

DowgateWealth

*A tailored approach*

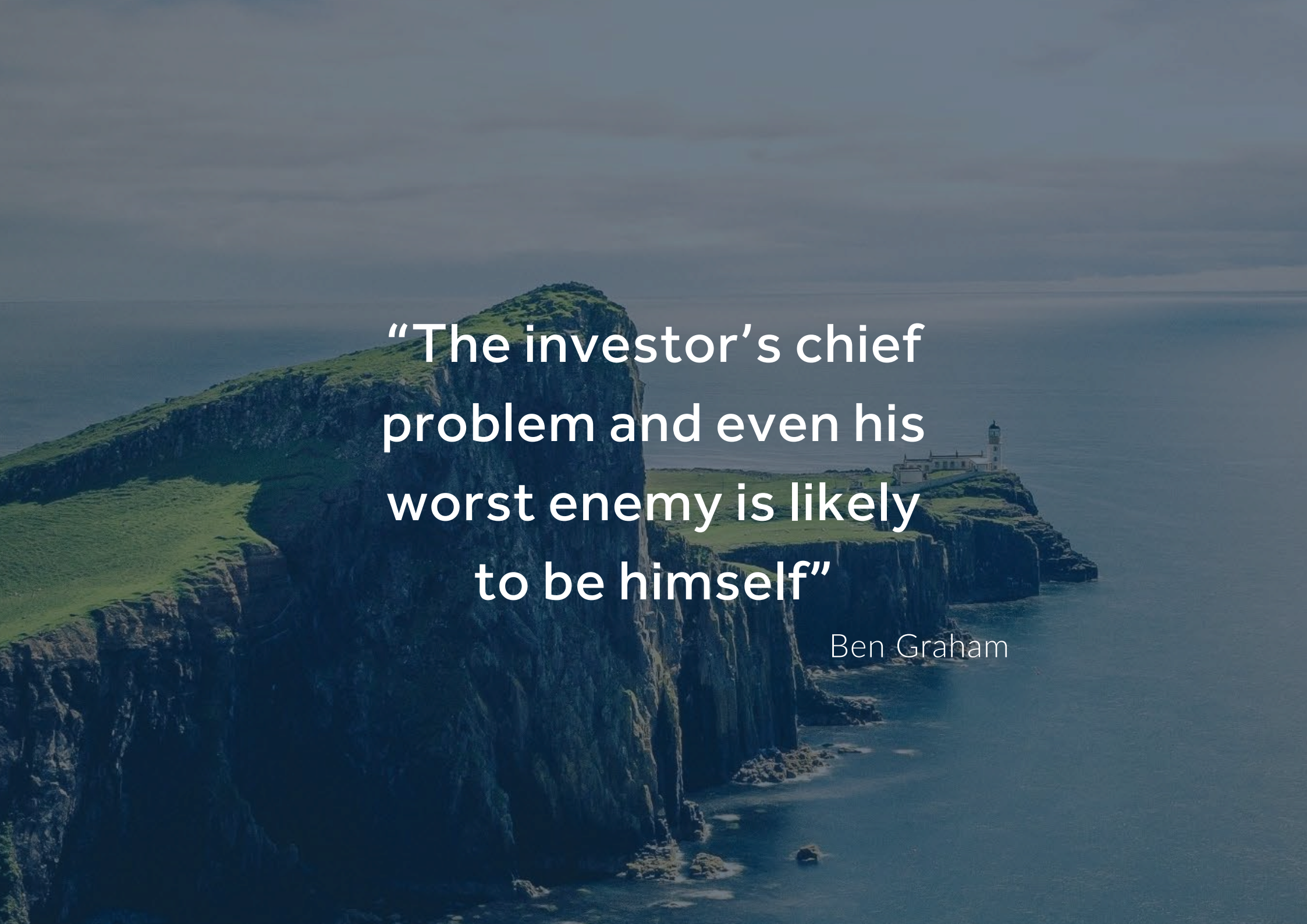
Cape Wrath



# SVS Dowgate Cape Wrath Focus Fund

---

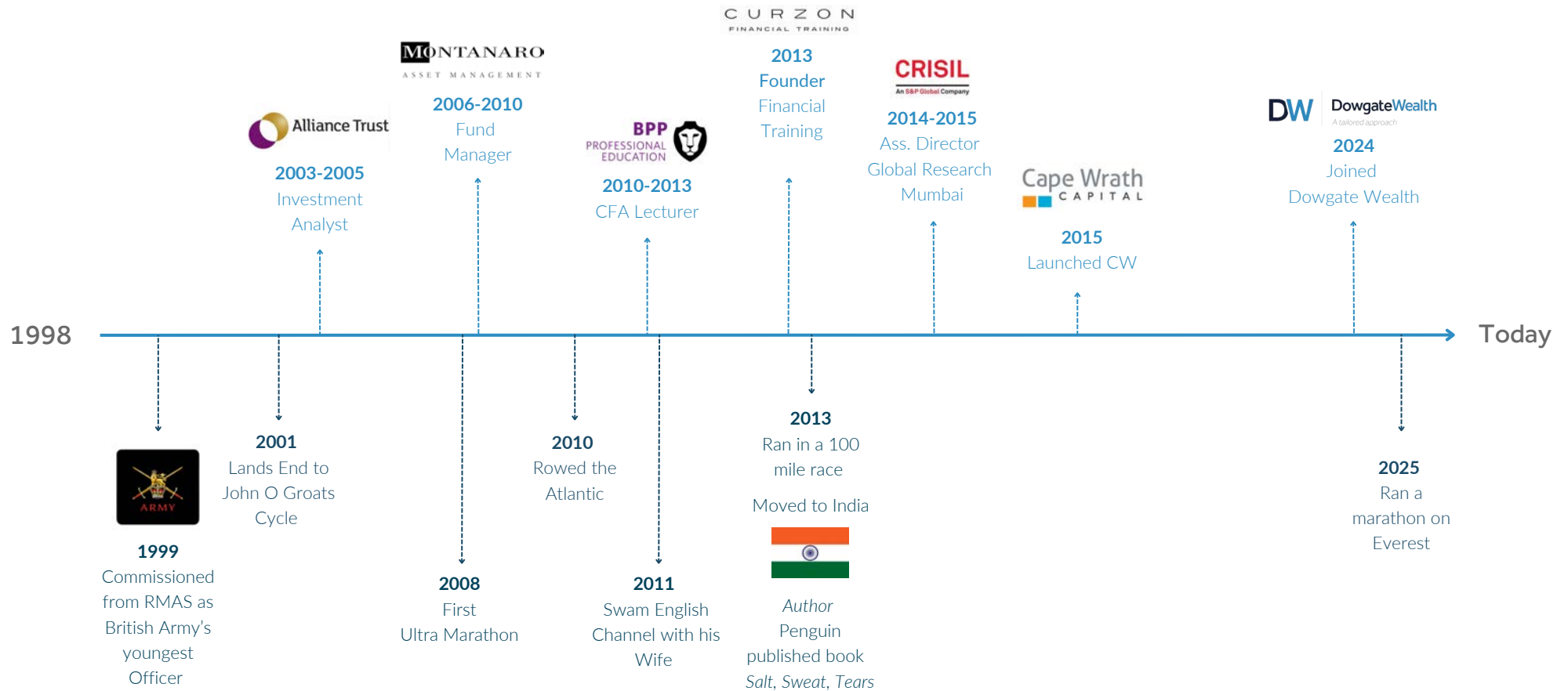
*Cape Wrath Lighthouse, North West Highlands  
Cape Hvarf - Norse Viking 'turning point'*

A dramatic coastal landscape featuring a prominent, dark, craggy cliff face on the left. The cliff is topped with a patch of green grass. In the distance, on a smaller cliff to the right, a white lighthouse with a dark top is visible. The sea is a deep blue, and the sky is a pale, overcast grey. The overall mood is somber and contemplative.

**“The investor’s chief  
problem and even his  
worst enemy is likely  
to be himself”**

Ben Graham

# Adam Rackley



*“Buffett talks about measuring success on either an ‘inner’ scorecard or an ‘outer’ scorecard. Personal values or social expectations. You show your hand when these two things pull in different directions. Following your conviction can mark you as contrarian. But really you're just using a different yardstick. Having the self-knowledge to act decisively in those moments when Mr. Market is screaming that you're wrong is a necessary trait of the behavioural value investor.”*

**Adam Rackley**

# Differentiated Value Strategy



## DIFFERENTIATED VALUE STRATEGY

- Target pockets of analytical and behavioural inefficiencies in the form of Capitulation Events and Narrative Shifts
- Analyse pricing anomalies amongst companies that are 'unloved' by the market



