

WS Lancaster Absolute Return Fund

Portfolio Manager Q3-24 Report

Introduction

The fund declined in the quarter (-0.6%) in the context of sterling appreciating c. 6% against the dollar and the MSCI World Net TR Daily GBP index returning +0.33%. We generated positive returns and good alpha from our long book which contributed +6.22%. The short book cost the fund -6.40% and generated negative alpha. Our index futures cost the fund -0.71%. Whilst the net return for the fund looks dull and disappointing there was a lot going on 'under the bonnet' which we will expand on below.

Macro

In September the Fed delivered a 50-basis point rate cut which equity markets liked and proceeded to extrapolate a more dovish US central bank for this cycle. Following this, China surprised the market with significant monetary, equity market, property and probably fiscal stimulus packages. We don't know all the details yet, but it is clear that the Chinese leadership does care about the economy, the domestic stock market and implicitly the wealth effect. Much of the commentary around the Chinese announcements have been binary questions about whether they are enough, and there has been some level of disappointment about what has been announced so far. In our view stimulus is incrementally positive for demand and the implication is that there is capacity to do more if required.

The global economy now finds itself in a situation where rates are being cut in Western markets and there is meaningful economic stimulus in China. Could it be that major economies and inflation reaccelerate and the rate cutting cycle that the market is expecting diminishes? In our view, if this transpired it would change the leadership of the market and would benefit our book. We never take binary views on the macro, we just try to see what we believe is underpriced and attempt to blend it into our thinking whilst prioritising our bottom-up work. It seems to us that the distribution curve of how the market is pricing outcomes at present is too weighted towards rate cutting and not enough towards a cyclical acceleration.

We continue to see evidence that the US economy is polarised, with highly leveraged areas suffering more than is generally recognised. We are following a reasonably unusual set of data points here including those linked to some of our portfolio positions, but even the less niche areas are flashing amber.

Performance

-0.6% Quarterly performance
7.9% 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	508.05
£ R Class	473.42
\$ I Class	2.85
€ I Class	2.73
Fund Size	£338 million
Strategy AUM	£636 million
Fund Inception	11 May 2009
Class Inception	11 May 2009
Fund Type	UK Long Short UCITS

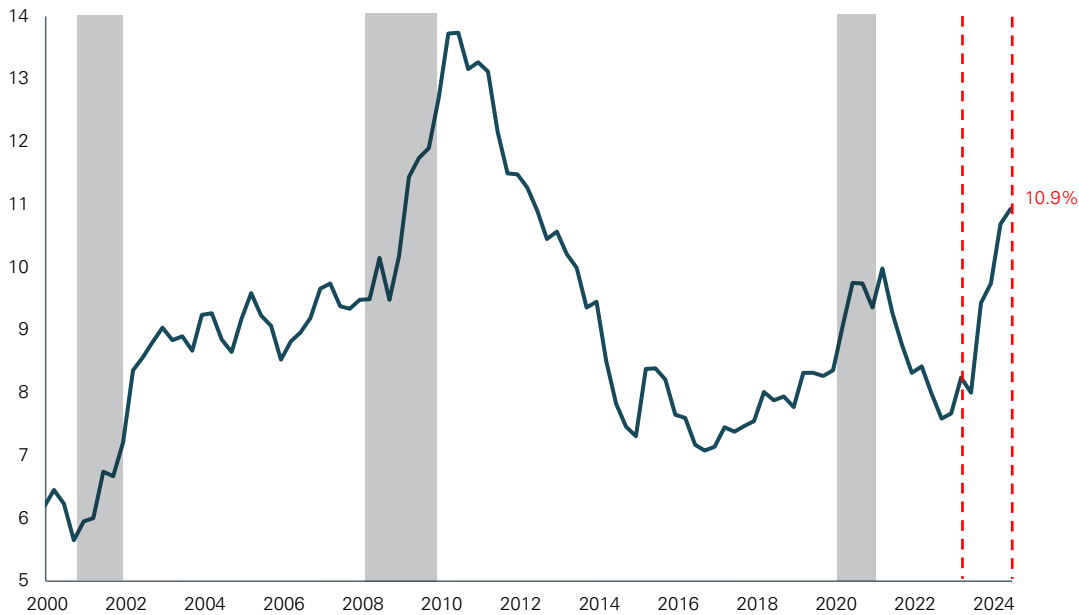
Portfolio Managers

James Hanbury
Jamie Grimston

Source: All sources, unless otherwise stated, are Lancaster IM internal unaudited data and refer to the £ I share class. All data shown as at 30 September 2024.

¹Waystone and Bloomberg, calculation on a NAV basis with net income reinvested.

Exhibit 1: Percentage of US credit card debt balances delinquent >90 days, recessions shaded

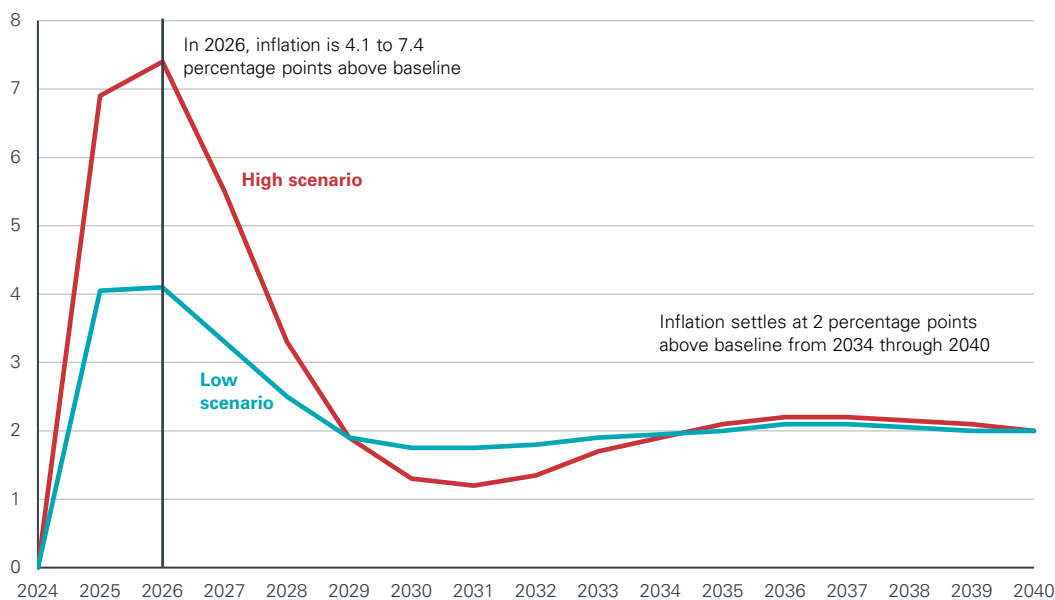


Source: Bank of America Global Research, Haver, NY Fed

A cyclical pick up in Western economies could create more pain than benefit for private equity and the more levered private credit.

We are watching the US election with interest (whilst having zero edge). We have mentioned in previous newsletters how inflationary a second Trump term could be and the chart below from a non-partisan US think tank attempts to put figures on it.

Exhibit 2: Projected percentage point change from baseline for US inflation under two scenarios, 2025-2040

