TRIUM BLACKWALL EUROPE L/S FUND

European Long/Short Equity

QTD: -2.49%* YTD: 0.27%*

AUM: EUR 182.9M*

Q4 2016

Dear Investor,

Firstly we would like to thank you all for your continued support and trust.

The Fund finished the year at +0.27% and, since inception, +9.80%, with an annual volatility of just 4.07%. The performance was achieved without leverage. The net exposure of the Fund since inception has been approximately +15.3% with a beta-adjusted net long position of approximately +3.5%.*

The Fund's performance was clearly better in H1 which was characterised by increased market downside volatility. Performance deteriorated in H2 as concern about safety was outweighed by the rising optimism regarding new US fiscal stimulus and the extension of EU quantitative easing.

Against this backdrop, our focus during Q4 was on:

- Finding new investment ideas that benefit from very likely government policy changes; for example, increased infrastructure spending in the U.S.
- Neutralising our portfolio against risks related to possible changes in government policies, such as interest rates adjustments or the curtailing of global trade

As a consequence, we believe to have currently the highest mid-term upside potential of the portfolio at the lowest possible risk compared to any other positioning in the past.

In Q4 2016, the Fund's assets under management increased from EUR 167.5m to EUR 182.9m. During the year of 2016, the Fund's assets increased from EUR 30.8m to EUR 182.9m.

*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 December 2016. Beta-adjusted net exposure is calculated using the STOXX Europe 600 (Net Return) Index.

FINMA & ORGANISATIONAL CHANGES

On 21 December, FINMA - the Swiss financial regulator – gave us preliminary approval to become a fully licensed Swiss Investment Manager. Final ruling will be obtained post implementation of certain agreed conditions. These include the finalisation of certain contracts (e.g. Swiss paying agent), providing the 2016 audited financial statements for Blackwall Capital and the amendments of our articles of association to act as Investment Manager. All should be finalised in Q1 2017.

Richard Mueller, who has supported the growth of Blackwall since November 2014 and coordinated the FINMA licensing process as a consultant, will join the Blackwall team full-time as of 1 January. As a partner, he will be leading the operational, legal & compliance efforts of the firm. Richard started his career at Bain & Company as a strategy consultant. He has worked in the hedge fund industry for over 15 years, including over 4 years at Man Investments, then as a partner at 47 Degrees North Capital Management and most recently as a consultant at Stone Milliner Asset Management – gaining extensive experience in the roles he will now fulfil at Blackwall. Richard received a MSc in Finance from London Business School (LBS) and holds a PhD in Capital Markets Law from the University of St. Gallen (HSG).

As our asset base increases, we are commensurately investing in building our team in order to provide investors with the highest quality investment management, risk management and compliance processes. With Heinrich Lammer and Bernd Laux joining us earlier in 2016, we now have a very experienced team. These appointments will allow Blackwall to continue to become more institutional and to prepare for the next stage of growth.

INTRODUCING SOFTWARE AG

Until now, our quarterly newsletters have focused on our general investment philosophy so that investors clearly understand how we invest their money and the levels of risk we take in doing so. Additionally, from this point on, we will be outlining some of our key investment ideas.

Company Profile

Software AG (SOW GY, market cap of EUR 2.6bn) is a German-based, mid-sized enterprise software vendor with a global presence. With its innovative solutions, in particular centred on its Digital Business Platform ("DBP") – one of the world's leading products - it serves a significant majority of the top 500 developed market enterprises. With DBP, Software AG helps enterprises to modernise their existing IT, consolidating their systems on-site and in the cloud, into a single platform to make their processes more flexible in preparation for the age of digitisation.

Our Investment Thesis

In recent years, the company has undergone a successful transition process, in which its gradually declining legacy database software business (A&N) has been replaced by the growing DBP business that represents more than 50% of total revenues. However, as order inflow in DBP is typically lumpy on a quarterly basis, the company's valuation lags its peers considerably. This provides an investment opportunity because we expect product marketing to broaden further, thereby steadying order inflow and further replacing the declining legacy business. The resulting earnings increase should trigger the negative consensus to reverse, closing the valuation gap against its peer group over time.

Recent Developments

Software AG share price declined substantially on the announcement of Q3 2016 results which fell short of expectations. The shortfall was attributable solely to a 9% YOY decline in new license sales amid the postponement of three large DBP software contracts. However, all three contracts were eventually signed in early October and the company appears on track to make up for the shortfall thanks to a strong Q4 2016. This should put the company back on its trajectory in replacing legacy database software revenues by DBP revenues and, overall, to grow its product revenues in the low to mid-single digits YOY.

We are convinced Software AG's transformation to become mainly a DBP solutions provider has much further to run. While its A&N

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division revenues and earnings, its consulting business, OPEX control, and group EBIT margin as well as free cash flow (which is at a new all-time high!) have all at least stayed course throughout 2016 (including Q3 2016), the company's strong DBP contract pipeline (+56% YOY in value terms for deals sized EUR 1m+ at the end of September 2016) should allow for an acceleration of DBP YOY product revenue growth beyond 2016, resulting in faster top-line growth for the group and hence operating leverage going forward.

Software AG generates 45% of its revenues from the Americas (of which c. 85% from the US where it has been established for decades) and is therefore well placed to benefit from any improved US economic performance as a result of the new administration's policies. In addition, should there be material US corporate tax cuts, Software AG likely will be a key beneficiary.

