

June 30, 2018

Griffin Value Fund:
First Quarter 2018 Letter to our Investment Partners,

For the quarter ended March 31, 2018, the fund's net asset value decreased by 1.50% after fees. Since inception in October 2011, the annualised gross return was 10.85% and the estimated annualised gross return on our equity investments was 19.77%¹. Please refer to your statements for individual performances based on the timing of your investment.

The fund was 59% invested at the end of the quarter.

Performance Q1 2018

NAV: 12160.74

2011*	2012	2013	2014	2015	2016**	2017	2018 YTD
1.60%	6.13%	9.04%	9.30%	15.32%	13.39%	12.66%	-1.50%

* Gross Performance since inception Oct 2011 through Dec 2015 (A Shares)

** Net performance as of 2016 (B Initial Shares)

Portfolio Composition

Number of investments: 12

Invested (long): 58.81%

Our activity in the first quarter was centred around finalising our due diligence on two companies we identified towards the end of 2017. After we convinced ourselves of the quality and the attractive valuation of both companies, our fund invested a combined 8% of the capital. Because of our global approach and flexible mandate, we invest our capital as generalists, but in specialist companies. We find these *hidden champions* in all corners of the world and in the most diverse industries. Yet seemingly very different on the outside, they share many traits we look for once we analyse their path to success. Our two latest additions to the portfolio fit the profile of hidden champions well; one is a supplier in the niche industry of assisted fertility (IVF), the other one is the market leader of water-boilers in Taiwan. In this letter, we are going to share our thinking behind the investment cases for both companies.

Hamilton Thorne Ltd

U.S.-based Hamilton Thorne Ltd (HTL) is listed on the TSX Venture Exchange in Calgary, a submarket of the mainboard in Toronto. HTL is a C\$100m company that supplies equipment, software and disposables to In Vitro Fertilisation Labs (IVF), a \$1b niche market segment inside the \$15b global fertility industry. There are about 4500 fertility labs globally and you will usually find them based within

¹ Estimate calculated by dividing the annualised return of A-shares by the average of invested capital as a % of AUM, at the end of each month. The difference between the fund's overall returns and the total returns on equity investments is explained by keeping large cash positions over the years. The fund gradually invested the cash since inception and did not compromise on the investment criteria for the sole purpose of being fully invested at all times.

a larger clinic or hospital. The fertility market is interesting to us because it exhibits characteristics of a high-quality industry, combined with long-term demographic growth potential. As the maternal age has increased over the last decennia, it is estimated that one in six couples in the developed world now face fertility issues. Society has followed this phenomenon by making assisted fertility more affordable for couples who have issues conceiving naturally. A similar trend of delayed childbirth can be witnessed in the developing world where an emerging middle class is also increasingly relying on assisted reproductive technology (ART) to fulfil their wish for children. This results in mid-to-high single-digit growth in the developed world and low double-digit growth in the developing world. The industry is still fragmented but now starting to consolidate. The clinics consolidate to create a better and more varied offering to customers, achieve scale in marketing and increased purchasing power towards their suppliers. On the other side, suppliers like HTL are facing more regulation and increased demands on the medical standards of their product offerings, which is leading to higher development costs that are better shouldered by larger organisations. The upside from this consolidation is that the barriers to entry in this industry are rising and work as a deterrent to potential competitors from entering into this niche market. There are about 180 companies active in HTL's market and the top five companies, including HTL in position five, have about 40% market share. Our interest in HTL comes after a set of recent acquisitions. At its core, HTL was a specialist in precision laser systems and sperm analysis equipment. In September 2016, they made the first of two transforming acquisitions by buying US-based Embryotech Labs, a provider of medical device toxicology testing services for less than 5x EBITDA. This business has low capital requirements and very sticky customers. Then, in the spring of 2017, they made a second acquisition to enlarge the IVF portfolio by purchasing Gynemed GmbH. A German company that manufactures and distributes consumables for the IVF labs, most importantly the cell culture media. Cell culture media is the actual substance in which the IVF cell growth process is performed. Gynemed is known in the industry for producing the best cell culture with a shelf life double that of the competition. Gynemed supplies 98,5% of all fertility labs in Germany, Switzerland and Austria. This is also a low capex, high margin business (+75% gross) and has very loyal customers. IVF labs that use cell culture media in their certified processes rarely switch suppliers because this requires the whole process to be re-certified. HTL bought Gynemed GmbH for just 6.5x EBITDA. Incorporating both these companies' activities into HTL has made the overall business more diversified and reduced its risk profile. This certainly helped to better fit our tolerance for risk in the investment portfolio. HTL's market is expected to grow at 5-10% for the reasons we described above. Replacing distributors with more focused internal salespeople, the introduction of new products, cross-selling opportunities from the acquired businesses and gaining market-share from smaller and less competitive companies should allow HTL to grow organically at 10% or more for many years to come. Today, the company is investing in an expanded salesforce that will probably show no immediate improvement on profit margins, but over the medium-term, scale advantages should allow operating margins to increase. The large number of sub-scale companies will create a better opportunity set for HTL to add more value-enhancing acquisitions. We estimate that we bought into the new HTL at 12x forward EBITDA. To put this into perspective, the only other listed IVF specialist and market-leader with 12% market-share, is a Swedish company called Vitrolife AB. They are much larger and have a riskier, more concentrated portfolio of products than HTL. Vitrolife trades on the Nasdaq Stockholm for 32x EBITDA.