## HIGH CONVICTION DRIVES ALPHA

- 20 - 25 opportunities with the best risk / return asymmetry in the UK equity market
- Concentrated portfolio spread across diverse risk factors



## ALIGNMENT OF INTERESTS

- 30bp AMC + performance fee structure incentivises investment performance before asset gathering
- Capacity limits to protect performance
- Significant co-investment

Quality Growth



Deep Value

Philip Fisher

Terry Smith

Nick Train

Keith Ashworth Lord

Warren Buffet (Today)

Anthony Bolton

Gary Channon

Nick Kirrage

Warren Buffet (1965)

Ben Graham

Differentiated value strategy profiting from turning points in investors' analytical narratives and emotional journeys

## Analytical

- ▶▶▶ Weigh information differently, update views quicker and avoid recency and sample-size bias
- ▶▶▶ Anticipate changes in the market's interpretation of the facts

## Behavioural

- ▶▶▶ Auction-based price setting is efficient where there is diversity of opinion. At extremes of fear and greed, diversity collapses
- ▶▶▶ Bet against the crowd when the pull to conform is greatest

## Our Edge

### Narrative Shift

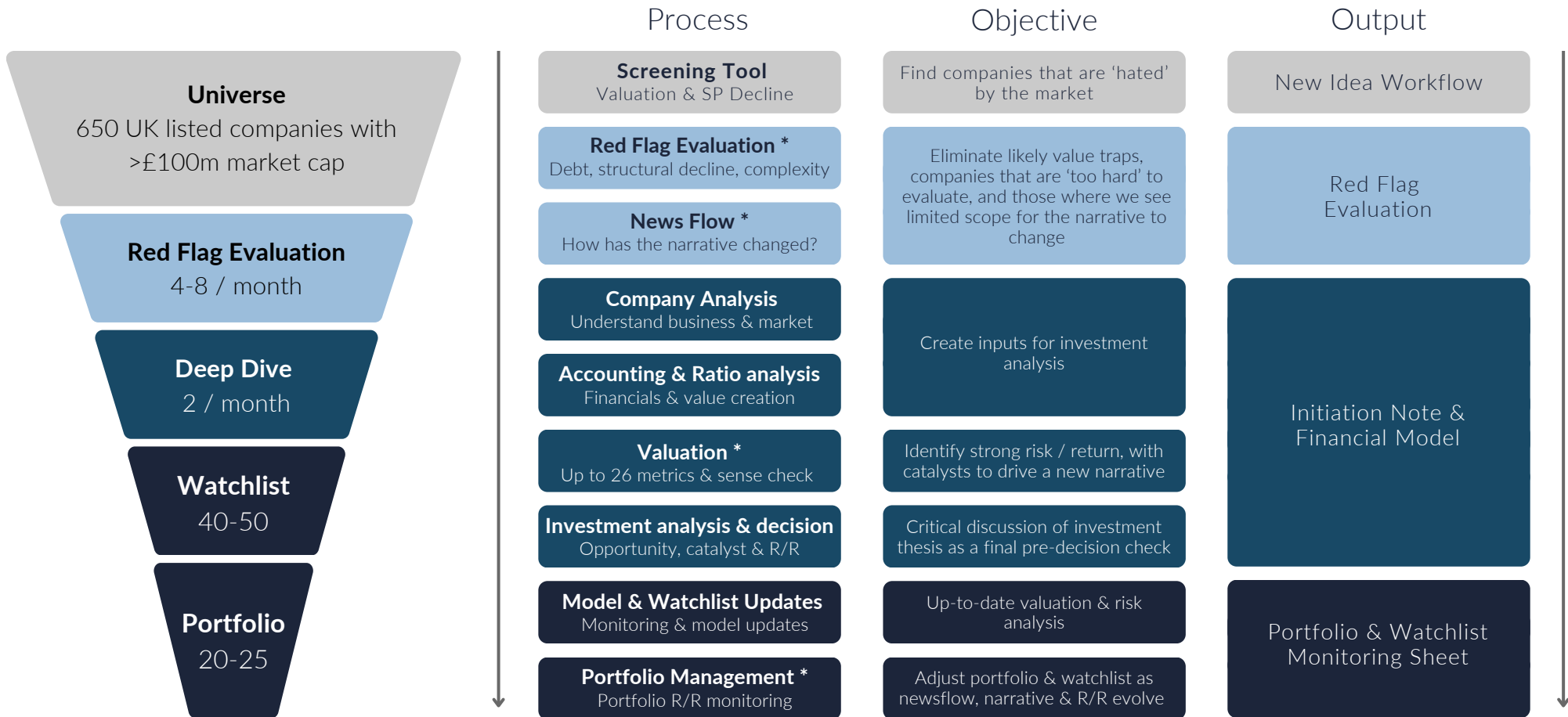
The market for a company's shares is a function of the diverse narratives created by investors, analysts and company management, with one narrative typically dominant. We look for situations where the dominant narrative could change materially

