MITTLEMAN BROTHERS
INVESTMENT MANAGEMENT

Mittleman Global Value Equity Fund – Class P

Quarterly Report – March 2019

Portfolio Commentary[1]

The Mittleman Global Value Equity Fund – Class P (MGVEF) declined 0.2% net of fees in the first quarter of 2019, underperforming the MSCI ACW Total Return Index which gained 11.2%.

In Q1 2019, the top three performing stocks, from a contribution standpoint, were **AMC Entertainment (AMC)**: $12.28 to $14.85 (+21% includes dividend), **Aimia Inc. (AIM CN)**: $2.71 to $2.93 (+8%), and **Clear Media (100 HK)**: $0.78 to $0.88 (+13%).

The bottom three performing stocks, from a contribution standpoint, were **Revlon (REV)**: $25.19 to $19.38 (-23%), **KT Corp. (KT)**: $14.22 to $12.44 (-13%), and **International Game Technology (IGT)**: $14.63 to $12.99 (-11%).

Detailed portfolio commentary for Q1 2019 follow below.

Quarterly Investment Review[1]

"Nervous energy is a great destroyer of wealth."- Fayez Sarofim[5]

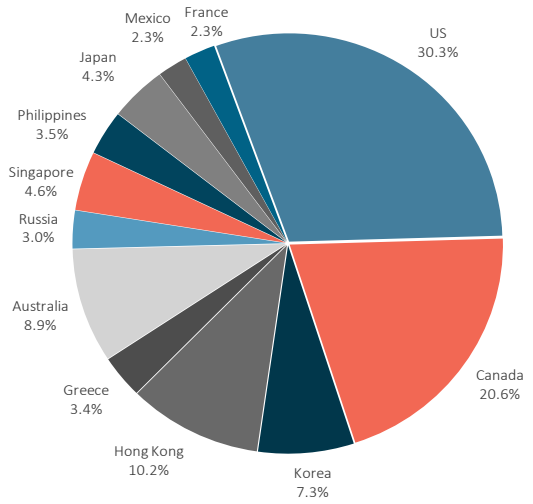
The new year brought a renewed wave of optimism, and equity markets rallied across the board in Q1 2019. In the US, growth stocks were back in vogue after taking a backseat to value in Q4. International markets lagged the US, albeit both developed and emerging markets were up 10% over the quarter. Concerns over the China-US trade dispute abated as a resolution appears more likely, and major central banks grew more accommodative, stepping away from tight monetary policy in the Eurozone and the Fed indicating a more dovish position. Markets rallied on the positive developments, and while most equity markets fully recouped losses of 2018 and made new highs during the quarter, the Fund remained flat.

Few things are more FOMO-inducing than parabolic stock price ascension with a sexy story to promote it, but Q1 2019 has a few too many similarities to Q1 2000 in that regard. Be it dot.coms or unicorns, bitcoins or cannabis start-ups, MIM advise that you keep your own nervous energy in check. You either take advantage of the market, its volatility and vicissitudes, or you let the market take advantage of you, by pushing you to buy or sell at inopportune moments, in panic or exhaustion. So, while ever open to and always seeking new opportunities, MIM's existing portfolio looks very well positioned, particularly versus the popular averages.

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] – 31 March 2019	MGVEF (Class P)	Index (AUD)	Excess Return
1 Month	(7.6%)	1.4%	(9.0%)
3 Months	(0.2%)	11.2%	(11.3%)
1 Year	5.8%	10.9%	(5.1%)
Since Inception[3]	2.4%	12.0%	(9.6%)

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 31 March 2019 and are subject to change and should not be considered as investment recommendations to trade individual securities. Country allocation does not include cash.
5. Sarofim, a billionaire investor with more than 60 years of experience, warns against panic selling during market corrections, but also against abandoning your core investment discipline to chase the most popular (expensive) names of the moment. The popular acronym, FOMO ("Fear of Missing Out"), is likely not in his lexicon.

MIM owns almost nothing in common with the popular indices, so being out of sync with those in any given time frame is no surprise, and that lack of similarity is not something MIM regrets or seeks to alter.

