February 2024

MARYLEBONE PARTNERS: PORTFOLIO MANAGER COMMENTARY

In the first quarter of the Company's financial year, the Net Asset Value[i] increased by +8.4%.

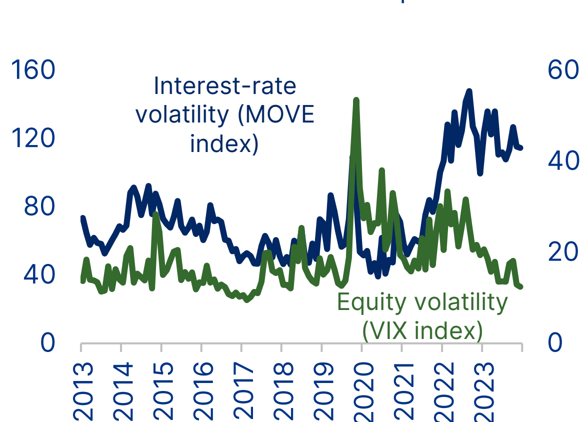
Over the quarter - and for 2023 as whole - global equity indices were led upwards by an expansion in the valuation multiples of a small group of U.S. mega-cap growth stocks. Over the same period, the portfolio's performance was driven primarily by improving fundamentals and positive catalysts at individual positions, with varying profiles.

By replenishing ideas that came to fruition - and maintaining our focus on non-consensual investments - we enter 2024 with a portfolio that is idiosyncratic and still reasonably valued. Although we do not observe mispricings of quite the same magnitude as a year ago, we see plenty of attractive opportunities.

2023 was the year in which markets completed a transition away from a longstanding regime of low interest rates and abundant liquidity. Going forward, we expect to see cycles around higher nominal rates, more variable liquidity conditions, and ongoing geopolitical volatility.

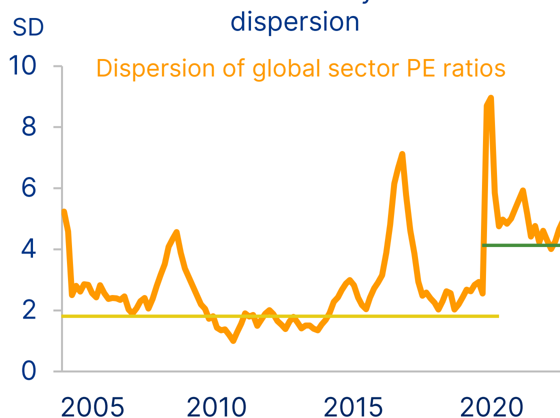
The new regime will present challenges for many allocators because the asset-class relationships they depend upon have broken down. However, conditions for stock picking and credit selection should be favourable. This is because there will be more dispersion between the performance of winners and losers within every asset class, industry, region, and style cohort. We intend to add value for Majedie's shareholders by finding differentiated, bottom-up return sources and limiting the impact of external variables as much as possible. In short, we believe the 'liquid endowment' approach we pursue for Majedie Investments PLC can continue to deliver complementary inflation-beating returns.

Historic asset class relationships are broken



Source: Marylebone Partners, Bloomberg, as of December 2023

More fundamentally-driven dispersion



Source: Blackrock Institute, as of December 2023

[i] As of 31 December 2023. Debt included at fair value.

ATTRIBUTION

Performance for the quarter was positive across all strategies.

Special Investments

Three new Special Investments, '**Project Cauldron**', '**Project Sherpa**' and '**Project Diameter**' were initiated during the quarter and got off to a positive start. Project Cauldron, in particular, appreciated by 40% leading us to trim our position much sooner than we would have anticipated.

Project Uranium, expressed via a holding in the public equity of **Cameco Inc**, continued to perform well as the price of uranium rose sharply amidst a growing recognition that there is insufficient supply to meet demand.

There were no notable detractors.