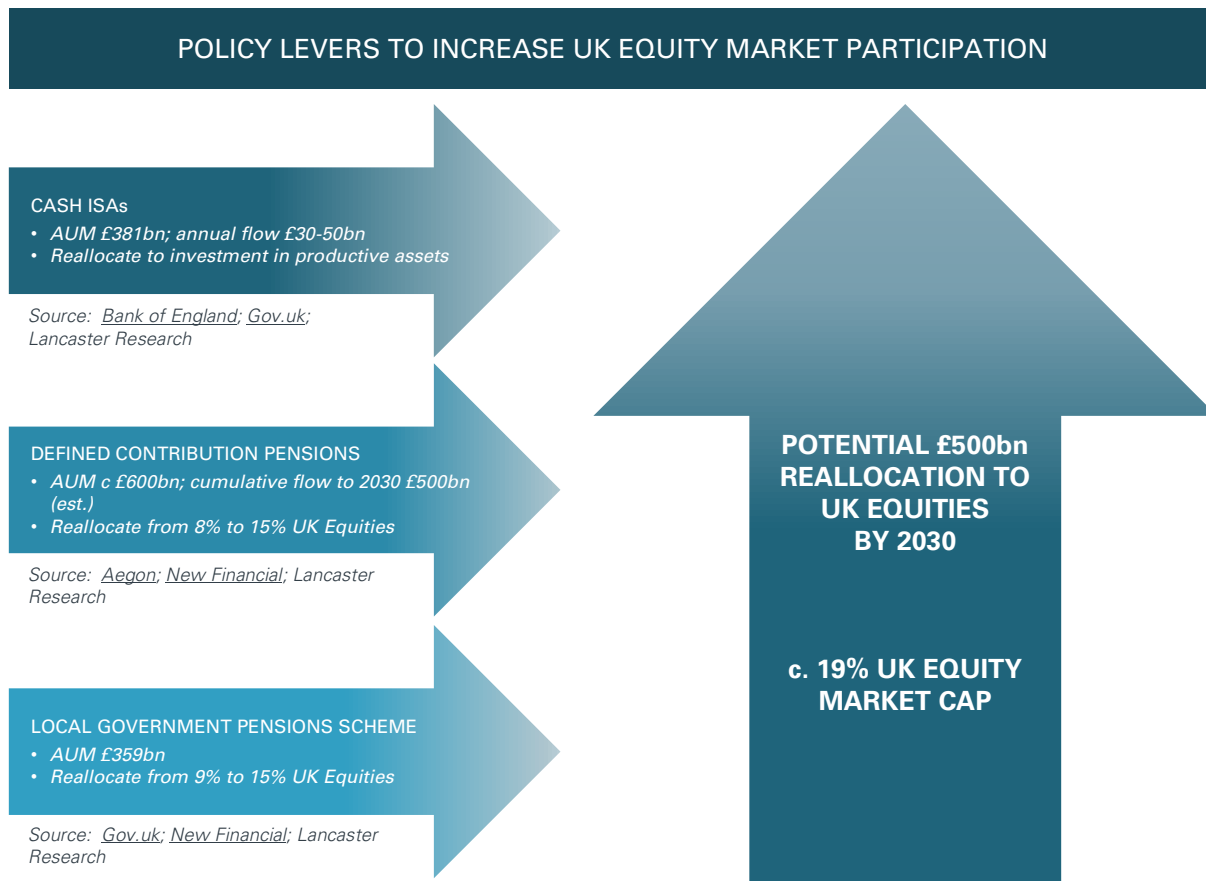


Notes: High scenario is 8.3 million unauthorized workers deported; increases in tariffs on all US imports by an additional 10 percentage points and on US imports from China by an additional 60 percentage points, with retaliation by all trading partners, including China; and erosion of Fed independence. Low scenario includes the same tariff increases as high scenario but with no retaliation by other countries, 1.3 million unauthorized workers deported, and erosion of Fed independence.

Source: Working Paper 24-20 by Warwick McKibbin, Megan Hogan, and Marcus Noland, The international economic implications of a second Trump presidency, Peterson Institute for International economics.

Despite an inauspicious start in its first 100 hundred days, we will learn materially more about the new Labour UK government on 30th October from its first budget. The chancellor Rachel Reeves though has already asked the pension minister Emma Reynolds, to do a review into pensions to boost UK investment. The second part of the review, starting this quarter, will include how to increase investment into UK Markets. Given how the UK has suffered from structural outflows over the past couple of decades a reversal could be very powerful for UK valuations. We believe that the potential value of assets that could be targeted for minimal levels of UK investment to be over £1tr. We have included cash ISAs in our analysis given that the UK is an outlier in giving people a tax break for holding cash.

Exhibit 3: Levers to increase UK equity market participation and invest in British Growth

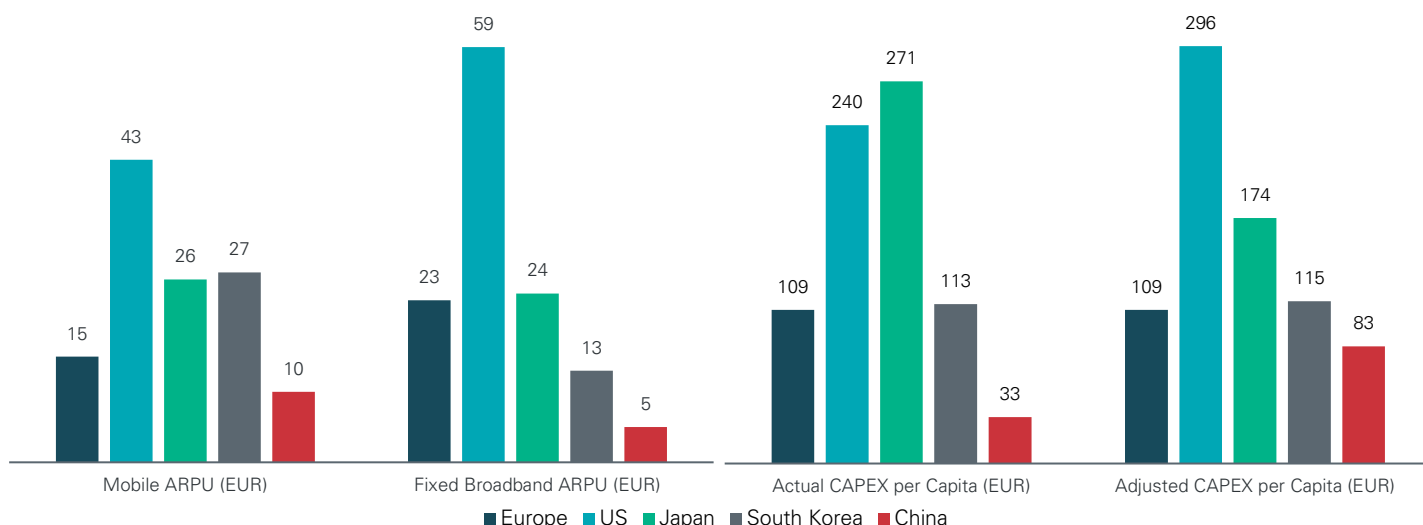


The continued rhetoric from the UK government on its determination to increase housing volumes is also encouraging for our building material supplier positions and to a lesser extent our house builders.

We read Mario Draghi's report on '[The Future of European competitiveness](#)' for the European Commission with interest as it covers many areas where we have exposure.

One section that was particularly relevant for us is around relative investment levels in fibre and 5G in Europe. Draghi states that the highly fragmented European telecom market, and implicitly lower profitability of the operators, is an issue. If the European commission digests this report and allows more consolidation it should lead to better quality communication infrastructure and more profitable operators. This would provide a good backdrop for our holdings in Nokia, Cellnex and Liberty Global. The chart below is directly from the report.

Exhibit 4: Mobile and Fixed Broadband – Average monthly revenue per unit and Capex per capita



Source: ETNO, 2023. European Commission

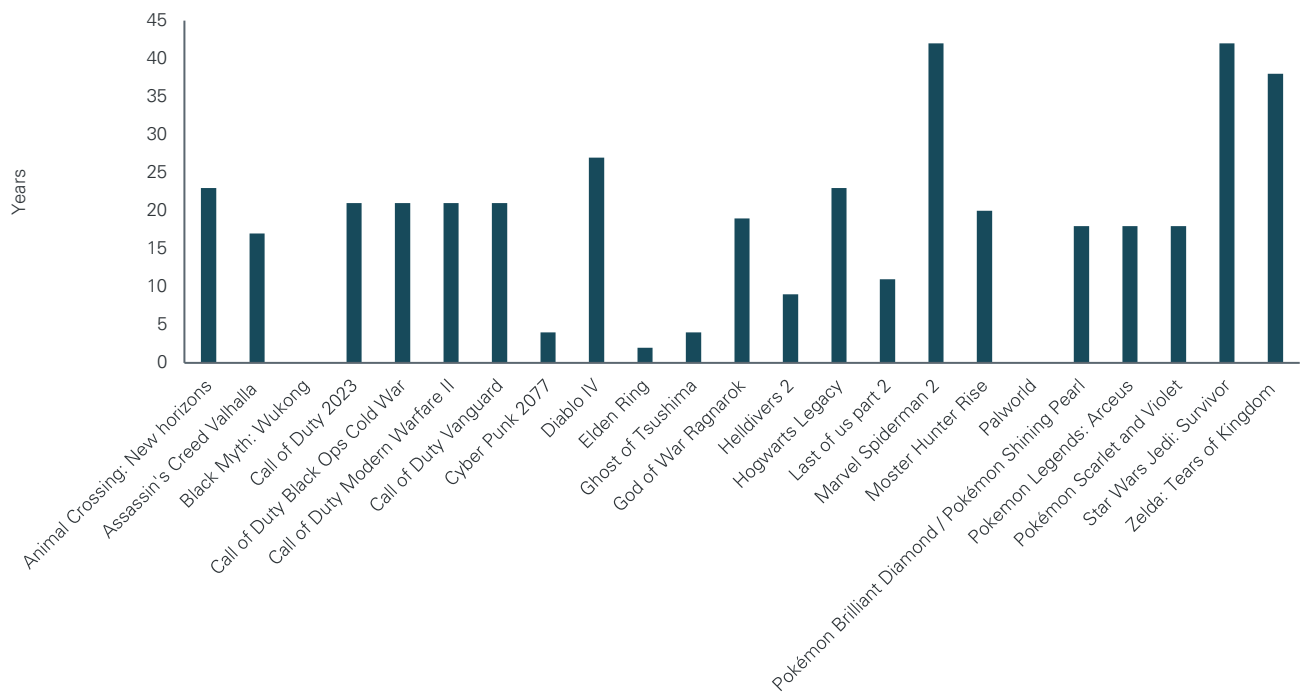
Performance and positioning

Long book

The long book generated a positive contribution of +6.22%. It was a case of having many long positions that contributed in a meaningful positive way outweighing one very large detractor in Ubisoft.

