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PARTNERS

Q4 2024 INVESTOR UPDATE

Langdon Global Smaller Companies Fund AUT

Net Performance[1]	Q4 2024	YTD	1 Year	2 year	Since inception
Langdon Global Smaller Companies Fund	7.9%	22.5%	22.5%	26.4%	21.0%
Benchmark return**	9.2%	19.2%	19.2%	17.1%	15.0%
Value added	-1.3%	3.3%	3.3%	9.4%	6.0%

1 Performance numbers as of 31 December 2024. Performance numbers less than one year are cumulative while numbers greater than one year are annualised. Past performance is no guarantee of future results.

** Benchmark is MSCI World Small Cap Net Index for all periods. Please note that the Benchmark from inception to September 22, 2023, was MSCI World Small Cap Index

Company Highlight: Westaim - Good Things Happen to Good Companies

By a wide margin, the most impactful item to discuss is the transaction announced on October 9th. CC Capital, a private equity firm in New York run by one of Blackstone's most senior retired dealmakers, will invest $250 million USD into Westaim. This will provide a ~40% stake and a path to control the Board over time, subject to certain stock and business milestones. Longtime supporters will recall that we have owned shares in this company since the inception of our firm (and even before establishing Langdon). We have always had deep respect for the quality of its assets and the capabilities of its leadership team. This transaction, along with the highly successful IPO of Skyward Specialty Insurance, serves as third-party validation that our initial assertions appeared to be correct.

Westaim Stock Price History

Source: Bloomberg

For a refresher, Westaim is an investment holding company, specializing in acquiring and developing or restructuring businesses operating primarily within the global services financial industry.

While we have been fortunate at Langdon to enjoy extremely strong returns from our investment in Westaim it has very much been an "overnight success" a decade in the making. Since Langdon's first purchase in August 2022, we've earned 2x Multiple of Capital (MoC). [1]

Since 2014, Westaim's management team has worked tirelessly to build a private credit manager (Arena Investors) from scratch and to turn around a U.S. specialty insurance company (Skyward).

In 2024, they successfully exited their investment in Skyward, which has nearly tripled since its IPO in Q1 2023. Skyward, also held in our portfolio, has contributed meaningfully to returns. The exit delivered an approximate 2.5-3x MoC, translating to roughly a 13% gross annualized return (IRR) in USD—or closer to 15% in CAD. As shown below, their only other exit was a shorter hold, generating a 2x MoC and a 33% gross IRR in CAD.[1]

USD	JEVCO				HIIG/SKWD										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Outflow ($M)	$ (161.0)	$ -	$ 265.0	$ 265.0	$ (75.7)	$ (50.6)	$ -	$ -	$ -	$ -	$ (44.0)	$ -	$ -	$ 192.3	$ 256.3
Mgmt comp ($M)					$ 1.9	$ 1.7	$ 2.1	$ 3.0	$ 3.7	$ 3.7	$ 3.8	$ 5.0	$ 4.8	$ 16.0	**$ 10.0**
Net flows					$ (76.7)	$ (51.5)	$ (1.1)	$ (1.5)	$ (1.9)	$ (1.9)	$ (45.9)	$ (2.5)	$ (2.4)	$ 176.3	$ 246.3
- assume 50% of comp is for time spent on SKWD															

Source: Bloomberg – Past performance may not be indicative of future returns.

You must be asking: "How could this company still be trading below net cash on its balance sheet?" That is the very question we've been asking for most of the past decade—and it remains valid today!

The successful monetization of Skyward above where Westaim had it marked on its balance sheet at the end of 2022 attracted more investor interest in the material dislocation between price and value. It also brought in a highly experienced and successful investment firm (CC Capital), which will become Westaim's largest owner once the deal closes in Q1 2025. We were wall crossed on this transaction and voted in support of it. We believe it positions Westaim and Arena well to transition from a NAV-based valuation model to one that will eventually trade on earnings.

Regarding alignment between CC Capital and Westaim, there are conditions to be met before a full take private could be executed. CC Capital is not allowed to make a bid for the remainder of the company for 3 years post transaction close. In addition, CC Capital cannot elect a 6th board member, of the 11-person board, until the stock price goes above $48.00 CAD ($8.00 pre-share consolidation). These terms create a multi-year runway for the public market to sensibly value this company.[2]

Beyond injecting capital into Westaim above market price, CC Capital is also contributing talent and an insurance platform.[3] This platform will serve as the foundation for an insurance-led asset management firm, a model that has become a valuable driver of asset growth among alternative asset managers. Examples include Apollo/Athene, Ares/Aspida, Blackstone/F&G Annuities, and Brookfield/BIS. Westaim has already redomiciled to Delaware from Alberta, making it no longer a Canadian company (a reality we have argued for years). We expect several analysts to begin covering this company in its new incarnation in 2025.

