

Q1 2024 INVESTOR UPDATE

Langdon Global Smaller Companies Fund AUT

	1 month	3 months	YTD	1 year	Since inception
Portfolio return ¹	2.1%	7.6%	7.6%	22.5%	22.0%
Benchmark return ^{**}	3.7%	9.2%	9.2%	19.0%	16.2%
Value added	-1.6%	-1.6%	-1.6%	3.6%	5.8%

¹ Performance numbers as of 31 March 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 Net Index

The team was busy this quarter tracking down insights on existing investments and looking for new ideas in the UK and Ireland, as well across North America (New York, Toronto, Calgary, Boston, Montreal, Hanover NH, Los Angeles).

At the end of the quarter, we have a new top holding as we decided to increase our investment in Royal Unibrew. Royal Unibrew is a multi-beverage company headquartered in Denmark, involved in production, distribution, and selling both in Europe and Internationally. In just 3 years, Royal Unibrew has made 11 acquisitions, spending over US\$900 million and doubling the size of their invested capital that took over 30 years to accumulate. In parallel, input costs per hectoliter have increased by over 50%, largely due to the inflationary environment beverage manufacturers have had to navigate over the last few years (think freight, bottle caps, glass, cans, and sugar). As a result, we believe their returns on capital are temporarily depressed at about half the historical levels.¹

Over the last 6 months, we have visited **3 of these companies acquired by Royal Unibrew** and had the opportunity to meet with local management to understand the diligence process and post-integration improvements. We have also **met with Unibrew's management team** in 3 different countries this quarter and are **confident their value creation plans will bear fruit for years to come**. The team will be heading to the Netherlands in May 2024 to attend their Capital Markets Day (Investor Day) and tour the Vrumona facilities Royal Unibrew acquired from Heineken late last year.

¹ Company financials

The market's skepticism of Royal Unibrew's ability to create value from these acquisitions seems apparent in that the company trades at its lowest cash earnings multiple since 2013 on what we believe are near trough earnings. We believe Royal Unibrew to be an unequivocally better business than it was in 2013, with a multi-niche and multi-beverage production footprint across Europe, as well as a unique distribution network in the Nordics. We believe the fundamental downside to the current share price is limited, offering an attractive risk-reward in a business that sells everyday affordable items that are well insulated from any consumer-led recession.

The biggest contributors to the fund this quarter were Topicus, Hypoport, Aritzia, and Medpace - all increasing by ~30-40%. These were offset somewhat by a near ~50% decline in Watches of Switzerland.

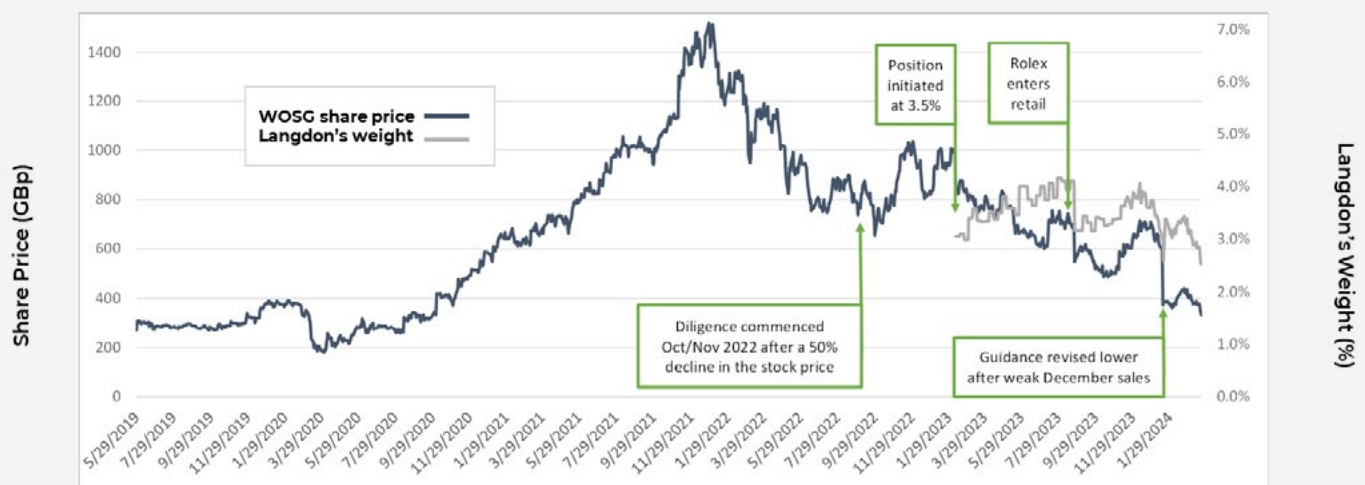
An update on Watches of Switzerland Group

