EQUAM Global Value Fund

Quarterly report September 2018

Portfolio of solid businesses at attractive prices.

During the third quarter we have found good investment opportunities to reinforce our portfolio and increase its upside potential, which is currently the highest since we launched the fund in 2015.

In this report we try to highlight that in addition to the high upside potential, the portfolio is well diversified, composed of stable businesses with low leverage that allow us to wait patiently until our target valuations are reached, regardless of the situation of the market.

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.

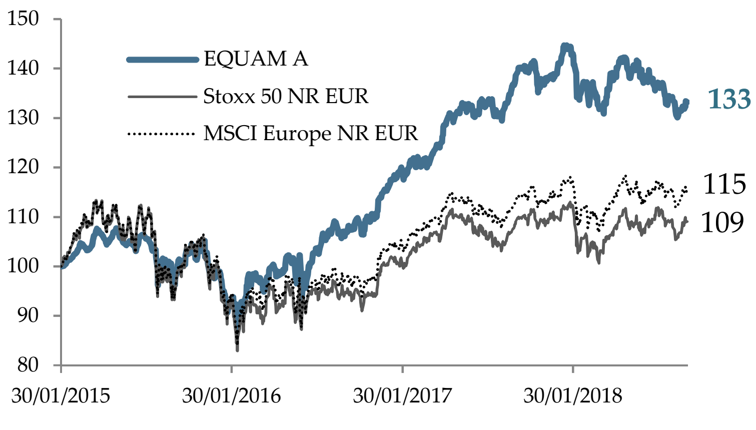
EQUAM

Third quarter evolution

During the third quarter the fund suffered a 3.9% fall in NAV, compared to an increase of around 1% for comparable indices. This underperformance in the quarter is mainly due to the fall in the share price of Aryzta, SMS, Wilmington, Parques Reunidos and Rieter which we believe are undergoing temporary stress situations that could not be compensated by the good evolution of a large part of the portfolio. The performance of the fund year to date is -5.9% compared to -0.6% of Stoxx 50 and +0.8% of MSCI Europe.

During the year we have continued to apply the same method that we use since the launch of the fund; we have bought companies that are trading at a discount higher than 30% relative to their intrinsic value and sold them when they reach this value. Despite the different evolution of the fund's NAV this year, we have continued to find companies trading at a discount to substitute those which reached its value. The result of this work is an increase in the upside potential of the fund to more than 70% as of September 30, the highest potential since inception.

EQUAM vs European index *
(base 100)



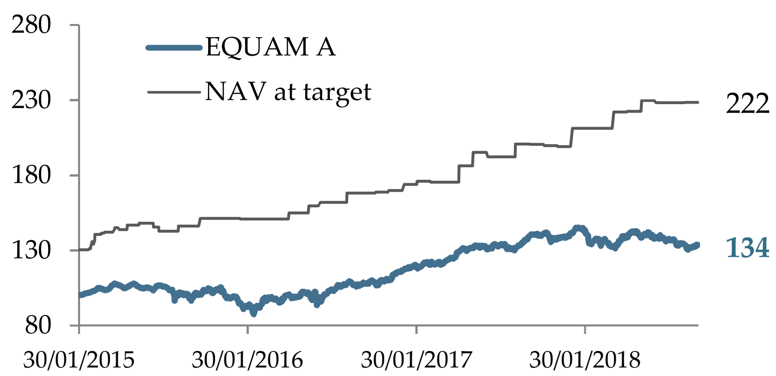
** Net return indices assume the reinvestment of dividends net of withholding tax.*

The fund's upside potential

The fund's upside potential is the highest since its launch.

Since we launched the fund in January 2015, we have published the target value of the fund, ie, assuming that all our investments reach their intrinsic value, on a monthly basis. The difference between the fund NAV (calculated according to daily closing stock prices) and the target intrinsic value (using our internal valuation of each position) is our upside potential. Since inception, the fund's potential has oscillated within a range from 40% to 70%. The current 70% is the highest since launch.

EQUAM NAV and value at target prices



There is no warranty that this upside potential will materialize in the short term, but we think that there is a reasonably high probability that the NAV will gradually converge towards its target value over the long term.