External Managers

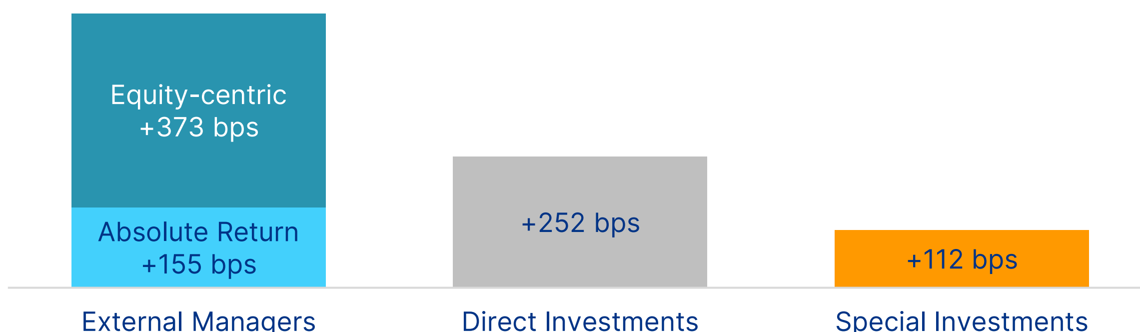
Within the *Equity-centric* category, notable positive contributors included **Paradigm BioCapital** (SMID Biotech), **Praesidium Strategic Software Opportunities Fund**, **Engaged Capital Flagship Fund** (U.S. Activism), **CastleKnight Master Fund** (U.S. Special Situations) and **Helikon Long/Short Equity Fund** (European Special Situations).

Led by its specialist credit allocations, the *Absolute Return* category made solid gains as yields compressed and spreads tightened into year-end. In aggregate, specialist credit managers were on track, with three of the portfolio's four largest allocations prospering through carry and capital appreciation. We were especially encouraged by the performance of the **Contrarian Emerging Markets Fund**. We exited the sole remaining long/short fund within the *Absolute Return* category, and an event-driven manager.

Direct Investments

Wabtec Inc (Industrials), **Sage Group plc** (Software), and **Computacenter plc** (Business Services) performed well, demonstrating their earnings power and resilience.

Attribution by Strategy
1 October 2023 - 31 December 2023



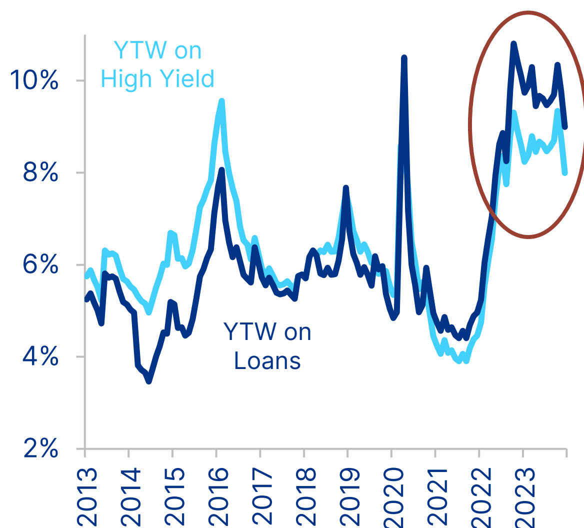
Source: Marylebone Partners, as of December 2023. Shows return on investment portfolio net of all underlying fees / expenses but gross of Investment Manager's fees, expenses and debenture cost.

WHAT NEXT?

Short-term visibility is unlikely to improve, given the extent of economic uncertainty, a record number of political elections due in 2024, and instability in many parts of the world. To contend with this reality, we make conservative assumptions about the economic and market outlook and insist upon a wide margin of safety in our investments. Our central case for the year ahead is that GDP in the developed world will grow, albeit at a modest pace. With inflation coming under control, central-bank policy should become less restrictive, but probably not as swiftly as the market assumes. Nevertheless, as rates fall, many allocators who parked capital in money-market funds and short-duration fixed income could face reinvestment challenges (we believe our *Absolute Return* strategies look attractive by comparison). Asia is a potential wild card in the pack - we recently made research trips to China and Japan in anticipation of new opportunities.

