Petrus Advisers UCITS Fund – I Class

December 31, 2018

INVESTMENT OBJECTIVE AND POLICY

The objective of the Fund is to generate high absolute returns from long/short investing in Core Europe applying an active / entrepreneurial approach. Focus is on undervalued equities with low correlation to overall market, mainly in the mid-cap segment. We prefer companies with stable cash flow and/or restructuring potential. The Fund pursues active engagement with management teams and boards and benefits from strong focus on liquidity, risk and exposure management.

Active hedging techniques will be employed to cushion market volatility and protect the portfolio from adverse external shocks.

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FUND DETAILS

Fund inception date	06-Aug-15
Share classes	Institutional
Base currency	€
Hedging	none
Dealing / Valuation	Every full banking day, which is simultaneously a stock exchange day in Luxembourg, London and Frankfurt
Liquidity	T+3
High watermark	yes
Min. investment	€ 250,000
Subsequent investment	1 share
Appropriation of earnings	distributing
Management company	Universal-Investment-Luxembourg S.A.
Custodian	State Street Bank Luxembourg S.C.A.
Price reporting	Daily
ISIN	LU1214677046
Securities identification number (WKN)	A14Q69
Bloomberg Ticker	UIPASIE LX

COMMENTARY

Year in Review

2018 began with equity markets in a euphoric mood. Expectations included another year of global growth and benign equity markets. It was not to be. European equity markets peaked at the end of April, had an indecisive few months around mid-year, before progressing downhill at a rate of knots to hit lows just before Christmas: Stoxx600 (-13.24%), S&P 500 (-6.24%) and Nikkei 225 (-12.08%), all in local currencies.

Numerous geopolitical and macroeconomic factors unnerved investors and fuelled the bear market: “Trump’s Trade War”, no-deal Brexit fear, a populist Italian government breaching EU budget limits and a slow-down in China to name a few. In spite of inflation languishing below target levels in Europe, the Fed hiked rates 4 times in 2018 causing investors angst of a too strong shift in the interest curve.

Oil prices had a challenging year too. Demand growth was robust but concerns about a flood of new supply from US Shale production and the US’ sudden waiver of Iranian sanctions caused the oil price to collapse. Brent fell 19.6% to end the year at USD 53.80, although this figure alone fails to capture the magnitude of the intra-year volatility. Brent reached highs of USD 86.29 in October, up 29% since January. It then fell 38% into 31 December, recording the sharpest monthly fall in a decade on the way.

Finally, economic indicators weakened into year end, consistently missing expectations and pointing to a slowdown in Europe. China was neutral, and the US housing market showed the first signs of a slowdown.

European markets had an arduous 2018: Germany (-18.26%), Italy (-16.15%), France (-10.95%), Spain (-14.97%), Austria (-19.72%), Portugal (-12.19%) and UK (-12.48%), all in local currencies.

As for currency moves, the US Dollar was up +4.71% vs. the Euro to end the year at 0.8722, mainly driven by higher interest rates in the US. The Pound (GBP) was down 1.23% in the year vs. Euro; since the Brexit vote in June 2016 the GBP has depreciated 9.72%.

Portfolio Review – Year in Review

The Petrus Advisers Special Situations Fund UCITS (“UCITS”) finished 2018 down 6.53%. Fund volatility in the year was 13.4%.

2018 started well with the fund peaking in May 2018 at 8.4%[1]. However, things turned sour towards year end with the fund finishing down 6.5%, in net terms. A disappointing performance to say the least, but we take a small measure of comfort in the fact that UCITS was clearly one of the safer plays in European equity markets; Austria and German Index were down 19.7% and 18.3%, while the Euro STOXX 600 and MSCI Europe mid cap were down 12.7% and 13.2%, respectively. This performance is remarkable in light of the strong progress we made in all our activist investments, progress we believe has been largely ignored by capital markets.

Over the past three months we reassessed all the investments in our portfolio and are confident our investment theses remain intact. With that in mind, we made no drastic changes to our portfolio, instead treating the year-end sell-off as an opportunity to add to some of our positions and adjust our activist strategies where appropriate. So far, we have been rewarded with strong performance up 6.0% (net terms) as of 29 January 2019.

At the end of 2018, our net exposure was c. 70% and gross exposure c. 109%. We believe capital markets will remain volatile in 2019, so we are adjusting our net exposure in Q1.

