Mittleman Brothers
Investment Management

Mittleman Global Value Equity Fund – Class P

Quarterly report – December 2019

Portfolio commentary[1]

The Mittleman Global Value Equity Fund – Class P advanced 1.0% in AUD (net of fees) in the fourth quarter of 2019, underperforming the MSCI ACW Total Return Index by 3.6%.

The top three contributors to Q4 2019 performance were **Clear Media (100 HK)**: $0.50 to $0.83 (+66%), **Aimia Inc. (AIM CN)**: $2.55 to $2.77 (+8.6%), and **Village Roadshow Ltd. (VRL AU)**: $1.92 to $2.67 (+41% with dividend).

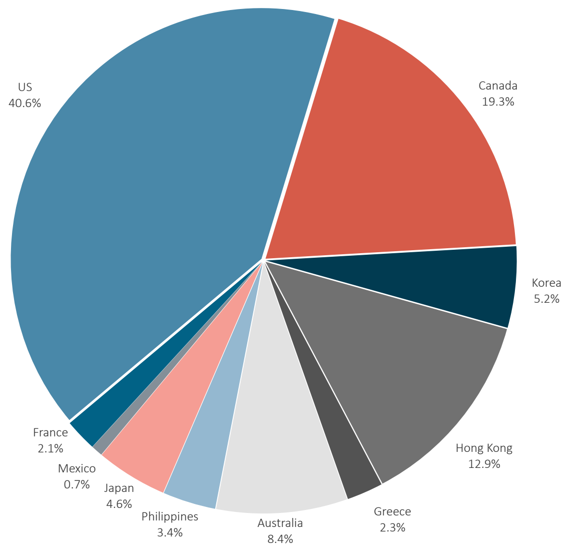
The three most impactful detractors from Q4 2019 performance were **AMC Entertainment (AMC)**: $10.70 to $7.24 (-31% with dividend), **Revlon (REV)**: $23.49 to $21.42 (-9%), and **First Pacific Company (142 HK)**: $0.38 to $0.34 (-12%).

Detailed portfolio commentary for Q4 2019 follows below:

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 December 2019	MGVEF (Class P)	Index (AUD)	Excess return
1 month	(3.8%)	(0.4%)	(3.4%)
3 months	1.0%	4.5%	(3.6%)
1 year	(2.7%)	26.8%	(29.5%)
Since inception[3]	0.3%	14.4%	(14.0%)

Country allocation[4]



Quarterly investment review[1]

The major market indices snapped back from 2018's losses and made new highs in 2019. MIM returned positive performance in Q4 however continued to lag behind the index despite the demonstrable progress towards certain catalytic events that have begun to materialise. But why? Institutional Investor magazine ran an article on November 13, 2019 which seemingly attempted to answer that question, "Why Value Investing Sucks."

https://www.institutionalinvestor.com/article/b1j0mvcy9792vt/Why-Value-Investing-Sucks

That headline implies value investing will continue to underperform. MIM disagrees, having close to two-thirds of the portfolio in recession-resistant or recession-proof businesses (like Aimia, Revlon and AMC) and its other holdings in stunningly undervalued businesses (in MIM's estimation).

There seems to be very little fundamental justification for MIM's underperformance. MIM started the year at a much lower valuation than the S&P 500 (EV/EBITDA of 6.3x vs. 11.8x) and ended the year at an even greater disparity (6.1x EBITDA vs. 14.1x EBITDA). Revenues were up 4.5% for the S&P 500 overall in 2019 (according to Bloomberg consensus estimates), with EBITDA up 7%, while net income and free cash flow were both down slightly. Yet the S&P 500 produced a 31.5% total return in 2019.

MIM, on a weighted average and look-through basis saw a 0.3% sales drop and a 1.4% increase in adjusted EBITDA in 2019. Historically,

1. The securities herein identified and described do not represent all of the securities purchased, sold or recommended for Mittleman Global Value Equity Fund (MGVEF). 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 December 2019 and are subject to change and should not be considered as investment recommendations to trade individual securities. Country allocation does not include cash.

MIM's holdings haven't required much, if any growth in sales or earnings in order to capture market-beating returns over the long-term. By having the investment discipline to buy at a low price relative to intrinsic value, a satisfying return can be achieved even if the business doesn't grow at all. And if it does grow, the returns are even more impressive. To MIM, that is value investing in a nutshell.

