# EQUAM Global Value Fund

## Quarterly report December 2018

## Big market correction.

2018 has been characterized by an important market correction which has been especially hard in the last months of the year. The fund has underperformed the market in 2018, but it has largely outperformed the European markets during the four years since inception.

Even though uncertainty and volatility may continue in the coming months, we remain optimistic for the medium/ long-term. The current fund upside potential is above 100%, which is the highest since inception of the fund in January 2015, and we consider that situations like the current one represent a good opportunity for a long term horizon investment in the fund.

*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

## Big market correction.

Despite the big drop in NAV that the fund has suffered in 2018, Equam continues to largely outperform the comparable indices since inception.

The year 2018 has ended with a strong market correction, with the European markets falling by a range of 10-11%. The fund has underperformed the market and it has suffered a 19% fall in NAV during the year. Considering a longer timeframe, since we launched the fund in January 2015, Equam Global Value has increased the NAV by a 14.4% (3.5% annualized) compared to the 2.1% (0.5% annualized) increase in the European total return index.

There are some issues that have influenced the market sentiment in the last few months:

- The tightening policy of the main Central Banks, including a progressive increase in interest rates and the liquidity withdrawal from the financial system. The Fed has stopped reinvesting in new issuances once the bonds in their balance sheet mature and the ECB has abandoned their policy of buying bonds in the market.

- The trade war between US and China, and the potential impact that this could have, especially in China. In December, China saw a 5.4 % growth in exports, far from the 10% growth expected by the market.

- The political situation in Europe, with uncertainty around what will be the relation between the EU and UK after the Brexit, disagreement between Italy and the EU about the fiscal deficit and political instability in France.

- The fear that all these issues could trigger a recession that would impact corporate earnings.

We are optimistic with respect to the future and we think that it is key to keep calm and have a long-term investment horizon.

We think that Quantitative Tightening by the Federal Reserve is one of the main reasons behind the market sell off. After a decade of Central Banks injecting liquidity in the market, the situation has changed in a few months to a scenario where Central Banks are reducing their balance sheets and, as a whole, taking liquidity from the financial system. This change in monetary policy is having a huge impact on financial assets prices. Although it is impossible to predict the political decisions made by Central Banks, we think that their main objective is to moderate the high valuations in some markets and that, once their goal is achieved, the tightening could soften in the medium term.

Regarding the relationship between China and the US, we think that the negotiation process could have a positive outcome and establish a more balanced commercial framework that could allow both economies keep growing.

The political instability in Europe is affecting us directly because of the fund’s exposure to this market. Our view is that the key aspect in the Brexit process is that an agreement of any kind is reached between the UK and the EU as soon as possible. Regardless of the specific form of the new commercial framework, we believe that companies will adapt, but they need certainty and legal stability. We also believe that this issue will normalize in the medium term.

In relation to the business cycle, without entering into much detail, although we consider that a global economic slowdown could take place, we are optimistic with the long term perspective. From our point of view the world’s economic situation is different from that in 2007/2008 and we should remember that world GDP has been growing for more than 50 years each year with the exception of 2009.

All these factors generate a situation of uncertainty that has caused large outflows in the equity funds worldwide, triggering a huge drop in prices that in most of the cases are not necessarily linked to a change in the companies' value. Moreover, this drop in prices generates a panic in which many investors sell their stocks without discriminating between what is expensive and what is cheap. As we have seen many times in the past, investors tend to change their sentiment from euphoria to panic in a very short period.

Short-term movements in markets are unpredictable and in most cases are uncorrelated with changes in the companies underlying value.

As we always say, the short-term movements of the market are unpredictable and big drops in the market will continue to happen from time to time in the future. We do not invest our time in trying to anticipate these movements as they depend on political and macroeconomic factors that are impossible to forecast. What we try to do is to take advantage of these market movements, buying stocks of those companies in which the price decrease is not justified by the foreseeable evolution of their results.

In order to illustrate what we are trying to explain, let's have a look to the recent development of our investment in **Sesa**, currently our second biggest holding. Sesa is the Italian market leader in the software distribution and value added IT solutions market for SMEs. It is a company that meets all our investment criteria:

- The sector has barriers to entry (since, to run the business, long term distribution agreements with big IT vendors must be agreed and this requires broad network of IT customers), the business enjoys high returns on capital employed and it generates a lot of free cash flow. It is also somehow insulated from the business cycle.

- The financial risk is low as they hold a net cash position.

