ROCE Fund

Year ending December 31st, 2023

Commentary

07 February 2024

Dear investors,

In September 2020, just over 3 years ago, we launched ROCE Fund. For the first time this year, we have decided to write an annual letter, providing a more detailed supplement to our monthly reports. The letter encompasses the performance and activities of ROCE Fund throughout 2023, along with our current positioning and insights into 2024. As our inaugural letter of this nature, we have aimed to be candid and transparent and, as always, welcome feedback.

The table below shows performance figures of ROCE Fund and various benchmarks and comparators for each calendar year as well as the cumulative performance since our inception on September 28th, 2020.

Yearly performance v benchmarks and peers[2]

Year	2020*	2021	2022	2023	Since inception	Annualized
ROCE Fund (G)[1]	17%	21%	(10%)	22%	55%	14.5%
MSCI Europe Total Return	10%	25%	(9%)	16%	44%	11.9%
Outperformance/(under)	*7%*	*(4%)*	*(1%)*	*6%*	*11%*	*2.6%*
MSCI Europe Mid Total Return	17%	24%	(23%)	13%	27%	7.6%
Outperformance/(under)	*(1%)*	*(3%)*	*12%*	*9%*	*29%*	*6.9%*
Peers' index[2]	11%	22%	(16%)	15%	31%	8.7%
Outperformance[2]/(under)	*6%*	*(0%)*	*6%*	*7%*	*24%*	*5.8%*
% peers beaten[2]	84%	47%	73%	97%	90%	90.0%

[1] Share class G ; [2] Peers' index defined by the average of 90 long only funds invested in European equities.
* 2020 includes performance from inception date (September 28th, 2020) until December 31st, 2020.

ROCE Fund returned 22.1%[1] in 2023, net of fees. Since inception ROCE Fund has returned 55.5%[1] or 14.5% annualized, net of fees, substantially ahead of benchmarks and peers as shown above.

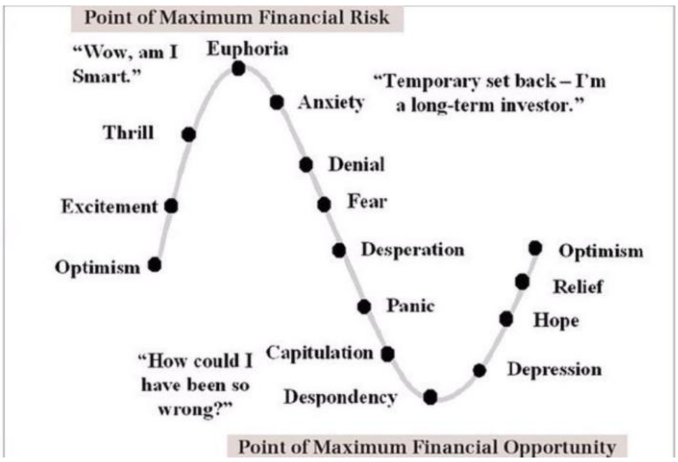
2023 was a strong year for equity markets with MSCI Europe up 15.8%, and MSCI World up 19.4% in EUR terms driven by a particularly strong US market.

Last year's strong market performance in the face of several unforeseen challenges underscores the unpredictable nature of equity markets. Had market participants been informed at the beginning of 2023 about the upcoming strong inflationary pressures, two armed conflicts in Ukraine and the Middle East, and the most significant rise in interest rates in nearly five decades, it is likely that most of them, ourselves included, would have adopted a defensive position. However, as evidenced by the outcomes, such a defensive stance would have been incorrect.

We believe that attempting to predict short-term market movements based on macro views is not only very difficult but also risky. The events of 2023 further validate this perspective. At ROCE Capital, we dedicate minimal time to macroeconomic factors and, instead, prioritize company-specific, bottom-up analysis. Our strategy revolves around owning companies that generate high returns on capital employed ("ROCE") and trade at attractive valuations. We assert that excessive focus on attempting to predict market movements based on macro views can sometimes be counterproductive. Many market participants devote excessive time to forecasting the intricacies of macroeconomics, which we believe are inherently too complex. Such tactics often lead to heightened trading activity and are typically associated with long-term underperformance.

