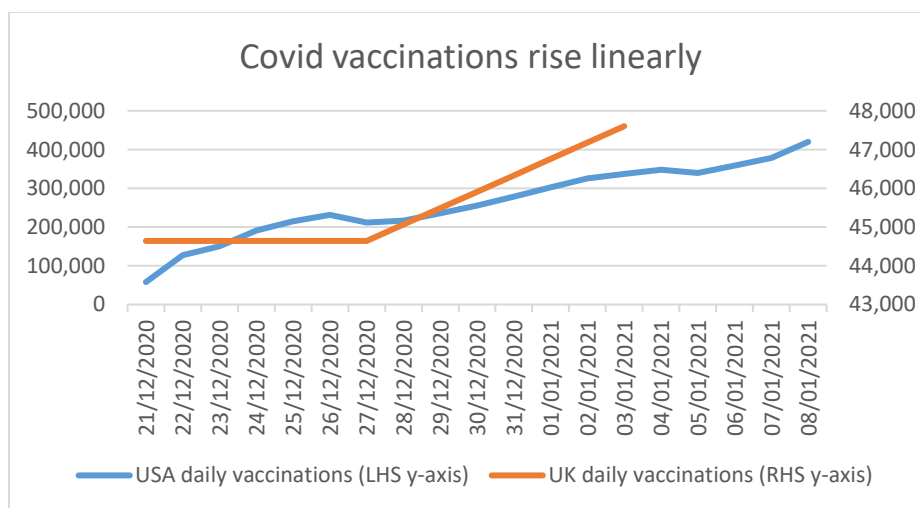




10th January, 2021

Dear Investor,

2020 has come to an end, but the pandemic is still with us in full swing. And while stock markets around the world have hit new near- or all-time highs, we face new lockdown restrictions to a similar degree as in March last year. What makes valuations different now vs. March 2020 when stock markets lost 50% in a matter of weeks? Investors now have a clear time-line in the roll out of vaccinations. The US is currently vaccinating nearly 500,000 people per day, the UK has similarly vaccinated around 50,000 people a day and is expected to hit 200,000 people a day by next week, as Boris Johnson plans to let the military help delivering the vaccine. Both countries have vaccinated around 2% of the population at this stage.



Online Source: <https://ourworldindata.org/covid-vaccinations>

Since 80% of all deaths by Covid-19 are aged 70 or above, the priority lies to vaccinate the older population as well as vulnerable first. The UK has indicated that by mid-February 2021 this vulnerable group of 70+ aged will all be vaccinated. This is why the market is not in decline. When looking at the data, however, the goal of mid-February vaccinations plans seem rather optimistic, as outlined below.

Country	USA	UK
Population in mio over 65 years old	52.5	12.7
Population over 65 years old left to be vaccinated	45.5	11.0
Mio Vaccinations per week needed to vaccinate by mid Feb	9.1	2.2
Current mio vaccinations per week	3.5	0.5
Near-term goal mio vaccinations per week	-	1.4

Source: WorldBank, Office of National Statistics

As can be seen, the mid-February deadline is unlikely to be hit, especially when you add the 2 week lag of vaccinating the 2nd jab. However, we can assume that by roughly mid/end of March 2021 most vulnerable people have been vaccinated. The big problem remains that until end of March 2021, more and more countries register the new much more infectious Covid-19 strain and tighten lockdown measures accordingly – even Sweden, one of the few countries that had no lockdown during 2020, is preparing for a lockdown now.

Yet, despite this relatively grim near-term outlook, company valuations hit all-time highs and in particular the Electric Vehicle (EV) industry is a front-runner here. Just how high valuation really stand can be displayed below where you can see that Tesla alone is more valuable than the currently 10 largest automotive companies. Valuations increased 8-fold for EV makers, yet remained stable for the 10 largest automotive companies in 2020. What is even more astonishing than the sky-high valuations, are that revenues of the 10 below listed EV related companies are a meager 2% of those of the 10 largest automotive companies and, bar Tesla, all posting losses (Luminar Technologies earns interest on its cash). This is a supercharged bubble that only compares to the dotcom bubble in 1999.

