GA-Courtenay Special Situations Fund
November 2023 Monthly Factsheet

INVESTMENT OBJECTIVE

PROFESSIONAL INVESTORS ONLY

GA-Courtenay Special Situations Fund is a global equity strategy targeting competitive and efficient performance with modest-to-low correlation to the market at large. Our investment approach targets high quality equity investment opportunities and selected merger arbitrages.

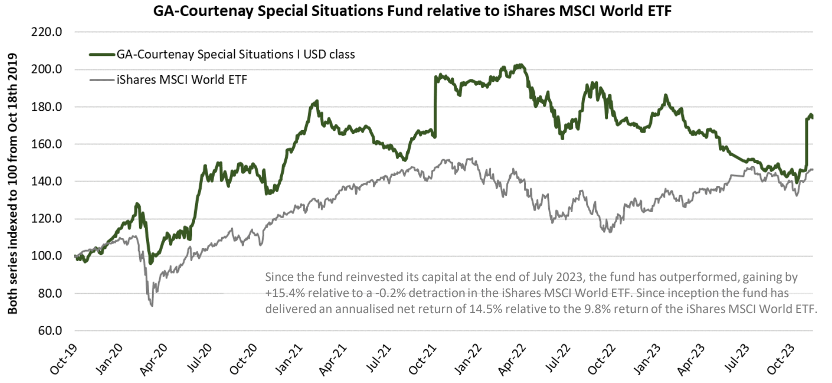
KEY INFORMATION

Fund Name	GA-Courtenay Special Situations Fund
Fund Manager	Adrian Courtenay
Fund Launch Date	17th October 2019
Fund Type	Irish UCITS
Liquidity	Daily
Fund Size	$34.4m
Share Classes	USD, GBP, EUR, CHF
USD I GBP I EUR I CHF I USD R GBP R EUR R CHF R	IE00BK6GVB95 IE00BK6GV757 IE00BK6GVD10 IE00BMCZLC50 IE00BK6GVC03 IE00BK6GV864 IE00BK6GVF34 IE00BMCZLD67
Investment Manager	Green Ash Partners LLP
Fees	Institutional share class: 0.75% pa + 20% performance fee Retail share class: 1.25% pa + 20% performance fee

SUMMARY

- The GA-Courtenay Special Situations Fund USD I share class appreciated by +23.2% in November, compared to a +9.0% gain in the iShares MSCI World ETF.
- The largest contributor to performance in the month was Hotel Chocolat, held at 9.65% of the fund's net asset value "NAV" at October month end and subject to a takeover offer at a 170% premium. Following the deal announcement, which added 15.5% to the fund's NAV, the position has been sold in full.
- The fund also established a new long term equity investment position in Canada Goose, a Canadian-listed luxury brand specialising in extreme winter outerwear and whose equity has significantly cheapened over the last 5 years. In the coming weeks, we will publish a white paper analysis on the holding and host a conference call event.

PERFORMANCE



GA-COURTENAY SPECIAL SITUATIONS FUND PERFORMANCE

Fund Performance by Year	2019 (3m)	2020	2021	2022	YTD 2023	ITD	Annualised
GA-Courtenay Special Situations Fund (USD I)	+9.1%	+42.8%	+24.4%	-12.8%	+3.3%	+74.7%	+14.5%

Fund Performance by Month (YTD)	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	YTD
GA-Courtenay Special Situations Fund (USD I)	+7.6%	-3.2%	-5.4%	+0.6%	-6.6%	-4.1%	1.0%	-2.5%	-2.4%	-2.0%	+23.2%	+3.3%

The performance of the GA-Courtenay Special Situations Fund is based on the USD I share class.

Equity investments

Long term equities	90.8% of NAV
Long term equity holdings	
Pershing Square Holdings	9.43%
Lindt	9.36%
Formula One	9.24%
Canada Goose	8.40%
Arcos Dorados (McDonald's LatAm)	4.76%
Coca-Cola Co	4.63%
Mondelez	4.60%
McDonald's Corporation	4.59%
Berkshire Hathaway	4.56%
Apple	4.47%
Liberty Broadband	4.42%
A.G. Barr	4.39%
Charter Communications	4.39%
Comcast	3.93%
Coca-Cola Andina	3.85%
Hershey	3.57%
Liberty Live	2.20%
Long equities position count	17

Yield-to-maturity securities

Merger arbitrages	13.6% of NAV
Merger arbitrages	
Intervest Offices & Warehouses	2.60%
Gresham House	2.58%
Lucas Bols	2.53%
OnTheMarket plc	1.99%
Lithium Power International	1.79%
Estia Health Limited	1.79%
MHM Automation Limited	0.36%
Patriot Transportation Holding, Inc.	0.00%
Yield creation securities position count	8