Ubisoft cost the fund -5.07% in the quarter as it warned on its full year sales and profits. The warning was mainly linked to its game release, Star Wars Outlaws, having unit sales below expectations and the subsequent decision to push out the release date of the next Assassins Creed title by 3 months (which pushes revenues into the next fiscal year). This latter decision was taken to make sure the title is even more 'polished' to improve the reception and unit sales. Whilst it is clearly disappointing to have a reduction in near term numbers we believe that this year's developments have a relatively small impact on Ubisoft's intrinsic value despite how the shares have reacted. Ultimately the value in Ubisoft lies in its core IP and if the current management prove unable to successfully monetise this then another owner will. The recent Ubisoft execution issues have been mainly linked to its third-party brand games (Avatar and Star Wars) and much less to its core owned IP. The last few Assassins Creed titles have been a commercial successes and Rainbow Six Siege continues to grow. The early disappointment of Xdefiant as a new game Ubisoft launched this year partly shows technical challenges with live multiplayer games but it also shows the barriers to entry in this industry and how valuable heritage IP is. The chart below illustrates that the largest game releases since 2020 have nearly all been associated with a core gaming franchise created many years before. Interesting Palworld, one of the few new entrants, is being sued by Nintendo and Pokémon for patent infringement. Ubisoft's top 5 core franchises have an average age of nearly 20 years.

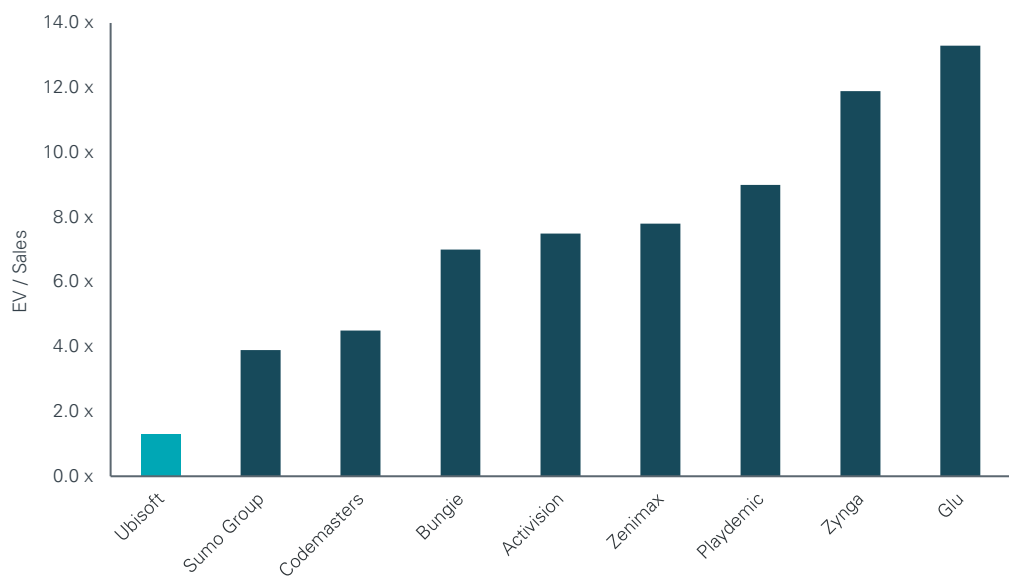
Exhibit 5: Franchise age (years) of the highest grossing video games since 2020



Source: Lancaster IM

Ubisoft management is doubling down its efforts to improve execution and ultimately monetise games more successfully. If it manages this, we can see a reasonable chance of the company generating more than €500m of free cash flow against its current market cap of circa €1.7 billion. If management is not able to sharpen up their execution, then we can see many possible trade buyers. We believe the value of both of its top 2 franchises are worth more than the current enterprise value of Ubisoft, so logically there should be material upside if management decide to dispose of assets or the whole business. Ubisoft's forward EV/sales multiple of 1.3x is a c.70% discount to the listed comparators, and average transaction values in the space have been multiples higher.

Exhibit 6: EV/Sales multiples of video game acquisitions vs Ubisoft current EV/Sales



Source: Lancaster IM

Debt levels at Ubisoft are higher than we would like but we see non-core asset sales as a base case and EV multiples are very low, so if a small amount of equity were required to be raised it wouldn't alter the investment case. We added to the position on the way down and at the lows; post the quarter end there have been rumours (not denied by the company) that it is in discussions with Tencent over strategic opinions. We believe this is an extremely interesting investment at this level. In the scenario where the company disappoints with its next few game releases, we believe it will be sold or assets will be divested highlighting the sum of the parts upside. In the scenario where game execution returns to pre-COVID levels with associated cash flow, it is our view that the shares should be at least 300% higher (assuming the shares traded on a 8% free cash flow yield which would be materially cheaper than the long run average). When we look back historically at our most fruitful investments we have often built the position up when the market was very uncomfortable. The risk/return here for Ubisoft feels extremely skewed to the upside.

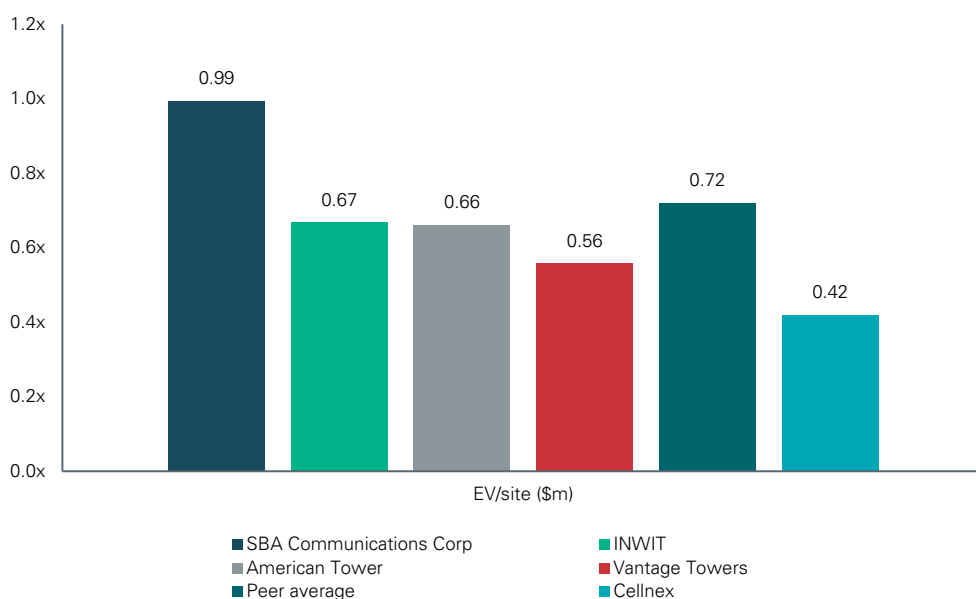
On the positive side our top contributor in the quarter was **Oxford Nanopore** (+1.96%) after well received half year results and a capital raise anchored by Novo Holdings, the holding and investment company of the Novo Nordisk Foundation. Management has described a strengthening order book and pipeline that gives confidence for meaningful revenue growth in 2025 as well as 2024. The company continues to win market share and further it has started to describe significant growth markets where it effectively faces no competition. It is likely the company will enter the FTSE 250 Index in December 2024. The fund added to its position in the capital raise alongside Novo.

Plus500 contributed +1.18% as it announced further capital returns and increased guidance. **Liberty Global** contributed +0.89% after holding a CMD for its Swiss business Sunrise that it will be spinning out in November. We still see this event as a catalyst for value crystallisation. **Siemens Energy** +0.80%, **Mobico** +0.75% and **National Grid** +0.75% were also meaningful drivers of positive long book performance.

Our **convertible bond in ASOS** contributed +0.97% as the company offered to buy the bonds at an 18% premium to the pre-announcement price. The bond has generated a good return since we took the investment. In our 15 year plus history we have only bought corporate debt or converts a handful of times but our disciplined approach of knowing the equity extremely well and waiting for outliers has enabled us to generate extremely good risk adjusted returns from this asset class.

Cellnex (+0.63%), a new position this year, owns passive wireless infrastructure; the towers on which mobile network operators (MNOs) rent space to install the antennae and radios through which they run their networks. It is the largest independent player in Europe with 115k out of c.500k towers, built up mostly through aggressive acquisition between 2018 and 2022. The shares have performed poorly for the last three years as the rate cycle turned, leaving the company more indebted and more lowly rated than its peer group.

