

## LAURO 1.1

Total AUMs: US\$49m

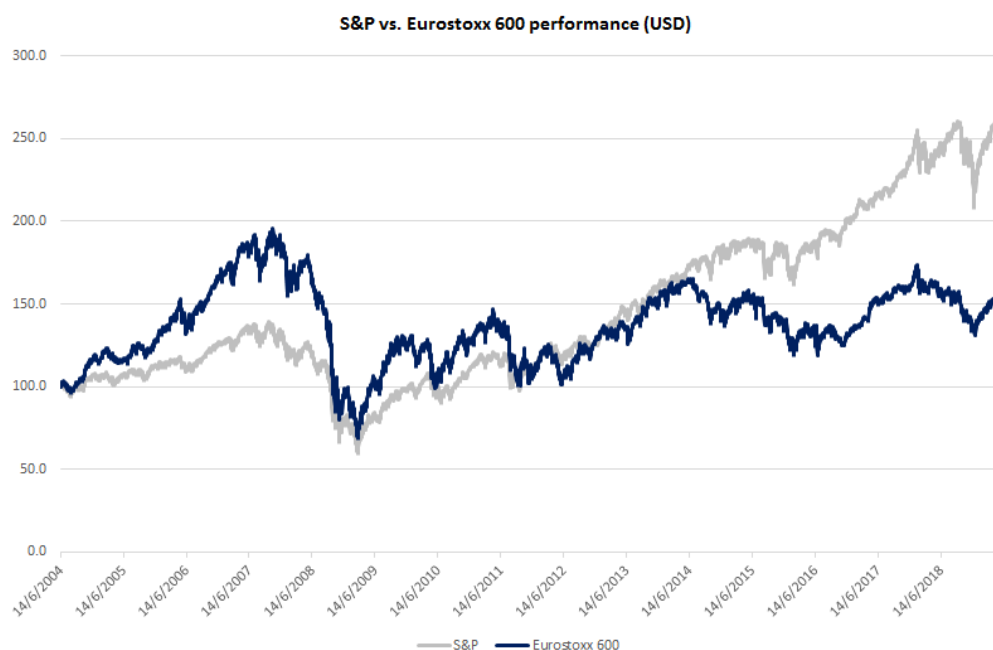
**Lauro is a Long/Short Equity Fund managing a long-term concentrated portfolio of 20-30 holdings focused on Europe. We believe deep fundamental research focused on ROIC, cashflow generation & attractive asymmetry are key to long-term value creation & maximise the idiosyncratic nature of our returns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

## WHY OWN EUROPE?

*“The Euro is like a bumblebee. This is a mystery of nature because it shouldn't fly but instead it does. The euro was a bumblebee that flew very well for several years (...) now something must have changed in the air, and we know what after the financial crisis. The bumblebee would have to graduate to a real bee. And that's what it's doing” Mario Draghi 26 Jul 2012*

From the era of “whatever it takes” at the time of the above speech, Draghi ended up inadvertently foreshadowing **Europe's stumbling from crisis to crisis** over the next 7 years, with slowing economic activity and political volatility particularly around Brexit as the latest to overcome. But **some things have improved**. The 2018 stress test for example highlighted a banking system which is well capitalised and better placed to withstand another financial crisis with none of the top 48 lenders (70% of total EU banking assets) failing the stress test under the toughest assumptions yet used. **Some things remain the same** with the fiscal union seeing continued friction highlighted by Italy's populist government looking to extend its budget outside the mandatory 3% limit as a % of GDP. And **some things got worse** with the widespread emergence of populist governments across Europe.

