

WS Lancaster Absolute Return Fund

Portfolio Manager Q1-24 Report

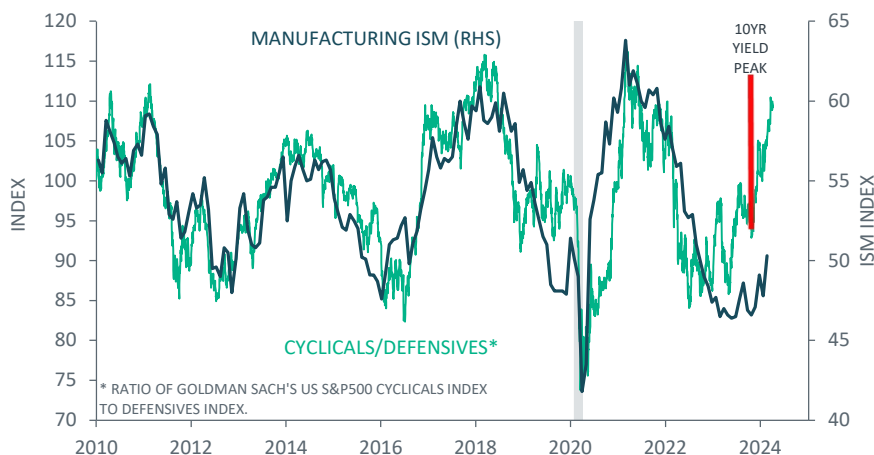
Introduction

It was a steady quarter for the fund being up +1.4%. We are currently choosing not to take on much market risk, relying on our stock picking to drive returns with a relatively balanced long and short book. Historically most of our returns have come from this bottom-up approach. The short book lost money but delivered good alpha with our long book making money but underperforming the market. Unusually for us in the past quarter, and nine months, our larger weightings have done less well than the average in our portfolio. Our fifteen-year data shows we add value through our position sizing. Given that we don't feel our process has deteriorated and that our larger positions are performing well operationally we are optimistic that the underperformance from these names is mainly market noise and there should be some mean reversion at the least.

Macro

Equity markets have had a strong start to the year, pricing in an increasingly rosy outlook. Interestingly though earnings, rates, inflation and defaults metrics have all deteriorated since the start of the year. Although the broad macro has been strong cyclical equities are now a long way ahead of leading indicators.

Exhibit 1: Ratio of Cyclical to Defensives vs Manufacturing ISM



Source: Minack Advisors

I view this market as the laziest of my investment career. The weight of flows from passive investors, CTAs, macro funds and pods has meant that medium term fundamentals get side lined until they really can't be ignored. The response is eventually non-linear leading to increasing volatility on days that stocks are reporting and the potential for stocks to have very meaningful moves after investment cases are spelt out or dispelled. Barclays for example

Performance

2.9% Monthly performance
1.4% Year-to-date performance
11.1% CAGR since inception

These figures refer to the past. Past performance is not a reliable indicator of future results.

Fund details¹

£ I Class	477.48
£ R Class	445.79
\$ I Class	2.67
€ I Class	2.58
Fund Size	£345 million
Strategy AUM	£646 million
Fund Inception	11 May 2009
Class Inception	11 May 2009
Fund Type	UK Long Short UCITS

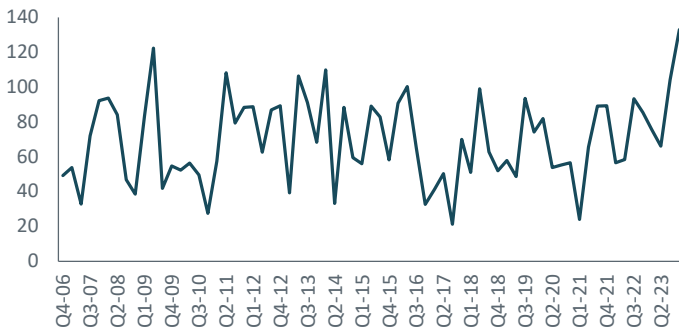
Portfolio Managers

James Hanbury
Jamie Grimston

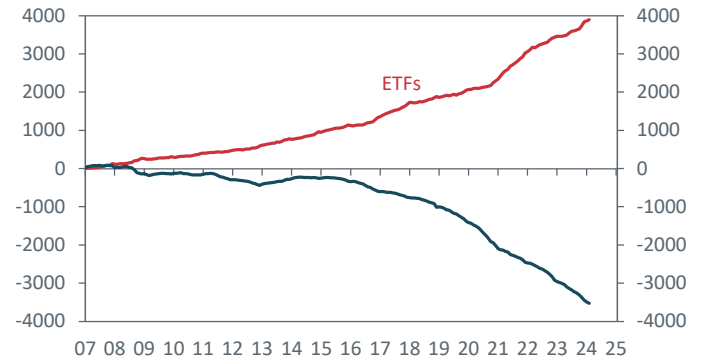
after its recent capital markets day had 14 up days in a row, a move not seen since 1969. The shares were up c. 40% in a few weeks off details that should not have been altogether surprising for those engaged in the investment case.

Exhibit 2: Average deviation (basis points) from the market (SXXP) on earnings release

Exhibit 3: ETF vs Mutual funds; cumulative flows from start of 2007 (\$bn)



Source: Goldman Sachs



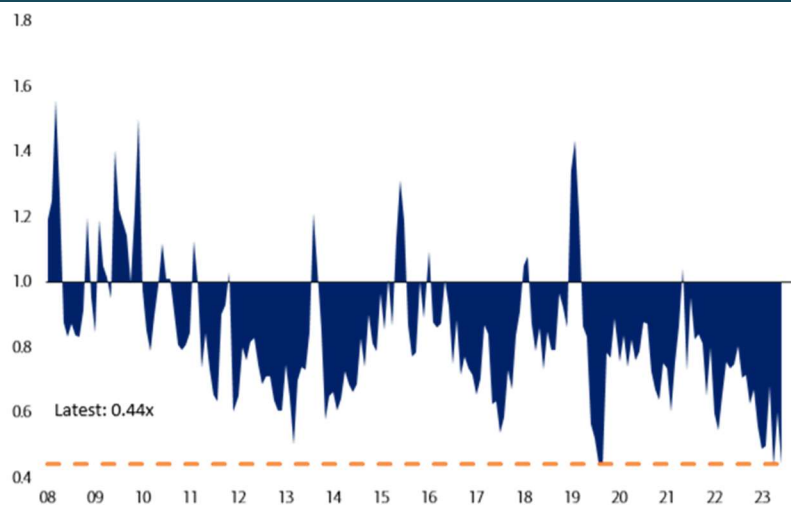
Source: Minack Advisors

A recent study shows the market becoming less efficient with a greater use of indexing.

"We observe a significant reduction in the standard deviation of daily firm-specific returns when stocks are part of the index relative to when they are not, particularly after 1990s, sample period characterized by increased popularity in index investing." – 'Indexing and the Incorporation of Exogenous Information Shocks to Stock Prices' by Randall Morck (Alberta School of Business) and M. Deniz Yavuz (Purdue University)

As passive investing continues to gain share by definition it drives momentum investing. Whilst this has been a very successful style over the past decade or so (partly in a self-fulfilling way) it gets more and more precarious as a greater percentage of the market follows suit. Most investors buying a passive fund have no idea they are on a momentum trade and clearly they are adding to the weight of money that does not understand what it owns. The trouble with 'buying blind' is the difficulty to buy more when the price falls and with human nature it is often the reverse that plays out. Combine this with the disciplined stop loss philosophy that the pod platforms practice, with the positions of active fund managers and it potentially makes the market vulnerable to a meaningful correction.

Exhibit 4: Value is now 56% underweight vs 3m Momentum. Long only positioning in low trailing P/E (value) vs 3m Momentum of S&P 500 (9/2008 – present)



Source: FactSet, BofA US Equity & Quant Strategy. Above 1 is overweight value and below 1 is overweight 3m momentum.

All these former points clearly create opportunities for stock pickers but also challenges to navigate the market inefficiencies in the interim. We will stick to our knitting and buy stocks that we believe are undervalued and vice versa.

