”, comparing us to the iShares Edge MSCI World Value Factor ETF (which tracks the MSCI World Enhanced Value Index). The data shows our portfolio as cheaper (with a lower price earnings ratio), whilst also having had higher historic growth, and higher free cashflow yields (the links will take you to the full statistical tables on the Morningstar website).

	WS Havelock Global Select	iShares Edge MSCI World Value Factor ETF
Forward PE Ratio	8.7x	10.2x
Historic Sales Growth %	8.2%	5.1%
Historic Cash-Flow Growth %	15.6%	-3.4%
Free Cashflow Yield ex-Financials	22.7%	16.1%
Return on Invested Capital	6.2%	7.1%

Source: Morningstar.co.uk

These portfolio statistics should be treated with caution, as they are averages which can be influenced by one or two extreme data points. Nonetheless, it conveys some insight about what the fund owns. To show that I have not just “cherry picked” the most flattering statistics you will see that our companies have historically had lower returns on invested capital than those in the Value ETF. I believe this is because of several “special situation” holdings that have had healthy cash generation, but low or negative GAAP earnings due to non-cash charges (see below for two examples of this). Although we like earnings, we prefer cashflow!

Catalysts

We are periodically asked by investors what we think the catalysts might be for a run of good performance. It is a question that I am shy about answering, not because I think there are a lack of potential catalysts, but because I believe the future to be highly unpredictable. As part of a philosophy of not being over-confident in our ability as forecasters, we want to own a portfolio that will be robust in a range of future scenarios.

This approach means that we are less inclined to provide "buy now before it is too late" type narratives. However, it is totally reasonable for our investors to want to know which scenarios will benefit our portfolio, and what some of the drivers of future performance might be. Before giving some examples, I will explain the framework within which we hope to earn profits.

Broadly speaking there are two ways in which we hope to earn a healthy return. The first of these is by investing in companies that earn decent returns on capital and send the money back to shareholders and or reinvest in their business and grow. The second of these is by owning underappreciated companies that see valuation "re-ratings". The former is driven by the company's own economics, whereas the latter is driven by what other investors are prepared to pay to own their shares.

The Swedish bank, Handelsbanken, provides a good example of the first of these. We purchased shares in the bank at the inception of the fund, based on a view that it was well managed and available to buy at an attractive price. We paid 112 SEK per share in August 2018, and have received back 51 SEK of cash dividends, as well as 4.4 SEK worth of shares in another company via a "spin-off". At the same time the earnings per share have increased by 55% from 8.9 SEK to 13.9 SEK. We purchased the shares at around a 11.4x PE ratio, and they are currently on a 9.6x PE ratio, and hence have "de-rated".

The total return on our investment in Handelsbanken has been around 77% (or 9% per annum), despite the price earnings ratio having fallen. The main catalyst for their increased earnings has been an increase in interest rates. We knew this was the most likely catalyst for the company to increase earnings, but did not know when it would happen.

The Japanese industrial company, Horiba, provides an example of the second way in which we earn a profit. We first bought shares in the company in September 2022, paying just below 6,000 JPY per share, and then sold the last of our holding in August 2024, at just below 15,000 JPY. From our first purchase to our last sale the total return was around 109% (or 53% per annum). The P/E ratio moved from around 8.5x to 14.5x in this time.

We knew that the pressure of corporate governance reform in Japan, and Horiba's exposure to the semi-conductor industry, offered potential catalysts for higher profits and a re-rating. We could not, however, have predicted how quickly these two factors would cause a shift in the mood music and hence share price.

In what follows I provide examples from each of our three "allocation buckets" of potential catalysts for future performance. This will touch on overarching themes such as renewed fears of inflation, company takeovers, buy-backs, and the reversal of the "euphoria" for growth stocks.

Asset Based

It is a long-standing concern of mine that large government debt burdens will be most likely dealt with by long-term inflationary policies. This is because throughout history Sovereigns and Governments have generally repaid large debts with de-based currency, as the only practical means of maintaining the status-quo.

