

Quarterly Newsletter
Q4 2019

Blackwall Europe L/S Fund

Quarter to Date Return: 4.38%***Year to Date Return:** -2.88%***Assets Under Management:** EUR53.3m***Dear Investor,**

The Blackwall Europe L/S Fund ended Q4 at +4.38% with an annualised volatility of 4.32%.

The Q3 reporting season was as bad as the previous 3 reporting seasons, showing an earnings decline of about 4-6% for European companies. However, economic lead indicators have stopped deteriorating and some have even begun to turn upward. Against that background we have also turned more optimistic. We now anticipate a recovery in European corporate earnings from no later than H2 2020 onwards and, as a result, we have lifted our net long bias in the Blackwall Europe LS Fund portfolio to about 19.80% beta-adjusted.

Analysis of our first 5-year period

2019 proved to be a very challenging year for Blackwall. Despite in 2018 correctly anticipating the earnings decline of European companies — with every single reporting season disappointing ever since — we were unable to benefit from it. Conversely, we were too short in the Long/Short fund and we were too slow in building the portfolio in the recently launched Long Only fund. We continuously strive to learn from our mistakes and work on improving our processes.

Our analysis came to the following conclusions:

(1) Market structures

We believe that market structures have changed profoundly in recent years. It is not a single aspect, but the combination of major tectonic shifts including a) the increasing dominance of passive investing/ETFs; b) the massive influence of central banks providing near-zero or below-zero cost of funding; c) the emergence of algorithms and factor investing and d) increasing regulation.

All 4 of those aspects have been around for some time, but it is the magnitude that has been changing the equilibrium. With a large group of active investors in the market, overall equity prices have been quite fairly priced most of the time (note: we don't believe in the entirety of the Efficient Market Hypothesis). Passive investors have benefited from the work done by active managers. The single-minded focus on "price" rather than "value" of passive asset allocators and the increasing disembodiment from the underlying businesses they indirectly own is likely to increase inefficiencies, but only over time. Central banks are contributing to the irrational focus on price via anchoring artificially low and often even negative interest rates, encouraging ever higher leverage and more risk appetite.

We can never be as fast as a machine to trade nor do we have the desire to do so – but we do believe we can see and anticipate fundamental facts before a machine can. Therefore, the logical area for us to have an edge and succeed are under-researched companies. This oppor-

tunity is set to increase due to Mifid II regulation as evidenced by a 20-25% reduction in sell-side research capacity in Europe just in 2018 and 2019 (across all market caps), shareholder activism and by applying a longer-term horizon – thereby gaining a fundamental advantage over the short-termism of today's sell-side and sections of the buy-side.

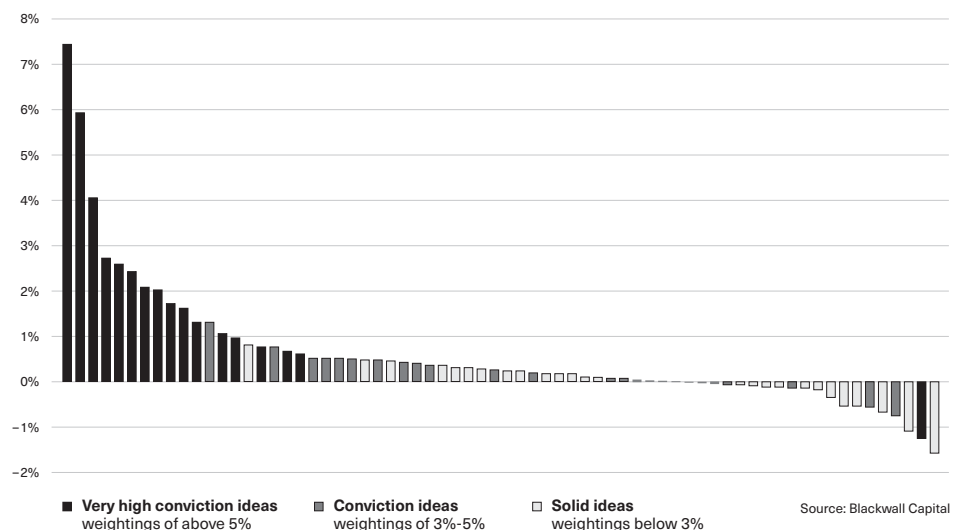
For us, the near-extinction of active investors provides a unique and exciting opportunity going forward.

