

The relevant actions taken since the last update on September 2011 are the following:

- ELCANO has bought shares of **Fortune Brands Home & Security** for a 2% weight. It is a spin-off from Fortune Brands that was completed a month ago. It owns a portfolio of leading companies in stable and cyclical industries - highly dependent on the US residential construction industry. The relatively stable companies are Master Lock, the number one padlock company in the US with over 90% market share, and Moen, with a 20% share of the US faucet market. They cyclical ones are ThermaTru (fiberglass doors), Simonton (vinyl windows), and the largest US cabinetry business, with a portfolio of brands (Aristokraft, Omega, Kitchen Craft, Schrock, Diamond, HomeCrest, Decorá, Kemper, Thomasville).

Despite the fact that housing starts are running at a third of the level they were before the crisis, these highly cyclical companies are cash flow generative due to the massive cost reduction and efficiency plan that the company has executed. We believe the excess housing stock will disappear in about two years, and at that point the market should bounce back to a normalized level between 1 and 1.5 million new home starts a year. The expected annual return for this investment goes from 10% in a no-recover scenario to 40% in a full-recovery scenario.

- ELCANO closed part of the protection acquired in May for a 200% return, that has contributed 2% to the portfolio's return. We keep half of the hedge, that carries a 100% unrealized gain. This protection will pay if iron ore price goes permanently below \$100/t. The current level is \$120/t, down from a maximum of \$180/t in 2011, a historical average of \$40/t and a marginal cost of \$60/t. Its demand is highly dependent on the volume of construction in China. The range of payments goes from zero to 10 times the investment.

Most of the companies in our portfolio have already published Q3 2011 results. All of them are profitable and performing as expected. In the US we see very small growth, Europe and particularly Spain is contracting and emerging markets including China are slowing down. However, it is worth pointing out that growth is just one component of the valuation equation.

As an example, let's assume we buy at 10 times free cash flow (FCF), sell at 12 times FCF in 5 year's time, and FCF grows with inflation, 3%. If the company pays us back 100% of the FCF, our annual return for the next five years will be 17%, this is the sum of 10% (free cash flow yield), 4% (re-rating) and 3% (growth). Growth represents less than 20% of the return, being way more important that the company keeps the current level of profitability and either returns cash flow to shareholders or invests it in profitable projects.

This is the theory. However, the real-life problem is that when the market stagnates, competition intensifies, and so it is key to focus on market leaders that usually are the most efficient. An additional challenge is that some management teams try to compensate the lack of organic growth with acquisitions, usually at inflated prices. So it is paramount to partner with the disciplined ones.

Finally, it is key to have a sound balance sheet to keep financial flexibility. ELCANO SICAV invests in leading companies, competitive and financially rock solid and available at attractive multiples to the amount of cash they generate TODAY.

The portfolio is fully invested, and it currently trades on a 2012E PE of 7.8x and 5.5% dividend yield. These attractive valuations for stable businesses should translate into good returns over the next few years.

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

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
Telefonica	Telecom
ConocoPhillips	Energy
GDF Suez	Utilities
Dell	IT

Portfolio Recent Actions

Increase/ In	Decrease/ Out
Fortune Brands Home & Security	ConocoPhillips
	GBL

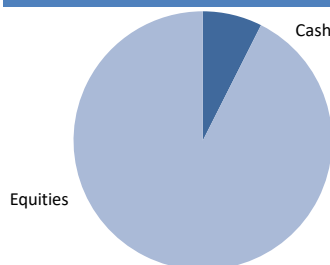
Main Terms

Investment universe	: Global equities
Asset management company	: Credit Suisse Gestión, SGIC
Depository	: Credit Suisse AG, Suc. España
Auditors	: PricewaterhouseCoopers
Regulator	: CNMV
Listed market	: <i>Mercado Alternativo Bursatil</i>
Management fee / Others	: 1.75% per annum
Depository fee	: 0.10% per annum
ISIN code	: ES0118626037
Inception date (new Board)	: 1 st December 2009
Currency	: EUR
Liquidity	: Daily
Bloomberg code	: CIF SM <equity>

