FARRINGDON EUROPEAN OPPORTUNITIES

FARRINGDON I

FIRST QUARTER 2021

Dear Investor,

Farringdon European Opportunities net results for the first quarter of 2021 for both share classes are shown in the table below, together with the result of our benchmark:

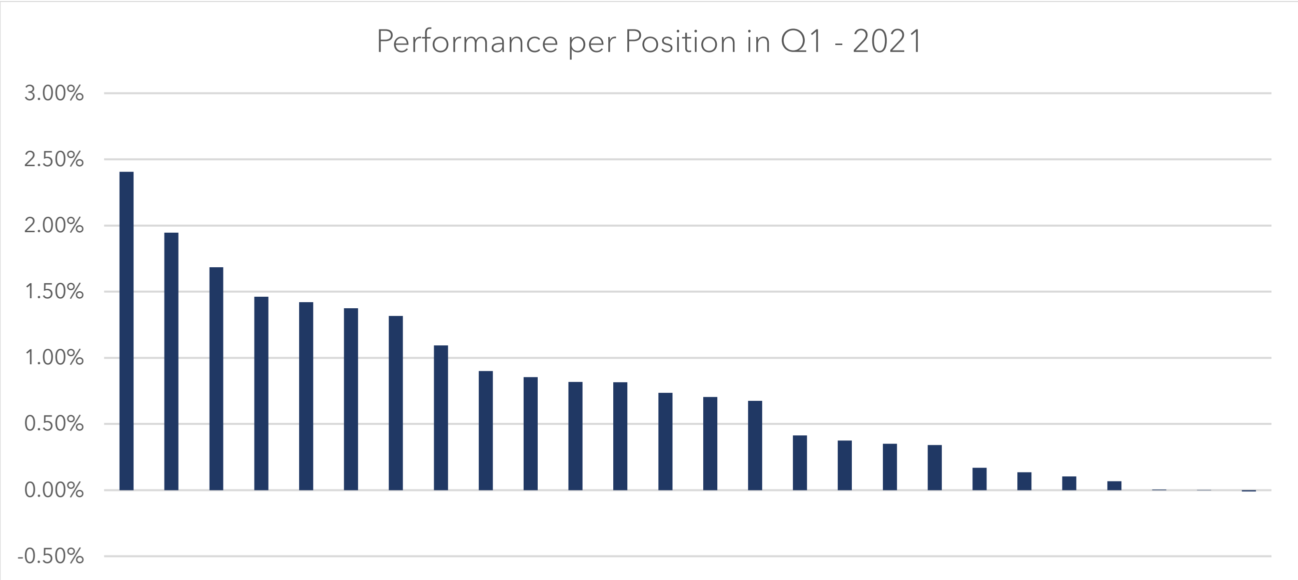
	F- Shares	A-Shares	MSCI Europe Small Cap TR	Outperformance F- Shares
NAV	117.93	118.18	534.01	
Q1 2021	+17.93%	+18.18%	+9.65%	+8.28%
2021 YTD	+17.93%	+18.18%	+9.65%	+8.28%

In this letter we will review our performance for Q1, share some thoughts about the current portfolio construction and present an investment case of one of our larger holdings: Intertrust NV.

Performance Review Q1

The first quarter return for the F-Shares and A-Shares were 17.9% and 18.2% respectively. In hindsight, the timing of our launch was fortunate given how quickly the strong absolute and relative performance was obtained. We do feel a word of caution is appropriate: this quarter's results are exceptionally strong and should not be extrapolated as the norm for future quarterly results. Something that could potentially be the norm, is the difference between our performance and that of the benchmark. Our portfolio is not comparable to the composition of the benchmark in any way, which means our results will often be vastly different. This however goes both ways – both positively as illustrated by this quarter, as well as negatively, which undoubtedly will happen in the future. Over time, however, we expect the plusses to be both greater and occur more often than the negatives.

To put into context why we think this was an extraordinary quarter: of all holdings we have been involved in, only one has had a negative return for the quarter. A hit-rate of 96% is fantastic and desirable, but it is also unrealistic to obtain this every quarter. Furthermore, and more importantly, the unrealised loss of this holding has been a whopping 1 basis point.



The natural question arises, why has the performance been so strong? It is a fairly simple question, but unfortunately, we cannot provide a simple answer. There are a few things to consider and highlight.