Our integration of top-down and macro analysis consists mainly of adopting a contrarian, and a patient approach. We are not afraid to invest in sectors that are temporarily out of favor due to macro contexts and, conversely, tend to steer clear of trendy sectors experiencing high demand, such as artificial intelligence currently.

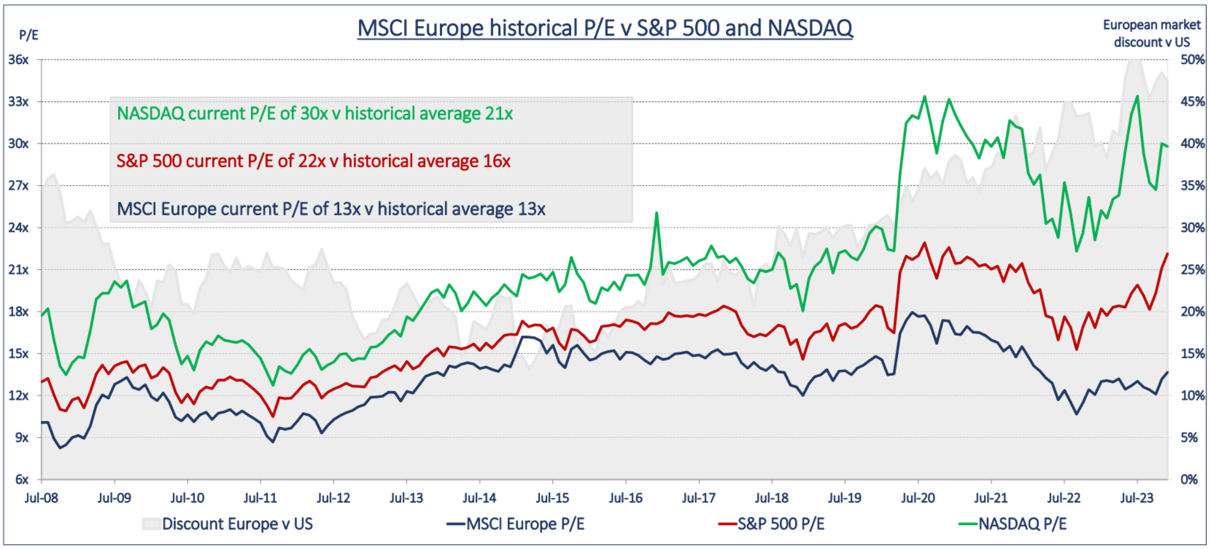
We endeavor to adhere to Warren Buffet's counsel of being "*greedy when others are fearful and fearful when others are greedy*." While this guidance is straightforward in theory, its implementation proves exceptionally challenging in the face of the relentless daily pressures investors encounter to conform to market sentiment and make impulsive trades driven by the latest macro-economic news. Buffet's strategy has consistently proven effective across market cycles, producing superior results. The two charts below serve as visual reminders of the potential pitfalls associated with market psychology. We make a concerted effort to remain mindful of these insights, keeping both charts prominently displayed on the walls of our office.



Due to the outlined reasons, we opt against making predictions for the 2024 market direction, as the trajectory of equity markets remains uncertain.

Nevertheless, we observe that European equity markets are currently trading slightly below long-term averages, while US equity markets appear to be expensive compared to historical norms. Examining the premium of US equity markets over Europe reveals that it has reached nearly an all-time high, as shown in the chart below. Although our current strategy, ROCE Fund, focuses on European equities, if we were managing a global fund, we would likely lean towards underweighting US equities and overweighting European equities based on this observation alone.