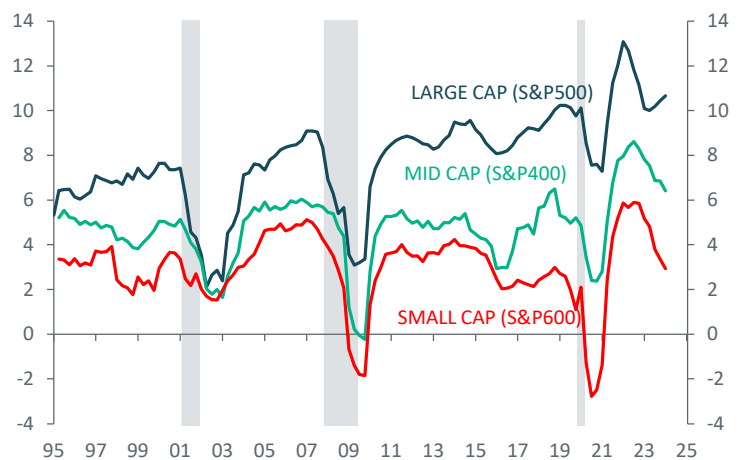
It is a fascinating environment where generally Western economies, particularly the US, have dealt with a world of higher rates surprisingly well. This is reflected by the fact that it is now highly unlikely the FED cut rates in the first half of 2024, compared to it being a dead cert at the start of the year. It also suggests that neutral rates are somewhat higher than most central banks are currently implying. Despite this unexpected strength it appears to us to be a very bifurcated economy. Areas like services, housing and employment have all been robust yet in the leveraged parts of the economy there are distinct signs of stress and the fact that rates cuts have been delayed is a meaningful issue. We follow the listed Business Development Companies closely, which are leveraged funds holding private credit and recently there has been a distinct pick up in the cost of risk. FSK, one of the largest listed BDC's, saw 'non-accrual' loans jump from 4.8% to 8.9% of the portfolio at cost when it reported full year results in February. Regional US and Japanese banks have been struggling with office exposure (see NYBC share price). Julius Baer took a full provision for its Signa exposure and closed down its private debt business and corporate defaults have picked up markedly. Generally though these 'bad debt' issues have been labelled as idiosyncratic. That said to us there do appear to be common threads, that of excess liquidity creating bad lending and borrowing habits and more recently one where investments were made on the assumption that COVID trends would continue (e.g. PE investing heavily in bikemakers). Whilst the bigger listed companies largely termed out and fixed their debt, private equity and smaller companies kept much of their debt as floating. Recent IPO's have been quite revealing of the true state of private equity balance sheets. Small business optimism is languishing despite the general macro strength partly due to the higher interest rates but mainly (according to the surveys) due to inflationary labour costs, regulation and the struggle to compete with larger firms all of which impact margins.

Exhibit 5: NFIB small business optimism index, 2014 - March 2024



Source: National Federation of Independent Business, Bloomberg

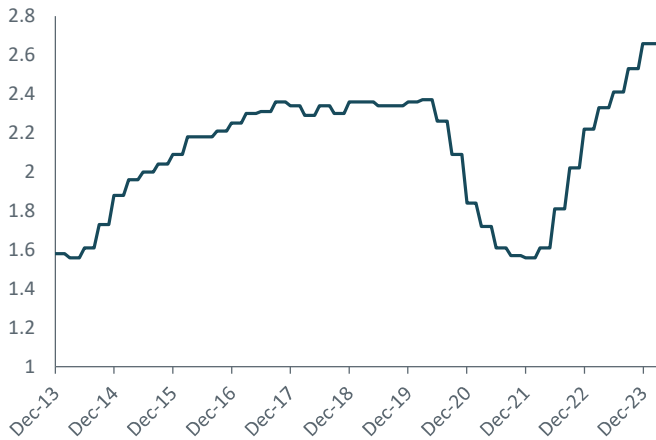
Exhibit 6: US listed sector rolling 4 quarter margins by market capitalisation (%)



Source: Minack Advisors

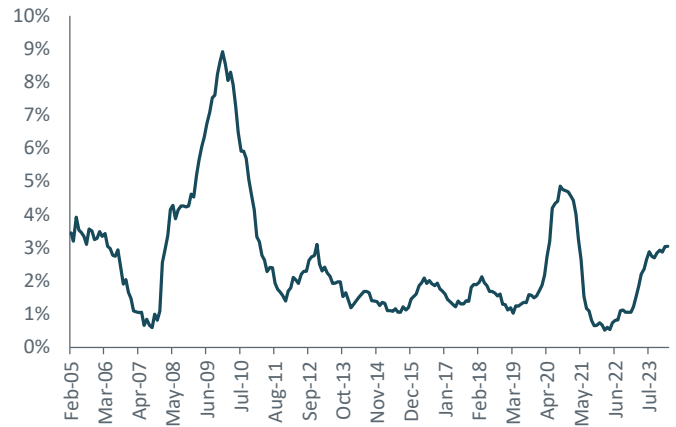
This polarised economy poses a conundrum for the central banks trying to adhere to their mandates and project the health of the economy in a few quarters. Given that they have to take the 'average' of the data we believe that the fissures in the leveraged world will likely get wider as rates cuts are not delivered at their desired tempo. Given our negative view on private equity we constantly hear the opinion that private equity wins both ways as when rates come down valuations in their portfolios go up and if rates don't come down then the economy is healthy and their investments are doing well. The scenario not considered much though is that rates come down because of the stress in the leveraged world not as a tailwind to an already healthy portfolio of investments. As an illustration polarisation Exhibits 7 and 8 below are examples of data giving cause for concern whilst Exhibits 9 and 10 suggest robust health.

Exhibit 7: Auto loans transitioning into serious delinquency (% of balance), Dec 2013 – Dec 2023



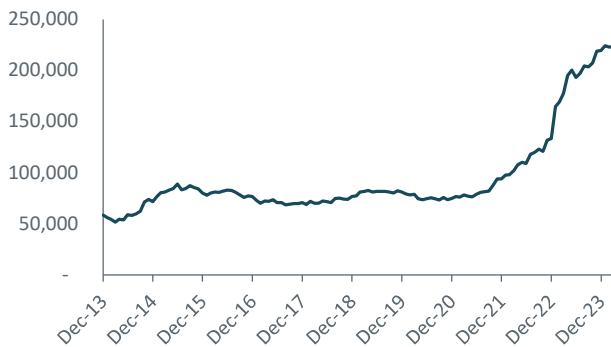
Source: New York Fed Consumer Credit Panel/ Equifax, Bloomberg