This quarter, in which the upside potential is maximum but the fund has underperformed the market, we would like to reassure our co-investors and express our conviction in our valuations and in our belief that it is justified to patiently wait while the convergence of price and value takes place.

One of the reasons why we have the conviction that prices will converge to intrinsic values is that it has happened in the past. We believe that the good evolution of Equam over the previous years – it has the 4th best 3-year performance out of the 218 European funds – is in great part due to this convergence process towards intrinsic value.

We believe this process will continue in the future over the long run, whatever the market situation and even despite going through times of greater turbulence. On one hand because our (i) valuations have been calculated using a consistent and tested method, and on the other hand because (ii) the situation of our investments is solid enough to allow us to wait and even buy more shares when prices fall.

(i) Regarding our **valuations**, we would like to highlight that both the multiples and the normalized financial figures we use are prudent, and that the divestments we have made over the years also confirm we were right with our calculations.

- We assign reasonable valuation multiples to our investments. Our internal estimates of the intrinsic value of our investments are based on ratios – between 10x to 12x ebit or around 6% FCFy - which are in line with historic market averages. This sets us apart from other investors who are ready to pay much higher multiples to get hold of companies with high growth potential. We are more comfortable with historic average multiples, which allow us to present target valuations that are relatively easy to reach.

- We calculate valuations using financial figures that are normalized but that do not assume growth. We estimate the earnings power of our companies after not only analyzing the public information available but also once we have had interviews with their management teams and analysts that cover the stocks. The financial assumptions we make ponder the public information available for our companies.

- In the nearly 4 years since we launched the fund, more than 40 investments have reached our target price, with average gains of 50%. In addition to that, the takeover bids we have received (seven, including JLT and Abertis, which we sold before they were made public) offered prices which were at around our valuations or higher. After these four years, our list of divestments and takeover bids received is long enough to say that our valuations are in general terms accurate and their achievement does not require extraordinary events.

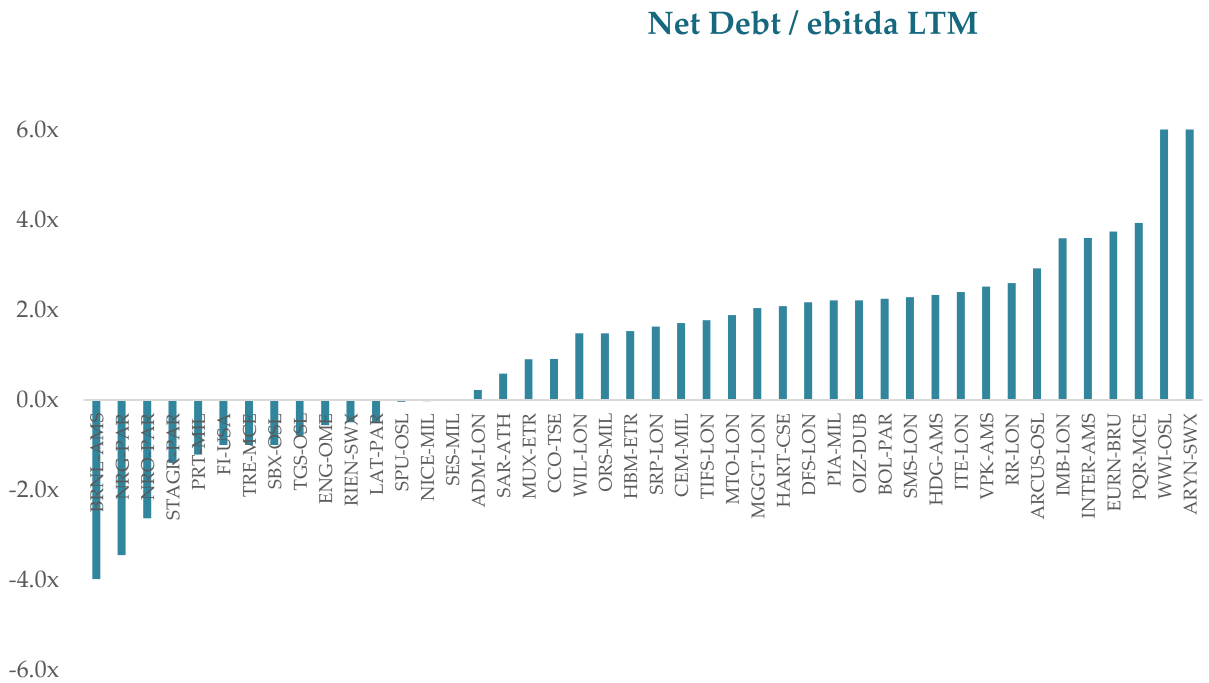
(ii) Regarding the **stable nature of our investments**, we would like to highlight that the great majority of the businesses in which we invest have a profile of stable cash generation and low leverage, which will allow them to withstand and even be reinforced by crisis.

