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

6 July 2020

Investor Letter 13

Dear co-investors,

We are proud to announce our commitment to incorporating sustainable investing principles into our existing strategy. On March 31st, CCA became a signatory of the UN Principles for Responsible Investing (UNPRI). Details of our ESG initiative follow in Section 4.

Before we present Q2 performance, we re-print the final paragraph of our last quarterly letter dated 3 April:

> *"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."*

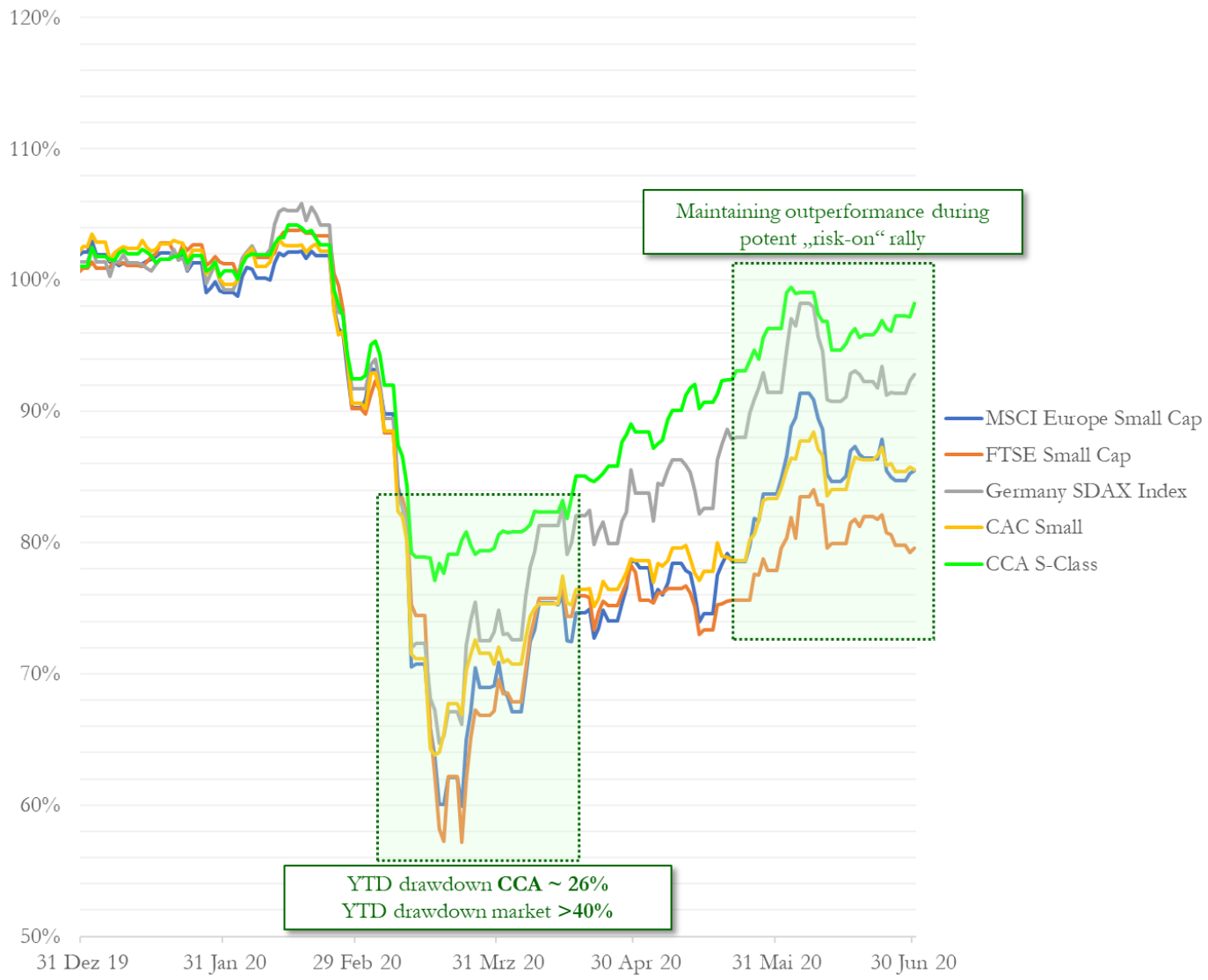
And was it ever. Little did we know how fast that "eventual recovery" would come. The fund's recovery from its March trough to June 30 was **+27.4%**.

The fund has outperformed relevant indices in 2020 YTD on an absolute basis. Furthermore, it did so with **significantly lower volatility**. The fund's maximum drawdown reached **-26%** in March, which sounds drastic but was far less than the **-40%** collapse of the DAX and MDAX**.** This was due, in part, to our concentrated portfolio of high quality, non-cyclical companies. So far, the number of profit warnings or guidance cuts at the fund's portfolio companies has been very limited. On the contrary, we witnessed guidance *increases* due to demand tailwinds at Naked Wines, Zooplus (as previously mentioned, we converted our short position into long exposure), Eurofins, INIT and IVU.

