April 2023

MARYLEBONE PARTNERS: PORTFOLIO MANAGER COMMENTARY

The First Quarter marked an important landmark for Majedie Investments PLC and - by association - Marylebone Partners LLP. Having assumed the mandate as the Company's new investment manager following the AGM at the end of January, we moved swiftly to implement the move to our distinctive 'liquid endowment' model. We exited legacy positions in two legs (with minimal frictional costs), using proceeds of the first leg to establish our own direct investments, and the second to build allocations to external managers. We had also secured capacity in a number of special investments. By the 1st April, the portfolio was fully invested and now feels like our own. It will take time to build up the special investment component, but in the meantime, we are excited about the opportunity set and differentiated profile of today's investments.

THE OPPORTUNITY AHEAD OF US

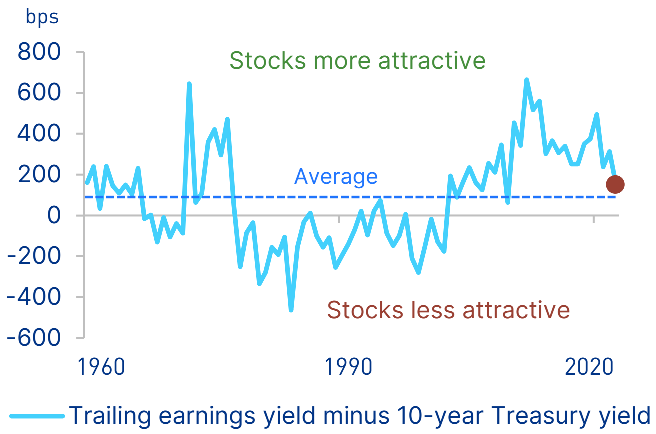
In our opinion, this is an excellent juncture at which to be putting new capital to work. Notwithstanding ongoing tremors from last year's policy tightening, we believe conditions for bottom-up fundamental investing reached a nadir at the end of Q3 2022. Around that time, the collective impact of three macro variables (soaring inflation, the war in Ukraine and China's Zero-COVID policy) began to abate.

We neither expect, nor require, a return to anything resembling the regime that defined the years that preceded COVID-19. More probably, investors will have to navigate rolling mini crises on the economic and geopolitical stage and contend with changeable liquidity in financial markets. Presumably, the neutral level for interest rates will be higher than before. After years of financial repression, there is once again a 'cost of capital' that makes intuitive sense to allocators.

Against such a backdrop, the fortunes of different economies, currencies, industries, and enterprises seem bound to diverge. Performance dispersion between markets - and the individual securities that comprise them - is likely to widen. Consequently, market timing and passive strategies that have worked well in the past may struggle to deliver attractive real returns, whereas the best active managers have a chance to add substantial value.

At an asset-class (*i.e.,* index) level, we struggle to get very bullish towards equities. Consensus earnings forecasts have come down somewhat, but not by enough to fully discount an economic slowdown. Even based on backward-looking earnings yields, the equity risk premium is barely above its long-term average. In the meantime, we see opportunities to earn total returns in the 10-15% range from within other asset classes, such as 'stressed' high-yield credit. This certainly raises the bar for equities. Even so, we continue to source compelling bottom-up stock ideas through our in-house activities and via external managers. Today, inefficiencies exist across such an array of sectors, geographies, and style-factor profiles that it is possible to achieve portfolio balance without diluting return potential.

Difficult to get very bullish about equities



Source: Bloomberg, Yardeni Research

Yet we find compelling and varied bottom-up ideas[i]

Majedie Investments PLC
Five largest direct investments

Position	Listed	Sector	PE	PEG	FCF yld	+/- to Base
Alight Inc.	U.S.	Software	13x	1.8x	4%	+60%
KBR Inc.	U.S.	Govt Servs	17x	0.7x	4%	+44%
Pernod Ricard.	France	Consumer	20x	2.2x	4.5%	+20%
Laboratory Corp	U.S.	Healthcare	13x	1.2x	6%	+45%
Weir Group plc	U.K.	Mining	15x	1.7x	6%	+43%

