



September 29th 2019

Dear Investor,

Our portfolio has changed quite a bit since last quarter, as we sold National Bank of Greece (-21%) and Renewi (+22%) and entered positions in airlines Lufthansa and IAG, as well as increased our position in Covestro further. The reason for selling National Bank of Greece has been the uncertainty of the new government. While it sounds like the government is pro-market and hence positive for Greek stocks, the likelihood of higher spending is there, which has made me a little uncomfortable. A similar uncomfortable feeling I had with our position in Renewi. Despite the very interesting business model during a time of climate change actions being high on politician's agenda, the balance sheet of Renewi is not extremely healthy. Both companies, I believe, would suffer during an economic downturn. While I don't predict this will happen, the skies have clearly darkened somewhat, some of it I'd like to mention below and also take the opportunity to discuss our new positions in Lufthansa and IAG.

The 3rd Quarter of 2019 has seen a number of records and turbulences, yet stock markets have experience pretty flat returns over this period. To name a few, we had:

- The largest single day price increase ever recorded in oil on the back of the shutdown of the world's largest oil refinery in Saudi Arabia amid the Iranian drone attacks
- Rising number of insolvencies, in the UK hits its 5-year high, including Thomas Cook with over £1.6bn in debt
- Failing initial public offerings (IPOs), which are dropping in price (SmileDirectClub) and unicorns (unprofitable companies) avoid going public (WeWork)
- Federal Reserve Bank of the USA struggling to maintain overnight funding rates within its corridor after repo rates hit 10% and Fed Funds 2.3% vs. 2-2.25% corridor

While these news sound rather shocking and bad for stock returns, in theory the companies we are invested in, should have benefitted. Let's start with the oil price shock... While our portfolio consists of 1/3 of Enquest, an oil producer, the stock is down quarter on quarter. The reason is that while the oil price rose by more than 12%, Enquest rose over 20%. Unfortunately though, amid the rapid speed of resumption in Saudi Arabia's hit oil refinery and confusing positive news over the US-Iran relationship, oil is back exactly where it was before the attacks, and so is Enquest's stock price. The fear of a recession is high and I think this is also the biggest driver in seeing such a strong US dollar, which leads to a lower oil price. However, as Enquest is producing in the UK, the strong USD is also reducing production costs, which have now come down to only \$20 per barrel vs. \$25 earlier this year. Ultimately, I am still in favour of seeing higher oil prices, as the USD weakens amid lower US interest rates.

As higher oil prices are generally good for our shares in oil producer Enquest, they are bad for our airlines holdings IAG and Lufthansa. Here I want to emphasize again, oil prices look low in USD, but they are relatively high in EUR or GBP, which is what our airlines are struggling with. Hence, whenever looking at oil prices you would always need to compare this to USD strength, as our companies' costs and balance sheets are in GBP and EUR. The other big complaint we have heard from the board of directors of our airlines holding, especially Lufthansa, is the stiff competition in the sector. Some of the past year's profits are due to other airlines going bankrupt such as Air Berlin last year. This is why the insolvency of Thomas Cook is a big positive for our portfolio and has seen IAG shares rising 5% q-o-q despite the costly pilot strike. Lufthansa shares, on the other hand, are down 5%, which I think is rather due to the disappointing results from 1H19 (since then flat) and the effect of Thomas Cook bankruptcy is less beneficial for the German carrier as it is for the UK. Generally speaking, both carriers are considered value stocks and I have attached the cheap valuations on the following pages under our holdings.

The failing/suspended IPOs are affecting our positions less directly, but have partly led to some major market shifts, namely money being moved from Growth stocks (FAANG, tech etc.) to Value stocks (positions that we hold).

While I mentioned one other large market event (that short-term interest rates are out of control), this event should have less of a direct impact on stocks, but could lead to the resumption of Quantitative Easing, i.e. central bank buying government bonds. (This might all sound a little bit complex to you, hence feel free to skip this section). Here I would just like to touch on the reason for short-term interest rates going out of control. In summary (and briefly), the US is issuing a lot of debt to fund the corporate tax cuts and larger military expenditures. The increase in government spending is funded by additional debt issuance. Those new bonds, different from say 2009 when the US issued a lot of debt the last time, are not being bought by the central bank, but primary dealers, i.e. banks are left sitting on them. These primary dealers are funding a large amount of those US treasury bonds in the repo market, which has led to the spike in repo rates, at a time when the central bank was reducing its US Treasury bond holdings. The effect on the US debt issuance could lead to lower interest rates and the Federal Reserve Bank buying more US Treasuries, which would reduce yields, reduce borrowing costs and make equity yields look relatively more attractive! Hence positive for stocks...

Last but not least, a few words to our Chemical producer Covestro. Prices have generally declined for the plastics producer and declining automobile sales was a large contributor to lower sales in Germany and Europe. However, Covestro is positioned well and investing into new technologies such as wearable plastics and with the new climate agenda of the German government, Covestro should benefit, as the company produces the materials for insulation of buildings, which is one part of the EUR 40bn of government spending. On top of that, electric vehicles need to be built extremely light – as a producer of light coatings, Covestro should once again benefit.

