

Month: +2.8% gross / +2.6% net

Total AUMs: US\$51m

**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**

## MONTHLY HIGHLIGHTS

**July saw the fund finishing +2.6% on a net basis vs. +0.6% for the MSCI Europe Local index.** Bad news became good news with general economic weakness met with both speculated and actual rate cuts across the globe, leading to continued market support. In Europe, all things Brexit continued to dominate the agenda with the Tories electing Boris Johnson as their new Prime Minister. A hardening in rhetoric around a “no deal” Brexit for Oct 31<sup>st</sup> was quick to follow and the markets started to discount that scenario with Cable falling 4% over the month and defensive exporters outperforming UK domestic plays. In Europe, the continued economic slowdown from the trade war and Brexit led Mario Draghi to tell the market to not only expect rate cuts (from -40bps!) but also a reinstatement of QE... Extraordinary times.

**Key contributors/detractors:** July was the kind of month fundamental investors such as Lauro long for with H1 earnings season mostly validating our investment theses both on the long- and short sides. On the positive front, long positions in BAE Systems, Man Group, Ströer & Informa all exceeded expectations when reporting, leading to broad share price strength (~250bps gain overall). Tui also contributed 50bps on the back of the near collapse of key competitor Thomas Cook (stock down 60% over the month). On the short side, our German Leasing company short issued a profit warning, stock down 18%. Sadly, poor results from Allied Irish detracted from what was looking to be an exemplary earnings season with higher than expected risk weighted asset and cost inflation leading to a 14% fall in the share price (costing 120bps of performance). We are reviewing the position particularly post recent meetings with the CEO where cost control was a key component to the investment case. Cairn Homes also cost 30bps as the CFO abruptly resigned after 18 months in the role, indicating some friction at the management level.

**On the trading front,** we initiated 2 positions in Vinci (French Infrastructure) and AB Inbev (Global Brewer). We swapped some Cairn Homes into AIBG post CFO resignation and increased our German Leasing Company short both prior and post the profit downgrade. Finally, we added to our cyclical hedges reflecting our growing concern around the ongoing economic & manufacturing deceleration.

**Portfolio positioning – Moving to neutral.** As we analyse the latest developments in markets, the increasing economic and geopolitical volatility pushes us to the lowest net (broadly neutral) we have had since inception:

- **Political events intensifying:** Continued deterioration in the trade war between the US and China, Brexit and increasing likelihood of “no deal”, HK protests, India and Pakistan souring relations over Kashmir, Italian elections, trade dispute between Japan and South Korea, currency depreciation in Argentina;
- **Global economic activity deteriorating:** PMIs globally are continuing to weaken with large economies falling into negative growth territory. Europe isn't spared as a collateral victim of the US-China trade war & first to suffer from the crisis of confidence coming from a potential hard Brexit;

With this political and economic overhang, we sense a clear moderation in the appetite of Boards to extend their capital investment programs. At the country level, we see little or no clear agenda for micro-economic reform but rather an ever-increasing reliance on monetary policy to solve the ills of the past, in particular deflation. Furthermore, the bet (intended or unintended) globally has been that the consumer/services sector would continue



to grind out growth and save the day. The risk of exhaustion from such a lopsided economic model without real reform is high & the risk/reward skewed to the downside as a result.

We believe there will be a lot of noise for the rest of the year and into the 2020 Presidential year and as such **have moderated the risk in the portfolio to net neutral:**

European L/S as of Aug 19th	Long	Short	Net %	Gross %	Target	Downside	Asymmetry
Global Telcos	-	(3.2)	(3.2)	3.2	-10%	18%	0.6
Global Commodities	3.9	(2.6)	1.3	6.5	41%	-12%	3.5
Global Financials	9.7	(7.4)	2.3	17.1	37%	-10%	3.8
Global Consumer	6.7	(4.6)	2.1	11.3	32%	-18%	1.8
Global Healthcare	1.9	-	1.9	1.9	3%	-13%	0.2
Global Industrials	15.4	(8.1)	7.3	23.5	16%	-13%	1.2
Global Business Services	2.5	(7.4)	(4.9)	9.9	38%	-18%	2.1
Global Media	6.2	(6.9)	(0.7)	13.1	10%	-12%	0.8
<b>Global EU sub-total</b>	<b>46.3</b>	<b>(40.2)</b>	<b>6.1</b>	<b>86.5</b>	<b>33%</b>	<b>-18%</b>	<b>1.8</b>
Europe Financials	8.0	(9.9)	(1.9)	17.9	51%	-16%	3.2
Europe Travel	7.1	(12.6)	(5.5)	19.7	43%	-8%	5.6
Europe TMT	8.5	(6.6)	1.9	15.1	26%	-11%	2.4
<b>Domestic EU sub-total</b>	<b>23.6</b>	<b>(29.1)</b>	<b>(5.5)</b>	<b>52.7</b>	<b>54%</b>	<b>-17%</b>	<b>3.3</b>
<b>Total</b>	<b>69.9</b>	<b>(69.3)</b>	<b>0.6</b>	<b>139.2</b>	<b>41%</b>	<b>-17%</b>	<b>2.4</b>