Firstly, in the short term our results cannot be isolated from the strong performance of equity markets in general. A high tide lifts all boats - strong equity markets also buoy our holdings in the short term. However, in the long run, our results will be based on how successful our analysis is on our individual positions. We perform our own fundamental research, engage with companies and competitors, and build our own financial models. If our analysis is correct, then we all stand to prosper irrespective of the short-term fluctuations of the equity market.

Secondly, we thought there was a high probability, given the starting valuation of these names, that the future returns could potentially be very sizeable. The timing aspect of when the performance would be realised is something we had and will have zero foresight in. The strong performance does mean that a part of the mispricing that we had observed has materialised. If we look at our portfolio today, then we find that the valuation has merely gone from distressed levels to extremely cheap. When this changes and extraordinary returns are no longer expected from our current holdings, then we will replace these with new opportunities. The extent of how attractive these replacements are will also depend on prevailing market conditions.

Thirdly, there has been frequent commentary recently of the recent success of so called "value investors". This is a topic that we would like to delve a bit deeper into as we are often referenced as value investors because of our unremitting focus on valuation.

Value versus Growth

Value investing is associated with purchasing stocks with a low ratio, whether it be to earnings or book value. Growth investing is the equivalent of buying companies with high sales or earnings growth. We do not differentiate between value or growth investing. As we stipulated in our Welcome Letter:

> *"We will be investing in companies that may be growing or declining; capital-intensive or capital-light; making stellar returns or sub-par returns; have good management teams or poor.*
> *We are style-agnostic when it comes to characteristics such as these. What matters is that the price we pay is attractive given the riskiness of the stream of future cash flows we expect will be generated by these businesses."*

In the end, all investing whether it be growth or value originates from the same notion: buying future cash flows at a discount. Whether these cash flows are growing or declining is only important in respect to the price that is paid for those future cash flows. Our role is to analyse a company's prospects and contrast that to the price that is currently being paid for it.

As an example, we are a shareholder of **WestWing,** which is a fast-growing, until recently, profitless e-commerce business selling home accessories and furniture in Europe. An investor who purely looks at what multiple of earnings or book value this company is currently trading on will miss the attraction. Contrast this to our holding in **Balta Group,** which is one of the largest carpet manufacturers in Europe. This is hardly a growth industry; however, this is a company that is profitable and will likely become more profitable with self-help measures and a debt refinancing, which is trading at a very low multiple of future earnings.

The last years have been very benign to growth investors, and more recently it seems that any price goes as long as the company is growing. We think the success of this 'style' cannot be isolated from a declining interest rate environment. More recently we have seen inflation expectations rising and thereby also the yields on government bonds, the tables seem to have turned and value seems to be favoured again. Below are three traditional value sectors and their respective returns for the first quarter:

	Q1 2021 Return
Banks	19.2%
Oil & Gas	8.9%
Automobiles	30.0%

A fund that had invested 33.3% in each of these sectors would have had a return of 19.2%, not too dissimilar from our returns. The question therefore is: is Farringdon European Opportunities not just a value fund that has had a significant 'factor' tailwind this quarter?

Despite the similar returns, the overlap with these sectors is limited. Of the 24 holdings we have been involved in, we have two positions, namely, **Deutsche Pfandbriefbank** and **Sbanken** that could potentially be in one of these sectors. There is no debate regarding the former as that can be ascribed as a classical value name. The latter is a perfect example of why we think the value versus growth debate adds little value.

SBanken is an online-only bank, and because it is a bank it often gets labelled as a value stock. However, it is also a company growing at 8-10% per year with a return on equity of 12-14%. These figures in isolation may give the impression we are dealing with a growth company. In the end, growth is part of the value judgment – for us they are not separate disciplines.

Despite our strong view that the debate does not relate to us, we think it is plausible that we have benefitted from the recent resurgence in value names. Our investments generally veer toward the less popular areas, and there were few areas as unpopular in the last years as low to no-growth companies. Although we have limited exposure to the aforementioned value sectors, the companies in our portfolio have likely rebounded off the coattails of a revival of low-growth names.

In the end, however, it is best to consider your investment in our fund as neither being an allocation to growth or value, it is a valuation fund in the sense that each individual holding in the portfolio is at a large discount to what we think it is worth. It is interesting to keep in mind the value versus growth debate when you read our investment case on Intertrust – how would you label this company?

