Quarterly Review March 2017

Europa Absolute Return Fund

Highlights

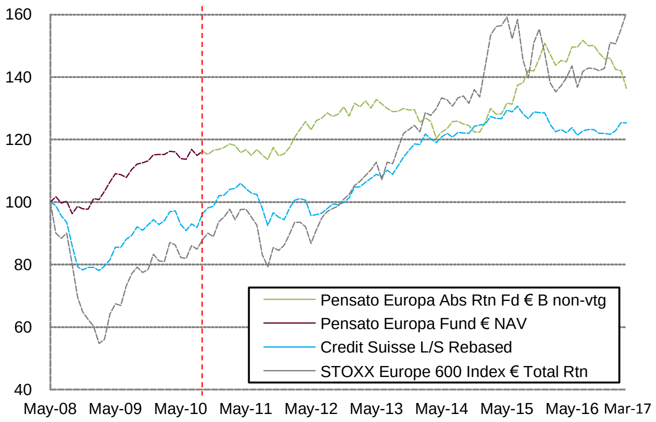
■ The Portfolio returned –6.6% over Q1 17.

■ We have undertaken a comprehensive review of portfolio performance in Q1. Our analysis shows that both factor/style risk and sector positioning had a minimal impact on performance. Poor returns from stock picking were the key driver of the drawdown in Q1.

■ Our fundamental success ratio in forecasting changes to corporate earnings was at the low end of our historic range but still above 50%. Share price movements however did not reward our significant fundamental 'winners' and tended to over penalise our fundamental losers, even when earnings revisions were modest.

■ While the dislocation between some share prices and earnings expectations has been challenging for short term performance, history has shown there generally follows a period where prices and fundamentals realign. If this proves to be the case, investors will be rewarded with strong alpha generation.

Fund Performance (since inception)*



Source: Pensato Capital

Fund Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-2.5%	-0.3%	-3.9%										**-6.6%**
2016	-2.4%	-2.4%	1.1%	-0.3%	3.3%	0.0%	1.4%	-1.2%	0.0%	-1.6%	-1.2%	0.2%	**-3.2%**
2015	2.6%	3.5%	-1.4%	0.1%	2.7%	-0.3%	4.7%	0.5%	3.0%	-0.2%	2.9%	3.3%	**23.3%**
2014	-3.1%	1.2%	-0.9%	-4.2%	1.7%	0.9%	1.8%	0.1%	-0.8%	-0.3%	-1.7%	-0.1%	**-5.5%**
2013	3.2%	-0.8%	1.5%	-1.8%	2.1%	-1.1%	-1.1%	-0.8%	0.1%	0.7%	-0.4%	0.1%	**1.6%**
2012	1.8%	2.7%	2.1%	2.0%	-2.1%	2.4%	0.6%	1.3%	-0.9%	0.6%	1.8%	-2.2%	**10.5%**
2011	0.5%	0.95%	-0.4%	-2.0%	0.8%	-1.5%	1.7%	-1.6%	-1.2%	3.4%	-2.2%	0.5%	**-1.3%**
2010										-0.9%	1.2%	0.3%	**0.6%**

EUR B non-reporting share class performance, net of fees

Investment Objective: **To achieve capital appreciation with limited risk to capital. The fund seeks to achieve its objective principally by investing in a portfolio of long and short equity positions in European companies where, in the opinion of the Investment Manager, the economic fundamentals of the business are not reflected by the prevailing market valuation.**

Manager Report

The fund had a disappointing return of -6.6% in the first quarter of 2017. In a challenging period such as this, our first task is to analyse the reasons behind the poor performance. There can be many causes of poor performance including:

- Significant exposures to Factor Risks in the portfolio (such as Industry, Country or Style) in a period of changing macro-economic or stock market sentiment.

- Poor fundamental analysis, leading to adverse profit revisions (long positions seeing relative downgrades, short positions being upgraded).

** Fund performance relates to Pensato Europa Absolute Return Fund and Pensato Europa Fund Limited which are managed by Pensato Capital LLP ("Pensato"). The performance of Pensato Europa Fund Limited has been included for the period from June 2008 to September 2010 (inclusive) to show how the investment strategy employed by Pensato has performed historically. From October 2010 the performance shown is that of Pensato Europa Absolute Return Fund. The results with respect to Pensato Europa Fund Limited were not realised by Pensato Europa Absolute Return Fund and should not be considered indicative or predictive of the performance of Pensato Europa Absolute Return Fund. Although Pensato Europa Absolute Return Fund and Pensato Europa Fund Limited employ the same investment strategy, Pensato Europa Absolute Return Fund may differ from Pensato Europa Fund Limited in a number of ways, including, without limitation: (i) the fees paid by Pensato Europa Absolute Return Fund in relation to custody and trustee services may be higher, (ii) the permitted underlyings may vary, (iii) the leverage limits may be different and (iv) Pensato Europa Absolute Return Fund may have appointed a different entity to act as administrator and custodian. There may also be additional economic and market factors which affect Pensato Europa Absolute Return Fund differently from Pensato Europa Fund Limited. Past performance is not a reliable indicator of future results and any investor/potential investor should review the differences between Pensato Europa Fund Limited and Pensato Europa Absolute Return Fund carefully.*

Manager Report continued

- Disproportionally large negative impacts from a few positions (typically the result of either a major profit warning in a long position or a takeover bid for a short position).
- Changes in the expectations of the long term potential of companies (not necessarily picked up in the shorter term earnings developments)
- Other idiosyncratic factors including sentiment.

We have examined each of these potential causes as they relate to the portfolio in the first quarter.

Factor Risk Exposure

Our objective in running this portfolio is to have modest exposures to factor risks and to drive performance from fundamental stock picking. This has not changed. Risk models show the portfolio had modest exposure to Country and Market risk (11% of total risk), Industry risk (22% of total) and Style risk (16% of total). By far the greatest risk in the portfolio is stock specific (more than half of total risk). Within the Style component of risk, only 2 elements are in any way significant, a positive exposure to both Growth and Profitability. All other elements (Value, Size, Leverage, Economic Variability, Volatility and Momentum) are de minimis. Not surprisingly therefore, the impact of our 'Style' positioning was negligible (actually a small positive). The dispersion of performance by industry sector in the period was actually lower than normal. The market returned +6.3% in the period and only 2 sectors outperformed by more than 3% (Technology and Personal & Household Goods) whilst only 3 under performed by more than 3% (Oil and Gas, Retail and Property). Our sector positioning was actually moderately favourable (we were long Technology, short Oil and Gas) which resulted in a modest positive impact from Industry exposures. Our country exposure was also modestly positive.

So it can be concluded that even though the period saw building momentum of the 'Trump Reflation Trade', portfolio positioning and Factor Risk exposure was not the cause of the tough performance in Q1.

Fundamental Analysis

Historically, we have measured the success of our fundamental analysis in the short term by analysing the changes in relative earnings forecasts for the companies in the portfolio. Over the last 5 years our success ratio on this metric has been in a range of

Manager Report continued

50% to 62%. Generally, a success ratio over 55% drives strong stock picking performance. In the first 3 months of 2017 our success ratio has been 51%, towards the bottom of our 5 year range, but still above 50%. This would normally have resulted in a neutral to modestly positive result from stock picking in the portfolio, but clearly has not in this period. The magnitude of the earnings revisions is also important, not just the direction and on this measure the average earnings revisions in line with our investment thesis was +4.0% whilst the average adverse move was -4.3%. This explains a little of the negative stock picking return of -6.5% in the period but the majority remains unexplained.

To better understand the dynamics within this period, we have classified relative earnings revisions in the period into 6 groups:

Group +3 Earning revisions in line with our thesis of >5%

Group +2 Earning revisions in line with our thesis of 2.5% - 5%

Group +1 Earning revisions in line with our thesis of 0% - 2.5%

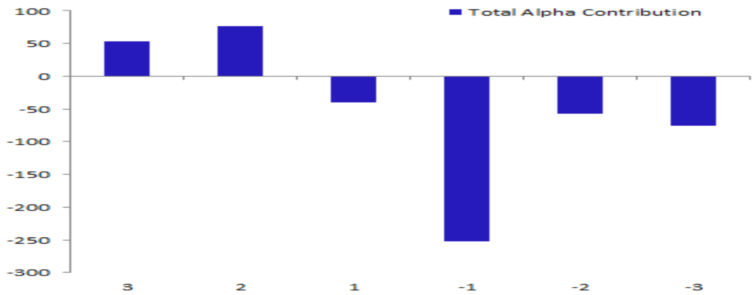
Group -1 Earning revisions counter to our thesis of 0% - 2.5%

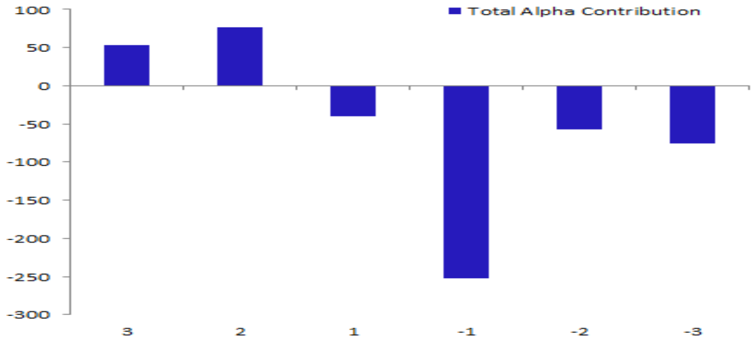
Group -2 Earning revisions counter to our thesis of 2.5% - 5%

