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Letter to investors, Q4 2024

Performance

As reported by our fund administrator, the Master Account, in which I am personally invested alongside SMA clients, returned 2.6% net in Q3 2024 vs 2.4% for the S&P500. As of Q4 2024, the top ten positions comprised approximately 67% of the portfolio, and the portfolio held approximately 9% in cash and/or short-term treasuries.

	QTD	YTD	1-year	3-years	5-years	Inception
ACML	2.6%	16.9%	16.9%	2.5%	5.1%	7.3%
S&P500 TR	2.4%	25.0%	25.0%	8.9%	14.5%	17.2%

ACML performance is net of fees and standard costs.

We closed the year with a respectable overall performance, even as the market cooled in December. My core objective is to identify high-quality compounders and give them the runway to generate long-term returns while including carefully managed higher-risk positions to enhance portfolio performance. I am pleased that many of our businesses have delivered strong results. At the same time, underperforming investments have naturally shrunk relative size, leaving high-quality winners as a larger portion of the portfolio.

Nevertheless, my approach has continued to evolve over the past few years. I am less forgiving when business fundamentals are not meeting expectations, especially as one of the advantages of investing in liquid securities is the ability to change one's mind if the facts on an investment change. This ongoing process should increasingly steer the portfolio towards businesses with exceptional compounding potential. A challenge in owning well-performing quality companies is that the market often values them richly. Some of the best opportunities arise when strong businesses face temporary setbacks that present a temporary opportunity to purchase at attractive prices or have complex situations that mask their true potential. It can be rewarding to spend the time to analyze such situations. However, I have gained a deeper appreciation for the fact that complex stories need a path to simplification for the market to reward us with share price gains; those situations that stay complicated often stay "undervalued." Lastly, I have refined my position sizing approach to ensure no holding grows too large. While some purist value investors dislike "cutting the flowers," I believe prudent sizing limits risk if unforeseen issues arise. My experience has reinforced the lesson even owners of closely held private businesses do not see every problem coming, and public shareholders can be the last to learn about unpleasant surprises, despite thorough.

In the current broader market, there's uncertainty around whether the Trump administration's pro-business stance can keep the rally going or if persistent inflation might push rates higher, which, combined with already top-heavy valuations (there are signs of excess in the market, especially in the context of AI) could result in what some consider a long overdue correction. I believe there are still pockets of value to find, but I am mindful that there are significant risks (what else is new). I deployed a small options hedge that proved profitable when volatility spiked, and I may revisit similar strategies in the coming year. Still, the emphasis is on rigorous underwriting, allowing core positions to compound, staying vigilant about fundamentals, and hunting for fresh ideas.

Thank you for your trust. I have invested a meaningful portion of my net worth alongside clients in this strategy and look forward to the progress we might make in 2025.

Portfolio – top and bottom performers¹

Top Performers	Contribution	Bottom Performers	Contribution
KKR & Co Inc	1.47%	Exor NV	-1.28%
Fairfax Financial Holdings Ltd	1.14%	Ashtead Group Plc	-0.75%
Amazon.com Inc	0.97%	Prosus NV	-0.57%
Alphabet Inc	0.61%	Van Eck Gold Miners	-0.52%
Melrose Industries Plc	0.54%	Distribution Solutions Group Inc	-0.33%

As calculated by our fund administrator on the Master Account.

KKR & Co Inc

KKR has been a meaningful investment this year, aided by the firm’s well-executed strategy of broad-based expansion. One clear driver is the continued growth of Assets Under Management (AUM). Thanks to its scale and flexibility, KKR can pursue opportunities in promising areas, even if they’re subject to the current AI hype cycle. Its Global Infrastructure division, for example, expanded AUM from \$13 billion to \$77 billion in just five years, targeting mobile infrastructure (towers), fixed-line networks (fiber-to-the-home), and cloud, AI, storage, and data centers. Meanwhile, the Credit platform now exceeds \$240 billion in AUM, with the Asset-Based Finance (ABF) segment alone surpassing \$65 billion.

Moreover, KKR’s earnings profile is evolving through “Total Operating Earnings” (TOE), which reflects more stable and recurring revenue streams. An important piece of this is the firm’s core assets, roughly 18 long-term holdings expected to pay out significant dividends; management projects over \$300 million in net dividends by 2026 and \$600 million by 2028.

