

ELCANO returned -3.7% so far in 2014, net of fees and expenses. Since inception in December 2009, cumulative performance is 62.9%, equivalent to a compound annual return of 10.4%.

These are the highlights of the period:

- Disposal of our stake in **Hewlett-Packard (HPW:US)** with a total return of 102% in two years and the investment in **Vodafone (VOD:LN)** with a 10% loss in 12 months. They have weighted 5% and 3% respectively. The selling decision is always against alternatives including staying in cash if the shares have reached its fair value and there are no opportunities available.
- Investment of 4% of the sicav in the leading EPC (Engineering, Procurement and Construction) for the subsea market **Subsea 7 (SUBC:NO)**. The energy sector faces a difficult environment in the short term due to the combination of weak demand and strong supply (increase in production from the US and Libya) that has pushed down the oil price. A lower price weakens the oil companies' cash flow generation forcing them to cut their investment in the development of reserves. This in turn impacts all the value chain from drillers to shipbuilders, engineering firms, seismic services providers and the manufacturers of components used in the development and production of energy (valves, umbilicals, steel pipe, etc). We believe the recent share price declines in oil related companies (in some cases > 50%) is a source of opportunity. Our exposure to the sector is 16% through 4 companies in different stages of the value chain: **Apache (APA:US)** as an oil company, **Diamond Offshore (DO:US)** as a driller, **Subsea 7 (SUBC:NO)** as an engineering company and **Vallourec (VLK:FP)** as a manufacturer of steel pipe.

At Subsea 7 level, the investment case has three components:

- Concentrated and growing industry. Oligopolistic structure due to the strong barriers to entry: a) reputation; b) know-how and specialized workforce capable of bidding for and executing complex projects; c) high level of recurrent capex to be spent in specialized vessels; d) local presence; e) scale required to participate in increasingly large projects whilst maintaining a balanced portfolio. It is a growing industry driven by increased energy consumption and the decline from mature fields.
- Leading company. Subsea 7 has a quarter of the market. Incentives are powerful as the chairman owns 20% of the shares. It has close to zero debt and the board engages in value creating strategies such as equity or debt buybacks when deemed undervalued.
- Attractive price. It trades below 3x EBITDA, 0.5x sales and 80% of tangible book value, this last one implying its fleet is not worth its replacement cost and there is no value in the organization including reputation, capabilities and presence. Its direct competitor Technip trades at 2.5x TBV and 8x EBITDA. Subsea7 has been buying back its convertible with a strike 3x above the current share price and 3% IRR, which signals a strong conviction in the undervaluation of the company.

*The contents and investments on this document are not designed or intended for those who reside in jurisdictions where they are not authorized. The information contained in this document does not constitute an offer to buy or sell shares. The net asset value per share is subject to market fluctuations, that can lead to either positive or negative returns, and that may cause a loss of principal. Please read the last page of this document for Important Information. Past results are neither a guarantee nor a reliable indicator of future performance.*

- Investment of the proceeds from the disposal of Vodafone's shares into the German defense and automotive group **Rheinmetall (RHM:GR)**. Its shares have lost 40% of the value in the past 6 months and currently trades at 0.4x sales, 0.8x BV and 6x EBIT (5x assuming across the cycle margins). The company is currently reducing its cost base, investing in new technologies that will benefit from the increasingly strict emission control laws and growing its international presence.

ELCANO bought shares for the first time in August 2013 (65,000 for €2.5mn) and sold them in March 2014 for €3.5mn. Today, we can buy the same shares for €2.2mn. Our fair value estimate for the entire equity goes from €2-3bn depending on the success of the business plan, against a market cap of €1.2bn. These sort of extremes are fairly typical in 2014.