Group -3 Earning revisions counter to our thesis of >5%

We have then analysed the contribution to performance from stocks in each group in both the long and the short book. The results for the portfolio are as follows:

Long Book Fundamental Score	+3	+2	+1	-1	-2	-3
Number of Positions	8	9	20	16	7	3
Total Alpha Contribution	+53	+77	-40	-253	-57	-76
Actual Average Alpha Contribution	+7	+9	-2	-16	-8	-25
Typical Average Alpha Contribution	+20	+10	+5	-5	-10	-20





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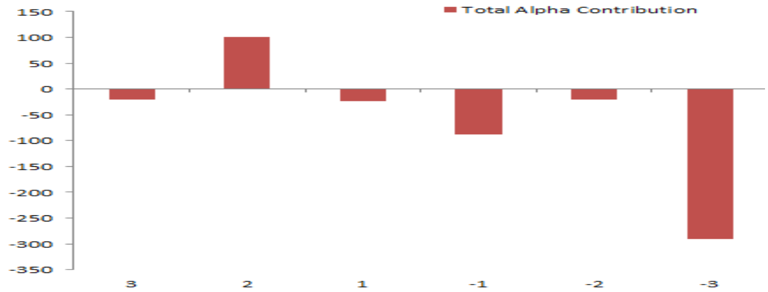
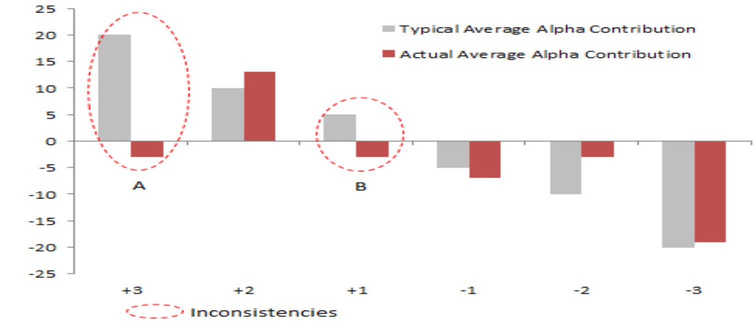
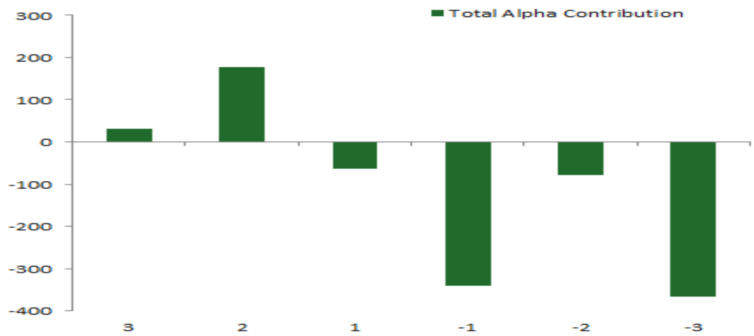
Manager Report continued

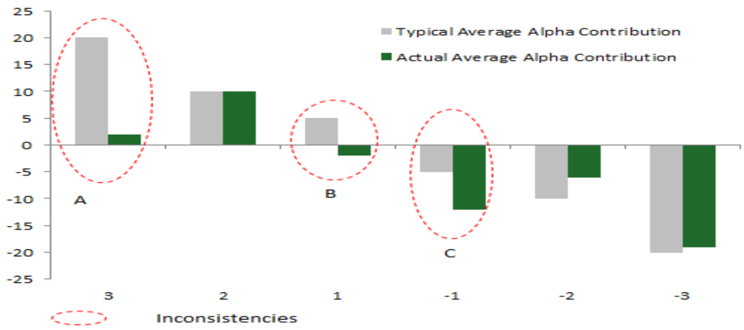
Short Book Fundamental Score	+3	+2	+1	-1	-2	-3
Number of Positions	8	8	10	12	8	15
Total Alpha Contribution	-21	+100	-24	-88	-21	-290
Actual Average Alpha Contribution	-3	+13	-3	-7	-3	-19
Typical Average Alpha Contribution	+20	+10	+5	-5	-10	-20





Pensato Europa Strategy Fundamental Score	3	2	1	-1	-2	-3
Number of Positions	16	17	30	28	15	18
Total Alpha Contribution	+32	+177	-64	-341	-78	-366
Actual Average Alpha Contribution	+2	+10	-2	-12	-6	-19
Typical Average Alpha Contribution	+20	+10	+5	-5	-10	-20





Manager Report continued

The charts illustrate 3 areas of inconsistency. The first is in positions where fundamental developments were strongly supportive of our investment thesis (Group +3) yet the contribution to alpha was very small (+0.3%). There were 16 positions in this group, 8 long and 8 short. In the long book the contribution was only +0.5%, an average contribution of only 7 basis points (bp). Typically positions in this group would contribute 20bp or more. In the short book the contribution was even more unusual, with a negative contribution of -0.2%.

The second area of inconsistency was in positions where fundamentals moved modestly in line with our investment thesis (Group +1). There were 30 positions in this group (20 long and 10 short). In both the long book and the short book, these positions had a negative contribution rather than the positive one you would expect.

The final area of inconsistency is in the positions in the long book where fundamentals moved in a modestly adverse direction to our investment thesis (Group – 1 in the long book). These positions might be expected to have a negative impact of around 5bp each on average, but in this period they had an impact of more than 3 times that. In total they had an impact of -2.5% to alpha.

This analysis shows that the discrepancy between our actual stock picking return and our fundamental success ratio can be summarised as follows:

- We did not get the benefit you would expect from positions where fundamentals developed strongly in our favour. (Impact of approximately -3.0% on performance).
- We had a negative contribution from positions where the fundamentals moved modestly but directionally in line with our thesis which should therefore have had a positive impact (an outcome around 2.0% worse than expected).
- Positions in the long book where fundamentals developed modestly counter to our investment thesis cost the portfolio -2.5%, approximately 1.7% more than would normally be expected.

We look at the areas where share price movements were uncorrelated to fundamental developments in the period in more detail later in the report to try to identify reasons why modestly positive fundamental stock picking analysis translated into such a negative contribution from stock picking alpha.

Manager Report continued

Disproportionally Larger Negative Stock Contributions

This was not the cause of the poor performance in Q1. As shown in Figure 1, over the last 3 years, the largest negative contribution in a quarter has had an impact of -0.8% on average and the tenth largest has had an impact of -0.4%. In the first quarter of 2017 the largest negative was -0.7% and the tenth largest -0.4%, in line or slightly lower than normal. Indeed the analysis in the previous section showed only 3 long positions had significant downgrades to profit expectations (there were 8 in the short book) and no short positions were the subject of a bid approach.

What the table does show is the lower than normal contribution from big winners. The impact of big winners is typically similar to

Figure 1 - Top and Bottom 10 Average Alpha

	Top		Bottom	
	#1	#10	#1	#10
Q1 2014	0.9%	0.4%	-0.7%	-0.5%
Q2 2014	0.8%	0.3%	-0.8%	-0.4%
Q3 2014	0.5%	0.3%	-1.0%	-0.3%
Q4 2014	0.8%	0.3%	-0.7%	-0.3%
Q1 2015	1.1%	0.4%	-0.8%	-0.4%
Q2 2015	0.7%	0.3%	-0.7%	-0.3%
Q3 2015	0.7%	0.5%	-0.6%	-0.3%
Q4 2015	0.8%	0.4%	-1.0%	-0.3%
Q1 2016	1.0%	0.3%	-0.6%	-0.4%
Q2 2016	0.7%	0.4%	-0.7%	-0.4%
Q3 2016	1.1%	0.5%	-0.8%	-0.4%
Q4 2016	0.9%	0.3%	-0.7%	-0.4%
Average	0.8%	0.4%	-0.8%	-0.4%
Q1 2017	0.5%	0.3%	-0.7%	-0.4%

Source: Pensato Capital

that of the losers (biggest contributor normally +0.8%, tenth largest +0.4%) but in Q1 the biggest positive contributor was only +0.5% and the tenth largest +0.3%. This is despite 16 positions with significant favourable earnings revisions, further illustrating that our big fundamental successes were not rewarded.

Other Factors

We can see that the poor performance of the fund in Q1 was not the result of Factor Risk, Poor Fundamental Stock Picking or some disproportionately large negative stock contributions.

Changes in perceptions of the long term potential of a company can take place which may not be reflected in changes to near term profit expectations. This can be the result of anticipated changes in the competitive environment in which a company operates or technological developments which may prove either a threat or opportunity for the business. These anticipated changes may or

Manager Report continued

may not happen and may take many years, but stock prices can change markedly as the future potential is discounted back to a value today. Changes to longer term expectations can occur in growth stocks. Clearly the value of a company that can sustain growth of 10% per annum is quite different from one which grows at 5%. Such changes can also have a big impact in companies that have performed poorly, but where a recovery might be about to start. The difference in the value of a business that continues to experience declining profit is very different to one where profits might start to recover significantly. Share prices often move to reflect a recovery before it happens. This may subsequently be justified by improved profitability, but in many cases may not be. These stocks are often good short candidates if investors are too optimistic in their expectations of recovery, but timing can be difficult. Stocks often go up slowly for long periods of time before falling quickly. Managing position sizes is very important.

