MITTLEMAN BROTHERS
INVESTMENT MANAGEMENT

Mittleman Global Value Equity Fund – Class P

Quarterly Report – September 2018

Portfolio Commentary

The Mittleman Global Value Equity Fund- Class P (MGVEF- Class P or the Fund) advanced 23.2% in Q3 2018, outperforming the MSCI ACW Total Return Index which returned 6.5%.

The top three performing stocks, from a contribution standpoint, were **AIMIA Inc. (AIM CN)**: $1.76 to $3.50 (+98.7%), **AMC Entertainment (AMC)**: $15.90 to $20.50 (+40% with $1.75 per share in dividends paid at the end of the quarter) and **Revlon (REV)**: $17.55 to $22.30 (+27.1%).

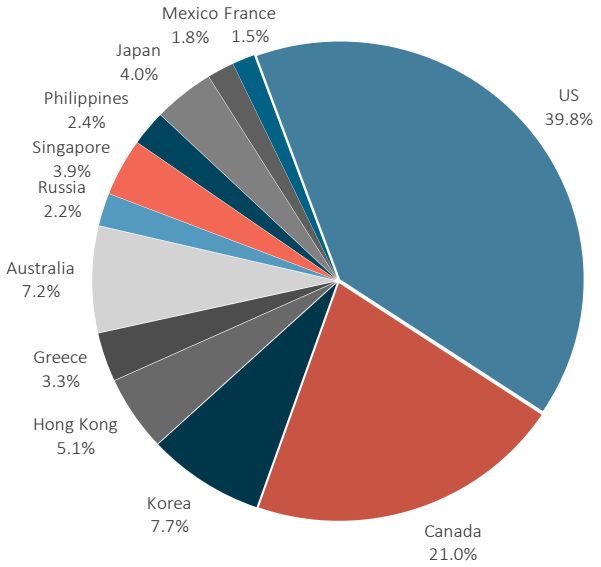
The bottom three performing stocks, from a contribution standpoint, were **Intralot (INLOT GA):** $1.15 to $0.80 (-30.5%), **ABS CBN Corp (ABS PM)**: $0.45 to $0.36 (-21.6%), and **International Game Technology (IGT)**: $23.24 to $19.75 (-13.6%).

Detailed portfolio commentary for Q3 2018 follows on the next page.

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] – 30 September 2018			
	MGVEF (Class P)	Index (AUD)	Excess Return
1 Month	4.5%	0.4%	4.1%
3 Months	23.2%	6.5%	16.7%
1 Year	n/a	n/a	n/a
Since Inception	18.7%	17.6%	1.1%

Country Allocation[2]



Top 10 Holdings[2]

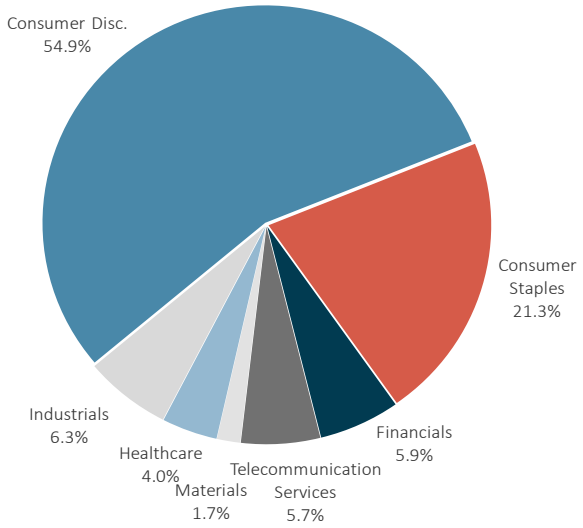
As at 30 September 2018		
Stock	**Country**	**Weight**
Aimia Inc	Canada	21.0%
Revlon	US	18.1%
AMC Entertainment Holdings	US	13.6%
Village Roadshow	Australia	7.2%
KT Corp	Korea	5.7%
CMIC Holdings	Japan	4.0%
International Game Tech	US	3.9%
Jardine Strategic Holdings	Singapore	3.9%
Intralot	Greece	3.3%
HC2 Holdings	US	2.4%

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. Portfolio holdings, country allocation and sector allocation of MGVEF are as of 30 September 2018 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[3]

As at 30 September 2018		
	MGVEF	Index
Weighted Avg Market Cap	$US4,147m	$US16,785m
Median Market Cap	US$855m	US$5,847m
EV/EBITDA	7.0x	11.4x
Price/FCF	9.1x	19.9x
Free Cash Flow Yield	11.0%	5.0%
Number of Securities	19	2,791

Sector Allocation[4]



Quarterly Investment Review[5]

"Many shall be restored that now are fallen,
And many shall fall that now are in honor."
HORACE—ARS POETICA, c. 19 BC[6]

The Fund's sharp rebound in Q3 2018 did much to restore its results for 2018. We are also encouraged that these results came during a quarter in which value stocks significantly underperformed growth stocks, and emerging markets were down yet again.

