April 2025

MARYLEBONE PARTNERS PORTFOLIO MANAGER COMMENTARY

The NAV declined by -2.1% over the second quarter of the Company's financial year, a period marked by a series of adverse geopolitical, economic, and financial developments.[i]

With markets now in the grip of a trade war and allocators contending with the prospect of a global recession, the tectonic plates are shifting in a way that could redefine commerce and financial markets for a generation. These are uncomfortable times for many investors. The established rules of global trade have been cast aside, making it exceptionally difficult to assess the prospects for economies and individual companies. Markets do not like uncertainty, and rarely has there been more uncertainty than today.

In our opinion, the best way to capitalise on the opportunities that will be created during this period of flux is to invest with discipline and require a margin of safety. This is one of the reasons that, at quarter end, we repaid the debenture in full, with no disruption to the integrity of the portfolio. We do not believe that structural leverage is either required or appropriate in our pursuit of inflation beating total returns. By repaying the debenture, we will also save shareholders approximately 100bps per annum in interest charges.[ii]   The cash weighting in the portfolio has fallen proportionately.

We have anchored the portfolio in bottom-up ideas sourced from less-crowded areas, where fundamentals are sound and have room to exceed expectations. Equities remain central to our strategy and, as liquid assets, they experience price fluctuations. That said, we believe the portfolio is well-positioned, requiring no meaningful adjustments at this time.

ATTRIBUTION

In light of the turbulence across equity markets, widening credit spreads, and heightened volatility in currencies and government bonds, performance over the quarter can be viewed as acceptable.

[i] As of 31st March 2025. Debt included at fair value. Past performance is no guarantee of future performance. Returns are not guaranteed.
[ii] We expect to have a revolving credit facility in place, shortly, to provide liquidity when necessary and allow us to be fully invested.

Gross contribution by strategy
1 January 2025 - 31 March 2025

Source: Marylebone Partners LLP. Gross contribution as of 31st March 2025. Shows return on investment portfolio net of all underlying fees / expenses but gross of the Investment Manager's fees, expenses, and debenture cost.

Special Investments

Performance of Special Investments was mixed. Several positions recovered strongly from a weak Q4 2024, with idiosyncratic factors contributing to returns, while others were the subject of largely sentiment driven selling. We received the proceeds from two Special Investments and made three new allocations.

External Managers

External Managers with exposure to European and Chinese equities made gains. However, the handful of US-based specialist equities managers was negatively impacted when air was sucked from their respective areas towards quarter end.

Specialist Credit managers with an absolute return profile built on prior gains and protected capital well as greater risk aversion set in.

Direct Investments

The direct investments component was effectively flat, benefiting from its deliberate tilt towards international markets and away from US-listed momentum stocks. Several direct holdings appreciated during earnings season as results showed that our theses were on track. Our position in copper stocks (which we classify within this category) detracted from returns as tariffs and growth concerns weighed on sentiment.

