ELCANO returned -0.4% in the first half of 2015, net of fees and expenses. Since inception in December 2009, cumulative performance is 61.4%, equivalent to a compound annual return of 9.0%.

These are the highlights of the period:

• Disposal of the shares in the software company **Symantec (SYMC:US)**, achieving a 28.5% return in 20 months with an average 4% weight. We also sold our stake in **D'Ieteren (DIE:BB)**, the Belgian car distributor and vehicle glass repair and replacement group, making an 11.4% return in 14 months with an average 4% weight.

• Investment of 4% of the assets in the Norwegian holding **Wilhelm Wilhelmsen Holding (WWI:NO)**, consisting of two businesses: Wilhelm Wilhelmsen ASA (WWASA) and Wilhelmsen Maritime Services (WMS).

- WWASA, through a complex network comprising vessels, terminals and technical service centers, controls 24% of the global car sea transportation, in a relatively concentrated industry. Given that the sector current newbuild orderbook amounts to just 8% of the existing fleet, we see no room for overcapacity in the medium term, the main risk in an oligopolistic industry competing on capacity. The market cap of WWASA is \$1.5bn, implying \$1.1bn for the 72.7% stake owned by WWH.

- WMS provides technical services, crewing and products for the shipping industry, being present in 25,000 vessels, half of the current global fleet. It is a stable business in a cyclical industry, with attractive prospects over the medium and long run. It currently makes \$100mn pretax, suggesting a \$1bn valuation.

Also, WWH holds minority stakes in two publicly traded companies worth more than \$200mn. The parent company is debt free. Adding up the valuation of WWASA + WMS + minority stakes we arrive at \$2.3bn for WWH, a 10% premium to tangible book value and well above the current \$1bn market cap. We think the discount is unwarranted given: a) the attractive prospects for the group; b) management's track record of growing BV above 13% a year across two cycles; c) historically WWH has traded at 0.9x BV on average.

• Investment of 4% of the NAV in the chemical company **Chemours (CC:US)**, after its recent spin off from DuPont. With \$1.2Mt installed capacity mainly in the US, Chemours is the largest producer of titanium dioxide (TiO_2), a product that provides opacity to coatings, paints and plastics, with a growth rate in line with GDP.

The competitive advantage of Chemours lies in the scale of its plants and a unique technology that allows it to use ilmenite (\$300/t) instead of rutile (\$1,000/t) as a feedstock in the chloride process employed in the US. On a TiO_2 selling price of ~\$3,000/t, Chemours cost advantage is about \$800mn/t. This cyclical industry is currently at the trough, with several competitors barely covering costs and with announced plant closures. Cycles have historically averaged 6 years, with the last peak in 2011/2012.

Also, representing one third of the company value, Chemours is an integrated producer of fluorochemicals (employed in HVAC) and fluoropolymers (used in automotive, aerospace, kitchen products and cables for its high resistance). It is Nr. 1 in both businesses with a 25% global market share. Its advantage is based on customer proximity and innovation and development skills, together with the scale and integration of the supply chain.

We value the company in $11bn, 8x cyclically adjusted EBITDA, equal to $39 a share against a current trading price of $16. If the cycle never comes back, we think the shares should be worth at least $30, providing us with an ample margin of safety. In a cyclical peak we might see the shares trading over $60.

Next we summarize the current positioning of the portfolio:

- **The cyclicals (9 stocks, 1/3 of the portfolio)**
  - Different sectors – energy, tractors, grain transportation, TiO_2, purified cellulose – at the cycle trough, the level at which part of the industry is not profitable.
  - All companies are market leaders, financially strong, with focused strategies and a record of increasing company value above 10% a year.
  - After an over 60% share price decline, they are trading below 7x cyclically adjusted earnings on average.
  - This opportunity emerges every 5/6 years: 2003/2003, 2008/2009, 2014/2015. Although it is not possible to predict exactly when the recovery will take place, we expect some improvement in 2016 that should gain momentum to 2018.
  - The upside potential is significant with 110% to fair value and 320% to the previous cycle high. There's a -6% downside to the historical low.