As a consequence, the European Equity Risk Premium trades at a sustainably elevated level vs. the US, largely contributing to the significant performance differential between the two regions:



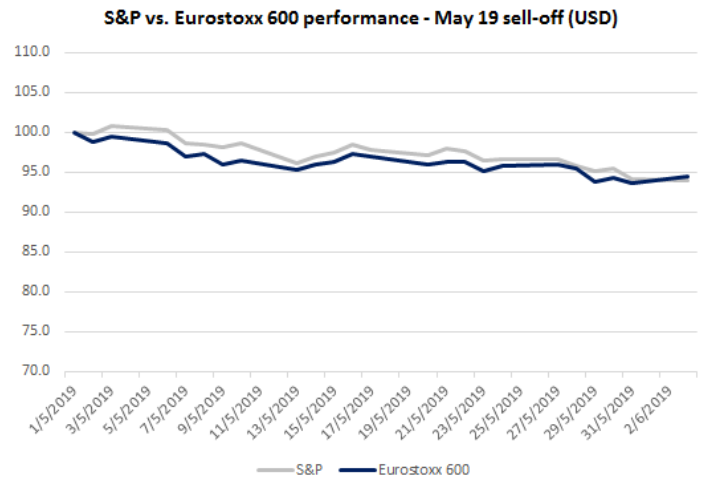
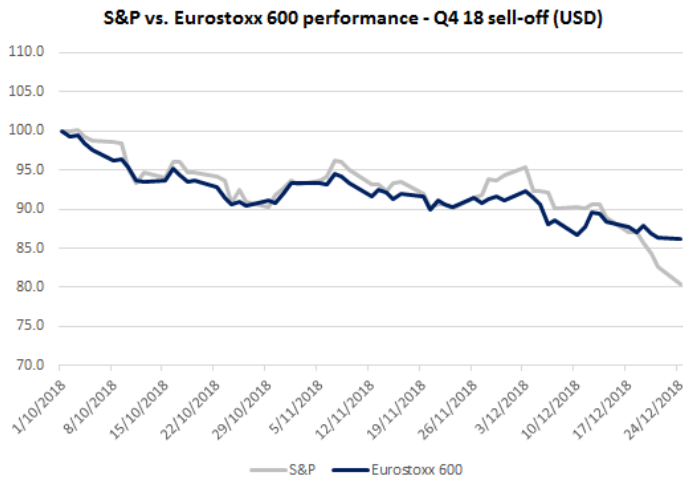
## COULD EUROPE STRUCTURAL ISSUES BE DISCOUNTED BY THE MARKET?

Despite several of the European issues being structural (political volatility, heightened regulation in some key sectors, higher cyclicality of earnings leading to higher overall beta), **the last two market drawdowns (Q418 &**

LAURO  
ASSET MANAGEMENT

Strictly Confidential – Not for Distribution

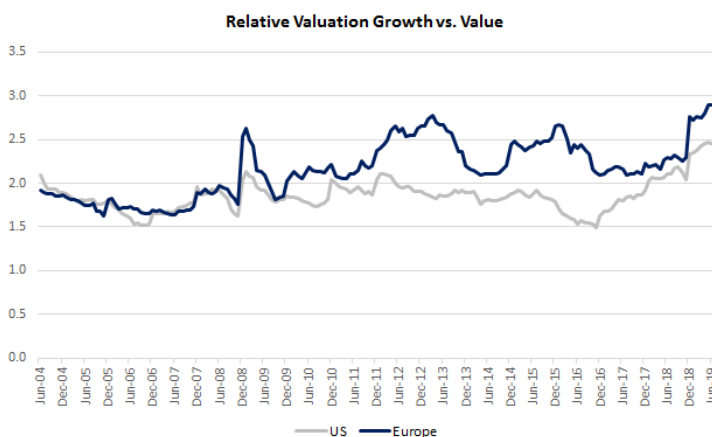
**May '19) have been at least in line with the US.** This makes us cautiously optimistic that Europe’s issues are well understood by the market, suggesting that the investment case for owning Europe is becoming more compelling vs. recent history on a risk/reward basis.