Source: Marylebone Partners LLP

NOTABLE EVENTS

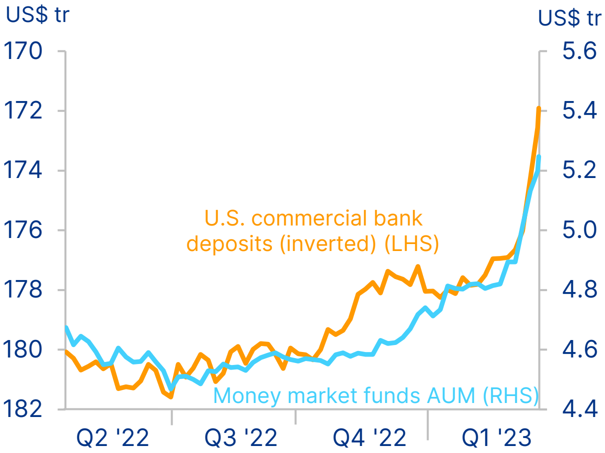
Although the U.K.'s £ 1.5 trillion defined-benefit pension industry had a near-death experience last September, the only mortalities caused by central banks' aggressive tightening have - thus far - been in speculative areas like cryptocurrencies.[ii] Now, more bodies are floating to the surface. In recent weeks, two U.S. financial institutions (Silicon Valley Bank and Signature Bank) were seized by the government and a third (Silvergate Bank) went into voluntary liquidation. A fourth (First Republic Bank) required a US$ 30 billion cash injection and was subsequently subsumed by JPMorgan. The crisis of confidence across the global sector drove Credit Suisse - one of only 30 banks deemed 'systemically important' - into the arms of its rival UBS.

If Credit Suisse's problems were largely self-inflicted, then the demise of the U.S. regional banks can be attributed to rising interest rates. Mark-to-market losses on securities that were bought at much lower yields need not necessarily be problematic for a bank, so long as those assets are held to maturity. However, if depositors flee, the institution can be forced to sell securities at a loss, to meet outflows. Concerns of a liquidity crunch may then trigger a run on the bank, which - in the digital era - takes place almost instantaneously and without friction. Each of the regional banks in question shared characteristics that made them especially vulnerable:

- A concentrated depositor base, to whom the full benefit of recent interest-rate rises had not been passed on.
- A high proportion of deposits that were not covered by government-backed insurance schemes, making their owners understandably flighty.
- Substantial unrealised losses on the bank's 'held to maturity' / 'available for sale' securities portfolio.

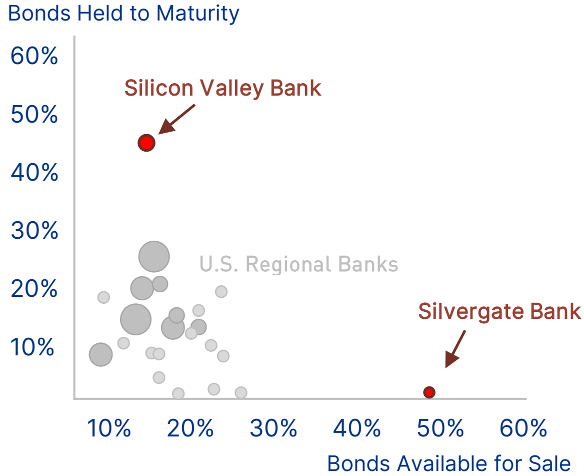
[i] As of 31 March 2023. There is no guarantee that price targets will be achieved.
[ii] When gilt prices fell in response to the U.K. mini-budget, the net asset value of leveraged LDI funds dropped sharply. LDI investments are a hedging product designed to construct a portfolio that replicates a DB scheme's liabilities.

An exodus of bank deposits seeking higher yields (and more security) elsewhere



Source: Bianco Research

SVB and Silvergate Bank were outliers

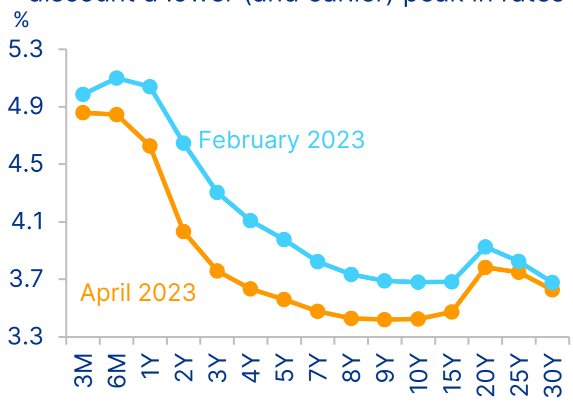


Source: Bloomberg

Because these banks stood out as anomalies, we hope that widespread contagion in the sector can be averted. Nevertheless, this *was* a significant episode that has some important read-throughs for markets, and our own thinking.

