# EQUAM Global Value Fund

## Quarterly report March 2018

## New long term investment opportunities

During the fquarter, market volatility has returned and indices have experienced drops throughout the most important markets. We welcome the return of volatility and the price drops as they are allowing us to find new investment opportunities and to increase our exposure to certain companies in the portfolio.

It is when markets fall that investors are able to invest for the best returns provided they are ready to cope with the short-term volatility and to be patient for the market to recognize the value of the investment.

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

## First quarter performance

Two investments in our portfolio explain our underperformance during the quarter.

During the first quarter of the year the markets have experienced drops which have also affected EQUAM. The fund has fallen by 6.4% vs a 4.3% drop of the European markets. This underperformance is mainly explained by the bad price performance of two significant investments in the fund (Aryzta and Mitie). Excluding those two investments the performance for the quarter would have been in line with the market.

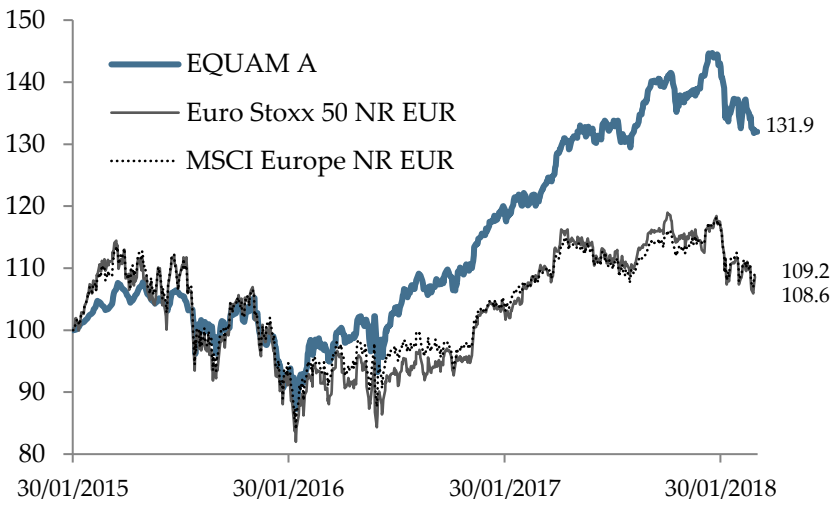
On a longer perspective, since inception in January 2015, the fund's annualised return has been 9.1% versus 2.7% of the European indices including dividends. As we always try to emphasise, it is not the quarterly or even annual performance which is relevant, but the consistent implementation of a coherent investment process like the one we are executing, what will allow for attractive investment returns in the long run.

**Aryzta,** the frozen bakery manufacturer, released a half year results in January 2018 worse than expected and the market reacted with a 40% share price drop. Although some investors are concerned with the potential financial covenants breach at year end, we still believe that the current divestiture program the company's management has put in place will allow the company to generate sufficient cash to avoid this situation. Consequently, we have been buying additional shares to increase our position from 2.6% at the beginning of the year to the current 3%. As usual, markets overreact to both negative and positive news, as we can see from the fact that Aryzta share price had increased by more than 30% during December following the good news about the restructuring process.

**Mitie**, a British company involved in facility management

services is going through a restructuring process and in the last results release it announced that its cash consumption would be slightly higher than expected. Although its balance sheet structure is not worrying, many investors have been scared following the financial problems of companies with similar business models in the UK such as Carillion or Interserve, and shares have dropped by 20%. Also in this case we have been buying additional shares.

EQUAM returns versus European indices
(base 100)




** Net Return indices in Euro, assumes dividends reinvestment net of taxes.*

There could be many very different explanations to the markets drop during the term: historical high stock market valuations, extremely low interest rates in the process of normalising, protectionist policies from the US that could turn into a trade war, the US technology companies being penalised by the market, etc… Any of these explanations could help us understand the market movements a posteriori, but we should not forget that these movements are recurrent in the market and we believe there is no sense in trying to anticipate to them, as it is impossible to know

when they will come. We prefer to try to take advantage of them by focusing on valuations and business analysis and buying where there is panic in the market.

For the long-term investor there is no better alternative that to buy good businesses at attractive prices taking advantage of the short-term view of the market.

We should not forget that despite the different problems in the world economy and the short-term volatility of the market, there is the irrefutable argument that throughout time and despite the different financial crisis we have experienced, the world economy and the life conditions are consistently improving over time as a result of the entrepreneurial activity. It is the companies that create value for the society and the best way to capture that value creation process is investing in them.

Consequently, we see the current market situation as an excellent opportunity to continue implementing our investment process of finding good businesses at attractive valuations. We might need to cope with temporary loses throughout the way, but if we are disciplined and patient we are convinced that the long-term returns will be achieved.

## Value approach

We would like to remind some of the different approaches that we believe are the best options to maximize returns in the long run. In previous reports, we have referred to our strong preference for companies with stable and recurrent businesses, managed by aligned management teams and with strong financial profiles.

However, our most important investment criteria is the price at which we can acquire a company. We aim at acquiring companies that are trading at a minimum 30% discount to our internally calculated value.

In order to determine this minimum margin of safety, we

identify three different situations:

- A good part of our investments are made in oligopolistic and recurrent businesses. They are normally businesses with low growth rates which do not attract new competition. We believe this kind of situations have a low risk profile as the business models are quite sustainable throughout time. In these situations, it is very important to have a good understanding of the barriers to entry and of the reasons for revenue recurrence and the companies' competitive advantages. We determine the intrinsic value through the company's cash flow generation capacity and normally take advantage of a temporary problem that allows us to buy them at the necessary discount.

  Companies like Intertrust (international trust and corporate management company) or Vopak (company that stores and handles the logistics of various oil, chemicals and natural gas-related products) are good examples of investments in this category. They have recurrent and predictable results, but temporary problems allowed us to buy them at attractive prices.

- A second type of investments which are very attractive but not so easy to identify would be those companies which operate in a protected market which is growing. This kind of companies are able to reinvest their cash flows and obtain high returns as a consequence of the reduced competition. In these situations, the greatest risk is to overpay. We normally pay the full value of the existing business, without any discount, as the margin of safety is provided by the protected growth that will allow the company to create value over time with a very

good visibility.

SMS, a UK company installing and operating metering systems, is a good example of this type of investments. It has the possibility, together with a very limited number of competitors, to renew the gas and electricity meters UK park, installing and operating them through 20 years inflation protected contracts that allow the company to obtain investment returns above 10%.

- Finally, we contemplate investments in sectors where competition is high. Although we have a strong preference to invest in industries with barriers to entry, sometimes we find value in situations where there is a strong competitive environment and where the return on invested capital is low, close to the cost of capital. These are companies offering commoditised products or services where it is relatively easy to increase capacity. In these sectors, it is difficult to obtain high returns on a consistent basis, as when that happens, very rapidly new competition enters the market reducing again the returns. In these circumstances it is very important to understand well the capital cycle of each specific industry. We look to invest in the stronger company at a discount to the replacement value and at a bottom part of the cycle when there is overcapacity, waiting for the cycle to recover once overcapacity has been absorbed. Although this type of investments could present a higher risk profile related to the business unpredictability, they also offer a high return potential. In order to mitigate risks it is key to invest with a large margin of safety and in those companies with stronger balance sheets that have a lower probability to enter into financial difficulties.

A good example of this approach would be our investment in Euronav, a crude oil tanker company. The sector is currently in an overcapacity situation and the returns and valuations are at historically low levels.

These three approaches are very clear in theory, but not so easy to implement or to identify as in many occasions we come across intermediate situations, with narrow barriers to entry.

The best opportunities appear when there is pessimism, when everybody is trying to sell and nobody wants to buy.

An additional difficulty is that in order to buy with the necessary discount, it is necessary that other investors are prepared to sell at those prices. This only happens from time to time, normally in panic situations when many investors behave in an irrational way, overestimating the potential risks and not being sufficiently patient for things to normalise. Within our investment process, we assign equal importance to the correct analysis of investments and to the patience and decision to invest at the right time, acting against the criteria of other investors.

An example of this is the current situation in the UK where the investment community is more negative about this market than about any other market, including sovereign bonds. The uncertainties regarding Brexit (which we carefully analyse and follow) have caused many investors to avoid any investment related to the UK. This is creating an opportunity that is allowing us to find attractive investments in this market. We believe that be successful in the long term you need to do things that are different to what the majority and be able to do, and you need to cope with the short-term volatility or initial pain generated by these investments.

