Peacock European Alpha Builder UI Fund

Monthly Report July 2015
www.alpha-builder.com

Fund Strategy

The fund aims to generate annual returns of 6-8% over a medium to long-term investment horizon independent of general market movements and uncorrelated to any traditional asset class. Unlike in many other funds, no tactical asset allocation decisions are implemented. Rather, by following a Long/Short-Equity approach, the focus is on the systematic exploitation of significantly mispriced European Small & Mid Caps. We use a long term buy and hold investment philosophy, and avoid overtrading the portfolio. The fund is "market neutral", i.e. the net equity exposure is at all times below a 30% threshold. Significant systematic market risks are therefore never taken, and the focus is on harvesting Alpha.

The typical investor's profile is characterized by a belief in the merits of a "Value Investing" philosophy, appreciating the long-term benefits of buying European securities trading at significant discounts. The drawdown (the potential for negative returns in shorter periods) is reduced significantly by comparison with Long Only funds, without sacrificing superior Alpha generation over the long-term. The fund is an effective diversifier when combined with traditional portfolios.

About Us

Peacock Capital is an independent, principal-owned and controlled investment boutique with a long-standing background in institutional asset management, building on more than 15 years' experience of its principals in managing segregated accounts and mutual funds for pension funds, banks and corporate clients. The fund management expertise has repeatedly been rated as "superior" by Thomson Reuters. Peacock Capital's investment advisory board is made up of renowned minds from academia, asset management and industry, including Professor Dr Uwe Hack, former CFO of Grenkeleasing AG and Luke Nunneley, former CEO of WestLB Mellon Asset Management (for more information please see www.peacock-capital.com/investment-advisory-board.html).

The long-standing investment approach and the excellent track record of Marc Siebel in managing European Small & Mid Cap are particularly notable. They act as the basis for Peacock Capital's investment philosophy and its structured and disciplined investment process.

Performance

	Fund	HFR Long/Short Mkt Neutral	DAX	Stoxx 600	iBoxx € Sovereigns
NAV/share	**95.07**				
Period					
July 2015	-1.43%	1.44%	3.33%	4.01%	1.60%
YTD	**2.36%**	**2.19%**	**15.33%**	**17.96%**	**-0.99%**
Since Inception	-4.93%	4.67%	17.05%	22.64%	4.37%

Statistics

Exposure	
Long Exposure	79,8%
Short Exposure	-64,9%
Net Exposure Beta adj.	10,0%

Risk Metrics	
Annual Volatility	6.8%
Correlation vs Stoxx	0.31
Correlation vs iBoxx € Sovs	0.08

Fund Structure

Top 5 Holdings

Company	ISIN	Country	Industry	Market Cap	Weighting
OSLO BORS	NO0010096845	NO	Finanzdienstlst.	435 Mio. EUR	2,65%
SARAS SpA	IT0000433307	IT	Öl & Gas	1978 Mio. EUR	1,99%
VAN LANSCHOT	NL0000302636	NL	Finanzdienstlst.	1025 Mio. EUR	1,68%
BAM GROEP	NL0000337319	NL	Bau	1140 Mio. EUR	1,68%
CEGEDIM	FR0000053506	FR	IT	562 Mio. EUR	1,63%
					9,63%

Valuation Metrics

	Long -Titel	Short-Titel
PE 2016e	10,8	29,5
Dividend Yield 2015e	2,7%	0,5%
EV/EBITDA 2016e	4,9	12,2