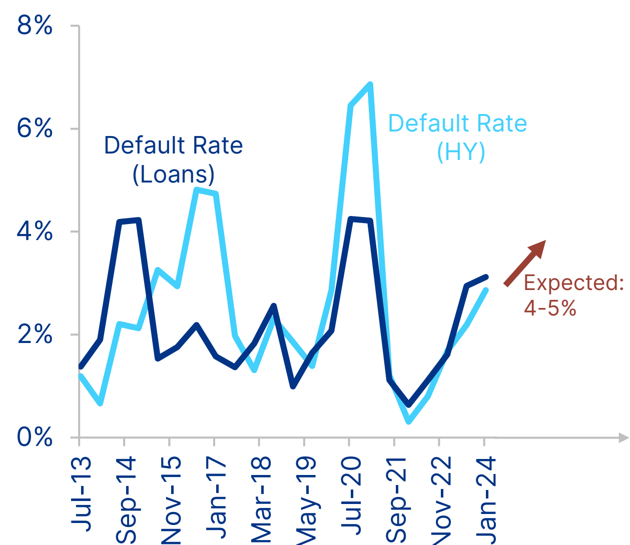
We expect security selection in credit to be as important as it is in equities. In our opinion, this is not the time to take exposure through indices or ETFs. Although all-in yields appear quite attractive, default risk is rising as the economy slows, and many indebted companies face a maturity cliff. Over the next two years, borrowers in the High Yield and Leveraged Loan markets will need to refinance some US$ 175 billion and US $300 billion, respectively, at much higher interest rates than before.[ii]

Yields on credit look fairly attractive...



Source: JP Morgan, as of December 2023.

...but security selection will be critical



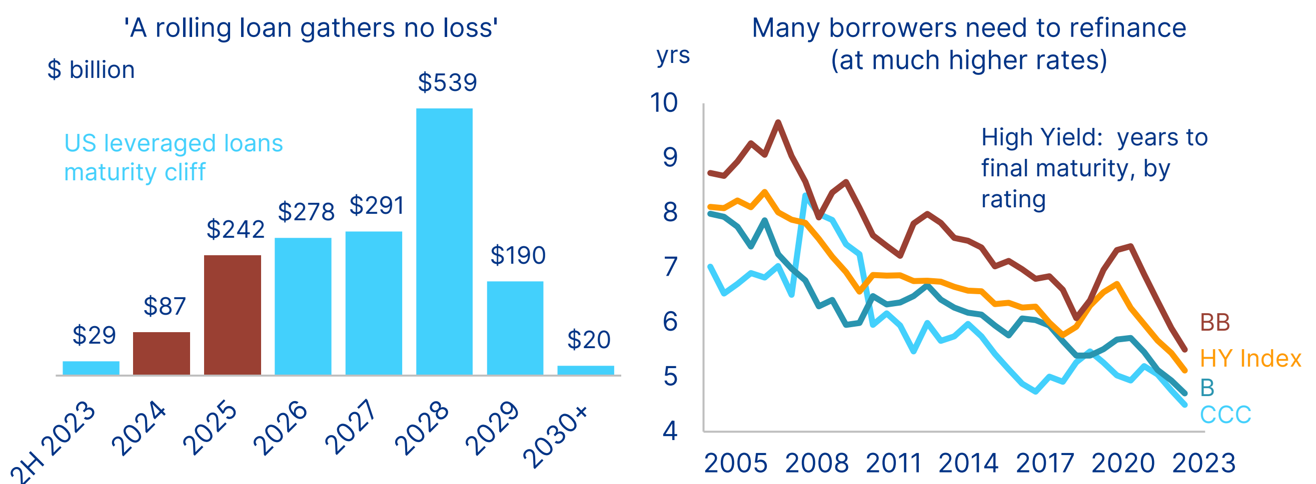
Source: JP Morgan, as of December 2023.

The index averages do not tell an accurate story about the diverging prospects under the surface of credit markets. As of year-end, higher rated BB bonds were trading in the 5th percentile of their long-term valuation history (a mere spread of 205bps over Treasuries) while lower-rated CCC bonds were in the 46th percentile (902 bps). Equivalent loans are trading in the 36th percentile (304bps) and 75th percentile (1305 bps), respectively.[iii]

[ii] Source: JP Morgan.
[iii] Source: Silver Point Capital.

In due course, we expect plenty of situations for distressed-debt investors to pick over, particularly in the leveraged loan area. The ratings composition of the leveraged loan market is lower than ever, and agencies are rapidly downgrading loans. Of the 20% of the loan market that will mature between now and 2026, over two-thirds is rated B or below.