## New investments

During the term, we have invested in Cameco, Franks International, Orsero and Spectrum.

During this term, specially before the recent correction came, we were actively selling several companies that had reached our intrinsic value and it was only after volatility returned to the market that we were able to identify new investment opportunities.

In February we visited a company that is initiating its investments to develop a new uranium mine in Salamanca and we decided to look again into this industry. Uranium price has consistently been dropping since the Fukushima disaster in 2011 which provoked the closing of all nuclear plants in Japan and the announcement of closure of the German ones, coinciding with the opening of new mine facilities in Canada and Kazakhstan which expanded production capacity quite significantly. This situation increased the level of inventories and impacted the uranium price. As a reaction, the world's largest companies have decided to reduce production levels and hardly any new investment project has been launched in recent years. This will sooner or later lead to a recovery of prices, especially considering the expected increase in demand as new nuclear plants come into operation. This process will not be immediate as there are still excess inventories in the market, but we are confident that we are currently at the bottom part of a long cycle. Despite all the political noise around nuclear power, the truth is that the world economy cannot depend exclusively on renewable energy and that nuclear power will continue to play an important role. In this context, we have decided to invest in **Cameco**, the largest uranium manufacturer in Canada, where our analysis concluded that once the company operates again at full capacity and with a certain recovery in the uranium price, the value should be at least double the current market capitalization. We have bought a 2% position in this company.

We have also made an investment in **Franks International**, a US oil services company providing highly engineered tubular running services, tubular fabrication, and specialty well construction and well intervention solutions with a focus on complex and technically demanding wells. A great part of its business is related to offshore deep-water where investment levels have been reduced dramatically in the last three years. Consequently, Franks EBITDA has dropped from $400 mn to close to zero and the market price has dropped by more than 80%. We strongly believe that despite the good perspectives of shale oil production for the coming years, the constant increase in oil demand will require more deep-water offshore investments which will allow for a significant recovery in Franks activity and profitability levels. In addition, the company has a very strong balance sheet and a net cash position, which avoids any potential financial risk should the depressed situation last longer than expected.

On the same sense, we have also invested in **Spectrum**, a similar company to TGS Nopec (one of our existing investments), although smaller in size and trading at lower valuation levels.

We have a positive view of the oil sector for the long term. Oil demand has continued increasing throughout the years, but exploration and production investments have been halted. When existing wells start depleting the supply-demand balance will tighten and new investments will be needed, leading to a recovery of the sector. We do not know when it will happen, but we are convinced it will come sooner or later. In any case, our investments in the sector look for a good risk return equilibrium, having invested in all cases in companies with strong balance sheets that avoid risks in case the cycle lasts longer than expected.

We have also invested in **Orsero**, a fruit and vegetables Italian distributor. We had been following this company

and the sector for some time, but it has not been till this quarter that the Company has reached an attractive valuation. Orsero has been affected by cost overruns in its maritime transportation division, affecting its margins. The share price has dropped by 36% and the company is now trading at a 12% normalized free cash flow. Once again, patience becomes key to execute successful transactions.

## Divestments

We continue divesting those companies that reach our intrinsic value.

We have sold **Fiat**, **Jardine Lloyd Thompson**, **Swatch** and **Cegedim** once they have reached our intrinsic value. As in previous quarters, it has been difficult to take the decision to sell those companies with higher quality businesses such as JLT and Swatch. However, we consider current prices already more than discount the good prospects of these companies and we are finding better investment alternatives in the market.

We have also sold **Deutsche Pfandbriefbank**. In this case it has not reached our target price due to a lower than expected improvement of the profitability. It is currently trading at 0.6x book value, a fair level in relation to the company´s return on Equity, so after almost three years we have sold the company with a positive return.

## Analysis of the portfolio.

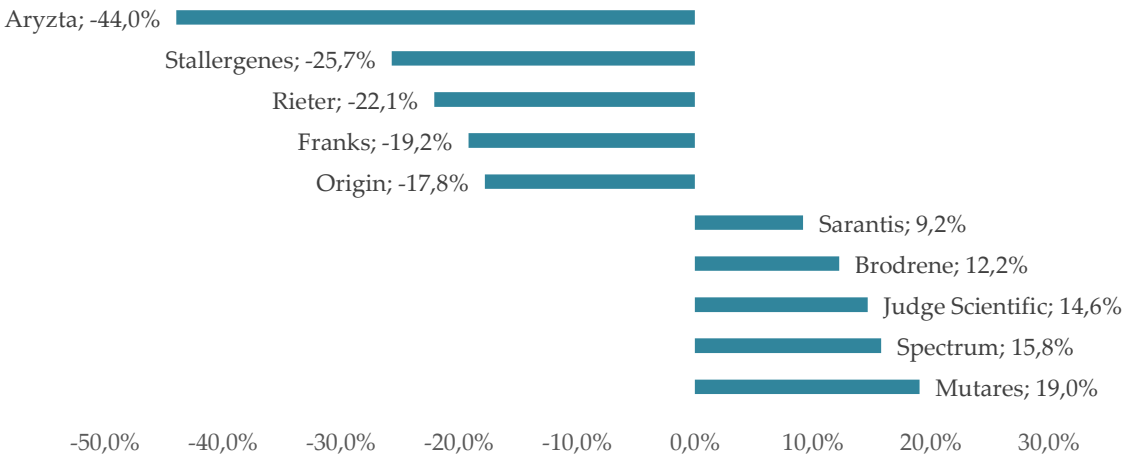
Following the new investments and divestitures, we maintain the number of investments at 46 and our cash position at 7% of NAV.

The portfolio's upside potential, considering our target prices is at around 63%, a substantial increase versus the

41% at the end of the previous term as a consequence of the recent drops and our constant search for new investments to replace the most mature ones.

The following chart shows the performance of the best and worst companies in the portfolio during the quarter (or since our initial investment in the case of new investments):

