TRIUM BLACKWALL EUROPE L/S FUND

European Long/Short Equity

QTD: 0.80%* YTD: 3.74%*

AUM: EUR 64.8M*

Q2 2016

Dear Investor,

Although the returns for the Fund were positive, the 2nd quarter of 2016 proved challenging. While in April the Fund was down by 1.42%, largely due to our investment in Stroeer, (as explained in our last monthly update), both May and June were positive months for the fund, with net returns +1.08% and +1.16% respectively. The performance for the quarter is +0.80% bringing the YTD net return to +3.74% and the ITD net return to +13.60%. No leverage was employed and the average net exposure was approximately 7% over the 2nd quarter.*

The Fund's assets under management increased from EUR 41.5m to EUR 64.8m over the 2nd quarter, with a number of institutional investors subscribing to the Fund.

Given the growing institutional interest in the Fund, and as highlighted previously, we would like to remind you that we will close the founder's share classes (Class E and Class G) at the earlier of 31st August 2016 and the date at which these share classes have reached EUR 100m. A new share class, Class I, will be launched with a fee structure of 1.5% management fee and 15% performance fee for subscriptions in excess of EUR 100,000. In addition, a new institutional share class, Class M, will be launched with a fee structure of 1% and 15% performance fee for initial subscriptions of EUR 5m and above. Lastly, a new retail share class, Class H, will be launched with a fee structure of 1.5% management fee and 15% performance fee with no minimum initial subscription.

BREXIT

In last week's referendum, Britain voted to exit the European Union. I would briefly like to guide you through our thought process prior to and after the vote.

Preparing for the day...

Prior to the vote, numerous polls suggested that the result would be close. Bookmakers, who traditionally tend to be better forecasters, were overwhelmingly predicting Britain was going to remain within the EU and, on referendum day, the odds of a 'remain' outcome was greater than 80%.

Whenever we approach a scheduled major global event , such as June's EU referendum, our preference is to stay as market-neutral as possible. How our stocks react to a one-off political event where the result is unknown is unpredictable and as such we do not try and guess the outcome. We hope you remain long term investors, and we are therefore content to occasionally waive some intra-month performance in order to avoid excessive risk.

Therefore in the run-up to referendum, we scaled down the gross investment and went into June 23 with a net exposure of -1%.

The portfolio was conservatively positioned regardless of the outcome.

23 June and the immediate aftermath……

The day's performance exceeded expectations.

Though our exposure to the UK was very limited (just a few % points on both sides), the contribution to the performance was substantial. We closed out 3 of our UK related short positions: Easy Jet, Henderson and Eurotunnel. All 3 companies' stock price declined substantially during the day, whereby we met our target price on each of the stocks and as such we reallocated capital to new investment ideas. Our long UK stock exposure was maintained and we suffered very limited losses on the day, which was reversed over the coming days, reaching new highs soon thereafter.

Our performance for 23rd June was +0.8%; with the exception of 7 days, the portfolio was positive throughout June, and was never down by more than 0.6%. After the referendum, we gradually shifted to a modest net long bias of about 5% by the end of the month. The total monthly performance was +1.16% bringing the YTD total performance to +3.74%.*

What's next…

Please note, as a foreword to the next few paragraphs, we are investing in single companies and not aiming to make macro forecasts. However, we are not immune to events such as this referendum, which will have far reaching consequences for many:

1. 60 years of European integration has reached a critical point. The UK referendum is an example of how things may be seen to have been moving in the wrong direction for the past decade. The financial crisis of 2008 revealed the total lack of governmental underpinning for the Eurozone. Recent political events in Poland and Hungary highlighted the different views on constitutional rights. In addition, the number of refugees entering the EU is currently low thanks to the agreement with Turkey, which demonstrates that the EU lacks the ability to protect its own borders.
2. Whilst we believe that the current economic and geopolitical circumstances make it unlikely that other countries will follow in the UK's footsteps, we cannot rule it out entirely.

We have now entered uncharted territory and it is fair to assume that this will be a protracted period of uncertainty whilst the UK negotiates their exit from the EU (the UK has 2 years from triggering Article 50 in which to negotiate its exit). Although there might be a 2nd referendum at the end of such negotiations, we do not anticipate this happening, as this would undermine the whole democratic process. Last but not least, European leaders are still in shock, but once the dust settles, some might also see this as an opportunity to move the EU forward aligning it more closely with the Eurozone and removing any exemptions.

Based on WTO data, there has been a noticeable increase in restrictive trade measures over the last couple of years. World trade volumes declined in Q1 2016** – this is only the 4th time that this has happened since 1960 (the other 3 times occurring in the recessions of the mid-1970s, early 1980s and in 2008). This may adversely affect emerging markets and global companies.