**MOVING TO IDIOSYNCRATIC OPPORTUNITIES SITTING WITHIN EUROPE**

From here we are hopeful the focus shifts away from the top-down concerns of Europe vs. the US and more to the idiosyncratic opportunities that sit within Europe. We break down the opportunity set into four key buckets:

- 1) **Value – You don’t invest in Europe for Growth, you come for Value** – The Value vs. Growth chart is equivalent to US vs. Europe. Investors are better off paying for Growth in the US or Asia as Growth is expensive in Europe given its relative scarcity. We believe the cyclical and structural risk of Europe are appropriately discounted particularly amongst domestic European stocks, providing the backdrop for Value to start performing again;



Note: Composite valuation from P/E, P/B, P/CF, P/S. Source: Bernstein Research;



Source: Credit Suisse Research;



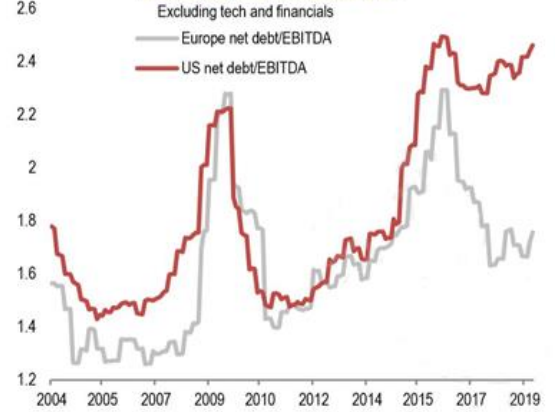
2) **Lower risk profile** – Europe’s high geographical diversification, lower overall financial leverage, and higher dividend yield versus its global counterparts make it an increasingly attractive proposition. Furthermore, two years of investors exiting Europe leads to less crowding;

**Europe Indices Sales Exposure**

Index	Region	Domestic	Europe	North Am.	Asia-Pac	Others
Eurostoxx 600	Europe		50%	20%	14%	16%
Eurostoxx 50	Europe		51%	19%	12%	18%
FTSE 100	UK	26%	17%	22%	21%	14%
DAX	Germany	22%	29%	22%	16%	11%
CAC	France	28%	28%	14%	10%	20%
MIB	Italy	34%	20%	20%	6%	20%
IBEX	Spain	27%	20%	15%	5%	33%
Nordics	Nordics	20%	32%	17%	14%	17%

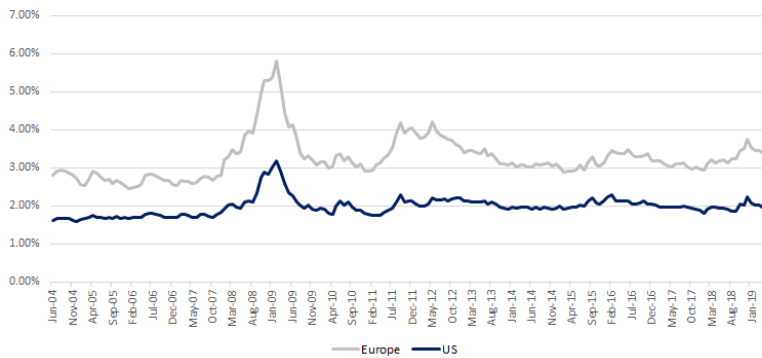
Source: Goldman Sachs Global Investment Research;

**Unlike in the US, euro area corporates have not re-leveraged post the GFC**



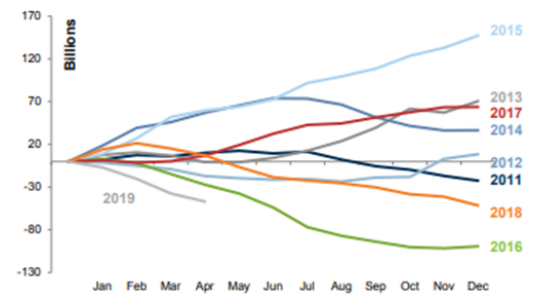
Source: Credit Suisse Research;