Company	Valuation 1st January 2020	Valuation 31st December 2020	Revenue 2020	Net profit 2020
Tesla	US\$ 81bn	US\$ 668bn	US\$ 25bn	US\$ 700mio
Nio	US\$ 5.8bn	US\$ 76bn	US\$ 2.5bn	US\$ -560mio
QuantumScape	US\$ 1.5bn	US\$ 29bn	0	US\$ -6mio
Plug Power	US\$ 1.4bn	US\$ 15bn	US\$ 250mio	US\$ -150mio
Luminar Technologies	US\$ 3.3bn	US\$ 11bn	0	US\$ 20mio
Ballard Power Systems	US\$ 2.25bn	US\$ 6.6bn	US\$ 100mio	US\$ -40mio
Nikola	US\$ 3.9bn	US\$ 5.8bn	0	US\$ -300mio
MP Materials	US\$ 1.5bn	US\$ 5bn	0	US\$ -12mio
Bloom Energy	US\$ 1.3bn	US\$ 4.7bn	US\$ 750mio	US\$ -170mio
Velodyne Lidar	US\$ 1.7bn	US\$ 3.8bn	US\$ 110mio	US\$ -45mio
Total	<u>US\$ 103.65bn</u>	<u>US\$ 824.9bn</u>	<u>US\$ 28.71bn</u>	<u>US\$ -563mio</u>

Company	Valuation 1st January 2020	Valuation 31st December 2020	Revenue 2019	Net profit 2019
Toyota	US\$ 239bn	US\$ 252bn	US\$ 248.6bn	US\$ 14.4bn
Volkswagen	EU€ 96.4bn	EU€ 81.4bn	US\$ 247.4bn	US\$ 6.4bn
Daimler	EU€ 54bn	EU€ 62.4bn	US\$ 174.6bn	US\$ -310mio
Ford	US\$ 36.7bn	US\$ 34.3bn	US\$ 130.4bn	US\$ -2.1bn
Honda	US\$ 52.8bn	US\$ 50.6bn	US\$ 120.7bn	US\$ 1.9bn
BMW	EU€ 48.4bn	EU€ 47.1bn	US\$ 116.7bn	US\$ 5.5bn
General Motors	US\$ 53.5bn	US\$ 59.6bn	US\$ 115.8bn	US\$ 1.7bn
Fiat Chrysler	EU€ 20.7bn	EU€ 22.7bn	US\$ 98.8bn	US\$ -1.5bn
Hyundai	US\$ 26bn	US\$ 43bn	US\$ 85.4bn	US\$ 1.6bn
Nissan	US\$ 25.7bn	US\$ 23bn	US\$ 80.2bn	US\$ -8.9bn
Total	<u>US\$ 677.33bn</u>	<u>US\$ 698.47bn</u>	<u>US\$ 1.418trn</u>	<u>US\$ 18.69bn</u>

Source: Yahoo Finance

In 2021 a lot of new electric vehicles will be released for sale – many of those cars are, however, from the current 10 largest automotive companies. Furthermore, the prices of the electric vehicles vs. a comparable non-electric vehicles are on average £13,000 more expensive. While you save on running costs with an electric vehicle vs. a regular combustion engine + receive government incentives (in the UK up to £3k, Germany up to €9k per vehicle), the gap is still quite wide. In areas like London, however, this gap shrinks further by adding incentives on parking (savings as much as £25 per day) and Ultra low emission zone (ULEZ – although many cars are exempt) of £12.5 per day, if used daily this would result in additional running costs of over £4,500 annually. This means in certain regions certainly there will be a rise in electric vehicles, but the share will likely be still small. According to IEA 2019 EV sales were only 2.6% of all global car sales, yet a year-on-year 40% increase. Even if this number increases by 50% every year, this would still take a few years to really have an impact on, say, oil demand. Finally, according to Tootle in 2018 the average car ownership length in the US stands at merely 20 months – given the lack of EV charging station infrastructure likely a reason for people to continue buying congestion engine cars in 2021, in particular in emerging markets.

