EQUAM Global Value Fund

June 2020 Quarterly Report

Asymmetric valuation in the markets.

In our previous quarterly report, we emphasised the strong pessimism that we were observing in the markets which had caused an excessive fall in share prices. This quarter we have seen a rapid recovery in stock market levels. We believe that, at least in some parts of the market, this recovery has been too quick considering that the length of the lockdown measures has been longer than what was initially expected.

However, the recovery has been very asymmetric and there is currently a very wide range of valuations that we believe provides a unique investment opportunity.

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 most 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 IV vehicle and can be invested into throughout most leading financial intermediaries using AllFunds, Inversis, Fundsettle and other platforms.

We continue to be optimistic despite the uncertain times

We believe that the recovery in the market has been very asymmetric and we can find many companies that are trading at extremely low valuations.

During the last few weeks, we have started to return to a more normal situation as the different lockdown measures which had been put in place to prevent the expansion of the pandemic have been lifted up. There is still great uncertainty on the medium-term effect that the lockdown may have on the economy and if new outbreaks in Autumn will force Governments to reimpose lockdown measures. Three months ago, we were expecting a rapid economic recovery as the most likely scenario, but we are now more cautious. The length and intensity of the lockdown measures taken in most of the world economies have been greater than what was initially expected and very probably what would have been desirable.

At the same time, the market performance has been, as usual, unpredictable. In an initial phase when the pandemic started to spread around the world markets experienced a sudden and intense fall in a very short period of time, with drops in most markets above 35% (similar movements to the 1987 crash or the Great Financial Crisis). However, once minimum levels were reached at the end of March, markets initiated a very rapid recovery that has made certain indices, like the Nasdaq, to be in positive territory for the year. In the same way that we considered the initial drops to be excessive and induced by panic, we believe the recovery has been too rapid in certain parts of the market. We have not started to see the full consequences of the pandemic and the resulting lockdown measures in the economy. We are particularly concerned about the situation of certain countries such as Spain or Italy, which have arrived at the current situation in a very weak condition, with a high level of public debt and budget deficit.

Despite our previous comments, we continue to maintain an optimistic view in relation to the opportunity of our fund for those investors with a medium-term horizon. The following are the main reasons which make us maintain our optimistic view:

1) World GDP has been steadily growing for several decades and we believe that, despite the fact that the current situation is going to have an impact on the coming quarters, this growth trend is going to continue in the medium and long term.

We believe there are two major forces that will allow this growth to continue: on one hand, the digital revolution that we are currently experiencing is comparable to the industrial revolution of the 18th century as it is allowing for a very rapid increase in productivity; and on the other hand the vigorous middle class in several Asian emerging countries. China is already a reality, but other countries such as India or Indonesia with large populations, have also a strong growth potential.

People and companies have a remarkably high capacity to adapt to adverse circumstances.

2) We are convinced that people and companies bring out the best of themselves in adverse situations. As we mentioned in our last report, over the last few months we have been in contact with a great number of management teams. One of the most relevant conclusions is the speed at which companies have reacted and taken measures and their capacity to adapt to the new scenario. This reaction will mitigate the impact and significantly shorten the time of a recovery. In many cases companies are even taking advantage of the situation to strengthen their business and to identify new opportunities.

3) Indices have recovered most of their initial drops, but we believe that a more detailed analysis shows that the recovery has been very uneven. We continue to see overvaluation in fixed income (because of central banks artificial interest rate manipulation), in the private equity market and in many quoted companies that are thought to be "safe" investments. At the same time, we see many quoted companies that, despite the recent recovery, continue to be neglected by the market and continue to trade at irrationally low multiples.

There is no need to go to the US market to see these imbalances; the European markets also present massive differences. The following table shows a comparison between the trading multiples of a selection of large cap companies that are operating in sectors that investors believe to be "safe" with those of other group of companies with robust business models and strong balance sheets in which Equam is currently invested. We can see the great discrepancy in valuation levels, which we believe is not justified considering the quality, leverage and the value creation history of those companies.