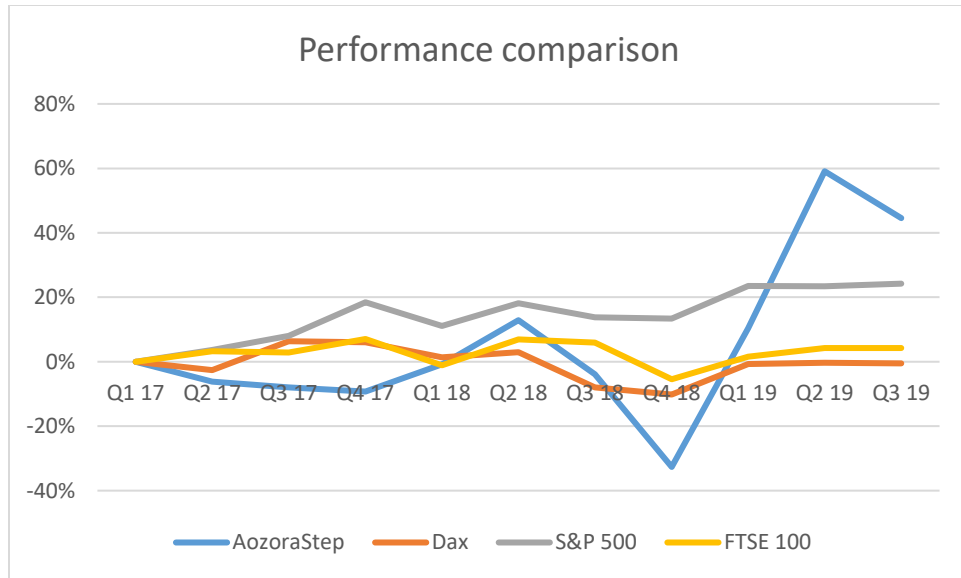
Overall, I'd just briefly touch on the importance of balance sheet. As the economy is slightly more uncertain, healthy balance sheet are of utmost importance. With IAG, Lufthansa and Covestro, we are positioned well here, and Enquest, despite larger leverage, is reducing their debt pile rapidly, which is very positive, too. To the macroeconomic outlook I have also attached a presentation that I prepared in July 2019, which can help understanding the current market environment better.

Thank you very much for being entrusting me with your savings and as always feel free to contact me if any questions. Below you will find our performance as well as current holdings.

Best wishes,
David Herrmann

Performance

		Portfolio	
Year	Quarter	% 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%
	Q2	38.99%	59.10%
	Q3	-1.20%	44.57%

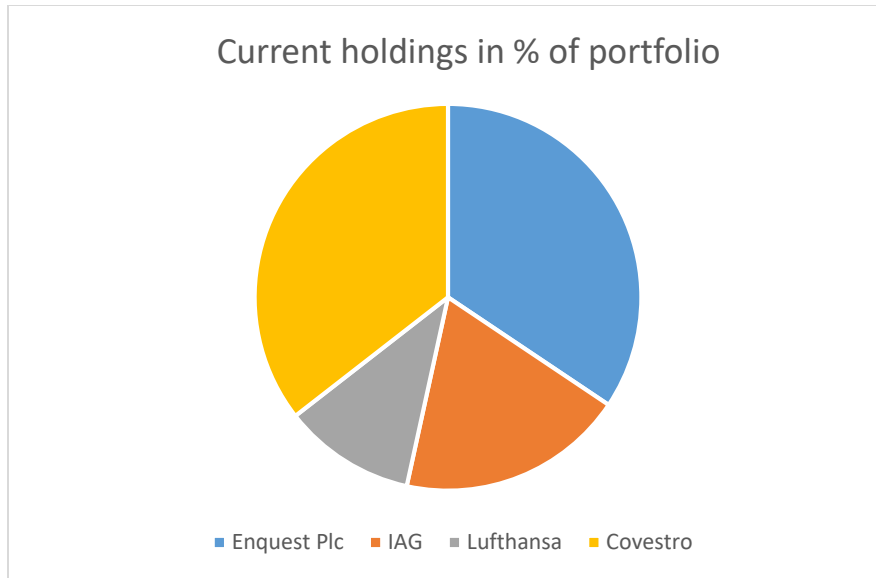


Dividend Receipts

Dividends	Payment Date	Dividend per share	Currency
GKN	18th Sep 2017	0.03	GBP
Inmarsat	25th May 2018	0.06	GBP
Inmarsat	19th Oct 2018	0.06	GBP
Reach	7th June 2019	0.04	GBP
Covestro	17th Apr 2019	2.40	EUR

Current Holdings

Company	Average Purchase Price	Current Market Price	Currency	% change	% of portfolio
Enquest Plc	0.1957	0.1905	GBP	-2.64%	34%
IAG	4.4967	4.7420	GBP	5.46%	19%
Lufthansa	15.0300	14.2800	EUR	-4.99%	11%
Covestro	52.8213	44.7900	EUR	-15.20%	36%



Outlook

While the last few weeks and coming months should have/should see higher cash growth due to the number of 30th birthdays I am unfortunately less able to grow the capital injections. I would expect to have additional savings by end of December despite those costs. I see cheap supermarket chains such as Sainsbury's currently as an attractive investments, as rising insolvencies and higher costs should lead people to save more on their groceries shopping. At the same time, I am looking to add a smaller company to the portfolio to benefit from potential M&A.