The Capital Markets business has also delivered record revenues, benefitting from diversified activity across infrastructure, private equity, credit, and opportunistic financings for both portfolio companies and third parties. While certain large, one-off transactions contributed significantly to revenue this year, the fact that around 100 deals drove these results points to the breadth and resilience of KKR’s platform.

Despite considerable share price appreciation over the past year and possible headwinds in any broader economic downturn, I remain optimistic about KKR’s long-term prospects. Much of its platform is still scaling and 80% of its strategies are not yet fully mature, which suggests significant potential to generate carry as these businesses develop.

Fairfax Financial Holdings Ltd

Fairfax Financial has continued to deliver exceptional results over the past year and a half, closely mirroring the investment thesis that initially guided my decision. Robust underwriting profitability and astute capital allocation have driven growth in insurance operations, while improvements in the investment portfolio have further solidified its position as a standout holding.

While I have previously discussed Fairfax in detail, it remains a prime example of the high-quality, long-term investments I seek. Notably, a growing proportion of Fairfax's value now derives from its core insurance operations

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and privately held businesses, making it increasingly resilient to short-term market volatility. Fairfax remains a core holding, and I am confident in its ability to generate sustained value for shareholders over the long term.

Amazon.com Inc

Amazon continues to demonstrate how a massive balance sheet, combined with a relentless focus on customer satisfaction and first-principles thinking, can drive sustainable cash flow growth. Recent earnings highlight strong execution across multiple fronts. At its core, Amazon pursues what customers value most: faster, cheaper delivery. This quarter, 40 million users enjoyed free same-day shipping, reflecting management's sizable investments in regional logistics. These moves have reduced service costs, supported margin expansion, and set the stage for continued improvements with further robotics integration.

Amazon has now achieved margin gains in its international operations, making that segment profitable. By emphasizing improvements on the "intake" side of the supply chain and leveraging regional logistics, the company is laying the groundwork for more efficiencies ahead. Meanwhile, Amazon's advertising business saw \$14.3 billion in revenue, up 19% year-over-year, a clear example of the company's success in forging new, high-margin revenue streams. Amazon Web Services and AI-related offerings also grew 19%, pushing quarterly revenues near \$30 billion. Management spent \$75 billion in capex this year, mainly for AI infrastructure, which will increase to \$90 billion next year. While those numbers look daunting, I have confidence in the company's ability to balance aggressive growth with disciplined returns, given Amazon's decades-long track record of smart capital allocation. Amazon has a ruthless focus on "what works," for example, while shutting down its project (with JP Morgan and Berkshire) to change healthcare service proved too complex, it pivoted to high-velocity pharmacy deliveries, leveraging its logistics expertise.

Of course, AI is all the rage right now, and we will eventually find out how much of this is hype. For now, Amazon's AI initiatives are already producing multibillion-dollar revenues and growing at triple the rate of AWS when it was at a similar stage.

Alphabet Inc

Alphabet's recent earnings demonstrated solid financial results and the company's ability to adapt to shifting technologies, particularly AI. Rather than disrupting Alphabet's core business as some initially feared, AI is shaping to be a valuable growth driver. Tools like Google Lens and Circle to Search have seen a substantial uptick in user engagement, especially among younger users. Lens alone is now used in over 20 billion visual searches monthly, primarily supporting product discovery and shopping. Additionally, ads within AI-generated search overviews—once seen as a potential risk to traditional search ads—are proving effective in helping connect users with businesses in more targeted ways.

This evolution makes intuitive sense: Google's improvements in search functionality and expanded ad ecosystem appear to be leading to greater usage and engagement, reinforcing its position in digital advertising.

Alphabet's Waymo division is also seeing growing momentum. On October 25, Waymo raised \$5.6 billion from Google and several prominent venture and hedge fund investors, signaling confidence in its long-term potential. With 150,000 paid rides per week now operating across key cities like San Francisco, Phoenix, and Los Angeles, Waymo's commercial viability is starting to look more tangible.

In the broader picture, AI's potential is still unfolding; I expect it to reshape industries in ways that diminish traditional data advantages while amplifying the reliance on scalable cloud and AI platforms like Google's.

