EQUAM Global Value Fund

Quarterly report June 2019

Great number of corporate actions.

During the first six months of the year we have received five tender offers for companies in our portfolio. Despite the 31% average premium over the market price, the offered prices have been below our internal valuation because buyers have taken advantage of the existing depressed valuations in certain market segments. Nevertheless, this has had a positive effect on the fund because we have been able to reinvest the proceeds in companies with higher upside. This interest of the market for companies in our portfolio reaffirms our conviction that we are invested in high quality businesses trading at low valuations.

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.

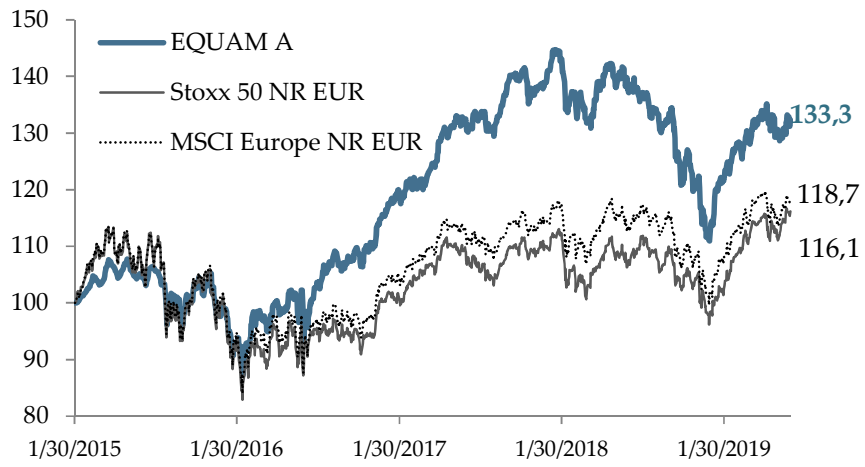
We, the General Partners have invested most of our net worth in the fund and our interests are entirely aligned with those of our partners and co-investors.

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

After the first quarter recovery, when both the market and the fund recovered part of end 2018 drawdown, the second quarter has had a more modest performance, going up by around 3-4%. Since the beginning of the year the fund has increased NAV by a 16.6%, a similar evolution to the European net return index.

If we take a longer perspective, since we launched the fund in January 2015, Equam Global Value NAV has increased by 33.3% (6.7% annualized) compared to the 18.7% (3.5% annualized) increase of the European net return index. As we always say, performance analysis should take into account long time frame periods, because short time performance depends more on general market volatility rather than on the portfolio companies value creation process.

EQUAM versus european indices*
(base 100)



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

Despite the good evolution during the first months of the year we are still optimist about the current portfolio potential. We think there is a dichotomy between companies trading at high valuations in more fashionable

sectors and other companies being ignored by the market. By selecting within this last group of companies we have built a portfolio with sound businesses trading at attractive valuations.

During the first half of the year we have received five tender offers over companies in the portfolio,

A good example of this is the number of corporate actions that we have seen in our portfolio during the first half of the year. We have received buying bids for five companies within the portfolio with premiums ranging between 9% and 43% above the market price.

Tender offers to our portfolio holdings
Last six months

Date	Company	Country	Type of Transaction	Price Offered	Premium	Additional Upside (1)	Buying entity
dic.-18	Nice	Italy	cash	3,5	42,86%	34,3%	main shareholder
mar.-19	Stallergenes	France	cash	37,0	42,91%	37,8%	main shareholder
abr.-19	Parques Reunidos	Spain	cash	14,0	29,63%	28,6%	main shareholder
may.-19	Spectrum	Norway	stock	61,0	8,61%	37,6%	TGS Nopec (industrial)
jul.-19	Latecoere	France	cash	3,9	34,15%	81,8%	main shareholder

(1) Additional upside versus the offer price according to Equam independent valuation.

Although these deals have contributed positively to the fund performance we are disappointed about the prices offered well below our target valuations.

