CONDUCTION
CAPITAL ADVISERS

CCA GmbH
Eschersheimer Landstrasse 1-3
D-60322 Frankfurt am Main
t: +49 69 46 99 45 26
m: hello@conductioncapital.com
w: www.conductioncapital.com

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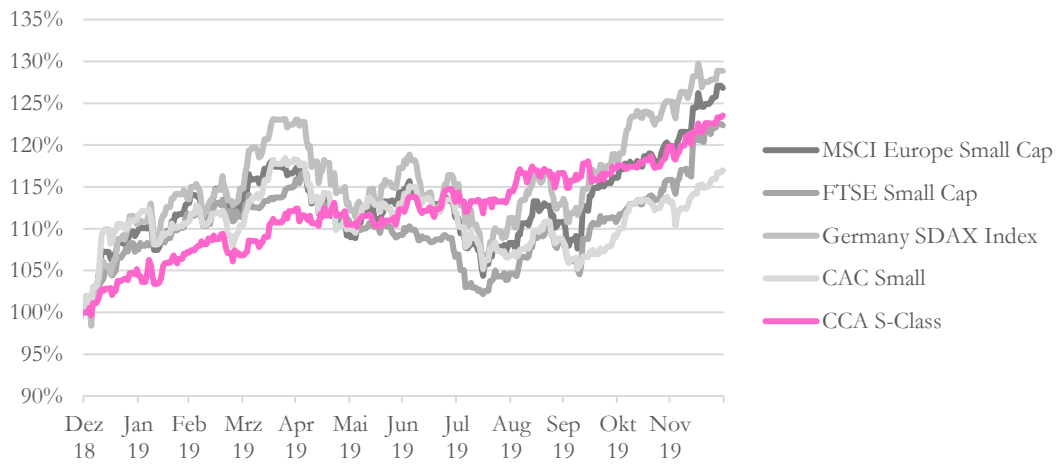
Investor Letter 11

Dear co-investors,

2019 was a good year for the fund. Our strategy enabled the fund to achieve a high absolute return. What pleased us specifically was the performance on a risk-adjusted basis given the fund's comparatively low volatility versus the indices. Our highly concentrated fund (c. 25 positions) returned **23.9%** on volatility of **9.2%**. The diversified MSCI Europe Small Cap Index (985! constituents) returned **26.8%** on volatility of **13%**.

Until the 4th quarter, we could not put our finger on the overarching narrative for European equity markets in 2019. The first four months marked an explosive bounce back from the crash at the end of 2018. The fund bounced as well, but less than the broad "beta boost" across the markets. We stuck to our guns, avoiding cyclicals and industrials and favoring reliable cash flows, levered returns to equity, and robust business models. Our strategy served us very well in May and August as we avoided severe market volatility and created meaningful alpha. While dovish central banks encouraged investment throughout the year, the main "risk-on" day in 2019 was Friday, October 11th. A confluence of Trump tweets about a trade deal in principle and further clarity on Brexit pushed European markets up by 2-3% on that Friday. In our 2019 Q1 letter we had reported on our conscious positioning in undervalued but robust UK names which gave us a performance edge that mitigated our underexposure to cyclical names.
Starting on "risk-on day", the DAX returned 10% within 4 weeks. Cyclicals like ElringKlinger, Leoni and Jungheinrich rebounded even more by +20%, in part driven by short squeezes. Our risk management system closed out modest short positions in ElringKlinger and Heidelberger Druckmaschinen.
The following chart graphically illustrates the fund's low volatility and low exposure to the broad market swings that took place this year.



Section 1: Performance Q4'2019

Quarterly performance was **+6.2%** (vs. MSCI Europe Small Cap Index **+14.4%**). The relative underperformance in Q4 was due to the fund's conscious underexposure to industrials in the midst of a sector rotation into cyclical names. YTD performance stands at **+23.9%**. Highlights from the portfolio:

Frequentis AG (market cap €270m). Vienna-based Frequentis makes command & control centers in civil and military aviation, rail, shipping, police, fire and rescue. It is a global leader in hardware and software for market niches including digital voice and data communication for air traffic control. In Investor Letter 8 (April 2019), we announced our pre-IPO allocation in Frequentis at c. 5% of the fund. We entered at €18/share in mid-May. The shares appreciated through the remainder of 2019 and closed the year at €19.85, +10%. We still believe the company is attractively valued and CEO Norbert Haslacher has been doing excellent investor relations work lately. The outlook for 2020 is very promising with a full order book and strong interest in the company's remote air-traffic-control tower systems.

