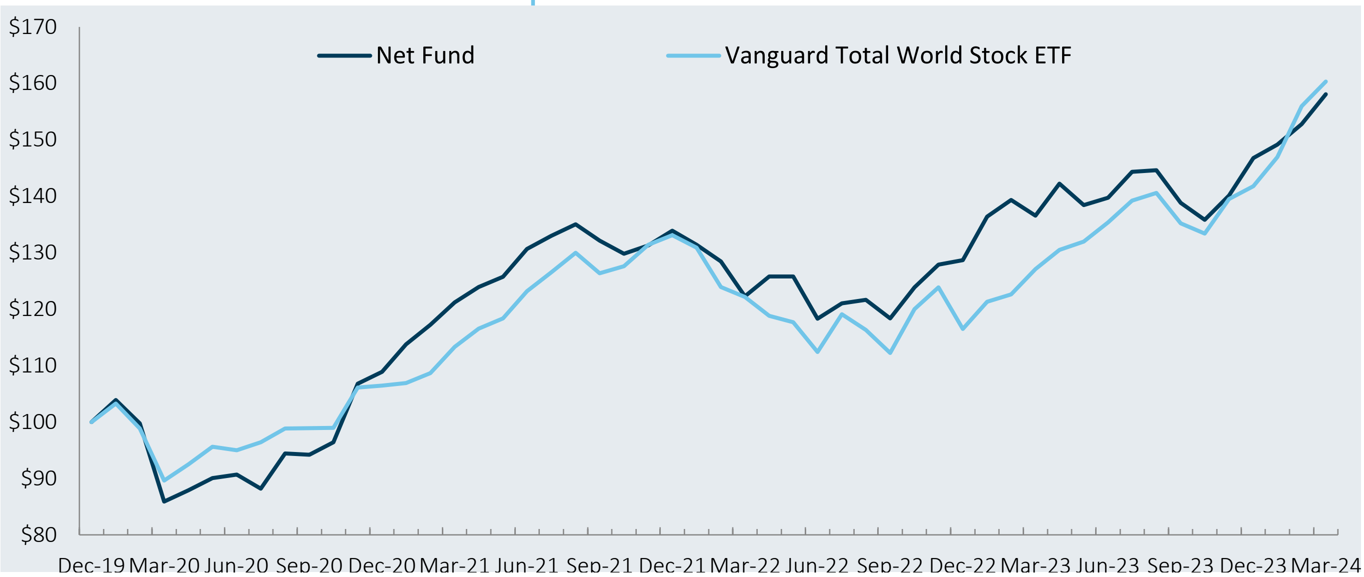
CROMWELL PHOENIX GLOBAL OPPORTUNITIES FUND

MARCH 2024 QUARTERLY REPORT

Performance (Periods ending: 31 March 2024, Net of fees)

	3 Months	1 Year	2 Years	3 Years	4 Years	Since inception (31 Dec 2019)
Fund	7.71%	15.72%	13.68%	9.25%	16.47%	11.61%
Vanguard Total World Stock ETF	13.07%	26.15%	14.56%	12.27%	15.65%	11.99%

Value of $100 invested at inception



Fund Review

The recent trends in global share markets only accelerated in the first quarter of 2024, with the Vanguard Total World Stock ETF (in AUD) speeding 13.1% higher. Smaller stocks were once again underperformers, with global microcaps up approximately 7.3% in AUD.

The Cromwell Phoenix Global Opportunities Fund underperformed large capitalisation securities and marginally outperformed small capitalisation indices, returning 7.6%. Sun Corporation (the subject of last quarter's performance review article) was the largest contributor to performance. After contributing strongly last quarter, special situation investments were detractors during the period. Property securities were the most meaningful detractors in the quarter, unable to keep up with the share price increases seen in other sectors, specifically mega cap technology.

Once again US large capitalisation stocks were the best performers gaining 15.9% (in AUD), outperforming broader global indices. Hong Kong stocks were the weakest performers, up only 2.0%. Japanese stocks continue recent solid performance, up 15.1%, whilst stocks in the rest of Asia added only 7.3%. European large capitalisation stocks also performed well, gaining 10.4%. UK large capitalisation stocks added a lesser 7.9% during the quarter.

