July 2026

Dear Partners

A year ago, I wrote that we were using volatility to build a higher quality and more liquid portfolio than we have ever had. This half we continued that work, and I believe we have now completed the most important part of it. In the period we sold our positions in Eurocell and Macfarlane, purchased Howden Joinery, and added significantly to Midwich. Each decision was different in its detail, but all four were made with the same aim: to upgrade the quality and defensibility of the portfolio.

Defensibility deserves a word of explanation, because it is the theme of this letter. The businesses we want to own are those whose high returns on capital are protected by a genuine competitive advantage, and which are run by management teams who deepen that advantage rather than dilute it. Businesses like this do not merely survive difficult periods; they use them, taking share from weaker competitors and emerging with a stronger relative position. After the drawdown we experienced in 2025, some managers would have reached for higher-risk exposure to claw back performance quickly. We have deliberately done the opposite. Our portfolio today is a collection of eight listed businesses, each a leader in its market, each with a moat we believe we understand deeply, and each run by people we trust to make rational long-term decisions.

The same gaps between price and value that made 2025 painful remain the source of the returns we expect over the coming years, and much of the portfolio still trades at valuations that assume very little about the future.

Sale of Eurocell

In our 2024 full-year letter I set out our thesis for Eurocell in some detail. It was, quite explicitly, a thesis about a specific plan executed by a specific leader: Darren Waters' programme of branch expansion and optimisation, an improved windows and doors proposition, a continuous improvement culture and long-overdue systems replacement, layered on top of a vertically integrated model that has historically earned returns on capital of more than 20%. In the spring, Eurocell announced Darren's abrupt departure. We sold our entire position in the days that followed at prices similar to those we paid.

Long-standing readers will know that a change of chief executive at one of our holdings is not, by itself, a sell trigger for us. Management changes happen, and at some of our companies they matter less than the market believes. When Moonpig announced its CEO succession, I wrote that the core franchise was strong enough that a steady hand which preserved its strengths would be a perfectly acceptable outcome for us, and nothing since has changed that view.

Eurocell is not that kind of business. It is not a business that just anybody can run. It is an operationally demanding, vertically integrated manufacturer and distributor in the middle of a self-improvement programme, and the distance between it being run well and being run adequately covered most of the upside we had underwritten. Our thesis was never that Eurocell would simply drift upwards with the RMI cycle; it was that a capable, energetic leader would execute a credible plan. A sudden and unmanaged leadership transition removed the very thing we had underwritten, and no successor, however capable, can be assessed against that thesis until months of evidence have accumulated. In our language, the thesis was broken, and our discipline in that circumstance is clear: we sell the whole holding, even where the business may go on to perform perfectly well. This sale is a judgement about our ability to underwrite the next five years with confidence (we can't), not a prediction that Eurocell will fail.

Sale of Macfarlane Group

The sale of Macfarlane was a different kind of decision, and in some ways a more instructive one, because nothing at Macfarlane went wrong.

We sell investments for three reasons only: because the thesis has broken, as at Eurocell; because the price has risen beyond even an optimistic estimate of intrinsic value; or because we have found a meaningfully better home for the capital. Macfarlane was the third. It remains the well-run, resilient business we described when we purchased it, with the disciplined, decentralised culture we admired, and management have continued to do exactly what we hoped they would do. Had Howdens not become available at the price it did, we would still own Macfarlane, and I would be entirely comfortable about that.

But portfolio construction is a series of opportunity-cost decisions, and when we compared the two businesses honestly, dimension by dimension, the comparison was not close. Macfarlane is a good business with real switching costs; Howdens has one of the strongest moats in the UK market. Macfarlane's pricing is disciplined; Howdens raises prices every year into weak markets and expands its margins while doing so. Macfarlane distributes what others make; Howdens manufactures much of what it sells and captures both margins. And Howdens' depot roll-out offers a decade of visible, high-return reinvestment that Macfarlane, for all its virtues, cannot match. To be able to make that upgrade for a marginally higher cash-on-cash valuation was, frankly, a no-brainer. Given the chance to swap a good business for an exceptional one on similar terms, we expect to take it every time.

Acquisition of Howden Joinery

In the spring we purchased shares in Howden Joinery at around £7.30 per share, funded in part by the two sales described above. Howdens is a business I have followed and admired for many years. It has sat near the top of our wish list for almost as long: a company whose quality was never in question, but whose price rarely offered the returns we require. This year, briefly, it did.

