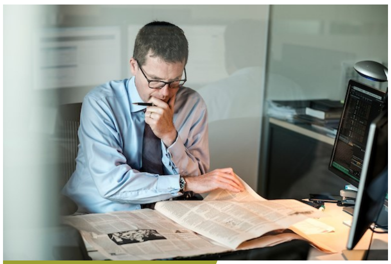


Friday Morning Coffee

Nr. 32 — Endgame

As I write this column on late Thursday afternoon for publication on Friday, news on Brexit are filling our screens.

GBP is down 1.6% against the Euro and the UK stock market takes a beating with the FTSE250 now down 1.7% for the day. Dominic Raab, the Brexit secretary in the UK cabinet, announced his resignation this morning. There are rumors of the plotting of a non-confidence vote against May at a moment where the odds of the proposed Brexit deal making it through parliament look increasingly low.

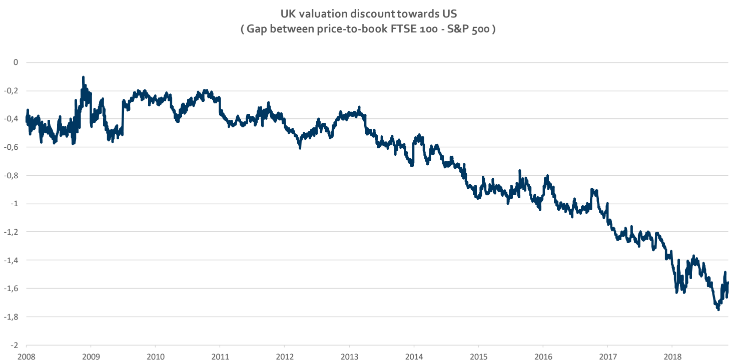
Will the current government survive this crisis? Hard to assess. Will a Brexit deal be found? Hard to assess. What will happen next? Also difficult to assess what scenario will play out.

Some investors have already chosen their camp. According to an article in the FT Lex Column last week, Steve Eisman has made a wager on falls in UK stocks. Steve Eisman gained worldwide prominence through the movie "The Big Short" as he is the US Hedge Fund Manager who made a fortune by being one of the firsts to short US sub-primes before the financial crisis.

To us, **there are however 2 key differences between shorting US subprime bonds before 2008 and shorting, today, the UK stock-market:**

1) There is a difference between shorting a specific, albeit at the time, widely used financial instrument and shorting a nation. *The UK economy is still growing and its companies are producing earnings power while the sub-primes were broken financial constructions with weak or no collaterals at all*.

2) When Mr Eisman shorted them, US sub-primes were expensive, at least compared to their risk. The same cannot be said of the UK corporates. As shown in the graph below, which compared the Price to Book of the FTSE 100 and the S&P 500,the UK stock market is currently at a discount to the US market: hence, *UK companies have not ever been cheaper compared to the US as today since 2008.*



Source: Bloomberg.

The following note gives the opinion of the Investment team at the time of the publication. Please refer to important notice at the end of the document.

Source: Bloomberg, gross performance without transaction costs.

European Capital Partners

Friday Morning Coffee - Nr. 32 — Endgame

Our European Value strategy is currently exposed at 25.2% to the UK, which is slightly less than the market (represented by the MSCI Europe) but is higher than beginning of the year (14.8%).

Indeed, thanks to our screenings we identified a number of new investment opportunities that finally made it through our 8 steps due diligence process and were benefiting from a 40% margin of safety. Examples are *Domino's Pizza*, *Kier Group*, *Mccarthy & Stones*, *Superdry* and *Shire Pharmaceuticals*. These companies will not disappear overnight and are currently trading at attractive valuations.

As stock pickers we are refraining from making economic or political predictions. However, **we argue**, as seen so many times in the past, **UK will ultimately act in its own (economic) interest and find a viable solution with its important trading partner, the EU. In the meantime, UK GDP is growing and public spending too**.

We rather prefer to be long undervalued UK earnings power independently of the current heated discussions in 10, Downing Street.

I wish you a great weekend

Léon Kirch, CFA
Partner & Chief Investment Officer
November 16th , 2018