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Investor Letter 10

Dear co-investors,

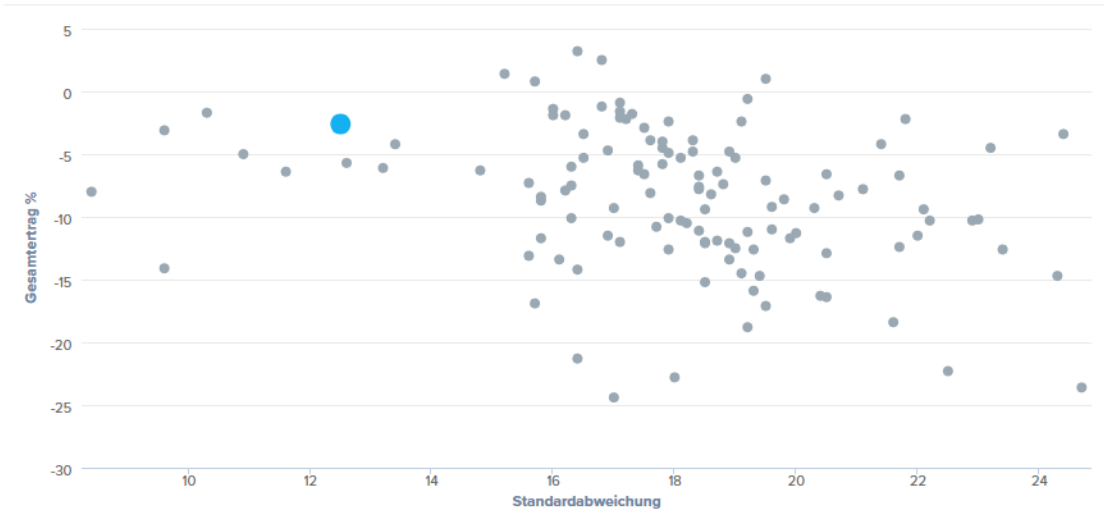
As we mark the second anniversary of the fund, we are honored by the addition of new investors, both institutional and retail. We are humbled by the extremely low churn in our investor base. We ruminate on our journey so far in Section 4 of this letter. But we lead with what matters most – performance.

Section 1: Performance Q3'2019

While 2019 has been generally good for global equities, it has been even better for the fund in both relative and absolute terms. CCA European Opportunities ranks in the top quintile for European small and mid-cap funds over the past 12 months and was even ranked #1 in August by *citywire*. In addition to this outperformance, the fund exhibited much less volatility than the markets and competing funds, especially in the choppy month of August.

Quarterly performance was **+3.9%** (vs MSCI Europe Small Cap Index -3.1%). YTD performance stands at **+16.7%** (vs MSCI Europe Small Cap Index +10.8%).

The following chart is clipped from the *citywire* database which tracks 120 actively managed European Small and Midcap Equity Funds. We are the blue dot. The y-axis depicts return while the x-axis depicts fund volatility. While we care most about being high on y, the fact that we invest mostly in non-cyclical names typically puts us on the lower end of the volatility spectrum.



- **OSRAM Licht AG.** We reported on the Bain and Carlyle offer at €35/share in our last investor letter. In August, strategic interloper ams AG of Austria tabled a fully-financed bid at €38.50/share, which was subsequently recommended by the OSRAM board. Ams produces sensors for electronic devices including mobile phones and sees a strong strategic fit with OSRAM's photonics business. After Carlyle bowed out, Bain teamed up with Advent. On 27 September, ams increased its bid to €41/ share. However, it failed to reach the minimum acceptance rate of 62.5%. OSRAM issued a press release stating that Bain - Advent are still conducting diligence for a potential counter-bid.

- **Intertrust N.V.** The €2.6bn-EV administrative services provider continued its successful buy-and-build strategy with the chunky acquisition of Viteos for $330 million. Intertrust previously had a strategic partnership with this US-based provider of administrative technology, thus pre-empting an auction and paying 8x EBITDA (after synergies) vs. its own valuation of 12x (2019e). The acquisition further extends Intertrust's technological lead in digitizing this historically offline sector.

- **ElringKlinger AG.** *(short position)* A rotation back into cyclical and value stocks began in September, sweeping Elring up with it. Our risk management system closed out this short position while still solidly in the green. We are carefully following Elring's trading momentum and will likely re-build a core short position in due course. We continue to believe that Elring is one of the most attractive short candidates in the European tier one automotive universe with 4x net debt, heavy reliance on combustion engine parts, and an unimpressive management team with misaligned financial incentives. Near-term catalysts include a weak Q3 quarterly earnings announcement with a likely downward guidance revision for 2019. Mid-term catalysts may include a covenant breech and/or capital raise.

Section 2: Portfolio positions

Current top 10 positions in the fund

Company	Weight	Sector	Country
IVU Traffic Technologies AG	5.8%	Technology (non-cyclical)	Germany
Frequentis AG	5.4%	Technology (non-cyclical)	Austria
Encavis AG	5.0%	Energy	Germany
Eurofins Scientific SE	4.8%	Business Services (non-cyclical)	France
Brenntag AG	4.8%	Business Services (cyclical)	Germany
Guala Closures S.p.A.	4.7%	Consumer (non-cyclical)	Italy
Intertrust N.V.	4.7%	Business Services (non-cyclical)	Holland
IWG PLC	4.7%	Business Services (cyclical)	U.K.
Greencore Group plc	4.4%	Consumer (non-cyclical)	Ireland
Naked Wines plc (previously Majestic Wine)	4.3%	Consumer (non-cyclical)	U.K.

