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## EQUAM Global Value Fund

Quarterly Report Q1 2015

### Finding Opportunities In A Fully Valued Market

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#### A brief introduction to EQUAM

##### Independent, aligned value investment

Incometric EQUAM Global Value Fund (“EQUAM” or “the Fund”) was launched on January 15th, 2015.

At EQUAM, we are value investors. We seek to maximise risk-adjusted returns for our capital, investing with a long term horizon in solid businesses, committing our capital at a substantial discount to the business intrinsic value. We protect our capital by investing only if and when downside risk is quantifiable and manageable. We do not attempt to anticipate market short term fluctuations and instead focus on acquiring sound businesses at great prices.

The fund has an unrestricted mandate, seeking investment opportunities on a Global basis, which allow us to commit our capital where we believe we can find the best investment opportunities for our capital, regardless of geography or sector.

EQUAM Partners have invested the majority of their wealth in the Fund, providing a complete alignment of interest with the other co-investors in the Fund.

Incometric EQUAM Global Value FCP is a Luxembourg domiciled UCITS IV Mutual Fund and is available through a

direct investment in Luxembourg or through several major financial institutions. EQUAM Bloomberg Ticket is EQUAMVA LX and its ISIN is LU0933684101.

## A pricey market with some opportunities

During Q1 2015, most equity markets have continued their upwards march extended over the last few years, with the European markets catching up with the now aging US Bull Market. During the first quarter of 2015, the S&P 500 gained 0.4% whilst the Eurostoxx 600 gained a whopping 16.2%.

However, from a longer term perspective, the US index has gained 181.3% and Eurostoxx 130.1%, from the 2008 troughs, although from the January 2007 peak the revaluation is significantly more modest, with 40.8% and 9.1%, respectively, resulting in rather meagre IRRs of 4.28% and 1.08%.



This market performance has been strongly influenced by continuous monetary expansion and artificially low interest rates, forcing investors towards any yield generating investment, often overlooking their intrinsic risks.

Prudent stock picking to compensate high index valuations

In this market environment, a large number of long term reliable market indicators (CAPE, Q ratio) point at different degrees of full or overvaluation in broad indexes. Although we may see equity markets continuing their upwards march, we expect market volatility and uncertainty to increase. And in this environment of widespread market euphoria, we remain prudent and selective in our strategy.

However, and in spite of the overvaluation of many major indices, we believe there are attractive investment opportunities with a reasonable risk/ reward, offering significant capital gains opportunities, with minimal risk of permanent loss, often overlooked by consensus and not reached by passive, index tracking money.

And finding these opportunities has been our prime objective for which we have committed all our energy during the last months.

## Opportunities

Where we find greater spreads between value and quoting prices

Although our investment mandate is unconstrained, we tend to focus in several areas offering clear asymmetry between value and price. Our portfolio is mostly composed by businesses with one or more of the following features

- Solid, well-managed businesses with a good track record and a sound capital structure, trading at reasonable prices and with scope to compound capital consistently over long cycles. Within this group we would find excellent companies such as Verisign, Mitie, Brookfield, Hornbach or Miba.
- Companies where a corporate event (merger, spin off, asset disposal, etc) should act as a catalyst to bridge the gap between Price and a higher Intrinsic Value. This group would include situations such as Alstom, Ebay, Cegedim or Orkla.
- Companies undergoing operational or corporate restructuring programmes, with sound balance sheets and credible restructuring plans executed by experienced and motivated management teams, such as TNT Express or ING.
- Companies in sectors or markets excessively punished, where a short term market over reaction provides an opportunity to buy sound businesses at bargain prices. One of the later examples is Halliburton, a leading oil services operator whose share price has fallen more than 40% from its LTM high, with unchanged long term strengths, currently merging with its competitor Baker Hughes to form the world's second largest oil services operator. These investments will inevitably suffer strong price volatility over the short or even medium term, but we believe there is strong capital appreciation potential over the long term.