Valuation Discrepancies in European Markets

Megacaps Europe

Comp.	Ev Ebitda	FCFy19
SAP	21.2x	2.2%
ASML	36.2x	1.9%
LVMH	15.4x	3.1%
Loreal	18.5x	3.1%
Air Liquide	12.5x	2.5%
Experian	22.6x	2.5%
Nestle	14.2x	3.6%
Richemont	23.1x	3.1%
Givaudan	26.8x	2.3%
Average	21.2x	2.7%

Equam companies

Comp.	Ev Ebitda	FCFy19
RHI Magnesita	5.0x	13.8%
Navigator	9.5x	11.4%
Cementir	5.9x	15.6%
Mondadori	6.7x	26.2%
Takkt	7.1x	17.3%
TI Fluids	5.1x	19.2%
Neurones	5.4x	10.5%
Prosegur Cash	6.8x	15.1%
Mekkonomen	7.9x	26.4%
Average	6.6x	17.3%

A good example of the mentioned valuation irrationality is **Mondadori**, the leading Italian books publisher, which has been generating a free cash flow of around 50 m€ in each of the last two years. Mondadori has a stable business, with low fixed costs, low capital requirements and a strong free cash flow generation capacity. Although we expect a lower cash flow generation this year, mainly due to the closure of bookstores during the lockdown period, we anticipate a gradual recovery in the coming quarters. It should also be noted that a good part of the company´s business relates to the educational segment, which has not been affected by the current situation. The company has a low leverage level with a 0.7x net debt to EBITDA. The current stock price represents a 19% 2019 FCF yield and an EV/EBIT multiple of 6x (versus comparable transactions of 12 to 15x). We estimate the company could recover 2019 levels by 2021 or 2022 at the latest.

Another example is the French company **Neurones,** which operates in the IT services segment. This company has been growing organically by 5 to 10% for the last 20 years while maintaining a very stable operating margin of around 9.5%. In addition, the company holds a strong cash position which currently represents around 40% of its market cap. Its management is expecting a stagnation of results for 2020, but we think that a temporary reduction of growth does not justify

the company to be trading at 5.7x EV/EBIT as the medium term perspectives of the business continue to be buoyant.

There are many reasons that could explain this valuation divergence, being the low interest rates maintained by central banks one of the main ones. We do not know how long this situation will last and which will be the catalyst that will allow for a normalization of the current situation, but we are very much convinced that the strategy of investing in good businesses, with low leverage and at attractive valuations is a winning strategy in the medium and long term. And certainly, a much better alternative than to invest in other apparently safer investments, but for which you need to pay a very high price; or better that maintaining a large cash position trying to time the market. As we always insist, and have again seen over the last few months, it is impossible to consistently anticipate the market´s short term movements. In addition, there is a strong risk assumed in maintaining a large cash position in the context of the current central banks monetary policies.

4) Markets tend to overreact in situations of high uncertainty and low visibility as the short-term movements in prices are driven by more investors trying to sell stocks rather than buying. Consequently, in the short-term prices are not so much reflecting the company's valuations but are a consequence of the outflows in the market. The following table shows historical market performance in different episodes where there were high levels of uncertainty.

