RESEARCH NOTE

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Finding value in the unpopular: Chris Mittleman's differentiated global equities strategy receives a warm welcome.

Investor roadshow wrap-up.

Wrapping up a week of meetings with contrarian value investor Chris Mittleman, CIO and Managing Partner, Mittleman Investment Management, LLC ("MIM") we reflect on some of the key characteristics of Chris' investment strategy that were found to be most differentiated and appealing at this point in the market cycle. With holdings in the portfolio trading at the largest discount to Chris' appraisal of fair value in nearly a decade, the strategy appealed to many investors who believe mainstream equity valuations are at extremes.

Reiterating a quote that inspired him early on in his career: 'Have opinions at extremes, and wait for extreme moments' (Joe Rosenberg, Loews Corp), Chris compared the current environment to the late 1990s when the market was full of popular stocks trading at high valuations. Clients who became the foundation of MIM experienced positive returns from 1997 through 1999, but significantly underperformed the popular indices, only to be followed by a 3-year period (2000 through 2002) where the S&P 500 dropped nearly 40%, the NASDAQ about 65%, and Chris' clients were up about 20% cumulatively (unaudited and not part of the MIM Composite track record).

Introduction

The Mittleman Global Value Equity Fund invests in a concentrated portfolio of long-term investments across the globe. Unconstrained by capitalisation, sector or geography the fund invests wherever the best risk/reward trade-offs are available. Chris Mittleman has used the same strategy since the early 1990s to invest in global markets. Chris' positioning is often at odds with consensus viewpoints, especially during periods of irrational and emotional extremes. MIM's client base spans university endowments, foundations, pension plans, family offices and high net worth individuals.

Differentiating characteristics

Several key characteristics distinguish MIM and the Mittleman Global Value Equity Fund ("MGVEF"):

1. Performance[1]: MIM's strategy has produced exceptional performance consistent with Chris Mittleman's investment philosophy for over 25 years[2]. **Compounding at 15.6% pa through 30 September 2018 since inception, MIM's Composite performance is ranked in the top 1% of global equity accounts in the PSN Manager Database over the past ten years and since inception[3]**.

2. FUM: MIM managed US$457m as of 30 September 2018, which is comparatively low vs peers with similar track records. Chris outlined that client 'selection' (i.e. finding investors who are aligned with his strategy and have the patience to endure the volatility that it experiences) has been as important to his long-term success as stock picking. **During the past 4 plus years of relative underperformance (including 2014), MIM has seen net inflows which is a testament to his clients' alignment.**

3. Client retention: **MIM has an average annual client retention rate[4] of approximately 96% since its inception**.

1. All references to MIM's performance used in this report are net of fees and refer to the Mittleman Investment Management Composite ("MIM Composite").
2. Chris Mittleman began investing accounts aligned with his strategy in 1993. MIM was founded in 2005. The Mittleman Investment Management Composite inception is 31 December 2002.
3. PSN Manager Database, September 2018.
4. Client retention rate is the historical annual average beginning on 31 December 2002; it is calculated based on each year's beginning assets under management ("AUM") less outflows attributable to closed accounts for such year over total Firm beginning AUM for each such year.

Past performance is no guarantee of future results. See Important notes on last page of this document.

4. Calibre of Chris Mittleman's decision-making: The pillars of MIM's investment policy are autonomous thought, discipline, knowledge, patience, focus, and hard work. Chris Mittleman has accrued knowledge and wisdom from over 25 successful years in the industry, evident in his proven ability to deal with short-term adversity. **Of the 93 stocks Chris' clients have held since the inception of the MIM Composite's track record, he has achieved a 70% hit rate**[5].

5. Differentiated holdings: MIM's holdings are rarely found in other global equity portfolios and are absent from the top 10 holdings of index funds. It typically invests in unpopular or under-followed companies before the institutional herd arrives. Thus, **MIM, with its autonomy of thought, can introduce a new set of risks (and thus drivers of return) to an aggregate global equity portfolio**.

6. Private equity characteristics: MIM analyses individual stocks as if it is purchasing the entire company, focusing on its cash-on-cash return. **Quite often this private equity-like assessment of value results in portfolio holdings being targeted for buyouts which then attract a premium price to market value**. Like private equity, the firm also believes that a business that can tolerate leverage should, in most cases have some leverage to optimise its capital structure.

7. Lack of constraints: Unlike most global equity investors, MIM is unconstrained by capitalisation, geography or sector; it invests wherever there is the greatest disparity between fair value and price. **A modest but not insignificant amount of capital affords Mittleman increased flexibility to build wealth for investors.**

8. Definition of risk and margin of safety: **Rather than focussing on beta[6] and portfolio volatility, MIM defines risk as the probability of long-term capital loss.** MIM views volatility as an opportunity. It mitigates risk by enforcing a sufficiently high margin of safety in its acquisition price, through its preference for recession-proof or recession-resistant businesses with stable earnings and through its acknowledgment of discipline, patience, knowledge and focus as timeless elements of long-term success.

About Mittleman Investment Management

Based in New York, Mittleman Investment Management is one of the highest ranked global equity managers since the strategy's inception (Informa Investment Solutions' PSN Manager Database). Mittleman's Chief Investment Officer, Chris Mittleman, has utilised the same strategy since the early 1990s. He has developed a strong following in the United States from endowment, foundation and family office investors for his highly contrarian approach to value investing.

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5. The number of stocks held that have made money divided by the total number of stocks held.
6. Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta is used in the capital asset pricing model, which calculates the expected return of an asset based on its beta and expected market returns.

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Important notes:

Performance figures quoted in this paper are derived from the Mittleman Investment Management Composite ("MIM Composite") which includes all fully discretionary separately managed accounts which follow the firm's investment strategy. Inception date is 31 December 2002. Past performance is no guarantee of future results. Performance is 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. The actual performance of an investor in MGVEF is likely to vary from the performance shown herein due to various factors, including but not limited to, the Fund's structure, portfolio holdings, its fees & expenses, its capital flows, the date/timing of an investor's subscriptions and redemptions. Holdings and turnover data are based on a representative account which is an actual, separately managed portfolio representative of the firm's investment strategy.

Mittleman Investment Management, LLC claims compliance with the Global Investment Performance Standards ("GIPS®") and has prepared and presented this report in compliance with the GIPS standards. Mittleman Investment Management, LLC has been independently verified by ACA Performance Services, LLC ("ACA") from April 1, 2017 through June 30, 2018 and by Ashland Partners & Company, LLP ("Ashland") for the periods from January 1, 2006 through March 31, 2017. (ACA acquired Ashland's GIPS verification and performance practice effective June 2017.) Verification assesses whether (1) the firm has complied with all the MIM Composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The MIM Composite has been examined for the periods January 1, 2006 through June 30, 2018. The verification and performance examination reports are available upon request.

The use of the S&P 500 herein has not been selected to represent an appropriate benchmark with which to compare against the MIM Composite's performance or an investor's performance in the Fund, but rather it has been provided to allow for comparison of such performance to that of a certain well-known and widely recognized broad-market index. The S&P 500 is an unmanaged index compiled by Standard & Poor's. The index is weighted by market capitalisation and its returns include the reinvestment of dividends. The index does not account for transaction costs or other expenses which an investor might incur in attempting to obtain such returns. The index was taken from published sources and deemed reliable. You cannot invest directly in an index. Investments made by Mittleman Investment Management, LLC for its clients' portfolios that comprise the MIM Composite as well as those of MGVEF differ significantly in comparison to this (and any other) index in terms of security holdings, industry weightings, and asset allocations. Accordingly, investment results and volatility will differ from those of the benchmark.

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