Month: -2.0% gross / -2.1% net **Total AUMs: US$54m**

Lauro is a Global Long/Short Equity Fund managing a long-term concentrated portfolio of 20-30 holdings focused on EU & Asia ex Japan. 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

MONTHLY HIGHLIGHTS

July returned a disappointing –2.1% net vs. +3.0% MSCI EAFE ex Japan Local index. China continued to suffer (-3.1% in July after -5.6% in June), reflecting both a moderation in growth and the deteriorating rhetoric around the Trade War with the US. Conversely, Europe recovered over the month (+3.2%), thanks to improving economic data and some softening in the Trade War rhetoric with the US.

Key contributors/detractors. On the positive side, our short book provided some relief, with (a) our South Korean cosmetic short reporting poor Q2 results (-17% on the month); (b) our recently initiated short in Australian copper down ~20% as it downgraded 2019 production and earnings guidance and finally (c) our UK property platform short down ~10% on the back of high expectations heading into Q2 results. Overall, we had a good reporting season in July with GSK releasing better than expected results and upgrading guidance for the full year (+3%) and the Irish banks recovering post strong results (combined +6%).

Despite the above, several external stock specific issues hurt us leading to the underperformance:

(a) Brilliance Long – Discussions at the country- (Germany/China) and company-level (BMW/Brilliance) about the ownership of the JV led the stock to collapse ~28% over the month in the absence of any details. The market priced in the worst-case scenario (ownership reduced from 50% to 25% at a depressed price), costing us 160bps. However, noises suggest the company will not do anything to destroy shareholder value and any deal will need to pass shareholder approval anyway, suggesting cautious optimism of a reversal & a risk/reward firmly skewed to the upside. This is further supported by fundamentals with BMW results indicating Brilliance earnings beating market expectations by 7%. We remain committed to the position and await greater clarity around the ownership expected around H1 results at the end of August

(b) Yum! China Short – Up until July 25th, YUMC was down ~16% on the month, providing some well needed protection on our China book … that's when the rumour of Hillhouse Capital taking the company private started, pushing the stock up ~15% in the following two days. Despite the difficult trading conditions and our analysis of a further deteriorating LFL for both KFC and Pizza Hut, (confirmed with Q2 results), the risk of a takeout outweighs our fundamental view. We closed the short with a profit, albeit a much smaller one than expected

(c) World Cup effect on Macau – Melco lost ~8% over the month with the second half of the Football World Cup leading to weak July Gross Gaming Revenues and broad weakness in the sector. We came back from our trip to Macau in July positive about Morpheus' (Melco's newly launched property) ability to take share and confident in our bull case

On the trading front, we took advantage of the current weakness to increase our positions in Tui Group, Melco Entertainments, Man Group, Amer Sports, LVMH and Robam. We initiated a new position in Italian bank Mediobanca following the recent underperformance. We covered some of our shorts – either reflecting a change in our investment case (Yum! China, CYBG, PanAlpina) or moving closer to our price target (South Korea cosmetics). We added to shorts where our investment case was confirmed post poor results (Aus copper, Aus asset manager, EU media and China Auto). Finally, we initiated a new short in a EU airline.

Rather than going through our usual in-depth stock review this month, we thought it would useful to provide an update on our current market view in light of the recent underperformance of the fund particularly over the past 2 months:

In December we wrote the following: "Overall, we continue to be constructive heading into 2018 but keep contemplating 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. (…) If the markets were to roll over because of inflation/tightening fears, we would fare better than our net given quite a few of our positions are reflationary (Financials, Commodities) (…) If the markets were to roll over because cyclicals were to roll over, we would probably fall in line with our net. (…) With tightening happening in China, we are careful on momentum stocks and are managing that "momentum" bucket very carefully, making sure we understand the intended & unintended risks we are taking."

What has worked and not worked over the period?

(a) Our broad synopsis remains intact – Overall global markets and the US in particular remain constructive reflecting the accelerating economic growth out of the US, moderating growth in Europe and slowing growth in emerging markets

(b) What we got wrong was how serious Trump was about bringing back home a greater share of the global economic pie through the Trade War and other pressures. This has implications for investment flows beyond the short term and is now reflected in our portfolio. There were instances such as Brilliance outlined above which hit the portfolio as a direct consequence of this policy (despite the Auto risk being hedged)

(c) At the end of June, the market jumped ahead of the likely inflationary implications of the Trade War and tightening labour capacity and went almost directly to a recessionary playbook reflected with the flattening of the yield curve. Perversely this has lowered interest rates (particularly for mortgages in the US) to below where they would ordinary be at this point in the cycle, adding stimulus to an already vibrant US consumer. The main impact of a resurgent US economy has been a strong USD at the expense of flows outside the US and particularly into emerging markets. It has also meant that Financials, which should have done well in this environment, haven't moved yet as much as expected, which hopefully is only a question of time

(d) We started the year reflecting on China's tightening of liquidity and what it would mean for growth as the year progressed and have had limited overall net exposure to Asia as a result. What we underestimated was our underlying China risk against the pace of the China slowdown, which took us by surprise (particularly FAI and certain sectors around the consumer, like Autos). It is now reflected in the portfolio through more direct China protection. Although we now see value appearing with the market starting to price in tighter economic conditions in certain industries – which we think are unlikely – we remain concerned at least in the short term that the Trade War is going to get worse before it gets better. We currently have a net neutral Asian exposure

What does it all mean for the portfolio?