Despite the premiums, the prices offered have been below our internal valuation of the companies.

In all these situations there was a reference shareholder, and in four of them the main shareholder has been part of the deal as buyer taking advantage of their better knowledge of the business. Due to this situation and despite our dissatisfaction with the offered prices we have not been able to achieve any price improvement. The probability of succeeding in any action taken against these transactions was low while having a big risk of not selling and ending with an illiquid investment. Just in the case of

Spectrum and **Latecoere** we have decided to express our dissatisfaction with the offered terms:

- In the Spectrum case, we voted against the deal in the shareholders meeting. Despite some other shareholders also voted the same than us, the deal was approved and it will be completed during the summer. We have so far obtained a 68% capital gain on this holding and as we will explain later we still think that there is additional potential.

- The **Latecoere** deal has been announced some days before the release of this report. We have sent a letter to the Company's Board expressing our disagreement with the price offered by the buyer and proposing to explore some other alternatives that could maximize the value for shareholders. Appendix I includes a copy of the letter sent to the Company's Board.

In both cases, the presence of a reference shareholder has been detrimental to the minority shareholders interest. We were aligned with these shareholders in relation to the management of the business operations but we have realized that we were not so well aligned in the case of a transaction, being the reference shareholder a buyer and the rest sellers..

The strong liquidity positions of Private Equity funds and the high valuations in private markets are attracting this type of investors to the public market

Market is giving opportunities to buy quoted companies with good business models at attractive prices, and the main shareholders of these companies, being very knowledgeable about their business have taken advantage of this situation by trying to take control of the whole company.

This situation is taking place in the context of high valuations in private markets. Private Equity firms have a lot of liquidity in order to invest, what is causing multiples inflation in private market transactions due to many buyer competing for the same assets. These financial investors

are moving their focus to the public equity markets and executing "public to private" transactions, benefiting from the attractive prices at which some companies are trading. There have been some cases of financial investors buying companies they had recently taken public at higher valuations.

We have learned a valuable lesson after all these tender offers received. As shareholders we should be more active and engage with management teams to be sure that they carry out the necessary measures to have companies trading around fair value. This is the way to avoid being bought out at a discounted price.

Despite our dissatisfaction with offered prices on those deals, we have been able to reinvest the proceeds in other companies trading at significant discounts.

In any case, despite our dissatisfaction with offered prices on those deals, we should acknowledge that in this market environment we have been able to reinvest the proceeds in other companies trading at significant discounts. On the first six months of the year we have identified four new attractive investments, **CVS**, **Restore**, **Mekonomen** and **Técnicas Reunidas**

New investments

We have had the opportunity to buy **Mekonomen** following a significant drop in its share price. The company has a leading position in the Nordic automotive spare parts distribution market.

We have built a position in the Swedish company Mekonomen, the market leader in the Nordics automotive spare parts distribution business.

The company has suffered some setbacks during last quarters: unfavorable exchange rates, a drop in digital radio devices sales, some price pressure and adverse weather during the summer. At the same time the company decided to buy two companies at the end of 2018 in Denmark and Poland which doubled the size of the Company. They needed to raise equity in order to finance both acquisitions and this capital increase put more pressure to the share price. For all these reasons the share

price dropped to historical low levels since 2008 financial crisis.

We think this is a sound business, with low capital requirements, strong cash generation and although it is not on a growing market it is an anticyclical business as automotive spare parts demand depends more on the number and the age of cars than on the economic situation. Additionally, the company plans to improve profitability thanks to the consolidation of all their warehouses in just one and the expected synergies from last year acquisitions.

We have bought this company at 7x EV/EBITDA (comps are trading between 9x and 14x EV/EBITDA) and at 13% FCF yield (including cost savings and synergies).