There is much more to this transaction than we can cover in this letter. However, after several meetings with the incoming management team, we feel very optimistic about the company's future prospects. We also see low downside risk, with the stock still trading below cash value.

Portfolio Attribution for the Quarter[4]

Since the fund's inception, we have seen strong positive returns from three of our four core sectors: financials, industrials, and technology. The consumer sector, while also delivering positive returns, has been the weakest performer of the 4 sectors. Over the past 2–3 years, this sector has faced significant challenges, which we have covered extensively in prior updates.

In hindsight, we acknowledge that a smaller weighting in this area would have been more prudent. Since inception, the consumer sector's allocation has ranged between 21% and 31% of the portfolio. In response to ongoing headwinds, we have adopted a more selective approach, reducing its weighting to 23% by year-end, down from 29% at the start of 2024. Despite this reduction, the consumer sector remains our second-largest allocation. This reflects our belief that many of the portfolio companies in this space offer significant upside potential with limited downside risk when operating at normalized margins.

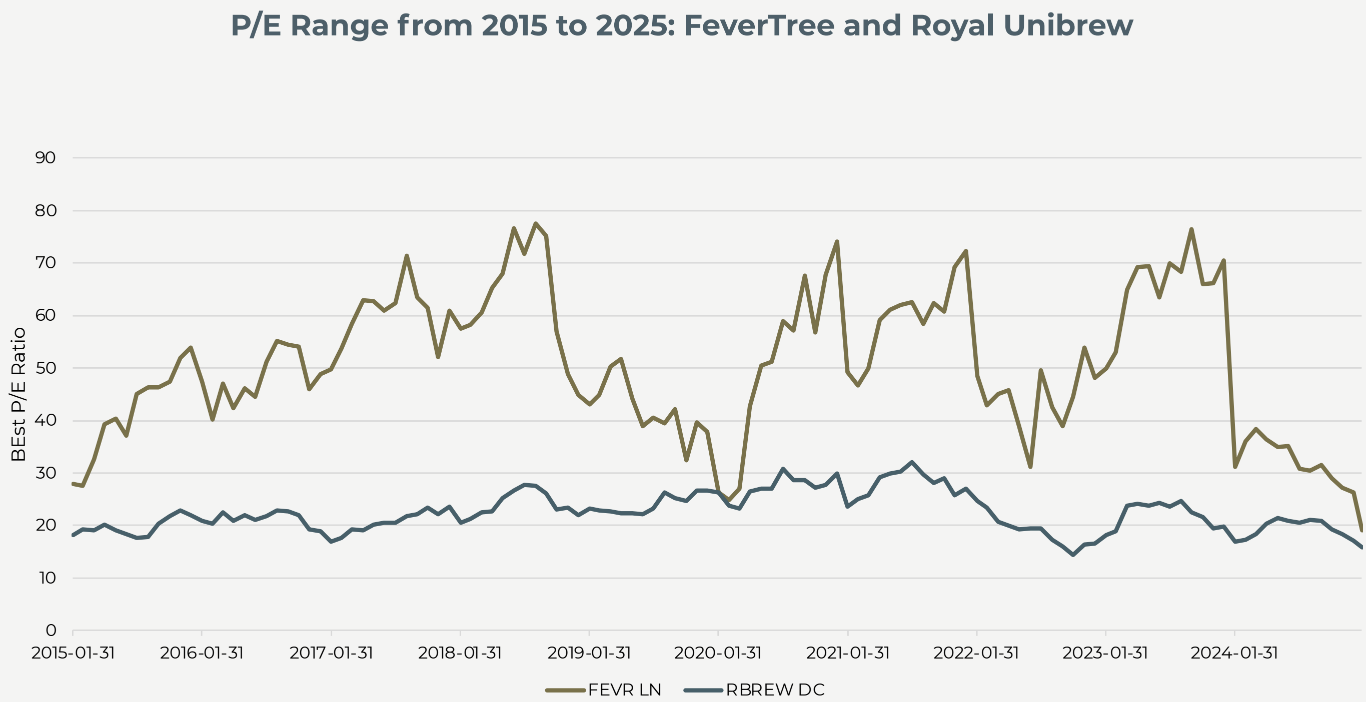
Key Detractors in Q4 2024

Among the top five detractors for the fourth quarter were two holdings from the Consumer sector: **Royal Unibrew** and **FeverTree**. Royal Unibrew, a leading European beverage producer, declined 8%, returning to our historical cost basis. FeverTree, a premium mixer company known for its tonic waters, experienced an 18% drop, ending 2024 approximately 20% below our average cost for the investment.[4]