First, we expect the Federal Reserve to adopt a less hawkish stance, wary that additional hikes might precipitate more problems in the banking system. This view is already reflected in fixed-income markets, which moved swiftly to anticipate a lower (and earlier) peak in policy rates. The yield curve is now steeply inverted, with the gap between 3-month and 10-year Treasury yields the widest on record. Historically, an inverted yield curve has often preceded an economic recession.

Fixed-income markets moved swiftly to discount a lower (and earlier) peak in rates



Source: The Daily Shot, Bloomberg

Yield-curve inversion often points to a forthcoming recession

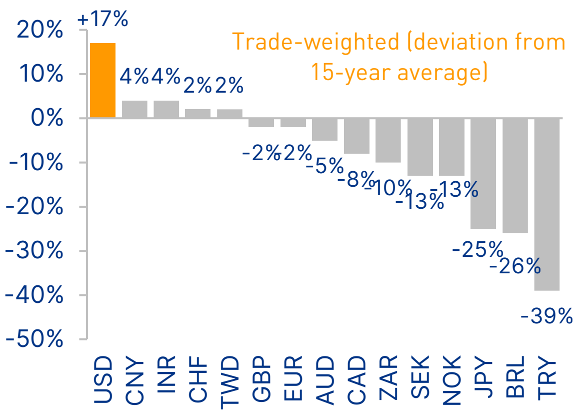
Source: Bloomberg

Second, and by inference, the U.S. Dollar becomes less of a one-way bet. If the tightening cycle is close to a peak in the United States, but rates are still rising elsewhere, then the greenback may lose its status as a haven in difficult times. Given that we intend to asset hedge most of Majedie Investments' non-GBP exposure back to base currency, such a move would have only a limited impact on the Company's Net Asset Value.

Third, a softer dollar, cheaper valuations, a more advanced policy cycle and the stimulus from China's reopening could all argue in favour of emerging markets. In China, economic and political stability are once again paramount, evidenced by an uptick in PMI data and the issuance of credit to finance a new wave of infrastructure spending.

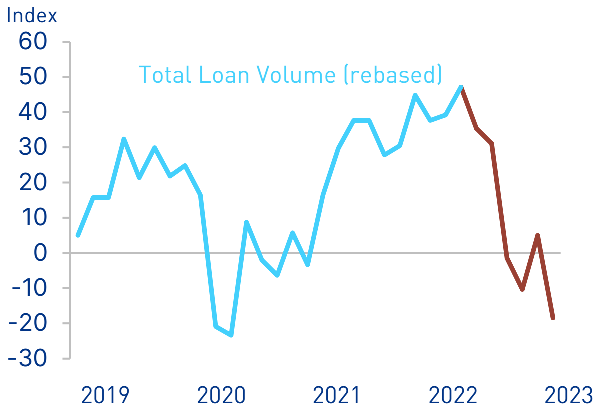
Finally, monetary conditions in the United States are tightening, even in the absence of higher policy rates. U.S. bank lending contracted by an alarming US$ 105 billion in the last two weeks in March (the most on record), an indication of the extent to which the availability of credit will be restricted.[iii] This happens just as the Services component of the economy finally shows signs of slowing. With a credit crunch looming, allocators should be selective when embracing equity risk, whereas the opportunity for stressed / distressed credit strategies is likely to be more abundant.

The U.S. Dollar: not necessarily a haven



Source: JPMorgan

Availability of credit will be tightly restricted



Source: Dallas Federal Reserve

THE NEW PORTFOLIO

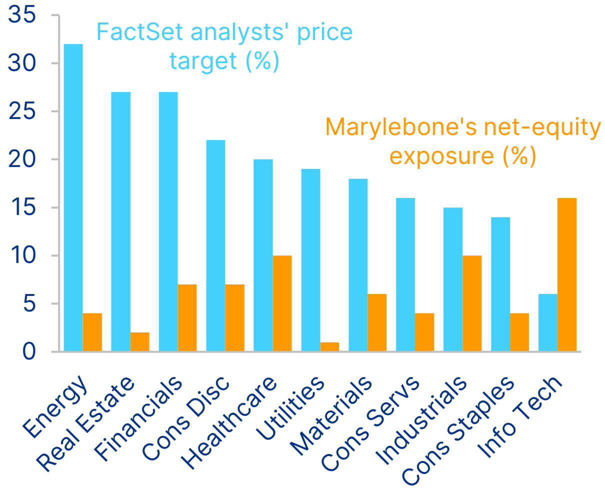
The portfolio's beta-adjusted net exposure stands at 60%, close to what we anticipate will be a long-term average. At these levels, we are confident the Company can achieve its return objectives even without the benefit of rising markets. This is because:

The Equity-centric component of the portfolio is highly idiosyncratic. We focused on bottom-up opportunities, in areas that are non-consensual. We believe they have a much better risk:reward profile than the market as a whole.