2018 Contributors

- **(i)** **Real Estate Activist Positions (+3.7%):** held the number 1 and 7 positions on our list of positive contributors for 2018, contributing 3.7% to fund-level performance.
- **(ii)** **Shorts (+1.8%):** our market hedges and fundamental picks were winners. We expanded the short book throughout the later stages of last year, taking positions in fundamentally challenged stocks with a negative short-term catalyst. In some cases, we were conservative in sizing the position and/or cautions when taking profits. Our ability to identify promising short candidates was excellent: our hit rate on the short book was 81%.

2018 Detractors

- **(i)** **Activist Long Investments (-7.2%):** Throughout 2018 we pursued a number of activist engagements: we had more than 60 meetings/calls with companies, we wrote more than 20 letters to companies, hold 10 AGM actions and proxy fights and initiated 6 legal actions. Many of these engagements were successful in that companies attended to our demands and delivered results ahead of consensus in the first 8 months of the year. This had a considerable, positive impact on our performance. In the latter half of the year, geopolitical and macroeconomic concerns meant markets began to price in a recession. We believe these concerns are overdone, a view the market did not share, and we saw a sizeable valuation derating. We took this opportunity to add exposure to our activist positions, particularly in the last 3 months of 2018.
- **(ii)** **Financials (-4.2%):** were the main outperformer in January 2018 while economic indicators were showing growth. Our UCITS fund benefitted due to its larger exposure to European banks. Unfortunately, as soon as the economic indicators started to turn in Europe, banks turned sour weighing down our performance.

2018 Letter to Investors

While we expected increased volatility in 2018, we believe the performance of global markets – especially in December – was overdone, and our portfolio at year end was substantially undervalued. After reviewing the theses behind our positions, and finding them intact, we used the sell-off as an opportunity to increase our exposure to some names in our portfolio. So far, January 2019 has shown this to be a prudent move with the fund up 6.0% (post all fess) as of 29 January 2019. We remain convinced of the value in our portfolio companies and have in many cases increased the speed and intensity of our activist campaigns to unlock value more quickly.

We would like to use this letter to elaborate on the theses behind our core positions.

Commercial Real Estate

Our two commercial real estate holdings are CA Immo ("**CAI**") and Immofinanz ("**IIA**"). At year end, they traded at a premium of 3.9%, and discount of 26.7%, respectively, to last reported net asset value ("NAV").

CAI is the largest listed owner of German prime office property. While CAI trades at a modest premium to NAV, we believe last reported NAV is not a particularly relevant figure for CAI. At the time of writing, CAI has property assets of c. €4 billion, and is in the early stages of developing an additional c. €5 billion of property assets which will increase NAV in future years. The market currently implies almost no value for this development pipeline – something we believe is a significant and unjustified oversight.

We believe the oversight is caused by short-term distractions. The first being an abortive attempt to merge CAI and IIA. A merger we successfully campaigned against for 2 years: the deal was called off last year. Secondly, Starwood Capital ("**Starwood**"), a US real estate private equity fund, has since bought a c. 26% stake in the company and launched a voluntary tender offer at €27.5 that failed in June 2018.

The year-end share price implied a 34% discount to our estimate of NAV (which includes the present value of the c. €5 billion pipeline). At this level, we believe the market is pricing in a severe economic downturn leading to a complete turn-around of the German office market from under-supplied to significantly over-supplied. We do not see such developments in the coming years.

IIA is an office and retail landlord in Austria, Germany and CEE. The company has suffered for several years burdened by a bloated cost structure and expensive debt – hence its discount to NAV. However, after our repeated demands, IIA has shown strong operating improvements which we believe are not reflected in the year end share price. Either capital markets are assuming a massive weakening in office markets (similar to CAI), or that recent operating improvements are temporary. Neither are views we share. We expect a 2019 FFO1 yield of 4.9% increasing to 5.1% by 2020, which is significantly above a fair average yield of 4.7%.

Online Brokerage & Banking

comdirect AG ("**comdirect**") is an online bank and securities trading platform in Germany. We have been arguing for operating improvement at the company since 2017. Our engagement with the company has taken a highly constructive turn including productive bilateral meetings where we articulated our view with respect to improvement potential. However, we are not satisfied with management's decision to further invest in growth at the detriment of profitability. That said, we expect the high volatility in capital markets in Q4 2018 will drive strong year end numbers. The share price in Q4 declined by 7.3% which in our view is overdone and we expect strong numbers to drive performance in Q1.

Construction Materials

Wienerberger ("**WIE**") is an Austrian-based construction materials company. The company is the world's largest producer of clay bricks and has a strong pipes business in the Nordics. The European construction materials sector had a horrid 2018 with the Stoxx 600 Construction Index down 18.8%. After applying significant pressure to WIE's management, the company agreed upon a €120 million operating improvement programme that helped drive a relative outperformance of 8.1%.