Notwithstanding the Fund's strong Q3 returns, its emerging markets exposure weighed heavily on performance. The MSCI Emerging Markets Index fell-1.1% in Q3 and was down-7.7% (USD) since the start of 2018. On a full look-through basis (considering the domicile of business operations rather than a stock's listing domain) the Fund's exposure to EM is approx. 40%, including investments in the Philippines, Indonesia and mainland China.

Albeit these EM investments have been a large drag on returns since the start of 2018, MIM believes they are among the most undervalued that it has ever owned.

MIM is not alone in finding deep value in emerging markets. In a recent Barron's magazine article[7] Ruchir Sharma, head of emerging markets and chief global strategist at Morgan Stanley Investment Management, highlighted the valuation disconnect, noting that "… the combined market value of three of the largest Southeast Asia economies—Indonesia, Malaysia and the Philippines—is the same as Apple 's [AAPL] $1 trillion market value. The last time I saw such anomalies in small- to mid-cap stocks was in the late 1990s."

MIM also finds the yawning valuation disparities reminiscent of 1999, which preceded a terrible bear market in the major U.S. averages over the next three years (2000, 2001 and 2002) while already cheap value stocks in general (MIM's included) rose significantly.

It remains to be seen if the Fund's Q3 surge will mark a more significant turning point or prove to be a cruel *head-fake*. Nonetheless, the sharpness of MIM's Q3 recovery is a reminder of just how quickly and intensely a seemingly inexorable trend in prices can change, especially with a highly concentrated portfolio.

Moreover, as Q3 demonstrates, MIM's unwavering commitment to a value investment discipline does not mean it can't make satisfying returns when value investing is out of favour.

Some colour on select holdings in the Mittleman Global Equity Value fund follows:

Aimia (AIM CN)

We covered **Aimia** at length in the Q1 and Q2 2018 Investment Reviews. It was the biggest detractor from Q1 performance and the largest contributor to returns in Q2. In Q3 **Aimia** wisely rejected an Air Canada-led consortium's public offer to buy its Aeroplan business for CAD 250M. It rejected another offer of CAD 325M and then agreed a price of CAD 450M in cash, and the transfer of an estimated CAD 1.9B in deferred revenue liabilities. A definitive agreement is expected to be signed soon.

Once that transaction closes (estimated by year-end), MIM will be the largest shareholder in a holding company that will have an (estimated) NAV of CAD 1.2B (USD 900M). Most of that NAV will be net cash (CAD 700M), and it does not include any value for CAD 800M in tax loss carry-forwards that should be available upon closing.

MIM has a long history of making highly successful investments in 'investment vehicles', comparable to what it believes **Aimia** is about to become. This includes Leucadia National (LUK), now known as Jefferies (JEF), Zapata (ZAP), American Real Estate Partners LP (ACP), now known as Icahn Enterprises LP (IEP), Brascan Ltd. (BRSA), now known as Brookfield Asset Management (BAM), Danielson Holdings

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5. All dollar amounts within this report are in USD unless otherwise stated.
6. The quote from Roman poet Horace in The Art of Poetry (circa 19 BC) is found on the first page of Security Analysis, by Benjamin Graham and David Dodd, published in 1934. This is the Magna Carta of the value investing discipline to which MIM has long strived to adhere.
7. Emerging Markets Roundtable: Today's Pain Could Be Tomorrow's Gain, Barron's, 19 October 2018.

(DHC), now known as Covanta (CVA), Kinnevik AB (KINVB SS), and Harbinger Group (HRG), now known as Spectrum Brands (SPB).

The Fund also owns shares in other 'investment vehicles' and MIM thinks Jardine Strategic (JS SP), First Pacific (142 HK), and HC2 Holdings (HCHC) are all worth roughly double their current prices.

Aimia has many of the characteristics that made prior investment vehicles such successful investments for MIM. Moreover, with MIM controlling nearly an 18% stake in **Aimia,** and with two of its nominated representatives on the Board, MIM should have substantial influence on **Aimia's** capital allocation decisions after Aeroplan is sold.

