

Month: +1.6% gross / +1.4% 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

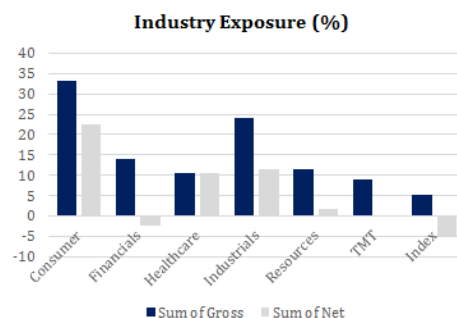
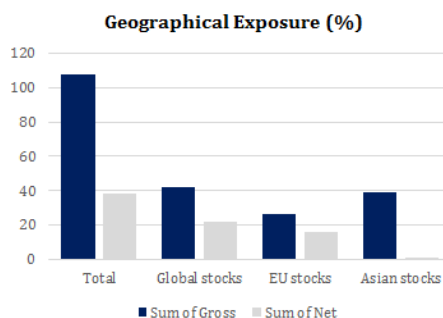
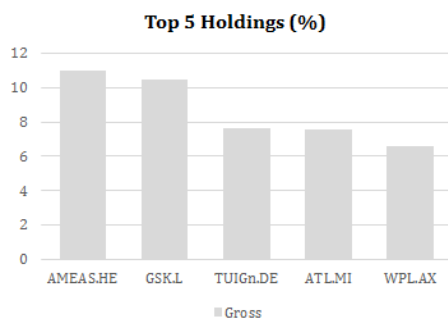
November was a recovery month where the fund regained some of the underperformance in October (+1.4% net vs. MSCI EAFE -2.1%). After an initial and brief risk off reaction on the news of Donald Trump’s election as next US president, the market priced in some or all of Mr Trump’s reflationary policies. We had previously done some extensive work around the US consumer which suggested was in rude health and had the potential for further recovery into the back end of this year and early 2017. A tightening labour market with higher commodity prices combined now with Trump’s policies would suggest the potential for higher inflation going into 2017 and with it higher rates.

Looking into 2017 we are for the first time since 2009 moving into a synchronised growth cycle where economic consensus is looking for all major economies to see substantial improvements in nominal GDP. This will have a **profound impact on share prices, especially given where we are in the economic and importantly rate cycle.** If we look at the composition of the portfolio, most of our risk is allocated to global and European companies reflecting what we see as superior value. In 2016, our portfolio was hurt from our mispricing of some of the political risks, especially within Europe. The pain associated with globalisation, technological change and the remnants of the global financial crisis is likely to continue to trigger rolling political volatility. However, we believe that risk is now either well known or priced, at least for Europe.

In line with our business model and investment philosophy, **we have looked to increase our conviction where we think the market is mispricing growth or value.** Accordingly, we used some weakness to increase some of our positions in core holdings over the month.

GSK is one of them, having been weak despite the Republican win, and is our second largest position. The positive GSK investment case is simple:

- Leading global franchises across its four divisions: Respiratory, HIV, consumer healthcare and vaccines
- Post the integration of the Novartis consumer and vaccine businesses, GSK is forecast to deliver >5% revenue growth with operating leverage delivering consistent and visible double digit EPS growth
- We are paying ~13.5x 2017E earnings for this growth whilst getting paid a 5% dividend to wait for the gap to intrinsic value to close
- The main risk for our investment case is Advair, GSK’s largest drug coming off patent in 2017, which is broadly in the markets expectation and more than reflected in the current valuation



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		-0.8



Lauro	Limit	Target	YTD Average	Comments
Number Of Stocks	60	20-25	19	Concentrated Portfolio
• Long Positions	40	10-15	13	18-24 Month Duration
• Sizing	15%	4-8%	5% average / top long av. 10%	Anything Below 4% Is Either a Toe Hold or Exiting
• Short Positions	20	5-10	6	Alpha Shorts, 6-12 Month Duration
• Sizing	10%	3-6%	4% average / top short av. 7%	
Gross Exposure	200%	100% - 175%	106%	
Net Exposure	100%	20% - 75%	30%	
Region	Global			Predominantly Europe and Asia

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