Caretech Holdings plc (market cap GBP 500m)**.** Following the chunky acquisition of Cambian plc, Caretech reported its first consolidated full year earnings on December 12th. The target synergies of GBP3m were achieved and the company is on track to deliver another GBP3m over the next 2 years. Quality ratings at Cambian facilities also improved over the year and are closing the gap with the rest of Caretech. Shares are up roughly +25% since we started entering in May 2019. The valuation continues to be attractive, now trading on 9.3x 2020e EBITDA, 10.8x 2020e EBIT and 9.8x 2020e P/E.

Encavis AG (market cap €1.3 bn) delivered an unexpectedly grand performance this year of +70%, mostly on simple strategy execution, i.e. allocating capital to attractive new projects. In addition to the earnings growth, the shares re-rated by two multiple turns from 11x to 13x trailing EBITDA. The market saw strong inflows into anything sustainable and renewable, a trend we expect to continue. Based on our principle of constructive paranoia, we investigated the short positions in Encavis shares; it turned out to be a vanilla hedge on the equity payout from in-the-money convertibles that Encavis had issued. We remain constructive on this name.

Zooplus AG (market cap €600m)**.** Our short on the e-commerce pet supplies company performed well as shares declined by 29%, generating significant alpha in a bullish overall year.

Section 2: Portfolio positions

Current top 10 positions in the fund

Company	Weight	Sector	Country
Frequentis AG	5.5%	Technology (non-cyclical)	Austria
CareTech Holdings plc	5.2%	Healthcare	U.K.
Greencore Group plc	5.0%	Consumer (non-cyclical)	U.K.
IWG PLC	4.9%	Business services (cyclical)	U.K.
SLM Solutions Group AG	4.8%	Capital goods / Industrials	Germany
Encavis AG	4.7%	Energy	Germany
Eurofins Scientific SE	4.7%	Business services (non-cyclical)	France
All for One Group AG	4.6%	Business services (non-cyclical)	Germany
Brenntag AG	4.4%	Business services (cyclical)	Germany
Intertrust N.V.	4.4%	Business services (non-cyclical)	Holland

Important new core positions in the fund

Company	Weight	Sector	Country
init innovation in traffic systems SE	4.1%	Technology (non-cyclical)	U.K.
Cegedim SA	4.4%	Technology (non-cyclical)	France
SLM Solutions Group AG	4.8%	Capital goods / Industrials	Germany

init innovation in traffic systems SE (market cap €230m)**.** init is an integrated systems provider for public transportation authorities around the world. Besides offering an intermodal transport control system (an "SAP" for transportation authorities), init is a global market leader in ticketing solutions and automated passenger counting. For more details, refer to the Equity Ride[1] we published on December 27th, 2019.

Cegedim SA (market cap €400m) is a diversified healthcare software and outsourcing partner in France and the UK. Due to corporate reorganization, the numbers on this company have been tricky to read and appreciate. The company is entrenched in a variety of attractive markets from insurance billing to medical data collection and trades at a large discount to other healthcare software companies which are more straightforward.

SLM Solutions Group AG (market cap €350m). After meeting with SLM's newly appointed CEO, we began accumulating a position in this additive manufacturing (3D printing) pioneer in May 2019 at under €13/share. The company's reputation in the market had previously been damaged following a failed takeover attempt by General Electric in 2016. At the time, GE was bidding €38 per share, but backed off after Elliot Advisors (Paul Singer) interloped and demanded a higher price. Elliot stuck with the company and was later joined by fellow activist ENA. New CEO Meddah Hadjar is rebuilding the senior team and we like what we see. Our visit to trade fair Formnext strengthened our view that SLM is producing machines at the cutting edge of this industry. SLM became a full position by virtue of the c. 40% appreciation since our entry. We expect volatility ahead but believe that risks are disproportionately tilted to the upside.