It is worth mentioning that LKQ Group (US company with the same business model) bought a 26% stake in Mekonomen two years ago. LKQ acquired this stake at more than twice our buying price and as main shareholder they took part on last year capital increase. Moreover, LKQ is present on some European markets and, despite this is not part of our investment thesis, it would make sense for them to take full control of Mekonomen at some stage.

We have invested again in Técnicas Reunidas, a company we know well, where we have taken advantage of the short term price volatility.

Técnicas Reunidas is a company that has been part of our portfolio in the past and we have built a new position at the same time as the Company exited the Ibex 35 index. Share price is at 10 years historical lows while the company has built a strong track record and has gained good credibility among its client base. A good example of this improvement is the evolution of their backlog, which was 4,800 million in 2009 while in the first quarter of this year stood at 10,000 million.

In recent years **Técnicas Reunidas** has experienced some difficulties related to contracts execution and delays in the launching of some projects. All these problems have happened on a context of weakness in the oil and gas market. Their clients have been suffering financial

tensions so they have been less flexible to negotiate project contingencies and variations in the construction phase. However, we believe that there is light at the end of the tunnel, with the Company having a big volume of projects on the engineering phase and a strong pipeline of new tenders which allows them to bid more selectively on new projects. For all these reasons we are confident regarding the margin improvement in the coming quarters and we expect this will be reflected on the share price.

Divestitures

Although we built our position in CVS at the beginning of the year we have decided to sell after a 50% increase in share price in less than two months.

We would like to highlight our divestiture on **CVS**, leading British player on the veterinary practices market. Although we built our position at the beginning of the year we decided to sell after a 50% increase in share price in less than two months. This performance had significantly reduced our potential upside. As we always say, although we have a long-term view on our investments and we are ready to keep them for many years, we do not hesitate to sell quickly if prices reach our target values in a short period of time.

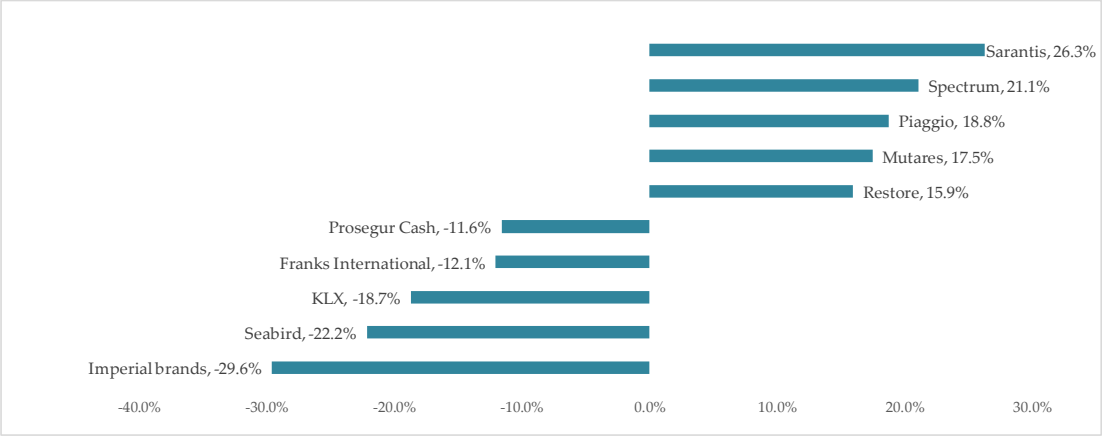
We have also sold our stake in **Wilmington** although it was below our target price because we had better investment alternatives.

Portfolio situation and fund evolution.

After all the changes during the quarter we have 46 holdings in our portfolio and we keep a 1% liquidity position.

The following table shows the evolution of the best and worst performers during the quarter or since the time we invest if this time was after March.

Best and worst performers during the quarter



As usual, we use this short-term movements to rebalance our portfolio, buying or selling the positions that have strong price volatility without any change in the underlying investment thesis.