- The company is managed by their founders and main shareholders, which makes us comfortable about the alignment of interest of management with shareholders.

We invested in this company at the beginning of 2017 at a price of 19.5€ per share. Since then, the company's financial results have evolved positively, with an annual earnings growth of more than 8% and an outstanding cash flow generation. In August the price per share had evolved to 31.6€ (<9x EV/EBIT), but it was still trading below our 40€ per share valuation.

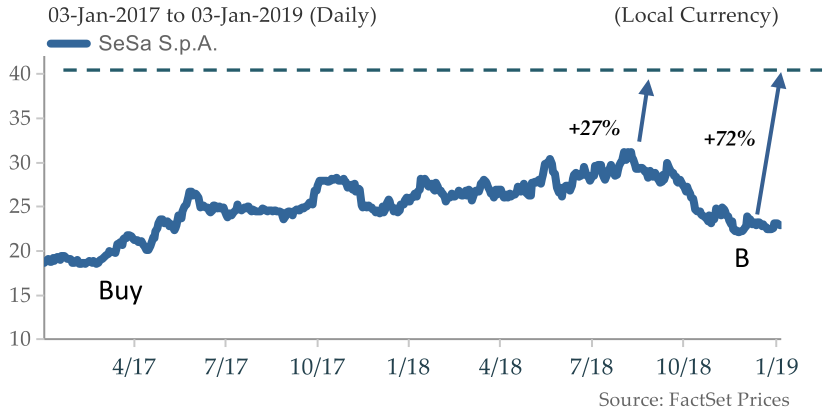
The following table shows the evolution of sales, EBITDA and cash position of Sesa in the last few years:

| *eur mn* | **2014** | **2015** | **2016** | **2017** | **2018E** | **CAGR** |
|---|---|---|---|---|---|---|
| Revenue | 1.060,0 | 1.230,0 | 1.271,0 | 1.363,0 | 1.469,0 | *8,5%* |
| EBITDA | 51,6 | 54,0 | 57,9 | 63,1 | 70,6 | *8,2%* |
| *Ebitda margin* | *4,9%* | *4,4%* | *4,6%* | *4,6%* | *4,8%* | |
| Net Cash | 26,2 | 33,9 | 41,8 | 51,9 | 68,6 | |

Despite the good performance of its business, the company has not been spared from the punishment of the markets. The stock price has dropped by 27% since August, closing the year at 23.2€ per share. During these five months there has not been any negative news that could justify a change in the business perspective or in the company's valuation. On the contrary, in December Sesa released their first half results confirming the good performance of the business (H1 EBITDA growth: +16.6%) without any positive reaction in the share price.

At the current price, the multiple has come down to 6.5x EV/EBIT, what we consider is extremely low, and the upside for this investment has increased from 27% in August to 72% right now.

**Sesa Share Price Performance and Target Price**




The market prices of our holdings are far lower than their intrinsic value, which allows for the largest upside potential for the fund since inception; above 100%.

We do not know what the share price performance in the short term will be, but we know that i) the intrinsic value of our investment in Sesa has not suffered a decrease (in fact we think that its value has increased); ii) sooner or later the price should converge towards the real value of the company. For these reasons we have reinforced our investment in Sesa, taking advantage of the price drop to buy more shares.

The situation we have explained for Sesa has repeated itself during the recent months in most of our investments. In fact, the fund's target valuation according to our own independent assessment has increased by 15% during the year, from 200 euros per unit at the end of 2017 to 230 euros per unit at the end of 2018. This increase in value is due to both the inclusion of new investments with higher long-term upside than those that we have been selling during the year, and to the rebalancing of the portfolio.

The increase in our fund target valuation, together with the drop in NAV during the year, makes the fund upside potential (the difference between NAV and our target valuation) higher than 100%. This level is the highest since we launched the fund in January 2015. For this reason, even though political and macroeconomic uncertainty could continue to put pressure on market prices in the short term, we are convinced that it is time to keep calm and take a long-term view.

In this sense, we should remind that investing in equities has historically delivered superior returns to investing in other asset classes. But in order to achieve these returns investors need to be disciplined in their decision-making process and resist the impulse to sell when there is panic, hoping to be able to buy at more attractive prices later on.

We see the current situation as an attractive opportunity to invest in equities, always with a medium/long-term investment horizon (at least 5 years). We keep our conviction that the best way to protect wealth is to invest in good companies at attractive prices.