We exit Q2 with a **strong and well diversified portfolio of idiosyncratic investments** offering unique earning and cashflow generation profiles and **stand ready with our reserve list to take advantage of any sustained sell-off** in several stock specific opportunities.

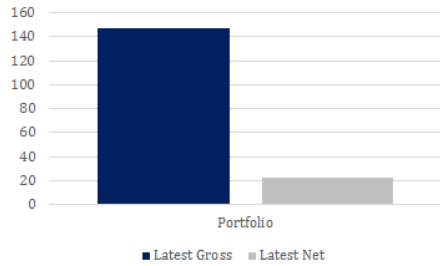
HEDGE FUND – KEY FIGURES END OF MONTH

Gross Trading Performance Lauro Opportunities EU Long/Short

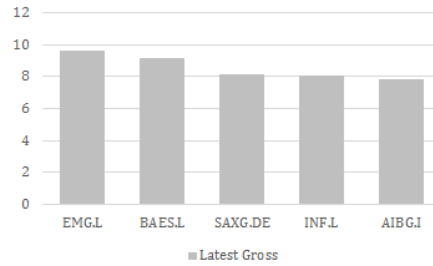
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Fund	MSCI EU Local
2016													1.2%	5.1%
2017	-1.4%	4.0%	1.1%	-2.1%	4.3%	-3.6%	2.4%	1.7%	-0.1%	-2.9%	0.4%	4.0%	11.7%	10.0%
2018	2.9%	-2.2%	1.7%	4.0%	-0.6%	-1.9%	0.5%	-0.4%	3.9%	-5.1%	-3.7%	1.7%	0.1%	-13.1%
2019	0.7%	-3.7%	-1.0%	3.7%	-2.9%	2.7%	2.8%						2.1%	14.2%
	<i>Annualised Rate of Return</i>												5.3%	5.0%
	<i>Annualised Volatility</i>												8.7%	10.4%

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

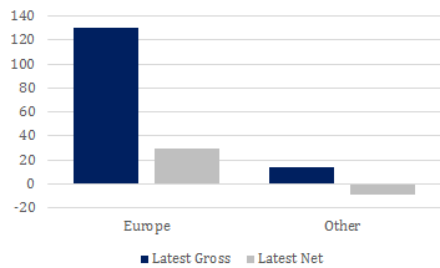
Gross vs. Net (%)



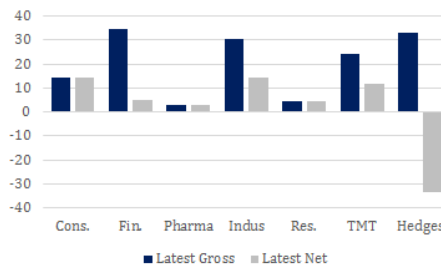
Top 5 Holdings (%)



