# EQUAM Global Value Fund

## Quarterly report June 2018

## Taking advantage of increased volatility.

After a calm 2017 in which market volatility was low, the first half of 2018 has marked the return to higher volatility and larger share price changes for many companies. We have taken advantage of these price variations to significantly increase the upside potential of the fund, from 41% at the beginning of the year to 65% at the end of the quarter.

*Incometric Fund - EQUAM Global Value is a mutual fund managed with a value investing methodology. We intend to compound our capital through long-term investment in companies with solid businesses that we can acquire at a discount to their Intrinsic Value. We also seek to protect our capital investing only in situations where the risk of permanent capital loss is low. We do not aim to second-guess short term market movements but rather acquire interests in sound businesses at excellent prices.*

*The Fund has an unconstrained mandate that allows us to deploy capital in companies active in regions and sectors where we can find the best investment opportunities. However, we are currently focusing our idea generation efforts in the European Small & Mid Cap arena.*

*We, the General Partners have invested the majority of our net worth in the fund and our interests are entirely aligned with those of our partners and co-investors.*

*EQUAM Global Value is a UCITS V vehicle and can be invested into throughout most leading financial intermediaries using AllFunds, Inversis, Fundsettle and other platforms.*

## Fund evolution during the second quarter.

During the first half the fund NAV has not increased, but we have continued to add value with new investments that took advantage of the increased volatility. With these investments we have significantly increased our upside potential.

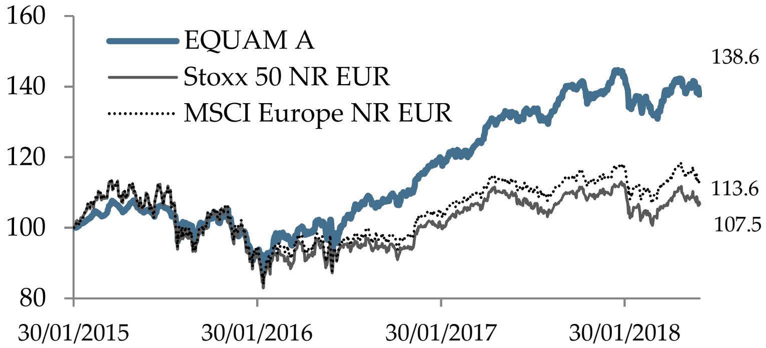
The second quarter of this year has remained as volatile as at the beginning of the year and even though indices have slightly recovered, they remain in negative territory for the year. Equam has experienced a similar evolution to the indices. In the first half it has fallen by 1.7% compared to European indices that have fallen by a range of 1.9% to 0.5% (including dividends).

Despite the stability of the NAV of the fund during the year, we have been able to create value by satisfactorily taking advantage of volatility. At the beginning of the year the value of our fund when measured at our internal target prices was of 200€ per unit while at the 30th of June it increased to 229.7€. We achieved this increase both by making new investments and through the change in weightings of our positions according to their upside potential. Because of these changes, the fund's upside potential has increased from 41% at the beginning of the year to the current 65%. This improvement makes Equam a more attractive investment now than a few months ago. In other words, despite the fund being more or less flat in the first half, we have been sowing the seeds for future performance that we expect to harvest in the coming years. In addition to that, we are closely following at least ten companies that we believe are very attractive and which could be part of our portfolio in the near future.

Many investors put too much focus on the short-term evolution of their investments, but what we believe is important is the capacity to create value over long periods of time through investments in companies that are trading at a discount to their intrinsic value – despite the uncertainty about when the market will recognise this value.

If we consider the performance of Equam over the long term, our annualized return in the three and a half years since inception is around 10%, compared to the 2.2% to 3.8% return range achieved by the main European indices – including dividends.

EQUAM vs. main European indices*
(base 100)




** Net Return indices assume the reinvestment of dividends after withholding tax.*

## What is the structure of our portfolio?

Equam invests primarily in European equities, but the geographic exposure of the fund is very diversified.

We would like to provide some additional details about the composition of our portfolio. If our investors have any additional questions, we remain at their disposal to address them.

**Geographic exposure**. As we have already highlighted in past letters, we are focusing our efforts on the search of opportunities in the European market because we want to have a close relationship with management and to restrict the scope in which we look for opportunities. In this respect, out of the 46 companies in our portfolio, only three are listed outside of Europe. This does not mean that our portfolio is only exposed to the European economy, since several of our investments have a global exposure and are present in different geographic areas. If we consider the turnover of the companies in our portfolio, their exposure to Europe is reduced to a 60% of total sales while the US represents 15% and other emerging economies represent 25%. Within Europe, we have a relevant exposure to the UK, where we have taken advantage of the uncertainty – and fear – created by the Brexit process, to invest at attractive prices in companies that have a global exposure.