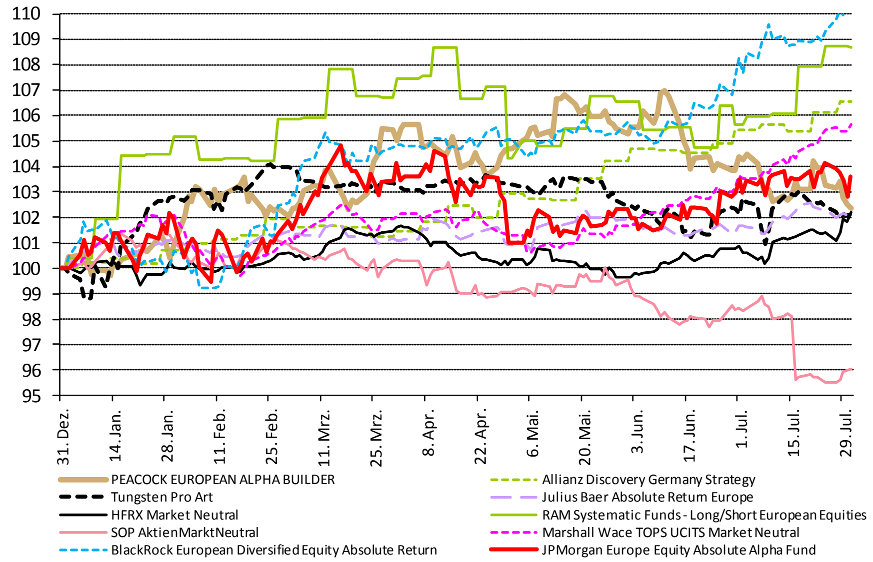
Country Exposure	Long	Short	Net
Germany	16,30%	16,76%	-0,46%
France	11,67%	16,51%	-4,84%
Finland	6,90%	0,00%	6,90%
Italy	7,47%	5,16%	2,32%
Benelux	15,90%	7,56%	8,34%
Spain	1,39%	6,31%	-4,92%
Portugal	1,58%	0,00%	1,58%
Austria	4,20%	2,64%	1,57%
Greece	3,73%	0,00%	3,73%
Switzerland	0,00%	0,00%	0,00%
UK	2,86%	4,47%	-1,60%
Ireland	2,61%	0,23%	2,38%
Norway	5,21%	0,00%	5,21%
Sweden	0,00%	1,78%	-1,78%
Denmark	0,00%	0,00%	0,00%
Others	0,00%	3,50%	-3,50%
SUMME	**79,84%**	**64,92%**	**14,92%**

Sector Exposure	Long	Short	Net
Industrial Goods & Services	23,21%	9,43%	13,78%
Technology Hardware & Equipme	1,52%	4,80%	-3,28%
Commercial Services	4,11%	0,00%	4,11%
Travel & Leisure	1,49%	0,89%	0,60%
Food & Beverages	2,89%	3,17%	-0,28%
Chemicals & Materials	8,99%	3,07%	5,92%
Automobiles & Components	6,97%	4,89%	2,08%
Insurance	4,37%	1,15%	3,21%
Media	1,12%	5,19%	-4,08%
Retail	4,27%	5,92%	-1,65%
Utilities	0,00%	1,40%	-1,40%
Financial Services	2,62%	0,00%	2,62%
Oil&Gas	6,98%	4,36%	2,62%
Healthcare	3,96%	15,50%	-11,54%
Real Estate	1,51%	2,31%	-0,79%
Personal & Household Goods	1,34%	1,38%	-0,04%
Banks	1,68%	0,32%	1,36%
Construction	2,82%	1,14%	1,68%
Telecommunications	0,00%	0,00%	0,00%
SUM	**79,86%**	**64,93%**	**14,93%**

Fund Manager's Comment

Contributors of the month:

YTD Performance of Peacock European Alpha Builder Fund vs. the European Long/Short Peer Group (12/31/14 = Index 100)



The Peacock European Alpha Builder UI Fund lost 1.43% in July. The peer group index added 1.4% and ranks in line with our fund YTD (s. left hand chart).

Europeans stocks recovered part of the losses of June as did the German DAX index. The feared "Grexit" did not occur (for the time being). Despite the negative referendum results in Greece premier Tsipras moved on with the negotiations. The requested reforms by the troika even passed the Greek parliament. In July German tech stocks moved up about 8% driven by SMA Solar. After several profit warnings now it was time for an increase in guidance. The stock of the solar converter producer moved up 50%. Swedish Small Caps rose 7%, whereas Spanish and Norwegian stocks just moved up 3%.