It is these other factors that have driven the performance of the portfolio. In the next section we will look at the performance by industry group to see which stocks had a significant impact on performance, whether explained by fundamental developments or changes in sentiment.

Performance Review

The following table shows the contribution to alpha (stock picking return) across the different industry groups in Q1:

	Total	Negative Inconsistencies	Positive Inconsistencies	Fundamentally Driven	Other
Number of Positions	123	24	7	23	69
Technology	0.9%	-0.6%	0.4%	0.4%	0.8%
Healthcare	0.8%	-0.2%	0.5%	0.5%	0.1%
Financials	0.2%	-0.6%	0.0%	0.3%	0.6%
Energy	-0.2%	0.0%	0.6%	-0.6%	-0.2%
Materials	-0.3%	-0.3%	0.2%	-0.2%	0.0%
Consumer Staples	-0.7%	-0.7%	0.2%	0.0%	-0.2%
Indutrials	-2.7%	-2.2%	0.2%	-1.4%	0.7%
Consumer Discretionary	-4.7%	-3.3%	0.0%	-1.6%	0.2%
Total	**-6.5%**	**-7.9%**	**2.0%**	**-2.7%**	**1.9%**

Manager Report continued

We have broken down the total contribution from each industry group into 4 components.

- The impacts of positions where the contribution was significantly, inconsistently negative (as described in the previous sector).
- The impact of positions where the contribution was significantly inconsistently positive.
- The impact of positions where significant fundamental developments explain the contribution.
- The impact of other positions.

The overall contribution from stock selection (-6.5%) can be summarized as follow:

- An impact from negative inconsistencies of -7.9%, predominately in the Consumer Discretionary and Industrial Groups (24 positions).
- An impact from positive inconsistencies of +2.0%, spread across sectors (7 positions).
- A negative impact of -2.6% from large fundamentally driven developments with negative impacts in Consumer Discretionary and Industrials more than offsetting positives in Healthcare and Technology (23 positions 8 of which positive, 15 negative).
- A positive overall impact of the remaining positions in the portfolio of +1.9% (69 positions), mainly coming from the Technology, Industrial and Financial groups.

The Consumer Discretionary group has been the second largest contributor to overall gross returns in the strategy since inception (+23%), with positive contributions in each year except 2014. Our success in the group means we allocate a significant proportion of our gross exposure to the group (typically around one quarter). However, stock specific returns in Q1 were spread across sectors with Autos, Luxury/Durables, Media, Retail and Leisure all negative. The long book was particularly disappointing (-3.4% of alpha).

Our short positions in the Auto sector had a negative impact of -1.3% and resulted from upgrades to profit expectations. Two of the positions are component suppliers. One has had problematic new contracts which we expected to have a negative impact on profitability for some time. The company has managed to reduce losses further than we anticipated in the short term, but cash flow and return on capital remain extremely poor. The stock

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Chart 1 - Stock Chart - BMW

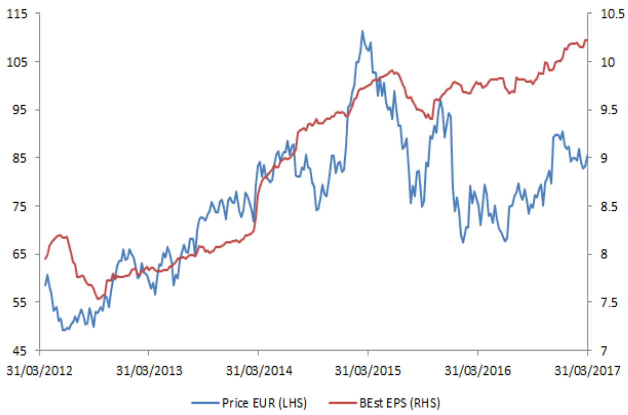


Chart 2 - Stock Chart - Next

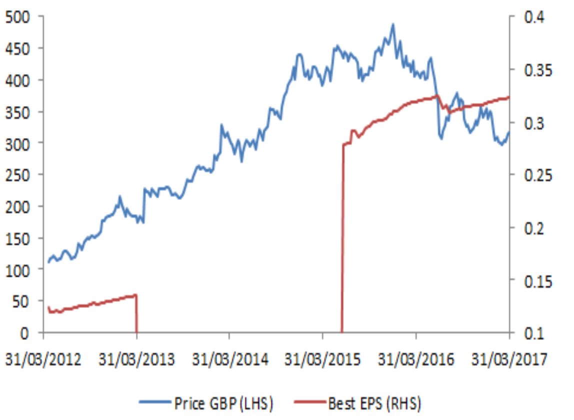
Manager Report continued

recovered disproportionately to modestly improved fundamentals and we remain short. We have a short position in an Original Equipment manufacturer that announced a major acquisition of a loss making competitor in the period. The stock responded positively. Our analysis suggests the anticipated synergies are optimistic and that profitability of the combined group is likely to be significantly less than consensus expectations. We have reduced the position as short term momentum is against us, but remain short. The fund's net exposure in Auto is modest, as long positions in Brembo, BWM and Michelin counterbalance the 3 short positions mentioned. Brembo continued to perform well with further upgrades to profit forecasts, and Michelin also made a positive contribution.

BMW, however, is an example of the performance anomalies we have discussed earlier. Earnings expectations were essentially unchanged in the period yet the stock fell and had a negative alpha impact of -0.3% (see Chart 1). There are two areas of uncertainty affecting the automotive industry at the moment; the declining attractiveness of diesel cars in Europe and the rate at which battery powered electric vehicles (BEV) are adopted. The shift away from diesel cars in Europe could potentially impact all car manufacturers in two ways. First, the residual values of diesel cars are falling and that will impact the profit of the Finance divisions. We have analysed BMW's exposure to this and believe it to be modest (less than 5% of profit for 2 years). In relation to BEV's we think the companies approach is the right one namely to maintain flexibility in its platform strategy to allow for a wide range of rate of adoption. Estimates for the penetration of BEVs in 2025 vary from 5% of the market to 50% and therefore maintaining a flexible strategy is a sensible approach. The decline in popularity of diesel cars in the last few years demonstrates how quickly markets can change. These two areas of uncertainty have resulted in BMW's lacklustre performance. We are happy with our position and our thesis that profitability in 2017 and 218 will be stronger than expected, driven by new model introductions.

The retail sector also proved challenging, in particular in the UK. After the Brexit vote in the UK, share prices of UK retailers fell and we took the opportunity to repurchase a long position in Next. The company has high margins and high return on capital employed and our analysis suggested that they would not suffer a decline in gross margins from an expected increase in import costs as consensus forecasts reflected. Whether this proves to be the case is yet to be proven, but in the meantime the company

Chart 3 - Stock Chart - Dixons Carphone

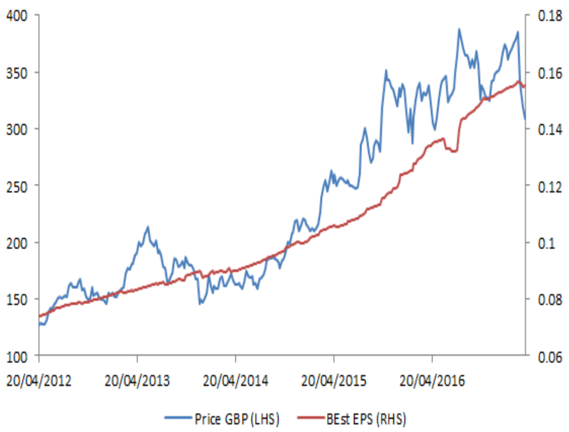


Source: Bloomberg

Chart 4 - Stock Chart - Yoox

Source: Bloomberg

Chart 5 - Stock Chart - Dominos



Source: Bloomberg

Manager Report continued

had a poor trading period over Christmas and profit expectations have been lowered (see Chart 2). The position had a negative alpha impact of -0.6%. We have decided to close the position and, indeed, that in Dixons. Dixons is an example of a company where earnings estimates have been recovering after the post Brexit downgrades (Chart 3), yet the share price has remained weak resulting in a negative alpha impact of -0.5%. As with Next, we think their profits will also be better than expected over the next 2 years, but in the short term sentiment to UK consumer related stocks and retailers in particular is very negative. We will observe from the side-lines, waiting for an opportunity to re-instate a position.

The negative contributions from Next and Dixons were partially offset by positive contributions from two short positions in the UK retail sector.

Four long positions in the Secular Growth 'bucket' in the Consumer Discretionary group had a significant negative alpha impact namely Yoox (-0.5%), Dominos (-0.5%), Scout24 (-0.4%) and Just Eat (-0.2%) (Charts 4, 5, 6 and 7). All, bar Dominos, had upward revisions to earnings forecasts in the period. In each case the long term growth of the companies has been called into question. Yoox have a very strong position in the online market for luxury goods through both the Yoox and Net a Porter websites. The strategic logic of the combination is very strong and we believe it will prove to be one of the rare corporate combinations where the expected synergy benefits are genuinely exceeded and drop to the bottom line. There are new players entering the market and some analysts have suggested they may have a negative impact on the company, however we think the strength of their customer proposition is strong and that any impact will be modest.