- **The turnarounds (7 stocks, 1/3 of the portfolio)**
  - Despite being Nr.1/2 in their industries, these companies are less profitable than competitors, and have its recent record of increase in company value (7% annually) is below average.
  - The cause is often found in the past success, which makes the company less vigilant to external changes and costs. In many instances companies make investments outside the core business and, as these are not profitable given the lack of scale, become a drain of resources needed in the core business.
  - Eventually shareholder pressure makes companies react, and a turnaround process is initiated, often comprising four phases: 1) change in management; 2) asset sales to strengthen the balance sheet and cost cutting to stop the cash burn; 3) progressive increase in the investment in product development and marketing at the core business. It usually takes from 3 to 5 years and in the process several companies end up being acquired.
  - The positions we hold trade below 12x earnings and 8x if the turnaround is successful. The upside potential to fair value is 90%, 180% to the historical high and -26% to the lowest share price ever. All the processes have been initiated and we expect a significant increase in profits over the next two years.

- **The neglected (6 stocks, 1/3 of the portfolio)**

  - Industry leaders, well managed and highly profitable, with an excellent track record of increase in company value, but trading at low multiples (<10x) for several reasons:
    - Industries in transition. Recent examples can be found in banks, pharma, defense, US managed care and media.
    - Companies trading in markets to be avoided, despite being global.
    - Short term issues (litigation, profit warnings, CEO leaving).
    - Unknown company or difficult to understand (spinoffs, holdings, companies emerging from bankruptcy).
    - The market does not appreciate the capacity to create value by:
      - Reinvestment of profits at elevated returns.
      - Capture of synergies from a recent acquisition.
      - "Financial engineering": leveraging/deleveraging, tax credits, share buybacks, acquisitions paid with expensive shares, REIT conversions.
  - The 6 companies have on average 80% upside to fair value, 100% to the historical high and -25% to low.

The valuations described above are in stark contrast with the market, currently trading at historical highs at 26x cyclically adjusted earnings against an historical average of 16x. Although this discrepancy is no guarantee of superior short term results - attractive stocks can decline while the expensive ones continue raising - it puts the odds in our favor. Benjamin Graham, considered the father of Value Investing, expressed this idea by saying: *"In the short run, the market is a voting machine but in the long run it is a weighting machine"*.

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

ELCANO SICAV
Global Value Investing

ELCANO SICAV
Adding Value Through Research

Report nr. 33 | Year VI | 1st July 2015

Net Asset Value: €15.96 euros (06/30/2015)
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 the shares in the software company **Symantec (SYMC:US)** and in **D'Ieteren (DIE:BB)**, the Belgian car distributor and vehicle glass repair and replacement group.
Investment of 4% of the assets in the Norwegian holding **Wilhelm Wilhelmsen Holding (WWI:NO)**, global leader of car sea transportation and provider of technical services, crewing and products for the shipping industry. Investment of 4% of the NAV in the chemical company **Chemours (CC:US)**, largest producer of titanium dioxide, after its recent spin off from DuPont.

Top Holdings

Company	Sector
General Cable	Capital Goods
Rayonier Adv. Materials	Chemicals
AECOM	Capital Goods
Diamond Offshore	Oil & Gas Services
Subsea7	Oil & Gas Services

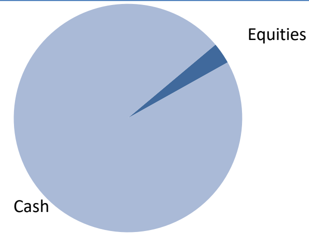
Portfolio Recent Actions

Increase/ In	Decrease/ Out
Wilhelm Wilhelmsen Holding	Symantec
Chemours	D'Ieteren

