October 2023

MARYLEBONE PARTNERS: PORTFOLIO MANAGER COMMENTARY

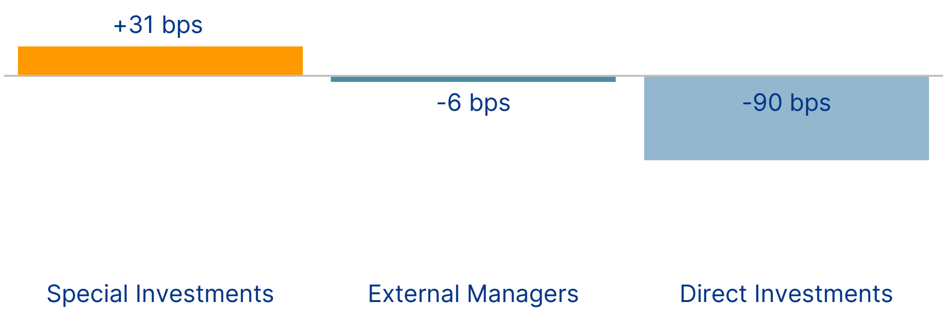
Over the Third Quarter, the Net Asset Value of Majedie Investments plc ('Majedie') fell -1.7%, which brings the financial year-to-date return to +14.1%.

Early in the quarter, investors' spirits were lifted by signs that inflation in the United States was falling while the economy remained resilient, suggesting a soft landing might be within reach. As crude oil rose above US$ 95 a barrel and the U.S. government ramped up its borrowing, this gave way to a sense that interest rates would need to stay 'higher, for longer'.[i] The U.S. fixed-income market priced in a more realistic outlook for 2024, while the yield on the benchmark 10-year Treasury spiked to a 15-year high. In Europe, the ECB hiked, whilst indicating that policy was now sufficiently restrictive.

The 'dis-inversion of yield curves' was just one more narrative, to add to numerous others that have driven price action over the course of 2023. Because Majedie's portfolio is marked-to-market frequently, its monthly net asset value is not immune to gyrations caused by ever-changing sentiment. However - over a more meaningful time horizon - the drivers of its investments are fundamental, idiosyncratic, and not macro-predicated. In this letter, we will explain the critical importance of being able to identify differentiated bottom-up situations in a new regime and share how we have positioned Majedie Investments to take advantage.

Over the quarter, contributions from individual investments more-or-less offset one another. We pared back some outperformers and reallocated to ideas where we see a more attractive risk-reward profile. Consequently, most of the investments that comprise today's portfolio have yet to make a meaningful impact on the bottom line. We believe that these are still the early stages of an alpha-rich period for our strategy.

Contribution by Investment Strategy, Q3 2023



Source: Marylebone Partners LLP. Gross contribution as of 30th September 2023. Excludes contribution from cash, non-core positions and the cost of the debenture.

[i] Source: FT. Trade body Sifma notes that net issuance has so far this year hit $1.8tn, which is already the second-highest tally on record behind the early stages of the pandemic in 2020.

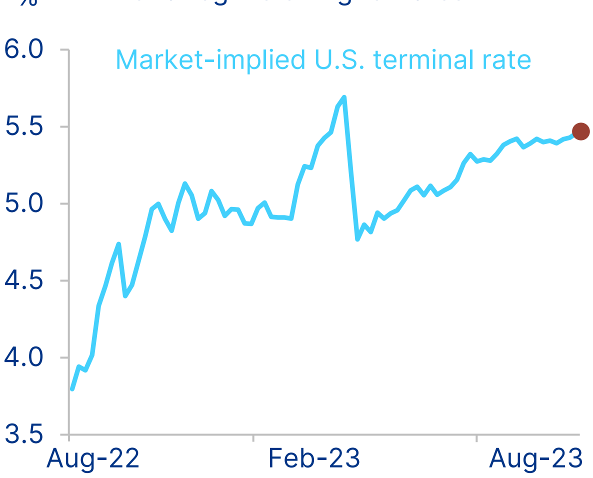
MAJEDIE'S "LIQUID ENDOWMENT" PLAYBOOK

"If this really is a sea change - meaning the investment environment has been fundamentally altered - you shouldn't assume the investment strategies that served you best since 2009 will do so in the years ahead."[ii]

