



6th April, 2019

Dear Investor,

After a dismal performance in the last two quarters of 2018, we demonstrated strong achievement with more than 45% return, pushing the return since inception back positive to 10%.

The high returns are mostly attributed to our largest holding: Inmarsat. Going into Q1, we have increased our holding to around 50% of invested capital and lowered our average purchase price to £4.33. A few weeks later take-over talks heated up and finally a deal with a consortium of investors got agreed at \$7.21 per share, which led us to sell the shares at £5.52 per share and invest the proceeds in 3 UK small caps: Reach plc, Enquest plc and Renewi plc, which by the way have already performed well with close to 6% return.

On top of that, we increased our holdings in Covestro AG by buying another 230 shares at €48.91 per share as we saw recovery is ripe, which did play out: Covestro and National Bank of Greece recovered a large chunk of their losses and are now down 16% and 34% respectively of our average purchase price.

While I think the strong returns in markets over Q1 won't continue throughout the year, I do believe we are in a great position to continue our outperformance over the market, as we did in Q1 2019. In particular, I am extremely happy to have found the previously mentioned three excellent, undervalued companies, which together the market prices at £581mio, but their combined revenue and profits (EBIT) amount to £3,491mio & £935mio respectively. Before we get to the details here, below are our results, which I hope will please you. I will then go into the details of 1. Operational changes, 2. Our current holdings & 3. Outlook.

Performance since inception

Year	Quarter	Portfolio	
		% change by Quarter	% change from inception
2017	Q1	-	-
	Q2	-8.37%	-6.17%
	Q3	-4.92%	-7.98%
	Q4	-1.34%	-9.21%
2017		-9.21%	-9.21%
2018	Q1	8.60%	-0.79%
	Q2	18.91%	12.91%
	Q3	-16.20%	-3.86%
	Q4	-29.94%	-32.64%
2018		-30.79%	-32.64%
2019	Q1	45.41%	10.36%

Current holdings

Company	Average Purchase Price	Current Market Price	Currency	% change
Enquest Plc	0.1914	0.2030	GBP	6.06%
Renewi	0.2395	0.2505	GBP	4.59%
Reach	0.6193	0.6570	GBP	6.09%
National Bank of Greece	2.9030	1.8910	EUR	-34.86%
Covestro	63.8550	53.0600	EUR	-16.91%

Dividend receipts 2018

Dividends	Dividend per share	Currency
Inmarsat	0.13	GBP

Operational changes

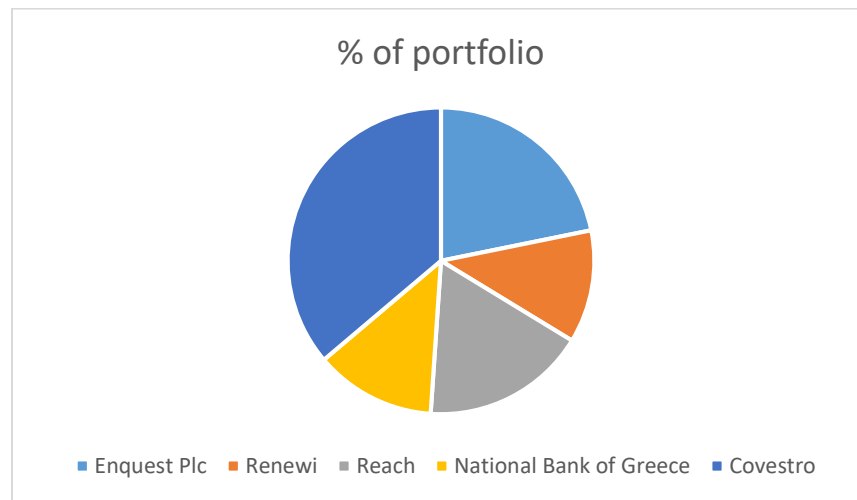
As you might have seen above, our total charges, which are brokerage and transaction fees, as well as stamp duty taxes, are close to 6% of our total profits since inception. Part of this relatively high charge are transaction fees of our German accounts at Koelner Bank. We have since acted in opening a new account with Flatex, which charges the lowest transaction fees Germany wide and will close down our Koelner Bank brokerage account only if we consider to sell our holdings in National Bank of Greece and Covestro – all new transaction will occur in the more cost efficient Flatex account.