Taiwan Sakura Corporation

Our second investment takes us back to Taiwan. GVF already owns a share in Golden Friends Corporation (elevators, see GVF letter 8). As we are writing this letter, we are putting the finishing touches on a planned trip to Taiwan over the summer months. Our screening and follow-on research has been a bit of an eye-opener during the second quarter of this year. Indeed, in a world of few and far between opportunities, we have found a handful of companies in Taiwan that could fit our criteria. So far, our calls with these companies displayed transparency, good corporate governance, strong business models that are of interest to us, with predictable future cash flows and valuations that are not too far out of reach. Taiwan Sakura Corp (SAK) is an example of such a company that developed

a strong local brand with an extensive distribution network and superior service capabilities. By the time the western brands were starting to look for growth outside the developed markets, SAK was already well entrenched with a commanding market share in Taiwan. SAK is a local business with a 60% market share in warm water boilers and a 40% market share in kitchen appliances, primarily gas stoves and range hoods. An excellent aftersales service in every corner of the country, not by the distributor or the shop, but by SAK itself makes this an uphill task for competitors to enter the market. We also made a few market observations that were remarkable. Because it is relatively warm throughout the year there is no need for central heating in Taiwan, meaning the warm water boilers are just supplying kitchens and bathrooms as opposed to the models we are used to that combine warm water + heating. This allowed SAK to further differentiate and improve their product to the market's requirements from day one. Another interesting fact was that the replacement cycle of kitchen equipment, for example for gas stoves, is 5-7 years. Considering we think of our kitchen equipment to last decades rather than years, this shorter cycle gives SAK an extra tailwind for recurring sales to existing customers. Currently, SAK is going through an upgrade cycle in terms of technology and looks. They brand it European-Style, akin to the ranges we purchase in the Western world. The customers are also buying into the new digital products, paying 2-3x the price of the original analogue models. The new models have differentiating looks and benefit from upgraded technology. The new versions produce better yields, more flexibility for the user (e.g. remote access) and are environmentally friendly. SAK is outsourcing most of their production but cunningly manufactures the critical components in-house. We credit this transformation and follow-on success to the current leadership of the company, when in 2014, grandson of the founder, Chang Yung-Chieh, took over control after 20 years of service with the company. However, when we asked the company's investor relations, they were more inclined to downplay it as a long-term strategy that is starting to pay off, we guess out of respect for prior management. What made it possible for us to become shareholders of this fantastic business was a dip in sales in 2016 in the midst of the product upgrade followed by a correction in the share price. More recently SAK displayed good capital allocation when they bought back their undervalued shares. Sales have also started to expand again, with the new equipment commanding higher unit prices and higher margins (40% vs 27%). Growing sales at higher margins in a commanding market position is what will solidify SAK in its domestic market. But with this success also comes ambition to grow internationally. More specifically in China, where SAK created a large joint-venture, now part-owned with Noritz, the Japanese leader in water heaters. Unlike in Taiwan, profitability is under pressure in China and we need to be watchful on how SAK is going to handle their capital allocation going forward. Net of excess cash we purchased Taiwan Sakura Corp for 11x after-tax earnings.

For the quarter ended March 31, 2018, the fund had 12 listed equity positions. The five largest positions in the fund represented 35.73% of assets under management.

Summary of the five largest positions of the fund:

Boustead Singapore Ltd: This Singapore-based company is a conglomerate of three quality businesses, which are fundamentally different from each other. The underlying divisions simultaneously went through headwinds, which allowed us to invest at an attractive valuation. Boustead Singapore consists of the following three businesses: 1/ a 51.2% participation in recently spun-off Boustead Projects Ltd; a design-build-lease real estate business that owns a portfolio of new and recently build high-end industrial buildings. It counts IBM, Airbus, Bombardier, Rolls-Royce, SD Schenker and SDV amongst its tenants. 2/ an asset light, global engineering business active in the niche market of direct-fired

process heater systems, mainly for oil & gas refineries. 3/ a distribution business of Esri Geospatial Software, which has a 60% market share in geographic information systems (best explained as a professional Google Maps, mainly for governmental use). These three businesses have high operating margins and generate high returns on invested capital. They are led by a chairman who focuses his entrepreneurship on shareholder value creation. We were able to purchase this conglomerate for respectively 5x and 12x the normalised earnings of the energy and geospatial businesses and paid 55% of intrinsic value for the real estate assets. A potential catalyst exists in moving the real estate assets into a REIT structure and the conservative balance sheet also allows for opportunistic acquisitions.