Market performance under low visibility situations

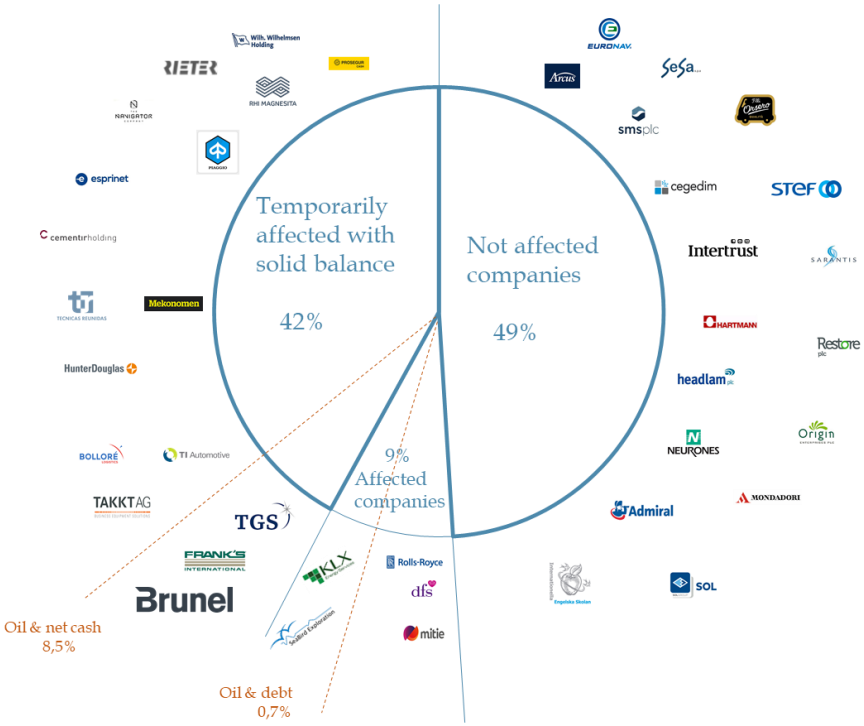
Event	Drop (%)	Recovery days	Increase (%)
Lehman Crack	-45,9%	285	84,9%
Twin towers attack	-11,6%	19	13,1%
LTCM collapse	-10,0%	9	11,1%
1987 crisis	-20,8%	223	26,3%
Nixon resignation	-24,6%	143	32,7%

Changes in the portfolio

In our previous quarterly report, we showed our preliminary conclusions regarding the impact that the Covid crisis could have on the portfolio companies once we had been able to talk to the management team of each of them. In this sense we classified companies in three different groups as shown in the following graph:

Impact on Portfolio Companies (March 2020)

We have rotated our portfolio towards those companies that we believe have been excessively penalised by the market.



We have not made any new investment during the quarter, but just certain transactions that have improved the fund's potential:

- We have partially divested from certain companies that are not affected or have been positively affected by the current circumstances and whose share prices had either increased or not fallen significantly: SMS, International Engelska Skolan or Euronav.

- We have reinvested the proceeds in those companies that although being partially affected by the current situation, we believed had been excessively punished by the market and that maintain a solid balance sheet and liquidity position. We have therefore increased our investment in companies such as Takkt, RHI Magnesita or Mondadori.

We would like to describe in detail the different actions taken by those companies that have been more affected by the current crisis:

All the companies in our portfolio that were affected by the Covid situation have taken strategic decisions that have substantially improved their situation.

- **KLX Energy**, one of our investments in the oil sector, with a 1.5% weight, announced in April its merger with Quintana Energy Services, one of its competitors in the US shale oil service sector. We believe this transaction is positive as it creates one of the leaders in a sector where inevitably there is going to be a consolidation process and many of the weaker players will disappear. Additionally, the transaction will allow to strengthen the balance sheet of the new Group as Quintana has no debt and contributes with an EBITDA of 27m$ (an additional 35%). Additionally, KLX has implemented a very drastic cost reduction program that has allowed the company to generate positive cash flow during the first quarter (ended in April) despite the difficult market conditions.

- **DFS Furniture**, the leading UK upholstery retail company, executed a 60 m£ capital increase (representing 20% of its capital) together with an additional 70 m£ new credit facility. The capital increase was done at an 11% premium over the share price at the time of announcement. The lockdown measures had prevented the company to collect the pending receivables from its customers as they were not being able to deliver the sofas to their homes, while they had to pay their suppliers. With this new financing package, the company has been able to solve its short-term liquidity problems. As happened after the 2008 crisis, this transaction will allow DFS to exit the current situation in a stronger position and to gain market share from the smaller and weaker players that are struggling Consequently, we have decided to participate in the capital increase.