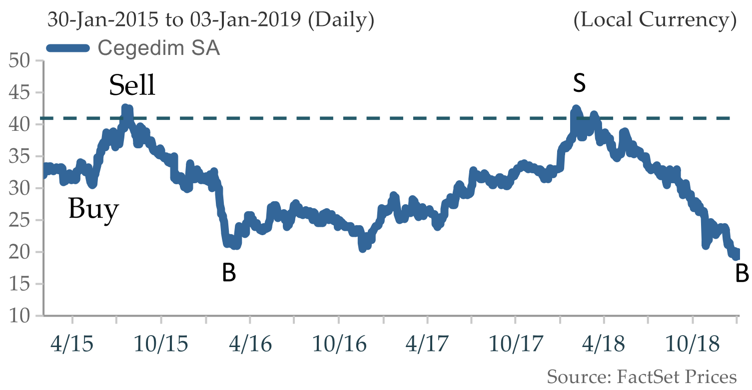
It should be noted that it is not the first time that we have experienced a similar situation to the current one. In the 9 months from May 2015 to February 2016 the fund suffered a 19% drop, which was followed by a 65% increase in the two following years.

In short, despite the fund's underperformance during the year and acknowledging that the uncertainty and price drops may continue in the coming months, we close the year with optimism and continue to be convinced that the best way to deal with the current environment is to keep executing our investment process, which we have described in this and in previous reports, with discipline.

## New investments

This is the third time that we have started an investment in Cegedim, a family owned French company involved in the software for healthcare business.

During the quarter we have built a new position in the French company **Cegedim**. The company develops software and provides services to the healthcare industry (doctors, pharmacist and insurance companies). It is the third time that we invest in this company, having already sold our shares twice in the past with very good capital gains, taking advantage of the high volatility of the share price during the last few years. The company has a solid, recurrent and stable business, but the transition from a license-based business model to a software as a service one has generated a temporary slowdown in sales and a temporary increase in R&D expenses for the development of new products. During 2018, the share price has gone down from more than 40 euros at the beginning of the year (price at which we sold our stake from our previous investment in the company) to around 20 euros per share nowadays. In other words, the share price has dropped 50% in a scenario in which the 2018 results are going to be similar to those of 2017.




We are investing in this company at 5.5x EV/EBITDA multiple based on current financial results and 4.2x if we normalize the results to the end of the transition period. Like in the Sesa investment case that we have explained before, we think that this is a clear example of the shot-term irrational behavior of the market. It is worth mentioning that Cegedim is a family owned company, where the founding family owns 52% of the company. In addition to this, the company has a strong balance sheet, especially if we consider the stability of the business (net debt /EBITDA is below 2x).

## Divestitures

We have decided to sell Aryzta because of our lack of confidence in the management team and in the company's Board.

In this quarter we would like to highlight our decision to sell our **Aryzta** stake. It is our main investment mistake since we launched the fund as a consequence of not following two of our investment criteria: low leverage and interest alignment with management team.

As we wrote in our last quarterly report, last August the management team proposed an 800M€ capital increase. This announcement was surprising not just because they had previously ruled out a capital increase but also because of the size of the deal (which was equivalent to the market capitalization at that moment). As we said at that time, we kept our holding waiting to know the exact terms of the capital increase and the Board's reaction to the alternative proposal made by the main shareholder (who had suggested a 400M€ capital increase combined with the sale of some non-core assets). This alternative could have reinforced the balance sheet with less dilution for the shareholders.

Nevertheless, the Board and the Management team refused to consider any of the alternatives proposed by shareholders. In view of this disagreement between the managers, the board and the main shareholders, and once the final terms for the capital increase were released (the terms were extremely dilutive for shareholders who decided not to participate in the deal), we decided to sell our position with a loss. There were two main reasons to take this hard decision, i) the risk of further short-term drops in the share price triggered by the force selling of the rights by the shareholders that were not willing to participate in the capital increase (in fact, since we sold our stake the share price dropped a further 40%) and ii) the fact that following the market correction we have been able to find more attractive investment opportunities with better risk/return profile. Despite our selling decision we think that after the capital increase the balance sheet is much more solid and the upside is quite significant. For this reason we keep monitoring the situation. We have lost 80% of our investment since we first invested in 2015 and this position has contributed -3.5% to the 2018 fund performance. We learn from our mistakes and we emerged strengthened from this experience, with the reinforced conviction that we must execute our investment process in a very disciplined way without making exceptions to our investment criteria.

We have received a tender offer in our Nice investment where the main shareholder has offered a 40% premium over the current share price.

