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|OVMK| VERMOGENSBEHEER

Quarterly report Q1 2025

The first quarter of 2025 made for a positive start to the portfolio's investment year. The portfolio reaped the rewards of investments added to the portfolio in 2024 and that was particularly obvious in those companies operating in the financial sector, such as banks and insurers. It wasn't just the financial sector that performed well either, as a positive sentiment was discernible across several sectors. Furthermore, it was the first time in a long time that the European markets had enjoyed a better quarter than their US counterparts.

Developments in the core portfolio

We've been active on several fronts in the past quarter. For example, in January we sold our equities in lime producer **SigmaRoc Plc**. From a risk perspective, we decided that the leverage combined with the market price had reached a level at which it made sense to take profit on the stocks and in doing so reduce the risk. In addition to SigmaRoc, we took partial profit on **Optima Health**. In the case of **DNO** and **BAM**, we took advantage of several instances of price weakness and strength to buy and sell. **McBride Plc** and **Grand City Properties** are new additions to the portfolio, and we briefly introduce these companies later in this quarterly report. We expanded the equity positions in **Aris Mining, Chesnara, Phoenix Group** and **Fugro**.

Banks and insurers in the Eurozone were head and shoulders above the rest this quarter. Until recently, markets had assumed that the interest margin banks earn on loans would shrink. The higher capital market yields have changed the perspective on this. Banks could profit from the higher yields, as well as from the multiple plans to boost the infrastructure and defence industries in Europe. This is one of the reasons for the upturn in government bond yields. Global trade is of course important too. The US administration's rather unpredictable trade policies obviously pose a risk to the global economy.

Our exposure to the financial sector via names such as **ABN AMRO, NN Group, OneSavingsBank, Phoenix Group Holdings, Chesnara** and **IPF** typically earns an extremely attractive dividend yield. All these equities enjoyed a strong first quarter of positive returns. Only the UK insurers underperformed in our opinion. This is why, for example, we used the publication of **Phoenix Group's** annual results to expand its position in the portfolio. We likewise gave UK-listed insurer **Chesnara** a bigger weight by buying more equities. Both companies are performing well based on cashflow generation and on top of this earn a sound dividend yield of over 9% per year.

The only name within the financial sector with a negative performance was **Cab Payments**. Cab processes payments from countries such as the US and Europe to hard-to-reach markets in Africa. Earnings per share dropped to 2 pence last quarter, which brings the total earnings per share over 2024 to 6 pence. Pressure on volumes and tighter margins were the reasons given for the underperformance. The company's management was unable to come up with any tangible forecasts for the new financial year but is doing all it can behind the scenes to position the company so that it can profit from a recovery in the industry.

Cab Payments has an almost debt-free balance sheet, but the business model requires investment in IT infrastructure and forex traders. Despite the poor operational performance, we cannot rule out competitor StoneX making another attempt to acquire the company.

McBride Plc is a new equity in the portfolio. Inflation has increasingly prompted consumers to opt for cheaper own brand goods in a bid to keep their grocery shopping affordable. This has led to growth in the manufacture of private label cleaning products. This trend gives McBride, as a manufacturer of cleaning products for own brands, an excellent opportunity to boost its revenue. The company's financial position has undergone a considerable improvement thanks to a recovery in margins. These margins had been under pressure, especially in 2022, because of sharply higher raw material prices. The current improvement in margins, in combination with higher revenue, will enable McBride to strengthen its balance sheet and resume dividend payments. McBride's low equity valuation together with its leading market position make it an interesting addition to the portfolio.

Grand City Properties is a real estate company that owns about 61,000 rental properties, mostly in Germany but also in London. The company has faced significant challenges in the last few years due to the higher interest rates, which have negatively impacted property values and made debt refinancing more expensive. This resulted in downgrades to valuations, which have since halted, and the market is now showing signs of recovery. A growing number of transactions, rising rents and persistently high demand for residential properties are contributing to the improved outlook. The recent headwind, however, means that its equities are still trading at a substantial discount of over 50%. We expect this undervaluation to decrease once dividend payments to shareholders can be resumed. It's likely that only a small dividend will be paid over 2024, but we anticipate improvements in this respect over the course of the current financial year, for instance due to the sale of part of the real estate portfolio.

The performance of **DNO ASA** stocks stood out as well. This Norwegian oil company, which operates in Kurdistan and the North Sea, reported two major oil discoveries in the past quarter. DNO has a strong track record: it continued to pay a dividend throughout the closure of the pipeline in Kurdistan (Iraq) and even raised the dividend in 2024. DNO's equities were added to the portfolio in 2022 after the successful delisting of RAK Petroleum. We bought and sold DNO stocks on several occasions last quarter to profit from various instances of price weakness and strength. DNO has a strong dividend yield. Moreover, it pays the dividend each quarter and this currently amounts to a reward of 9% per year versus the market price.