The companies that we hold within the asset-based category own scarce assets that we think provide some level of protection against the risk of inflation. These companies have also been purchased at prices that we think are attractive, relative to the value of what they own. An example of this is the UK listed vehicle, Yellow Cake, that owns a stockpile of uranium that is stored in Canada.

The World Nuclear Association forecasts that there will be a large supply shortfall in the uranium market in the years ahead. This demand forecast is not based on speculation about AI data centres or small modular reactors, but on traditional nuclear power stations currently under construction. Likewise, the supply forecast is based on existing and under-development uranium mines. Constructing nuclear power stations and developing uranium mines are slow processes, which means that the supply-demand dynamics in the next five years can be reasonably well known.

We purchased the holding in Yellow Cake at a circa 10%-15% discount to the "spot market" value of the uranium that it owns. We also know that the spot market is not a reliable indicator of the uranium market, as almost all transactions take place based on long-term contracts. This means that we think the true discount is much larger, as uranium producers are likely to only write contracts at higher prices. At the time that we purchased our shares several quant hedge-funds were shorting the company, which I believe is why we were able to buy them at a larger than normal discount.

Much of the world's uranium comes from Kazakhstan, and western countries still have a heavy reliance on Russian enrichment facilities. There are waivers in place that allow the US to still import enriched uranium from Russia until 2027, despite economic sanctions on most other exports. This illustrates the dependence that Western countries still have on "unfriendly" nations.

I think that renewed concerns about inflation provide a potential catalyst for all our asset-based holdings. If investors become more concerned about this risk, there will be more competition to own scarce assets, which should help this part of our portfolio to rate higher. I also think that increased geo-political tensions and restrictions on free trade offer a further potential catalyst for the uranium price to rise.

If these short-term catalysts don't transpire, then we will still be left owning a scarce asset, with the supply deficit acting as a longer-term catalyst. This is the type of holding that we like, where our investment thesis has more than one way of delivering a positive outcome. Moreover, I think that there is the potential for these scarce-asset type holdings to dance to a very different drumbeat to the rest of the stock market, in the event of an "earnings recession" bear market.

Core Holdings

The core of our portfolio is a collection of business that we think are well run, can deliver attractive returns on capital, and were purchased at reasonable prices. By their very nature we think that the most likely way in which we will be rewarded from owning these businesses is by the slow-and-steady return of capital and or growth in earnings. However, most also have scope to benefit from shorter-term "re-ratings".

An example of re-rating potential is that of cyclical businesses. I believe that the stock market has an unhealthy focus on short-term earnings, such that the share prices tend to be much more coupled to next year's earnings than a realistic appraisal of the next 3-5 years.

This point is well illustrated by our holdings in the agricultural equipment companies Bucher and CNH Industrial. Both companies had seen their shares "de-rate" off the back of weaker grain prices last year, as farmers held back from buying new equipment. Both have now seen this reverse as the consensus narrative has shifted to 2025 being a "cyclical low point" for agriculture. We knew that anticipation of higher agricultural prices would be a catalyst but had no idea on timing.

Although cyclical, agricultural companies are not an outright bet on the general health of the economy, which is something that makes them appealing to us. Some of our other cyclical businesses are also exposed to trends that are not necessarily aligned to the general economy. For example, themes like "reshoring", "energy independence" or "defence spending". I would not wish to overplay these, but the point I wish to illustrate is that when we talk about cyclical businesses it does not equate to a straight bet on the general state of the economy.

One catalyst that we are excited about within this area of the portfolio is take-overs and buybacks. For many of our core holdings we think that their low valuations make them appealing candidates to be bought by third parties. Failing this, we think that buying back their own shares at low valuations offers an easy route to boost earnings per share, which in turn should lift share prices.

Verallia is a French listed manufacturer of glass bottles and jars. Because of the high transport cost of their products, the industry tends to operate as series of local monopolies and so is not the commodity-like business that it first seems. The company's shares have rallied from €24 at the start of the year, to €29 at quarter end, because of a minority shareholder proposing to buyout the company at €30. We think that this undervalues the business and are optimistic that a takeover could happen at a higher price.

