Ophorst
Van Marwijk Kooy
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Quarterly Report – Q2 2025

Portfolio Developments

In our previous quarterly update, we concluded by noting that U.S. President Trump had initiated a "tariff war." Since then, much of the initial market volatility has subsided. However, uncertainty remains regarding the eventual outcome of these developments. Fortunately, the portfolio we manage on behalf of our clients has thus far been largely unaffected by these geopolitical tensions. This resilience is primarily due to our investment focus on companies with a strong local presence, which are less exposed to international trade dynamics.

Moreover, our portfolio maintains a relatively high allocation to sectors that have performed particularly well this year, including financials, construction, energy, and commercial services. As a result, we are pleased to report a solid performance for the first half of 2025. From a risk management perspective, we believe the portfolio remains well balanced and appropriately structured.

In this report, we would like to share our current views on global market developments, followed by a closer look at selected positions within the portfolio. We begin with our "core portfolio," which consists of individual equities and bonds, and then highlight specific holdings within the OVMK Hong Kong Value Fund and the OVMK Special Bond Fund.

Global Market Outlook

One notable consequence of the ongoing tariff tensions and broader U.S. policy stance is a growing reassessment among investors of their exposure to American assets. Increasing concerns about the U.S. fiscal deficit, property rights, social unrest, and the integrity of the rule of law have contributed to a more cautious sentiment toward U.S. investments.

Over the past quarter, we have observed a clear shift in capital flows toward European markets. Investors are showing a preference for the relatively undervalued and stable European exchanges. Even a modest reallocation of global capital has provided a meaningful tailwind for European equities and the euro. This trend is particularly evident in sectors such as banking and insurance, where annual returns of 30–40% are not uncommon—despite valuations that remain attractive by historical standards.

This renewed interest in European markets may help to further narrow the valuation gap between European and U.S. companies. While this convergence has only just begun, we believe it presents a compelling opportunity for long-term investors.

Core Portfolio Developments

During the past quarter, we expanded several equity positions within the core portfolio. These included Aker ASA, McBride, Bekaert, Fugro, Phoenix Group, OSB Group, and Grand City Properties. In addition, we initiated new positions in Costain, HICL Infrastructure, and Aroundtown SA.

Gemfields Group raised new capital through a share placement. We participated partially in this offering to mitigate dilution.

While recent auctions of rubies and emeralds have shown encouraging signs, the recovery in this segment remains fragile. That said, the share price has begun to recover from the placement level.

We also reduced exposure to several holdings, primarily to realize gains. Partial reductions were made in ABN AMRO, BAM Group, NN Group, Jensen, Mitie Group, CAB Payments, and Aris Mining. Additionally, we fully exited our position in Optima Health.

Among the strongest performers in the first half of the year was Koninklijke BAM Groep. With improving financial results, the company has regained positive momentum, and past disappointments no longer dominate quarterly reporting. The outlook is particularly favourable given the anticipated wave of investment in the defence sector. We used the significant share price appreciation as an opportunity to take partial profits and reallocate capital to Costain Group, a UK-based peer.

Costain has also demonstrated margin improvement in recent years. Its order book has grown substantially and now exceeds four times its annual revenue. Combined with a strengthened pension fund position, the company is increasingly able to return capital to shareholders. Last year, the dividend was doubled, and a share buyback programme was recently announced. Given the robust order pipeline, we expect continued improvements in profitability and dividend distributions in the coming years.

HICL Infrastructure was also added to the portfolio last quarter. This fund invests in long-term, contractually secured infrastructure projects, primarily in the UK and Europe, and offers stable, inflation-linked income streams. The sector has fallen out of favour in recent years due to rising interest rates, and shares are currently trading at a discount of approximately 25% to net asset value. This dislocation presents an attractive entry point, particularly given the fund's defensive profile and reliable cash flows. With an annual distribution of approximately 8.25 pence per share, the dividend yield on our entry price stands at 7.3%.

The fund manager of HICL Infrastructure also actively manages the portfolio by selectively divesting assets and using the proceeds to repurchase shares. This strategy supports the objective of narrowing the current discount to net asset value.

