

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

3 April 2020

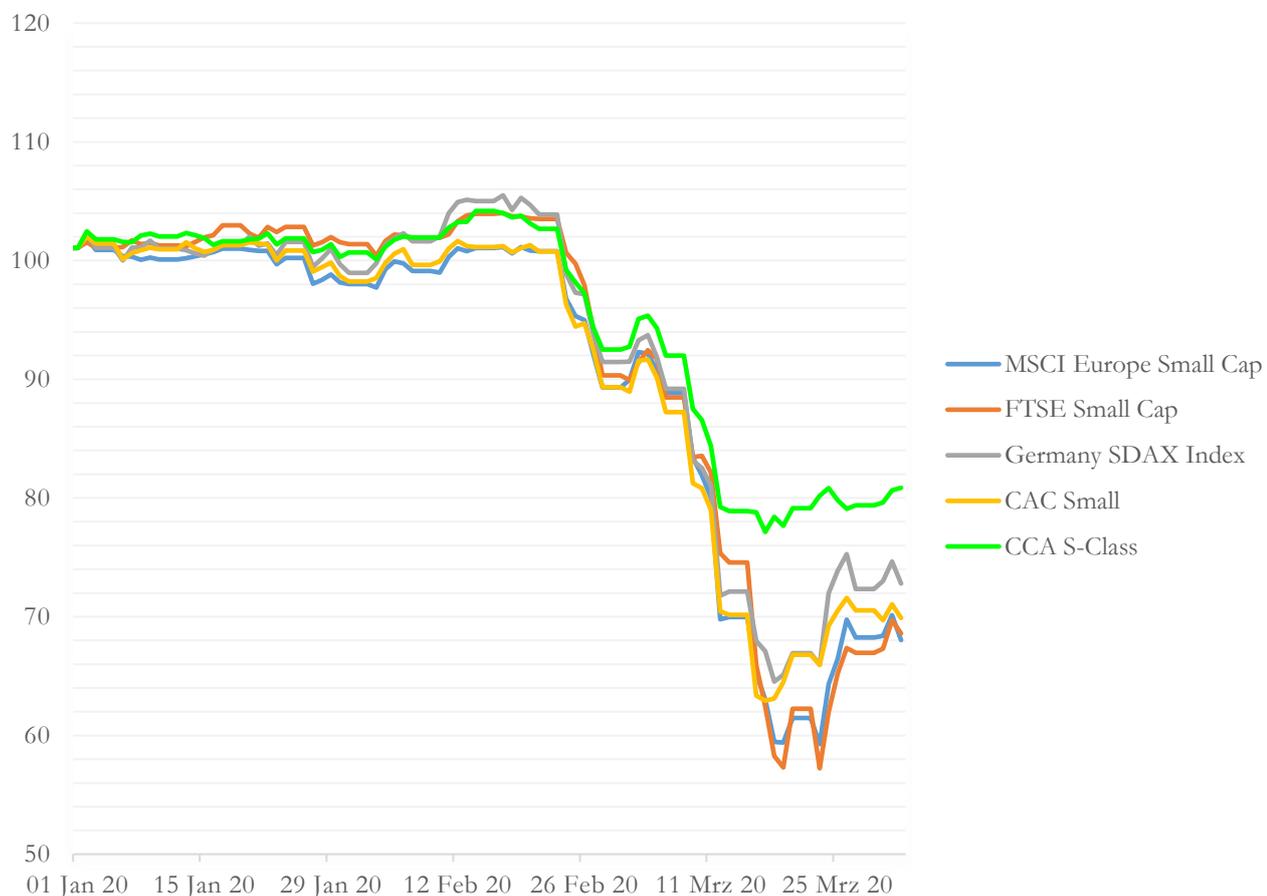
Investor Letter 12

Dear co-investors,

Going into the corona crisis, the fund had the good fortune of owning a portfolio of resilient, largely non-cyclical names; we had divested companies exposed to global supply chains during the US-China trade war in 2019. Our portfolio at the beginning of 2020 was dominated by local champions.

With the onset of the corona crisis, we re-evaluated company-specific risk exposures and, when appropriate, further divested from at-risk names. We also realized that markets were speeding into a period of unprecedented uncertainty. To protect capital, we partially hedged our remaining long portfolio against a basket of index shorts. We kept you abreast of these decisions in real time via *ad hoc* letters on 29 February and 15 March.

