QUARTERLY INVESTMENT REPORT

December 2023

Going into 2024, it is hard not to get caught up in all the macro-economic “noise” that surrounds us. As always, we live in an uncertain world: two major military conflicts with highly unpredictable outcomes; rising tension between the US and China; sky-high public debt ratios with significantly higher interest rates in just about every country; recession indicators continuing to flash…

As stock-pickers, this noise does provide context, but the focus remains on the “micro”: the stocks themselves, and the opportunities that the “macro” provides.

The noise has provided a lot of opportunity in 2023, and as a result it was a reasonably active year for Kennox. We have significantly reduced our exposure to energy stocks after several years of excellent performance. We held just under 26% of the Fund across **Equinor**, **Shell**, **Exxon Mobil** and **BP** at the start of 2023, versus 16% at the end. While we still believe that the valuations remain extremely attractive and that the overall outlook for traditional energy is positive (even in the face of a steady transition towards renewable alternatives), average returns of +65% over the last 2 years have allowed us to take some of the profits off the table.

We often talk about baskets of stocks within the portfolio (with energy being one, gold miners another and telecoms a third), but the bulk of the portfolio is made up of idiosyncratic opportunities that don’t fit nicely into any one theme or bucket. The stocks that we have added to the portfolio all fit under that idiosyncratic heading. In the first half of 2023, we added **Youngone Holdings** (a 3.7% position); **LG Corp** (a 3.5% position); and **ODP Corp** (a 3.7% position), and added a fourth new name, **VTech Holdings** (a 2.1% position) in December. Remember that we are avowed “buy and hold” investors with turnover in the Fund typically around 15%. This amount of activity reflects the level of opportunity available at present.

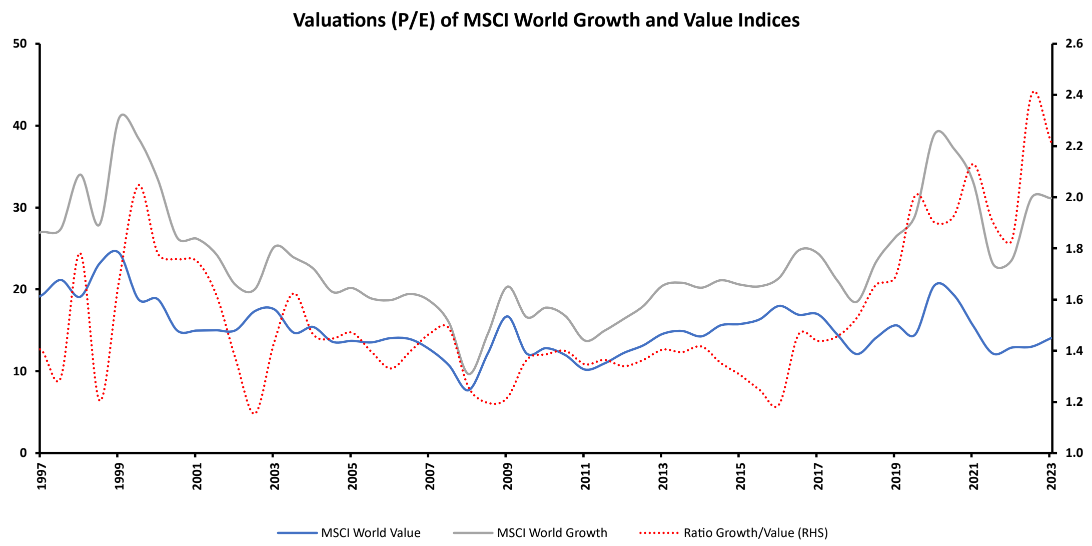
VTech is a very exciting example. It is predominantly involved in making educational toys for children and in contract manufacturing (these two segments make up c. 90% of revenue). If you have young children, you’ll have some of their products in your house with brands such as LeapFrog, Marble Rush, Switch and Go Dinos. Contract manufacturing remains a high growth business and VTech specialises in professional audio equipment and “Internet of Things” equipment such as smart thermostats. Whilst Covid-19 was a reasonably good period for them (the more time you spend with your children, the more you realise the value of keeping them well entertained), they were not immune to the ensuing supply chain disruption and retailer destocking that arose as consumer spending came under pressure. Earnings have fallen from c. $200m pre Covid-19 to closer to $150m now. That 25% drop in earnings led to an eye-watering 65% drop in the share price[1]. We now expect those earnings to start growing as supply chain disruptions ease, and retailer de-stocking is in the rearview mirror. In other words, we are buying

[1] 65% drop is from peak share price in 2017 to Kennox entry in 2023

a company at trough multiples of trough earnings. The impact of growing earnings and expanding multiples can be very powerful indeed – watch this space.

Other activity was driven by corporate actions. **Yamana** was bought in April (we received cash, alongside shares in **Agnico Eagles Mines** and **Pan American Silver**) and in October, **Newcrest Mining** was bought by **Newmont** (also in our portfolio, so we have reduced the combined position a little). Although there were no other (complete) acquisitions, there has been further interest elsewhere in the portfolio. **Sky New Zealand** received an unsolicited bid (since rejected), **Taisho Pharmaceuticals** is in the process of a management buyout, and Daniel Kretinsky's VESA Equity Investment took a disclosable stake in **Quadient**. This amount of activity is unusual and indicates a rising interest in undervalued opportunities that has been largely missing from the market in the recent past.

