

Dear Partners

The net return of Class A shares in the Colebrooke Opportunities Fund was -14.53% in the period from 1 January to 30 June 2025. The net return from inception in September 2024 is -9.46%.

It has been a very volatile few months for our portfolio, with several months of +/- 5%+ movements. In the 7 years that I have been managing money professionally, I have not seen sustained month-to-month volatility like this. We have however been putting the volatility to good use, building out a higher quality and more liquid portfolio than we have ever had. In the first 6 months of the year, we made one new acquisition, Macfarlane Group, and sold NAHL Group and THG group. In the weeks since the half-year we have made two further acquisitions, Bloomsbury Publishing and Greggs, and added to our other positions using newly subscribed funds. I cover Macfarlane, NAHL and THG below, but will save Bloomsbury and Greggs for the full year letter.

We are extraordinarily lucky to have acquired our high-quality collection of businesses at the prices we purchased them at. Despite the psychologically painful impact of performance year to date, I have never felt more excited about our portfolio, and I added materially to my own investment in the fund on 1 July.

#### **Purchase of Macfarlane Group**

We purchased shares in Macfarlane Group in the first quarter of the year, 18 months after first commencing research. We were rewarded for our patience with an average price of 100p/share.

Macfarlane is the second distributor to join our portfolio after Midwich. It is the UK's leading provider of specialist protective packaging, with a focus on complex, high-value industrial goods. It has an attractive combination of high returns on capital/low capital intensity, a long-standing and competent management team, and a valuation that we believe materially understated the quality of the business. We paid less than 10x run-rate free cash flow for a business that has compounded EBIT at c.15% per annum for a decade. Macfarlane is almost completely overlooked in UK public markets. It has fairly low trading volume, with no real broker coverage, and limited investor relations outreach.

Incentives throughout the group are built around profitability and decentralised accountability. Each regional distribution centre has its own P&L and EBIT-based bonus structure, and the salesforce is paid on gross profit, not revenue. That focus on profitability is rare, and it's visible in the culture.

Growth has come organically and via bolt-on acquisitions made at sensible prices. Management is currently exploring a European expansion, which is a sensible long-term ambition, but we have not built any significant impact from this into our base case expectations. If successful, it opens up a much longer runway. If not, the downside is modest.

Macfarlane has three key attributes that make it unusually resilient: high customer switching costs, disciplined internal incentives, and a recurring, not particularly cyclical revenue base without significant customer concentration. Most of Macfarlane's customers spend over £100k per year and rely on the company not just for standard packaging solutions, but for bespoke design, just-in-time logistics, and materials procurement. For most customers, replacing Macfarlane would require internalising a host of non-core capabilities such as sourcing, warehousing, supplier management, which few of their customers want to do.

Despite this, I spent a fair amount of time during the research process on the probability and implications of customers (particularly large customers) going direct to manufacturers, as that is one of the more significant risks to the business specifically and for any distribution business generally. My conclusion after speaking to both suppliers and customers is that while this is a risk to the business, particularly during periods when suppliers have excess capacity (such as now), it affects mainly higher volume lower margin SKUs, and the customers more likely to go direct to suppliers are those which do not utilise Macfarlane's high margin value-add services. As one former salesperson put it, "sometimes a customer just outgrows us, but we've always had plenty more coming through to take their place".

Another point to make regarding investing in distributors is that these businesses are largely hostages to the near-term prospects of their end markets. As Midwich cannot control the ebbs and flow of the audio-visual market, Macfarlane cannot do much to influence the end demand for paper and packaging. What these businesses can do, and in my view are doing, is further strengthen their position in their markets during periods of weaker demand. If I am right about this, then management should come out of the current period of difficult trading ready to continue their impressive record of growth and we should do very well as a result. If growth does not return to previous levels, or it takes longer than expected, we will still enjoy the effects of a 10% FCF yield being deployed into buybacks. This outcome skew is a good example of why we are so excited by current market opportunities.

#### **Sale of NAHL Group**

7 years after first buying shares in NAHL Group, we sold our entire position in June.

