Q4
December 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

"*I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody*" – James Carville

All eyes have been firmly on the bond market. No sooner had "*higher for longer*" become the view *du jour* than Chairman Powell re-wrote the menu – inflation expectations have moderated, and the consensus belief is now that pudding will be served with dollops of rate cuts. This has been a boon for risk assets, with November marking the largest cross-asset rally since the global financial crisis.

Within this context FHC returned +8.5% in the fourth quarter, which was ahead of the benchmark, the MSCI ACWI ex-US (€), which returned +5.2%.

For calendar 2023 we returned +12.8% versus +11.7% for the benchmark.

Performance review

Performance was broad based with **FEMSA**, **Schibsted**, **Eurazeo** all contributing >100bps and **D'Ieteren**, **Bollore**, **News Corp** and **Investor AB** >50bps.

Shares in Schibsted rose +24% over the quarter in what have been a busy few months for the company.

In last quarter's letter we explained that Permira and Blackstone had entered negotiations to take Adevinta private. In November, this came to fruition with a 115 NOK per share offer. The transaction will see Schibsted sell 60% of their 28% stake for 24bn NOK, which accounts for 48% of the preannouncement market cap (based on the B share price). Schibsted will retain an 11.1% stake in Adevinta post transaction, which at the 115 NOK per share value equates to 16bn NOK.

Shortly after this in early December Schibsted surprised both us and the market with the announcement that that the Tinius Trust, the controlling shareholder, intends to acquire Schibsted's legacy News Media division for 5.4bn NOK and Schibsted's stake in Polaris Media for 0.8bn NOK. As well as this the company intends to collapse the dual A-B share class structure. This is a significant positive development that should help reduce the conglomerate discount at which Schibsted trades.

Using the price of the B shares which we own, Schibsted has a market cap of 62bn NOK. Pro-forma of the completion of the two transactions, deducting the value of the retained stake in Adevinta (16bn NOK), News Media (6.2bn NOK) and net cash and other adjustments (18bn NOK) implies the Nordic stub assets are trading at an implied value of 22bn NOK, or approximately 9.5x 2024 EBITDA.

Whilst this has increased from the low of ~6x (inclusive of News Media) earlier in the year, and whilst we are cognisant that some level of discount is justified, we believe this to be excessive in the context of the structural simplification changes, the asset quality and earnings growth profile with stub EBITDA (excluding News Media) expected to grow from 1.9bn NOK in 2023 to >2.7bn NOK in 2025 (~19% p.a.). We believe that the returning of excess capital to shareholders is a key catalyst to drive the shares higher, with proceeds from the Adevinta and News Media sales just shy of 30bn NOK (48% market cap).

Having sold approximately half of our position during the quarter, we have generated a local currency IRR of +40% on the Schibsted investment that was initiated in June 2022.

Other notably strong performers were FEMSA (+20%) which reported impressive Q3 results and initiated the first buyback in the company's history, and Eurazeo (+27%) in the context of a convincing capital markets day strategic update.

Detractors were few and far between with **IAC** the worst offender shaving off -13bps solely on account of dollar weakness.

Q4 portfolio activity

As well as reducing Schibsted, we also exited **Pershing Square Holdings ("PSH")** in order to free up capital to invest in situations with more imminent catalysts – most notably Bollore which is now a 5.8% position, but also News Corp (7.2%). We had held PSH since launch and generated an xx% IRR over the course of the investment.

In terms of purchases, we re-initiated a position in **Toyota Industries**, the Japanese holding company in which the fund has previously invested. Toyota Industries trades at a 45% discount to our estimated NAV and the unlisted stub – which contains the jewel in the crown forklift and material handling business – trades at an inordinately low 3.6x EV/EBIT. The low valuation is nothing new per se and does not warrant an investment in and of itself. However, in the context of recent TSE guidance on parent-subsidiary listing rules, and green shoots of governance reform pressure across the group companies, we believe the market is putting too low a probability on steps being taken to simplify the group structure.

As well as this we have started building a new position in a UK conglomerate that we will discuss in the next letter.

Outlook

"*They think it's all over…*"

Investors have cheered signs of a benign economic moderation and the alluring prospect of rate cuts. Arguably the most important question for markets is not if or when rates are cut – but *why*. The cynic in us remains sceptical that such an immaculately soft landing can be orchestrated, with potential risks to corporate earnings from the notoriously long and varied lags in monetary policy which are seemingly yet to bite. That said, the recent move up in stocks is a good reminder of the futility of macro postulating and market timing.

In this vein, we will postulate no further! Rather our time is focused on the bottom-up, in situations where we have a competitive advantage. So, whilst the macro picture is foggy, the micro picture is much clearer. The current environment is throwing up broad and varied opportunities and we remain excited about the long-term prospects for the concentrated yet diverse collection of durable quality assets we have assembled. Valuations remain attractive, as indicated by the 33% portfolio weighted average discount and there are numerous potential catalysts across the portfolio to drive and unlock value.

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