- In automotive, KSPG is one of the few providers of pistons and bearings, a sector characterized by strong price pressure as a result of the limited number of large clients. In addition, it owns Pierburg, known for its technological leadership in pumps, valves and exhaust gas recirculation solutions. KSPG is present in the main automotive groups, has an efficient production structure and is a technological leader thanks to its continued R&D efforts (6% of sales in 2012, well above its main competitors). In the medium term, the company strategy consists of reducing costs in the hardparts segment and leverage Pierburg expertise to develop products aligned with the trends towards lighter, cleaner and more energy efficient vehicles.
- In defense, Rheinmetall builds tanks, electronic components and support vehicles. Its business is evenly split between systems and components, this last one being less cyclical. Its backlog equals twice the current annual sales. Germany represents 30% of the business, 25% comes from Europe, 30% from Asia and 15% from Middle East. Its international presence is a reflection of its technological superiority. Profits are currently depressed as a result of the deferral in the purchase of ammunition (which carries high-margins) and the underutilization of the Vienna logistic vehicles plant.

ELCANO SICAV is currently invested in 25 companies in 12 industries quoted in 9 different markets. The portfolio trades at book value, 8.4x forward earnings, 6.3x operating income and 3.5% dividend yield.

The continuous process of buying shares in leading companies trading at bargain prices should translate into superior returns for ELCANO's shareholders 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**  
ELCANO SICAV Partner



**JJ Fernandez**  
ELCANO SICAV Partner

**Net Asset Value: €16.11 euros (10/31/2014)**

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

ELCANO SICAV sold shares in **Hewlett-Packard (HPW:US)** with a total return of 102% in two years and the investment in **Vodafone (VOD:LN)** with a 10% loss in 12 months. They have weighted 5% and 3% respectively. Investment of 4% of the sicav in the leading EPC (Engineering, Procurement and Construction) for the subsea market **Subsea 7 (SUBC:NO)**. Investment of the proceeds from the disposal of Vodafone's shares into the German defense and automotive group **Rheinmetall (RHM:GR)**. Its shares have lost 40% of the value in the past 6 months and currently trades at 0.4x sales, 0.8x BV and 6x EBIT (5x assuming across the cycle margins).

### Top Holdings

Company	Sector
Bilfinger	Professional Services
AECOM	Capital Goods
Valmet	Capital Goods
Eastman Kodak	IT, Hardware
Symantec	Software & Services

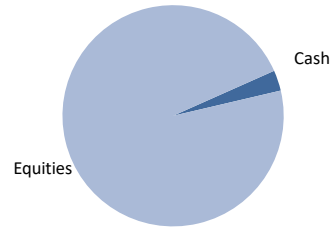
### Portfolio Recent Actions

Increase/ In	Decrease/ Out
Subsea 7	Hewlett-Packard
Rheinmetall	Vodafone

### Main Terms

<b>Investment Universe</b>	: Global equities
<b>Asset Management Company</b>	: Credit Suisse Gestion, SGIC
<b>Depository</b>	: Credit Suisse AG, Suc. España
<b>Auditors</b>	: Deloitte
<b>Regulator</b>	: CNMV
<b>Listed Market</b>	: <i>Mercado Alternativo Bursatil</i>
<b>Management Fee</b>	: 1.50% per annum
<b>Annual Performance Fee</b>	: 10% above 5% level (with HWM)
<b>Depository Fee</b>	: 0.10% per annum
<b>ISIN Code</b>	: ES0118626037
<b>Inception Date (new Board)</b>	: 1 <sup>st</sup> December 2009
<b>Currency</b>	: EUR
<b>Liquidity</b>	: Daily
<b>Asset Under Management</b>	: €89,545,000 (10/31/2014)
<b>Number of Shareholders</b>	: 672 (09/01/2014)
<b>Bloomberg Code</b>	: CIF SM <equity>
<b>Ticker</b>	: S0646