As the portfolio stands & continuously shocking it against unintended risks, we see a limited impact to our core positions. On the long side we are buying stocks at a clear discount to their intrinsic value, particularly as we actively pursue companies with either pricing power/market share gains or better costs/allocation of capital skills. We are however finding more shorts which have either extended themselves too far, are trading at unsustainably high margins for this point of the cycle whilst the market is pricing this growth at the wrong cost of capital.

Part of having a highly concentrated bottom-up stock picking strategy is having months like July where external/outside factors disproportionately hit the portfolio and for as long as the fundamentals/facts don't change, our process dictates to be patient and take advantage of dislocations. The recent earnings results have confirmed our conviction both on the long and short side of the portfolio.

In fact, the asymmetry in the portfolio reached its highest since inception at the end of the month (close to 4:1 vs. our threshold 2:1 between our base case & downside case), leading us to add to positions (gross now back at 130%) without taking on incremental risk (net @ ~20%) and being confident to get paid in the medium term.

KEY FIGURES END OF MONTH

Lauro Opportunities Key Figures

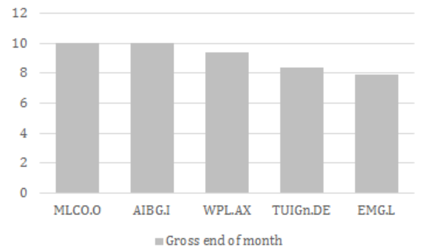
	Net Performance					Ann. Vol. Since Inception	Sharpe Ratio Since Inception	Av. Net Since Inception	Av. Gross Since Inception	Maximum Monthly Drawdown	% Positive Months
	MTD	2018 YTD	2018 Annualised	2017A	Inception to Date						
Lauro 1-Year Share Class	-2.1%	-4.0%	-6.9%	12.0%	-0.9%	6.7%	0.3	37%	119%	-3.6%	52%
Lauro 3-Year Share Class	-2.1%	-4.0%	-6.9%	11.5%	7.9%	6.8%	0.9	39%	123%	-2.5%	65%

Note: Soft launch with friends & family money Jan-Aug '16 for 1-year share class. Official launch with inception of 3-year share class through injection of Tier 1 Institutional assets in Sep '16

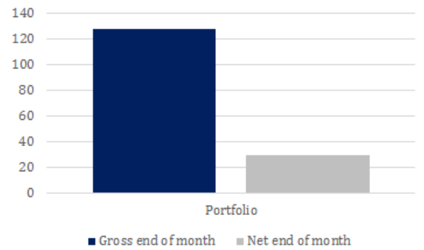
YTD Net Performance 3-year Share Class (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2016									0.0%	-2.3%	1.5%	1.7%	**0.8%**
2017	0.1%	2.6%	1.5%	0.4%	2.7%	-2.5%	0.4%	0.3%	-0.4%	0.8%	0.4%	4.9%	**11.5%**
2018	1.5%	-1.1%	-0.3%	0.2%	-0.3%	-2.0%	-2.1%						**-4.0%**

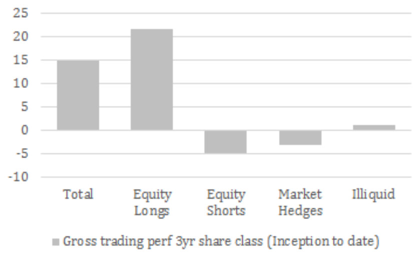
Top 5 Holdings (%)



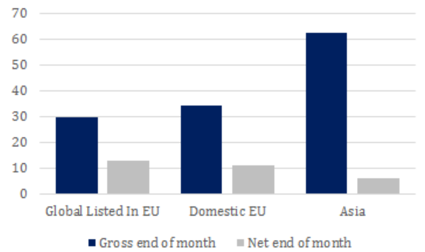
Gross vs. Net (%)



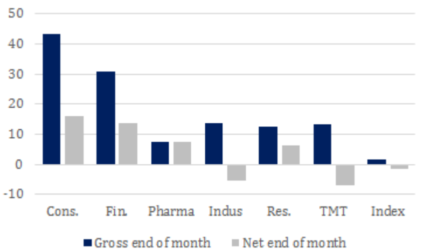
Performance Contribution (%)



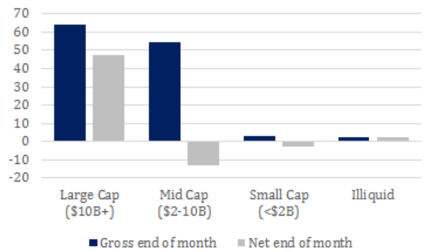
Geographical Exposure (%)