Howard Marks (Oaktree): 'Further Thoughts on Sea Change', October 2023

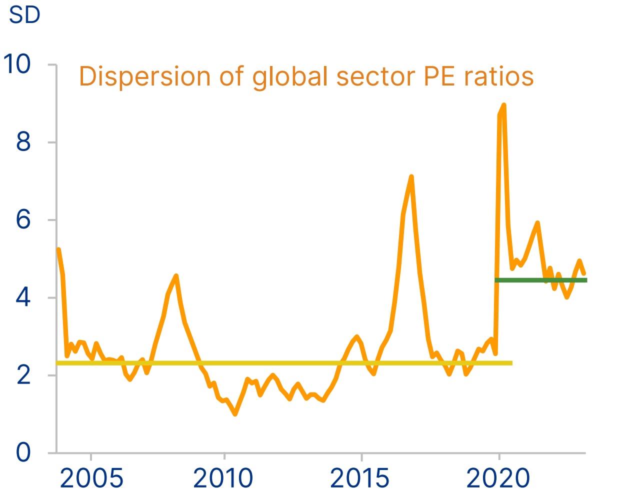
It is hard for us to overstate the significance of the changes that have taken place over the past 18 months, or the positive ramifications for Majedie's "liquid endowment" strategy.[iii] Markets have largely completed a transition away from a regime of falling interest rates, abundant liquidity, and rising asset prices to one that will be characterised by higher interest rates, variable liquidity, and a reversal of the tailwinds upon which many fortunes previously rode. Whilst most allocators seem to acknowledge this transition has taken place, their actions still follow a playbook that was designed for conditions that no longer exist.

What is the right investment playbook for a regime of higher rates...



Source: The Daily Shot, as of September 2023.

...and more fundamental dispersion?



Source: BlackRock Investment Institute, as of October 2023.

In the new paradigm, we intend to draw upon our experience, networks, analytical capabilities, and subjective judgment to identify compelling bottom-up investments in the pursuit of inflation-beating performance for Majedie's shareholders.

We feel positive about the returns that Majedie's portfolio investments might deliver over the next 12-24 months, but also know that its composition will evolve as new opportunities emerge. Ultimately, a shareholder in Majedie Investments is buying into Marylebone Partners' people and its process, which we feel are equipped to take advantage of challenging - yet potentially rewarding - conditions like these.

[ii] We recommend reading Howard Marks' full memo on this subject, which can be accessed here.
[iii] Majedie's "liquid endowment" strategy was implemented by Marylebone Partners in February 2023.

THE PORTFOLIO

The new portfolio is eclectic and focused. It features high-conviction investments, which have varying underlying return drivers. We believe that Majedie's most conservative investments are capable of 8-10% annualised returns over the next few years, while some of the portfolio's more ambitious Special Investments have the potential to deliver annualised returns of 30% or even more. It was simply not possible to achieve such balance whilst also striving for return outcomes of this magnitude, in the latter stages of the pre-COVID era.

Special Investments

Over the past few months, we have received proceeds from **Project Saint**, a co-investment in the public equity of New Relic Inc, when the company agreed to be purchased by a private equity buyer. We also received a partial distribution from **Project Retain** (a factoring strategy) and **Project Bungalow** (an activist co-investment in the public equity of Shake Shack Inc). Developments at other Special Investments have generally been positive and included a favourable outcome for **Project Challenger** (a co-investment in the senior non-preferred bonds of Metrobank plc), when the company successfully recapitalised last month. This opportunity was brought to us by Caius Capital, a stressed/distressed credit manager with deep expertise and pedigree in the European Banks sector. Not only was Caius able to identify and diligence a compelling risk:reward situation prior to investing, but the firm was also instrumental in driving a favourable outcome for senior bondholders during active negotiations with the company's other stakeholders.   Project Challenger exemplifies the benefit of sourcing our Special Investments from trusted partners, who have the resources to defend our interests through their own actions.

