AVENIR
CAPITAL

10 August, 2017

Dear Partner:

The Avenir Value Fund (the "Fund") declined 4.9% during the June 2017 quarter as the strong value run of 2016 paused and market leadership returned to growth. For the 12 months to 30 June 2017, the Fund returned 16.6%, net of all fees and expenses. This compares to a 15.3% increase in the MSCI All Countries World Index (MSCI AC WI)[1] which is the main index we will refer to in the future. While we believe in the importance and value of not overly focusing on any benchmark, to the extent we do refer to a benchmark this is the one most sensibly comparable to our investment opportunity set. Currency movements cost the Fund a little over 2% over the recent 12-month period.

As always, we encourage investors to focus on long term returns rather than returns over short periods as our investment process is designed to deliver attractive absolute returns over the long term not keep up with a benchmark in all periods.

To highlight this point, as at 30 June 2017, our portfolio contained one company in the MSCI AC WI. In the short term, that can negatively affect our performance as a wall of money is sucked out of non-index companies and pumped into those companies in the largest global indices. Over time, however, we are confident the underlying growth in the value of our companies will be recognised by the market and we will be rewarded for our patience, albeit sometimes in a lumpy manner. Over the past five years, the gross value of our portfolio has grown at 21% per annum.

The ratio of the current market price to our assessment of the underlying value of the companies we currently own is approximately 65%. This implies a greater than 50% upside in the portfolio from current prices to get to our view of underlying company value. In the past, we have found that when our calculated price-to-value ratio is this low we are well rewarded over the next several years.

Where do things stand?

We think some components of the major indices are getting dangerously overvalued. Other areas are more fairly valued but offer little margin for error and do not offer the prospect of attractive returns over the medium-to-long term from today's starting point. We observe an increasing degree of complacency amongst those we talk to and in the actions of others. Record low levels of volatility combined with a bull market that keeps grinding upwards encourage increased risk taking due, in no small part, to the fear of missing out.

So, what does the data say? The chart below (borrowed from Longview Economics and Invesco Perpetual Global Opportunities Fund) shows the cyclically adjusted price-earnings (P/E) ratio of the S&P 500 index for the past 140 years. This methodology seeks to smooth out cyclical effects by comparing the current market price to the rolling 10-year average earnings of the index. The chart shows that the US market is as expensive as it has ever been except for the period immediately before the tech bubble of 2000. Many argue that equity prices this high are understandable and even acceptable given the historically low interest rates that central banks continue to drive around the world. This sounds suspiciously to us like "*this time it's different*", the four most dangerous words in investing.

[1] In Australian dollars.