Industry Exposure (%)

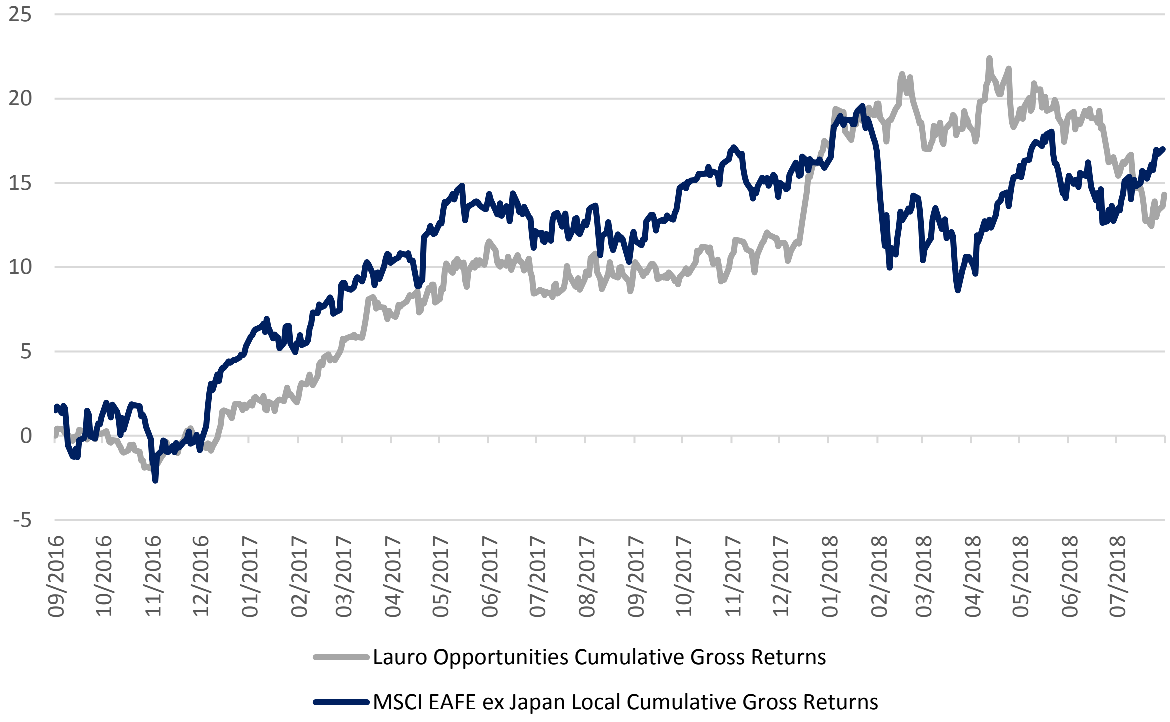


Market Cap Exposure (%)



3-Year Share Class	Target	Since Inception (Sep '16)	At End of Jul '18	Comments
• **# of stocks**	**20-30**	**24**	**26**	Concentrated Portfolio
• **Long Positions**	**10-20**	**14**	**15**	
Median Holding Period	24 months+	17 months		Work in progress
Average Sizing	4-8%	6% / top long 14%	5% / top long 10%	Top 10 positions: ~90% of Long book
• **Short Positions**	**5-15**	**10**	**11**	
Median Holding Period	9-12 months	8 months		
Average Sizing	3-6%	4% / top short 8%	3% / top short 7%	Alpha shorts, limited use of market hedges
Gross Exposure	**120% - 150%**	**123%**	**128%**	Gross & net exposures are “typical” ranges
Net Exposure	**20% - 50%**	**39%**	**30%**	
Volatility	**>10%**	**7%**	**8%**	Volatility not a target but expected output
Illiquids	**Up to 20%**	**2%**	**3%**	First illiquid investment in Jun '17. Investors can opt in or out
Region				Predominantly Europe & Asia

GROSS TRADING PERFORMANCE VS. INDEX



FEE SCHEDULE

Share Class	Founder's	A-Share	B-Share
Initial Lock Up Period	1 year	3 years	1 year
Minimum Investment	$500,000	$500,000	$500,000
Management Fee	1.5% up to $100m AUMs 1.25% $100-200m AUMs 1% at $200m+ AUMs	1.5%	1.75%
Incentive Fee	15%	10%	15%
Liquidity	Quarterly soft lock up with early withdrawal fee	Hard lock up	Hard lock up
Early Withdrawal Fee	Prorated amount of unpaid management fee	n/a	n/a
Redemption Notice Period	90 days	180 days	90 days
Capacity	Available for US$30m of AUMs	n/a	n/a
Illiquids	Up to 20% of AUMs. Elective participation at subscription	Up to 20% of AUMs. Elective participation at subscription	Up to 20% of AUMs. Elective participation at subscription

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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