Net Asset Value: 11.25 euros (31/10/11)

Source: Credit Suisse Gestion

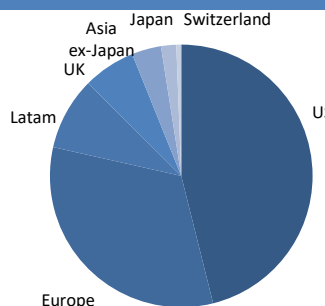
Asset Distribution



Asset Class

Equities	95%
Fixed Income	0%
Cash	5%

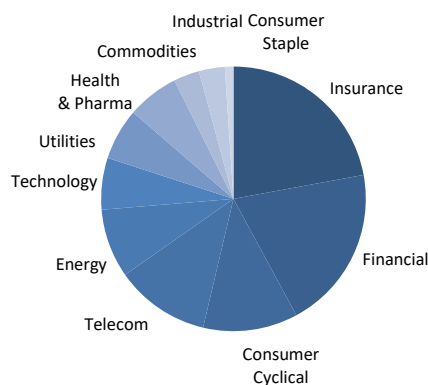
Geographical Distribution



Region

US	46%
Europe	32%
Latam	9%
UK	6%
Asia ex-Japan	4%
Japan	2%
Switzerland	1%

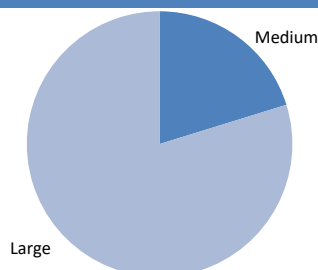
Sector Distribution



Sector

Insurance	21%
Financial	19%
Consumer Cyclical	11%
Telecom	11%
Energy	8%
Technology	6%
Utilities	6%
Health & Pharma	6%
Commodities	3%
Industrial	3%
Consumer Staples	1%

Capitalization Distribution



Capitalization

Below €1bn	0%
€1bn to €5bn	20%
Above €5bn	80%

Currency Distribution

	Unhedged	Hedged (ELCANO Portfolio)
EUR	44%	85%
USD	41%	0%
GBP	5%	5%
CHF	10%	10%

Return and Volatility Data

Source: CreditSuisse SGICC, Bloomberg, ELCANO SICAV

Return

Year 2011 (1 st Jan to 31 st Oct 2011)	+2.3%
Year 2010	+10.7%
Since inception (1 st Dec 2009)	+13.8%

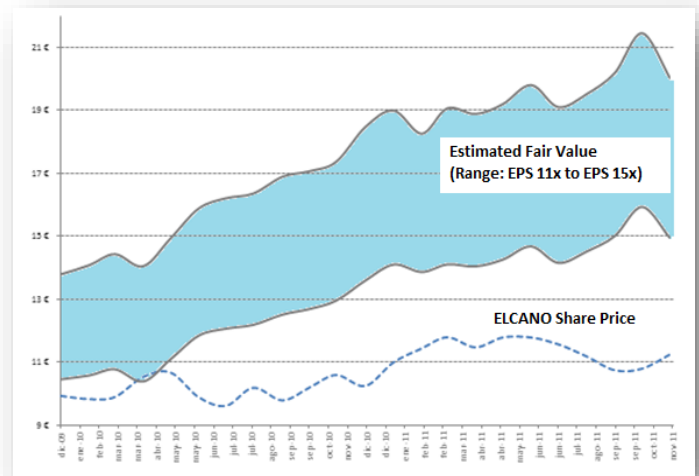
Volatility 15.8%

Price of ELCANO vs. Other Major Equity Indices



Source: Bloomberg (Since Dec 2009).

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



Source: ELCANO SICAV, Bloomberg.

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