MITTLEMAN BROTHERS
INVESTMENT MANAGEMENT

Mittleman Global Value Equity Fund – Class P

Quarterly report – September 2019

Portfolio commentary[1]

The Mittleman Global Value Equity Fund – Class P advanced 1.2% net of fees in the third quarter of 2019, underperforming the MSCI ACWI Total Return Index by 2.8%.

In Q3 2019, the top three performing stocks, from a contribution standpoint, were **Revlon (REV)**: $19.33 to $23.49 (+22%), **AMC Entertainment Holdings (AMC)**: $9.33 to $10.70 (+17% with dividend) and **International Game Technology (IGT)**: $12.97 to $14.21 (+11% with dividend).

The bottom three performing stocks, from a contribution standpoint, were **Aimia Inc. (AIM CN)**: $2.92 to $2.55 (-13%), **CMIC Holdings (2309 JP)**: $18.94 to $15.87 (-15% with dividend) and **TV Azteca (AZTECACP MM)**: $0.0876 to $0.0489 (-44%).

Detailed portfolio commentary for Q3 2019 follows below.

Quarterly investment review[1]

"The bubble of low volatility stocks versus value stocks is now more significant than any relative valuation bubble the equity market experienced in modern history." Marko Kolanovic, JPMorgan Chase, Bloomberg July 16th, 2019

Equity markets were broadly higher in Q3 2019. Large-cap outperformed small-cap equities and growth sustained its dominance over value once again. The S&P 500 returned 6.1% during the quarter and 20.6% calendar year-to-date. International (non-US) equities underperformed the US, as the US dollar strengthened. Developed markets, as measured by the MSCI EAFE Index, rose 2.6%. Emerging markets, as measured by the MSCI EM Index, fell substantially to register a -3.7% loss for the quarter.

Increasingly we wonder if the bottom to MIM's multi-year stretch of under-performance has been reached. Obviously such a pronouncement can only be made in hindsight, but the recent signposts observable at both the macro and portfolio level argue for the affirmative. First, the macro perspective:

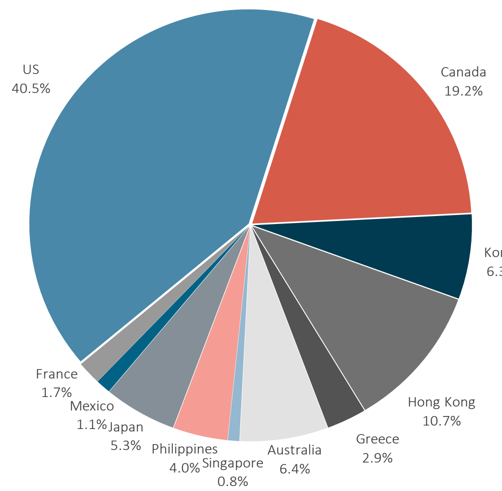
- JPMorgan Chase strategist Marko Kolanovic was cited in a Bloomberg story on July 16th calling for a "once-in-a-decade trade in value stocks" versus low-volatility [expensive] shares.
- September 2019 saw the biggest outflow of capital from international (ex-US) funds since 2008. MGVEF is about 60% exposed to international sharemarkets (ex-US), and has maintained this exposure over the past few years.

Fund Details	
Index	MSCI All Country World Index (ACWI) Net Total Return in AUD
Fund Inception Date	13 June 2017
Class P Inception Date	13 October 2017

Performance[2] – 30 September 2019

	MGVEF (Class P)	Index (AUD)	Excess return
1 month	8.7%	2.0%	6.7%
3 months	1.2%	4.0%	(2.8%)
1 year	(15.9%)	8.8%	(24.7%)
Since inception[3]	(0.1%)	13.7%	(13.9%)

Country allocation[4]



1. The securities herein identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. There is no assurance that any securities discussed herein will remain in the portfolio at the time you receive this report, or that securities sold have not been repurchased. There can be no assurance that investment objectives will be achieved. All dollar amounts within this report are in USD unless otherwise stated.
2. Performance figures are presented in AUD on a net, pre-tax basis and assume the reinvestment of distributions. Past performance is not an indicator of future performance. Figures in the table may not sum correctly due to rounding.
3. Since inception returns are annualised and calculated from 13 October 2017. Past performance does not guarantee future results.
4. Portfolio holdings, country allocation and sector allocation of MGVEF are as of 30 September 2019 and are subject to change and should not be considered as investment recommendations to trade individual securities. Country allocation does not include cash.

