

Annual Review: 2022

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Contents

Introduction	3
Fund Positioning	4
Investment Results	8

Introduction

Nigel and I use the fund to manage our capital. We think of the other fund investors as people that are investing alongside us.

The fund is 78% invested. There are 3 key positions:

- 1) 27% of the fund is invested in 4 mid/small cap European and UK based industrial businesses. (Eurokai, Sto SE, Ponsse, Rotork Plc). These businesses are highly cash generative, internally funded, have significant re-investment opportunities, family controlled (ex Rotork) and carry either net cash or are modestly geared. Each have operationally performed well over the past year. Day to day the macro risks feel high. We are excited and optimistic about the long-term prospects for each of these investments.
- 2) 22% of the fund is invested in 5 US based electric utilities. We view each of these businesses as well positioned to benefit increasingly from the changes occurring in the electricity industry.
- 3) 22% of the fund is in AUD cash. A number of the fund's investments are concentrated, reasonably illiquid and largely unknown. These characteristics are likely to cause the fund's NAV to be more volatile than the invested position suggests. The cash balance provides flexibility to increase current or to add new investments as we identify opportunities.

There are no catalysts or identifiable events that we are hanging out for. Our mindset considering the fund's investments is to "do more of the same"; fund growth internally, aggressively pursue internal investment opportunities, focus on operational execution, run balance sheets overly conservatively. This is not exciting stuff day to day but each investment does have characteristics that provide the opportunity to deliver attractive, real, long-term returns.

Please contact us if you would like to discuss our activities in detail.

Miles, Nigel & Toby

Fund Positioning

	Total	
	%	no/.
Tenet - Electric Utilities (US)	22	5
Eurokai	11	1
STO SE	7	1
Tower Ltd	6	1
Ponsse OYJ	6	1
Qube Holdings Ltd	4	1
Fedex Corp	4	1
Rotork Plc	4	1
Origin Energy Inc	3	1
Nihon Kohden Corp	3	1
Asics Corp	3	1
Intel Corp	2	1
Ferguson Plc	2	1
Topps Tiles	2	1
Gross long	78	18
Gross short		
Gross invested position	78	18
Derivatives (annual cost)	1	1
Notes: Totals may not add due to rounding. Data as at 31st December 2022		

The following comments detail our thoughts around the fund's individual investments.

US electric utilities / Initial investment – March 2020

The US is in the early stages of a long period of significant change in its electricity industry. We view the businesses that the fund owns as being positioned to increasingly benefit from these changes.

Eurokai GmbH & Co. KGaA / Initial investment – June 2017

We are excited about Eurokai's long-term prospects and opportunities. The business is well positioned, well managed and controls a number of high quality, strategic and operationally adjacent assets. Eurokai's balance sheet settings are conservative. We are content to hold a large investment. We expect the value that we perceive will be more widely recognised as they continue to operationally execute.

Schlumberger Limited / Initial investment – August 2017

In November, we exited the fund's investment in Schlumberger at US\$53.07. The investment was based on our view that Schlumberger is positioned to increasingly expand activities with the national oil companies. We exited the investment because we lost confidence around our thesis. The current operating momentum in the business is positive, we consider the people to be high quality and the

technology differentiation as real and meaningful. The local currency return was basically breakeven (+2% annualised IRR).

STO SE & Co. KGaA / Initial investment – May 2019

Sto is a German based manufacturer and distributor of external wall insulation systems and associated products and services designed for existing structures. We are attracted to the apparent IP developed in the business and their leading market positions. Sto appears a good quality, well managed, focussed business with significant internal investment opportunities.

Ponsse Oyj / Initial investment – June 2019

Ponsse is a Finnish based forest harvest machine manufacturer with significant sales and support operations located across Northern and Central Europe and expanding operations in North and South America. Their machines sell at premium prices, they appear to have meaningful internal IP. The business has internally funded its expansion and development. Ponsse is adapting well to the changed end market environment, they are finding geographies beyond Russia to develop.

Tower Limited / Initial investment – January 2020

Tower has significant opportunities to continue to organically grow their New Zealand based home and motor insurance businesses, while internally funding this growth. Tower has progressed well around these opportunities over the past year. They are gaining traction and realising positive operating leverage from their technology supported direct distribution business model.

Qube Holdings Limited / Initial Investment – March 2020

Qube holds some interesting positions locally, focussed on vertically integrated operations in a number of export / import supply chains. We also perceive there are network aspects to some of their activities. There are opportunities to drive further organic growth through investing internally, lowering unit costs and sharing these gains with customers. Management are clear around the direction they are taking the business. The current valuation seems reasonable, particularly in US\$.

Fedex / Initial investment – December 2012/September 2022

We think of Fedex as a network which becomes increasingly valuable with density. Fedex has made significant investments in this network in recent years and we expect the benefits will flow over the medium term. Fedex is a higher quality business than generally perceived. The macro / cyclicity does not concern us.

