

April 14, 2025

RE: Letter to Limited Partners, Q1 2025

Dear Partners,

The fund returned 5.92% (net of all fees and expenses) for the first quarter of 2025.¹

	Net Performance			
	2025		Since Inception*	
	Q1	YTD	Total	Annualized
Aventine Capital Partners LP	5.92%	5.92%	-0.50%	n/a
MSCI ACWI ex-USA ²	5.23%	5.23%	4.98%	n/a
S&P 500 ³	-4.27%	-4.27%	7.53%	n/a

**June 2024*

Portfolio Composition				
Top 5	Top 10	Long	Short	Net
54.5%	84.6%	89.0%	0.0%	89.0%

Geographic Exposures			
North America	Europe	APAC	Emerging
10.5%	71.8%	0.0%	6.7%

The following top five holdings accounted for 55% of the portfolio (alphabetical):

Alight: This US-listed benefits management firm provides outsourced administration of healthcare and retirement benefits for mostly enterprise clients. It serves 70% of the Fortune 100 and 50% of the Fortune 500. Revenue is 92% recurring, with over 95% retention. Alight was a division of Aon that was acquired by Blackstone in 2017 before listing in 2021. Operational missteps in 2023 led to elevated client churn that has negatively impacted revenue growth in 2024 and 2025. Reputable activist investors joined the board in early 2024 and an experienced new CEO, Dave Guilmette, was appointed in August 2024. He has refreshed the management team, stabilized churn and divested the lower-margin Payroll and Professional Services divisions for \$1.2bn (10x EBITDA and 24x free cash flow), leaving a focused and higher quality benefits management business. In early 2025 the company introduced a dividend and authorized a \$281m buyback program (>10% of the market cap) that it intends to use opportunistically. Alight currently trades for 7x my estimate of midterm free cash flows and less than half the earnings multiple of slower-growing peers.

Helios Towers: This UK-listed telecommunications infrastructure company is a leading operator of cellular towers across nine markets in Africa and the Middle East. The business acquires, builds and maintains the towers on which mobile network operators (MNOs) install and operate their antenna equipment. African

mobile user penetration and data consumption rates are less than half those of developed markets. Helios stands to benefit as demographic trends and rising data usage drive higher tenancy ratios on its towers. Since listing in 2019, Helios has expanded from five to nine markets and doubled its tower count to 14,000 via a series of acquisitions while maintaining relatively low leverage. Contracts are 70% hard currency with blue-chip global MNO clients and include pass-through clauses for power and cost inflation. This high-margin business (50% EBITDA margins and 10% maintenance capex costs) offers a utility-like service with inflation protection. Helios trades at a material discount to global peers despite having lower leverage, higher growth rates and an inflecting free cash flow profile. The enterprise currently trades at 6x next year's EBITDA and <4x my estimate of mid-term EBITDA, far below recent industry M&A transactions.

TT Electronics: This UK-listed business is a global designer and manufacturer of electronic components serving Original Equipment Manufacturers (OEMs) across a wide range of end markets. Over 70% of its sales are low-volume, high-spec components and over 50% serve highly regulated industries including healthcare, aerospace and defense. TT has grown over the years via M&A and operates 18 design/manufacturing facilities on three continents, utilizing a highly federated operating model that has led to inefficient operations and below-peer margins. The company is executing an aggressive restructuring program designed to cut costs and streamline operations. Following a September 2024 profit warning, the market has lost confidence in management and in April 2025 the briefly-tenured CEO resigned, with the new CFO taking over on an interim basis. The company has received at least three non-binding acquisition offers from two bidders, the highest of which was an all-cash offer of >140p/share. The board rejected each bid as “fundamentally undervaluing” the business and is committed to the ongoing restructuring program. Shares trade for 4.5x my estimate of 2027 earnings and 3.0x management's target earnings potential.

Vicat: This French-listed materials business operates vertically integrated cement, aggregates and ready-mix concrete plants across twelve markets globally. France is 30% of sales and the U.S. is 20%. It is controlled by a multigenerational founding family who are active in management and own 63% of the equity. Free cash flow has been suppressed for several years due to large growth capex initiatives, most notably in Alabama and Senegal. Both projects completed in 2024 and capex is poised to decline to historically normal levels. As with peers, Vicat suffers from a severe undervaluation of its North American operations, which represent 23% of group EBITDA but if valued in line with U.S. peers is worth 60% of Vicat's enterprise value, leaving the rest of the business trading below 2.0x EV/EBITDA. It is unlikely the family will do anything to address this undervaluation, but options exist. Meanwhile the 6.3% dividend yield (on our cost basis) and high-teen levered FCF yield provide a valuation underpin. Shares trade at large discounts to peers, below replacement cost and for less than 4x my estimate of mid-term EV/EBITDA.

