

O | V | F OLESEN VALUE FUND L.P.

Global opportunistic value investing

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April 15th, 2025

Dear Partners:

In the first quarter, the fund generated a return of -5.4%. The following table shows our historical returns alongside those of global equity markets since the fund's inception.

	Olesen Value Fund L.P. (Net of Fees)	MSCI All-Country World Index *
Inception through Dec 2009 (13 months)	61.2%	30.8%
2010	21.9%	10.6%
2011	-6.0%	-6.5%
2012	30.0%	15.8%
2013	24.8%	25.5%
2014	10.5%	9.3%
2015	9.2%	1.2%
2016	12.0%	9.0%
2017	14.3%	19.8%
2018	-14.2%	-7.7%
2019	25.2%	26.2%
2020	15.5%	14.2%
2021	27.7%	20.9%
2022	-6.3%	-16.0%
2023	13.1%	21.6%
2024	4.1%	20.2%
2025 YTD	-5.4%	-2.1%
Cumulative since inception	667%	450%
Annualized since inception	13.3%	11.0%

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Q1 Results and Market Commentary

The fund lost 5.4% in Q1 as stock markets were negatively impacted by concern about slower economic growth and uncertainty about the new U.S. Administration's policies, including tariffs.

I am very comfortable with our portfolio companies' resilience in the event of a major global recession, as they all have very strong balance sheets, all except one are currently profitable and amply free cash flow positive, and all of them have mature and proven business models. While our portfolio will never be immune from price volatility, I think the risks of permanent losses of capital in our portfolio are small, and I plan to keep it that way. This is a great position of strength from which I can take advantage of volatility to buy good companies at good prices without my judgment compromised by worries.

At this time, I think our portfolio is about the most undervalued it has been in 15 years. Most of the attractive investment opportunities I am seeing are still in Europe, but cracks have formed in the U.S. stock market and a few good opportunities have arisen lately. I look forward to navigating the next few months, allocating our capital to the best opportunities.

Small, Opportunistic Portfolio Pivot After Tariff Tumult

During the quarter, I continued patiently accumulating shares in the steadily growing, illiquid European micro cap that I mentioned last quarter (Investment #9 in the Portfolio Summary below). However, when the U.S. stock market dropped sharply after the U.S. Administration announced substantial new tariffs, I thought it instead made sense to increase our stake somewhat in Investment #8, whose stock price declined significantly, and pause purchases of Investment #9 (which only fell modestly).

Reprise Investment in UK Homebuilder

I made a new investment in a UK homebuilder we have invested in before, as the shares have become more attractively priced yet again.

The company focuses primarily on single family houses with a below-average price point. The business has an unusually high degree of vertical integration, highly efficient and standardized construction, small plot sizes, and inexpensive land. This business model has worked very well and the company has one of the very best long-term track records of shareholder value creation in the industry.

The company has no debt, a healthy cash position, and its business model typically generates positive cash flow in downturns, as "inventory" (land and work in progress) declines and hence frees up cash. The company performed relatively well in the 2008-2009 downturn and I think it can survive almost any scenario.

We paid a price that is equal to 1.15x tangible book value, which I estimate is only about 7.6x mid-cycle net income. Considering the long-term growth prospects, the "quality" of the investment, and its historical trading multiples, I estimate there is significant upside as well as good downside protection.

Exited Citigroup With Disappointing 9.5% IRR. No More Big or Mediocre Banks.

By the time I first bought shares in Citigroup in mid-2014, the toxic risk exposures from before the 2008 financial crisis were no longer a significant issue for the firm. Based on my analysis, the underlying return on capital was mediocre, but better than the headline figures suggested, and I thought that the stock would no longer trade at a discount to tangible book value when investors caught on to this and the stigma that was attached to the stock after its disastrous 2008 performance eventually wore off. Together with ongoing dividends and retained earnings, I thought this expansion of the trading multiple would generate a good return on our investment.

Over the following years, I increased or decreased our investment several times, depending on how undervalued I estimated the stock was. This added approx. 260 basis points to our annualized IRR. However, the firm's performance was disappointing and the trading multiple generally remained depressed, and as a result we only generated a 9.5% annualized IRR on this investment.

Lessons Learned

"Low quality" companies disappoint more often. "Low quality" is a judgment call, but is often reflected in less consistent historical business performance, questionable capital allocation decisions, actions that were detrimental to shareholders vis-à-vis management, inferior financial performance, poor risk management, and other relevant factors. This is also consistent with my other observations from over two decades of full-time professional investing. It is important to properly factor this into one's valuation as well as risk assessment.

The company's long-term (multi-year, or even multi-decade) track record matters, as this will often reveal that the company has not performed well consistently. For example, as of 2014, JPMorgan's long-term business performance track record was far superior to Citigroup's (especially in 2008) and it has continued to outperform Citigroup by a very wide margin.

Large financial institutions are opaque. This makes it more difficult to understand them.