### Capitulation Event

We look for situations where existing holders are capitulating



# Investment Process



\*See Appendix for more details

# Portfolio Characteristics

## Analysis By Duration (Based on Exit Trades)

	6m	6m-12m	>12m
Hit Rate %	82%	61%	39%
Modified Hit Rate	4.4	1.6	0.6
Payoff Ratio	0.9	1.1	1.3
<b>Profit Factor</b>	<b>4.0</b>	<b>1.8</b>	<b>0.8</b>

Hit Rate % = # winning trades / # total trades | Modified Hit Rate = # winning trades / # losing trades  
 Payoff Ratio = average \$ gain on winning trades / average \$ loss on losing trades  
 Profit Factor = total \$ gain on winning trades / total \$ loss on losing trades = Mod. Hit Rate x Payoff Ratio

## Analysis of Multi-Episode (based on exited trades)

	1	2	3	4	All
Hit Rate %	54%	80%	100%	100%	61%
Modified Hit Rate	1.2	4	N/A	N/A	1.6
Payoff Ratio	0.7	0.8	N/A	N/A	0.8
<b>Profit Factor</b>	<b>0.9</b>	<b>3.4</b>	<b>N/A</b>	<b>N/A</b>	<b>1.3</b>

N/A: 100% Hit Rate in #3 and #4 episodes therefore Modified Hit Rate, Payoff & Profit Factor = ∞

Source: Dowgate Wealth 2025



Behavioural value returns targets short-term re-rating **NOT** long-term earnings growth



Trades held for **<6-months** tend to be more **profitable** on average but those held for >1-year are generally loss making



Manager is right **61%** of the time overall, increasing to **82%** on trades held <6-months



Strategy of averaging-in to stocks with negative momentum (Capitulation Events) means that average losses on losing bets are greater than average profits on winning bets



Increasing success in stocks held over multiple episodes, with **54%** Hit Rate in first episodes rising to **80%** in second episodes and **100%** in third and fourth episodes

# Case Study - NCC Group

NCC is an IT services business combining a high margin, mature escrow business and a low margin, growing cyber security business. By 2017, NCC had completed 24 acquisitions in 10 years

## Investment Thesis

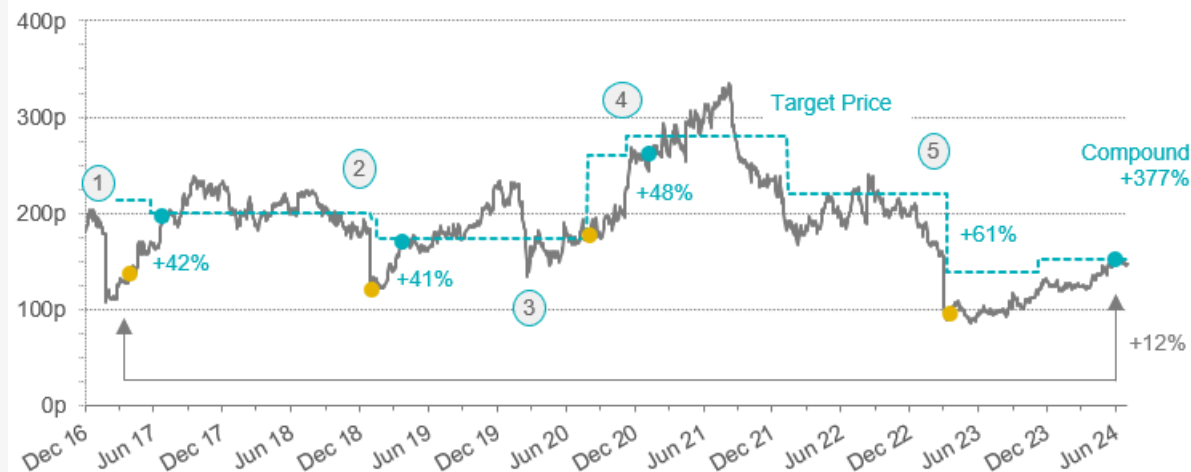
- Change of the long-standing CEO / Chairman team in 2017 led to a 'kitchen sink' and rebased expectations
- Well-regarded, cash generative business with exposure to structural growth markets creates opportunity to craft strong narrative