Focus on balance sheet quality to avoid permanent losses

As part of our relentless focus in protecting our capital and avoiding permanent losses, we spend a significant amount of time analysing balance sheets and avoiding situations with excessive leverage or a vulnerable liquidity profile (our

portfolio has an average Net Debt to EBITDA ratio of 0,6x). Only in very exceptional circumstances we invest in temporary leveraged companies, such as our investment in Crown Holdings, one of the worlds' top three manufacturers of food and beverage packaging products (mostly cans). Crown's current 4.4x ND/EBITDA ration is the result of two recent acquisitions closed in 2H 2014. However, the great quality of its business, with clear competitive advantages, barriers to entry and an oligopolistic structure allows Crown to generate ample free cash flow, which together with a long debt maturity profile, provides excellent visibility as to its deleveraging, allowing meaningful equity returns.

### Alignment of interests

Another important part of our analysis, based on our experience, is to assess the alignment between management teams and shareholders and minimise agency problems, a common problem often leading to value-destroying decisions. One of the best ways to ensure proper alignment of interests is through compensation structures and high outright equity ownership levels, as well as a strong track record of capital allocation. Some Portfolio Companies such as Admiral, Miba, Brookfield or Mettka have either high insider ownership or are ran by their founders. An excellent example of a business with all the above features is Admiral, a UK car insurance where the two founding shareholders retain a significant equity stake and with very low compensation packages and where all employees are shareholders, creating a very unique ownership culture. It is not surprising that Admiral valuation has multiplied by 7x since its IPO in September 2004.

### Disciplined investment process

Whilst the discipline in analysing businesses and companies is critical, psychology and cognitive biases play a critical role in investment decisions. We believe patience is a pre-requisite to protect capital until a good investment opportunity arises, and only with conviction and courage we will be able to invest at attractive levels, regardless of consensus views. Patience becomes again key to allow investments to close the gap between the investment price and the intrinsic value, a time span often too long for the average investor.

### Strong upside potential and limited downside risk

### Building an attractive and prudent portfolio

EQUAM current portfolio includes a number of companies with attractive capital gains potential, a balance risk/reward profile and sufficient diversification. We cannot predict the future but we can prepare for several outcomes.

Cash as a result of discipline

Our main portfolio holding is cash, with c 38% of total assets. Despite yielding zero interest, current market dynamics often bordering euphoria, makes our discipline and tenacity more necessary than ever. Our cash balance is the result of a demanding investment process as we only commit our capital to investments where both the capital appreciation is relevant and the downside risk is limited. Investments not meeting these two criteria are rejected and we prefer to wait with cash in the sidelines and move decisively when the opportunities inevitably arise.

Our independence and long term view allow us to pursue only those investments that we believe are sound for our and our partners capital, even if we have to sacrifice short term performance – as it is the case now- by temporarily keeping a significant cash position.

Our portfolio is currently composed of 22 companies, mostly mid sized, and with significant capital appreciation potential which we estimate to be higher than 35%. Our portfolio trades at attractive absolute and relative multiples, even more so given current buoyant market conditions.

Compañías en Cartera	22
FCF Yield Cartera	7.8%
EV/EBIT	9.0x
P/B	1.7x
PER Normalizado	12.5x
Deuda Neta/EBITDA	0.6x

The fund has gained 4.06% during its first two and a half months, with an average investment level of 40%, as we have started building our portfolio.

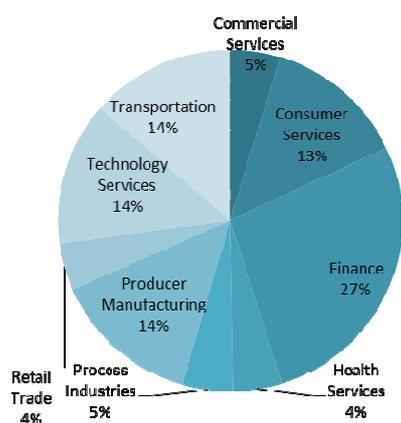
The tables below include EQUAM top 10 holdings and a summary of the overall portfolio composition (Appendix II includes a detailed analysis of the Fund investments).