The businesses MIM owns are performing largely in line with its expectations and thus at some point MIM expects to see fair value expressed in the share prices, which would require more than 100% appreciation from the portfolio overall. MIM also finds an unusual number of potential catalysts embedded in the portfolio that will likely manifest before year-end.

MIM estimates the weighted average valuation for its 19-stock portfolio ended 31 March 2019 at 6x EV/EBITDA (based on est. 2019 EBITDA) and 10x FCF, significantly lower than the valuations of major indexes. Its businesses have proven to be less cyclical on average, and more defensive/recession resistant. So, should it turn out that the business cycle eventually yields a recession, MIM's companies should be well prepared for any generalised downturn that may come. While it's painful sitting out these occasional market melt-ups led by high valuation names in favour of maintaining a wider margin of safety, the long-term payoff has been superior returns. Valuation really does tend to matter over the long term, and mindless extrapolation of recent trends does not.

Despite and inclusive of MIM's 5-year underperformance, MIM has significantly outperformed over 10 years. **Broadridge/Lipper ranks MIM's 10-year results as #1 out of 410 equity managers with an international mandate (including global equity strategies; as of 31 December 2018).**

Some colour on the stocks that contributed to and detracted from performance for the Mittleman Global Value Equity Fund follows.

AMC Entertainment (AMC)

AMC rebounded somewhat in Q1 on better than expected Q4 2018 results reported on 28 February, which showed encouraging progress on many fronts. Their A-List subscription program had doubled their initial estimates for subscribers to 700,000 at year-end and should be EBITDA-accretive in 2019, one year ahead of schedule. The AMC Stubs loyalty program has over 19 million members, up from 2.5 million less than three years ago. Online ticket purchases now represent 45% of total tickets sold.

The main area of weakness was in Europe, but MIM views that as within normal cyclicality for that market. MIM expects Europe will be the main growth driver going forward as that is where the most low-hanging fruit is in terms of margin improvement opportunities and renovation-driven (e.g. recliner seat conversions) attendance growth.

MIM believes AMC is worth $27 (+82% from quarter-end price of $14.85) which targets a valuation of 9x EBITDA ($900M est. for 2019) and 12x FCF ($315M). Cineworld (CINE LN) paid 9x EBITDA for Regal in $5.9B in a deal that closed 1 March 2018. As well, an interesting study came out in January 2019 which hypothesises that Netflix, and streaming services in general, may not be a negative influence on theater-going as many fear: https://civicscience.com/netflix-and-movie-theaters-a-love- story/

Aimia Inc. (AIM CN)

Aimia announced a significant share repurchase plan, something that MIM has been pushing it to do for many months. Aimia is targeting C$150M through a modified Dutch auction with a price range of C$3.80 to C$4.50 (stock closed at C$3.92 on 31 March 2019). If it successfully attracts enough sellers, which MIM presumes will require the high-end of the price range to accomplish, that would reduce the shares outstanding by 33.3M or 22% of the current 152.3M shares outstanding, while still leaving about C$480M in net cash on the balance sheet (or just over C$4/share in cash on the reduced share count of 119M).

MIM is pleased with the proposed transaction (and will not participate, as MIM believes the shares are worth much more). It is significantly accretive to NAV per share. **MIM believes NAV per share post-buyback will be just over C$7.00 (USD 5.25) which is 79% above the quarter-end price and a value that it believes should grow over time.**

Clear Media (100 HK)

MIM's third biggest contributor to performance in Q1 was Clear Media, one of the largest outdoor advertising firms in China. Clear Media continued to rebound from troubles in 2018, which included a long trading halt and a very weak October 2018 sales figure of -25%. **MIM argued in its last letter that one bad monthly result should not necessarily ruin the quarter or the year. Year-end results published on 11 March 2019 showed MIM were right, with sales for the full-year +5.7%**, although EBITDA was down 3.6% partially due to some unusual costs that are not likely to recur in the future.

The stock closed out Q1 at HKD 6.90 (USD 0.88), which is a valuation of only 3.75x EBITDA of $109M (2018), in an industry where large peers almost never trade for less than 10x EBITDA. Most of those are highly leveraged entities, whereas Clear Media has a net cash balance sheet. The cash dividend history of Clear Media since MIM started buying it in November 2012 (at HKD 4.00 and a market cap. of USD $282M) is outstanding. About $242M in cumulative cash dividends have been paid out in the (just over) six years that MIM has owned Clear Media.