The long book gained 1.8%. The short position dropped 3.23% in an overall rising stock market. Therefore the net performance was -1.43%. The largest positive contributor was our short position in Rocket Internet. We talked about our investment rationale in our last report in detail. The stock dropped sharply after announcing the issuance of a 550EURm convertible bond. EBITDA figures for all Rocket Internets associates are still negative. Helped by buy recommendations of several international brokers, Rocket Internet will probably float their Global Online Takeaway Group this year. We are curious whether investors will subscribe to the IPO, given the high valuation levels based on intransparent calculation methods. Several companies where Rocket holds significant stakes, are suffering from headwinds, while Lamoda's valuation in Russia is negatively effected by currency effects, still not reflected in Rocket's valuation. A "Down Round" of the portfolio holdings is due now. We doubt the accuracy of the portfolio valuations. Minority investors, taking a small stake in any holding at stretched valuation multiples, push up the valuation ("Last Portfolio Value") of the total holding. It seems that investors are willing to invest at any price. That might be explained by the fact that Rocket Internet grants them a guarantee not losing any penny of their investment. This, of course, might end up as a very costly issue, paid by the shareholders, not by the Samwers. The stock lost about 20%, adding 50bps to our fund's performance. Shares of Italian refinery Saras Spa rose 30% driven by a strong recovery of refining margins. Compared to the peer group of European refiners the stock still trades at a discount. The Peacock Opportunity Filter picked that stock earlier this year as one of the cheapest securities in Europe. The position added 0,44% to the overall fund's performance. Our biggest negative contributor was our short position in French biotech company, DBV Technologies. The company placed shares in the US which was oversubscribed several times. Investors are encouraged by their potential vaccine against allergies, in particular for peanuts. The stock went up 50%, costing the fund 0,80%. Even considering the higher probabilities of a market launch, now that the product enters Phase III, we think the valuation is way too high. We remain short. Several negative contributors affected the fund's performance, all of them contributing more than 20bps. Among them are: RIB Software (Short), Motor Oil (Long) and Nyrstar (Long).

Changes in the Fund:

As we were expecting, Vivendi came up with a sweetened buyout offer for its subsidiary Société d'Édition de Canal Plus. So we decided to sell down our position completely. In a weak market environment the offer was raised from 7.60 to 8.00 EUR/ share. Thus, since our investment in January, the investment in the shares yielded more than 40% including dividend payments.

Shares with an asymmetric risk/return profile like Canal Plus are rare. So, we have been digging into the European universe of Small & Mid Caps for some time now in order to identify a decent replacement of our former core holding. Business models characterized by a stable stream of cash flows are first choice. A defensive profile and a well established strategy resulting in sustainable growth are the ideal requisites. The Economic Moat shall be "deep". Oligopolistic positions or a long standing niche positioning with high quality products or services reduces the probability for nasty surprises or ever-lasting "one-offs". Benjamin Graham, father of "Value Investing", not only considered a deep valuation discount as "Margin of Safety", but also reminded investors, that a 10yr track record of continuously rising EPS is an important safety feature. We are going to show you that the following company indeed was able to achieve this (fully diluted). Also, in any given year the company was able to earn its cost of capital.

Most of you have never heard of Total Produce. Still, all of you may have been in touch with their product or service. Total Produce is a European leader in fresh produce distribution. Spun-off in 2006 from Irish banana exporter Fyffes, it has been headed by CEO Rory Byrne since then. He has been manager at Fyffes the years before. Teaming up with Chairman McCann and Frank Davis (CFO) they have vast experience in that sector. We think that is key, as can be seen by the acquisition track record of management, having paid moderate multiples for companies over the course of the past decade. A proper capital allocation of free cash flow is key in a market, where the top 4 players just make up about 10%. Many small family-run companies are around focusing on either vegetables or fruits. Such a fragmented market leaves ample room for added value acquisitions. In pursuing that strategy managers of the acquired companies stay while keeping a meaningful stake in the company. We like that kind of alignment, both parties have "skin in the game".