**Top Holdings EQUAM Global Value, March 2015**

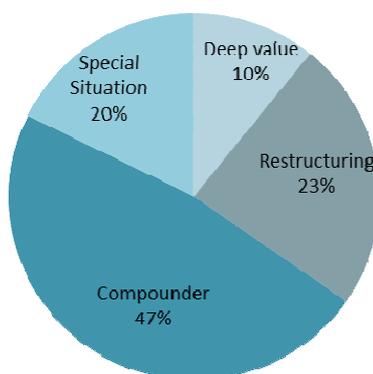
Company	Country	Weight (%)	Upside
ING Groep NV	Holanda	4.45%	15%
Miba AG	Austria	4.19%	45%
Discovery Communications	EEUU	4.16%	40%
eBay Inc.	EEUU	4.15%	40%
Bank of New York Mellon	EEUU	4.13%	48%
Samsung Electronics***	S.Sur	4.01%	45%
TNT Express NV	Holanda	4.00%	31%
Alstom SA	Francia	3.96%	36%
VeriSign, Inc.	EEUU	2.38%	13%
Crown Holdings, Inc.	EEUU	2.32%	25%
<b>Total Top 12</b>		<b>37.76%</b>	<b>30%</b>
<b>Total Portfolio</b>		<b>61.86%</b>	<b>32%</b>
<b>Cash</b>		<b>38.14%</b>	

**Investments Breakdown**

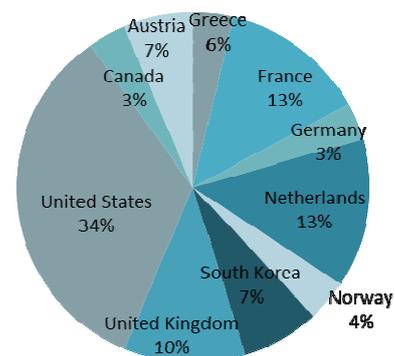
By Sector



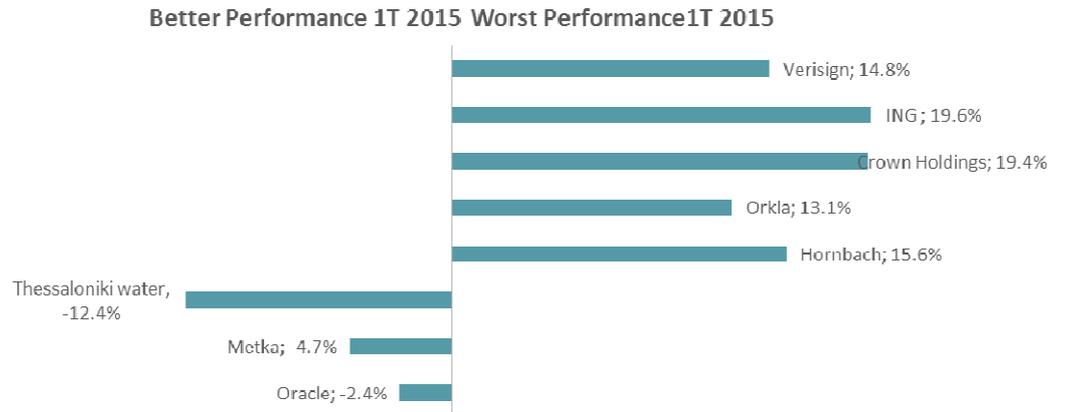
Type of Investment (1)



By Geography



The chart below indicates the main contributors and detractors to performance during Q1 2015.



We are long term investors and it will be only through a full investment cycle that our investment strategy shall be judged to be correct or not. In the meantime, our priority is to maintain a robust investment process and stay as far away as possible from situations that may create a permanent impairment of value for our, and our partners, capital.

## Annex I: Description of main investments

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### **Business description:**

- Ebay is a high growth Company operating in two different businesses: internet Marketplace and online payment services, both with significant barriers of entry and economies of scale.
- The Company has recently announced a spin-off of its two businesses becoming two independent companies.

