

**Month: +2.0% gross / +1.7% net**

**Lauro is an Asia- and Europe-focused Active Long/Short Equity Fund looking for superior returns through its high conviction, high concentration long-term focused portfolio**

**MONTHLY HIGHLIGHTS**

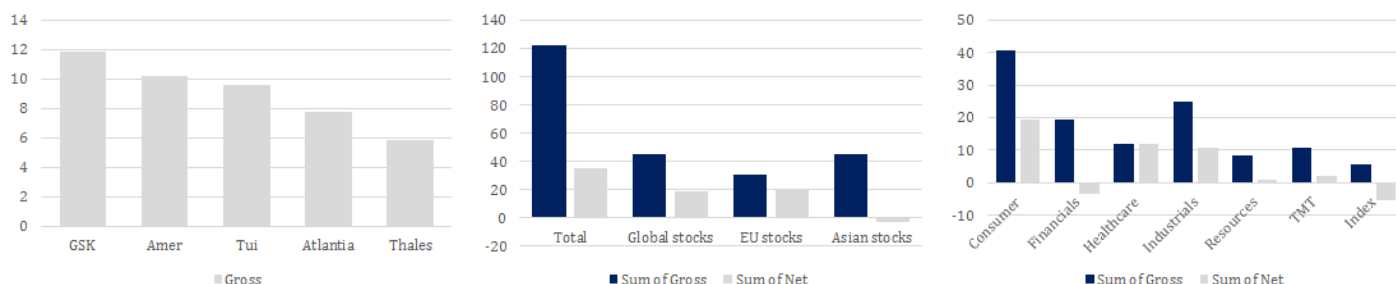
**December saw a continuation of the recovery trend broadly started in August, ending the month +2.0% gross / +1.7% net vs. +4.5% for the MSCI EAFE.** As long term investors, we often use the analogy that we are playing golf. Our main concern is our swing (stock picking), which course we tend to do well on (universe) and how we are reading the course and the prevailing conditions (macro & political backdrop). Our belief is that if we focus on our game, and where required adapt to changing prevailing conditions, rather than constantly looking at the scoreboard, we will win. The prevailing conditions changed in 2016 in the form of a political and macro backdrop which dominated portfolio performance. We were not immune to these factors with Brexit hitting us particularly hard. Importantly, the rejection of the political establishment triggered by the backdrop of globalisation, technological changes & the remnants of the GFC are likely to remain in place in 2017. Accordingly, we implemented some changes to our approach to adapt to these alternate conditions and remain encouraged to see our core swing (stock selection, esp. in Asia) delivering value.

**From a portfolio construction perspective, we implemented two key adjustments to our core positions in December.** As discussed previously, Amer Sports is a core holding in the portfolio. Unfortunately, our analysis of Trump’s US “border tax” proposal suggests meaningful earnings downside if it were to ever be implemented given 40% of Amer’s earnings are derived from the US. The proposal will be at least debated with a potential implementation over the next 3-6 months by the House Republicans and heading into such a significant event, we have thought it prudent from a risk management perspective to reduce the 13% position as well as adjust some of the shorts on the other side.

**In December, the Gaming industry was negatively impacted by a restriction in ATM usage in Macau.** Portfolio stock Melco was initially hit by the rumours around this restriction as well as the sell down of a large position from core holder Crown Australia. We used the 20% sell off in the name to increase our position.

**We like the long-term story in Macau & Melco (MPEL) is our top pick** for the following reasons:

- **Long-term positive on the sector:** Build it, mass market players will come & enhance profitability;
- MPEL is your **best play on Mass & Premium Mass in Cotai**, CapEx cycle more or less done, time to get paid: Revenues to grow @ 11.5% CAGR 2015-19E, EBITDA @ 19%, ROIC to improve by ~1200bps;
- **Improving management score** on the back of CEO Lawrence Ho’s controlling stake & latest capital allocation decisions;
- **MPEL is the cheapest stock in Macau**, trading one standard deviation below the market ‘s LT average;



**YTD Net Performance 3-year Share Class (%)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2016									+0.0	-2.3	+1.4	+1.7	+0.8



Lauro	Target	Since Inception	Dec '16	Comments
# of stocks	20-25	20	22	Concentrated Portfolio
• Long Positions	10-15	13	14	
• Median Holding Period (Longs)	18-24 months	11 months		Work in progress - Portfolio only one year old
• Sizing	4-8%	5% average / top long av. 10%	6% average / top long 12%	Top 10 positions: 86% of Long book
• Short Positions	5-10	7	8	
• Median Holding Period (Shorts)	6-12 months	3 months		Work in progress - Portfolio only one year old
• Sizing	3-6%	4% average / top short av. 7%	5% average / top short 6%	Alpha Shorts, limited use of indices
Gross Exposure	100% - 175%	107%	122%	
Net Exposure	20% - 75%	30%	36%	
Volatility	>10%	6%	5%	
Region				Global but predominantly Europe and Asia

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