In April some producers and distributors merged resulting in a company size similar to Total Produce (Univeg, Greenyard Foods und Peatinvest). The conglomerate's main markets are the Netherlands and Germany, generating about 70% of total sales. Total Produce's main markets, on the contrary, are the UK and Scandinavia. Slightly different product segmentation as well: Total Produce derives 20% of revenues from soft and stone fruits while Univeg's focus is on vegetables especially tomatoes, peppers and cucumber (40% of sales).

Food distribution also has its caveats. Low margins is one of them, hovering around 2% to 3% on EBITDA level. Key for high RoICs and finally Cash Flow is not just that. Asset turn drives the results in the end. Total Produce, rather than Univeg, is quite asset light, being more present in distribution rather than in producing fresh produce. So, asset turn is 8x at Total Produce, way higher than at Univeg. On top of that, the company is not leveraged at all, still, it generated RoIC after tax of above 11%. We remind investors, that all acquisitions have been financed through free cash flow (just 50% of cash flow) Coming back to Benjamin Graham, the EPS data series is as follows:

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015e	CAGR
EPS	4,76	4,76	5,75	6,46	6,78	6,46	6,84	7,24	7,94	9,04	9,45	9,94	6,92%
RoIC after tax				*11,5%*	*11,6%*	*10,7%*	*10,8%*	*10,0%*	*11,1%*	*10,9%*	*11,1%*	*11,5%*	

EPS has been growing 7% annually. Just few companies achieve that without falling off a cliff in one or the other year.

Looking forward, we like the fact that management is continuing its selective acquisition strategy. The power of suppliers has weakened even further, so most family-run companies have no choice to become part of a market leader like Total Produce. From their perspective it is worthwhile. Shortly after integrating companies, profitability moves up quickly. The use of its European distribution network, better bargaining power, the repayment of high-yielding company loans among others bring up EBITDA. Assuming Total Produce would leverage up to Univeg's level, an incremental EBITDA of 50% could be added. At the time, Univeg is not at all in the position to continue consolidation. Debt levels are way above 4x considering their off-balance sheet factoring scheme, causing Moody`s to switch to a negative rating outlook.

Finally, we see the price pressure caused by retailers especially in the UK coming to an end. That is always negative squeezing suppliers margins. Total Produce is less exposed to vegetables such as potatoes suffering a price decline of 14%. Rather its focus is on fresh fruit, where we saw an uptick in pricing just recently. Fuelled with sound "fire power" (Net Debt/EBITDA 0.6x) and moderate valuation metrics (PE 12.5x, EV/EBITDA 7x) we believe the company will continue to add shareholder value. Within the next 12 to 18 months we see room for 30% upside. This investment will be one of our "asymmetric core positions". The company grows continuously and is cushioned by its defensive and stable business model.

Marc Siebel
Fund Manager of Peacock European Alpha Builder Fonds

Fund Facts

	Share Class R (Retail)	Share Class I (Institutional)
Fund Initiator, Advisor	Peacock Capital GmbH, Düsseldorf, BN & Partners Capital AG, Erftstadt	
Managing Company, Custodian	Universal-Investment-Luxembourg S.A., State Street Luxembourg S.A.	
Fund Category	Long/Short, European Small & Mid Caps, UCITS IV, FCP	
Fund Currency, Income, Value Date	Euro, distributing, daily NAV calculation, t+3	
ISIN	LU0967289215	LU0967288084
Benchmark	3M EURIBOR+200 bps	
Management Fee	1.875 % p. a. actual	1.25 % p. a. actual
Upfront Fee	Up to 5 %	–
Minimum Investment	–	250,000 EUR
Performance Fee	15 % of outperformance net of fees of 3M EURIBOR+200 bps, High-Water-Mark	

We are planning to set up a "Shareholder Class" for core long-term investors appreciating the concept "Value Investing". Feel free to contact us in order to discuss the set-up including an attractive fee structure.

possesses the required authorisation of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). Peacock Capital GmbH is listed in the registry of BaFin.