As of market close April 1st, this is 2020 so far in a chart:



Section 1: Performance Q1'2020

Quarterly performance was **-20%** against **-30%** for the MSCI Europe Small Cap. The fund's relative outperformance vs. the benchmark can be attributed to the c. 40% index hedge, many of our top holdings declining significantly less than the market or in the case of Naked Wines even showing positive performance, and the strong performance of three short positions: Heidelberger Druck, SGL Carbon, and ElringKlinger.

Highlights from the portfolio:

Heidelberger Druckmaschinen AG (market cap €170m). We initiated a **short** on HDD in Sept. 2019 with the thesis that the overleveraged printing machine producer will struggle in the increasingly digital world. Catalysts for opening the position included the unexpected resignation of long-serving CFO Dirk Kaliebe and a share price rally despite a further deterioration of the results. Our thesis that liquidity was evaporating was strengthened two weeks ago when the CEO announced that HDD was withdrawing €375m of cash from the pension plan to fund yet another operational restructuring. Our short is currently up >50% and contributed +1.5% to the fund's Q1 performance.

Naked Wines plc (market cap GBP 200m) rose by 11% in Q1 and contributed +0.6% at the fund level, outperforming the FTSE 250 by 40%. Last week, this online wine club announced that it was temporarily not taking new UK orders due to extremely high demand and the need to let the warehouse catchup; in this period, they only fulfilled orders placed by existing UK angels. We remain constructive on this name well beyond the corona crisis.

Zooplus AG (market cap €730m). Zooplus is one of the rare cases when we changed our investment view on a company by 180 degrees, in this case from short to long. We initiated a short on Europe's largest e-commerce pet supplies company in 2018 based on slowing growth and increasing competition. This position performed well as shares declined by 29% in 2019, generating significant alpha in a very bullish overall year. In early 2020, improvement in our core KPIs – net working capital and gross margin – prompted us to close our short and take profits. As the Zooplus CEO aggressively acquired shares, we developed a long thesis involving the combination of corona impact plus increased power vis-à-vis its supplier base (evidenced in higher gross margins and looser payment terms). As an e-commerce native, Zooplus can better exploit the increasing shift to online channels than its legacy competitors; we expect significantly higher user and sales volume growth. However, given the uncertain overall market environment, we limited capital at risk by expressing our view via long-dated, out of the money call options.

Section 2: Portfolio positions

Current top 10 positions in the fund

Company	Weight	Business description
Encavis AG	5.3%	Solar and wind farm operator with guaranteed feed-in tariffs
Frequentis AG	5.1%	Command & control systems for air traffic & public safety
init innovation in traffic systems SE	5.0%	Software for ticketless purchasing sold as service to municipalities
Cegedim SA	4.7%	Healthcare software and outsourcing services for insurance co's
Eurofins Scientific SE	4.6%	Global provider of clinical health tests
Naked Wines plc	4.5%	Online wine club in the UK and the US
Polski Bank Komórek Macierzystych S.A.	4.4%	Leading European umbilical stem cell blood bank
IVU Traffic Technologies AG	4.0%	Software for municipal transportation operating systems
Intertrust N.V.	4.0%	Essential business services for corporations and funds
CareTech Holdings PLC	3.9%	UK's leading private provider of adult care services

New positions in the fund

Company	Weight	Sector	Country
Cerved SA	2.7%	Business services - non-cyclical	Italy
Flatex AG	2.2%	Financial services	Germany
Modern Times Group MTG AB	3.1%	Media	Sweden

Cerved Group S.p.A. (market cap €1.2 bn) is Italy's leading credit rating agency. Over 30,000 users pay recurring license fees to access Cerved's credit rating products, including >90% of all Italian banks, and >80% of Italy's largest 1,000 companies. The business model is robust during economic downturns, as the value provided to customers becomes even more critical. We have been following the stock for years, but only opened a position following the broad based sell-off of Italian equities. Our entry price is near the IPO price of Q2'14 when EBIT was 40% lower than today. As Italy stops and re-starts its economy, banks and companies will constantly monitor their counterparties' creditworthiness; they need to access Cerved's unique database to do so.

Flatex group AG (market cap €350m) is Europe's leading independent online broker with over 380,000 private customers primarily in Germany, Austria, and Holland. The business is effectively a call option on market volatility as it generates additional revenue and earnings with higher trading volumes. We've been in touch with the top management for years and re-opened a position following the acquisition of degiro in Holland as the buy-and-build plan continues apace. Earlier this week, the Flatex CFO announced that "Q1'20 was by far the best quarter ever."