Special opportunites

Special Opportunities	0.0% of NAV
Pershing Square SPARC Holding Warrants	0.00%
(SSF owns rights to 774,570 stock units upon re-distribution)	

Gross and net exposure summary

Gross exposure - total fund (% of NAV)	104.5%
Equity investments gross exposure	90.8%
Merger arbitrages gross exposure	13.6%
Equity usage	**97.6%**
Equity investments	90.8%
Merger arbitrages	6.8%
Net exposure - total fund (% of NAV)	**90.8%**
Equity investments net exposure	90.8%
Merger arbitrages (beta est)	0.0%

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FUND MANAGER COMMENTARY

Dear investors,

November delivered a pleasing improvement in the fund's performance trajectory, and which I believe is indicative as to the continuing promise from the fund's current holdings, strategy design, as well as the orientation used for the selection of each new opportunity.

As I mentioned in the October letter, the enhancements to our approach over the recent period should result in a stronger path for the fund over time, augmenting that which remains the competitive track record of the fund since inception, as per Figure 1.

Figure 1: The net annualised return of the GA-Courtenay Special Situations Fund from its inception date at 18th October 2019 ranks the fund no.3 of the 567 UCITS hedge funds listed on the Kepler Absolute Hedge database over the like-for-like time period[1]
(the top 25 funds are listed in the figure)

		Annualised return since Oct 18th 2019
1	Seahawk Equity Long Short Fund	20.8%
2	MontLake Cooper Creek Partners North America Long Short Equity	17.5%
3	GA-Courtenay Special Situations Fund	14.5%
4	Lumyna - Merrill Lynch MLCX Commodity Beta Fund	13.8%
5	Liontrust GF Tortoise Fund	13.5%
6	WS Lancaster Absolute Return	12.9%
7	Argonaut Absolute Return	12.8%
8	Prosper Stars & Stripes	11.5%
9	Liontrust GF European Strategic Equity	11.4%
10	GAM Star Global Rates	11.1%
11	Graham Macro UCITS	10.2%
12	Dalton Asia Pacific UCITS	10.1%
13	Lumyna - Merrill Lynch MLCX Commodity Alpha Fund	9.9%
14	Boston Partners Global Long/Short	9.9%
15	TM Tellworth UK Select	9.5%
16	Andurand Fund	9.5%
17	Ardtur European Focus Absolute Return	9.4%
18	AQR Systematic Total Return UCITS Fund	9.4%
19	BlackRock Asia Pacific Diversified Equity Absolute Return	9.3%
20	InRIS Parus	9.2%
21	Nomura Fixed Income Risk Premia	9.0%
22	UBS Global Equity Long-Short Fund	9.0%
23	Montlake Tosca UCITS	8.9%
24	Hadron Alpha Select UCITS	8.7%
25	LO Funds - Commodity Risk Premia	8.7%

The critical point is that we retain all the advantages that resulted in our strongest years, but have rejected those variables that we have learnt can handicap our results.

Simplistically, whilst we have increased the *average conservatism* of our approach we have not diluted our willingness to scale our core "perfect pitch" holdings.

As was the case with Hotel Chocolat, when we find the extremely rare opportunity that we believe is exceptional, we scale to the maximum UCITS allowance. As such the fund's method of operation is *aggressive conservative*: conservative in waiting for the perfect pitch, aggressive when we find it.

The fund's result for November, which was also the strongest month in the history of the fund, combined with a glance at the fund's current list of holdings, reveals the continuing potential in our approach.

In our October webinar Five Stocks for Five Years, a replay of which is available on the fund's website[2], I detailed the structure of the fund's allocation mix. We focus on high quality compounding equities, which form the bulk of the fund's capital, and combine this with concentrated exposure to "perfect pitch" investments which are rare. This philosophy underpins both our long-term equity investment allocations and our merger arbitrage allocations.

The output is that the fund's performance is driven by a mix of inputs. We have a robust series of high quality equities that underpin what should be a steady return "engine" possessed by the fund. And this return engine is accreted, over time, by instances of perfect pitch allocations pricing more appropriately, and likely to be higher amplitude share price moves.

With regard to the fund's current positions, our high quality compounding equity holdings include for example McDonald's, Berkshire Hathaway, Lindt, and currently our entire merger arbitrage book.

However, it should be noted that the identification of an allocation as a high quality compounder is not necessarily a statement that return will be only moderate. A closer inspection of the equities we hold in this category in each case reveals that we possess a differentiated understanding.

For example in the case of McDonald's the digitisation of the fast food industry is leading to winner-takes-all economics in favour of the incumbent with the greatest geographic density network effect. That McDonald's has now begun raising the royalty percentages charged to franchisees by 25%[3], the first raising of royalties in 30 years, is the early stage reveal of the economic shift occurring.