Regarding the companies that we currently hold, we would like to explain the Spectrum situation, one of our main positions. As previously mentioned, the seismic data company has received a tender offer by TGS, the industry leader and Company where we are also shareholders (although with a smaller position). We would like to highlight the following aspects about this deal:

- The offered price, although reasonable, is still lower than our valuation for Spectrum. This

Being an all stock deal we will continue being shareholders in TGS, the clear leader in the industry after the deal. We will benefit from the value created with this business combination and from the expected recovery of the investment levels in the seismic market in coming years.

difference is even wider if we consider that the value derived from the synergies TGS has estimated is equivalent to 50% of Spectrum market capitalization. Moreover, the deal has high strategic value for TGS as they will gain access to Brazil and West Africa, where there is strong growth potential and TGS position is weaker.

- Spectrum main shareholder, the private equity firm Altor Equity Partners, benefits from this deal because they become shareholders of a bigger company with better liquidity to divest their stake. This has been a key aspect for them to be so interested on closing the deal.

- In this scenario we contacted other minority shareholders in order to vote against the deal in the shareholders meeting and try to get better terms from TGS. Finally, we did not achieve our purpose and the deal was approved.

- In any case, being an all stock deal we will continue being shareholders in TGS, the clear leader in the industry after the deal. We will benefit from the value created with this business combination and from the expected recovery of the investment levels in the seismic market in coming years.

Appendix I: Letter to Latecoere Board of Directors

EQUAM

To Mr. Pierre Gadonneix
Chairman of the Board of Directors – Latécoère
9 Avenue Percier – 75008 – Paris

Madrid, 2nd of July 2019

Dear Sirs,

We are advisors to the fund Incometric Equam Global Value which currently maintains a position in Latécoère. We are writing to you in relation to the recently announced decision of Searchlight Capital to launch a voluntary cash tender offer on Latécoère at a price of 3.85 euros per share.

We view Latécoère as a high quality asset with important strategic positions in interconnection systems and aircraft doors and a very healthy balance sheet. We believe the offer undervalues Latécoère significantly. In this sense, we need to take into considerations that the Company is currently executing its Transformation 2020 programme and is therefore in a transition phase which is penalising its financial results in the short term but reinforcing its industrial and strategic capabilities. This transition period is currently reflected in a stock price that is very depressed and does not reflect the real value of the company.

Despite the 32% premium over the depressed last traded price before the announcement, according to our analysis, the offer values the company at an EV/Revenues of around 0.58x versus recent comparable transactions in the sector which have been executed at multiples in the range of 0.9 to 2.1x.

In this context, we expect that the board explores alternative strategic options for Latécoère beyond the current offer that could maximize the return for the Company's shareholders.

Following recent conversations we have held, we believe there are other shareholders which share the same feelings and concerns regarding this transaction.

We remain at your disposal for any clarification that you might need on regards to this letter.

Yours sincerely,

José Antonio Larraz
Partner
Equam Capital EAFI, S.L.

Equam Capital, EAFI, S.L. ("Equam Capital") is an advisory firm (EAFI) registered in the Spanish Stock Market Regulator (CNMV) with number 153.

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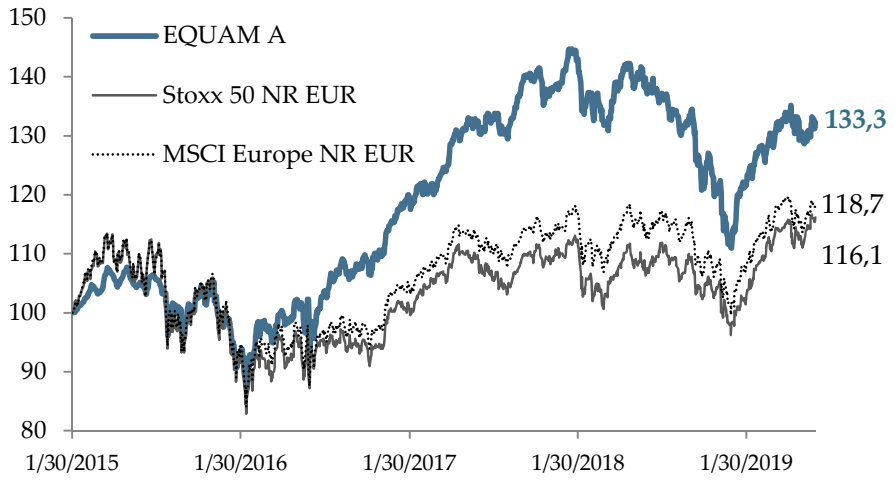
Apendix II: EQUAM Portfolio.