Unlike the 2008 (GFC) and 2020-21 (COVID-19) cycles - when external events precipitated a systemic crisis - we expect more of a '*good company, bad balance sheet*' setup this time around. And the early signs are there, with defaults and distressed exchange volumes last year ranking as the fourth largest on record and bankruptcies at their highest since 2010. The broad economy might be in reasonable shape, but many indebted enterprises are struggling under the weight of capital structures that were conceived in the old regime. In due course, our managers can potentially achieve outsized returns by buying the senior debt of troubled companies at a steep discount to par, before steering them through a bankruptcy or restructuring process.



Source: MUFJ, as of December 2023.

THE PORTFOLIO

Special Investments

We made three new Special Investments over the quarter, which now constitute 10% of the total portfolio. Whilst we are confident this allocation will grow towards our medium-term target of 20%, it is important that we remain highly selective when deploying capital. Our team has rejected seven potential ideas, for every one it has funded.

Our recent co-investments followed a pattern that has been successful for us in the past. In each case, an identifiable 'issue' has weighed heavily on the share price of a publicly listed company, which an investor within our network believes can be addressed through their active engagement.

Project Cauldron is a co-investment in the public equity of Alkami Inc (NASDAQ: ALKT), a specialist software business with a loyal customer base and substantial growth potential. The company delivers mission-critical product to the U.S. Regional Banks industry, with high

customer retention rates and a profitable business model. Brought to us by Dallas-based Scalar Guage, we were presented with an attractive entry point by misplaced concerns about the nature of Alkami's exposure to regional banks, during the sector's mini crisis in mid-2023. Scalar Gauge had identified a pathway to substantial upside within 2-3 years, highlighting a private-equity buyout as the most probable exit route. Since our investment, the stock has performed favourably, hence we have trimmed the position.

The trusted source for **Project Sherpa** was Engaged Capital, an activist investor based in Newport Beach. Project Sherpa is a co-investment in the public equity of VF Corporation (NYSE:VFC), an established consumer products business, with a collection of globally recognised brands including The North Face, Dickies, Timberland and Vans. Under the previous CEO, costs ballooned, capital allocation was poor, and the key brands were neglected. This resulted in poor operating results and weighed heavily on the share price. Engaged Capital has identified an opportunity to improve free cash flow by revitalising core brands, divesting non-core assets, and substantially reducing overheads. Although near-term trading conditions are challenging the next 2-3 years, Engaged sees substantial upside as the business transformation takes place and the shares command a higher valuation multiple.

Project Diameter is a co-investment in Concentrix Corporation (NASDAQ:CNXC), brought to us by Impactive Capital. Concentrix is a market leader in 'customer service experience' (CX) solutions and technology, a steadily growing segment of the business services sector. The business exhibits high customer retention rates, strong returns on capital, low cyclicality, improving operating margins, and economies of scale. The stock had sold off over the prior 18 months due to scepticism about a recent acquisition and a perception that the business is as at risk of disruption by Artificial Intelligence. Impactive believes these concerns are either misplaced or exaggerated, and that an extremely low entry valuation should provide a margin of safety and potential for upside appreciation as the company demonstrates its resilience and earnings power over the years ahead.

External Managers

We have allocated to eight external managers with an equity-centric profile, each specialising in an inefficient sector or region, or operating with a clearly defined style. The managers are characteristically upbeat about their respective portfolios, which have minimal overlap to one another, to our direct investments, or to markets more generally.

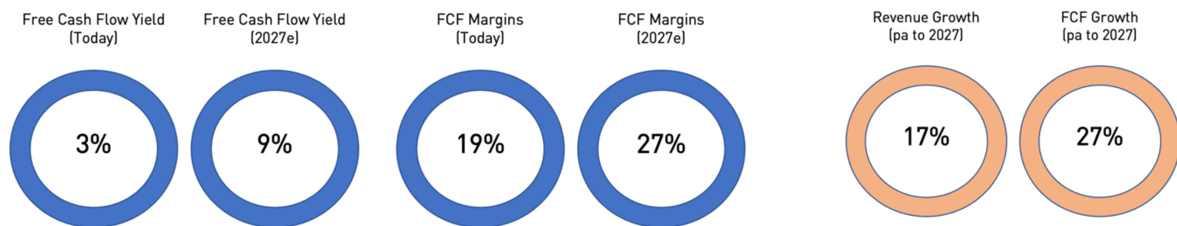
External Manager example: Praesidium Strategic Software Opportunities Fund (PSSO)