**Dividend Yield (%)**



Source: Bernstein Research;

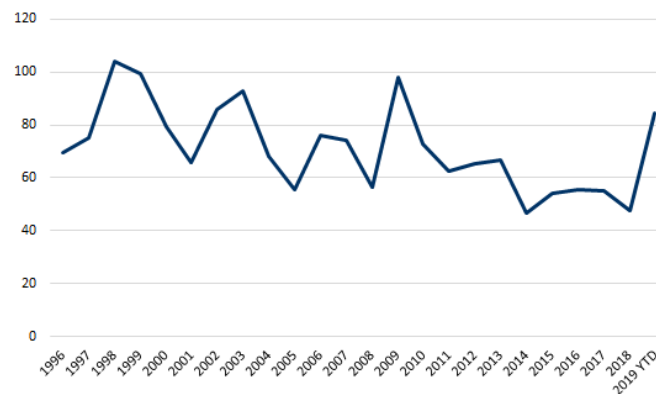
**Exhibit 35: Calendarised flows from Global investors into European equity funds (USD)**



Source: Morningstar, Goldman Sachs Global Investment Research

3) **Higher dispersion** – Dispersion of stock returns has been steadily increasing YTD and is getting close to past crises levels. In an environment of lower expected returns & heightened volatility, we are confident stock picking strategies can perform strongly from here;

**Annual/Annualised Return Dispersion - Europe**



Note: Top vs. Bottom quintile return dispersion. Source: MSCI, Factset, Morgan Stanley Research;



- 4) **Event opportunities** – The potential reversal of the multiple derating triggered by self-inflicted wounds – Brexit, diesel gate, Gilets Jaunes, Italian crisis – could also provide further idiosyncratic support for Europe

## OUR POSITIONING

We continue to see the **derating suffered by our long book since the middle of 2018 as excessive** given the absence of a material earnings revision and look forward to seeing our portfolio rebound from here



However, given the current market volatility & uncertainty, we believe **a low net strategy is the right approach, letting the stocks to the heavy lifting**, as illustrated by the latest risk buckets & asymmetry below:

European L/S	Long	Short	Net %	Gross %	Target	Downside	Asymmetry	High Conviction Theme Being Played
Global Commodities	5.9	-	5.9	5.9	51%	-17%	3.0	Winners & losers from reflation, supply-driven commodity support
Global Financials	7.5	(8.3)	(0.8)	15.8	41%	-9%	4.7	Interest rate cycle, growing vs. structurally challenged asset managers
Global Consumer	4.8	-	4.8	4.8	34%	-19%	1.8	Travel, leisure & entertainment, premiumisation of consumers, trophy assets
Global Pharma	4.0	-	4.0	4.0	8%	-8%	0.9	Ever growing need for vaccines, food safety, health
Global Industrials	18.5	(6.5)	12.0	25.0	35%	-18%	1.9	Who benefits from governments' move to "spender of last resort", trophy assets
Global TMT	7.5	(6.7)	0.8	14.2	18%	-18%	1.0	Defensive business models
Cyclical Basket Hedge	-	(9.2)	(9.2)	9.2	-15%	15%	1.0	Cyclical risk
<b>Global EU sub-total</b>	<b>48.2</b>	<b>(30.7)</b>	<b>17.5</b>	<b>78.9</b>	<b>32%</b>	<b>-15%</b>	<b>2.1</b>	
Europe Financials	11.5	(8.8)	2.7	20.3	66%	-12%	5.7	Interest rate cycle, strength of Ireland vs. UK
Europe Consumer	16.4	(17.1)	(0.7)	33.5	56%	-15%	3.7	Travel, leisure & entertainment
<b>Domestic EU sub-total</b>	<b>27.9</b>	<b>(25.9)</b>	<b>2.0</b>	<b>53.8</b>	<b>64%</b>	<b>-17%</b>	<b>3.7</b>	
<b>Total</b>	<b>76.1</b>	<b>(56.6)</b>	<b>19.5</b>	<b>132.7</b>	<b>46%</b>	<b>-16%</b>	<b>2.8</b>	

