QUARTERLY INVESTMENT REPORT

December 2024

2024 was quite a year. Three second-half rate cuts by the Fed (50 basis points in September and further 25 basis point cuts in November and December) allowed markets to recover from a brief summer wobble, and of course AI investments boomed throughout. The year was perhaps best exemplified by the huge pro-cyclical rally post-election, as resistance collapsed and investors piled on the consensus US trade. While the US market went from strength to strength (the S&P 500 was up 27%[1]), the rest of the world also posted good returns but played second fiddle by some margin (the MSCI World ex-US index was up 7%).

Within this background we have gently remodelled the Kennox portfolio. Three shares have left the portfolio: **Taisho Pharmaceutical** was taken off the market in a management buyout in January (up approximately 55% during our holding period) and we sold **Exxon** in March and **BP** in August after both rallied strongly. Since November 2020 (when we added substantially to both positions), Exxon has returned over 300% and BP over 140%. Having entered 2024 with 16% of the Fund in energy stocks, we close the year with a 9% exposure.

During the year we added two new positions. In June we added **B&M**, the UK discount retailer trading at under 10x earnings and with a close to 10% yield (including specials) that we wrote about at greater length in our June quarterly. In December, we added **Victrex**, the global leader in high-performance polymer solutions. Victrex specialises in the performance polymer polyetheretherketone (PEEK) which offers superior strength, durability, and heat and chemical resistance compared to traditional metal or plastic alternatives. An overstocking of their products in the medical industry, where practitioners had built up inventory to serve the post-Covid surge in operations, made 2022 and 2023 tough years for Victrex. The shares sold off from a peak of £26 in 2021 (and from £34 in 2018) to under £9 in 2024, where we initiated our position. This is a long-term growth industry with many and varied end markets looking to replace existing materials with PEEK. As well as medical uses, moving to PEEK is an easy win for industries such as electric cars (where strength and weight are critical), aerospace (where heat resistance is key), and cabling (which requires superior electrical insulation). At entry, the shares traded at approximately 12x current earnings, with a 7% yield and very little debt (under 0.5x EBITDA even after heavy capex in recent years to increase capacity). This looks like an exciting long-term hold.

These changes in the portfolio highlight a golden opportunity for what Kennox does: finding rich seams of idiosyncratic opportunities around the globe. The result is a portfolio trading on about 10x earnings and at the highest yield we've seen in 15 years (on the back of both dividend increases among existing holdings and high yields among new additions). Our experience reflects that of GMO, which recently shared their own analysis showing that value stocks outside of the US are trading at the cheapest levels they've seen since initiating the analysis in 1984.

It is worth running through a number of these idiosyncratic opportunities that now dominate the portfolio:

- **Stella International** is a pan-Asian shoe manufacturer, growing earnings quickly as increased production capacity fills. It trades at approximately 8x earnings and with a 9% yield.
- **Fukuda Denshi** is a Japanese MedTech company that has grown earnings for 9 consecutive years serving the growing trend for home treatment. Despite this growth, it trades at under 12x earnings and has significant net cash on the balance sheet.
- **Youngone Holdings** is the manufacturer of high-performance sports clothing (for brands like North Face, Patagonia, Lululemon, and Arc'teryx) and the owner of the Swiss-based Scott bikes. It trades at less than 5x earnings and has net cash worth more than its entire market capitalisation.
- **Sky New Zealand**, the equivalent of Sky in the UK for the New Zealand market, is the sole survivor in sports broadcasting after Spark TV pulled out in 2023. It trades at under 8x earnings and is in the process of doubling its dividend as recent capex requirements ease. The dividend will likely be close to 12% in 2025.
- **Quadient** is a French franking machine business with rapidly growing customer communication and parcel locker businesses. This company looks seriously mispriced, trading at under 9x growing earnings.