These performance levels are far from what we would consider impairments. Both companies operate within the everyday purchase category, which we believe is less economically sensitive than large-ticket discretionary spending.

Importantly, we believe FeverTree and Royal Unibrew maintain strong balance sheets and have significant potential to restore margins to historical levels. This gives us confidence that, with patience, the investments we have in these companies will yield meaningful rewards over the long term.

Since "a picture is worth a thousand words," the chart below illustrates how both companies currently compare on a historical multiple of profitability.



Source: Bloomberg

As evidenced above, both companies are currently trading at their lowest earnings multiples in a decade, based on both 2024 and projected 2025 earnings. This is despite delivering impressive revenue growth over the same period—20% annualized for FeverTree and 10% for Royal Unibrew. From our assessment, the primary driver of this valuation compression has been margin pressures, which remain a critical determinant of their future value creation. This dynamic was evident at the time of our initial investment and continues to hold true today. With margins improving by 30% at FeverTree and remaining stable for Royal Unibrew, both companies have performed in line with our expectations. We believe it is only a matter of time before their stock prices reflect their strong underlying fundamentals.[5]

Other negative contributors to the portfolio in the fourth quarter included **Hypoport**, a German financial services platform specializing in mortgage and insurance solutions. Hypoport, which has been a significant positive driver in the past, declined 41% during the quarter, returning to our average cost. Its performance appears to remain closely tied to interest rate sentiment, despite its business fundamentals being less sensitive to such changes. For 2024, we project 25% revenue growth with a 10% increase in profitability. This is expected to be followed by 15% revenue growth and a 35% rise in profitability in 2025.5 We took advantage of the recent sell-off to increase our position.

Safestore Holdings PLC, our recently acquired UK self-storage platform, declined 28% during the quarter. Encouragingly, the CEO made insider purchases during this period.[4]

Key Contributors in Q4

Gains in the portfolio remain broad-based, with five positions seeing an increase of over 28% in the stock price for the quarter:

- Westaim
- Skyward Specialty Insurance
- Goosehead Insurance
- Esquire Financial
- Auction Technology Group

An honorable mention this quarter goes to Watches of Switzerland, which saw a ~20% increase in value relative to our average cost. After navigating numerous challenges and discussions, it's encouraging to see the company grow both revenues and profits despite concerns such as Rolex entering retail and a weak UK consumer environment. Watches of Switzerland is on track to exit 2024 with ~5% revenue growth and stable profitability, with expectations for 10% revenue growth and a 15% increase in profits in 2025.[5]

We are active and engaged investors in ~30 world-class smaller companies. Our goal is for you, our clients, to feel equally engaged in understanding the companies we own, what they do, and how they contribute to the portfolio's returns.

Written by

Greg Dean

Founder and Lead Investor

1 Past performance may not be indicative of future returns

2 Bloomberg

3 Westaim press release October 9th CC-Capital-Westaim-Press-Release.pdf

4 Portfolio Company returns within attribution are sourced from Bloomberg

5 These projections may not be met and should not be misunderstood otherwise

DISCLAIMER

FOR AUSTRALIAN CLIENTS:
The Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') of the Fund are available via the links below. Any potential investor should consider the PDS and TMD before deciding whether to acquire, or continue to hold units in, the Fund.

Link to the Product Disclosure Statement: **here**
Link to the Target Market Determination: **here**

For historic TMD's please contact Pinnacle Client Service Phone 1300 010 311 or Email **service@pinnacleinvestment.com**

FOR CANADIAN CLIENTS:
Important information about each Langdon mutual fund is contained in its prospectus, AIF, fund facts document and in its management report on fund performance. Any potential investor should review these documents prior to making any investment decision relating to such fund. You can view copies of these documents by following the links below:

Link to the Langdon Global Smaller Companies Portfolio Disclosure Documents: **here**
Link to the Langdon Canadian Smaller Companies Portfolio Disclosure Documents: **here**

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