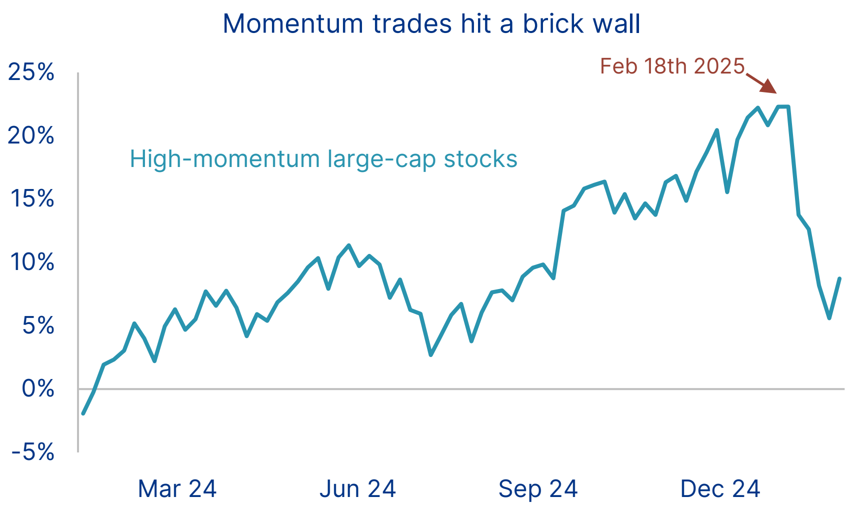
REVIEW OF MARKETS

The optimism that lifted US equity markets following Donald Trump's election evaporated since his inauguration. A bullish mood, predicated on the promise of tax cuts, deregulation, and cheaper energy reversed as the new President imposed tariffs on Mexico, Canada, and China. We now know this was only a precursor to the onslaught on April 3rd, which has sent shockwaves through the global economy and financial markets.

Source: LSEG Data & Analytics. As of April 2025.

Two further developments combined to create unease, and accelerate a rotation out of US assets.

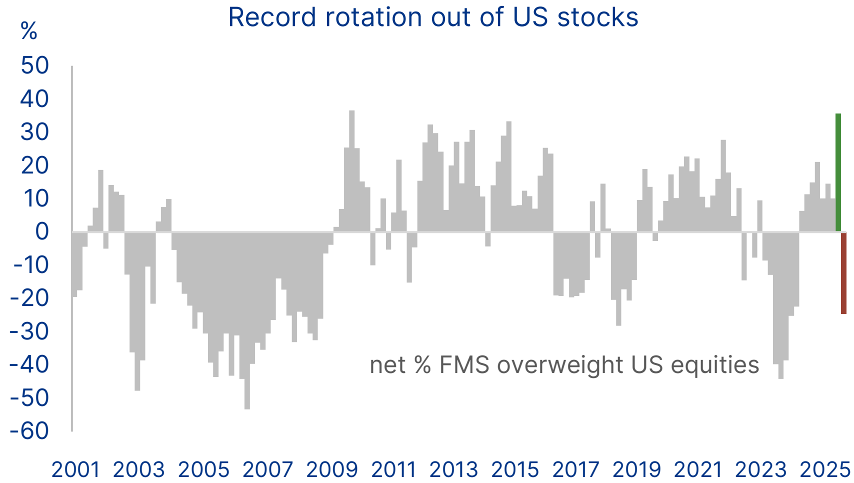
First, threats emerged to the presumed supremacy of America's technology giants. In January, the Chinese AI startup DeepSeek unveiled its R1 large-language model, which matched the performance of leading US players at a fraction of the cost. Nvidia saw US$ 590 billion wiped from its value in a single day. Later in the quarter, Chinese electric vehicle manufacturer BYD unveiled a new battery capable of delivering 250 miles of range with only five minutes of charging, sparking a notable decline in Tesla's stock.



Source: Empirical Research Partners Analysis. As of March 2025.

Second, the new administration's startling treatment of its NATO allies and public rebuke of Ukraine prompted an uncharacteristically swift and convincing policy response from Europe. In a marked departure from its traditionally conservative financial approach, Germany enacted fiscal policy reforms when Chancellor-elect Friedrich Merz secured borrowing for investments of up to €1 trillion in the military and a special fund for infrastructure.

Collectively, these events precipitated the largest quarterly underperformance of US stocks since 1987.[iii] The S&P 500 fell by -5% and the NASDAQ by -10%, with the Mag7 plunging by -15%, on average. Meanwhile, European bourses received their second largest inflows in a quarter of a century.[iv] China's stock market gained by +20%.



Source: BofA Global Fund Manager Survey. As of March 2025.

Transatlantic fortunes also diverged in the fixed-income markets. The yield on a long-dated US Treasury dropped towards 4% as traders inferred that tariffs would increase the probability of stagflation.[v] In contrast, yields on German Bunds rose as the government announced its spending plans. Recession fears also crept into the US corporate credit markets, with spreads widening to the highest levels in six months.

The ICE US Dollar index weakened by -4%. Global allocators, including central banks, are reassessing their optimal currency mix amid heightened policy volatility and a growing US budget deficit.

The price of a barrel of crude oil dropped, whereas precious metals rallied sharply. Gold reached its highest levels since 1986, perceived as a haven as the Dollar lost its lustre.

