Month: +2.9 % gross / + 2.5% net **Total AUM: US$54m**

Lauro is a European Long/Short Equity Fund managing a long-term concentrated portfolio of 20-30 holdings. We believe deep fundamental research focused on ROIC, cashflow generation & attractive asymmetry are key to long-term value creation. We work to maximise the idiosyncratic nature of our returns through our active engagement with management teams.

MONTHLY/YEARLY HIGHLIGHTS

We finished the month of August +2.5% net vs. +1.9% for the MSCI Europe Local index. Mean reversion was the flavour of the month from a macro perspective. Having seen China enter the pandemic first and the economy recover the quickest, its recent growth slowdown has been a function of both the re-emergence of the delta variant as well as regulatory tightening measures. In particular, the key regulatory drivers reflect a desire for the China government to deliver "common prosperity" leading to direct scrutiny of the education, property, consumer internet and healthcare sectors (see discussion below). Conversely both Europe and the US are exiting the summer with high vaccination and importantly natural immunity to the virus. As we get into the final stretch for the year, a key focus for investors will be if "living with the virus" will be adhered to, with the goal of avoiding further lock downs.

Key contributors/detractors – Tesco was the main contributor during August, +115bps as the market caught up to Private Equity's increased interest in the UK Grocery sector. We expect further speculation in the UK grocery sector and should expect Tesco to outline its strategy into the H2 results in early October. Ströer +60bps and Relx +50bps helped the fund outperform the index during the month.

On the trading front – We took profit on a few positions and reallocated capital towards newer names that have better visibility. We initiated in Arkema, a specialty chemical company which creates materials for the decade ahead – products which are lightweight, sustainable and less emissive in nature. In addition, we initiated a short position in a Global Fitness Equipment Company given the uncertainty of the Revenue trajectory as consumer and business habits remains highly uncertain going forward.

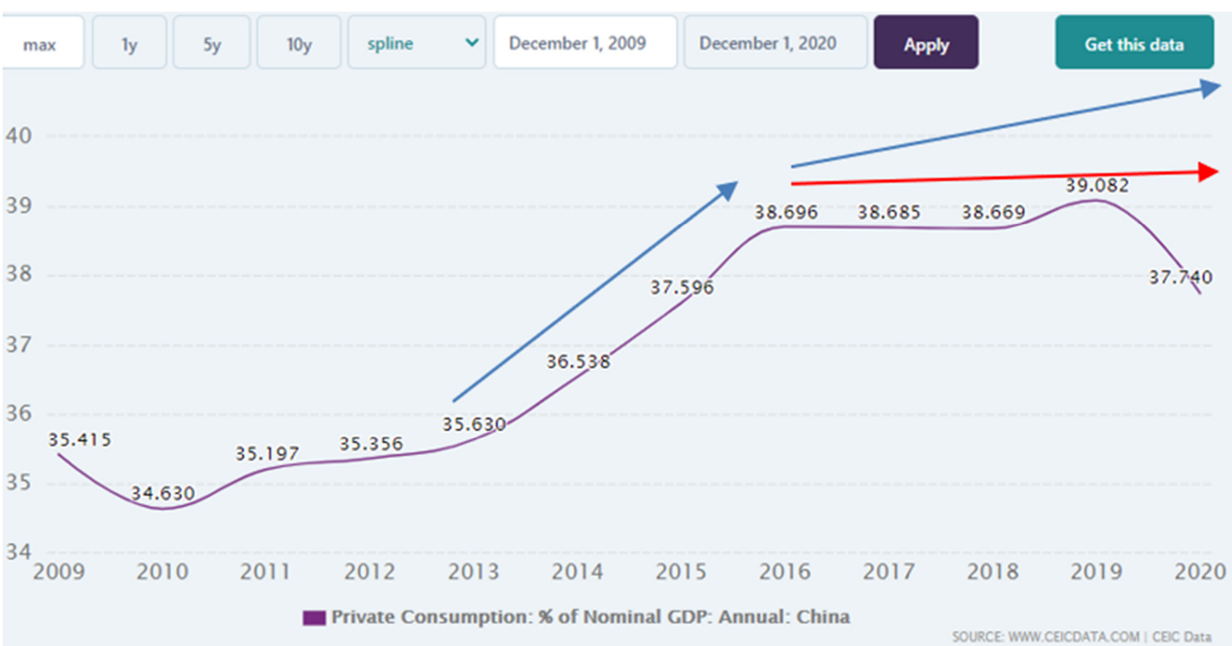
Living With the Virus – as outlined in previous correspondences, we suspected the perceived winners of Covid will change baton over the course of the pandemic life cycle. As we hopefully move into the final stage of the virus we suspect that we are currently at an important inflection point as the globe tries to implement "living with the virus". This month, we focus on the implication for China.