Exhibit 7: Cellnex valuation (EV/site) vs peers



Source: Lancaster IM, Bloomberg, Company data

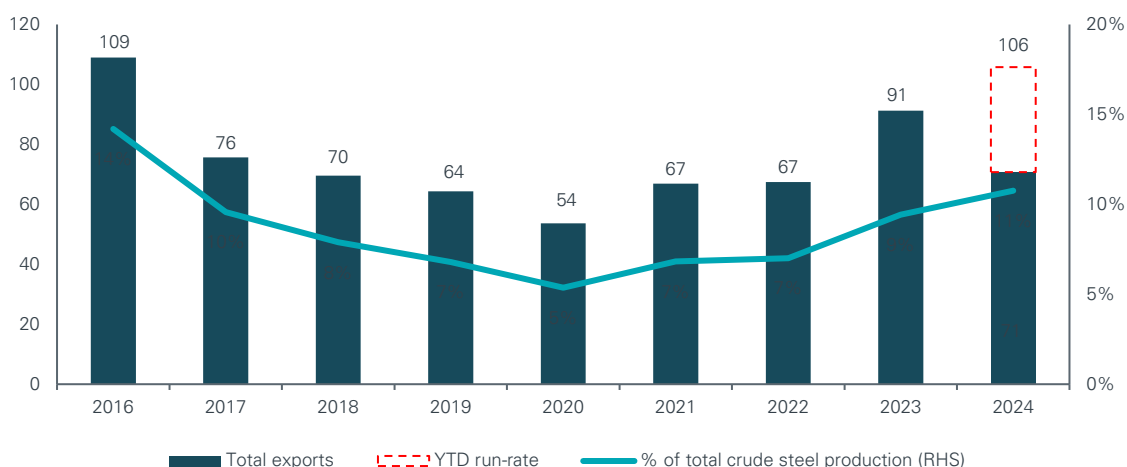
We see multiple ways for this to change, with a new management team being installed last year to focus on organic growth and new board members reassessing capital allocation. There is scope for margin improvement as the company benchmarks and integrates its numerous acquisitions, whilst so far it has sold two non-core assets at a premium to its own trading multiple which brings scope for share buybacks. Whilst in isolation consolidation of MNOs across Europe would be a small negative, this is more than outweighed by the increased investment in spectrum density that should occur with a more profitable sector. If Cellnex reached peer group levels of EBITDA per tower by 2027, it would trade on a c.7% FCF yield. In our view Cellnex's largely index-linked 30-year+ contracts make it a high-quality utility-like infrastructure asset where comparables trade on a c.3.5% FCF yield – as does Cellnex's largest US peer. Therefore, we see scope for the shares to double over a 2-3 year period.

Nokia is a new position and it contributed +0.54% in the quarter. The company sold its handset business to Microsoft in 2014 and now sells equipment for fixed and mobile networks. Additionally, it has a patent division linked to the standardisation of communication for networks and devices. Interestingly much of the focus of the business is on the Mobile Networks division which is its lowest quality division and has been struggling recently. This is despite it having close to a duopoly with Ericsson in many markets. We believe there is upside in the shares if the Mobile Network division is valued at zero. That said the shares offer huge upside if we do see a pick up in mobile equipment spend, particularly in Europe. Nokia has a balance sheet with €5.5bn of net cash and a pension surplus. On depressed earnings the company trades on c. 7.5x EV/EBIT and is buying back shares. We will go into more detail on the investment case on our quarterly call.

Our European banking positions made up of **Barclays, Natwest, Deutsche Bank, Commerzbank, Monte dei Paschi** and **Vanquis** contributed +1.93%. Commerzbank performed well after Unicredit took a c. 21% stake. Unicredit has made it clear that it intends to take over the bank if it can get support from regulators and employees. This will be a key test of the European banking union project. For this reason, we believe that the ECB will support the acquisition and the German government will not be able to block it. Should the merger go through we believe that further consolidation within the industry will take place. Monte dei Paschi appears as a logical target due to its valuation, potential to deliver cost synergies, excess capital position and deferred tax assets. On average, our large cap banking positions trade on a trailing price to tangible book value of 0.75x and on a 2024 P/E multiple of 7.3x on a statutory basis. They will return on average about 12% of market capitalisation per year for the next three years, without accounting for the excess capital. They are well positioned to deliver resilient earnings in spite of lower rates due to the impact of hedges that, in some cases, have suppressed the benefit of higher rates so far. In general, European banks have entered a new paradigm of producing returns at or above the cost of capital, returning capital and showing resilience to crises, which we believe the market has yet to price in.

We have plenty of long European positions in the portfolio that are cheap without the Chinese economy picking up. Of course, the Chinese stimulus packages discussed above will further improve the risk return of many of our positions that are indirectly linked to the Chinese economy, German banking positions for example should certainly benefit. Another case in point would be our position in ArcelorMittal which has suffered this year from high levels of Chinese steel dumping/exports.

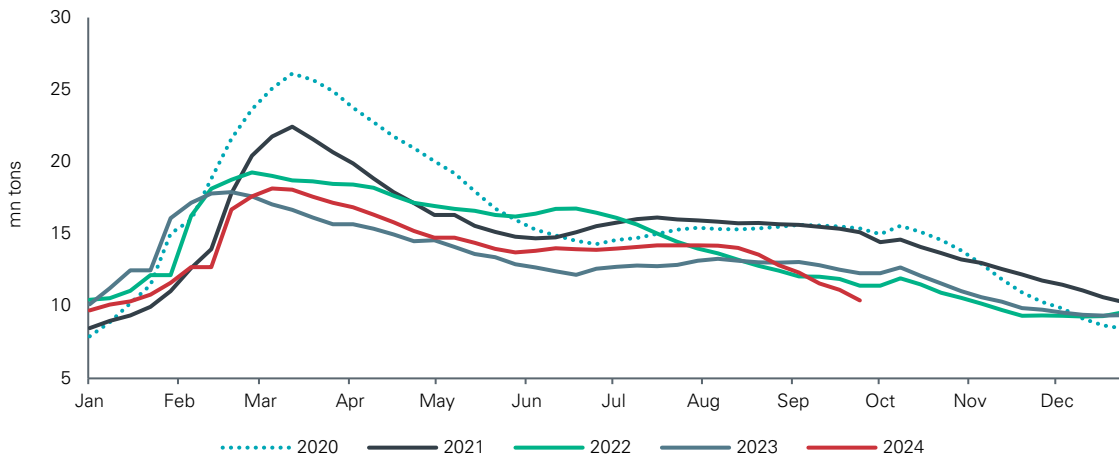
Exhibit 8: China steel exports



Source: J.P. Morgan, Bloomberg

Interestingly before the stimulus was announced we were already seeing signs of steel inventories falling in China. If the stimulus gets traction, then it will be meaningful for **ArcelorMittal** (+0.39%) given the knock-on impact Chinese exports are having on steel spreads in Europe.

Exhibit 9: China social steel inventories, week ending 27th September

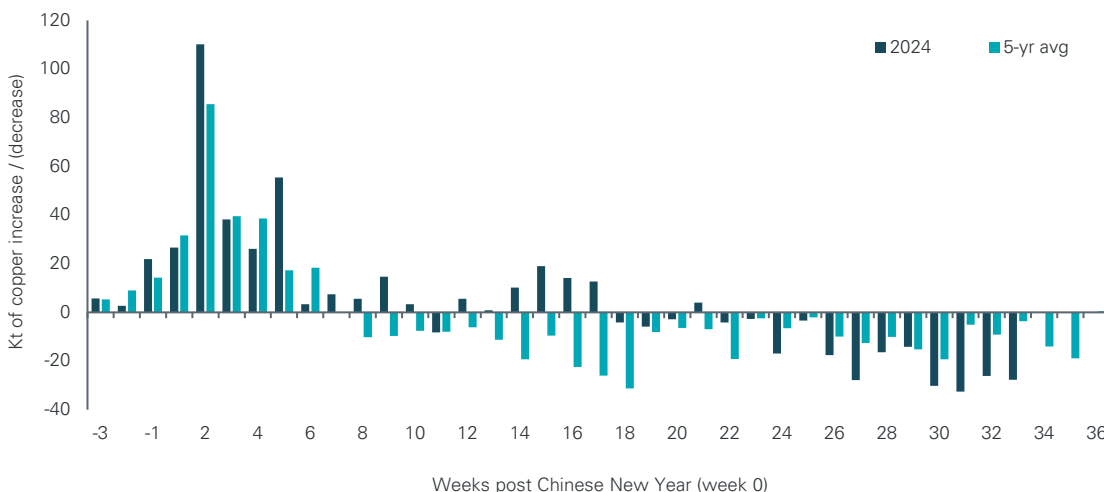


Source: J.P. Morgan, Bloomberg

There will be a further kicker for European steel spreads in 2026 when the Carbon Border Adjustment Mechanism gets implemented. Given there has been a structural improvement in Arcelor's cost base, the mix of its business and the pricing environment on a forward-looking basis, the operational leverage and pick up in cash flow should be unusually high in the next upswing of the cycle. This makes a mockery of the depressed 0.4x price to tangible book value and EV/sales multiple. Put another way if we give Arcelor no benefit for the structural improvements and put it on its average EBIT margin from the last 20 years (plus adding on the JV EBIT), then the company would trade on an EV/EBIT multiple of 3.5x times.