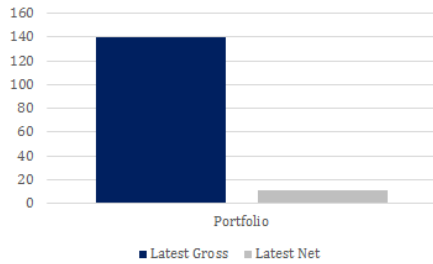
HEDGE FUND – KEY FIGURES END OF MONTH

Gross Trading Performance Lauro Opportunities EU Long/Short

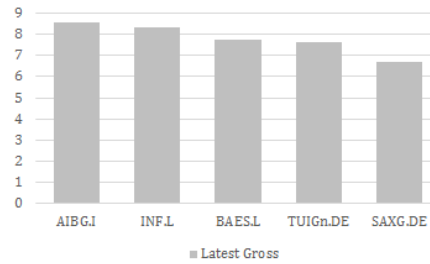
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	MSCI EU	
													Fund	Local
2016													1.2%	5.1%
2017	-1.4%	4.0%	1.1%	-2.1%	4.3%	-3.6%	2.4%	1.7%	-2.1%	1.6%	0.1%	5.7%	11.7%	10.0%
2018	2.9%	-2.2%	1.7%	4.0%	-0.6%	-1.9%	0.5%	-0.4%	3.9%	-5.1%	-3.7%	1.7%	0.1%	-13.1%
2019	0.7%	-3.7%	-1.0%	3.7%	-2.9%								-3.3%	8.6%
	Annualised Rate of Return												3.4%	3.3%
	Annualised Volatility												8.8%	10.5%

Note: Italicised numbers represent carve-out EU L/S performance from original fund. First month actual performance Apr 19

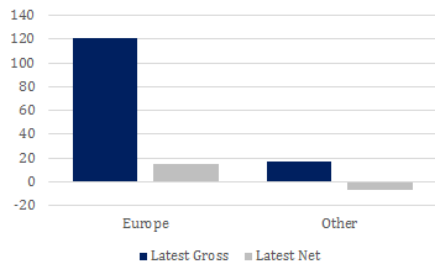
Gross vs. Net (%)



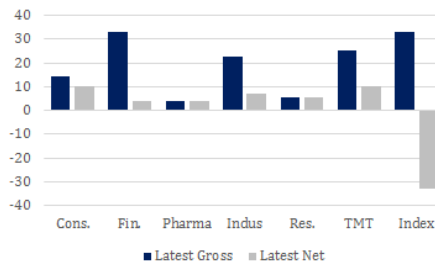
Top 5 Holdings (%)



