
QUARTERLY INVESTMENT REPORT

# March 2021

The Fund was up 5.9% over the quarter, with almost all areas that performed for the portfolio in Q4 2020 continuing to do well.

**Quadient**, **M6 Metropole**, and **Texwinca** performed strongly again this quarter. **Quadient** (up 24%), announced a good set of results and the market is now beginning to appreciate how cautious earnings expectations and inexpensive the shares were. The shares currently trade at 10x our expectations of its long-term Sustainable Earnings (SE). Likewise, **M6 Metropole** (up 31%) announced strong results and included a significant increase in the dividend. After the recent rise the shares trade at around 16x SE with a yield of over 8% and net cash on the balance sheet. Lastly, **Texwinca** continues to perform (up 18%) as the market comes to realise that it just might be too cheap to ignore: a very competitive core business, generating c. 20% FCF yields, trading at half of tangible book value (which looks conservative) and with significant net cash on the balance sheet.

Our objective is to deliver attractive long-term equity returns with the lowest levels of equity risk. A key part of our risk focus is ensuring that we have good diversification across the portfolio. From time to time certain areas of the market produce a concentration of exceptional opportunities and we are happy to hold baskets of the highest quality stocks in these areas.

One area of exceptional opportunity is energy and we are happy to have good exposure to this through the four energy majors we hold. Naturally, energy is a contentious area and we are keenly aware of the perception and issues. Kennox has always taken its stewardship responsibilities seriously, believing that attention to ESG issues leads to better long-term investments. Equally, we are willing to hold independent views and to challenge consensus where we believe that consensus is misguided. In our recent Thinking Aloud note "Why Shell is an ESG investment" we expand on our view that ESG considerations are fundamental to the investment case behind our energy holdings.

Climate change is an enormous challenge for all. Energy is core to our society, and fossil fuels (including coal), which currently provide around 80% of base global supply, will remain a part of our energy provision for decades. There is simply no scale alternative at present. To exclude producers of oil and gas is only consistent with a view that we would be better off without them today. This is clearly untrue. In an area where society cannot ignore both reliability and affordability, this is not an issue where there are easy options or pain free choices. There is a real need for companies that can help to manage this inevitable transition (to keep the lights on whilst we find solutions to the thorny problems we face). We agree that these companies are no angels, but responsible investing means engaging with those that will be part of the solution and holding them to task.

It seems that investors and markets are coming to the realisation that there might be a significant tightening of the supply of oil and gas that the world continues to need. With each of our energy majors trading at less than 12x SE, these holdings are both essential for our society's smooth functioning and also exceptional investments. Unsurprisingly, we see them as a major source of opportunity.

Gold miners are another area that we have not shied away from. As energy is core to our society, so too is sound money, without which our society cannot function. In the short-term gold has suffered against the headwind of rising bond yields. Yet in a world of risk and potential distortions, where authorities address the pandemic outfall via fiscal and monetary responses and re-responses, gold as a proxy for sound money looks like a very sensible option. Our gold miners (**Newmont**, **Newcrest** and **Yamana**) held back the portfolio over the quarter, with the gold price sliding from around $1900 to circa $1700 but all trade at less than 15x SE, very attractively valued businesses for companies that provide such a differentiated risk profile.

If the financial distortions mentioned above result in inflation, where should investors be positioned? We considered a variety of data and research, and there are a few clear take-aways: it looks most likely that energy and materials would perform best, that financials would find the going very difficult indeed, and that value equities look better positioned than growth (where earnings are further in the future and therefore more at risk from the erosion of the value of money). The return of inflation cannot be a precise prediction but rather is a risk to be managed and we take comfort that the portfolio is well positioned to perform in an inflationary environment.

Our conviction in each of the Fund's holdings has led us to substantially reduce our cash levels over the last 6 months. Cash currently sits at around 2% (the lowest level since portfolio inception in 2007), having been over 10% last summer.

At this time of significant change and uncertainty, the portfolio looks sensible and pragmatic – risk focused with the ability to deliver exceptional upside.

# Fund Data – 31 March 2021

Performance (total return net of fees) in Pounds Sterling

| Period | Professional share class | Institutional share class | Class A share class |
|---|---|---|---|
| **YTD** | 5.7% | 5.9% | 5.9% |
| **2020** | -11.3% | -11.1% | -10.9% |
| **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 | 48,000 | 7.1% |
| **2** | QUADIENT | Europe | Information Technology | 900 | 5.2% |
| **3** | ROYAL DUTCH SHELL | UK | Energy | 148,500 | 5.2% |
| **4** | EQUINOR | Europe | Energy | 64,000 | 4.8% |
| **5** | BP | UK | Energy | 82,500 | 4.7% |
| **6** | CHINA MOBILE | Asia | Communication Services | 134,500 | 4.4% |
| **7** | SINGAPORE TELECOM | Asia | Communication Services | 30,000 | 4.2% |
| **8** | NEWCREST MINING | Asia | Materials | 15,500 | 4.0% |
| **9** | FUKUDA DENSHI | Japan | Health Care | 1,500 | 3.9% |
| **10** | TEXWINCA | Asia | Consumer Discretionary | 300 | 3.8% |
| | **Total Top 10** | | | | 47.2% |
| | 18 Other Holdings | | | | 51.2% |
| | Cash | | | | 1.6% |

# Unit Prices

As at 31 March 2021:

- Professional Share Class:
  - Income: 114.10 pence (unit price at inception, 30 April 2009: 70.08 pence)
  - Accumulation: 133.90 pence (unit price at inception, 29 April 2013: 103.1 pence)
- Institutional Share Class:
  - Income: 115.40 pence (unit price at inception, 12 May 2010: 85.46 pence)
  - Accumulation: 138.80 pence (unit price at inception, 29 April 2013: 104.3 pence)
- Class A Share Class:
  - Income: 115.50 pence (unit price at inception, 29 April 2013: 104.3 pence)
  - Accumulation: 140.80 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



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