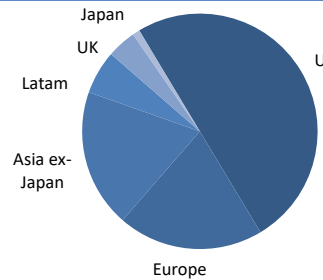
### Asset Distribution



#### Asset Class

Equities	96%
Fixed Income	0%
Cash	4%

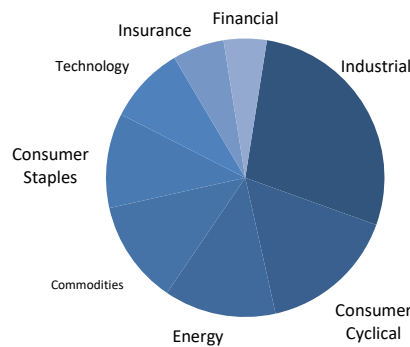
### Geographical Distribution



#### Region

US	54%
Europe	18%
Asia ex-Japan	17%
Latam	6%
UK	4%
Japan	1%
Switzerland	0%

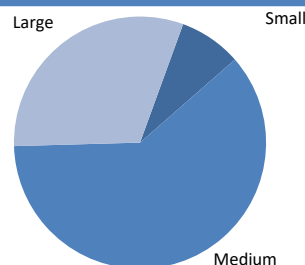
### Sector Distribution



#### Sector

Industrial	28%
Consumer Cyclical	17%
Energy	13%
Commodities	12%
Consumer Staples	11%
Technology	9%
Insurance	6%
Financial	4%
Telecom	0%
Utilities	0%
Health & Pharma	0%

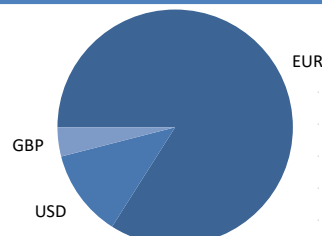
### Capitalization Distribution



#### Capitalization

Below €1bn	8%
€1bn to €5bn	61%
Above €5bn	31%

### Currency Exposure



#### Includes FX Hedge

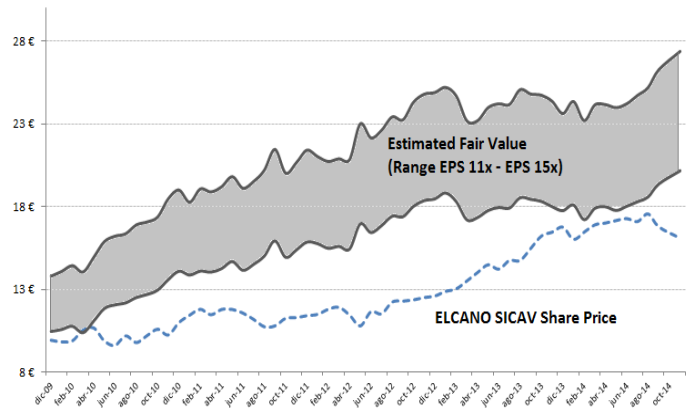
EUR	84%
USD	12%
GBP	4%
CHF	0%

## Price of ELCANO vs. Other Major Equity Indices



Source: Bloomberg (Since Dec 2009).

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



Source: ELCANO SICAV, Bloomberg.

## Return and Volatility Data

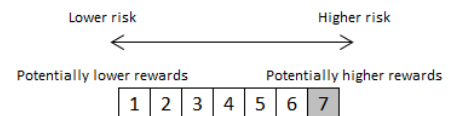
### Return

2014 (Year to date)	-3.7%
Year 2013	+32.6%
Year 2012	+10.4%
Year 2011	+3.8%
Year 2010	+10.7%
Year 2009 (From 1 <sup>st</sup> to 31 <sup>st</sup> Dec 2009)	+0.4%
Since inception (1 <sup>st</sup> Dec 2009)	+62.9%

Volatility 14.4%

Source: CreditSuisse SGICC, Bloomberg, ELCANO SICAV

## Risk & Reward Profile (SRR)



**ELCANO SICAV's "SSRI" rating: 7** 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.

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

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**Private and confidential information.**