- Emerging Markets have severely lagged the S&P 500 over the past 12 years offering no capital appreciation[5]. MGVEF is well placed for an EM resurgence with a look through exposure of ~40%.

- *Institutional Investor* magazine, in a September 23, 2019 article titled *"The Last Time the Market Acted This Way, Value Stocks Gained 30 Percent,"* cited research from Prudential Financial's quantitative arm, QMA. Andrew Dyson, CEO of QMA, is quoted, "It looks like we're going through a bubble every bit as big as the tech bubble was, every bit as big as in the global financial crisis, but it's happening much more under the radar. The two other occasions when we've had this degree of underperformance [from value stocks], they've been followed by a very large correction." Correction meaning expensive stocks drop, cheap value stocks gain. "…we view this as the backdrop for incredible investment opportunities [in value stocks] … the relative attractiveness of value stocks is reaching extreme levels … This combination is unprecedented, and signals the opposite of a value trap environment."

- October 27, 2019 Bloomberg article: *"Morgan Stanley Warns Growth Stock Underperformance Just Starting"* citing its chief U.S. equity strategist, Michael Wilson, "The bottom line is that the winds of change are upon us. The long-overdue adjustment process for the most expensive secular growth stocks is under way and will likely continue …"

The 'macro' surely signals a better backdrop for the kind of value investing that MIM engages in. It is like the weather a ship captain faces at sea. Nonetheless, MIM's navigation (the 'micro') will ultimately drive MGVEF's success. This is the quality of the businesses in which MIM owns shares and the valuations at which they trade versus intrinsic value.

The portfolio itself has begun to out-perform the indices over the last few weeks, in what is more likely than not the beginning of the long-awaited catch up. With stunningly low valuations in most cases, and yet predominantly improving fundamentals, this comes as no surprise. The surprise, if this is in fact the turning point, is only that it has taken so long to arrive.

Some colour on the stocks that contributed to and detracted from performance of the Fund in Q3 2019 follows.

Revlon (REV)

Revlon's share price rose from $19.33 to $23.49, for a return of +22%. After Revlon's Chairman, Ron Perelman, bought a significant amount of stock in Q2 as high as $23.75, the stock plummeted to as low as $13.58 in August after reporting Q2 results that were mediocre. On the back of these results MIM slightly reduced its estimate of fair value (from $43 to $40) and bought more shares in the mid to high teens during Q3, raising the exposure to the company (as a percent of shares outstanding) from 4.4% to 5.2%.

On August 16th Revlon confirmed it had hired an 'advisor' to consider 'strategic alternatives' in a filing with the SEC. An article in Bloomberg claimed Revlon had appointed Goldman Sachs as the advisor.

Goldman Sachs is an optimal choice to run a global auction for Revlon. Procter & Gamble hired Goldman Sachs in 2014 to sell Covergirl, Max Factor and a collection of other brands. These which eventually sold to Coty (a sophisticated buyer backed by JAB Holdings) in a $12.5B deal (2.6x sales versus the 2x sales multiple MIM is using for Revlon at $40). Goldman secured a very good price in a weakening environment for mass market brands. Perelman has used Goldman over the past 30 years on various occasions.

Revlon is a once-in-a-generation opportunity for any buyer trying to make a significant leap in market share and distribution. There is strategic value here beyond the normal capitalisation of cash flows.

Estee Lauder is doing amazingly well in prestige cosmetics, but it has no mass market brands (L'Oreal has both). It is a potential suitor for Revlon, albeit there are more than a handful of potential buyers for parts or all of the company. By MIM's estimates Perelman should get a fair ($40) to higher than fair price.

