Q3
September 2023

Investment Objective: To achieve long-term capital appreciation and to exceed the returns of the MSCI All Country World (ex U.S.) Index through the active management of a focussed portfolio of listed equity investments in family-backed holding companies.

Introduction

Global equities endured a relatively muted third quarter, as indicated by the -2.5% return for the MSCI AC World index. Arguably bond markets have been more interesting than equity markets – a sentence filled with trepidation and often a sign that change is afoot. Time will tell what this means.

Within this context FHC returned +0.5% in the third quarter, which was ahead of the benchmark, the MSCI ACWI ex-US (€), which declined -0.8%. Year to date we have lagged the index, with a return of +4.0% versus +6.2% for the benchmark.

Performance review

Schibsted was the standout contributor, adding +234bps to returns. Over the quarter the shares rose +26%, with a +24% increase in the NAV boosted by a 100bps narrowing of the discount to 34% and an additional +370bps tailwind from NOK strength vs. the euro.

As a reminder, we initiated a position in the summer of 2022. We wrote up the investment in the Q3 2022 letter, highlighting the extreme undervaluation of Schibsted, with its then 33% listed stake in Adevinta swamping its enterprise value.

Overall, we argued that Schibsted exhibited a number of attributes we look for – high quality assets, a discounted valuation and catalysts to unlock value. More specially Schibsted offers **1)** exposure to high quality online classified ads businesses' dominant and network effect-protected market positions, high levels of pricing power and strong margin expansion potential which should compound in value; **2)** an inefficient and unsuitable group structure leading the company to trade at a wide discount to NAV and the stub at an inordinately low (then) c.6x EV/EBITDA; and **3)** potential catalysts to unlock value, with either an in-specie distribution or sale of Adevinta suitable outcomes to both re-rate the stub and help realise Adevinta's fair value.

In September 2023 it was confirmed that Blackrock and Permira have made a non-binding proposal to take Adevinta private. This will see Schibsted crystalise a large portion of its value, whilst also retaining a stake in the private company. Of course, the devil will be in the detail, with the pertinent questions being around price and the size of the stake that Schibsted will maintain, but we believe this to be a successful outcome.

The deal will allow Schibsted to garner a control premium (albeit an unknown one) and removes some of the friction of an in-specie distribution. Most importantly, it will simplify the group structure and shine a light on the undervaluation of the stub assets.

On the other hand, this raises the risk of capital (mis)allocation – something we will continue to discuss with Schibsted management. We are also frank about the low value the market will likely ascribe to Schibsted's remaining unlisted stake in Adevinta. However, we very much concede that the return on this position has the potential to be highly attractive, with significant low hanging fruit from non-core asset sales (OLX Brazil plus Italy and maybe Spain); improving monetisation rates at Mobile and Leboncoin which currently under-earn relative to global peers and the economic utility they provide; and improving margins with tighter cost control (particularly at HQ which runs to tune of ~€250m p.a.). Over time this value creation will shine through in Schibsted's NAV growth, with a future crystallisation of value likely allowing for capital returns.

Schibsted remains cheaply valued at a 34% discount to NAV and with the stub trading at 6.7x NTM EBITDA. Further news on Adevinta will be the key catalyst to drive both NAV and discounts. We remain excited about prospective returns.

Other notable strong performers were **Aker** (+98bps) and **Haw Par** (+43bps).

At the other end of the portfolio IAC (-106bps), Christian Dior (-89bps) and Eurazeo (-46bps) were the most notable detractors.

We have written about IAC extensively in quarterly letters over the last eighteen months and do not intend to rehash it all again. Investors remain highly sceptical about the extent to which key assets Angi (xx% of NAV) and Dotdash Meredith (xx%) can drive both top and bottom-line growth. We contend that there are green shoots of improvement in Joey Levin's "*back to basics*" strategy, and that neither IAC nor Angi's share prices are placing a high probability on

material success here. Having initially been a highly successful (albeit small) investment for the fund, IAC has subsequently been a highly frustrating and unsuccessful (and larger!) investment. We believe the current 37% discount to be attractive, with a history of spinning assets to shareholders, which acts as a pull to par, we believe the fair discount is much closer to zero. Combined with the prospects for improved earnings growth prospective returns appear attractive. We bought more shares over the quarter.

