Hoofddorp, the Netherlands, 7th of June 2023

Dear Investor,

Time flies as it is already time for the second Investor Letter of the Van Der Mandele ARAR Fund. Before going over prior two months' performance I would like to welcome two insiders as new investors. It is great to onboard two people who are very familiar with my way of thinking as a portfolio manager and I see it as a tremendous vote of confidence for which I am obviously very grateful.

Secondly, I am happy to announce the onboarding of Peter Hoogendijk as Senior Investment Analyst. As a former options trader & managing partner at a market making firm and professional manager of his personal wealth, he has been a great brainstorm partner already before joining. It is great to be able to bounce ideas and not be fully dependent on one's own train of thought. Peter brings a very differentiated perspective, of which we will all greatly benefit.

THIS MONTH'S PERFORMANCE

Last two months have been slightly challenging for the performance of the fund. Markets continue to favor defensives with very unattractive valuations (>30 P/E defensive stocks), and big-name growth tech companies such as Tesla and Nvidia (with even less attractive multiples). This month's performance was **+0.37% after fees**. It should however be noted that outside of the mega caps (with a market cap over 500 bn USD), world markets actually went down as participants seem to rotate towards the abovementioned categories (more on this later).

We watch with interest how the rotation play will unfold. There is some logic to what is happening, as PMI's (Purchasing Managers Index) for 'Services' remain high (indicating solid short term positive demand expectations there), while 'Manufacturing' PMI's are very depressed (indicating demand and/or oversupply issues in goods and commodities). We have already witnessed truly extraordinary turnarounds in profits, with companies flipping from record profits to loss-making within two quarters (industries such as shipping, coal, computer components, timber and fertilizer, for instance). It remains to be seen whether this will prove to be isolated events or that other sectors are going to follow. We are especially watching for housing, luxury goods and semiconductors, which are all holding up very well at the moment.

With a long-term view we are long some stocks whose earnings are expected to deteriorate as we are nearing a recession. It is difficult to foresee whether other participants anticipate this in the same way, but last earnings season it seems many fellow stockholders were caught off-guard, with multiple stocks going down more than 10% after earnings. This impacted our monthly performance. Our biggest success stories were Alphabet (up 15%) and the revival of Alphawave Semiconductor Group plc. with +19%. Both also benefitted from the positive headlines from Nvidia, which is projecting an AI-inspired revenue revival. Jackson Financial was the biggest detractor at -20%, after missing market expectations.

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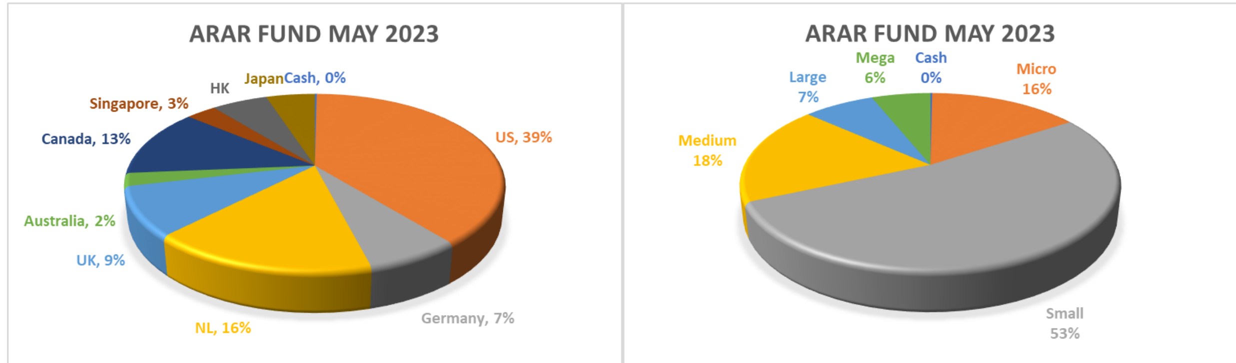
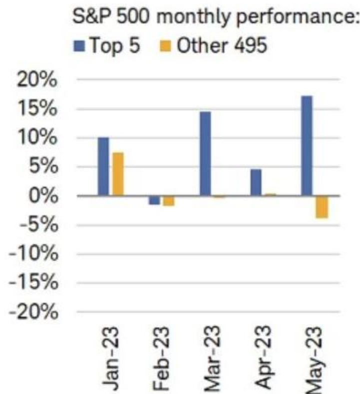
PORTFOLIO COMPOSITION

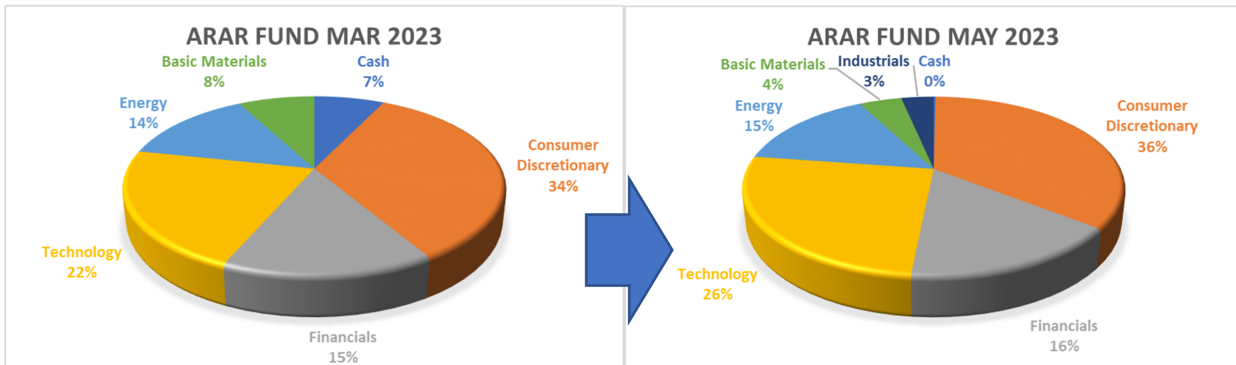
The current portfolio consists of 16 stocks and a near zero cash portion.