Best and worst performers in the quarter

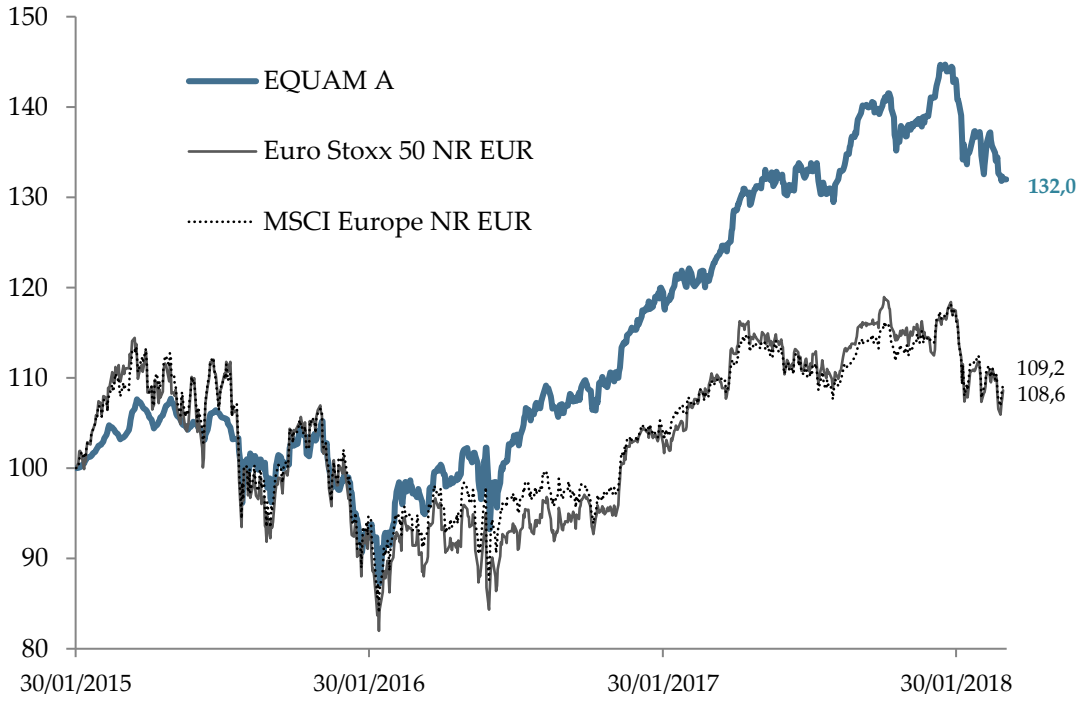


## Appendix I: EQUAM portfolio.

| Company | Country | Weight | Value Base Case |
|---|---|---|---|
| MITIE Group | UK | 3,5% | Undervalued compounder in fragmented market |
| Aryzta | Switzerland | 3,0% | Undervalued oligopolistic leader. |
| Euronav | Belgium | 3,0% | Depressed VLCC tanker company |
| DFS Furniture | UK | 2,9% | Leading British manufacturer of furniture. |
| Serco Group | UK | 2,8% | Refocused contractor in restructuring, recently recapitalised |
| Origin Enterprises | Ireland | 2,6% | Irish agronomy company with stable revenue at low price. |
| Smart Metering Systems | UK | 2,6% | Protected and profitable smart metering market |
| Brunel International | Netherlands | 2,5% | Depressed staffing company with presence in Oil & Gas |
| Arcus | Norway | 2,5% | Nordic alcoholic beverages distribution at high FCFy |
| Piaggio | Italy | 2,5% | Recovery of the European replacement cycle of bikes |
| Intertrust | Netherlands | 2,5% | Leading Dutch manager of investment structures |
| SeSa | Italy | 2,5% | IT Value Added software Italian leading provider at a discount |
| Wilh. Wilhelmsen | Norway | 2,5% | Norwegian shipping holding |
| Frank's International | United States | 2,5% | Countercyclical niche oil services player |
| TGS-NOPEC | Norway | 2,5% | Countercyclical niche oil services player |
| **Total top 15** | | **40%** | |
| **Total portfolio** | | **93%** | |
| **Liquidity** | | **7%** | |
| **Total fund** | | **100%** | |

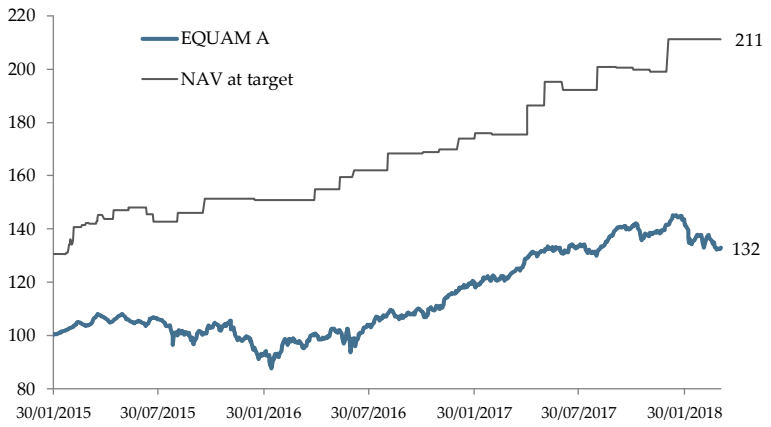
# Appendix II: Performance and NAV of EQUAM at target prices.

## Performance of EQUAM vs indices since inception.




**Excludes the first 15 days of the fund during which it held cash positions.*
*Net return indices assume the reinvestment of dividends net of withholding tax.*

## Performance of EQUAM 'A' and NAV at target prices[1]




*[1] The increase of NAV at target prices is the result of the replacement of mature investments that had reached their target price with new investments that have greater upside potential. There have been no material upgrades to our target prices during the quarter.*

## Performance vs indices

| Performance vs indices | EQUAM A | MSCI Europe NR** | Eurostoxx 50 NR** | Equam vs MSCI |
|---|---|---|---|---|
| 1 month | -3,2% | -2,0% | -2,2% | -1,1% |
| 3 month | -6,4% | -4,3% | -3,8% | -2,1% |
| 2018 YTD | -6,4% | -4,3% | -3,8% | -2,1% |
| 2017 | 21,7% | 10,2% | 9,2% | 11,5% |
| 2016 | 17,1% | 2,6% | 3,7% | 14,5% |
| 2015 | -1,0% | 0,9% | -0,3% | -2,0% |
| **Inception** | **32,0%** | **9,2%** | **8,6%** | **22,7%** |
| **Inception annual** | **9,1%** | **2,8%** | **2,7%** | **6,3%** |

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

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

| | | | | | |
|---|---|---|---|---|---|
| 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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# 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.

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## 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).

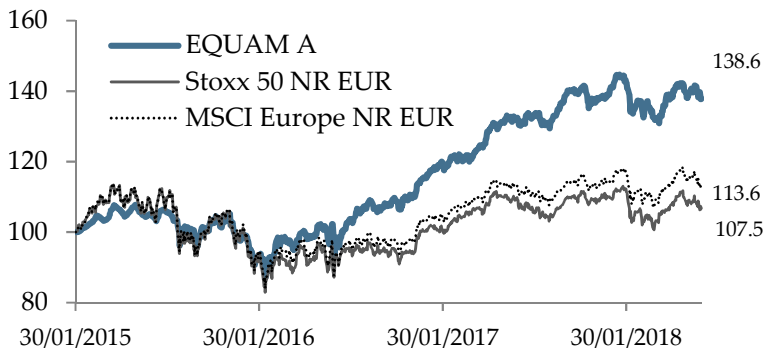
Despite the stability of the NAV of the fund during the year, we have been able to create value by satisfactorily taking advantage of volatility. At the beginning of the year the value of our fund when measured at our internal target prices was of 200€ per unit while at the 30th of June it increased 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?

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.

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

**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.

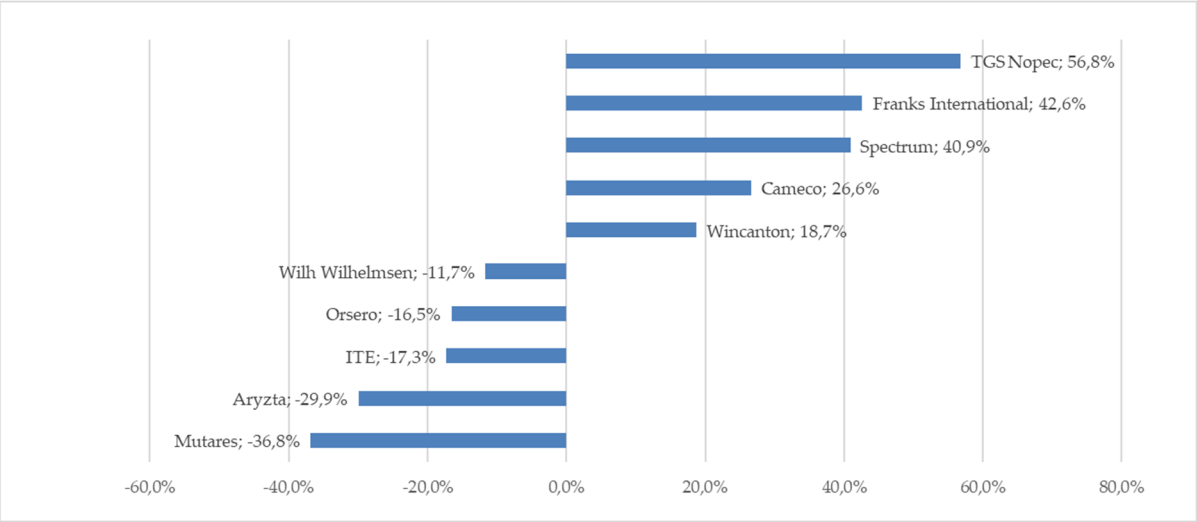
We have also divested two companies (**Judge Scientific** and **Alliance Pharma**) which operated in different business niches (instruments for laboratories in the case of Judge and pharma in the case of Alliance), but which shared a similar business model based on reinvesting cash flows in the acquisition 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.

