LANCASTER
INVESTMENT MANAGEMENT

# Lancaster European Equity

October 2018

October saw significant weakness in the broad market that affected the fund adversely. We took the opportunity to add capital both to existing positions and to enter new investments. Richemont re-entered the fund as the shares fell to an appealing valuation level for a business with persistently high returns on capital and a net cash balance sheet. The company is taking share in a fast growing branded jewellery market and has been artificially suppressing growth by changing its route to market in watches. The wider distribution channel is changing with the acquisitions of YNAP in online, second hand market place watchfinder.co.uk and a stake in travel retailer Dufry. Autoliv, the dominant player in passive safety systems for autos, is another former position to return as a function of precipitous declines in valuation. The company has over fifty percent market share in a growth market: competitors have left and the prospective margin structure is misunderstood. The largest negative contributor to returns in the month was oil services business PGS, and we have added here. Finally Bankia was a detractor on a strange ruling from the Spanish Supreme Court that the banks – rather than the customers – were liable for stamp duty on the acquisition of a house. The ruling has been reversed in the last few days.

| **Performance** | Fund | Index* |
|---|---|---|
| Return on month | -6.75% | -5.53% |
| 12 month return | -0.50% | -5.93% |
| 3 year return† | 4.72% | 1.54% |
| 5 year return† | 3.30% | 5.16% |
| Inception return† | 8.56% | 7.93% |

| **Exposure** | |
|---|---|
| Cash | 0.9% |
| Beta | 100.9% |
| Average market cap ($ millions) | 28,504 |
| Number of positions | 30 |

| **Top 3 Positive Contributors** |
|---|
| Linde |
| Industrial |
| Consumer Discretionary |

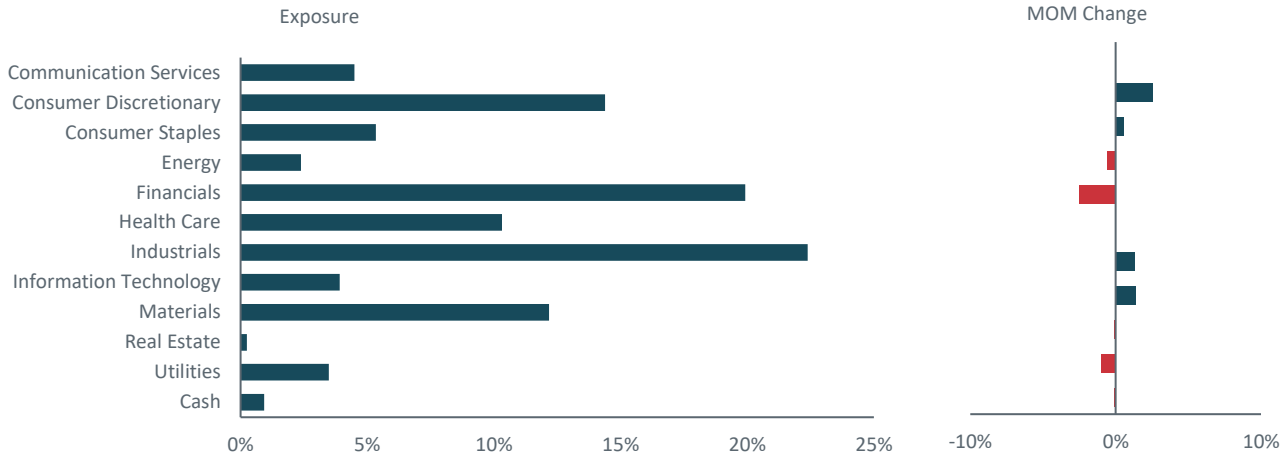
| **Top 3 Negative Contributors** |
|---|
| Materials |
| Energy |
| Materials |

| **Top 5 Longs** | |
|---|---|
| EssilorLuxottica | 5.5% |
| Tesco | 5.3% |
| Linde | 5.2% |
| Cobham | 5.1% |
| Serco Group | 4.9% |
| **Total** | **26.1%** |

* STOXX Europe 600 TR (SXXR). Performance quoted from Lancaster European Equity LP Sub Class 1
Source: Lancaster Investment Management, Bloomberg