Howdens manufactures and distributes fitted kitchens and joinery, and sells them exclusively to the building trade, the small local builders and fitters who install most of Britain's kitchens, through a network of 891 UK depots. The homeowner is never Howdens' customer; the builder is. That distinction is the key to the whole model. A homeowner buys a kitchen once or twice in a lifetime. A builder fits many every year, buys at a confidential trade price, marks the kitchen up to the homeowner, and comes back next week for the next job. Howdens monetises the builder's career, not the homeowner's transaction, which converts a lumpy, big-ticket consumer purchase into a repeat, high-frequency trade relationship spread across tens of thousands of small accounts, none of which is individually material.

Readers of these letters will know how much weight we place on competitive advantage. I believe Howdens' moat is one of the very best of any UK listed business. What makes it exceptional is that it is easy to describe and almost impossible to copy. The advantage is local density backed by a national engine. A builder will only rely on Howdens if the depot is minutes away and the product is physically on the shelf, today; a job held up is money and reputation lost. Delivering that promise across the country requires nearly nine hundred depots, in-house manufacturing in Cheshire and Yorkshire, and a logistics operation that last year moved 73.4 million pieces of product at a 99.98% depot service level. A competitor cannot replicate this in one region without the national fixed-cost base behind it, and cannot replicate it nationally without decades of capital and accumulated depot-level know-how. Nobody locks the builder in. There are no contracts, and that is precisely why the stickiness is so durable: the builder stays because Howdens is genuinely the best answer to his problem, every day.

Two further layers sit on top. First, Howdens makes much of what it sells, so its P&L captures a manufacturing margin and a distribution margin at once: a 62.7% gross margin last year, a six-year high, achieved into a declining market, with pricing, mix and manufacturing efficiency all contributing. A business that raises prices every year into a weak market, and makes them stick, is showing you its moat in the numbers. Second, and hardest of all to copy, is the culture. Each depot manager runs their depot as a quasi-business and is paid on its local profit. You can photograph a depot; you cannot photograph a thousand small business-owners' worth of accumulated local knowledge and incentive.

The proof of all this is how the business behaves under stress, which matters to us because kitchens are a big-ticket, discretionary, housing-linked purchase. This is a cyclical business, and we do not pretend otherwise. The record through cycles is remarkable. In 2008-09 management stopped opening depots, pulled roughly £35m of stock out of the business, refused to fire-sell, and then resumed expansion while weaker competitors collapsed, emerging with more share. Through COVID, a quarter in which revenue halved was followed by a V-shaped recovery to record profits, again with share gained. And in 2025, into a UK kitchen market down around 3%, Howdens grew same-depot revenue by 2.6% and group revenue by 4.1%. In every downturn of the modern era, Howdens has come out relatively stronger. We are not buying immunity from the cycle; we are buying a business that uses the cycle against its competitors.

What we pay for that franchise matters, and here the story of this spring will be familiar to anyone who lived through it. The conflict with Iran pushed oil, and with it inflation expectations, higher, and the market concluded that UK interest-rate cuts would be pushed out once again. Housing-linked shares were marked down accordingly, Howdens among them. We took the other side of that trade with some enthusiasm. Rate expectations wash in and out of prices in months; this franchise compounds over decades. At our entry price the shares stood on less than 15x trailing earnings, with a free-cash-flow yield above 8%. That is for a business earning a roughly 23% return on capital, holding net cash, which converted over £3.8bn of operating cash flow over the past decade while returning more than £1.5bn to shareholders.

Importantly, we are not paying for heroic assumptions. UK kitchen demand is ultimately replacement demand from an ageing housing stock; it defers in a downturn, it does not disappear. Meanwhile Howdens' operating margin, at around 14.7%, remains well below its prior peak of 19.2%, because the soft housing market is suppressing volumes across a largely fixed depot cost base. When volume returns, operating leverage works in our favour, so both the cyclical recovery and the structural growth are still ahead of us, not behind us. On top sit two engines that do not depend on the cycle at all: the depot roll-out, which continues at roughly 25 new UK depots a year toward a target of about 1,000, each one a small, repeatable, high-return investment decision; and the young business in

France and Ireland, growing quickly and approaching break-even, which we treat as free optionality rather than part of our base case.