International Personal Finance (IPF)

We have previously commented on IPF, a UK-based consumer finance company, and used the past quarter to increase our modest position. IPF provides small loans to individuals with limited or no access to traditional banking services. These are not consumer credit purchases, but rather loans for essential household expenses such as school fees. The company operates in Eastern Europe, Australia, and Mexico.

A key factor for IPF is the regulatory environment in which it operates. Currently, the legal frameworks in nearly all of its markets are well developed. In 2024, IPF reported a pre-tax profit of £83 million, enabling it to return 46% of net income to shareholders via dividends (yielding 8.5%) and to repurchase approximately 5% of its outstanding shares. In early May, the company reported a strong start to the year, with 12% growth, and expects accelerated growth in Poland and Mexico in 2025.

With a price-to-earnings ratio of around 6, the shares are attractively valued, particularly given the company's outlook. Historical performance also suggests that IPF is relatively resilient during economic slowdowns. Based on its compelling valuation, high dividend yield, and solid prospects, we decided to increase our position.

Aroundtown SA

Aroundtown is a European real estate company focused on acquiring, managing, and leasing properties, with a strong presence in Germany (88%) and the Netherlands. Its portfolio includes hotels, offices, and residential properties.

Following several challenging years marked by declining property valuations and a heavy debt burden, the company's situation is improving. It has divested assets, reduced leverage, and returned to profitability. Interest expenses are falling, and the company is once again able to access financing on more favourable terms. This is reflected in the strong performance of Aroundtown's perpetual bonds, which we hold in the Special Bond Fund.

However, this improvement is not yet fully reflected in the equity valuation. The shares continue to trade at a steep discount—approximately 60%—to net asset value. We believe that further financial improvements and the eventual resumption of dividend payments will help narrow this discount and support a positive revaluation of the shares.

OVMK Hong Kong Value Fund

The performance of the Hong Kong Value Fund during the past quarter was positively impacted by a takeover bid for its largest holding, Dickson Concepts. Dickson Poon, the company's founder and majority shareholder (60.5%), submitted an offer of HK$7.20 per share to acquire the remaining outstanding shares. This offer represents a 51% premium over the closing price prior to the bid, yet still reflects a discount to the company's intrinsic value. This underscores the extremely low valuations currently observed across many companies listed on the Hong Kong Stock Exchange.

Given the abundance of other attractive investment opportunities in the market and the significant premium offered relative to the pre-bid share price, we intend to tender our shares. A portion of the proceeds will be reinvested in the Hong Kong market.

A new addition to the portfolio is Xinyi Glass Holdings Limited, a leading manufacturer of float, automotive, and architectural glass, with production facilities in China, Indonesia, and Malaysia. Despite recent headwinds stemming from China's real estate crisis and U.S. export tariffs, the current valuation and depressed share price present an appealing entry point. The Chinese government has introduced measures to support the property sector, including financial backing for developers to complete ongoing projects—benefiting demand for construction glass.

While export restrictions to the U.S. may weigh on the automotive glass division, Xinyi Glass has proactively established production capacity outside of China to serve the American market. Furthermore, the company is well positioned to benefit from China's supply-side reforms, which aim to reduce environmentally harmful overcapacity. Xinyi's facilities are not affected by these measures, allowing the company to capitalise on a healthier market balance.

OVMK Special Bond Fund

The Special Bond Fund delivered a steadily improving performance over the past quarter, supported by narrowing credit spreads, which led to broad-based price appreciation. There were few changes to the underlying portfolio during the period.

One notable addition was the Tullow Oil 10.25% 2026 bond. While the company carries a high debt burden and is sensitive to declining oil prices, the recent drop in bond prices presented an opportunity to initiate a position. Management has already taken steps to strengthen the balance sheet through asset sales, and under normal market conditions, the company remains profitable. Based on this, we believe refinancing through a new bond issuance is a viable scenario.

Also worth highlighting is the impact of the yield curve on the fund's steepener positions, which currently represent approximately 15% of the portfolio. Steepeners—structured instruments issued by institutions such as Jefferies, BNP Paribas, and Morgan Stanley—pay a coupon based on the spread between the U.S. 30-year and 2-year interest rates, multiplied by a factor. With the yield curve returning to a positive slope, many of these instruments have resumed coupon payments, which has had a favourable effect on their market prices.