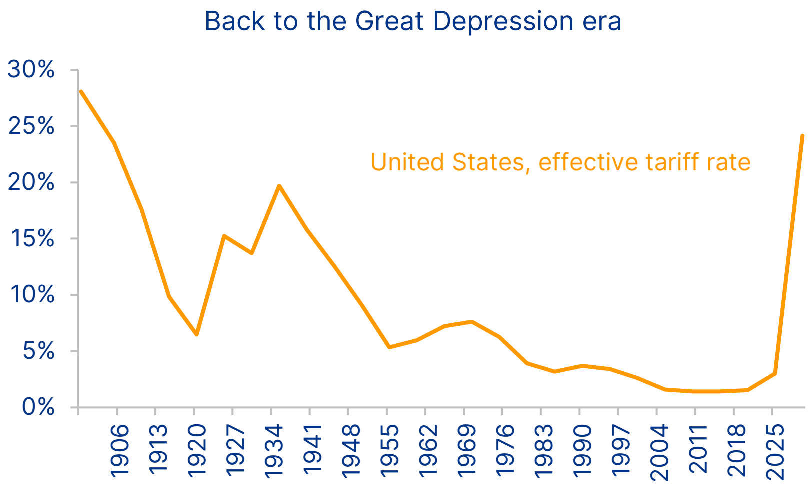
OUTLOOK

The second Trump administration believes that America's medium-term prosperity depends on reducing the federal deficit and lowering the national debt as a share of GDP. Alongside efforts to slash government spending, a cornerstone of its economic policy is the imposition of tariffs on trading partners, whom the President and his advisors believe have treated the US unfairly.

[iii] Source: MarketWatch.
[iv] BofA Global Research.
[v] Source: Reuters. Yields have subsequently risen again as traders dumped Treasuries.

As tends to be the case with Trump, there is a kernel of intuitive logic to his actions. The instinct that persistent fiscal imbalances pose a long-term threat to prosperity is not unfounded. However, by upending the global trading system and traumatising the domestic economy, the manner of his actions is potentially damaging and counter-productive.

Even before 'Liberation Day', the new administration's policies were hurting business sentiment and making long-term planning challenging for companies. M&A activity stalled, and capital expenditure decisions put on hold. US consumer confidence wobbled, with expectations dropping well below the threshold that usually signals a recession ahead.[vi]



Source: Evercore ISI; The Budget Lab at Yale. As of March 2025.

What's most unsettling for markets is that a self-inflicted slowdown may be accompanied by resurgence of inflation.[vii] JPMorgan economists had projected that tariffs will result in a full-year GDP decline of -0.3%, down from an earlier estimate of +1.3%, and they put the odds of a global recession at 60%. Following Trump's announcement of a 90-day pause for 'non-retaliatory' countries, those projections will presumably have to be revisited once again.

So, what happens next? Aside from the daily tariff circus, trouble is brewing between Trump and Fed Chair Jerome Powell, who will demur from easing when inflation is on the rise. We also expect Congress to enact fiscal measures in due course, to mitigate the impact of tariffs on voters' pockets before the midterm elections at the end of 2026.

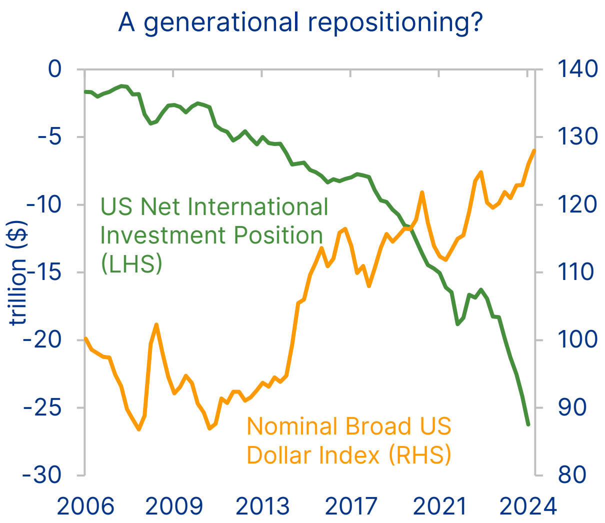
Over the medium-term, the MAGA presidency may (ironically) have galvanised the other G7 countries into focusing on their shared priorities such as security, industry and trade. Europe, especially Germany, is meanwhile considering stimulus actions of its own. The ECB and BoE have more scope to ease because strength in their currencies is disinflationary at the margin.

