QUARTERLY INVESTMENT REPORT

June 2023

The Fund was down 2.9% in the second quarter of 2023, behind global markets that returned 3.9%. We comment briefly on market dynamics below.

First off though, we'd like to highlight opportunities – the hunting ground is rich right now for our style of investing and the Fund has been active in 2023. Yamana Gold, our Canadian mid-tier gold miner, was taken over by **Agnico Eagle Mines** and **Pan American Silver**, with the Fund receiving some cash alongside shares in each of the two acquiring companies. While we were very happy holding Yamana, the deal accelerated our expected returns, with the price rising from the first offer (actually by Gold Fields) in May 2022 to the deal closing in April 2023. We have also trimmed our position in **Exxon Mobil** as shares have performed admirably (up 97% since December 2021 in sterling terms). Exxon Mobil started the year as a 6.2% position and is now a 2.5% position.

These activities (among other smaller portfolio movements) have created space for three new holdings in the Fund: **Youngone Holdings** (a 3.9% position); **LG Corp** (a 3.3% position) and **ODP Corp** (a 3.2% position). It is exciting to see some fresh names in the portfolio that add diversification and accentuate portfolio valuations.

Youngone is a Korean manufacturer making high-end sports performance clothing for the likes of Patagonia, The North Face and Lululemon with manufacturing facilities primarily in Bangladesh and Vietnam. They are also the majority owner of the Swiss-based Scott bicycle brand. The valuations are truly remarkable. Youngone Corp made over KRW 600bn in earnings in 2022 (admittedly a blow-out year) against a market cap of just over KRW 2tn, so it is trading at under 4x trailing earnings. Looking forward, KRW 400bn in earnings looks conservative, giving a 5x forward PE multiple. We have bought shares in the holding company (Youngone Holdings, that in turn owns 50.5% of Youngone Corp) to align ourselves with the founding family and benefit from an additional layer of cash on the balance sheet. The holding company trades at the same frugal multiple of earnings and has net cash on the balance sheet equal to the entire market cap (including its share of the cash held by Youngone Corp). There is a further 30% of market cap in long term investments. Just staggering valuations for a world class operation.

LG is well known as a global electronics brand, but parent company **LG Corp** is much more. A classic multinational conglomerate, it owns 33% of several businesses: LG Electronics (including LG Display that makes the televisions), LG Chemical (we'll come back to that), LG H&H (a market-leading cosmetics business) and LG Uplus (the third largest mobile business in South Korea with a 25% market share).

LG Corp is valued at KRW 14tn (or $11bn) and a conservative estimate of through cycle earnings would be around KRW 1.6tn. Earnings in 2022 were KRW 1.9tn and Bloomberg consensus estimates for 2023 are also KRW 1.9tn (with KRW 2.4tn estimated for 2024), so it trades at under 8x earnings by any of these measures.

A sum of the parts valuation (just adding up the value of the listed holdings) is KRW 28tn, so LG Corp trades at a juicy 50% discount. Which brings us back to LG Chemical. LG Chemical is a petrochemicals business (as the name suggests) but it also owns 82% of a business called LG Energy Solutions, the world's second largest battery business that supplies GM, Ford Chrysler, Audi, Renault, Volvo and SAIC Motor to name but a few. That business alone is worth over KRW 130tn ($100bn), so LG Corp's share is worth KRW 36tn (i.e. more than twice the entire value of LG Corp). We also take a nice 3.5% dividend.

ODP Corp is the owner of Office Depot in the US. Earnings and free cash flow are healthy (it produces over $200m annually in free cash flow) with a good bit of growth potential in their business solutions segment which is currently 42% of revenue, but only 16% of EBITDA as management's focus turns from gaining market share to expanding margins. With a market cap of $1.8bn, ODP trades on just 9x free cash flow, but that's not the bit that has us really excited. Management have announced a $1bn buyback over the next three years, financed by free cash flow, cash on the balance sheet and a small amount of debt (about $200m if free cash flow doesn't increase over the next three years). When we bought the shares, the market cap was $1.6bn, so if the entirety of the buyback went through without the share price moving, it would end with a $600m market cap (or $800m Enterprise Value including the net debt) with $200m of annual free cash flow. Something has to give. Admittedly, we tend to prefer dividends over buybacks, but sometimes shares are so cheap that buybacks really do make more sense.