On management, the other pillar of everything we do: Howdens is that rarer thing among our holdings, a franchise led by a steward rather than a founder, and I think an exceptionally well-matched one. Andrew Livingston, CEO since 2018, previously ran Screwfix, which is essentially the same trade-focused, availability-led playbook in a different category. This is domain mastery, not a generalist learning on the job, and the eight-year record shows it: revenue has compounded from around £1.4bn to £2.4bn, guidance is set conservatively and met, and the difficult things (a declining market, France's losses, cost headwinds) are discussed openly rather than buried in adjusted metrics. Most importantly, the capital allocation hierarchy is exactly the one we would write ourselves: high-return organic reinvestment first, a progressive and well-covered dividend second, buybacks from genuine surplus cash third, and leverage matched to the reality of a cyclical business. Management is measured on return on capital employed, with vested shares held for a further two years. Our one honest caveat is that a professional CEO with a modest personal shareholding is not a founder with his name over the door; what we look for instead is owner-like behaviour, and on the evidence of eight years, this team passes that test.

Since our purchase, Howdens has announced its largest-ever acquisition: DIY Kitchens, a fast-growing, founder-built online kitchen supplier, for £390m at a sensible multiple, part-funded for the first time by a bank facility, with the group remaining net cash. I have mixed feelings that resolve into cautious approval. The one genuine long-term risk to Howdens' model is the slow migration of kitchen-buying away from the builder and directly to the homeowner; DIY Kitchens is the strongest pure expression of that channel, and Howdens has bought it from a position of strength, at a fair price, with a commitment to run it separately and leave the trade-only depot model untouched. That is the right way to hedge the one risk that matters. But we are watchful: this management team's restraint on M&A has been part of our thesis, and we want this to remain the exception that proves the rule. We will judge them on the facility being repaid, the businesses staying separate, and there being no second deal.

We think we have bought one of the UK's great businesses, a franchise with a moat measured in decades, run by people who allocate capital the way owners do, at a price set by a market worrying about the next six months of interest-rate news. That is the trade we exist to make. Our expectation is to own Howdens for many years and let the depot roll-out, the margin recovery and the compounding do the work.

Adding to Midwich

The same dislocation that gave us our entry into Howdens also allowed us to add to an existing holding at a price I would once have considered impossible. As described in our April update, we increased our Midwich position by around a quarter during the worst of the spring's weakness, at prices well below 150p, around 6.5x trailing adjusted net profit, when a major shareholder appeared to be a forced seller. We added again more modestly in June. Midwich cannot control the ebbs and flows of the AV market, but it continues to strengthen its position within it, and at these prices we are being paid handsomely to wait for the cycle to turn.

Thank you

The work of the last eighteen months has been about assembling the right collection of businesses; the work from here is to own them well. We enter the second half with eight businesses taking share in their markets, management teams making rational decisions, and a portfolio that I believe is more defensible than it has ever been.

As always, please shout with any questions you have, or if you know of someone that might be interested in partnering with us at what we believe is a very opportune moment. Thank you for your continued and patient confidence.

Yours

Jack

Appendix

Holdings over 3% as at 30 June 2026 (alphabetical order):

Auction Technology Group (ATG.L)

Bloomsbury Publishing (BMY.L)

Greggs (GRG.L)

Howden Joinery Group (HWDN.L)

Midwich (MIDW.L)

Moonpig (MOON.L)

Naked Wines (WINE.L)

Watches of Switzerland Group (WOSG.L)

Disclaimer

The contents of this document are communicated by, and the property of, Colebrooke Partners IM Limited ("Colebrooke"). Colebrooke is an appointed representative of Eschler Asset Management LLP ("Eschler"), which is authorised and regulated by the Financial Conduct Authority ("FCA"). The information and opinions contained in this document are subject to updating and verification and may be subject to amendment. No representation, warranty, or undertaking, express or limited, is given as to the accuracy or completeness of the information or opinions contained in this document by Colebrooke or its directors. No liability is accepted by such persons for the accuracy or completeness of any information or opinions. The information contained in this document is strictly confidential. The value of investments and any income generated may go down as well as up and is not guaranteed. Past performance is not necessarily a guide to future performance. Investment is only suitable for professional, certificated high net worth and sophisticated clients as set out in COBS 4.12 of the FCA handbook. If you do not meet these criteria, you must not place reliance on this document and will not be eligible to invest in the strategy. This document has been created for information purposes only and has been compiled from sources believed to be reliable. Neither Eschler, Colebrooke or their directors, officers or employees accepts liability or for any loss arising from the use here of or reliance hereon or for any act or omission by such person or makes any representations as to its accuracy and completeness. No part of this report may be reproduced or distributed in any manner without the written permission of Eschler. No investment in the strategy should be considered without reading the management agreement in relation thereto and the risk warnings contained therein.