

ELCANO has returned 7.2% so far during 2012. Since inception in December 2009, cumulative performance is 23.8%, equivalent to an annual compounded return of 8.1%.

The highlights of the period are the following:

- We have sold our position in **Wal Mart (WMT:US)** for a 25% return. The estimated IRR for the 2012-16E period was 12% in the case of Wal Mart against over 20% for the portfolio. We are long term investors, which means that we wait patiently until the discount from fair value closes. This can happen in five years, our working assumption, or in just four months as in this case. Every investment should carry a margin of safety, that gives us a profit opportunity and protects us from errors and unforeseen developments. We think it is the cornerstone of a safe and successful investment strategy.
- ELCANO has bought shares in the global pharmaceutical company **Novartis (NOVN:VX)** for a 5% weight. Novartis holds a diversified portfolio focused in those growing areas where it can keep leadership positions. Its high market share enables it to generate resources that can be deployed in R&D or in strengthening its portfolio with acquisitions. Its main businesses are:
  - Prescription drugs (65% net profit). The current portfolio is composed of 20 drugs and \$30bn in sales. 1/3 of sales will be lost over the next five years due to patent expirations. They should be replaced by recently launched drugs (Lucentis, Tasigna, Galvus) and by new molecular entities (13) that are currently in phase III or registration.
  - Alcon (20% net profit). The world's leader in ophthalmology, with three divisions carrying similar weights: surgical, pharmaceutical and contact lenses.
  - Sandoz (12% net profits). The generic division of Novartis, it is the global leader in biosimilars, generic injectables and ophthalmological generic drugs.
  - Vaccines, diagnostic and OTC comprises the rest of the portfolio. Furthermore, it owns 6.3% of Roche through the 33.3% of its voting shares.

Summing up, Novartis is a company with dominant positions in growing markets driven by the ageing of population. Despite the healthcare budget cuts, we think Novartis can grow in line with the developed world's GDP. We are paying 10 times its current free cash flow. Assuming a 4% growth rate and an exit multiple of 15x FCF implies an IRR of 20%.

• ELCANO has bought shares in US satellite pay-TV company DIRECTV (DTV:US) for a 5% portfolio's weight. It has two divisions:

- DIRECTV US, with 20mn subscribers being offered more than 170 channels. In the US, 100mn households (75% of total) pay for a MVPD service. The market is shared by cable operators (60% share) and direct-to-home (DTH) companies such as DIRECTV and Dish TV. In this mature and competitive market, DIRECTV has the critical mass that allows it to differentiate in the elements that count: quality of content, technology and service.
- DIRECTV Latin America has 5mn subscribers in Brazil (Sky Brazil), 5mn in the rest of Latam, and a 41% stake in Sky Mexico, with more than 12mn subscribers. DIRECTV is the leader by market share in a geography where penetration should increase with the development of the middle class, and where DTH is the most efficient technology. So we should expect double digit growth rates for several years.

In our view, the market does not fully appreciate DIRECTV attractive profile, with a recurrent business growing over 8% a year. It has chosen to focus on its challenges like the economic crisis, the raising costs of content and the ongoing technological changes. The stock trades at 10 times free cash flow, that DIRECTV fully employs in buying back its own shares.

ELCANO SICAV currently trades at book value, 8.1x expected 2012 earnings and over a 5.5% dividend yield. We are confident that the combination of quality and low valuations will result in attractive returns over the medium and long run.

Please find attached below an updated chart with ELCANO's performance versus other equity indexes:

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: 12.24 euros (08/31/2012)**

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

We have sold our position in **Wal Mart (WMT:US)** for a 25% return. The estimated IRR for the 2012-16E period was 12% in the case of Wal Mart against over 20% for the portfolio.

ELCANO has bought shares in the global pharmaceutical company **Novartis (NOVN:VX)** for a 5% weight. Novartis holds a diversified portfolio focused in those growing areas where it can keep leadership. ELCANO has bought shares in US satellite pay-TV company **DIRECTV (DTV:US)** for a 5% portfolio's weight.

ELCANO SICAV currently trades at book value, 8.1x expected 2012 earnings and over a 5.5% dividend yield. We are confident that the combination of quality and low valuations will result in attractive returns over the medium and long run.

