Peacock European Alpha Builder UI Fund

Monthly Report June 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	**96.45**				
Period					
June 2015	-1.57%	1.09%	-4.11%	-4.49%	-2.11%
YTD	3.84%	0.75%	11.62%	13.40%	-2.55%
Since Inception	-3.55%	3.19%	13.28%	17.91%	2.73%

Statistics

Exposure	
Long Exposure	77.1%
Short Exposure	-57.2%
Net Exposure Beta adj.	7.6%

Risk Metrics	
Annual Volatility	7.2%
Correlation vs Stoxx	0.13
Correlation vs iBoxx € Sovs	-0.13

Fund Structure

Top 5 Holdings

Company	ISIN	Country	Industry	Market Cap (EURm)	Weighting
Canal Plus SA	FR0000125460	FR	Media	958	3.16%
OSLO BORS	NO0010096845	NO	Finanzdienstlst.	467	2.71%
Amplitude Surgical	FR0012789667	FR	Pharma	235	2.01%
Boohoo.com	JE00BG6L7297	GB	Retail	286	1.71%
Cegedim	FR0000053506	FR	Pharma	510	1.51%
					11.10%

Valuation Metrics

	Long Book	Short Book
PE 2016e	10.8	25.0
Dividend Yield 2015e	3.6%	0.6%
EV/EBITDA 2016e	4.8	11.0

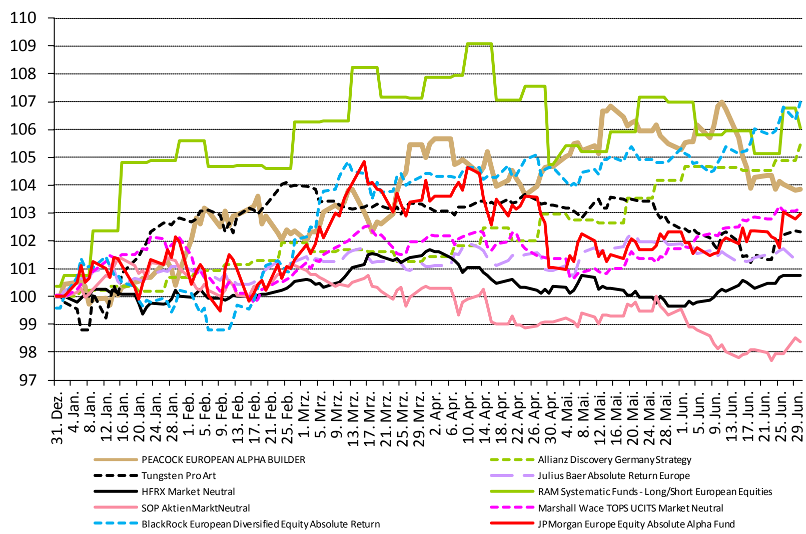
Country Exposure	Long	Short	Net
Germany	13.81%	15.96%	-2.15%
France	15.72%	14.86%	0.86%
Finland	6.67%	0.00%	6.67%
Italy	7.04%	4.86%	2.19%
Benelux	14.77%	6.68%	8.09%
Spain	1.25%	5.89%	-4.63%
Portugal	1.44%	0.00%	1.44%
Austria	3.88%	2.53%	1.34%
Greece	4.30%	0.00%	4.30%
Switzerland	0.00%	0.00%	0.00%
UK	3.00%	2.94%	0.06%
Ireland	0.00%	0.21%	-0.21%
Norway	5.23%	0.00%	5.23%
Sweden	0.00%	1.64%	-1.64%
Denmark	0.00%	0.00%	0.00%
Others	0.00%	1.62%	-1.62%
SUMME	**77.10%**	**57.18%**	**19.93%**

Sector Exposure	Long	Short	Net
Industrial Goods & Services	21.62%	9.07%	12.55%
Technology Hardware & Equipme	1.36%	4.86%	-3.50%
Commercial Services	4.02%	0.00%	4.02%
Travel & Leisure	2.57%	0.84%	1.73%
Food & Beverages	1.35%	1.30%	0.05%
Chemicals & Materials	10.76%	3.19%	7.57%
Automobiles & Components	6.72%	2.77%	3.95%
Insurance	3.88%	1.08%	2.80%
Media	3.16%	4.85%	-1.69%
Retail	3.04%	3.96%	-0.91%
Utilities	0.00%	1.26%	-1.26%
Financial Services	2.65%	0.00%	2.65%
Oil&Gas	6.87%	4.35%	2.52%
Healthcare	5.08%	14.81%	-9.73%
Real Estate	0.00%	2.16%	-2.16%
Personal & Household Goods	1.27%	1.31%	-0.04%
Banks	1.46%	0.30%	1.16%
Construction	1.27%	1.07%	0.20%
Telecommunications	0.00%	0.00%	0.00%
SUM	**77.10%**	**57.18%**	**19.93%**

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 was down 1.57% in June. The peer group of market-neutral long/short funds (equity exposure permanently below 30%), however, rose about 1%. Since the beginning of the year the fund is up 4% (see left hand chart).