Movie Theatres and Make-up

AMC Entertainment (AMC) and **Revlon (REV)** were the biggest detractors to performance in 2019. AMC fell from $12.28 to $7.24, a drop of-36.6% with dividends. Revlon was the second worst, falling from $25.19 to $21.42, a 15% drop with a heavy impact due to its higher weighting in the portfolio.

This contrasts with 2013 when movie theatres and make-up were MIM's biggest winners. Carmike Cinemas (CKEC) the largest contributor to performance that year, rose from $15.00 to $27.84, an 85.6% gain, and Revlon the second best, from $14.50 to $24.96, a 72.1% gain.

The performance of AMC in 2019 would suggest the business is in much worse shape than Carmike in 2013, but this is not the case. At first glance the discrepancy in performance between Carmike and AMC may be explained by the box office. In 2013 box office receipts were up 1.2% vs down 3.9% in 2019.

The underlying business fundamentals however paint a different picture. In 2013 Carmike outperformed the industry and grew revenues by 6.7%. In 2019 AMC outperformed the industry and is set to grow revenues at a relatively more modest 1%. An 85.6% gain for Carmike in 2013 vs a 36.6% drop for AMC in 2019 seems unjustified.

Likewise, in 2013 the mass market for colour cosmetics (Revlon's core business) was still growing, albeit more slowly than the higher priced prestige market. Adjusting for acquisitions, Revlon's sales growth in 2013 fell 1.3%, and EBITDA dropped 4.7%. In 2019 Revlon is estimated to report sales down 3.5%, but EBITDA increased 15% as it begins to reclaim a more normalised profit margin.

"Wisdom lies neither in fixity nor in change, but in the dialectic between the two."

- OCTAVIO PAZ, FROM THE MONKEY GRAMMARIAN, 1974.

One could argue that there's been too much fixity and not enough change in the portfolio. Yet the risk/reward in the current positions remains outstanding from current prices, and the bear case would appear fundamentally flawed.

Revlon was late to revamp its products and marketing to the current environment, but it seems to be working now. And the prestige market started to turn a few months ago, with high price brands like Urban Decay seeing discounts and promotions not seen before.

Women's Wear Daily (a fashion industry trade journal) has also declared the industry has seen the peak of social influencer-led brands. This may call into question some of the nose-bleed valuations (6x or 7x sales) paid by Revlon's competitors for new entrants. Those businesses may prove to be largely personality cults rather than innovative business models.

Revlon is generally trending better in the point of sale scan data, as is its other mass market brand Almay. Elizabeth Arden, the prestige business Revlon bought so cheaply at 1x sales in 2016, continues to be the best performing part of Revlon's overall group.

Any or all of the Revlon entities might be sold in the near term, as Revlon hired Goldman Sachs to explore possibilities beginning in late August/early September 2019. MIM continues to expect a valuation of no less than 2x sales, which is now about $38/share (+77% from 31 December 2019 closing price of $21.42).

Lastly, Revlon has proven to be highly recession resistant. Sales declined only 1.5% in 2008 and EBITDA and FCF both grew in 2008 and 2009. Contrast this with higher end purveyors like Estee Lauder who suffered an 11.6% loss in sales for 2008 and EBITDA falling more so. Revlon is somewhat more susceptible to cyclical weakness now that it owns the prestige-priced brand Elizabeth Arden (since 2016). The vast majority (80%) of Revlon's sales however are still mass market/value-priced brands like Revlon and Almay. This bodes well for Revlon as mass market brands are set to gain as the prestige market begins to pulls back.

As for AMC, the market panic over streaming services, the potential for further shortening of the exclusive theatrical release window, and a supposedly weak slate of movies in 2020, is overdone. While the U.S. box office did retreat in 2019 (from an all-time record in 2018), it is rare to see two down years in a row on that measure.

The repeal of the 1948 Paramount Decrees opens up the possibilities for studios to once again own theatres. The profitable theatrical distribution channel is all of a sudden much more valuable to the money losing streaming services companies.

Movie theatres also have untapped pricing power. If utilised in 2020 it could make another weak year in attendance into a flat or up year in box office revenues. AMC is able to call on this as needed because ticket costs remain very reasonable compared to alternative forms of outdoor entertainment, such as a baseball or football game, or a rock concert.

