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## Investor Letter 14

Dear investors,

After a volatile first half of 2020, European capital markets calmed over the summer. We mentioned in the last quarterly letter that the fund was spared of major profit warnings. It has now also become apparent that many of our investments continue upon their value creation paths regardless of the uncertainties caused by Corona. The high proportion of such companies in the fund allows us to look calmly towards a possibly turbulent Q4.

In the past quarter, we were mainly fine-tuning the portfolio, especially the sizing of our positions. The current situation with primarily virtual due diligence processes is suboptimal for conducting diligence on new investments. We have been allocating time on our portfolio companies trying to identify value enhancement potentials that we could share constructively with management.

### Section 1: Performance Q3'2020

Quarterly performance was **+3.2%** against **+10.5%** for the MSCI Europe Small Cap. YTD performance stands at **+0.4%** against **-7.5%** for the MSCI Europe Small Cap.

Portfolio Updates:

**Eurofins Scientific** (market cap € 12.5 bn.): the global leader in lab testing was a major beneficiary of Covid-19. Management opportunistically tapped the equity market to raise capital to rapidly expand global testing capacity. As a result, 2020 sales are on track to increase >10% year-over-year driven mainly by additional Covid-19 testing volumes. Eurofins' non-clinical testing segments of Food, Pharma, and Environmental remained highly resilient with c. 2% organic growth through the crisis. Eurofins is one of CCA's best performers; shares are up +37% YTD.

**Frequentis** (market cap € 230m): on 15 July, the provider of digital communications equipment for air traffic control systems revealed that it had been the victim of a bank fraud. Austrian regulators froze operations of Commerzialbank Mattersburg after discovering a massive fraud at the regional bank. Frequentis expects to lose the entirety of its €31m cash deposit at Mattersburg. This amount represented over half of the company's total cash on hand of €54m and 13% of its market cap of €230m. Upon announcement, the share price fell 13% but has since recovered this

loss. According to the CEO, no business operations are impacted in any way by the fraud. CCA is actively encouraging the management and the board to review and strengthen internal risk controls.

**Zooplus AG** (market cap € 990m). In the first quarterly letter for 2020, we reported on our 180-degree turnaround of our investment perspective. After holding a profitable short position in 2019 with almost 60% alpha, we converted our short exposure into call options as fundamentals improved. We only allocated a small nominal amount of just under 90 basis points of the fund but were able to realize first gains. The position has so far contributed 336 basis points to the fund. On July 14, Zooplus published a further guidance increase for 2020, and the first half results confirmed our evolved investment thesis from the beginning of the year. Zooplus delivered 19% growth over the first half of 2020, with an increased gross margin of 30.5% compared to 28.4% the year before. The minimum EBITDA target for 2020 (€ 40m) appears conservative, after € 29.6m in the first half of the year.

## Section 2: Portfolio positions

The top 10 positions are...

Firm	Weighting	Business
Naked Wines plc	5.9%	Online wine club in the UK and USA
Modern Times Group Mtg AB	5.6%	Operator of e-sports league (ESL) and mobile gaming dev. studios
init innovation in traffic systems SE	5.4%	Software & ticketing for public transportation providers
Encavis AG	5.4%	Solar and wind park operator
Polski Bank Komórek Macierzystych S.A.	4.9%	Leading European umbilical cord stem cell bank
Eurofins Scientific SE	4.7%	Global laboratory testing provider
Cegedim SA	4.6%	Healthcare software and insurance process outsourcing
McBride plc	4.6%	Private label household cleaning products
SLM Solutions Group AG	4.4%	Manufacturer of 3D printers
IVU Traffic Technologies AG	4.4%	Software for municipal transportation companies

Important new core positions in the fund...

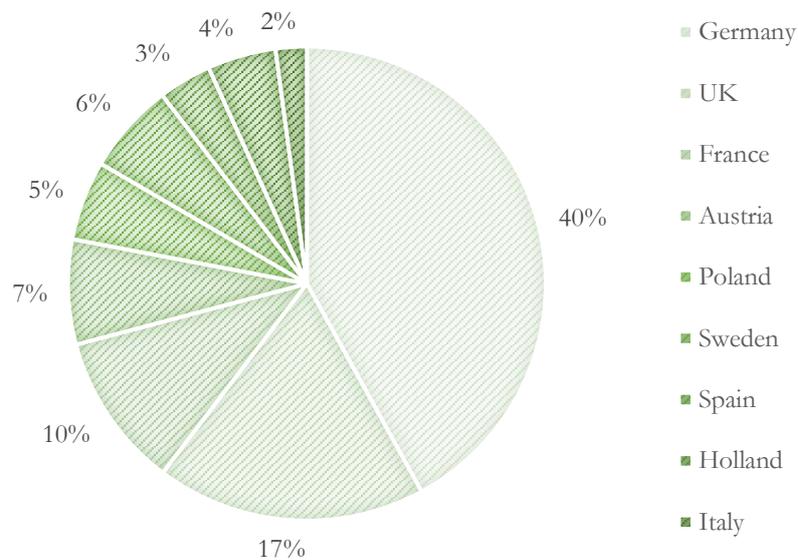
Firm	Weighting	Sector	Country
Vossloh AG	4.3%	Capital Goods / Industrials	Germany