### **Investment thesis:**

- High growth company with high profitability. Ebay Marketplace segment has been suffering recently due to currency movements and Google changes in SEO (“Search Engine Optimization”).
  - Both businesses jointly generated in 2014 FCF of 4.4bn \$ and are trading at 6,3 % FCF yield.
  - Ebay has announced a profound restructuring of its Marketplace business: if successful, Paypal, growing at 17% annually could be valued at 5% FCF yield, and eBay at 6%, offering a upside potential above 40%.
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### **Business description:**

- Retail bank focused in Europe, well capitalized and profitable, in the final stages of a restructuring process which we believe not to be incorporated in the current price.

### **Investment thesis:**

- Current Price allows to buy at a significant discount to its intrinsic value a retail bank and in addition a controlling stake in the insurance Company NN (which is also trading at a discount) and other assets.
  - The expected sale of the remaining stake of Voya Financial and the sale of NN could put in value a retail bank efficient and well capitalized.
  - Although ING Bank should be able to generate ROEs close to 13% even under the current low interest rate environment, allowing for a dividend yield of around 6%, it is trading at book value.
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**Business description:**

- BNY Mellon is the world largest custody bank and owner of the asset manager Mellon as a result of its 2007 acquisition.

**Investment thesis:**

- BNY an oligopolistic business at an attractive price, with restructuring and returns improvements potential, which should benefit from an increase in interest rates. In the case of a ROE improvement achieved through operating efficiencies and an increase in interest rate post 2015, investment IRR should be above 15%.



**Business description:**

- Vertically integrated Company that provides contents through multiple distribution channels both national and internationally.

**Investment thesis:**

- Compounder where the market does not recognize its growth potential and its cash generation potential from its ownership of content which can be monetised through different platforms.
- Trading at a very attractive level despite its strong market position, its profitability and good perspectives to double FCF within the next 4-5 years.



**Business description:**

- One of the world largest consumer electronics manufacturer.
- It is operating in three major business units: consumer electronics and mobiles, semiconductors and displays.

**Investment thesis:**

- Market leader in each of its business segments, the Company is a low cost / high quality manufacturer, with an impressive innovation track record.
- The value of the semiconductor division already justifies the current Enterprise value.
- Strong and clean balance sheet with a large cash position.
- Disciplined management team with a good track record of value creation.



**Business description:**

Alstom has agreed with General Electric to sell its energy businesses for 7.5 bn€ and create certain JV together with GE..

- Following this transaction, the Company will focus on its train business unit.

**Investment thesis:**

- The cash to be received by GE and the possibility to sell the stakes in the JV represents a floor on the value of the Company.
- The train business trades at an implied value of 4x EBIT versus an industry average of 15x.
- Once the transaction with GE has been closed, Alstom will initiate a shares buyback program that should allow for a re-rating of the train business.



**Business description:**

- TNT Express is the European market leader of parcel delivery and logistics.

**Investment thesis:**

- The Company is in a restructuring process following the failed transaction where it was going to be acquired by UPS. Aiming to increase operating margins from current 4% to 8%.
- Trading at 10x over current operating income that still does not reflect the restructuring process, a large discount versus its peers.
- The Company's large cash position allows the Company to execute its restructuring process without time pressures.



**Business description:**

- Company providing internet domain registration services.
- The Company has been granted a worldwide license for the .com and .net dominions granted by the ICANN (Internet Corporation for Assigned Names and Numbers).

**Investment thesis:**

- Monopolistic position protected by a licence.
- High value of the ".com" brand.
- Strong business predictability.
- Strong cash flow generation capacity and good ROCEs trading at 6,5% FCF yield.



**Business description:**

- Crown Holdings manufactures aluminium packaging products for the food and beverage industries.

**Investment thesis:**

- Maintains an oligopolistic position together with Ball and Rexam that have recently announced a merger transaction.
  - The business is local due to high transportation costs. Those manufacturers with facilities close to the clients maintain a competitive advantage that grants business stability. The Company has recently executed two new acquisitions (one in Mexico and one in Spain) and has restructured its debt accommodating it to the Company's cash flow generation capacity.
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**Business description:**

- Nordic holding Company with strong presence in branded consumer goods.
- It maintains other investments in industrial, utilities and certain other real estate assets.