If no deal materialises the stock may well sell off again, but the business appears to be improving, with run-rate EBITDA looking like $400M by year-end (according to an analyst at Imperial Capital). This is a level of EBITDA production that has not been seen on an annual basis from Revlon since 2016 when the stock was as high as $38. So, if there is no big deal to come from this process, any set back in the share price is expected to be transitory yet again.

AMC Entertainment (AMC)

AMC's share price rose from $9.33 to $10.70, for a return of +17% (dividends included). Box office receipts were down-5.5% YTD through 9/30/19, but a strong slate of movies on deck in Q4 (including the final *Star Wars* movie) might be enough to get the full year numbers closer to flat from last year's record results. Regardless, **the stock is very cheap at its quarter-end price of $10.70, with a 7.5% dividend yield.**

MIM purchased more AMC shares recently in the $9s and has crossed back up over the 5% ownership threshold again.

The minimum fair value estimate for AMC is $27 per share, which is 2.5x the quarter-end price of $10.70. $27 would be an enterprise value to EBITDA multiple of 9.7x EBITDA of $800M, and a market cap to free cash flow multiple of 12x FCF of $300M. Both of those multiples are substantially lower than the market indices trade at today. Note in particular:

- AMC is the largest movie theatre chain in the world.

- It is a recession-proof business (sales barely flinched during the post-GFC recession period).

- We are in a world where content and distribution are rapidly coming together (for example: AT&T's (distribution) buy of Time Warner (HBO, content) last year for 14x EBITDA, or Disney's (content & distribution) buy of Hulu (distribution) from Comcast earlier this year at a valuation of $27.5B, or $982 per each of Hulu's 28M subscribers.

- While movie theatres are not growing attendance like streaming services are growing members, the box office brings in nearly $12B per year in ticket sales in the U.S. and Canada each year, a generally growing number.

- Subscriptions are growing rapidly in the movie theatre industry. AMC's Stubs A-List subscription program grew from 0 to 1M members (paying $21 to $24 per month) in just over the past 18 months, not including concessions (food & beverage) purchased separately at each attendance (about 2.8 times per

5. The MSCI Emerging Markets Index (MXEF) closed on 30/09/19 at 1,001. It first attained that level in June 2007, meaning it has experienced no capital appreciation there for over 12 years (+32% total return with dividends).

month).

AMC also represents a major potential acquisition for any production studio willing to test the extent to which the US Justice Department will continue to enforce the Paramount Decrees from 1948 that caused the break-up of theaters from their former studio owners.

AMC recently initiated a streaming service. While not groundbreaking (Cineplex in Canada has been doing it for years), it is a smart way of getting more out of the existing franchise and monetising the value of AMC's loyalty program. As an aside, the loyalty program is now colossal (over 21M AMC Stubs members now, versus just 2.5M when Adam Aron took over as CEO in 2016).

Just over a year ago a highly regarded private equity firm, Silver Lake Partners, made a $600M investment into AMC at about $19 per share through convertible bonds yielding 2.95%. As a smart global private equity firm, known for its technology investing, Silver Lake will similarly be expecting a greatly increased share price.

International Game Tech. (IGT)

IGT's share price rose from $12.97 to $14.21, for a return of +11% (including dividends), but it remains stubbornly below MIM's average cost. At a quarter-end price of $14.21 the stock has a dividend yield of 5.6%, and a market cap. of $2.9B, only 5.8x its average annual FCF of $500M.

MIM estimates IGT is worth just over $28 per share at 9x EBITDA (est. $1.53B for 2020) and 12x FCF.

It might seem like a lot to expect a 100% increase in share price, but MIM previously sold more half of its position size at around the $28 level (and as high as $30) from late 2017 to early 2018. The share price came under pressure again not long thereafter as a new government in Italy (IGT's biggest market) implemented new taxes on IGT's lottery business there. This shaved off a very modest amount of EBITDA. Also, mergers in the casino industry have resulted in a reduction of the number of slot machines on numerous casino floors, reducing IGT's installed base marginally.

More positively, IGT recently teamed up with its major competitor, Scientific Games (SGMS), in a 50/50 JV and won a major lottery contract just awarded by Brazil a couple of weeks ago.