Exhibit 8: US leveraged loan last 12 month default rate, Feb 2005 - Feb 2024



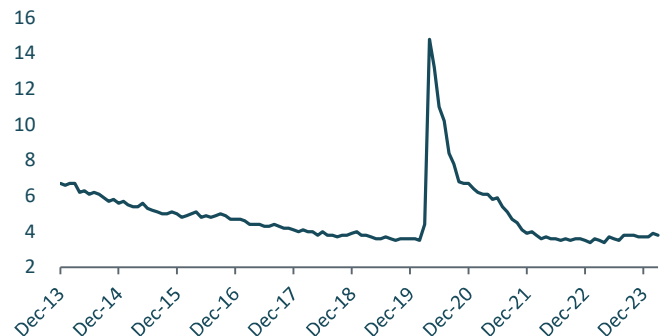
Source: UBS

Exhibit 9: US manufacturing construction spending (\$m) Dec 2013 - Mar 2024



Source: U.S Census Bureau, Bloomberg

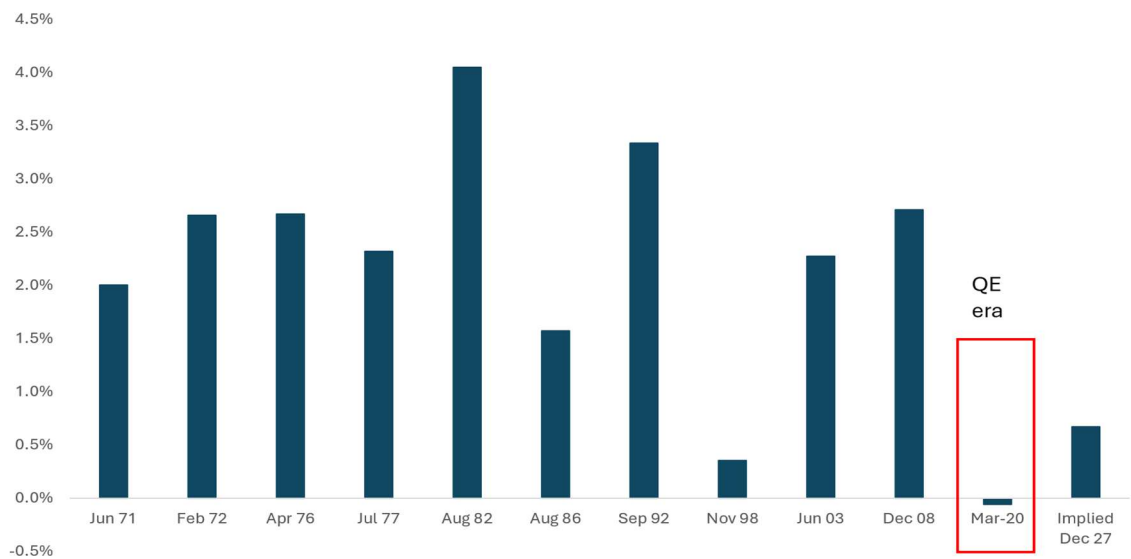
Exhibit 10: US unemployment rate (%) Dec 2013 - Mar 2024



Source: BLS, Bloomberg

One under-priced macro risk is the level of discount rates, particularly in the US. At the end of a rate cutting cycle the yield curve always slopes upwards and at present the market expects rates to stop at 3.9% in 2027. That makes the yield curve 3 years out look unusually flat with the 10 year at that point expected to be 4.6%. The US election will feature President Trump wanting to cut taxes and President Biden wanting to spend more, both approaches will potentially test the market when starting with a greater than 6% budget deficit. Add onto this that term premiums are currently low combined with huge inflation in the stock of treasuries and there could be a buyers strike in this usually bullet proof market.

Exhibit 11: 10Y - 3 M rates, %, USD, when the FED's fund rate bottoms, 1971 to today



Source: Bloomberg, BNP Paribas Exane, Lancaster IM

Overall, the macro feels very intricate at the moment with central banks more data dependent than they have been for many years. The tail risks of rates not being cut at all this year or the economy deteriorating much quicker than expectations are probably underpriced by the market. The base case of rates and inflation falling in an orderly fashion is probably overpriced. Both of the tail risks would be negative for the bulk of the equity market.

Whilst the US so far this year has been a story of inflation coming out ahead of expectations the UK has been the reverse. UK mortgage applications, a key lead indicator for residential construction activity have reached a 17-month high reflecting an improved environment for the consumer and mortgage rates coming off their highs.

Where we do have UK economic exposure we are comfortable with the margin of safety offered by current valuations. Compared to this time last year the economy finds itself in a quite different situation and consumers are now beginning to see decent real income growth. Despite well publicised public sector strikes consumer expectations for inflation, which can be a self-fulfilling driver, are now approaching 2019 levels.

Exhibit 12: Bank of England UK mortgage approvals (000s), Jan 2022 - Feb 2024



Source: Bank of England, Bloomberg

Exhibit 13: Cycle Adjusted PE Ratios (CAPE) by country (MSCI indices), one year ago vs now (6th April 2024)



Source: Minack Advisors, MSCI

Performance and positions

As discussed above the macro environment, particularly relating to rates and the yield curve, has many competing tensions and is not one we want to rely on our navigation skills to get us through. This is part of the reason we are happy having minimal market risk now and focusing on driving returns through our long and short book alpha. One of the characteristics of the market at present is that there are extremely attractive long and short positions representing similar factor risks. We will never normally have contrived pair trades but where we find longs and shorts that can stand on their own two feet we are very happy to have the 'spread'. Some examples of these positions in the fund are shown in the table below.

Exhibit 14: Selected factor exposures in the long and short book

Factor risk/sector	Longs	Valuation	Shorts	Valuation	Notes
Banks	European banks	0.5x P/B	US regional banks	1.0 P/B	European banks have higher capital returns, cleaner balance sheet and less regulatory risk.
Asset Management	Man Group	7x p/e	Listed PE	20-30x p/e	Prefer the prospects for alternatives at Man Group rather than PE at this stage of the cycle.
Sporting Goods	Frasers Group	8x p/e	Sporting goods brands	20-30x p/e	Oversupply which is good for the multi brand retailers but not the brands.
Travel	Ryanair and Jet2	8-10x p/e	Hotel companies	20-25x p/e	Extreme valuation dispersion despite similar underlying demand drivers.
CFD Platforms	Plus500	3.4x EV/EBIT	IG Group	4.7x EV/EBIT	Only historical example as in Q1 we closed our IG short. Both positions have generated good returns over 10 years.

Source: Lancaster IM, company reporting, Bloomberg

Long and short book

Given how the long and short book has become much more interlinked we are combining this section. The long book contributed +3.95% in the quarter, which given the strength of the market was relative under performance (negative alpha). The underperformance versus the market was driven by some of our larger positions which we will touch on below. Operationally though we are delighted with

how our long book is performing. One of the joys of having a book where the market is treating the shares inconsistently is that it allows us to rotate capital towards where the market has been indiscriminately harsh. The short book illustrated the reverse characteristics in that we lost -3.70% but it generated positive alpha (it went up less than the market).

Plus500 contributed +1.05% after no material news (reflection of an inefficient market). We feel 2024 is a year where the market will be forced to reassess the quality of the business as we get greater disclosure on the KPI's of its US business, and its European business should show further evidence that it is winning market share and not in structural decline. How many businesses can you buy with no debt and a 10-year historic growth EBIT CAGR of 17.4% trading on 3.4x EV/EBIT? IG Group which has been a successful long term short for us in the same CFD space also contributed positively on the short book (+0.20%). We closed the short during the quarter due to the valuation and the appointment of Breon Corcoran as CEO who we have known through his previous CEO roles and respect enormously.

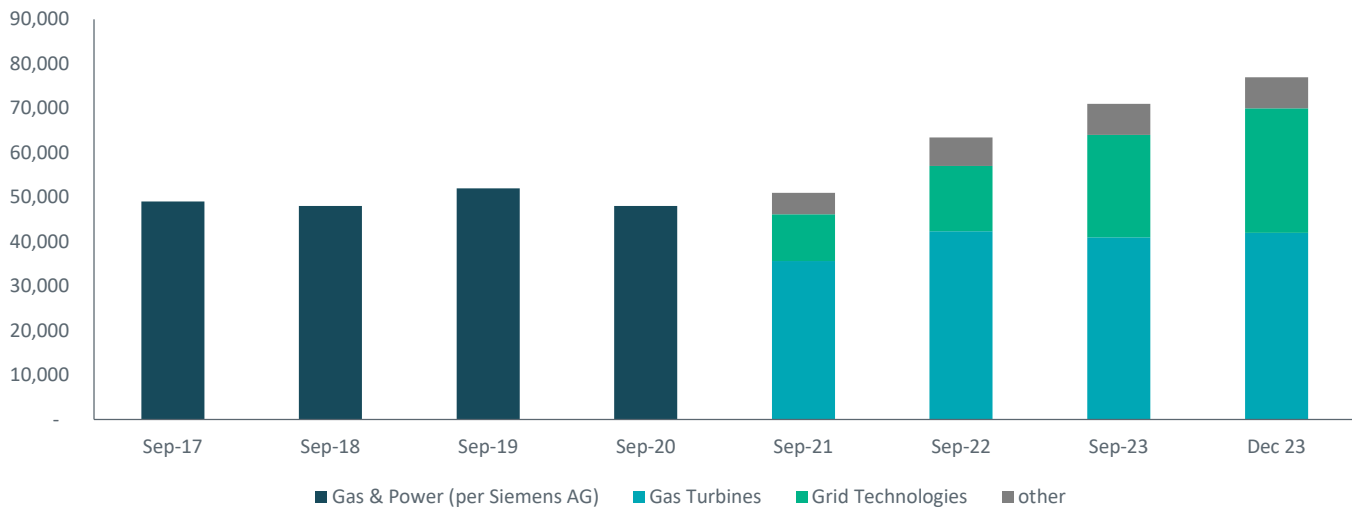
We had an unusual quarter where all 4 of our long large cap banking positions (**NatWest**, **Barclays**, **Deutsche Bank** and **Commerzbank**) reported well and all delivered strong contributions (+2.76% combined) and alpha to the long book. Valuations do still not reflect the fact that these western European banks have started offering strong capital returns, have derisked their balance sheets and benefit from the end of zero interest rates. Our US Regional banks shorts lost a small amount of money (-0.21%) but delivered good alpha. We took these positions in Q1 as we believe the commercial real estate exposure (c. 30% of the lending book), regulatory risk and negative exposure to higher rates is not reflected in the valuations. The price to book of the US regional banks is c. twice that of the European names we own despite our belief that the European banks are currently better positioned from a balance sheet, P&L perspective and have been less accident prone than US regionals in the last two years.