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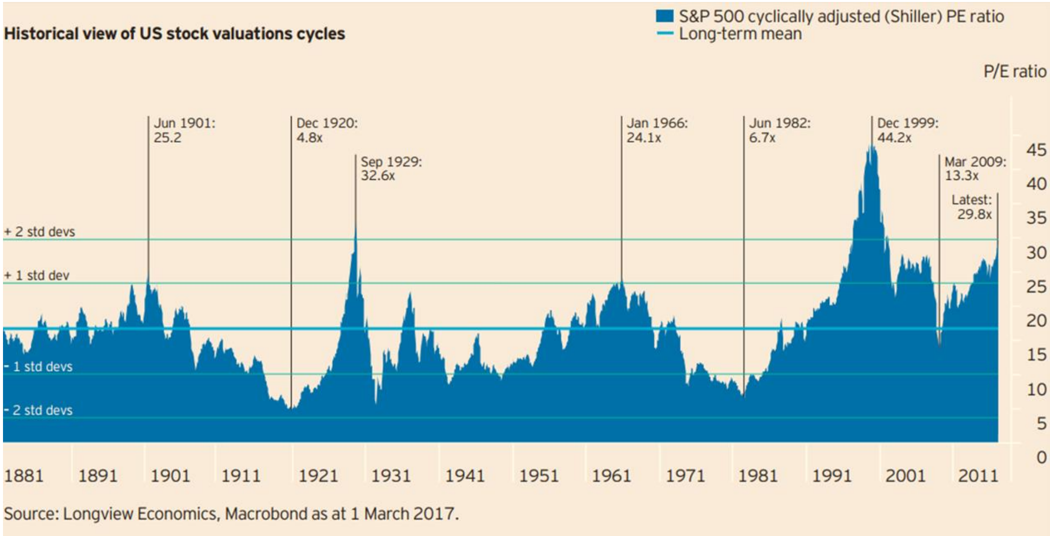
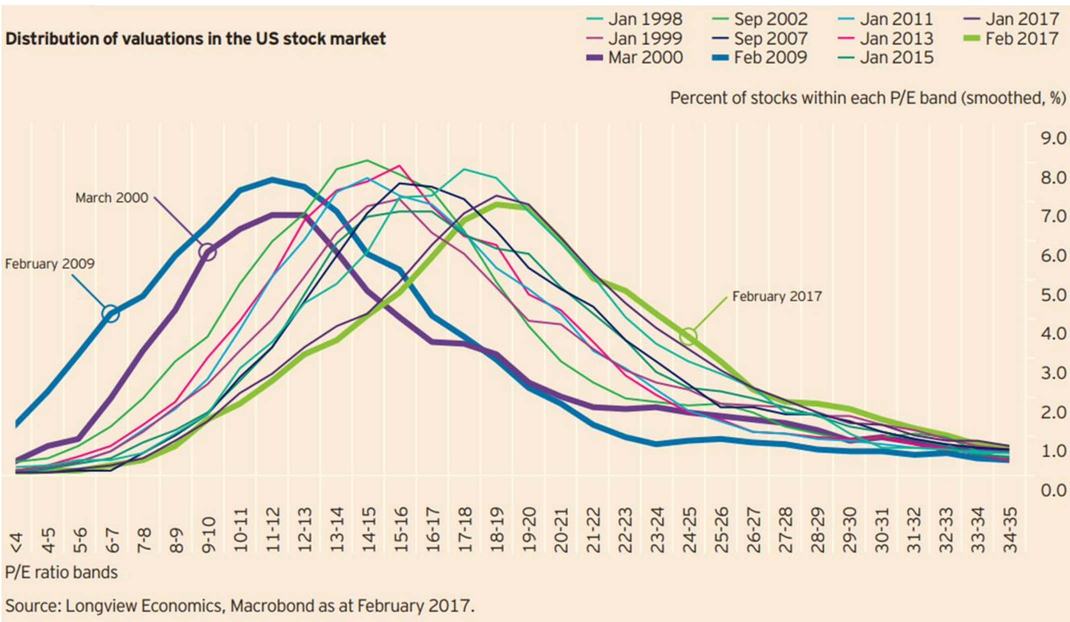


Even more intriguing to us is the distribution of valuations across different P/E ratio bands as shown in the chart below (also borrowed from Longview Economics and Invesco Perpetual Global Opportunities Fund). The purple line represents the valuation in March 2000, just before the dotcom crash. While the overall market, as calculated by the cyclically adjusted P/E ratio in the chart above, was the most expensive it has ever been, this was driven by extreme valuations in a relatively small number of stocks (the "dotcom darlings"). There were still plenty of other companies that traded on low valuations as huge amounts of capital were sucked out of these companies to ride the dotcom darlings. Many value investors of the day were subsequently well rewarded when these forgotten and cheap stocks were "rediscovered" as the most expensive parts of the market crashed.

The green line below shows the situation as at February 2017. The first observation is that there are very few companies in the US market trading at truly bargain levels. Secondly, the median stock in the S&P 500 now appears to trade at over 20x P/E. These two observations imply to us that the prospects for future returns for the market over the medium-to-long term are unlikely to be overly attractive. Unless, of course, something is truly different this time?



We would rather not make that bet. We have learnt the value in standing apart from the crowd and following a sensible and steady path, even at the risk of not being part of the 'popular' crowd for periods of time. We will not deliver the index performance in the short term because we have no desire to look like the index. It is because we have only one company in our portfolio that is in the index that we can hope to outperform the index over the longer term.

