# Mittleman Global Value Equity Fund – Class P

## Quarterly report – March 2020

### Portfolio commentary[1]

The Mittleman Global Value Equity Fund – Class P declined 33.4% in AUD (net of fees) in the first quarter of 2020, underperforming the MSCI ACW Total Return Index by 23.7%.

Only one stock contributed positively to Q1 2020 performance, **Clear Media (100 HK)**: $0.83 to $0.90 (+8.4%), but in terms of best (least bad) performers, it was followed by **Spectrum Brands (SPB)**: $64.29 to $60.00 (-6.2% with dividend, $60 avg. sale price in February position exit) and **ABS-CBN Holdings Corp. (ABSP PM)**: $0.30 to $0.27 (-10%).

The top three detractors from Q1 2020 performance were **Aimia Inc. (AIM CN)**: $2.77 to $1.49 (-46%), **Revlon (REV)**: $21.42 to $10.93 (-49%), and **Village Roadshow (VRL AU)**: $2.67 to $0.83 (-69%).

Detailed portfolio commentary for Q1 2020 follows below:

### Quarterly investment review[1]

The Corona-crash of 2020 graced investors with another "once in 100 years" market event, but with this one coming barely more than 10 years after the last one. Former U.S. Federal Reserve Chairman, Ben Bernanke, on 25 March said that the COVID-19 crisis was closer to a bad snow storm, or natural disaster, than to the Great Depression. In contrast, IMF Managing Director Kristalina Georgieva on 3 April called it "humanity's darkest hour." MIM believes the impact of the crisis will be looked back upon as having been somewhere in between those two polarities. Historical data available on the matter argues that a pandemic-related recession should be a relatively brief affair since the impetus itself is always fleeting.

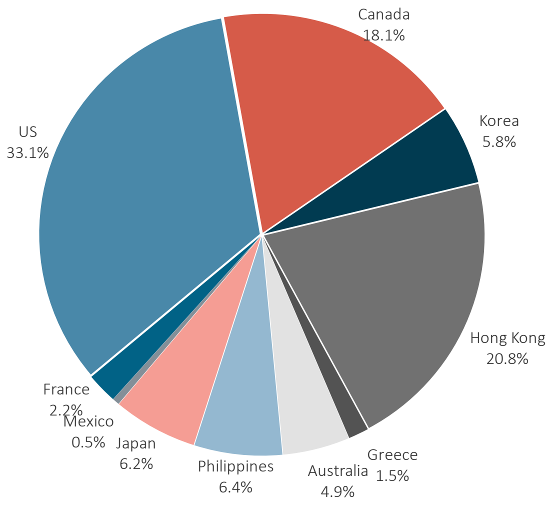
MIM draws conclusions from market turmoil experienced in 1918. A different time, with many mitigating factors, not the least of which was the massive federal spending (16% of GNP in 1918) on World War I until it ended. It is encouraging, as the US is projecting nearly 19% of GDP in deficit spending in 2020 in this war against the virus, comparable to the deficit spending in World War II.

COVID-19 virus will not see a war-time destruction of critical infrastructure and after it passes, most of the population will likely resume their normal way of life. There will be frictional costs as furloughed and/or fired workers will need to be re-hired, and some will have found other jobs in the interim. Offsetting those costs are the unprecedented stimulus programs, and pent up demand for goods and services.

| 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 2020 | MGVEF (Class P) | Index (AUD) | Excess return |
|---|---|---|---|
| 1 month | (26.3%) | (8.9%) | (17.4%) |
| 3 months | (33.4%) | (9.7%) | (23.7%) |
| 1 year | (35.0%) | 3.0% | (38.0%) |
| Since inception[3] | (15.2%) | 8.1% | (23.3%) |

### Country allocation[4]




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 March 2020 and are subject to change and should not be considered as investment recommendations to trade individual securities. Country allocation does not include cash.

In 2008, there was an indiscriminate fire sale of almost all equities with significantly leveraged balance sheets, as the ability to refinance short-term and near-term debts for all but the most credit worthy were called into question. The fears were not unfounded in general, an exception being the vast majority of MIM's leveraged holdings, which survived and went on to thrive after that harrowing episode.

