



3rd October, 2020

Dear Investor,

In this quarter's reports, before I outline our performance and details on its positions, I would like to take a brief step into the numbers and fundamentals of Covid 19 and its wider impact on the economy, as we are in the midst of the 2nd wave.

Below is a summary of case count, deaths (graph 1), testing capacity (graph 2), mortality rates (graph 3), and hospital admissions including ICU (graph 4) for the United Kingdom. While testing has ramped up and is a multiple of where it was during the height of the crisis in April, the number of positive cases has only increased since September without death rates increasing materially (the time lag between number of cases and deaths is only around 1 week). But there is a chance of the data being quite flawed, as the testing back in March was pretty much 1/10th of what it is today, which means today's cases might translate into 1/10th cases in March/April such that 7,000 cases today are equal to what 700 cases were during March/April, which in turn would be equivalent to March 19th where deaths were only 34 – similar to what they are today. In addition, we do see higher ICU and hospital admissions over the last two weeks.

On the other hand, there are signs of hope out there as hospitals are better prepared to handle the virus and when looking at the USA where the virus is pretty much at loose, we have seen the first week now where excess deaths are below the average, hence negative (graph 5 and 6).

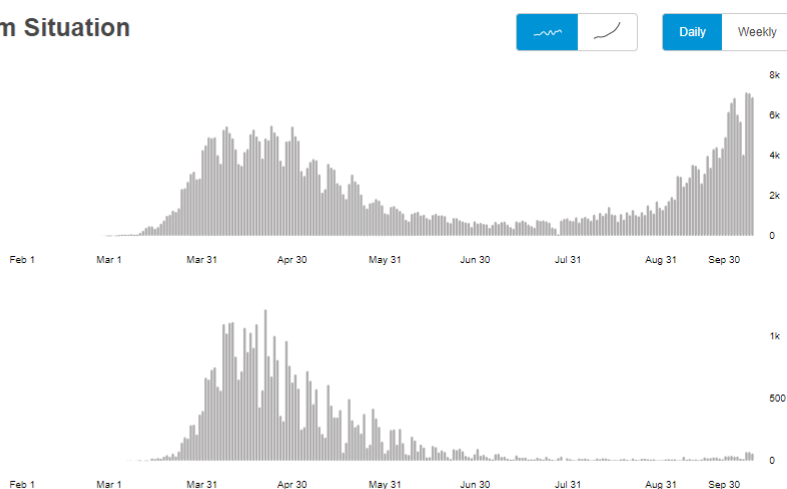
In conclusion, I'd point out that the situation is very unclear and only the next 2, 3 weeks will really tell whether we are at a tipping point. If the number of deaths stay low, it could mean that the virus has weakened and/or that most vulnerable people already have died and/or those vulnerable people shield themselves much better from the virus than in the past.

Graph 1)