There are other companies in our portfolio where we see take-over potential, with our UK mid-cap holdings being prime candidates. An example of this is YouGov, where our research suggests that the large quantities of consumer data that's been collected over a long period of time has significant value. The recent departure of the CEO, and appointment of founder Stephen Shakespeare to conduct a "strategic review" shows that the Board are serious about lifting the share price.

The general enthusiasm for "growth" has caused prolonged capital flows towards large-cap US companies, and away from almost everything else. I believe that it is this trend that has driven a derating in many of the companies we own, creating the opportunities I describe above. Clearly a reversal of these capital flows is another potential catalyst to lift the value of our portfolio, as happened at the end of the dot-com bubble with "value" outperforming "growth" for the subsequent decade.

Special Situations

Within our special situations investing we have holdings in two US media companies: Warner Brothers Discovery (WBD) and Sirius XM. Both are incumbents facing disruption however both are highly cash generative and are making large strides to adapt and stay relevant. WBD produces and distributes video content, owning the rights to media franchises such as Harry Potter, Game of Thrones, and Batman. Sirius XM is the dominant provider of in-car audio in the US and owns the rights to distribute many popular podcasts.

The table below compares the two companies against two respective "challenger" competitors and details their ability to generate cash for their owners.

	Capital Expenditures (2024)	Free Cash Flow (2024)	Market Cap (2024)	Free Cash Flow Yield (historic)	Free Cash Flow Yield (forecast)
Warner Brothers Discovery	$948M	$4,427M	$22,486M	19.7%	19.8%
Netflix	$440M	$6,922M	$392,275M	1.8%	2.2%
Sirius XM	$728M	$1,013M	$7,158M	14.2%	16.1%
Spotify	$17M	$2,285M	$113,831M	2.0%	2.6%

As of 3rd April 2025

Free cash flow measures the cash generated from each of the business, less capital expenditures. This represents the cash available for the company to either send back to shareholders, paydown debt, or further reinvest into the business. The ratio of this quantity to the market capitalisation gives the free cash flow yield, and the table includes both the historic yield for last year and a forecast for next year, based on consensus analyst cashflow forecasts.

The table shows how the two Havelock owned companies have market values less than 10% of their respective competitor, despite generating similar amounts of cash for their shareholders after higher levels of capital expenditure. This equates to spectacularly high free cashflow yields. To our eyes the gap in valuations between "incumbent" and "disruptor" look extreme and hard to justify.

Both WBD and Sirius XM are funded with debt, and both have seen negative GAAP earnings due to non-cash write-offs. This, together with the ongoing turnaround efforts to combat disruption, are why we treat them as special situations. In both cases we are comfortable with the leverage because of the maturity structure of their debt, their ability to generate cash, and the quality of the assets they own. Weak or negative GAAP earnings also do not concern us, if they have come from non-cash write offs that potentially reduce tax charges.

We believe that both companies have strong franchises with the ability to continue to generate cashflows into the future. Whilst both face challenges, we believe that the pessimism contained in their prices goes beyond a realistic assessment of the current state of play and assumes that the decline of both companies is a done deal.

In terms of potential catalysts, I believe that the bull market for "growth" has meant many global equity portfolios have come to have large holdings in disruptors, whilst not owning incumbents. Likewise, many long-short investors have structured trades to be long the former, and short the latter. In a market environment where the multiples paid for "growth" companies contract, I see the potential for the "value" incumbents to re-rate higher. If there isn't a re-rating in the near-term, we still believe that the cashflows will one way, or another, benefit investors, but that like Handelsbanken it will require patience.

Turbulence

Before drawing this letter to a close, I felt that I should share some thoughts and observations on the large fall in equity markets that we saw in the first week of the second quarter.