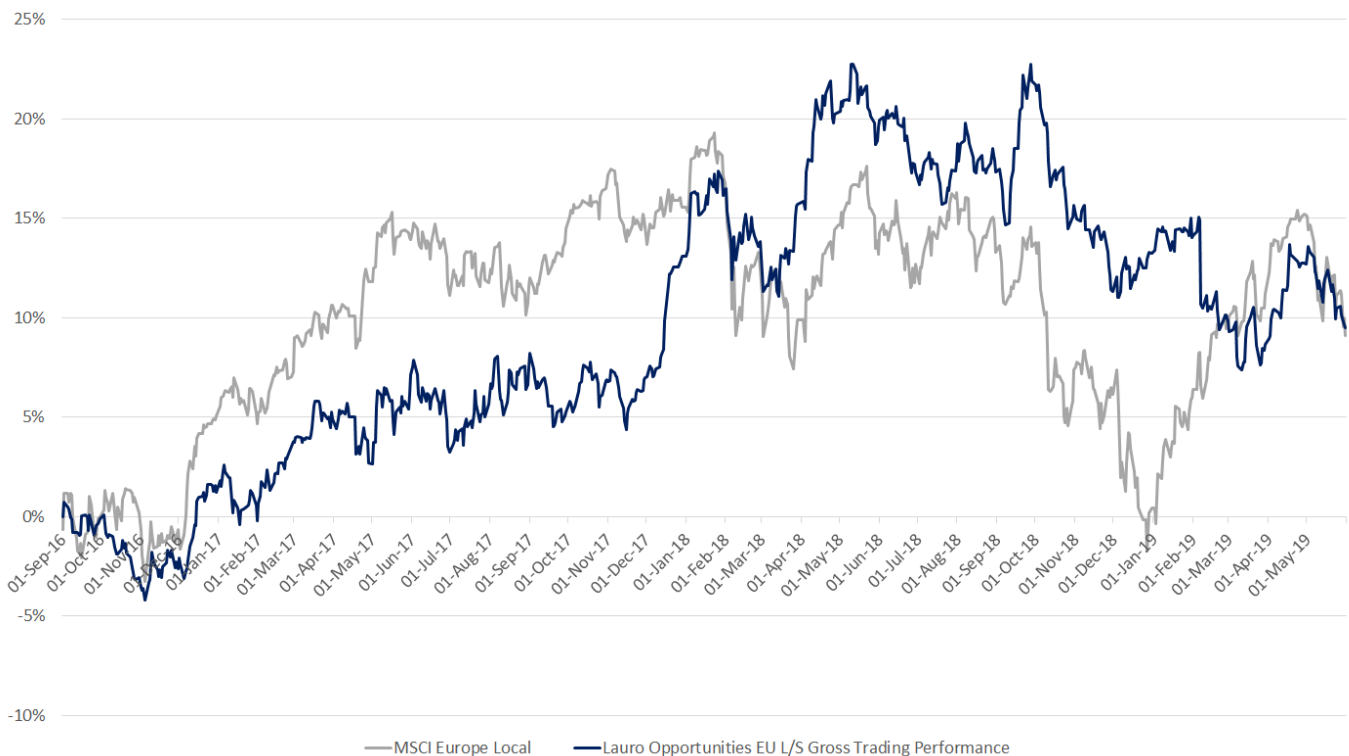
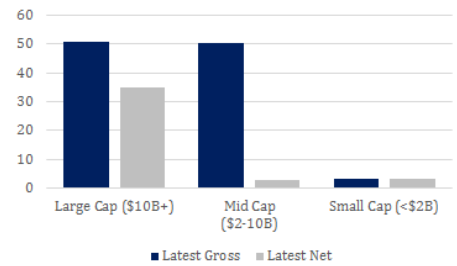
Geographical Exposure (%)



Industry Exposure (%)



Market Cap Exposure (%)

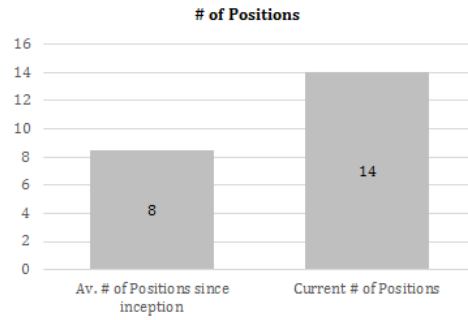
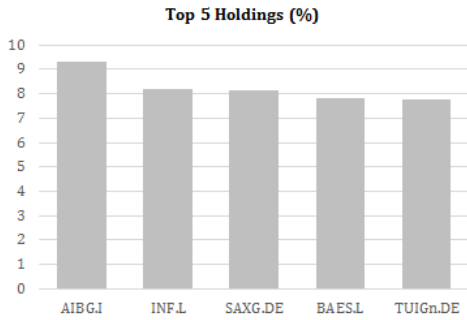


