

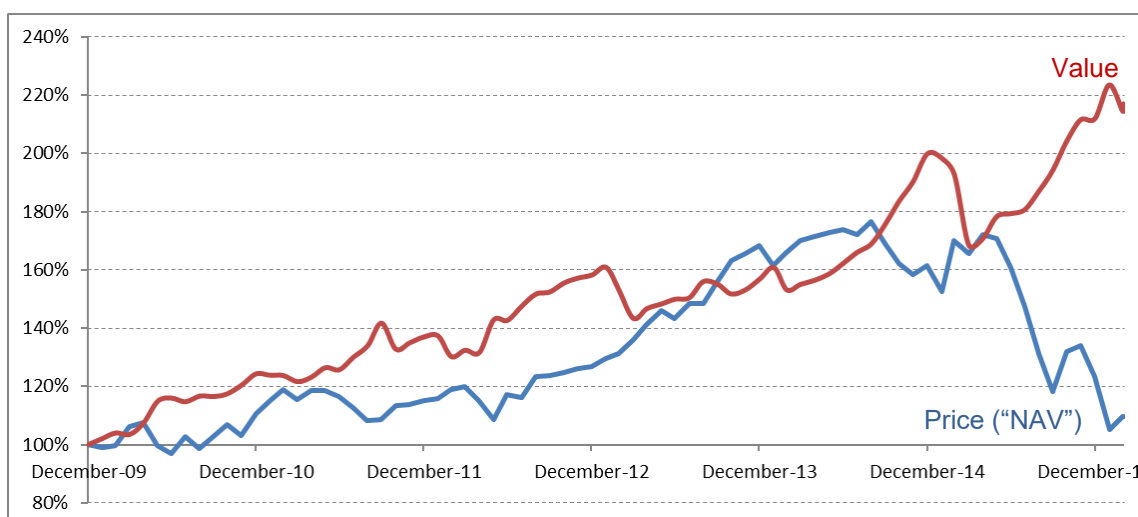
ELCANO SICAV returned -11.1% in the first two months of 2016, net of fees and expenses. Since inception in December 2009, cumulative performance is 10.2%.

During January and February:

- Disposal of our entire stake in the Australian agricultural company **GrainCorp (GNC:AU)** with a 5% loss including -4% from FX, during 20 months carrying a 5% weight. Although neither the assets nor the outlook have changed, we think **Olin (OLN:US)** is a much better risk-reward, given its equal or superior quality and its 140% upside to fair value against 40% for GrainCorp.

Capital recycling allows us to increase the fair value of the portfolio, which has grown 13% CAGR since inception. In the long run, the increase in NAV (price) and in fair value should be the same, although in the short run they grow at different rates. The Chart below shows the evolution of both and puts into perspective the current divergence of value and price.

In order to recycle capital, securities prices should move, and do it in opposite directions. The past 18 months have been particularly suited for this, as can be seen by the +30% increase in fair value. In other periods (eg. the 18 months before this one), price and value rapidly converge, making it more difficult to increase value (+10% increase in value against +35% increase in price).



Source: Elcano sicav

Olin (OLN:US) is the global leader in the chlor-alkali value chain, and the owner of Winchester, an American leader of small caliber ammunition, used mainly for recreational purposes. Winchester represents 10% of Olin's value.

The C/A industry produces chlorine and caustic soda by the hydrolysis of salt. Chlorine, together with ethylene, is a precursor of EDC, used in the manufacturing of PVC. Other important uses are bleach, water treatment and epoxy resins. Caustic soda key end markets are the paper and alumina industries, water treatment and the manufacturing of soap.

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Energy accounts for roughly half of total operating expenses, implying that the US is a cost leader and thus a net exporter. It is a capital intensive industry and transportation costs are also significant. 17% of the global production capacity is in the US, where after the recent consolidations the market has been reduced to five players.

The industry is currently at the trough, and higher prices are to be expected due to the capacity closures that are taking place and that will accelerate with the closure of European mercury plants, the lack of expansion plans and demand growth.

