Equitile
Evolution in Finance

March 31, 2016

Dear Investor,

We are delighted to present the first investment report for the Equitile Resilience Fund, our regular update which you will receive soon after the final valuation of each month. We want to keep these reports as accessible and simple as possible; detailing investment returns, your largest investments, a short description of key investment themes and any significant changes we have made during the month. When we have more to say, we will write an accompanying investment letter as we have this month.

We are pleased to report that the fund launch progressed smoothly; an achievement for which we have to thank our Chief Operating Officer, Nigel Hellewell, our Business Manager, Ira Asthana, and the excellent team at the Fund's administrator and custodian, HSBC. Their first rate support has ensured that we can focus on your investments in the knowledge that they are administered to the highest of standards.

Your portfolio and our approach: You are now owners of an internationally diversified portfolio of what, we believe, are some of the world's most resilient companies. As at the end of March you are invested in 34 companies; of which 19 are listed in the United States, 3 in Canada, 5 in the United Kingdom and 7 in Continental Europe. At present, no single position represents more than 4% of your overall investment and, although we will allow slightly greater concentration in time, generally no position will become more than 6% of the portfolio. This diversification is an important first stage of our risk management but too much results in a loss of focus, and increased administrative costs, for little or no investment advantage so, in practice, your fund will typically be invested in 30 to 40 companies at any one time.

The founder of one of the oldest companies in your portfolio, Sonoco, had a simple dictum that has guided his company for over one hundred years - "Change is an immutable law; eternal adaptation is the price of survival". It is an adage that sums up our own attitude to both company analysis and portfolio construction rather well. At the bottom of our company logo you will see the words 'Evolution in Finance' which speaks to the heart of our investment philosophy. Just as we expect the companies in which we invest to adapt to survive so we believe a sustainable investment strategy must also adapt to survive. We have selected your investments using our disciplined research and portfolio construction methodology. Our quantitative analysis looks to weed out companies with the weakest balance sheets and looks for those with the financial strength to adapt and grow while maintaining the

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ability to survive, or even thrive, during periods of financial turmoil. Our qualitative analysis focuses on the less tangible but critical cultural features of the companies we invest in. Although these "softer" issues are the hardest to assess, we believe they are vital to achieving sustainable growth in the face of ever changing economic circumstances. We especially look for companies which are more adaptive, more innovative, by nature and which build more durable relationships with customers and other stakeholders. Moreover, we look for governance that supports value creation for the firm and its stakeholders over time, not just for its shareholders in the short-term.

In a nutshell, we buy companies with lower than average financial leverage and higher than average earnings growth when compared with the broader markets. At present your portfolio of companies has an average equity ratio, the portion of company assets financed by equity, of 47.4% and shows an impressive five year compounded average historical earnings growth rate of 12.5%. We are pleased to say we are finding these qualities in a diversified range of industries; food manufacturers, packaging companies, business service and software providers and some highly innovative medical companies all feature prominently amongst your investments.

Portfolio Evolution: Many in the investment management industry consider a 'buy and hold' investment philosophy to be a badge of honour but, by contrast, we consider it a dereliction of duty. Corporate longevity has been in secular decline for many decades; reflecting, we believe, the intense competition which comes with globalisation along with the disruptive impact of accelerating innovation. The increasing use of debt rather than equity finance, however, has exacerbated the impact of these and rendered the investment environment more treacherous than ever. Against this backdrop, we see investment mistakes not as a probability but as an inevitability and so consider a dogmatic 'buy and hold' strategy to be neither prudent nor resilient.

We will be evolving your portfolio slowly but actively over time, guided by our proprietary strategy management system – we call it Darwin – which helps us identify and address potential investment mistakes in a disciplined and timely manner. Darwin's continuous and detailed quantitative analysis of your investment portfolio helps protect us against some of the more reliable behavioural mistakes to which all human investors succumb. Specifically, it gives us a stop-loss discipline; by prompting us to confront and deal with underperforming investments at an early stage, it forces us to avidly weed out our failures rather than dwell on our successes. We look forward to highlighting the more significant changes as your portfolio evolves over the coming months and years.

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We are, by nature, equity enthusiasts and you will see from our strategy overview that we believe owning a diversified portfolio of equities is one of the best ways to protect and increase wealth over time. Managing risk, however, is an imperative for investment success and our investment approach has risk management at its core, not as an afterthought. In summary, we will be managing the risk of your fund in three distinct ways: firstly, with disciplined diversification rules; secondly, by not investing in highly leveraged companies and thirdly, by actively cutting loss making investments promptly.

Strategy Overview: Finally, we would like to explain some of the thinking behind our investment strategy and where we believe the Equitile Resilience Fund should fit within a broader set of investments. In the end, this is why we founded Equitile and why we work the way we do.

We are optimistic on economic growth but concerned about excessive leverage. The world is innovating at an accelerating rate and, on a global scale at least, it is becoming more productive and more inclusive. That said, the global economy has become excessively leveraged over recent decades, leaving investors to navigate a uniquely difficult environment; low average returns punctuated with all too frequent financial crises. The dynamics are complex but, in essence, we believe these elevated debt levels pose both a debt-deflation risk in the near term, as exemplified by bond yields in a number of markets turning negative, together with a longer term inflationary monetisation risk, as exemplified by the growing chorus of commentators calling for debt cancellation, helicopter money or monetised fiscal spending. This risk should not be underestimated; the chief economist of the Bank of England, Andrew Haldane, recently promoted the abolition of cash in a bid to make it easier to impose substantially negative interest rates. It is for these reasons, we believe, investors should be equally alive to the risk of both significant deflationary and inflationary shocks; the fat-tail risks, as they have become known, are fatter than ever.

We do not believe any single investment strategy will be able to come through both inflation and deflation shocks without significant mark-to-market losses in either, or perhaps both, of these scenarios. That said we do believe it is possible to construct a portfolio which is largely resilient – has the ability to rebound from losses – in both scenarios, by avoiding assets likely to suffer irrecoverable losses of value.

The deflationary scenario poses existential risks to highly leveraged companies who may see their revenue streams decline in nominal terms while both their nominal and real debt service burdens continue to rise. A key lesson of the global financial crisis was that many of these institutions are pushed into bankruptcy, or enforced restructuring, which leads to a permanent loss of

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capital for their shareholders. This is largely why we avoid highly leveraged companies, preferring instead to invest in those companies which may have the financial strength to gain market share, perhaps by acquiring distressed assets, in the depths of a crisis.

At the other end of the risk spectrum, potential monetisation, we worry that long-term bond investors will suffer an irrecoverable loss of real purchasing power. By contrast, for equity investors, we expect that companies which survive such a scenario must eventually be able to adjust both their costs and revenues into line with whatever price level emerges post-monetisation. It may be a wild ride but in the end those companies which survive will stand a good chance of retaining their value in real terms.

In short, we believe the equity of conservatively financed companies may prove to be both a lower-risk and a higher-return investment than either bonds or the more leveraged broader equity markets over the medium to long-term.

In the coming years we will be doing our best to grow the absolute value of your portfolio in both real and nominal terms - through whatever investment climate we face. Although we will not be tracking any benchmarks, we expect that you will wish to gauge our performance against a range of alternative investments available to you. Once our track record becomes long enough to make such comparisons meaningful we will be adding some risk and return statistics to our monthly reports to help you make those comparisons.

Once again we thank you for your support and interest from the start and look forward to updating you as your fund progresses.

Kind Regards,

George Cooper	Andrew McNally
Chief Investment Officer	Chief Executive Officer

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