

ELCANO has returned 1.0% in the first quarter of 2014, net of fees and expenses. Since inception in December 2009, cumulative performance is 70.9%, equivalent to a compound annual return of 13.1%.

These are the highlights of the period:

- Sale of the entire position in the following companies:

	Average Weighting	Return	Annualized Return	Holding Period
Bouygues	5%	47.7%	47.7%	< 1 year
CST Brands	5%	2.3%	2.3%	< 1 year
SAIC	5%	20.8%	20.8%	< 1 year
Swiss Re	5%	63.8%	13.0%	> 3 years
Telefónica	5%	10.2%	2.3%	> 3 years

- **Telefonica (TEF:SM)** stands out as the worst investment since inception, with a compound annual return of just 2.3% against an average 15% for our 61 investments. It can be explained by:

- **Flawed analysis:**

- Competitive advantage was overrated as rivalry is strong given low switching costs and the same economies of scale that constitute the main barrier to entry.

- **External factors:**

- The economic crisis and the development of broadband mobile led to an increase in competition and investment requirements.
- Adverse economic development in Latam, together with a depreciation in many of its currencies.

- **Internal factors:**

- Excessive leverage triggered a reduction in shareholder remuneration.
- The company made several large acquisitions at inflated prices.
- Telefonica was slow to adapt its commercial strategy and cost structure to the new environment.
- The lack of focus and discipline was possible given the non-existence of limiting factors to the power of management, as a truly independent board, the possibility of a takeover or the disciplining force of activists investors.

- ELCANO invested 5% of its assets in the Finnish company **Valmet (VALMT:FH)** after it was spun off from Metso. Valmet is a global leader in the manufacture of pulp and paper machinery and the provision of services. It competes against a limited number of companies given the strong barriers to entry including technology, reputation, installed base that feeds the aftermarket business and network density for services. The new equipment business is cyclical and mildly profitable, in contrast with the stability and high profitability of the service business. The spin off from Metso together with the short term weakness in new orders allowed us to buy it for just 0.4x sales and 4x EBITDA, a 50% discount to its fair value and the multiples that its direct competitor Andritz trades at.

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- Acquisition of shares in the Australian food company **Goodman Fielder (GFF:AU)** for a 5% portfolio weight. It is currently embarked in a turnaround plan that consists of reducing the number of categories and brands, saving structural costs by optimizing its manufacturing footprint and the distribution network and spending the savings in direct marketing to strengthen the brands.

Its starts from a position of strength, being the leader in each category (ex- spreads) with market shares above 30%, an efficient distribution network, a sound balance sheet and a strong cash flow generation. Trading at just 6x EBITDA, it is the cheapest stock in the food universe (average 12x).

- Investment of 5% of the portfolio in the technology defense contractor **ManTech (MANT:US)**. It currently stands at an inflection point, with OCO-related contracts (“Overseas Contingent Operations”. e.g. War in Afghanistan) coming to an end and the full impact from budget cuts already taken, whilst high-margin healthcare, cyber and IT grows strongly. 2014 should mark the lowest point in terms of revenues and profitability. It competes in an attractive industry, with strong barriers to entry such as reputation and relationships, know-how and the requirement of a workforce holding security clearances.

ManTech key strengths lie in its prime contractor status, shareholder orientation (40% of the shares in the hands of its CEO), and its leadership in high-priority and growing areas. Furthermore, a free of debt balance sheet together with strong cash flow generation puts it in a good position to continue its value accretive acquisition plan that exploits cross selling opportunities. It currently trades at the lowest multiple since its IPO in 2002 (6x operating earnings).

- We bought shares in **Diamond Offshore (DO:US)**, the US driller controlled by Loews, for a 5% portfolio weight. It owns 31 floaters (16 ultra/deep water and 15 mid water) with an estimated replacement cost of \$13bn, twice its current enterprise value, the largest discount since 2000. The main risk in this sector is overcapacity that leads to a decline in utilization and rates. Accordingly, the 15 mid water units could be at risk, but these represents just 20% of the total asset value. Deep water units should be relatively shielded given the expected growth in demand that reduces overcapacity risks and the cushion provided by mid water units that are close to the end of its useful life (160 over a total of 298 floaters in the industry).

Furthermore, in this inherently cyclical industry, Loews has two important advantages against its competitors. Firstly, the combination of one of the best management teams with the discipline and support of Loews. The second one is no debt, a policy than in the past has allowed Diamond to acquire assets at deep discounts from distressed competitors. These elements are reflected in its NAV growing at 15% over the past twelve years, a period that includes two downturns with oil prices declines of 40% and 70%.

ELCANO is currently invested in 24 companies in 14 industries quoted in 8 different markets. No sector or market exceeds 20% of our assets ex- US. The portfolio trades at 1.1x book value, 10.4x forward earnings, 8x operating income and a 3.9% dividend yield. These multiples are in the most attractive deciles of all publicly traded companies with market capitalizations above \$1bn.

The combination of high quality assets bought at bargain prices should translate into solid returns for the shareholders of ELCANO SICAV 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,

A handwritten signature in black ink, appearing to be "M. Batlle", written over a light blue horizontal line.