MIM has developed (and shared with Aimia's board) a strategic plan that should substantially enhance Aimia's NAV per share and extract maximal value from its tax loss assets and other key remaining components of value.

If the Board rejects MIM's plan and decides to liquidate the remaining assets instead (which MIM thinks would be a mistake, and wrongly strand the tax loss assets), there is still nearly 100% upside from current price to MIM's estimate of NAV (as long as fair values are attained for the remaining assets).

We hope that MIM's longer term vision for reinvesting and growing the substantial remaining assets of Aimia will prevail. Regardless, MIM's involvement as an activist investor with Aimia has already saved the company hundreds of millions in cash value that would have otherwise been lost had it not interceded.

AMC Entertainment (AMC)

AMC was the second biggest contributor to the Fund's performance in Q3 2018, having reported strong earnings in August.

There was an explosive rebound in box office receipts in 2018. They were up 8.7% over the same period last year and 3.8% over the same period in 2016 (which was a record year at the box office).

On 14 September **AMC** also announced a transaction whereby its controlling shareholder, the Chinese conglomerate Wanda Group, would liquidate a portion of its ownership by selling 24M shares to be bought back by AMC. Funding was provided by Silver Lake Partners (a highly regarded private equity fund), via the sale of $600M convertible preferred stock to Silver Lake. Wanda Group retains a controlling stake of just over 50% and the transaction was well received by the market.

AMC's subscription pricing offer, "AMC Stubs A-List" (an innovation to traditional 'pay as you go' ticketing), has proved more popular than anticipated. While that might weigh on sales and margins in the near term, it is great for the long term as it should mute the volatility of the business as it relates to hits or misses at the box office each week, making the cash flows that much more predictable.

Subscription-based businesses tend to get higher valuations in the market, and there is plenty of room for that here as AMC closed Q3 at $20.50, a market cap. of $2.1B, and only 6.3x its estimated annual free cash flow (FCF). AMC is considering an IPO of its European operations, which may be a material catalyst for the stock, as the valuation for theater companies tends to be higher in Europe versus the U.S.

Revlon (REV)

Revlon was the Fund's third largest contributor to performance. In Q3 its Chairman and controlling (85%) shareholder, Ron Perelman, bought more stock in the open market (365,000 shares from August 8th to September 25th at prices ranging from $15.17 to $21.29). These were Perelman's first purchases since November 2017.

Perelman's holding company, MacAndrews & Forbes, filed an amended 13D (beneficial ownership) report on 21 September, which included a letter indicating that its independent directors had asked for a one-year extension of the standstill agreement (initiated at MIM's prodding in May 2017). That request was granted.

There are two ways to read this: 1) as a sincere attempt by independent directors on Revlon's board to extend the meager protection provided by the standstill for minority shareholders; or 2) it was a cynical attempt to shake out recent "event-driven" stock buyers, who were bidding up the stock price as the end of the standstill approached, presumably in belief that the event might lead to a take-private offer from Perelman.

Extending the standstill dashed those hopes and getting those misguided buyers to sell brought the price back down to where Perelman was last buying stock just one week before the 13D filing. And right on schedule, Perelman resumed his purchases immediately following that filing.

The installation of Perelman's daughter as CEO is perhaps the beginning of Perelman's attempt to take Revlon private. However, a move from Perelman's 85% current ownership to 90% (the threshold required to do a short-form merger) through open market purchases seems unlikely even without a standstill precluding him from doing so.

Of the ~15% of the shares outstanding that Perelman doesn't own, clients of MIM now own over 6.0% and index funds own 4.8%, That leaves only 4.2% of shares theoretically available for purchase in the open market and it is unlikely Perelman could get an additional 5% of the shares through such purchases.

A tender offer is more likely. However in order for a tender offer by a controlling shareholder to succeed without significant risk of court intervention, it is usually contingent on approval by a majority of the minority shareholders. Since MIM aligned entities own a little over 6%, and MIM knows of another 2% in the hands of other informed value investors, that path is unlikely to work unless a fair price is offered.

Regardless of what transpires, Revlon's intrinsic value is unchanged by these actions and MIM continues to believe that it is worth more than $40 ($22.30 on 28 September).