IGT's controlling shareholder, Italian private equity firm De Agostini SpA, continues to hold just over 50% of the shares (in control since 2002). It has a Warren Buffett-like track record in ventures of this type. The company is highly levered at about 5x net debt / EBITDA, but also highly recession-resistant. Once leverage is paid down (as MIM expects it will be), IGT will likely redirect some meaningful FCF into share buybacks if the share price remains mired around recent prices, as the cash dividend is only $164M out of $500M in FCF.

Aimia (AIM CN)

Aimia's share price fell from $2.92 to $2.55, for a return of -13%. Nonetheless, there was some good news. A shareholder group unrelated to Mittleman Brothers, the *Aimia Shareholders for Accountability ("ASA")*, which claims to own no less than 5% of Aimia's common stock, successfully submitted a requisition for a special meeting scheduled for Jan. 24, 2020. MIM hopes this presents further evidence of broad shareholder support for drastic change in the oversight and governance at Aimia.

MIM's rare bout of activism has already yielded tremendous benefits to the value of Aimia, including hundreds of millions of dollars that simply would not be there right now had MIM not intervened when it did during March 2018. The stock is about 60% higher than MGVEF's average cost, not including the benefit of a substantial cash dividend of C$0.20 per share paid in March 2019. **Aimia still has 100% upside to MIM's conservative estimate of NAV.**

The announcement of Virgin Australia's intention to buy back the 35% stake in its loyalty program (Velocity) held by Affinity Partners (a private equity group) at 11x EBITDA was very encouraging. It would seem to confirm MIM's estimate that Aimia's 49% stake in PLM, the 6.6M member coalition loyalty program of Aeroméxico, should not be worth less than 10x EBITDA, or C$607M.

Further increasing MIM's confidence in Aimia's largest investment, PLM's Q3 2019 results (as reported by AeroMexico) revealed increases across billings, members, earnings and dividends. This has roughly been the growth trajectory since the stock was purchased in 2010, despite a slowdown in growth in Mexico for the period. These results reaffirm the highly cash generative and discernibly recession proof nature of loyalty program businesses.

Aimia's stock at quarter end was C$3.38/US$2.55, and MIM's estimated fair value is more than 100% higher at C$7.10 / US$5.44. The over-sized portfolio weighting in Aimia is supported by its debt-free balance sheet and net cash position of nearly C$500M.

CMIC Holdings (2309 JP)

CMIC's share price fell from $18.94 to $15.87, for a return of -14.9% including dividends. CMIC is one of the largest CROs (Contract Research Organisations) in Japan. It benefits from the secular tail wind of increasingly outsourced R&D spending by Japanese pharmaceutical companies. The recent weakness could be attributed to CMIC getting caught up in the poor earnings result of a competitor. No other notable negative news across the quarter explains the pullback.

The founder and CEO, Kazuo Nakamura, still owns about 40% of the shares. MIM estimates fair value for CMIC is about $26, over 35% higher than the quarter-end price, which would put this growing company at only 8x EBITDA, versus 15x EBITDA for PRA Health Sciences (PRAH) and 18x for IQVIA Holdings (IQV), both much larger players in the global CRO peer group.

TV Azteca (AZTECACP MM)

TV Azteca's share price fell from $0.0876 to $0.0489 (-44%) during Q3, extending a long-term trend of a generally declining share price. For the first time in 3 years Azteca's much larger rival Televisa outperformed in terms of ad sales but Azteca still retains a strong 36% market share. The weakness this year is largely due to a pull-back in government spending on TV ads in Mexico and a generally weaker economy.

While the stock price has been unusually weak this year, and over the past 5 years, many Spanish language broadcasters and linear TV providers in general, have similarly suffered. To provide some colour on sentiment and valuation throughout the sector, TV Azteca is down 86% over the trailing 5 years ended Sept. 30, 2019, Grupo Televisa:-57%, Atresmedia:-60%, Viacom:-64%.