My investment thesis throughout our holding period remained consistent: NAHL would use the growing cashflow from its critical care division to fund the development of a vertically integrated claims generation and processing business. Once that business reached cashflow neutrality, the critical care business would be sold leaving the personal injury business to either be sold or run independently. We have been in the endgame for our investment for the last 12 months, with the group confirming in April 2024 that the critical care business was for sale. Despite over a dozen expressions of interest and more than 4 offers being tabled at various points, the group failed to obtain a price they felt provided fair value to shareholders and issued a sale process cessation notice in mid-June.

Without this catalyst in place, the range of possible outcomes widened beyond my comfort zone, including a significant risk of a delisting, so I made the decision to fully exit our position in the days following the announcement. Over the past 12 months, I have spent a significant amount of time reflecting on what I have learned from holding NAHL for 7 years. We made a calculated bet with what I considered to be skewed risk/reward dynamics (c.65%+ chance of 100%+ gain with a c.30% chance of a 25% downside) and the outcome went against us. I'm trying not to be guilty of 'resulting', but there are a couple of lessons that I will carry forward as inputs into future decisions that are worth laying out:

1. Small scale M&A is an unreliable catalyst – many sub scale businesses have too much execution risk and not a big enough pool of potential buyers to have a high degree of confidence in a deal being completed.
1. Liquidity really matters – once our position was set, the nearly total lack of trading volume meant we were never able to exit it without causing a collapse in the share price by starting to do so. In the end, our sale was a negotiated one with another major holder; an opportunity that only presented as they are pushing for a delisting to occur and want to increase their position size and voting power.

In terms of what will change from here because of this experience, the frank answer is not very much, as it has already changed. I have already backed away from this type of deal-catalyst driven investing and we no longer make new investments in very illiquid shares. It is of course possible that I got my probabilities wrong and that NAHL Group was therefore an investment mistake. But either way, it's not a situation of the kind we are likely to be involved in again. Instead, as reflected by our current portfolio, we will look for similar probabilities of success and failure, but where success depends only on management keeping doing what they're doing, rather than doing something they've not done before.

#### **Sale of THG Group**

We also sold what had become a small (for us) 3.5% position in THG following the mild recovery in THG's share price in June. Our sale was driven by me no longer having a high degree of confidence in two key aspects of my investment thesis:

1. Management have begun to act in a way which I fear is not necessarily in the interests of all shareholders – this was becoming apparent through the structure of the THG Ingenuity spin-off in December (timed to justify a very low EV for Ingenuity with management taking a large stake in the NewCo), but I think runs deeper still. Matt Moulding is exactly the type of founder that we look to partner with, but 'partner' is an important word here. I worry that Matt's experience of public markets has made him see monsters around every corner and every public market investor (certainly institutional) as part of the problem. That switch in mentality means that, in his mind at least, we are not on the same side; an untenable position for a minority public investor to be in.
1. The MyProtein rebrand has exposed that Nutrition's market position is weaker than I thought. Earlier this year we conducted a range of interviews with former members of the THG Nutrition's team with the goal of determining whether the company's narrative around the MyProtein rebrand was fair. I concluded that there had indeed been issues with the rebrand that were 'self-made' rather than run of the mill for a DTC brand repositioning itself. But the conversations also revealed that many customers, including high LTV and high frequency customers, had abandoned MyProtein following the rebrand, even though it remained at price parity or cheaper than competitors.

The whey protein business (and sports nutrition more widely) is a business that in my view is best understood through commodity-type behaviour patterns. If you're after 1kg of whey isolate, you want the best deal, and it shouldn't really matter to you what the packaging looks like. That's why there's so much promotional activity in the sector; after the glitzy new brand launch wears off, price should be the only way to sustainably take custom away from another brand. The fact that MyProtein is losing long-term customers for non-price driven reasons is therefore particularly worrying. Management believe that the rebrand will lead to a new profile of customer that they did not have before. But they have not been transparent that these customers are coming at the expense of many of the customers they built their business on, and we expect better from our management teams.

#### **Thank you**

As always, please shout with any questions you have. Thank you for your continued and patient confidence.

We believe that we are faced with a generational opportunity set and now have the right portfolio and operational infrastructure to take advantage of it. If you know of anyone who might be interested in speaking to us about partnering on the journey, please send them our way.

Yours

Jack