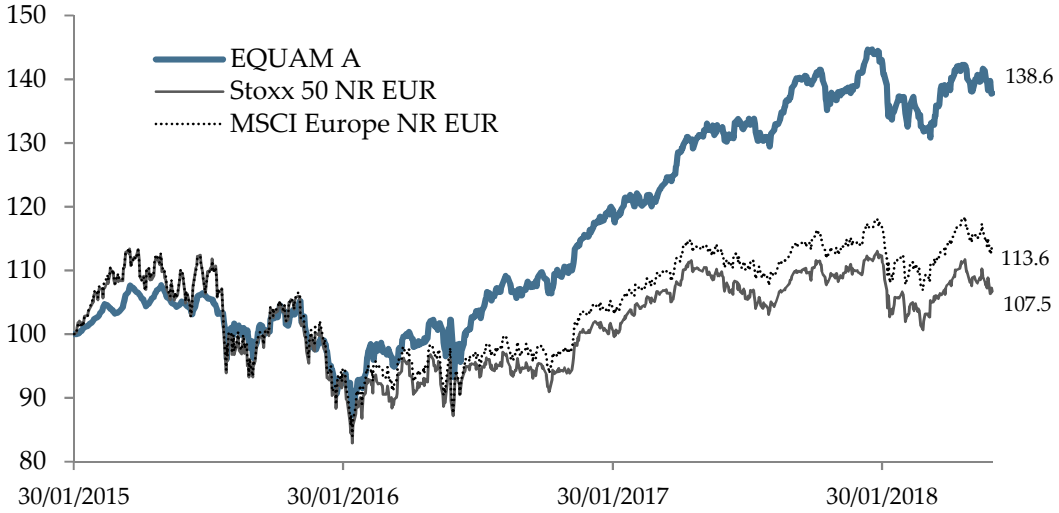
As we said at the time of the announcement, we are very proud of this association and convinced that Mr Paramés long and successful experience and Cobas solid resources will help to consolidate and reinforce our project.

## Appendix I: EQUAM Portfolio.

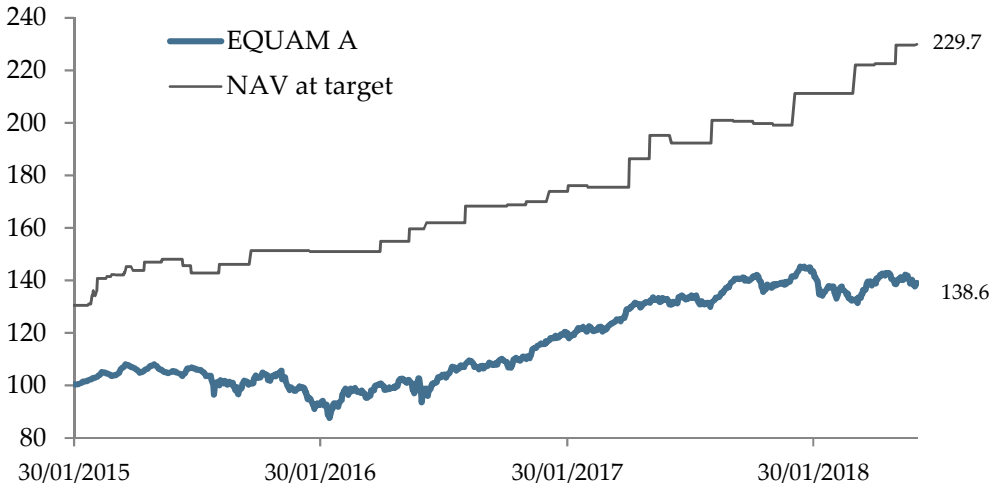
| Company | Country | Weight | Value Base Case | Upside |
|---|---|---|---|---|
| Frank's Inter. | US | 3,8% | Countercyclical niche oil services player | 121% |
| Euronav | Belgium | 3,6% | Depressed VLCC tanker company | 31% |
| Origin Enter. | Ireland | 3,4% | Agronomy company with stable revenue 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**

| | |
|---|---|
| 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. |

# 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.*

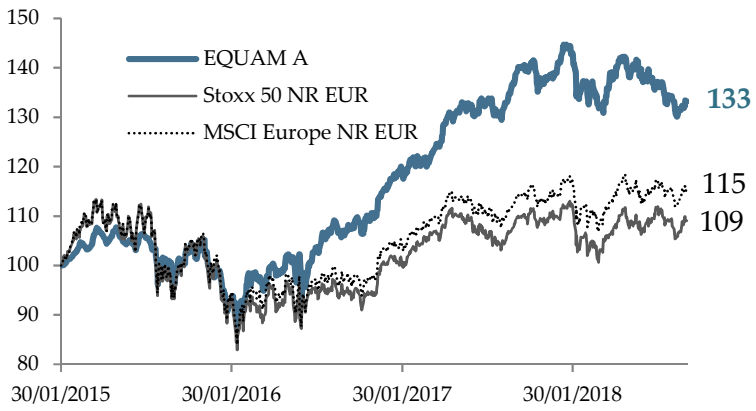
*EQUAM Global Value is a UCITS V vehicle and can be invested into throughout most leading financial intermediaries using AllFunds, Inversis, Fundsettle and other platforms.*

## 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)



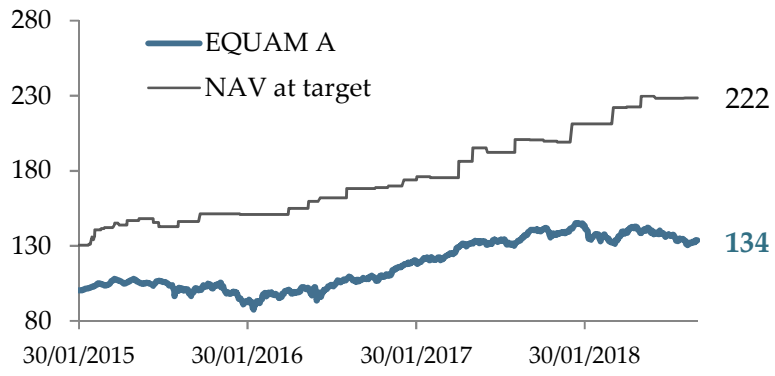

** Net return indices assume the reinvestment of dividends net of withholding tax.*

## 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.

- We have invested in stable businesses. 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.

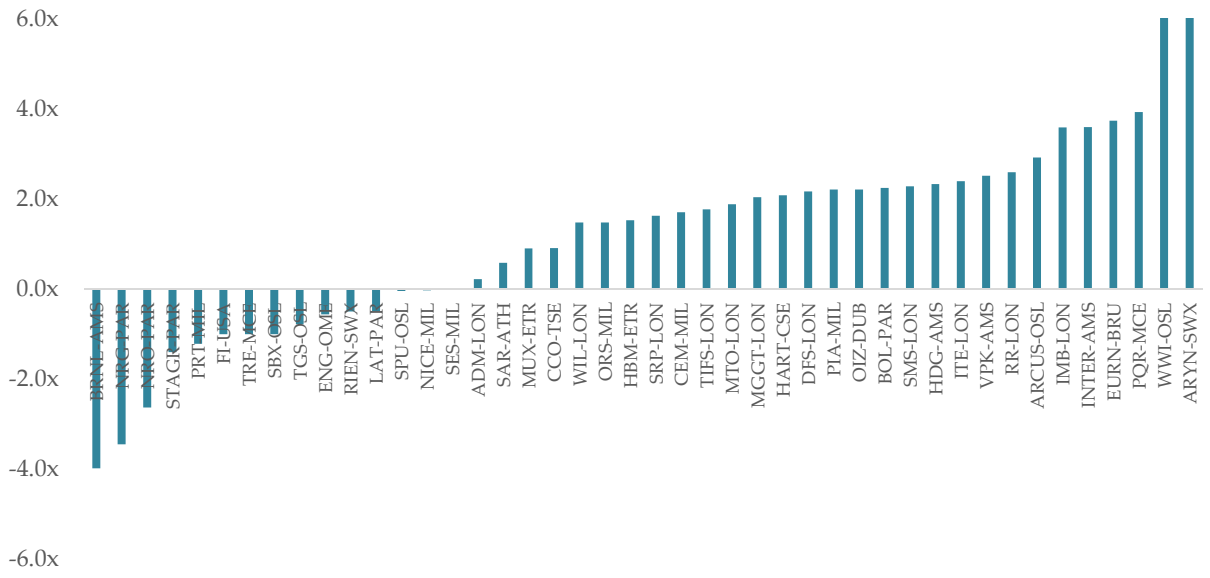
- Our portfolio is adequately diversified, with investments uncorrelated to each other and a limited exposure to each position. We have already highlighted in the past that we find it difficult to precisely anticipate which of our investments will have the best performance, so we prefer to avoid concentration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

- Our investments have healthy balance sheets and are conservatively financed. 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.

