28 October, 2016

Dear Partner:

The Avenir Value Fund (the "Fund") increased 13.5% in the September 2016 quarter, gained 13.1% in the calendar year-to-date and has returned 90.8%, net of fees and expenses, since the Fund's inception in August 2011. By comparison, the ASX All Ordinaries increased 5.3% in the quarter, 6.9% year-to-date and 52.6% since the Fund's inception. The MSCI World Total Return index returned 7.5% for the quarter and 44.3% since the Fund's inception.

The quarter marked the 5-year anniversary of Avenir's inception. During that time we have done some things very well and some things that we could have done better. We have worked continuously to refine our process as part of the never ending quest to reduce risk and improve performance. What has not changed during our five years, however, is our steadfast belief in the value of investing with a value oriented mindset.

Many people think of value investing as applying a mechanistic process of identifying statistically cheap stocks. This is overly simplistic and is a form of investing we do not practice. We align with the Seth Klarman view of the world, in which he describes value investing as:

"…a comprehensive investment philosophy that emphasises the need to perform in-depth fundamental analysis, pursue long-term investment results, limit risk, and avoid crowd psychology."

Investing in this world has led us to companies with long term operating records and attractive business characteristics when they are offered at bargain prices. While this approach sounds relatively straightforward, practising it take enormous reserves of discipline, selectivity, patience and resilience in the face of a market continually telling you that you are wrong. You don't get to buy something for much less than it is currently worth unless there is a lot of people telling you that it is not worth anything! Klarman, has summed it up nicely by noting "*you don't become a value investor for the group hugs*".

Sometimes, buying something at a discount, requires buying when it is declining in price as this is when it is most available. When the price starts to rise, sellers are scarce and there is a lot more competition from other buyers for the limited supply of stock. Equally, it is impossible to know when the bottom is and acting on an apparent bargain means, at some point, actually pulling the trigger and committing capital often when there is still uncertainty about the future.

To act in this manner and not be continually shaken out of positions and sell at precisely the wrong moment requires a high degree of conviction in those positions. One of the valuable lessons we have learnt over the past five years is *the danger of reaching for conviction*. There are many investment ideas in the public market that look interesting and reasonably worthy. There are far fewer that actually are.

Those investments in which we have done best have been those in which we developed a strong, research-driven conviction in the merits of the investment. In practice, this means both a willingness to commit capital, due to a firm belief that our downside is limited, and the willingness to be patient, borne from an equally strong belief that our upside is meaningful and worth waiting for. It is when the share price of something we own declines, or simply takes a long time to rise, that this conviction can be tested.

It is those situations in which we have reached for conviction that isn't really there that have become problematic. A decline in price, without appropriate conviction, can lead an investor to become adrift and lose

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the resolve to stay the course exiting the position at the wrong time simply in order to stop the pain. Often, it can result in capitulation at the point of maximum pessimism, gifting a bargain buying opportunity to another investor who will reap the long-term benefits.

An important part of our continual process improvement has been to improve our selectivity. We have often felt that it is our selectivity that allows us to reduce risk and win in the market. It is by avoiding the temptation to reach for conviction that we will maintain this competitive advantage. It is the process of winnowing through the many 'wannabe' compelling investment ideas and acting only on the few truly compelling ideas we need to deliver worthwhile results over time. These ideas do not come in a steady progression but in fits and starts. Sometimes we find none and other times we find many. We have gotten better at staying calm and building cash in the former times and not hesitating to act repeatedly to allocate that cash in the latter.

This process has led to a current portfolio that is made up of robust, well managed, well capitalised and strongly growing companies that we believe has upside of over 70% to achieve our price targets. Each of those companies is delivering a high level of operational performance that is increasing the underlying value of those companies every day. We can't tell when the market will agree with our view of value, but we can be sure that, unless the underlying circumstances for any of those companies changes adversely, or we uncover something with markedly better risk/return characteristics, that we will have the conviction to stay the course and allow ourselves the best opportunity to win.

During the quarter, Avenir was shortlisted for the best long/short global equity category in the HFM Awards Asia 2016.