- <u>We have invested in stable businesses</u>. This is a crucial part of our investment process. Had we invested in structurally challenged businesses, the time required for the convergence of price and value could run against us, and the convergence run in reverse due to a deterioration of results. We believe that our businesses are resilient and it is difficult that something like that could happen since we discard businesses that lack stability of cash flows. They may suffer temporary deterioration of profitability in some investments, but their structural resilience gives us total confidence in their recovery.

- <u>Our portfolio is adequately diversified</u>, with investments uncorrelated to each other and a limited exposure to each position. We have already highlighted in the past that we find it difficult to precisely anticipate which of our investments will have the best performance, so we prefer to avoid concentration risks.

- <u>Our investments have healthy balance sheets and are conservatively financed</u>. This is also a very relevant requirement, since we may need to wait for years until the price convergence takes place and we have to minimize the risk that an excess of debt leads to a rights issue or some other negative outcome that impairs value and stops the price convergence process.

The following table shows the net debt to ltm ebitda ratio of the companies in our portfolio.



This chart shows how the leverage of our investments is lower than 2.5x ebitda in the great majority of our investments. We find this leverage ratio very reasonable, considering that the businesses we invested in generate stable and predictable cash flows.

From a quick view of the chart some of our investments may appear to be quite leveraged, but we nevertheless think that leverage in those situations is reasonable for the following reasons:

- Wilh Wilhelmsen (WWI) and Euronav (EURN) ares shipping companies whose leverage should be measured by the "loan to value" ratio. On this view, they appear much less leveraged with a ratio of debt to assets lower than 0.35x.
- Parques Reunidos (PQR) and Intertrust (INTR) are former LBOs by Candover and Blackstone respectively, which started trading not so long ago, and despite their ratios being a bit higher than those of the rest of the portfolio, they are

generating cash and gradually deleveraging their balance sheets.

- Only Aryzta has a leverage ratio that is higher than what we consider adequate for our portfolio. Aryzta's business model is very good and that's why we made an exception to the investment filter. However, last August the Company announced that its Board had proposed an 800m capital increase. If this capital increase finally takes place, our return on this investment will be negatively affected and we may have to acknowledge that it was a mistake to make an exception to our investment criteria to avoid debt.

For all the above reasons, we believe that the upside potential of the fund has been reasonably calculated and that the soundness of our investments, both from an operating and financial view, will allow our investors to wait patiently while the convergence process takes place. The portfolio is prepared to withstand economic crisis and downward turns of the market.

However, we are unable to tell how long it will take to complete the price convergence in each case. In the past we have seen quick revaluations of our investments, but this year, despite applying the same method as the past years, we are seeing a slower rate of revaluation and in some cases, prices falling to expand the discount. This short term evolution leads us to maintain and reinforce our discipline and courage in the execution of our decisions, something to which we have been committed since the launch of the fund. Maintaining patience and discipline when the performance is negative is the essence of our investment method and allows investors to obtain good returns over the long run.

New investments

We have taken advantage of the currency crisis in Argentina to buy shares in Prosegur Cash.

In the third quarter we have made five new investments. One of them is **Prosegur Cash**, the cash in transit division of Prosegur that was listed at the beginning of 2017. The business generates stable cash flows and has an oligopolistic structure, because those players who achieve a relevant market share benefit from strong economies of scale that preclude other players from entering the market and allow to achieve high margins. Despite the general perception that the use of cash is falling, the reality is that it is either stabilized or growing. Cash in transit business model is also prone to growth by acquisitions, since it is possible to buy small, sub-scale companies at low prices and then integrate them in the existing network of Prosegur, generating considerable synergies.