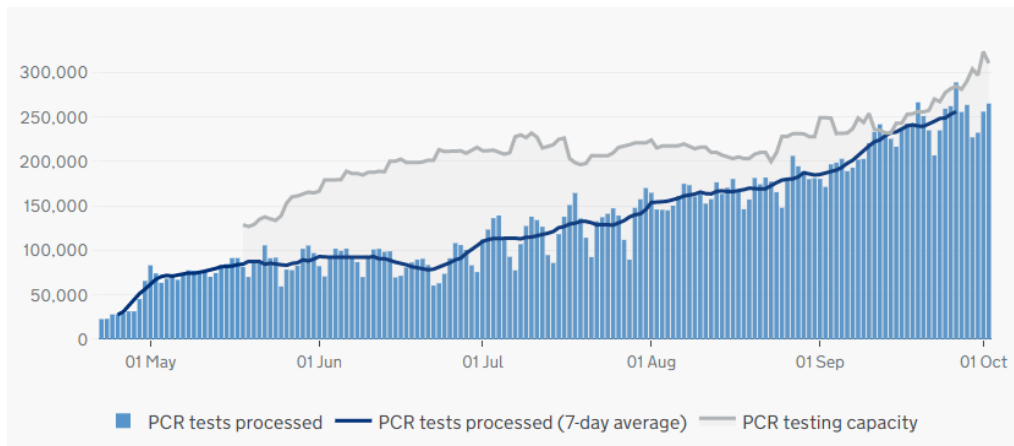
The United Kingdom Situation

460,182
confirmed cases

42,202
deaths

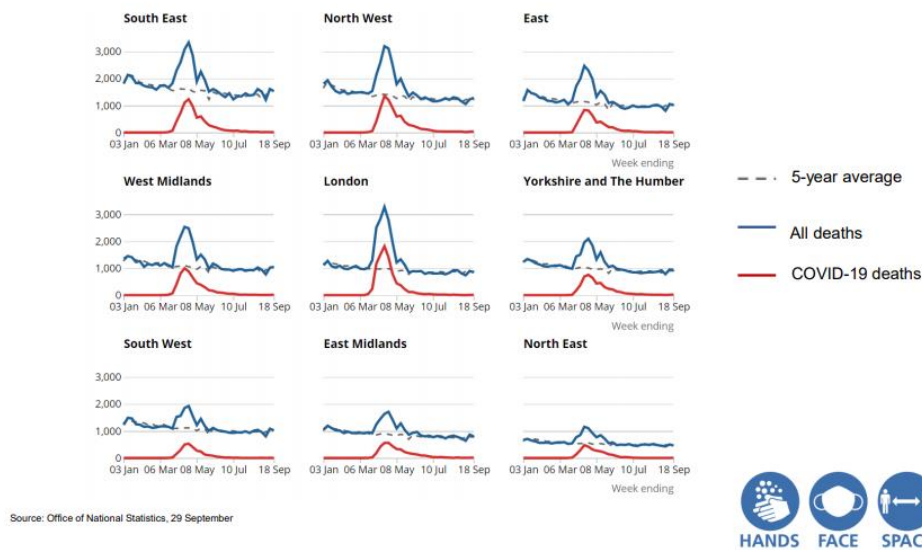


Graph 2)



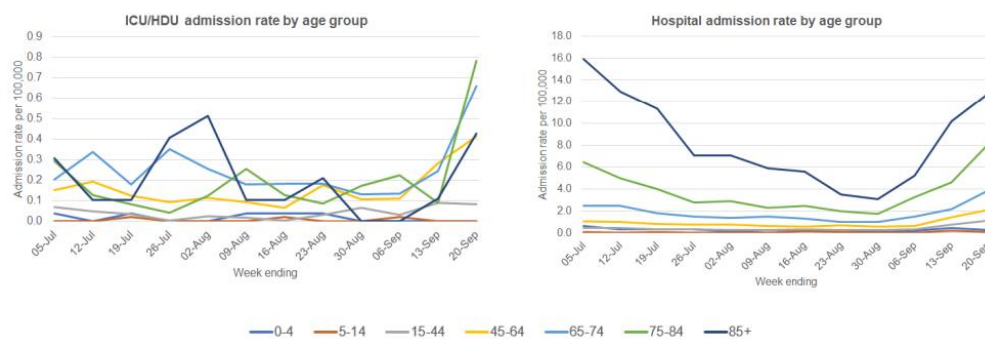
Graph 3)