One of the best-performing positions this year has been the Special Investment in **Uranium.** Since we at Marylebone Partners first invested in the commodity in 2017, the spot price has risen from below US$ 25 lb to US$ 70 lb. This has been driven by supply cuts amounting to 25% of world production, much tighter inventories, and "*a demand outlook that has far surpassed expectations as policymakers around the world seem to be waking up to the fact that nuclear is clean, safe and reliable*".[iv] The War in Ukraine has exacerbated the shortage, with two-thirds of the world's Uranium supply emanating from the former Soviet bloc. At last, nuclear-fuel buyers at utility companies are signing long-term contracts at much higher prices, the single most important variable for the profitability of the Uranium producers in which we have invested. According to Mike Alkin of Sachem Cove, some 121 million pounds have been contracted in 2023 to date, compared with 70 million over the whole of 2021.

At month-end, we made three new Special Investments, each of which follows a pattern that has worked well for us in the past: a trusted source has identified a public equity, where a specific issue that has weighed on the share price can be solved by their actions.

Project Sherpa is a co-investment in VF Corporation, a company with a portfolio of powerful global brands in attractive growth markets like footwear and active outdoor sports. The Company is primarily a wholesaler and e-commerce business, thus has a history of high return on invested capital and cash flow generation. Engaged Capital, who brought us this idea, has just made public its agenda for positive change, which includes a plan to remove +US$ 300 million of duplicative costs from the business in order to restore margins to historical levels.

[iv] Source: Sachem Cove quarterly letter.

They believe this should enable sustainable growth, freeing up resources to invest further in the Company's largest and most important brands.

Project Cauldron is a co-investment in an enterprise Software company serving a specific industry sector, that has been run for growth, not profitability. The idea sponsor believes that will soon change, making it an attractive candidate for sale to a strategic or private-equity buyer.

Finally, **Project Diameter** is a co-investment in the public equity of Concentrix Corporation, brought to us by Impactive Capital in New York. Concentrix is a Customer Services company whose shares have underperformed amidst a perfect storm of consumer weakness, a recent acquisition, and the potential threat that Artificial Intelligence might pose to its business model. Impactive believes these issues are either overstated or entirely misplaced, and that the company's cash flow and its earnings potential are much better than implied by a single-digit P/E valuation multiple.

We are excited about these new investments and believe they each have the potential to deliver returns that meet or exceed our 20% IRR target.

Direct Investments

We have continued to build the direct investments component of the portfolio, as our team uncovers attractively valued stocks that meet our "Business Quality + Growth" criteria. Our book has a weighted-average upside to base-case fair value of some +40%.

In September, we initiated a position in the common stock of **SS&C Technologies**, a leader in the provision of software-enabled services to investment managers, alternative investment firms, insurance companies, investment advisors, banks, and brokers. SS&C's products include fund administration, portfolio management, accounting, and trading solutions, along with risk management and regulatory compliance. Our research indicates that SS&C can continue to deliver positive top-line growth whilst driving earnings per share at a much higher rate, through a combination of margin expansion and better capital allocation. Currently on a P/E multiple of only 10.0x our forecast of 2024 earnings, we see more than +50% upside to fair value.

We previously owned the shares of **Heineken NV** but exited our position following the Russian invasion of Ukraine, concerned about the impact of rising grain and aluminium input costs. In the intervening period, the company has continued to capitalise on 'premiumisation' trends in the developed world, whilst building scale and local presence in faster-growing markets such as Brazil and Mexico. We re-entered the position last quarter, in anticipation of subsiding input costs and the rollover of the company's hedging programme. As the full benefit of efficiency improvements and price increases become apparent, earnings and cash flow should surprise on the upside. On a P/E multiple of 13.5x our forecast of 2024 earnings and with a Free Cash Flow yield of some 6.5%, we believe the shares represent excellent value.