We had been following the company for some time but we had never had the opportunity to invest because it was trading at a reasonable valuation, similar to our internal target price.

However, the Argentinian currency crisis has generated a panic in the stock. It has declined by more than 40% from maximum levels and it is now trading at around 7.5x normalized ebit, ie, assuming the financial impact of the crisis is reversed. We have confidence in the ability of the company to overcome the crisis in Argentina, first because they have shown in past currency crises that they were able to maintain the value of their investments, but also because we understand that the devaluation of the currency leads to inflation that increases demand for cash transport services and allows the company to increase prices.

We can comfortably assume that Prosegur will recover its profitability, but we do not know when it will start to improve, and maybe the situation worsens before improving. But considering the low valuation, we have started buying.

Headlam meets our investment criteria: high quality business, with net cash, a good management team and trades at 10% free cash flow yield.

We have also invested in **Headlam**, a British company devoted to the wholesale distribution of floor coverings. It delivers pre-cut and ready to install products to installers, also helping them with inventories, samples and other administrative duties. After years of acquisitions it has become the UK's largest wholesaler for small installers, allowing them to compete with the larger players. As a wholesaler it has strong economies of scale because of fixed warehouse and distribution network costs, and having achieved a relevant market position in the country, with very well integrated and sticky customers, it is difficult for new competitors to enter the market.

The company released a set of 2017 results which were worse than expected and the share price experienced a significant fall. The market did not like the negative like for like performance, which was in part due to softer consumer demand in the UK, but also due to a strategic change in one of its largest clients which reduced demand temporarily. The capex program for 2018 and 2019, which will be invested in a new distribution center in Ipswich was not well received either, but we think it will help improve the distribution network efficiency.

The decline in the share price allowed us to buy this excellent business, which has a 10% net cash position, at a 9.5% free cash flow yield.

We have also bought shares in **Mondadori**, devoted to book publishing and distribution in Italy and magazine publishing in France and Italy.

Book publishing is a stable business with good cash generation capacity. Mondadori has a high market share in Italy, both in education and general interest books. In 2016 Mondadori bought RCS Libri (Rizzoli), a transaction that reinforced its positioning in education books and that is allowing the company to generate relevant synergies. The trade book division has also performed well, thanks to Mondadori's disciplined approach to buying book rights and to printing the right volumes of each edition to reduce returns from bookshops and thus improve margins.

Magazine publishing is a declining business, with falling circulation numbers and advertising revenues. The sector is going through a difficult situation because it is hard to reduce costs, especially in opinion magazines, and margins are under threat. However, we believe that Mondadori is also doing a good job in this area; it bought Banzai (digital media business) in Italy and it is starting to stabilize the situation thanks to the digitalization of contents, and in France it has announced a possible deal to sell or partner with french company Reworld Media for its magazine business.

We think that Mondadori is a well managed family business, that generates cash and that is undervalued because the market is paying too much attention to the performance of the magazines business. We have been able to buy shares in this group, chaired by Marina Berlusconi, at a discount of more than 50% to our sum of the parts valuation, in which we assume a 9x ebitda multiple for the book business (below private transaction multiples) and a 3-4x ebitda multiple for the magazine business.

We have also made an investment in **KLX Energy**, a US listed company which we know from our investment in KLX. KLX Energy ("KLXe") is a spin-off from KLX, which decided to distribute its energy business as a precondition to being acquired by Boeing. As it is usually the case in this kind of spin-offs, the distribution of shares of KLXe to KLX shareholders was made at a low valuation, since there was no interest in the distributor to maximize the price. The company was given to shareholders with a net cash position of 50m$ and the management team of KLX will leave the company and devote all its efforts to KLXe. We have acquired this great company, which has a big upside potential, net cash and an extraordinary management team at a multiple of 5.5x ebitda.