Jet2 and **Ryanair** added +0.88% and +0.4% respectively during the quarter. Trading updates from both companies confirmed solid demand trends, whilst industry capacity growth continues to be constrained by manufacturing issues in the supply chain. Both companies remain on single digit p.e. multiples, well below their pre-covid averages.

We sold **Flutter** (+0.41%) after it rerated significantly post its US listing. We also sold **Valaris** due to strong performance and competition for capital. We took new long positions in **Kering**, **Inchcape** and **HDFC Bank** during the quarter.

Siemens Energy was also new position for us in the quarter and contributed +0.33%. The business was spun out of Siemens AG in 2020 and comprises the latter's former gas and power-related activities as well as the Siemens Gamesa wind turbine unit. Repeated issues in wind have meant the stock has been a poor performer since listing but we believe these are now priced in; meanwhile the outlook for the rest of the business has become increasingly positive, with market-leading positions in industries which are crucial to the world's decarbonization attempts. Gas Turbines (third of revenue) will be needed in the transition to net zero both for countries transitioning away from coal to natural gas (60% CO2 emissions reduction) as well as for providing peaker capacity to national electricity grids to complement intermittent renewable supply. Grid Technologies (25% of revenue) is also a key supplier to power distribution grids where annual capex budgets in Europe and the US are likely to rise by c.50% over the next decade to accommodate more renewable energy sources and increasing electricity demand from heating, transportation and AI data centres. Looking at the order books of these two divisions, as well as the others which together used to make up the Gas and Power segment of Siemens AG, the outlook has clearly improved significantly from the time of the spin-off, and we estimate revenues can compound at 6-7% for years to come:

Exhibit 15: Siemens Energy order backlog excluding wind business (EURm)



Source: Company reporting, Lancaster IM

The Siemens Gamesa wind turbine business contributes the remaining 30% of sales. The wind industry has not been kind to investors for the last few years. Manufacturers prioritised market share and new product development in the form of ever bigger turbines at the expense of returns and manufacturing stability – then found during covid their order books contained insufficient protection from inflation and rising interest rates. We estimate the four western manufacturers together burned about €4bn of cash in 2022. Siemens Gamesa has had to take significant provisions to cover past manufacturing issues and is likely to burn cash until at least 2026 as it works off poorly written contracts. Since 2022 however product terms have been tightened, prices have risen, and all players are talking a ‘value over volume’ strategy. Market leader Vestas targets a 10% EBIT margin. Siemens Gamesa remains the global number two player and the leader specifically in offshore wind where the UK and Germany alone intend to install twice as much capacity by 2030 as their total existing installed base – so there is clearly turnaround potential if the industry can fix itself.

Even valuing wind at zero, the rest of Siemens Energy is trading on only 10x next year’s EBIT which we consider too low when compared to peers exposed to similar themes: NKT for example, which manufactures high voltage cables, trades at c15x next year’s EBIT. Schneider Electric trades at c18x. We think if management can execute on their wind turnaround plan then the market will begin to ascribe some value to it, as well as re-rating the rest of the portfolio. If we value Grid Technologies at 15x EBIT and wind at 0.6x sales (half of Vestas’ current multiple) then there is c50% upside in the shares. Interestingly this would put the group on c85% EV/sales which is where GE Vernova is currently trading – the power and electrification portfolio recently spun off by GE which is almost identical to Siemens Energy in size and scope:

Exhibit 16: Order book, sales and EBITDA (USD m) of GE Vernova and Siemens Energy

Segment	GE Vernova			Siemens Energy		
	Order Book	2024 Sales	2024 EBITDA	Order Book	2024 Sales	2024 EBITDA
Power	73,000	18,270	2,010	52,920	16,966	1,737
Electrification	16,000	6,660	333	44,103	9,307	836
Wind	27,000	9,900	-100	30,240	9,936	-1,458
TOTAL	116,000	34,830	2,243	127,263	36,208	1,116

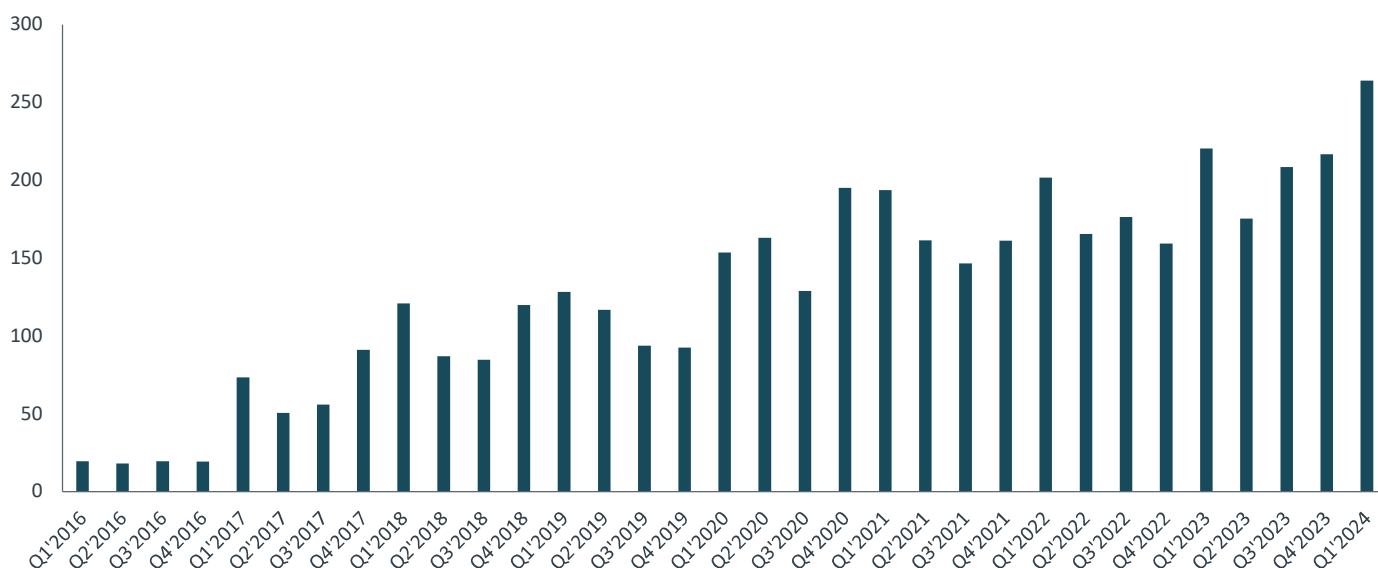
Source: company reporting, Lancaster IM, Bloomberg

Large detractors for the long book

It much more interesting and useful to discuss the stocks that did poorly and in particular where we felt this was unjust. All four of the stocks below (ex Oxford Nanopore) are large weightings that performed poorly during the quarter without an obvious common factor. We have had several meetings with the companies below during the quarter and have recently added to all positions.

Ubisoft shares performed poorly costing the fund -1.12% despite strong results and guidance. As we have mentioned before Ubisoft has had a strategic shift and is now focusing more heavily on its key top five franchises. This should allow them to reduce costs and improve execution. Given the multi-year game development time frame there will still be game releases linked to its former strategy, we put a low multiple on these games as they are unlikely to be repeated. What is intriguing is that the shares appear to have been driven by poor short-term data and headlines linked to some of these legacy games (e.g. Skull and Bones). Meanwhile, the core franchises are performing extremely well. There are many ways to value Ubisoft nearly all of which give material upside. We believe Ubisoft's game Rainbow Six Siege, a top franchise for the company, is worth \$5bn- \$8bn, which compares to the enterprise value of the whole company of circa \$3.5 billion. Daniel Kahneman would refer to the market's appraisal of Ubisoft in this regard as the 'less is more' heuristic. This chart below is a key gauge of how we monitor the underlying performance of the company, it represents recurring revenues for the five key franchises.

