PRIVIUM FUND MANAGEMENT

M partners — the asset management house

STILL EQUITY FUND

Data as of September 30, 2019

Number of participations	90,997
NAV per participation	82.69

Investment Objective

The fund seeks to invest in high quality businesses where temporary adverse circumstances have rendered the shares attractive from a valuation perspective. Higher quality businesses are more likely to grow and compound cash flow. Risk is identified not in terms of volatility or benchmark deviation but is a function of overpaying or overestimating a company's prospects. The Fund employs a high degree of conservatism on both these fronts. Consistency and patience are crucial to the successful implementation of the Fund's strategy. The holding of cash in the absence of opportunity simply makes sense. In seeking to outperform its benchmark, the Fund will invest primarily but not exclusively in European listed securities. Fund assets will be relatively concentrated as the portfolio will generally consist of 20-30 positions.

Performance (%)	Month	Qtd	Ytd	Since inception
Fund	4.80%	-1.56%	5.37%	-17.31%
Benchmark	3.79%	2.55%	19.39%	12.56%

Portfolio Exposure

Top 5 Holdings	% of NAV
Arcadis	9.3%
Grafton	9.0%
Dalata Hotel Group	8.9%
Cairn Homes	8.8%
Tullow Oil	8.6%

Geographic Exposure	% of NAV
Europe (EMEA)	86%
Americas	0%
Asia-Pacific	0%
Cash	14%

Sector Exposure	% of NAV
Industrials	18%
Consumer Disc	36%
Consumer Staples	10%
Energy	9%
Real Estate	14%
Cash	14%

Market Capitalization (EUR)	% of NAV
> 10bn	3%
1 < 10bn	34%
< 1 bn	49%

Concentration	
Top 5	45%
Top 10	75%

Fund terms		Service providers	
Inception	March 31, 2015	Investment Manager	Privium Fund Management
Management fee	1.25%	Investment Advisor	M partners
Performance fee	N/A	Depositary	Darwin Depositary Services
Minimum subscription	EUR 10,000	Custodian	ABN AMRO Clearing Bank
Dealing frequency	Monthly	Administrator	Apex Fund Services
Redemption	10d notice	Auditor	Ernst & Young Accountants
ISIN	NL0011055249	Legal Advisor	Van Campen Liem
Benchmark	NDEEE18 Index[2]	Fiscal Advisor	STPtaxlawyers

[1] see Prospectus for details [2] MSCI Europe total return Index

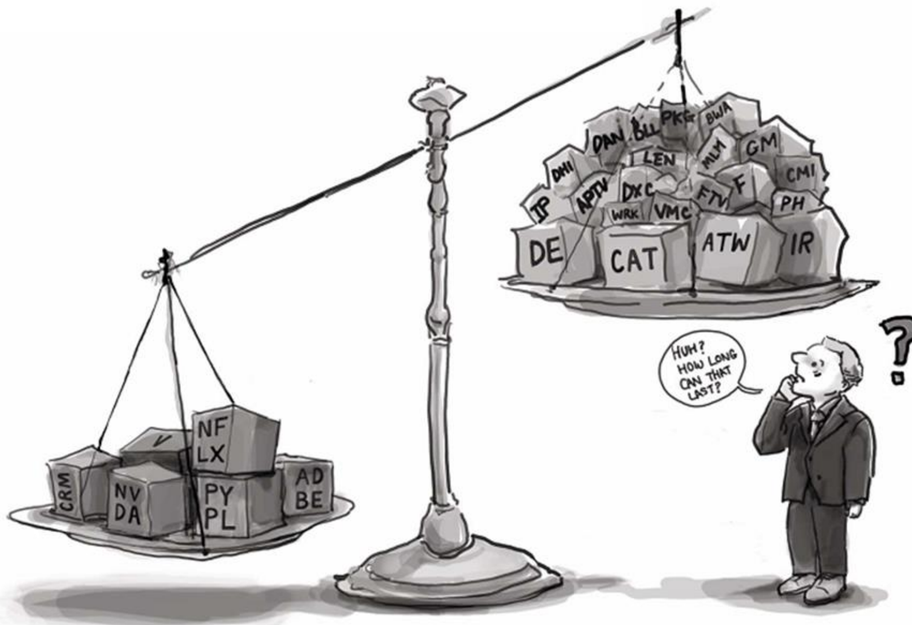
DISCLAIMER:
Privium Fund Management B.V. (Privium) is authorised and regulated by the Dutch Authority for the Financial Markets (www.afm.nl) as an Alternative Investment Fund Manager (AIFM). Both Privium as well as the Fund are held in the register of the AFM. This communication is neither an offer to sell nor a solicitation to invest. Past performance is not indicative of future results. The value of investments and any income generated may go down as well as up and is not guaranteed. For more information, please refer to the Key Investor Information Document or 'KIID' and the Prospectus on the website of Privium (www.priviumfund.com/funds).
Privium Fund Management 2019

If you have received this communication in error, we would be grateful if you would return it with the title "Received in Error" to info@priviumfund.com.