We invest wherever we find a significant discrepancy between price and value, regardless of the size of the company.

**Market Capitalization**. Even though it is easier to find opportunities within the small and medium sized group of companies due to the lower number of analysts and investors following them and the consequent greater price inefficiency, we are agnostic regarding the size of the companies in which we invest, provided there is enough liquidity to buy and sell comfortably. We invest wherever we find a significant discrepancy between price and value, regardless of the size of the company. Currently, half of our assets are invested in companies larger than 1 billion and only 4 out of our 46 investments have a market cap below than 300 million.

We have a bottom up approach, but we have a diversified portfolio.

**Sector exposure**. We have a bottom up approach when looking for investment opportunities and we do not pre-assign weights to specific sectors. However, we do want to have a diversified portfolio, one in which investments are uncorrelated with each other and are dependent on different drivers. Their only common denominator is that they are all trading at a discount to intrinsic value. As a result, the largest sector exposure we have is to oil and gas, where we have 5 investments which represent around 12% of the portfolio. The next most relevant sector is maritime transport, with a weight of around 6% and that is within itself, very diversified regarding sub-sectors and risk variables.

## New investments

TI Fluid holds leading positions in the two segments it operates, achieving an attractive return and a strong cash generation capacity.

During the second quarter we have made three new investments. One of them, **TI Fluid Systems**, is a supplier of automotive components with a leading position in each of its two divisions; fluid systems for cooling and braking systems (where it boasts a 35% market share and it is three times larger than its next competitor) and plastic fuel tanks (where it is one of the three largest worldwide competitors). There is some market concern about the impact that the transition from internal combustion engines to electric vehicles can have in the company's business. However, the company believes that apart from the obvious impact of the fully electric vehicle (not the hybrid) in the fuel tank division, the net effect of electrification, considering the incremental impact on the fluid system division, will be positive for the company.

On the other hand, it is also true that the company has a leverage ratio that is slightly higher than the average of the sector. However, we believe 1.8x net debt to ebitda is still reasonable and if we consider the company's strong cash flow generation capacity and the low valuation at which it is trading (a P/E of 7.5x and a free cash flow yield of 11%) we conclude it can be an attractive investment. This low valuation is also affected by two additional facts: i) the company is traded in the UK, reports in Euros and its management team is based in the US, a situation that generates some complexity for certain investors, and ii) the company was listed in 2017 by Bain Capital, but the fund still maintains a 73% stake in the company, thus reducing the free float and adding a stock overhang that could lead to price weakness while the shareholding is placed in the market. For us, this temporary price weakness would not be troublesome since it would not affect the intrinsic valuation of the company.

Despite the uncertainty surrounding the tobacco industry, Imperial has demonstrated its capacity to generate cash and we believe its share price is excessively depressed.

We have also made an investment in **Imperial Brands**, a worldwide leading tobacco company, taking advantage of what we believe has been an overreaction of the market that has driven the price 40% down in 8 months. The whole sector has been suffering volume reductions for several years, because of lower consumption and heavy regulatory pressure. Tobacco companies have been able to compensate these volume falls with constant price increases (price elasticity of tobacco demand is very low) and recurring restructuring and optimization programs that have allowed to achieve significant cost reductions. In the case of Imperial, after acquiring several companies over the last years, the company started 12 months ago a brand portfolio rationalization plan to focus on its strongest brands, which is starting to bear fruit in the form of increased market shares. Finally, the industry has been under threat of disruption by a new generation of products (e-cigarette and vapour cigarettes) which risks cannibalizing current revenue and facilitates the entrance of new competitors. In this respect, Imperial Brands is well positioned since its market share in cigarettes is lower than its share in new generation products, and its brand "Blu" is performing well. When we invested in Imperial Brands it was trading at a Free Cash Flow yield greater than 10% and a P/E of 9x, which reflected what we believe is an excessively pessimistic view of the company's prospects.

We have invested in another seismic exploration company, but this time we chose a company that holds physical assets.

We have had investments in the seismic exploration sector since the Summer of 2015, initially through TGS Nopec and later on with the addition of Spectrum to the portfolio. Both companies are asset lite that have virtually no debt and flexible cost structures and are well prepared to endure a long downturn in the oil cycle. This quarter, after three years of severe investment contraction in the sector and despite not having perfect visibility about the recovery of oil exploration, we have increased our exposure to this oil sub-segment by investing in a small seismic exploration company that owns four vessels.