Intralot (INLOT GA)

Intralot's share price continued to fall in Q3 (-40% YTD through 30 September 2018). There has been general weakness in the share prices of gaming companies, with **Intralot's** primary competitors like IGT down 24% YTD and Scientific Games (SGMS) down 51%.

As noted in the Q2 Investment Review, Intralot was wrongly tied by the media to a short-seller's report on FF Group (FFGRP GA), which owns retailer Folli Follie and with which Intralot has no connection. The short-seller itself claimed that it had no position or report to issue on Intralot. Yet rather than recover, the stock fell much further during Q3 despite aggressive stock buyback activity by the company (5% of shares outstanding) and significant insider buying.

Emerging markets exposure continued to weigh on the stock. Operations in Turkey (15% of proportionate EBITDA) and Argentina (8% of proportionate EBITDA) were affected by currency weakness, with the Turkish Lira down 37% YTD vs. the USD (from TRY/USD 3.80 to TRY/USD 6.00) and the Argentine Peso down 53% YTD (from ARS/USD 18.62 to ARS/USD 39.63). However, the vast majority (80%) of **Intralot's** cash is kept in EUR and USD, which substantially mitigates FX risks.

The currency weakness in those markets has obscured strong local currency operating results, with sales up 30% (albeit aided by inflation in Turkey running near 18% lately) and EBITDA up 18% in Turkey in local currency terms during the first half of 2018. Management believes that growth in Turkey will accelerate again in 2020, as the Turkish government will likely allow the sports betting payout percentage to rise (leading to large increases in sales).

On the last quarterly conference call (31 August 2018) **Intralot** estimated that if Turkish and Argentinian currencies stabilise at recent levels, the overall hit to EBITDA for the full year of 2018 would be approx. €20M on a consolidated basis, and approx. €10M on a proportionate basis (the more relevant number). If that is the case, proportionate EBITDA will likely drop from €109M in 2017 to about €105M in 2018, but:

– the currency impact should be muted by strong growth from **Intralot's** 20% stake in publicly-traded Italian gaming company, Gamenet (GAME IM €9.49); and

– EBITDA will likely jump to €113M in 2019 on contribution from an Illinois lottery contract which kicks in beginning 4 December 2018 and which management estimated will generate about USD20M/€17M in EBITDA annually.

Intralot has also recently secured key contract renewals (e.g. Ohio, along with four others, maintaining a 90% renewal rate since 2008 in the U.S., with an average contract duration of 7.6 years). It is now serving 10 US states and Washington, D.C. This accounts for USD 40M/ €46M EBITDA (44% of proportionate EBITDA estimated for 2018). The company also expects to sign its first sports betting contract in the U.S. before year-end 2018.

As well, **Intralot** is considering an IPO for its U.S. division, which should garner at least an 8x EBITDA valuation (USD 480M on USD 60M EBITDA in 2019). By contrast, the **Intralot** parent company in Greece trades at 6.5x EBITDA MIM's estimate of €113M for 2019). The timing for an IPO of the Intralot USA division is good given the recent legalisation of sports betting there. It is a business where Intralot already has major scale and should win some significant contracts.

Intralot is also bidding on the Pennsylvania State lottery contract, which is a huge contract, with the results due late 2018 or early 2019 (the entire contract award process has thus been delayed). An Intralot win would increase its U.S. EBITDA dramatically.

Regardless, an IPO of Intralot USA, if valued at least at 8x EBITDA, would likely cause a nearly immediate doubling of the stock price on the sentimental relief of having achieved a very substantial deleveraging at a reasonable valuation.

There is also a possibility that Scientific Games buys out Intralot USA, as each company has about 10% market share in U.S. lotteries, versus 78% for IGT (but with Sci-Games more exposed to instant-win printed games and Intralot more on lottery systems). Putting the two together would be a much more balanced and potent competitor to IGT.

MIM's fair value estimate of €1.75 is 154% higher than Intralot's stock's price of €0.69 at the end of Q3 2018. At some point the stock market's focus should shift from the risks inherent in Intralot's emerging markets exposure to the higher growth potential those markets present, and the valuation discount may even become a valuation premium at some point if/when such above average growth materialises.

At some point the over-spend on cap-ex, which began in earnest 10 years ago in 2008, and will have averaged €95M per year over the 11 years through 2018 inclusive, and the resulting lack of FCF will give way to normalized cap-ex, with deleveraging and blossoming FCF for the first time in many years. An investment cycle is giving way to a harvesting cycle.

ABS CBN (ABSP PM)

ABS was the second largest detractor from performance in Q3. It has been affected by the emerging markets sell-off and a limited float, as the founding Lopez family controls about 60% of the stock.