Portfolio

In the summer of 2020, we initiated our plan to launch a long-only product, which would replicate the long-book of our other fund, Farringdon Alpha One, which is a long/short market-neutral fund. In contrast to other newly launched funds, we already had a full portfolio of companies that we deemed attractive. As such, in January we started with an investment in 23 different companies and roughly two weeks after launch, we had a fully invested portfolio. Since then, we have divested of one investment with a tidy profit, which is Basic-Fit and added two new names, of which one is Scandi Standard, a Scandinavian chicken processing company and the other remains undisclosed as we are building up the position.

Our portfolio is unique compared to a passive solution because its outspoken. The best way this is illustrated is by our position sizing, but another is by its exposure to certain countries and/or industries. We do not feel the urge to be invested in every country or industry. Our desire is to be invested in 20-25 names that we deem extremely attractive, even if that means a very high exposure to one industry or country. In this manner, our exposure to the UK is important to highlight and elaborate on given almost half of the fund's assets resides here.

Our allocation to the UK is not because of a particular view on Brexit, the UK economy, current vaccination levels or any other macroeconomic reason. This exposure is solely driven by what we deem as extremely attractive risk/reward propositions. Currently there are nine investments in the UK – of which some are nearly 100% exposed to the UK consumer. However, it also includes two names, **Renewi** and **FirstGroup**, which together represent over 13% of the portfolio. Renewi is the largest waste management company in the Benelux and has only a very small operation in the UK. FirstGroup is a UK/US Bus/Rail company, where we argue that more than 50% of the value resides in the US. As such, it is indeed true that we a very high exposure to the UK, but we would argue that it is lower than the headline figure would suggest.

Information for Investors

As we have many new investors, we want to make you aware of what you can expect from us in terms of reporting. You will receive a Factsheet with the most important monthly financial information and positioning 12 times a year. In addition, we will write four quarterly letters, such as this one, which will have more details regarding the performance, portfolio and general observations regarding financial markets if we deem these relevant and interesting. In these letters we also share a current investment case.

Farringdon's orientation is long term, and more reporting than this is probably of little value to you and perhaps also counterproductive for us. We are a specialised team that dedicates as much time as we can to reading and analysing companies to have a portfolio that is trading at deeply discounted prices to what we think is fair value. As always, if there are any questions regarding our investments, philosophy or communication then we are always available to discuss these.

We have received some queries regarding how one can add to their investment and at what terms. The terms of any successive investments, regardless of when they are made, will always be at the same terms as your initial investment if you remain invested. Regarding the paperwork that is required, this can be found at www.farringdonone.com.

A final word to you, our Founding investors, thank you for having made this possible. We look forward to what the future has in store.

Yours Sincerely,

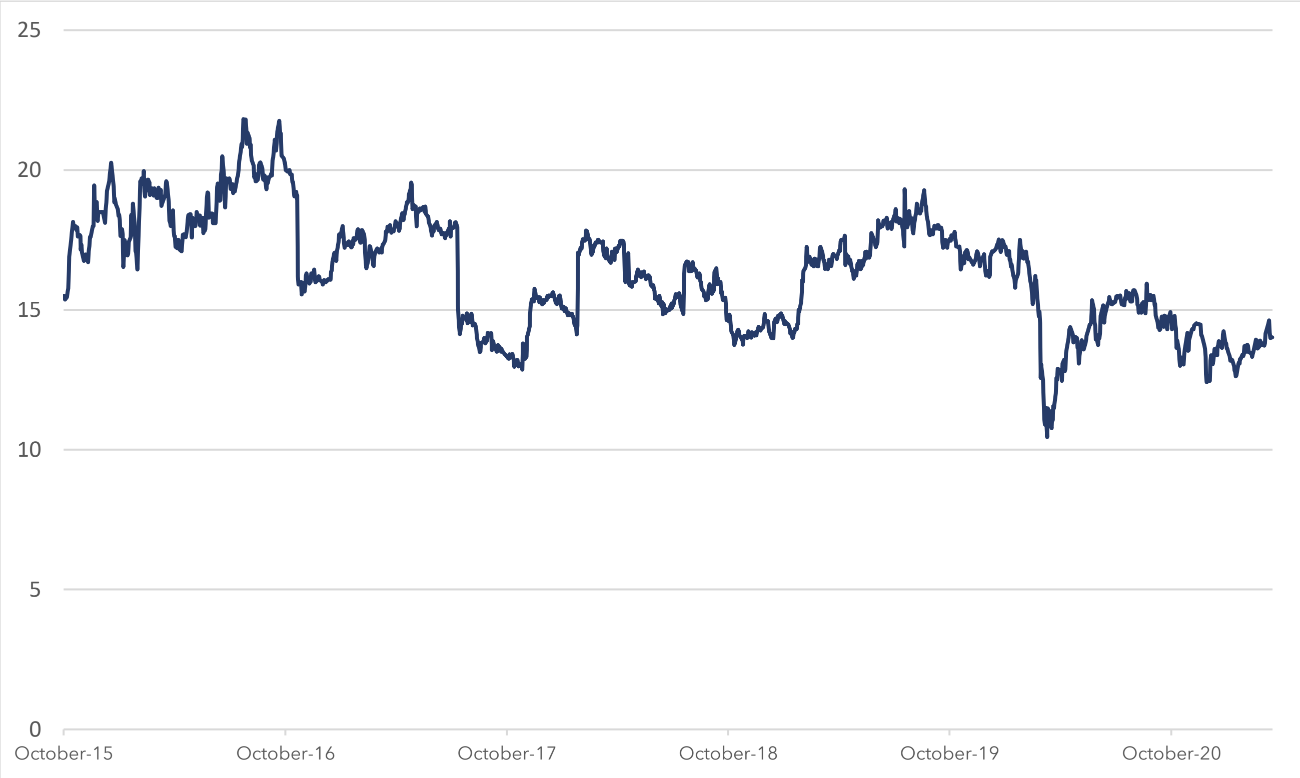
Bram Cornelisse, Dennis van Wees & Wybe Blankvoort

