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Quarterly Report – Q3 2025

The third quarter of this year was characterized by a sense of cautious optimism across financial markets. Developments in interest rates and expectations regarding potential future rate cuts by the Federal Reserve and the European Central Bank continued to guide sentiment in both equity and bond markets. Nevertheless, uncertainty persisted surrounding the monetary policy direction of central banks, inflationary pressures, and ongoing geopolitical tensions.

At the same time, several sectors displayed signs of resilience and growth, with the technology and energy sectors standing out in particular. Our selection within the energy sector made a meaningful contribution to the portfolio's overall performance during the quarter.

This report provides an overview of recent developments within the portfolio. We first discuss the adjustments within what we refer to as the *core portfolio*—the portion invested in individual equities and bonds—followed by commentary on the OVMK Hong Kong Value Fund and the OVMK Special Bond Fund.

Core Portfolio Developments

During the quarter, several equity positions were increased. Additional purchases were made in Mitie, Aroundtown, TomTom, Fugro, McBride, and Costain. A new position was established in Aker BP.

Chesnara announced the acquisition of a division of HSBC for GBP 260 million. This represents a significant transaction for Chesnara, financed through the issuance of new shares. We participated in this rights issue and accordingly expanded our position. The acquisition strengthens Chesnara's cash flow profile and provides scope for further dividend growth. The company's dividend now appears well supported for the foreseeable future, and the share price reacted positively. Based on management guidance, we anticipate additional acquisitions in the period ahead, which may lead to further enhancement of the company's already attractive dividend yield.

After substantial share price appreciation, partial profit-taking occurred in BAM Group, Jensen, Aris Mining, NN, and Aker ASA. The position in CAB Payments was fully divested. The company, which facilitates cross-border payments to emerging markets—primarily Africa—has faced operational headwinds. An acquisition attempt by competitor StoneX failed, while profitability declined due to margin compression and lower transaction volumes. The proceeds were redeployed into companies with stronger operational performance and clearer long-term prospects.

Examples include Mitie, IPF, McBride, Aroundtown, and Costain. The investment in IPF proved particularly well timed: later in the quarter, it was reported that Basepoint Capital of the United States was considering an acquisition of the company. The initial offer of 220p per share was subsequently raised to 235p, compared with a pre-announcement trading level of approximately 180p.

McBride and Costain experienced disappointing share price developments during the quarter, both declining sharply following the publication of their results. Fundamentally, however, both companies remain well positioned. McBride, a producer of household cleaning products for European retailers, continues to benefit from rising demand for competitively priced private-label brands. This trend has underpinned earnings growth in recent years, enabling the company to reinstate its dividend. Management expressed confidence regarding the outlook, and we therefore view the recent weakness in the share price as an attractive opportunity to increase exposure.

Costain, a UK-based construction group, reported an 18% decline in revenue for the first half of the year, while earnings per share remained broadly stable. This disappointed investors and erased part of the earlier share price gains. Underlying developments, however, remain encouraging: the company has secured a significant number of new contracts, resulting in an order book exceeding four times 2024 revenue. Gross margins have already improved, and once revenue growth resumes, this should translate into a higher net profit. Given the strength of its balance sheet, this may ultimately benefit shareholders through additional dividends and share repurchases.

We also expanded our holding in TomTom. The company has been in a prolonged transition phase, struggling to achieve sustainable profitability due to the high costs associated with map creation and maintenance, combined with years of declining revenue. We believe the company is now approaching an inflection point. Collaboration with several major technology partners has enhanced the quality of TomTom's maps, expanding its addressable market. Management expects this to result in revenue growth, which—given the company's cost structure—would translate into a significant improvement in profitability. With a robust balance sheet, TomTom may soon be positioned to pursue more shareholder-friendly capital allocation policies.

Energy Sector

A significant portion of the portfolio's return during the quarter originated from the energy sector. After being closed for several years, the Iraq–Turkey pipeline finally reopened last month, allowing oil from Kurdistan to reach international markets once again. Exporting under these improved terms, rather than the constrained local market, proved highly beneficial for the Kurdish producers, and share prices responded positively.

Another holding, Aker ASA, garnered investor enthusiasm with substantial investments outside the oil industry—most notably in AI infrastructure. In partnership with OpenAI and Nscale, Aker ASA announced plans to invest meaningfully in data centers in Norway. Toward the end of the quarter, part of the position in Aker ASA was reallocated to its subsidiary Aker BP, a low-cost oil producer offering an attractive dividend yield and strong production growth outlook. Moreover, Aker BP's share price has lagged notably behind that of its parent company, offering additional potential upside and more attractive dividend yield.

Conversely, Fugro delivered disappointing results. The company issued another profit warning following the postponement or downsizing of several projects and subsequently withdrew its recently announced margin targets. The share price declined sharply. We consider the current weakness in profitability to be temporary, supported by management's cost-reduction and capital discipline initiatives.

German Real Estate

The real estate sector in Germany has experienced a challenging period in recent years due to rising interest rates. Higher rates have resulted in lower property valuations and increased financing costs. Through our bond exposure (via the Special Bond Fund), we have already benefited from improvements in the financial position of these companies. With financing conditions now largely normalized, we see scope to reintroduce equity exposure to the sector.

Both Aroundtown and its subsidiary Grand City Properties expect to resume dividend payments for the 2025 financial year. After several years without distributions, this—combined with the substantial discounts at which these shares currently trade relative to their appraised property values—should support further share price appreciation. Moreover, any additional decline in long-term interest rates could further benefit this segment of the portfolio.

OVMK Hong Kong Value Fund

The Hong Kong equity market performed well during the quarter despite ongoing economic challenges, a weak property sector, and geopolitical tensions such as the trade dispute with the United States. The main driver of this performance lies in the attractive valuations at which many companies are currently trading. This environment presents opportunities for investors willing to look beyond prevailing macroeconomic concerns.

Several holdings were sold during the quarter, with proceeds reinvested in companies with stronger market positions. We realized gains on Brilliance, following another exceptionally high dividend payment and a corresponding rise in its share price.

The position in Chaowei, a manufacturer of batteries for electric scooters, was sold in full, as intense competition has prevented the company from achieving satisfactory profitability.

A new position was initiated in Shui On Land, a property investor and developer primarily active in Shanghai. As one of the few exceptions within the sector, the company has successfully navigated China's property downturn. It has met all financial obligations and continued to pay dividends to shareholders, supported by the relative strength of the Shanghai property market, where both transaction volumes and prices have begun to recover. We expect Shui On Land to benefit further from its sound financial position and favorable market dynamics. Given its current discount of over 80% to net asset value, a higher valuation would appear justified.

OVMK Special Bond Fund

The Special Bond Fund delivered a steadily rising return over the past quarter, as declining credit spreads translated into broadly higher bond prices. Given the currently tight spread levels, we continue to pursue a prudent investment approach and made only minor adjustments to the portfolio.

One notable development was the impact of the yield curve on the so-called *steepeners*, which comprise approximately 15% of the fund. These instruments—issued by institutions such as Jefferies, BNP Paribas, and Morgan Stanley—pay interest based on the spread between the U.S. 30-year and 2-year Treasury yields, multiplied by a factor. As the yield curve has turned positive once again, many steepeners have resumed coupon payments, which has supported their market valuations.