Although - at the time of writing - there is some respite following the announcement of a pause, we see recent developments as negative for risk assets. They do nothing to change our view that the best long-term opportunities are in some of the overlooked, out-of-consensus areas that already feature prominently in our portfolio. Many of these reside outside of the United States.

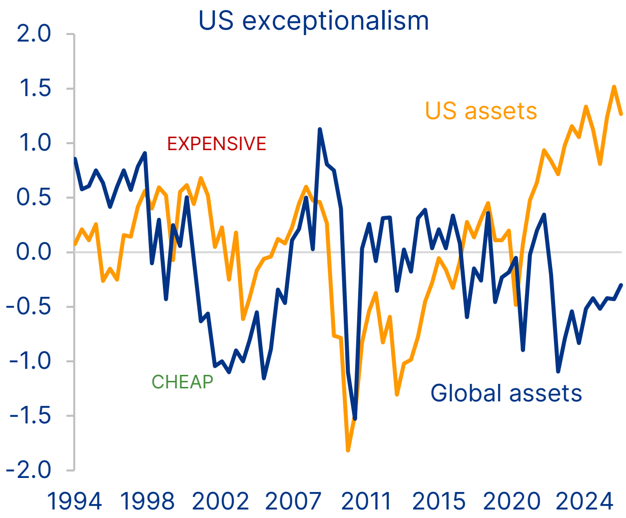
[vi] Source: the Conference Board's Expectations index, which dropped 9.6 points to 65.2, the lowest level in 12 years.
[vii] Treasury Secretary Scott Bessent does not concur, seeing them as a 'one time price adjustment'.

While Trump sees the longstanding trade deficits as symptomatic of an abusive relationship, the global flow of capital has been hugely beneficial to the United States over many years. Since the Global Financial Crisis, investors in Europe, the U.K., Japan, and Canada have bought substantially more US assets than Americans have invested abroad. Consequently, the US Net International Investment Position (NIIP) has widened from -$2.6 trillion to -$23.6 trillion since 2009, while the dollar index has risen from 93 to 121.[viii]

Previously, we highlighted the stretched valuations of many US financial assets, a result of America's prolonged economic and market outperformance, as well as the dominance of a handful of expensive mega-cap growth stocks within the market-cap-weighted indices. Even after the recent rout, US stocks appear relatively expensive because the outlook for their earnings has deteriorated alongside falling share prices. Regardless of whether the Trump administration is following its usual tactic of taking an aggressive opening posture to negotiate from a position of strength, lasting damage has been done.



Source: Board of Governors of the Federal Reserve System (US). As of March 2025.

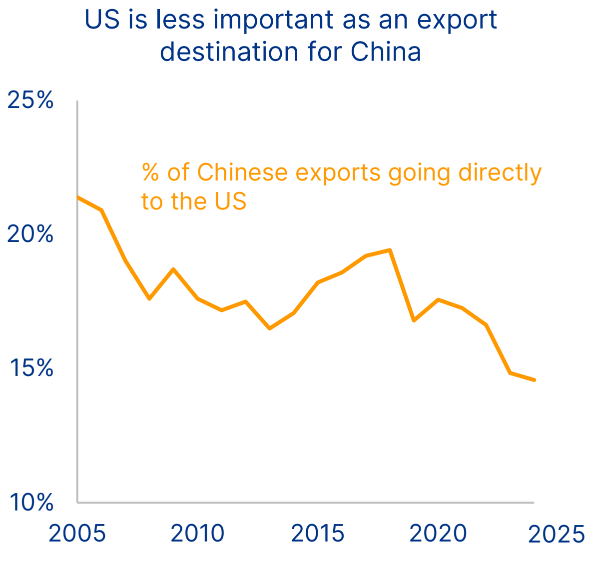


Source: Topdown Charts, as of March 2025. Value measure incorporates Stocks, HY Credit, DXY, Housing, & Treasuries.