- Regarding **Rolls Royce**, dedicated to the manufacturing and maintenance of widebody airplane engines, the company has announced a very meaningful restructuring plan which will allow the company to reduce costs by 1.3 bn£ and which includes the layoff of around 20% of its current employees. Although we are aware that the aeronautic sector will need several years to recover 2019 levels, we still believe that the company is trading at too low levels. The current market capitalization is lower than the value of the two other company's businesses: defence and power systems, both of which are not very affected by the Covid situation. Consequently, the market assigns a negative value the civil aerospace business, which we still believe maintains attractive characteristics considering the long term maintenance contracts the company holds with airlines. Finally, we need to remind that the company has a strong balance sheet and sufficient liquidity to wait for a recovery in the sector.

- Last week **Mitie**, UK leading facilities management company, announced a 200 m£ capital increase. This transaction has two objectives: on the one hand, it will reinforce the company's balance sheet and refinance the company's credit lines; and on the other hand, it will help finance the acquisition of Interseve's facility management busines. This transaction will allow Mitie to consolidate its leading market position, increase its presence in the public sector and obtain significant synergies. We believe this capital increase should act as a catalyst for the market recognising the full value of the business. We need to remind that despite the significant progress the company had achieved in the last few years, the market was still valuing Mitie at a PER of 5x.

- Finally, we have decided to sell our investment in **Seabird,** which represented a 0.2% of the portfolio at the end of March. This company, dedicated to seismic exploration services, was our only investment in the oil sector with high capital requirements and high fixed costs, which made us less confident in its financial position should the recovery take longer than expected.

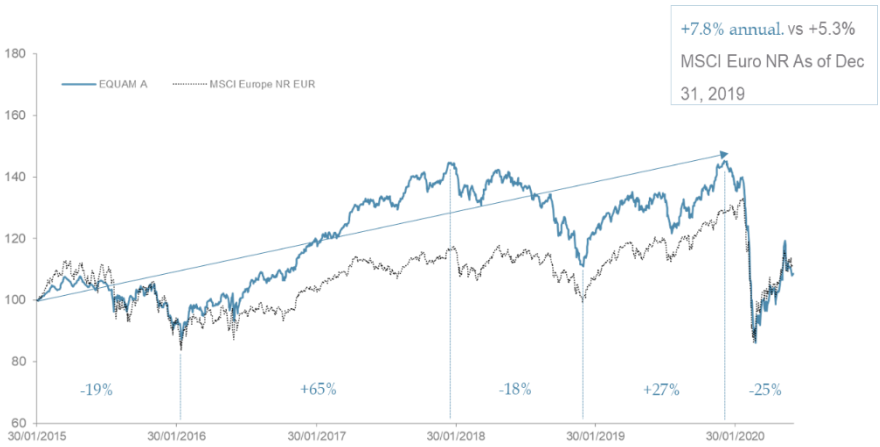
All these are good examples of the capacity that companies have to adapt to adverse situations and the flexibility to act promptly. We are convinced that all the measures taken will allow for a good recovery and value creation that has not been fully recognised by the market.

Fund evolution

Following the 34% drop during the first quarter, the fund has recovered by 14% during the second quarter (versus a 12.6% recovery of comparable indices). This improvement has not been sufficient to recover from the relative worst performance of the first quarter, so we continue to underperform the market in 2020 (25% drop for the year versus 13% of the comparable indices including dividends).

However, we believe that we are currently in exceptional times, in which the market is ignoring and undervaluing the type of companies we are investing in. Consequently, we have confidence that we will recover the performance we were achieving till the beginning of this year. In this sense, in the first five years of the fund till the end of 2019 we had achieved a 7.8% annualised return which compares with a 5.3% of the comparable indices including dividends.

Equam Performance since Inception



Despite the recovery of recent weeks, as a consequence of the improvement of the value of the fund according to our independent valuation, the fund's potential continues to be at maximum levels (120% potential versus an average potential since inception of 60%).

