

Mittleman Global Value Equity Fund

A concentrated global value equity fund targeting private equity-like returns

A Concentrated Global Value Equity Strategy

Barron's, refers to Mittleman's investment strategy as "like private equity only better."¹ It is now available to Australian investors for the first time.

The Mittleman Global Value Equity Fund (the "Fund") invests in a concentrated portfolio of long-term investments across the globe. Unconstrained by capitalisation, sector or geography; to drive differentiated performance it invests wherever the best risk/reward trade-offs are available. The Fund typically holds Mittleman's 15 to 20 best ideas.

Chris Mittleman, the firm's Chief Investment Officer, has used the same strategy since the early 1990s to invest in global sharemarkets.

Mittleman's positioning is often at odds with consensus viewpoints, especially during periods of irrational and emotional extremes. Yet the firm has a client retention rate of over 95% with a client base comprised of university endowments, foundations, pension plans, family offices and high net worth individuals.

"We appraise the value of every company in a way that reflects its private market value in a sale today."
Chris Mittleman

Mittleman's Investment Edge

Mittleman pursues superior returns through a concentrated portfolio of what it believes are extremely undervalued assets.

The firm mitigates risk, defined as the probability of long-term loss of capital, by investing in businesses that they view as proven franchises, with durable economic advantages and by buying at very low valuations. It has minimal interest in benchmarks or tracking error versus an index.²

Mittleman brings a private equity mentality to public equities investing by analysing each stock as if it is buying the entire company, focusing on the cash-on-cash return.

The selection process is research-intensive, relying on proprietary fundamental analysis for all investment decisions and intrinsic value determinations. The firm capitalises on opportunities created by the short-term focus of many market participants and by the limitations of 'street research'.

Mittleman invests in companies that share key characteristics:

- Undervalued businesses with high barriers to entry and strong free cash flow enduring through complete business cycles;
- Potential to achieve a fair or premium valuation due to market recognition of a unique franchise, scarcity value, misunderstood assets or a reorganisation;
- Easy-to-understand businesses, led by strong management teams with a proven track record and a significant personal financial stake in the company; and
- Some impermanent reason for undervaluation and lack of institutional support.

Challenging Convention

A private equity mentality in public equity investing

Capitalising on the market's short-term focus and the limitations of 'street research'

Reputation

Strategy has generated 16.4% p.a. return since inception in Jan 03³

Ranked in the top 1% of global equity strategies over the past 5, 7 and 10 years⁴

At times companies pursued by Mittleman may utilise leverage — but only with predictable and persistent free cash flow which makes that tenable. The firm believes that a business that can tolerate leverage should usually have some to optimise its capital structure.

These are companies that are often unpopular or under-followed and Mittleman often invests before the institutional herd arrives. Consequently some Fund investments may require a longer period of time before their fair value is more fully recognised by the markets.

Mittleman believes the difference between mediocre investment returns and above-average results lies in adherence to its proven investment discipline. That difference stems mainly from the degree of selectivity and patience employed in the application of that discipline. On the whole, the firm has a tremendous track record of generating outsized returns.

Differentiating Characteristics

The Fund's portfolio is concentrated, typically in 15 to 20 global investment opportunities that are rarely found in other portfolios. The Fund utilises a long-term, bottom up, value-oriented approach to portfolio construction. Benchmarks and macro-thematics are not expected to influence portfolio construction.

The Fund typically avoids severely cyclical businesses that burn cash during the down part of a cycle. Historically, about two-thirds of Mittleman's portfolio has been non-cyclical, recession-resistant businesses with little sensitivity to GDP.

The Fund is typically diversified across geography and industry, yet concentrated in the best ideas to drive differentiated performance. A minimum level of stock diversification is maintained, with single positions typically not exceeding a 15% weighting (or 10% at cost).

Acquisitions are made incrementally, typically starting with a minimum 2.5% weighting. Mittleman usually eases into positions on negative pulses and eases out of positions into strength.

Investment Process

Once a potential opportunity has been identified, Mittleman establishes a conservative estimate of fair value through analysis of discounted cash flows, comparable public and/or private transactions, performance metrics over extended periods of time and other assets and liabilities. Each company's extended history of financial performance is analysed to enable reasonably robust projections of likely performance over the next 5 to 10 years.