All-cause mortality and COVID deaths up to 18 September

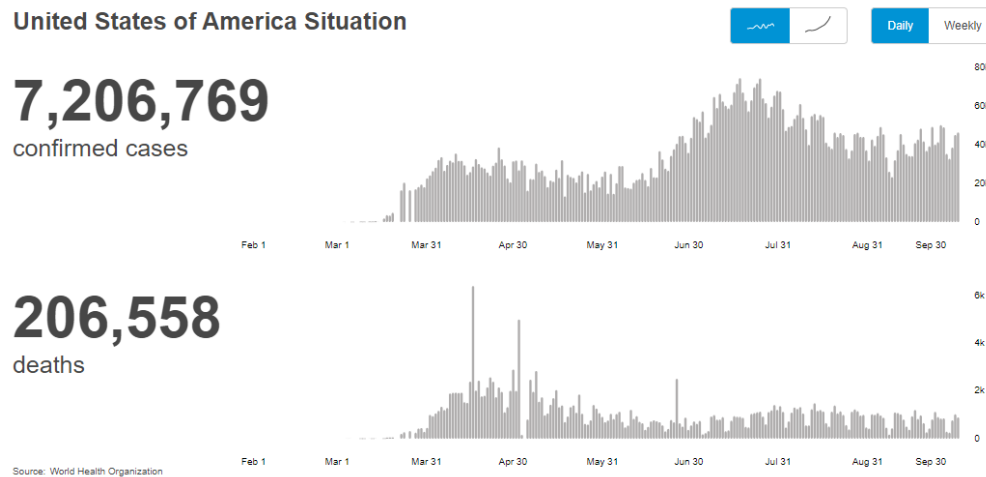


Graph 4)

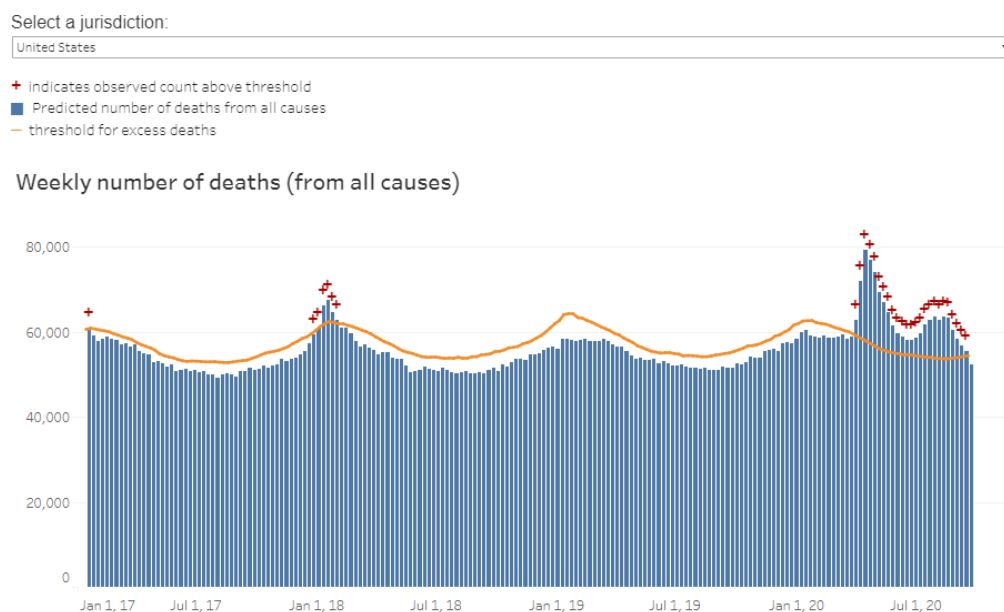
ICU/HDU admission rate and hospitalisations by age group



Graph 5)



Graph 6)



Another topic, I'd like to dive into before focusing on our performance, is the movement away from carbon-intensive energy to carbon-neutral energy usage, of which the transportation industry is affected the most. Below I have included graph 7, which is comparing different vehicle engine sales for the month of August and year-to-date in the UK. From this table, the most interesting number are the BEV, PHEV and HEV market share, which increased from 6.3% in 2019 to 14.5% of total sales. At the same time, while Petrol lost around 5% in market share, MHEV petrol pretty much closes the gap, which means there are some people buying hybrid petrols rather than pure petrol cars. These hybrid petrol cars only cost around £2,000 more than a normal petrol car and have around 15-20km in electric distance, and for most of the time, the electric battery is being charged by the petrol motor. Meanwhile, Diesel car sales, including MHEV diesel, are down by around 7% year-on-year and you can pretty much say that those losses of diesel sales are being taken up by electric vehicles.