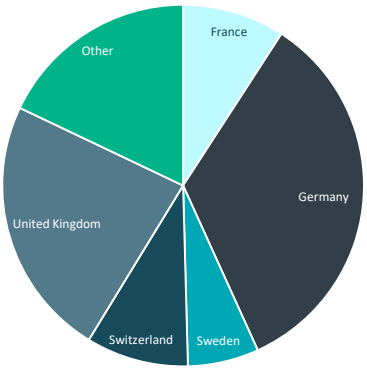
† Annualised return

## Sector Exposure

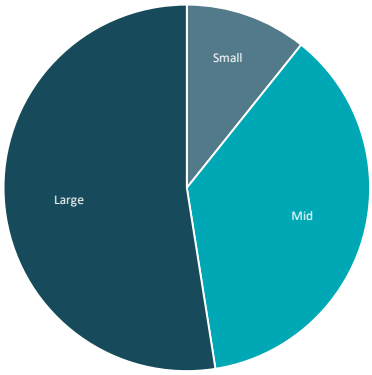



Source: Lancaster Investment Management. Note: MOM Change has been reset for Communication Services and Consumer Discretionary due to GICS reclassification.

## Country Exposure

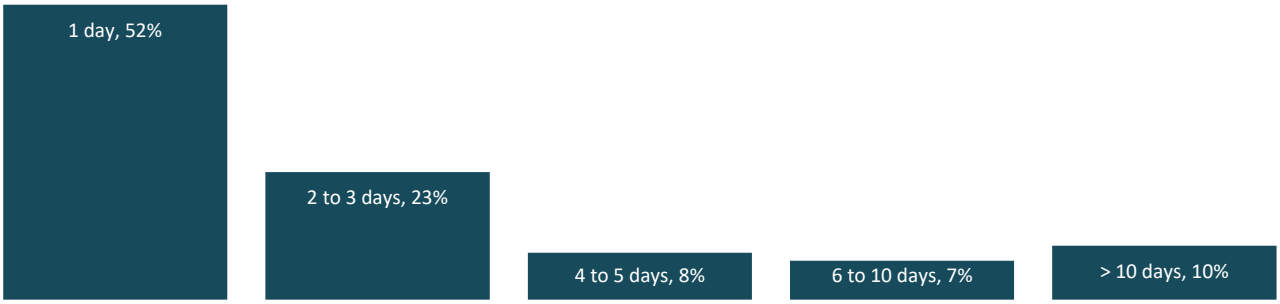



## Market Cap



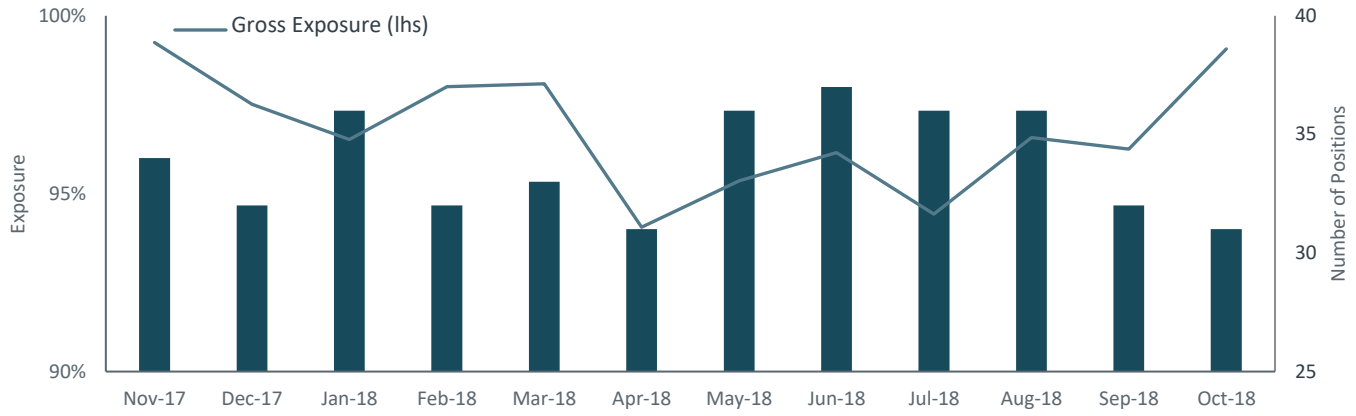

Source: Lancaster Investment Management

## Liquidity




Source: Lancaster Investment Management, Bloomberg

## Portfolio Composition




Source: Lancaster Investment Management

## Leverage

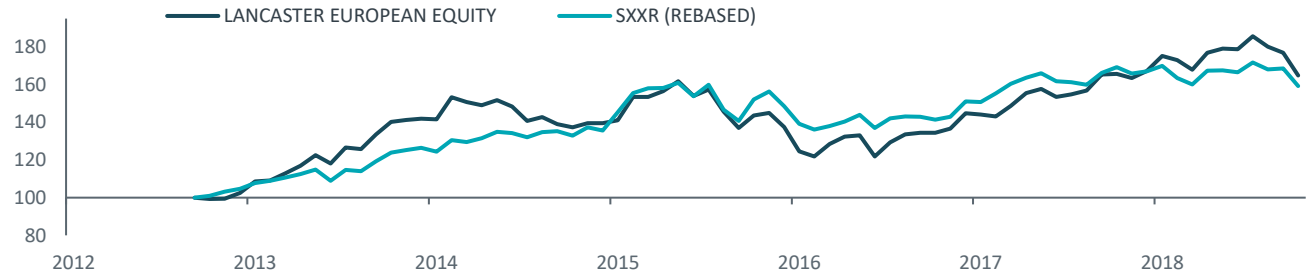
| | |
|---|---|
| Gross method | 1.9 |
| Commitment method | 1.0 |

## Historical Performance

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | **Year** | **Inception** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2012** | | | | | | | | | | -0.72% | 0.14% | 3.03% | **2.43%** | **2.43%** |
| **2013** | 6.03% | 0.54% | 3.34% | 3.68% | 4.67% | -3.48% | 7.09% | -0.69% | 6.30% | 4.89% | 0.78% | 0.45% | **38.51%** | **41.87%** |
| **2014** | -0.28% | 8.28% | -1.60% | -1.15% | 1.88% | -2.23% | -5.16% | 1.45% | -2.64% | -1.23% | 1.55% | 0.00% | **-1.71%** | **39.44%** |
| **2015** | 1.16% | 8.76% | 0.05% | 1.92% | 3.43% | -4.87% | 2.18% | -7.46% | -5.86% | 4.77% | 1.02% | -5.18% | **-1.38%** | **37.51%** |
| **2016** | -9.41% | -2.14% | 5.34% | 3.09% | 0.46% | -8.38% | 6.07% | 3.31% | 0.70% | 0.03% | 1.57% | 5.93% | **5.23%** | **44.70%** |