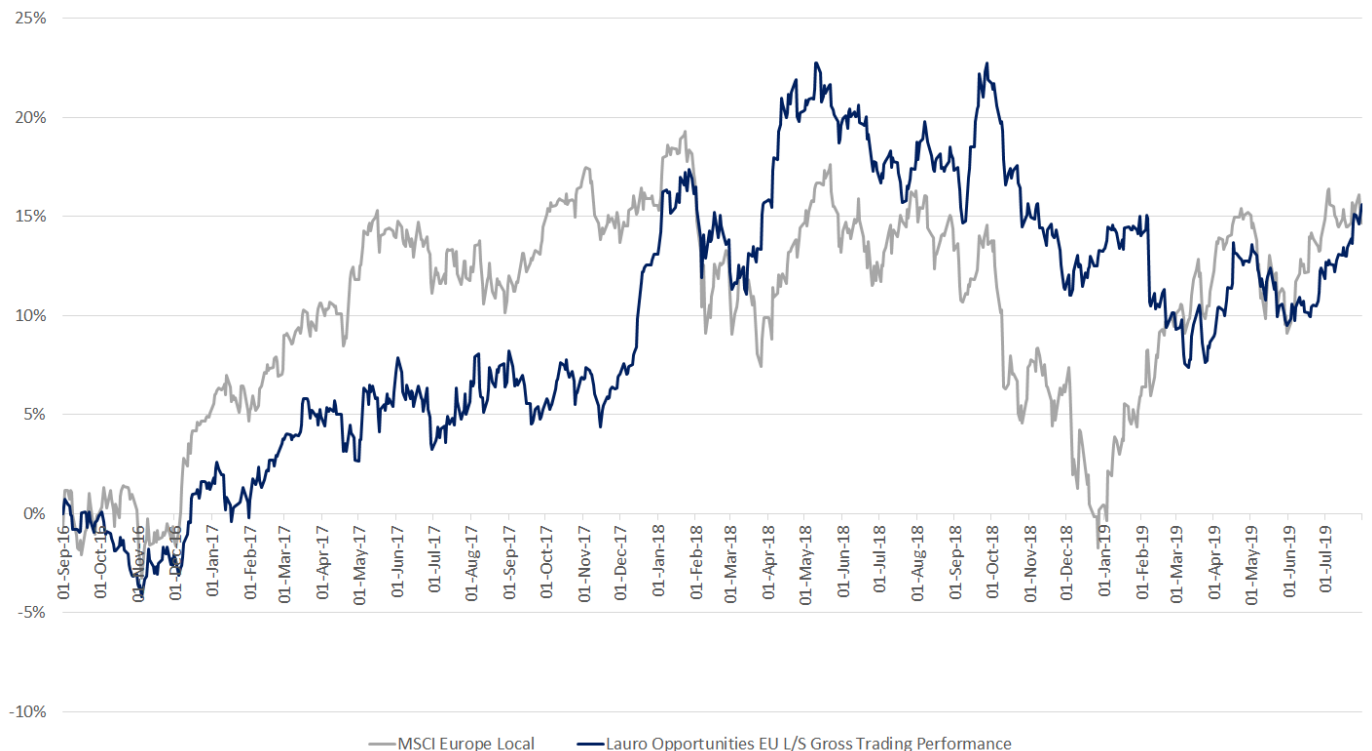
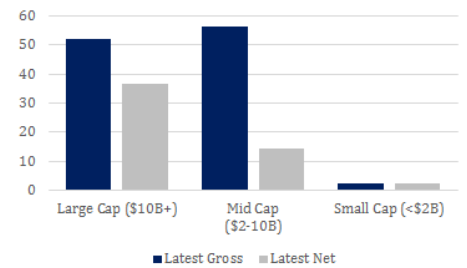
Geographical Exposure (%)



Industry Exposure (%)



Market Cap Exposure (%)