Positive Contributors	Negative Contributors
Sun Corporation (TSE:6736)	Spirit Airlines (NYSE:SAVE)
Keck Seng Investments (SEHK:184)	Osaka Steel (TSE:5449)
Capstone Copper Corp (TSX:CS)	Philly Shipyards (OB:PHLY)

Performance Commentary

Greenlight Reinsurance

Greenlight Reinsurance (GLRE) is a good example of a typical investment for the Fund. Whilst not everything went exactly to plan, purchases were conducted at such a significant discount to underlying value, that results for investors were very solid. The Fund's investment in GLRE highlights the importance of remaining price sensitive when investing.

Some Background

Closed-end funds represent a meaningful components of the Fund's investment universe. Australians may be more aware of their local name, "listed investment companies (LICs)". In essence these are investment funds, that are listed on stock exchanges. Unlike the more common "open-end funds", where applications and redemptions occur at prevailing net asset value and the amount of units on issue changes, closed-end funds trade at whatever price buyers and sellers transact on share exchanges. As there is often no application and redemption facility, the number of units on issue remains constant, creating a permanent pool of capital. Some closed-end funds trade at material discounts to their net asset backing, thereby providing investors with both the underlying return of the fund and a benefit should the discount close. This often makes investing in this space a happy hunting ground.

GLRE is a somewhat unusual closed-end fund. Whilst much of its asset base is similar in nature, its structure is entirely different.

The Insurance Part

A brief primer on insurance is required to understand the Fund's investment in GLRE. As readers would be aware, insurers are paid premiums up front and then subsequently insure individuals or entities for specific risks. Insurance claims then occur and over time are paid out to insured parties. Expenses for an insurer include payment of claims and the costs of running the insurance business. An insurer can profit by receiving premiums greater than theses costs. This is not the only way insurers make money. As discussed, unlike many businesses, revenues are received ahead of the company's major expenses (claim payments). This money can therefore be invested by the insurer and earn a return, before any claims are paid. As insurers must keep enough capital to pay out claims as they arise, these funds are most commonly invested in low risk instruments such as government and investment grade bonds. This money that is received ahead of expenses is what Warren Buffett calls an insurer's "float".

Berkshire Hathaway has been so successful (in part) due to insurer's consistently having an investible float. Buffett realised that so long as an insurer is well capitalised there is no reason it can't invest in higher returning investments than government bonds. Today, Berkshire's capital base, which supports its massive insurance business, is invested in everything ranging from ~5.9% of Apple Corporation, to US candy retailer See's Candies.

Mini Copycats

To be considered a value investor, one must have meticulously studied Buffett and Berkshire (this is a joke, but only just). As such it is no surprise that many try to emulate his success. David Einhorn is a famous US-based value investor, who has very clearly studied Buffett. He runs a long-short hedge fund called Greenlight Capital. Phoenix staff have followed Einhorn's career for some time and respect his investing acumen. He is perhaps most famous for taking a short position in Lehman Brothers in 2007 and for his book *Fooling Some People All of the Time* which details a short investment around the time of the Global Financial Crisis.

This was not all he did in 2007. He also undertook an Initial Public Offering (IPO) of Greenlight Reinsurance. GLRE's strategy would be to write profitable reinsurance for which premiums are received up front and invested in Greenlight's long-short investment strategy. The goal of the company was to attract a reasonably small capital base, supplemented by insurance premiums, which could be invested in a strongly performing strategy in a way that leverages the capital employed. Others such as famed investor Dan Loeb followed and created similar investment vehicles.

Not Quite as Planned

Things went reasonably well for GLRE initially. It survived the tumultuous GFC period and after an IPO at $19 per share, GLRE traded to approximately $35 per share in 2014. In 2015, there was a hiccup, with the investment portfolio returning approximately -20% for the year. After middling performance in subsequent years, things were exacerbated by a -30.3% return in 2018. These performance outcomes coincided with a difficult period for traditional value investors. In particular, shorting what were believed to be overvalued companies, proved a poor strategy. The leveraged nature of GLRE only served to compound the misery.

With some concerns over the ability for the capital base to meet claims, GLRE revised its strategy holding more “cash-like” investments, with a smaller, non-leveraged allocation to Greenlight’s investment strategy. At inception of our Fund on 31 December 2019, a position in GLRE was established. At that date GLRE traded at approximately a 46% discount to its net asset value. Einhorn had also published many quarterly letters (much like this one) describing his investing thoughts and current portfolio make up. We were of the belief that he was still a fantastic investor, as supported by a very strong long term track record. The investment thesis in GLRE essentially boiled down to:

- Performance of underlying investments in Greenlight’s strategy is likely to be solid and outperform indices over time.
- Reinsurance is likely to be profitable over time and add value over and above the investments.
- Given the above, the massive discount was unsustainable.