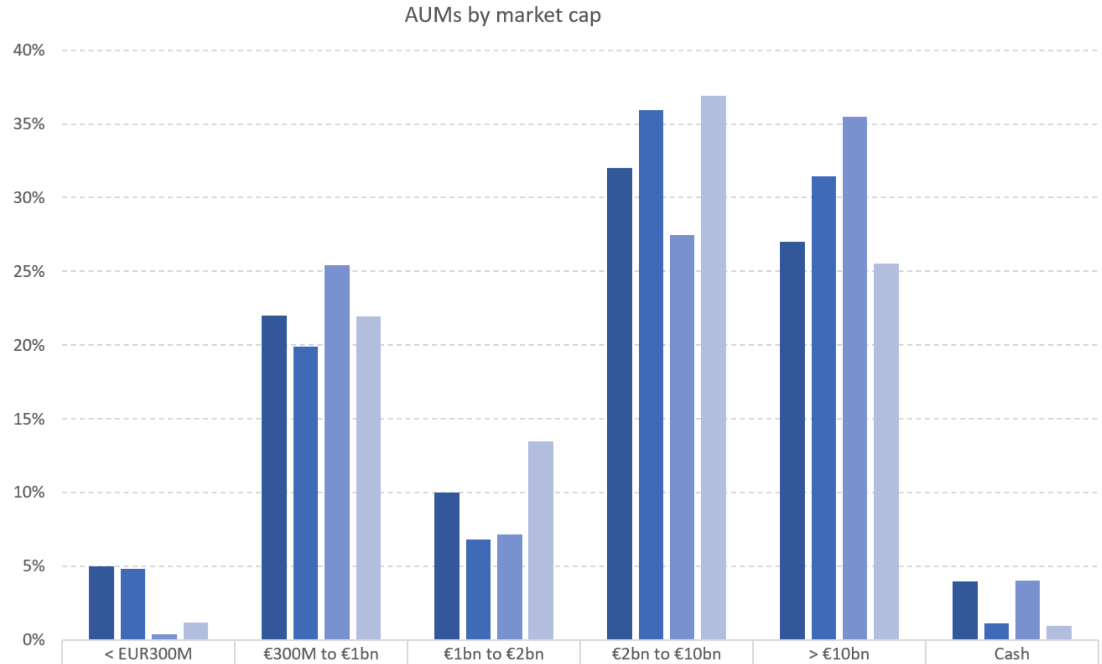
While acknowledging that the US market traditionally commands a premium over the European market due to factors such as greater innovation, higher GDP growth, and arguably better corporate governance, we find its current premium, approaching 50%, to be excessive.



In the realm of European equities, mid-caps appear undervalued following an unprecedented 3-year period of underperformance of around 25% cumulative compared to large caps. The underperformance of small and mid-caps can be attributed to various factors, including the structural rise of ETFs and passive strategies, which predominantly focus on large caps. Additionally, the highly volatile macro environment since the onset of the COVID pandemic and the rapid increase in interest rates observed throughout 2023 have contributed to this trend.

There is a growing concern among clients and investors about the potential revival of mid-caps and whether this asset class is permanently impaired and destined for structural underperformance. We hold a different view and draw inspiration from Warren Buffet's wisdom. The fact that many investors have given up on mid-caps is interpreted as a bullish signal by our team.

Considering this perspective, we have marginally increased our exposure to mid-caps, given their sustained underperformance, driven by our perception of their generally more appealing valuations compared to large caps. The chart below illustrates the breakdown of our portfolio's exposure based on market capitalization size since its inception.



	< EUR300M	€300M to €1bn	€1bn to €2bn	€2bn to €10bn	> €10bn	Cash
October 2020	5%	22%	10%	32%	27%	4%
December 2021	5%	20%	7%	36%	31%	1%
December 2022	0%	25%	7%	27%	35%	4%
December 2023	1%	22%	13%	37%	26%	1%

It is important to remember that, over the long term, mid-caps generally exhibit a slight outperformance compared to large caps, despite the recent deviation from this trend.