Vistry Group: This British homebuilder utilizes a differentiated model of partnering with public and private sector property managers to develop or redevelop land into residential communities for sale, for rent, and for government-subsidized homes. Unlike traditional homebuilders, Vistry's partnership model delivers a less cyclical earnings stream that requires less upfront spending on land and development, allowing for returns on capital employed that can exceed 40%. During the fourth quarter of 2024 the company issued three profit warnings for issues that I believe are isolated and resolvable. Shares traded down sharply and remain below 0.9x P/NAV, implying a below-liquidation valuation. The UK remains structurally underbuilt, particularly for the types of affordable housing in which Vistry specializes. The company currently trades for 4x my estimate of medium-term earnings and a high-teen free cash flow yield.

A brief comment on tariffs

On April 2nd – after Q1 ended – President Trump announced “retaliatory” tariffs on effectively all U.S. trading partners. The initial tariffs ranged from 10% (baseline) to 46% in Vietnam and 54% in China. It remains unclear to what extent these tariffs will go into effect, and indeed on April 9th Trump announced a 90-day “pause” on most of them. As of April 11th, our performance remains positive for the year and our year-to-date outperformance versus the S&P 500 has widened to over 12 percentage points. This could change, of course, and the situation remains fluid. I have been cautiously deploying some of our cash into new and existing portfolio companies and remain focused on owning durable businesses.

I avoid macroeconomic commentary and forecasting. As I wrote in the Owner’s Manual, there are enough intelligent people attempting that impossible task already. Instead, I focus on individual businesses. My objective is to own a portfolio of *durable and dynamic* businesses capable of navigating rapidly changing environments. I obsessively stress test our holdings to ensure they can withstand all plausible economic scenarios and believe we own a collection of companies that are reasonably insulated from the risks thrown up by Trump’s trade policies. Most obviously, we have no direct exposure to the U.S. consumer or the imported goods they buy. Globally, our direct exposure to cross-border trade is limited, with just two industrial component manufacturers (TT Electronics and Montana Aerospace) serving international supply chains. While the risk of a global recession is notably higher today than it was on April 1st, the immediate and direct impact to our portfolio from Trump’s announced tariffs is small.

In fact, our single largest exposure – cement and aggregates – is a potential beneficiary of trade tariffs. Approximately 20% of our portfolio is invested in Heidelberg Materials and Vicat, two European headquartered cement and aggregates businesses with significant U.S. operations. Both generate ~20% of their sales in the U.S. through a network of domestic cement, aggregates and ready-mix concrete plants. The U.S. cement market is supply-constrained and relies on imports to serve peak demand. Domestic nameplate capacity is approximately 100 million tons/year, though effective output is closer to 90m tons. Last year the U.S. consumed 110m tons, of which 89m were produced domestically and 21m were imported, primarily from Turkey (7m), Canada (5m) and Vietnam (4m).

Imports set the marginal price of cement. Tariffs will increase the cost of imported cement and these incremental costs will be passed on to customers in the form of higher prices. If this occurs, domestic producers will capture 100% of these price hikes as operating profit. Heidelberg and Vicat stand to benefit, thanks to their U.S.-based manufacturing capacity in regions heavily exposed to imported volumes.

Last week – following the tariff announcement – I met with René Aldach, the CFO of Heidelberg Materials. He confirmed the above dynamic and is confident that if enacted, tariffs will drive up U.S. cement prices regardless of any potential demand destruction. Volumes would have to decline 20% before imports aren’t needed, a decline only observed in 2009 following the construction-induced financial crisis. René expects U.S. cement demand to remain stable even in a recessionary environment, thanks to federally funded infrastructure projects and the ongoing onshoring of industrial manufacturing capacity. As localized, oligopolistic businesses that provide critical but low-cost products, our cement investments are well positioned to navigate a wide range of economic outcomes. Both Vicat and Heidelberg Materials remain attractively valued despite their strong share price appreciation so far this year.

There is a more important second-order effect of the unfolding geopolitical tension that I believe directly benefits our portfolio. While René’s outlook for the U.S. market has cooled, his view on Europe has turned outright positive. Over the past five months, I’ve noticed a growing sense of optimism among European executives that I meet with. The Trump administration’s policies on trade and defense have “awoken” European leaders to the need for greater self-determinism. Ironically, U.S. isolationism may be the catalyst that shocks a historically dysfunctional Europe into coordinated, pro-growth action. This shift stands to benefit our portfolio of mostly European businesses in ways I believe are not yet reflected in market prices.

