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|OVMK| VERMOGENSBEHEER

Quarterly report Q4 2024

Last quarter we made a start on repositioning some of the names in the portfolio. In the coming months we'll work towards constructing a more diversified portfolio with a greater focus on cashflow generation. The extent to which companies generate a sound cashflow ultimately forms the basis for the dividends they're able to pay to shareholders. Moreover, it creates capacity for additional investment, debt reduction and/or shareholder-friendly initiatives, such as share buyback programmes. It gives companies the freedom to grasp investment opportunities or take advantage of (excessively) low equity prices. This repositioning led to us making several changes to the portfolio in the last quarter. **Aker ASA**, **ABN AMRO, Chesnara, Bekaert, Fugro** and **Mitie Group Plc** have been added to the portfolio for the first time**.** We've also expanded our positions in **NN Group, Koninklijke Bam Groep, Knights Group** and **OneSavingsBank** (OSB Group). The position in **THG** has been sold in its entirety and the same goes for portions of the positions in **Fannie Mae** and **Himax**. We examine these transactions in more detail later in this report.

Developments in the core portfolio

The stocks of **Himax Technologies** stood out in December. Some analysts wrote about the possibility of Himax selling its Wafer Level Optics (WLO) technology to big chip companies such as TSMC and Nvidia. If it did, Himax would be able to profit from sizeable operating leverage. Himax has already manufactured more than 500 million optical components for 3D sensors and over 50 million imaging lenses for mobile devices. The WLO technology is used in a variety of applications, including Augmented Reality/Virtual Reality, holographic displays (3D screens that don't require 3D glasses) and medical inspection equipment.

This isn't the first time Himax's name has been linked to that of Nvidia, and we therefore continue to monitor developments with interest. The company in fact already has a partnership with Nvidia. Although Himax's revenue is highly sensitive to the economic cycle, we also note that it has a robust (debt-free) balance sheet, a management team with a generous dividend policy and high-grade technology that can contribute to digitisation and AI. On top of this, it recently initiated a new share buyback programme. The company's stocks soared in the wake of the analysts' report.

Developments of a different kind were to be found at **THG Plc.** THG plc is the online nutrition and cosmetics company from Manchester that we've reported on several times. Its management team finally announced the long-expected demerger last quarter. Hiving off the marketing and fulfilment division (Ingenuity) is aimed at unlocking the value the group theoretically represents. The idea has always been that the group is worth much more split into separate entities than in its current form.

However, using the company's equity capital to finance the demerger of Ingenuity was no longer an option and a share placement was needed to give this division sufficient capital to fund future investments. This also means that the rest of THG is left holding the group's existing debts.

The valuation at which Ingenuity was eventually split off stands in stark contrast to the management team's enthusiastic comments about this division over the past few years. One extremely negative element of the transaction is the fact that Ingenuity is being split off into an unlisted entity. This is an undesirable situation.

Given the deterioration in the company's operational performance, its lack of cashflow, debts that will almost all be held by the rest of THG as well as the actions of the management team, we decided not to wait any longer. We've sold the position in THG in its entirety.

Gemfields announced two auctions last quarter. Ruby and emerald auctions are always an important indication of revenue growth at Gemfields. It's clear that Gemfields is going through a rough patch. After the group realised record revenue and earnings in 2022 and 2023, demand for gemstones fell again and this unfortunately coincides with a substantial investment programme aimed at tripling production facilities in future. The upshot is that the financial position of Gemfields has deteriorated and it isn't expected to be able to pay dividends over 2024 and 2025.

Although the investment case is potentially promising in the long term once demand for gemstones recovers, we can identify risks in the short term. We've therefore reduced the size of the position in the portfolio. The remainder has been retained in the knowledge that its increased capacity could enable Gemfields to profit greatly when demand picks up again.

Fannie Mae was one of the companies at which a clear Donald Trump effect was visible last quarter. Trump is strongly in favour of removing this large US mortgage lender from conservatorship. The placement of Fannie Mae into conservatorship dates from the credit crisis in the first decade of this century. Trump's election as president has revived this idea and the price of Fannie Mae equities and derived instruments (such as preference shares) shot up as a result. The annual profit on Fannie Mae stocks was over 140% and on preference shares even exceeded 200%. As actually removing Fannie Mae from conservatorship is still a long way off and, rumour has it, would also be accompanied by a substantial share issue, we've decided to sell this position in stages and its weight currently accounts for about 0.5% of the portfolio.

Another development especially worth mentioning is the revised acquisition offer on waste recycling company **Renewi**. We wrote about Renewi's transition and interesting market position in an earlier report. The company extracted itself from a long-term loss-making contract for collecting household waste in the UK. Renewi is in an excellent position to profit from the further rollout of EU policy on sustainability and recycling. There was general price pressure on a variety of new commodities over the course of 2024, which resulted in companies trying to sell recycled products also experiencing price pressure. Combined with the sale of its UK operations (Municipal), this made 2024 a transition year for Renewi. A modest dividend was nevertheless paid for the first time.

It's easier said than done of course, but back in the second quarter we wrote that we couldn't rule out renewed interest in acquiring Renewi.

At the end of November, Macquarie Group (an Australian investment bank) made another attempt to remove the entire company from the stock exchange by offering GBP8.70 (EUR10.47) per share. The offer isn't final, but the board has recommended shareholders to accept it. This translates into a sizeable premium of over 50% versus the equity price prior to the offer. It just goes to show yet again how severely undervalued some companies are on the stock market.