## Narrative Shift

The seven year period to 31 May 2023 saw c.10% decline in adjusted EPS, whilst various management teams and turnaround plans have driven volatility in investor expectations.

1. Profit warning and capital markets day cancelled
2. Slowdown in cyber business and turnaround strategy progressed slower than expected
3. COVID crash and recovery
4. Trading update ahead of expectations
5. Failure of Silicon Valley Bank and slowdown in North American tech sector led to a profit warning and further round of cost-cutting

Four episodes over seven years with a 26-month cumulative holding period / 377% compound return



Source: Refinitiv / Cape Wrath  
Past performance is not an indicator of future results

# Case Study - Gulf Marine Services

UAE-based owner and operator of thirteen self-propelled, self-erecting support vessels working with wind farms and offshore oil and gas platforms. Utilisation and day rates are cyclical. Since IPO in 2014, large vessel day rates have ranged between \$31,000 and \$100,000 per day

## Investment Thesis

- Capital cycle. Low investment in the sector and long lead times (2+ years) on new vessels, creating supply constraint and rising utilisation and day rates
- Asset values recovering following 2020 write-downs
- Equity market valuing assets lower than replacement value

## Narrative Shift

1. Rights issue and UK cornerstone investor since 135p IPO exits at 3p
2. Director purchases and new contract awards at significantly improved day rates
3. Increasing utilisation slow to translate into growth in day rates
4. Blended Kd ratchets down 340bp due to net leverage ratio falling below 4.0x
5. Rising day rates and utilisation drive earnings upgrades, but US vessel hit by Houthis in the Red Sea & Saudi Aramco capacity reduction trigger brief spike down
6. FY23 results show 63% EPS growth, with 31% net debt reduction facilitating a dividend policy
7. Major shareholder Seafox with 28.5% announces a sales via placing of 4% of share capital at 17p



Source: Refinitiv / Cape Wrath  
Past performance is not an indicator of future results

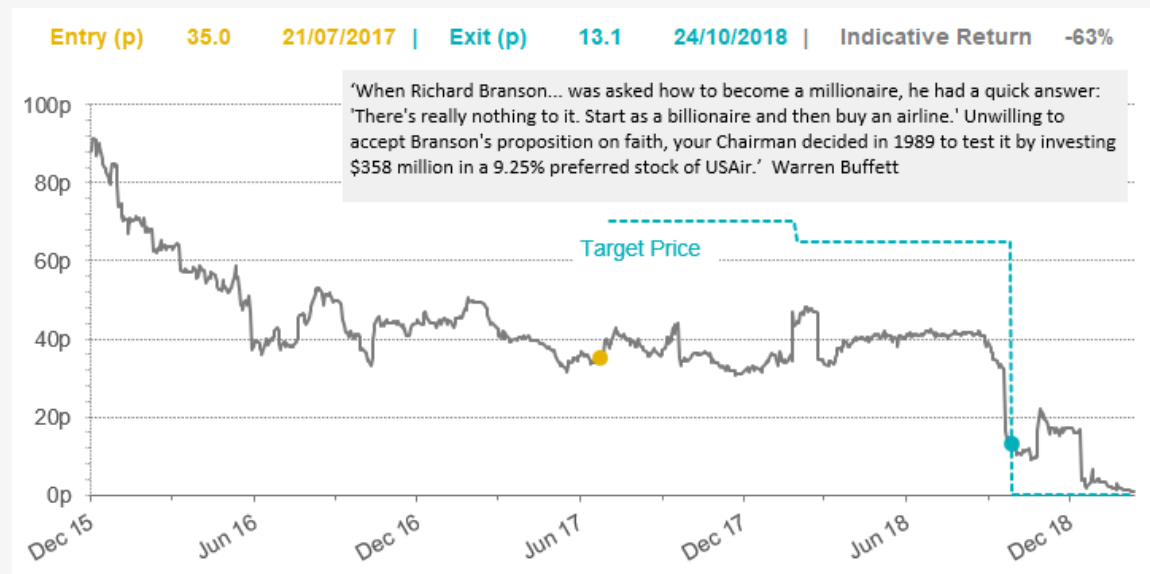
FLYB operated a fleet of regional aircraft, such as the 78 seat Q400, on low volume, primarily domestic routes