The electric movement is definitely having a strong fan base. However, I don't expect sales to be more than 15% for the foreseeable future given high unemployment and the higher price of electric vehicles vs petrol vehicles (despite government incentives). The FT also reported this weekend that used car sales are having a comeback. Personally, for me it would only make sense to buy an electric vehicle, if I have my personal charging station that is designated for me only or if the charging times get dramatically reduced to something like 5 minutes.

In conclusion, while crude demand will remain depressed in the shorter term, the crude oil business can remain profitable, as new tools, low interest rates makes exploration and production cheaper than it has been in the past.

Graph 7)

August 2020 and Year-to-Date

August					
	2020	2019	% change	Mkt share -20	Mkt share -19
Diesel	14,296	23,637	-39.5%	16.4%	25.5%
Petrol	49,376	57,889	-14.7%	56.6%	62.5%
BEV	5,589	3,147	77.6%	6.4%	3.4%
PHEV	2,922	910	221.1%	3.3%	1.0%
HEV	5,542	4,011	38.2%	6.4%	4.3%
MHEV diesel	2,973	1,361	118.4%	3.4%	1.5%
MHEV petrol	6,528	1,618	303.5%	7.5%	1.7%
TOTAL	87,226	92,573	-5.8%		

Year to date					
	YTD 2020	YTD 2019	% change	Mkt share -20	Mkt share -19
Diesel	162,097	401,870	-59.7%	17.7%	26.5%
Petrol	543,376	981,476	-44.6%	59.3%	64.6%
BEV	44,708	17,393	157.0%	4.9%	1.1%
PHEV	29,877	17,818	67.7%	3.3%	1.2%
HEV	57,649	60,765	-5.1%	6.3%	4.0%
MHEV diesel	30,867	13,630	126.5%	3.4%	0.9%
MHEV petrol	47,041	26,064	80.5%	5.1%	1.7%
TOTAL	915,615	1,519,016	-39.7%		

BEV - Battery Electric Vehicle; PHEV - Plug-in Hybrid Electric Vehicle; HEV - Hybrid Electric Vehicle, MHEV - Mild Hybrid Electric Vehicle

Performance

Finally, I'd like to look in depth at our performance in Q3. Quarter-on-quarter we lost 2.57%, which reduces our performance since inception to 6.75%. Steady cash inflows enabled me to pick up cheap stocks and buy more of what we had in Reach Plc and Ferrexpo Plc at a lower price. In addition, I have sold our position in Premier Foods at a profit of over 71% and have added two new positions: Hunting Plc, an oil & gas equipment manufacturer, and Centrica, a UK based utility company. While Reach and Centrica have been profitable at this stage, Hunting and Enquest have been losing 30 and 20% respectively amid the recent oil drop. In addition, Ferrexpo, our iron ore producer, has lost 10% over the last two weeks amid worries of an end of China's construction boom (which I disagree with).

Performance explanation

As usual, in this section I dive into the details of our positions and lay out explanations of losses, gains, sells and buys.

I'd like to start with Premier Foods and the reason why I sold the company was that it reached my fair value target price. There were a few additional drivers that led me to conclude the sale, which are 1. Two major shareholders began selling their stake, 2. The company continues to remain high debt levels and a dividend is not in close sight, 3. I did not expect a 2nd lockdown and would have thought this in result leads to less cooking at home (which I was wrong on), 4. Their company governance raised questions, as they pay their CFO only ¼ of what they pay their CEO and COO, which is very unusual & the company has been misleading investors by stating that high profitability has been driving early debt redemptions, but in fact they just used lower interest rates to borrow via their credit revolver and repay long dated debt, saving them 1% in interest rate costs.