Main Terms

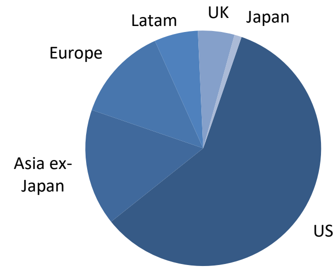
Investment Universe	:	Global equities
Asset Management Company	:	Credit Suisse Gestion, SGIIC
Depositary	:	Credit Suisse AG, Suc. España
Auditors	:	Deloitte
Regulator	:	CNMV
Listed Market	:	*Mercado Alternativo Bursatil*
Management Fee	:	1.50% per annum
Annual Performance Fee	:	10% above 5% level (with HWM)
Depositary Fee	:	0.10% per annum
ISIN Code	:	ES0118626037
Inception Date (new Board)	:	1st December 2009
Currency	:	EUR
Liquidity	:	Daily
Asset Under Management	:	€84,570,000 (06/30/2015)
Number of Shareholders	:	643 (06/29/2015)
Bloomberg Code	:	CIF SM <equity>
Ticker	:	S0646

Asset Distribution



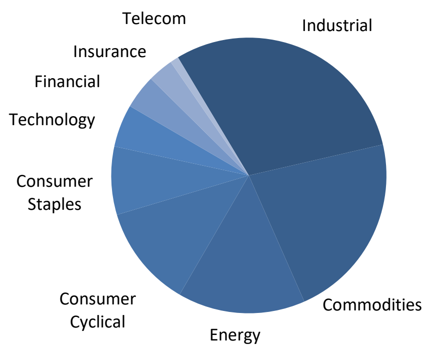
Asset Class	
Equities	97%
Fixed Income	0%
Cash	3%

Geographical Distribution



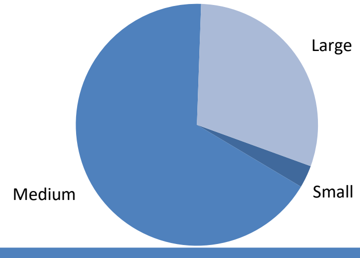
Region	
US	59%
Asia ex-Japan	16%
Europe	13%
Latam	6%
UK	5%
Japan	1%
Switzerland	0%

Sector Distribution



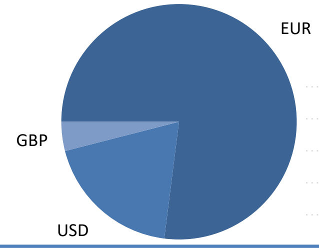
Sector	
Industrial	30%
Commodities	22%
Energy	15%
Consumer Cyclical	12%
Consumer Staples	8%
Technology	5%
Financial	4%
Insurance	3%
Telecom	1%
Utilities	0%
Health & Pharma	0%

Capitalization Distribution



Capitalization	
Below €1bn	3%
€1bn to €5bn	67%
Above €5bn	30%

Currency Exposure

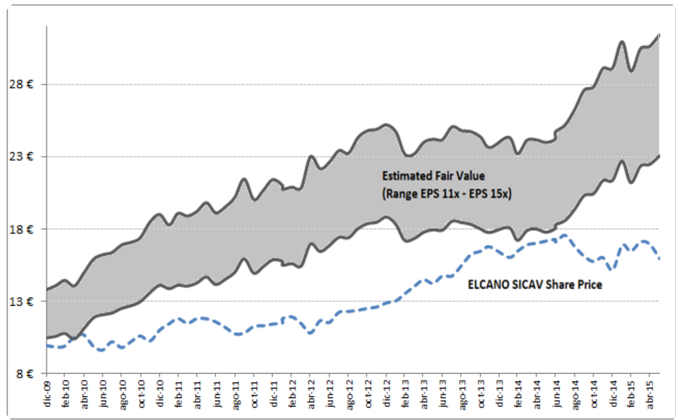


Includes FX Hedge	
EUR	77%
USD	19%
GBP	4%
CHF	0%

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	
2015 (Year to date)	-0.4%
Year 2014	-4.2%
Year 2013	+32.6%
Year 2012	+10.4%
Year 2011	+3.8%
Year 2010	+10.7%
Year 2009 (From 1st to 31st Dec 2009)	+0.4%
Since inception (1st Dec 2009)	+61.4%
Volatility	14.7%

Source: CreditSuisse SGICC, Bloomberg, ELCANO SICAV

Risk & Reward Profile (SRRI)

Lower risk ⟷ Higher risk

Potentially lower rewards — Potentially higher rewards

1	2	3	4	5	6	7

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

The SRRI 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 SRRI is not a guarantee and may change over time.

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

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