

ELCANO has returned 3.4% so far during 2013. Since inception in December 2009, cumulative performance is 31.8%, equivalent to an annual compounded return of 8.9%.

The highlights of the period are the following:

- ELCANO sold its entire position in **Roche (RO:SW)**, making a 52% return since August 2010, equivalent to 19% a year vs. 10% for the Swiss market.
- ELCANO sold its entire position in **Pentair (PNR:US)** earning a 16% return in 6 months against 4.4% for the market. ELCANO's strategy in spin-offs is to keep the shares for 6 months and then sell them if they have outperformed the market, otherwise hold them until the discount closes.
- ELCANO sold its stake in **DELL (Dell:US)** after the announcement of a buyout offer by an investor group formed by Michael Dell (owner of 14% of Dell's shares) and private equity fund Silver Lake. We think the offer is at a deep discount to Dell's intrinsic value and below the current market value for Dell's peers, but has the approval of the board acting under the counsel of a special committee of independent advisors. During a 45 day go-shop period the committee will consider any potential counter-bid, in our opinion a very unlikely event. After that, shareholders will vote in a general meeting. At the present moment, it is not a valuation exercise but a risk arbitrage one: an estimation of probabilities and payments under different scenarios. We think it is equally probable that: a) the offer gets approved without an increase in its price; b) the price is improved by 10%; c) shareholders do not accept the improved offer and the deal collapses, in this case the shares decline 20%. So we conclude that the best decision is to sell the shares. ELCANO has earned 1% a year since 2009 against 6.6% for the market.
- ELCANO invested 5% of the portfolio in the shipping company **SEACOR Holdings (CKH:US)** after it got rid of the helicopter transportation operator Era Group through a spin-off, a business with poor economics (capital intensive and low returns). Its assets (ships) mainly serve the oil industry : a) Platform supply vessels (PSV); b) Inland transportation of grain and chemical products in the Mississippi river system, a business logistically complex dominated by a few operators; c) transportation of refined products along the US coast, a business reserved to US companies according to the Jones Act; d) harbor tugs operating in Tampa and Fort Lauderdale; e) an emergency response business; f) ships under construction; g) a portfolio of equity investments. We think this assets are worth \$2.1bn on a replacement cost basis. In the spin-off process, the market has overvalued Era Group, leaving SEACOR trading at just \$1.4bn, equivalent to a 35% discount.

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In the past, SEACOR has traded at a premium to its book value, which is reasonable as US GAAP do not reflect inflation. Taking into account that Era Group has made on average just 3% on its assets, we think that after the spin-off a premium is warranted. Finally, SEACOR management team headed by its founder Charles Fabrikant, who owns 10% of the shares, has compounded book value per share 15% a year over the past two decades.

- ELCANO bought shares in **McGraw-Hill (MHP:US)** for a 5% portfolio weight. It is a collection of unique franchises: a) Standard & Poor's ratings; b) S&P and DJIA indices; c) Capital IQ, one of the leading financial information services for asset managers; d) Platts, Nr.1 in commodity information; e) JD Power, Aviation Week and McGraw-Hill Construction. The combination of iconic brands, reach and scalable activities (data gathering, technology, customer support, legal and regulatory management) create powerful barriers to entry. The lawsuit against McGraw-Hill by the US Department of Justice in relation to the ratings of 40 CDOs back in 2007 caused a massive sell-off (1/3 of the shares changed hands in a week's time) leaving its market value well below its fair value after allowing for a reasonably large monetary penalty.
- ELCANO invested 5% of the portfolio in **Hewlett Packard (HPQ:US)**. The company is restructuring its business in a process that will take some time and its success is far from assured. Like many large and successful firms, HP has been a victim of complacency, materialized in: a) High turnover in senior management resulting in an inconsistent strategy and bad execution; b) Lack of financial control; c) Lack of responsibility and right incentives; d) Underinvestment in systems and R&D. This is a dangerous situation in an industry subject to constant change in the current macro environment. We do not think it is too late, as HP is a leading company with a portfolio of relevant products and strong technical and functional – product development, production, marketing and distribution – capabilities. Its scale allows it to generate ample amounts of cash (~\$10bn a year) and it has a moderate level of debt (<1x EBITDA). When we established the position, HP was trading below 5x operating earnings, a 50% discount to its sum of the parts using peer market multiples.
- ELCANO invested 5% of the portfolio in the German company **Leoni (LEO:GR)**, a first mover that during the last few years has developed strong technical and functional capabilities around wire systems mainly for the automotive industry. Its high market share (25% of the EU market and 10% WW) and organizational strengths (global manufacturing with standardized processes in low cost countries close to the customer, purchasing power and a well developed distribution network) allows for cost efficiency and constant innovation. For this reasons, we think it is well placed to profit from the sector long term trends of globalization, increased technology penetration and greater share of value added by the suppliers. In our opinion, it is one of the most undervalued companies in the auto supplier space, trading below book value and less than 6x operating profits. We estimate an IRR for this one and the other opportunities described over 20% a year.