The portfolio remains geographically balanced. The tilt towards Smallcaps, as explained in our March Investor Letter, aligns with the fact that over 50% of the stocks in the market are small caps. As the graph below shows, however, this factor is currently an enormous headwind:




As the pie charts below show, we have reduced our cash position to the minimum in line with our mandate. We have trimmed some of our small base material positions as their main production commodities margins have deteriorated, making the investment case weaker. Our new portfolio now officially includes an Industrial, but we would consider it a Financial or Tech company.



TOP 5 HOLDINGS:

| | |
|---|---|
| OneWater Marine Inc (US) | 13.5% |
| Jackson Financial (US) | 9.2% |
| Basic Fit NV (NL) | 9.1% |
| Alphawave Semiconductors Group PLC (UK) | 8.9% |
| Kiwetinohk Energy Corp (CA) | 7.9% |

COMPANY IN FOCUS: ONEWATER MARINE INC

Our biggest holding at this moment is OneWater Marine Inc. OneWater is a luxury yacht retailer in the USA with dealerships in 20 different states. As such it is a (luxury) discretionary cosumer goods sector company, theoretically one of the most cyclical sectors out there. Hence, it is ill-positioned for this environment of high interest rate and an approaching recession. Still, we believe OneWater is so attractively valued it warrants a (large) position in our portfolio.

OneWater sells boats, through their website and their >100 retail locations. Because of their size relative to the extremely dispersed market, they are able to offer and show boats exactly in line with customer's preference. Also, their size helps them staying way better on top of trends in pricing and preferences. This benefits their strategy of acquiring small retailers and actually accomplishing synergies. A huge tailwind is that a lot of boat retailers are retiring and looking for an exit, depressing the cost of acquisition often to a discount rather than a premium to bookvalue and/or very low EV/EBITDA valuation.

But shouldn't we be scared of their cyclicality? OneWater is one of these examples of a company in this cycle that is positioning very well for surviving an upcoming recession. Up until halfway 2022 it was following an aggressive buy&build strategy, but as the warnings keep coming in, they have paused their acquisition strategy and reduced inventory investment. At the same time, due to supply bottlenecks, they still had a backlog going into 2023. Topping this off are record profits in 2022 (>100 mio USD at a market cap of 470 mio USD), further improving the balance sheet. We estimate they'll easily service their debt (which is, to be fair, high) through the recession. Through these muddied waters we see a company that is trading at a P/E as if it is in a terminal industry, even though in reality it is growing twice as fast as Apple.

We had a nice entry point and are up more than 15% on the position, but we believe this stock should be trading 'boatloads' higher.

GENERAL MARKET COMMENTARY

Commodity prices have been very unstable ever since the outbreak of COVID-19. As we all know, oil prices went to zero and then rebounded and then going far *above* pre-COVID levels even before Russia invaded Ukraine. Production has been increased since then, and aggressive interest rate hiking by most central banks is having a profound impact on commodity prices. In the last two months, a disappointing economic recovery in China is adding to the downward pressure: Various commodities are now cheaper

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than before the invasion, and some are even back to pre-COVID levels, despite ~15% inflation. The list of commodities tripling and now halving seems endless: Natural gas, oil, coal, timber, copper, fertilizer, etc. . Other 'commoditized' product/services such as freight rates are also down significantly. Cyclical sectors such as car manufacturers and house building are now seeing price pressure as well.

If we would have been able to predict the scale of the deterioration, we would have been able to benefit a great deal (through shorting all kinds of commodity futures, for instance). Alas, we are just simple people investing in undervalued companies, using the prices there are available. The prices for commodities have been trending lower for a while now since we picked up the positions, which lowers the valuation of our commodity producing stocks as well. In our pricing, we have incorporated these prices and a likely recession. But we do believe this recession will be much kinder to cyclical companies than usual.

For one, we believe excess capacity that usually pops up at the end of a cycle is more limited than in other cycles: this 'cycle' was arguably only 3 years long, with the real boom only being 2021 and the first half of 2022. For most sectors this seems too short to overextend capacity meaningfully. Also, the shortage of labor and difficulty in getting components made it difficult to expand production and sometimes even impossible. Instead of a declining utilization of capacity, many cyclical companies (including our stocks Stellantis, OneWater and M/I Homes) are still working through their backlog even as we are entering a technical recession.

Secondly, many companies are in a phenomenal financial position, both in an absolute sense as well as relative to what is common for recessions. Recessions tend to come as a surprise and right after companies start overreaching for acquisitions and/or borrow aggressively to invest or buy back their own shares. This contrasts heavily with the current situation: Especially cyclical names have reaped extraordinary rewards from 2021/2022. With P/E's under 5 this has made a very positive impact on debt levels. Because the upcoming recession has been telegraphed for more than a year now, many of these companies have reduced investment way ahead of the inevitable recession.

Lastly, and this is just from an investor perspective, the valuations of these cyclicals are far more attractive than they usually are right before a recession. Last year energy companies, homebuilders and car builders were already trading at a P/E below five, where in 2007, for instance, it would have been closer to 15. And then we don't even take into account that these companies are essentially debt free while in 2007 companies like these would stock up on debt.

Because of these differences there is reason to be confident our tilt towards cyclicals will pay off in the medium term. In the short term, the portfolio has shown sensitivity to the broader market mood: negative macro indicators have led to a shift towards defensives and large caps and a shift away from cyclicals.

Best Regards,

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