(2) Outstanding performance with long conviction ideas

We went through a deep analysis of our investment process and results. The conclusion is: we have had an outstanding performance with our 'high conviction' and 'conviction' long ideas.

As illustrated in the graph below, 94% of our high conviction ideas (weightings of 5%+ in the Long Short fund) contributed positively to the fund performance. Some of them have increased by 3-5x since our initial investment. Including our other conviction ideas (weightings of 3-5% in the LS fund), the hit ratio is still about 85%. Of course, occasionally we also have our misses! But when our thesis isn't working out we move to cut the position as quickly as possible to avoid significant losses.

Table 1: Performance contribution ranked by single stock in the long portfolio of the L/S fund:



We cannot quantify the impact of the above-mentioned changes in market structure on the performance of our conviction ideas, nor if there was even an impact at all. However, we can say the performance was achieved at a time when European equity markets were rather in a broad side-ways period (2015-2019), and clearly haven't illustrated the bullish behavior of their US peers. For example, the level of European markets in Q4 2019 is still at roughly the level it was at in Q1 2015.

The common pattern of our successful conviction ideas has been: (1) under-researched companies discovered through our own independent process; (2) predominantly small-/mid-cap stocks in terms of market size; (3) continental European companies including Nordics; (4) identifiable moat with strong growth perspective and good management; (5) sticking to our circle or competence. All this can be replicated again and again. With fewer and fewer active investors around as time passes, our opportunity set will likely increase significantly and become easier to exploit.

(3) The rational consequence: focus on the long side

The fact that Blackwall has a very strong skill set on the long side, combined with the inability to



www.blackwallcapital.com



www.trium-ucits.com/blackwall

THIS DOCUMENT IS FOR THE INTENDED RECIPIENT ONLY

Applications for shares in any sub-fund of the Trium UCITS Platform plc should not be made without first consulting the current Prospectus, Supplement, KIID, Annual Report and Semi-Annual Report ("Offering Documents"), or other documents available in your local jurisdiction which are available free of charge from Blackwall Capital Investment AG and Trium Capital LLP. Paying Agent for Switzerland is Neue Helvetische Bank AG (Seefeldstrasse 215, CH-8008 Zurich, Switzerland). Legal Representative for Switzerland is Mont-Fort Funds AG (63 Chemin Plan-Pra, 1936 Verbier, Switzerland). For shares distributed in and from Switzerland, the place of performance and jurisdiction is the registered office of the Swiss Legal Representative. This information has been prepared solely for information purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. Please refer to important information at the end of this document.

successfully short over-priced stocks due to the market structure issues described above (such as the abundant availability of cheap money to wealth-destroying companies), leads to a very logical conclusion for us: focus where our efforts are best rewarded, i.e. the long side. In this manner, we will not only increase the time we can spend researching long ideas, but also allowing investors to benefit to a much greater extent from our key underlying skill set.

A consolidated portfolio view

For better transparency, 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:

Table 2: Blackwall ‘average company’ portfolio example

Long Investments: Typical Company Economics					Short Investments: Typical Company Economics				
Financials* (EUR m)	2018	2019	2020E ¹	2021E ¹	Financials* (EUR m)	2018	2019	2020E ¹	2021E ¹
Sales	2,823	2,997	3,089	3,194	Sales	16,052	16,809	16,482	16,261
EBIT	356	430	455	496	EBIT	1,142	1,344	1,231	1,190
Net Income	293	289	312	345	Net Income	1,049	1,024	850	787
FCF	214	222	259	304	FCF	698	659	484	481
Net Financial Debt	160	65	116	112	Net Financial Debt	3,301	2,620	2,215	2,321
Valuation Ratios*	2018	2019	2020E ¹	2021E ¹	Valuation Ratios*	2018	2019	2020E ¹	2021E ¹
P/E	14.8	18.4	17.0	15.4	P/E	20.0	24.4	20.2	21.8
P/BV	1.6	2.4	2.2	2.0	P/BV	2.1	2.4	2.1	2.0
EV/EBIT	11.1	14.1	12.6	11.5	EV/EBIT	11.0	16.1	14.8	15.3
Net Debt/EBITDA	0.3	0.1	0.2	0.2	Net Debt/EBITDA	1.7	1.3	1.2	1.3
Dividend Yield	1.7%	2.0%	2.0%	2.3%	Dividend Yield	3.8%	2.9%	1.7%	1.8%
ROE	18.1%	20.8%	20.9%	21.7%	ROE	18.4%	20.6%	17.9%	16.4%
ROCE	11.7%	11.5%	12.5%	13.7%	ROCE	8.6%	9.9%	9.0%	8.6%