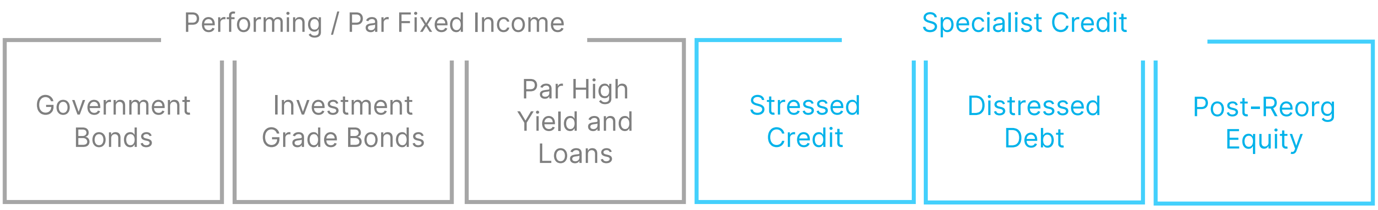
External Managers

During the quarter, we held in-person updates with most of the portfolio's equity-centric external managers, in Europe, Asia, and the United States. During these sessions, we typically go through each manager's largest holdings in detail, calibrating return potential whilst re-underwriting the process and people that are behind the investments. In our judgment, the current high conviction levels amongst our managers are vindicated. Each operates in a specialist sector, region, or with a distinctive style bias, their respective portfolios are full of investments with robust fundamentals and - often - forthcoming catalysts for value realisation.

In this letter, we felt it was worthwhile expanding on our allocations to the portfolio's external managers who have more of an absolute return profile. The outlook for specialist credit (which makes up most of our exposure in this category) is the best we have seen in many years. We have been sourcing, evaluating, and monitoring specialist credit managers since 2002, when we had a front-row seat as the WorldCom and Enron scandals played out. Twenty years later, we have hand-selected some of the world's leading practitioners, to give our clients value-added exposure to a new credit cycle. We see the potential for annualised returns of between 10-15% from these investments.

We rarely choose to participate in the 'par' credit markets because - for a hold-to-maturity investor - the theoretical downside is unlimited, whereas one's upside is constrained to the coupon income received ('carry').[v] Par credit also tends to be more sensitive to interest rates and other macro variables. We prefer to hunt in areas where total returns come from a combination of carry and bond-price appreciation; the parts of the credit market that we favour are short-duration, and our managers can drive successful outcomes through their own actions.

Marylebone Partners favours "specialist credit" to par fixed income



Source: Marylebone Partners.

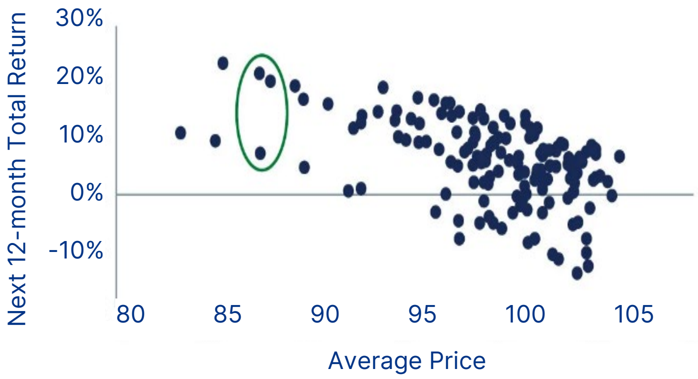
We have focused Majedie's exposure on the two areas on the credit spectrum where we currently see the best risk-adjusted returns.

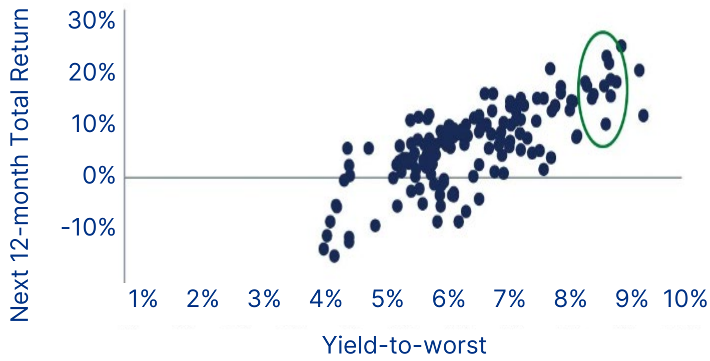
1. Stressed Credit

This is the primary opportunity, at the present time. As a consequence of rising interest rates and wider credit spreads, the yield-to-maturity on the U.S. high-yield bond index is now close to 9%, whilst in Europe it is around 8%. However, with a forthcoming recession quite possible, selectivity is critical because the components of these indices vary in quality and may contain hidden default risk. We are confident that our managers should be able to earn higher all-in returns than the index can provide, with much lower risk and less sensitivity to interest rates.

[v] By 'par' credit, we refer to bonds trading at face value, *i.e.*, at expiry, an owner would expect to have their principal returned, having collected coupon income in the intervening period.

