AVENIR
CAPITAL

16 February, 2018

Dear Partner:

The Avenir Global Fund – Class I class of units (the "Class I Fund") returned 6.7%, net of fees, during the December 2017 quarter. For the full calendar year 2017, the Class I Fund returned 5.7%. Currency moves cost the Class I Fund approximately 4.5% for the full calendar year[1].

The recently established retail class of the Avenir Global Fund ("Avenir Global Fund") returned 7.5%, net of all fees, for the quarter and 12.9%, net of fees, since inception on 25 August 2017. The MSCI ACWI index (in AUD) returned 6.1% for the December 2017 quarter and 14.8% for the full calendar year 2017[1].

The result for the year was a disappointing one for us as our results lagged those of the market despite the majority of the companies we own making good operational progress and increasing their underlying value over the year. We believe that our portfolio remains priced at a very attractive discount to any conservative fundamentally-based measure of underlying value and our ultimate reward, as price converges to value over time, will be well worth the wait.

We have mentioned in previous letters that we see increasing complacency in global equity markets. This appears to be spilling over into FOMO or "*fear of missing out*". Investors can be prone to increasingly reckless behavior when they see other investors making money. Nowhere has this been more evident recently than in speculative bubbles such as Bitcoin and other cryptocurrencies based on blockchain technology. Bitcoin increased in price by 1,318% during 2017 with much of that gain in the December quarter. Other cryptocurrencies increased by even more remarkable amounts, including Ripple and NEM, which increased by 36,018% and 29,842%, respectively, in 2017.

Reminiscent of the dotcom era, companies have started to adopt the powerful strategy of changing their company name to incorporate the current investment fad du jour. A little-known company, Long Island Iced Tea Corp, has been making (as you might guess) ready-made iced tea and other beverages since 2011. In late December, the company decided to rebrand as a blockchain-technology company, changing its name to Long Blockchain Corp. As noted in Vanity Fair[2], the iced-tea company had formally pivoted to blockchain. Due to the clever strategic change, which essentially involved changing its name, the company's stock price rocketed 500% in premarket trading before settling at a 275% gain for the day even though the company intends to maintain its focus on iced-tea and other ready-made drinks for the foreseeable future.

While such speculative bubbles are not broad based, it is a worrying indicator of a potential shift in investor mindset and a gradual eroding in the recognition of risk. While economies around the world appear to be in good shape and companies are investing and growing earnings at robust rates, major global equity markets are near all-time highs. The S&P 500 is in the 98th percentile of 'expensive' based on the Shiller 10-year price-to-earnings multiple with only the dot-com era exceeding current valuation levels[3].

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[1] Past performance is not a reliable indicator of future performance. Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.
[2] Vanity Fair, 21 December 2017, Maya Kosoff; Iced Tea Company Changes Name to "Long Blockchain," Stock Immediately Skyrockets.
[3] https://www.advisorperspectives.com/dshort/updates/2018/02/02/is-the-stock-market-cheap

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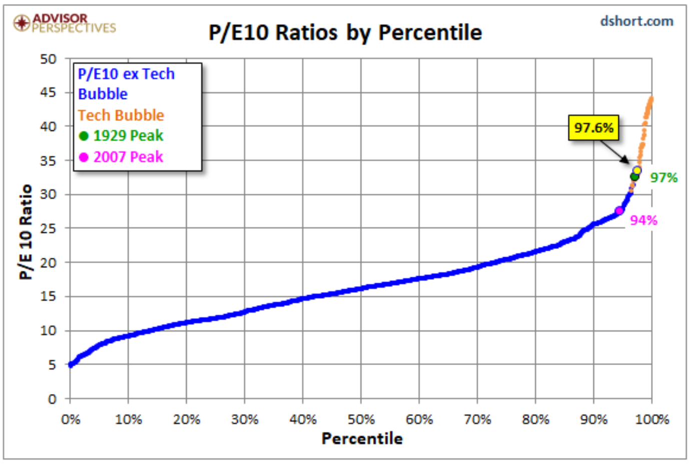

Source: Advisor Perspectives

The most dangerous environment is often on the cusp of euphoria when strong profit growth combined with low interest rates creates a willingness to ignore risks and the economic reality of elevated valuations, and to invest to keep up with the "Joneses" for fear of missing out.

We live in a central bank mandated world where interest rates hover at record lows but, at the same time, unemployment hovers at record lows and company earnings growth strengthens. In more 'usual' times, it might be expected that in such circumstances, equity markets would display an element of caution in expectation that the strong economic growth and low unemployment might feed into increased inflation via wages growth, which, in turn, would lead to higher interest rates and subsequently reduced equity valuations. So far, that has not been the case leading to some to refer to the 'Goldilocks Economy' in which economic growth, inflation, interest rates and employment levels are 'just right' - not too hot and not too cold. Even if this is the case, it would be very rare for such perfectly aligned conditions to last for long.

Yet, the lure of short term returns and the fear of missing out are powerful forces. In the light of these forces, the memory of what has happened in the past can start to dim. While this bull market continues its long run, we are not going to chase overvalued or inferior businesses just because their share price is going up in the short term. All is not doom and gloom for us, however, in an increasingly reckless market environment. Despite elevated asset prices, we are still seeing a steady flow of ideas worthy of investigation with several currently under particular scrutiny. One company appears to be extremely well run by a very economically aligned CEO who is doing an excellent job of improving the company's competitive position. The company is likely to deliver earnings growth of over 25% this year yet trades at a single digit P/E. We will not name this company or others here until we have finished our due diligence and decided whether they are worthy of a place in the portfolio. But our idea pipeline is strong and we are working hard to identify the next compelling candidate for our portfolio.