TOP CONTRIBUTORS - 2023

	NAME	ABSOLUTE (%)
1	FLATEXDEGIRO AG	2,72
2	STELLANTIS	1,77
3	LABORATORIOS ROVI	1,60

TOP DETRACTORS - 2023

	NAME	ABSOLUTE (%)
1	MAISONS DU MONDE SA	-1,35
2	ALD SA	-1,34
3	NILFISK HOLDING A/S	-0,50

In 2023, **FlatexDegiro** emerged as our largest contributor, posting a 57% increase. This was a notable turnaround, considering it had been one of our major detractors in 2022. The decline in 2022 was sparked by a profit warning and an unexpected audit from the BaFin, the German regulator, which revealed middle-office and asset classification issues. Following discussions with the CEO, CFO, and the new head of compliance, we opted to increase our stake on weakness, maintaining FlatexDegiro in our top-3 holdings. We believed the sharp share price drop was unwarranted. Throughout 2023, the company successfully addressed the regulatory concerns, leading to the removal of the previous capital restriction. Furthermore, FlatexDegiro benefitted significantly from interest rate increases, with client cash funds now earning 3.0% at the ECB, a notable improvement from the previous 0%. The positive outcomes, improved compliance, and the announcement of a buyback of 10% of its capital were key factors contributing to FlatexDegiro's re-rating during 2023. Even though it is no longer in our top-10 we still own it as we anticipate further upside.

Stellantis emerged as our second-largest positive contributor, delivering a solid total return of 42%. Despite a challenging market environment that initially anticipated a significant reversal at the beginning of the year, the automotive manufacturer demonstrated strong resilience, maintaining stable margins throughout 2023. Despite its recent re-rating, the stock continues to be very attractively priced at 5x P/E for 2024, offering an attractive substantial dividend yield of 7%, alongside an ongoing

€1.5bn buyback program. Our continued ownership of Stellantis is also grounded in our confidence in having one the best CEOs in the industry.

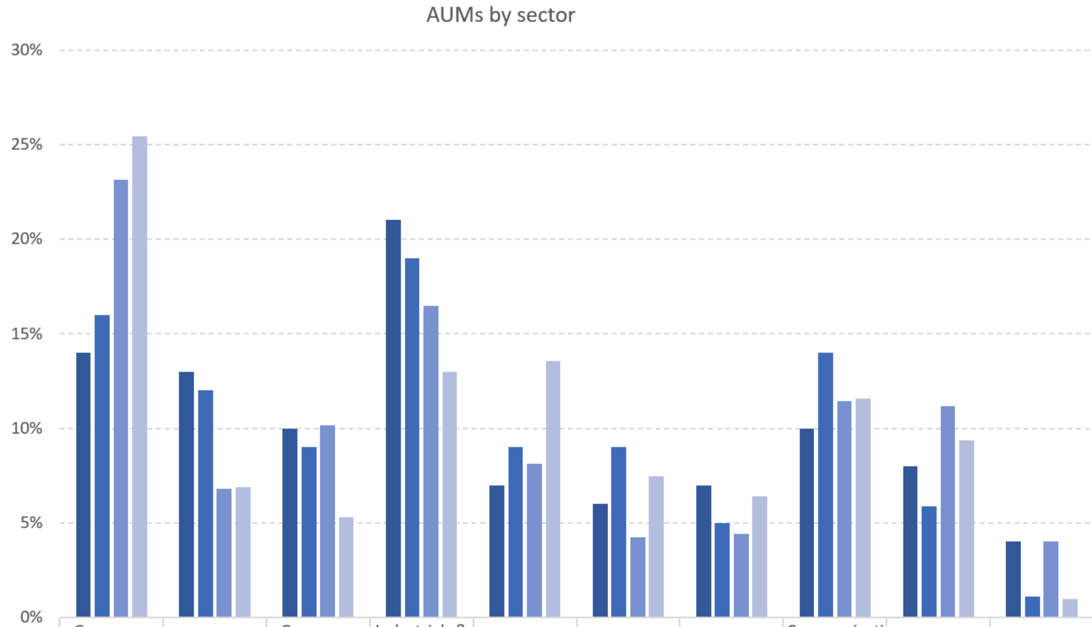
Laboratorios Farmaceuticos Rovi saw an impressive 70% return in 2023, making it our third-largest contributor. This significant re-rating was driven by strong results and renewed optimism surrounding the potential approval of its drug, Risperidone, for the treatment of schizophrenia, expected in H1 2024. Recognizing the reduced upside potential after a strong performance, we trimmed our position during this period of strength.