We certainly can't let the strong upsurge in the price of gold pass without comment either. Gold broke the psychological barrier of 3,000 US dollars per troy/ounce. In Canada-listed **Aris Mining**, we've held a company in the portfolio for several years that's been growing nicely and can profit from high gold prices. Aris has invested heavily in increasing production in recent years, and this certainly paid off in the fourth quarter of 2024. The idea is to increase production further in the next few years, with a view to extracting and subsequently selling gold at a cost base that is relatively low. The sector uses the term all-in sustaining costs (AISC). For Aris, these amount to 1,450-1,600 US dollars per troy/ounce.

The present high gold price is playing right into the hands of Aris. The company's market capitalisation has passed the 1 billion Canadian dollar mark in a sector that's also seeing merger and acquisition activity.

OVMK Special Bond Fund

The bond portfolio had a reasonably quiet but positive start to the year. One bright spot is that the underlying yield curve for steepeners is now positive. In other words, long-term yields are higher than short-term yields. Steepeners pay coupon interest when the difference is positive, and the bigger the difference (between long and short-term yields), the more interest is paid to the holder of the steepener bond.

A portion of the OVMK Special Bond Fund portfolio has been invested in this asset class for several years now. We're keeping an eye on trends in yields given our solid steepener issuers, which include BNP Paribas, Morgan Stanley and Jefferies. Even if no interest is paid, we'll still receive a return of 3-5% per year until the maturity date. Coupon rates can vary from 1% to as high as 12% per year.

We've spent the last six months extending the average duration of the portfolio and taking advantage of the opportunities on offer in the high yield segment. For example, we exchanged the Genel 9.25% 2025 bond for the **Genel 11% 2030 bond**. The **12% Shamaran 2027 bond** will in all probability be extended to 2029. We'd already added more the **9% Enquest 2029 bond** at the end of 2024.

In addition, we recently expanded the position in the **International Personal Finance (IPF) 10.75% 2029 bond**. IPF issues short-term loans for e.g. paying school fees, starting or upscaling small businesses. This gives it an orderly loan book and makes management of the company a relatively simple task. The European division and IPF Digital have performed especially well. The number of write-downs on loans remains at a low level. IPF can pay a sound dividend to shareholders (its shares are also held in the portfolio!) and an appealing rate of interest on the bonds. The bond price currently stands at about 110%. This is a sign of high investor confidence that IPF has its finances in order and the company is in a position to redeem the bond in 2029.

Finally, we took advantage of the robust pricing of **Metro Bank bonds** to take partial profit on these. Both Metro Bank bonds continue to perform well thanks to the British bank's improved balance sheet and strategic changes and form a sound foundation in the portfolio.

OVMK Hong Kong Value Fund

The Hong Kong Value Fund again closed the quarter down and this can be attributed in full to the difficult economic trends in China and geopolitical tensions between China and the US.

Although many of our portfolio companies continue to earn stable results, we're also seeing earnings and dividends being squeezed in a few cases. For instance, despite the consolidation in the sales market for electric scooter batteries, margins in this sector are being negatively affected by worse-than-expected demand and strong competition. In most cases, however, earnings have held up relatively well and companies are still paying out dividends that are as high as ever. Given the strong financial position, we also expect this to continue at the same rate in the coming years.

In light of the growing trade restrictions imposed on the US, it's important to note that the vast majority of these companies focus on the Chinese market and only rely on revenue from the West to a minor extent or not at all. Despite the tough economic and political situation, the extremely low valuations mean that we continue to be positive about our investments in Hong Kong.

Outlook

Since the start of April, global markets have been dominated by the escalating trade war unleashed by the US. The imposed tariffs have increased economic uncertainty worldwide. This was visible in the lower equity prices. Many government bonds in fact climbed in value, which inversely means that yields are lower. Although many companies will be affected by the trade war, it's difficult to say how much of a real impact this will have on earnings. It may be, as is being suggested in the media, that this is all a negotiating tactic of the US to trigger movement in the trade flows towards its own economy. It's worth remembering that the OVMK portfolio isn't immune to the risks currently impacting global markets. However, we would like to point out that there are plenty of companies in the portfolio with purely domestic or European operations or that will suffer very few repercussions from a trade war. Examples include Mitie Group, Knights Group, Optima Health, McBride and Begbies Traynor but also Dutch company BAM. Insurer Phoenix Group Holdings likewise has little exposure to market movements thanks to risk management. In some cases, we will be able to take advantage of the lower equity prices by buying stocks that are generally unaffected by the trade tensions but have declined in value anyway.