## Top Holdings

Company	Sector
GDF Suez	Utilities
Wells Fargo	Banking
Vivendi	Media
Carrefour	Distribution
United Internet	Telecom

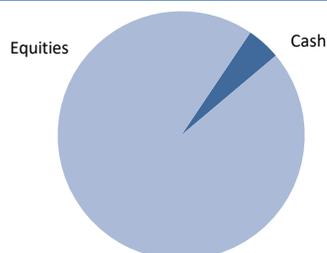
## Portfolio Recent Actions

Increase/ In	Decrease/ Out
Novartis	Symetra
Direct TV	Wal Mart

## Main Terms

<b>Investment Universe</b>	Global equities
<b>Asset Management Company</b>	Credit Suisse Gestión, 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 / Others</b>	1.75% per annum
<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>	€21.976.000 (as of 31 <sup>st</sup> Aug '12)
<b>Number of Shareholders</b>	303
<b>Bloomberg Code</b>	CIF SM <equity>

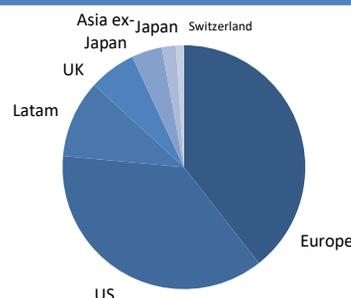
## Asset Distribution



### Asset Class

Equities	96%
Fixed Income	0%
Cash	4%

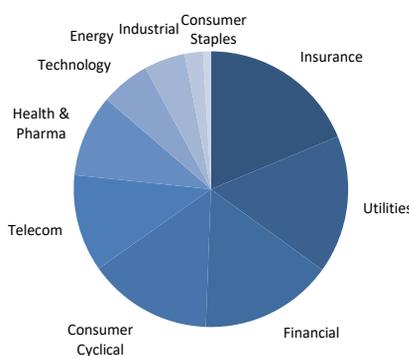
## Geographical Distribution



### Region

Europe	40%
US	37%
Latam	10%
UK	6%
Asia ex-Japan	4%
Japan	2%
Switzerland	1%

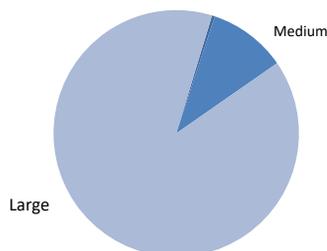
## Sector Distribution



### Sector

Insurance	19%
Utilities	16%
Financial	15%
Consumer Cyclical	14%
Telecom	11%
Health & Pharma	10%
Technology	6%
Energy	5%
Industrial	2%
Consumer Staples	1%
Commodities	1%

## Capitalization Distribution



### Capitalization

Below €1bn	0%
€1bn to €5bn	10%
Above €5bn	90%

## Currency Distribution

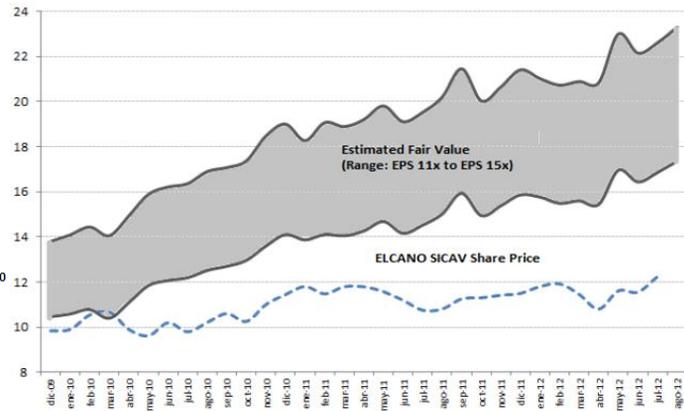
	Unhedged	Hedged (ELCANO Portfolio)	
EUR	54%	EUR	85%
USD	32%	USD	1%
GBP	5%	GBP	5%
CHF	9%	CHF	9%

**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	
Year 2012 (Until 31 <sup>st</sup> of August)	+7.2%
Year 2011	+3.8%
Year 2010	+10.7%
Since inception (1 <sup>st</sup> Dec 2009)	+23.8%
Volatility	
	16.8%

Source: CreditSuisse SGICC, Bloomberg, ELCANO SICAV

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