Maisons du Monde was our largest detractor in 2023, down 60%. The furniture and decoration objects retailer encountered several challenges, including reduced demand due to a challenging comparable basis post a COVID period of increased home improvement spending, along with inflationary pressures on salaries, rents, and transportation costs. Activist shareholders ousted the former CEO and CFO, and the newly appointed team has yet to communicate with the market, leaving minority shareholders in the dark about the company's strategy and financial targets. Despite the disappointing challenges faced by the company, we maintained a small position in Maisons du Monde. This decision was driven by the exceptionally low valuation of its shares at 0.25x EV/Sales. Importantly, the company remains profitable and continues to generate positive free cash flow.

Our second most significant detractor was the car leasing company **ALD**, which experienced a 47% decline in 2023. The company significantly reduced its synergy expectations related to its merger with LeasePlan. As a result, we decided to sell our entire position at a loss as we lost trust in management and in our investment thesis.

Regarding our sector exposure, we seized the opportunity presented by Credit Suisse's demise and the subsequent selloff in the financial sector. This led us to increase our exposure to various diversified financial names, with a new addition being the private equity firm **Antin Infrastructure Partners**. Additionally, we increased slightly our exposure to the consumer discretionary sector, currently our largest sector allocation. New positions in 2023 included **Prada** and **Basic-Fit**. Conversely, we reduced our exposure to the industrial sector throughout 2023. We notably divested our positions in **Dorma Kaba** and **ALD**.

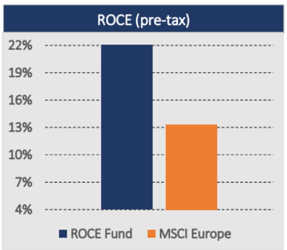
The chart below provides a visual breakdown of our portfolio's sector exposure since its inception.

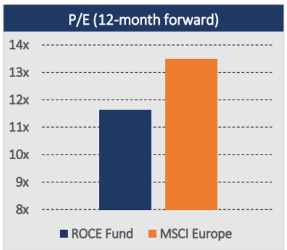


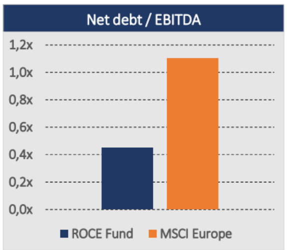
	Consumer Discretionary	Healthcare	Consumer Staples	Industrials & B2B	Financials	IT	Real Estate	Communication services	Other	Cash
October 2020	14%	13%	10%	21%	7%	6%	7%	10%	8%	4%
December 2021	16%	12%	9%	19%	9%	9%	5%	14%	6%	1%
December 2022	23%	7%	10%	16%	8%	4%	4%	11%	11%	4%
December 2023	25%	7%	5%	13%	14%	7%	6%	12%	9%	1%

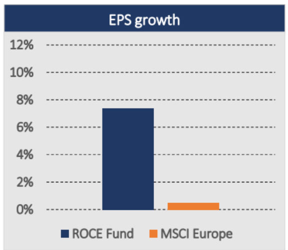
As of December 31st, 2023, ROCE Fund's portfolio included 47 positions, with a median market cap of €3.7bn. The portfolio aligns with our key financial criteria:

