



MINOTAUR GLOBAL OPPORTUNITIES FUND

Quarterly Report

September 2024



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We said this last time but think it's important to reiterate - in our quarterlies, we hope to provide you with something that has real longevity and shelf life, whilst giving you an insight into our investment processes and philosophy. This is our second ever quarterly published and the first full quarter we've had (last quarter was a 'stub quarter' given inception of the fund was 10 May).

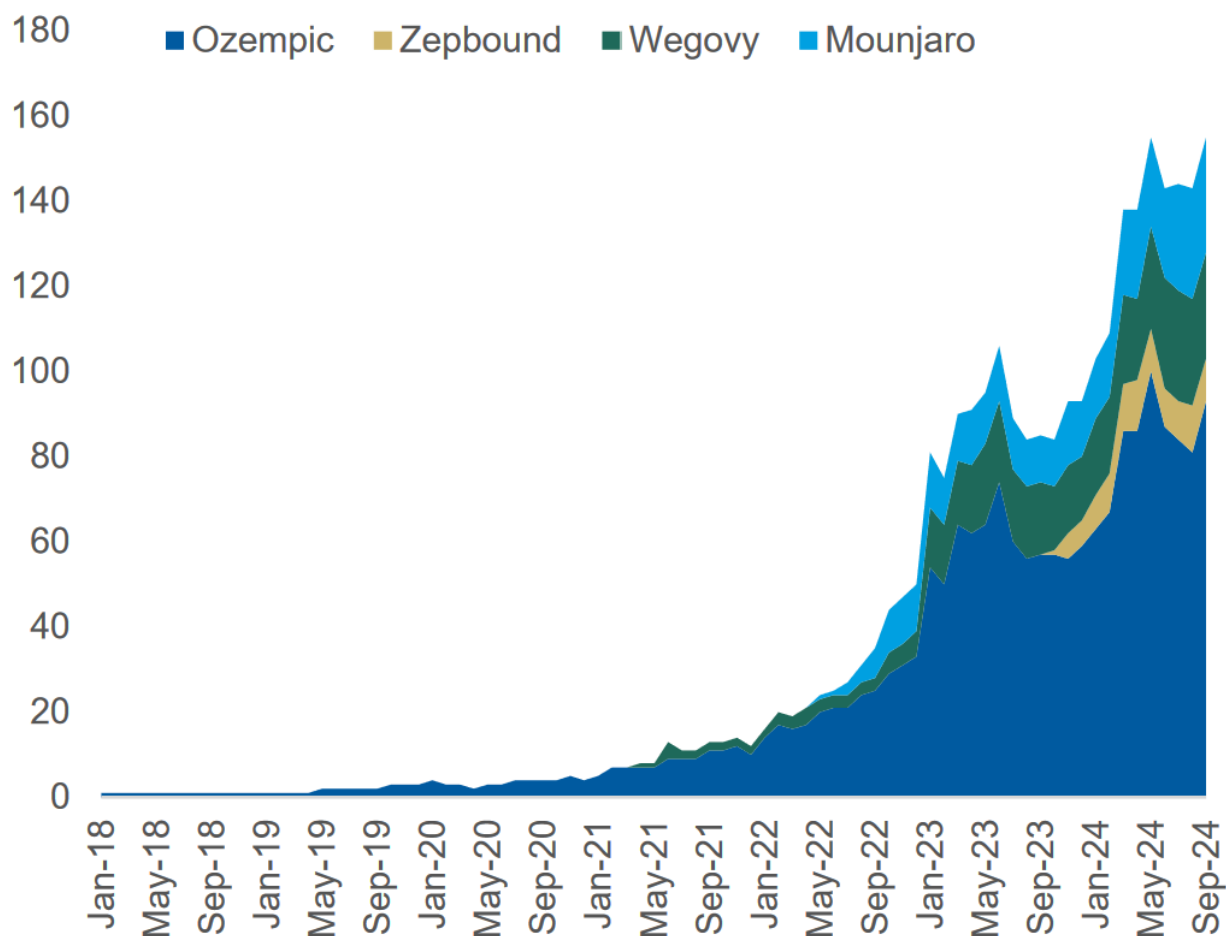
In this quarterly we give some quick macro reflections, tell you about some of the new and innovative ways we are incorporating tech and AI into our process and leave you with an overview of 2 of our holdings which we think investors would find interesting.

