LANCASTER
INVESTMENT MANAGEMENT

Lancaster European LS Equity

September 2018

In September markets continued where they left off in August. Already depressed risk assets continued to weaken, while conversely assets perceived to be high quality or defensive rallied. This strength led to us closing out positions in Novo Nordisk and Novozymes, as well as a long-standing investment in Aveva. Whilst we are enthused about the long-term outlook for all three businesses, a mixture of a likely near term profitability hit in Novo Nordisk, coupled with outright valuation in Aveva and Novozymes, caused us to move on. The only investment in the portfolio to be materially negatively impacted during the month was Zalando. The company warned on Q3 sales due to accelerated discounting because of the warm weather; in this environment there was no appetite to see this as a one off. Zalando is covered in greater detail in the quarterly letter and call. On the short side of the portfolio, we re-entered a position in Equiniti as the share price rallied; we see various accounting red flags including working capital deterioration and exceptional items, and ultimately believe that the poor cash flow and questionable capital allocation decisions – such as the US Wells Fargo acquisition – will put the company under considerable pressure.

Performance	
Return on month	-1.40%
Number of Positions	
Long	32
Short	11
Total	43

Exposure	
Gross	110.0%
Net	84.1%
Net Beta Adj.	86.0%
Long	97.0%
Short	-13.0%

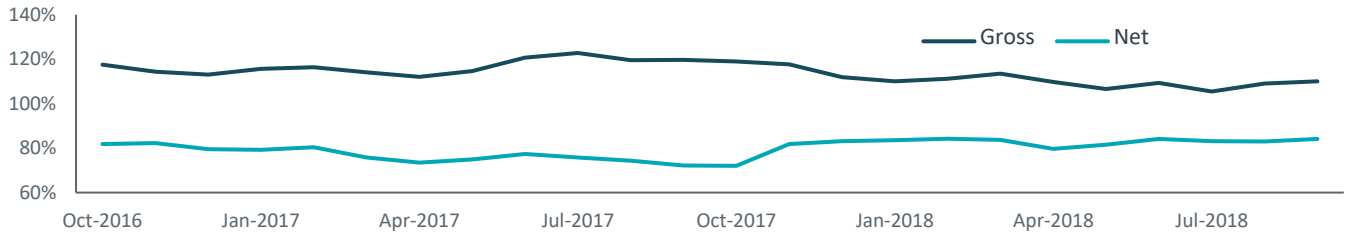
Top 3 Positive Contributors
Energy (long)
EssilorLuxottica
Financial (long)

Top 3 Negative Contributors
Consumer Discretionary (long)
Industrial (long)
Cobham

Top 5 Longs	
Cobham	5.6%
EssilorLuxottica	5.5%
Bayer	4.8%
Tesco	4.7%
Serco Group	4.7%
Total	**25.4%**

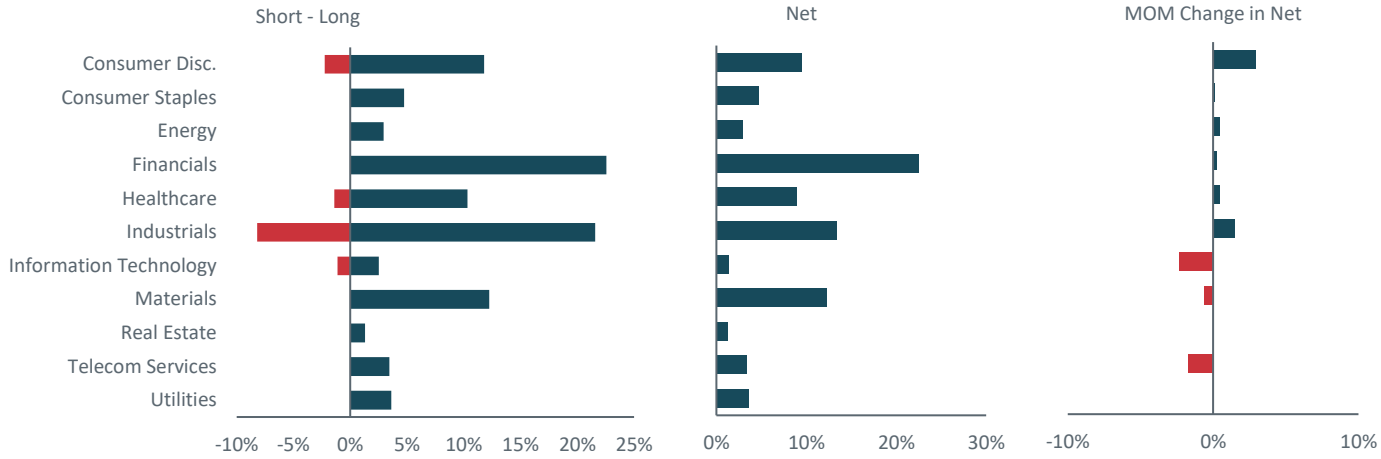
Top 5 Shorts	
Industrial	-2.8%
Industrial	-1.4%
Consumer Discretionary	-1.4%
Healthcare	-1.4%
Industrial	-1.3%
Total	**-8.4%**