STILL EQUITY FUND Q3 2019

MARKET REVIEW & OUTLOOK:

Investors are aware that we are in the 10th year of a global equity recovery marked by strong US market returns and muted Rest Of World returns. It has been an equity recovery that has strongly favoured large caps, growth stories and technology stocks. The result of these persistent trends has been the emergence of a valuation divergence between growth and value investment styles, between the 'disruptors' and the 'disrupted', that is at or near multi-year highs.



To put this divergence into perspective, we have borrowed from some recent analysis presented by a value investment manager with an excellent long-term track record – Alex Roepers from Atlantic Investment Management. Looking at the US market, he showed that for less than the price of six well known growth companies (Visa, Netflix, Adobe, Paypal, Salesforce and NVIDIA), you could buy the 80 largest stocks in four key industrial sectors – machinery, automotive, paper& packaging, and home builders/construction materials companies. It should be realized that these latter companies are not insignificant companies in decline but industry giants that are growing and include names such as Caterpillar, John Deere and General Motors. **These industry giants produce almost 9x the sales of the 6 darlings ($879 billion versus $99 billion) and substantially more profits and cash flow but receive paltry valuation rewards as compared to the more popular growth names.**

In all our years of managing our value approach, **we have never seen our top selections this compelling in both absolute and relative terms.** The investment focus of the fund was altered at the beginning of the year with the new mandate to build a concentrated portfolio in poorly researched smaller companies. The portfolio now consists of holdings in eleven unresearched and highly attractively valued companies. Below are brief highlights on four of the current holdings while the remaining holdings will be highlighted in subsequent quarterly reports.

Cairn Homes (largest homebuilder in Ireland) **-** Since peaking in January 2018, the stock price corrected by almost -50% on macro concerns related to slower economic growth and expectations of lower housing demand. Company operational targets have all been met (house completions +33% in H1) and cash flow realization is ahead of target. The investment case is built on the company monetizing its large land bank which was acquired at very attractive prices four years ago. Cairn has a land bank of +10 years and will build this down to the more normal inventory level of around 5 years. Management has guided for free cash flow of +€500 million by 2022 that will be returned to shareholders and which represents over 50% of the current market cap. Furthermore, despite the recent share price recovery, investors still value the company significantly below the mark to market value of its land bank despite reported numbers showing the company making +20% gross profit margins.

Forterra (#2 brick manufacturer in the UK) – The share price has come under pressure due to investor concerns over Brexit uncertainty and the exit of one large shareholder who was a forced seller. While there is evidence of a slowdown in H2 2019, the company is currently generating an almost 10% free cash flow yield with hardly any debt. In addition, pricing remains strong as UK brick inventories are at multi-year lows leading to higher imports to meet demand. The stock is currently selling at less than 10x earnings with a 4% dividend yield.

Dalata is the largest hotel operator in Ireland with over 20% market share, completely focused on the 3- and 4-star category. The company is currently benefitting from limited room supply in Dublin which continues to lag demand. In addition, management is now pursuing an opportunistic expansion in UK cities (excluding London) where the existing stock of competitor hotels are old and underinvested. The company has a clear line of vision to opening approximately 1200 rooms per year in UK cities over the next 5-7 years which more than doubles the existing number of rooms. The current build programme gives us a high degree of confidence in low teen double digit EBITDA growth over the next three years. Yet the company sells both at a significant discount to the peer group and at no premium to book value despite management’s excellent long-term track record in generating shareholder value.

Tullow Oil (oil & gas exploration) - A previous market darling with a strong track record of successful exploration in Africa (Ghana mainly) which levered up aggressively and was hit with the oil price collapse in 2014-16. The balance sheet repair work is now complete, and the company is growing though still being valued as a distressed situation. Production growth in 2019 should be +10% which is ahead of estimates and most peers. Also, for first time in 4 years the exploration activities are restarting. In the last two months the company has drilled two successful wells offshore Guyana. The upside potential of the Guyana exploration campaign is not currently embedded in the valuation of the company. In addition, we expect during the course of 2020 to get positive updates on the Final Investment Decisions (FIDs) for previous major discoveries in Uganda and Kenya.

In addition to providing some detail on the investment opportunity from the individual holding level, it seems useful to revisit our general investment outlook. **We continue to hold an out of consensus view that we are not at the end of the current economic or stock market cycle despite its length**. Economic and market upcycles do not die of old age but rather from the unwinding of excesses and/or policy error.