Rotork Plc / Initial investment - July 2021

Rotork is a high margin, highly cash generative manufacturer of electric and pneumatic actuators; they have leading global positions in the sale, service and maintenance of actuators to the oil and gas, chemical and water sectors. We are particularly interested in Rotork's positioning in electric actuators. We are also constructive around further opportunities the business has through more focussed operational execution.

Origin Energy Limited / Initial investment – October 2021

We are attracted to the opportunity in Origin’s energy retailing business. They have made significant changes in this business over the last few years and we perceive this will position them well for the future. Recent press detailing the premise around the current corporate activity highlights engagement based around a similar opportunity.

Nihon Kohden Corporation / Initial Investment - December 2021

We are attracted to Nihon Kohden’s high market shares and presence in the Japanese domestic medical equipment market and their apparent ability to profitably develop export businesses around key products. The business has characteristics of a “national champion”. Nihon Kohden’s valuation strikes us as modest in the context of the business characteristics, historic progression and current operating activity.

Asics Corporation / Initial investment - May 2018

Asics continue to positively leverage their brand and products, furthering direct distribution and direct to customer revenues while realising strong economics from these extensions. Operationally, the business is progressing consistent with our thesis.

Intel Corporation / Initial investment - March 2022

Operationally, Intel is under significant pressure, the risks are high. This pressure does create urgency, enabling Intel to move faster towards developing processors with the overarching direction of re-establishing technology leadership in various microprocessor skews. We are attracted to Intel’s integrated business model, history, our perception of its workforce capabilities and the recent clarity of direction articulated by management.

Topps Tiles Plc / Initial Investment – Nov 2016

We are content to persist with the investment in Topps Tiles. Management have done a reasonable job absorbing recent cost pressures. These pressures look set to further increase in 2023, compounded by a likely softening in revenues. Topps Tiles’ balance sheet is positioned to fund this draw. We view the core cash generating capabilities of the business as materially higher than current levels and those implied by the valuation.

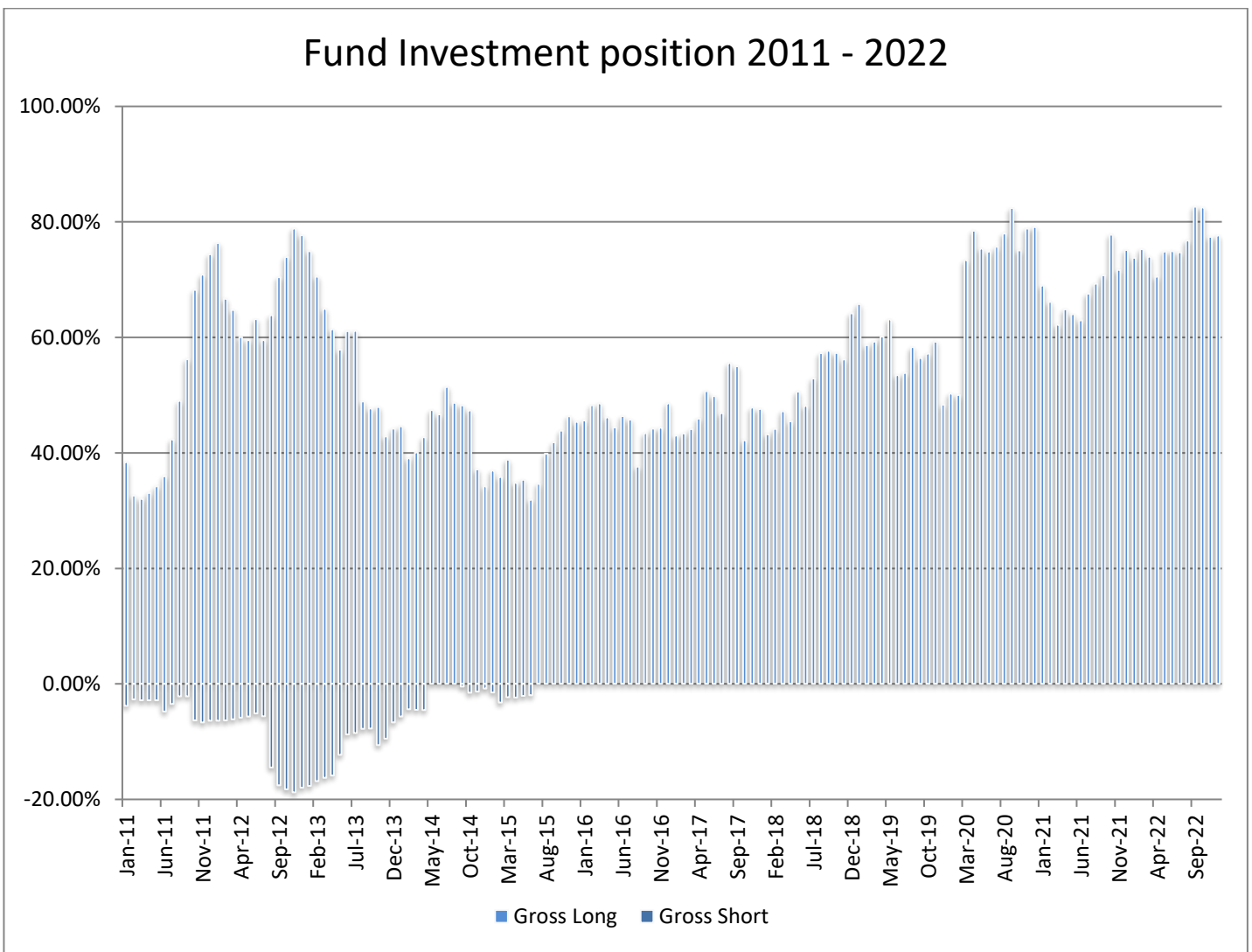
Ferguson Plc / Initial Investment – September 2022