Other divestiture during the quarter has been **Nice**, where we decided to sell following the buying offer made by the main shareholder. Even though the offered price was below our target valuation, this price was 40% higher than the market price at the time of the offer. We have sold our shares and used the cash to invest in other companies of the portfolio, taking advantage of the weak market. We have made a 40% return in the nearly two years that we have hold our position in the portfolio.

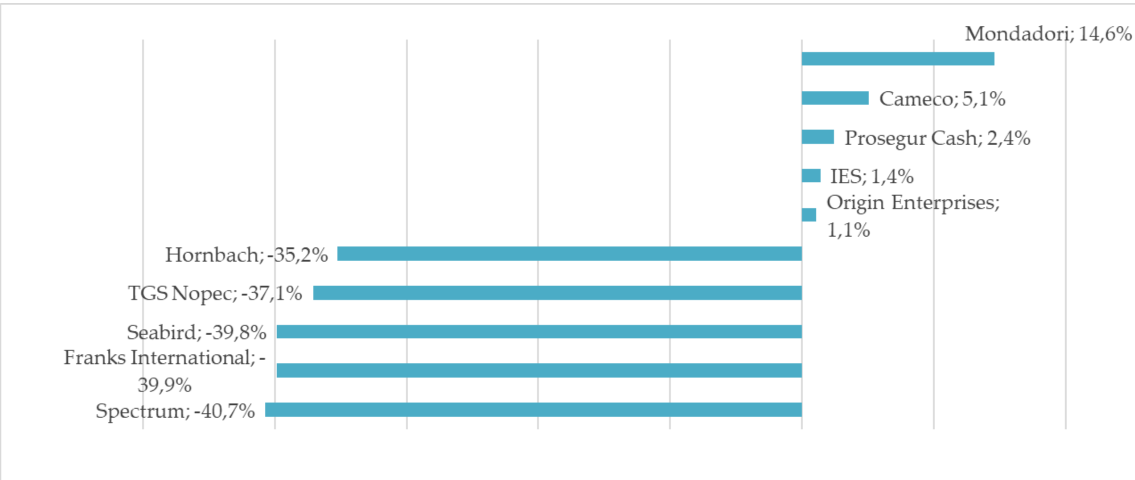
## Evolution of the fund and its portfolio.

After the recent investments and divestments, we have 46 companies in our portfolio with a 99% investment level.

**10 largest positions as of December 31, 2018**

| Company | Weight |
|---|---|
| Parques Reunidos Servicios Centrales SA | 3,8% |
| SeSa S.p.A. | 3,6% |
| Internationella Engelska Skolan i Sverige Holdi | 3,4% |
| Smart Metering Systems PLC | 3,3% |
| Rieter Holding AG | 3,3% |
| MITIE Group PLC | 3,2% |
| Cementir Holding S.p.A. | 3,2% |
| Protector Forsikring ASA | 3,2% |
| Prosegur Cash SA | 3,1% |
| Euronav NV | 3,0% |
| **Total Top 10** | **33,1%** |
| **Total Equities** | **99,2%** |
| **Cash positions** | **0,8%** |

The following table shows the best and worst performers in the portfolio during the quarter or since we started buying shares if we did so after September.



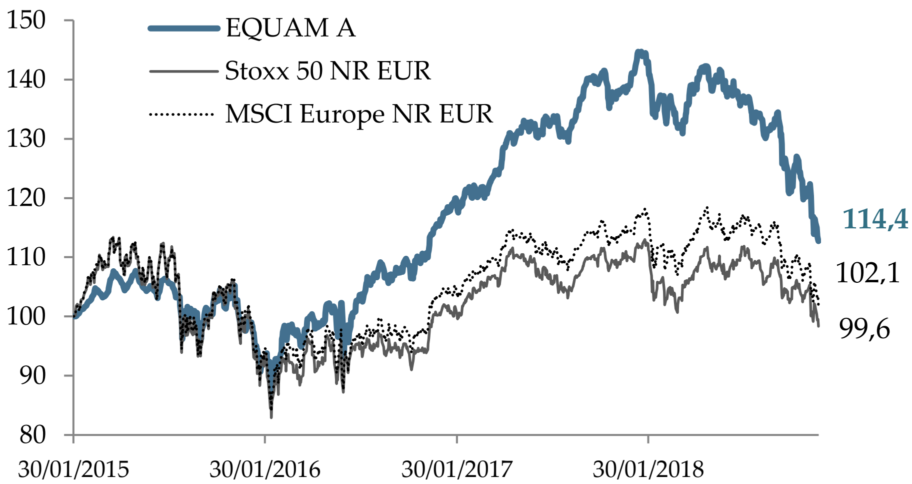
It is worth highlighting the bad performance of our oil related holdings (Spectrum, Franks International, Seabird and TGS – all related to offshore exploration and production), which have fallen by a range of 35-40% in the quarter. We keep our conviction in our investment thesis despite the recent oil price sell off. There has been several years without any major investment decisions in the offshore space. We think that, despite the good prospects for shale oil, new investments in the offshore segment will also be needed sooner or later, to satisfy the growing demand of oil. When the decreasing productivity of existing wells hits the industry, there will be in a hurry to invest and we expect to see an intense recovery in the industry. We do not know when this will happen, but we are quite certain that it will happen. All our oil related holdings have strong balance sheets, with no debt, so there is no risk for them to into financial difficulties during the waiting time till the cycle recovers.