1) **Superior ROCE:** The companies in our portfolio boast a pre-tax ROCE of 22%, meaningfully above the European market average of 13%. Our primary focus is on owning businesses that efficiently utilize their capital, generating above-average returns. As Warren Buffet and Charles Munger wrote, "*ROCE is the most important metric in evaluating the quality of a business. It separates companies that efficiently employ their capital to generate exceptional returns from those that struggle to do so*."
2) **Attractive Valuation:** With a P/E ratio of 11x, our portfolio screens favorably against the European market average of 13x. We remain committed to avoiding overpayment for quality and seek undervalued companies. This approach leads us to steer clear of trendy sectors and extreme growth companies, where valuations often fall outside our investment criteria.
3) **Low Financial Leverage:** Our net debt/EBITDA ratio of 0.5x is lower than the European market average of 1.1x. We prioritize companies with minimal or no debt, favoring those capable of funding their growth through their free cash flow generation without straining their balance sheets. This approach helps us avoid the risks associated with permanent capital destruction, such as value-destructive M&A or rights issues.
4) **Superior Growth:** Our portfolio exhibits an average expected 12-month EPS growth of 8%, above the European market average of 2%. While we refrain from pursuing the fastest-growing companies, often too costly for us given our strict discipline on valuation, growth remains a vital criterion for us. It complements our ROCE selection process, as high returns are most beneficial when coupled with a business's ability to grow and deploy capital at elevated rates.





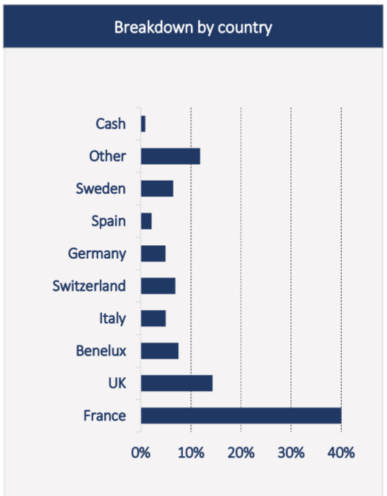


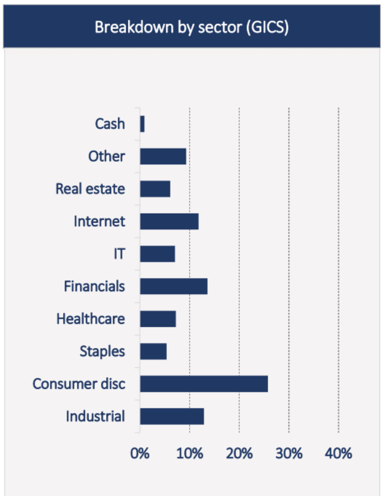


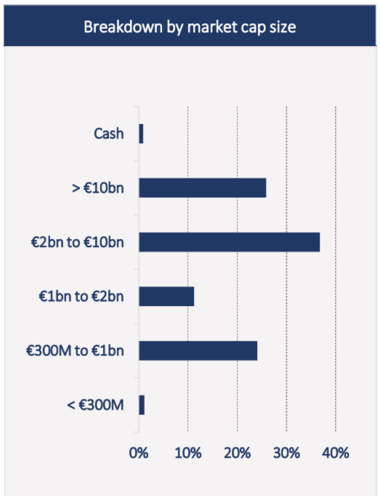
Our portfolio generates **above-market ROCE** at a **lower valuation**, **lower financial leverage** and **higher expected earnings' growth** than the market