Steady performance in unsteady times

The macro continues to challenge us. We would lament this but we're trying to see it from a 'what doesn't kill us makes us stronger' viewpoint. Instead of saying that we've been 'unlucky' being overweight France when Macron called the election, or overweight Japan when the yen carry trade reared its ugly head, we focus on how, notwithstanding this, we have outperformed this quarter, which we attribute to our diversification and large focus on reducing risk. We know there will be swings and roundabouts - for example, on the flip side we were slightly overweight China when the government's stimulus measures sent the stockmarket skyrocketing.

In our last quarterly we mentioned the thematics of AI, energy and decarbonisation, and healthcare at play in our portfolio. In particular with healthcare, the GLP-1 trend has been no secret. More than a billion people are living with obesity, which has doubled from thirty years ago. Obesity has a 2.4% negative impact on GDP due to the associated >200 health complications that accompany it. Indeed, the British Medical Journal estimates that lost productivity due to obesity is \$1.2 trillion. Search interest in obesity medications such as Ozempic, Zepbound, Wegovy, and Mounjaro, is up 100% yoy. The base case of many analyst estimates is that this is a US\$105B market by 2030. Many people think of Eli Lilly and Novo Nordisk when thinking of ways to play this trend. We play it differently through a lesser known Japanese company which we discuss later.

Search Interest in Weight Loss Drugs (100 = Ozempic)



Source: Google Trends, IQVIA, Novo Nordisk, Eli Lilly, Morgan Stanley Research

From a geographical basis, we are beginning to get more constructive on the UK. The UK has seen sideways consolidation for 13 years, which is now breaking to the upside, somewhat due to marked undervaluation relative to the US. This is being supported by the macro with UK CPI slowing to 1.7% in September, giving the Bank of England some leeway for cuts later on this year and into 2025. The UK equity market is still the cheapest globally, the UK economy is quickly rebounding from a fleeting recession and is benefiting from lower policy volatility and regulatory tailwinds.

Later on we'll explore how we are playing these themes and geographies through 2 holdings in our portfolio - Chugai Pharmaceutical and Kitwave Group.

How our technology capability sets us apart

Katie Martin, a Markets Columnist at the FT recently wrote, *“Fund managers are generally very good at talking about artificial intelligence as an investment theme. At the drop of the hat, asset management executives and portfolio managers can rattle off a list of industries and functions ripe for robotic disruption. The same people are, however, generally pretty bad at articulating how it will affect them. “Er, I think the customer service department uses it?”...”* We concur with this viewpoint and are striving to be the fund managers that are harnessing it most effectively in their actual workflows.

Improvements to our software, Taurient, since last quarter include:

- **AI Quality Control:** Built a systematic approach to test our AI systems against historical decisions, enabling continuous improvement in AI-driven tools like our strategy change idea funnel.
- **Idea Generation:** Added new idea funnels beyond strategy changes, targeting areas where we believe systematic mispricing is more likely to occur.
- **Digital Infrastructure:** Enhanced our data collection engine to process a broader range of unstructured data sources.
- **Document Intelligence:** Implemented automated discovery and analysis of company financial documents.
- **Risk Evolution:** Improved our risk metrics to better capture region/country risks and the impact of new single stocks on portfolio volatility.

Our development focus has shifted toward integrating AI more deeply into our fundamental research process. This is inherently more exploratory than our previous development, as the boundaries of what can be effectively automated in fundamental research are still unclear. While generating basic reports with AI is simple, developing truly insightful and reliable analysis requires much more sophistication. Our best investment ideas typically draw not just on company documents, but on our team's decades of pattern recognition across similar businesses, and it's challenging to fully capture this in any automated system.