MIM is encouraged that there have been some encouraging private markets transactions in this space recently. In November 2018, for example, the largest outdoor advertising firm in the world, JCDecaux SA (DEC FP; trading at 10.8x EBITDA), closed on a cash buyout of its much smaller rival in Australia, APN Outdoor (APO AU). It paid 11x EBITDA (AUD 1.167B EV / AUD 103M EBITDA est. for 2019).

As well, Focus Media (002027 CH), a much larger firm in China that handles indoor/ in-building flat screens for advertisers, saw Chinese giant Alibaba take a 6.6% stake for CNY 10.00 per share in July 2018. It paid about 18x EBITDA, while the stock at 31 March 2109 was CNY 6.27, about 13x EBITDA.

If Clear Media attains 10x EBITDA (est. USD 105M for 2019, assumed down from USD 109M in 2018 on China slow down) it would be USD 2.07 per share, up +135% from the 31 March 2019 closing price of USD 0.88 per share, not including the sizable cash dividend payments that MIM expects will continue to be forthcoming.

Revlon (REV)

Revlon traded down after reporting Q4 2018 earnings on 18 March 2019, a report that MIM found far more encouraging than the negative market reaction implied. Revlon's Chairman and largest shareholder, Ron Perelman, apparently agrees, as he bought more shares on the sell-off. Perelman has added 685,000 shares this year through 5 April at weighted average prices from $17.87 to $21.37.

This increased his stake to 87%, worth $892M based on the 31 March 2019 closing price of Revlon.

Weakness in Revlon-branded colour cosmetics in North America, now only 20% of total sales, continued in Q4 2018. The negative stock price reaction ignored positive results at Revlon International, as well as from its Elizabeth Arden brand (with aggregate sales of +18.2% in Q4 and a +22.7% result for its international lines).

Some history regarding Revlon's margins is instructive:

- Revlon's gross margin has averaged 62.7% over the past 26 years from 1993 through 2018, with adj. EBITDA margin averaging 13.2% (both according to Bloomberg, which MIM suspects understates adj. EBITDA margin by failing to add back certain non-recurring charges in some years).
- From 1997 to 2002, Revlon's gross margin declined from 66.8% to 55.0%, and adj. EBITDA margin dropped from 14.2% to 1.3%. Gross margin then rebounded to 62.6% in 2004, and adj. EBITDA to 14.8%, two years after the bottom.
- In 2015 gross margin was 65.1%, with adj. EBITDA margin 19.5%, following which came the decline in U.S. mass market sales, and the SAP ERP implementation snafu last year.
- For 2018 the gross margin was 56.4%, and adj. EBITDA margin was 9.0%.

MIM thinks Revlon is on the path back to normal. It assumes a 13.5% EBITDA margin this year on relatively flat sales, getting EBITDA up to $350M. While the only sell-side analyst following Revlon (at Jefferies) forecasts only $261M in EBITDA for 2019, a credit analyst at Imperial Capital projects run-rate EBITDA of over $400M by year-end 2019.

MIM's first four years of ownership with Revlon were pleasant, as the stock rose from $10 in December 2010 to $41.67 in April 2015, and MIM sold around 20% of its position then at around $40. But the last four years were quite the opposite, with the stock down from $41.67 to $19.38 on 31 March 2019. That said, **MIM thinks the inflection point is upon us, and that MIM will see the $40s again and likely beyond.**

The company has refocused on the fastest growing sales channels, revamped marketing towards social media and continued to release important innovations. Perelman's occasional M&A skills have been accretive, for example, buying Elizabeth Arden for $1B (1x sales) in 2016. This now looks like a brilliant acquisition with a fair market value for Elizabeth Arden that would likely be north of $2 billion today.