We increased our share in Reach Plc as the stock was beaten down badly to below £200mio market capitalization. This turned out to be a great deal, as I bought at the lows and their half year report catapulted the shares above our average purchase price. Despite lower newspaper print sales, the company has reduced costs dramatically and increased digital sales and continues to be undervalued. In addition, we will receive a bonus dividend based on shares at the end of October, which are worth around 4.5%. The company remains debt-free and has positive cash flows of around 1/3 of market capitalization, which is much undervalued and we continue to remain a shareholder.

Next to Reach Plc, I bought additional shares in Ferrexpo Plc, which remains our largest holding. Ferrexpo, a Ukrainian iron ore miner, has continued to repay debt and are nearly debt-free. The company benefits from 5 year high Iron Ore prices and returns dividends to its shareholder on a nearly monthly basis (we are receiving a cash dividend on October 8th again. While the investigation into the company due to misappropriated money into charities is ongoing, the deadline will be at the end of this year and I expect the decision to be appealed, as it happened previously. In addition, while iron ore prices might have peaked, the fact that European steel mills have reopened, sales will be shifted away from China to Europe where higher margins can be achieved.

Our position in oil and gas producer Enquest Plc has suffered a 20% loss during Q3. The loss is mainly attributed to lower oil prices amid a slower than expected recovery in travel and transportation. The outlook for oil remains murky and it is a tough position to hold in the current environment, especially as the firm is not paying dividends and focused on debt reduction. However, Enquest is continuing to reduce operating costs, has positive cash flows and remains on target by reducing their debt. On top of that, Enquest is in talks with Exxon Mobil to purchase their North Sea and Malaysian assets, which, under the right conditions, should boost Enquest. At current levels, I'm looking to increase our position in Enquest.

As a new position in our portfolio, Hunting Plc performed terrible with a 31.5% loss. Hunting Plc is an oil equipment producer, which products are based on oil extraction. While the firm has a troubled outlook due to their exposure to shale oil/the Permian Basin (which might never reopen to levels seen at the beginning of the year), Hunting remains profitable, debt-free and continues to pay dividends (we are receiving a dividend at the end of this month). The company has made the right acquisitions over the last year to get out of this crisis stronger than before, in particular as some of its debt-ridden peers might not survive. At a current market capitalization of <£200mio, I am looking to increase our share.

Last but not least, I bought a small share in Centrica Plc, a UK based utility company that is the market leader in gas and electricity supply for UK and Ireland. The company has had a troubled last 5 years and saw its share price declining by over 80%. However, the firm recently sold its North American business and from the receipts it will be able to eliminate their pension deficit and reduce debt drastically. In addition, the focus on UK and Ireland is the right direction in an uncertain world of de-globalisation. Centrica has impaired most of its assets and continues to remain profitable on a cash flow basis. Despite the discontinuation of its dividend, I see the potential of its turn-around and look at increasing our position at current levels. If the oil and gas sector is recovering quicker than I expect, I can imagine selling Enquest and Hunting and increasing our position in Centrica accordingly. This remains to be monitored.

Learning Points

The losses in our Oil and gas sector, namely Enquest and Hunting, could have been avoided by waiting for the 2nd coronavirus wave, which was expected. During the summer it felt like travel could recover more quickly, but unfortunately the government responded by introducing new quarantine rules on an almost daily basis making it hard to travel abroad. In that respect, I was a bit too optimistic on the oil and gas sector. This is a hard critique point though, as you can never predict the future. Fact is that both companies remain profitable during very tough market conditions and I remain cautiously optimistic.