Nevertheless, we're encouraged by our development work to date and believe AI can push deeper into the research process than we initially thought when we started Minotaur. We're particularly interested in AI applications that go beyond accelerating existing analyst workflows. For example, we're exploring ways to draw insights by analysing thousands of company reports, presentations, and transcripts - a scale of analysis that would be impossible for human analysts alone. The infrastructure improvements we've made, particularly in our document processing capabilities, have created a foundation for this kind of exploratory work.

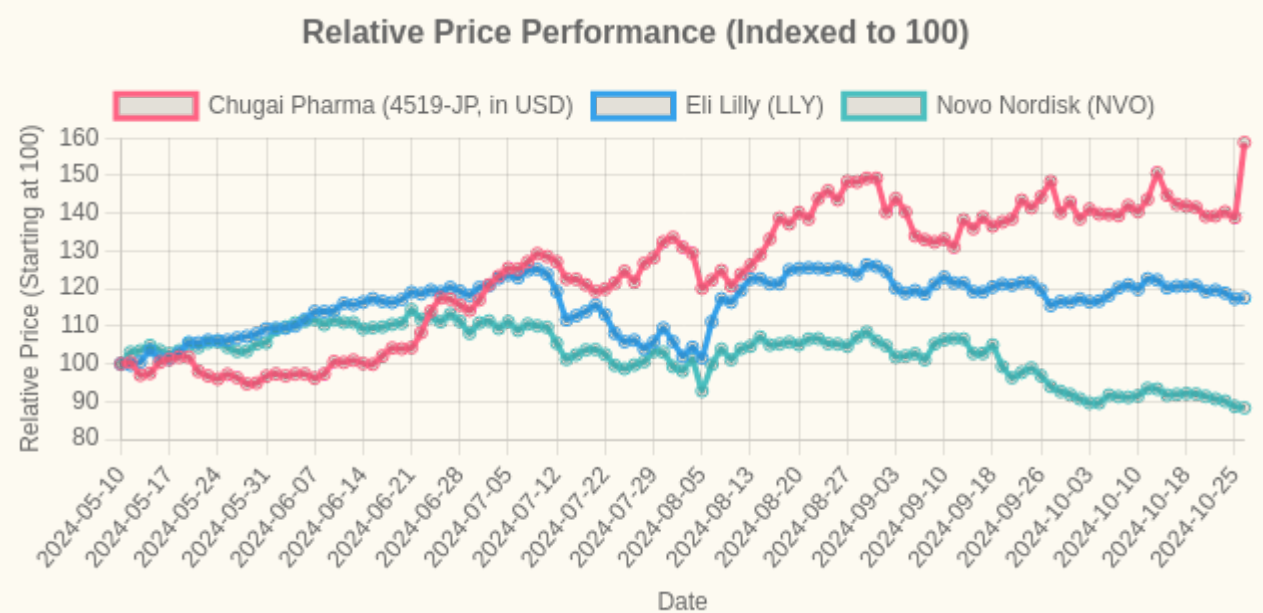
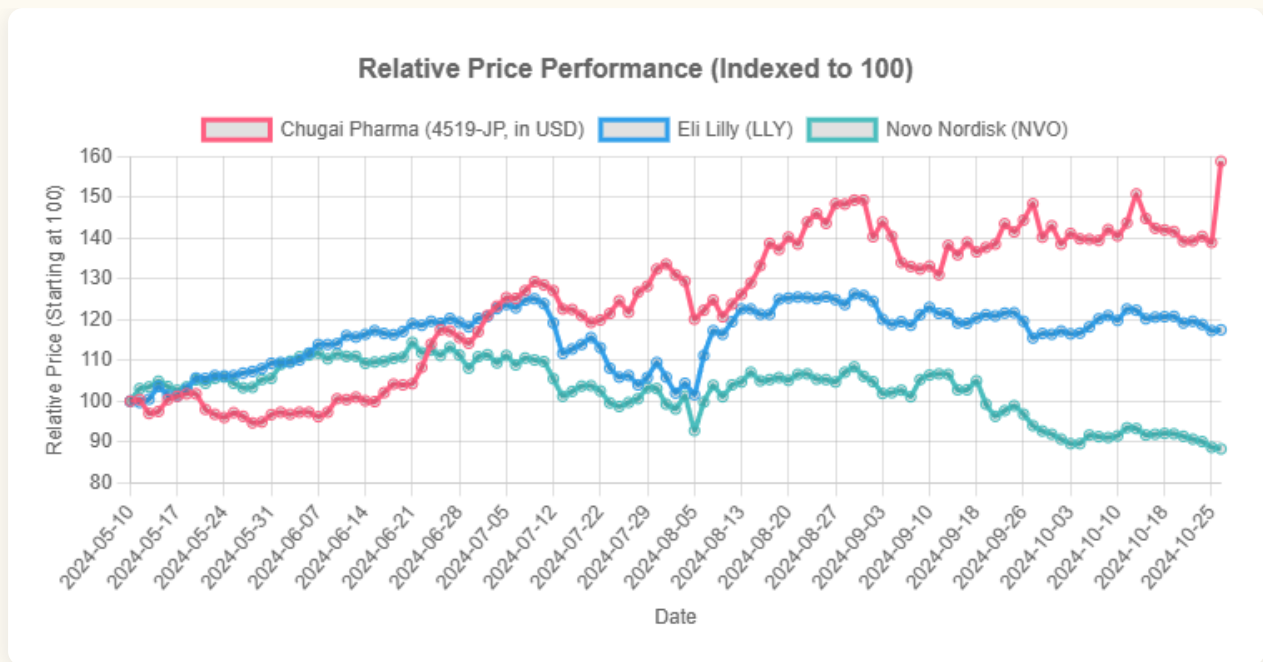
We maintain a pragmatic view: while AI won't replace seasoned investor judgement, we're finding promising ways it can augment our research process. The focus is on identifying specific, practical use cases where AI can help us surface insights that might otherwise be missed, particularly when dealing with the vast amount of data and information created each day. This balanced approach – combining technological capabilities with human experience – continues to guide our development roadmap.