# Appendix I: EQUAM Portfolio.

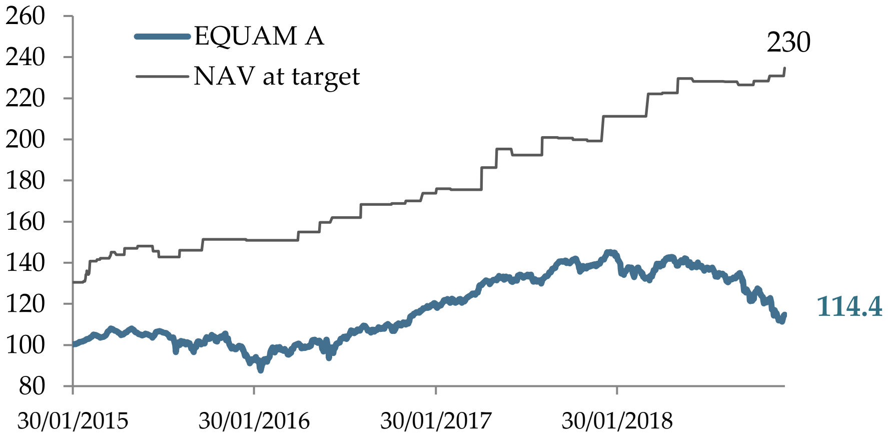
| **Company** | **Country** | **Weight** | **Value Base Case/** |
|---|---|---|---|
| Parques Reunidos | Spain | 3,8% | Spanish theme park operator trading at 52w lows |
| SeSa | Italy | 3,6% | IT Value Added software italian leading provider at a discount |
| Int. Engelska Skolan | Sweden | 3,4% | Swedish School company with strong organic growth at 8% FCFy |
| Smart Met. Systems | UK | 3,3% | Protected and profitable smart metering market |
| Rieter Holding | Switzer. | 3,3% | Swiss manufacturer of spindles - cheap, net cash, restructuring. |
| MITIE | UK | 3,2% | Undervalued compounder in fragmented market |
| Cementir | Italy | 3,2% | Cement producer with a monopoly in Denmark |
| Protector Forsikring | Norway | 3,2% | Undervalued low cost Nordic P&C insurer |
| Prosegur Cash | Spain | 3,1% | Cash in transit present in Spain & Latam |
| Euronav | Belgium | 3,0% | Depressed VLCC tanker company |
| Orsero | Italy | 2,9% | Undervalued defensive business |
| DFS Furniture | UK | 2,8% | Leading British manufacturer of furniture. |
| Origin Enterprises | Ireland | 2,8% | Irish agronomy company with stable revenue at low price. |
| ITE Group | UK | 2,7% | Deeply undervalued event management company |
| Wilh. Wilhelmsen | Norway | 2,7% | Norwegian shiping holding |
| **Total top 15** | | **47%** | |
| **Total portfolio** | | **99%** | |
| **Liquidity** | | **1%** | |
| **Total fund** | | **100%** | |

## 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 | -5.5% | -5.5% | -5.8% | 0.1% |
| 3 month | -14.1% | -11.3% | -9.6% | -2.8% |
| 2018 YTD | -18.9% | -10.6% | -10.2% | -8.3% |
| 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** | **14.4%** | **2.1%** | **-1.5%** | **12.3%** |
| **Inception annual** | **3.5%** | **0.5%** | **-0.4%** | **3.0%** |

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

*** NR indices 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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