QUARTERLY INVESTMENT REPORT

March 2025

The question at the top of every investor's mind is whether we are experiencing one of those rare breaks in the market narrative and direction. "The great rotation has begun" proclaimed a friend to us; "beneath investors' feet, the ground is shifting" wrote Buttonwood in the Economist. And this was all before President Trump's "Liberation Day".

The contrast is quickly becoming starker. Merely a few months ago, it was almost unchallengeable that Trump's re-election meant that US equities were the only trade certain to make money over the next five years. This narrative is unwinding rapidly as it becomes apparent that the new administration is pursuing unconventional economic strategies and is willing to accept some (possibly very significant) economic pain now for future policy gains. Lately, there hasn't been a more popular trade than US equities so this is worth watching – this issue, more than anything else, will dictate the next decade's returns.

There are a few key tenets of Kennox investment philosophy and "don't hunt with the herd" is one of the most important. As well as helping Kennox make good returns on the back of market over-reactions to bad news, this counter-cyclical philosophy pushes us away from the consensus and towards the under-owned and under-valued. Let's look at a few of these "not-with-the-herd" investments.

In the last couple of years, the portfolio has evolved towards an expanding list of idiosyncratic stocks as we have uncovered exciting opportunities. This continues, and we have added a new stock, **Vesuvius plc** here in the UK. Vesuvius provides products and services to the steel industry, to both steel producers and foundry clients, as a truly global company producing and selling in all regions of the world. Its products are spread across a wide range of industry-specific products, such as shrouds, stoppers, nozzles, furnace and ladle linings, or products for casting and finishing. What unites all these is that Vesuvius' solutions improve efficiency for their customers, reducing processing time or complication, helping decarbonise, or improving safety or the quality of the final product. A further attraction is Vesuvius' products are almost all "consumable", being used up within a few days – for instance, Vesuvius' flow control products are consumed within a day – such is the extreme environments and temperatures at which these facilities operate. This leads to long-term relationships and recurring revenues, giving us confidence in the company's ability to generate strong profits into the future. The elevated levels of capital expenditures of the last few years are falling as the company completes its capex projects and is focused on squeezing down its working capital, both of which lead to strong cash generation.

Vesuvius trades at 10x a reasonable estimate of its earnings power, whilst paying a 6% dividend yield. This is inexpensive for a company that should see higher profits and free cash flow over the next few years. As a bonus, the company would be a beneficiary of any increased investment in Europe's steel industry, with the region being a source of weakness for them recently. The Fund has established a 2.5% position.

Vesuvius sits alongside other companies such as **B&M**, **Victrex**, **Stella International**, **Fukuda Denshi**, **Youngone**, **Sky NZ**, and **Quadient**. The investment case in each of these companies remains strong, as expressed in last quarters' commentary (here).

This quarter, **Shell** has done well, perhaps unsurprising as the market turns away from thematic momentum back towards inexpensive but well-positioned businesses that provide essentials. Shell's recent Capital Markets Day emphasized management's cost focus, capital discipline, and emphasis on its advantaged energy assets. The market approved of this sensible strategy, as one would expect. It is also pleasing to see a few European stocks in the top performers – such as **M6** and **KPN**. Overlooked in the last few years, both continue to trade at attractive valuations and yields, with M6's yield of 9% being especially eye-catching.

Turning to our gold miners, the commonly attributed reasons for current gold price strength stand: uncertainty around economic growth, the stickiness of inflation, the risk of a collapse of business confidence due to the unpredictability of tariff regimes and the like. Possibly the biggest issue, and one we feel not discussed nearly enough, is the nose-bleed levels of debt across the globe, and what limited actions governments are likely to, or even can, take to address this situation. This issue alone remains a significant tailwind for gold and the miners.

The positioning of the portfolio as described above gives us as much comfort as one can have in these uncertain times.

First off, the portfolio is balanced and robust, with each company occupying a strong position in its respective market. Secondly, the portfolio is inexpensive, trading at low multiples of uninflated earnings, rendering it less vulnerable to de-rating. Especially satisfying is that our companies pay out significant dividends, welcome both as a steady stream of income over our holding periods and as a sign that management respects shareholders' interests. The yield on the Fund, net of all fees, sits at 3.7%, at its highest level ever. Lastly, our companies have low levels of leverage – the median company in the portfolio has essentially no net debt, an indisputable relief at times like these.

These unsettling times lend themselves to sensible non-consensus investment strategies. Kennox is comfortable that we are pursuing such a strategy.

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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 March 2025

Performance (total return net of fees) in Pounds Sterling

PERIOD	SHARE CLASS	
	CLASS I	CLASS A
YTD	2.2%	2.2%
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	2,000	9.2
NEWMONT CORP	N. America	Materials	54,500	7.3
AGNICO EAGLE MINES	N. America	Materials	54,500	7.2
SHELL	UK	Energy	219,000	7.1
SINGAPORE TELECOM	Asia	Communication Services	44,000	5.1
CANON MARKETING	Japan	Information Technology	4,000	4.3
FUKUDA DENSHI	Japan	Health Care	1,500	3.9
YOUNGONE HOLDINGS	Asia	Consumer Discretionary	800	3.7
STAR MICRONICS	Japan	Industrials	500	3.5
EQUINOR	Europe	Energy	75,000	3.4
TOTAL TOP 10				**54.6**
19 OTHER HOLDINGS				44.7
CASH				0.7

Disclaimers and footnotes

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We do not track, nor are we constrained by, a benchmark. Reference to the MSCI World and MSCI World Value indices are for comparative purposes only.