## Investment Thesis

- Capital cycle. Low investment in the sector and long lead times (2+ years) on new vessels, creating supply constraint and rising utilisation and day rates
- Strategy of reducing capacity to drive utilisation and operating efficiency. Clear visibility on returning aircrafts as their leases expire. In particular, seven out of nine E195s, a larger aircraft which FLYB could not operate profitably
- Successful execution led to load factor increasing from 69.6% at the time of investment to 86.6% at exit

## Narrative Shift

- Rising maintenance and fuel costs. Spot prices for jet fuel at our exit were around 50% higher than the hedged cost of the fuel that FLYB was burning when we made our investment.
- Notoriously bad industry economics, being capital intensive, low margin and subject to overcapacity and price competition, with high fixed costs and cyclical demand.
- Subsequent to our exit at 13p, FLYB was acquired for 1p in February 2019, and has since fallen into administration twice



Source: Refinitiv / Cape Wrath  
Past performance is not an indicator of future results

## Why Now..

- »» UK is cheap versus developed markets
- »» SmallCap is cheap versus LargeCap
- »» Value is cheap versus Growth

## User Experience..

- »» Short-term volatility is a feature of this strategy, it is to be expected

## Why Cape Wrath..

- »» Differentiated value strategy with a clear edge
- »» Disciplined **deep value** style exposure / negligible style drift
- »» Clear alignment of interest with capacity constraint, high co-investment and low cost
- »» Strong long-term performance\*



# Appendix

# Assistant Fund Manager



Anders Jegers, CFA

Assistant Fund Manager  
26 years industry  
experience



Anders grew up in Sweden and graduated from the University of Linköping with a MSc in Mechanical Engineering. After nine years at Electrolux some old friends convinced him in 1997 to join their stock brokerage, ABG Securities, which merged with Sundal Collier in 2001 to create the Nordic investment bank, ABG Sundal Collier. This was also the year Anders became partner.

After having spent almost 11 years on the sell-side, it was time for Anders to move to the buy-side. He joined Montanaro Asset Management 2008 as Senior Analyst where he became Head of Research in 2011, with responsibility for a team of nine investment analysts. The combination of Anders' interest in value investing and his entrepreneurial spirit, lead him join Cape Wrath Capital in 2016 to work with the founder Adam Rackley, who he got to know while at Montanaro Asset Management.

Anders values a lot that his career has taken him to experience different cultures by living abroad in Italy, Switzerland and the UK, and by travelling to several parts of the world. In addition to outdoor activities, Anders enjoys spending time with family and friends.

# Red Flag Evaluation

After screening for new ideas, we carry out a 'Red Flag Evaluation' (RFE) in order to distinguish value traps from genuine opportunities

## Common Red Flags

### Risk of permanent impairment of capital

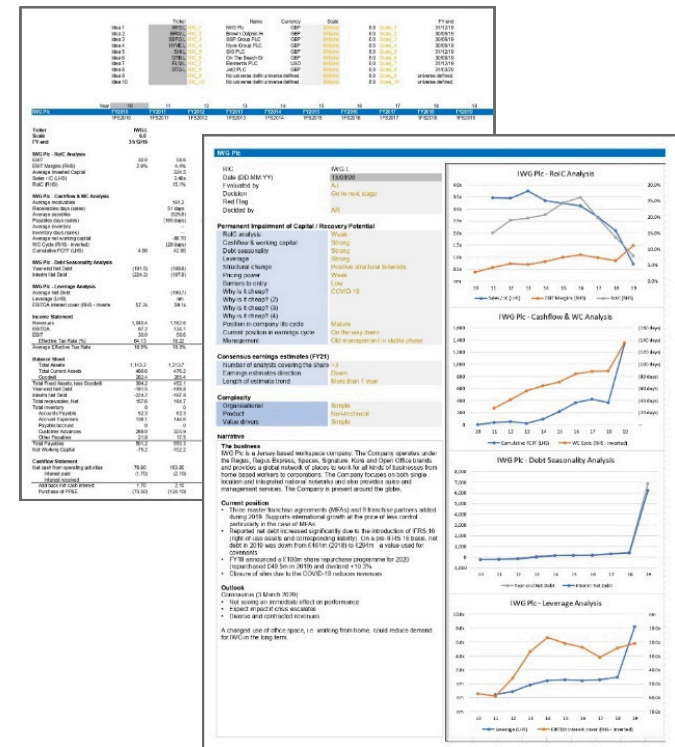
- » Structural decline, often as a result of innovation or changing consumer habits
- » Weak balance sheets. As well as bank debt, we consider pension deficits, negative working capital, covenants, and the impact of operating leverage, seasonality and cyclicity