Important new core positions in the fund

Company	Weight	Sector	Country
CVS Group plc	3.5%	Consumer (non-cyclical)	U.K.

CVS Group plc. We had initially mentioned this name as a 0.9% fund position in our 2019 Q1 investor letter as part of an ensemble of new UK positions that we think are relatively immune to

the hard brexit risk but have come down in price nonetheless. CVS Group might be deemed a signature investment for us. It is a clear replication of a private equity type value creation play available in the public markets at a cheaper valuation than in the private markets. CVS is a buy & build platform in the veterinary services space. The company manages over 500 vet practices in the UK and the Netherlands. On top of that, CVS has introduced adjacent products and services to squeeze incremental revenue and profit out of its proprietary ecosystem. These include pet insurance policies as well as an online pet pharmacy called animed direct.

Both private equity funds and strategics are actively consolidating the vet practice universe. BC Partners acquired its platform vetPartners in August 2018 for 14x Adj. EBITDA. UK research house Peel Hunt cites sector transaction multiples between 17-20x EBITDA. Furthermore, privately-held Mars Inc., known more for its candy bars but rumored to generate the bulk of its revenue from animal related products and services, bought AniCura for c. 5x revenue from Nordic Capital. Earlier this year, we were buying CVS shares at under 10x NTM EBITDA. Our CVS position has returned over 60% so far.

Section 3: Portfolio valuation

We compare the underlying valuation of the fund's long portfolio on an EV / EBITDA multiple against the MDAX and SDAX below.

	EV/EBITDA NTM		EV/EBITDA LTM		Market Cap in €m	
	Average	**Median**	**Average**	**Median**	**Average**	**Median**
CCA	10.2x	9.0x	12.7x	12.0x	2,431	447
MDAX	12.2x	8.6x	15.5x	11.4x	7,690	4,988
SDAX	11.5x	9.0x	15.9x	10.4x	1,691	1,038
Discount						
vs MDAX	-16.0%	4.2%	-17.8%	4.4%		
vs SDAX	-11.4%	0.6%	-20.3%	15.4%		

Section 4: Thoughts on the first two years of CCA

In September of 2017, our fund had the mixed blessing of launching into a toppy market. Even at the time, we had a sense that valuations in the cross-section were stretched. We did see individual value in pockets of the markets, but we felt that selectivity was incredibly important. In the subsequent four months, CCA gained nearly 7% with the NAV per unit reaching its historic highpoint of €106.73 on 8th Jan. 2018. Then Europe entered a one-year bear market. The new fund was quickly confronted with significant negative beta; the units hit their historic low of €80.52 at the end of Dec. '18. Along with indices like the MSCI Europe Small Cap or the SDAX correcting 22% each, the Fund was also down 22% for 2018. We did **not** take comfort out of being in line with the benchmarks. It was a humbling experience for your faithful portfolio managers.

We used the adversity of 2018 to fine-tune our investment strategy. First, we tightened our risk management parameters to reflect our increased paranoia regarding drawdowns. Then, we normalised position sizing to much closer to equal weighting across the portfolio. We challenged ourselves to go far off the beaten track to identify new investment ideas. We believe generating original ideas is one of our strengths, but we have been working hard over the past 12 months to

lever ourselves even further. To this end, we developed three new quantitative approaches focused on de-leveraging, buy-and-builds, and overreactions to profit warnings. We are essentially translating our manual process of looking for private equity-style value creation stories into numbers.

We got smarter in trading, too. We had previously opened new long positions based on our fundamental research but largely agnostic to the current share price momentum in the name. We have since implemented a quantitative tool called "the momentum tracker" to guide our trading flows. This seemingly small addition has noticeably improved performance. Trades which benefitted from this were CVS Group and IVU Traffic Technologies, the fund's single most successful investment to date at over 2x MoM.

Following these various adjustments, the fund commenced a period of outperformance, beating the MSCI Europe Small Cap Index by 5.9% YTD (net of fees). The MSCI Europe Small Cap Index most closely resembles the fund's geographic and market cap profile.[1] As you know, we are not in this game to celebrate *relative* performance, but much rather have the clear goal of making money for our co-investors. However, we still want to mention that despite a rocky start, we have beaten the index cumulatively by 4.3% (net of fees) since launch.

Section 5: Annual Dividend

All tranches of CCA European Opportunities are dividend-paying. The annual dividend will be distributed on 16 October in the amount of €2.99 per I class share and €0.30 per share for the S and R classes. Ex-dividend date is 15 October. The NAV of each tranche will be reduced one-for-one for the distribution.

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We thank you, our co-investors, for your continuing support. We always look forward to speaking with you directly. Please pick up the phone anytime should you have comments or questions.

Best regards,

The CCA team

[1] The MSCI Europe Small Cap Index was selected as benchmark by our independent fund administrator Universal Investment during the fund formation process based on its internal quantitative analysis.

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