

HENRY SPAIN UK VALUE PORTFOLIO

Target Market: Retail Clients

The fund seeks to own stakes in established companies quoted on UK stock markets, in particular investing in neglected, under-priced shares. Following thorough analysis of the underlying business the shares are only bought when the market price is significantly less than intrinsic value, thus providing reassurance on the downside risk.

Bridges are not designed merely to just withstand adverse circumstances but have extra strength built-in; similarly shares should not be chosen that are just safe enough, a good margin of safety is required.



It is important to examine mistakes – there is much to learn from such an exercise.

Let's start off with the macro-picture. A year or more ago I positioned the portfolio on the basis that we were headed for dangerous times when shares, American in particular, were already expensive. As 2025 wore on bubbles became increasingly apparent, ranging from AI-stocks through to private credit, crypto and gold.

My mandate is to stick to a UK-centric value shares approach – an area of relatively undervalued assets. To be even more cautious, gradually 20% of the portfolio was moved into cash and UK gilts. The thinking being that in a recession following the popping of bubbles, government bonds will pay a good income and might rise in price if interest rate fall.

Also, having cash or near-cash available in the next recession might be very handy for picking up bargains – be “greedy when others are fearful” mode.

Of course, with hindsight I should have joined in the fun, ignoring growing US government deficits and borrowing, ignoring attacks on the world trading system and on central bank independence, and piled into US growth stocks, or even UK growth shares.

I should have remembered what happened in the late 1990s when one rational thinker after another stood up and said that the market was being irrationally exuberant. They took positions on the assumption that irrationality would soon end and normality restored.

Then the market promptly became even more irrational, pushing up prices indiscriminately in FOMO madness. Many of the rational ones lost their fund management jobs in 1998/99 as they under-performed. With 20/20 rear-view vision they should have jumped on the band wagon, sold out in March 2000, and bought in bulk again as the recession took hold.

But, I can't do that. I have no way of knowing when the turn will occur – when the sound of bubbles popping will be deafening. My mandate is to buy cheap deep-value UK shares, and these types of shares are definitely not in vogue.

Zytronic, once a proud British company, manufacturing the best touch screens in the world, exported 96% of what its Newcastle factory workers produced. So what could go wrong?

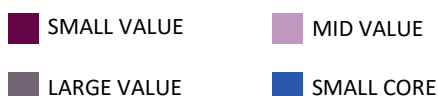
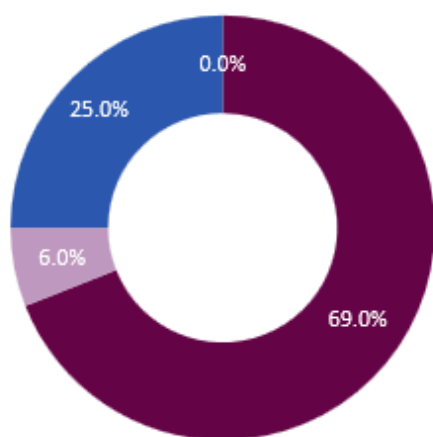
Well, it turns out that many customers want “good-enough” rather than the best, especially when they come half the price of Zytronic's screens. The Chinese market were ready and willing to supplying into the “good-enough” market at the dawn of Covid.

Furthermore, most of Zytronic's customers were in the Far East, and they started to think “why are we buying from the UK when we can buy locally, and cheaper”. Also the leadership of Zytronic were very slow to move to alternatives to their capacitive resistive touch technology.

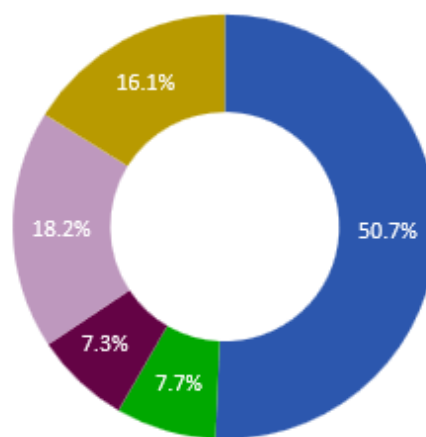
All of this was hidden from investors. It was a mystery to us as to why customers were not rushing back to Zytronic after the lockdowns.