Dominos have had a period of exceptional growth in the last 2 years, driven by the rapid adoption of the mobile app by their customers. We have written about this several times in recent newsletters and the stock has been a strong contributor to performance (more than +2% since strategy inception). The rate of growth of system sales in the UK is slowing down from that exception level in the mid-teens to a still high rate in the high single digits as the boost from the adoption of the mobile app annualizes. The recent practice of franchisees splitting their areas by opening new outlets has also had a depressing impact on quoted 'Like for Like' sales. We believe the

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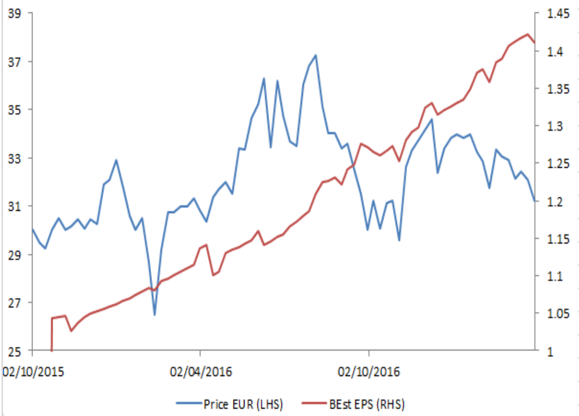
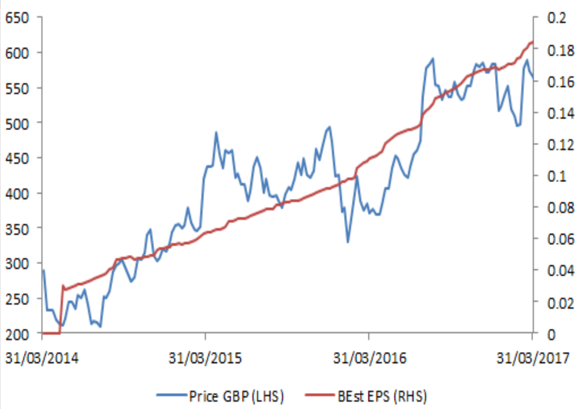
Chart 6 - Stock Chart - Scout 24



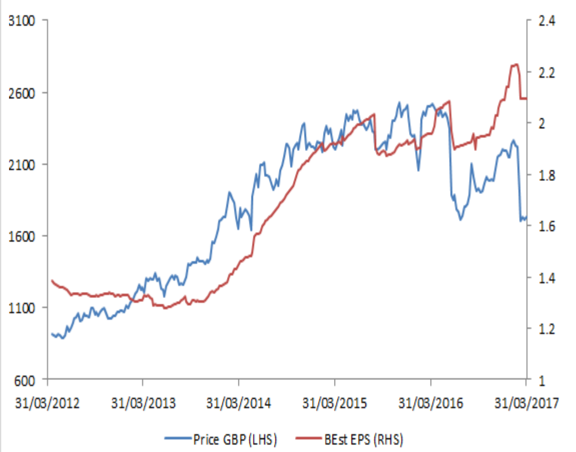
Source: Bloomberg

Chart 7 - Stock Chart - Just Eat



Source: Bloomberg

Chart 8 - Stock Chart - Go Ahead



Source: Bloomberg

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growth potential of the company remains significant and the valuation is now very attractive, trading on a forward PE of 20.7x.

Just Eat operates in the same industry and the long term growth potential is being questioned for them also. There have been concerns about new entrants such as Deliveroo and Uber Eats in the sector on previous occasions but Just Eat's strong position with its customers remains. Profit forecasts were further increased on the period. Our analysis suggests further upgrades in the future from both the UK and International businesses.

Scout24 is the market leading residential property portal in Germany. It is earlier in its development than Rightmove in the UK but we expect it to follow a similar profile of increasing revenue from its agent customers, effectively monetizing its online visitor traffic. Their recent execution of this strategy has been a little clumsy and relations with some of its customers have become a little strained. They recognise this and will be more sensitive in the future in the way they increase revenue per agent. We expect the current challenges to have only a short term impact on the business and that the longer term growth potential of the business will prove very attractive.

Yoox, Dominos, Just Eat and Scout24 are all companies with high growth potential in the medium to long term which we believe is going to exceed consensus expectations. This recent shift in investor sentiment towards cyclical recovery and away from long term growth may also have played a part in their lacklustre performance in Q1 as well as the stock specific issues discussed. In any event we remain happy with our investment thesis in each case and have retained our positions. The 4 positions together accounted for -1.7% of alpha in the period.

The Industrial Group has also been an area where we have generated good stock picking returns since strategy inception and generally also accounts for around a quarter of our gross exposure. This group was the other area of disappointing alpha generation in Q1 (-2.7%). As Figure 2 previously shows, this was a combination of some share price moves that were uncorrelated to fundamental developments as well as some areas where our fundamental analysis proved incorrect.

The Transport sector was the most challenging (alpha -1.2%). The biggest single negative impact came from Go Ahead, a long position in the UK Bus and Rail sector. We purchased a long

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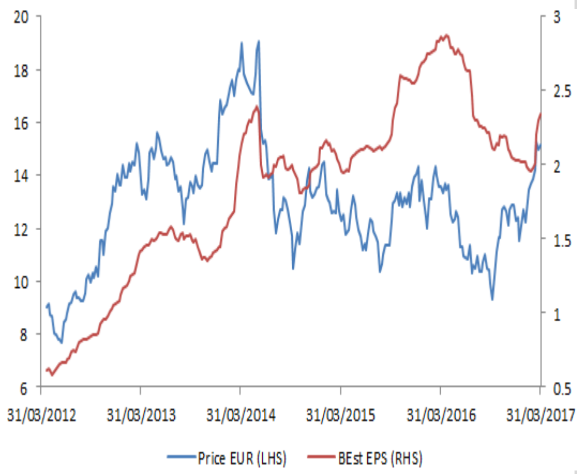
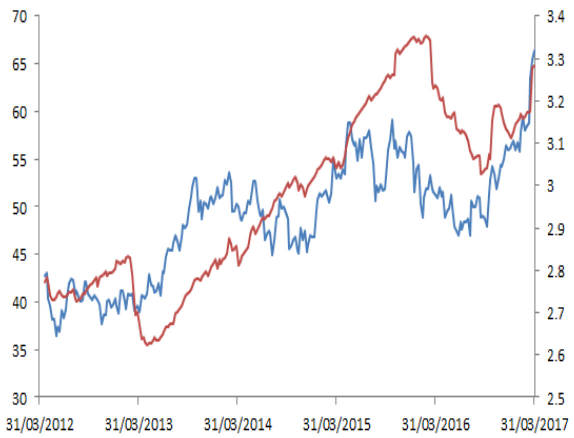
Chart 9 - Stock Chart - Airline



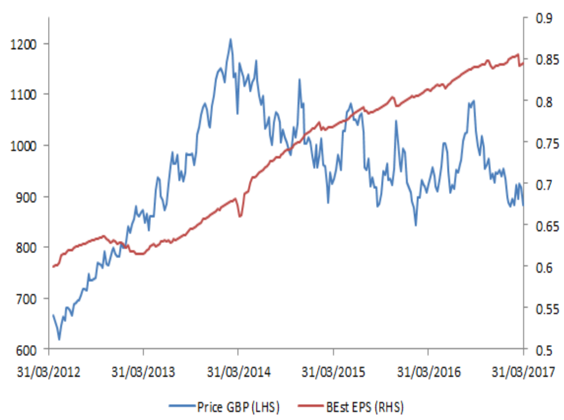
Source: Bloomberg

Chart 10 - Stock Chart - Airport



Source: Bloomberg

Chart 11 - Stock Chart - Babcock



Source: Bloomberg

Manager Report continued

position in the company in August of last year following a sharp fall in the share price (see Chart 8).

The company has suffered a series of strikes in one of its high profile rail franchises in the UK. The business has been significantly disrupted, but such is the nature of the contract terms with the government that significant losses will not be incurred. The fall in the market value that the company had already suffered was more than the cumulative profits expected from the contract over its 6 year life. Our analysis indicated that even if the rail business had no value (despite £200m of profits over the last 6 years), the valuation was very attractive. The share price recovered around half of its previous fall in the following 6 months, but in February suffered another decline of around 25%. The results published at the time were a little disappointing, resulting in modest downgrades to profit expectations, but the fall in the share price has been disproportionate. The valuation is now at an all-time low of 8.3x PE and 6% dividend yield. Sentiment is very negative at present, but at some point the dispute will be resolved and focus will shift to the very attractive cash generation of the business. The position had an impact of -0.7% in the quarter.