The new Olin is the combination, structured as a Reverse Morris Trust, in October 2015, of the former Olin (founded in 1892) with DOW Chemical's C/A business. The result is the largest global producer of C/A, with 6.2Mt of capacity, that equates to 40% of the US market, and the global leader in epoxy resins. It is not just a merchant producer, but it is integrated downstream into 19 derivatives. Also, it has access to DOW's ethylene at producer's cost, reinforcing its cost leadership.

The key advantages of the new Olin are:

- Cost leadership given the size of its plants, access to cheap energy, customer proximity, access to deep ports and the inland river system, integration and the ethylene contract with DOW. The synergies from the combination have been quantified between \$250-350mn, or 25% of the sum of the EBITDA of the two businesses.
- Product diversification, providing stability.
- Also, given its relative size, Olin can influence the supply-demand balance, contributing to the recovery of prices.
- The old Olin, which has one of the best track records of value creation in the industry, is more agile than DOW. We think DOW's assets will be better managed under Olin.

Regarding valuation, we may use three different yardsticks:

- Its replacement value is \$14bn.
- A fair multiple to a normalized EBITDA implies \$12bn.
- A range of values estimated in the merger negotiation between \$10.4-13.2bn.

Assuming \$10bn and after deducting debt and pensions, we arrive at \$6bn of equity fair value, against \$2.5bn of market cap. Olin normalized free cash flow to the equity exceeds \$700mn.

The portfolio of 20 stocks trades at 9.7x 2016E earnings and 4x normalized, carrying a 25% discount to book value and over 70% to our fair value estimate. We are confident that the combination of good quality and low price will translate into attractive compound returns over the medium and long run.

Thank you for your trust and please do not hesitate to contact us should you have any queries.

All the best,



Marc Batlle, CFA
Partner



JJ Fernández
Partner

Net Asset Value: €10,90 euros (02/29/2016)
Source: Credit Suisse Gestion S.G.I.I.C., S.A.

Investment Approach

Elcano Inversiones Financieras, SICAV, S.A. seeks to acquire shares in exceptional businesses at a discount to its intrinsic value. Elcano looks for companies with a sustainable competitive advantage that we can understand, a strong financial position and an honest and skilled management team. Decisions are based on financial and strategic analysis, and we are not restricted to any particular asset class, geography or sector.

Comments on Recent Activity

Disposal of our entire stake in the Australian agricultural company **GrainCorp (GNC:AU)** with a 5% loss including -4% from FX, during 20 months carrying a 5% weight. Although neither the assets nor the outlook have changed, we think **Olin (OLN:US)** is a much better risk-reward, given its equal or superior quality and its 140% upside to fair value against 40% for GrainCorp.

Top Holdings

Company	Sector
Diamond Offshore	Oil & Gas Services
Rayonier Advanced Materials	Chemical
Fossil	Retail
Kodak	Office/Business Equip.
Posco	Iron / Steel

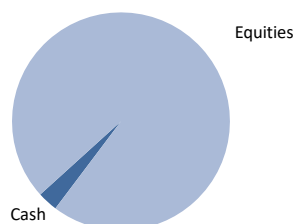
Portfolio Recent Actions

Increase/ In	Decrease/ Out
Olin (OLN:US)	GrainCorp (GNC:AU)

Main Terms

Investment Universe	: Global equities
Asset Management Company	: Credit Suisse Gestion, SGIC
Depository	: Credit Suisse AG, Suc. España
Auditors	: Deloitte
Regulator	: CNMV
Listed Market	: <i>Mercado Alternativo Bursatil</i>
Management Fee	: 1.50% per annum
Annual Performance Fee	: 10% above 5% level (with HWM)
Depository Fee	: 0.10% per annum
ISIN Code	: ES0118626037
Inception Date (new Board)	: 1 st December 2009
Currency	: EUR
Liquidity	: Daily
Asset Under Management	: € 45,280,000 (02/29/2016)
Number of Shareholders	: 519 (02/29/2016)
Bloomberg Code	: CIF SM <equity>
Ticker	: S0646