* Source: Bloomberg, Blackwall Capital

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

Our investment philosophy is to go long on 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 difference in size of the companies on either side, is well underpinned by the average revenues and other fundamental data provided in the tables above. However, there are significant differences when it comes down to Margins, EBIT growth, leverage, and valuation:

Margins: the average long company is showing an EBIT margin of 14.7% and an FCF margin of 8.4%, demonstrating solid business models. In comparison, the average short company only generates an EBIT margin of 7.5% and an FCF margin of just about 2.9% (all number 2020 estimates). In economic downturns their business models are particularly vulnerable.

EBIT growth: We expect the average long company to grow EBIT in the magnitude of around 6-9% p.a. in 2020E and 2021E. Furthermore, the vast majority of our key holdings show profiles of growth accelerating in the years ahead, benefiting from multi-year restructuring programs and/or structural growth drivers. In contrast, the average short company is likely to decline by 3 to 8% in 2020E and 2021E. This is even more pronounced on a FCF level.

Leverage: Most of our long companies are operating with low net debt positions (some are net cash), thus posting an average Net debt/EBITDA of just 0.2x. At times of rising corporate interest rates, this might provide strategic optionality while others are constraint. In comparison, the average company on the short side is posting a Net debt/EBITDA of 1.2x.

Valuation: In terms of valuation, we use various metrics, with our preferred ratio being EV/EBIT. Our average long portfolio trades at 12.6x for 2020E, which is well below the average short portfolio



www.blackwallcapital.com



www.trium-ucits.com/blackwall

THIS DOCUMENT IS FOR THE INTENDED RECIPIENT ONLY

Applications for shares in any sub-fund of the Trium UCITS Platform plc should not be made without first consulting the current Prospectus, Supplement, KIID, Annual Report and Semi-Annual Report (“Offering Documents”), or other documents available in your local jurisdiction which are available free of charge from Blackwall Capital Investment AG and Trium Capital LLP. Paying Agent for Switzerland is Neue Helvetische Bank AG (Seefeldstrasse 215, CH-8008 Zurich, Switzerland). Legal Representative for Switzerland is Mont-Fort Funds AG (63 Chemin Plan-Pra, 1936 Verbier, Switzerland). For shares distributed in and from Switzerland, the place of performance and jurisdiction is the registered office of the Swiss Legal Representative. This information has been prepared solely for information purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. Please refer to important information at the end of this document.

trading at 14.8x. Due to stronger growth expectations going forward, the spread is likely to widen further with longs trading at 11.5x for 2021E and shorts at 15.3x for 2021E.

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

We wish you a Happy, Healthy and Prosperous New Year,



Thomas Karlovits



www.blackwallcapital.com



www.trium-ucits.com/blackwall

THIS DOCUMENT IS FOR THE INTENDED RECIPIENT ONLY

Applications for shares in any sub-fund of the Trium UCITS Platform plc should not be made without first consulting the current Prospectus, Supplement, KIID, Annual Report and Semi-Annual Report ("Offering Documents"), or other documents available in your local jurisdiction which are available free of charge from Blackwall Capital Investment AG and Trium Capital LLP. Paying Agent for Switzerland is Neue Helvetische Bank AG (Seefeldstrasse 215, CH-8008 Zurich, Switzerland). Legal Representative for Switzerland is Mont-Fort Funds AG (63 Chemin Plan-Pra, 1936 Verbier, Switzerland). For shares distributed in and from Switzerland, the place of performance and jurisdiction is the registered office of the Swiss Legal Representative. This information has been prepared solely for information purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. Please refer to important information at the end of this document.