Our Report Card

If this thesis was a school report it would definitely not receive straight A’s. Below is a review of how we did:

Component	Achieved?	Outcome
Greenlight Investment Performance	Partially	Investment Fund Returned 50.1% vs. S&P 500 Index 68.7%
Reinsurance Adds Value	No	Reinsurance and costs detracted ~18% from returns
Discount Closes	Yes!!!	Discount closed from >45% to ~21% on sale

How did all the above play out for the Fund’s return in GLRE? The Fund sold the last of its holding in GLRE in March 2024. Across the holding period, GLRE generated an internal rate of return (IRR) of 25.7% (in AUD), significantly outperforming the Fund’s benchmark, which returned ~11.7%. This return was generated despite merely acceptable performance from Greenlight’s investment strategy and disappointing insurance outcomes. All that changed was sentiment. Greenlight’s performance was no longer disastrous and there is a belief that the cyclical reinsurance industry is heading towards a stronger period of pricing.

At a ~21% discount to prevailing net asset value a decision was made to sell the holding. The less leveraged nature of GLRE’s structure means that investors receive a more muted return than purely investing in Greenlight’s fund directly. The argument that reinsurance returns will now be attractive is also highly uncertain. Capital was reinvested in more attractive opportunities.

Big Picture

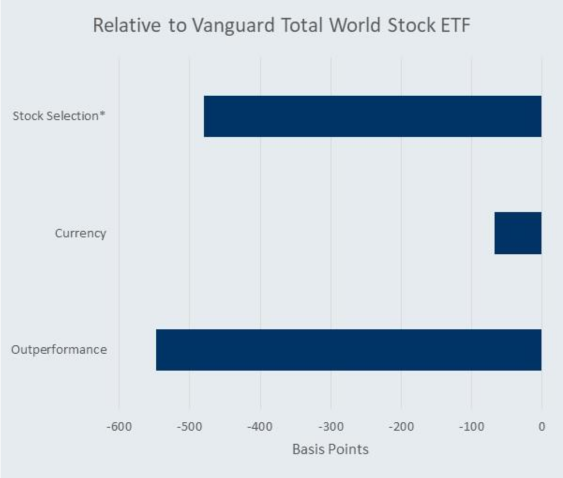
GLRE is far from the flashiest or sexiest investment case study ever reported, however it has been a successful investment and one indicative of others in the Fund today. The Fund invested in a temporarily out of favour investment style, with an insurance business attached, making it unattractive to many. The discount to value was so wide that, even though not everything went to plan, the returns were still very strong. GLRE is a great reminder that the price you pay for an investment still matters!

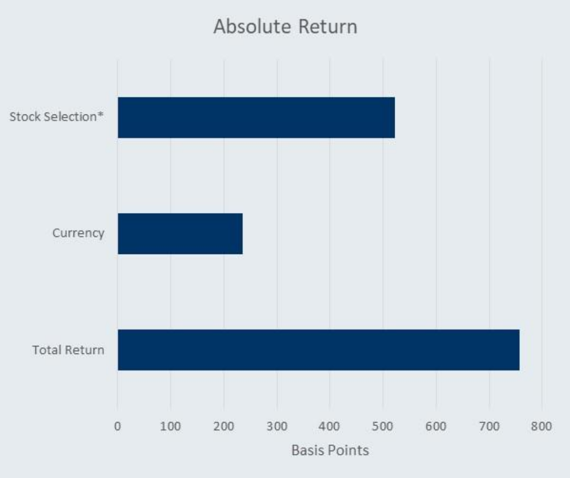
Fund Metrics

Country of Listing	Fund
Canada	5.5%
France	12.1%
Hong Kong	13.4%
Italy	0.0%
Japan	17.1%
Norway	0.8%
Netherlands	1.8%
Singapore	0.0%
United Kingdom	20.4%
United States of America	24.6%
Cash	4.2%

Portfolio by Float Capitalisation (USD)	Fund
$0 - $50m	13.5%
$50m - $200m	23.4%
$200m - $500m	32.5%
$500m - $1000m	6.2%
> $1000m	20.2%
Cash	4.2%

Return Breakdown (3 Months to 31 March 2024)





*Net of all fees and expenses