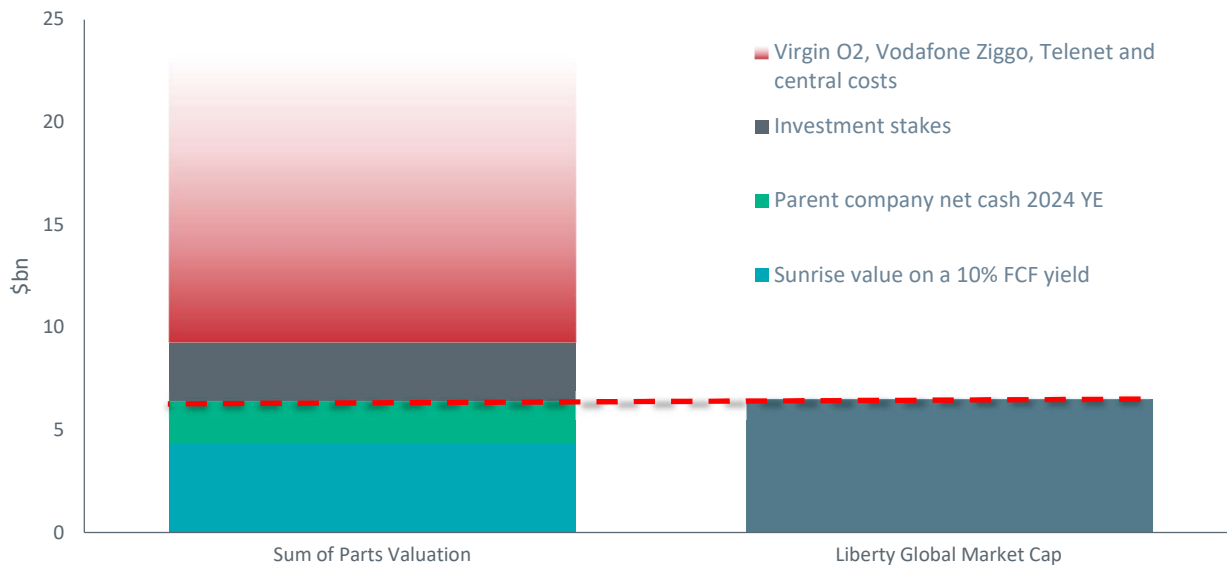
Exhibit 17: Mscience estimate of recurring revenues (Eur M) from Ubisoft's top 5 franchises



Source: M Science, Lancaster IM

Liberty Global cost the fund -0.25% during the quarter. Although Liberty gave weak guidance for Virgin O2, we believe the market is missing the bigger valuation picture and the fact that management appear to be taking the business private through a buyback. Liberty Global announced in the first quarter that it will spin out and list its Swiss telecom asset Sunrise in the second-half of the year. Sunrise on a 10% free cash flow yield (not many Swiss domestics trade at that level) would have an equity value of circa \$4.4 billion. When you consider the net cash and investment stakes at the parent company this would give Liberty Global a meaningfully negative enterprise value, before you even consider the equity value of its operating stakes in Virgin O2, Vodafone Ziggo and Telenet minus head office costs. We estimate the value of these operating assets is at least \$10bn. The spin should force the market to reassess how it values Liberty Global. In the meantime, the company is buying back another 10% of outstanding shares.

Exhibit 18: Liberty Global sum of the parts valuation vs market capitalisation

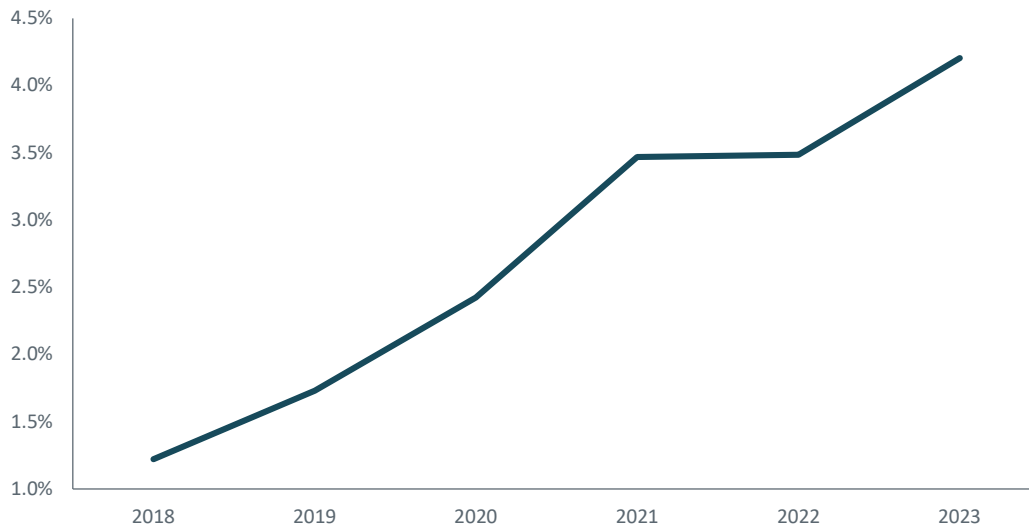


IWG was flat in the quarter. The IWG transition to capital light openings in the serviced office space is working well, we have seen a significant acceleration in offices joining its system and new disclosure will help us and the market monitor this. One of the big misconceptions with IWG is that stress in the office market is bad for it. We believe this creates more opportunity than threat as many property owners (and owners of the debt) are now finding themselves with empty office space in need of help. As well as spending time with senior IWG management we also had an encouraging visit to Worka, IWG's third division. If Worka executes on its plans over the next couple of years we believe it will be worth more than the IWG group enterprise value.

Oxford Nanopore ("ONT") cost the fund -1.21% in the quarter after the company missed consensus forecasts for 2023 and guided below consensus for 2024. Competitors have also reported disappointingly as the sector has experienced a general slowdown as inflation has pressured life science research budgets. Beyond shorter term cyclicalities the growth prospects for DNA sequencing remains robust; this is a Moore's Law industry where new applications with large potential markets are enabled by the rapidly deflating cost. We are encouraged that ONT's market share has continued to expand, both in terms of trailing revenue and in terms of share of papers published. ONT's valuation of < 4 x EV/Sales is at a significant discount both to the sequencing peers that it has outperformed and much lower growth mature life science instrumentation companies. The new FD communicates well and has laid out a plausible pathway to sustainable free cash flow generation without the need for further equity dilution. The company's anti-takeover poison pill expires at the end of September. We are further encouraged by the following 3rd party valuation markers:

- In October last year strategic partner Biomerieux, an €11bn market cap diagnostics company, bought £70m of ONT shares at a share price of £2.38, a > 110% premium to the current share price, thus joining the shareholder register alongside Oracle, Tencent and Amgen. This is both a significant valuation marker and technology validation as Biomerieux is developing a TB drug resistance test using ONT technology.
- Multiple insiders, including the Chairman, CEO, CFO, COO and CSO bought shares in ONT last month after the full year results at between £1.26 - £1.44 per share, a 13%-30% premium to the current price.

Exhibit 19: Oxford Nanopore estimated share of sequencing market, 2018 – 2023



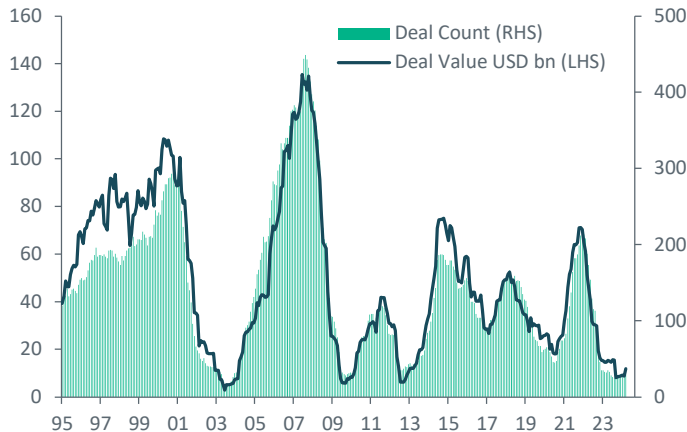
Source: Lancaster IM, company reporting (Illumina, PacBio, MGI, ONT), Bloomberg.