In 2020, debt is again the focal point, but not because there is fear that credit will be unavailable (unlike in 2008, banks entered this crisis very well-capitalised). Instead, investors are concerned businesses will be unable to produce the cash flow necessary to support existing debt quickly enough to allow for refinancing, due to a complete or near-complete shut-down in business activity. This has resulted in normally recession-resistant businesses like AMC (movie theatres) and Revlon (cosmetics) becoming unusually vulnerable in this unique type of recession.

MIM's optimism in 2008 was due to a belief its portfolio companies, however leveraged some were going into the crisis, would survive any reasonable shut-down of credit availability, and would survive because liquidity would be the issue, not solvency.

MIM's optimism in 2020 is similarly based on a belief that the shutdown of affected businesses will not last longer than 2 to 3 months and that any liquidity issues will be curable, even if debt restructurings are required, without equity being impaired unduly if at all.

The weighted average net debt to EBITDA (on MIM 2021 estimates of EBITDA) for the portfolio in 2020 was just over 2x, versus 1.7x for the S&P 500. Portfolio holdings are significantly less leveraged now than they were heading into the GFC and nearly 50% of the portfolio is held in companies with a net cash balance sheet.

If the shutdown does only last 2 to 3 months, the rebound from the recent crash should be faster than in 2009-2010, when a much deeper decline in the portfolio was fully recouped in 15 months. The market overall did not recover until 2012 to its 31 December 2007 level, whereas MIM regained that level in mid-2010.

Those who said "it's different this time" in 2008 were right in many ways, but wrong about the core issue. That is, that human nature is a constant, and security prices during sentimental extremes become untethered to economic rationality. So, like 2008 was, this time is different but in the most important way, it is exactly the same.

**Clear Media (100 HK)**

Clear Media is one of the largest outdoor advertising firms in China and is China's largest bus shelter advertising panel operator, with 57,000 panels in 25 cities. Since MIM's initial purchase in November 2012, the investment in Clear Media has produced about a 16% CAGR, largely due to cash dividends and return of capital payouts.

**The stock jumped 18% on 31 March 2020 on news that Clear Media's largest shareholder, Clear Channel Outdoor (CCO), has agreed to sell its 50.9% stake to a consortium seeking 100% of the company led by Clear Media's CEO, Han Zi Jing (40%), Antfin Holding (Jack Ma) (30%), JCDecaux (23%), and Chinese state-owned JIC Capital Mgmt. (7%).**

MIM had hypothesised that this situation may eventuate but would have preferred that CCO not sell it so cheaply. The price offered, HKD 7.12 (USD 0.92), while just over double the October 2019 low of HKD 3.50 (USD 0.45), is a low multiple of recently depressed EBITDA, and barely 5x normalised EBITDA (5 yr. avg. of US$100M from 2014-2018), and half of MIM's 10x EBITDA estimate of fair value.

The overleveraged status of CCO, into the maelstrom of the COVID-19 crisis, apparently led them to accept a very low valuation, which puts minority shareholders at risk should enough take up the offer. MIM is optimistic that enough shareholders will reject the low-ball offer. MIM has taken advantage of the price appreciation however and sold a significant portion of the position to buy a couple of new positions and add to select existing holdings. MIM may look to exit the entire position should it look likely the offer will be accepted.

**Spectrum Brands (SPB)**

**MIM exited its position in SPB in February at around $60, down only 6.2% including a dividend. The sale was to fund other purchases and it proved a somewhat timely exit with SPB closing at $36.37 on 31 March 2020.**

Spectrum was a mixed bag over the past couple of years, with a manufacturing mishap and some other unforced errors muting performance, but since MIM started buying its predecessor entity in 2009 around $20, and its successor Harbinger Group (HRG, which is now the SPB holdco) since December 2010, MIM has made satisfying returns. The stock is attractively priced now down in the $30s and MIM is considering re-entering the position.

**ABS-CBN Holdings Corp. (ABSP PM)**

The large media conglomerate in the Philippines, trading at 2x EBITDA, 4.4x FCF was only down 10% in March as political pressure from President Duterte seems to have subsided.