Large firms with complex operations can be challenging to turn around (e.g., Citigroup has subsidiaries in many countries, its countless historical acquisitions were not well integrated, and it is involved in numerous and diverse lines of business). Management's initiatives over the last 15 years to improve the firm's financial performance basically failed continually, probably because they could not (or would not) adequately address the core structural problems (especially the firm's complexity), which kept the cost structure too high and limited management's ability to make changes in the business.

While patience is crucial in long-term value investing, it is also important to act in a timely manner as mounting evidence suggests I misjudged an investment. We tied up capital in Citigroup for too long, which contributed to the mediocre annualized IRR on our investment.

Some of these lessons are reflected in the selection of our three current bank investments (Investment #3, #6 and #8 in the Portfolio Summary below). These firms (and their current management teams) all have a very long track record (going back to before the 2008-2009 financial crisis) of exceptionally low credit losses, high returns on equity, growth, and shareholder-friendly actions, they are relatively small and simple, and their executives have substantial ownership stakes.

Portfolio Summary

Our investments tend to have most or all of these characteristics:

- Proven business model with very long, consistent track record of good profitability.
- Very strong balance sheet.
- The investment/business is not at risk of significant, adverse technological or other disruption.
- Trades at low multiple of the relevant valuation metrics, both in absolute terms and relative to the broader stock market.
- Out of favor among investors due to cyclical headwinds or other apparently temporary factors.
- Little/no following among institutional investors and analysts, in particular the micro caps.

Investment #1 (Europe – micro cap)

- Distributor and manufacturer of somewhat customized packaging product solutions to industrial and other commercial customers for fragile high value items. Low customer turnover. Leader in its niche.
- Margins have increased steadily for over 20 years, as its distribution network gets ever more optimized by economies of scale through inexpensive acquisitions of small competitors in fragmented industry, increasing buying power, and culture of continuous operational improvements.
- Good long-term growth prospects due to (i) significant pipeline of small acquisition targets in its biggest market and (ii) continuing to expand in other countries.
- Stock price weak due to cyclical slowdown in demand for the consumables the company sells to its customers.
- Trades at only 8.9x trailing P/E → I estimate 60-90% upside in next 2-3 years.

Investment #2 (Europe – mid cap)

- Homebuilder focusing primarily on middle class single family houses.
- Generates approx. low/mid-teens return on capital on average over the cycle.
- Owns substantial, inherently valuable land.
- Approx. zero net debt. Generated positive cash flow even in the downturn of 2008-2009, as “inventory” (consisting of land and work-in-progress) declines and thus frees up cash when demand declines → Should survive even the most severe downturn.
- Demand has been very weak in its market in the last approx. two years due to the increase in interest rates. However, I think the underlying long-term demand for housing is solid. I think the demand for

housing is fairly price (and interest rate) inelastic in the long term (but not in the short term), as it is a basic necessity.

- Trades at only 0.82x book value (approx. 6.5x mid-cycle earnings) as investors focus on the modest current and near-term estimated earnings → I estimate 100-150% upside in next 2-4 years.

Investment #3 (North America – micro cap)

- Bank and wealth management firm, focusing on high net worth individuals and their businesses.
- Wealth management fees are 40% of revenues.
- Unusually safe lending philosophy: Zero loan losses in last 20 years, even in 2008-2009.
- Management and board members own ~20%.
- Strong growth last 20 years, especially in wealth management. Operates in a big market → still a lot of growth potential.
- Return on equity in low 20s and is generally increasing.
- Trades at 11.3x P/E. Given the growth, I think it should trade around 20x earnings → 75% above current market price.

Investment #4 (North America – micro cap)

- Manufacturer of custom, high-performance electronic components for missiles, military aircraft, surgical instruments and other applications, typically designed in close co-operation with OEM customers. Stable, hard-to-unseat business with very long-term supply relationships with OEMs.
- Management/board pay themselves very little, have significant shareholdings, and treat other shareholders very well.
- Small company with relatively big opportunities, able to produce much higher volumes in current production facility, generates positive cash flow, and has a strong financial position.
- Very high operating leverage.
- I expect a big increase in revenues in the near- and medium-term.
- Wide range of possible outcomes, but downside limited due to profitable, stable business.

Investment #5 (Europe – mid cap)

- Homebuilder focusing on single family houses with below-average price point.
- Unusually high degree of vertical integration, highly efficient and standardized construction, small plot sizes, inexpensive land → Works very well with below-average price point product

- Superior long-term track record compared to its competitors
- No debt. Healthy cash position. Generates positive cash flow in downturns, as “inventory” (land and work in progress) declines and frees up cash → Should survive virtually any scenario.
- Trades at 1.13x book value (approx. 7.5x my estimate of mid-cycle earnings) → I estimate 50-100% upside in next 2-4 years.