While not visible out of the data above, I have made total new capital injections this year, however, due to tax reasons, I withdrew roughly half of those injections in the first week of April. This will have the benefit of potential additional capital injections throughout the year.

Our holdings

Now we come to more fun parts: Our holdings. I am extremely proud of the companies we invest in, as I believe the profits and growth prospects are pessimistically mispriced by the market in all of our current holdings... and I will come to that in a minute in more detail. Before that, I want to highlight our investment strategy and why AozoraStep will be different from other funds. I have come to believe we are seeking not only to become an investment fund, but also a collector. So what is the difference between an investor and a collector? In fact, the two are pretty similar, as an investor allocates capital with the expectation of future financial returns, but a collector is having a deep passion for something, for which he has a vast understanding and hence can estimate a fair value much better than the average person. Sometimes it's great to turn a quick profit, but when investing into companies, there is often more behind than that. Let me give you a quick example of how beneficial it is to have some part of a collector inside of you. Covestro AG lost nearly 50% in the 4th Quarter of 2019. While some investors might have capped their losses, we

invested more at lower prices. This brought down our average price from €78.8 to €63.85. On top of that, the current market price only reflect a loss of 16% and with the receipt of dividends, this will go to 12% - while I can't predict the future, I can say that even at current market prices this is a fantastic opportunity to buy more – as Warren Buffett puts it, he is happy when his shares lose value. Why? Because he can buy more at cheaper prices! This phenomenon is something that is typical for a collector.



Covestro

Share Price	53.06
Revenue (in mio)	14,620
Earnings (in mio)	2,009
Assets (in mio)	11,084
Liabilities (in mio)	5,709
Market cap (in mio)	9,710
P/E	4.83
P/B	1.81
Div yield	4.15%

While Covestro contributed much to our losses in the last quarter of 2018, it is the best example of Warren Buffett being happy of declining stock value. As you can see from the numbers above, Covestro is in excellent financial health with low P/E and P/B values and strong dividend yields. The success story of Covestro, in my eyes, is two-fold: Strong growth, but having very little debts and boosting the company value by buying back its own stock. On the former, I want to emphasize that Covestro is a growth stock. Its profits highly depend on global economic growth. Hence, having few financial liabilities, helps in countering a potential economic slowdown and lower profits. On the latter, a company buying back its own stock can boost its value dramatically. Over the last year, number of shares outstanding reduced from 204mio to 183mio. What this means is that the P/E ratio dropped from 5.39 to 4.83 and the P/B ratio from 2.01 to 1.81. With few takeover possibilities, Covestro applied to be buying back more of its own shares. This shows that Covestro is a great cash cow for us, as it continuously boost its own value.

National Bank of Greece

Share Price	1.89
Revenue (in mio)	1,094
Earnings (in mio)	50
Assets (in mio)	65,095
Liabilities (in mio)	59,457
Market cap (in mio)	1,729
P/E	34.57
P/B	0.31
Div yield	0.00%

National Bank of Greece is probably one of my saddest investment stories. Not only did we lose over 50% in value in the 4th quarter of 2018, I also felt it was too risky to buy more at such low prices. If we bought at the share's lows of €0.95 per share, we would have turned a 100% profit on those investments. The story of NBG is clear after FY18 reports came out late March 2019: The Greek economy is performing well, Greece will be self-sufficiently funding themselves without outside help. While NBG turned profitable in the 4th quarter with more than €114mio operating profits and a strong balance sheet with management suggesting high profit growth in FY 2019 and a new aggressive strategy to be unveiled on May 16th 2019. In this sense, despite the strong returns in its share price, I see a lot more potential upside from here and suggest to invest our Covestro dividends to be received in April into NBG.