At the beginning of the year, China was seen as a relative Covid-19 winner given its successful zero infection policy with its strict and at times heavy handed approach to controlling the virus. Accordingly, it exited 2020 and entered 2021 with a relatively unscathed GDP growth in 2020 +2.5% and was expected to generate 8%+ growth into 2021. Further successful roll out of the Sinopharm and Sinovac vaccines would inoculate the country with a view of accelerating re-opening its borders and extending China's soft power by 'donating' its vaccines to the emerging world.

However, a lot has changed in the past 3 months both as it relates to the Covid crisis and importantly a tighter regulatory cycle as we approach the 20th National Party Congress of the Chinese Communist Party (CCP) in Oct'22. A key change during the year was the emergence of the Delta variant. **China's zero tolerance attitude towards Covid cases + the emergence of the delta variant as a strain exposed the lower efficacy of the Chinese vaccines.** The result was a series of rolling lockdowns in China at a regional and city level. A recent Brazilian study found that people fully inoculated with Sinovac reduced their risk of infection by 54% and risk of death by 74% compared with unvaccinated populations. Further, Sinovac's efficacy also waned in older populations, reducing the risk of death by only 35% in populations over 80. In contrast, the AstraZeneca vaccine appears to offer more protection, reducing the risk of infection by 70% and the risk of death by 90%. As we stand today, the visibility on the normalisation of the economy has deteriorated and has now been pushed out versus rest of the world.

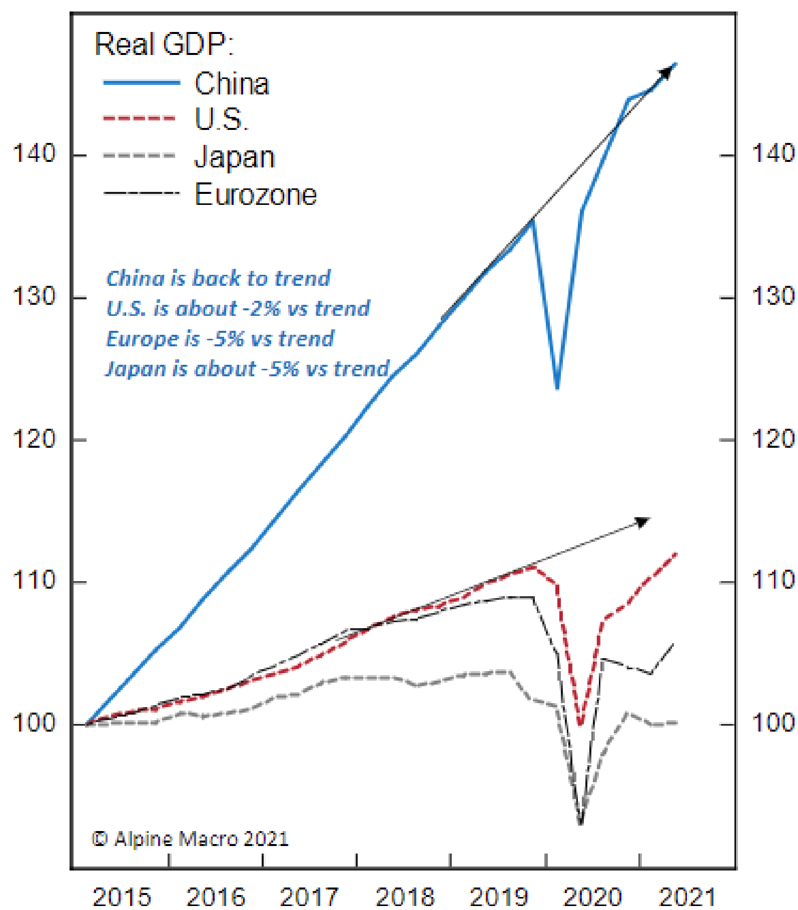
From this perceived position of strength in early-21, China started implementing the next level of reforms aimed at driving common prosperity and productivity over the coming decade. Chinese policy makers targeted (again) the property sector with lower credit impulse and tighter liquidity conditions. Their sights soon shifted to the education sector with policies around excessive tuition fees and online gaming on the consumer internet platforms. While market sentiment in the near-term was decimated on the back of enhanced policy response for these niche sectors, we remain focused on the longer-term implications of the pandemic and ongoing structural issues facing China – the middle-income trap, demographic headwinds, and slowing productivity growth.