In the case of the second example, Berkshire Hathaway, the company's earnings and capital resources have become so vast that they no longer allow management to intelligently reinvest all of the company's earnings[4]. This is combined with a structural feature of the company that leads to a permanent discounting of its valuation: not only from the so-called conglomerate discount, but because an accounting quirk results in Berkshire Hathaway understating its earnings – its reported earnings only include the dividends from its vast stock portfolio, rather than Berkshire Hathaway's share of the earnings of these stock holdings[5].

Adrian Courtenay is the Fund Manager of the GA-Courtenay Special Situations Fund, established in 2019. Prior to Green Ash Partners, Adrian oversaw the fund at Odey Asset Management. Previously, Adrian was a Vice President in the Special Situations Group at D.E. Shaw & Co.

Adrian, who is also a recognised speaker at Sohn investment conferences, has completed the Chartered Financial Analyst Program and is a graduate of Oriel College, Oxford, where he graduated with a 1st class MA and was a scholar.

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FUND MANAGER COMMENTARY

When a company finds itself in this rare position: a growing and vast capital surplus *combined with* a structural reason for a persistently discounted equity, massive share repurchases become inevitable under rational owner-management. Such share repurchases, as Berkshire Hathaway now consistently conducts[6], accrete per share earnings growth well beyond underlying business growth.

In the third example of a high quality compounding equity held by the fund, Lindt, again, our labelling of the equity as a high quality compounder is not a statement that the return that we achieve from the investment will only be moderate.

Simplistically, Lindt's equity trades with a cashflow yield of c. 3%, however, Lindt is both a premium brand and healthy company, gaining market share across all regions, and if we think of the company (in our analysis correctly) as the "Ferrari of chocolate", then a premium valuation is fair due to the durable nature of its attractive and robust long-term economics.

However, and as we detailed in our August 2023 white paper "Bars on Cocoa"[7], the premium nature of Lindt's product and brand allows the company to increase prices as the cocoa price rises. The white paper also disclosed why cocoa price inflation may continue to be relatively steep – the cocoa price hit a new 45 year high in November – as a result of tariffs which have been imposed on any cocoa grown from deforested land. Consequently, per share profit growth at Lindt (dividends re-invested) in our view should considerably exceed its long-term average of 11% per annum to the extent that the higher cost of sustainable cocoa farming continues to have cocoa price inflation consequences.

A mistake that can be made by market participants, in seeking returns beyond that provided by high quality compounders, is to prioritise speculative contentions relating to business growth, or the allocation to deeply discounted valuations, *above* those characteristics that define the reasonably priced high quality allocation. This is something we will not do.

As such – when we identify a situation as meeting our "perfect pitch" criteria, it will be a situation, as Hotel Chocolat was, matching or exceeding the reasonable pricing and quality of our high quality compounders, yet also possessing usually high value growth or discounted attributes *in addition rather than in substitution*. Our lack of willingness to sacrifice on the reasonable pricing or quality of business or arbitrage criteria results in the perfect pitch opportunity being extremely rare (in the arbitrage case the perfect pitch is the competitive bidding situation that remains at a discount to an already binding offer).

Importantly, our discipline in this regard also means that we can accrete the returns of the fund – when we isolate perfect pitch opportunities – without degrading the risk profile of the fund. This is the critical difference between our approach and that of many other so called "value investors".

The fund's current perfect pitch allocations were reviewed in our October webinar Five Stocks for Five Years and include Formula One (also subject to a separate webinar in November, a replay of which is available on the fund's website[8]), US cable names Charter and Comcast, and Pershing Square Holdings including the associated warrants from Pershing Square SPARC Holdings.

As such, whilst the headline development in November from Hotel Chocolat was pleasing, it was not as material a positive as it may appear – in our contention the robustness of our analysis led to a high probability of comparable accretion over time, and potentially higher accretion, had different scenarios played out (the acquirer Mars no doubt shares this longer-term hypothesis with regard to the company).

Instead, I would point to the identification of and allocation to a new opportunity, Canada Goose, a Canadian-listed luxury brand specialising in extreme winter outerwear, as the highly promising development in November. We think it is likely that the position is in due course categorised within our perfect pitch allocation group – a statement we will only be able to make very rarely.

In the coming weeks, our white paper will be published on Canada Goose, whose equity has significantly cheapened over the last 5 years, and a conference call event will also be hosted.

Canada Goose listed on the markets in 2017 and has a strong track record of both revenue growth and unbroken profitability[9]. However, the company became overlooked by market participants, with both its dominant leadership position misunderstood and scepticism implied with regard to the company's publicly disclosed business plan.

The two variables are interconnected: it is the company's product and market leadership that allows the penetration of the new geographic regions that are the foundation of the business

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FUND MANAGER COMMENTARY

plan. And as such, a deep dive research analysis on the product and market leadership position of Canada Goose, of the type we have undertaken, is necessary to understand that the business plan's robustness is high.