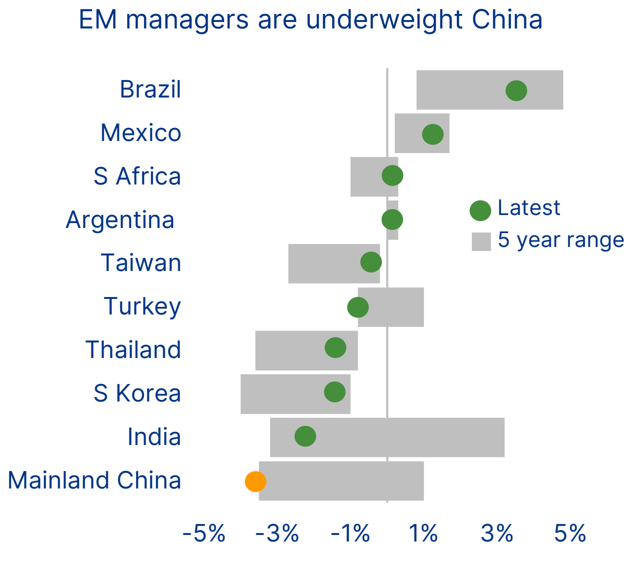
China has some room to manoeuvre. Roughly 20% of its GDP comes from exports, so 65% tariffs will undoubtedly hurt. However, the US takes only 15% of China's exports. Importantly, we expect stimulus to ramp-up following last month's Twin Sessions, at which a package was announced that included a higher budget deficit (4% of GDP), 1.3 trillion Yuan in special treasury bonds, 4.4 trillion in local government bonds, and 500 billion for bank recapitalisation to support infrastructure, public services, and economic stability. For now, fiscal stimulus is preferred to a destabilising outright currency depreciation, especially as China seeks to build new regional trading alliances.

Meanwhile, last year's measures are gaining some traction. Funds raised by real estate developers have turned positive, and new home sales in Tier-1 cities rose by +20% year-over-year. The latest PMI showed that factory orders expanded, suggesting exports were resilient in the face of initial tariffs. If only a portion of China's vast domestic savings is channelled into consumption and equities, it would have major positive effects on a market where valuations are depressed, and allocators are underweight. There is no change to our (selectively) constructive stance on Chinese equities.

[viii] Source; 13D Research.



Source: China's General Administration of Customs. As of March 2025.



Source: HSBC, GEMs stock positioning. Q4 2024.

THE PORTFOLIO

We are satisfied with the overall positioning of the portfolio, which we feel strikes a balance between discipline and ambition.

This is a good juncture to remind shareholders of our policy on currencies. Except for Special Investments (which are denominated in various currencies) we seek to mitigate the potential impact of currency fluctuations by using forwards to asset hedge non-GBP assets back into Majedie's base currency of Pounds Sterling. This has been helpful in limiting the impact of recent dollar weakness on the sterling NAV.

Of the three areas of investment opportunity that we've previously highlighted across the portfolio - international equities, certain commodities, and US midcaps - it is primarily in the latter where we are re-underwriting our exposure, based on downgraded assumptions about the operating outlook.

The US comprises nearly two-thirds of the MSCI All Countries World Index but makes up roughly 40% of Majedie's look-though exposure to equities. Moreover, its composition differs significantly from the index, whose ten largest constituents are mega-cap technology and semiconductor companies. The US stocks we own are primarily beaten-down mid-cap names, across various sectors.

Notably, every position in our portfolio has been selected on its bottom-up merits. While we are always 'macro aware,' we never predicate an ownership thesis on a top-down view. This is why we believe the portfolio has the potential to deliver absolute returns, even assuming the broader markets remain challenging.

In recognition of an evolving dynamic, we modestly reduced our exposure to economically sensitive equities in the US last quarter while slightly paring back our specialist credit holdings as spreads tightened.