Continued overleaf...

MARKET CAPITALISATION



INDUSTRY SECTOR



Continued...

We were led to believe it was because sales teams couldn't attend trade shows in lockdown, and once they did attend again there was an 18-month lag between the show order and a completed sale.

All is not lost at Zytronic because there always was the backup of the asset base. It never had debt, and held plenty of cash and property. Now that all other assets have been sold the directors tell us that there is 48p – 58p per share available to send out to shareholders once the property is sold (they say such a sale is imminent) - much more than the 38p shown in your statement.

Turning to Portmeirion: It has been hit, not only by the low consumer confidence in the UK, but by difficulties trading in the USA while struggling to import from Asia.

Brand names such as Spode, Portmeirion, Wrendale and Royal Worcester still have power, but the countervailing force of a cost of living crisis has reduced spending on such discretionary items. Portmeirion's shares now trade at only three times owner earnings when measured as an average over the last decade.

Also in the portfolio are a bunch of companies that held so many property assets that net asset value was worth more than double market capitalisation. One of these has already worked out:

Hammerson has risen nicely and pays a good dividend. But the rest are still stuck in the doldrums. The assets are still there. They are still profitable and have modest debts. But Mr Market has not re-rated their shares. While they continue to sell at half price I will continue to hold.

One day value will be recognised by Mr Market.

On a more positive note Smiths News has re-rated – up 23% in the last year. Even now it trades on only seven times earnings. And those annual profits after tax have consistently been in the £23m - £26m range. It is throwing off so much cash that it paid dividends of 8.55p last year. That is a 12% dividend yield on its 69p shares. With the prospect of future profits continuing to land in the same range, and for high dividends to be paid, Smiths News is a strong hold.

Holding onto to Orchard Funding Group while the dominant shareholder mused aloud about taking it private a year or so ago has paid off. He decided against the idea, and the shares are up 125% since. On profits after tax of £3m last year it has a market capitalisation of £13m. The business has a very profitable and sustainable niche.

Springfield Properties shares have more than doubled since they were bought in 2023 as this Scottish housebuilder exploits its knowledge-base and building plots in the Highlands renewable energy boom (alongside conventional estates, it builds houses to rent for four years to workers flooding the area. These will be sold afterwards). Despite the share price rise it still hasn't reach full value.

So, despite mistakes – and many lessons - there is still plenty of value in the shares held in the MPS.

PORTFOLIO PERFORMANCE

Cumulative Performance

	Henry Spain UK Value Fund	CBOE UK All Companies PR
One Year (01/01/2025—31/12/2025)	5.32%	20.10%
Since Inception (10/01/23 to 31/12/25)	-16.20%	27.36%

Discrete Annual Performance

	Henry Spain UK Value Fund	CBOE UK All Companies PR
01/01/2024—31/12/2024	-4.53%	5.94%
01/01/2025—31/12/2025	5.32%	20.10%

UNDERSTANDING OUR INVESTMENT PHILOSOPHY

Stock investments are not ticker symbols they are a share of a real business. Many people choose to watch their portfolio on a daily basis and change things regularly, we believe that this can lead to mistakes and is likely to lead to higher costs. As long as the fundamentals remain solid once you have bought a great business the time to sell is rarely ever.

Our preferred approach is to buy businesses with a proven track record of growing their earnings successfully over a long period of time, and whose products are likely to be required in twenty-five years. Companies that succeed in increasing the price of their products above inflation, can give us the basis for a successful long-term holding.

Be objective and dispassionate. We are conscious of behaviour that drives poor investment decisions, which we believe helps to give us an edge over many other investors. While stock markets are a useful reference point they are not our guide to the intrinsic value of a business.

As long as our facts and reasoning are right we are content to go against the herd.

We believe that advantages can be gained by just being rational and endeavouring to avoid mistakes. We believe in only investing in what we can understand and by doing so increases the likelihood of achieving the best results.