2022 will be 10 years since the inception of the Xi government which heralded the idea of a reformist administration focusing on unblocking impediments to growth and productivity. **Being a bull on China today centres around 2 important drivers – the emergence of a powerful consumer and the re-establishment of productivity (particularly in the form of technology) in driving the economy going forward.** Over this 10-year period we have yet to see the required consumer reforms around hukou, healthcare and social security to incentivise a lower high savings rate. In fact, the initial impetus around Xi's reform initiatives have stalled with private consumption as a % of GDP flat since 2016:



We see little in recent reforms which could jump start private consumption ahead as a growing share of the Chinese economy. Further, the shift in emphasis from soft tech to hard tech sector although welcomed is also unlikely to facilitate a high level of privately led innovation required to maintain and accelerate the Chinese productivity engine. Accordingly, we think there is a disconnect between the long-term challenges and the optimistic tone around the consumer and productivity in China. **We take a more contrarian view on the China growth story going forward.**

We have built over the past several months a sizeable, short position with corporates which retain a high exposure to China where there was this disconnect between the rhetoric and what we see as reality. Post pandemic, as China looks to steel itself from US pressure (e.g. AUKUS defence pact) and the CCP looks to wrestle back a higher level of control of the economy from the private sector, we expect to see continued levels of high share price volatility. We remain cognisant that China's PMI is approaching 48, levels to which we tend to see policy response and stimulus in China. Despite this sizeable position, you should expect us to remain tactical as it relates to some of the cyclical shorts highly exposed to China.

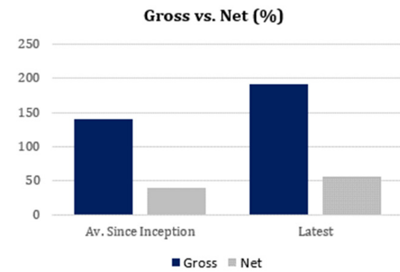


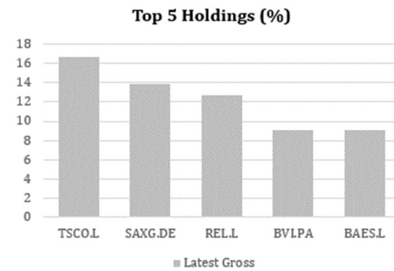
Note: Series rebased to Jan 2015=100

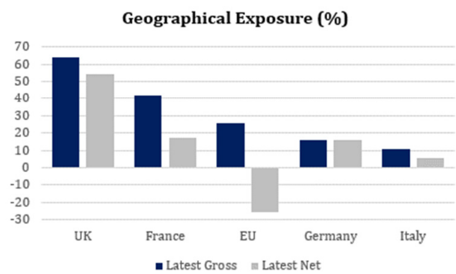
KEY FIGURES END OF MONTH

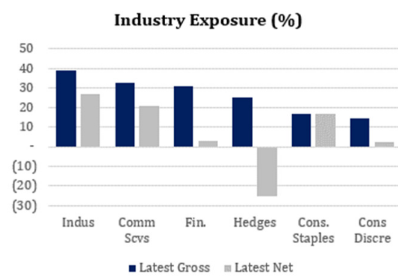
Net Performance Lauro Opportunities Europe Fund