*Source: Trium. The figures refer to the past. Performance is quoted net of fees based on unaudited figures. Performance from launch (19 December 2014) to 31 December 2014 was -0.10%. Inception date: 19 December 2014. All at 30 June 2016.

**Source: IMF

Having learnt from the financial crisis, today's management teams will adapt quickly to any economic decline – their actions will include quick capex cuts and cost reductions. Against the background of anaemic GDP growth, such actions increase the risk of recession in Europe, this already at a time when the US and Chinese economies are slowing.

Although the coming years may be turbulent, it is our view that the portfolio is well positioned to take advantage of such an environment.

Portfolio Structure

As outlined in our previous newsletters, we view our long portfolio holdings as if it were one entity, and do the same with our shorts. This allows us to create a notional "typical company" to better illustrate the economic characteristics of an average company in the portfolio. Please see the tables below:

Long Investments: Typical Company Economics

Financials* (EUR m)	2014	2015	2016E[1]	2017E[1]
Sales	3737	4052	4256	4422
Gross Profit	1655	1745	1854	1936
EBIT	559	636	694	749
Net Income	373	436	473	511
FCF	317	381	405	458
Net Financial Debt	1483	1077	892	683

Valuation Ratios* (EUR m)	2014	2015	2016E[1]	2017E[1]
P/E	26.5	22.4	16.8	14.6
P/BV	3.3	3.2	2.6	2.4
EV/EBIT	21.2	15.9	12.1	10.9
Net Debt/EBITDA	0.6	0.3	0.2	0.1
Dividend Yield	2.5%	2.4%	2.9%	3.2%
ROE	19.4%	24.2%	25.0%	23.6%
ROCE	16.0%	17.3%	19.4%	20.7%

Short Investments: Typical Company Economics

Financials* (EUR m)	2014	2015	2016E[1]	2017E[1]
Sales	24058	27525	27582	26566
Gross Profit	7286	8236	8222	7726
EBIT	2537	2966	2745	1743
Net Income	1921	1951	1789	985
FCF	836	1008	897	755
Net Financial Debt	10179	9515	9267	8919

Valuation Ratios* (EUR m)	2014	2015	2016E[1]	2017E[1]
P/E	19.4	21.6	18.2	33.1
P/BV	3.8	4.1	3.6	3.5
EV/EBIT	14.7	15.5	16.8	26.4
Net Debt/EBITDA	2.0	1.6	1.5	2.6
Dividend Yield	2.5%	2.4%	3.0%	3.3%
ROE	17.2%	15.3%	11.8%	6.0%
ROCE	8.9%	8.2%	7.5%	4.1%

*Source: Bloomberg, Blackwall Capital Investment AG.
[1] Note that there can be no assurance that these estimates will be achieved.

On the long side, we look to invest in great companies, focusing primarily on mid-caps. On the short side, we look for weak companies, which are preferably large caps. As can be seen in the tables, the stocks held on the short side typically have revenues approx. 6-7x larger than those that are held on the long side.

When analysing data from 2015, we see:

- Gross Margin: the average gross margin on the long side is 43.1% compared to just 29.9% of the shorts (in fact, this is close to Stoxx 600 average of 29.3%).
- EBIT Margin: the longs show an average EBIT margin of 15.7%, substantially higher than the shorts with 10.8% (Stoxx 600 average: 8.2%). It's worth pointing out that 2015 was a good year for cyclical companies which comprise a large part of our short book. Thus their margins are rather close to peak, certainly above mid-cycle level.
- Net Profit Margin: as for the EBIT margin, the same goes for the net profit margin. In 2015 the average long generated a margin of 10.7% versus 7.1% from the shorts.
- Return on Equity: the average long in the fund generates a ROE of about 24.2% compared to 15.3% generated by the average short. The latter isn't bad, but again, rather a peak level with the mid-cycle level closer to upper single digit.
- Leverage: compared with the broader equity market showing a net debt/EBITDA ratio of 3.4x, both longs (0.3x) and shorts (1.6x) are rather low in 2015. However, while longs are soon to become net cash positive, the shorts are likely to post higher net debt/EBITDA levels in the event of a recession.

When valuing a company we use a number of metrics, with our preferred metric being EV/EBIT ratio. On average the stocks in our long portfolio trade at 15.9x in 2015 and 12.1x for 2016E, with the short portfolio trading at 15.5x and 16.8x respectively.

Overall, we believe that our Fund holds companies with a strong franchise and superior margins on the long side, which generate substantially higher ROE with almost zero debt levels. As for the shorts held, we believe that they represent companies with weak business models that are particularly vulnerable to the next economic downturn and are liquid enough to avoid most market short squeezes.

In our view, the different components of our portfolio represent our investment philosophy, namely to invest for the long term in great companies while shorting overvalued and weak companies over the medium-term.

Best regards,

Thomas Karlovits

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