The firm employs an acquisition strategy rooted in patience, investing only when the target company is available for purchase at a significant discount to Mittleman's assessment of its fair value. Position size is based on estimated total return potential, the perceived risk/reward ratio and liquidity.

Mittleman typically exits positions when an investment reaches or exceeds estimated fair value, if there is a deterioration in the firm's fundamental outlook, or if a superior investment opportunity is found.

Mittleman is unconstrained by capitalisation parameters, but may gravitate towards smaller companies as these often display the greatest disparities between market price and Mittleman's estimate of fair value.

The firm does buy large companies as well, when they are priced attractively enough. Mittleman's ability to go wherever the best risk/reward ratios are available, in companies small and large, in developed and emerging markets, gives it an advantage over other investment managers who operate within more constrained investment universes.

Mittleman will typically not seek to gain control of its holdings and therefore the Fund doesn't pay a control premium. In contrast to private equity, it expects to pay a significant discount from intrinsic value, whereas private equity buyers typically pay a much higher price to ensure a control premium.

The Fund primarily purchases exchange-listed shares and over-the-counter securities. It may also invest in special opportunities such as debt or hybrid securities.

Cash is a residual of the investment process and may at times be elevated when valuations are stretched.

The Strategy

Low turnover,
tax efficient,
average holding period
of 3 years

Stocks not typically
represented in
mainstream equity
portfolios

Highly contrarian
– often at odds with
consensus viewpoints

“Have opinions at
extremes, and wait for
extreme moments.”

Joe Rosenberg,
Loews Corp⁵

Key Fund Features – Class P and W

Fund Name	Mittleman Global Value Equity Fund: – Class P (For IDPS/Wrap Platform Investors) – Class W (For Wholesale Clients, as defined in the Corporations Act 2001)
Investment Manager	Mittleman Investment Management, LLC.
Fund Inception Date	13 June 2017
Offering Document	Product Disclosure Statement (PDS)
Management Costs	1.5% p.a. (inclusive of GST and RITC)
Performance Fee	20% of the excess return over the MSCI All Country World (ACWI) Net Total Return Index (AUD), subject to a high water mark. See PDS for further details.
Buy/Sell Spread	0.50% on applications and 0.50% on withdrawals
Investment Universe	All listed securities and other permitted securities; see PDS for further details
Currency Hedging	None; the Fund does not hedge its currency exposure; underlying investments will be in various global currencies
Minimum Application	\$250,000 or such other amount as agreed by the Fund's Responsible Entity

Footnotes

- 1 Barron's Magazine, 12 November 2012.
- 2 Tracking error is a measure of the average difference between a portfolio's returns and the benchmark or index it was meant to mimic or beat.
- 3 The Mittleman Investment Management Composite includes all fully discretionary separately managed accounts which follow the firm's investment strategy. Inception date is 1 January 2003. Past performance is no guarantee of future results. Performance is in USD, preliminary based on June 2017 estimates and subject to change upon final reconciliation and reporting, presented net of fees and includes the reinvestment of all income. Net of fee performance was calculated using actual management fees. Effective 1 January 2015 all new SMA account relationships of below USD10 million are subject to performance fees. The performance based fee is 20% of the cumulative net positive annual performance in excess of the S&P 500 Total Return Index.
- 4 Informa Investment Solutions' PSN Manager Database is a comprehensive investment manager SMA database: <http://www.informais.com/solutions/investment-manager-and-research-content/psn-enterprise>. Mittleman's peer group comparisons are represented as gross of investment management fees. Rankings are not a guarantee of future results.
- 5 Joe Rosenberg is a well-regarded and outspoken investor. He is a successful value-oriented chief investment strategist at Loews Corporation, one of the largest diversified holding companies in the United States. See <http://www.loews.com/loews-content/uploads/2013/04/GrahamDoddsville.pdf>

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About the Manager

Independent firm,
fully controlled by staff

“Sometimes the difference between success and failure was not just about our understanding and steadfast belief in the value of a holding, but how long we were willing to wait to achieve that result.”
Chris Mittleman

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