Upside potential

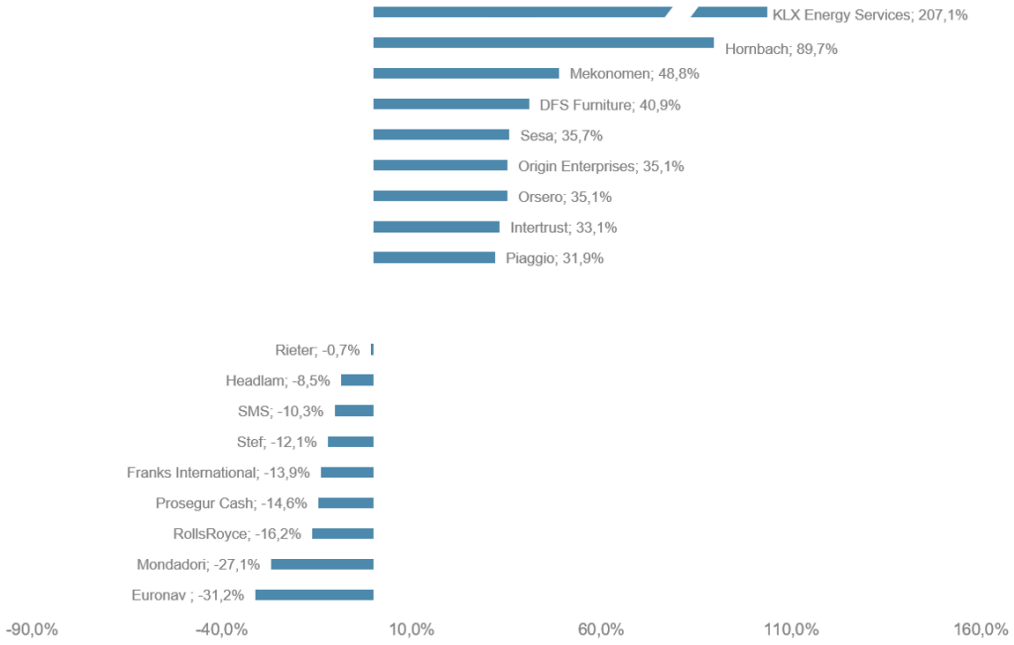
Despite the recent recovery, the fund's potential continues to be at peak levels.

Portfolio evolution and fund situation.

After the last investments and divestitures, we have 40 holdings in our portfolio and maintain a liquidity position below 1%.

The following table shows the evolution of the best and worst performers in the portfolio during the quarter or since our initial investment, if the initial investment was done after March.

Quarter Better and Worst Performers



EQUAM Global Value, FCP

EQUAMVA LX
108.98€
30 June 2020

Description

EQUAM Global Value invests in a diversified portfolio of companies with clear business models and solid capital structure when they trade at a significant discount to their intrinsic value. We are patient, long term investors.

EQUAM Global Value is subject to strict risk management and diversification parameters to minimise the risk of permanent loss of capital. Our investment portfolio is the result of a thorough analysis, investing only in situations with quantifiable and limited downside and with asymmetric risk return profile, where upside potential exceeds significantly downside and stress test scenarii. In the absence of compelling investment opportunities, we are able to hold cash patiently.

EQUAM Global Value is a Luxembourg - domiciled UCITS fund. EQUAM Capital is the registered financial advisor to the Fund, and is devoted exclusively to the research and analysis of potential investments for the Fund.

Main holdings & performance

Company	Weight
TAKKT AG	4.0%
Arnoldo Mondadori Editore S.p.A.	3.9%
Internationella Engelska Skolan i Sverige Holdi	3.8%
TI Fluid Systems plc	3.8%
Prosegur Cash SA	3.6%
Smart Metering Systems PLC	3.5%
TGS-NOPEC Geophysical Company ASA	3.5%
RHI Magnesita NV	3.5%
MITIE Group PLC	3.1%
Orsero SpA	3.1%
Total Top 10	**35.9%**
Total Equities	**99.5%**
Cash positions	**0.5%**