The company is the dominant TV broadcaster in the Philippines, with a 45% audience share, versus 34% for its nearest competitor (GMA7) and 7% for TV 5. **ABS** also owns 57.4% of cable TV firm Sky Cable, which has 47% of the cable TV market in the Philippines. It also has an OTT streaming offering called iWant TV, which competes well against Netflix, HBO-Go and others in that market. In addition, **ABS**' overseas pay TV channel, The Filipino Channel (TFC), brings in a steady and growing revenue stream of USD earnings from the extensive Filipino expat community living in the U.S.

At a Q3 quarter end price of PHP 21.30 (USD 0.40), the business has an enterprise value of $607M (inclusive of $112M pension liability).

ABS trades at just 3.8x the $160M in EBITDA that should be produced this year. EBITDA should grow to USD 180M in 2019 as costs from a failed venture into mobile phone services end this year. Targeting a more appropriate valuation of 8x EBITDA would put the stock price at USD 1.50 per share, 3.75x the current price.

The Philippines has a young population, with low debt and high growth. Owning the dominant entertainment content producer and distributor in such a high growth market for less than 4x EBITDA is an unusual opportunity.

Of interest, Disney is buying Twenty-First Century Fox for 13x EBITDA, a business facing a much slower growing (and more cyclical) demand profile in their major markets. Comcast is buying British Sky Broadcasting for 15x EBITDA, and again, the UK is not such a high growth market.

ABS is at least as well-known and pervasive in the Philippines as Sky is in the UK, perhaps more so given ABS has a 45% audience share and BSkyB has an 8% audience share in the UK. An 8x EBITDA valuation and a (nearly) quadrupling of ABS' stock price is realistic.

Only one small brokerage firm in the Philippines follows ABS; they rate it a buy with a PHP 41.70 (USD 0.78) price target, which is about double the current price but much lower than MIM's target.

International Game Technology (IGT)

IGT fell along with its peers in the gaming sector in response to declines in Las Vegas convention attendance, a slowdown in Macau, China, and political turmoil in Italy (a huge market for IGT). These are likely short-term issues that are overly discounted in IGT's depressed valuation, while business fundamentals remain strong.

Most people think of **IGT** as mainly slot machines, but its lottery business is huge. It is more stable and recession proof, with contracts in various U.S. states accounting for 78% of the $74B in lottery sales made annually in the U.S. (Scientific Games has 12%, and Intralot has 10% market share).

Since 2008, lottery ticket sales have grown at a 3.8% annual rate. In addition to slots and lotteries, **IGT** has a big sports betting operation and is already benefitting from the legalisation of sports betting in the U.S.

At quarter end price of $19.75, IGT's market cap. is $4.03B, which is only 8x the $500M in annual free cash flow (FCF). MIM thinks it is worth $35 per share, or about 14x FCF.

As well, 50.7% of **IGT's** shares are held by an Italian family through a holding company called De Agostini. It is led by Marco Drago, an outstanding investor and capital allocator, who has been shepherding this corporation and its predecessors since 2002. It is a 35% EBITDA margin business, with highly recurring and predictable cash flow, almost entirely recession proof, and run by a discernibly excellent investor with massive skin in the game. Yet it is available at 8x FCF for a 12.5% FCF yield. Albeit **IGT** is growing slowly, this is value-investing nirvana.

Important Notes

The use of the MSCI ACWI herein has not been selected to represent an appropriate benchmark with which to compare against an investor's performance in the Mittleman Global Value Equity Fund (MGVEF), but rather it has been provided to allow for comparison of such performance to that of a certain well-known and widely recognised broad-market index. The MSCI ACWI is an unmanaged index compiled by MSCI. The index is weighted by market capitalisation and its returns include the reinvestment of dividends. The index does not account for transaction costs or other expenses which an investor might incur in attempting to obtain such returns. The index was taken from published sources and deemed reliable. You cannot invest directly in an index. Investments made by Mittleman Investment Management, LLC (MIM) for its clients' portfolios including MGVEF differ significantly in comparison to this (and any other) index in terms of security holdings, industry weightings, and asset allocations. Accordingly, investment results and volatility will differ from those of the benchmark.

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Portfolio statistics are reported in USD and are as at 30 September 2018. The statistics are updated in the report as at the end of each quarter. All dollar amounts within this report are in USD unless otherwise stated.

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Investment Strategy

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