### Thru-cycle value destruction

- » Businesses with returns below cost of capital often occupy a poor position in the supply chain or operate in a highly competitive market
- » Profitability is usually volatile, while strategies to create value through capital investment carry high execution risk

### Limited recovery potential

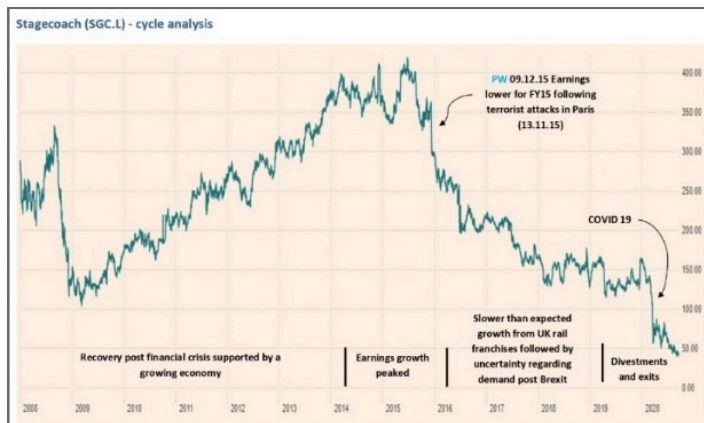
- » Is there potential for alternative narratives to drive a re-rating of the business? Or have recent profit warnings exposed fundamental issues with the business which are not going away?



Source: Cape Wrath / Refinitiv

Understand how the share price has been impacted by earnings events and narrative shifts

## Key drivers through the economic cycle



## Company Lifecycle

- »»» Phase 1 - Positive sentiment and premium valuation
- »»» Phase 2 - Deteriorating earnings quality, profit warnings, shareholder turnover
- »»» Phase 3 - New management, strategic review, accounting restatement
- »»» Phase 4 - Self-help and / or cyclical recovery drives earnings recovery

## Narrative Shifts

Analyse how key share price catalysts have changed the narrative over time. Understand the extent to which expectations have been reset and what is now 'in the price'



Source: Cape Wrath / Refinitiv

Our valuation approach reflects the fact that investing is a blend of science and intuition

## Peers

Model-generated peer group is narrowed down to relevant selection

## Relative valuation charts & tables

P/E, EV/EBIT and P/BV versus history, peer group and market

## Earnings estimates

Consensus, specific analyst / custom consensus and CWC house forecasts

## Implied relative valuations

Range of estimates applied to range of relative valuation multiples

## DCF valuation

CWC earnings forecast model used to create a DCF

## Implied Valuation Matrix

Up to 26 metrics used to build a model Implied Valuation (IV)



