MITTLEMAN BROTHERS
INVESTMENT MANAGEMENT

Mittleman Global Value Equity Fund – Class P

Quarterly Report – December 2017

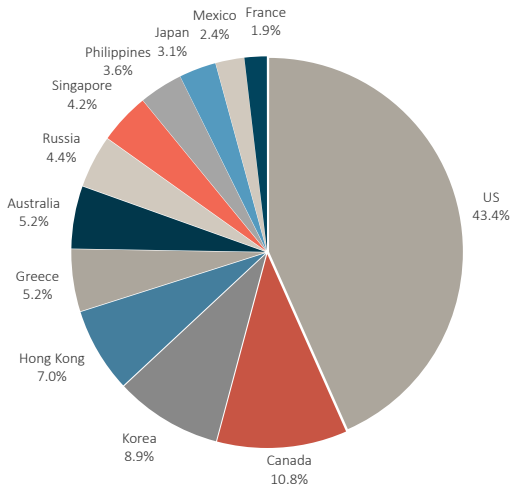
Portfolio Commentary

The Mittleman Global Equity Value Fund (MGVEF) - Class P gained 7.4% for the period 13 October to 31 December 2017, outperforming the MSCI ACW Net Total Return Index (Index) by 2.6%.

The top three contributors to performance in 2017 were KB Financial Group (KB) +66%, Aimia Inc. (AIM CN) +62%, and Sberbank of Russia (SBRCY) +47%. The most impactful detractors from performance were AMC Entertainment Holdings (AMC) -55%, Revlon Inc. (REV) -25%, and ABS-CBN Holdings PDR (ABSP PM) -23%.

Building on strong 2016 performance prior to the launch of MGVEF, MIM made further progress in 2017 towards reclaiming its high water mark of August 2014 for its composite portfolios, but at a frustratingly slow pace.

Country Allocation[3]



Fund Details	
Index	MSCI All Country World Index (ACWI) Net Total Return in AUD
Fund Inception Date	13 June 2017
Class P Inception Date	13 October 2017

Performance[1] – 31 December 2017			
	MGVEF (Class I)	Index (AUD)	Excess Return
1 Month	(1.2%)	(1.4%)	0.2%
3 Months	n/a	n/a	n/a
1 Year	n/a	n/a	n/a
Since Inception[2]	7.4%	4.8%	2.6%

Top 10 Holdings[3]

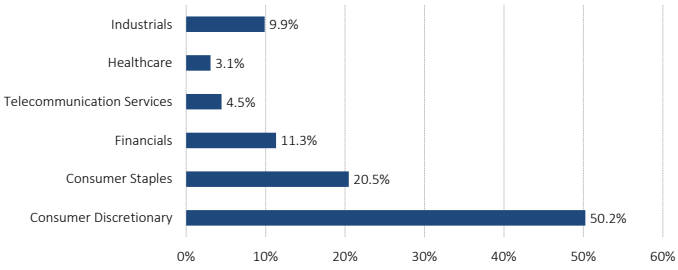
As at 31 December 2017		
Stock	**Country**	**Weight**
Revlon	US	16.2%
AMC Entertainment Holdings	US	12.2%
Aimia	Canada	10.8%
International Game Tech	US	6.3%
HC2 Holdings	US	5.7%
Intralot	Greece	5.2%
Village Roadshow	Australia	5.2%
Clear Media	Hong Kong	4.5%
KB Financial	Korea	4.5%
KT Corp	Korea	4.5%

1. Performance figures are presented in AUD on a net, pre-tax basis and assume the reinvestment of distributions. Past performance is not an indicator of future performance. Figures in the table may not sum correctly due to rounding.
2. Inception date for Mittleman Global Value Equity Fund- Class P is 13 October 2017.
3. Portfolio holdings, country allocation and sector allocation of MGVEF are as of 31 December 2017 and are subject to change and should not be considered as investment recommendations to trade individual securities. Country allocation does not include cash. The securities herein identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. There is no assurance that any securities discussed herein will remain in the portfolio at the time you receive this report, or that securities sold have not been repurchased. There can be no assurance that investment objectives will be achieved.

Portfolio Statistics[4]

As at 31 December 2017		
	MGVEF	Index
Weighted Avg Market Cap	US$7,192m	US$18,359m
Median Market Cap	US$976m	US$7,408m
EV/EBITDA	6.5x	11.8x
Price/FCF	9.9x	19.7x
Free Cash Flow Yield	10.1%	5.1%
Number of Securities	19	2,499
Developed Markets – US	42.8%	52.0%
Developed Markets – Non-US	32.2%	35.7%
Emerging Markets	24.5%	12.3%
Cash and Cash Equivalents	0.6%	0.0%

Sector Allocation[5]



Quarterly Investment Review

Global equities capped off a strong year with gains in Q4 2017. The S&P 500 returned 6.6% in USD, buoyed by hopes of tax reform and generally positive macroeconomic data. The (UK) FTSE All-Share index rose 5.0% yet Eurozone equities declined amid some profit-taking and simmering political risk, although economic data remained positive.

