

Month: +2.3 % gross / +2.1 % net

Total AUM: US\$53m

**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 July +2.1% net vs. +1.4% for the MSCI Europe Local index.** Earnings season for stock pickers like ourselves often acts as a key catalyst in refocusing the market away from factors driving performance to stock specific fundamentals. H1 results season acted in this fashion and was positive across the board for the fund both on the long and short side. We note several similarities to this time last year where despite improving stock fundamentals the market disregards the strong organic growth, instead focusing on external factors – the delta variant and China’s regulatory cycle.

**Key contributors/detractors** – as highlighted with the H1 results season in full swing, our portfolio companies delivered both strong earnings and superior cash generation. Relx was a key contributor with strong results adding 140bps, Anglo American added 93bps and BAE Systems surprised the market with a £500mn share buyback reflecting management confidence, contributed 78bps.

**On the trading front** – We took profits in Relx and Anglo American. In addition, we added to our Shorts via the Global Fund Manager and a Global Out of Home Advertising short on concerns of further regulatory tightening in China and a spike in delta cases globally, delaying the resumption in international air travel.

## Tesco – Time to Act

The UK grocery sector has been an underperformer for over a decade reflecting a combination of excess capacity in a market with increased competition from the discounters and internet platforms. Tesco the number 1 player in the UK had overextended itself on many fronts and combined with its internal hubris, led to a near death experience in 2014 / 2015. The last 5+ years has been about righting the ship with Covid-19 highlighting the power of the franchise in mobilising its network to effectively feed the UK people in crisis (including an unprecedented online rollout).

We saw 2 factors resulting in the underperformance of the stock into 2021. Firstly, the sale of the Asian franchise led to a £5b special dividend in Jan-21, perceived to be an ex-event from the market’s perspective. Secondly, Tesco in Dec-20 returned the entire business rate subsidy of £585m back to the UK government which led to 2020 and 2021 earnings downgrades, resetting the market’s expectations.

The disconnect between improving industry fundamentals and depressed valuations did not go unnoticed by private equity. Morrisons’ has seen 2 PE consortia spark a bidding war resulting in the shares trading ~70% above its undisturbed price. While Tesco’s share price has appreciated in sympathy, we believe there is significant pressure on the Tesco management to highlight the embedded value within or ultimately face the threat of being subsumed. This unprecedented threat to Tesco remains underestimated by the public equity market. Based on our estimates, we see earnings upside risks into the medium term with stronger than expected cash flows and the potential for further shareholder returns. The **Time to Act** is now with management equipped with both the firepower and incentive to execute.

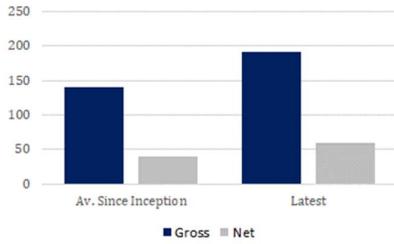


KEY FIGURES END OF MONTH

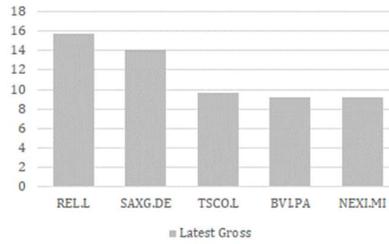
Net Performance Lauro Opportunities Europe Fund

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%						-0.8%	14.3%

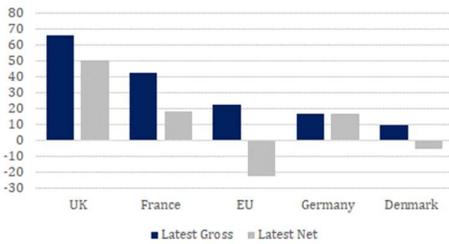
Gross vs. Net (%)



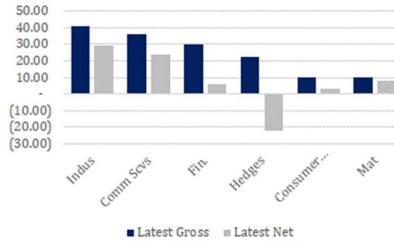
Top 5 Holdings (%)



Geographical Exposure (%)



Industry Exposure (%)



Market Cap Exposure (%)



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These fund returns are calculated for a representative investor (invested since the inception in A-shares, our main product). Actual returns may vary based on investment timing, fee and share class differences. Net returns reflect the deduction of management fees, incentive fees and all fund expenses.

Past performance does not guarantee future results. A portfolio could suffer losses as well as achieve gains. Future returns are not guaranteed and a loss of principal may occur.

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