We believe the company will at least meet the upper half of its full 2016 non-IFRS EBITA margin projection (30.5 - 31.5%). For 2017, 1) the continued transformation of Software AG, 2) benefits from its new go-to-market model (focus on larger, strategic customers and deals), 3) its gradually accelerating revenue growth in combination with steadily expanding returns, and 4) diminishing volatility in quarterly results, should warrant the resumption of the re-rating process that had started in early 2016 and got temporarily interrupted in October 2016.

The valuation of Software AG shares, which have just begun to recover again, continues to look highly attractive to us. The company trades at an EV/EBIT of 11.4x and 10.4x for 2016E and 2017E respectively (based on a negatively biased consensus). While growth rates of about 5% are lower than with most sector peers, the valuation discount of 50% appears excessive. Furthermore, given record free cash flow generation for the quarter and the year as well as substantial surplus net cash on hand, we believe management may soon reinstate share buy-backs, taking advantage of the undervalued share price. Repurchases could well total 3%+ of shares outstanding and help to narrow the valuation gap relative to peers, implying substantial upside.

A Consolidated Portfolio View

As usual, we consolidate our portfolio holdings on the long side – as well as on the short side – into a notional combined entity allowing us to better illustrate to investors the economics of an average company in the portfolio. Our 'average company' looks like the following:

Long Investments: Typical Company Economics

Financials* (EUR m)	2015	2016E[1]	2017E[1]	2018E[1]
Sales	4822	4831	4946	5102
Gross Profit	2160	2180	2259	2356
EBIT	552	713	814	906
Net Income	361	487	544	594
FCF	491	489	546	629
Net Financial Debt	435	206	-72	-425

Valuation Ratios* (EUR m)	2015	2016E[1]	2017E[1]	2018E[1]
P/E	25.5	20.2	17.2	15.4
P/BV	2.7	2.8	2.6	2.4
EV/EBIT	18.1	16.4	13.5	11.8
Net Debt/EBITDA	-0.8	-0.9	-0.9	-1.1
Dividend Yield	2.6%	2.5%	2.7%	3.0%
ROE	14.7%	17.9%	19.1%	19.8%
ROCE	11.6%	14.9%	17.0%	19.0%

Short Investments: Typical Company Economics

Financials* (EUR m)	2015	2016E[1]	2017E[1]	2018E[1]
Sales	17669	19265	19769	20319
Gross Profit	7508	8230	8492	8649
EBIT	2573	3079	3187	3277
Net Income	1875	1920	1997	2067
FCF	1261	1320	1406	1410
Net Financial Debt	6255	5610	4788	3986

Valuation Ratios* (EUR m)	2015	2016E[1]	2017E[1]	2018E[1]
P/E	22.6	23.5	20.6	20.8
P/BV	4.7	4.4	4.0	3.8
EV/EBIT	16.2	18.3	16.3	16.6
Net Debt/EBITDA	0.9	0.6	0.4	0.2
Dividend Yield	2.2%	2.3%	2.5%	2.7%
ROE	18.7%	19.4%	19.1%	17.5%
ROCE	12.2%	14.6%	15.1%	15.5%

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

Our investment philosophy is to go long great companies at attractive valuations, with midcaps being our sweet spot, and to short weak and overvalued companies, preferably in the large cap area. The different sizes of companies on either side is well underpinned by the average revenues and other fundamental data provided in the tables above.

As highlighted at the beginning of this report, we recently changed the portfolio structure in two respects:

- On the long side, we added companies benefitting from infrastructure spending in the U.S.
- On the short side, we added companies with good business models but very highly valued, which many have considered as interest rate proxies in recent years.

In consequence of these changes is that key fundamental margins (gross, EBIT and net profit) as well as ratios (ROE and ROCE) look quite similar between the long side and the short side of the portfolio.

However, there are significant differences when it comes to growth, leverage and valuation as follows:

- Growth: We expect the average long company to grow EBIT, Net Profit and FCF in the magnitude of 10-15% p.a. in 2017E and 2018E. Furthermore, some of our key holdings show profiles of growth accelerating in the years ahead, benefitting from multi-year restructuring programs and/or structural growth drivers. On the contrary, the average short company illustrates on the same metrics growth rates of just about 0-6% p.a. in 2017E and 2018E, with a clear deceleration in place.
- Leverage: The majority of our long companies are operating with a net cash position or close to net cash, thus posting an average net debt/EBITDA of -0.9x. At times of rising interest rates, this might provide strategic optionality while others are constrained. In comparison, the average company on the short side is posting a net debt/EBITDA of 0.4x, although this is still well below the market average of 3.4x.
- Valuation: In terms of valuation, we use various metrics, with our preferred ratio being EV/EBIT. On average our long portfolio trades at 13.5x for 2017E, with the short portfolio trading at 16.3x. Given stronger growth expectations going forward, the spread increases further with longs trading at 11.8x for 2018E and shorts at 16.6x for 2018E.

In summary, we argue that the companies invested on the long side are substantially more attractively valued with a much higher growth profile and lower leverage than the ones on the short side.

We wish you a prosperous and healthy 2017!

Best regards,

Thomas Karlovits

Blackwall Capital

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