In the context of Canada Goose's valuation, it is notable that the share price of the company is now more than 10% below the price of its 2017 initial public offering, and more than 80% below its share price in 2019.

Canada Goose is owner-managed, and its CEO has an exceptional long-term record growing the business from just C$2m of revenue in 2001 to C$150m in 2014, to C$1.3bn this year, and thereon to a target of C$3bn by 2028[10]. Since November 2022, when the company's share price was almost double the current level, Canada Goose has been conducting share buyback programs[11].

The consensus PE this fiscal year (year end is March 2024) is now just 14x, and assuming the inputs of the business plan the PE cheapens to 8x in the 12 months following[12]. By March 2027, the year before the business plan completes, our analysis outputs the company's net cash position approaching its current C$1.5bn market capitalisation[13]. In the year to March 2028, upon completion of the business plan, Canada Goose targets operating profits of C$900m[14].

The attractive pricing of our allocation also benefits from the fund taking advantage of the short-termism of others. In early November Canada Goose lowered its earnings guidance for the current fiscal year due in part to an unseasonably warm September. Naturally, Canada Goose is a business that is positively impacted by cold weather. However, since November there has been a record breaking global cold snap, with temperatures running 10-20 degrees below average in much of the United States[15], and, in Europe, heavy snow sparking chaos with flights cancelled in Germany and Switzerland, and avalanche warnings in Austria[16].

As such, it is not inconceivable that the earnings downgrade from Canada Goose was premature. I look forward to providing a full update to unit holders on the Canada Goose position over the coming weeks.

In conclusion, my view is that the outlook for the fund remains strong. However, it is instructive to consider why a statement in this regard should have reasonable accuracy.

A fund manager cannot per se directly control the results of an investment strategy. Under the fund manager's direct control is however the strategy design, as well as the orientation used for the selection of each individual opportunity.

I would put forward our strategy design as *orthodox unorthodox*. Orthodox because the fund is operated – twinning long term equity investments with merger arbitrages – in a manner similar to both Ben Graham's Graham-Newman funds and Warren Buffett's Buffett Partnership funds. However, the approach used is also unorthodox, in that it rejects the majority, albeit not all, of modern hedge fund operating methods. Very few funds today operate with our design. Nevertheless, our strategy design is the aspect of our path that I have deliberately, informed by experience, chosen, and in my contention it is this choice of design that leads to a far higher probability of stronger investment outcomes.

Also under the control of the fund manager is the orientation of the criteria that are demanded for a new investment allocation to take place. By restricting our allocations to high quality opportunities the fund is targeting, ultimately, high predictive accuracy of the economic trajectory of the business in question and a business that has the ability to achieve durably above average returns on its own capital.

In addition, the orientation used for stock selection is to assess value by prioritising the cash return from the investment relative to the cash outlay necessary to allocate to the investment. This methodology is a natural approach for merger arbitrage, yet it is less commonly used for long-term equity investing. It is, nevertheless, the only rational thought process to use in either buying, or selling, securities.

My contention is that the combination of this strategy design and allocation orientation leads to *productive work*. That is, work where there is a well above average relationship between the proportionality of the industriousness input and the ultimate economic output.

As such, and regarding our outlook, I remain very optimistic.

Adrian Courtenay

Footnotes

1. Source: Kepler Absolute Hedge [link], 2. GA-Courtenay Special Situations Fund webinar, Five Stocks for Five Years [link], 3. McDonald's plans to increase its U.S. royalty fees by 25% [link], 4. “Eventually, probably between ten and twenty years from now – Berkshire’s earnings and capital resources will reach a level that will not allow management to intelligently reinvest all of the company’s earnings.” Warren Buffett, Berkshire Hathaway shareholder letter 2014 [link], 5. Warren Buffett commentary on Berkshire Hathaway’s “look-through” earnings, Berkshire Hathaway shareholder letter 1990 [link], 6. Over the last seven years, Berkshire Hathaway has repurchased 12% of its shares, see Figure 22 [link], 7. GA-Courtenay Special Situations Fund white paper, “Bars on Cocoa” [link], 8. GA-Courtenay Special Situations Fund webinar, Formula One [link], 9. Source: Canada Goose IPO prospectus [link] and subsequent corporate disclosures [link], 10. Source: Canada Goose corporate disclosures [link], 11. Canada Goose Launches Share Repurchase Program, November 2022 [link], 12., 13., 14. Canada Goose Presents Its Updated Strategic Growth Plan and Five-Year Financial Outlook, February 2023 [link], GA-Courtenay research estimates, 15. All 50 US states feel the freeze Wednesday morning as some temperatures plunge to record-breaking cold, Fox Weather [link], 16. Flights are cancelled in Germany and Switzerland while avalanche warning hits Austria after snow sparks travel chaos on continent, Mail Online [link]