Mexican viewership trends and low penetration of broadband supports MIM's belief that linear OTA (over the air) TV is not dead despite the weakness of the sector. Even if it is does start to decline longer term, TV Azteca is diversifying just in case. MIM estimates it owns $230M ($0.08 per share, nearly double the current stock price) in other assets:

- Mexican Liga MX football team Atlas of Guadalajara, bought for $50M in Nov. 2013, est. worth $60M today.
- Mexican Liga MX football team Monarcas Morelia, bought in 1996 est. worth $70M.
- 40% stake in Azteca Comunicaciones Colombia est. worth $40M.
- 100% ownership of a new fiber optic network in Peru called Azteca Comunicaciones Peru est. worth $60M.

These ancillary assets are important to note as TV Azteca has raised cash from overlooked assets previously. In 2017 and 2018 these sales helped to renew its broadcasting concession for another 20 years after the current one expires on Dec. 31, 2021.

MIM has enjoyed a lot of prior success investing in Mexico, in telecom (Telmex), radio (Grupo Radio Centro) and cement (Cemex), all exited many years ago. A good return is still expected from the long-held position in TV Azteca, but like Mexico itself, this stock has thus far been a long story of great potential remaining frustratingly unrealised.

Portfolio Changes

MIM sold its holding in Sberbank of Russia (SBRCY) at around $14 in Q3 2019. Sberbank was sold solely to take advantage of Revlon falling as low as $13.58 in that quarter. MIM also began selling another position for funds to buy what it perceives to be a better risk/reward trade-off in the portfolio, but is hesitant to mention that name until it is done selling.

MIM believes its efficacy as a practitioner remains to provide an immensely satisfying return from this low level, and it has never been more confident about that prospect. If a shift back to value-oriented strategies like MIM's is truly underway, it could not be better situated to take advantage.

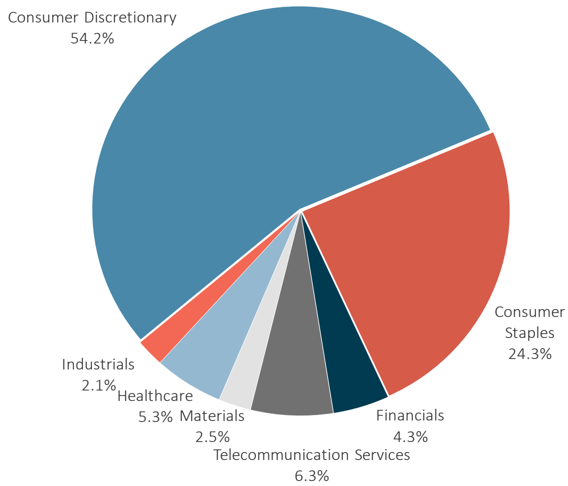
Portfolio statistics[6]

As at 30 September 2019		
	MGVEF	Index
Weighted avg market cap	US$1,376m	US$16,341m
Median market cap	US$542m	US$5,370m
EV/EBITDA	6.0x	11.4x
Price/FCF	9.8x	20.5x
Free cash flow yield	10.2%	4.9%
Number of securities	18	2,852

Top 10 holdings[7]

As at 30 September 2019		
Stock	Country	Weight
Revlon	US	20.5%
Aimia	Canada	19.2%
International Game Tech	US	7.9%
AMC Entertainment Holdings	US	6.6%
Village Roadshow	Australia	6.4%
KT Corp	Korea	6.3%
Clear Media	Hong Kong	6.1%
CMIC Holdings	Japan	5.3%
ABS-CBN Holdings	Philippines	4.0%
Intralot	Greece	2.9%

Sector allocation[7]



6. Portfolio statistics are reported in USD and are as at 30 September 2019. The statistics are updated in the report as at the end of each quarter.
7. Portfolio holdings, country allocation and sector allocation of MGVEF are as of 30 September 2019 and are subject to change and should not be considered as investment recommendations to trade individual securities. Country allocation does not include cash. The securities herein identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. There is no assurance that any securities discussed herein will remain in the portfolio at the time you receive this report, or that securities sold have not been repurchased. There can be no assurance that investment objectives will be achieved.

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Investment Strategy

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