A recent article in the Wall Street Journal, "Hot-Stock Rally Tests the Patience of a Choosy Lot: Value Investors" highlights that traditional value stocks "*those that are cheaper than many peers relative to earnings or reported net worth and are typically purchased by fund managers anticipating long-term appreciation…*" have not done particularly well since the financial crises. The article even begins by positing that *"value investing is mired in one of its worst stretches on record,* ***prompting concerns that the investment style favored by generations of fund managers is losing its effectiveness."***[2] Really? Are the lessons of the global financial crises (and every other period of market volatility) already forgotten? Are we really about to go through another chorus of "this time it's different"?

Our goal is to own competitively advantaged businesses with growing intrinsic value that we can buy at prices well below any reasonable estimate of their intrinsic value affording us a margin of safety. The current discount in market price of our portfolio to our view of underlying value offers the prospect of attractive returns over time from both growth in the underlying earnings power of the companies we own and the discount to underlying value narrowing. As long as the companies we own continue to deliver operationally, we are confident it is only a matter of time until the market rewards us. Buying growing business at a material discount to underlying value affords us the luxury of being patient as the eventual reward is worth the wait.

Our cousins in private equity are blessed with limited liquidity and no continual mark-to-market for the prices of assets they own. As a consequence, they focus on buying the right companies at the right price and then care only about improving operational performance over the longer term, confident that if they do the above they will be well rewarded at some point in the future. As much as possible, we operate in the same manner but in the public domain.

Select Portfolio Updates:

Despite the majority of our companies reporting solid to strong operational results during the quarter, there were no material price increases for the companies in our portfolio. Our six largest positions (in no particular order) are discussed below.

BBX Capital (BBX:NYSE) reported solid financial results during the quarter and moved a step closer to the full achievement of the catalysts to value creation we had identified at the time of our original investment in early 2014. During the quarter, a federal jury over turned, on all counts, an SEC lawsuit against the Chairman and CEO, Alan Levan, and BankAtlantic Bancorp, a predecessor company, that dated back to 2007 during the heart of the global financial crises. Compared to the actions of many major and well known financial institutions and their senior management leading up to and during the financial crises, we felt that the issues at stake in this case were relatively immaterial in nature and did not preclude an investment in a company with Levan as Chairman and CEO. The removal of this lawsuit was important in that it cleared the way for BBX Capital to uplist to the New York Stock Exchange which it did shortly after quarter-end. BBX Capital's share price ended the quarter up 1.5% at $6.58 per share. This represents a greater than 90% return on Avenir's original investment despite our being down as much as 25% at various points on the journey. At quarter end, BBX Capital was trading at a little over 5x trailing EBITDA[3], excluding the value of real estate assets it owns, a material discount to the main listed competitors that trade at 8-9x EBITDA and recent M&A transactions that have occurred at similar multiples.

[2] Bold added for emphasis.
[3] Earnings before interest, tax, depreciation and amortisation.

Nexstar (NXST:NASDAQ) reported record revenue, EBITDA and free cash flow. The company confirmed its guidance for free cash flow per share of $12 per year, over the 2017/2018 cycle, which is a material upgrade to the free cash flow target of $10 FCF per share, made at the time of its acquisition of Media General. The free cash flow per share target represents a free cash flow yield of 20% on the quarter-end share price of $59.80. Same station net revenue was up 4.5% driven by strong retransmission revenue growth of 32% and digital revenue up low single digits. Nexstar's share price declined 15.0% during the quarter and was the second biggest detractor in the quarter.

Motorcar Parts of America (MPAA:NASDAQ) achieved record revenue and profit in the quarter with sales and operating income increasing 14% and 21%, respectively, over the prior corresponding quarter. This was the final quarter on the way to the company delivering record full year results in which sales increased 14% and operating profit increased 20% over the prior year, and the company generated a return on invested capital of 33%. MPAA's strong run of financial performance is driven by both underlying market growth and strong gains in market share from 25% in 2013 to 39% currently. MPAA is a non-cyclical company offering a non-discretionary product but is often miscategorised as an OEM auto parts supplier tied to the cyclical new car cycle. Despite another quarter of record financial results, and despite trading at just over 6x operating income, the share price of MPAA declined by 6.8% during the quarter and ended the quarter 28% below its all-time high.