Compugroup Medical AG: We purchased this Koblenz-based medical software vendor at approx. 8x cash earnings. It was one of the first investments of the fund. We think this medical software business is of very high quality with high barriers to entry and a dominant position in virtually all the markets it operates in. It has very sticky customers (mostly doctors) with extremely low churn rates, no cyclicality and high free cash flow generation due to the low capital requirements to run the business. The business model is also helped by the continuous pressure from governments to cut public health spending by increasing connectivity. Despite a strong increase of the share price we maintained a substantial position because we got more comfortable with a German initiative that was recently turned into Law. It will further connect all the public health stakeholders with compatible software. Compugroup, being a leader in this field, was part of the government development initiative and once implemented, we believe the company will secure years of sustainable growth.

Judges Scientific plc: Judges Scientific (JDG) is listed on AIM, a sub-market of the London Stock Exchange and home to smaller companies with less regulatory burden than the main market. JDG specialises in the acquisition and development of a portfolio of scientific instrument businesses. JDG designs, assembles and sells high quality scientific instruments with a focus on material sciences and vacuum environments. JDG generates sales of approx. £56m; 60% from universities, 10% from testing firms and the rest from a diverse group of researchers with pharma, biotech, commercial and industrial backgrounds. More than 80% of sales are exported. Whilst most of the company's products have a long lifecycle, many of these products are sold into diverse markets and into different countries. The businesses share the following characteristics: sustainable profits and cash flows, high operating margins, high returns on capital, high and stable market shares in small niches, high fixed costs (mostly specialised personnel, many PhD's), low capital requirements and asset light. Since its IPO in 2005 it generated a total return to shareholders of approx. 28% per annum over the 12-year period. When the company came with two negative trading updates to announce poor operating results for reasons we believe to be of temporary nature, the share price declined to a level we found attractive.

Sberbank Rossi PAO: The fund invested through the London-listed ADR's in the equity of the largest bank in Russia. The opportunity presented itself following President Putin's 2014 forays into Ukraine and the subsequent international pressure on the Russian Federation. For the record, we are not particularly big fans of financials, mainly for two reasons; we avoid leverage and we find bank balance sheets typically too opaque for our fundamental analysis. But the strength of Sberbank's balance sheet, its exceptional historical profitability, its durable competitive advantages, its very strong management, its long runway for growth and finally a depressed valuation, all contributed to our conviction of investing in a very controversial situation. For the 10-year period to December 2015, Sberbank's book value per share in Euro terms compounded at 14.3% per annum, despite the financial crisis in 2008 and the Ukraine crisis. The Ruble also lost about 58% of its value against the Euro over that period. Sberbank dominates the Russian banking sector with >40% of all deposits and a retail branch network over 10x the size of its nearest competitor, resulting in a significant funding cost advantage. On the lending side, the bank focuses on the higher quality borrowers. Viewed in a global context Russia remains substantially underbanked, based on the low percentage of GDP for banking products such as deposits, lending, insurance products and credit cards. We believe Sberbank is very well positioned to

benefit from this long-term growth potential. We made our first investment in Q1 2014 at 4x trailing earnings and 80% of book value. We subsequently made further investments as the share price declined when the economic situation deteriorated. Griffin Fund's current country limit for Russia is 4% of AUM at cost.

C.Uyemura & Co Ltd.: The company is active in a niche market of the Electroplating Chemicals Industry and is not particularly small (market capitalisation = ¥53b~US\$484m) but does a great job of hiding itself. The company is listed on the Second Section of the Tokyo Stock Exchange, usually reserved for small caps with extreme low transaction volumes. Although the company has a 20-year history of growth and profitability, they never made an effort to get onto the First Section of the Tokyo Stock Exchange, unlike their two main Japanese competitors (JCU & MEC). Whilst the industry is consolidating and at best growing in the single digits, it has very high barriers to entry. The industry has seen no new players for several decades due to product complexity, know-how, customer service capabilities and reputation. There are only a small dozen companies active in this space. The three largest making out 60% of the market and Uyemura, together with three Japanese players have about 20% market share. Electroplating Chemicals are an attractive niche in the surface treatment industry and an important component in the production of printed circuit boards. Whilst the process is critical in the production of mainly mobile phones, PC's and car electronics, the expense to the client is small in comparison to its overall manufacturing cost. This is a balance we like to see because rational customers don't act penny wise and pound foolish on the small but critical components of their end-products. Uyemura is either a supplier or sub-supplier to most smartphones including iPhones and also for example for Toyota Motors in the car industry. Even in an environment of slowing demand for mobile phones does Uyemura manage to keep margins high because of the higher specification requirements in the latest smartphones like the iPhone 8, X and future iterations. This business has a very high customer retention rate, is asset-light, operates with high margins and has limited need of extra capital and thus is generating lots of cash. At our purchase price, the company's market capitalisation is 2/3 covered by cash and 4/5 covered by cash + owned real estate. These excess assets give us good downside protection. The Uyemura family still owns 25% of the company. If we back out net cash & real estate, then we paid 1.3x EV/EBITDA. We believe this is a very cheap valuation for a good company with a long history of profitability, a stable market share in an industry with very high barriers to entry and the other characteristics we described above.

We are grateful for your trust and welcome any remarks or questions you might have with regards to the fund or the strategy.

Best,

Griffin Value Fund

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