**The shares have room to more than triple from here just to achieve a more reasonable valuation. The company carries very little debt at less than 1x net debt to EBITDA.**

**Aimia Inc. (AIM CN)**

Aimia was the largest detractor in Q1 as its share price cut in half. A somewhat ironic outcome for what MIM considers the most defensive holding in the portfolio. Aimia holds a great proportion of its value in cash (alone worth well above the current stock price), has no debt, and a 49% interest in an outstanding business (PLM-Aeroméxico's coalition loyalty program).

PLM is highly free cash flow generative and also has a sizable net cash balance sheet. Aeroméxico's massive reduction in flights during the COVID-19 pandemic will significantly cut PLM's gross billings (the "earn" of the key "earn/burn ratio" in that business), but redemptions (the "burn") should also drop proportionately, such that free cash flow should still be significant.

**The impact should be entirely transitory. Aimia also has C$700M in tax assets that MIM does not include in its NAV estimate of C$8.00 / US$5.75 per share, which is 3.8x the quarter-end price. Alas, the perverse illogic of market pricing at times, and yet what wondrous opportunities are produced by such sentimental extremes.**

**Revlon (REV)**

The 2nd largest detractor in Q1 was Revlon, and understandably so, as an overleveraged company saw its sector endure a ~20% sales hit in Q1 2019 due to COVID-19. This robbed the category of its usually defensive nature which was manifest in all prior recessions.

**The stock has begun rebounding somewhat in Q2 2020 as it appears to be successfully refinancing near-term debts. MIM has lowered its fair value target from $38 to $31 on higher debt due to the recent cash burn. The "bank" of billionaire Ron Perelman (87% shareholder), which has not been tapped in this crisis (but was**

**helpful in the early 2000s), or just the perception of it being there provides unusual support to the equity and the entire capital structure during tough times like now.**

Revlon's mass market positioning (except for the 20% of sales from prestige brand Elizabeth Arden) should play to the trade-down effect that tends to support mass market brands much better than prestige brands during recessions. Revlon will likely sell its hair colour business (#1 market share in mass market), its fragrance business or Elizabeth Arden for valuations high enough to facilitate substantial deleveraging of its balance sheet.

**Village Roadshow (VRL AU)**

The 3rd largest detractor in Q1 was Village Roadshow, the owner of movie theatres and theme parks in Australia.

VRL rose strongly in Q4 2019 after a takeover offer from private equity firm Pacific Equity Partners at A$3.90. A higher bid came in at A$4.00 on 23 January 2020 from a competing private equity firm in Australia, BGH Capital. Both bidders are high quality firms with very good track records.

MIM evaluated the bids as too low at 7x EBITDA versus MIM's estimate of 9x at minimum. Then, COVID-19 came, theme parks and theatres shut down, the stock fell from a high of A$4.10 in January to A$0.77 in March (-81%), before ending the quarter at A$1.36 (US$0.83). During this downturn, another larger shareholder showed up, Spheria Asset Management, with just over a 6% stake. MIM has been adding to the position into the weakness, now approaching 6%.

**MIM expects a complete recovery of the theme park and movie theatre business in Australia, and the fair value target has not changed from the year-end letter. MIM is focusing on a normalised 2021 valuation, at 9x EBITDA that's A$5.50 (US$3.37) which is more than 4x the Q1 2020 closing price.**

## Final remarks

War has been described as long stretches of abject boredom, punctuated by moments of sheer terror. Investing feels like that sometimes, with March 2020 being one such moment of the latter type.

When MIM has spoken to investors about what they regret most in bear markets almost no one says "I wish I had sold in advance," but almost everyone says, "I wish I  had bought more aggressively into the depths of it." MIM thinks that same lament will be heard once more in a few years, if not sooner.

A portfolio update call with Chris Mittleman was held on 23 March. The transcript can be found here.