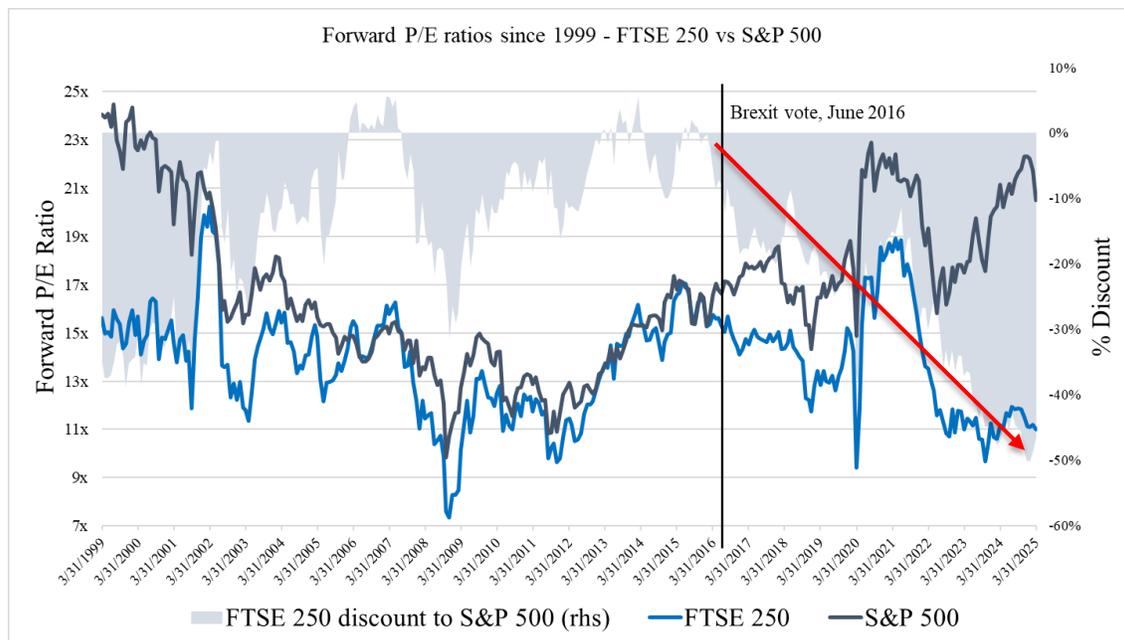
Which brings me to the main topic of this letter.

The most unloved stocks in the world

Our partnership operates under a broad investment mandate, seeking out the best risk-adjusted returns across a wide range of geographies and industries. It is notable, therefore, that our portfolio is currently 72% invested in Europe, including 45% in the UK. These are large weightings that merit explanation.

As laid out in our inaugural 2Q24 letter, I believe non-U.S. developed markets offer some of the most compelling investment opportunities in the world. High quality businesses with world class management teams trade at material discounts to their U.S. peers, while many lower quality businesses trade at fire sale prices. Historically persistent valuation discounts have widened to unprecedented levels in recent years.