Frasers Group was weak during the quarter and cost the fund -0.92% despite there being no material news or results from the company. The weakness in the luxury good sector does have some read across to Frasers but ultimately we believe that the stress in luxury goods will be to the company's advantage, allowing it to further consolidate the luxury retail sector at favourable prices. We also feel that Fraser's guidance has more than factored in a weak environment for luxury. It was interesting to see that the company instigated another share buyback during the quarter which given the opportunistic nature of their programmes tends to be a good insider's view that the shares are at an attractive level and that business is good. Our short book includes some sports brands companies, we don't believe this is inconsistent with our long Frasers position when considering valuations and how an over supplied system can be good for Sports Direct. Frasers Group almost uniquely has the balance sheet and attitude to buy large amounts of saleable stock at good gross margins, this is of particular value to the management of the overstocked brands. More importantly, the strategic error by Nike/Adidas in over emphasising DTC has allowed a number of disrupter brands to flourish. Frasers now acts as the gatekeeper, the arbiter of brands' access to those consumers who want to shop on a multi brand basis. In short Frasers' competitive position in sporting goods has been transformed. Our conviction in the Frasers business model has not diminished and fortunately the shares trade on a p.e. of c. 8x with exceptional cash conversion and a strong balance sheet.

As a group our sporting goods shorts (**Lululemon**, **Deckers**, **Nike** and **On Holding**) added alpha but with a large divergence between relative performance. Lululemon added +1.07% as guidance for the year ahead came out below market expectations. We see greater evidence of it losing share in a more intense competitive environment, sales densities in the US continue to deteriorate and China, its most important market outside of North America, appears to have become more promotional. Even on consensus numbers, that we consider over optimistic, a forward p.e. of 26x for a brand losing momentum to this extent seems meaningfully too high.

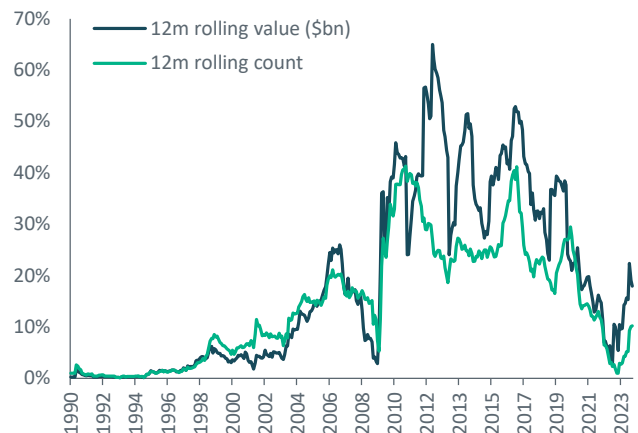
Our private equity shorts as a group lost money in the quarter with **Blackstone** and **Partners Group** adding positive alpha and **EQT** generating negative alpha. We discussed above how we feel the leveraged economy is struggling and the activity and evidence from the IPO market backs up our view. Although there are recent signs of the IPO market picking up it is still a long way from where it needs to be to achieve desired exits for LP's. Even successful IPO's like **Galderma**, a high quality Swiss dermatological company, does not seem to have achieved particularly impressive returns for the LP's on our calculations.

Exhibit 20: 12m rolling sum of IPOs in Europe



Source: Goldman Sachs Global Investment Research, Bloomberg, Factset.

Exhibit 21: Private Equity share of IPOs in the US



Source: Lancaster IM, BNP Paribas Exane, Bloomberg

What we find telling is that despite equity markets being at all-time highs, credit spreads being low and non-private equity IPO's having done well recently (ARM, Reddit etc) it is still considered by many PE houses as 'not a good market to exit into'. Could it be that PE owned businesses with high leverage on floating rates have seen a meaningful transfer of value from equity to debt and that it is difficult to achieve an acceptable multiple/price on the way out relative to what was paid? The recent IPO of **Douglas** was informative and potentially reflective of industry issues. Douglas, a German listed beauty retailer, having been owned for c. 9 years by CVC came into COVID with retained losses that had increased to c. €400m and then post COVID they jumped to €1.6bn. We find retained earnings interesting as they exclude adjustments. To get the Douglas IPO away CVC had to put in an extra €300m of equity (provided by an investment bank as a margin loan against the shares). The net debt at 5x EBITDA was only termed out to 2026 and was floating. Far from being an IPO, we viewed it as essentially a rescue rights issue. The market was told the books were multiple times covered across the range and then the range was cut, a stabilisation program was put in place and the shares are now trading 2% below where they listed at the bottom end of the range. No secondary capital was taken out so LP's have longer to wait to get cash back. Meanwhile the listed private equity names as a group trade at record high multiples of management fees implying the outlook is as good as it has ever been. We continue to hold our short positions.

Rivian was our top contributing short (+1.36%) as its guidance for 2024 effectively showed no growth and implied demand issues. Cash burn over the next few years is forecast to be considerably greater than the sales growth. The company needs to raise more capital, on consensus numbers it will not generate FCF until 2027 and trades at an EV/sales of 1.2x 2024.

Our property logistic shorts performed well for us and generated positive returns in the quarter, mainly driven by a higher yield curve. Several of our other idiosyncratic shorts performed very well for us in the quarter including **Nexi**, **GXO**, **Neste** and **Nel**; we covered the latter two.

Key principle for our long book investing

We often get asked why we have such a high bias to companies run by first generation owner managers. The short answer is we are obsessed with trying to find situations with asymmetry in our favour. We try and get attractive payoffs from a valuation and top-down perspective but if good management decisions are being taken on a day-to-day basis as well, it is a powerful combination. With high quality managers there is equal consideration in decision making to the upside and downside, sadly often 'agent' CEOs mainly consider the former. Double layering of asymmetry is what we strive for.

General positioning

As stated above we are broadly market neutral with over weights to UK and European listed companies. This bias to European stock markets is due to compelling bottom-up opportunities and with many of those positions representing companies with global exposure. Over most of our 15 year fund history our correlation to the market has low and this remains the case; since moving the fund to Lancaster last September where our correlation to the MSCI world index has been marginally negative. We are currently unhedged on our non-sterling positions partly due to not having strong currency views but also from a portfolio perspective if the UK domestic turns out to be worse than expected our non-sterling positions will offer us a degree of protection. The valuations of both the long and short books offer a strong value characteristic to the portfolio. Gross is at the top end of our range due to the lower levels of market risk.

Exhibit 22: Median valuation multiples in the long and short book

	Forward PE	Forward EV/EBIT	Forward EV/Sales
Long book	11.5	7.9	0.8
Short book	19.6	19.0	5.3