## Subsequent events

On 29 April 2020 Mittleman Brothers LLC, on behalf of itself and its subsidiaries, including Mittleman Investment Management, LLC ("MIM"), its SEC registered investment advisory entity, announced it has entered into a definitive agreement to be acquired by Aimia Inc. (TSX: AIM), a significant holding in the Mittleman Global Value Equity Fund. The transaction is expected to be completed in approximately 45 days from the announcement, subject to due diligence and customary closing conditions. The Mittleman Global Value Equity Fund will continue to operate normally, as before.

Aimia has transformed to create an investment holding company focused on long-term investments in public and private companies, on a global basis, through controlling or minority stakes. The targeted companies will exhibit durable economic advantages, evidenced by a well-established track record of substantial free cash flow generation over complete business cycles, guided by strong, experienced management teams. Mittleman, as Investment Manager of the Mittleman Global Value Equity Fund, will operate as a stand-alone funds management entity and Chris will continue in the role of Chief Investment Officer of Mittleman. Following the closing of the transaction, he will assume the same title at Aimia, as well as join the company's board of directors, and its newly formed Investment Committee (comprised of highly skilled investment professionals, with discernable track records of success).  Phil Mittleman, who has served on Aimia's board of directors since April 2018, has been named interim CEO of Aimia.  It is expected that the appointment will be made permanent upon closing of the transaction.

Aimia also announced that it has merged its Aimia Loyalty Solutions business with Ontario-based Kognitiv Corporation to form a leader in global loyalty. Aimia is to retain 49% ownership of newly merged private entity at a $525 million valuation and the merger reduces Aimia's full time employee count from 450 to 20. This dramatically improved cost structure enables the company to administer and execute its core strategy as an investment holding company with no debt, and a much leaner operational structure.

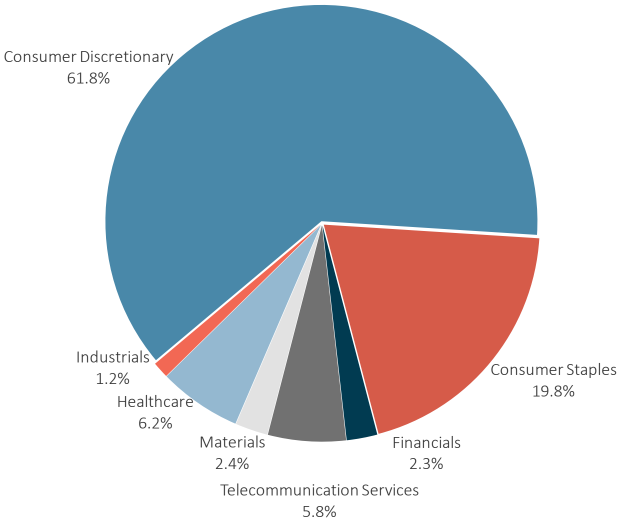
## Top 10 holdings[6]

| As at 31 March 2020 | | |
|---|---|---|
| Stock | Country | Weight |
| Clear Media | Hong Kong | 18.4% |
| Aimia Inc | Canada | 18.1% |
| Revlon | US | 17.6% |
| ABS-CBN Holdings | Philippines | 6.4% |
| International Game Tech | US | 6.3% |
| CMIC Holdings | Japan | 6.2% |
| KT Corp | Korea | 5.8% |
| AMC Entertainment | US | 5.7% |
| Village Roadshow | Australia | 4.9% |
| Greatview Aseptic Packaging | Hong Kong | 2.4% |

## Portfolio statistics[7]

| As at 31 March 2020 | | |
|---|---|---|
| | MGVEF | Index |
| Weighted avg market cap | $US650m | US$13,049m |
| Median market cap | US$328m | US$3,548m |
| EV/EBITDA | 5.1x | 10.1x |
| Price/FCF | 6.8x | 17.1x |
| Free cash flow yield | 14.7% | 5.8% |
| Number of securities | 15 | 3,047 |

## Sector allocation[6]




6. Portfolio holdings, country allocation and sector allocation of MGVEF are as of 31 March 2020 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.
7. Portfolio statistics are reported in USD and are as at 31 March 2020. The statistics are updated in the report as at the end of each quarter.

## 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

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.