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PARTNERS

Q4 2023 INVESTOR UPDATE

Langdon Global Smaller Companies Portfolio

Performance	Q4-2023	2023 (YTD) ²	3-Year	5-Year	Since Inception ³
LEP210 (Global, F Class) ¹	8.6%	26.7%	N/A	N/A	17.7%

¹ Langdon Global Smaller Companies Portfolio, Class F - performance is net of fees
² YTD figure is inclusive of calendar year 2023

³ Annualized performance since inception date of August 23, 2022

Langdon's Global Smaller Companies Portfolio at year-end owned 28 businesses, roughly 55% headquartered in the UK and Europe, 30% in the U.S. and 15% in the rest of the developed world.¹ Our portfolio had a strong quarter on many fronts; several of the companies we own are undergoing business improvement plans catalyzed by proactive management teams looking to offset years of rising wage rates, input costs, and a consumer who can no longer sustain their consumption amidst significantly higher interest rates.

We spend a lot of time with our investee companies and their management teams, talking about how to create an enduring value-creating company. Some of the topics we come back to are things like counter-cyclical capital allocation, hiring when others are shrinking, preparing for a rainy day when it's sunny out, and, as can be seen from our outlook slide from Fall 2023, how **it's critical to not waste a good crisis.**

¹ Above chart and analysis based on the [Langdon Global Smaller Companies Portfolio – December 2023 Fact Sheet](#).

These net performance figures cover the period from August 26, 2022 to December 29, 2023, and has been provided by Morningstar Inc.; for the Global portfolio at: Morningstar-LEP210. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Quartile rank is sourced to Morningstar Inc. For the Global Portfolio Morningstar-LEP210 based on CAD | YTD Investment as of Dec 29, 2023 | Category: Global Small/Mid Cap Equity as of Dec 29, 2023 | Index: Morningstar Gbl SMID GR CAD as of Dec 29, 2023 | based a total of 253 Invest. in Cat. These ratings or rankings are subject to change every month

2023 Outlook

- These appear to be optimal conditions if your goal is to make great investments
- Our portfolio does not care if the economy is expanding or contracting or whether overnight interest rates are 0.5% or 5%
- “It is no time to fix your ship in a storm”
- It is critical you hire managers who will trust but verify what they are hearing
- Best defence against uncertainty is value-creating companies, run by talented teams who think and act long-term
- “Do not waste a good crisis” is our mindset and that of our portfolio companies

Not much has changed in terms of our outlook, and the irony is so much has changed in the last 24 months for the economy and for the average investor’s risk appetite. **We will always assume and plan for the worst case in our underwriting of investments and only invest with proven teams in high-quality cash-generative assets.** This makes our investing far less reliant on the headwinds and tailwinds that can be created by the ‘macro’. Last year was a great case study on this concept of macro tailwinds and headwinds, and if I were to pick one visual to depict this it would be the yield on the 10-year bond over the course of 2023. Essentially, we were running in place all year.

U.S. 10-Year Bond Yield Jan. 1, 2023 to December 31, 2023²



² Source <https://www.bloomberg.com/news/articles/2023-12-29/us-10-year-yield-is-ending-2023-almost-exactly-where-it-started?embedded-checkout=true>

Markets love overreacting to data (in both the positive and negative directions), and this is what transpired in 2023. For most of the year, it was driven by tightening credit conditions, rising interest rates, and concerns of a consumer recession. Then, as you can see above, the sentiment swung violently towards the anticipation of credit conditions easing amidst the belief rates will be lower as 2024 unfolds. Ironically, we ended the year basically where we started from the perspective of long-term interest rate assumptions and ahead on most major stock and bond indices. **The tug of war between the pessimistic and optimistic outlooks and corresponding volatility created tremendous opportunities for us** to make some great investments that we believe should handsomely reward our clients over the long term. More on some of those later.

This chart is a great reminder **why we focus on ‘value creation,’ which for us does not occur in the stock market or bond market nor is it correlated to the interest rate environment.** If given enough time, the highest correlations are to the idiosyncratic outcomes within the companies we invest in (i.e. stocks follow cash flow/cash earnings). Did they take market share? Were they able to raise prices? How successful were they in hiring talent and retaining their talent? This is what drives our investment outcomes and is why we say that ‘value creation’ at Langdon happens within the companies we choose to invest in.

Mistakes

There is a lot of inertia in this industry to minimize mistakes or pretend they don’t happen, calling them ‘unforeseen events’ or deeming them ‘unlikely to recur’. **Our view is investment mistakes are part of the job and can be critical tools to iterate and improve if the lessons can be taken. We promise to always explain our mistakes in plain English and also discern between a bad decision and a bad outcome.** That said, this quarter there were none to report but stay tuned; we are certain to report on this in the future.

I’m sure you’re thinking ‘what if you hold onto your losers’ and never crystalize the loss, the ‘cutting your flowers and watering your weeds’-type scenario. Our team is hyper-vigilant in guarding against this possibility right down to the requirement that we have multiple investors working on every investment at every stage of diligence, challenging each other and the collective beliefs of the stock market along the way. Additionally, we are material investors in our portfolios, and we can’t think of anything that would be less intelligent than holding your worst investments in order to save face in the short term.

The positive drivers of our NAV in the quarter were Hypoport SE, Iress Ltd, Watches of Switzerland Group, with XPEL Inc, and Auction Technology Group being the key detractors.³

³ Internal analysis based on publicly available market data. This is strictly for illustrative analysis and should not be seen as a securities recommendation or statement of opinion intended to influence any decision in relation to an investment – past performance may not be indicative of future returns.

Summary

In 2023, the portfolio endured a run on the US regional banks, rapidly tightening financial conditions, and was able to deliver strong absolute and relative returns for clients. We have long believed and told our portfolio companies that in periods of stress and dislocation, the value of an actively managed concentrated portfolio can really be demonstrated, and we were pleased with the returns our clients experienced in 2023.

The stock market is like an extremely large classifieds website, a Craigslist or KIJJI for fractional interests in businesses (think 40,000+ items for sale!), and it's usually when uncertainty rules the day and sellers act with urgency that great deals can be had by the disciplined, shrewd, and patient buyer. **We have no idea what the future holds, and we have prepared accordingly.**

Langdon Investment Team



Written by

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Founder and Lead Investor

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Link to the Product Disclosure Statement: [here](#)

Link to the Target Market Determination: [here](#)

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

FOR CANADIAN CLIENTS:

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

Link to the Langdon Global Smaller Companies Portfolio Disclosure Documents: [here](#)

Link to the Langdon Canadian Smaller Companies Portfolio Disclosure Documents: [here](#)

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