In short, Revlon is a publicly traded LBO in a great space with a highly successful sponsor at the helm, with nearly $1B of his own skin in the game. **As margins normalise and total sales returns to growth, free cash flow should return with a vengeance and the deleveraging that ensues should rapidly accrue to equity value.**

KT Corp. (KT)

MIM's second biggest detractor in Q1 was KT Corp., a conglomerate in South Korea focused on telecom, broadband, pay- TV, real estate and credit cards/ banking. It is the largest broadband provider in the country, and the second largest cell phone service provider. There was weakness across the sector in Q1, with primary competitors SK Telecom (SKM) and LG Uplus (032640 KS) also dropping on concerns about pricing and cap-ex in advance of the 5G roll-out in early April.

The company has a large portfolio of excess real estate to redevelop and sell, which does not appear to be valued by the market. **With an EV/EBITDA multiple of 2.5x (on $4.2B EBITDA est. for 2019) and mkt. cap. to FCF ($1.5B) of 4x, KT is one of the cheapest stocks in one of the cheapest markets in the world.** MIM thinks fair value is 5x EBITDA, or 11x FCF. That would be a $31.50 price per ADR, +153% from the $12.44 close on 31 March 2019. By comparison, Verizon in the U.S. trades at 7.7x EBITDA and 13.3x FCF.

International Game Tech. (IGT)

IGT, MIM's 3rd biggest loser in Q1, was off a bit in the quarter for no particular reason that MIM can discern. As the largest lottery systems provider in the world, and one of the largest slot machine producers, MIM thinks the highly predictable recurring FCF here is worth a lot more than the current price implies.

MIM's fair value target is roughly $30, which is 131% higher than the $13 price on 31 March 2019. MIM's target is based on 9x EBITDA of $1.53B (after deducting minority interest) and 12x FCF of $500M.

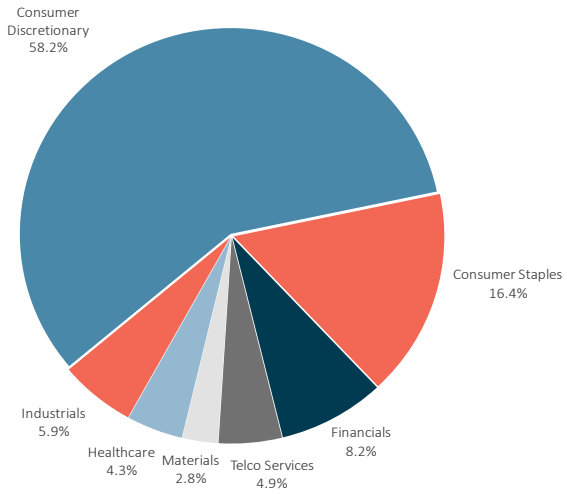
Top 10 Holdings[6]

As at 31 March 2019		
Stock	Country	Weight
Aimia Inc	Canada	20.6%
Revlon	US	12.0%
Village Roadshow	Australia	8.9%
AMC Entertainment Holdings Inc	US	8.5%
International Game Tech	US	6.4%
KT Corp	Korea	4.9%
Jardine Strategic Holdings	Singapore	4.6%
Clear Media	Hong Kong	4.6%
CMIC Holdings	Japan	4.3%
ABS-CBN Holdings Corp	Philippines	3.5%

Portfolio Statistics[7]

As at 31 March 2019		
	MGVEF	Index
Weighted Avg Market Cap	US$4,517m	US$16,301m
Median Market Cap	US$816m	US$5,670m
EV/EBITDA	6.3x	11.0x
Price/FCF	10.2x	17.8x
Free Cash Flow Yield	9.8%	5.6%
Number of Securities	19	2,771

Sector Allocation[6]



6. Portfolio holdings, country allocation and sector allocation of MGVEF are as of 31 March 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.
7. Portfolio statistics are reported in USD and are as at 31 March 2019. The statistics are updated in the report as at the end of each quarter.

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Mittleman Investment Management, LLC (MIM) is an SEC-registered investment advisor based in New York that pursues superior returns through long-term investments in what it deems to be severely undervalued securities, while maintaining its focus on limiting risk. It invests in businesses that are proven franchises with durable economic advantages, evidenced by a well-established track record of substantial free cash flow generation over complete business cycles, and only when the very low valuation at which the investment is made provides a significant margin of safety. MIM's value-oriented strategy is to invest in a concentrated portfolio (usually between 15 to 20 securities) of primarily common stocks, unrestricted as to market capitalisation, and in both developed and emerging markets.

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