Pay attention to risk. Most investors are primarily focused towards returns – how much they can make and pay little attention to risk – how much they can lose. The pay-off from a risk-averse long term portfolio orientation is just that, long-term. Selecting businesses with inherent competitive advantages does not always result in short term gains, but overall it should significantly reduce the risk of an inadequate rate of return.

Never invest short term or emergency money. Prices will vary and any investor should be prepared to weather a downturn. Portfolios should be matched to goals and objectives, not the stock market as a whole.

Henry Spain Investment Services

49 High Street
Market Harborough
Leicestershire
LE16 7AF
+44 (0)1858 898023

3 Church Passage
Oakham
Rutland
LE15 6DR
+44 (0)1572 897510

info@henryspain.co.uk

www.henryspain.co.uk



GLEN ARNOLD
INVESTMENT MANAGER

“Most investors are primarily oriented towards return - how much they can make and pay little attention to risk - how much they can lose. My chief concern is the quality of the businesses we buy because when I get that right, returns have been more than satisfactory”.

Important Information:

Henry Spain Investment Services ('Henry Spain') brings the following important information to your attention, which you should read closely. If you have any questions on the below please ask your Henry Spain Wealth Manager:

At Henry Spain we hold concentrated positions in companies in which we have the highest degree of conviction. Capital is always allocated to our best ideas while at the same time seeking to avoid outcomes that would result in a permanent loss of capital. This means that upside return benefits and downside risks for the portfolio may be more affected by the returns and market sentiment towards individual companies than in more widely diversified portfolios, which is sometimes referred to as greater 'volatility'.

Where we hold positions for our clients which in aggregate are more than 10% of the shares in issue of a company, our concentration may mean that it will require us more time to sell and realise cash in respect of positions we decide to liquidate. This means that if you were to instruct the liquidation of your entire portfolio, it might take longer to realise cash in respect of such positions than others in your portfolio and that the price might be affected by that liquidation process.

At times, portfolios may have exposure to smaller companies including stocks listed on the Alternative Investment Market (AIM) which are less liquid. Upside returns and downside risks may be greater than those of larger companies. In times of market or company-specific stress, it may be harder to trade stocks than at other times. This includes the possibility that a company (no matter the size) or fund may have had its trading suspended by exchanges or other authorities, or subject to lock up. This means that we may not be able to liquidate a position in part or in whole in order to release cash into your portfolio and/or meet a redemption request due to circumstances beyond our control. Under certain circumstances it may be necessary to transfer an existing position out to you or an alternate provider.

Henry Spain may invest its own money in stocks which are also part of client portfolio holdings. This may include having a material interest in such companies. We will always ensure that client trades are prioritised over any Henry Spain trades. The Personal Dealing Supervision Team acts to ensure that clients will not be disadvantaged and are fairly treated and adheres to our Conflicts of Interest Policy and Aggregation and Allocation Policy. Details of positions will change over time but should be assumed to be any position in client portfolios. Details are available on request, as are details of our conflicts of interest handling process.

We may be appointed as a Board member (such as a Non-Executive Director) in smaller companies where client interest is significant and we believe that it is in the best interests of shareholders and clients for us to be able to exert influence on company management in order to target better returns for shareholders and our clients. A Board member may have access to non-public price sensitive information from time to time. We and the underlying company typically manage this by stringent application of "closed periods" where we and company senior employees are only permitted to trade in specific open windows to ensure that trades are not placed in breach of any Market Abuse or comparable rules.

Risk Warnings:

Past performance is no guarantee of future results. Certain investments carry a higher degree of risk than others and are, therefore, unsuitable for some investors. The value of investments, and the income from them, can go down as well as up, and you may not recover the amount of your initial investment. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down.

Opinions constitute our judgement as of this date and are subject to change without warning. Neither Henry Spain nor any connected company accepts responsibility for any direct or indirect or on sequential loss suffered by you or any other person as a result of your acting, or deciding not to act, in reliance upon any information contained in this Leaflet.

Before contemplating any transaction, you should consider whether you require any advice from a financial adviser which we would be happy to provide. Tax benefits and allowances described in this Leaflet are based on current legislation and HM Revenue & Customs practice and depend on personal circumstances. These may change from time to time and are not guaranteed. This is a financial promotion.

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