Top 10

Company name	Weight	Country	Sector	Market cap	ROCE*	P/E	ND/EBITDA	EPS growth
NEXITY	3,8%	FRANCE	Real Estate	€943m	12%	10x	1,3x	(28%)
IPSOS	3,7%	FRANCE	Communication Services	€2 510m	18%	12x	0,4x	8%
WPP PLC	3,3%	BRITAIN	Communication Services	€9 434m	17%	8x	1,5x	4%
ACADEMEDIA AB	3,3%	SWEDEN	Consumer Staples	€492m	13%	7x	1,0x	9%
TRIGANO SA	3,2%	FRANCE	Consumer Discretionary	€2 723m	30%	8x	(1,0x)	(1%)
AMBEA AB	3,2%	SWEDEN	Health Care	€432m	9%	13x	2,8x	46%
BAWAG GROUP AG	3,1%	AUSTRIA	Financials	€3 950m	21%	6x	NA	1%
VERALLIA	2,8%	FRANCE	Materials	€4 050m	27%	8x	1,6x	(6%)
SWATCH GROUP AG/THE-BR	2,7%	SWITZERLAND	Consumer Discretionary	€12 093m	15%	12x	(1,2x)	4%
FLATEXDEGIRO AG	2,6%	GERMANY	Financials	€1 194m	22%	15x	(0,7x)	42%







Below our short investment thesis on two companies that we added to the portfolio during 2023:

Prada SpA (Italy) - Market capitalization: €15bn

Prada is a renowned luxury fashion house with iconic brands Prada (~85% of sales) and Miu Miu (~15% of sales), with a DNA oriented towards ready-to-wear (31% of sales). This family-owned group boasts a Return on Capital Employed (ROCE) of 27%, among the highest in the industry as it does not pursue acquisitions. It enjoys strong entry barriers through its strong brand equity built over several decades, access to raw materials and skilled artisanal craftsmanship, and long-term leases on prime commercial locations. These translate into strong pricing power with minimal customers' sensitivity to price increases.

The group maintains a conservative balance sheet management strategy, holding a positive net cash position of approximately 1bn euros. Since 2023, the company has seen the appointment of an outstanding new CEO, André Guerra, renowned for his contributions to Luxottica's success.

The company's valuation remains attractive, at 20x P/E given the quality of the group and the strength of its brands. In addition, Prada remains a potential acquisition target for luxury conglomerates like LVMH or Kering.

STMicroelectronics NV (Netherlands) - Market Capitalization: €38bn

STM is one of the global leaders in the semiconductor industry, offering products for various applications such as automotive, telecommunications, industry, energy, and consumer electronics. Over 50% of sales come from the autom division, which benefits from structural growth due to its significant exposure to vehicle electrification. The company follows an integrated business model (owning its factories) with strong entry barriers, enabling it to capitalize on the growth of end markets.

There is a structural shift in the electric vehicle market where customers must pay for technology, capacity, and geography diversification (reducing reliance on China and Taiwan). Strong pricing power has led to margin expansion from 13% to 27% and improved Returns on Capital Employed (ROCE) from 15% to 33% over the past six years.

An ambitious industrial investment plan (€10bn invested between 2022 and 2024) aims to position the Group in growing segments over the next decade. The company is 27% owned by the French and Italian governments and boasts a strong balance sheet (over €3bn in net cash position as of end 2023).

STM has a competent and dedicated management team with a proven track record. It is attractively valued at 10x EBIT and 13x PE for 2024, a transition year, not fully capturing the company's growth and return profile.

Finally, we are delighted to announce that we made a **€30,000 donation to the pediatric oncology research department of Institut Curie**. As a reminder we made the commitment to donate 10% of our performance fees annually to childhood cancer research. We would like to extend our gratitude to all our investors for their trust and generosity, allowing us to modestly contribute to this meaningful cause that is close to our hearts.

Disclaimer: A Key Investor Information Document and a prospectus for ROCE Fund are available via the ROCE Capital website or on request and investors should consult these documents before purchasing shares in the fund. Past performance is not necessarily a guide to future performance. The value of investments and the income from them may fall as well as rise and be affected by changes in exchange rates, and you may not get back the amount of your original investment. ROCE Capital does not offer investment advice or make any recommendations regarding the suitability of its products. This document is a financial promotion and is communicated by ROCE Capital which is authorised and regulated by the AMF.

Sources: ROCE Capital, Bloomberg and company data, unless otherwise stated. Data is as of 31st December 2023 unless otherwise stated. P/E ratios are based on next twelve month expected consensus data unless otherwise stated.