Important Information

This document has been issued by Blackwall Capital Investment AG ("Blackwall") which is licensed and regulated by FINMA (Swiss Financial Market Supervisory Authority). It is a limited company under Swiss law with its registered office at Gubelstrasse 24, 6300 Zug, Switzerland. This document is for professional investors and market counterparties only. Blackwall acts as sub-investment manager to Trium Capital LLP, which is the investment manager of Trium UCITS Platform Plc. (of which the Blackwall Europe L/S Fund is a sub-fund).

Blackwall is not acting as financial advisor or fiduciary to any party to whom it delivers this document or who invests in a fund or managed account managed or sub-managed by Blackwall. In particular, this document (in whole or in part) does not constitute investment advice. Before investing in a fund or managed account you should ensure that you fully understand its potential risks and rewards and independently determine that it is appropriate for you given your objectives, experience, financial and operational resources, and other relevant circumstances. You should consult with such advisors as you deem necessary to assist you in making these determinations. Any indicative terms provided to you are provided for your information and do not constitute an offer, a solicitation of an offer, or any advice or recommendation to invest in a fund or managed account (whether on the indicative terms or otherwise).

This document is intended for discussion purposes only and does not create any legally binding obligations on the part of Blackwall. Without any limitation, this document does not constitute an offer, or invitation to offer or a recommendation to invest in a fund or managed account. These materials were designed for use by specific persons familiar with your business and affairs and Blackwall assumes no obligation to update or otherwise revise these materials. Nothing contained herein should be construed as tax, accounting or legal advice.

This document may not be reproduced or transmitted to any other person without the express permission of Blackwall. Although the above information has been taken from sources which Blackwall believe to be accurate, no warranty or representation is made as to the correctness, completeness and accuracy of the information or the assessments made on its basis.

The information contained in this document is preliminary and is qualified and superseded by the prospectus for the fund or governing document for the managed account to which it relates, and in particular the risk factors and information on conflicts of interest described therein, and any investment decision should only be made following consideration of that prospectus or other document. Any performance data is based on a fund's or an account's actual or expected net asset value

in accordance with the valuation methodology in its prospectus. Performance may be impacted by capital contributions and withdrawals and unless otherwise stated is net of management, performance and other fees as described herein and includes reinvestment of earnings. The fund's or account's fees may be modified or waived for certain investors as described in its prospectus or other governing document. An investor's actual performance and actual fees may differ from the data reflected herein.

This document is confidential, is intended only for the recipient's own internal use and under no circumstances may a copy be shown, copied, transmitted, or otherwise given to any person other than the initial recipient without the prior written consent of Blackwall. The distribution of this document and/or the information contained herein in certain jurisdictions may be restricted, and, accordingly, it is the responsibility of any recipient to satisfy itself as to compliance with relevant laws and regulations.

The U.S. Commodity Futures Trading Commission has not approved or disapproved, passed on, or endorsed, the merits of these product offerings.

The estimates, investment strategies, and views expressed in this document are based upon past or current market conditions and/or data and information provided by unaffiliated third parties (which have not been independently verified), may differ from estimates, investment strategies, and views set out in other documents published by Blackwall and are subject to change without notice. No representation or warranty is made as to the correctness, completeness and accuracy of data and/or information provided by unaffiliated third parties or as to any assessment made on such basis.

The information contained herein is preliminary, is provided for discussion purposes only, is only a summary of key information, is not complete, does not contain certain material information about the fund contained herein (the "Fund"), including important conflicts disclosures and risk factors associated with investments in the Fund, and is subject to change without notice. Certain information contained in this document constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "target," "project," "estimate," "intend," "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of the Fund may differ materially from those reflected or contemplated in such forward-looking statements.

The Fund prospectus (the "Prospectus") qualifies the information contained herein in its entirety and no person should make an

investment decision in reliance upon the information contained herein.

In the event of any discrepancies between the information contained herein and a Prospectus, the Prospectus will supersede. The information contained herein does not take into account the particular investment objectives or financial circumstances of any recipient and does not constitute the provision of investment advice or a recommendation.

The information herein is not intended to provide, and should not be relied upon for, accounting, legal or tax advice or investment recommendations. A recipient should make an independent investigation of the investment described herein, including consulting your tax, legal, accounting or other advisors about the matters discussed herein and the possible consequences for an investment in the fund and the risks involved.