LONG ONLY – KEY FIGURES END OF MONTH

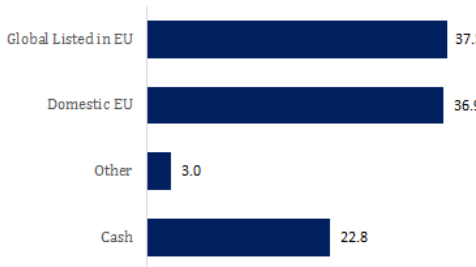
Gross Trading Performance Lauro Opportunities EU Long Only

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Fund	MSCI EU Local
2016									0.0%	-2.8%	0.0%	5.9%	3.0%	5.1%
2017	-0.9%	5.0%	1.7%	-1.9%	5.7%	-4.5%	2.8%	2.4%	-1.0%	1.9%	0.2%	7.7%	20.1%	10.0%
2018	1.8%	-3.3%	0.8%	7.2%	-2.2%	-0.2%	1.8%	-1.0%	2.7%	-9.4%	-7.3%	-1.9%	-11.6%	-13.1%
2019	5.9%	-1.9%	0.4%	5.3%	-5.8%								3.4%	8.6%
	<i>Annualised Rate of Return</i>												4.8%	3.3%
	<i>Annualised Volatility</i>												13.6%	10.5%

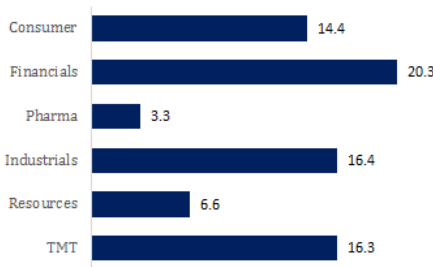
Note: Italicised numbers represent carve-out EU LO performance from original fund. First month actual performance Apr 19



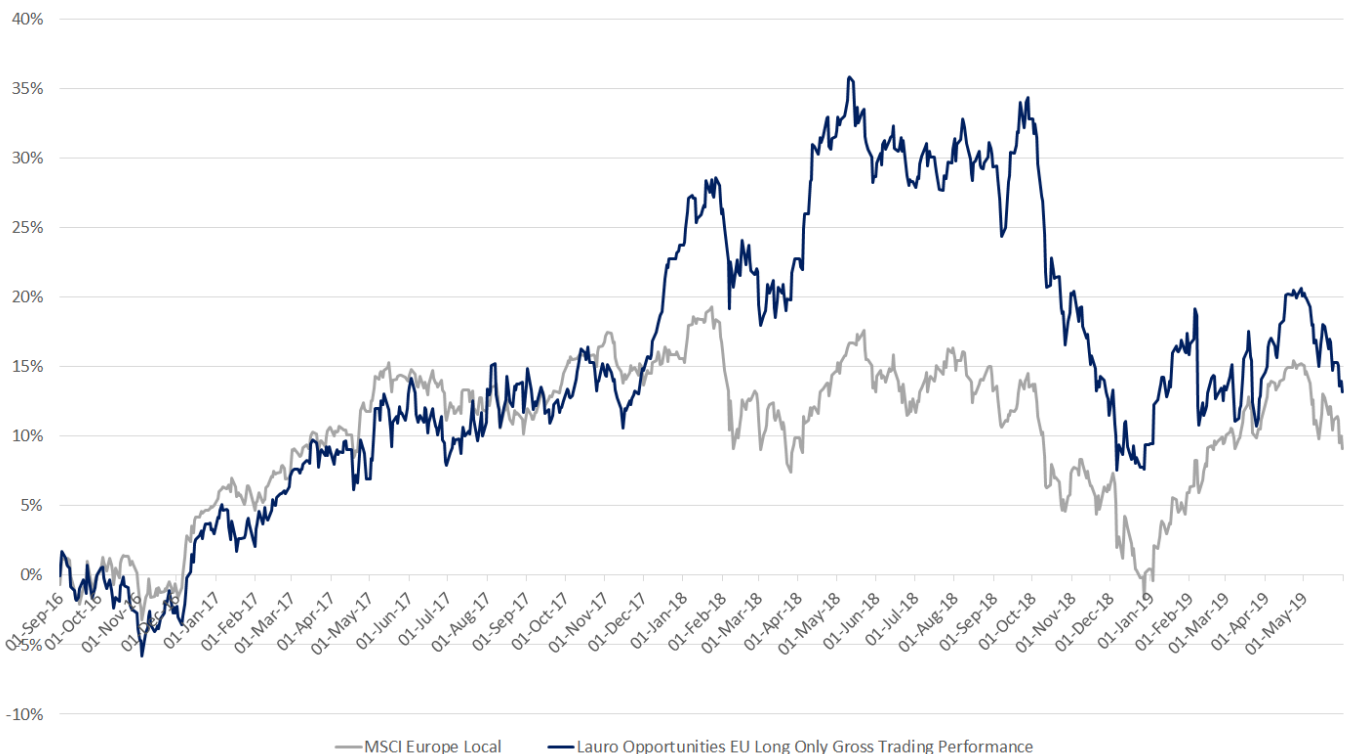
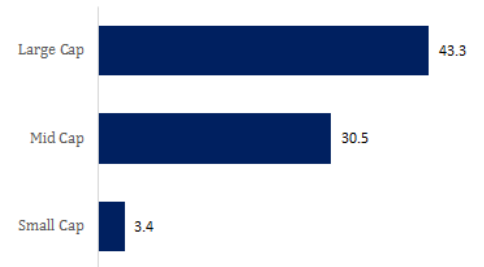
Geographical Exposure (%)