Intertrust (Share Price EUR14.3, Market Cap EUR1.29bn)

Intertrust is a Dutch company that is one of the global leaders in the entity administration services business. The lifecycle of a corporate entity starts with formation and ends in liquidation. Intertrust does both and provides a variety of services during the lifetime of the entity such as reporting and compliance. Corporate entities have a typical lifespan of seven to ten years, and most of the services offered are ones that the entity cannot do without, which results in a very predictable revenue stream.

The company is trading below its EUR15.50 IPO price more than 5.5 years ago as shown by the following chart:

Shareprice Intertrust October 2015 - today



Most stable and predictable businesses have fared very well in the stock market over this period, as interest rates have declined. Competitor Sanne, which IPO'd at around the same time has more than doubled for example. JTC, another competitor which IPO'd in 1018, has also doubled its share price.

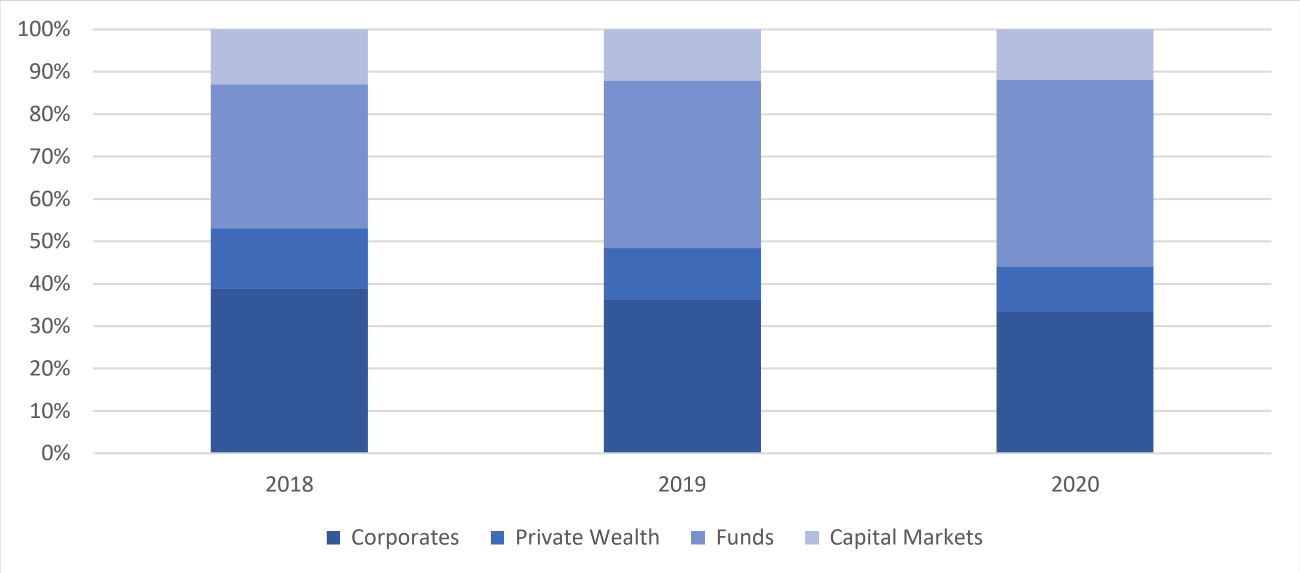
Instead of one reason, we think there are multiple explanations of varying importance for the poor share price performance. Firstly, Intertrust has seen a continuous lowering of earnings estimates amidst many management changes. In addition, there have been increased fears about regulatory uncertainty following the Panama Papers scandal. Lastly, the company has sizeable leverage and relatively illiquid shares given the size of the company.