Overall, we did not need to time a re-entry into the market because we never exited; we held the core portfolio throughout. When the corona crisis emerged in February, we began to hedge nearly half our long portfolio by purchasing an ensemble of index shorts and options to match the fund's risk profile as closely as possible. Our single name shorts also contributed to the fund's outperformance, especially in February and March.

As governments acted decisively with robust policy responses and no additional major tail risks emerged, we gradually unwound the majority of our hedges. Currently, the fund is positioned 88% net long, consisting of 93% gross long and 5% gross short plus liquidity.

As of market close June 30th, this is 2020 so far in a chart:



Section 1: Performance Q2'2020

Quarterly performance was **21.9%** against **20.6%** for the MSCI Europe Small Cap.

Highlights from the portfolio:

PBKM – shares of Polish cord blood bank PBKM rallied on speculation of a possible near-term tie-up with its German counterpart Vita34. German activist fund Active Ownership Capital, owner of 60% of PBKM, published a mandatory takeover offer for Vita34 on June 29th. AOC had recently crossed the 30% shareholding threshold at Vita34. PBKM is more than twice as large as Vita34 while trading at a significant discount. The ball is now in play.

Naked Wines plc – announced amazing current trading with sales +81% in April and May. Management described the Covid crisis in the US as achieving 20 years of work in just one month: the consumer penetration of online wine increased from 5% pre-Covid to 20%. Encouragingly, these new customers are behaving "normally," i.e. not just snapping up deals but continuing to

actively engage with the platform. Potentially even more promising for Naked than the massive retail channel switch is the way Naked is disrupting the upstream chain. By launching small dynamic vintners and then directly marketing these exclusive products, Naked captures both the wholesale and the retail profit pools while supporting and promoting small independent growers.

Flatex – market volatility in Q2 continued to drive excellent trading in the online brokerage business. Flatex makes a unique contribution to the risk profile of CCA's portfolio as it generates additional revenue and earnings with higher trading volumes during times of high volatility. The integration of Dutch market leader DeGiro continues on track as Flatex builds out Europe's largest independent online brokerage.

SLM Solutions – this leading manufacturer of 3D printing equipment was our only portfolio company to seek a refinancing during the crisis as many projects and sales were delayed by potential buyers. SLM is, however, on track to launch its next generation printer later this year. The 30% anchor shareholder, Elliot Assoc., arranged a fully back-stopped convertible loan of up to €60m to bridge the funding gap. We remain supportive of the SLM's prospects.

Section 2: Portfolio positions

Current top 10 positions

Company	Weight	Business description
init innovation in traffic systems SE	5.6%	Software for ticketless purchasing sold as service to municipalities
Naked Wines plc	5.0%	wine club in the UK and the US
Polski Bank Komórek Macierzystych S.A.	5.0%	Leading European umbilical cord stem cell blood bank
Encavis AG	4.8%	Solar and wind farm operator with guaranteed feed-in tariffs
Cegedim SA	4.7%	Healthcare software and outsourcing services for insurance co's
Frequentis AG	4.7%	Command & control systems for air traffic & public safety
Eurofins Scientific SE	4.6%	Global provider of clinical health tests including for Covid
Intertrust N.V.	4.6%	Essential business services for corporations and funds
Modern Times Group Mtg AB	4.6%	Swedish media group owning e-sports and mobile assets
CareTech Holdings PLC	4.4%	UK's leading private provider of adult care services

New positions in the fund

Company	Weight	Sector	Country
Craneware plc	2.4%	Healthcare software	UK
Talgo, S.A.	4.0%	Train production & maintenance	Spain

Craneware plc (market cap GBP 500 mil.) The mission of this Edinburgh-based software company is to enable its hospital clients to deliver value-based healthcare. The business model is annuity SaaS, of which 85% contracted recurring revenues (subscription-based licenses with a typical contract length of 5 years). In a typical year, by the end of Q1 Craneware has visibility on c. 95% of FY revenues. Although the market for healthcare software is crowded with point-solution providers, Craneware is unique in its ability to aggregate and analyse the data from existing