Ferguson is a new investment in the fund. We were in Texas in November, visiting numerous branches and showrooms. Our inclination is this business may have some positive enduring characteristics regarding staff culture and how they are meshed or integrated into their various customer bases.

	Long (%)	Short (%)	Currency (%)
Australia	7	0	41
United States	30	0	24
UK/Europe	29	0	24
Japan	6	0	6
New Zealand	6	0	6
Total	78	0	100
Derivatives (annual cost)	3		

Notes: Data as at 31st December 2022.

	31 December 2022
Large capitalisation (\$3 billion plus)	43%
Mid / Small capitalisation (\$100 million to \$3 billion)	35%
Micro capitalisation (less than \$100 million)	0%
Total	78%



Investment Results

The fund returned 19.9% for calendar year 2022.

The contributors to the return were as follows:

- Long equity investments (in local currencies) detracted 3.4%;
 - Key contributors were Schlumberger, PG&E and Origin Energy
- Movements in the Australian dollar contributed 4.0%;
- USD call / Yen put options contributed 21%;
- Currency hedges cost 0.5%; and
- Equity derivatives were flat 0.0%.

Returns (to 31/12/2022)	Fund
Since inception* (annualised)	9.4%
Since inception* (cumulative)	215.1%
Rolling 5 year (annualised)	7.9%
Rolling 3 year (annualised)	12.4%
Rolling 1 year	19.9%
Standard deviation	10.6%

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
July		1.14%	-1.95%	-3.06%	2.03%	1.98%	0.45%	-1.62%	-1.57%	4.99%	-0.35%	-0.86%	0.12%	0.37%
Aug		-0.33%	-0.32%	0.45%	1.42%	-0.39%	-1.39%	-0.18%	1.21%	1.50%	-1.64%	2.97%	-0.37%	0.84%
Sept		0.60%	-2.18%	1.89%	0.52%	4.18%	-1.19%	1.34%	3.04%	-4.26%	1.23%	-0.66%	0.69%	-5.65%
Oct		2.12%	0.83%	1.30%	1.43%	2.53%	0.27%	-0.21%	0.56%	-1.60%	0.51%	1.69%	-0.43%	9.22%
Nov		0.47%	-1.22%	-2.46%	3.97%	11.10%	0.60%	4.50%	2.73%	-0.54%	1.36%	7.61%	0.92%	5.36%
Dec		-0.24%	0.27%	6.93%	1.13%	3.00%	-3.07%	2.46%	0.06%	-3.05%	-0.02%	1.99%	1.54%	-0.28%
Jan		0.31%	0.84%	9.92%	-0.54%	0.97%	-1.77%	-5.16%	1.32%	2.20%	1.93%	2.82%	1.66%	
Feb		1.78%	0.02%	2.69%	-0.81%	1.57%	1.77%	-0.59%	-1.66%	3.91%	-7.52%	1.72%	-5.44%	
Mar		1.06%	5.59%	-0.44%	-1.45%	-0.04%	-0.84%	1.21%	-0.52%	0.53%	-9.67%	4.36%	1.41%	
Apr	*0.04%	-1.94%	1.62%	4.45%	0.08%	0.32%	1.72%	1.34%	1.27%	2.11%	0.43%	0.44%	16.01%	
May	-0.78%	1.01%	-0.37%	8.63%	1.29%	0.47%	4.12%	1.84%	-0.23%	-3.64%	4.11%	3.85%	-0.85%	
Jun	-0.76%	-0.70%	-2.58%	1.68%	0.02%	-2.61%	-0.79%	0.37%	-1.21%	1.56%	0.05%	0.66%	-2.43%	
FY	-1.49%	5.33%	0.29%	36.06%	9.33%	24.95%	-0.31%	5.10%	4.97%	3.28%	-9.97%	29.71%	12.10%	
CY		-3.10%	10.12%	43.95%	22.40%	-3.70%	10.76%	4.89%	-4.23%	7.82%	0.82%	17.44%	19.87%	

* Inception date: 15/04/2010. Past Performance is not a reliable indicator of future performance and no guarantee of future returns implied.

The fund's daily unit price and distribution details can be downloaded via this [link](#).

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