The following table points toward what we believe is one of the main underlying causes of the earnings disappointment. Of the four reporting segments, two are in decline and two are growing. The declining segments, Corporates and Private Wealth, pertain to entities that have a higher propensity to be tax driven. While Intertrust has not been involved, as far as we know, in any of the tax evasion, or the more egregious tax avoidance schemes, it is clear that the attitude towards tax driven structures has changed. Clients simplifying their structures over the last few years has cost Intertrust business. We suspect that some of the reduction in entities serviced is offset by higher revenues per entity on the back of greater regulatory demands.

Organic Growth	2019	2020
Corporates	1.8%	-4.8%
Funds	10.6%	6.0%
Capital Markets	2.7%	2.2%
Private Wealth	-7.8%	-8.2%
Group	3.7%	0.2%

We do not have a view on whether the simplification drive has come to an end, but we do think that corporates and individuals will still require entities with or without any tax considerations. The following chart shows these two segments represented more than half the business two years ago and now only 44%.

Revenue Split Intertrust Reporting Segments 2018 - 2020



It is possible that Corprates & Private Wealth will still see a further decline in sales – however, as a result of the business mix changing, i.e. the larger businesses are faster growing, we expect Intertrust to have higher growth going forward. In addition, the company has taken steps to better incentivize the salesforce, which we think will benefit the company.

If we take Intertrust's 2020 figures, then the profits suffered mostly from a temporary increase in costs related to a large outsourcing project. These temporary costs will fade, and a structurally lower cost base will be visible from 2021 onwards. Despite 2020 not being as hoped, it is important to point out that the company generated substantial profits and revenues remained flat amidst all the uncertainties presented by the pandemic.

Valuation

We think that the market has been overly focussed on the negatives we mentioned, and as a result we are left with a very undervalued company. We look at Intertrust as a business which has grown organically, and which is set to grow faster going forward. The business exhibits resilience and visibility and is capital light, resulting in very high returns. The following table shows how consistently profitable and cash generative the business has been.

EUR (000)	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
EBITDA	119,727	144,551	144,628	184,829	183,060	207,135	192,917	219,121	234,525
Net Free Cash-Flow	55,077	61,794	123,088	125,476	152,398	123,245	100,011	143,754	155,770
FCF as % of EBITDA	46.0%	42.7%	85.1%	67.9%	83.3%	59.5%	51.8%	65.6%	66.4%

The Net Debt / EBITDA is 3.5X for 2020, but we expect this decline rapidly as EBITDA in 2021 should be much higher and debt will be repaid. In any case, we think some debt financing for this stable business is sensible. The riskiest debt in the capital structure is currently yielding 1.8%. This offers the potential for refinancing gains, as well as it being an indication that the debt is not perceived to be very risky.

The low cost of debt is in sharp contrast to the FCF yield, which even in the exceptionally bad year of 2020 stands at above 8%. For 2021 we expect close to a 12% free cash flow yield.

Our valuation case centres around a markedly different view on the cost of equity. We would argue that an 8% required yield is conservative considering the current low interest rate environment and the observed stability of the business. If the business were to re-rate to an 8% yield from the current 12%, then this would represent 50% upside in the shares. In reality, we think there is more upside because the previous calculation did not account for any growth.

Another way of illustrating the undervaluation is shown in the following chart. Due to the low multiple Intertrust is trading at, its market cap is smaller than its two listed peers combined, but it generates 86% more revenues. It is something we are seeing more of lately: the market is willing to pay more for growth that is yet to come than growth already realised.

	Price	PE	Earnings Yield	2022 eps growth	Market Cap (EUR mn)	Revenue (EUR mn)
Intertrust	14.3	8.9	11.2%	9.40%	1,287	564
Sanne Group	655	23.3	4.3%	11.60%	1,144	186
JTC	620	22.7	4.4%	18.30%	893	116

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