Chugai Pharmaceutical: Taurient discovers an overlooked way of playing the GLP-1 thematic

A concrete example of our AI edge is our investment in Chugai Pharmaceuticals. Taurient flagged a Nikkei Business article written in Japanese discussing the company's increased focus on mid-sized molecule drug discovery, which led to further investigation and has ultimately become one of our best-performing positions. Again to reiterate, Taurient found this from a *Japanese* news article, written in Japanese. In other words, this is not something we had the ability to read ourselves. It has increased 42% since we bought it at the fund's inception but we still see considerable upside.

Chugai is one of Japan's leading pharmaceutical companies and is a classic example of finding ways to play key themes in non-obvious places. This is a play on the GLP-1 trend but it's not the obvious candidates of Novo Nordisk or Eli Lilly, which most of the market are focused on. 2025 is going to be a pivotal year for Chugai, with multiple drug candidates expected to release key trial results.



The crown jewel in their pipeline is Orforglipron, an oral GLP-1 drug targeting the booming obesity and diabetes market. GLP-1 drugs have been incredibly successful, especially the injectable versions like Ozempic and Wegovy, but orforglipron is an oral formulation, which could be a game changer. In clinical trials, it has shown weight loss results on par with injectables, but with the convenience of being a daily pill. This could significantly expand the market because it removes some of the barriers to adoption that come with injectable drugs. This is a market that could reach \$105 billion by 2030, and Chugai is well-positioned to capture a large share of the oral drug segment. Beyond Orforglipron, another game-changer in Chugai's pipeline in the GLP-1 space is GYM329, which targets both spinal muscular atrophy and obesity by preventing muscle loss - a critical issue with most weight-loss drugs.

But Chugai's opportunities go far beyond obesity treatments. The company has a broad and diversified pipeline of innovative drugs. One that stands out is Enspryng, which is already approved for neuromyelitis optica spectrum disorder but is undergoing Phase 3 trials for a new indication: thyroid eye disease (TED). If successful, Enspryng could become the second major treatment for TED after Amgen's Tepezza, which reached peak sales of \$4 billion. Even if Enspryng captures a portion of this market, it could add several billion dollars to Chugai's annual revenues, significantly boosting its stock valuation.