Presently, WIE trades at 5.5x our expected 2019 EBITDA, 5.0x based on the run-rate cost savings achieved to date. This is extraordinarily low compared to WIE's average historical valuation of c.8x through-the-cycle. P/E multiples are similarly low at 10.3x and 8.6x, respectively (vs. 15-16x through-the cycle). These levels imply a major decline in construction activity in Europe. Our channel checks, macro work and the actual performance of peers indicate no such deterioration; at worst they are showing a measured deceleration of growth. Construction activity levels are helped by the ample pent-up construction demand in Germany, a UK sector that is benefitting from increased supply of much needed land, and persistently healthy development activity in Eastern Europe. Therefore, we remain invested in WIE and engaged with the management team and the supervisory board to ensure the smooth execution of existing savings programme. We are also on the lookout for further improvement levers. In parallel, we are keeping the size of our industry hedge under review and will adjust once our macro view of the sector changes.

Oil Field Services

SBM Offshore ("**SBM**") is one of only a handful of manufacturers/lessors of Floating Production Storage and Offloading (FPSO) vessels in the world. FPSOs are essentially highly complicated floating oil rigs. The company showed major progress in 2018 with all legacy legal issues in Brazil closed out and significant new business won from Exxon. In spite of this, SBM's share price declined by 11.9% during the year. While the oil price decline (Brent) from $86 in October to $54 at year end contributed to this development, it is very disappointing given the game-changing operating improvements achieved and the extremely high and stable cash generation of the business. We have increased our engagement with the company with a view to achieving further improvements in the company's reporting (especially distributable cash flow from its Lease & Operate division) combined with return of capital to shareholders (one-off share buy-back plus increase in dividend yield). At the current share price, the free cash flow yield is 12% and improving fast. We believe these levels are extremely attractive given the high stability of SBM's Lease & Operate business.

Upstream Oil & Gas

Ophir Energy is an oil and gas exploration company. We have successfully campaigned for Ophir to break up its portfolio, separating producing assets in South East Asia ("**SEA**") from high impact exploration & development work in Africa, Mexico and Asia. While the company has made great progress stabilizing its SEA operations and improving cash generation, it has zero credibility with capital markets as reflected in a 55% discount to its NAV per year-end vs. a sector average of c. 25%. In response, we have added Dr Adel Chaouch to the Board and are campaigning for further change. The share price declined 47.5% in 2018. After market close on 31 December 2018, leaks materialized about a planned take-over offer by an Indonesian player and we are hopeful to achieve a sale or merger in Q1 2019.

Banking in CEE

The fate of our banking stocks with exposure to CEE differed significantly. Following a promising start into the year, Moneta Money Bank ("**Moneta**") in October 2018 announced the acquisition of Air Bank and Home Credit with the aim to consolidating the Czech market and becoming the leading challenger bank in the country. We disapprove of the structure and terms of a potential combination and have been heavily engaged with the management team. As a result of the announced deal, Moneta's share price declined from CZK 82 at 5 October to end the year at CZK 72.5. In light of a promising market opportunity for Moneta combined with significant c. 2% excess Core Equity Tier 1 capital on its balance sheet, we believe the year-end valuation offers substantial upside from a combination of operating progress combined with a potential termination of the Air Bank / Home Credit deal or a substantial amendment of its proposed terms.

Raiffeisen International's ("**RBI**") share price had a tough year rocked by Russian geopolitical tensions and the imposition of a punitive Romanian banking tax. Both of these are clearly negative events, but not to the extent reflected in the share price which, by our estimations, implies that Raiffeisen is in permanent decline. We do not believe this to be the case. The Russian tensions should ease in the mid-term and the Romanian tax (should it last) will result in a 5% decline in earnings. The market reacted in a thoroughly pessimistic fashion: the share price declined by c. 26% in 2018 and now trades at 6.7x 2019 Petrus Advisers expected net earnings. We see upside to our earnings estimates and believe the stock will re-rate as future results make it clear to the market RBI has suffered a flesh wound, not a life-threatening injury.

Squeeze-outs

As per our Q3 reporting, we have systematically increased our exposure to improvement rights from squeeze-outs. In Q4, we completed the squeeze-out of Buwog with c. 5% of NAV fund exposure to the upside rights.