At the end of last year, we became anchor investors in a dedicated Software strategy run by Praesidium Investment Management, a boutique in New York whose principals have three decades of experience in the sector. We were involved in negotiating terms for the new fund, which included benchmark-linked performance hurdles. We chose Praesidium for its diligent assessment of business models and a consideration of valuation (not always a major concern for other technology investors). This gave us the confidence to take advantage of an attractive entry point when the shares of many high-quality and profitable software stocks were brutally punished alongside those of more speculative, terminally unprofitable businesses.

The PSSO fund has since performed well, as some of the fear has come out of the sector, but we believe its prospects remain good. In recent months, the manager has bought the shares of dominant software businesses with mission-critical products, on valuations below the net present value of cash flows that the existing customer base will generate. In layman's terms, the current share price neither attributes any value to new customers nor to incremental

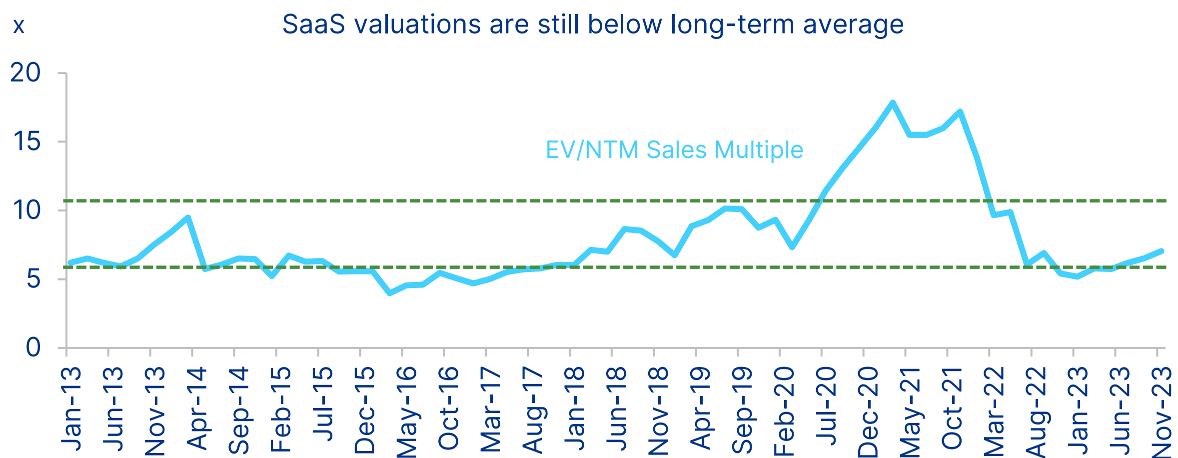
business won from current customers. Anomalies like these have occurred for Praesidium occasionally, but never in such numbers. Invariably, strong performance followed, often led by M&A.

Praesidium's portfolio companies have attractive characteristics



Source: Praesidium Investment Management, as of December 2023.

SaaS valuations are still below long-term average



Source: Morgan Stanley Research, as of December 2023.

Alongside the equity-centric managers, we have allocated to five specialist credit funds. Under prevailing conditions, these managers should be positioned to achieve relatively uncorrelated returns as they await the possibility of full-blown distressed cycle.

The portfolio includes exposure to senior-secured, short-duration high yield bonds where defensive cash flows and low valuations should limit the downside. Our managers seek to mitigate recession risk through their deep credit analysis and (in some cases) by taking short positions in overvalued bonds issued by low-quality, cyclical borrowers now facing refinancing challenges.

Our managers are also active in distressed debt situations. Again, most of the investments that will feature in their portfolios are in the senior-secured bonds of already troubled companies, which have been substantially de-risked by a low entry price and a priority claim on collateral.