Where we are putting capital to work in equities, it tends to be in areas where market expectations are low, and we see unappreciated positive change at an industry and/or security level. This is especially important at a time when the consensus narrative is arguably too sanguine. Our positioning across both direct investments and external managers is mostly in sectors like IT and Industrials, where consensus expectations are lowest, at +6% and +15%, respectively. Conversely, we only have modest exposure to sectors like Energy, Real Estate and Financials, where analysts expect upside of +32%, +27% and +27%, respectively.

[iii] Source: Bloomberg, Federal Reserve.

Majedie's biggest exposures are in areas where consensus expectations are least ambitious



Source: FactSet, Marylebone Partners LLP

Nearly one-third of the new portfolio is allocated to Absolute Return strategies, with a heavy focus on stressed and distressed credit opportunities. With higher interest rates and wider spreads, it should be possible to achieve total returns of 10-15% from this area, with good downside protection.

Alongside these core allocations, we have identified opportunities in Real Assets that can deliver inflation-beating returns whilst providing portfolio balance. These include our investments in Uranium and the broader energy-transition theme.

We continue to find eclectic higher-return potential Special Investments, for which return outcomes should be highly idiosyncratic and not dependent on market direction on anything other than a short-term basis.

Special Investments

The new portfolio features a 10% initial allocation to five Special Investments, with more in the pipeline. Each has been sourced through our proprietary ideas network and offers a return potential of 20% p.a. (or better). These comprise two stressed credit opportunities (higher risk, but higher return in profile) and two activist co-investments in public equities (one in a niche Software business, the other in a Consumer Discretionary business). The final Special Investment is in a completely uncorrelated strategy, akin to factoring, brought to us by a manager based in the U.S. with whom we have a 15-year relationship.

External Managers

With respect to external managers, we secured capacity in 12 exceptional equity-centric funds, representing 40% of initial exposure. We regard these managers as being pre-eminent in specialist areas, as varied as mid-cap Software, CEO-led turnarounds, value-activist situations, Biotech, Scandinavian and other European equities, and China.
To complement these stock pickers, we have built (and expect to add to) specialist credit, with a focus on performing yet 'stressed' opportunities in the United States, Europe and Emerging Markets. Through four different allocations - amounting to 20% of the total - we have targeted situations that are short duration, where risk is mitigated by positioning at the

very top of a company's capital structure. We consider stressed/distressed credit an area of true differentiation for Marylebone Partners and can provide investors in Majedie Investments PLC with access to some of the best practitioners in this very specialist area.

Through an 8% allocation to the other managers, we have built exposure to specific commodities that should benefit from transition away from fossil fuels and towards clean energy. Our thinking here is that secular trends should put a floor under prices for these assets, even if cyclical demand deteriorates. Our primary exposure is to Uranium and Copper, areas where we envisage inflation-beating returns, with considerable upside optionality if specific theses play out as we expect.

Direct Investments

Approximately 18% of the initial portfolio is allocated to a focused sub-portfolio of direct investments in high quality public equities that have survived a rigorous research and selection process. After the widespread dislocations that took place over the past 18 months, we now see interesting opportunities with widely divergent profiles. As the quarter progressed, we trimmed some positions as the rotation into mega-cap quality growth stocks lifted them towards base-case price targets, whilst adding to other (more eclectic) positions where we see greater upside to fair value. At the margin, we are seeing more of the best opportunities outside of the U.S. markets.

SUMMARY

We feel positive about the total-return and alpha-generation potential of the new Majedie Investments portfolio, which combines Special Investments, idiosyncratic direct and external-manager investments in Equity-centric strategies, targeted positioning in Absolute Return strategies (including specialist credit) and Real Assets. The *quid pro quo* of being able to deliver good outcomes in challenging times is that performance may be lumpy, as the aftershocks of last year's dramatic events continue to reverberate through markets. Markets *are* inter-connected and technical factors will have an impact on performance, when measured over shorter periods. We have taken care to avoid the areas where expectations are high, and the possibility of capital loss is under-appreciated. In our opinion, the risks incurred by trying to time every twist and turn are greater than the risk of staying invested in high-quality assets, which should benefit from increasing dispersion.

Marylebone Partners

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