These are the three new names added in 2023 and the portfolio is littered with other idiosyncratic opportunities. **Canon Marketing Japan**, **Stella International**, **Quadient**, **Star Micronics** and **Fukuda Denshi** also sit in the top 15 holdings in the Fund and exhibit similar traits.

Turning to recent performance, after some very good relative performance for Kennox and Value more generally since November 2021 (the Fund is up 15% to 30 June 2023), markets have returned to being more consensus-driven in 2023. Concentration at the top of most markets has increased markedly. Apple, now worth over $3tn and more than the entirety of the Russell 2000, constitutes 7.7% of the S&P 500 making it the largest single stock in the history of the benchmark. IBM was 6.4% in the mid-80s, Microsoft 4.9% in 1999 and Exxon Mobil 5.0% in 2008[1]. The dominance of a few stocks by performance is even more startling than by weight. In the first half of 2023, the largest seven stocks (Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla and Meta) produced 77% of returns. The bottom 460 stocks produced negative returns in aggregate[2].

The rise in concentration is being fuelled by passive strategies, AI and ESG that all act to compound momentum. While this is a concern for end investors looking for diversification in their portfolios, it is a boon for stock pickers who are looking for bargains. As focus (and money) is drawn to the bright lights, the reverse is happening elsewhere. The forward PE for the "Big 7" is over 30x, whereas the rest of the S&P 500 trades at closer to 17x[3]. The forward PE of the Kennox Fund is just 11x and the stocks carry a free cash flow yield of over 11%. These are some of the most frugal valuations that we have seen since launching the portfolio in 2007.

Before closing, a quick nod to the excellent London Value Investor Conference (LVIC) that we attended back in May. Our experiences in the markets reflect a lot of the opinions expressed that day. We'd like to reiterate two. First, bifurcation in the market between the eye wateringly expensive (read US and Tech) and elsewhere has led to several very interesting and diverse opportunities. Second, that most investors are still looking the other way, and have little or no exposure to these inexpensive areas.

This is fine by us. While the distortions continue, we will patiently accumulate a portfolio of market-leading, highly inexpensive and differentiated companies.

[1] https://ca.finance.yahoo.com/news/the-sp-500-is-the-most-concentrated-its-been-in-decades-morning-brief-130021525.html
[2] Source: Bloomberg. Largest 7 stocks contributed 468 of 611 points gained by the index
[3] Valuation data from the FT and Bloomberg: https://www.ft.com/content/b5281dfd-54a1-42fa-b01d-88b3aa8f3272

Fund Data – 30 June 2023

Performance (total return net of fees) in Pounds Sterling

PERIOD	SHARE CLASS	
	CLASS I	CLASS A
YTD	-1.7%	-1.6%
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: Bloomberg. 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	204,000	6.8
EQUINOR	Europe	Energy	94,500	5.5
BP	UK	Energy	104,000	5.3
NEWMONT CORP	N. America	Materials	34,000	4.9
CANON MARKETING	Japan	Information Technology	3,500	4.4
SINGAPORE TELECOM	Asia	Communication Services	31,000	4.4
YOUNGONE HOLDINGS	Asia	Consumer Discretionary	800	3.9
NEWCREST MINING	Asia	Materials	16,000	3.8
STELLA INTERNATIONAL	Asia	Consumer Discretionary	800	3.7
QUADIENT	Europe	Information Technology	700	3.6
TOTAL TOP 10				**46.3**
21 OTHER HOLDINGS				53.5
CASH				0.2

Unit Prices

As at 30 June 2023:

- Class I Share Class:
  - Income: 129.20 pence (unit price at inception, 12 May 2010: 85.46 pence)
  - Accumulation: 164.50 pence (unit price at inception, 29 April 2013: 104.3 pence)
- Class A Share Class:
  - Income: 129.40 pence (unit price at inception, 29 April 2013: 104.3 pence)
  - Accumulation: 168.00 pence (unit price at inception, 29 April 2013: 104.3 pence)

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