High-yield valuations at current levels have been followed by double-digit returns.

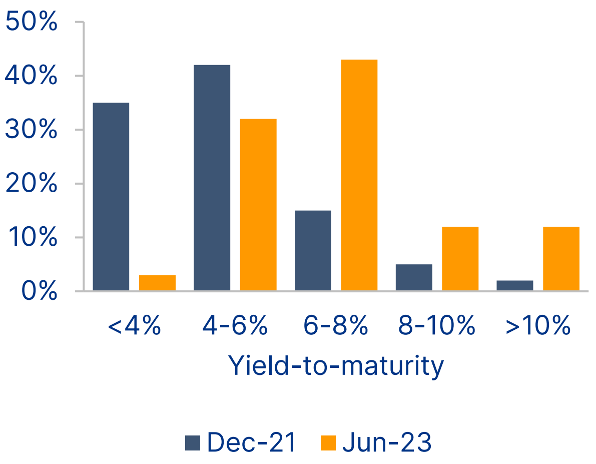




Source: Barings and ICE BofA, as of September 2023.

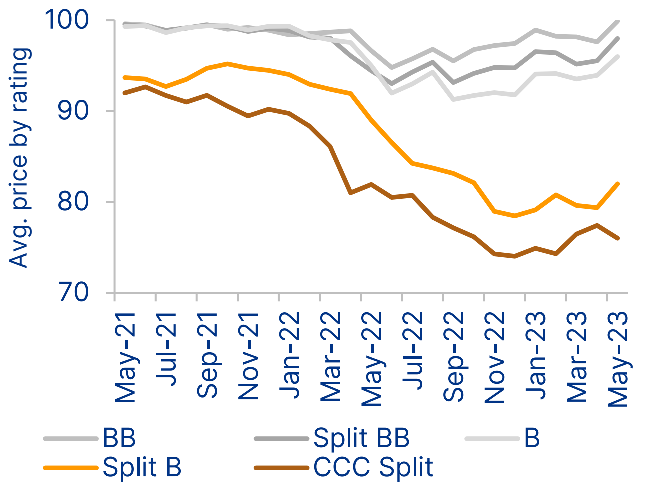
In many cases, the opportunity for our managers can be explained by the irrational behaviour of rules-based participants, such as Collateralised Debt / Loan Obligations (CDOs / CLOs). When a bond is downgraded by a ratings agency, the managers of these securitised structures are often obliged to sell it, without regard for price or creditworthiness, to comply with the collateralisation tests imposed by their mandate. It is partly for this reason that lower-rated bonds and loans have dramatically underperformed higher-rated issues over the past year. Our managers can apply their fundamental skills within these 'stressed' areas to find high-quality credits that have been shunned by traders for non-fundamental reasons.

The pool of high yielding bonds is substantially bigger than 18 months ago



Source: Credit Suisse, as of June 2023.

Rules-based participants have created a huge opportunity in lower-rated issues



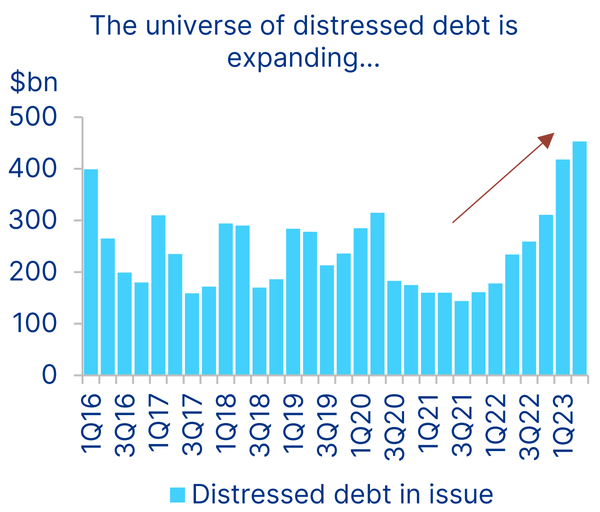
Source: Credit Suisse, as of June 2023.