This document is not intended to be, nor should it be construed or used as an offer to sell, or a solicitation of any offer to buy, interests or shares in any Fund managed by Blackwall. An offer or solicitation will only be made by means of a Prospectus (the "Prospectus") which will contain additional information about the relevant Fund, including disclosures relating to risk factors and conflicts of interest. The relevant Prospectus may be obtained on request from Blackwall or Trium Capital LLP. An investment in the Fund may not be suitable for all investors and may only be suitable only for certain financially sophisticated investors who meet certain eligibility requirements and can bear the risk of an investment in a Fund for an extended period of time. Investing in financial markets involves a substantial degree of risk. There can be no assurance that the investment objectives of any Fund described herein will be achieved. Investment losses may occur, and investors could lose some or all of their investment. No guarantee or representation is made that a Fund's investment program, including, without limitation, its diversification strategies, or risk monitoring goals, will be successful. Investment results may vary substantially over time. Investment losses may occur from time to time. Nothing herein is intended to imply that a Fund's investment methodology may be considered "conservative", "safe", "risk free" or "risk averse". Economic, market and other conditions could also cause any Fund to alter its investment objectives, guidelines, and restrictions.

Performance data of the Funds is not based on audited financial data except for the years for which audited financial statements are available. Performance data of the Fund is based on its Net Asset Value in accordance with the valuation methodology in the Fund's Prospectus. Performance may be impacted by capital contributions and withdrawals and unless otherwise stated is net of management, performance and other fees as described herein and includes reinvestment of

earnings. The Fund's fees may be modified or waived for certain investors. Please refer to the Fund's Prospectus for more information regarding the Fund's fees and other terms. An investor's actual performance and actual fees may differ from the data reflected herein due to among other factors, different share classes and eligibility to participate in "new issues". It should also be noted that certain share classes of the Fund may be closed, including the share class from which the performance data presented herein has been derived.

Past performance may not necessarily be repeated and is no guarantee or projection of future results. Past performance is not a guide to future performance and the value of investments and the income derived from those investments can go down as well as up. Future returns are not guaranteed and a loss of principal may occur. Performance may be affected by economic and market conditions.

Information about market indices is provided for the purpose of making general market data available as a point of reference only. There is no representation that any index is an appropriate benchmark for comparison.

Index returns do not take into account trading commissions and costs or other fees and expenses associated with the active management of portfolios. The volatility of indices may be materially different from the performance of the Fund. The Fund's holdings may differ substantially from the securities that comprise the indices. Furthermore, the Fund may invest in different trading strategies from the indices and therefore it should be noted that the sector, industry, stock and country exposures, volatility, risk characteristics and holdings of the Fund may differ materially from those of the indices. The performance returns of the indices include the reinvestment of earnings and are obtained from market data providers and other third party sources.

Although Blackwall believes these sources to be reliable, it is not responsible for errors or omissions from these sources. In certain jurisdictions the Fund may only be available to professional or otherwise qualified investors or entities. An investment in the Fund involves a number of risks that is outlined in the Fund's Prospectus. There can be no guarantee that the Fund's investment objectives will be achieved, and the investment results may vary substantially from year to year or even from month to month. It may engage in investment practices or trading strategies that may increase the risk of investment loss and a loss of principal may occur. Blackwall may have total trading authority over the Fund, and the performance of the Fund will be dependent upon the services of Blackwall. The Fund's fees and expenses as described in the Fund's Prospectus may offset the Fund's gains. In addition, there may be restrictions on transferring interests in the Fund, please refer to the Fund's Prospectus for additional information.



Blackwall Capital Investment AG, Gubelstrasse 24, 6300 Zug, Switzerland

Tel: +41 41 555 1111
info@blackwallcapital.com
www.blackwallcapital.com



Trium Capital LLP, 60 Gresham Street, Level 4, London EC2V 7BB, U.K.

Tel: +44 20 7073 9250
ir@trium-blackwall@trium-capital.com
www.trium-ucits.com/blackwall

SAUREN
FONDSMANAGER-RATING



the|hedgefund|journal
UCITS Hedge
Awards
2018