Clearly miners should also benefit from any pickup in the Chinese economy; we have exposure through **Glencore**. Again, what might surprise some is that Chinese physical copper inventories were already declining much quicker than the 5 year average.

Exhibit 10: Weekly change in China visible copper inventory (SHFE + Bonded)



*First and second weeks are grouped together due to lagged inventory reporting

Source: Shanghai Futures Exchange (SHFE), Shanghai Metal Markets (SMM), J.P. Morgan

Short book

The short book lost -6.40% over the quarter with negative alpha. There was no one particular culprit, rather a re-rating of several of our short positions.

Running shoe brand **On Holding** was the largest detractor at -1.28%. Returns from our sporting goods exposure this year have been poor across the portfolio. This is because our largest shorts (On and Deckers) have been painful and our largest long Frasers is down 15% for no particular reason and sits on multi-year low multiples.

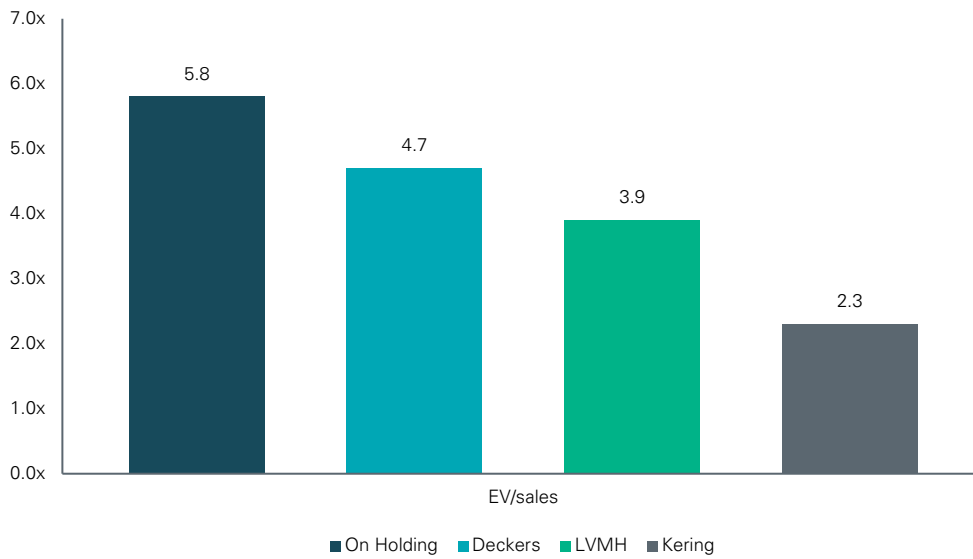
Exhibit 11: Frasers Group forward P/E, October 2014 – October 2024



Source: Bloomberg

As a reminder, our key industrial thesis in this space is the risk of oversupply and tougher competition in the running shoe category. It has taken Nike longer than we expected to fight back and credibly attempt to regain market share from the challenger brands. Nike needed a reset and we believe this has now arrived with the recent early retirement of John Donahoe and the appointment of Elliott Hill as CEO. We believe over the past few years that Nike has prioritised protecting margins and shareholder returns over investing in marketing, innovation and retail relationships. With this change in leadership, Nike should become a much tougher competitor as it increasingly does the right thing for the company and the customer. With On trading at 6x EV/sales and Deckers at 5x, we believe the market is pricing in very little chance of disappointment by these businesses. Whilst luxury is clearly having a tough time at present, we view LVMH and Kering as higher quality businesses than On and Deckers and ones which should ultimately generate higher margins. As such, the table below is striking and a reminder of how unusually focused the market is at present on short term earnings momentum versus intrinsic value.

Exhibit 12: EV/Sales multiples of selected consumer businesses



Source: Lancaster IM, Bloomberg

We continue to hold our short position in **Lululemon** (+0.16%) which has performed well for us on the short side this year but we don't share the market's belief that this is a business which can sustainably hold onto 20% plus EBIT margins.

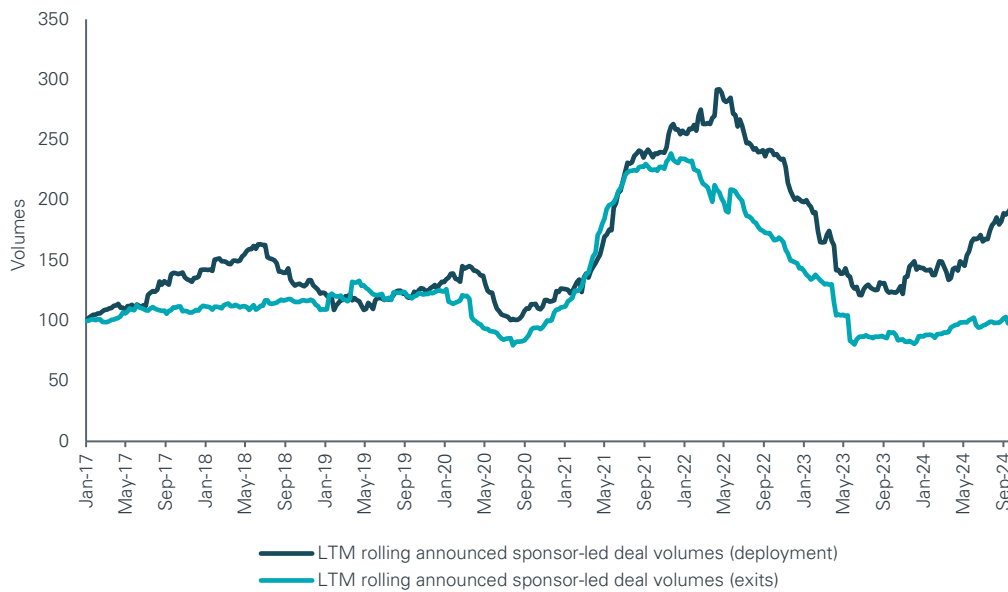
Exhibit 13: Trailing 4-week average percentage change (YoY) in Google search trends for Lululemon in the US and Canada



Source: Goldman Sachs Investment Research, Google trends

Some of our short private equity positions rallied in the quarter costing the fund. This excitement was partially driven by the view that a lower discount rate world will help PE exit activity. We remain sceptical that the small movements we've seen in the yield curve will be able to fix the fundamental issues that the industry is facing, as discussed in previous commentary. It is a lot easier to deploy capital than exit from it, but the industry does have to close these jaws somewhat.

Exhibit 14: Last 12 months announced sponsor led deal volumes (deployment and exits), indexed to January 2017

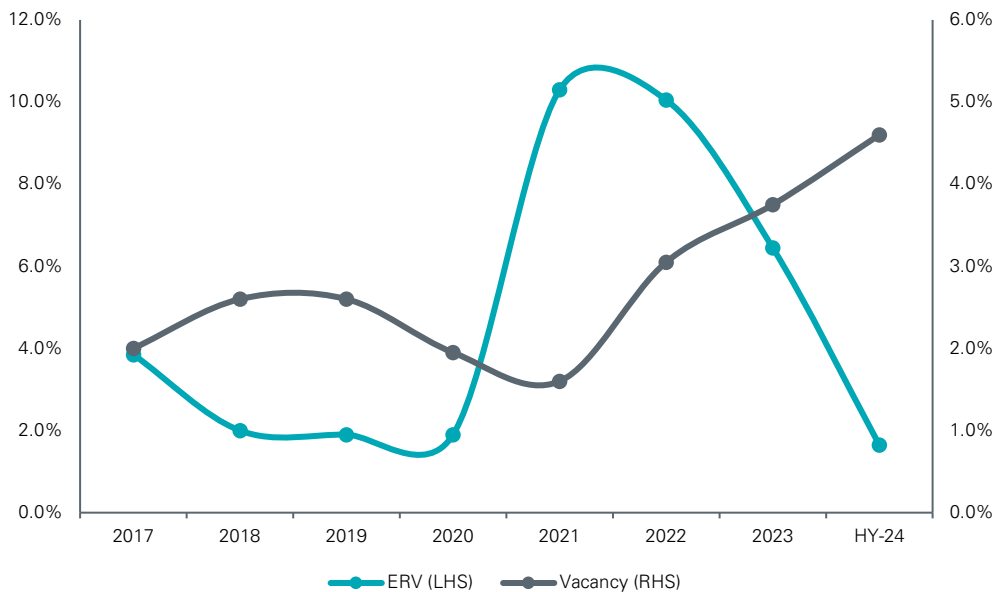


Source: Goldman Sachs Investment Research, Dealogic

We are seeing more comments from PE industry insiders accepting that there are issues in the industry, but also stating that their businesses are not affected. At a Bloomberg Future of Finance event, one of CVC's managing partners, Giampiero Mazza, remarked on the pressure on private equity managers to monetise investments, with "a lot of managers sitting on assets bought at high multiples who don't really want to face reality". In further comments he added that "in private equity we also have a lot of discretion in marking our assets, so we tend to maybe not be as disciplined in marking the value".