Majedie's largest allocation within the stressed credit sub-strategy is to **Millstreet Capital**, a Boston-based firm whose principals were previously at Regiment Advisors, a Harvard Management Company spinoff. Millstreet focuses on instruments that are issued by smaller companies, typically of US$ 200m-500m in size. This segment of the credit market is structurally inefficient because research coverage is patchy, and competition is limited (most of the rules-based investors are not active here). In a meeting last month, the Millstreet team highlighted a growing number of Debtor-in-Possession and Term Loan opportunities within the Consumer, Industrials, Healthcare and Energy sectors, which have a yield-to-maturity of 12-15%.[vi] We feel very positive about the prospects for this fund over the next 12-24 months.

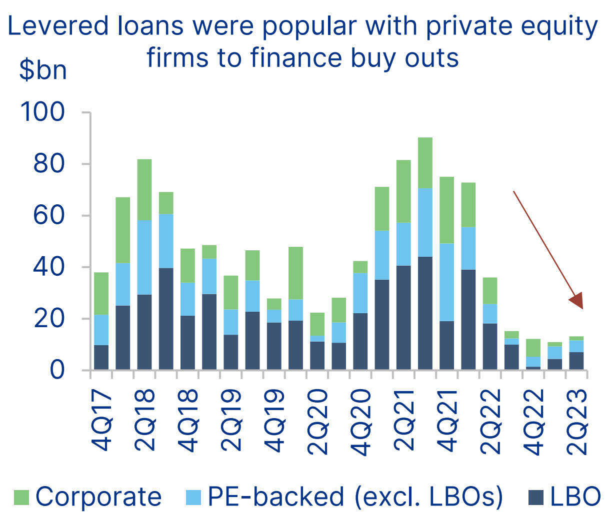
2. Distressed Debt

Whereas stressed credit investing entails buying an out-of-favour bond in the expectation it will continue to pay income to the holder, distressed-debt investing usually involves picking up the pieces, *after* an indebted company has defaulted on its obligations.[vii] By providing capital, negotiating with other stakeholders, and exerting their rights (through the courts, if necessary) the distressed-debt manager helps to restructure a troubled company. Their actions can create equity-like upside, whilst benefitting from the downside protection that is afforded by seniority in the capital structure and first claim on collateral.

Majedie's largest allocation in this area is to **Silver Point Capital**, a multi-billion-dollar distressed specialist. In meetings with the firm's principals in both Greenwich CT and London last quarter, we were enthused by the number of new ideas in the pipeline. Silver Point expects to see a spike in corporate defaults, bankruptcies, and distressed exchanges, as higher rates and a slowing economy take their toll. Its team is honing-in on opportunities in the levered loans area (floating-rate instruments that were typically issued by private-equity firms to fund buyouts, in more benign times). The capital structure of many good companies was created during the era of cheap money. At today's interest rates, their business models cannot sustain the debt burden; hence defaults are on the rise.



Source: Stephens Bank Research, as of July 2023.



Source: PitchBook, as of June 2023.

vi A "Debtor-in-Possession" or "DIP" loan is a form of financing to a troubled company in bankruptcy that allows it to keep operating.

vii By convention, a distressed bond has either defaulted on its obligations to pay a coupon, or is trading at levels that imply it will soon default, *i.e.,* a spread of >1000bps and/or a price below 60% of par.

Distressed funds usually deliver their biggest returns late in a credit cycle, as economies emerge from periods of financial strain. Very often, their managers' greatest challenge is to resist deploying capital too early. It is therefore encouraging to see that Silver Point's current portfolio is anchored in short-duration, process-driven situations that will naturally return cash to their portfolio. Meanwhile, market risks are mitigated through a sophisticated hedging programme, intended to put the manager on the front foot as the environment becomes more opportunity rich. We believe the fund can deliver high single-digit returns in current conditions, and much stronger outcomes over the subsequent 3-5 years.

SUMMARY

When one looks beyond the day-to-day noise of markets, a new market paradigm has clearly begun. The new regime should play to the strengths of investors with an ability to identify bottom-up fundamental return sources, and those who can carve value-added exposure out of asset classes that now offer much better return potential than was conceivable only 18 months ago. The liquid endowment approach that we pursue for Majedie Investments gives its shareholders the full benefit of those capabilities, through a distinctive combination of Special Investments, allocations to exceptional External Managers, and targeted Direct Investments in public equities.

Marylebone Partners

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