The company has finalised an operational restructuring which has significantly reduced its cost structure and has completed two capital increases in the previous 6 months, which have increased its net cash position to about 28% of market cap. It is now fully prepared to take advantage of the foreseeable recovery of investment in the coming years. Despite having a riskier profile than our other two investments in seismic exploration, we believe that the timing is right, both from the company's and market's perspective, and that this investment's upside potential is very high.

## Divestitures

After Boeing's offer for the Aerospace division of the business, which represents 90% of the value of KLX, we have decided to sell.

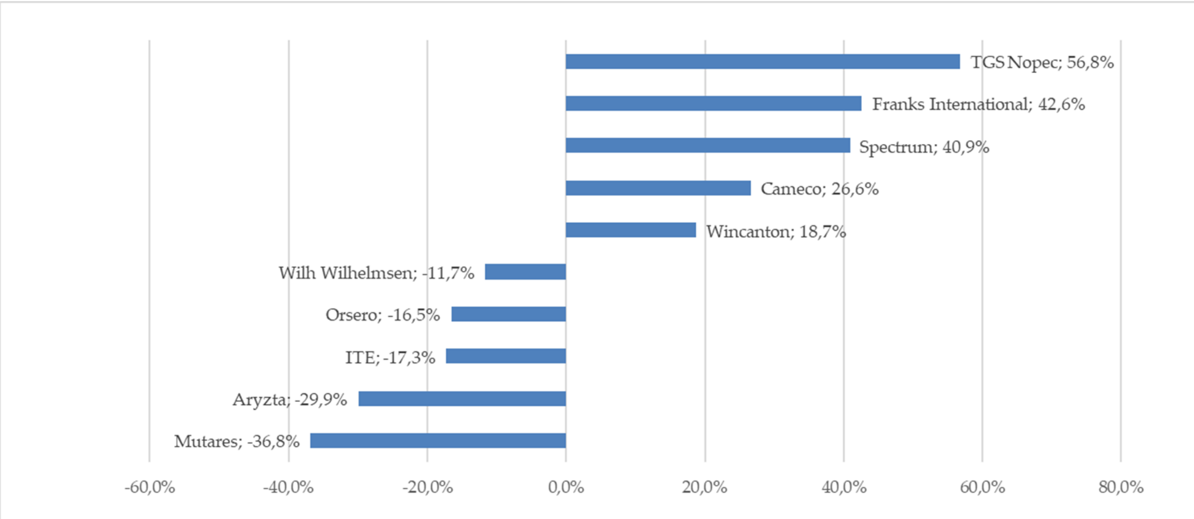
In the second quarter we have received another takeover offer for one of the companies in our portfolio; **KLX**, the American company that distributes repair and spare parts for the energy and aerospace sectors. In our previous quarterly report, we informed about the company's statement regarding the hiring of a financial advisor to explore different strategic alternatives and their impact on the company's value. Last May the company announced an agreement with Boeing to sell its aerospace business, representing around 90% of the company's value, subject to regulatory approval and to the prior spin off of its energy division. After this announcement and once the share price of KLX matched the terms of the offer, we decided to sell. We have achieved a 72% return in little more than three years.

We have also divested two companies (**Judge Scientific** and **Alliance Pharma**) which operated in different business niches (instruments for laboratories in the case of Judge and pharma in the case of Alliance), but which shared a similar business model based on reinvesting cash flows in the acquisition of companies that they integrated in their structure. In both cases we have divested after having reached our target price and significant returns: A 59% capital gain in two years in the case of Judge and a 40% capital gain in 7 months in the case of Alliance Pharma.

## Evolution of the fund and its portfolio.

After these new investments and divestitures we have 46 positions in the portfolio and we maintain a 3% cash position, which is a slightly lower cash level that that of the average of the most recent quarters.

The following table shows the evolution of the best and worst performing companies in the portfolio during the second quarter (or since they were acquired if it was acquired this quarter).




We are closely following the situation of Aryzta.

Regarding **Aryzta**, we keep following the situation closely. The company's current profits are very depressed and despite the fact that the new management team is executing its restructuring plan with discipline, external issues such as the increase in commodities and logistic prices are delaying the achievement of positive results. The high leverage of the company and the need to meet debt covenants is putting additional pressure on the restructuring process and the share price.

We cannot have complete certainty about the future and neither can we completely discard the possibility of a rights issue, but we keep thinking that the company will be able to meet its debt covenants thanks to the proceeds received from dividends and probably the future sale of Picard Surgeles, a non-core asset that is in the process of being divested. In this scenario and considering that the company's business has significant barriers to entry and a stable and predictable demand, the upside potential is very high and should materialize when the results of the restructuring process start to be visible.

