TRIUM BLACKWALL EUROPE L/S FUND

EUROPEAN LONG/SHORT EQUITY

Q4 2015 NEWSLETTER

QUARTER: 1.58% YTD: 9.61%*

A GREAT START

As we approach the completion of our first year we'd like to thank all of our investors and partners for their tremendous support and trust.

The fund finished the year at +9.61%*. This performance was achieved without leverage and with an average net exposure of just 18%*. In a year of increased downside volatility, the fund lost money in only two months (-0.19% in March and -1.68% in June).

Assets under management increased from EUR 2m at launch* to EUR 31m by the end of the year.

Risk

"The information you have is not the information you want. The information you want is not the information you need. The information you need is not the information you can obtain. The information you can obtain costs more than you want to pay" - *Peter L. Bernstein, Against the Gods: The Remarkable Story of Risk*

People love this time of the year to make forecasts about the future. It won't surprise you that we are not participating in this contest. Instead we think this is a great opportunity to talk about risk.

There is a wide variety of risks associated with a fund starting with the stock itself, the (operational) company, portfolio management, fund structure and the macro background - just to mention the most obvious. Risks also include the alignment of investor goals with the fund's investment style, as much as selecting the right professional partners. We took great care to manage these risks right from the beginning and are very pleased with the current status.

In general, the key risk associated with an equity fund, and the most common one to which investors generally refer, is that of company selection.

... what is NOT risk for us

Academics who advocate the capital market theory and its derivatives argue that risk equals volatility because they need a proxy for risk to feed into their formulas. However, this is not how we define or understand risk. It is the same irrationality as talking about a relative outperformance of an index in a down year. A loss is a loss whatever you call it.

... what risk is for us

In our view, risk is the probability of a permanent loss of capital. This is what investors are really concerned about and we share this concern full-heartedly. Therefore, we aim to reduce risk by:

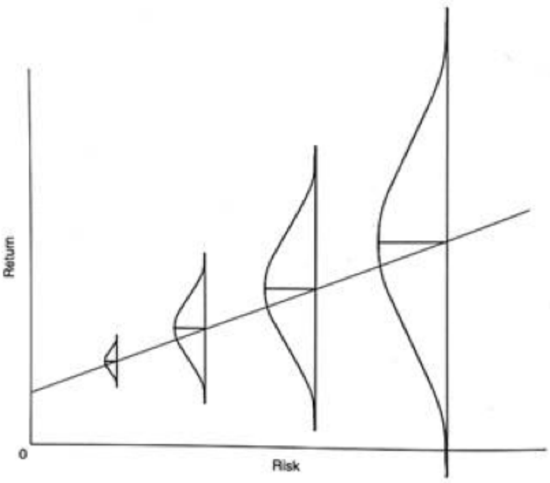
- only investing in companies we fully understand (see Q3 2015 newsletter)
- deploying forensic due diligence via our exclusive partnership with 4N6 Factory
- buying/shorting with a margin of safety
- not using economic leverage

We intend to generate a profit with every single investment idea, i.e. not deploying typical pair-trades. If an investment thesis proves to be incorrect, we don't rationalise or rewrite the original story – we exit the position. There is no need for us to demonstrate twice that we haven't understood something. In such a case, the margin of safety should allow us to exit without a loss.

Risk versus Return

The standard version of the relationship between risk and return is a straight line; the higher the return, the higher the risk. If an investor wants more return he has to accept a higher risk.

Howard Marks introduced an interesting variation to this simplified view by adding the notion of a probability distribution of returns. Riskier investments have a higher prospective return, but by no means is it guaranteed. In particular, during recent times of central bankers driving investors to new boundaries in search of return, this graph will cause many of them headaches in the years ahead.



Source: Howard Marks, The Most Important Thing

However, there is another, a different way to look at the above graph. By getting the analysis correct it is possible to buy assets generating the same return at lower levels of risk. A thorough fundamental analysis and a good margin of safety are the key for achieving that.

In our view, the route for successful investing is not to maximize returns but to minimize risk, while capturing above trend line returns. At times, market volatility can be a friendly partner to achieve this goal.

*Source: Trium. The figures refer to the past. Performance is quoted net of fees based on unaudited figures. Performance and average net exposure are calculated using figures rounded to two decimal places. Average net exposure is calculated by using the average of (indicative) month end data points from January 2015 to December 2015. Performance from launch (22 December 2014) to 31 December 2014 was -0.10%.

Portfolio structure

As outlined in the Q1/15 Newsletter, we "consolidate" our portfolio holdings on the long side into a "combined entity" allowing us to illustrate to investors the economics of an average company in the portfolio. It looks like the following:

Typical Company Economics

Financials*	13	14	15E[1]	16E[1]
Sales	3922	4016	4262	4459
Gross Profit	1714	1753	1846	1960
EBIT	616	614	708	771
Net Income	410	412	480	516
FCF	291	312	415	445
Net Financial Debt	1531	1684	1281	1078
Shareholder Equity	2298	2470	2814	3098
Capital Employed	4621	5100	5127	5298

(Data in EUR m)

Valuation Ratios*	13	14	15E[1]	16E[1]
P/E	24.0	28.4	24.7	20.7
P/BV	3.3	3.5	3.4	3.1
EV/EBIT	14.0	21.5	16.7	14.0
Net debt/EBITDA	0.9	0.9	0.3	0.1
Dividend Yield	2.7%	2.2%	2.3%	2.6%
ROE	22.0%	20.6%	24.9%	25.8%
ROCE	19.2%	16.8%	17.3%	19.5%

Source: Bloomberg, Blackwall Capital Investment AG.

[1]Note that there can be no assurance that these estimates will be achieved.

On average therefore, investors hold a typically mid-sized company with sales growing around 4-5% annually, EBIT compounding between 7-9% annually and net profit growing about 6-9%. We believe the mid-term growth rates used are more likely on the lower end of ranges. They are similar to the consensus estimates for the Stoxx 600 (Bloomberg). However, we strongly believe there are significant differences in terms of:

- Margins: the average gross margin is at 44%, compared to only 29% for the average Stoxx 600 company and the EBIT margin is at 17% compared to just 8% for the market.
- Return on Equity: the average company in the fund generates a ROE of about 25% compared to a market average of only 9%.
- Leverage: With 0.1 to 0.3x EBITDA, net debt remains low – compared to the Stoxx 600 net debt/EBITDA at 4.0-4.8x.
- Moreover, in terms of valuation, our long positions have an EV/EBIT at 16.7x for 2015E and 14.0x for 2016E below the market average of 17.6x and 16.9x respectively.

Overall, we believe that our fund holds companies with a strong franchise and superior margins that generate substantially higher ROEs with almost no debt levels and a lower valuation than the general market. In a year with many uncertainties ahead of us, these metrics make us feel very comfortable with the portfolio.

We like to wish you a happy, healthy and prosperous New Year!

Best regards, Thomas Karlovits

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Important information