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ELCANO SICAV currently trades at book value, 8x expected 2013 earnings and over a 5% dividend yield. We are confident that the combination of quality and low valuations will result in attractive 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: 13.03 euros (3/1/2013)**

Source: Credit Suisse Gestion SGIC.

### 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

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### Top Holdings

Company	Sector
Wells Fargo	Banking
GDF Suez	Utilities
Mapfre	Insurance
Carrefour	Distribution
McGraw-Hill	Media

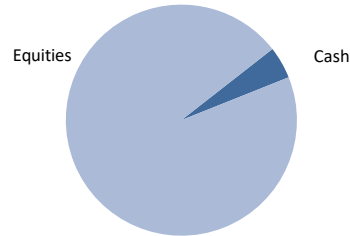
### Portfolio Recent Actions

Increase/ In	Decrease/ Out
Seacor Holding	Roche
McGraw-Hill	Dell
Hewlett Packard	Pentair
Leoni	

### 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>	: PricewaterhouseCoopers
<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
<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>	: €28,384,000 (as of 28 <sup>th</sup> Feb '13)
<b>Number of Shareholders</b>	: 348 (as of 28 <sup>th</sup> Feb '13)
<b>Bloomberg Code</b>	: CIF SM <equity>

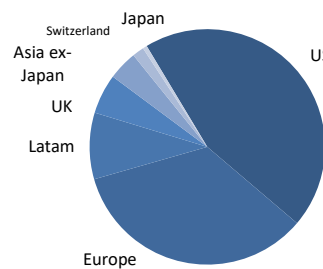
### Asset Distribution



#### Asset Class

Equities	95%
Fixed Income	0%
Cash	5%

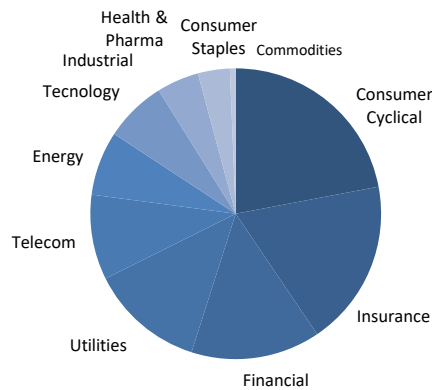
### Geographical Distribution



#### Region

US	45%
Europe	34%
Latam	9%
UK	5%
Asia ex-Japan	4%
Switzerland	2%
Japan	1%

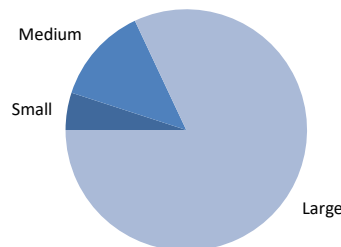
### Sector Distribution



#### Sector

Consumer Cyclical	22%
Insurance	18%
Financial	14%
Utilities	13%
Telecom	9%
Energy	7%
Technology	7%
Industrial	5%
Health & Pharma	3%
Consumer Staples	1%
Commodities	1%

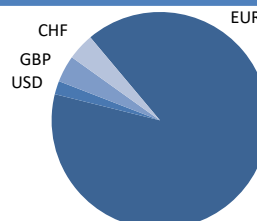
### Capitalization Distribution



#### Capitalization

Below €1bn	5%
€1bn to €5bn	13%
Above €5bn	82%

### Currency Exposure



#### Includes FX Hedge

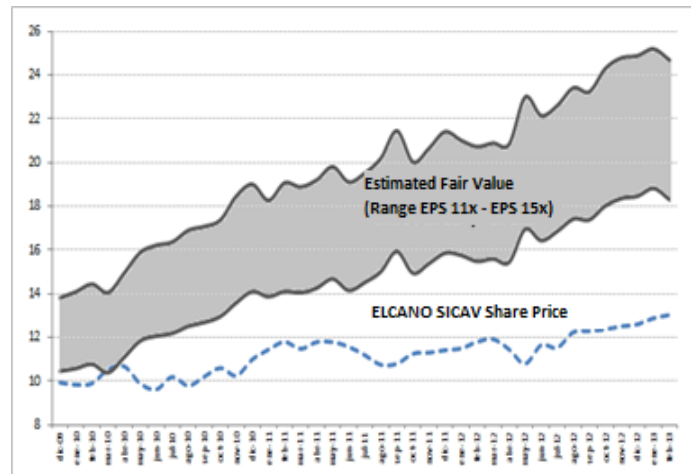
EUR	90%
USD	2%
GBP	4%
CHF	4%

**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	
2013 (Year to date)	+3.4%
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)	+31.8%
Volatility	
Volatility	16.2%

Source: CreditSuisse SGICC, Bloomberg, ELCANO SICAV

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