ITE Group has announced a transformative deal that will double the size of the company. We believe this deal dilutes the upside potential of the legacy emerging market business, but the company's upside potential remains high enough for us to participate in the capital increase.

**ITE Group**, another company in our portfolio, has announced the acquisition of the exhibition business of Ascential in a deal that will nearly double the size of the company. We believe the portfolio of assets acquired in the transaction is very interesting, with leading positions in their respective niches and exposure to western markets that compensate ITE Group's significant concentration in more volatile and risky emerging markets, mainly Russia. As shareholders of ITE, we received this transaction with scepticism, because we were expecting a significant upside from the potential recovery of Russia and other emerging markets and the deal dilutes this upside potential with increased exposure to mature markets. However, we decided to participate in the rights issue because we believe the resulting group is trading at a big enough discount to our estimate of intrinsic value.

**Mutares**, the German holding company that invests in distressed assets, announced and executed the IPO of its largest holding, STS. This subsidiary is a leading manufacturer of plastic components for trucks and heavy vehicles and is the result of a build-up of several companies that are now in the process of being integrated.

The listing of this company makes the group more transparent and provides the necessary resources to make growth investments but has been placed at a price which is significantly below Mutares management estimated value for that business in its previous quarterly reports. Consequently, the NAV of the portfolio as calculated by Mutares has fallen by 30%. The share price of Mutares has fallen by even more than that (34%), so the discount to NAV remains high. However, the credibility of the management team has been damaged by this transaction.

## Francisco García Paramés becomes a shareholder of Equam.

After receiving the regulatory approval from CNMV, last May we completed the capital increase that incorporates Mr García Paramés as a shareholder of Equam Capital, a deal we had already announced at the end of 2017.

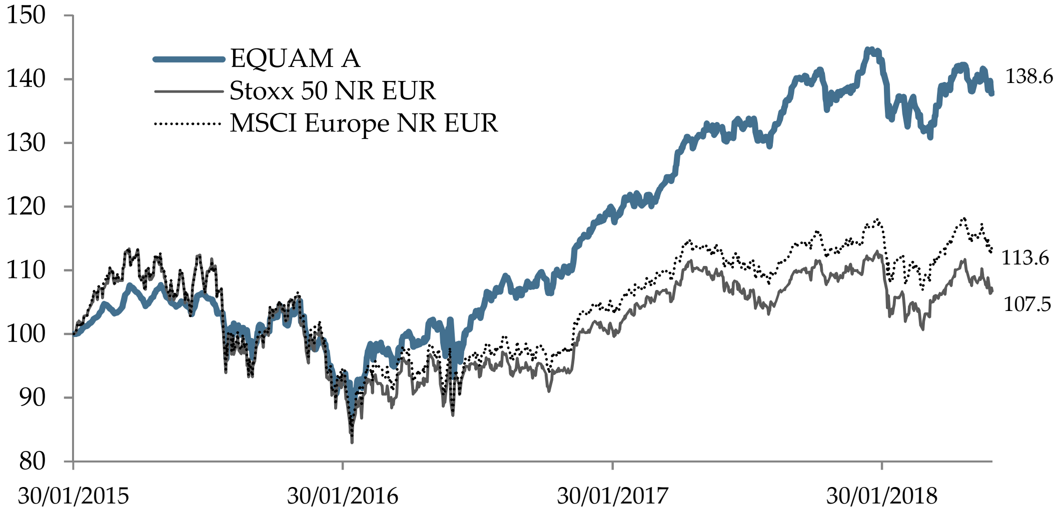
As we said at the time of the announcement, we are very proud of this association and convinced that Mr Paramés long and successful experience and Cobas solid resources will help to consolidate and reinforce our project.