Clear Media (0100:HKSE) did not report during the quarter, as it is on a half-yearly reporting cycle so there is not much to update following its record earnings announced in the March quarter. The company still trades at about 5x our estimate of 2017 EBITDA compared to peers trading at 10x. The company recently paid HK$0.44 per share in ordinary and special dividends equal to a yield of 4.8% on the quarter end share price. Over the past five years, Clear Media has paid ordinary and special dividends of HK$3.46 per share or 38% of the current share price. Including dividends, Avenir has, to date, made a 75% return on our two and a half year investment in Clear Media. Clear Media finished the quarter up 8.5%.

General Motors (GM:NYSE) reported another record quarter with earnings 15% above consensus and EBIT up 27.9% from the corresponding period last year. Revenue was up 10.6% and EBIT margins increased from 7.1% to 8.2%. The company continued to make progress on the sale of its troubled European operations which will free up an additional $2 billion in cash that the company will largely devote to share repurchases. GM continues to trade at the lowest price-to-earnings multiple in the S&P 500 (5.5x P/E). We believe the market still does not recognise the operational changes made since the company's bankruptcy in 2009 which bring increased resilience to an auto down-cycle. Aggressive share buybacks ($5 billion targeted for 2017) at the current discounted price will continue to drive per share value. Despite a strong operating result coming in above expectations the share price declined by 1% over the quarter.

Videocon d2H (VDTH:NASDAQ) declined over the quarter, partly in sympathy with a poor quarter from Dish TV India (Dish TV) its upcoming merger partner. Both Dish TV and Videocon have been affected by the currency demonetization in India which has led to some slowing of subscriber growth and pressure on average revenue per user. These effects should pass with time, however, and we think the underlying market still provides attractive long term growth potential. The combined Videocon d2H and Dish TV will be the largest satellite TV provider in India with over 28 million subscribers.

The combined EBITDA of VDTH and Dish TV is roughly US$293 million. While management have not provided direct guidance in relation to potential synergies, analysts have raised the possibility of synergies in the order of $60-80 million or 25% of the current combined EBITDA. Management has stated this estimate is "very reasonable"[4]. There are also upcoming changes to the Indian tax and entertainment licensing regimes which could add materially to EBITDA margins over the next few years. It is not unreasonable to foresee an outcome in which the combined Videocon d2H / Dish TV entity could be earning EBITDA of over US$450 million in 4-5 years compared to the US$293 million currently. Videocon's share price declined 15% over the quarter and ended the quarter 24% below its all-time high.

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[4] Videocon d2H quarterly earnings conference call, 31 July 2017.

Our transition onto the Fidante Partners (Fidante) boutique asset manager platform continues to progress well. We recently completed the appointment of Fidante as both Trustee and Administrator of the Fund. You should have received notification of these changes in the mail and been provided with a new account number. In the same letter, you will have received a confirmation of details letter. Please check the details in that letter to ensure that your information is up to date. If you have not received the letter or your contact details are not up to date please do not hesitate to let us know.

The contact details for Fidante are outlined below:

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Reply Paid 86049
Sydney NSW 2001
(no stamp is required when mailing to this address within Australia)

Phone: 13 51 53

Email: info@fidante.com.au

Website: www.fidante.com.au

In the near future you will also receive in the mail your log on details to the Investor Online portal which is an online service providing you secure access to your investment information.

The Fund is in the process of being registered with the Australian Securities Investment Commission which, once complete, will allow us to accept retail investors directly into the Fund. Unit pricing, which has been calculated monthly since inception, will be calculated daily.

A new retail class of units is anticipated to be offered to investors from approximately the 17th August 2017.

We appreciate the confidence and trust you have placed in us. That trust allows us to make sound, long-term investment decisions that help to reduce risk and immeasurably improve our chances of achieving superior long-term returns.

"Patience is bitter, but its fruit is sweet."

- Aristotle

Best Regards,

Adrian Warner

Managing Director