More information on a couple of the new positions

Aker is an investment company whose interests are mostly in oil and offshore-related companies. The value of the investments is significantly higher than Aker's market value and its stocks are trading at a discount of about 25%. The biggest interest held by Aker is in Norwegian oil producer AkerBP. There are several exceedingly attractive aspects to AkerBP. It enjoys low production costs per barrel, rising dividend payments to shareholders, a robust balance sheet and sound production growth. Another significant investment is a 50.5% holding in Cognite. This tech company develops AI-related software and has undergone impressive growth in recent years. This growth isn't yet visible in Aker's book value because the value of Cognite is based on the last transaction value in 2021. If the management team decides to hold an IPO and float Cognite on the stock exchange, this would boost Aker's book value.

One positive development at Aker involves the dividend that Aker pays to its shareholders. In the past, the company has paid out 2%-4% of its intrinsic value. On publication of the third-quarter results, however, this target was increased substantially to 4%-6%. An attractive dividend was subsequently paid out in the fourth quarter. The potential stock market flotation of Cognite, adjustment of the investment policy to companies generating higher cashflows and amended dividend policy provide a foundation for more attractive dividends in coming years. Based on the dividend paid in 2024, the company's equities are trading at a dividend yield of 8.8%.

Chesnara is a British insurer specialising in the administration of life insurance and pensions that operates in the Netherlands, UK and Sweden. In the Netherlands the company is known for De Waard Verzekeringen which Chesnara acquired in 2015 and where it recently also took over Legal & General's Dutch insurance business. The company's robust balance sheet and growing portfolio of insurance books lead us to anticipate further acquisition activity in the next few months. This will ultimately give the dividend Chesnara pays another boost. The company has built up an impressive record in this respect in the past 20 years. Over this period, Chesnara has succeeded in increasing the dividend per share each year. Given its healthy balance sheet and sound operational growth, we expect it to be able to continue this track record and raise dividends in the next few years as well. The dividend yield on these stocks already stands at 9.3%.

OVMK Hong Kong Value Fund

News reports about two of our companies particularly caught our eye last quarter. **Brilliance**, BMW's partner in China, published an official dividend policy.

After selling a portion of its interest in the joint venture with BMW, it has repaid capital to its shareholders in recent years in the shape of special dividends. Due to the exceptional nature of these dividends, there was a lack of clarity about future payments and the formulation of an official policy has brought an end to this uncertainty. From now on, at least 50% of the company's profits will be paid out as a dividend. The equity price immediately responded positively to this news.

First Pacific likewise published positive news. We wrote about this new investment in our previous quarterly report and discussed the fact that the company could refloat parts of acquisition Metro Pacific at attractive valuations. In December, it announced in a press release its intention to split off the water company in the Philippines and give it a separate listing on the stock exchange. We expect this to boost the intrinsic value of First Pacific.

Finally, we would like to stress the exceptionally low valuations of our companies in Hong Kong. Their financial positions are robust, for example, and a considerable number of them even hold a larger net cash position on the balance sheet than their market value. They pay generous dividends too, which are currently generating a dividend yield of ~8% per year for the OVMK Hong Kong Value Fund.

OVMK Special Bond Fund

2024 was a below-average year for the OVMK Special Bond Fund at a return of about +4%. We made essential underlying adjustments to give new impetus to the bond portfolio after several investment cases were concluded. In the fourth quarter, for example, there was the early redemption of the **HKN 12% bond**, while a large portion of the **Genel 9.25% bond** was likewise redeemed, freeing up a substantial portion of the portfolio. We used some of the proceeds to expand our positions in the **DNO 9.25% bond**, **Enquest 9% bond** and **International Personal Finance 10.75% bond**.

Also worth mentioning in 2024 was the situation surrounding the **Aroundtown 1.625% bond**. We bought this bond in the summer of 2024 for 52% of its nominal value and were able to sell it at 97%. The reasons behind this price gain were a market overreaction, a sharp improvement in the balance sheet, improved operational cashflows and the German housing market picking up.

The portfolio mostly contains bonds that pay out an attractive coupon rate (see the top ten positions in the table below) plus what are known as **steepeners**. These steepeners earn a return of 3-5% per year with the option of additional payments if long-term interest rates are higher than their short-term counterparts.

Obligatie	COUPON
WEST BROMWICH BUILDING SOCIETY 4.5% PERP	4,50%
REA HOLDINGS PLC CUM PREF 9%	9,00%
ENQUEST 9.0% 27-10-27	9,00%
TITANIUM 2L BONDCO SARL 6.25% 14-01-31	6,25%
METRO BANK 12.0% 30-04-29 EMTN	12,00%
NORSKE OLJESELSKAP 9.25% 04-06-29	9,50%
SHAMARAN PETROLEUM 12.0% 30-07-27	12,00%
AROUNDTOWN FINANCE SARL 7.125% PERP	7,13%
JEFFERIES FINANCIAL GROUP AUTRE V+0.0% 31-07-37	0,00%
METRO BANK 14.0% 30-04-34 EMTN	14,00%
INTL PERSONAL FINANCE 10.75% 14-12-29	10,75%

On behalf of everyone at OVMK, we would like to wish you and your loved ones a healthy and prosperous 2025.