Divestitures

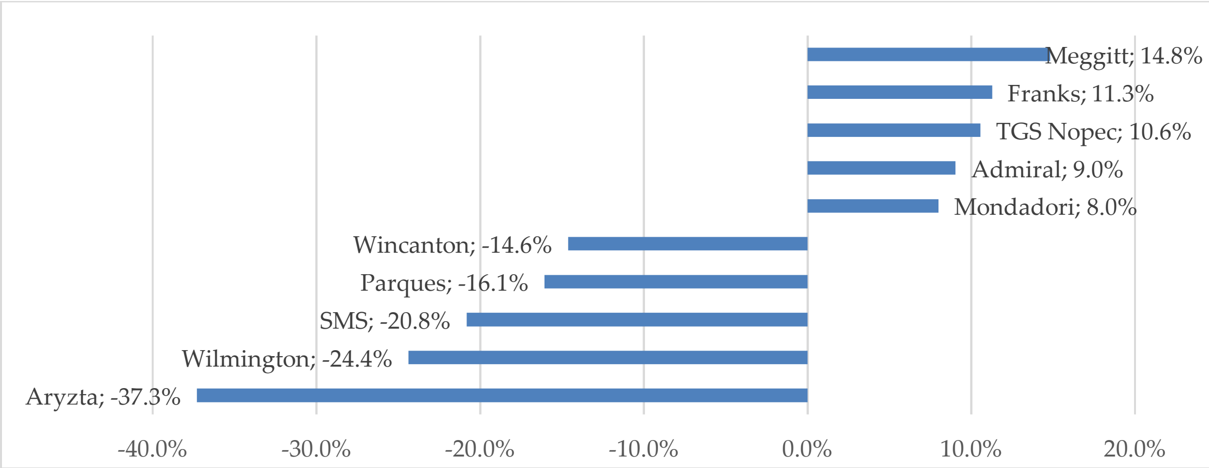
We have sold Vopak and Tecnicas Reunidas, which were approaching our target prices, to invest in cheaper companies.

In the third quarter we sold our position in Vopak and Tecnicas Reunidas. Both companies have had a good performance since we bought them around one year ago, and their trading prices were reaching their target valuation, so we decided to sell. It was especially difficult for us to sell Vopak, since it is completing its investment cycle in new logistic centers in Asia, and we believe that these investments will start contributing to ebitda in 2019. Its performance had been good and we found other investments more attractive, but we may invest again in the company if the share price provides another good opportunity.

Evolution of the fund and its portfolio.

After our investments and divestments, we have 48 companies in the portfolio and we maintain a 1% cash position.

The following table shows the performance of the best and the worst companies in the quarter (or since we started buying if we did so in the quarter).



We are carefully tracking the situation in Aryzta

Regarding the situation of Aryzta, we have to highlight that in August the management team announced its proposal to do an enormous capital increase of 800m. We find the rights issue difficult to understand, since the company has met its debt covenants. In this case we decided not to buy more shares when the price fell, because if the transaction is approved by the AGM, in order to avoid a severe dilution, we would have to participate in the rights issue and double our investment, and we do not want a much larger exposure to this company. Its been three years since we started buying shares in Aryzta and the results have not been what we expected. At the time of the initial investment we made a mistake, not just because we bought into a very leveraged situation, but also because its management was very poor. We have kept the investment over time, not because we were stubborn but because we thought that with the arrival of a new management team the necessary divestments would be made (essentially Picard) and leverage would be returned to a reasonable level. But this has not happened and we see with great frustration the evolution of this investment. We are keeping the shares for the moment, because we believe the intrinsic value of Aryzta is higher than the price, and we think that if the initiative promoted by Larius Capital and Cobas (among others) is successful, and the terms of the rights issue are amended to reduce its size, it is possible to create value from current prices. In the future we will avoid leveraged situations like this one.

Wilmington has also had a bad performance in the quarter. One of the main causes explained by the management team is the GDPR Directive, which has affected the sales of its database of pharmaceutical products. We expect the company will certify its database soon and recover the situation.