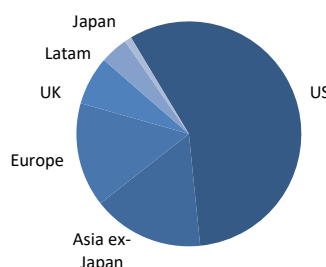
Asset Distribution



Asset Class

Equities	97%
Fixed Income	0%
Cash	3%

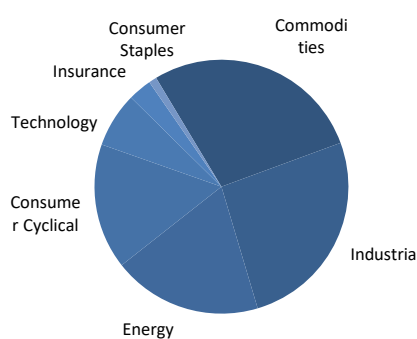
Geographical Distribution



Region

US	57%
Asia ex-Japan	16%
Europe	15%
UK	7%
Latam	4%
Japan	1%
Switzerland	0%

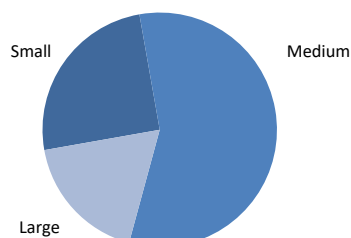
Sector Distribution



Sector

Commodities	28%
Industrial	26%
Energy	19%
Consumer Cyclical	16%
Technology	7%
Insurance	3%
Consumer Staples	1%
Financial	0%
Telecom	0%
Utilities	0%
Health & Pharma	0%

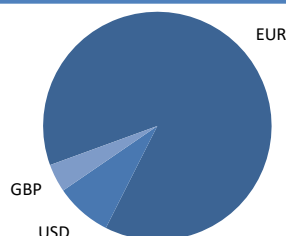
Capitalization Distribution



Capitalization

Below €1bn	25%
€1bn to €5bn	57%
Above €5bn	18%

Currency Exposure



Includes FX Hedge

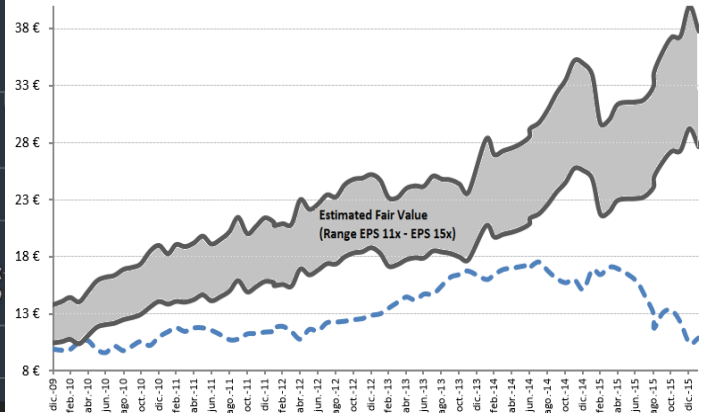
EUR	88%
USD	8%
GBP	4%
CHF	0%

Price of ELCANO vs. Other Major Equity Indices



Source: Bloomberg (Last 5 years).

ELCANO Share Price Vs. Estimated Fair Value (Range PE 11x - PE 15x)



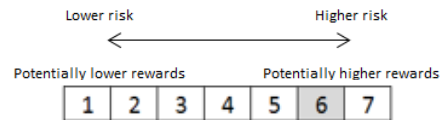
Source: ELCANO SICAV, Bloomberg.

Return and Volatility Data

Return	
2016 (Year-to-date)	-11,1%
Year 2015	-23,5%
Year 2014	-4,2%
Year 2013	+32,6%
Year 2012	+10,4%
Year 2011	+3,8%
Year 2010	+10,7%
Year 2009 (From 1 st to 31 st Dec 2009)	+0,4%
Since inception (1 st Dec 2009)	+10,2%
Volatility	
	17,2%

Source: Credit Suisse SGICC, Bloomberg, ELCANO SICAV

Risk & Reward Profile (SRR)



ELCANO SICAV's "SSRI" rating: 6 in a risk metric going from 1 up to 7.

The SRR represents the risk and return profile present in the Key Investor Information Document (also called "DFI", or "Datos Fundamentales para el Inversor"). The lowest category does not imply that there is no risk. The SRR is not a guarantee and may change over time. Current risk level based on the historical volatility data for the last 5 years.

Source: DFI Document ("Datos Fundamentales para el Inversor"); www.cnmv.es.

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