Our **logistics property shorts** were mixed in the quarter which given the tailwind of falling yields demonstrated a degree of value add. The operating trends are becoming increasingly interesting to us. 2022 and early 2023 brought a first wave of sudden and large write-downs in balance sheet values, as higher interest rates were discounted into third party valuation models via higher "capitalisation rates" or implied rental yields. Since H1-23, many industry participants have been calling for a floor and recovery in valuations, arguing the initial "de-rating" to have passed. We have remained sceptical however, fearing that the first wave of de-rating would be followed by another, where the reality of weaker operating trends would feed into valuation models in turn. Indeed, for several months we have been intrigued by the wide gap between current "passing rent" and the future "reversionary" rental target assumed by valuers' models, and the divergent valuations this implies. While valuation "cap rates" might have started to look more palatable based on reversionary rent in future, they continue to screen as cyclically extremely expensive based on passing rent near-term. This means that rental growth (reversion) up to market rates is not so much a "nice to have" right now, as a necessity, crucial to justify current balance sheet positions. Any change to the rental landscape will make valuations on passing rent look very vulnerable in our view and vacancy needs to stay in check. We have found the change in these key performance indicators for our names potentially quite revealing of the true health of the sector.

Exhibit 15: Blended Estimated Rental Value (ERV) growth and vacancy rates for selected logistics companies



Source: Lancaster IM, Company data

Our top contributing shorts were **Super Micro Computer** (+0.69%), **Novo Nordisk** +0.62% and **ASML** +0.18%. **Super Micro**, a server equipment business, fell after a Hindenburg short report into the company and subsequent news that it was being investigated by the DOJ.

Data analysis of the fund's history

Given we have now passed the 15-year anniversary since the fund was launched we thought it would be useful to share some of the fund data with you. Apologies if some of this data analysis is a bit jargony, we appreciate it is not for everyone! For the last three years we have shared our entire data history with an independent specialist called Essentia Analytics. Given we have always had the same strategy with the same fund manager and the data set consists of >1,500 positions over the 15 years, it is of meaningful statistical significance. It is incredibly useful for us to understand our strengths and weaknesses and how we can use this information to improve our risk adjusted returns. All relative references below are against the MSCI total return and are return off invested capital on an unlevered basis.

Although we report in absolute numbers, and it is an absolute return fund, we are trying to generate alpha relative performance on both sides of the book without taking on much market risk. Thankfully we have achieved this objective historically. The first set of charts show that the **long book has generated alpha of 2.5% per annum and the short book has generated alpha of 5.3% per annum**. Our leverage has enabled us to generate circa 15% per annum before fees at the NAV level. Whilst the relative hit rate of 54% looks potentially disappointing, Essentia notes that it is good compared to the industry, and when combined with the strong average payoff we have been able to generate a good outcome for clients.

Exhibit 16: Absolute and relative long/short performance of the fund, May 2009 – September 2024



The analysis above comprises 12-May 2009 – 26-Sep 2024. Performance is net of fees and other charges and includes the reinvestment of dividends. Investments that have an exposure to currencies other than the base currency of the fund may be subject to exchange rate fluctuations.

Source: Essentia Analytics, Lancaster IM

Alpha has been stronger in the top weightings. The fund's top weightings relative to small weightings have on average delivered a similar relative hit rate (54%) but a much higher relative payoff (141% vs 113%); this has translated into much better alpha on average in the top positions vs the small positions. One frustrating element is that this has not been the case for the last 18 months.

From a market cap perspective, **our sweet spot for alpha generation has been in the £1 billion - £15 billion market cap cohort.** That said we have still generated good alpha across the spectrum including the largest market cap names.

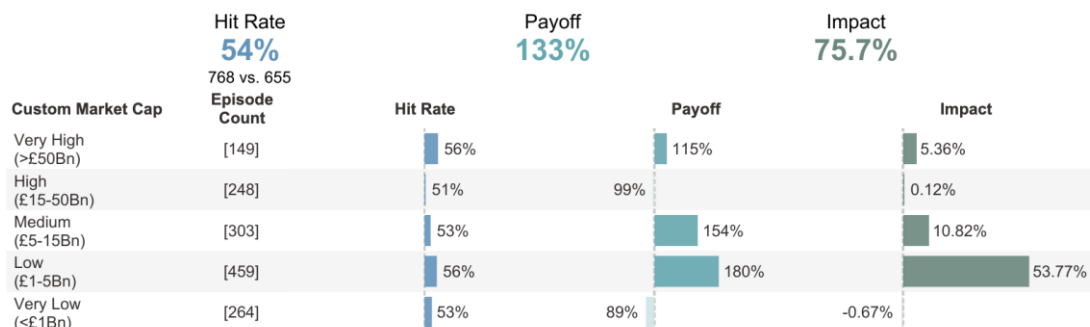
Exhibit 17: Alpha metrics of the fund by market capitalisation of positions, May 2009 – September 2024



EPISODE ANALYSIS | Single Categoriser Performance

Investigating KPMs when broken down by **Custom Market Cap**

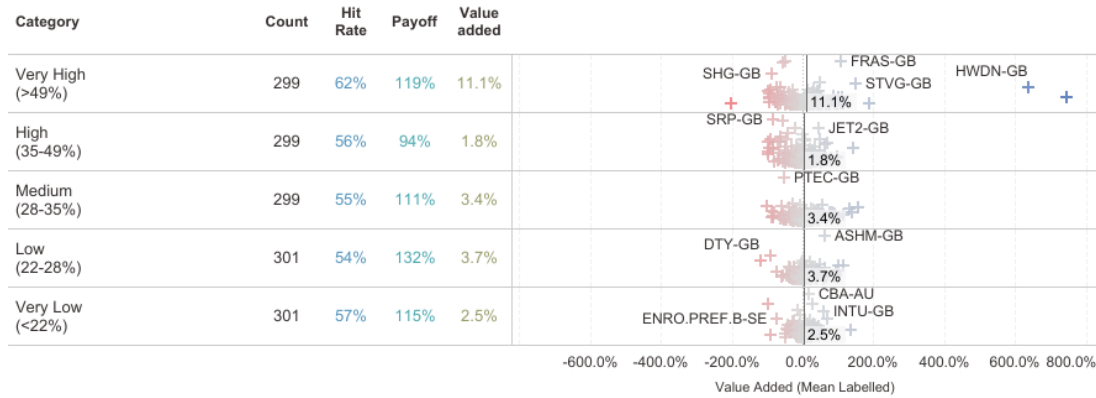
12-May-09 to 26-Sept-24 | Not annualised | Relative performance | Long & Short positions



Source: Essentia Analytics

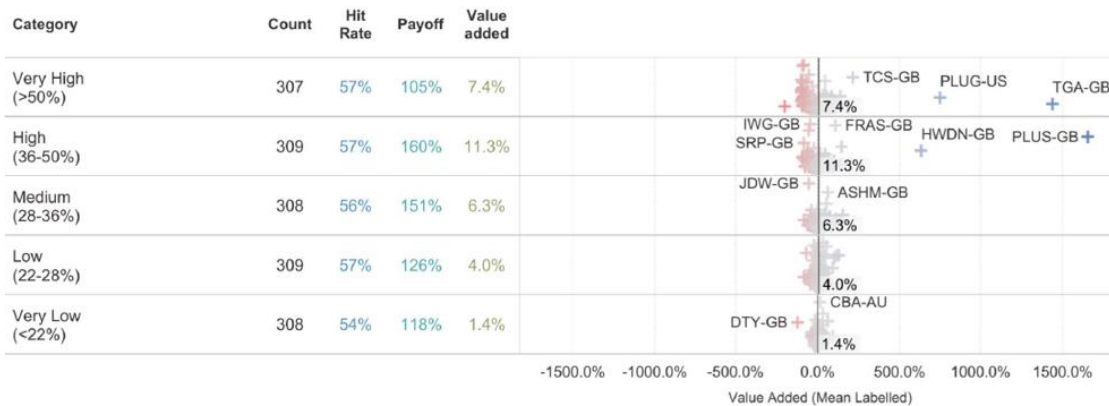
Highly volatile situations have been a rich source of alpha. The fund has generated the most alpha in the highest volatility situations, both when grouped by volatility at the time of position entry (exhibit 18 below) and average volatility over the life of the position (exhibit 19 below).