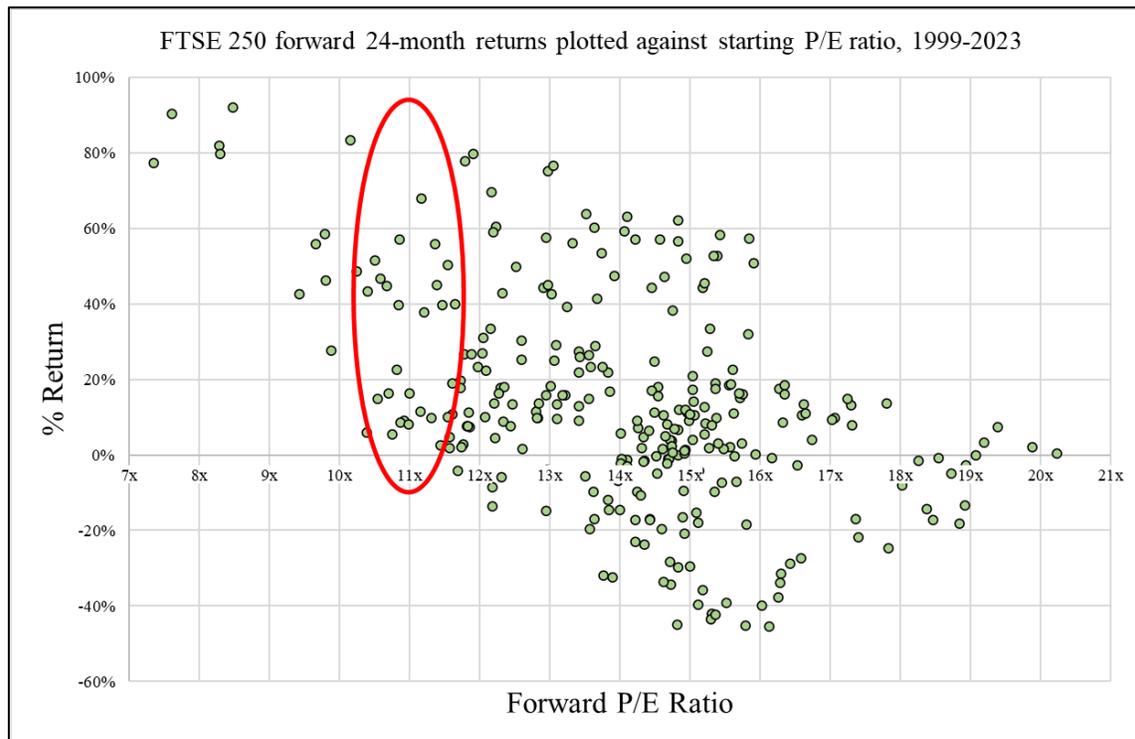
Nowhere is this more evident than in the UK. In my 18 years of investing, starting in London in 2008, I’ve never seen greater investor apathy toward UK small-cap equities. The FTSE 250 trades at a 46% discount to the S&P 500 on a price-to-earnings basis (see shaded area of chart). This is its widest relative undervaluation in at least 25 years, even after adjusting for the multiple-enhancing effect of the Magnificent Seven (the S&P 500’s largest and most richly valued technology companies).



Source: LSEG Datastream

Relative valuations are interesting, but I'm much more focused on absolute values. Here, too, the FTSE 250 appears historically cheap. The index currently trades at 11x forward earnings, an objectively low valuation multiple that is within its 10th percentile of cheapness over the last 25 years, including the GFC.

As the table below shows, since 1999 (at least), the FTSE 250 has never delivered negative 2-year forward returns when trading at today's valuation. I'm not making a macro or index-level call here, but do find this statistic compelling and supportive of the pond we're fishing in.



Source: LSEG Datastream

To be clear, owning statistically cheap equities isn't enough. Europe and the UK have looked inexpensive for years. There must also be a catalyst – some sign that a valuation unlock is probable. This is where stock picking comes in. We haven't simply bought the FTSE 250 index based on its cheapness. Instead, we own seven individual UK equities that I believe are materially misvalued for idiosyncratic reasons, each with levers within management's control. Past quarterly letters have discussed TT Electronics and Vistry Group, but similarly compelling setups exist across the other five holdings.

Cash-generative businesses have multiple ways to realize shareholder value regardless of current market sentiment. The best option is to reinvest in growth, either organically or via acquisition, to efficiently compound capital. Over time, share prices tend to follow underlying earnings growth. If attractive reinvestment opportunities aren't available, or if valuations persistently fail to reflect earnings momentum, the next-best option is to repurchase and retire shares. For a stable business with a cheap share price, retiring shares is a highly accretive use of capital that can act as a forcing mechanism, increasing the P/E ratio's denominator (EPS) until the market is compelled to act on the numerator (price). In this regard, a cheap share price can be an asset for long-term shareholders of companies with strong capital allocation policies.

The historically large European and especially British valuation disconnect is starting to be flagged by the mainstream financial press, although so far with minimal effect on UK small-cap valuations. In late February the FT published an article entitled “UK small caps ‘most unloved’ stocks in the world,” which highlighted that UK and European small cap stocks trade at 25% and 20% discounts to *their own* 10-year average forward P/E ratios. U.S. markets, by comparison, trade at 30% premiums.



FT article on 2/28/2025: [UK small caps ‘most unloved’ stocks in the world](#)

European markets – particularly the UK – have been deeply out of favor for years. The region has materially underperformed the U.S. since 2008, with capital and corporate listings steadily migrating to American exchanges. Ask any institutional investor about European equities and watch them wince. Many have given up on the region after years of painful underperformance relative to the tech-heavy U.S. indices. If you can’t beat them, join them. While this sentiment has made European equities a difficult space for many institutional investors, it’s precisely what draws my attention. After such a prolonged period of capital flight, the opportunity set is unusually compelling.