Outlook

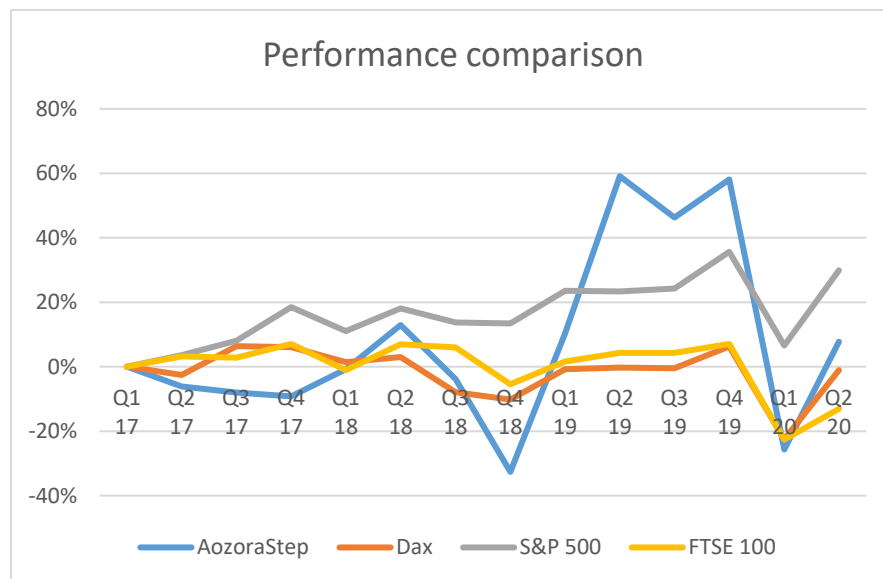
The outlook from here is extremely challenging, as mentioned due to the 2nd Coronavirus wave. I do expect we have the worst behind us and the governments won't allow another lockdown as it happened at the beginning of the year. All our companies are pretty much debt free, except Enquest and Centrica, but both can reduce their debt and have debt/EBITDA <2. In that respect, I expect a mixed 4th quarter with a return to profitability in Q1 21.

Best,

David

Performance

		Portfolio	
Year	Quarter	% change by Quarter	% change from inception
2017	Q1	-	-
	Q2	-8.37%	-6.17%
	Q3	-4.92%	-7.98%
	Q4	-1.34%	-9.21%
2017		-9.21%	-9.21%
2018	Q1	8.60%	-0.79%
	Q2	18.91%	12.91%
	Q3	-16.20%	-3.86%
	Q4	-29.94%	-32.64%
2018		-30.79%	-32.64%
2019	Q1	45.41%	10.36%
	Q2	38.99%	59.10%
	Q3	-0.01%	46.30%
	Q4	8.04%	58.07%
2019		113.15%	58.07%
2020	Q1	-43.28%	-25.72%
	Q2	41.87%	7.74%
	Q3	-2.57%	6.75%



Dividends Receipts

Dividends	Payment Date	Dividend per share	Currency
GKN	18th Sep 2017	0.03	GBP
Inmarsat	25th May 2018	0.06	GBP
Inmarsat	19th Oct 2018	0.06	GBP
Reach	7th June 2019	0.04	GBP
Covestro	17th Apr 2019	2.03	EUR
Renewi	26th Jul 2019	0.01	GBP
IAG	5th Dec 2019	0.10	GBP
Ferrexpo	7th July 2020	0.05	GBP
Ferrexpo	28th Aug	0.05	GBP

Current Holdings

Company	Average Purchase Price	Current Market Price	Currency	% change	% of portfolio
Berkshire Hathaway	224.7000	212.8900	USD	-5.26%	0%
Hunting	1.8825	1.2880	GBP	-31.58%	13%
Enquest Oil Plc	0.1310	0.1046	GBP	-20.18%	13%
Ferrexpo	1.9703	1.7660	GBP	-10.37%	35%
Reach Plc	0.7468	0.7710	GBP	3.23%	31%
Centrica	0.3971	0.4090	GBP	3.00%	8%

Current holdings in % of portfolio