Melrose Industries Plc

Melrose was a new position initiated last quarter. Please see last quarter's letter for a more detailed description of the investment thesis. One of the issues dragging down Melrose's stock price was investor skepticism or confusion regarding the accounting treatment of its RRSPs. In October, Melrose released a detailed document explaining its 19 risk and revenue-sharing partnerships (RRSPs). The document highlighted that Melrose's Engines division holds

a significant portfolio of RRSPs, covering approximately 70% of global flight hours across narrow and widebody aircraft. Notably, 17 of these 19 RRSPs have entered the cash-generation phase, with the remaining two expected to become cash-positive by 2028. The company projects that this portfolio will generate around £22 billion in cash flow over the coming decades, with cash flows anticipated to increase through 2050 as engines age, fleet sizes expand, and flight hours grow.

Melrose also clarified its accounting approach under IFRS 15 for five specific RRSPs, where it records a portion of future aftermarket income at the point of original equipment delivery. The company adopts a prudent stance by recognizing only 10% to 30% of this income as “unbilled work done” upon engine shipment, ensuring a conservative reflection of anticipated earnings.

This detailed disclosure addressed some of the primary concerns around the investment thesis and was well-received by the market, with Melrose’s shares rising over 9% following the announcement.

Exor NV

Exor has been impacted by the troubles at Stellantis, with CEO Carlos Tavares resigning on December 1st, 18 months earlier than his planned retirement. This suggests tensions with the board may have been more severe than initially anticipated. An interim executive committee chaired by Elkann will now lead the company while they search for a new CEO.

I have invested in Stellantis (formerly Fiat Chrysler) intermittently over the years. The company has historically thrived under clear strategic direction. During Sergio Marchionne's tenure, a focus on capital allocation and improved returns drove significant share price appreciation. Tavares successfully merged the company with Peugeot and initially maintained cost efficiency. However, his aggressive pricing strategy, which negatively impacted demand for key US brands like Jeep and RAM, proved unsustainable. This approach also strained relationships with crucial stakeholders, including ACEA, labor unions, and the dealer network.

John Elkann has taken on the difficult task of repairing these relationships and restoring confidence within the company’s ecosystem until he finds a new CEO. However, the company now faces the challenge of navigating a competitive landscape characterized by intense competition from Chinese automakers and the rapid rise of electric vehicles. Tavares's departure highlights the inherent challenge of balancing profitability with the needs of stakeholders, particularly in a cyclical and demanding industry. How the new CEO will navigate this complex landscape remains to be seen.

I have reduced our position in Exor. While Exor trades at a discount to its holdings, I perceive significant risks. Ferrari, while an excellent business, is appropriately valued. CNHI, despite its attractive valuation, appears to be in a perpetual turnaround phase, further complicated by macroeconomic headwinds. Phillips, while making progress, continues to grapple with the fallout from its respirator recall. Exor's other investments in technology and healthcare, though strategically sound, may take considerable time to generate substantial value.

Ashtead Group Plc

lightly slowing revenue growth and downward revisions in its full-year US rental revenue growth forecast to 2%–4% from the earlier 4%–7% range hurt Ashtead’s share price in December. Its construction end markets are still somewhat cyclical, but this should be partly mitigated by its fast-growing Specialty division, which expanded 14% last quarter and remains only about 10% penetrated in the US and increasing exposure to “mega projects,” with 689 projects worth \$974 billion scheduled for completion in the US between 2025 and 2027, and Ashtead’s robust win rate (estimated at roughly double its typical 11% market share).

Although Ashtead’s overall exposure to cyclical end markets has reduced over the past decade, it is still subject to macroeconomic risks. A critical factor to monitor is the industry’s pricing discipline, especially if a recession materializes. A core element of the thesis is that the increasing revenue contribution from Specialty, which offers more business service-like and less commoditized offerings, combined with reduced reliance on cyclical markets

and more rational pricing behavior from scaled players, should support stable growth. However, any significant deviation from this trend (beyond the natural ebb and flow of business cycles) would be a red flag.

Reflecting its maturation into a scaled player, back in April, the company announced its “Sunbelt 4.0” strategy, building on its successful 3.0 initiative. While Sunbelt 3.0 focused on driving growth through bolt-on acquisitions, launching and scaling Specialty businesses to broaden service offerings, and implementing centralized IT enhancements like dynamic pricing and streamlined order capture to improve operational capabilities, Sunbelt 4.0 emphasizes organic growth by opening greenfield locations, expanding its role beyond equipment rental to provide a wider range of complementary services such as site preparation, logistics support, and project management, and improving efficiencies & margins.

Prosus NV

Prosus’s share price remains closely tethered to Tencent, making it vulnerable to fluctuations in broader sentiment surrounding China. After benefiting from Chinese stimulus measures earlier in the year, Tencent and, by extension, Prosus softened last quarter. Still, Prosus ended up almost 34% for the full year.