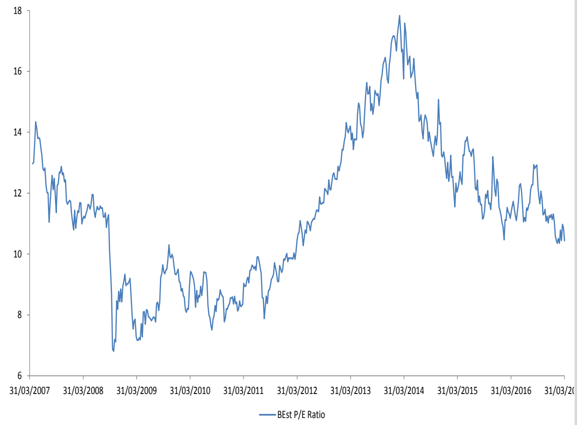
Elsewhere in the Transport sector, our analysis in the Airline/Airport sector proved incorrect. Our expectation had been that the main airline in Germany and the operator of the largest airport would see continued poor passenger numbers in 2017, but this has not proved to be the case. Our short positions had a negative impact of -0.4% and -0.3% respectively (Charts 9 and 10). Both positions have been significantly reduced as we see that short term trading may recover somewhat from the poor 2016. Longer term, we think both businesses face significant structural challenges.

In the Support Services sector of Industrials our long position in Babcock had a negative impact of -0.4% despite steady progress in profits (see Chart 11). The sector has seen significant profit warnings from most of the other companies (Serco, Capita and Mitie being the most high profile). Babcock has been deemed to be 'guilty by association' and analysts think they are likely to suffer the same fate. We disagree; the company has a very different business profile, in particular in the work it carries out for the UK Navy. Also our analysis suggests they have the earnings for 2 years, growth is accelerating (see Chart 15) and the share price is reflecting that trend. The position contributed potential to grow their profits in the nuclear industry substantially. The valuation is now very attractive (see Chart 12) and we have retained our position.

In Aerospace and Defence, a long standing short position that has proved very beneficial over recent years hurt the fund in Q1. It is a great example of an anticipated recovery that we believe will prove elusive. We have analysed the cash flow and profit drivers of each constituent

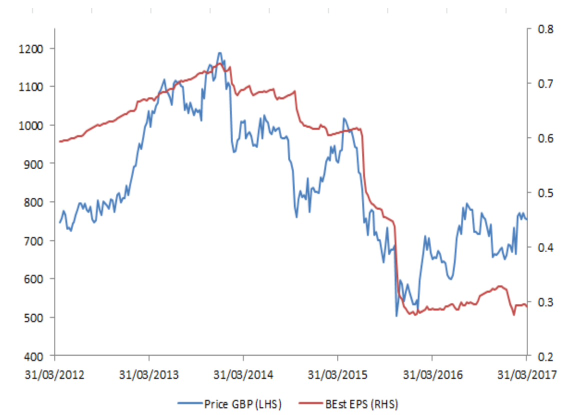
Europa Absolute Return Fund

Chart 12 - Price/earnings Ratio - Babcock



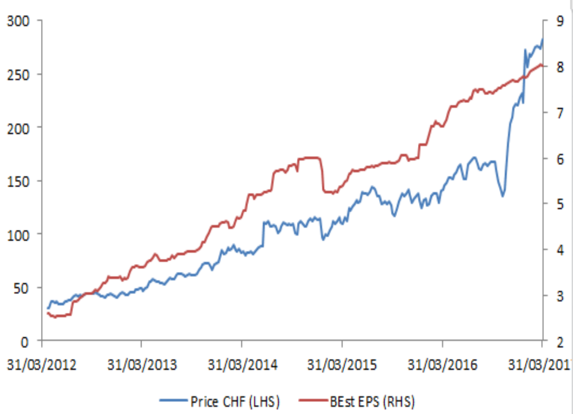
Source: Bloomberg

Chart 13 - Stock Chart - Aero Engine Manufacturer



Source: Bloomberg

Chart 14 - Stock Chart - Actelion



Source: Bloomberg

Manager Report continued

part of the business and conclude that neither will recover materially before the end of the decade. This is in sharp contrast to consensus expectations that profits will more than double. The share price rose by 20% in the first quarter despite further reductions in forward economy's estimates (see Chart 13). The valuation is now stretched with a PE ratio of double the long term average. We believe our analysis will prove correct and therefore have kept the position.

In the Engineering sector of Industrials we have seen similar developments. Expectations are high for a cyclical recovery in profits for many companies. We have been net short the sector for over a year as we have found many companies where we think cyclical profit growth/recovery is likely to prove disappointing and few attractive candidates for the long book. Nevertheless, we have analysed many companies in the last few months and have reduced the net short position from -14.3% in December to -7.9% at the end of March. The sector had a negative contribution to alpha of -0.7%, mostly from the short book.

The Healthcare sector had a positive contribution to alpha of +0.8%, driven by both fundamental and other developments. Our long position in Actelion contributed a further +0.5% as the bid from J+J reached its final conclusion (Chart 14). We have sold the position.

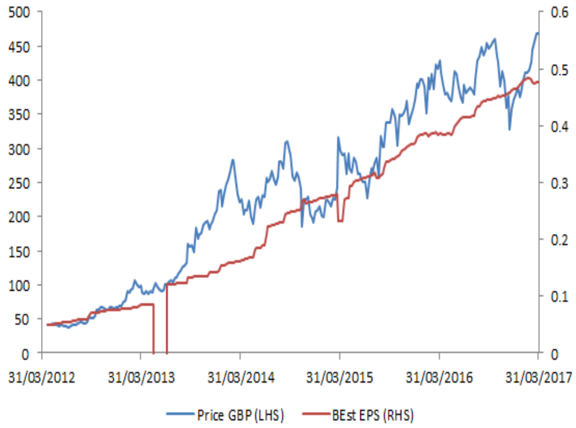
In 2016 we re-initiated a long position in Grifols, the Spanish based manufacturer of products derived from blood plasma. The company has a strong position in the market following its acquisition of Telecris in 2012. After a period of integration, they are just completing an expansion phase that will give them capacity to grow into the next decade. Our analysis suggests that margins that have reduced in the last 2 years will start to expand again as plant utilization improves and start-up losses recede. In addition, we expect pricing power in the industry to improve as the supply of plasma is becoming tight. After a period of flat earnings for 2 years, growth is accelerating (see Chart 15) and the share price is reflecting that trend. The position contributed 0.4% in Q1. Also in Healthcare our long position in William Demant did well, in this case driven by the success of its recent new product introduction. We have looked at the new products coming from their competitors and concluded that the company are likely to gain further market share in the next year and profit upgrades will continue.

Europa Absolute Return Fund

Chart 15 - Stock Chart - Grifols

Source: Bloomberg

Chart 16 - Stock Chart - Paysafe



Source: Bloomberg

Chart 17 - Stock Chart - Telco Equipment Manufacturer

Source: Bloomberg

Manager Report continued

The Technology sector has been our most successful since the inception of the strategy and this continued in Q1 (alpha contribution +1.0%). The sector has contributed over a third of our gross return since strategy inception (partly helped by a net long position throughout the period). The biggest contribution in Q1 was our long position in Paysafe. This is pleasing in that it demonstrates the strength of our process when a position moves against us. In the December newsletter I described how the company had been the target of short sellers, resulting in a sharp fall in the share price. Our response was to examine any new information to determine whether our investment thesis needed to change. This was not the case in this instance, and we retained the position. The share price has now fully recovered, rising over 20% in Q1 and contributing +0.4% to alpha (Chart 16).

There were some share price movements in Technology that were not driven by fundamental developments, but they were more balanced than in other sectors. Our short position in a telecom equipment manufacturer saw further downgrades to profit expectations, yet the share price rose nearly 10% (Chart 17). This was offset by a similar trend (this time in our favour) seen at Indra Systems and SAP where we are long.

An analysis of alpha by investment bucket (see Charts 18 and 19) shows the largest negative contributions came from short positions we classify as in 'cyclical decline'. This illustrates the expectation of an improvement in the macro environment that many investors anticipate. In some cases we have revised our investment thesis and closed positions, but in many cases we believe the share prices reflect a recovery that is very unlikely to develop in reality and have maintained our position.

Similarly the 'Secular Decline' grouping had negative returns. Here share prices are reflecting an improvement in the long term potential of the business that our analysis suggests is unlikely to materialise.

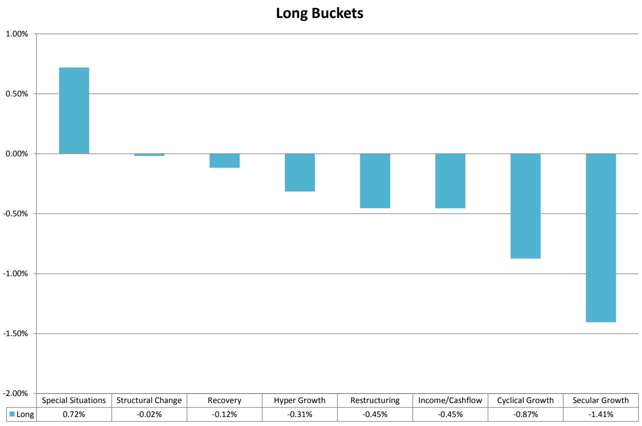
In the long book, the challenge was in the 'Secular Growth' bucket as illustrated by Yoox, Just Eat, Dominos and Scout24 discussed earlier.

Summary

In summary the challenging performance in Q1 was predominately driven by changes in the medium to long term potential of positions in both the long and the short book, not shorter term developments. In each case we have updated our analysis to see if our investment thesis is still valid.