Excess conditions normally associated with a major market tops remain difficult to spot. One such example of this is the graph below which shows the net outflows from equity funds in the US versus bond funds – a condition not reminiscent of previous tops. Since the last market peak in 2008, investors have been discarding equity exposure in favour of fixed income exposure in the desperate hunt for yield. Combined with sector flow data that shows that for almost the past two years investors having been dumping cyclical sectors in favour of more defensive equity sectors, and it would seem fair to conclude that investors are already ‘conservatively’ positioned.

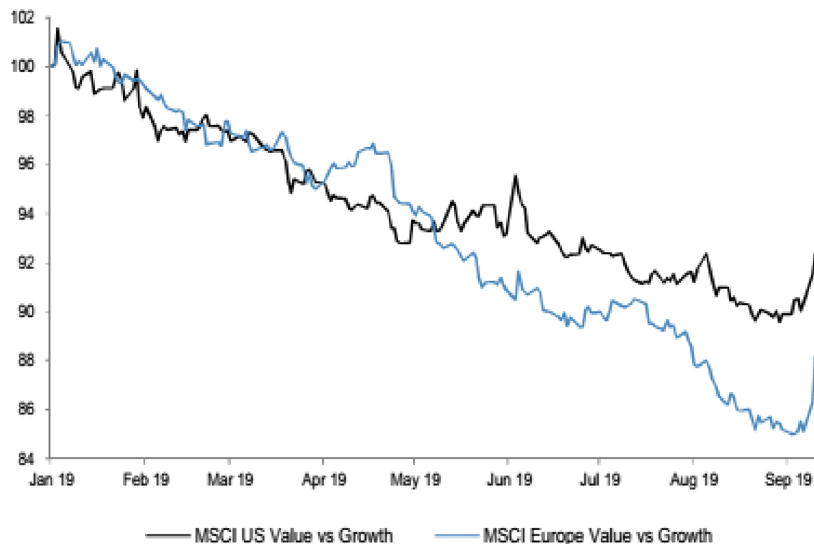
STILL EQUITY FUND Q3 2019

This defensive positioning is largely a natural response to the elevated political and economy uncertainty. Weak manufacturing and trade data are raising concerns over the increasing risk of a recession that would have a significant negative impact on equity values. To summarize: the key chain of economic events that investors continue to be worried about is: 1) trade and other uncertainties matter for global manufacturing; 2) manufacturing matters for corporate profits (even though it is a small share of economies like the U.S.); and 3) corporate profits are the leading indicator of future employment growth & capital spending.

Thus far, the economy has taken a number of hits but with a) consumers in the Developed Markets solid and b) credit conditions still contained, **muddle-through growth (rather than recession) remains our base case.**

Space does not permit us to currently delve into the detail of why we judge the current economic pessimism to be overdone. In brief, we do see signs of economic stabilization and early indications of improvement that, if not trampled by policy error – mainly US trade policy and Brexit – should lead to a better global economic performance in 2020 versus 2019. What we find more interesting are early signs from actual market behavior that investors are becoming more sensitive to the possibility of this improving dynamic. There is a palpable market fear that Q4 of 2019 may mirror the dramatic pattern of 2018 given the high level of political uncertainty and weak headline economic numbers. However, **a quick glance at the market internals shown in the graph below would reveal a more 'healthy' equity market that is not consistent with the imminent recession scenario**.

More interesting from the perspective of our portfolio is the market behavior in September that may suggest that we are at an inflection point in the equity market dynamic that could herald a rotation back to value (see chart below). September witnessed a strong rebound in value stock performance in both the US and Europe. September also witnessed the spectacular implosion of the valuation of unicorn WeWork which was forced to postpone indefinitely its IPO plans. Together with the poor performance of Lyft and Uber following their respective IPOs, **these events may be the "bell" at the top of the growth/momentum/unicorn valuation bubble, which would herald a long overdue rotation from growth to value.** Currently markets are heavily discounting the political risks and economic ramifications of an escalation in US/China trade relations and a chaotic no deal Brexit. Any clarification or improvement in these political dramas should cause a material economic uplift, benefitting equities globally and, in our view, value stocks in particular.



Source: Datastream

In our private lives, we are all value investors: we like to buy a house, a car or a dishwasher when it is a good value and "on sale". Somehow, when it comes to growth/momentum stocks, most "investors" buy what is hot, moving up and/or "talked about". That isn't investing; that's speculating. The fact that it may have worked for a period does not change either its intrinsic nature or risks.

We continue to hold to our view expressed in the last quarterly that the portfolio outlook based on current valuations and expectations for company performance has never been this strong since portfolio inception. Investor patience will be rewarded.