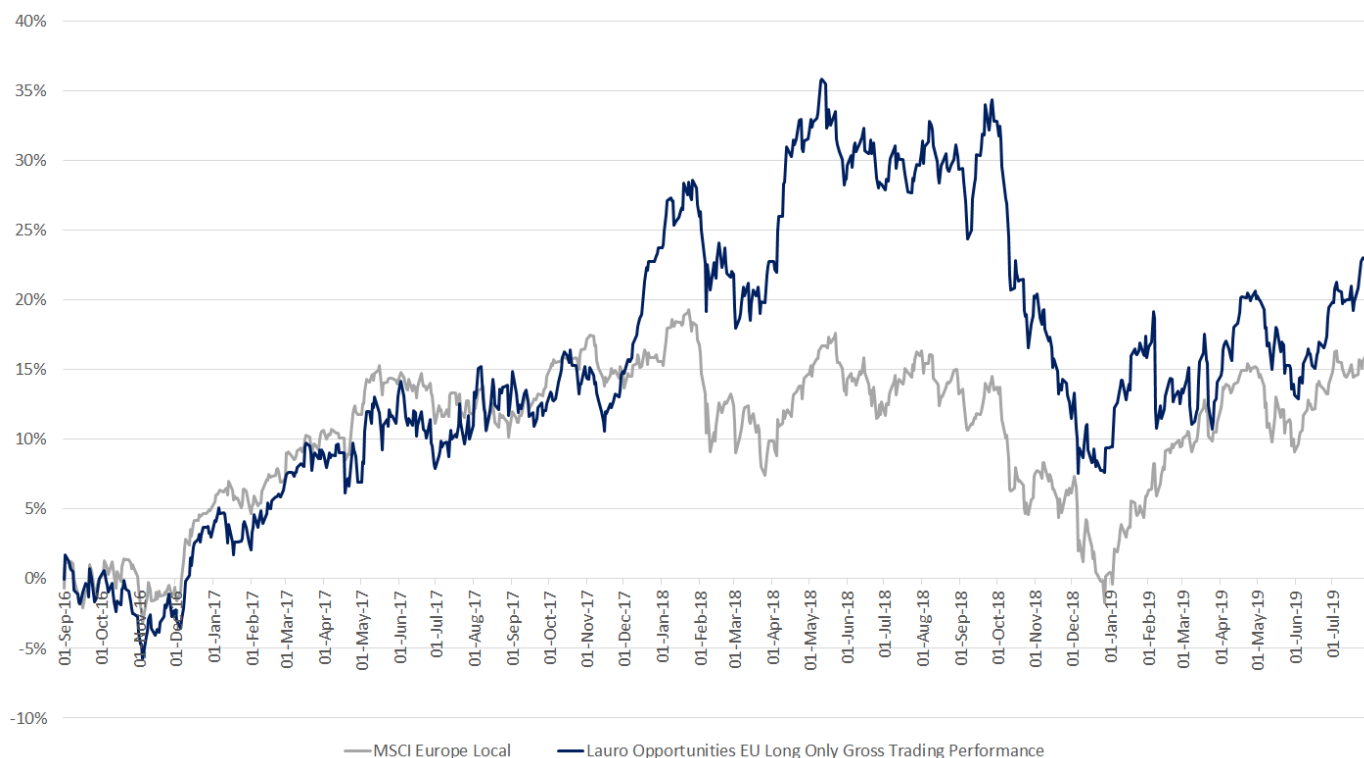
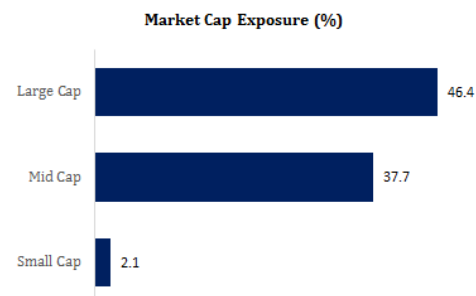
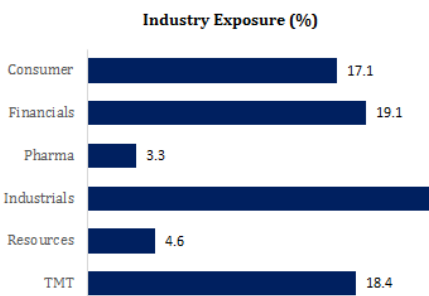
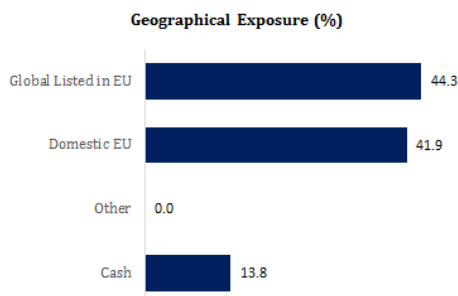
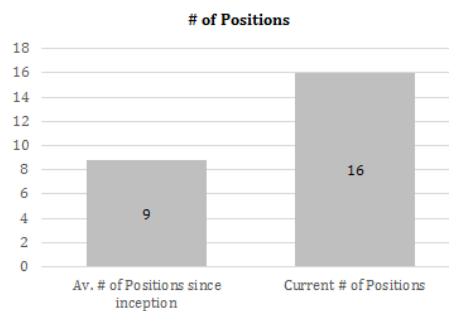
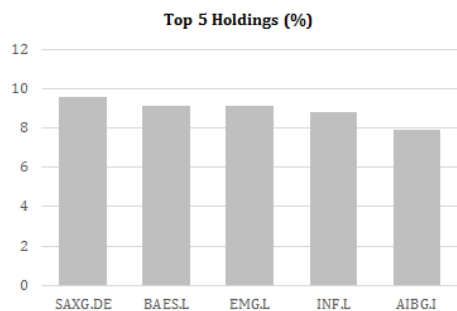


LONG ONLY – KEY FIGURES END OF MONTH

Gross Trading Performance Lauro Opportunities EU Long Only

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	MSCI EU	
													Fund	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%	5.6%	1.6%						10.9%	14.2%
	Annualised Rate of Return												7.3%	5.0%
	Annualised Volatility												13.4%	10.4%

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



## FEE SCHEDULE

Long/Short	<\$100m AUMs: Founder's	>\$100m AUMs	
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	
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

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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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