## Net Debt / ebitda LTM




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

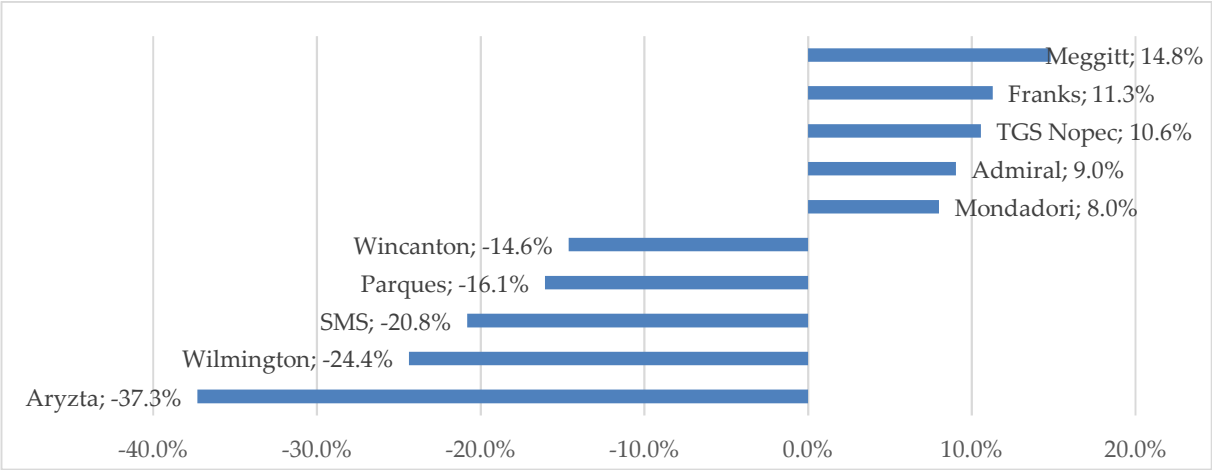
We have sold Vopak and Tecnicas Reunidas, which were approaching our target prices, to invest in cheaper companies.

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.

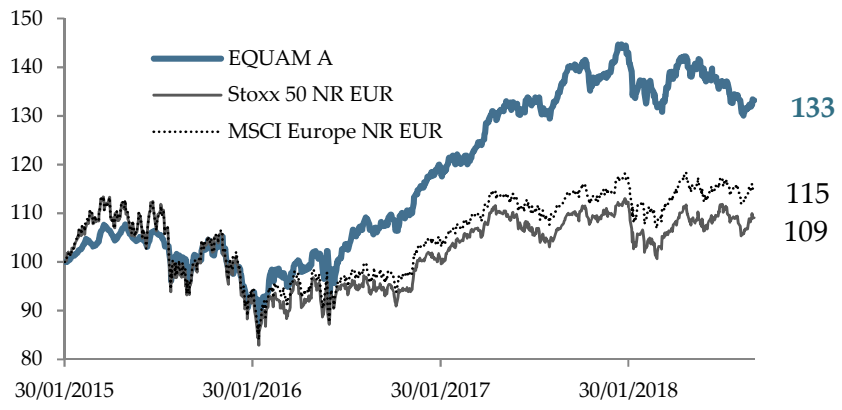
The situation in Turkey has affected both **Cementir**, which has cement plants in the country and **Rieter**, which has very profitable sales in this market. Despite the weakness of the Turkish Lira and the unstable political situation, we believe that the competitiveness of Turkey's exports have improved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

# Appendix I: EQUAM Portfolio.

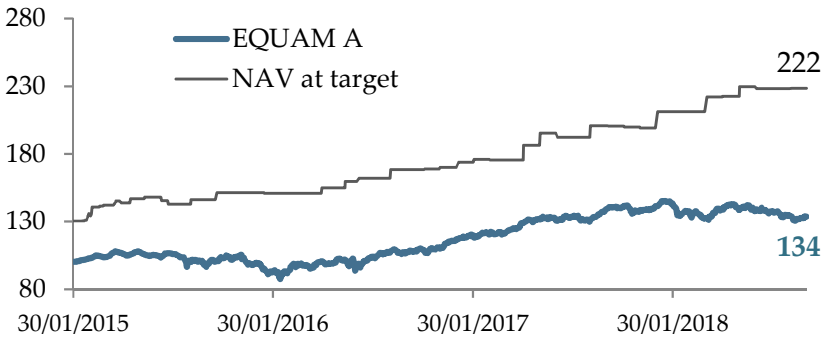
| Company | Country | Weight | Value Base Case |
|---|---|---|---|
| MITIE | UK | 3.7% | Undervalued compounder in fragmented market |
| Euronav NV | Belgium | 3.6% | Depressed VLCC tanker company. |
| Frank's | United States | 3.6% | Countercyclical niche oil services player. |
| DFS Furniture | UK | 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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Serrano 78 3º, 28006, Madrid
www.equamcapital.com

# EQUAM Global Value Fund
# Informe trimestral diciembre 2018
## Fuerte corrección en el mercado.

El año 2018 ha venido marcado por una importante corrección en los mercados financieros, especialmente acusada en la última parte del año. El comportamiento del fondo en el año ha sido peor que el de los mercados, pero desde su lanzamiento Equam sigue batiendo de manera holgada a los índices europeos.

A pesar de todas las incertidumbres y aunque la volatilidad puede continuar en los próximos meses, seguimos viendo el futuro a medio/largo plazo con optimismo. El potencial del fondo es superior al 100% (el mayor desde su lanzamiento) y consideramos momentos como los actuales como buenas oportunidades para invertir con un horizonte a medio plazo.

*Incometric Fund - EQUAM Global Value Fund es un fondo de inversión de derecho Luxemburgués que sigue una filosofía de inversión value.*

*Buscamos rentabilizar nuestro capital con inversiones a largo plazo en negocios sólidos comprados a un descuento de su valor intrínseco; así como preservarlo invirtiendo sólo si el riesgo es acotado. No intentamos adivinar los movimientos a corto del Mercado sino comprar buenos negocios a muy buenos precios.*

*El Fondo tiene un mandato no restringido de inversión pero su cartera está centrada en el espacio small & mid cap en Europa, en aquellas compañías en las que creemos que existen las mejores oportunidades de inversión.*

*Los socios de EQUAM hemos invertido la mayor parte de nuestro patrimonio en el Fondo, alineando totalmente nuestros intereses con los de los partícipes del fondo.*

*Incometric Fund - EQUAM Global Value FCP es un fondo UCITS IV, registrado en la CNMV y dado de alta en Inversis y Allfunds, por lo que puede suscribirse tanto desde instituciones financieras españolas, siendo entonces traspasable, o directamente en Luxemburgo.*

EQUAM

## Fuerte corrección en el mercado

A pesar de la fuerte caída en la cotización del fondo en 2018, Equam ha batido a sus índices de referencia de manera holgada desde su lanzamiento

El año 2018 cierra con una fuerte correción en los mercados, que en el caso de Europa han sufrido caídas en el entorno del 10-11%. El fondo ha tenido un comportamiento peor que los mercados y ha experimentado una caida del 19% en el año. Si tomamos una perspectiva más larga , desde la fecha de lanzamiento de nuestro fondo en enero de 2015, Equam Global Value presenta una revalorización del 14,4% (3,5% anualizado) frente al 2.1% (0,5% anualizado) de los índices europeos comparables con dividendos.

El negativo comportamiento de los mercados durante los últimos meses ha venido marcado por varias cuestiones:

- Proceso de tensionamiento coordinado de la política monetaria por parte de los principales bancos centrales, incluyendo un progresivo aumento de los tipos de interés y la extracción de liquidez del sistema financiero. La Fed ha dejado de reinvertir los bonos de su balance cuando vencen y el BCE ha abandonado su política de compra de bonos.

- La guerra comercial entre Estados Unidos y China, y el potencial deterioro de la actividad que puede ocasionar, especialmente en China. En diciembre, China presentó un dato de crecimiento de exportaciones de +5,4%, inferior al 10% esperado.

- Problemas políticos en Europa, con incertidumbre sobre el marco jurídico en el que quedará Reino Unido tras el Brexit, conflicto entre Italia y la UE por el déficit presupuestario y tensiones en Francia.

- El miedo a un cambio de ciclo económico que tenga un impacto en los resultados de las compañías.