Special Investments

Investments within the category have made progress overall. Highlights included gains for Portillo's (**Project Wrigley**), CVS Health (**Project Senior**), and Concentrix (**Project Diameter**), each driven by solid fundamentals and positive strategic developments. The main detractors were VF Corporation (**Project Sherpa**) whose investor update disappointed amidst tariff concerns and FTAI Infrastructure (**Project Fortress**), where a weaker quarter at Transtar offset otherwise steady results.

We received additional proceeds from **Project Retain** (tax-credit factoring strategy) and a partial payment from **Project Wrigley** (Portillo's Inc).

We made three new special investments over the quarter:

Project Galicia is a litigation finance opportunity brought to us by Bow Street Capital, whose Transatlantis platform seeks to pursue claims against Spanish banks and retailers who have issued credit cards at either usurious rates or without meeting transparency obligations. The situation has limited jurisprudence or credit risk, and we believe it can deliver very attractive IRRs with zero correlation to financial markets.

Project Philadelphia marks JB Investments' first special purpose vehicle (SPV) in five years. Brian Riley's previous six thematic campaigns have achieved outstanding returns, achieving a multiple on invested capital. His latest opportunity targets a sector undergoing structural change, a hallmark of his past successes. As with his earlier plays, the thesis centres on a *catastrophic exit of supply*, where distressed, high-cost producers are forced out, setting the stage for a price recovery that benefits the more resilient survivors. The specific sector and underlying holdings are likely to remain confidential for the foreseeable future.

Project Zeno is a co-investment in Bank of Cyprus Holdings (BOCH), a healthy, profitable, and over-capitalised European bank. Led by major shareholder Caius Capital, the strategy targets the expected release of excess capital - about 20% of BOCH's market cap - via increased dividends or share buybacks driven by shareholder engagement. This is expected to unlock value and re-rate the stock.

External Managers

We did not make significant changes to the external manager component over the quarter.

Of the specialist equities funds, we trimmed back some positions on a pro-rata basis in anticipation of the repayment of the debenture at quarter end. We also pared back our exposure to specialist credit managers as spreads tightened to less attractive levels.

We expect to fund one new investment, in a long-only pan Asian manager, next month.

Direct Investments

We modestly reduced our exposure to more economically sensitive equities (e.g. **Wabtec Corp**) and sold two positions on thesis break (**Basic-Fit NV** and **Evolent Health**). We continue to focus the sub-portfolio on our most differentiated ideas with the best return potential per unit of risk.

We used tariff-related volatility and widespread negativity about the outlook for the automotive industry to initiate a new position in **Stabilus SE**, at what we believe to be an attractive entry point. Stabilus is a global leader in control solutions for a range of industries including

Automotive, Aerospace and Industrial applications. Our thesis centres on the non-consensual belief that Stabilus is poised for topline growth driven by recovery in certain markets and new product adoption. The market underestimates recovery potential due to better pricing, higher-margin products, and operational efficiencies. A shift in business mix towards industrials and higher-quality offerings is expected to support a re-rating from an extremely low valuation multiple.

SUMMARY

This market crisis is unlike others we've seen in our careers. It is neither systemic (as in the 2000 Dotcom bubble, the 2008 Global Financial Crisis, or the 2010 Eurozone Debt Crisis) nor is it external in nature (1997 Asian Financial Crisis, the 1998 Russian Crisis, or the COVID-19 pandemic). This time around, the damage is self-inflicted.

In theory, a self-made crisis is easier to reverse and - in the past few days - the Trump administration has shown a willingness to change course, perhaps a tacit acceptance that the capital markets *are* important, and the Federal Reserve has limited room to act. Nevertheless, we expect more volatility over the months ahead, which will require patience.

If markets fall further from here, it will most likely be because downward revisions to earnings combine with a contraction in valuation multiples. This seems more likely in US markets than elsewhere.

All market crises share one trait: indiscriminate behaviour. Without fail, that creates opportunities for disciplined, fundamentals-based investors. When the time comes, we are well-placed to act.

In the meantime, the portfolio is well-diversified across equities, specialist credit, and commodities. Our investments sit on reasonable valuations, with resilient cash flows and strong balance sheets. Portfolio liquidity is good, providing us with the flexibility to reallocate as new ideas emerge. For now, our focus remains on capital preservation until visibility improves.

Marylebone Partners

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