

## 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](http://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       | <b>94.79</b> |                            |               |              |                    |
| Period          |              |                            |               |              |                    |
| September 2015  | -1.70%       | 2.02%                      | -5.84%        | -4.06%       | 0.87%              |
| <b>YTD</b>      | <b>2.06%</b> | <b>4.44%</b>               | <b>-1.48%</b> | <b>3.85%</b> | <b>-1.15%</b>      |
| Since Inception | -5.21%       | 6.97%                      | -0.01%        | 7.98%        | 4.21%              |

## Statistics

| Exposure               |        |
|------------------------|--------|
| Long Exposure          | 79.8%  |
| Short Exposure         | -55.7% |
| Net Exposure Beta adj. | 19.9%  |

| Risk Metrics                |       |
|-----------------------------|-------|
| Annual Volatility           | 6.2%  |
| Correlation vs Stoxx        | 0.12  |
| Correlation vs iBoxx € Sovs | -0.13 |

## Fund Structure

| Top 5 Holdings    |              |         |                    |            |               |  |
|-------------------|--------------|---------|--------------------|------------|---------------|--|
| Company           | ISIN         | Country | Industry           | Market Cap | Weighting     |  |
| OSLO BORS         | NO0010096845 | NO      | Financial Services | EURm 394   | 2.66%         |  |
| BOOHOO            | JE00BG6L7297 | GB      | Retail             | EURm 450   | 2.31%         |  |
| AUSTEVOLL SEAFOOD | NO0010073489 | NO      | Food & Beverages   | EURm 1182  | 1.83%         |  |
| VIB VERMOEGEN     | DE0002457512 | DE      | Real Estate        | EURm 429   | 1.67%         |  |
| CORTICEIRA AMORIM | PTCOR0AE0006 | PT      | Materials          | EURm 625   | 1.66%         |  |
|                   |              |         |                    |            | <b>10.13%</b> |  |

| Valuation Metrics    |           |            |
|----------------------|-----------|------------|
|                      | Long Book | Short Book |
| PE 2016e             | 11,2      | 35,2       |
| Dividend Yield 2015e | 3,1%      | 0,7%       |
| EV/EBITDA 2016e      | 6,7       | 15,1       |

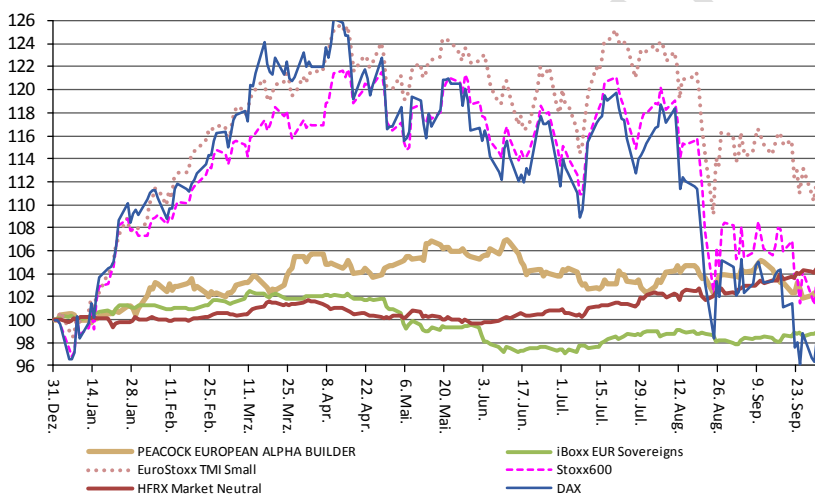
| Country Exposure | Long          | Short         | Net           |
|------------------|---------------|---------------|---------------|
| Germany          | 13,95%        | 15,88%        | -1,93%        |
| France           | 13,00%        | 13,86%        | -0,85%        |
| Finland          | 7,68%         | 0,18%         | 7,50%         |
| Italy            | 8,75%         | 4,57%         | 4,18%         |
| Benelux          | 9,52%         | 5,24%         | 4,29%         |
| Spain            | 1,34%         | 5,30%         | -3,96%        |
| Portugal         | 3,73%         | 0,00%         | 3,73%         |
| Austria          | 5,31%         | 1,67%         | 3,64%         |
| Greece           | 6,07%         | 0,00%         | 6,07%         |
| Switzerland      | 0,00%         | 0,00%         | 0,00%         |
| UK               | 2,31%         | 3,80%         | -1,48%        |
| Ireland          | 2,61%         | 0,00%         | 2,61%         |
| Norway           | 5,51%         | 0,00%         | 5,51%         |
| Sweden           | 0,00%         | 1,76%         | -1,76%        |
| Denmark          | 0,00%         | 0,00%         | 0,00%         |
| Others           | 0,00%         | 3,50%         | -3,50%        |
| <b>SUM</b>       | <b>79,80%</b> | <b>55,74%</b> | <b>24,06%</b> |