Reach Plc

Share Price	0.66
Revenue (in mio)	724
Earnings (in mio)	114
Assets (in mio)	1,204
Liabilities (in mio)	646
Market cap (in mio)	192
P/E	1.68
P/B	0.34
Div yield	5.72%

Reach Plc puzzled me the first time I looked at the financials. This company seemed so clearly undervalued. A P/B ratio of 0.34, a P/E ratio of 1.68, while paying large dividends and having very small debts. I think it's worth taking a closer look into the operating business and it becomes clear that most of the revenue still lies in printing, i.e. 2018 saw £575mio revenues in print and only £103mio in digital publishing. Clearly, with a move towards digitalization, it is clear how the market values the company, as advertiser pay much more for print advertising compared to digital. However, I would argue print is not going to die from tomorrow, and the high dividend payout rates make Reach Plc a very attractive investment.

Enquest Plc

Share Price	0.20
Revenue (in mio)	1,201
Earnings (in mio)	78
Assets (in mio)	5,662
Liabilities (in mio)	4,678
Market cap (in mio)	346
P/E	4.42
P/B	0.35
Div yield	0.00%

Enquest Plc has been the pearl of hedge funds, especially as hedge funds were buying their high yielding bonds. The shares took a hit, as Cairn Energy, a minority shareholder (29.5%) of Enquest's largest oil field, the Kraken field, downgraded the field by containing around 6.8mio barrel less than what Enquest estimates. Over the last 6 month, Enquest lost half of its value, however, fiscal year 2018 report showed that revenue and earnings are in line with expectations and Magnus oilfield made up some of the Kraken oilfield's lower than expected turnovers. Interestingly, those 6.8mio barrels only would make up 1.5% of Enquest's total reserves – a signal how markets overreacts dramatically! Equity holders are of risk of receiving low returns for others reasons, which are leverage. Enquest is our most levered company and also doesn't pay a dividend (similar to NBG). Nonetheless, the company is committed in cutting debt fast and has done so in FY 18 by reducing total debts from \$1.991bn to \$1.774bn. As a comfort, just days after our purchase of stocks, the CEO of Enquest bought another £0.5mio worth of shares himself.

Renewi Plc

Share Price	0.25
Revenue (in mio)	1,566
Earnings (in mio)	38
Assets (in mio)	1,823
Liabilities (in mio)	1,440
Market cap (in mio)	201
P/E	5.22
P/B	0.52
Div yield	5.79%

Renewi Plc popped up in my eyes when its shares were dumped losing 20% of its value in 1 day, while recovering most of these losses at the end of the day. When I looked at the reasons and comparing that to the financials, it became clear to me that this business is a buy and not a sell. The board decided to cut its dividend by more than 50% after its Dutch shipments of thermally treated soil required additional test by the Dutch authority to consider it clean. The prudence in suggesting that those shipments won't be made until the end of the year actually shows credibility of the board of directors. Despite great looking financials in terms of P/E, P/B ratios and dividend yields, Renewi is highly levered with more than £570mio of debts – almost 3x its market valuation. The reduction in those debts will be key over the coming months/years, but this should not undermine the undervaluation of this company. In fact, days after we piled in, there

were a few directors of Renewi purchasing additional shares and an activist investor, Kabouter Management snapping up more than 12% of the shares, gives us comfort in buying more here.

Outlook

I prefer not to repeat on signals for recessions, Brexit and the potential China/US trade war that could harm stock markets massively. While the yield curve inversion has been a reliable predictor of the last 7 recessions, there was 1 period in 1998 when it mispriced a recession and stock markets shot up aggressively over the coming 2 years. Personally, I believe we are in a 1998 sort of period, as Central banks lower rates, helping levered companies to refinance their debt and cleaning up their balance sheets. There is still the risk of lower profits coming from a De-globalisation movement. However, I think this thinking is pre-mature and we see further supports for the market – although this does not mean markets could not sell off any time.

I hope you enjoyed reading and I wish you a fantastic start into the next quarter, in the hope of outperforming the market even more. As always, I appreciate your feedback and the trust of us making good of our 2018 losses and turning back into profits.

Best wishes,

David Herrmann