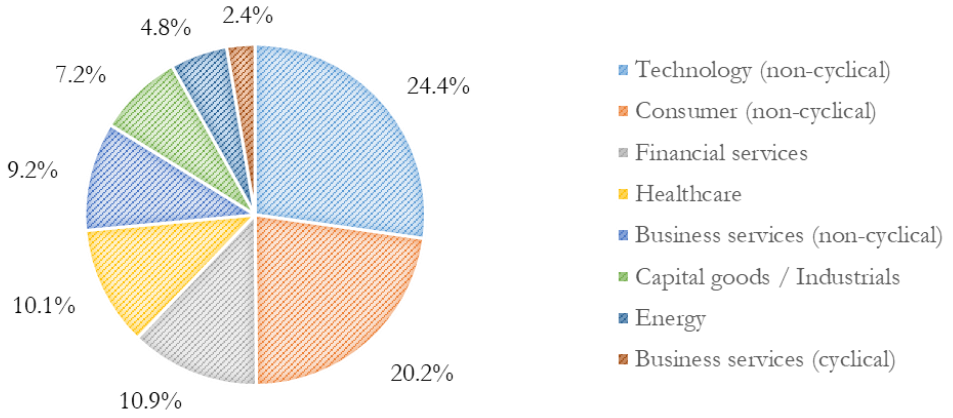
platforms to present cost analytics to enable more accurate pricing and more efficient resource management. According to the CEO, the corona crisis has laid bare operational and financial inefficiencies in many hospitals, so interest in Craneware's solutions is strong and rising. Although valuation is perennially high in the sector (c. 25x EBIT), the business is very profitable (28% net income margin) and operates in a quickly growing sector (27% CAGR for healthcare analytics).

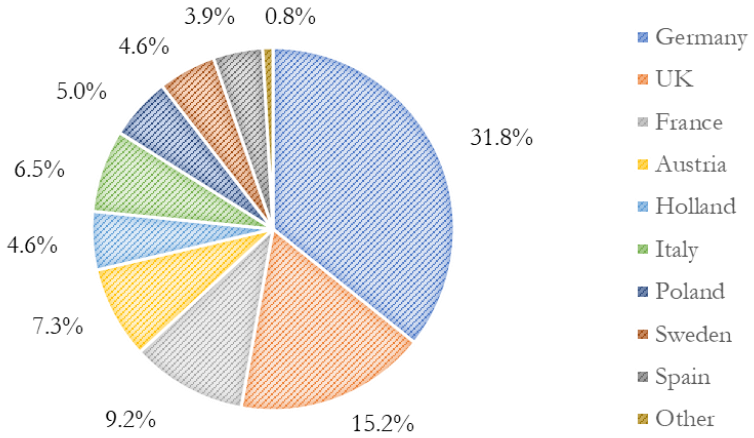
Talgo, S.A. (market cap €530 mil.) – based in Madrid, Talgo is an asset-light producer of high speed trains. We have been monitoring the company for a while and opened a position when shares fell to a valuation that provides for attractive mid- to long-term upside potential with limited downside risk. The company produces essential components in-house and outsources and assembles the other manufactured parts. Product sales (60% of total) drives recurring maintenance revenue (40%), which increases business resiliency. Talgo maintains its trains for 30 years, an experience that informs upfront design in a continuous learning loop. Talgo's 6-year €3 billion backlog combined with outsourced manufacturing provides significant resiliency in a cyclical downturn. PE firm Trilantic controls c. 42% of Talgo, having achieved a partial exit via IPO in 2015 at a market cap of €750 mil. We note the ongoing consolidation in this industry, the attractiveness of Talgo as a strategic target, and the need for Trilantic to exit its long-held stake.

Section 3: Portfolio positioning

As fundamental numbers for 2020e and 2021e still remain unclear, instead of our usual "next twelve months"-valuation comparisons of the fund's holdings versus MDAX and SDAX constituents, we instead share insights on the overall positioning of the portfolio.

The fund's non-cyclical positioning stems from its technology, consumer and healthcare investments. The 11% exposure in financial services firms may come as a surprise given our investment style. Over recent months, we have identified various promising investment opportunities in non-bank financial services firms such as Italian Cerved Group S.p.A. and German Flatex AG.





Percentages represent sum of individual positions as % of AuM and exclude liquidity and hedging instruments.

It is interesting to note that the fund has diversified "factor" exposure. CCA European Opportunities currently comprises elements of value, deep value and growth equity. Although this is not something we actively steer, we are happy with the aggregated result of our bottom-up selection process. High volatility phases as we just witnessed often ring the bell for regime changes regarding which factors dominate in the next market phase. Traditional value investors have been waiting over a decade for their time to shine again. As we don't predict factor rotations, the fund's balanced exposure should be adequately prudent from a risk management and performance perspective.

Section 4: Conduction Capital goes green(er)!