European shares traded down considerably. They lost about 4.5% in June, while the German DAX index retreated little more than 4%. The tricky negotiations of EU, IMF, ECB and the Greek government raised doubts among investors about a final agreement. To everyone's surprise Premier Tsipras announced a public referendum on the repayment terms with the institutions. A loan repayment to the IMF due June 30 was not respected by the Greek state. Since June 26 Greek banks as well as the Greek stock exchange are closed. British, Dutch and Austrian stocks lost more than 6% in the month. German Small Cap stocks, as measured by the SDAX index, and Irish equities lost less than 2% maintaining stability in a very weak market.

The long book (long positions) of the fund lost 3.68%, a little less than the overall market. The short positions increased in value by 2.05% thus offsetting the losses of the long positions to some extent. This resulted in a decrease in the fund's NAV of 1.57%. The biggest gain on a single security level came from the short position in British industrial lightning specialist Dialight Plc (+0.63% at fund level, the shares lost more than 30%!). The company shocked investors in their trading update on June 10 not only with a significant profit warning but also announced a "strategic review" of its activities. Already on April 15, the company had referred to "operational inefficiencies". We believe that the difficult situation is due not only to the weak orders from the oil and gas sector, but also due to the structural set up of the company not adequately corresponding to the customers and the industry environment.

The negative performance contribution spread across a variety of stocks with little swings. The biggest 3 negative contributors were French biotech company DBV Technoloiges (-33 bps) and two long positions in the Finnish companies PKC Group and Cramo (each -15 bps). The former ranks among the most expensive companies in the European universe. The 1 EURbn company relies mainly on its immunotherapy product, currently in Phase II, for the treatment of peanut allergy for children. The final Phase III, which has always to precede a market introduction of a new drug, is expected to be launched end of 2015. However, market participants seem to neglect the fact that competitor Aimmune Therapeutics has recently validated an almost identical drug with the FDA on an almost identical time schedule. The revenue cake could now be divided by two.

We would like to remind the investor that very similar, strongly advocated Biotech stocks by the investment community have finally suffered from great disappointments (especially "One Product Companies" with very high valuations). Among them: Biotest, Genfit or MorphoSys. All of the 3 stocks contributed to our fund's performance since we held short positions here.

The building up of valuation bubbles do not regularly take place on general stock market levels but to a particularly great extent also at sector level, as now happened in the biotechnology segment. The warning signs are best illustrated by the huge amount of IPOs floating the market recently. A recent study shows that the quality of IPOs has declined significantly and has reached a historically high value. The percentage of floated companies that do not have mature products in their pipeline (i.e. either in the pre-clinical stage or in phase I) is around 80%. In the past decades this percentage has been on average around only 40%. The price correction of that segment, therefore, will happen sooner or later.

Changes in the fund:

Several rotations have been made at the end of the quarter on a single stock level, both on the long and on the short side. Various holdings, though, remain unchanged due to their significantly under- or overvaluations compared to the European universe of stocks. **Implicitly, the investor in our fund is currently buying stocks roughly trading at an PER of 10 while he is betting on falling prices for securities trading at a PER of as high as 25.** The very different performances and earnings shifts in the Oil & Gas and Pharma sector, for example, have resulted in even larger valuation differentials. This will, as it always happens, normalize over time. Our Peacock Opportunity Filter takes advantage of that. Adjustments have been made also on country level, esp. Italian and Portuguese stocks appear to be interesting investment opportunities (Greek impact).