Emerging market equities recorded a strong gain in Q4 and outperformed developed markets with political developments supporting gains. Amongst the better performing markets, Greek equities rallied as the country reached agreement with international creditors over reforms. As well, South Korea benefited from China's effort to reset relations, which had deteriorated after South Korea proceeded with full THAAD missile deployment.

Stocks labeled as "value" in general have underperformed those categorised as "growth", in the US and further abroad. Yet there is little solace in that acknowledgement. A few value-oriented managers out-performed significantly in 2017, so it clearly was not impossible to do so despite the adverse headwinds to the style in general. Those value-oriented managers who did out-perform in 2017 tended to own more highly cyclical businesses like automobile manufacturers, which MIM continues to avoid due to the significant cash burn they typically endure during recessions. In fact, consistent free cash flow generators (like most of MIM's holdings) as a further subset of the "value" stocks group, have been unusually under-owned lately.

From the Financial Times' Senior Investment Commentator, John Authers (Financial Times, 18 January 2018):

"Growth investing may have done well last year, but over the last quarter-century it has failed miserably even to keep up with the main market indices, barring a brief illusion of great riches at the top of the dot com boom. Meanwhile, value has had a bad time of it of late. But if the various factors that generally indicate value (such as a low price/earnings or price/book, or a high dividend yield) are analysed separately, different factors of value have performed differently over time - and by far the most successful in the long term has been free cash flow yield. It is interesting (and a little worrying) that this latest rally has been the first time in a quarter of a century when the market has penalised companies for reliably throwing off a lot of free cash. With the brief exception of the dot com crash (not an encouraging precedent), companies have regularly outperformed if they have a high free cash flow yield."

Frustrating as it has been to be so out of sync with a raging bull market, MIM remains confident that MGVEF is positioned as it should be. And although the schedule or timing by which MGVEF's holdings will manifest renewed outperformance remains unknowable, it remains highly probable.

Simply put, the popular stocks remain expensive; the unpopular stocks MIM owns remain very cheap. At some point this incongruity should resolve in MIM's favour, as it has in the past.

But how long to wait?

Michelangelo said, "Genius is eternal patience." Goethe wrote, "Genius is knowing when to stop." Patience has its limits and doesn't always pay off. There has to be a well-reasoned argument to be made for the extent of it. But when applied in copious amounts to a valid and time-proven investment discipline, the outcome is usually satisfying.

This Quarterly Report is accompanied by an updated version of MIM's "What We Own, and Why" (WWOAW). It provides detailed summaries of the investment thesis underpinning each of the holdings of the MGVEF.

WWOAW also includes MIM's estimate of the upside to fair value

4. Portfolios statistics are reported in USD and are as at 31 December 2017. The statistics are updated in the report as at the end of each quarter.
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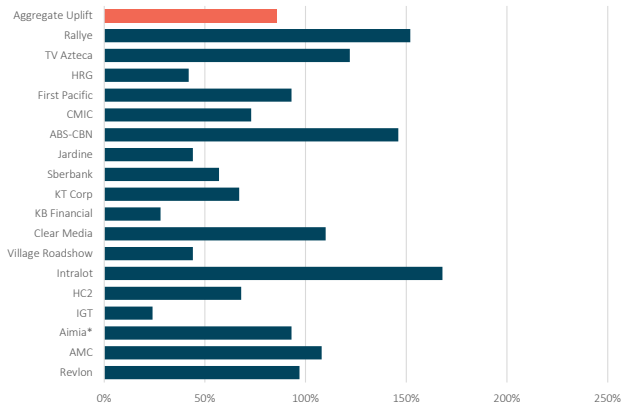
of each stock holding (summarised in the chart). In summary, the implied upside potential is as high as MIM has seen in its portfolios since the Global Financial Crisis. In fact, the implied upside potential was approaching this level in late 2011, just before MIM experienced two back to back years of 49%+ annual composite returns. Obviously, past performance doesn't guarantee future results, but we find that encouraging nonetheless.

To see how MIM arrive at those fair value appraisals, please review that WWOAW report.

Mittleman Appraisal of % Upside to Fair Value



*The estimated fair value for Aimia was adjusted in February 2018 to reflect the sale of its Nectar loyalty program and related assets.

Investment Strategy

Mittleman Investment Management, LLC (MIM) is an SEC-registered investment advisor based in New York that pursues superior returns through long-term investments in what it deems to be severely undervalued securities, while maintaining its focus on limiting risk. It invests in businesses that are proven franchises with durable economic advantages, evidenced by a well-established track record of substantial free cash flow generation over complete business cycles, and only when the very low valuation at which the investment is made provides a significant margin of safety. MIM's value-oriented strategy is to invest in a concentrated portfolio (usually between 15 to 20 securities) of primarily common stocks, unrestricted as to market capitalisation, and in both developed and emerging markets.

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