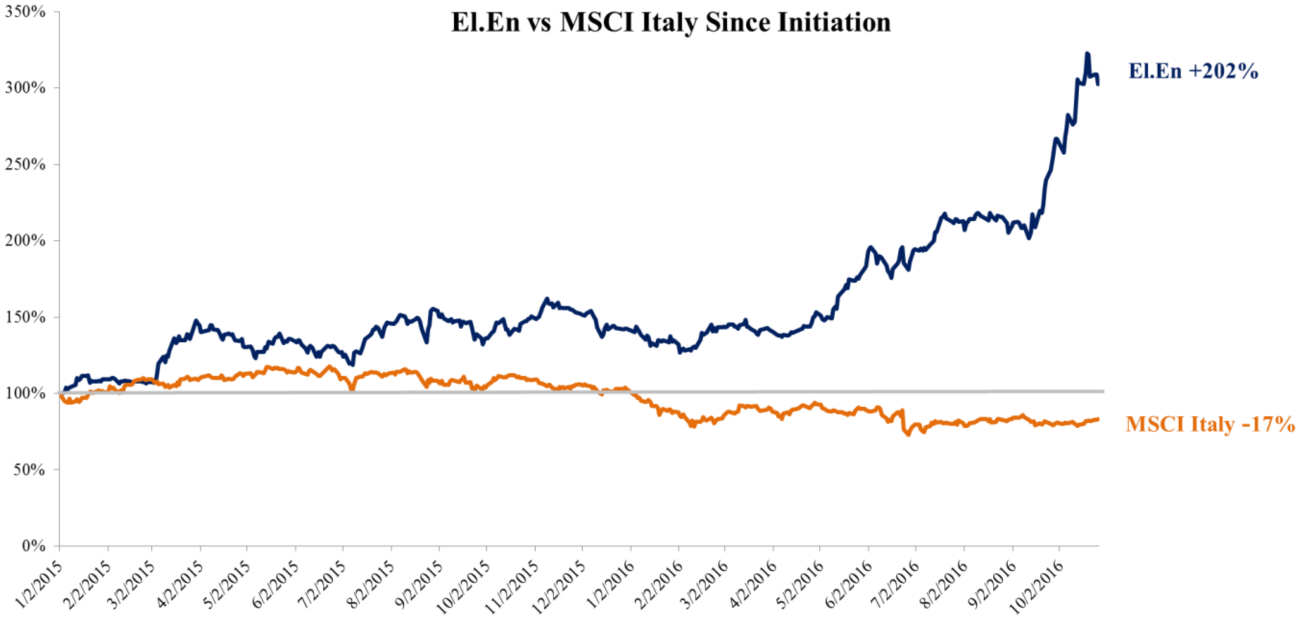
Select Portfolio Updates

Our biggest winner for the quarter was **El.En**, an Italian based laser manufacturer, which we acquired 2 years ago. Despite the Italian market being down almost 20% over the last year, El.En increased 96% over the same period including rising 38% in the recent quarter. El.En has continued its strong run into October and, so far, we have made 200%+ on our investment in El.En.

At the time of investment, El.En fit nicely with one of our favoured investment 'models', being at a point of inflection not yet recognised by the market, as well as being a good quality company with a capable and economically aligned management team. El.En had cash equal to half the market capitalisation and was available for 5-times operating income with plenty of internal growth opportunities available. It participated in a consolidating industry giving plenty of scope for value added corporate activity as either an acquirer or target which we felt would ensure underlying value was identified before too long. El.En has continued to grow revenue, earnings and margins during our ownership which has resulted in the market repricing it from the bargain level at which we invested.

As the chart below highlights, we do not need a rising market in order for our investments to deliver strong results. In fact, the Italian market declined by 17% over the same period that our Italian holding increased by over 200%. The chart also highlights the difficulty in timing investments. Once the market decides a higher valuation is warranted, the movement up can be very swift and, if you are not already a patient owner of the company's securities, it can be next to impossible to accumulate any of those securities in meaningful volume once the upward ride begins. That is why we like to be buyers when few others are and why we only select investments where we think the ultimate upside is meaningful enough to ensure our patience is well rewarded.