Exhibit 18: Stock picking performance in the fund by entry volatility of each position, May 2009 – September 2024



Source: Essentia Analytics

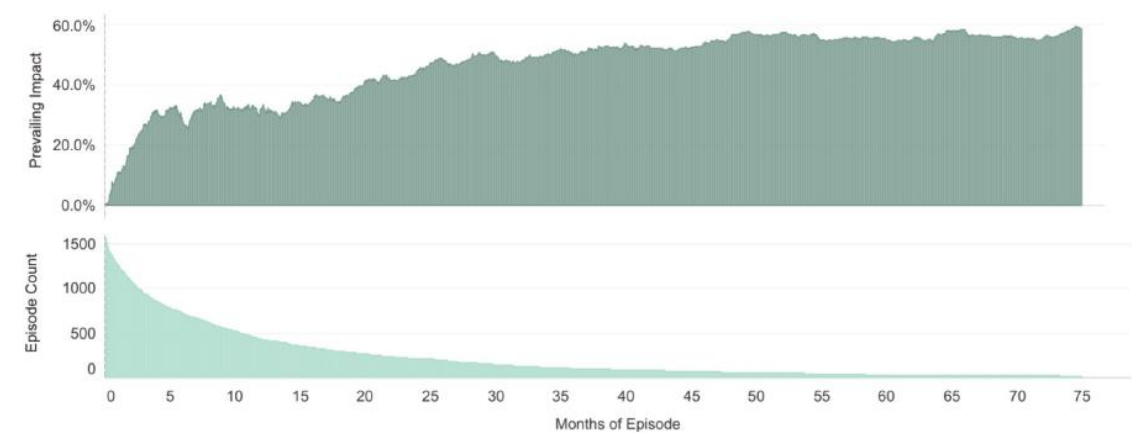
Exhibit 19: Stock picking performance in the fund by average volatility over the life of each position, May 2009 – September 2024



Source: Essentia Analytics

The fund has on average generated alpha throughout the life cycle of episodes, from entry to exit. Exhibit 19 below shows the aggregate relative impact (ROI) of long and short positions over time. Alpha generation has been particularly strong in the first 5 months of positions on average then trends upwards after a circa 9-month plateau.

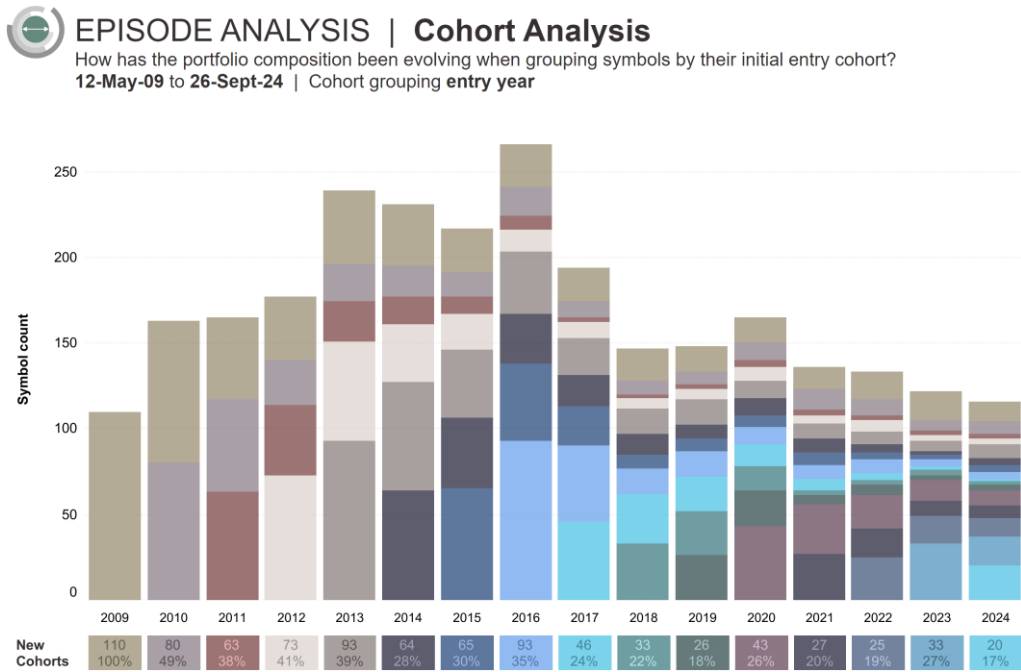
Exhibit 20: Aggregate relative impact of all positions (“episodes”) from May 2009– September 2024, long and short, by month from entry. Episode count on the lower chart shows the number of positions remaining in the data set at each month of duration.



Source: Essentia Analytics

There has been extensive new idea generation and implementation into the fund every year, while total name count has been on a downward trend since 2016. The cohort analysis chart below groups positions by year of initiation (simple name count, unweighted). While some positions have been held since 2009 and have high weightings (e.g. Frasers, IWG), the remainder of the book has seen reasonable turnover; over the past 10 years 18-30% of the portfolio by name count in any one year has been initiated in that year (2024 is YTD). The reducing name count reflects our efforts to high grade the portfolio and intensity competition for capital.

Exhibit 21: Grouping of fund positions by entry year (number of positions, unweighted), May 2009 – September 2024



Source: Essentia Analytics

Our trading of positions overall has added value. Beyond stock picking analysis, Essentia looks at the impact of trading actions over a 5 month horizon as compared to the counterfactual of no action. Trading comprises the timing and aggression of position entry and exit and positional adjustment in between. Across over 26,000 trades since 2009, trading has had an average relative hit rate of 50% and a relative payoff of 109%; given the number of trades this has translated into a significant positive impact on the portfolio. Nonetheless, there are certainly subdivisions of trading that we are aware we can improve on.

This data analysis has formed the basis for improvements in our process, some of which are summarised in the table below:

Exhibit 22: Observations and process improvements from analysis

Observation from analysis	Process Improvement
On average losing positions have carried on losing	- Vulnerable position alerts which trigger position reviews. - Conviction threshold required for maintenance of a losing position has risen - Reduction in name count
Greatest value added in volatile situations, £1bn-£15bn market cap and larger / higher conviction positions	- Focus research and incremental positions on our market cap sweet spot - Reduction in name count / focus capital deployment into higher conviction positions - Emphasise volatility as an opportunity in the research process / trading
Alpha generation has slowed on average from month 5 to month 15 from position initiation	Receive alerts when positions have been held for 5 months to force us to check conviction and weightings
Exiting later in longs would have added more value to the fund	At the margin we can be braver with holding our longs and have more respect for momentum, whilst remaining cognisant that exiting positions 'early' can lead to higher incremental ROIC due to the asymmetry presented by new ideas

Source: Lancaster IM

Fund Positioning

Whilst there has been some churn in the underlying stocks and weightings, the overall position of the fund has not altered much. The fund is 66% net long on a reported basis and 42% on a 2 year beta adjusted basis. Driven by bottom-up stock picking we continue to have a bias to companies listed in Europe ahead of America. The fund has a value bias as seen in the table below. We are unhedged on our non-UK positions but with many of them held in CFD's we have limited currency exposure.

Exhibit 23: Median valuation metrics of WS Lancaster Absolute Return (LAR) long and short books and the MSCI World Index (market cap weighted)

	Forward P/E	Forward EV/EBIT	Forward EV/Sales
LAR long book	12.1x	8.4 x	0.7 x
LAR short book	24.6 x	22.0 x	8.4 x
MSCI World Index	20.9 x	17.7 x	2.7 x

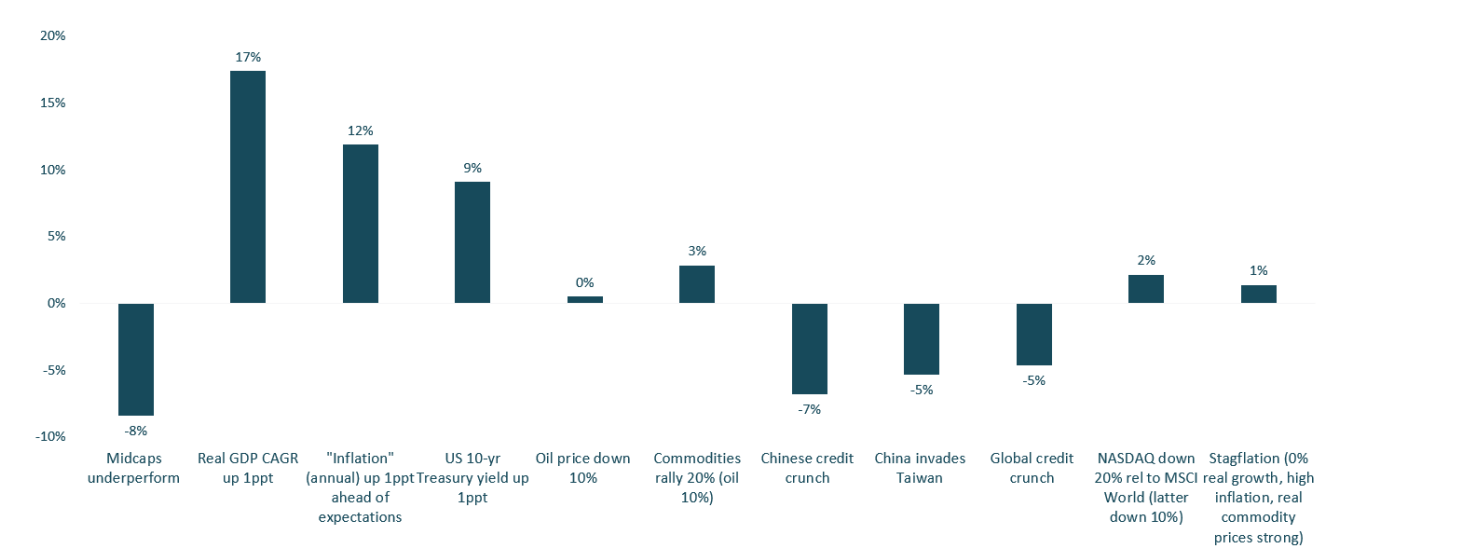
Source: Bloomberg, Lancaster IM

Conclusion

Despite the long book having a good quarter in absolute and relative terms it was still deeply frustrating to lose as much as we did on one position ultimately leaving the fund slightly down on the quarter in sterling. There are always lessons to take from any period or experience and this is no exception. Market short termism seems extreme at this point in time which, whilst requiring navigation (something we could have done better in the last quarter), presents huge opportunities.