Chugai also has several other novel drugs in early-stage development, such as LUNA18 (which targets solid tumors) and DONQ52 (for celiac disease), both of which have blockbuster potential.

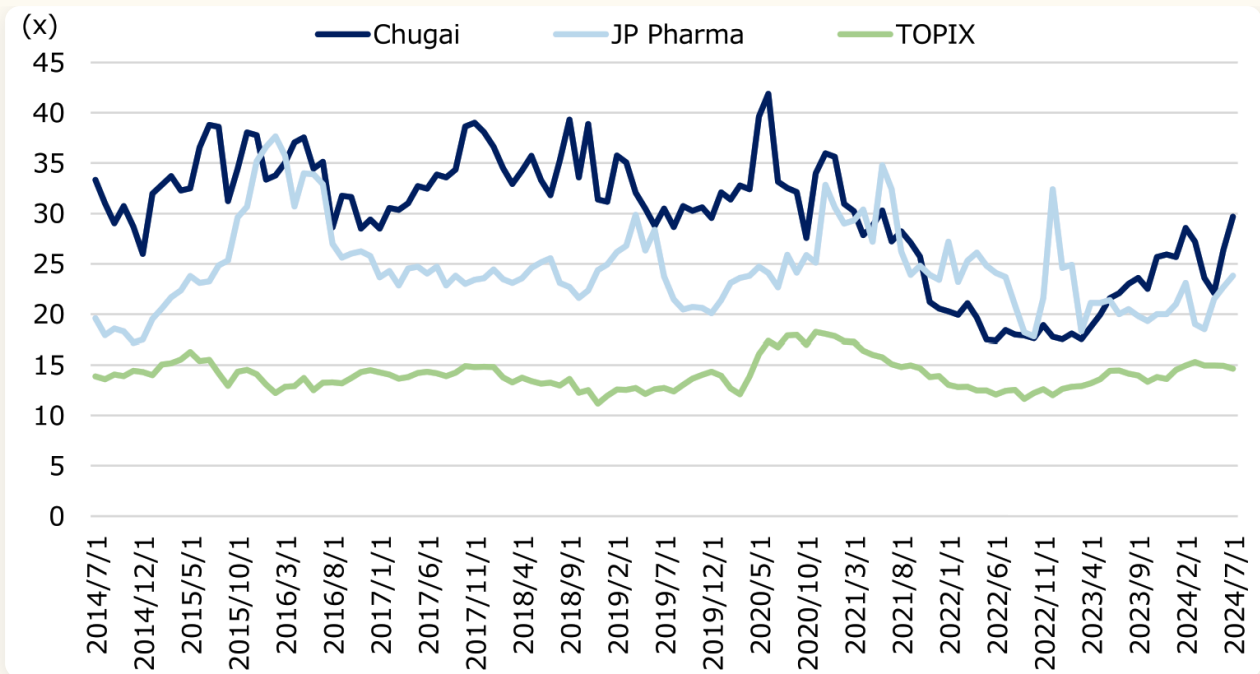
Timing	Catalyst	Stock price impact
end-2024	GYM329: Ph2/3 (MANATEE study) readout for SMA	★★★★
mid-2025	Orforglipron: Ph3 readout for Obesity and Diabetes	★★★★★
2025 ?	GYM329: Ph1 readout for obesity	★★★★
mid-2025 ?	Enspryng: Ph3 readout for TED	★★★
2025-26	LUNA18, DONQ52, ALPS12, etc : Ph1 readouts	★★
2026	Piasky: Ph3 readout for aHUS	★★
2026	Enspryng: Ph3 readout for AIE	★★★

SMA : Spinal Muscular Atrophy. Genetic muscular disease for kids
TED: Thyroid Eye Disease. Disease accompanied with thyroid hormone disease
aHUS : Atypical Hemolytic Uremic Syndrome. Immunologic disease triggered by abnormal complementary function
AIE : Autoimmune-mediated encephalitis

Chugai's approach to drug development is unique because of their strong collaboration with Roche, one of the world's largest pharmaceutical companies. They have a licensing agreement where Chugai develops innovative drugs, and Roche handles much of the global commercialisation. This collaboration gives Chugai access to a massive global market while retaining a high level of R&D autonomy.