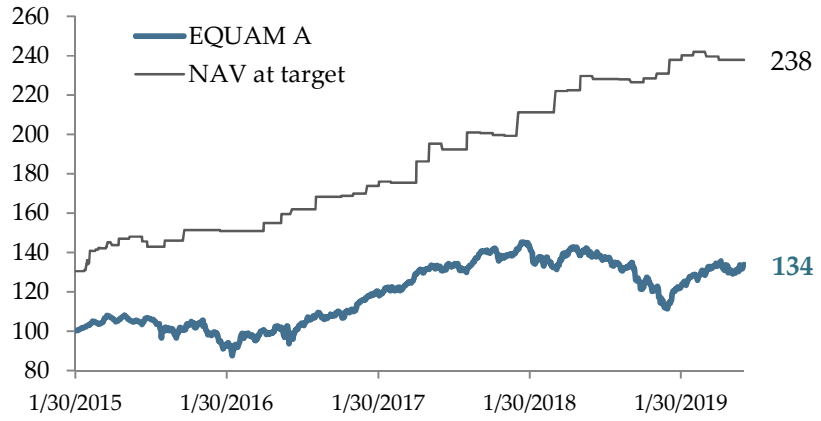
Company	Country	Weight	Value Base Case
SeSa	Italy	4,8%	IT Value Added software italian leading provider at a discount
Smart Metering Systems	UK	4,6%	Protected and profitable smart metering market
MITIE Group	UK	4,0%	Undervalued compounder in fragmented market
Spectrum	Norway	3,9%	Countercyclical niche oil services player
Euronav	Belgium	3,6%	Depressed VLCC tanker company
Int. Engelska Skolan	Sweden	3,5%	Swedish School company with strong organic growth at 8% FCFy
Rieter	Switz.	3,3%	Swiss manufacturer of spindles - cheap, net cash, restructuring.
Prosegur Cash	Spain	3,3%	Cash in transit present in Spain & Latam
TI Fluid	UK	3,0%	Undervalued auto parts company
Cegedim	France	3,0%	Software for doctors and insurers, stable revenues
Frank's Intern.	US	2,9%	Countercyclical niche oil services player
Orsero	Italy	2,8%	Undervalued defensive business
DFS Furniture	UK	2,8%	Leading British manufacturer of furniture.
ITE Group	UK	2,6%	Deeply undervalued event management company
Piaggio	Italy	2,5%	Recovery of the European replacement cycle of bikes
Total top 15		**50%**	
Total portfolio		**99%**	
Liquidity		**1%**	
Total fund		**100%**	

Apendix III: 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.*

Equam performance relative to indices

Performance vs indices	EQUAM A	MSCI Europe NR**	Stoxx 50 NR**	Equam vs MSCI
1 month	3,4%	4,4%	4,6%	-1,0%
3 month	3,0%	3,0%	3,5%	0,0%
2019 YTD	16,6%	16,2%	17,9%	0,3%
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	-1,0%	0,9%	-0,3%	-2,0%
Inception	**33,3%**	**18,7%**	**16,1%**	**14,7%**
Inception annual	**6,7%**	**4,0%**	**3,5%**	**2,8%**

**Returns since inception exclude initial 15 days in which the fund was not invested.*
***NR index assume dividends reinvestment after withholding tax*

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.

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