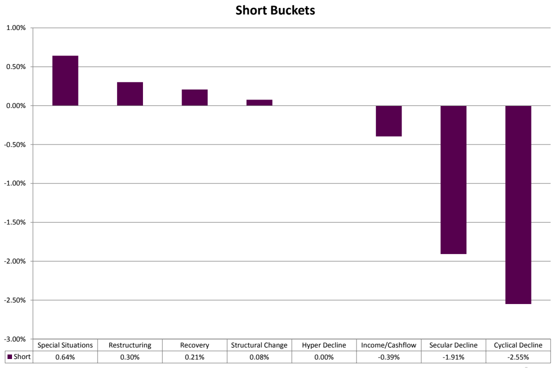
Manager Report continued

Chart 18 - Long Bucket alpha contribution



Source: Pensato Capital

Chart 19 - Short Bucket alpha contribution



Source: Pensato Capital

In some cases the investment thesis is no longer compelling and we have closed positions. In other cases where we believe our thesis is correct, but short term momentum may remain adverse, we have reduced positions accordingly. In many instances though, our investment thesis remains intact and we have maintained our position.

<u>Outlook</u>

Periods where share prices move in a different direction to earnings expectations are normally fairly short. Either the trend in earnings expectations changes to 'catch up' with the share price move, or the share price reverts to following fundamentals. The performance of the portfolio in the coming months will be driven by whether our analysis proves to be correct in the medium term. If this is the case (as it has done on similar occasions in the past) we will be rewarded.

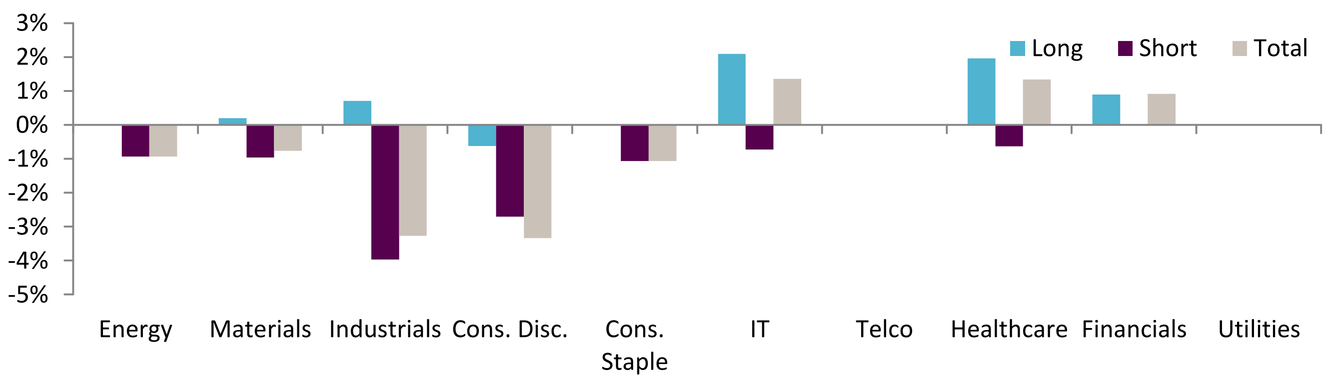
Graham Clapp

Portfolio Manager

Europa Absolute Return Fund

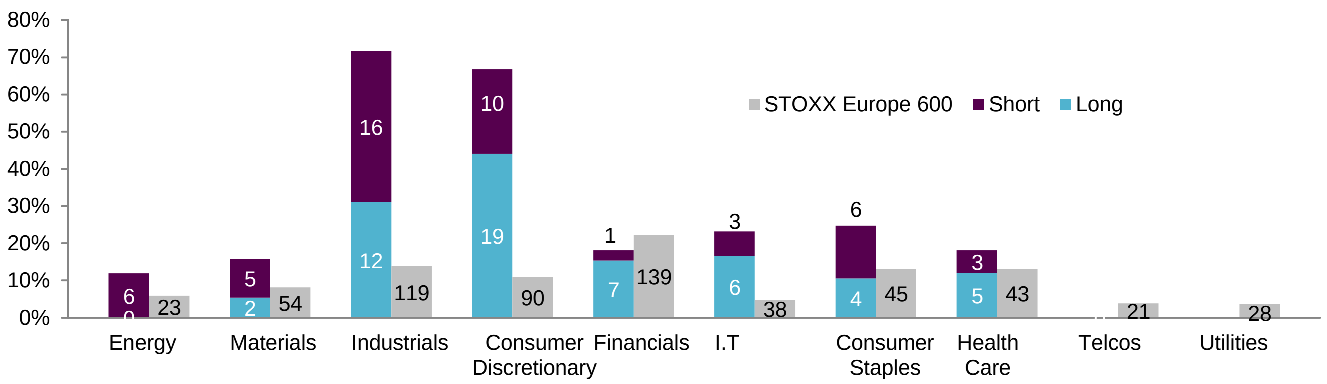
Fund Performance

Q1 2017 Performance by GICS Sector



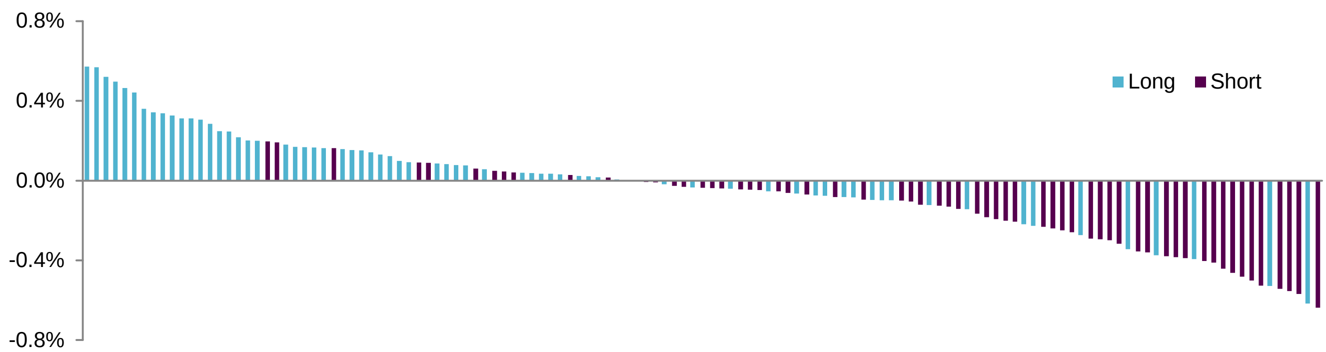
Source: Pensato Capital

Fund Gross Exposure vs Market Weighting by Sector (as at 31 March 2017)



Source: Pensato Capital

Q1 2017 Individual Stock Performance



Source: Pensato Capital

Quarterly Review March 2017

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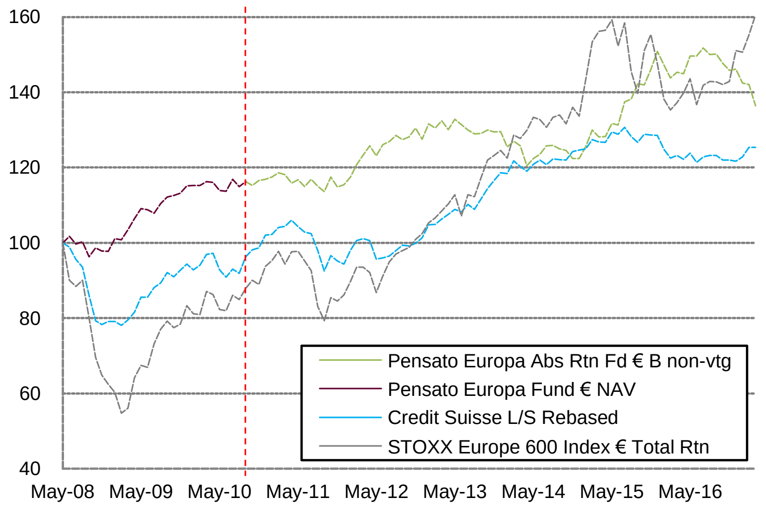
Europa Absolute Return Fund

Performance

Fund Performance (since inception*)



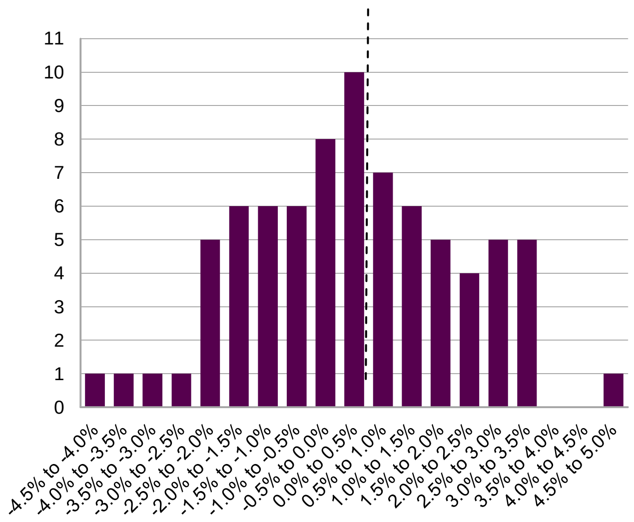
Source: Pensato Capital

Pensato Europa Absolute Return Fund Alpha vs. Beta

Source: Pensato Capital

***The "Alpha" shown above relates to "Alpha" generated by Pensato Europa Fund Limited and not Pensato Europa Absolute Return Fund. The results shown should not be considered as indicative of the "Alpha" achieved by Pensato Europa Absolute Return Fund since inception. "Alpha" is calculated monthly with reference to gross performance, portfolio net position and, in the case of Pensato Europa Fund Limited, the performance of the Euro Stoxx 600 Index total return. Although Pensato Europa Absolute Return Fund and Pensato Europa Fund Limited employ the same investment strategy, the "Alpha" of Pensato Europa Absolute Return Fund may differ from that of Pensato Europa Limited Fund in a number of ways including, without limitation: (i) the underlyings and position sizing may vary and (ii) the leverage limits may be different.*