AVENIR CAPITAL



Another big winner for the quarter was **Service Stream** which rose an additional 46% in the quarter following its 150% rise in the twelve months to June 2016. Service Stream provides an example of another investment 'model' for which we are continually scouring the world. In this case, a downtrodden and forgotten company in the process of recovering from recent, transitory problems. When we moved on Service Stream, the company had net cash on the balance sheet following initiatives by a new management team that had led to two years of very strong cash generation. The company was on the verge of delivering strong earnings growth on the back of recently won contracts and operated in markets not effected by the level of overall economic activity.

In the relatively short time that we have owned Service Stream (less than 18 months) the company has continued to drive strong operational performance and cash flow and returned almost 15% of our initial investment as a cash capital return to shareholders. Our investment in Service Stream has returned over 240% to Avenir and, despite the strong operational performance, we have now largely exited the position as the share price has increased to what we consider to be reasonably fairly valued.

We believe we own other companies in the portfolio today that can deliver similar upside to El.En and Service Stream, we just do not know exactly when. Given the significant margin of safety in these investments, however, and the substantial potential upside, we believe we will be well rewarded for our patience.

As an example, our third biggest winner for the quarter was **BFC Financial (BFC)** which was one of our largest decliners in the 12-months to 30 June 2016. The BFC share price increased 34% during the September quarter but that only recouped the previous declines and brought us back to slightly above our purchase price. BFC is still the cheapest security we own trading at less than 2-times EBITDA[1], after netting off the value of its real estate assets, despite several of its peers having been recently acquired at 7-8 times EBITDA by private equity groups, such as Apollo Global Management, and other industry players.

During the quarter, the company announced the acquisition of the remaining 19% stake in the publicly listed BBX Capital (NYSE:BBX) which BCF doesn't already own. We welcome this development and, in fact, have been strongly urging it for some time as we believe that simplifying the corporate structure in this way will help other investors identify the underlying value we believe exists across the two companies.

In the time we have owned BFC, the company has increased EBITDA in its vacation ownership interest business by 40%, its portfolio of real estate assets has grown in value, it has restructured its affairs to be able to utilise its substantial tax losses faster, thereby increasing the present value of the tax savings generated, it has initiated a dividend (albeit somewhat token), and now it has announced action in order to greatly simplify the corporate structure. All of the above we anticipated in our initial investment decision, but, despite this, we sit here over two years later with the share price at not much more than our initial purchase price.

Patience is still called for, however, as the opportunity for gain here is large. As part of the acquisition of the remaining stake in BBX Capital, the boards of directors of both BBX and BFC commissioned third party valuations of BFC as some of the consideration for BBX Capital is to be paid in the form of BFC shares. While we always treat board commissioned valuation studies with some scepticism, the range of BFC's share price resulting from the two studies was $12.27 to $17.89 per BFC share. The mid-point of this range would represent an almost 300% gain from the quarter-end share price of $3.85.

There were no material decliners for the quarter.

We remain highly confident that the value of our businesses will grow over time. The market may ignore this progress for periods of time but, ultimately, this value will be reflected in higher stock prices. All we need is a collection of good businesses at great prices, patience and the courage of our convictions.

An important prerequisite for our investing strategy is an investor base that is aligned with this approach. Over the past five years we have built an investor base of which we are incredibly proud. Our investors have entrusted Avenir Capital with the important task of both protecting and growing their wealth. We take this task seriously and work hard each day to improve the manner in which we go about it.

The next investor intake will be on 1 November 2016. We are glad to be your largest partner in the Avenir Value Fund and appreciate your long-term investment commitment. Thank you to those who have recommended us to others.

Should you have an interest in discussing the fund in more detail please do not hesitate to contact us.

"A 'No' uttered from the deepest conviction is better than a 'Yes' merely uttered to please, or worse, to avoid trouble."

-- Mahatma Gandhi

Best Regards,

Adrian Warner
Managing Director

[1] Earnings before interest, tax, depreciation and amortisation.