Industry Exposure (%)



Market Cap Exposure (%)



## FEE SCHEDULE

Long/Short	<\$100m AUMs: Founder's	>\$100m AUMs	
		1 year	1 quarter
Share Class	1 year	1 year	1 quarter
Minimum Investment	\$1,000,000	\$1,000,000	\$1,000,000
Management Fee	1.5% up to \$100m AUMs 1.25% \$100-200m AUMs 1% at \$200m+ AUMs	1.5%	1.75%
Incentive Fee	15%	15%	15%
Liquidity	Quarterly soft lock up with early penalty fee	Quarterly soft lock up with early penalty fee	Quarterly
Early Penalty Fee	Prorated amount of unpaid management fee	2%	n/a
Subscription Frequency	Monthly	Monthly	Monthly
Redemption Frequency	Monthly w/ 90 days notice	Monthly w/ 90 days notice	Monthly w/ 90 days notice
Capacity	Until AUMs reach \$100m	n/a	Maximum 25% of AUMs

Long Only	<\$200m: Founder's	>\$200m AUMs 1-Year	
		1 year	1 quarter
Share Class	1 year	1 year	1 quarter
Minimum Investment	\$5,000,000	\$5,000,000	\$5,000,000
Management Fee	0.75% up to \$200m AUMs 0.5% \$200-500m AUMs 0.25% at \$500m+ AUMs	1%	1.25%
Incentive Fee	15% above benchmark	15% above benchmark	15% above benchmark
Liquidity	Quarterly soft lock up with early penalty fee	Quarterly soft lock up with early penalty fee	Quarterly
Early Penalty Fee	Prorated amount of unpaid management fee	2%	n/a
Subscription Frequency	Monthly	Monthly	Monthly
Redemption Frequency	Monthly w/ 90 days notice	Monthly w/ 90 days notice	Monthly w/ 90 days notice
Capacity	Until AUMs reach \$200m	n/a	Maximum 25% of AUMs

**DISCLAIMER AND RISK WARNING**

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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