LAURO ASSET MANAGEMENT PTE LTD ("Lauro") Newsletter	May 2017

Month: +3.1% gross / +2.6% net

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

MONTHLY HIGHLIGHTS

May was a strong month for Lauro (+3.1% gross vs. +1.9% EAFE) with Europe the key driver of performance generating ~270bps of the ~310bps gross for the month. Three key stocks stood out: (a) GSK which benefitted from the failure of Advair generics to enter the market until at least 2018 leading to a 5-7% upgrade to earnings for 2017; (b) Tui saw some catch up from recent earnings upgrades & attractive valuation and (c) Atlantia which rebounded strongly after formally announcing a reasonably priced bid for Abertis (E16.5/share) given the quality of the assets targeted.

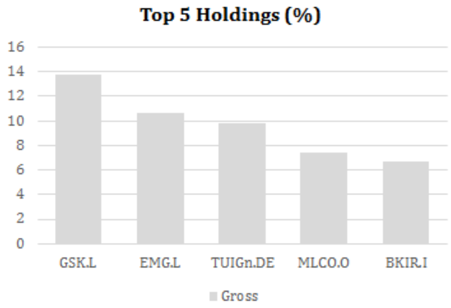
Where to from here for Equity markets? We remain in the Goldilocks camp, particularly for the US, for now. Overall global economic activity remains robust, delivering continued upgrade to earnings. However, shorter term data indicates moderating economic demand which has led to a repricing of future rate hikes by the Fed. Our balanced portfolio is well placed in this environment, benefiting both from earnings upgrades as well as valuation support from a falling back end of the yield curve.

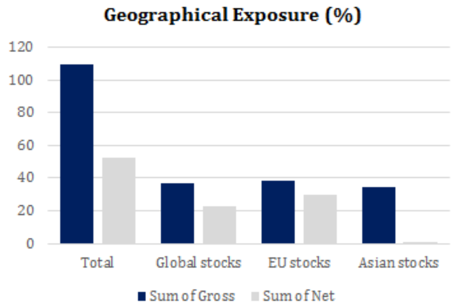
We continually ask ourselves "where is the bad behaviour" in reflecting on the unprecedented amount of stimulus/liquidity pumped into the global economy post the GFC. Over the past 20 years, we have witnessed 2 bubbles deflate – the dot.com boom and the GFC. In both instances, we could highlight a lot of poor behaviour both by consumers and corporates going into and during the crises. We witnessed significant flows into equities chasing the "paradigm shift" and valuation bubble in 1999/2000 and the theoretical release of productivity from financial engineering preceding the GFC. In both instances, free money led to recession as capital was allocated through the banking system at the wrong cost of capital. In both instances, the bubble was pricked by rising interest rates which slowed economic activity. And in both instances, we saw a significant unwind of this drive for higher returns out of equity (particularly during the GFC where $1 of equity was leveraged 5-10x). We reflect on liquidity and how it often acts as a weed, finding its way into areas which are unforeseen but creating significant damage overtime. Our simplistic view is **the bad behaviour this time around sits less with consumers and/or corporates but more with governments** which have seen their balance sheets bloat globally to reignite economic growth. Accordingly, our constructive view particularly around stock specifics reflects the fact that companies in particular have been more disciplined this time around. We do however contemplate the end of Goldilocks and what the impact from a concerted unwind of this unprecedented stimulus program would look like on the real economy and cost of capital. **A policy mistake remains the greatest risk to markets – something we are monitoring but not yet pricing.**

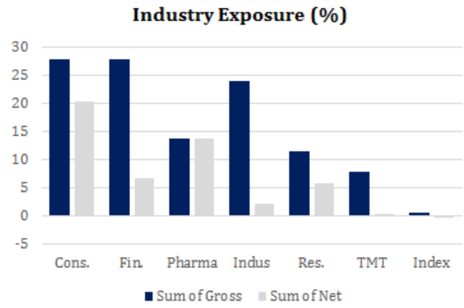
Trading in May moderated, reflecting a period of profit taking/trimming over the period. We also initiated on two new names through our usual 2-3% entry positions: Pandora, taking advantage of the significant sell down in the stock in a name whose fundamentals we like and Sandfire, a high quality Australian copper operator. More to come on these names as we build our positions.

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**
2017	+0.1	+2.7	+1.5	+0.4	+2.6								**+7.5**







Lauro Opportunities Key Figures

	Net Performance (%)				Ann. Vol. (%)	Sharpe Ratio	Av. Net Since Inception (%)	Av. Gross Since Inception (%)	Max. Monthly Drawdown (%)	% Positive Months
	MTD	YTD	2016	Inception to Date						
Lauro 1-Year Share Class	+2.9	+8.2	-6.3	+1.3	5.8	0.5	33	111	-3.4	53
Lauro 3-Year Share Class	+2.6	+7.5	+0.8	+8.3	5.5	2.6	37	116	-2.3	89

Note: For 1-year share class, performance is calculated as gross performance less management fee less normalised costs up until injection of assets at end of Aug '16

Note: 3-year share class inception Sep '16

3-Year Share Class	Target	Since Inception (Sep '16)	At End of May '17	Comments
• **# of stocks**	**20-30**	**21**	**21**	**Concentrated Portfolio**
• **Long Positions**	**10-20**	**13**	**12**	
Median Holding Period	18-24 months	9 months		Work in progress
Average Sizing	4-8%	6% / top long 14%	6% / top long 14%	Top 10 positions: 91% of Long book
• **Short Positions**	**5-15**	**8**	**9**	
Median Holding Period	6-9 months	8 months		
Average Sizing	3-6%	4% / top short 8%	4% / top short 4%	Alpha shorts, limited use of indices
Gross Exposure	**120% - 150%**	**116%**	**113%**	Gross & net exposures are "typical" ranges
Net Exposure	**20% - 50%**	**37%**	**49%**	
Volatility	**>10%**	**6%**	**8%**	
Region				**Global but predominantly Europe & Asia**

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