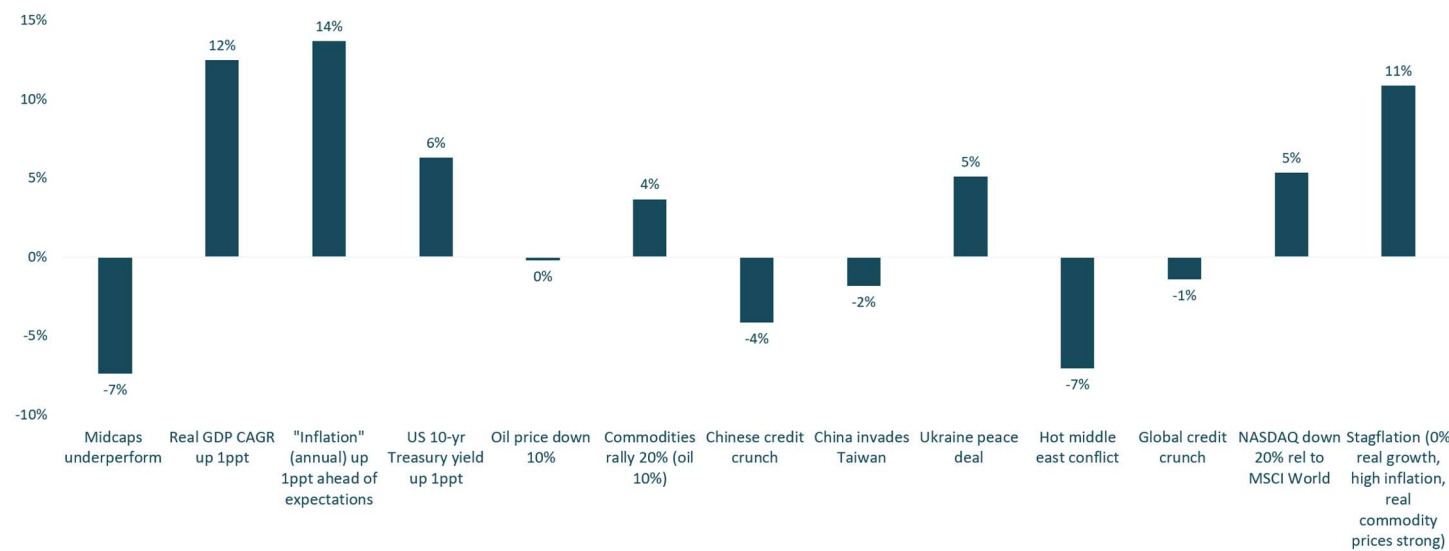
Source: Lancaster IM, Bloomberg

Conclusion

We delivered a steady quarter of performance against the backdrop of our top long positions significantly underperforming the market. We believe there is a good chance that these positions (representing over 30% of our equity) can reprice in short order. Given the high degree of divergent stock performance within the fund it has led to meaningful capital rotation as we optimise weightings. As a team we have had over 200 company meetings (including virtual) in Q1 and are pleased with both how our companies are performing operationally and by the quality of the pipeline of ideas. It was good to see the short book generate alpha in Q1 and feel that many of the themes turning in our favour are early in their evolution.

What we have managed to do over the past 5 years is generate good returns despite being completely wrong on our factor positioning. If we are moving into a different phase of the market not defined by a disinflationary tailwind and abnormally low discount rates, then we believe we are well positioned to deliver exceptional returns. Thank you as ever for your support and we look forward to updating you and taking questions on our quarterly call

Exhibit 23: WS Lancaster Absolute Return (LAR) | Estimated factor return as at 11-April-24



Source: Lancaster IM unaudited internal data & Bloomberg, as at 31-Mar-24. Note: Assumes current currency hedging; The information above is an estimation of the expected factor return; Lancaster may make investment decisions that are inconsistent with these views expressed in this communication. The chart above presents projections of future performance. These projections are based on a number of assumptions that may or may not prove to be accurate. Future performance is subject to a wide range of significant risks. As a result, there can be no assurance that the projections in the chart above will prove to be accurate.

James Hanbury & Jamie Grimston

WS Lancaster Absolute Return Fund

Net Performance (GBP)

	1-month	3-month	1-year	3-year	5-year	YTD	Inception	Inception CAGR
Fund	2.9	-1.4	-10.5	6.0	60.1	1.4	377	11.1
MSCI Daily TR Net World	3.2	10.4	22.4	40.1	82.0	10.1	479	12.5
Relative	-0.3	-8.7	-33.0	-34.1	-22.0	-8.7	-96	-1.4

Yearly Trailing Performance (net)

1-year to	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24
Fund	-14.2	76.0	-6.9	27.2	-10.5
MSCI Daily TR Net World	-6.1	38.4	15.7	-1.1	22.4
Relative	-8.1	37.6	-22.5	28.3	-33.0

Monthly Performance (net)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	0.6	-2.0	2.9										1.4
2023	6.2	-0.3	-1.3	-0.1	-7.7	-7.1	-0.4	2.9	4.0	-1.8	-4.1	2.7	-7.8
2022	9.6	-10.9	-7.0	10.3	8.1	-11.1	-0.8	1.6	-6.3	8.1	11.7	0.7	10.7
2021	-12.5	21.3	1.1	2.8	4.2	-9.0	-0.8	2.1	8.9	-7.6	-8.6	12.9	9.9
2020	-5.4	-6.9	-10.6	10.1	6.9	3.0	-6.1	13.2	-4.4	6.6	22.8	1.6	29.1
2019	6.8	-4.9	0.3	-1.7	3.1	-5.3	-4.1	0.7	0.3	4.2	2.2	10.1	11.1
2018	-0.3	0.7	0.9	4.8	3.2	0.3	2.6	-5.6	1.8	0.4	2.8	-7.3	3.8
2017	1.2	-3.4	0.0	1.6	2.9	0.6	-1.3	7.1	0.9	1.4	-1.6	-6.0	2.9
2016	-3.8	5.3	-5.2	-3.6	4.4	2.1	-2.0	-1.2	0.4	-8.9	-1.1	-4.8	-17.8
2015	-2.6	-2.3	1.1	5.6	-5.4	5.0	1.4	1.0	-1.2	4.5	-0.6	1.4	7.6
2014	0.4	3.0	-1.7	-4.7	1.4	-3.0	-0.5	0.3	3.6	2.4	3.2	1.5	5.5
2013	6.7	3.0	1.2	2.0	7.9	1.2	3.5	1.1	4.9	1.8	2.0	3.0	45.6
2012	6.9	8.9	2.3	-1.2	-3.2	3.7	0.9	3.6	3.0	4.1	1.4	2.3	37.2
2011	7.5	2.8	1.7	1.0	2.4	-1.1	-1.1	-10.9	1.0	3.8	-2.9	0.3	3.5
2010	-0.5	-0.5	0.8	2.9	-2.5	-4.7	3.4	-4.8	9.2	2.4	2.8	7.2	15.7
2009					3.9	2.0	2.3	6.3	8.8	-1.4	-1.0	0.5	22.9

Fund details¹

£ I Class	477.48
£ R Class	445.79
\$ I Class	2.67
€ I Class	2.58
Fund Size	£345 million
Strategy AUM	£646 million
Fund Inception	11 May 2009
Class Inception	11 May 2009
Fund Type	UK Long Short UCITS
Comparators	Primary: Cash Secondary: MSCI Daily TR Net World GBP
Base Currency	£

Team & contact details

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Top 10 Long Equities

	% NAV
Ubisoft Entertainment	9.5%
Frasers Group	9.4%
IWG	9.3%
Plus500	8.9%
AO World	4.5%
NatWest Group	4.5%
Barclays	4.5%
Jet2	4.4%
ArcelorMittal	4.4%
Liberty Global	4.4%

Portfolio Characteristics

Long position count	46
Short position count	33
Gross long exposure	144%
Gross short exposure	-95%
Total gross exposure	238%
Net exposure	49%
Beta adj. net (2 year)	42%

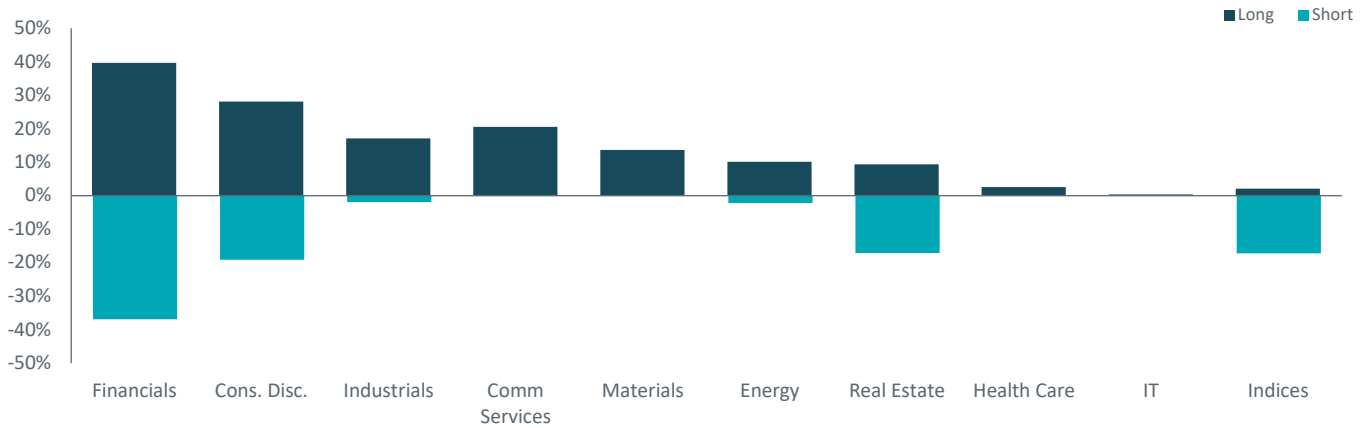
Important information

These figures refer to the past. Past performance is not a reliable indicator of future results. This document is a marketing communication. Before subscribing please read the prospectus and the KIID/KID, available upon request from Lancaster IM. The performance calculation shown is based on the GBP I share class. If the past performance is shown in a currency which differs from the currency of the country in which you reside, then you should be aware that your performance may increase or decrease as a result of currency fluctuations.