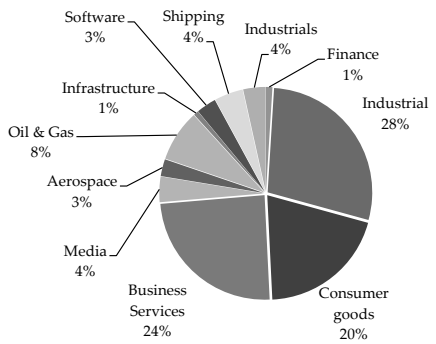
Fund upside potential 120% Positions 40

Performance vs indices	EQUAM A	MSCI Europe NR**	Stoxx 50 NR**	Equam vs MSCI
1 month	1.8%	3.1%	3.6%	-1.2%
3 month	14.2%	12.6%	10.4%	1.6%
2020 YTD	-25.1%	-12.8%	-10.6%	-12.2%
2019	27.2%	26.0%	27.4%	1.2%
2018	-18.8%	-10.6%	-10.2%	-8.2%
2017	21.7%	10.2%	9.2%	11.5%
2016	17.1%	2.6%	0.6%	14.5%
2015	-1.1%	0.9%	-0.3%	-2.0%
Inception	**8.6%**	**12.1%**	**12.2%**	**-3.6%**
Inception annual	**1.5%**	**2.1%**	**2.1%**	**-0.6%**

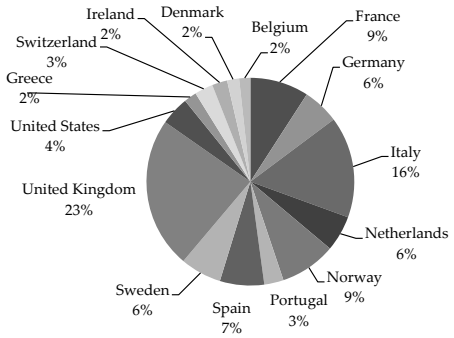
** Return since inception exclude initial 15 days in which the fund was not invested.*
*** NR indices assume dividend reinvestment after withholding tax.*

Portfolio summary

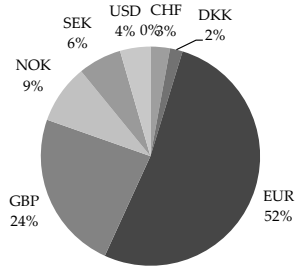
Sector



Country

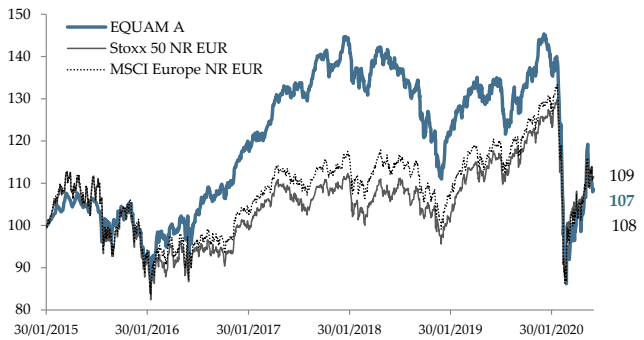


Currency

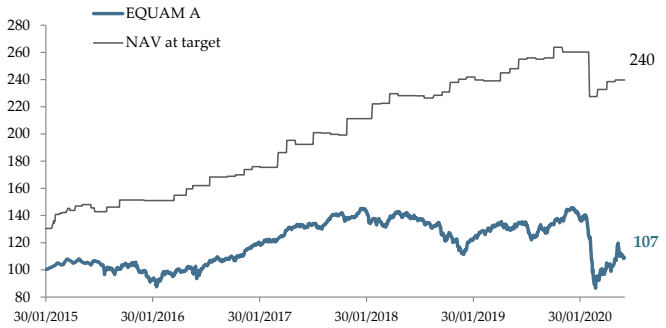


NAV evolution and portfolio data

EQUAM Global Value Class A (Rebased to 100)



EQUAM Global Value Class A vs NAV at target valuation



Incometric Fund - Equam Global Value

Bloomberg (Class A)	EQUAMVA LX
ISIN Class A	LU0933684101
ISIN Class D	LU1274584991

Registered in Spain	CNMV number 587
Fees Class A	1% NAV and 8% profit
Fees Class D	1.25% NAV (min 1 MEUR)

Fund Advisor	Equam Capital
Management Company	ADEPA (Lux)
Custodian	KBL (Lux)
Transfer Agent	European Fund Admin.