Finally, some of our managers invest in the equities of post-reorganisation companies. Often considered the prize for achieving a successful restructuring, post-reorg equities can provide

tremendous upside when re-listed as they attract sell-side coverage and the attention of a new ownership base.

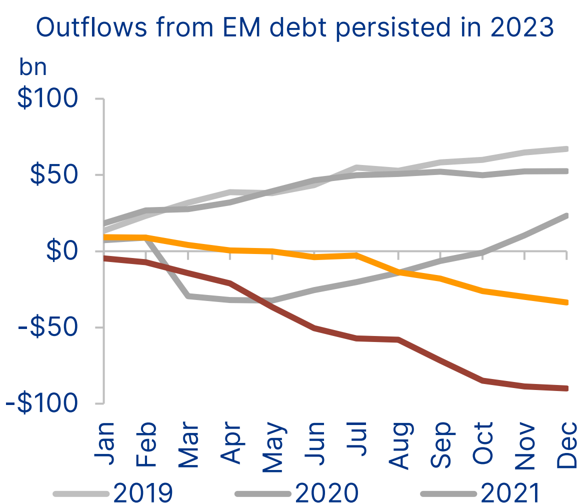
The susceptibility of credit markets to occasional bouts of illiquidity explains why these managers do not apply balance-sheet leverage themselves, and it is appropriate that their funds offer less frequent dealing than an equities strategy. This is the *quid pro quo* of a high-probability 8-10% absolute return, with limited risk of permanent capital loss and low correlation.

External Manager example: Contrarian Emerging Markets Fund

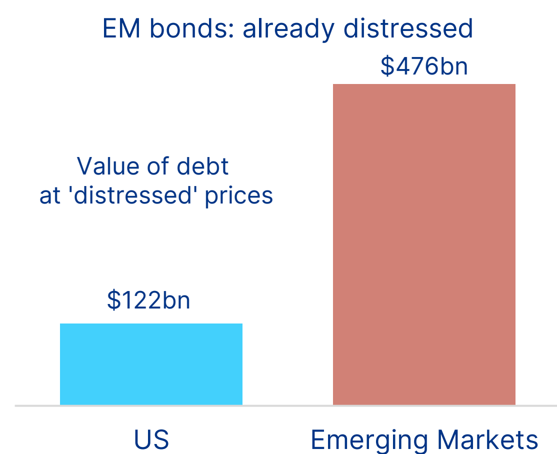
Contrarian Capital Management is a leading distressed-debt manager founded in 1995. The firm's dedicated emerging-market fund specialises in hard-currency bonds protected by the rule of law in Western jurisdictions and deep-value equities backed by strong cash flows. The fund's manager, Xiao Song, went into last year determined to monetise cash returns from several longstanding portfolio holdings, most of which were in Latin America. Strong performance in 2023 is a consequence of those efforts, as a healthy contribution from yield-paying parts of the portfolio augmented gains from process-driven investments.

The lifting of sanctions on US investors' ability to buy Venezuelan bonds provided a catalyst in the second half of last year, with Song and his team actively involved in shaping the sale process for U.S. domiciled collateral held against defaulted obligations. In another positive development, the fund's investments in Argentinean corporate, provincial and government debt rallied in reaction to the election of Javier Milei, while economic conditions eased after last year's droughts and as domestic LNG capacity came onstream. In Brazil, the fund owns the high-yielding equities of cash-generative resource companies with strong balance sheets, including some that Contrarian has guided through a restructuring process.

Song anticipates that one-fifth of his portfolio should benefit from forthcoming catalysts over the next 12-18 months, while the other four-fifths provide a handsome yield-to-maturity of >20% (the 'current' yield is somewhat lower). With four times as much distressed debt on offer in emerging markets than in the United States, Song should be able to reinvest cash proceeds into new opportunities in due course. After years of outflows from the EM debt markets, Contrarian faces limited competition as a discriminating capital provider.



Source: JP Morgan, as of December 2023.



Source: JP Morgan, as of December 2023

Direct Investments

We have allocated 23% of the overall portfolio to direct investments in public equities, researched and selected by our in-house team. As with all our investments, these holdings are non-consensual: of the 30 largest components of the MSCI ACWI index, we own only one (UnitedHealth Group Inc).