Another reason for cautious optimism is Europe’s rapid political pivot towards pro-growth industrial policies, as referenced above. Germany, Europe’s largest economy and long a symbol of fiscal orthodoxy, is currently advancing an unprecedented stimulus package designed to enhance domestic manufacturing, defense and energy independence. At over €200bn, the importance of this “industrial policy bazooka” cannot be overstated. Since 2009, Germany has operated under a constitutional debt brake that limits the federal deficit to 0.35% of GDP per year. With national debt-to-GDP at just 63% – well below most developed market peers – Germany has long had the financial capacity but not the political will to spend more. That now appears to be changing, in large part based on the unpredictable and isolationist policies of the U.S. government.

Similar moves are underway in the UK, France, Italy and the European Commission. In the UK, the relatively new Labour Government has taken an uncharacteristically pro-business stance. Chancellor Rachel Reeves' October 2024 budget outlined a series of strategic investment initiatives and pro-growth policy shifts. Of relevance to our portfolio, in June 2025 the government is expected to renew the Affordable Homes Programme with over £12 billion in funding to support its goal of delivering 1.5 million new homes by 2030. The message is clear: governments across Europe are investing in infrastructure and cutting red tape to attract the private capital necessary to reduce their economic and military dependence on the U.S.

These are encouraging signs, but it remains too soon to assume that a lasting structural benefit from European fiscal policy will support regional productivity and, in turn, equity values. While such a tailwind would be welcome, it is not incorporated into our portfolio's underwriting. We own a concentrated portfolio of de-risked equities, each with idiosyncratic catalysts supportive of future improvement regardless of macro conditions. Put differently, the fact that many of our holdings are European-listed is an output – not an input – of my bottom-up process.

Many of the companies we own have endured nearly a decade of challenging operating conditions – from Brexit to Covid to the Ukraine war. Most have survived admirably, taking advantage of the hard times to improve operations, shore up their balance sheets and gain market share. Today these companies trade at undemanding valuations on still-depressed earnings, a situation I find particularly attractive. In most cases I've interacted with the management teams for years, providing a degree of access and familiarity that supports my views around their future earnings prospects.

UK equities are unlikely to remain our largest allocation forever, but right now I'm comfortable owning some of "the most unloved stocks in the world" at prices that reflect deeply discounted valuations. The goal is simple: find overlooked value, take a long-term view, and let the compounding take care of itself.

During the first quarter I closed out our GBP and EUR hedges, leaving the portfolio exposed to the currency swings of our large GBP- and EUR-denominated equity positions. You might remember that we were fully hedged against both currencies throughout the second half of 2024. Neither currency appears expensive and there are reasons to expect both to continue appreciating against the dollar. We remain hedged against our small CHF exposure, as the safe haven Swiss Franc appears historically expensive. I summarized my views on currency exposures in the 2024 year-end letter.

In Closing

A copy of the partnership's audited financials, along with your individual Schedule K-1 tax form, was distributed in late February. Taxes for 2024 were limited to interest and dividend income, as there were no realized gains during the year. Our SEC annual filings have also been submitted, and the updated ADV Part 2A brochure is available on the SEC website or upon request.

I'm happy to report that the partnership's management fee for 2025 has been reduced to 0.5%, down from 1.0% in 2024. This management fee is designed to be an "at cost" fee – not something I generate excess

profits from. It's my strong desire to keep reducing this fee as our AUM grows, although I reserve the ability to increase it (up to the 1.0% maximum) if I think doing so is in the partnership's best interest.

Thank you for your confidence and support. As one of the largest investors in the fund, my experience is the same as yours. I am currently quite excited about the valuation prospects of the companies that we own.

The Founders' Class remains open and I'm appreciative of introductions to investors you think might be a good fit. Referrals from existing partners are the best as I try to attract people aligned with our strategy.

Please don't hesitate to reach out with any questions or ideas.

Sincerely,



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¹ All performance figures represent unaudited net performance estimates for partners that made initial contributions at the inception date in the Founders' Series of partnership interests. Individual partner returns may vary depending on the timing and series of their investment. The partnership is audited on an annual basis.

² The MSCI ACWI ex USA index captures large and mid-cap representation across 22 of 23 Developed Markets countries (excluding the United States) and 24 Emerging Markets countries. The index covers approximately 85% of the global equity opportunity set outside the US. It is a total return index inclusive of net dividends received.

³ The S&P 500 includes 500 leading companies in the U.S. and covers approximately 80% of the available market capitalization. It is a total return index inclusive of gross dividends received.

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