QUARTERLY INVESTMENT REPORT

December 2021

The last few years have been very fruitful for select parts of the stock market. For example, the largest of the US large-cap and technology stocks have been on a breath-taking run. In contrast, many regions and sectors have been finding the going increasingly difficult as money continues to be sucked towards an ever-decreasing number of popular stocks. With distortions permeating the economy and financial system, Covid-related disruptions being only one, this narrowing market is not for the faint hearted.

In performance terms, the last few years have not been kind to Kennox, where it feels like we have been treading water. For instance, in 2021 the Fund returned 11% where markets on average returned 23% (the S&P500 in the US was up 30% and the rest of the world up 14%). For Kennox, several holdings did very well indeed. The energy majors rebounded from their difficult 2020 and led our portfolio, up almost 50% on average in sterling terms. Even then, the share prices have not increased as much as the earnings and cash flows did. For example, **Shell's** organic free cash flow is on track to increase by over 80% in 2021. **Sky New Zealand** jumped up, returning over 60% in the year, when an improvement in profits and outlook met extremely low expectations (for more, please see the monthly commentary for December). But the Fund was held back elsewhere. Our holdings in the gold miners drifted off, falling on average 7%, with the gold price outstripped by speculation in cryptocurrencies. With the extraordinary level of distortion and risk currently exhibited across the globe, we are comfortable that the risk-to-return outlook for gold remains enormously attractive. Also dragging on performance were our Asian stocks. In contrast to buoyant US indices, Asian markets remain firmly out of favour and were down in 2021. Our holdings in Asia represent some of the least expensive companies in the portfolio, often with low or no debt and significant cash reserves on the balance sheet, bargains for this dynamic region and for well-positioned companies.

At times of trying relative performance such as these, Kennox re-assesses its core beliefs as a check that what we do is sensible and remains appropriate. These beliefs centre on certain market inefficiencies derived from the human nature of market participants. **First, people extrapolate,** believing that the future will look like the recent past (therefore called "recency bias"). Whilst this recency bias will often be correct, by definition, it will miss every major turning point. **Second, people fear uncertainty.** Faced with a choice between certainty and uncertainty, most opt for certainty (consciously or not, and regardless of price). **Third, people find safety in numbers,** deriving emotional comfort from a crowd. This "crowding" compounds the first two effects. In investment terms, these tendencies explain why even experienced market practitioners often sell at the bottom or buy into bubbles.

Recent market activity only re-emphasises our belief in these inefficiencies. Investors, as fallible human beings, have not changed, and certain assets will be significantly mis-priced as a result. Naturally, we are most excited where great companies are over-sold and become available at prices offering an attractive risk-to-reward ratio. As a case study, consider our recent new purchase. **Currys** is the leading electronics and appliance retailer in the UK & Ireland, Greece and the Nordics, listed in the UK. It is very well positioned across its two main geographies with approximately 55% of its business in the UK and 45% in the Nordics (trading under the Elkjop brand). Currys has several important strengths. It has scale, as the largest player in its markets, with market shares of 25% or more. Its sales are not dependent on any one product, being spread over a wide range of products balanced across computing, electronics, and home appliances. Sales are split roughly 50/50 between online and physical stores (a strategy called omnichannel) decreasing the risk from online-only competitors. It has aligned interests with the brand owners who are keen to have the smoothest and most powerful distribution channel for their products in each market, including allowing customers to see and try products in person before purchasing. Put together, the company has a franchise that is very difficult to replicate but valued by millions of customers a year. Due to a few strategic moves in the last few years, especially shutting down Carphone Warehouse, management have been able to release a large amount of cash to pay down their borrowings to the point where it now has no net financial debt (excluding rental leases). In short, Currys looks like a business that will be able to thrive for some time to come. To be able to buy the clear leader, by far number 1 in its main markets, at reasonable prices is exactly the sort of investment we like to make. And the prices are indeed attractive – the shares trade at under 10x our estimate of the long-term earnings power of the company.

Risks remain in this market. Make no mistake, the distortions across financial markets are extreme. Leverage and debt are rife across almost all segments of the financial world. Interest rates linger at rock-bottom levels. Massive government and central bank interference in the markets persists. Many assets continue to be nose-bleedingly expensive. Almost non-existent across the developed economies for decades, inflation is back.

We recommend investors review Kennox's commentary from the end of last quarter (Q3 2021 Quarterly report), where we lay out why our conviction in what we own remains very high. Judged by the quality of the underlying businesses, by the lack of leverage, by the frugal prices we are paying, or by improving industry dynamics where competition is often shrinking, we assess the portfolio to be as good or better than at any time in its history.

Adhering to an investment strategy that is both straightforward and rational, that takes advantage of unchanging core human behaviours but has been deeply out of favour, we cannot think of a better way to position the portfolio for whenever those considerable risks and distortions rise to the market's focus.

Fund Data – 31 December 2021

Performance (total return net of fees) in Pounds Sterling

PERIOD	SHARE CLASS		
	CLASS P	CLASS I	CLASS A
2021	9.6%	10.1%	10.5%
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)	WEIGHT (%)
NEWMONT CORP	N. America	Materials	48,000	6.7
EQUINOR	Europe	Energy	87,000	5.6
ROYAL DUTCH SHELL	UK	Energy	175,000	5.6
BP	UK	Energy	92,000	4.6
SINGAPORE TELECOM	Asia	Communication Services	28,500	4.2
SKY NEW ZEALAND	Asia	Communication Services	300	4.2
QUADIENT	Europe	Information Technology	800	4.1
YAMANA GOLD	N. America	Materials	4,000	4.0
NEWCREST MINING	Asia	Materials	14,500	3.9
CHINA MOBILE	Asia	Communication Services	126,000	3.9
TOTAL TOP 10				**46.8**
18 OTHER HOLDINGS				52.3
CASH				0.9

Unit Prices

As at 31 December 2021:

- Class P Share Class:
  - Income: 115.80 pence (unit price at inception, 30 April 2009: 70.08 pence)
  - Accumulation: 138.90 pence (unit price at inception, 29 April 2013: 103.1 pence)
- Class I Share Class:
  - Income: 117.00 pence (unit price at inception, 12 May 2010: 85.46 pence)
  - Accumulation: 144.30 pence (unit price at inception, 29 April 2013: 104.3 pence)
- Class A Share Class:
  - Income: 117.00 pence (unit price at inception, 29 April 2013: 104.3 pence)
  - Accumulation: 147.00 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 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.