Electric car	Electric vehicle price	Equivalent non-electric vehicle price
Audi Q4 e-tron	£50k	£25k
BMW iX	£58k	£40k
Citroen e-C4	£29k	£21k
Cupra El-Born	£40k	-
Fiat 500 e	£28k	£11k
Ford Mustang March-E	£40k	£38k
Jaguar XJ e	-	£54k
Lexus UX300e	£41k	£30k
Mercedes EQA	£35k	£24k
Mercedes EQC	£67k	£45k
Mercedes EQS	-	£77k
Mercedes EQV	£71k	£55k
Polestar 2	£50k	-
Porsche Taycan Cross Turismo	£90k	£69k
Rivian R1T	£55k	-
Skoda Enyaq iV	£30k	£20k
Tesla model Y	£26k	-
Volkswagen ID.3	£32k	£23k
Volkswagen ID.4	£41k	£32k
Volvo XC40 Recharge	£38k	£24k

Source: Websites of car makers

This brings me to our performance in the last quarter of 2020...

Performance

After a mediocre third quarter 2020, the 4th quarter reaped profits of over 76% bringing our performance in 2020 to 52% and since inception to over 80%. The bulk of the performance was generated with our holdings in Reach Plc, which more than doubled in value and was sold at 165 pence bringing the total returns to over 117%. I used the proceeds to increase our holdings in Centrica, Enquest and Hunting plc, while keeping our holding in Ferrexpo stable. All four holdings, Centrica, Enquest, Hunting and Ferrexpo increased returns by 8% to 73% each quarter-on-quarter.

Performance explanation

Our portfolio consists mainly of commodity related stocks now, Ferrexpo – iron ore, Enquest, Hunting and Centrica – oil & natural gas, which is why our portfolio has been doing so well in Q4 2020. Iron ore prices have risen by over 40%, oil prices have climbed over 35% in Q4 2020. Gas prices have nearly doubled since July 2020.

Iron ore prices are supported by China's infrastructure spending programme, but supply disruptions from Brazil also helped prices to climb so rapidly. Key here is that there are different qualities of iron ore and our holding, Ferrexpo, is producing only the higher quality 65% Fe iron ore pellets. Towards the end of 2019, the Chinese Communist Party also directed its steel producers to reduce CO2 emissions in the cold winter months by shifting production towards the higher quality pellets. While the pellet premium for 65% Fe was \$24 in Q4, it is expected to rise in Q1 2021 and at the beginning of January it was already at nearly \$40. But there are also some headwinds for the higher 65% Fe pellets, as Brazil's Samarco will restart production of 7-8mio annual tons of pellets after a 5yr production restriction due to the Dam disaster in 2015. Then quite recently, Hebei's province, a major steel producing hub in China, was put into lockdown amid a new local outbreak in coronavirus cases. Quite a puzzle, and hence difficult to see a direction of where we are going from here. The lower grade 62% Fe is currently priced close to \$170 per ton, which is close to its historic highs. Despite Ferrexpo reaching close to my valuation target of \$3bn and signs emerging of a more supplied and stable market in 2021, it is tempting to hold Ferrexpo longer, as the company is expected to have repaid nearly all its debt, doubled its interim dividend, increased its production from 10mio to 12mio tons per year and has limited capital expenditures planned over the near to medium term.

The oil price recovery has been equally strong, and yet, oil producers and oil service companies still lack the gains of oil. Enquest is lagging behind the oil rally by a good amount, as its net debt increased in the third quarter of 2020 due to payment-in-kind coupon of its 2023 bonds and has shifted focus back to its balance sheet. Nevertheless, at current oil prices of ~\$53 and daily production of a conservative 55,000 Boepd, Enquest achieves a \$1.1mio earnings before interest, taxes, depreciation and amortization per day (\$402mio per year vs. \$120mio capital expenditures) and is free cash flow breakeven with an oil price of \$33/Boe. In its half-year report the company aims to target a free cash flow breakeven oil price of \$27/Boe in 2021. With a net debt of \$1.35bn and equity valuation of \$300mio, Enquest is well positioned with oil prices above \$50 a barrel.

Hunting has somewhat more benefitted from the recent oil price surge – at least in terms of its market capitalization gains. Hunting, as an oil service tools/perforating tools provider has a large proportion of its earnings tied to US shale oil production, hence rig count in the US is key for Hunting to generate revenue.