Chugai is currently trading at a relatively modest price-to-earnings premium compared to its historical highs during past periods of concentrated new drug catalysts. In 2016-18 and 2019-20, when Chugai launched significant drugs like Hemlibra and Alecensa, the stock traded at a P/E premium of 60-70% vs. the industry average. Today, the premium is only about 10-15%, despite the potential for multiple new blockbuster drugs in the coming years.

Chugai's forward PE is 31x vs. historical 30-40x in 2016-20 where it went through a similar purple patch of drug news.



The company has strong earnings momentum, driven not only by its existing drugs but also by the potential of its rich pipeline. We expect Chugai to see solid earnings growth over the next few years, with the potential to outperform the broader pharmaceutical industry if their key drugs, particularly the GLP-1 candidates, achieve commercial success. We see more than 50% upside in the bull case where all of their major drug candidates succeed.



Kitwave: A Resilient Model of Food Distribution allowing us to play the UK market

Kitwave is a U.K.-based food distributor that specialises in delivering impulse products, ambient foods, frozen & chilled foods, and fresh foods to over 42,000 convenience stores and foodservice providers across the U.K. Kitwave is our way of capitalising on the U.K.'s economic rebound and the shift towards delivered wholesale solutions in the food distribution industry.

Source: [Blockchain in Food Supply Chain](#)

Kitwave's unique position in the market is what caught our eye. It's one of the largest food distributors focusing on independent establishments, yet it's small enough to provide high-touch, quality service that larger distributors can't match. This gives Kitwave a competitive edge in servicing mum & pop

outlets and small chains, a segment that's often overlooked by the industry giants.

The company's growth strategy revolves around rolling up smaller regional distributors, an approach that has served them well. Since FY16, Kitwave has compounded EPS at an impressive +22% CAGR, largely through M&A. With over £10bn of Kitwave's independent retail & convenience and foodservice TAM segments still fragmented, we believe there's a long runway for continued growth through acquisitions, particularly in the higher-margin foodservice segment.

Source: IGD UK Grocery & Foodservice Wholesaling 2023 report

What's particularly exciting about Kitwave is how it's positioned to benefit from the macro trends we're seeing in the U.K. As we mentioned earlier, the U.K. equity market is still the cheapest globally, the economy is quickly rebounding from a fleeting recession, and it's benefiting from lower policy volatility and a regulatory tailwind. Kitwave, with its focus on consumer staples and essential services, is well-positioned to ride this wave of economic recovery. Kitwave is currently trading at NTM 13.1x P/E and NTM 7.9x EV/EBITDA. This appears to be substantially lower than food wholesale peer valuations, despite Kitwave's industry-leading growth rates and ROIC.

Moreover, the industry trend towards delivered wholesale solutions and away from cash & carry is a tailwind for Kitwave. As convenience stores and foodservice establishments increasingly seek convenience in their procurement solutions, Kitwave's pure-play delivered food distribution model stands to benefit.

In our view, Kitwave represents an opportunity to own a high-quality business earning a 17% return on invested capital, with a high likelihood of +10-20% annualised growth for the next 3-5 years. We see a pathway to double-digit investment returns while also carrying a low probability of losing money - a combination we find particularly attractive in the current market environment.

The first rule of an investment is: don't lose money

Our focus on risk mitigation has helped us navigate the macro volatility. We have been strengthening this with our tech tools with incremental improvements to our idea score further improving our diversity. To riff on a well-hashed Warren Buffett quote, *"The first rule of an investment is don't lose money. And the second rule of an investment is don't forget the first rule. And that's all the rules there are."* At Minotaur, we do our best to stick to this rule. We haven't yet and long may that continue into the future. But to put a Greek philosopher twist on it as always, it was actually the great Aristotle who said, *"The aim of the wise is not to secure pleasure, but to avoid pain"* eons before Warren Buffett came into the picture.

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<https://www.minotaurcapital.com/reports/quarterly/2024-09>

For investor enquiries, contact invest@minotaurcapital.com.

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