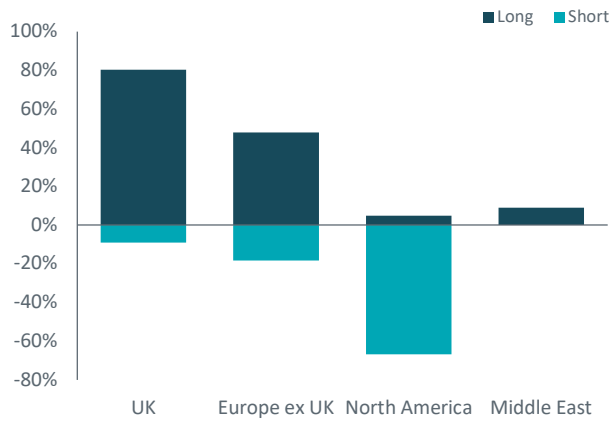
Source: All sources, unless otherwise stated, are Lancaster IM internal unaudited data and refer to the £ I share class. All data shown as at 31 March 2024.

¹Link Fund Solutions and Bloomberg, calculation on a NAV basis with net income reinvested.

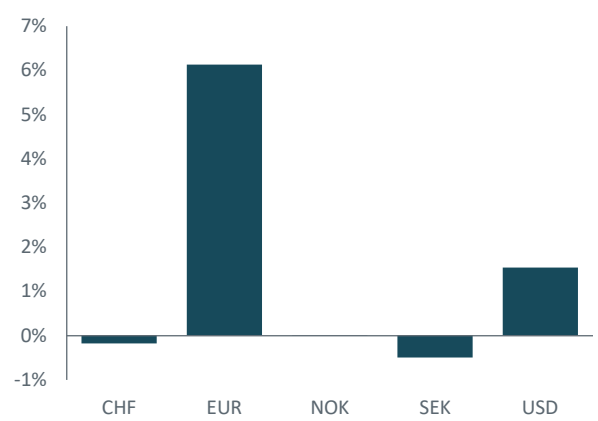
Equity exposure by sector



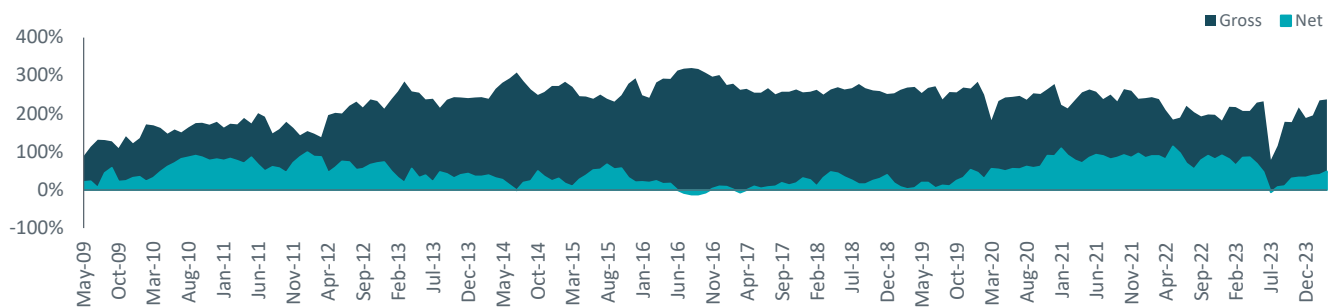
Equity exposure by geography



Non-base currency exposure



Equity exposure



Allocation figures are taken at close of business whereas Fund performance is taken at 10am. Equity exposure includes all equity related instruments. Government Bond exposure can be provided on a ten-year adjusted basis. Currency exposure shows non-base currency through forward currency contracts and portfolio holdings. Commentary is provided on a quarterly basis. Equity exposure as classified by GICS. The fund was renamed from LF Brook Absolute Return Fund to WS Lancaster Absolute Return in Q3-23 on the back of the Investment Management Agreement transferring to Lancaster Investment Management LLP and also Waystone acquiring Link Financial Services. All performance in GBP.

Source: All sources, unless otherwise stated, are Lancaster internal unaudited data and refer to the £ I share class. All data shown as at 31 Mar 2024. 'Waystone and Bloomberg, calculation on a NAV basis with net income reinvested – the share class prices refer to NAV per share.

Investment objective and policy

The WS Lancaster Absolute Return Fund (‘The Fund’) aims to achieve a positive absolute return on a 12 month rolling basis independent of market conditions. Capital is at risk and there is no guarantee that a positive return will be delivered over any one or a number of 12 month periods. The Investment Manager seeks to achieve this objective through managing a portfolio of securities, bonds and currencies and related financial instruments.

Approach

The strategy is fundamentally driven global equity long short and built around three core principles; investing in fundamentally sound companies, disciplined short selling, and diversification, which is an essential tool in risk management. On the long side, the approach is valuation driven with a particular focus on sustainable free cash flow generation. On the short side the portfolio is stock-specific. The strategy harnesses the experience and judgement of James Hanbury, his investment team and the wider equity research resource at Lancaster Investment Management. While the team invest for the medium to long term, they continuously resize positions to ensure the portfolio remains focused on their highest conviction ideas. The Fund is built without formal reference to an index and typically contains 30-40 positions both long and short with a higher concentration in the top 10 positions.

Risk Considerations

The Fund is actively managed and has considerable latitude over its allocation both long and short equities and it may employ leverage and own sophisticated instruments such as futures and options. The Fund may hold a large weighting in a small number of investments and may therefore be subject to larger than normal swings in its value. The performance stream is likely to be volatile and the Fund is suitable only for investors who have a long time horizon (>5 years) and can tolerate high risk. Investors may not get back all the money invested and an investment in this Fund should only form part of an investor’s total portfolio. Investors should discuss the suitability of this Fund with their professional adviser. The Fund’s prospectus has detailed descriptions of the Fund’s risks. Before investing, please refer to the fund prospectus and to the applicable KIID/KID before making any final investment decisions. You can get free copies from the Investment Manager at reporting@LancasterIM.co.uk or the website of the Authorised Corporate Director: <https://www.fundsolutions.net/uk/lancaster-investment-manager/ws-lancaster-funds/ws-lancaster-absolute-return-fund/>

Investor information

Share classes	R (£), I (£, €, \$) Acc.	Anti-dilution fee	May apply up to 0.75% to NAV on subs/reds if large deals (typically >5%) occur
Share class hedging	Non-base currency share classes are hedged	Minimum investment	R £5,000; I £1,000,000
Trade date	Daily	Dividends	Accumulation shares only
Dealing	Forward to 10am	Authorised Corporate Director (ACD)	Waystone
Valuation	10am	Auditor	Ernst and Young LLP
Front end fee	Up to 4%	Custodian	BNY
Annual management fee	R 1.25%, I 0.75%	Price reporting	Prices published daily on lancasterim.co.uk , Bloomberg and by other third party data providers.
Ongoing charge	R 1.55%, I 1.06%	ISIN	R: GB00B55NGR79, £I: GB00B55NGS86, €I: GB00B3SX1S66, \$:GB00B3Z00X80
Performance fee basis	20% of the increase in the value per share of the fund between the beginning and the end of the year. Fees crystallise annually. Losses carried forward.	SEDOL	R: B55NGR7, £I: B55NGS8, €I: B3SX1S6, \$:B3Z00X8

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