While oil rigs have declined from 790 in February 2020 to merely 244 rigs in August 2020, oil production in the US meanwhile only declined from 12.7mio barrels a day in February 2020 to 10.4mio barrels a day in October 2020. However, since the low in rig counts in August 2020, we have seen a linear rise with the latest rig count of 360 according to Baker Hughes – a 7th-straight weekly rise. The IEA expects US production to move towards 11.4mio barrels a day in March 2021, however, Art Berman, a geologist and oil driller, has presented his thoughts on the time length between adding a tight oil rig and producing oil to as much as 1 year vs. EIA's assumption of only 2 months¹. According to Berman this would mean another reduction in oil output from the US by 1mio barrels a day by mid-2021, since the first rise in oil rigs occurred in September 2020 and hence the time lag between maturing rigs and new producing rigs could actually lead to a decline in US oil production, as on existing wells, production declines at a rate of 43% annually between 2015 and 2020. Together with Opec's readiness of keeping supply constant, this could push oil prices meaningfully higher by mid-2021 and demand for Hunting's oil perforating products could soar. With no debt and a small dividend payment during one of Hunting's toughest years, the company stands to benefit strongly with a recovery in oil prices to hold.

Last but not least, Centrica, the British Gas owner energy retailer, has received \$3.63bn (equivalent to Centrica's net debt) from its US operation sale, of which it will pay back part of its debts and reduce its pension deficits. I am expecting a conservative free cash flow of over £1bn in 2020, of which the US operations make up less than 1/3. Hence, going forward with free cash flows of around £700mio, the company remains undervalued at £3bn market capitalization. In comparison, SSE, a competitor is valued at £16.8bn market capitalisation with free cash flows of £500-700mio and net debt of over £10bn (albeit SSE is not really an energy retailer). There are some headwinds though, as the UK government has extended price caps and more regulation on utility firms until end of 2021 to ensure consumers are not overcharged. In its half-year presentation, Centrica also notes to expect a pension deficit of £2.4bn on a roll-forward basis as of 30th June 2020, which could mean that almost the entire proceeds of the US sale could be used to pay down the pension deficit.

Learning points

As usual, I am making mistakes, and this is no different in Q4 2020. Although I was quite content with selling Reach at a 117% profit and reaching my target valuation, I could have been once more a little bit more patient in waiting for another trading update, which was released in early 2021. This trading update stated once more profits ahead of expectations and pushed my own valuations higher by another 40%. Patience is a virtue that keeps on giving, if you run your numbers correctly and give it time for achievement. I have to learn to adhere to it!

Outlook

The current outlook remains murky, as the new Covid strain appears in countries around the world, which could lead to a lockdown situation globally similar to the one in March 2020. The big question is how markets react this time, especially given the fast V-shaped recovery in company valuations since the bottom

¹ <https://www.macrovoices.com/guest-content/list-guest-publications/4009-art-berman-macrovoices-jan-7-2021/file> - free sign up to macrovoices required

in March 2020. In addition, the vaccine rollout takes up speed and according to my estimates the current lockdowns will end around April 2021 – a long lasting lockdown, which could impact supply chains once more. Nonetheless, saving rates have been high during lockdowns and governments step in for lost revenue. This combination leaves governments indebted and central banks will be forced to keep interest rates low for the foreseeable future. A nice cocktail that should boost market valuations...

Supply chain disruptions, however, need to be closely monitored during this year. The recent supply shortage of automotive chips has left automotive companies reducing their production forecast. These disruptions could lead to price pressure and change valuation models drastically.