Nos parece que el tensionamiento de la política monetaria es una de las principales causas de la caída de las cotizaciones. Después de una década en la que los bancos centrales han inyectado enormes cantidades de dinero en los mercados, hemos pasado, en pocos meses, a una situación en la que están retirando dinero del sistema. El impacto de este cambio de política en los precios de los activos está siendo muy considerable. Aunque es imposible predecir las decisiones políticas de los bancos centrales, pensamos que su objetivo es eliminar los excesos que había en las valoraciones y que por tanto la tensión monetaria se suavizará en el medio plazo.

Respecto a la tensión en las relaciones entre China y Estados Unidos, que también han introducido una alta volatilidad en la actividad económica China, pensamos que el proceso de negociación que han abierto puede dar resultados positivos y establecer un marco de comercio más equilibrado que permita a las grandes economías seguir creciendo.

La inestabilidad política Europea nos afecta directamente, por la exposición del fondo a esta zona. Creemos que lo más importante respecto al Brexit es que se decida el nuevo marco comercial del Reino Unido cuanto antes. Sea cual sea la nueva estructura de relación, las empresas se adapatarán, pero necesitan certidumbre y estabilidad jurídica. También creemos que esta situación se normalizará en el medio plazo.

Respecto al ciclo, y sin querer entrar en mucho detalle, aunque consideramos que puede haber una ralentización temporal en el crecimiento económico mundial, seguimos siendo optimistas con las perspectivas a largo plazo. Creemos que la situación de la economía mundial es diferente a la que teníamos en los años 2007/2008 y no debemos olvidar que el PIB mundial lleva más de 50 años creciendo de manera positiva todos los años (con la

excepción de 2009).

Todos estos factores generan situaciones de incertidumbre y desconcierto, lo que ha provocado un flujo de salida de fondos en la renta variable a nivel mundial que ha provocado una súbita caída en las cotizaciones que en la mayor parte de los casos no se deriva necesariamente de un cambio en la valoración de las compañías. Además, estas situaciones de pánico provocan ventas masivas por parte de los inversores sin discriminar por la calidad de los activos y sin tener en cuenta las valoraciones implícitas en los niveles de cotización. Como hemos podido ver en innumerables ocasiones en el pasado, los mercados tienen una tenderncia a pasar de una situación de euforia al pánico de una manera muy rápida.

Los movimientos a corto plazo de los mercados son impredecibles y en la mayor parte de los casos están poco correlacionados con cambios en la valoración de las compañías

Como siempre hemos dicho, los movimientos a corto plazo de los mercados son impredecibles y situaciones de caídas bruscas se van a seguir produciendo de manera periódica en el futuro. No hay que emplear demasiado tiempo en intentar anticiparse a estos movimientos, porque dependen de factores políticos y maroeconómicos completamente impredecibles. Lo que sí que hay que hacer es aprovechar las oportunidades que se presentan durante estos movimientos, comprando acciones de aquellas compañías en las que las caídas pronunciadas de la cotización no están justificadas por la evolución previsible de sus resultados.

Para ilustrar nuestra forma de actuar, centremonos por ejemplo en nuestra inversión en **Sesa**, que actualmente es la segunda posición del fondo. Sesa es una compañía italiana líder en ese país en la distribución de software y soluciones informáticas de valor añadido para pequeñas y medianas empresas. Se trata de una compañía que cumple todos nuestros criterios de inversión:

- Sector con claras barreras de entrada (es necesario

cerrar acuerdos con las grandes compañías internacionales del sector IT) y un negocio con altos retornos sobre el capital y gran capacidad de generación de caja. Además se trata de un negocio en crecimiento sin una exposición excesiva al ciclo económico.

- Compañía con un muy bajo perfil de riesgo ya que mantiene una posición de caja neta en su balance.

- Los fundadores de la compañía son los gestores y principales accionistas lo que permite que exista una buena alineación de intereses.

Invertimos en esta compañía a principios de 2017 a un precio de 19,5€ por acción. La compañía ha mantenido desde entonces la buena evolución financiera de los últimos años, con un crecimiento anual de sus resultados superior al 8% y un destacada generación de caja. En agosto el precio de la acción había subido hasta los 31,6€ (<9x EV/EBIT), pero seguía por debajo de nuestra estimación de valor intrínseco de 40 euros.

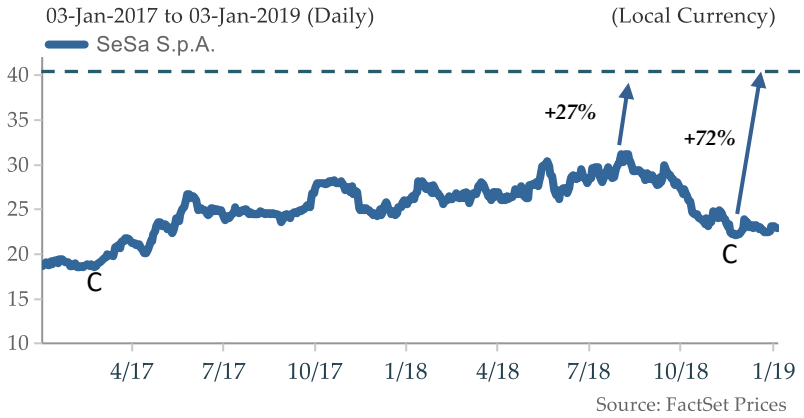
La siguiente tabla muestra la evolución de las ventas, beneficio operativo bruto y posición de tesorería de Sesa en los últimos ejercicios.

| *eur mn* | 2014 | 2015 | 2016 | 2017 | 2018E | CAGR |
|---|---|---|---|---|---|---|
| Ventas | 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%* | |
| Caja Neta | 26,2 | 33,9 | 41,8 | 51,9 | 68,6 | |

A pesar de esta buena evolución y de estar cotizando a una valoración atractiva, la compañía no se ha salvado del castigo de los mercados. Como consecuencia de la última corrección, desde agosto la acción ha caido un 27%, cerrando el año a 23,2 €. En estos 5 meses no ha habido ninguna noticia negativa que justifique un cambio en las perspectivas del negocio ni en la valoración de la

compañía. Al contrario, en diciembre Sesa presentó unos resultados semestrales que confirmaban la buena trayectoria de la compañía (crecimiento del EBITDA de +16,6% en el semestre) sin reacción alguna en la cotización. A precios actuales el múltiplo de cotización ha caido hasta 6.5x EV/EBIT que consideramos injustificadamente bajo y el potencial de revalorización de esta inversión ha subido de un 27% en agosto a un 72% actualmente.

**Evolución de la cotización de Sesa y precio objetivo**




No sabemos cual va a ser el comportamiento de la acción en el corto plazo, pero sí que i) a pesar de la caida en la cotización el valor de nuestra inversión no ha experimentado ningún deterioro (más bien lo contrario); y ii) que antes o después deberá producirse una convergencia del precio de cotización hacia el valor real de la compañía. Por eso hemos reforzado nuestra inversión en esta compañía, aprovechando las caídas para comprar más acciones.

Los precios de cotización de las compañías del fondo están muy alejados del valor real de las mismas, lo que se traduce en un potencial de revalorización del fondo superior al 100%, con diferencia el más alto desde el lanzamiento del fondo hace casi cuatro años.

Esta situación que hemos comentado de Sesa podría trasladarse a la mayor parte de las inversiones del fondo. De hecho, el valor objetivo del fondo de acuerdo a nuestro cálculo independiente ha experimentado un incremento del 15% en el año, desde 200 euros por participación a finales de 2017 hasta los 230 en la actualidad. Esta

revalorización se ha producido tanto por la incorporación de nuevas inversiones con mayor potencial de revalorización que las que hemos ido vendiendo a lo largo del año, como por la reponderación hacia aquellas compañías del fondo que ofrecían una mayor desviación entre cotización y valor.

Este aumento del valor objetivo del fondo, junto con la caida de su valor de cotización en el año, hace que el potencial de revalorización (medido como diferencia entre el valor de cotización del fondo y el valor objetivo del mismo) sea superior al 100% y se encuentre en niveles máximos desde el lanzamiento en enero de 2015. Por eso, a pesar del contexto actual en el que las incertidumbres políticas y macroeconómicas pueden mantener la evolución de las cotizaciones bajo presión en el corto plazo, estamos convencidos de que hay que conservar la calma y mantener la perspectiva a largo plazo en las inversiones.

Somos optimistas respecto al futuro y ahora más que nunca creemos fundamental conservar la calma y tener una visión a largo plazo de la inversión. Momentos como los actuales son buenas oportunidades para invertir con una visión a largo plazo.