A more significant driver is the new CEO’s ambitious growth strategy for the non-Tencent e-commerce portfolio, which targets \$400 million in operating profit this fiscal year and \$800 million by March 2026. Prosus’ e-commerce businesses have continued their robust revenue growth, 26% in the twelve months to September 2024, and are now starting to deliver meaningful profitability as promised by the company.

Alongside organic growth, the company continues to shape its portfolio. Recent actions include selling Trip.com for \$1.4 billion, taking Swiggy public with a partial stake sale of \$500 million, and reorganizing some of its OLX businesses. Prosus announced the \$1.7 billion acquisition of Despegar, Latin America’s leading online travel agency, in December. Management believes Prosus can unlock significant value by leveraging its extensive ecosystem. This strategy focuses on capitalizing on cross-selling opportunities with iFood’s customer base, improving margins through integrated payment solutions, and achieving operational efficiencies through shared technologies across the portfolio.

I continue to believe Prosus offers an attractive long-term opportunity through its exposure to Tencent’s growth, accentuated by the strategic buyback program that enhances Tencent’s exposure on a per-share basis, renewed operational focus on its collective e-commerce portfolio, and the CEO’s highly aligned incentive structure.

Van Eck Gold Miners

Though the gold miners gave up some of their gains in the fourth quarter, they still performed strongly for the year, and I used that strength to trim our position and reallocate the proceeds into a gold ETF. My thinking shifted after reading an analysis by Horizon Kinetics, noting that over the past 50 years, gold has averaged roughly 8% annual appreciation, keeping pace with its production costs or inflation and serving as both a hedge and a modest, long-term performer.

By contrast, gold miners have historically been poor capital allocators, eroding much of their potential value. While they benefit from operating leverage, their share prices can jump faster than gold, but these gains are short-lived. The industry’s collective pattern of questionable capital spending often undercuts sustained outperformance. As a result, although we might miss some leveraged upside if the market revalues the miners for improved performance, I prefer the simplicity of holding gold itself, avoiding the need to anticipate when the industry might overinvest in capital expenditures or improve its capital allocation practices. If I decide to re-enter the miners in the future, I may do so using call options.

Distribution Solutions Group Inc

DSGR reported a 2.1% decline in organic revenue year-over-year, attributed to challenges in some end markets impacting its MRO, OEM, and specialty production supplies businesses. Management remains focused on factors

it can control, namely optimizing cost structures and expanding its salesforce. Recent initiatives include the onboarding of 22 new sales representatives in Q3. It wants to have 900 representatives by year-end and 1,000 by mid-2025, supported by enhanced CRM tools and optimized sales territories to effectively target high-potential, greenfield markets.

DSGR has significantly accelerated the growth trajectory through M&A. Over the past two and a half years, the company has completed 11 acquisitions, contributing approximately \$900 million in revenue, bringing total pro forma revenue to about \$2 billion and EBITDA to around \$200 million. DSGR is nearing the completion of cost reduction initiatives following the Hisco acquisition, bringing down the acquisition multiple from 8x EBITDA multiple to an effective 6x. The recent acquisition of Source Atlantic adds \$180m of revenue. It expands DSGR's presence in the Canadian market, while TestEquity's acquisition of ConRes Test Equipment strengthens its rental and used equipment offerings in the Northeast. Furthermore, Gexpro's acquisition of Tech-Component Resources in Singapore provides access to the region's key tech and semiconductor clients.

DSGR is a smaller company with many moving parts, sized appropriately in our portfolios, but it has considerable upside potential if it continues executing its plan.

Trades

I trimmed positions in KKR and Fairfax for standard portfolio management reasons.

As discussed above, I trimmed Exor and replaced the Van Eck Gold Miners ETF with a more direct gold ETF.

I added to Cogent following its strong prior quarter results, highlighting progress on its wavelength plans. I also added to Ashtead early in the quarter, unfortunately, before its recent disappointing results. I further increased my position in Melrose Industries following the publication of its encouraging RRSP document.

I executed a small, profitable trade in deep out-of-the-money SPX puts, which benefitted from the volatility spike we experienced in December.

Individual clients' separate accounts may have additional trades for tax loss harvesting purposes, which you can find in your respective quarterly reports.

Samer Hakoura
Alphyn Capital Management, LLC
January 2025

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