One thing that stands out here is that none of these companies are listed in the US. We remain nervous about the US (and we appreciate that this makes us an outlier), as everything we believe in points us elsewhere. We don't like indebtedness, and the US is awash with it – both at the government level, where for now markets are willing to stomach a near 7% budget deficit, and at the company level, where "efficient balance sheet mentality" still rules the roost outside the cash-rich tech sector. And of course, we don't like overextended valuations. The price/earnings multiple of the S&P 500 is now 26x[2], which makes it almost twice as expensive as everywhere else (the MSCI ex-US index trades at 15x) and more than twice as expensive as the UK (the FTSE 100 trades at 12x). Over the last 10 years, the US market has become 44% more expensive[3], while valuations have remained steady elsewhere (and become 18% cheaper in the UK).

Ruchir Sharma summarises this obsession with US equities nicely in a recent article: "*Talk of bubbles in tech or AI, or in investment strategies focused on growth and momentum, obscures the mother of all bubbles in US markets. Thoroughly dominating the mind space of global investors, America is over-owned, overvalued and overhyped to a degree never seen before.*"

Many investors find it hard to look elsewhere. The fear of missing out (FOMO) and career risk for those tightly monitored against benchmarks attract money to tech companies and the US like moths to a flame. Global indexes have close to a 75% weight in US equities with just 25% elsewhere. Any reference to valuation would make the opposite exposure feel more sensible.

As ever, the best opportunities lie where others aren't looking. But to take advantage of this requires real courage, and the ability to look past recent relative performance. As an investment-led boutique, we are privileged to be genuinely benchmark-agnostic.

We enter 2025 full of optimism about the quality of companies in the portfolio and the truly attractive valuations. While we are not brave enough to predict when the bubble in US equities will burst, we are confident that there are excellent returns to be made elsewhere, with much less risk of a correction in the meantime.

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If you have any questions on Kennox or the Kennox Strategic Value Fund, please contact us on +44 (0) 131 563 5440 or email at clients@kennox.co.uk. Our website is www.kennox.co.uk

Fund Data – 31 December 2024

Performance (total return net of fees) in Pounds Sterling

PERIOD	SHARE CLASS	
	CLASS I	CLASS A
2024	8.4%	8.7%
2023	8.0%	8.2%
2022	12.6%	12.9%
2021	10.1%	10.5%
2020	-11.1%	-10.9%
2019	4.8%	5.1%
2018	-2.2%	-2.0%
2017	2.5%	2.6%
2016	35.8%	36.2%
2015	-4.0%	-3.8%
2014	-1.1%	-0.9%
2013	15%	4.3%*
2012	10%	N/A
2011	-4.0%	N/A
2010	12%*	N/A

Source: Kennox. Performance figures are total return generated from the accumulation units since their launch (29 April 2013), and from the income shares prior to that. * Share classes launched mid-year: Class I on 12 May 2010; and Class A on 29 April 2013.

Top 10 Holdings

STOCK	REGION	SECTOR	MARKET CAP (US$M)	WEIGHT (%)
STELLA INTERNATIONAL	Asia	Consumer Discretionary	1,500	9.2
SHELL	UK	Energy	190,000	6.5
NEWMONT CORP	N. America	Materials	42,500	5.9
AGNICO EAGLE MINES	N. America	Materials	39,000	5.5
SINGAPORE TELECOM	Asia	Communication Services	37,500	5.3
YUE YUEN	Asia	Consumer Discretionary	3,500	4.6
FUKUDA DENSHI	Japan	Health Care	1,500	4.5
CANON MARKETING	Japan	Information Technology	3,500	4.4
YOUNGONE HOLDINGS	Asia	Consumer Discretionary	800	3.7
STAR MICRONICS	Japan	Industrials	500	3.4
TOTAL TOP 10				**52.9**
19 OTHER HOLDINGS				46.6
CASH				0.5

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[1] All market and company share price return data are from Kennox and Bloomberg

[2] P/E multiple data from Bloomberg

[3] Based on P/E multiple expansion from 31 December 2024 and 31 December 2023