Rolling 24 Month Gross and Net Exposures



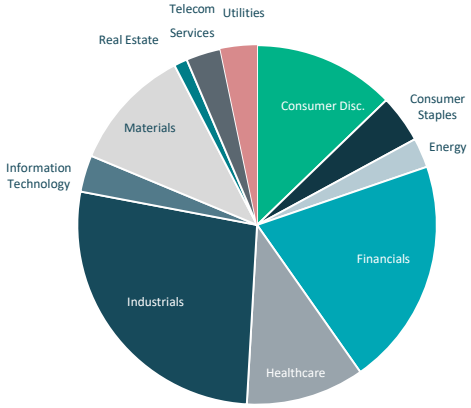
Source: Lancaster Investment Management

Sector Exposure

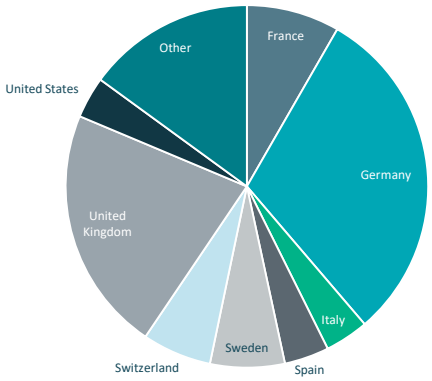


Source: Lancaster Investment Management

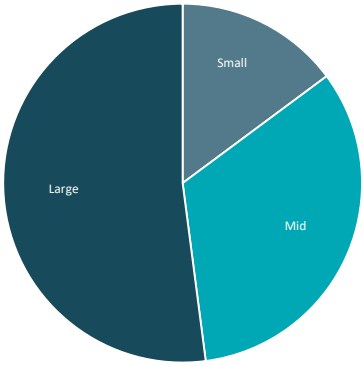
Sector



Country

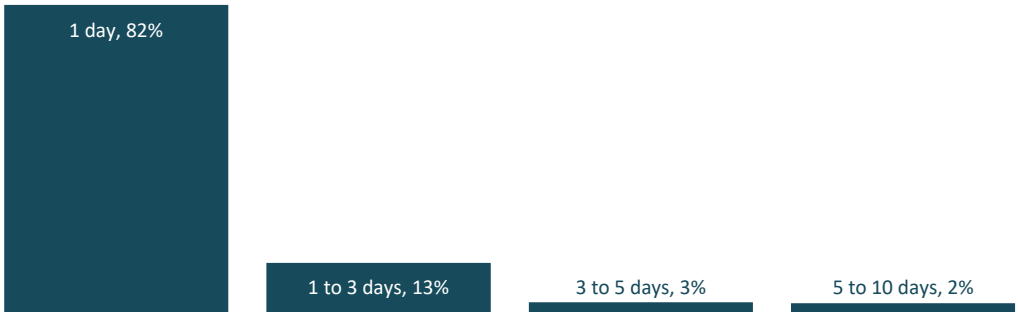


Market Cap



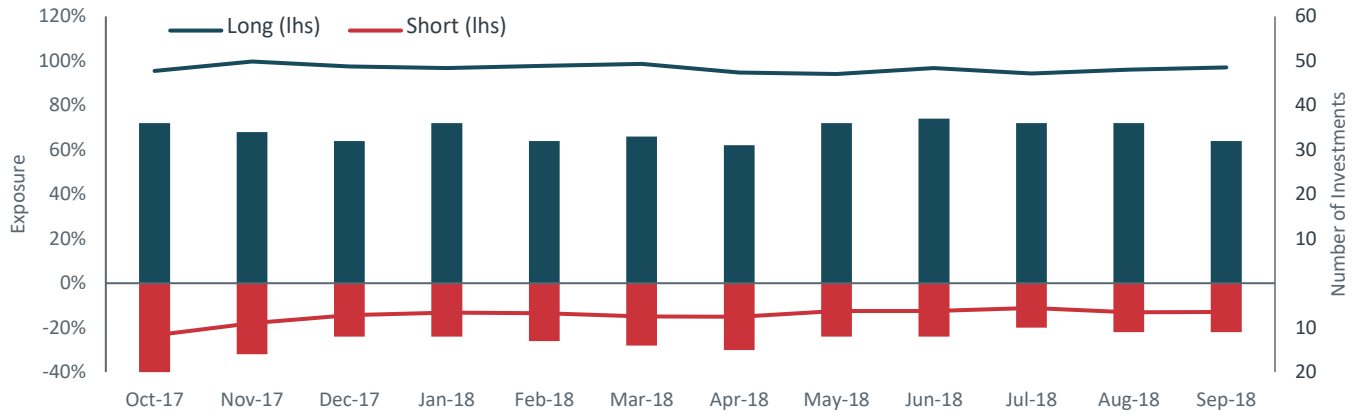
Source: Lancaster Investment Management

Liquidity



Source: Lancaster Investment Management, Bloomberg

Portfolio Composition



Source: Lancaster Investment Management

Leverage

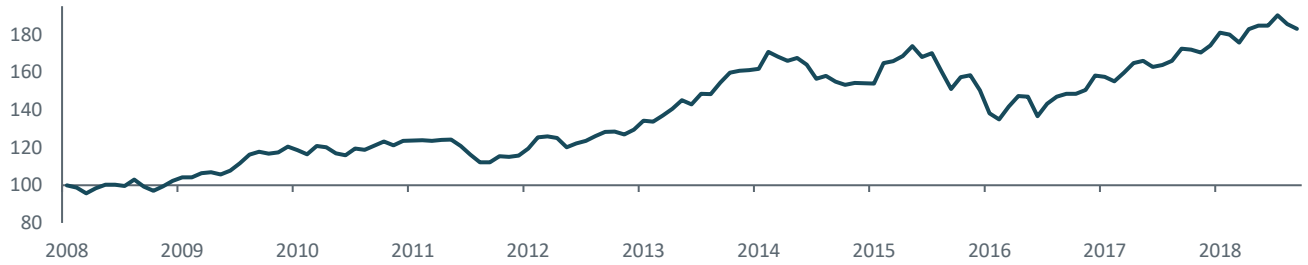
Gross method	1.4
Commitment method	0.9

Historical Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**Year**	**Inception**
2008		-1.21%	-3.13%	2.77%	1.91%	0.06%	-0.75%	3.44%	-3.65%	-2.14%	2.50%	2.76%	**2.24%**	**2.24%**
2009	1.85%	0.04%	2.20%	0.49%	-1.18%	1.94%	3.61%	4.06%	1.30%	-0.78%	0.54%	2.56%	**17.76%**	**20.41%**
2010	-1.43%	-1.88%	3.71%	-0.48%	-2.69%	-0.90%	3.08%	-0.62%	1.97%	1.83%	-1.72%	1.95%	**2.59%**	**23.53%**
2011	0.12%	0.16%	-0.32%	0.51%	0.05%	-2.71%	-3.77%	-3.57%	0.10%	2.88%	-0.35%	0.53%	**-6.37%**	**15.66%**
2012	3.32%	4.99%	0.38%	-0.63%	-4.03%	1.73%	1.16%	1.97%	1.80%	0.16%	-1.19%	1.91%	**11.90%**	**29.42%**
2013	3.75%	-0.35%	2.42%	2.57%	3.19%	-1.53%	3.97%	-0.14%	4.12%	3.44%	0.68%	0.18%	**24.48%**	**61.10%**
2014	0.37%	5.56%	-1.40%	-1.40%	0.99%	-2.16%	-4.51%	0.91%	-1.87%	-1.20%	0.72%	-0.15%	**-4.37%**	**54.06%**
