MITTLEMAN BROTHERS
INVESTMENT MANAGEMENT

Mittleman Global Value Equity Fund – Class P

Quarterly Report – Q2 2021

Commentary[1]

The Mittleman Global Value Equity Fund (MGVEF) advanced 11.0% in Q2 2021, vs. an increase of 9.0% in the MSCI ACW Net Total Return Index.

The top three contributors to Q2 2021 performance were International Game Technology (IGT): $16.05 to $23.96 (+49.3%), Cineplex (CGX CN): US$9.47 to US$12.01 (+26.8%), and AMA Group (AMA): US$0.42 to US$0.43 (+2.0%).

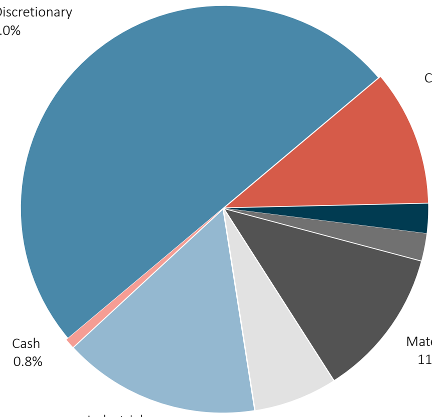
The three most impactful detractors from Q2 2021 performance were Aimia (AIM CN): US$4.11 to US$3.93 (-4.4%), Greatview Aseptic (142 HK): US$0.50 to US$0.45 (-10.0%), and Bayer AG (BAYRY): $15.88 to $15.24 (-0.5% including dividend received May 10th).

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

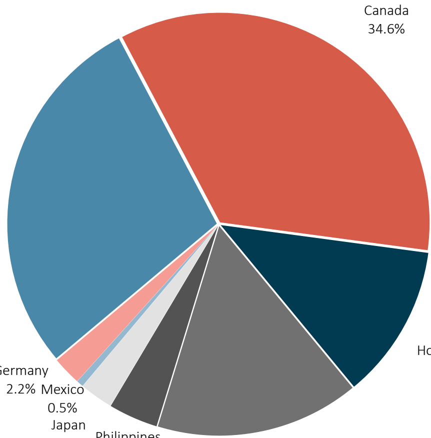
Performance[2] – 30 June 2021

	MGVEF (Class P)	Index (AUD)	Excess return
1 month	2.0%	4.5%	(2.5%)
3 months	11.0%	9.0%	2.0%
1 year	64.8%	27.7%	37.1%
2 years p.a.	12.6%	15.3%	(2.7%)
3 years p.a.	9.1%	14.0%	(4.9%)
Since inception[3]	6.3%	14.4%	(8.1%)

Sector allocation[5]



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 30 June 2021 and are subject to change and should not be considered as investment recommendations to trade individual securities. Country allocation does not include cash.

Top 10 holdings[5]

As at 30 June 2021		
Stock	Country	Weight
Aimia	Canada	22.0%
AMA Group	Australia	15.6%
Cineplex	Canada	12.6%
Greatview Aseptic Packaging	Hong Kong	11.8%
International Game Tech	US	11.1%
Revlon	US	10.8%
ABS-CBN Holdings Corp	Philippines	3.8%
CMIC Holdings Co Ltd	Japan	2.6%
American Equity Inv Life	US	2.3%
Bayer	Germany	2.2%

Quarterly investment review[7]

MGVEF has been a beneficiary of the long-awaited rebound of "value" versus "growth" oriented investment strategies over the past few quarters. And while volatility in the markets is still evident (a drawdown has continued through the beginning of Q3 thus far), over its 18+ years of managing portfolios, MIM has endured many such reversals along multi year stretches of great outperformance. The prospects for its uniquely uncommon portfolio common stock holdings remain compelling, and the realisation of the substantial upside potential it perceives therein should not be derailed by the after-shocks of Covid-19 as they now reverberate around the world.

International Game Technology reported strong first quarter results that far surpassed consensus expectations, driven by a rapid recovery in lottery sales and a more streamlined operation following the sale of their Italy B2C gaming business. The company's global lottery segment (about 80% of IGT's EBITDA) exhibited a complete recovery from the pandemic with its highest revenue and profit levels in its history, with nearly 60% Adjusted EBITDA margins. IGT's Gaming segment recovery is materialising quickly in the U.S. and its high-growth Digital & Betting activities added to its revenue and profit momentum. The company has substantially reduced expenses and enhanced profit margins. In addition, IGT has significantly reduced debt and reiterated that the leverage on its balance sheet would return to pre-pandemic levels by the end of 2021. MIM's conservative estimate of fair value is $30 per share, which would represent an EV/EBITDA multiple of 9x estimated 2022 EBITDA of $1.5B ($1.72B- $220M minority interest) which = EV of $13.5B, minus $7.32B net debt, = $6.18B equity value, divided by 204.9M shares outstanding. This equates to a market cap / FCF multiple of 12x estimated $500M in free cash flow for 2022.