Modern Times Group MTG AB (market cap €500m). Formerly a Swedish media conglomerate, MTG spun off its studios and networks and is fast on its way to becoming the world's only e-sports pure play. MTG owns the market-leading brand "ESL" (Electronic Sports League). Nielsen is close to releasing its first major e-sports data-set for the three big players in e-sports: MTG, Activision Blizzard and Riot Games. We believe that these results could deliver game-changing transparency to media buyers around the world. Given the current lack of outlets to allocate

advertising budgets (as professional sporting events are postponed due to corona), the timing of Nielsen's data-set release could be highly serendipitous for MTG.

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.

	<u>EV/EBITDA NTM</u>		<u>EV/EBITDA LTM</u>		<u>Market Cap</u>	
	Average	Median	Average	Median	Average	Median
CCA	10.7x	10.8x	12.2x	11.5x	1,361	474
MDAX	16.6x	10.7x	14.6x	11.2x	5,926	3,767
SDAX	12.5x	8.0x	14.2x	8.6x	1,301	764
Discount						
vs MDAX	-35.2%	1.0%	-16.4%	2.6%		
vs SDAX	-14.4%	35.4%	-14.0%	33.1%		

Trailing earnings multiples broadly reverted to their five-year trailing average. However, most European indices still trade well above their 10-year averages. This is one of several metrics we follow as we track the ongoing correction.

Section 4: Outlook

Global equity markets have not yet reached the conditions necessary to find a bottom. Far too much remains uncertain and unknowable. More specifically, the worst tail risks cannot yet be accurately priced. In addition, it is also too early to know if new and unexpected second order risks will emerge. Hence, we expect high volatility to continue as the market schizophrenically and periodically revisits its weighting of deep, negative tail risks.

We have adapted our investment strategy to precisely this market environment. As a long-oriented equity fund, CCA holds 80% gross exposure to robust and highly promising long positions. These are partially hedged by a basket of index shorts and a basket of high conviction single stock shorts. Our net market exposure is currently therefore only 30%.

We are actively monitoring a broad set of indicators, including the mean reversion to historical valuation levels and market behavior in other crises. We believe that it is too early to shift into an aggressive risk-on mode. Despite the recent rally, we believe there are still not enough data points to sufficiently understand the impact of this crisis on company fundamentals. As we pointed out in our first *ad hoc* update on February 29th, several key events which will put the corona impact into perspective have yet to happen, such as updates on full-year guidance and Q2 earnings. When we begin to gain comfort that conditions are normalizing and the probability of the market reaching an inflexion point has sufficiently increased, we will reduce our index hedges. Our goal is to add risk proportionate to fundamental developments. We have already begun to increase long exposure to a carefully selected group of companies including Cerved, Flatex, & MTG (discussed above). Given the high volatility and increased gap/spread risk, we currently average into new positions in smaller bites and over a longer period.

CONDUCTION



CAPITAL ADVISERS

We aim to have the fund near fully invested going into the eventual recovery. That's why we encourage you, our co-investors, to consider increasing your exposure to the fund now, as this could prove to be a legendary moment to do so.

Please contact us with any comments or questions.

Best regards,

The CCA Team

CONDUCTION



CAPITAL ADVISERS

No Offer or Advice. The information contained herein has been prepared solely for informational purposes and is not an offer to sell or purchase or a solicitation of an offer to sell or purchase an interest in any securities. CCA reserves the right to change, modify, add or remove portions of any content at any time without notice and without liability. Those who access this do so at their own initiative. You acknowledge that the content of this document is for general, informational purposes only and is not intended to constitute an offer to sell or buy any securities or promise to undertake or solicit business, may not be relied upon in connection with any offer or sale of securities. We do not provide investment or other advice, and this is not to be deemed a recommendation that anyone buy, sell or hold any security or other investment or that you pursue any investment style or strategy. You should consult with your own advisers with respect to your individual circumstances and needs.

No Warranties or Liability. We are not responsible for any damages that result from your use of this information. We have compiled this in good faith and while we use reasonable efforts to include accurate and up-to-date information, this is provided on an "as is" basis with no warranties of any kind. We do not warrant that the information is accurate, reliable, up to date or correct. Your use of this information is solely at your own risk.

Confidentiality. This information is confidential. Recipients may not disclose any of this information to any person or use it for any purpose other than those permitted by us in writing. Information in this document is exclusively directed towards professional investors domiciled in Germany according to section 31a of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG). Investment advice and investment brokerage according to section 1 paragraph 1a No. 1a German Banking Act (Kreditwesengesetz - KWG) will be provided for the account and under the liability of BN & Partners Capital AG according to section 2 paragraph 10 German Banking Act (Kreditwesengesetz - KWG). BN & Partners Capital AG has the required authorisation of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) according to section 32 German Banking Act.