**Marc Batlle, CFA**  
*Partner*

A handwritten signature in black ink, appearing to be "JJ Fernández", written over a light blue horizontal line.

**JJ Fernández**  
*Partner*

**Net Asset Value: 16.90 euros (03/31/2014)**

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

ELCANO SICAV sold its positions in Bouygues, CST Brands, SAIC, Swiss Re and Telefonica.

ELCANO SICAV invested in the Finnish company Valmet (**VALMT:FH**), the Australian food company **Goodman Fielder (GFF:AU)**, the technology defense contractor **ManTech (MANT:US)** and in **Diamond Offshore (DO:US)**, the US driller controlled by Loews.

### Top Holdings

Company	Sector
Valmet	Capital Goods
Kodak	Technology Hardware
Apache	Energy
Diamond Offshore	Energy
Wells Fargo	Banking

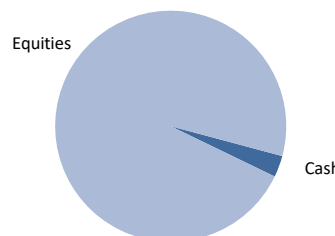
### Portfolio Recent Actions

Increase/ In	Decrease/ Out
Valmet	Bouygues
Goodman Fielder	CST Brands
Mantech	SAIC
Diamond Offshore	Swiss Re
	Telefonica

### 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>	: €79,938,000 (31 <sup>st</sup> March 2014)
<b>Number of Shareholders</b>	: 609 (as of 31 <sup>st</sup> January 2014)
<b>Bloomberg Code</b>	: CIF SM <equity>
<b>Ticker</b>	: S0646

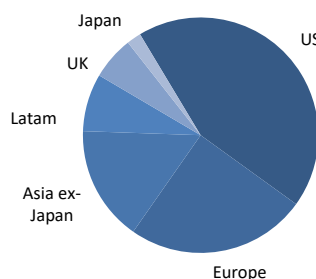
### Asset Distribution



#### Asset Class

Equities	97%
Fixed Income	0%
Cash	3%

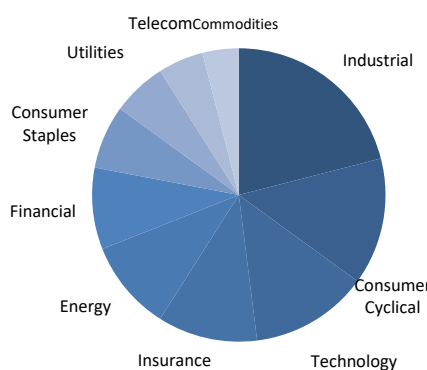
### Geographical Distribution



#### Region

US	44%
Europe	25%
Asia ex-Japan	16%
Latam	8%
UK	5%
Japan	2%
Switzerland	0%

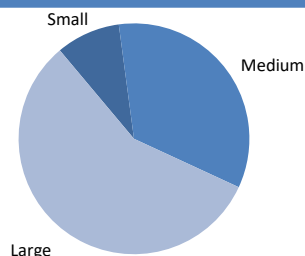
### Sector Distribution



#### Sector

Industrial	21%
Consumer Cyclical	14%
Technology	13%
Insurance	11%
Energy	10%
Financial	9%
Consumer Staples	7%
Utilities	6%
Telecom	5%
Commodities	4%
Health & Pharma	0%

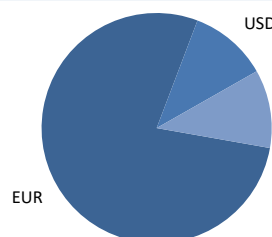
### Capitalization Distribution



#### Capitalization

Below €1bn	9%
€1bn to €5bn	34%
Above €5bn	57%

### Currency Exposure



#### Includes FX Hedge

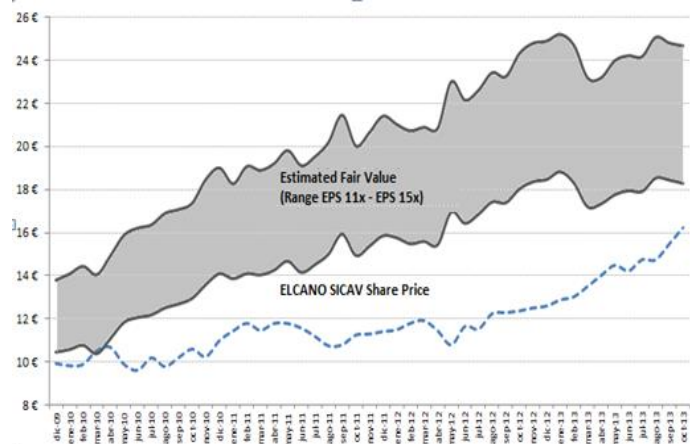
EUR	78%
USD	11%
GBP	11%
CHF	0%

## 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. As of 1<sup>st</sup> of March 2014.

## Return and Volatility Data

### Return

2014 (Year to date)	+1.0%
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)	+70.9%

Volatility 15.02%

Source: CreditSuisse SGICC, Bloomberg, ELCANO SICAV

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