**Orkla:**

- At current prices, the consumer goods business is trading at a significant discount to its intrinsic value.
  - The consumer goods business is improving its profitability.
  - Non core assets should be sold before 2016 year end.
  - The company's dividend should sustain returns while the restructuring is being executed.
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## Annex II: Equam Global Value FCP Portfolio as of March 31, 2015

## Holdings EQUAM Global Value, March 2015

Company	Country	Type of invest.	Industry	Price	Weight	I. Value	Upside
ING Groep NV	Holanda	Restructuring	Finance	13.87	4.45%	16.00	15%
Miba AG	Austria	Compounder	Producer Manufacturing	449.00	4.19%	652.00	45%
Discovery Communications	EEUU	Compounder	Consumer Services	32.15	4.16%	45.00	40%
eBay Inc.	EEUU	Special Situation	Consumer Services	56.91	4.15%	79.90	40%
Bank of New York Mellon	EEUU	Compounder	Finance	40.55	4.13%	60.00	48%
Samsung Electronics***	S.Sur	Deep value	Consumer Durables	496.80	4.01%	721.65	45%
TNT Express NV	Holanda	Restructuring	Transportation	6.00	4.00%	7.86	31%
Alstom SA	Francia	Special Situation	Producer Manufacturing	28.78	3.96%	39.00	36%
VeriSign, Inc.	EEUU	Compounder	Technology Services	66.69	2.38%	75.28	13%
Crown Holdings, Inc.	EEUU	Compounder	Process Industries	54.10	2.32%	67.60	25%
Orkla ASA	Noruega	Restructuring	Producer Manufacturing	61.15	2.21%	75.00	23%
Admiral Group plc	UK	Compounder	Finance	15.51	2.16%	19.68	27%
National Express Group PLC	UK	Deep value	Transportation	2.86	2.12%	3.50	23%
Hornbach-Baumarkt-AG	Alemania	Compounder	Retail Trade	34.95	2.12%	50.00	43%
Brookfield Asset Management	Canada	Compounder	Finance	54.76	2.08%	80.00	46%
MITIE Group PLC	UK	Compounder	Commercial Services	2.81	2.02%	3.90	39%
Worldline SA	Francia	Compounder	Technology Services	17.20	2.02%	21.00	22%
Halliburton Company	EEUU	Special Situation	Industrial Services	43.96	2.02%	60.00	36%
Oracle Corporation	EEUU	Compounder	Technology Services	42.62	1.91%	60.00	41%
Cegedim SA	Francia	Special Situation	Health Services	31.50	1.85%	40.41	28%
METKA S.A.	Grecia	Restructuring	Producer Manufacturing	8.34	1.83%	15.14	82%
Thessaloniki Water & Sewerage	Grecia	Restructuring	Utilities	2.51	1.77%	5.40	115%
<b>Top 12</b>					<b>42.13%</b>		<b>30%</b>
<b>Total investments</b>					<b>61.86%</b>		<b>32%</b>
<b>Liquidity</b>					<b>38.14%</b>		

\* Price in local currency.

\*\* Equam independent analysis.

\*\*\* Samsung investment includes 50% of ordinary shares and 50% preferred.

## Incometric Fund - Equam Global Value - Class A

Ticker Bloomberg	EQUAMVA LX
Ticker Telekurs	21312974
ISIN	LU0933684101
Valor Liquidativo	Semanal, Jueves

Asesor de Inversiones	Equam Capital EAFI
Sociedad Gestora	ADEPA (Lux)
Banco Depositario	KBL (Lux)
Transfer Agent	European Fund Admin.

Comisión fija	1% sobre patrimonio
Comisión variable	10% sobre plusvalías
Traspasabilidad	SI - Nº registro CNMV: 587
Distribuidores en España	All Funds, Inversis

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