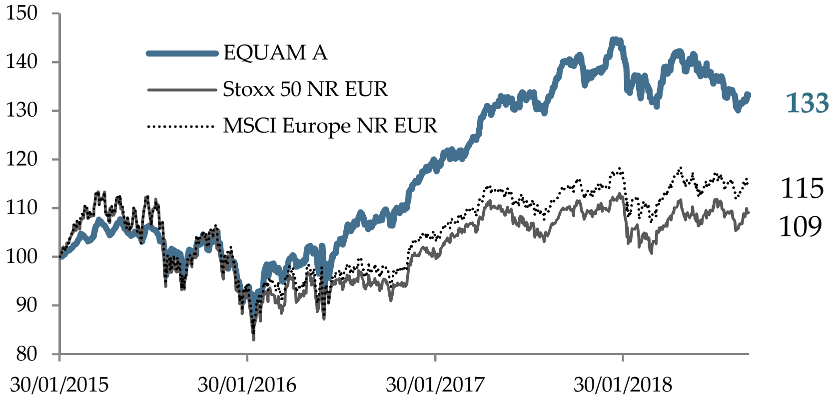
The situation in Turkey has affected both **Cementir**, which has cement plants in the country and **Rieter**, which has very profitable sales in this market. Despite the weakness of the Turkish Lira and the unstable political situation, we believe that the competitiveness of Turkey's exports have improved significantly and demand for spinning machines and cement will soon recover.

Appendix I: EQUAM Portfolio.

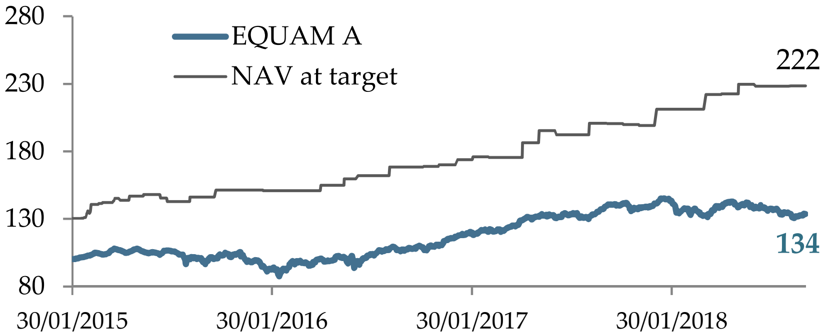
Company	Country	Weight	Value Base Case
MITIE	UK	3.7%	Undervalued compounder in fragmented market
Euronav NV	Belgium	3.6%	Depressed VLCC tanker company.
Frank's	United States	3.6%	Countercyclical niche oil services player.
DFS Furniture	UK	3.5%	Leading British manufacturer of furniture.
Origin Enterprises	Ireland	3.3%	Irish agronomy company with stable revenue at low price.
Spectrum	Norway	3.3%	Countercyclical niche oil services player.
Serco Group	UK	3.1%	Refocused contractor in restructuring, recently recapitalised.
Rieter Holding	Switzerland	3.0%	Swiss manufacturer of spindles - cheap, net cash, restructuring.
Parques Reunidos	Spain	2.8%	Spanish theme park operator trading at 52w lows.
IES	Sweden	2.8%	Swedish School company with strong organic growth at 8% FCFy.
ITE	UK	2.7%	Deeply undervalued event management company.
SMS	UK	2.6%	Protected and profitable smart metering market.
Arcus	Norway	2.6%	Nordic alcoholic beverages distribution at high FCFy.
Orsero	Italy	2.5%	Undervalued defensive business.
Wilh. Wilhelmsen	Norway	2.5%	Norwegian shipping holding.
Total top 15		**45%**	

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.*

Evolución vs índices	EQUAM A	MSCI Europe NR	stoxx 50 NR	Equam vs MSCI
1 mes	0.0%	0.5%	0.9%	-0.6%
3 meses	-3.9%	1.3%	1.3%	-5.2%
2018 YTD	-5.5%	0.8%	-0.6%	-6.4%
2017	21.7%	10.2%	9.0%	11.5%
2016	17.1%	2.6%	0.6%	14.5%
2015	-1.0%	0.9%	-0.3%	-2.0%
Acum Inicio	**33.2%**	**15.1%**	**9.0%**	**18.1%**
Anualizado inicio	**8.1%**	**3.9%**	**2.4%**	**4.2%**

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

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

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Bloomberg (Clase A)	EQUAMVA LX	Traspasable	SI, Nº CNMV: 587	Asesor del fondo	Equam Capital
ISIN Clase A	LU0933684101	Fees Class A	1% patrim y 8% beneficio	Sociedad Gestora	ADEPA (Lux)
ISIN Clase D	LU1274584991	Fees Class D	1,25% s/ patrim. (min 1 MEUR)	Depositario	KBL (Lux)

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