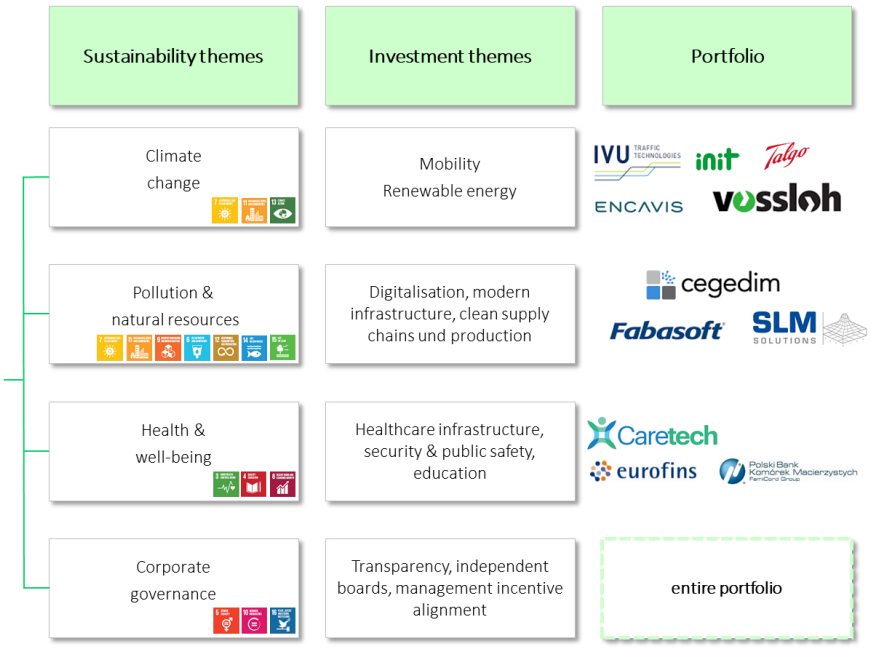
In fairness, we always have been. Your co-portfolio managers are environmentally conscious individuals who deeply value people, animals, and our planet. Due to our long-term investment perspective, screening for environmental and related regulatory risks has been a key factor in building out the portfolio since launch and has been getting increasingly important over the past 18 months. That means that formally embedding ESG best practices into our business and portfolio has been frictionless and barely impacted the fund's positioning and investable universe.

These are some of the formal implementation steps we have taken over the course of 2020:

- At the investment origination stage, we both negatively filter adverse candidates as well as actively seek companies implementing sustainability-related value creation themes.
- At the investment stage, an ESG Review is now one of the three pillars of our approval framework, the other two being Fundamental Analysis (market, management & valuation) and Actionability Analysis (portfolio fit, momentum, liquidity, and catalysts).
- As part of ongoing portfolio monitoring, we review the extent to which each holding contributes to the UN sustainable development goals (SDGs). These are presented below:

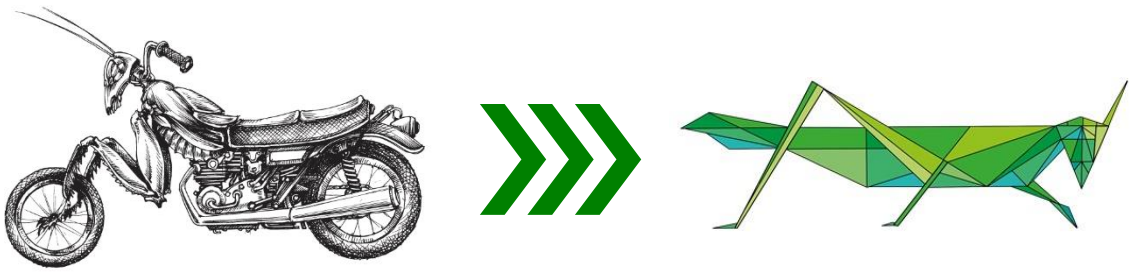
We are delighted to announce that our sustainability efforts will be visible through the UNPRI platform. Conduction Capital became a signatory on March 31st, 2020 and is proudly listed in UNPRI's public register of ESG focused asset managers.

Our commitment to ESG has reshaped the portfolio by aligning sustainability challenges with investment themes. The current portfolio is positioned to benefit from the increasing importance of meeting the most urgent challenges. For instance, many of our portfolio companies will directly benefit from the recently committed stimulus packages approved at both EU and country-levels:



Our commitment to sustainability is supported in equal measures by both personal ethics as well as our drive for top-tier investment performance. ESG *can* confer an edge. Companies that do not comply with society's evolving expectations for the entire ESG spectrum will be increasingly filtered by institutional investors. Companies committed to sustainable value creation, on the other hand, will become increasingly in demand. Last but not least, the adoption of ESG standards is CCA's attempt to stay ahead of fast-moving regulatory requirements such as those that govern public investment funds.

When we started CCA in 2017, our investment focus was based on the fundamental analysis of businesses using private equity methods. Since then, we have added two pillars to the investment strategy: sustainability and actionability. To reflect these enhancements, we are replacing our combustion-based locust mascot with its green, progressive cousin:



Call it evolution.

Thank you for your continued support.

Best regards,

The CCA Team

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.