Since Disney World opened on October 1, 1971, it has raised Magic Kingdom ticket prices from $3.50 in 1971 to $125 in 2019. This is a 7.7% CAGR over those 48 years in which CPI inflation was 3.9%. During that same time period an average movie theatre ticket has increased from $1.65 to $9.16 (3.64% CAGR). That does not include the price increases the theatre owners have obtained on food and beverage options, which are now about a third of total sales. Movie theatres still have the kind of pricing power that most would associate with a strong business franchise.

The market deems movie theatres a dying business in the age of Netflix. The market also once said Best Buy (BBY) was doomed to be "a showroom for Amazon.com" after the Circuit City and Radio Shack bankruptcies. And yet from the depths of the panic concerning Best Buy's future in an Amazon.com world, on 31 December 2012 BBY was $11. It is now at $90, up 8.2x. Amazon went from $251 to $1,848 for a gain of 7.4x.

The disrupted outperformed the disrupter, almost entirely due to the starting point valuation. From this starting point, AMC is poised to play out in much the same way versus Netflix.

MIM believe the short sellers' thesis on movie theatres dying is a false narrative. And sell-side analysts that overly focus on 2020 box office results as the end-all for their valuations are similarly mistaken. By late summer 2020 the market will start looking forward to 2021, a year almost uniformly expected by analysts to be another record year for the box office.

AMC has also been dealing with a new lease accounting standard (ASC 842) since 2019 that is making AMC's stock screen poorly on Bloomberg, Factset, etc. ASC 842 now requires leases to be recorded as liabilities on the balance sheet. The effect on AMC is that liabilities appear to have doubled in 2019 vs. 2018. Additionally, adjusted EBITDA now looks like it will be down 18% in 2019, instead of down 4% which would be the apples-to-apples comparison.

MIM estimates that AMC is worth $25 per share, nearly 250% above its year-end price of $7.24. At $25 AMC would have a $3.4B market cap on a fully diluted share count of 135.5M, and just over 11x FCF of $300M, and about 10x EBITDA (using slightly higher EBITDA multiple on structurally lower EBITDA post ASC 842). This is the same multiple at which Cineworld (CINE LN), owner of Regal, is buying Canada's Cineplex now.

Disney would be the most obvious buyer for AMC. The acquisition would be immediately accretive (on almost all metrics) even if Disney paid as high as $30 per share. Disney would then control a significant chunk of theatrical distribution, thus pre-empting a potential disrupter like Netflix or Amazon from doing so. Disney could also make the front end of every suitable AMC location into a mini-Disney store selling merchandise and services (Disney+, Disney World, Disneyland, Disney Cruise packages, etc.).

Clear Media (100 HK)

Clear Media is one of the largest outdoor advertising firms in China. MIM mentioned Clear Media in the last letter (Q3 2019) as one of the top losers due to the slow-down in China. MIM increased the position into that weakness from 6% of shares outstanding to 7%. The stock ran up in November and December on news that Clear Media's controlling shareholder, Clear Channel Outdoor (NYSE: CCO) was considering selling its stake. Clear Media updated the market on this past Friday, January 24, with news that CCO had "begun preliminary discussions with a potential purchaser" regarding its 50.4% stake in Clear Media.

MIM's estimate of fair value is 140% higher than the year-end closing price, and that puts the company at 10x EBITDA (normalised, 5-year average). Almost all public outdoor ad firms already trade above that level in the open market. This is encouraging for the near-term prospect of achieving fair value on the third largest holding in the Fund.

Aimia Inc. (AIM CN)

Aimia had a modest share price gain in Q4 which belies the progress that was made in efforts that MIM have led to improve the company's governance. A settlement of litigation between Aimia and Mittleman Brothers was announced on November 18, 2019, and as part of that settlement a new board led by shareholders, which includes Phil Mittleman, will be in place by late February. The company bought back more common shares and some preferred shares (at a large discount to par value) during Q4, transactions that were accretive to intrinsic value per share. MIM's current estimate of NAV is US$5.77 per share[5].