Hopefully an insight into our data and how we use it has given readers a sense of how we are continuously looking to improve our returns and process. As ever we have spent a lot of time seeing companies in and around our portfolio; sometimes this dulls our enthusiasm for our positions and on other times it increases our conviction. Recent meetings have unquestionably given us greater confidence on both sides of our book, which combined with the short-term market moves gives us a great deal of excitement. We look forward to updating you at the year end and thank you as ever for your support.

Exhibit 24: WS Lancaster Absolute Return (LAR) | Estimated factor return as at 9th October 2024



Source: Lancaster IM unaudited internal data & Bloomberg, as at 9-Oct-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	-2.6	-0.6	4.4	5.0	83.2	7.9	408.1	11.1
MSCI Daily TR Net World	-0.3	0.3	20.6	30.4	69.3	13.2	495.2	12.3
Relative	-2.3	-1.0	-16.2	-25.4	13.9	-5.3	-87.1	-1.1

Yearly Trailing Performance (net)

1-year to	30-Sep-24	30-Sep-23	30-Sep-22	30-Sep-21	30-Sep-20
Fund	4.4	15.9	-13.2	53.3	13.8
MSCI Daily TR Net World	20.6	11.2	-2.8	23.6	5.1
Relative	-16.2	4.6	-10.4	29.8	8.7

Monthly Performance (net)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	0.6	-2.0	2.9	9.7	0.8	-3.1	3.1	-1.0	-2.6				7.9
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	508.05
£ R Class	473.42
\$ I Class	2.85
€ I Class	2.73
Fund Size	£338 million
Strategy AUM	£636 million
Fund Inception	11 May 2009
Class Inception	11 May 2009
Fund Type	UK Long Short UCITS
Comparators	Primary: Cash Secondary: MSCI World Net TR Daily GBP
Base Currency	£

Team & contact details

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Top 10 Long Equities

	% NAV
Ubisoft Entertainment	9.5%
Frasers Group	9.5%
Plus500	9.1%
IWG	8.7%
Glencore	4.6%
Oxford Nanopore	4.5%
Liberty Global	4.5%
ArcelorMittal	4.5%
Jet2	4.4%
Commerzbank	4.4%

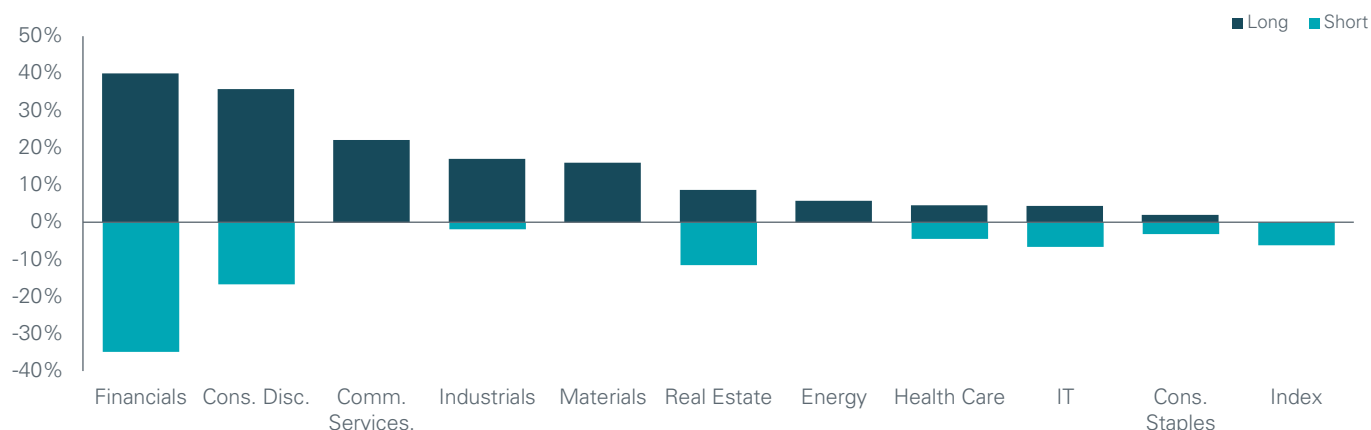
Portfolio Characteristics

Long position count	50
Short position count	31
Total gross exposure	247%
Total net exposure	66%
Gross long exposure	156%
Gross short exposure	-90%
Beta adj. net (2 year)	42%

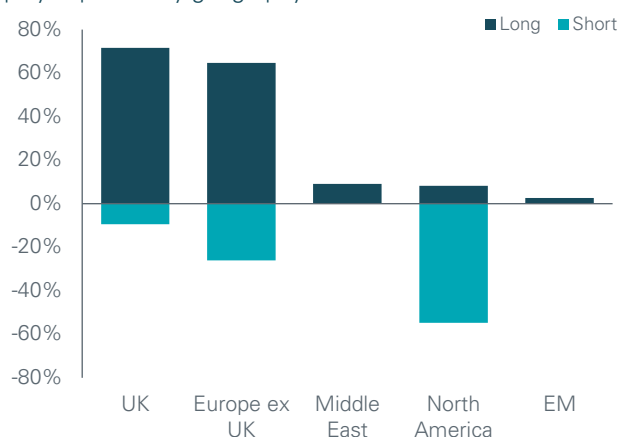
Important information

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, 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.

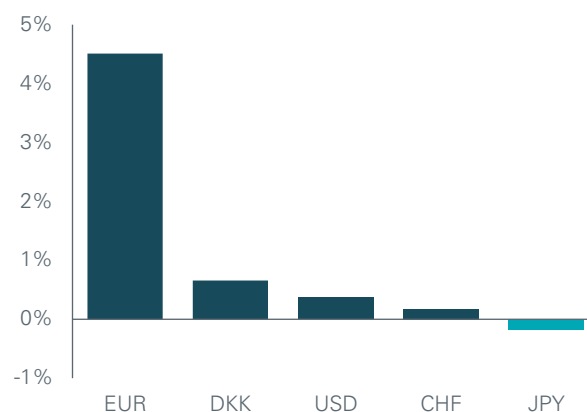
Equity exposure by sector



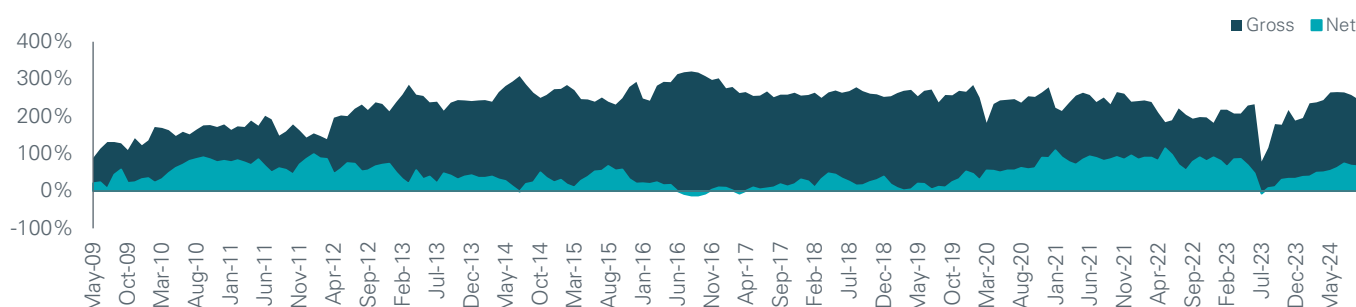
Equity exposure by geography



Portfolio 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 30 September 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	I (£, €, \$) Acc, R (£)	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	I £1,000,000; R £5,000
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%	Prime Broker	Morgan Stanley
Annual management fee	I 0.75%, R 1.25%	Custodian	BNY
Ongoing charge	I 0.97%, R 1.40%	Price reporting	Prices published daily on lancasterim.co.uk , Bloomberg and by other third party data providers.
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.	ISIN	R: GB00B55NGR79, £I: GB00B55NGS86, €I: GB00B3SX1S66, \$:GB00B3Z00X80
		SEDOL	R: B55NGR7, £I: B55NGS8, €I: B3SX1S6, \$:B3Z00X8

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