**Vossloh AG** (market cap € 670m): This North-Rhine Westphalia-based global champion makes rail infrastructure products and offers track maintenance services. Half of Vossloh's revenue is derived from "track consumables" like fasteners and ties with a predictable replacement profile with the occasional "growth" upside driven by larger greenfield railway projects. Another 40% of the business is made with switches and crossings, while the final 10% stems from maintenance services. Vossloh has historically been more of a "sleepy" rather than a "hidden" champion but has gone through an extended streamlining process led by CEO Oliver Schuster and anchor shareholder Heinz-Hermann Thiele. After having finalized the exit from its locomotives business, management is now free to focus on optimizing processes and profitability within its remaining core divisions. Although Corona put a temporary dent in the utilization of public transportation,

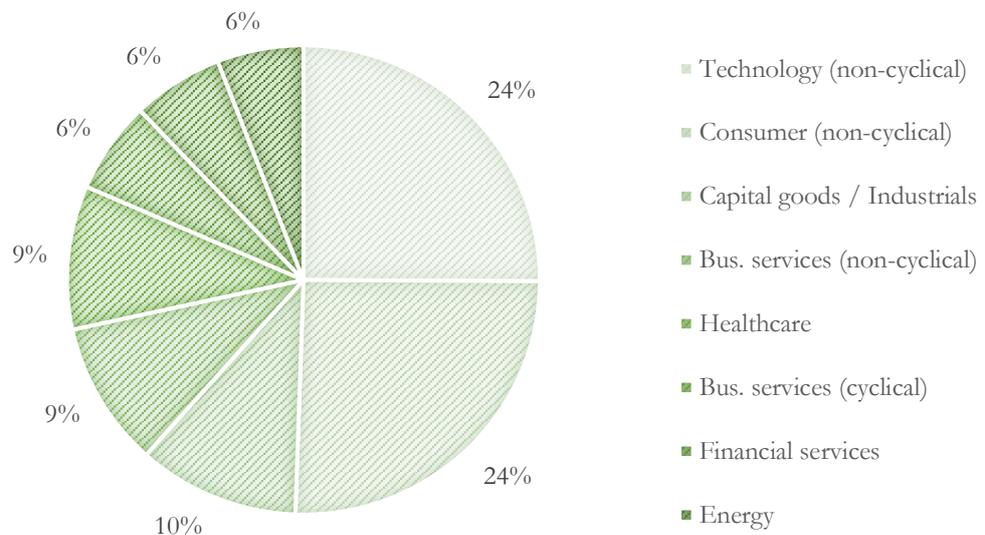
we believe that the next decade should provide for a very friendly environment for the entire railway sector. With a balanced portfolio of recurring and growth revenues, Vossloh is well-placed to benefit from this trend.

### Section 3: Portfolio snapshot

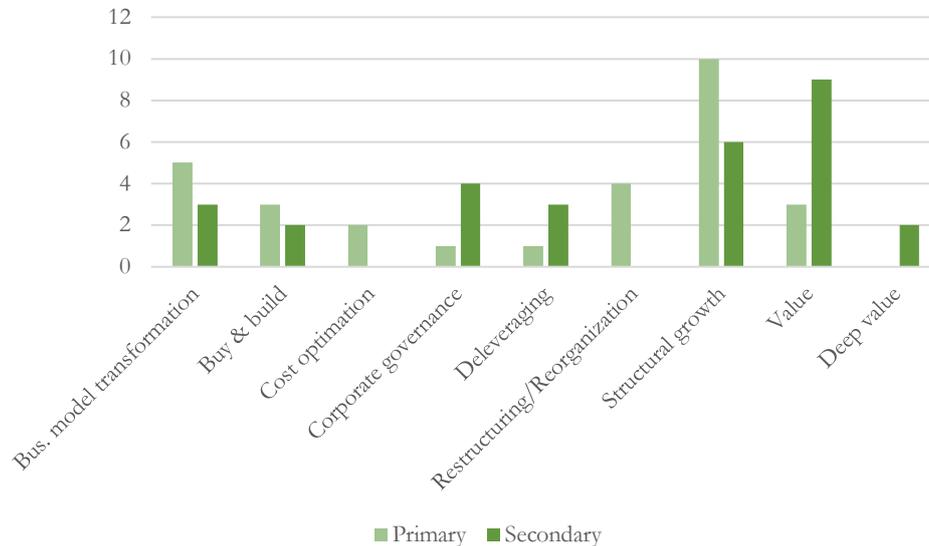
There was little change in the geographical allocation in the past quarter. Germany remains the most important target country, followed by the UK. These two core markets are complemented by a relatively even distribution across Europe. Pound sterling risk remains fully hedged amidst ongoing Brexit uncertainty.



CCA sticks to its preference for non-cyclical companies. This is a result of our focus on companies with recurring sales dynamics, such as technology/software, healthcare and consumer staples.



To more transparently illustrate our portfolio architecture, we add the chart below on the prevalence of our key PE themes in the fund's holdings. Structural growth as a value driver currently dominates the portfolio; multiple investments in the software and technology sector account for this concentration.



The portfolio currently consists of 18 core positions plus 12 sub-core positions with a lower weighting, as these are either in the process of being built up or reduced. Four positions are in the microcap area (< €150 million), 20 in the lower small cap area (€150 million - €1 billion), four in the larger small cap area (€1 - 5 billion) and two in the mid cap area (> €5 billion)

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If you have any questions or comments, as always just send us an e-mail or give us a call.

Kind regards from Frankfurt,

The CCA Team

# CONDUCTION

## CAPITAL ADVISERS

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