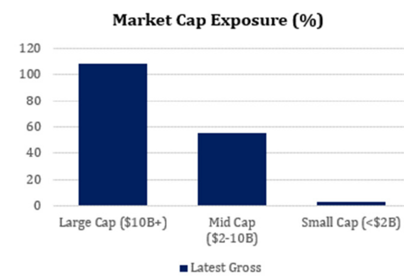
YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	LAURO	MSCI EU
2019				3.3%	-2.8%	2.3%	2.4%	-0.1%	1.0%	-3.1%	-0.4%	0.2%	**2.6%**	**8.4%**
2020	-2.6%	-2.5%	-3.4%	-0.2%	2.2%	-3.8%	0.1%	4.2%	0.7%	-6.6%	15.7%	4.4%	**6.7%**	**-4.3%**
2021	-5.3%	1.7%	1.4%	1.1%	-1.3%	-0.3%	2.1%	2.5%					**1.7%**	**16.5%**

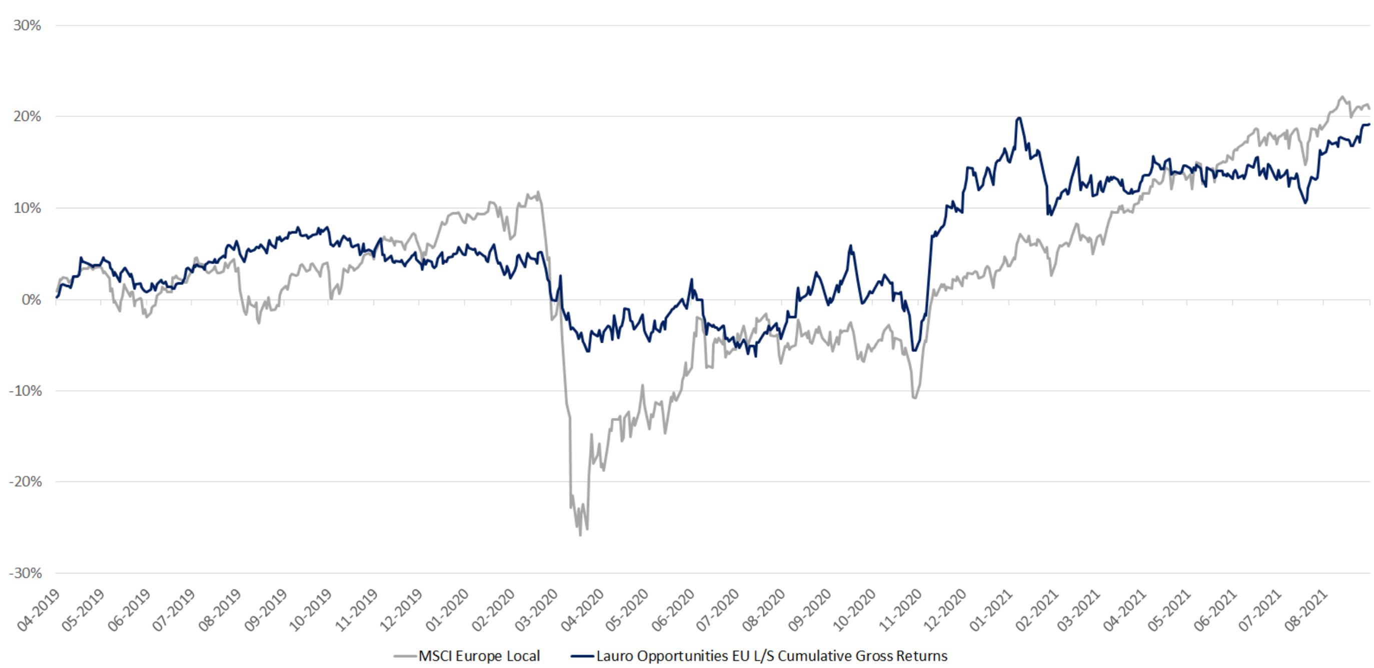












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