| Sector Exposure               | Long          | Short         | Net           |
|-------------------------------|---------------|---------------|---------------|
| Industrial Goods & Services   | 21,63%        | 4,78%         | 16,84%        |
| Technology Hardware & Equipme | 1,28%         | 6,19%         | -4,91%        |
| Commercial Services           | 3,51%         | 0,00%         | 3,51%         |
| Travel & Leisure              | 0,00%         | 0,00%         | 0,00%         |
| Food & Beverages              | 3,37%         | 2,66%         | 0,71%         |
| Chemicals & Materials         | 13,82%        | 3,01%         | 10,81%        |
| Automobiles & Components      | 7,80%         | 1,11%         | 6,68%         |
| Insurance                     | 2,43%         | 1,20%         | 1,24%         |
| Media                         | 1,07%         | 3,84%         | -2,78%        |
| Retail                        | 3,58%         | 3,22%         | 0,35%         |
| Utilities                     | 1,32%         | 0,94%         | 0,37%         |
| Financial Services            | 3,05%         | 0,00%         | 3,05%         |
| Oil&Gas                       | 6,12%         | 3,26%         | 2,87%         |
| Healthcare                    | 2,11%         | 16,14%        | -14,03%       |
| Real Estate                   | 1,67%         | 0,17%         | 1,51%         |
| Personal & Household Goods    | 0,00%         | 2,74%         | -2,74%        |
| Banks                         | 5,76%         | 3,12%         | 2,64%         |
| Construction                  | 1,29%         | 0,36%         | 0,93%         |
| Telecommunications            | 0,00%         | 3,00%         | -3,00%        |
| <b>SUM</b>                    | <b>79,80%</b> | <b>55,74%</b> | <b>24,06%</b> |

## Fund Manager's Comment

### Contributors of the month:

**YTD Performance of Peacock European Alpha Builder Fund vs. European Bond and Equity Indices (12/31/14 = Index 100)**



The Peacock European Alpha Builder UI Fund's NAV dropped by 1.73% in September. The Peer Group of market neutral funds added 2% while according to the HFRX Equity Hedge Index, funds with varying equity quotas in the Long/Short universe dropped by 2.2%. YTD the fund is up 2% (s. left hand chart).

European Equities fell once again by more than 4%. The German DAX index lost almost 6% of his value driven by negative contributions from the utilities and the Volkswagen scandal. Meanwhile the president of the US central bank,

Mrs. Yellen, announced that the monetary tightening cycle is going to start this year. The stock market's positive reaction reversed already a couple of days later. In September only Dutch Small & Mid Caps lost more than the German DAX, ending the month down 7.4%. Just the German TecDAX stayed in positive territory. Shares of Wirecard and Nemetschek moved up strongly by 20% each pushing up the index. Both companies presented at the annual Munich Investment conference which we attended as well. Investors regarded the companies' outlook as positive. In general we had the impression that the managers of the German listed companies were still optimistic about the future prospects of their businesses even considering the risks related to China.

The Long Book cost 4.9% in a weak market environment. The Short Book compensated that loss by just 3.17%. Therefore the fund lost 1.73% of its NAV. The largest positive contributor on a single-stock level was our short in KAZ minerals, a UK-listed copper mine operating in Kazakhstan. The stock lost more than 50% due to falling copper prices. The decision of the country's central bank to devalue the currency just had a temporarily positive effect on the stock. That short added 83bps to the fund's performance in September. Another positive contributor was our long position in Greek refiner Motor Oil. We follow that company for many years now as a European Small Cap specialist. A relatively stable client base (US military) as well as its state-of-the-art refinery (highest Nelson Complexity Index in Europe) makes it an interesting investment. Refining

margins recovered strongly generating decent cash flows. The stock moved up by 20% in September and added another 30bps to the fund's overall performance. Our major negative contributor was German engine producer, Deutz AG. After several quarters of lacklustre demand and under-utilization we were expecting a bottoming-out. However, it turned out differently. Clients initially placing anticipatory orders due to newly introduced emission standards still were reluctant to place follow-up orders. The profit warning was significant (10% lower revenues, break even rather than an EBIT margin of 3% in 2015). The stock plunged by 37% which cost the fund 60bps.

**Changes in the Fund:**

In September several quarterly readjustments of the long and short book were implemented based on the results of the **Peacock Opportunity Filter**. On sector level we increased our weighting of Chemicals and Basic Resources. However, some Small Caps are not properly categorized by these industries. In that case it applies to a rather more defensive company characterized by an oligopolistic industry structure. We regard that position as a long-term core holding.



The company we are talking about is the Portuguese niche player Corticeira Amorim. As every year we attended an Iberian Small & Mid Cap Conference in Porto, Portugal. We had the chance to meet Mr. António Rios de Amorim (Chairman) and his sister, Cristina Rios de Amorim (CFO), in person. On top of that we got some interesting insights into the company by visiting the production sites.