Our selection has a bias towards mid-cap stocks (reflecting where we find the best value at present) and many of the team's recent ideas are being found outside of the U.S. markets. We observe that companies of comparable quality tend to command lower valuations when listed in Europe or our home market of the U.K.

Direct Investments example: Computacenter plc

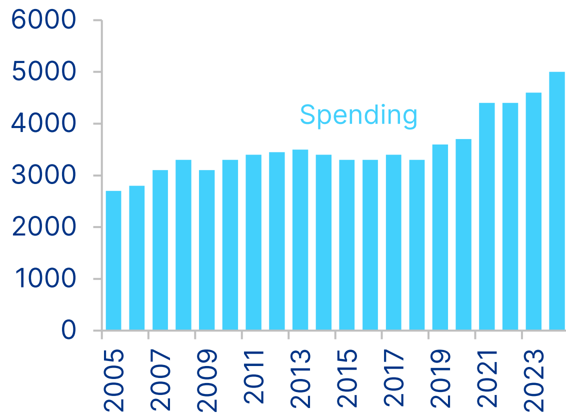
Computacenter plc is a UK-listed company with a £ 3.2 billion market capitalisation, whose primary activity is to act as a Value-Added Reseller ('VAR') of IT equipment and infrastructure to a corporate client base. The company operates in one of the least glamorous areas of the tech ecosystem, which makes it easy for investors to overlook the underlying strength and quality of the business. With high barriers to entry and excellent cash generation, we see the shares as a low-risk way to participate in the secular growth and increasing complexity of IT spending.

Computacenter adds value as a 'middleman' between technology vendors and enterprise-level customers. From the vendor's perspective, the company acts as an outsourced sales force, providing them with a recurring stream of high-quality business. Meanwhile, Computacenter makes itself indispensable to enterprises as a single point for procurement, advising on strategy, and sometimes embedding these customers' IT infrastructure into its own operations. As a market leader in the UK and Europe, Computacenter's scale gives it a competitive advantage in a fragmented industry.

The company has three smaller operating divisions. The firm implements Technology Sourcing projects on a cost-plus basis. These contracts can be low-margin but have a minimal working capital requirement, and relationships here can lead to lucrative cross-selling opportunities. A Professional Services segment serves as a consulting arm for enterprise and public-sector clients. Finally, a Managed Services segment provides a helpdesk through which Computacenter supports its all-important customers. These service contracts are high-margin and long-tenured.

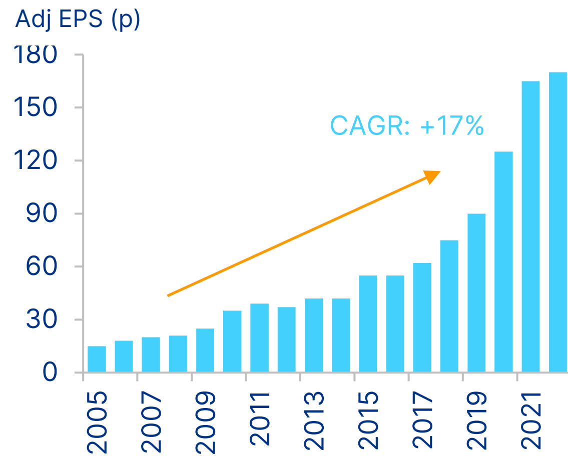
The company has proven itself to be highly cash-generative over numerous business cycles. Through organic growth, judicious acquisitions, and buybacks, Computacenter's earnings-per-share have grown at an impressive +17% compound rate over nearly two decades. On a P/E of only 13.6x our estimate of next year's earnings, and with more than 12% of its market capitalisation in cash, we see the shares as significantly undervalued.

Global IT spending continues to grow…



Source: Statista, as of December 2023

…driving impressive earnings growth for CCC



Source: FactSet, as of December 2023.

SUMMARY

We are pleased with the balance and composition of the portfolio, and the way in which it performed in the First Quarter. At roughly 10% of NAV, cash levels are somewhat higher than we would expect over the medium-term, which reflects our discipline when putting capital to work, especially in direct investments. Whilst some of the fear has come out of markets, the outlook for our strategy remains favourable. A more discerning market environment, marked by greater price dispersion, should play to our strengths.

Marylebone Partners

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