## Appendix I: EQUAM Portfolio.

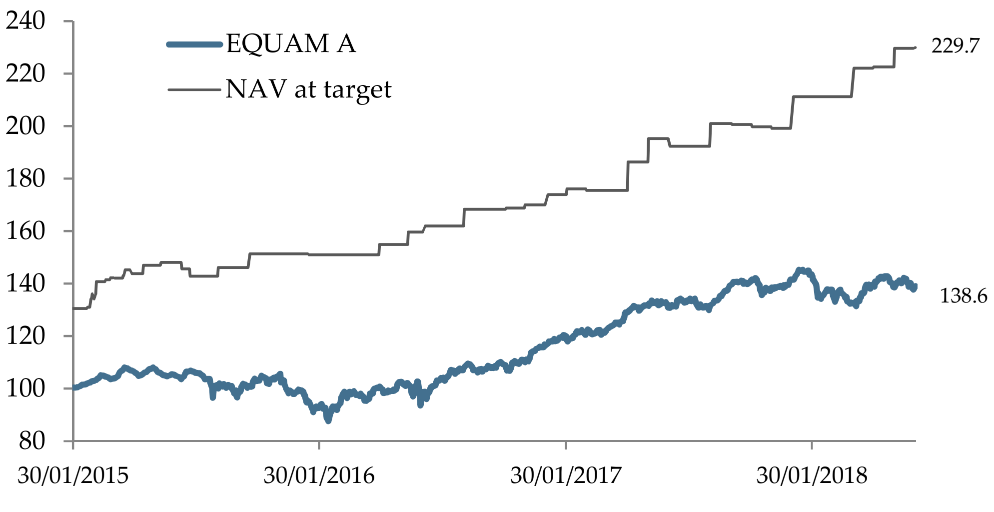
| Company | Country | Weight | Value Base Case | Upside |
|---|---|---|---|---|
| Frank's Inter. | US | 3,8% | Countercyclical niche oil services player | 121% |
| Euronav | Belgium | 3,6% | Depressed VLCC tanker company | 31% |
| Origin Enter. | Ireland | 3,4% | Agronomy company with stable revenue at low price. | 38% |
| Spectrum | Norway | 3,3% | Countercyclical niche oil services player | 35% |
| DFS Furn. | UK | 3,2% | Leading British manufacturer of furniture | 109% |
| MITIE | UK | 3,2% | Undervalued compounder in fragmented market | 111% |
| Parques Reunidos | Spain | 3,1% | Spanish theme park operator trading at 52w lows | 49% |
| Serco | UK | 2,9% | Refocused contractor in restructuring process | 99% |
| Aryzta | Switzerland | 2,8% | Undervalued oligopolistic leader. | 169% |
| Int. Engelska Skolan | Sweden | 2,8% | Swedish School company with strong organic growth | 90% |
| Piaggio | Italy | 2,6% | Recovery of the European replacement cycle of bikes | 76% |
| Smart Met. Systems | UK | 2,6% | Protected and profitable smart metering market | 21% |
| Arcus | Norway | 2,5% | Nordic alcoholic beverages distribution at high FCFy | 41% |
| TGS | Norway | 2,5% | Countercyclical niche oil services player | 12% |
| Meggitt | UK | 2,5% | Undervalued compounder in low cycle | 43% |
| **Total top 15** | | **45%** | | |
| **Total portfolio** | | **97%** | | |
| **Liquidity** | | **3%** | | |
| **Total fund** | | **100%** | | **66%** |

# Appendix II: Evolution and target NAV of the fund.

### Equam performance relative to indices




### EQUAM performance and evolution of NAV at internal target prices[1]




*[1] The increase in NAV at internal target prices is the result of the replacement of mature investments with new opportunities, since we have not made material changes in the target price of our investments.*

| Performance vs indices | EQUAM A | MSCI Europe NR** | Stoxx 50 NR** | Equam vs MSCI |
|---|---|---|---|---|
| 1 month | 0.3% | -0.7% | -0.1% | 1.0% |
| 3 month | 5.0% | 4.0% | 4.2% | 1.0% |
| 2018 YTD | -1.7% | -0.5% | -1.9% | -1.3% |
| 2017 | 21.7% | 10.2% | 9.2% | 11.5% |
| 2016 | 17.1% | 2.6% | 0.6% | 14.5% |
| 2015 | -1.0% | 0.9% | -0.3% | -2.0% |
| **Inception** | **38.6%** | **13.6%** | **7.5%** | **25.0%** |
| **Inception annual** | **10.0%** | **3.8%** | **2.2%** | **6.2%** |

** Return since inception exclude initial 15 days in which the fund was not invested.*

*** NR indices assume dividend reinvestment after withholding tax.*

**Incometric Fund - Equam Global Value**

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|---|---|---|---|---|---|
| Bloomberg (Class A) | EQUAMVA LX | Registered in Spain | CNMV number 587 | Fund Advisor | Equam Capital |
| ISIN Class A | LU0933684101 | Fees Class A | 1% NAV and 8% profit | Management Company | ADEPA (Lux) |
| ISIN Class D | LU1274584991 | Fees Class D | 1.25% NAV (min 1 MEUR) | Custodian | KBL (Lux) |
| | | | | Transfer Agent | European Fund Admin. |