Investment #6 (North America – micro/small cap)

- Growing bank with extremely skillful and conservative lending practices → Only 0.07% loan loss rate in the worst year (2009).
- Management and board members own 30% of the shares.
- Avg. return on equity 15% over last several years due to very efficient and focused operations.
- Powerful compounding machine: Most earnings reinvested every year.
- Stock increased by 83x (incl. reinvested dividends) from when current CEO took over in 1993 through 2021.
- Earnings were hit very hard by the sudden rise in interest rates starting in 2022 (many of their loans have fixed interest rate for 5 years; and the cost of their liabilities is especially sensitive to changes in short-term interest rates).
- Stock down almost 50% since 2021.
- Earnings are recovering as interest earned is now growing and interest paid is declining → ROE should eventually recover to ~15%.
- Still long growth runway ahead: Operates in a big market. The CEO’s 42-year-old son is extremely smart, has a wise risk management mindset, and is poised to run the company for many years.
- Trades at 1.16x book value and ~8x my estimate of normalized earnings → Given growth prospects, I estimate 60-100% upside over 3-4 years.

Investment #7 (Europe – micro cap)

- Distributor with #1 market share in its industry, but poor performance in the last year due to significant cyclical downturn in demand in the market it serves.
- This is one of two of our portfolio companies that have somewhat below-average management. The company had significant excess capacity even before the current cyclical downturn in demand began, and management is now selling excess real estate and reducing costs, which should have been done years ago.

- The company's very large real estate holdings and other assets net of liabilities is worth approx. three times the current market cap.
- The debt is very low relative to the value of the real estate and the company should be able to survive almost any scenario.
- Logical private equity target, but stock price could also triple when industry demand (and profitability) eventually normalizes.

Investment #8 (North America – mid cap)

- Highly successful and growing regional bank.
- Loan losses very low, even in 2008-2009.
- Good deposit franchise. No signs of significant deposit outflows during March 2023 banking industry crisis.
- Long-time CEO's shareholding is a large proportion of his net worth.
- Bank stocks out of favor. The stock currently gets no credit for the company's long, exceptional track record.
- Trades at only 0.95x tangible book value and 6.4x P/E → I estimate 65-125% upside in 2-3 years.

Investment #9 (Europe – micro cap)

- Distributor and manufacturer of construction-related products, currently experiencing somewhat cyclically weak demand in its market.
- Gaining market share for 20+ years and counting.
- Excellent profitability metrics, even during cyclical downturns.
- No debt. Significant cash and owned real estate.
- Founder's family runs the company with conservative and very long term mindset.
- Trades at 10.3x P/E based on slightly cyclically depressed earnings → Should revert to mid-high teens multiple (~60% upside, plus ongoing value accretion).

Investment #10 (Europe – large cap)

- Diversified global marketing services business. Very cash flow generative business with investment-grade balance sheet, but organic revenue growth has been a little below inflation on average in recent years. Business rationalization/reorganization effort in recent years has not resulted in increase in margins or growth.

- The company is still valuable, but apparently the value proposition to its clients has failed to deliver respectable organic revenue growth.
- Technological changes indicate a risk of poor revenue performance in the future.
- Trades at 6.3x P/E. Very low-teens P/E multiple seems appropriate given the low growth and the risks.

Investment #11 (Europe – mid cap)

- Homebuilder. Similar to Investment #2 (see above).
- Trades at 0.98x book value (approx. 8x mid-cycle earnings) as investors focus on the modest current and near-term estimated earnings → I estimate 60-90% upside in next 2-4 years.

Investment #12 (North America – micro cap)

- Liquidation arbitrage: We own a few very small stakes in companies that are in the process of dissolution and liquidation.
- These investments were made because I estimated the liquidation proceeds to shareholders will exceed the price we paid for the shares.

Conclusion

All things considered, I am happy with the downside protection, ongoing earnings and growth in intrinsic value, and the very significant upside potential in our portfolio. I think we will eventually earn very high returns when the fundamentals of our portfolio investments are better reflected in their market prices.

Capital Account Statements; Return Calculation

You can view your monthly capital account statements at <https://apexconnect.apexfs.com>. Note that the -5.4% return referenced above applies to an investor who invested at the inception of the fund and who has not withdrawn or invested any capital since the fund's inception. The return on your investment in Q1 2025 may differ from -5.4%, depending on the timing of your investment(s) and withdrawal(s).

Please don't hesitate to call or email me with any questions.

Sincerely,



Christian Olesen, CFA

Fund Manager

Notes: The above-mentioned returns for the partnership are stated for a hypothetical investor who invested at the inception of the partnership and has not made any subsequent contributions or withdrawals. These returns are stated net of fees, based on 0% management fee and 20% incentive allocation (and any high watermark that may apply to the hypothetical investor is taken into account). The returns reported on your statement from our administrator may differ from these due to the timing of your contribution(s) and withdrawal(s).

* The version of the MSCI All-Country World Index that is referred to in the table on page 1 includes dividends and is expressed in local currency terms. It is one of the broadest equity indices available, including developed, emerging and "frontier" markets. U.S. equities make up approx. half of the value of the index. The fund's portfolio does not attempt to mirror the index in any way at all; the index returns are only provided in order to show the return on equities generally (before subtraction of the fees and expenses that would have been incurred by replicating the index) during the fund's existence.