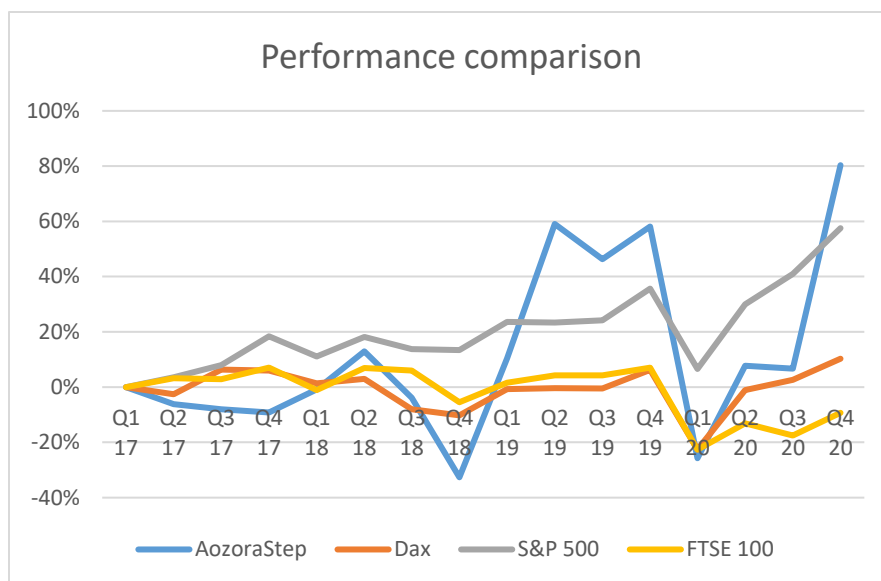
Last but not least, there are currently two companies on my radar, BT Group and Gem Diamonds, which could be potential holdings in the next quarter based on valuations and earnings outlook.

Best,

David Herrmann

Performance

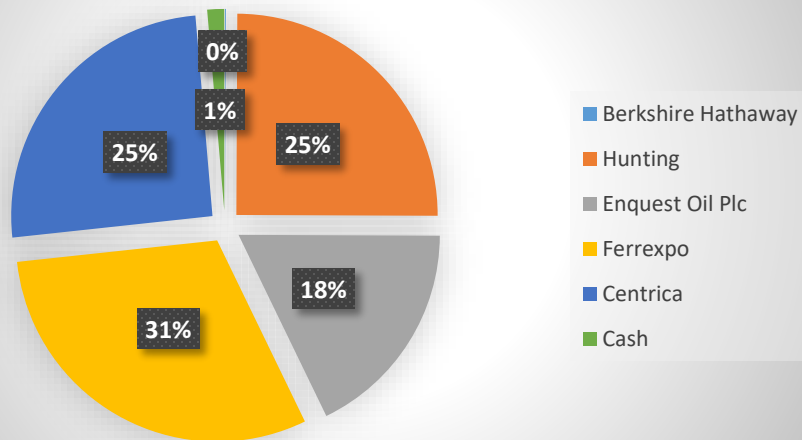
		Portfolio	
Year	Quarter	% change by Quarter	% change from inception
2017	Q1	-	-
	Q2	-8.37%	-6.17%
	Q3	-4.92%	-7.98%
	Q4	-1.34%	-9.21%
2017		-9.21%	-9.21%
2018	Q1	8.60%	-0.79%
	Q2	18.91%	12.91%
	Q3	-16.20%	-3.86%
	Q4	-29.94%	-32.64%
2018		-30.79%	-32.64%
2019	Q1	45.41%	10.36%
	Q2	38.99%	59.10%
	Q3	-0.01%	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%
	Q4	76.30%	80.34%
2020		52.43%	80.34%



Holdings

Company	Average Purchase Price	Current Market Price	Currency	% change	% of portfolio
Berkshire Hathaway	224.7000	231.870	USD	3.19%	0%
Hunting	1.8762	2.2300	GBP	18.86%	25%
Enquest Oil Plc	0.1192	0.1130	GBP	-5.17%	18%
Ferrexpo	1.9703	2.8260	GBP	43.43%	30%
Centrica	0.4290	0.4652	GBP	8.45%	25%
Cash	-	-	GBP		1%

Current holdings in % of portfolio



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 2020	0.05	GBP
Ferrexpo	12th Oct 2020	0.05	GBP
Hunting	23rd Oct 2020	0.02	GBP