2015	-0.10%	7.11%	0.59%	1.63%	3.10%	-3.27%	1.23%	-5.74%	-5.77%	4.10%	0.64%	-5.03%	**-2.42%**	**50.34%**
2016	-8.10%	-2.32%	5.00%	3.92%	-0.23%	-7.04%	4.85%	2.59%	1.13%	-0.03%	1.41%	5.02%	**5.22%**	**58.19%**
2017	-0.39%	-1.56%	2.94%	3.23%	0.69%	-1.92%	0.62%	1.37%	3.90%	-0.34%	-0.88%	2.22%	**10.13%**	**74.22%**
2018	3.88%	-0.63%	-2.27%	3.97%	1.06%	-0.02%	2.99%	-2.45%	-1.40%				**4.98%**	**82.90%**

Performance quoted net of fees from the most invested share class.

Fund Performance



Source: Lancaster Investment Management

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Lancaster European LS Equity Details

Launch date	February 2008	**Fund Structure**	Cayman Master Feeder: Cayman Ltd, Delaware LP
Redemptions	Quarterly		
Notice Period	60 days	**Administrator**	Morgan Stanley Fund Services
Minimum Investment	$10,000,000	**Auditor**	KPMG
Management Fee	1.0%	**Prime Brokers**	Credit Suisse, Goldman Sachs, Morgan Stanley, UBS
Performance Fee	15%* (subject to HWM)	**Custodian**	State Street
Lockup Period	12 months	**Legal Advisors (UK)**	Schulte Roth & Zabel
Subscriptions	Monthly	**Legal Advisors (US)**	Schulte Roth & Zabel
Gate	None	**Legal Advisors (Cayman)**	Maples & Calder
		Contact Details	Richard Lamplough richard.lamplough@lancasterIM.co.uk +44 20 7842 1049

Details above refer to classes G&H and equivalent

* Payable over multiple years – please see offering documents

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