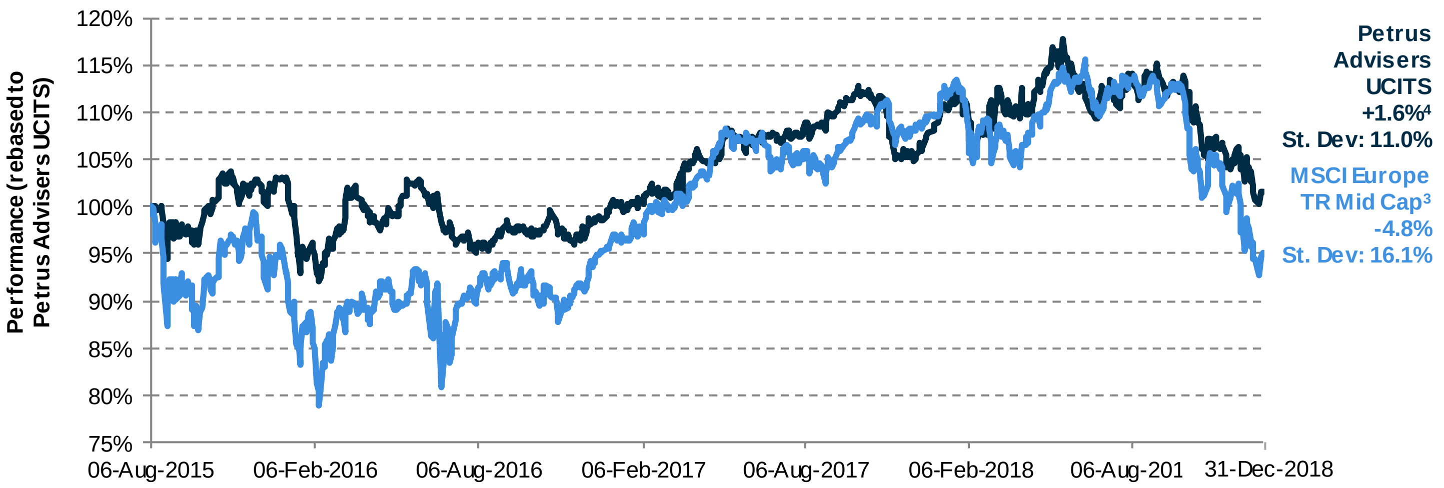
2018's performance was disappointing to say the least. Many of the Petrus team have a substantial portion of their net wealth invested in the fund or alongside it and have felt the sting too. However, our job is not to have our emotions dictated to us by the markets. Our job is to think rationally and deliver attractive investment returns over time. With that in mind, the fundamental investment cases for our companies remain strong and they trade at prices far below their intrinsic values. Furthermore, we are encouraged by the tangible progress we have made in our activist campaigns and enter 2019 with a sharp focus on crystalizing this value.

We would like to thank you for your commitment.

Note: all future numbers based on Petrus Advisers proprietary forecasts.
1) As of 22/05/2018.

Net of fees	UCITS[2]	MSCI Mid Cap[2]
1M	(4.2)%	(6.0)%
3M	(9.4)%	(15.4)%
YTD	(6.5)%	(13.2)%
Since inception	1.6%	(4.8)%
CAGR Since inception	0.5%	(1.4)%

2) As of 31/12/2018.



3) MSCI Europe Mid Cap Net Return EUR Index - total return index, includes dividends.
4) Performance as of 31/12/2018.
Source: Bloomberg, Universal.

PORTFOLIO[5]

Sectors	Portfolio
Financials	24.8%
Real Estate	20.4%
Energy	12.3%
Industrials	11.6%
Materials	9.9%
Consumer Discretionary	5.8%
Others	15.2%

Countries	Portfolio
Austria	43.3%
Germany	21.0%
Netherlands	9.4%
Czech Republic	5.0%
Britain	4.4%
France	2.6%
Others	14.3%

5) As of 31/12/2018.

Disclaimer

The information provided is for information purposes only and does not constitute a solicitation to buy or sell shares in the fund. Any investment with the Petrus UCITS fund should form part of a diversified portfolio and be considered a long-term investment. Prospective investors should be aware that returns over the short term may not match potential long term returns and should always seek independent financial advice before making any investment decision. **Investors should be aware that past performance is no guarantee of future performance and returns.** The value of an investment and any income from it can rise or fall with market fluctuations and an investor may lose the amount originally invested.

Prospective investors should base their investment decision upon careful review of all relevant information, including the information contained in the prospectus, prospectus supplement, Key Investor Information Document ("KIID"), annual and semi-annual reports. Sales documents for all investment funds of Universal-Investment are available free of charge in English from your adviser/broker, the responsible depositary/custodian bank or from Universal Investment available at www.universal-investment.com.

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