All transactions

Date	Buy	Sell	Price	CCY	Company	Average purchase/ sale price
19 May 2017	Buy		3.52	GBP	GKN	3.52
29 June 2017	Buy		0.33	EUR	NBG	2.88
04 July 2017	Buy		0.34	EUR	NBG	2.88
18 September 2017	Buy		0.27	EUR	NBG	2.88
01 February 2018	Buy		0.29	GBP	Enquest	0.29
16 January 2018		Sell	4.12	GBP	GKN	4.12
26 January 2018	Buy		5.15	GBP	Inmarsat	4.32
01 February 2018		Sell	0.38	GBP	Enquest	0.38
09 February 2018	Buy		4.45	GBP	Inmarsat	4.32
26 February 2018	Buy		1.08	EUR	GBPEUR Call Option	1.08
21 March 2018		Sell	1.10	EUR	GBPEUR Call Option	1.10
11 April 2018	Buy		0.28	EUR	NBG	2.88
04 May 2018	Buy		3.98	GBP	Inmarsat	4.32
21 August 2018	Buy		78.80	EUR	Covestro	52.82
21 August 2018	Buy		0.24	EUR	NBG	2.88
14 February 2019	Buy		48.91	EUR	Covestro	52.82
15 February 2019	Buy		3.75	GBP	Inmarsat	4.32
14 March 2019	Buy		0.62	GBP	Reach	0.62
27 March 2019		Sell	5.53	GBP	Inmarsat	5.53
28 March 2019	Buy		0.19	GBP	Enquest Plc	0.20
03 April 2019	Buy		0.24	GBP	Renewi	0.24
15 May 2019		Sell	0.80	GBP	Reach	0.80
15 May 2019	Buy		0.20	GBP	Enquest Plc	0.20
03 July 2019	Buy		15.03	EUR	Lufthansa	15.03
10 July 2019		Sell	2.27	EUR	NBG	2.27
17 July 2019	Buy		43.05	EUR	Covestro	52.82
07 August 2019		Sell	0.29	GBP	Renewi	0.29
09 August 2019	Buy		4.50	GBP	IAG	4.50
06 January 2020		Sell	15.22	EUR	Lufthansa	15.22
06 January 2020		Sell	36.45	EUR	Covestro	36.45
06 January 2020		Sell	6.05	GBP	IAG	6.05
14 January 2020		Sell	0.26	GBP	Enquest Plc	0.26
31 January 2020	Buy		224.70	USD	Berkshire Hathaway	224.70
12 February 2020	Buy		1.70	GBP	Galliford Try	1.70
12 February 2020	Buy		2.14	GBP	Costain	1.98

Date	Buy	Sell	Price	CCY	Company	Average purchase/ sale price
13 February 2020	Buy		1.17	GBP	Kier Group	1.18
02 March 2020	Buy		0.36	GBP	Premier Foods	0.35
02 March 2020	Buy		0.33	GBP	Premier Foods	0.35
06 March 2020	Buy		1.18	GBP	Kier Group	1.18
06 March 2020	Buy		1.65	GBP	Costain	1.98
06 May 2020		Sell	0.81	GBP	Kier Group	0.81
06 May 2020		Sell	0.79	GBP	Costain	0.79
07 May 2020		Sell	1.43	GBP	Galliford Try	1.43
14 May 2020		Sell	0.45	GBP	Premier Foods	0.45
03 June 2020	Buy		0.13	GBP	Enquest Oil Plc	0.12
10 June 2020	Buy		2.08	GBP	Ferrexpo	1.97
10 June 2020	Buy		0.91	GBP	Reach Plc	0.75
11 June 2020	Buy		0.94	GBP	Reach Plc	0.75
11 June 2020	Buy		1.90	GBP	Ferrexpo	1.97
16 June 2020	Buy		0.14	GBP	Enquest Oil Plc	0.12
17 June 2020	Buy		0.53	GBP	Premier Foods Plc	0.53
28 July 2020	Buy		0.68	GBP	Reach Plc	0.75
14 August 2020	Buy		1.94	GBP	Hunting	1.88
19 August 2020		Sell	0.89	GBP	Premier Foods Plc	0.89
26 August 2020	Buy		0.54	GBP	Reach Plc	0.75
27 August 2020	Buy		1.85	GBP	Ferrexpo	1.97
03 September 2020	Buy		1.57	GBP	Hunting	1.88
28 September 2020	Buy		0.40	GBP	Centrica	0.43
02 November 2020	Buy		0.09	GBP	Enquest Oil Plc	0.12
25 November 2020		Sell	1.65	GBP	Reach Plc	1.65
04 December 2020	Buy		0.45	GBP	Centrica	0.43
04 December 2020	Buy		1.87	GBP	Hunting	1.88
04 December 2020	Buy		0.11	GBP	Enquest Oil Plc	0.12
18 December 2020	Buy		0.42	GBP	Centrica	0.43