Históricamente la inversión en renta variable ha obtenido retornos atractivos y superiores a la inversión en otro tipo de activos. Pero para conseguir esta mayor rentabilidad hay que mantener la disciplina en la toma de decisiones y muy especialmente resistir el impulso de vender en un pánico con la esperanza de poder comprar más adelante a precios más atractivos.

Es más, consideramos momentos como los actuales como magníficas oportunidades de inversión en renta variable, siempre con un horizonte de inversión a medio/largo plazo (al menos 5 años). Seguimos convencidos de que la mejor forma de proteger nuestro patrimonio es invertir en buenas compañías a precios atractivos.

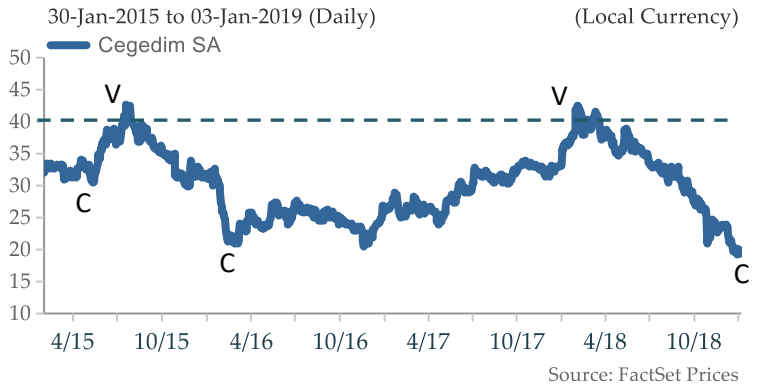
Destacar asímismo que no es la primera vez que vivimos una situación similar a la actual. En los 9 meses desde mayo de 2015 hasta febrero de 2016 el fondo cayó un 19%, para luego subir un 65% en los dos años siguientes.

En resumen, a pesar del comportamiento negativo en el año y siendo conscientes de que la incertidumbre y las caidas pueden continuar en los próximos meses, cerramos el año con optimismo y convencidos de que el mejor camino en la situación actual es seguir con la ejecución disciplinada del proceso de inversión que hemos venido describiendo en pasados informes.

## Inversiones

Por tercera vez desde el lanzamiento del fondo, hemos tomado una participación en Cegedim, compañía familiar dedicada al software en el sector sanitario.

Hemos realizado una nueva inversión en la compañía francesa **Cegedim,** sociedad dedicada al software y otros servicios para el sector sanitario (médicos, farmacias y compañías de seguros)**.** Se trata de la tercera vez que realizamos una inversión en esta compañía ya que a pesar de que tiene un negocio sólido, poco cíclico y de alta visibilidad, la acción ha estado sometida a una alta volatilidad. El proceso de transición en su modelo de negocio desde un sistema basado en licencias perpetuas a otro basado en suscripciones genera una ralentización temporal de las ventas, así como un incremento también temporal del esfuerzo inversor en investigación y desarrollo para el lanzamiento de nuevos productos basados en la nube. La cotización de la compañía ha pasado desde los más de 40 euros por acción de principios de año (nivel al que vendimos nuestra participación) al precio actual de alrededor de 20 euros por acción. Es decir, se ha producido una caída superior al 50%, en un escenario en el que el resultado del ejercicio 2018 va a ser muy similar al del año anterior (con una buena visibilidad de mejora una vez se reduzca el actual nivel de inversión en I+D) y con un negocio que tiene poca exposición al ciclo económico.




Estamos comprando esta compañía a un múltiplo

EV/EBITDA de 5,5x sobre resultados actuales y de 4,2x sobre los resultados normalizados una vez que finalice el periodo de transición en el que se encuentra inmersa. Al igual que en el caso de Sesa que mencionábamos anteriormente creemos que se trata de un ejemplo claro de la irracionalidad con la que actúan los mercados en el corto plazo. Cabe recordar por otro lado, que Cegedim es una compañía familiar, en la que la familia fundadora es el principal accionista con una participación estable del 52%. Además, tiene una estructura de balance muy sólida con un nivel de apalancamiento reducido, especialmente si tenemos en cuenta la estabilidad de su negocio (por debajo de 2x deuda neta / EBITDA).

## Desinversiones

Hemos decidido vender Aryzta debido a la pérdida de confianza en el equipo directivo actual y el consejo de administración de la compañía.

En el apartado de desinversiones cabe destacar nuestra decisión de venta de **Aryzta**. Se trata de nuestro principal error desde el lanzamiento del fondo al habernos saltado dos de nuestros filtros de inversión: bajo apalancamiento y calidad y alineamiento de intereses del equipo directivo.

Como ya informamos en nuestro último informe trimestral, el equipo directo de la compañía anunció en el mes de agosto una ampliación de capital de 800 M€ de euros, anuncio no sólo sorprendente porque el equipo había consistentemente mantenido que no iba a ser necesaria una ampliación de capital, sino también por el tamaño de la misma (la ampliación equivalía a la capitalización de la compañía en ese momento). Como dijimos en su momento, manteníamos la posición a la espera de concretarse los términos de la ampliación y la reacción del Consejo a la alternativa planteada por el principal accionista de la compañía: una ampliación de 400 M€ combinada con una serie de ventas de activos no estratégicos que permitía reforzar el balance de la compañía con una menor dilución para los accionistas.

Sin embargo, la actitud del Consejo y del equipo directivo fue de cerrarse a mantener ningún tipo de diálogo o analizar alternativas diferentes a su propuesta. Ante esta situación de distanciamiento entre los directivos y consejeros y un bloque significativo de los accionistas y una vez conocidos los términos de la ampliación (claramente perjudiciales para los intereses de los inversores actuales), tomamos la difícil decisión de vender nuestra participación materializando las pérdidas acumuladas. La decisión vino motivada por i) el riesgo de caídas adicionales en el corto plazo debido a la presión vendedora de derechos por parte de accionistas que no quisieran acudir a la ampliación (como así ocurrió ya que desde nuestro precio de venta la cotización ha caído un 40% más) y ii) la existencia de otras alternativas de inversión fruto de la fuerte corrección de los mercados con un perfil de riesgo/rentabilidad a largo plazo mejor. Y todo ello a pesar de que consideramos que una vez ejecutada la ampliación de capital y reducido de manera muy significativa el nivel de apalancamiento, existe un potencial de revalorización significativo, razón por la cual seguimos observando esta oportunidad desde cerca por si pudiera surgir una nueva oportunidad de entrada. Hemos perdido un 80% de nuestra inversión en esta compañía desde nuestra inversión inicial en 2015 y ha drenado un 3,5% de rentabilidad del fondo en el año 2018. Aprendemos de nuestros errores y salimos reforzados de esta ingrata experiencia sobre la importancia de ejecutar con disciplina nuestro proceso de inversión sin desviaciones ni excepciones a nuestros criterios.

Hemos recibido una oferta de compra de nuestra inversión en Nice. El principal accionista de la compañía ofrece una prima del 40% sobre el precio de cotización.

Por el lado de las desinversiones queremos destacar también la venta de **Nice**, empresa italiana fabricante de motores para toldos y persianas y automatismos de puertas) tras el anuncio de una oferta de compra por el principal accionista de la empresa. A pesar de que el precio

de oferta estaba por debajo de nuestro valor intrínseco, suponía una prima del 40% sobre la cotización actual y hemos decidido vender para utilizar la caja aprovechando las recientes caídas de muchas compañías. Hemos obtenido una revalorización de alrededor del 40% durante los casi dos años que hemos mantenido la compañía en cartera.