Cineplex's stock did not appreciate nearly as much as its U.S. based peer and former MIM portfolio holding, AMC Entertainment, which soared to an absurd valuation in Q2 as a result of meme-driven trading, but Cineplex is a far superior investment in terms of risk/

Portfolio statistics[6]

As at 30 June 2021		
	MGVEF	Index
Weighted avg market cap	US$2,723m	US$22,350m
Median market cap	US$687m	US$6,810m
EV/EBITDA	7.0x	16.2x
Price/FCF	10.6x	17.0x
Free cash flow yield	9.4%	5.9%
Number of securities	13	2,975

reward at current prices. Cineplex is well diversified, with its non-film entertainment and content businesses (media, amusement and leisure) accounting for nearly one-third of the company's sales in the last pre-pandemic quarter. Canada has lagged behind the U.S. in its containment of Covid-19 and much of the country's movie theatres remained closed through the second quarter. But Cineplex made wise capital allocation decisions through the pandemic to significantly reduce its cash burn and position the company well for the future. As noted in prior investment reviews, Cineplex had agreed to a buyout by Cineworld PLC (CINE LN) for C$34 per share in cash (10x EBITDA) announced on 16 December 2019, which was then repudiated (illegally it seems) by the buyer in June 2020. A trial date has been set for September, but MIM believes the lawsuit will be settled by Cineworld beforehand and that a revised buyout is in the best interest of both parties at around MIM's fair value estimate of C$23 per share (10x EBITDA). Settling in that manner would gain Cineworld, which already owns Regal in the U.S., what they originally sought (before they lost the ability to pay), which was dominance of the North American theatre business achieved on accretive terms. The alternative to a revised buy-out is likely to be a judgement or sizable settlement for which Cineworld would receive no cash flow in return. Also, because AMC has received a windfall of cash this year raised at a very high valuation from the speculative trading supporting its share price, they might be a viable buyer for Cineplex now, so Cineworld might not be just bidding against itself anymore if it does decide to re-engage with Cineplex in that manner.

Revlon ended up slightly during Q2, but the share price continues to be highly volatile due to limited float (Ron Perelman owns over 86%) and high debt on the balance sheet. After a successful refinancing the company faces no major debt maturities until 2023, so Revlon should have the runway to finally attain a long-awaited reversion to the mean on sales growth, gross margin, EBITDA margin, and free cash flow production, with asset sales and deleveraging a further boon to Revlon's equity value. The market seems to forget the speed with which such snap-backs to normal margins have occurred with Revlon, as in 2007 (EBITDA margin 16.5% from 6.9% in 2006) and 2003-2004 (EBITDA margin 9.7% in 2003, 14.8% in 2004, from 1.3% in 2002). A trade-down / return to value-priced products cycle appears to be emerging, and the mass-market is 76% of Revlon's sales. From an article on Revlon competitor Coty, The Wall Street Journal, Jan. 9, 2021:

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"Even though the coronavirus pandemic has pushed people to do more of their shopping online, Americans are buying more of their beauty products at the grocery store and reverting to familiar brands," said Nielsen analyst Nicole Collida. "Consumers are not engaging in new direct-to-consumer brands as much as they are engaging with mass brands," she said. And in a recent issue of WWD Beauty Inc., Nielsen's Tara James Taylor, senior vice president of beauty and personal care, "We do see some shifting to online, but we also see some shifting to drug and mass, which is lower-priced items."

In 2020 Revlon saw that being the #1 U.S. mass-market brand in lipstick, among other beauty products and fragrances, was of little use when no one was wearing lipstick under their pandemic masks. Having survived that black swan event, Revlon should enjoy a big rebound. Jean-Paul Agon, CEO of Revlon's largest competitor, L'Oréal, recently stated, "People will be happy to go out again, to socialise. This will be like the Roaring '20s, there will be a fiesta in makeup and in fragrances."