The share price closed the year at roughly the value of its cash on the balance sheet. The Club Premier business (the frequent flier program of Aeroméxico) has grown at double digits for the past 10 years. It is generating approximately US$60M per year in unlevered free cash flow, on just over US$90M in adjusted EBITDA. The market is simply missing the magnitude of this opportunity.

That such a high quality asset exists in a debt-free, cash-heavy investment vehicle with significant tax loss assets and a shareholder-oriented new board about to take control is a very unusual situation. It exists at a price that is approximately half of what MIM conservatively appraises as fair value.

The position is sized commensurate with the level of conviction in the outstanding risk/reward ratio on offer. The new board will be in place by the end of February, at which point, MIM believes the market will begin to better recognise the intrinsic value embedded in the stock.

Village Roadshow Ltd. (VRL)

Village Roadshow Ltd. operates theme parks and movie theatres in Australia. The stock was up over 40% in Q4 on a takeover offer that MIM feels drastically undervalues the shares. These views have since been communicated to the company's board of directors.

VRL has been a holding since Q1 2017. The simple thesis being VRL would recover to the normalised EBITDA and FCF levels prior to the tragic accident in October 2016 at a competing theme park, Dreamworld. The recovery MIM expected appears to be happening.

After the initial A$3.90 bid from Pacific Equity Partners ("PEP") was announced on December 18, 2019, a slightly higher offer of A$4.00 from another private equity firm, BGH Capital, was announced on January 23, 2020.

MIM considers both offers inadequate at roughly 7x EBITDA. In the 6 years prior to the Dreamworld tragedy (2010-2015) the stock traded at an average 8.6x EBITDA, in the open market, with no control premium. That same 8.6x multiple would put the stock at $5.09, up 31% from the original $3.90 offered.

Previously, Pacific Equity Partners ("PEP") bought competing movie theatre chain Hoyts from a James Packer-controlled entity in December 2007. PEP paid a fair price of 9.2x EBITDA ($440M for $48M EBITDA) for a theatre chain in need of heavy capital investment to regain competitiveness. In 2014 PEP sold Hoyts to Wanda for a reported $1B, or 11x EBITDA of $94M.

Village Roadshow's JV partner in the theatre business, Event Hospitality & Entertainment (EVT AU $14), currently trades in the open market at 10.4x EBITDA (on calendar 2020 est.). EVT does however get 44% of sales from higher margin/higher valuation hotels and resorts, but Village Roadshow gets 33% of sales from higher margin/higher valuation theme parks, so the pair are comparable from a valuation perspective.

Village Roadshow's most direct competitor in theme parks, and owner of Dreamworld, Ardent Leisure trades at 9.4x EBITDA (on calendar 2020 est.). Village Roadshow operates a Seaworld, and Seaworld itself trades at 10x EBITDA. Six Flags trades at 11x EBITDA. Merlin, owner of Legoland and Madame Tussauds, was bought out in late 2019 by insiders with private equity partners for 11x EBITDA. In the theatre space Cineplex in Canada was just bought out by Cineworld for 10x EBITDA. In 2017 Village Roadshow sold a 50% stake in Golden Village theatres in Singapore for 10x EBITDA.

MIM believes a buy-out of Village Roadshow should not occur at less than 9x EBITDA ($5.42 per share).

From 2010 to 2014 Village Roadshow spent $200M buying back shares at valuations that average over 7x EBITDA. It is questionable for VRL directors to now approve a sale at or below the 7x EBITDA level at which they felt the stock was so cheap previously.

5. Indicative NAV (net asset value) does not purport to reflect a comprehensive valuation of Aimia. The calculated indicative net asset value does not include any value for Aimia's share of unrestricted cash at PLM and does not count PLM's points liability, nor does it include anticipated restructuring costs at ISS, ILS, and/or CLS or any other potential sources of cash usage likely to be incurred during the remainder of this year. A valuation is a subjective exercise and indicative net asset value does not necessarily consider all elements that could affect the valuation of Aimia. Investors may reasonably differ on what such elements are and their impact on Aimia. No representation or assurance, express or implied is made as to the accuracy and correctness of indicative net asset value as of this date or with respect to any future indicative or prospective results which may vary. Cash includes C$100M restricted cash which MIM believe will become fully available for use. CAD/USD = 1.30 as of 31 December 2019.