Q3 portfolio activity

Having sold one third of our position in Christian Dior in Q1 at €818 per share, during Q2 we turned buyers once again, and increased our position by +21% over the quarter at a weighted average price of €713. As well as the already discussed addition to IAC, we made small additions to Aker, Eurazeo and D'Ieteren. These were funded by fund inflows, with the only notable reduction being Pershing Square Holdings.

During the quarter we built a new position in Bollore SE ("Bollore"), the French holding company controlled by the mercurial Vincent Bollore. At quarter-end Bollore was a 3.3% weight.

Bollore trades at a 46% discount to our estimated NAV, which is principally comprised of listed stakes in Universal Music Group (30% of NAV) and Vivendi (9%), cash (23% pro-forma of the sale of Bollore Logistics) and self-ownership loops (31%) given the companies' notoriously complex *Breton Pulley* ownership structures.

We have invested in both Bollore SE and Vivendi at various points over the last 15-plus years. However, we contend that we are now at a particularly interesting juncture. Having extracted the crown jewel asset (UMG) from Vivendi and having monetised both Bollore Africa Logistics and Bollore Logistics for >€10bn, we are entering a period of value harvesting.

Pro-forma of the completion of the sale of Bollore Africa Logistics, Bollore is sitting on €6bn of net cash. It is our expectation that over time, Bollore will look to own more of Vivendi. This had been something of a crowded hedge fund trade, however – as he is prone to – Mr Bollore upset the apple cart earlier this year, partially reducing his stake in Vivendi to stay below the 30% threshold that would require a mandatory offer and allocating capital toward buying back Bollore shares.

This has sent Vivendi shares -18% below their April peak, with the company now trading at a 46% discount to NAV. Indeed, at current prices the market is ascribing Vivendi's unlisted stub assets, the largest of which are Canal + and Havas, a value of just €2.5bn (net of debt & other liabilities). This equates to <4x operating profits. We expect Bollore to exploit this measly valuation, much to the benefit of its net.

As well as this, the significant net cash position at the Bollore level raises the prospect of capital returns and structural simplifications. It is difficult to ascertain exactly what form this might take – as this year evidences Vincent is famously difficult to predict – but further tender offers and eventual share-based transactions between the different holding levels seem quite plausible. Given the wide levels of discount involved such moves would be highly accretive.

Vincent Bollore has shown himself to be an astute capital allocator compounding shareholder returns at +13% p.a. since the turn of the millennium, outstripping the MSCI Europe (+4%) and the MSCI World (+5%). The prospect of aligning capital with such an operator, at a time where there are numerous corporate catalysts, makes for an attractive investment.

Outlook

Looking ahead and borrowing a quote from the CEO of a US automaker on a recent earnings call, the macro environment remains "opaque at best". Bond markets have increasingly started to reflect "higher for longer" rates and we appear to be in a new epoch of non-zero interest rates and a price for risk. The ramifications of this are likely large and have not necessarily been felt. Tail risk remains that the infamous "long and variable" monetary policy lags bite unexpectedly, with the UK LDI-crisis and US banking crisis have having highlighted how systemic problems can suddenly emerge as liquidity conditions tighten.

In our experience, the key to generating strong equity returns over the long term is to focus on the fundamentals; to buy high quality businesses that are well manged and conservatively financed. The companies within this fund have stood the test of time, with many into their fourth, fifth, and even seventh generation. They have thrived through periods of inflation and deflation, wars, and famine; we are confident they will do so again.

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IMPORTANT INFORMATION

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