From my perspective it looks like the type of panic that is to be periodically expected in markets, and of the type that I have seen many times before. Our estimate of the fund's "beta", or sensitivity to a short-term fall in markets, was about 1x, and so far, this looks reasonably accurate. For many of the midcaps we follow the price action looks relatively detached from any reasonable interpretation of tariff threats, and I believe that the decline has been exacerbated by leveraged investors making a "mad rush for the exits".

The Financial Times reported[2] on the observations of hedge fund broker, Morgan Stanley, that Thursday 3rd April was "the worst day of performance for US-based long/short equity funds since it began tracking the data in 2016". It also said that "the magnitude of hedge fund selling across equities on Thursday was in line with the largest seen on record". This suggests that price moves have been driven by a panicked liquidation, more than a calm analysis of the facts.

Although we do not believe in trying to make short-term forecasts, my "best guess" is that we will see a "relief rally" as the worst of the liquidation passes. I think the true implications of the changing world order will take longer to become clear, and hence impact market prices.

These price falls are certainly not a reason why we would start liquidating our own holdings, rather we look to cautiously make opportunistic changes to take advantage of others' panic.

An example of this is our large holding in Air Lease that saw a 16% price fall in the space of two days. Air Lease buys aircraft and rents them to airlines, and at face value the tariff on importing planes into the US might seem like bad news. However, much of the company's business is outside the US. More importantly, they have written into all their contracts that it is the Airline customers who bear responsibility for all tariff-related costs. Given the price fall I would guess that this is not widely understood.

In the final few days of March, the company had announced a partial settlement with their insurers from the aircraft that they have had "confiscated" in Russia. This will reverse part of their previous write off and increases the likelihood that the remaining unsettled claims will pay out in the company's favour. The impact of the initial cash payments from insurers is that the "book value" of the company will increase by around 4%.

So, arguably, in the space of a couple of days the company moved to be 20% cheaper than it was previously, with no material first-level impact from tariffs. The company continues to own scarce assets that are in high demand. If consumer demand for flying softens, then it will be the oldest aircraft that airlines idle due to the cost of maintaining them, not the comparatively new planes that Air Lease owns.

I share this story as an example of what we have been seeing "at the coal face", and the opportunities that the panic is potentially creating.

I do not know if this panic will prove short-lived or not. However, I think investors face the dual threats of higher inflation, due to the size of government debts, and weaker corporate earnings, due to a subdued economy. In this environment owning cash or bonds risks losing purchasing power, whilst owning equities priced for high growth risks disappointment. I see the modest valuations and robust balance sheets of the companies we own as both a source of defence and opportunity. In the years following the dot-com crash, and the collapse of the

---

[2] https://www.ft.com/content/8ba439ec-297c-4372-ba45-37e9d7fd1771

"Nifty Fifty" in the 1970s, value investing delivered a healthy outcome for investors. I cannot know if this will repeat, but it evidences the argument for "value" in this environment.

At Havelock we are focusing all our efforts on running one fund in which we have our own money invested. We have had six consecutive calendar years of positive returns, as well as 18 out of 26 quarters. Our company is both profitable at its current size and has around 3 times its required regulatory capital in reserves. This is all to say that we feel well prepared for whatever comes next.

If you made it this far, then thank you for your attentiveness. More importantly, thank you for your ongoing support. In this letter I have tried to lay out the reasons why I am optimistic about what lies ahead for us, but as ever the short-term remains highly unpredictable.

For a further discussion of any of the points I raise then please feel free to contact Neil or myself.

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

This document has been issued by Havelock London Ltd, which is authorised and regulated by the Financial Conduct Authority (FCA reference number: 799920). It is confidential and must not be distributed or copied — either in whole or in part - without our consent. This material is provided for information only and is not intended to offer, solicit, recommend or advise on the purchase or sale of any investment. It should not be used to make investment decisions. This material is not intended for any person in the United States. None of Havelock London's services or related funds is registered under the US Investment Company Act of 1940 or the US Securities Act of 1933. This material is not an offer to sell or solicitation of offers to buy securities or investment services to or from any US person.