First Pacific Co (142 HK)

MIM began selling **First Pacific** in Q4 and have almost completed that process. The proceeds will be used to concentrate further in Clear Media and other higher conviction names which have a better sense of near term timing.

MIM misjudged both the fundamental trends of the underlying businesses and the capital allocation skills of its management. First Pacific refused to buy back shares at 40% to 50% of NAV in any meaningful way, despite years of prodding by MIM and others. This in and of itself should have been a sign to exit the position.

In conclusion, 2019 was another frustrating year and a punctuation mark on a 5-year period of under-performance since MIM's high-water mark of 30 August 2014. However there are, MIM believes, several exciting catalysts in the not too distant future. Two of the top five holdings are now in takeover talks (Clear Media & Village Roadshow), and another (Revlon) well into the sale process, along with the change in governance at Aimia about to transpire.

The last time MIM had 3 takeovers in one year was in Q3 & Q4 of 2011 (Rural/Metro (RURL) and Avis Europe (AVE LN). M&F Worldwide (MFW) closely followed with another couple in early 2013, Virgin Media (VMED) and Health Management Associates (HMA). This was a total of 5 takeovers in a year and a half period. If things stay cheap enough long enough, sometimes that is the way fair value gets resolved.

MIM's biggest gains have almost always followed its biggest pains. And as this article shows, that is not such an uncommon pattern of occurrences:

https://www.morningstar.com/news/dow-jones/20191214133/the-secret-to-winning-big-losing-big-wsj

As expected, catalysts have materialised that are expected to bring forth fair values for three of the top five holdings, likely providing substantial price gains. For the rest of the portfolio where no overt M&A activity is currently discernible, MIM would not be surprised to see more eventuate given the persistence and magnitude of their undervaluation.

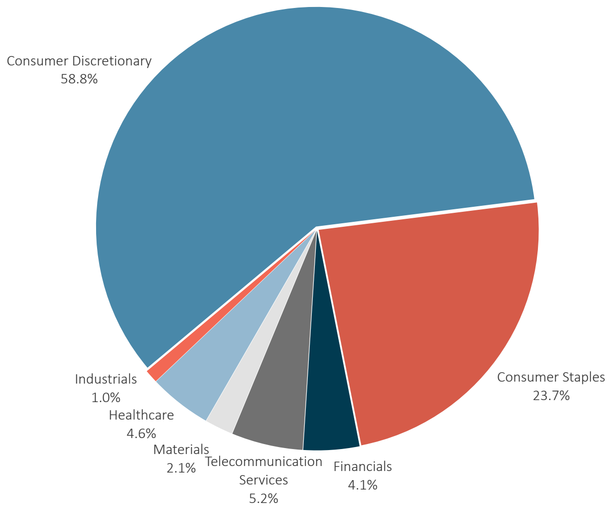
Portfolio statistics[6]

As at 31 December 2019		
	MGVEF	Index
Weighted avg market cap	US$1,214m	US$16,682m
Median market cap	US$593m	US$5,317m
EV/EBITDA	6.3	12.2
Price/FCF	9.6	23.3
Free cash flow yield	10.4%	4.3%
Number of securities	17	3,050

Top 10 holdings[7]

As at 31 December 2019		
Stock	Country	Weight
Revlon	US	19.7%
Aimia Inc	Canada	19.3%
Clear Media	Hong Kong	9.3%
International Game Tech	US	8.6%
Village Roadshow	Australia	8.4%
AMC Entertainment Holdings Inc	US	6.7%
KT Corp	Korea	5.2%
CMIC Holdings	Japan	4.6%
ABS-CBN Holdings	Philippines	3.4%
American Equity Inv Life	US	2.6%

Sector allocation[7]



6. Portfolio statistics are reported in USD and are as at 31 December 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 31 December 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 MGVEF. 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.

Important Notes

The use of the MSCI ACWI herein has not been selected to represent an appropriate benchmark with which to compare against an investor's performance in the Mittleman Global Value Equity Fund (MGVEF), but rather it has been provided to allow for comparison of such performance to that of a certain well-known and widely recognised broad-market index. The MSCI ACWI is an unmanaged index compiled by MSCI. 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 (MIM) for its clients' portfolios including 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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For more information contact: Natalie Hall on
+61 2 9328 6445 or nataliehall@brookvine.com.au

Investment Strategy

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