With a global market share of 35% Corticeira Amorim is the world market leader in cork production. Commonly people get in touch with that natural product by drinking a good glass of wine. The majority of cork raw material ends up as stoppers in wine bottles. However, hardly anyone is aware of the fact that a Portuguese, family-owned company (85% owned by the Amorim family), dominates that market. The annual production volume of cork stoppers at the company stands at an astonishing 4bn pieces. Apart from the business unit "stoppers" the company operates the units "coverings" and "composites". By the way, Germany is the most important market within the coverings segment for Corticeira Amorim. Combined they make up roughly 40% of sales. Composite products end up in personal & household goods such as shoes but are also used for industrial applications. Rotor blades of wind turbines for example take advantage of an inner cork core. 60% of revenues are derived from Europe, the US market is gaining in importance growing above average now making up about 20% of sales. LatAm and Asia are growing strong as well driven by a structural demand for premium wines and Champagne. In the past several cork stoppers were replaced by cheap silicon replicates. This has reversed since the characteristics of silicon are inferior to the ones of cork (wine bottles stored



over a period of more than 12 months need a natural cork stopper). While the wine market is expected to grow worldwide by just 1% till 2018 the high end-segment is expected to grow at a rate of 4%. The upper picture shows just a small fraction of the production output, one can hardly imagine the volumes in total. The company covers the entire value chain taking advantage of long-term supply contracts with local cork tree farmers. 60% of the raw material is sourced from Portugal, 30% from Spain and the rest is split over several North African countries such as Morocco. That percentage split roughly matches the global supply split. In order to ensure long-term supply the company launched initiatives to operate their own plantations. Bargaining power of suppliers is limited due to the oligopolistic nature of the buyers market. The motivation is to ensure a long-term business relationship. The cork tree barks are cut into board-like shapes, cooked and finally dried. Then they are cross-cut at the size of a final stopper. The picture below shows that a handy piece of cork is the final result. It is subsequently punched in a row: the result is a cork stopper !



It is subsequently punched in a row: the result is a cork stopper !



The right hand picture illustrates "technical stoppers". They are composed of glued granular cork. Disadvantage: no more 100% natural, not permeable to air. Advantage: lower price tag, strong demand in the entry segment of wine and sparkling wine.



Some facts about cork:

- ✓ The barks of cork trees can only be "harvested" every 9 years (anybody who travelled through Portugal might have noticed white numbers sprayed on the tree trunk ranging from 1 to 9). It indicates the year after the last "harvest"
- ✓ A tree yields on average about 45 kg of cork
- ✓ 1kg of cork is sold by farmers for about 5 EUR
- ✓ A premium cork stopper costs about 25 Cent
- ✓ "Technical stoppers" are made of granules from the remnants of cork production and provide you with a price point of only 4 to 8 cents, a competitive price vs. imitates like silicon stoppers
- ✓ These "low end" cork stoppers account for about 20% of the cork stopper output but grow disproportionately with 20% per annum and are quite profitable
- ✓ Corticeira Amorim is ramping-up a patented production process in order to avoid cork taste in wines. This taste occurs when Trichloranisol, or TCA, diffuses from the cork stopper into the wine. Over the past years more than 5% of wine bottles have been affected. That ratio shall fall below 1%.

Shares of Corticeira Amorim, though just offering 15% of free float, shall be a core position in our fund. The shares are in "stable hands" not only because the family still holds 85%. Also the remaining shares are spread among investors who have a long-term investment approach and were able to invest just recently. Among others we participated in a placement of 5% of treasury shares at a reasonable discount. The share price chart over the past quarters demonstrates the defensive profile of the company. Even in times of equity market setbacks the shares had a very limited drawdown. This is an ideal Small Cap investment: less impacted by macroeconomic sentiment rather driven by company specific issues. Low correlation to general equity market movements.

Finally, as usual, we may give some ideas about the financial situation of the company and its valuation. No matter how "great" a company's business model is, no matter how "close" you are with management, no matter how "unique" the company's products are. If the current valuation does not provide enough performance upside an investment makes little sense.

- FCFY (to the firm) 7.5%
- Consistent positive free cash flow generation in the past even in 2008 and 2009
- Dividend yield about 5%
- PE of 10.5 (discount to peer Oeneo of 35%)
- Low leverage (Net Debt/EBITDA 0.7x)
- EPS growth till 2020 between 8 to 10% p.a. driven by
  - efficiency measures (production optimization, automation of shipping processes etc.)
  - Innovative new product launches in covering segment, TCA-free cork production
- Growth potential US, selective acquisitions

So if you are enjoying a good glass of wine next time, think of Peacock Capital and Corticeira Amorim!

Marc Siebel  
Fund Manager of Peacock European Alpha Builder Funds



Fund Facts

|                                   | Share Class R (Retail)  | Share Class I (Institutional) |
|-----------------------------------|---|-------------------------------|
| Fund Initiator, Advisor           | Peacock Capital GmbH, Düsseldorf, BN & Partners Capital AG, Erfstadt      |                               |
| 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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