Dispersion of Monthly Returns (since inception)



Source: Pensato Capital

Drawdowns (since inception)

Drawdown	Period	Recovery	STOXX Europe 600
-10.14%	Jul-16 to Mar-17	Ongoing	13.24%
-9.35%	May-13 to Apr-14	15 months	15.10%
-4.70%	Dec-15 to Feb-16	5 months	-8.34%
-4.21%	Feb-11 to Sep-11	5 months	-18.80%
-3.92%	Jul-16 to Nov-16	Ongoing	0.72%

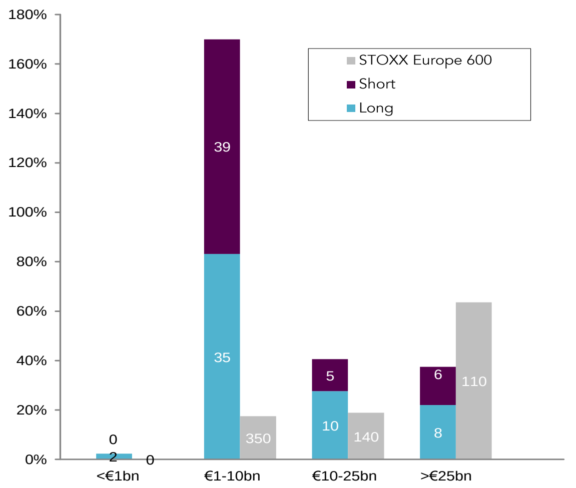
Source: Pensato Capital

** Fund performance relates to Pensato Europa Absolute Return Fund and Pensato Europa Fund Limited which are managed by Pensato Capital LLP ("Pensato"). The performance of Pensato Europa Fund Limited has been included for the period from June 2008 to September 2010 (inclusive) to show how the investment strategy employed by Pensato has performed historically. From October 2010 the performance shown is that of Pensato Europa Absolute Return Fund. The results with respect to Pensato Europa Fund Limited were not realised by Pensato Europa Absolute Return Fund and should not be considered indicative or predictive of the performance of Pensato Europa Absolute Return Fund. Although Pensato Europa Absolute Return Fund and Pensato Europa Fund Limited employ the same investment strategy, Pensato Europa Absolute Return Fund may differ from Pensato Europa Fund Limited in a number of ways, including, without limitation: (i) the fees paid by Pensato Europa Absolute Return Fund in relation to custody and trustee services may be higher, (ii) the permitted underlyings may vary, (iii) the leverage limits may be different and (iv) Pensato Europa Absolute Return Fund may have appointed a different entity to act as administrator and custodian. There may also be additional economic and market factors which affect Pensato Europa Absolute Return Fund differently from Pensato Europa Fund Limited. Past performance is not a reliable indicator of future results and any investor/poten al investor should review the differences between Pensato Europa Fund Limited and Pensato Europa Absolute Return Fund carefully.*

Europa Absolute Return Fund

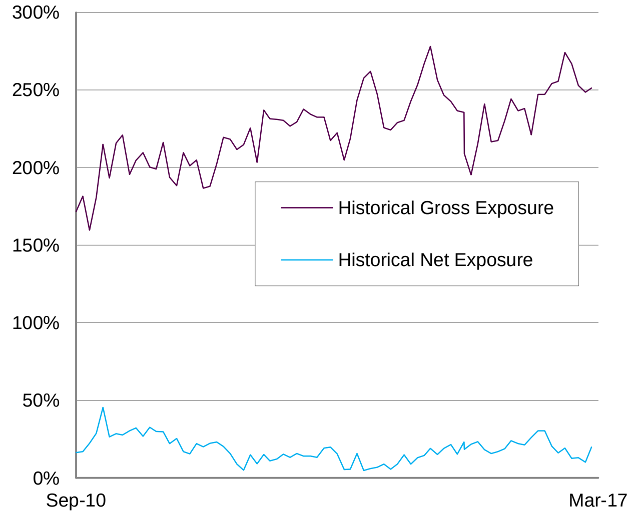
Portfolio Construction

Gross Fund Exposure vs Market Weighting by Market Cap (as at 31 March 2017)



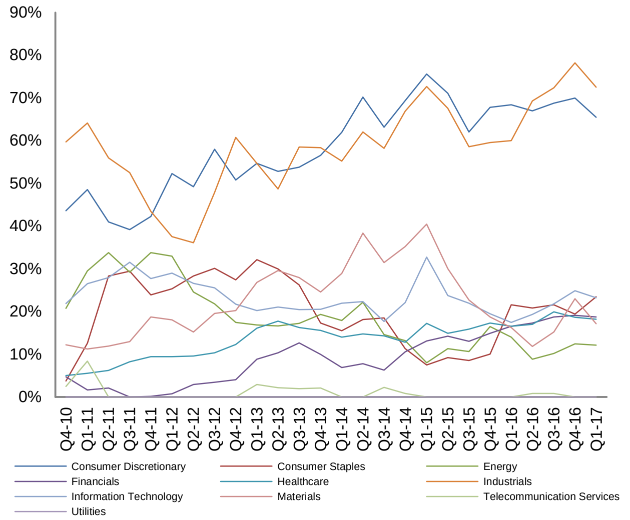
Source: Pensato Capital; Bloomberg

Historic Exposure



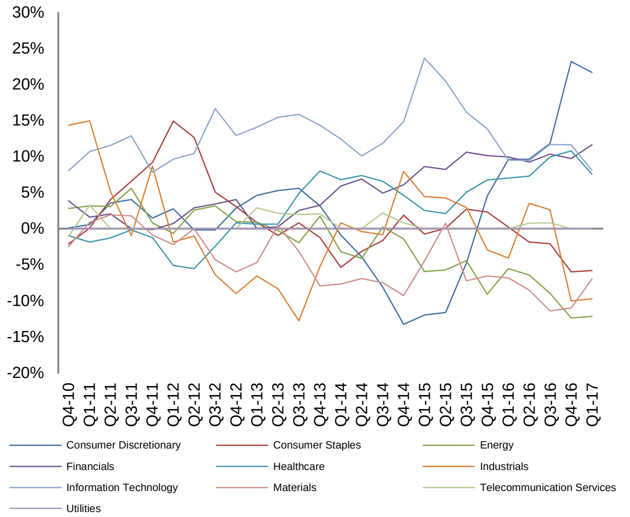
Source: Pensato Capital

Gross Exposure by Sector (average per quarter since inception)



Source: Pensato Capital

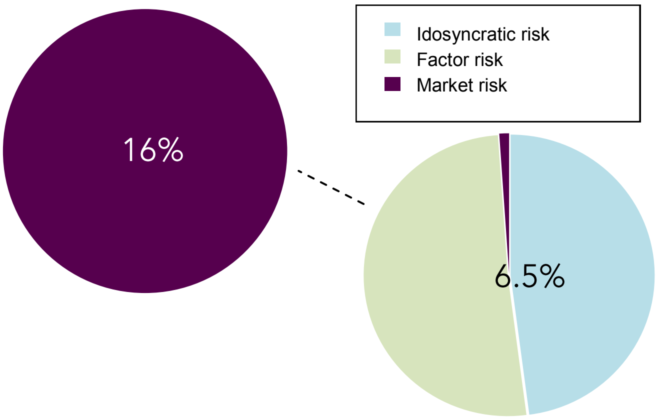
Net Exposure by Sector (average per quarter since inception)



Source: Pensato Capital

Risk Analysis

Risk Composition - Market vs Pensato Europa Strategy



Market Volatility - 16%

STOXX Europe 600 Index:
Market 100%

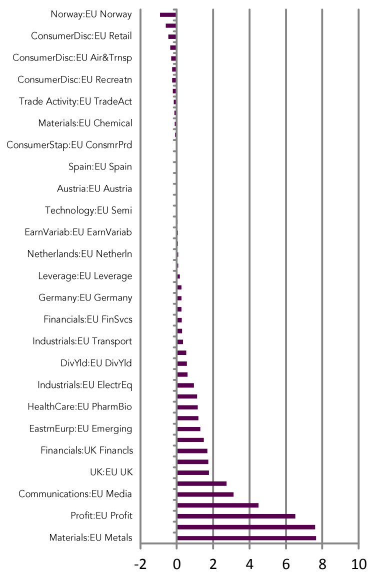
PEF Volatility - % (since inception)

Market - %
Factor - %
Idiosyncratic - %

Source: Pensato Capital; Bloomberg

Portfolio risk disaggregation as a percentage contribution to overall portfolio risk using Bloomberg Portfolio Risk & Analytics European Equity Model and a 1 year horizon, excluding currency hedges.