MIM continues to see Revlon as worth more than double its quarter end price of $12.84, and likely to attain that through a sale of the company in part (Elizabeth Arden, Almay, or American Crew divisions, for example) or in full, in fulfillment of a Goldman Sachs-led sales process that began nearly two years ago.

Aimia held its annual meeting and reported first quarter business results in May. PLM made C$9.8 million in distributions to Aimia in the quarter, as the business continues to perform well with signs of ongoing recovery in its operating performance. Aimia completed the sale of its 20% equity stake in AirAsia's loyalty company BIGLIFE in exchange for 85,864,583 new publicly traded ordinary shares of AirAsia (AAGB.MK) valued at $22.2 million as of 28 June 2021. AirAsia is well positioned to capitalise on the pent-up demand for low-cost air travel across Southeast Asia and this transaction enables Aimia to participate in the upside opportunity with the additional benefit of liquidity in its investment.

Greatview Aseptic issued an earnings warning in late June due to increases in raw material costs (commodities such as liquid paperboard, polyethylene and aluminum). MIM was mindful of this risk, but had hoped that increased volume would offset the higher input costs more than they have. That said, MIM expects these costs to be passed through into pricing going forward and margins should remain in a normal range long-term even if prices remain high. MIM added to its position in Greatview on stock price weakness throughout the first half of the year. Greatview has a debt free balance sheet, an 8% dividend yield, and MIM believes the stock represents an outstanding risk/reward at a preposterously cheap valuation of less than 5x EBITDA estimated for 2022. It also represents a good example of "green"/ESG exposure in the portfolio given that aseptic packaging is recognised as having a much lower carbon footprint than aluminum cans, plastic bottles, or glass bottles.

Bayer announced agreements to resolve major legacy Monsanto litigation in late June. At the ADR's quarter end price of $15.24 per share (with a dividend yield of about 4%), the enterprise value of the Bayer is only €84 billion, just 7x €12 billion in EBITDA estimated for 2022. MIM's fair value estimate of $30 per share, nearly a double from here, implies EV/EBITDA of 11x, and P/FCF of 17x, which should not be too demanding of a valuation for a business with roughly 40% of EBITDA coming from faster growing crop science, where the Bayer/Monsanto combo is the highly dominant player in that industry (#1 in seeds, #1 in crop protection).

GMO published some worthwhile observations in a research note on 18 May 2021 entitled, Value's Turn: Eerie Parallels to 1999 (link: https://www.gmo.com/americas/research-library/values-turn-eerie-parallels-to-1999/). See the chart below followed by their supporting comments, with those MIM finds especially relevant underlined in bold font:

Chart Source: GMO. The "Late 90s" reference is to 5 years ending February 2000; the "Today" reference is to 5 years ending September 2020, and then continues through May 13, 2021.

- **"There are many eerie parallels between today's Value/Growth relationship and what we witnessed during the 1999 era. In the late '90s, Value was suffering from a multi-year period of underperformance. Value managers were getting fired, academic papers were being written about "the death of Value," and clients of Value managers were losing faith and patience.**
- The green line in this chart shows the cumulative performance of the Russell 1000 Value minus the Russell 1000 Growth. During the 5 years leading up to the 1999 period, the line trended down sharply as Value underperformed. The blue line shows the 5 years leading up to today's environment, a haunting parallel. **2020, in fact, was the worst calendar year in history for Value relative to Growth.**
- Now, we acknowledge many differences between today and 1999 (interest rate levels, asset-light companies, etc.), but these can only explain so much. While earnings growth has been basically average for Growth stocks, their price appreciation has been anything but – **the last few years have been all about multiple expansion, NOT superior fundamentals growth**. We are hearing "it's different this time" justifications for these high multiples today that rhyme dangerously with what we heard back in 1999.
- Either way, **Value's pain should eventually be rewarded just like it was in the period after 1999, when finally the performance and valuation disparity turned**. Fundamentals started mattering and the market began rationally pricing assets. For a 7-year period after 1999, Value went on to trounce Growth by over 14% annually.
- **While there is no guarantee that Value will repeat its dominance over Growth today, we believe it is priced to do so (not just in the U.S., by the way, but globally)**. And the signs are encouraging. See the red line. Since September 2020 through May 13, 2021, Value has beaten Growth by a noteworthy margin. We hope this is a good omen of things to come."

In closing, despite the disconcerting retrenchment in pricing over the past few weeks, MIM is increasingly confident in the opportunity set that it has currently embraced in the portfolio, with a lot of cash and free cash flow and undervalued assets on hand, and plenty of discernible catalysts on the near horizon to help realise fair values.

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