Select Portfolio Updates:

Our biggest gainer for the quarter was Spirit Airlines (SAVE:NYSE) which began climbing back from its lows of earlier in the year and increased in price by 34% during the quarter. The company announced strong revenue growth of 14% and continued tight cost control with cost per available seat mile (CASM) decreasing by an admirable 5%. Operating margins remained strong at 20%. For 2018 we expect 20%+ revenue growth and continued tight cost control with the company guiding for CASM declines of a further 3-5%. Despite the strong fourth quarter share price increase, Spirit was one of our biggest decliners for the calendar year decreasing by 22%.

We believe Spirit has a strong competitive position with an industry leading cost structure and the ability to increase market share in a growing market leading to the prospect of attractive long-term growth. Despite this, the company operates in the airline industry which means fickle shareholders and heightened share price volatility. We focus on the strengths of the underlying business model, however, and the ability for the company to add value over time which will eventually overwhelm the short term fluctuations in share price. Spirit's share price, despite its volatility, has increased by 100% over the past five years and we are looking for similar performance over the next five years.

Our second biggest gainer for the quarter was **Nexstar** (NXST:NASDAQ) which increased by 26% as it continues to deliver record operating results and strong cash flow leading to deleveraging. Nexstar also continued to repurchase shares although we expect the rate of repurchase to increase in the future as additional debt is repaid. Nexstar was our third biggest gainer for the full year increasing by 24% to end the year at $78.20, an increase of 63% from our average purchase price of $47.95. We expect Nexstar to generate average free cash flow per share of $12.40 over the 2017-2018 period giving rise to a free cash flow yield of 16% on the year-end price.

Out biggest decliner for the quarter was **Motorcar Parts of America** (MPAA:NASDAQ) which declined by 15% to end at $24.99. MPAA has gone through several quarters of subdued growth which has led to some skepticism towards management goals. We believe that the company's market position has in fact strengthened through recent market share gains and industry consolidation and that the short term softness in revenue is just that, short term. There has been no deterioration in either the industry or MPAA's competitive position within the industry and the company is well positioned to continue its revenue growth which has averaged 19% per annum over the past four years. The company remains very attractively priced at current levels and we recently added to our position.

For the full year, our biggest winner was **BBX Capital** (BBX:NYSE) which increased 63% to $7.97 on the back of the partial IPO of its main operating business, **Bluegreen** (BXG:NYSE). BBX has been a wonderful investment for Avenir generating nice profits as the share price increased 140% over our average entry price. The strong share price performance, however, has only partially closed the gap to underlying value as the company's operating performance has materially increased its underlying value over the time we have owned it. If the market gave full credit for BBX's 90% ownership of the now publicly listed BXG, at BXG's year-end price of $18.26, BBX Capital would be worth over $12 per share or a 50% increase from the year-end price. Bluegreen is also trading cheaply compared to its major peers leading to still further upside should it trade more in line with peers.

Our second largest winner for the full year was our holding of warrants in **General Motors** (GM:NYSE) which increased by 36% over the year. GM has continued to deliver strong operational performance and management have continually found ways to drive underlying value per share. During the year this included selling the European operations, ongoing manufacturing restructuring, buying back shares at cheap prices and showing leadership by making strategic investments in the future such as electric cars, ride sharing and autonomous driving. While the market has started to recognize these value driving activities, the company has only moved from being the cheapest stock in the S&P 500 to the fifth cheapest stock so we don't think the market is getting too far ahead of itself in finally giving some recognition and reward to GM.

Our biggest decliner for the full year was **Technoglass** (TGLS:NASDAQ) which declined 40% throughout the year (up 9% in the recent quarter). Tecnoglass downgraded earnings expectations leading to a sharp decline in the share price. The company has grown revenue at 24% per annum over the past four years and EBIT by 50% per annum over the same period. During this time the company has occasionally seen periods when revenue and earnings have been pushed back to later periods before strong growth resumes. We expect to see the same pattern here. The company ended the year at $7.35 already 34% up from the low of $5.50 reached in August 2017.

We have recently welcomed two new additions to the Avenir Capital research team. Curtis Cifuentes joins as Investment Director after 15 years at Platinum Asset Management. During his time at Platinum, Curtis covered a range of investment opportunities including Japanese and technology stocks. Curtis has lived in Japan for 8 years and is a fluent Japanese speaker so adds a welcome new dimension to the team.

Patricia Queipo De Llano joins as an Investment Associate from Arcano, a European credit fund providing debt financing for private equity backed deals. Patricia, as a Spanish native, also adds a new dimension to the team and, as a previous captain of the Spanish national golf team, significantly lowers the Avenir average golf handicap.

We own companies that we believe are competitively well-positioned in their markets and can compound value over time. They may not be amongst the most favoured companies by the market at this point in time which means that their shares prices are not necessarily increasing at the fastest rate. But, they are amongst the cheapest companies available which, when combined with their ability to grow underlying value at attractive rates, makes us very confident in the long term prospects for our portfolio.

The ratio of the current market price to our assessment of the underlying value of the companies we currently own is approximately 65%. This implies a greater than 50% upside in the portfolio from current prices to get to our view of underlying company value.

"Those who do not remember the past are condemned to repeat it."

- George Santayana

Best Regards,

Adrian Warner

Managing Director