QUARTERLY INVESTMENT REPORT

March 2020

This quarter saw one of the most significant economic shocks ever to hit the global economy. The Covid-19 pandemic presented governments around the world with a very nasty choice – lock down their populations with enormous social and economic consequences or avoid lockdowns and face an unknown but frightening death toll with the possible/likely collapse of national medical systems. Almost all have chosen some degree of the former. This disrupts a global economy laden with high levels of debt and with monetary policy still at extraordinarily loose levels since the financial crisis of 2008/9.

The justified fear and uncertainty arising from this pandemic has resulted, perhaps unsurprisingly, in a widespread selling of equities, with every sector (except healthcare) down 17% or more since the market peak in mid-February. The Fund has not been immune to the blanket sell-off and was down 17.7% over the quarter. Looking specifically at the drawdown period from stock market peak (19th February) to quarter end, the Fund was down 16.1% (compared to the MSCI World index down 20.3%, and MSCI Value down 23.3%).

Whilst frustrated by performance over this initial sell-off, our immediate aim has been to ensure that all companies in our portfolio have the resilience necessary to meet the unique, newly added risks brought by Covid-19. As such, the Kennox investment team has been through the portfolio with a fine-tooth comb, re-assessing each of our companies to confirm our continued conviction in all names we hold. In summary, on review we were comfortable with our overall positioning. We achieved full conviction in 24 of our 27 holdings and have exited three companies which we felt were vulnerable. As part of the repositioning, we have added two new names that are well set up to thrive in today's environment. More on this below.

The companies we hold: At all times we look to have our portfolio set up to meet potential hard times. With our strong focus on quality and risk, we expect all our holdings to be the survivors in their industries – battle-hardened sector leaders, holding low levels of debt, trading at inexpensive valuations with low expectations baked into their share prices. All already well positioned to face headwinds – exactly the type of company investors should look to hold at present.

We take great comfort in having meaningful exposure to businesses that we expect to be particularly robust over the upcoming prolonged period of uncertainty – telecommunications, healthcare, food retailing and gold mining. These companies will not be immune, but their businesses are very resilient, even in the extreme conditions all now face.

The companies we have exited: Three positions were removed from the portfolio in March. Two are non-food retailers, **Gap** and **Next**; the third is **Publicis**, the global advertising company. All three companies are acknowledged sector leaders. However, we feel that the extreme headwinds now faced by their industries could throw into doubt each company's ability to survive (the world really is that different). As always, we cannot hold any stock in which we do not have full conviction – all being smaller Fund positions, these sales generated a 4% increase in cash.

The companies we have added: If any good news for investors comes out of this crisis, it is that it a steep fall in share prices can create opportunity. The share prices of a few of the companies on our watchlist have dropped into our price range. Proceeding with overall caution, we added **Newcrest Mining**, which had fallen from over A$30 in January, as a 3% position at c. A$23. With mines in Australia, Papua New Guinea and Canada, Newcrest is a world leading gold miner producing about two million ounces a year (for comparison, Newmont, the largest holding in the Fund and the world's largest gold miner, produces around seven million ounces). Importantly, Newcrest is one of the lowest cost producers in the world and carries one of the lowest levels of debt of the large gold miners. Sitting alongside our Newmont and Yamana positions, Newcrest increases the Fund's holding in goldminers to c.15%.

We also purchased **Singapore Telecom**, the number one telco in Singapore, Thailand, Philippines and Indonesia, and the second strongest player in Australia and India – all very attractive franchises. Sector leading telcos such as Singapore Telecom are in a very strong position, able to generate robust cash flows by providing an essential service. Singapore Telecom has a culture and long history of making sensible long-term decisions and sharing the returns with shareholders in the form of dividends. Importantly, the current economic disruption caused by Covid-19 will have a limited impact on Singapore Telecom's revenues, with populations continuing to communicate remotely from home. Yielding over 6% and at 12x a conservative estimate of our long-term Sustainable Earnings, we established a 3.75% position in March.

The financial markets bounced in the last week of the quarter, as the enormous stimulus and relief packages announced by federal governments and central banks brought a period of calm amongst the volatility. However, investors need to be very careful in these times, to position themselves for the tumult that will continue to develop over the next few months as the Covid-19 pandemic hits its peak, and the subsequent fall-out in our over-leveraged corporate world. Be under no illusion as to the seriousness of the situation, risks lurk everywhere now – even cash is increasing in risk, offering amplified exposure to a compromised banking system and no protection against any sudden return of inflation. As investors find themselves in an unprecedented and unpredictable situation, the only sensible course of action is to have genuine diversification and balance across holdings. This would include some (but not excessive) liquidity, a holding in gold, and exposure to human ingenuity and inventiveness in the form of shares of well-placed and well-run companies. Now is the time to be selective with stocks – focusing on risk, looking to hold the survivors (as described above), recognising that passive and index holdings are extraordinarily dangerous in this stage of the investing cycle.

As active investors with full conviction in each of our 27 well-considered portfolio holdings, we are confident that we have the Fund well positioned to ride out continuing turbulence.

Fund Data – 31 March 2020

Performance (total return net of fees) in Pounds Sterling

Period	Professional share class	Institutional share class	Class A share class
YTD	-17.9%	-17.8%	-17.7%
2019	4.5%	4.8%	5.1%
2018	-2.5%	-2.2%	-2.0%
2017	2.1%	2.5%	2.6%
2016	35.4%	35.8%	36.2%
2015	-4.3%	-4.0%	-3.8%
2014	-1.5%	-1.1%	-0.9%
2013	15%	15%	4.3%*
2012	9.4%	10%	N/A
2011	-4.4%	-4.0%	N/A
2010	21%	12%*	N/A
2009	15%*	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: Professional on 30 April 2009; Institutional on 12 May 2010; and Class A on 29 April 2013.

Top 10 Holdings

	Stock	Region	Sector	Market Cap (US$m)	Fund Weight
1	NEWMONT CORP	N. America	Materials	37,000	9.5%
2	CHINA MOBILE	Asia	Communication Services	151,000	5.6%
3	FUKUDA DENSHI	Japan	Health Care	1,500	5.5%
4	ROYAL DUTCH SHELL	UK	Energy	136,000	4.8%
5	SWISSCOM	Europe	Communication Services	28,000	4.7%
6	BP	UK	Energy	86,000	4.6%
7	TESCO	UK	Consumer Staples	27,000	4.5%
8	WESTERN UNION	N. America	Information Technology	7,500	4.2%
9	QUADIENT	Europe	Information Technology	600	4.2%
10	GLAXOSMITHKLINE	UK	Health Care	92,000	4.0%
	Total Top 10				51.3%
	17 Other Holdings				39.5%
	Cash				9.2%

Unit Prices

As at 31 March 2020:

- Professional Share Class:
  - Income: 102.00 pence (unit price at inception, 30 April 2009: 70.08 pence)
  - Accumulation: 117.30 pence (unit price at inception, 29 April 2013: 103.1 pence)
- Institutional Share Class:
  - Income: 103.20 pence (unit price at inception, 12 May 2010: 85.46 pence)
  - Accumulation: 121.20 pence (unit price at inception, 29 April 2013: 104.3 pence)
- Class A Share Class:
  - Income: 103.30 pence (unit price at inception, 29 April 2013: 104.3 pence)
  - Accumulation: 122.80 pence (unit price at inception, 29 April 2013: 104.3 pence)

Charles L. Heenan

(Investment Director)

Geoff Legg

(Investment Director)

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

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