Watches of Switzerland (WOSG) lowered its guidance for the 12-months ending April 2024 after a weak Christmas holiday period in the UK and some negative product mix in their Rolex deliveries (more stainless steel watches were produced than expected) which caused lower average selling prices. We did not fathom this business trading at or near invested capital when we made the investment and feel confident that no private owners of authorized Rolex agencies are willing to sell their businesses at the trading multiple of this company today. **We have never invested assuming the 'greater fool theory' where we hope people pay a higher multiple for a dollar of earnings.** A large portion of our time is spent on maintenance research, which includes meetings with industry stakeholders. In the case of WOSG, this has manifested as private meetings with participants in the luxury watch industry and an upcoming visit to the largest industry conference in Geneva.

We think this business will grow in the mid-teens after 2024 and we are also comforted by the track record of 15%+ EPS growth since IPO despite this year appearing to be down 35% year-over-year. As we wrote last quarter, we will make mistakes; and so far, our holding period return would put WOSG in that camp for us. **We believe bad news should travel as fast, if not faster, than good news, and so commit to always being accountable and transparent in sharing these updates.**

The chart below shows the share price of Watches of Switzerland and the portfolio weight of the position through the recent share price pressure.

WOSG Share Price and Langdon's Position Weight: May 2019 to January 2024



Source: Bloomberg

Highlights from our Third Annual Langdon Road Trip

Without question, a travel highlight from Q1 2024 was our ***Third Annual Langdon Roadie***. **There is no better test for how much you like the people you work with than when you force yourselves to share a car for a couple days.** This trip was a ~19 hour round trip drive to Hanover, NH to meet with a potential new investment that we aren't yet ready to discuss. One of the amazing attributes we can share about this company though is their share count has been reduced from 10m 20 years ago to 6m 10 years ago to 2.5m shares today!

On our "roadie," we also booked a mid-day stopover in Montreal to have lunch with the former CFO of Alimentation Couche Tard (Raymond Pare) and gained some great insights into how that company was able to keep their culture as they scaled and how they've always been laser focused on controlling what they can control. **With all the uncertainty in the global economy it was refreshing to remember that great companies prepare for the worst and refuse to make excuses for the unforeseen.** No business has had a bigger influence on my own personal investment philosophy, and it was nice to reconnect with Raymond close to 9 years since he left the company. He will forever be on my 'Mount Rushmore' of business executives, and he has the same energy and passion for business building as he did then, which he is now applying in real estate development.

The first time we did a "Roadie" was back in early 2022 when ***Alex, Isaac, and I*** drove to visit Medpace just outside of Cincinnati, OH which was ~16 hours round trip. Medpace is a contract research organization (CRO) that operates as a service provider to the pharmaceutical/biotech industry. There are many services offered by CRO's, and Medpace focuses on being a full-service clinical trial provider. Medpace helps to design and run the human-intensive Phase 1-4 clinical trials for small to mid-size biotech companies. **One of Medpace's competitive advantages is they have a large majority of their employees in one location, far away from their competitors and with many universities nearby.** This provides a tremendous opportunity for recruiting and training employees to fit their model. It also helps the economics of the business to operate in a city that has a relatively lower cost of living.

When we were in Cincinnati, we were able to see how much their main campus has grown (~30% over the last 24 months to 6,000 people) and better understand the future expansion potential that existed - think years and years of further headcount growth (which is what drives revenue!).²

In addition to being our first "Roadie", it was also a first to see corporate swag in a vending machine in the parking garage...the hoodie I bought has become a staple in our 'corporate swag Friday' office dress policy. I think Isaac wishes he had grabbed one as well, though he did walk away with something more valuable. **The investment he led, and that we made into Medpace, is the first to have doubled our clients' money!** We remain very supportive shareholders and think the future remains bright for their full-service approach.

Langdon Investment Team



Written by

Greg Dean

Founder and Lead Investor

² As of the date of this commentary. Past performance is not indicative of future returns.

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PARTNERS



CONNECT WITH US



30A HAZELTON AVE, SUITE 400,
TORONTO, ON, M5R 2E2

**FOR INSTITUTIONAL DISTRIBUTION
QUERIES**

T: 1833 864 2677 (CANADA)
1300 010 311 (AUSTRALIA)

E: insto@pinnacleinvestment.com

FOR ADVISER QUERIES

T: 1833 864 2677 (CANADA)
1300 010 311 (AUSTRALIA)

E: distribution@pinnacleinvestment.com

FOR EXISTING INVESTOR QUERIES

T: 1833 864 2677 (CANADA)
1300 010 311 (AUSTRALIA)

E: clientservices@langdonpartners.com