## Situación de la cartera y evolución del fondo.

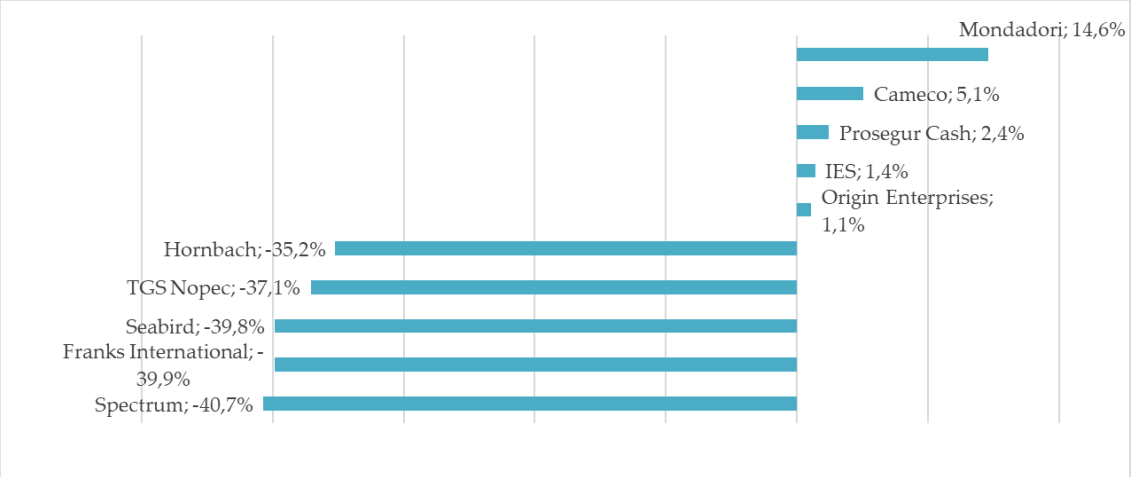
Después de las nuevas inversiones y desinversiones tenemos 46 compañías en cartera y un nivel de inversión del 99%.

### Principales posiciones de la cartera a 31 de diciembre.

| Compañía | Peso |
|---|---|
| Parques Reunidos Servicios Centrales SA | 3,8% |
| SeSa S.p.A. | 3,6% |
| Internationella Engelska Skolan i Sverige Holdin | 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 cartera de Renta variable** | **99,2%** |
| **Liquidez** | **0,8%** |

La siguiente tabla muestra la evolución de las mejores y peores compañías de la cartera en el trimestre o desde el momento de nuestra inversión inicial si ésta fue posterior a septiembre.

Inversiones con mejor y peor evolución en el trimestre [1]




[1] *Variación de la cotización de 30/09/2018 a 31/12/2018. En el caso de las nuevas incorporaciones (Cegedim) hemos tomado como referencia el coste medio de adquisición*

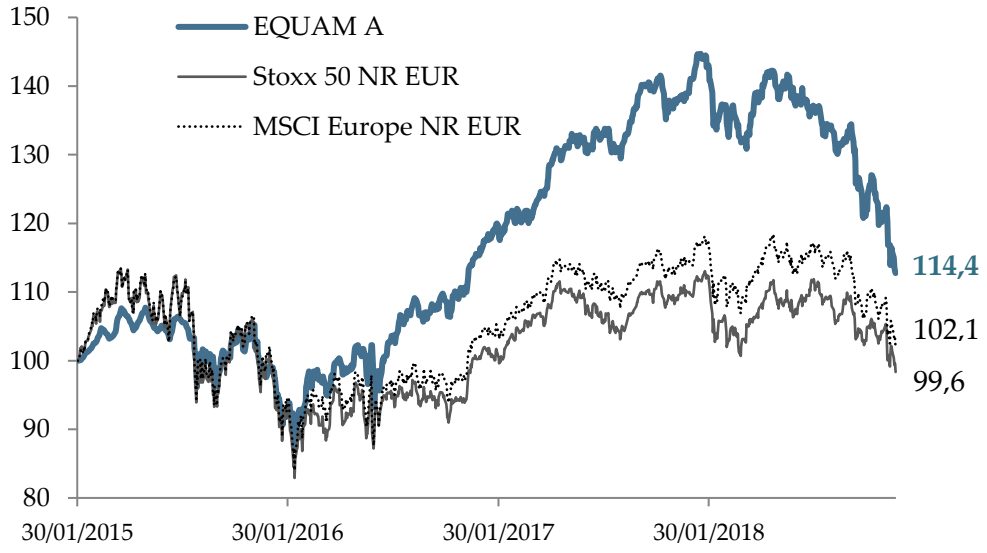
Cabe mencionar el muy mal comportamiento de las compañías vinculadas al sector de petróleo (Spectrum, Franks International, Seabird y TGS), con caídas en el rango del 35 a 40% en el trimestre. A pesar de la caída del precio del petróleo en los últimos meses, seguimos convencidos de que nuestra tesis de inversión sobre el sector sigue intacta. Llevamos ya varios años en los que prácticamente no se han decidido nuevas inversiones en pozos "offshore", pero la demanda de petróleo ha seguido creciendo. Por eso, a pesar de las buenas perspectivas de la producción de "shale oil" para los próximos años, la creciente demanda sólo podrá ser satisfecha si se recupera la inversión en pozos marinos. De hecho, cuando la producción de los pozos actualmente en funcionamiento empiece a decrecer, volverán las prisas por invertir y el sector tendrá una intensa recuperación. No sabemos cuándo vendrá, pero sí estamos seguros de que llegará. Recordemos que todas nuestras compañías vinculadas al sector mantienen un sólido balance, sin deuda, que les permite aguantar la espera sin tensiones financieras hasta que el ciclo vuelva a recuperarse.

# Apéndice I: Cartera de EQUAM.

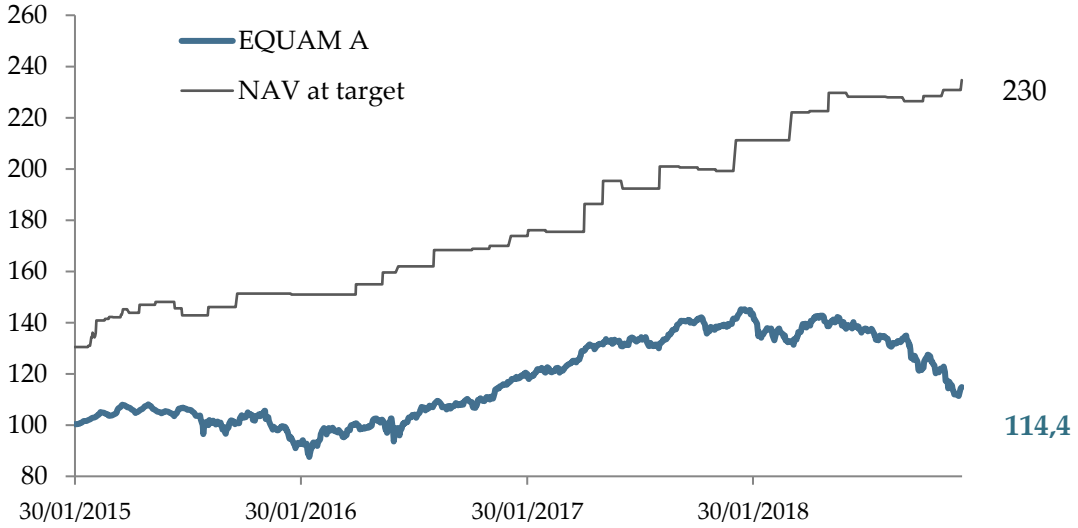
| Company | Country | Weight | Value Base Case/ |
|---|---|---|---|
| Parques Reunidos | Spain | 3,8% | Spanish theme park operator trading at 52w lows |
| SeSa | Italy | 3,6% | IT Value Added software italian leading provider at a discount |
| Int. Engelska Skolan | Sweden | 3,4% | Swedish School company 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%** | |

# Apéndice II: Valor objetivo del fondo y evolución.

### Rentabilidad comparada EQUAM e índices desde inicio




### Evolución de EQUAM 'A' y Valor del fondo a nuestros precios objetivo[1]




[1] *El aumento del valor objetivo del fondo es el resultado de sustituir inversiones maduras por nuevas oportunidades, ya que no hemos hecho cambios materiales en los precios objetivo de nuestras inversiones.*

## Rentabilidad comparada EQUAM e índices

| Evolución vs índices | EQUAM A | MSCI Europe NR | stoxx 50 NR | Equam vs MSCI |
|---|---|---|---|---|
| 1 mes | -5,5% | -5,5% | -5,8% | 0,1% |
| 3 meses | -14,1% | -11,3% | -9,6% | -2,8% |
| 2018 YTD | -18,9% | -10,6% | -10,2% | -8,3% |
| 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** | **14,4%** | **2,1%** | **-1,5%** | **12,3%** |
| **Anualizado inicio** | **3,5%** | **0,5%** | **-0,4%** | **3,0%** |

** Rentabilidad desde inicio excluye los 15 primeros días del fondo en los que no estaba invertido.*

*** Los índices asumen la reinversión de dividendos netos de retenciones.*

| | |
|---|---|
| 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) |

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