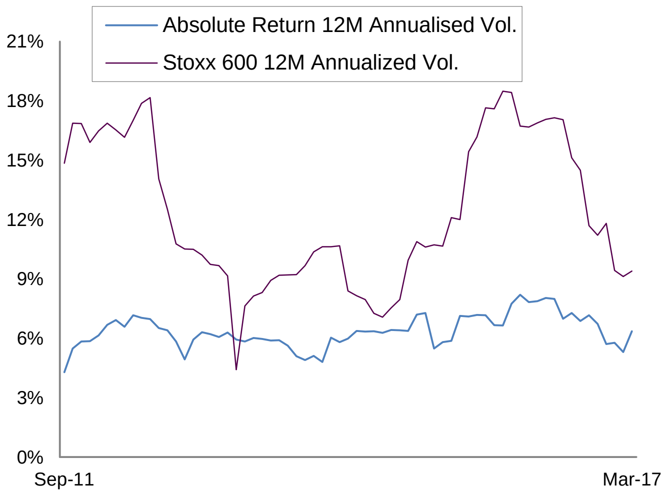
Factor Analysis



Source: Pensato Capital; Bloomberg

Factor risk disaggregation as a percentage contribution to overall portfolio risk using Bloomberg Portfolio Risk & Analytics European Equity Model and a 1 year horizon, excluding currency hedges.

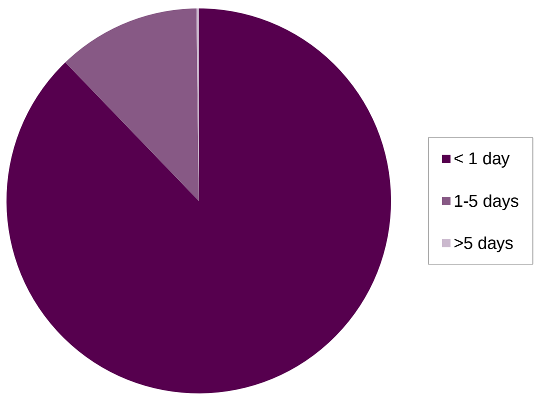
12 Months Rolling Volatility



Source: Pensato Capital

Annualised standard deviation of prior 12 months discrete monthly net returns. Pensato Europa Absolute Return Fund € shares.

Strategy Liquidity Profile



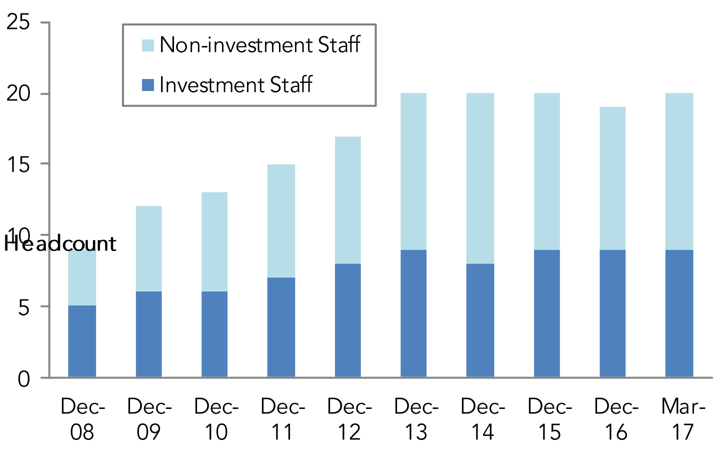
Source: Pensato Capital

Total Strategy exposure expressed as position size relative to daily traded volume. Each holding is compared to its 3 month average daily traded volume. Exposure to each liquidity segment is the aggregate gross exposure of each holding falling within the respective liquidity criteria.

Europa Absolute Return Fund

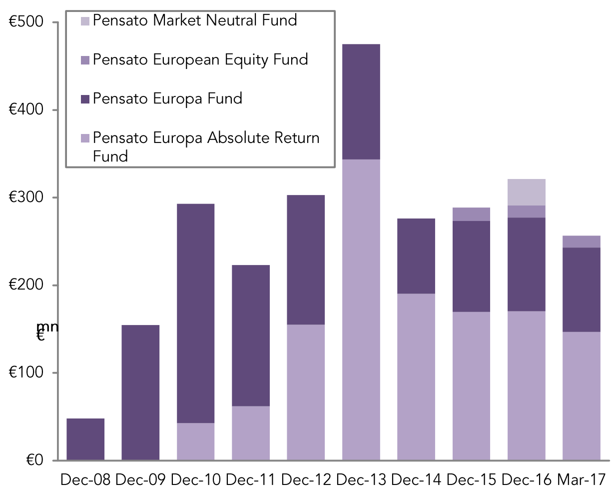
Business Development - Strategy

Q1 2017 Personnel Since Inception



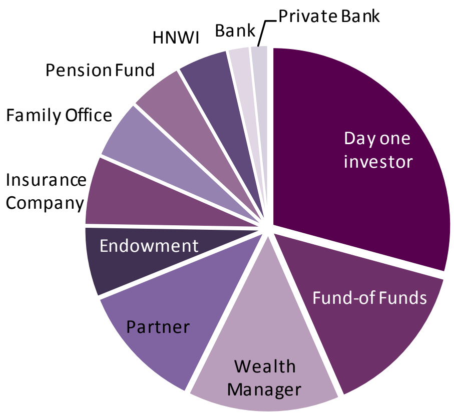
Source: Pensato Capital; Bloomberg

Q1 2017 AUM Since Inception



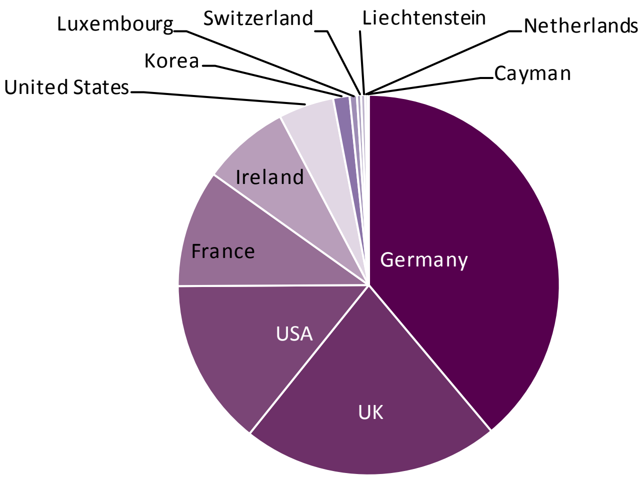
Source: Pensato Capital; Bloomberg

Investor Base by Type (as at 31st March 2017)



Source: Pensato Capital

Investor Base by Location (as at 31st March 2017)



Source: Pensato Capital

Quarterly Review March 2017

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Europa Absolute Return Fund

Fund Terms	
Base Currency	EUR with currency hedged GBP and USD classes available
Subscriptions	Weekly
Dealing Day	Monday with cut-off at 5pm on prior Friday
Minimum initial sub.	€ 500,000 (or currency equivalent)
Minimum additional sub.	€ 100,000 (or currency equivalent)
Redemptions	Weekly with 5 business days notice
Management Fee	A Shares (retrocession paying) 2.25% B Shares 1.75%
Performance Fee	20% with high water mark
UK Reporting Status	Available for GBP and EUR shares
Dividend distribution	Accumulation shares only

Fund Details	
Portfolio Managers	Graham Clapp and Edward Rumble
Structure	Irish VCC UCITS umbrella sub fund
CFD Counterparties	Goldman Sachs, Credit Suisse, UBS
Administrator	BNY Mellon Fund Services (Ireland)
Custodian	BNY Mellon Trust Company (Ireland)
Auditor	Ernst & Young
Domicile	Ireland
Clearstream	Yes

SSRI (Synthetic Risk & Reward Profile

Lower Risk Potentially lower reward						Higher Risk Potentially higher reward
1	2	3	**4**	5	6	7

Asset Allocation (month end)	No. of Positions	% NAV
Long Equity Exposure	55	135.5%
Short Equity Exposure	50	115.6%
Gross Exposure	105	251.2%
Net Exposure		19.9%

Fund Data	
EUR B non-reporting share class NAV	€117.37
EUR B reporting share class NAV	€117.43
GBP B reporting share class NAV	£119.27
USD B non-reporting share class NAV	$118.85
Fund Inception Date	04.10.10
Fund Assets	€146.9
Strategy Assets	€243.0
ISIN (EUR B non-reporting)	IE00B3SZ5F75
ISIN (EUR B reporting)	IE00B3RD1D21
ISIN (GBP B reporting)	IE00B676GW64
ISIN (USD B non-reporting)	IE00B68PBK53
Bloomberg (EUR B non-reporting)	PENNREB ID
Bloomberg (EUR B reporting)	PENREEB ID
Bloomberg (GBP B reporting)	PENREGB ID
Bloomberg (USD B non-reporting)	PENNRUB ID

Contact Details	Jos Trusted
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Fund NAVs and performance sourced from BNY Mellon Fund Services (Ireland) and are net of fees. All other tables and charts, unless stated otherwise, are sourced from internal unaudited figures.

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