[1] http://conductioncapital.com/public/uploads/2019/12/INIT-2019-12-27-english-final.pdf

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	
	Average	**Median**	**Average**	**Median**	**Average**	**Median**
CCA	10.5x	9.6x	14.3x	12.3x	1,692	323
MDAX	14.8x	11.2x	17.4x	11.8x	8,615	5,644
SDAX	11.4x	8.9x	13.6x	11.6x	1,905	1,224
Discount						
vs MDAX	-28.6%	-14.2%	-17.9%	4.5%		
vs SDAX	-7.7%	8.0%	5.6%	5.9%		

Section 4: Something interesting - Let's stay sober.

[we finalized this section on January 2nd, 2020, i.e. before the US drone strike on January 3rd]

Market participants closed out 2019 on a positive note. To put this bullish sentiment into perspective, consider how much is due to the beta bump that global market indices received following "risk-on day" (Oct 11th, 2019). The following table depicts how much index performance for the full year 2019 came from the period October 8th – December 31st, 2019. You will see that up to three quarters of full year performance came from the year end sprint, while **CCA European Opportunities** generated roughly a quarter of full year performance in that time frame.

	Performance		
Index	**2019 FY**	**October 8th - December 31st 2019**	**Oct 8th – 31st December performance as % of 2019 FY performance**
FTSE Small Cap	22.4%	16.4%	73.2%
MSCI Europe Small Cap	26.8%	17.8%	66.5%
CAC Small	17.0%	11.2%	65.9%
FTSE 250	25.6%	14.2%	55.6%
Germany SDAX (regular)	28.9%	15.4%	53.5%
Germany DAX Index (regular)	21.5%	10.6%	49.4%
Germany SDAX (performance)	31.6%	15.4%	48.9%
Germany MDAX (regular)	28.1%	12.5%	44.3%
Germany DAX (performance)	25.5%	10.7%	41.9%
Germany MDAX (performance)	31.2%	12.5%	40.0%
CCA - S-Class	**23.9%**	**6.2%**	**25.9%**

What's the message here? A short period of great market performance can overwrite the entire narrative on a stock market year and incept very bullish market sentiment. So, our advice is to be extra careful when extrapolating recent positive performance into the future. However, looking at sentiment indicators and portfolio managers surveys, we believe most market participants might

not be reflecting carefully enough. A recent Bank of America survey shows that cash levels within investment funds are at a 6-year low. Furthermore, for the first time since August 2018, fund managers are expecting corporate earnings to grow over the next 12 months.

We conclude that market participants are currently bullish and want to be bullish. That can either run further or be a good setup for disappointment.

The current "fundamental tape" doesn't read as clearly bullish as market sentiment suggests. Audi, Daimler and Bosch all announced large cost and job cutting programs in November. This potentially bodes badly for consumer sentiment as well as for suppliers further down the supply chain.

Moreover, the bullish narrative on cyclicals in general showed first cracks during the final days of the year. Forklift manufacturer Jungheinrich had returned 34% after "risk-on" day in October. But on December 18th, reality kicked back in with a profit warning and a single day 25% share price drop. Printing press producer König und Bauer issued a significant profit warning on December 23rd on delayed orders and shares came down 9%. So perhaps industrial companies are not running as smoothly as corporate valuations would suggest. Curiously, the cross-reads on these profit warnings didn't react nearly as much as one might expect. The share price run-up of Q4 might have brought forward gains that positive fundamental data would have justified in 2020.

The market might, however, be turning a blind eye to the warning signs for a good reason. If trade disputes end, Brexit goes smoothly, France stops striking, Italy retains a stable government, German politics don't turn more extreme, and central banks maintain their accommodative stances, then investors should buckle up for the next big bull market ride. But we're not confident about everything falling perfectly into place. If it turns out that one should have taken the cross-reads more seriously and the density of negative data points increases, then the pro-cyclical market sentiment could quickly turn. Here at CCA, we will stay invested in the promising idiosyncratic risk - return profiles of our concentrated, largely non-cyclical equity portfolio. We are entering 2020 with net exposure of 90% and a deep pipeline of new investment ideas.

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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

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