Having covered the activity in the Fund, we also wanted to share two charts that we find particularly interesting and lead us to be highly optimistic leading into 2024. The first shows the relative valuation of growth stocks versus value stocks. We first shared this graphic a month ago, but have updated here to December 2023[2]:



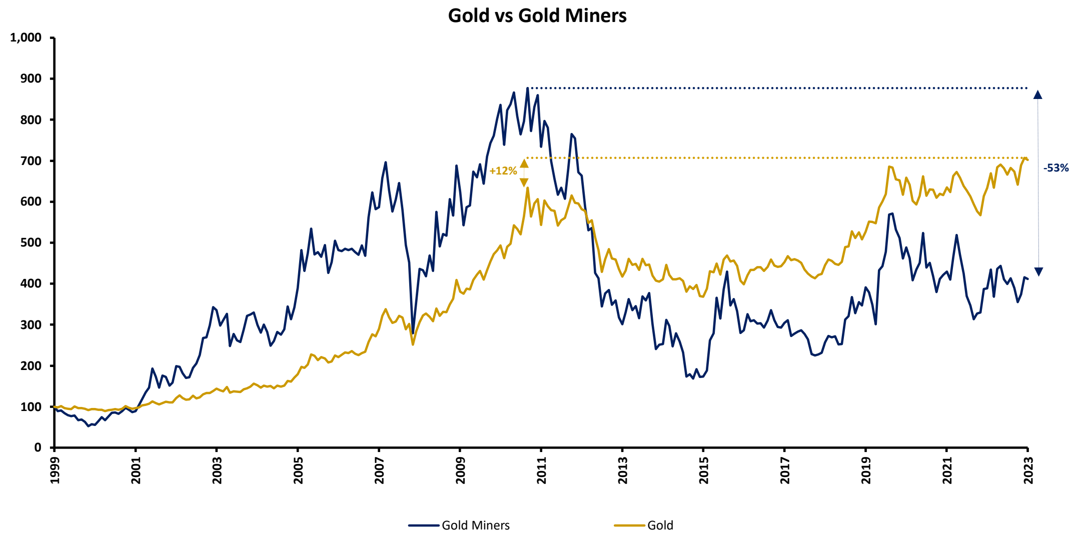
This rise in valuations of global growth markets has been driven by the US, and within the US increasingly by a small number of tech stocks: the "Magnificent Seven" of Apple, Amazon, Google, Meta, Microsoft, Nvidia and Tesla. As context, the average forward PE of those 7 companies increased by 75% through 2023, from 17.7x at the start of the year to 31.0x at the end.

Much of the relative performance of value versus growth comes down to the movement of the dotted red line. When the red dotted line rises (i.e. the relative rise in the valuation of growth stocks versus value stocks that we have seen since 2016), growth tends to outperform and vice versa as the red line falls.

With the dotted line as elevated as we have ever seen it, there is now a large potential for value to outperform as the ratio reverts to mean. In other words, what has been a significant headwind for value over the last 8 years is very likely to be a tailwind going forward.

[2] Data from Bloomberg showing Price to Earnings ratio (excluding negative values) of MSCI World Growth and MSCI World Value indices

The second chart that we wanted to share is one we first saw in a presentation by Incrementum[3]:



Since the gold price peak in 2011, gold has risen 12%, but miners have fallen 53%. Given the uncertainty that the macro-economic context is providing, we are very happy to have some exposure to gold and the underperformance of miners relative to the underlying commodity leads us to believe that holding the equities rather than the commodity is a very enticing way to get that exposure. As an aside – gold and gold miners also tend to do very well in a recession where other equities struggle. Across 3 holdings, we have c. 13% of the Fund in gold miners.

So all-in-all, we enter 2024 full of optimism despite, rather than because of, the global macro-economic backdrop. The portfolio looks well positioned after a relatively active 2023, valuations remain incredibly attractive (the portfolio yield remains close to all-time highs and new stocks added during the year all trade at single digit PEs), there is a rising interest in the types of stocks that Kennox loves (as shown by the increased corporate activity) and we are comforted by continuing to hold very little that has significant levels of debt on the balance sheet.

[3] Performance of physical gold versus Gold Miners (NYSE Arca Gold Bugs index) 31 December 1999 = 100. Original idea from the "In Gold We Trust" report that can be found on the Incrementum website: https://www.incrementum.li/en/

Fund Data – 29 December 2023

Performance (total return net of fees) in Pounds Sterling

PERIOD	SHARE CLASS	
	CLASS I	CLASS A
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
2009	N/A	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 (%)
SHELL	UK	Energy	213,500	7.0
NEWMONT CORP	N. America	Materials	47,500	6.9
EQUINOR	Europe	Energy	96,500	5.6
FUKUDA DENSHI	Japan	Health Care	2,000	5.3
STELLA INTERNATIONAL	Asia	Consumer Discretionary	1,000	4.9
CANON MARKETING	Japan	Information Technology	4,000	4.2
SINGAPORE TELECOM	Asia	Communication Services	30,500	4.2
AGNICO EAGLE MINES	N. America	Materials	27,000	3.9
ODP CORP	N. America	Consumer Discretionary	2,000	3.7
YOUNGONE HOLDINGS	Asia	Consumer Discretionary	800	3.7
TOTAL TOP 10				**49.2**
21 OTHER HOLDINGS				50.1
CASH				0.7

Unit Prices

As at 29 December 2023:

- Class I shares:
  - Income: 133.20 pence (unit price at inception, 12 May 2010: 85.46 pence)
  - Accumulation: 175.50 pence (unit price at inception, 29 April 2013: 104.3 pence)
- Class A shares:
  - Income: 133.30 pence (unit price at inception, 29 April 2013: 104.3 pence)
  - Accumulation: 179.50 pence (unit price at inception, 29 April 2013: 104.3 pence)

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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

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.