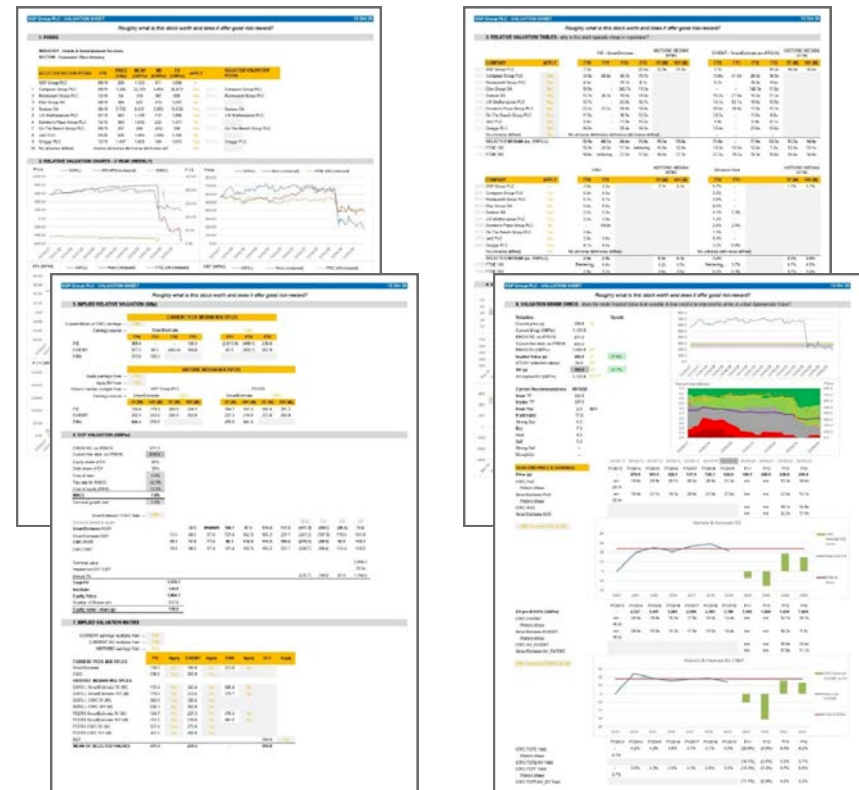
## SENSE CHECK

What are the implications of this valuation?

What is our range of uncertainty?

Visualisation tools to get a sense of how the valuation 'looks'

Subject to the sense-check, the model IV is adjusted to arrive at our Approximate Value (AV)



Source: Cape Wrath / Refinitiv

## Position portfolio and high-grade watchlist as company news flow and risk / reward evolve

### Entry Strategy

- Identify Capitulation Events
- Weigh potential for future positive and negative catalysts against upside to determine what is already 'in the price'
- Compare company fundamentals and investor expectations to determine asymmetry

### Position Sizing

- Position size of 3.0% - 6.5% (book value) depending on conviction and aggregate portfolio risk exposure
- Build position in two tranches, except in cases where asymmetry is high and timing is critical

### Exit Strategy

- Trim after period of strong performance or to maintain aggregate portfolio risk exposure within acceptable limits
- Exit at Approximate Value or in the case of a better opportunity or broken thesis

### Risk Management

- How much systematic versus stock-specific risk are we taking in individual positions?
- What is our aggregate exposure to systematic risk factors when individual positions are stacked together?
- How do individual catalysts / key drivers look when aggregated?

### High-Grade Watchlist

- The UK equity universe competes for space on our 50 stock Watchlist. The Portfolio consists of the top 20 ideas from the Watchlist
- Existing aggregate exposure to risks and key drivers help to inform how the Watchlist is shaped

*This document has been prepared by Dowgate Wealth Limited (“DGW”). Dowgate Wealth Ltd, registered in England number 12221221, is authorised and regulated by the Financial Conduct Authority and is a member of the London Stock Exchange. Registered address: 15 Fetter Lane, London, EC4A 1BW. All data has been sourced by DGW. Investors should carefully consider the investment objectives and risks as well as charges and expenses of the fund before investing. The prospectus contains this and other information about the fund. If you’re unsure of the suitability of an investment please seek advice. Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. The value of investments, and any income from them, can fall as well as rise so you could get back less than you invest. Past performance is not a reliable indicator of current or future performance. We believe the information provided here is reliable but should not be assumed to be accurate or complete.*

---

**DW** | **DowgateWealth**

**SVS Dowgate Cape Wrath  
Focus Fund**



[jackson.wray@dowgate.co.uk](mailto:jackson.wray@dowgate.co.uk)



15 Fetter Lane, London, EC4A 1BW



+44 (0)20 3416 9143



[www.dowgatewealth.co.uk](http://www.dowgatewealth.co.uk)

Please be advised that this is a Financial Promotion for distribution to Retail clients.

---

Dowgate Wealth Ltd, registered in England number 12221221, is authorised and regulated by the Financial Conduct Authority and is a member of the London Stock Exchange.

Registered address: 15 Fetter Lane, London, EC4A 1BW