| **2017** | -0.48% | -0.60% | 3.90% | 4.56% | 1.36% | -2.63% | 0.82% | 1.33% | 5.42% | 0.25% | -1.39% | 2.35% | **15.55%** | **67.21%** |
| **2018** | 4.72% | -1.24% | -2.91% | 5.35% | 1.25% | -0.23% | 3.89% | -2.96% | -1.87% | -6.75% | | | **-1.41%** | **64.86%** |

Performance quoted from Lancaster European Equity LP Sub Class 1

## Fund Performance




Source: Lancaster Investment Management, Lancaster European Equity Sub Class 1 (US$), Bloomberg

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## Lancaster European Equity Details

| | | | |
|---|---|---|---|
| **Launch date** | October 2012 | **Fund Structure** | Cayman Master Feeder: Cayman Ltd, Delaware LP |
| **Redemptions** | Monthly | **Administrator** | Morgan Stanley Fund Services |
| **Notice Period** | 60 days | **Auditor** | KPMG |
| **Minimum Investment** | $5,000,000 | **Prime Brokers** | Goldman Sachs, Morgan Stanley |
| **Management Fee** | 0.75% | **Custodian** | State Street |
| **Performance Fee** | 15%* (subject to HWM) | **Legal Advisors (UK)** | Schulte Roth & Zabel |
| **Lockup Period** | None | **Legal Advisors (US)** | Schulte Roth & Zabel |
| **Subscriptions** | Monthly | **Legal Advisors (Cayman)** | Maples & Calder |
| **Gate** | None | **Contact Details** | Richard Lamplough<br>richard.lamplough@lancasterIM.co.uk<br>+44 20 7842 1049 |

* Payable over multiple years – please see offering documents

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