ROCKETINTERNET

Hardly any company is currently able to raise money as fast and generously as Rocket Internet, founded by the German Samwer brothers. In record time the company launches newly branded online businesses which mostly have been in existence in other countries such as the US. US investors accuse the Samwer brothers for being "copy cats". The online business, be it in fashion, food or accessories is not, however, characterized by an 'Economic Moat'. What does Benjamin Graham, father of security analysis and "value investing", mean by that? Companies operating in a niche with their products or service, generate above-average returns on capital. If this business model is based on several years of expertise or is characterized by initially high investment needs it is hardly vulnerable, i.e. it can be hardly "copied" by others. The probability for sustained profitability is high.

In online business models, this "economic moat" is probably less valid as Rocket Internet's behaviour exemplifies. As a consequence, competition arises with corresponding negative implications on pricing and marketing expenditures. Proponents of fast-growing online companies would disagree and argue that there is a way to build an economic moat by growing rapidly in order to reach a critical mass before others do. Smaller companies would finally fail to compete with the market leader due to lack of economies of scale (see Amazon). However, this applies only if the company is able to generate a positive operating cash flow at some point in time and can tap the market for funding. Some sort of these companies might end up as "serial acquirers". To acquire companies at any price, just to deliver high growth rates initially promised to investors. Unfortunately, this is usually accompanied by high capital requirements, as acquisitions in this segment usually take place at inflated prices. At the end a high "cash burn" and a write-down of goodwill are certain outcomes. Sustainable profits cannot be expected soon.

This brings us to the so often neglected issue of security valuation. Investors seem to have forgotten the strong links between inflated prices of securities and the subsequent mediocre performance of such an asset. Sure, the 90ies have shown that a hype may last longer than expected. Nevertheless, it makes little sense, to chase for "hot topics", a timely exit of such an investment often fails. No wealthy investor would purchase a real estate property that yields a negative initial rental yield hoping that the price of the underlying property or the rent doubles in 2 years time.

Benjamin Graham was able to show that stocks with high PE ratios significantly underperformed securities with low PE ratios in the following years. Robert J. Shiller basically took Graham's initial approach as the basis for his "Shiller PE", today known to most investors. By using the earnings of the past ten years rather than the one`s of the current year, investors would not suffer from overstated profits, be it based on aggressive accounting or be it based on peak earnings at the end of an economic up-cycle.

Our sell-case on Rocket Internet addresses several issues such as management communication to investors, transparency on accounting as well as company valuation. Our findings are that bizarre that we lay out the case to you by simply asking some questions:

- ✓ Does it make sense to buy an investment company trading significantly above its NAV (esp. adjusted for cash)?

- ✓ How realistic is the so-called NAV if it is based on the most recent financing rounds, called "Last Portfolio Values" (LPV)? In Rocket Internet`s case, the valuation of associates is based on the last price paid by an individual, single investor. Many peers do it in a rather objective way by valuing the associate holding using a constant sales multiple for example.

- ✓ Is it fair to assume that the most recent "financing rounds" of investors can just go up in value (interestingly, some recent business valuations of competitors experienced "down rounds")?

- ✓ Why are investments called "Proven Winners" if none of these companies made any profits in 2014, not even based on earnings adjusted for almost ANY COST (i.e. taxes, interest expense, depreciation and even stock option charges)?

- ✓ What do "Early Bird" investors think if they realize that the company's revenue projections made in early 2013 have been missed by a wide margin (full year 2013 sales of Lamoda, Dafiti, Home24, Zalora et al. ended up roughly 30% below the initial company's forecast)

- ✓ Has the inferior growth been compensated by buying other companies' revenues at inflated prices in 2014?

- ✓ How much dilution (less earnings per share by issuing new shares in connection with capital increases or convertibles) and what degree of non-consistent management statements are investors willing to take? Contrary to management statements at the time of the IPO, few months later the company did a 600 EURm capital increase. Just recently the company surprised investors at their general meeting by approving the issuance of up to 2 EURbn (!) in convertible debt.

- ✓ Could the aggressive capital raising spree be an indication of an increased need of capital. Is the company burning more cash than initially outlined in the business plan?

- ✓ How disturbing is a recent bullish broker research note on Rocket Internet since it applies a valuation premium on the stock compared to the peer group`s EV/Sales multiple? All companies in that group generate positive EBITDA while Rocket Internet generated aggregated EBITDA losses.

We believe the stock has significant downside potential. We stay short.

Note: Just yesterday the company announced the issuance of a 550 EURm convertible bond, after more than 2 EURbn have already been cashed in since the IPO. The stock dropped by up to 17% that day. Investors should be prepared for further dilution. As mentioned above, the AGM approved a total sum of 2 EURbn in convertibles.

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.

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