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Q3 - 2015 Letter to Investors

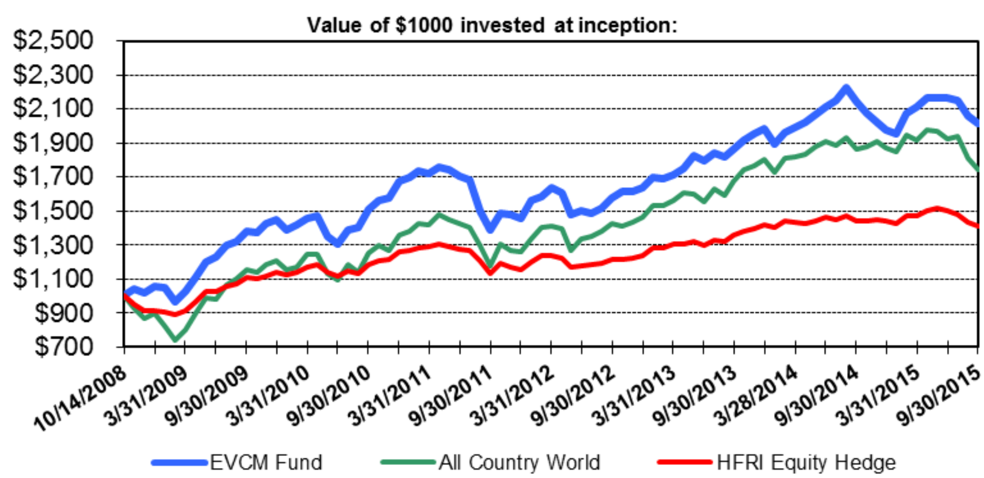
Dear Partners and Shareholders,

For the third quarter of 2015, EVCM fund declined an estimated -6.8% net to investors. Stock markets worldwide were also down in the quarter with the All Country World Index (ACWI) and the HFRI Equity Hedge Index down -9.5% and -5.9% respectively.

Fund Performance (Net to Investors):					
	Sep - 2015	Q3 - 2015	YTD - 2015	Cumulative Since Inception (10/15/2008)	Annualized IRR Since Inception
EVCM Fund – Net to Investors	-2.1%	-6.8%	+1.8%	+101.5%	+10.6%
MSCI All Country World Index Net	-3.6%	-9.5%	-7.0%	+74.2%	+8.3%
HFRI Equity Hedge Index	-1.8%	-5.9%	-2.3%	+41.1%	+5.1%

** The 2015 results reported are unaudited estimates and may be subject to change.*
** Individual investor net returns will vary due to the timing of one's investment.*

Since inception (10/15/2008), EVCM Fund returned an estimated +101.5% (net to investors). During this same time period the MSCI All Country World Index (ACWI) and the HFRI Equity Hedge Index returned approximately +74.2% and +41.1% respectively.



Q3 Performance Overview:
During the third quarter EVCM Fund declined with the markets. While we are well ahead of our benchmarks on a year to date basis, 2015 has proven to be a difficult year for value stocks and value funds. We take comfort in the knowledge that we own a collection of excellent businesses trading well below their intrinsic economic values.

Given the various geo-political and macro-economic problems around the world, and given that we are six years into a bull market, we have been working to shift our portfolio into higher quality stocks and less risky regions. Our feeling is that in terms of business quality and economic moats, our current portfolio is the best it has ever been. Please see below for a more detailed analysis of some of our investments.

Finding Value Around the World:
As a global fund with a fairly wide investment mandate, we are able to invest in almost any country in the world. This large menu of potential investment destinations provides us with a competitive advantage (compared to geographically constrained investors), as long as we carefully pick and choose where we ultimately do invest.

One of our guiding rules of investing at Emerging Value is: “Research both the country and the company”. Investing in a good business in a deteriorating country is a classic value investing mistake that we work diligently to avoid. This rule is particularly important today, with multiple geo-political and economic trouble spots around the world.

China’s economic slowdown combined with the fall in commodity prices and particularly the sharp decline of oil prices (due to shale fracking technologies) have placed economic pressure on Brazil, Canada, and Australia as well as the entire commodities industry. We do not think a bottom is close and are mostly avoiding the affected countries and sectors.

The multiple wars in the Middle East continue to escalate. Russia’s military has entered the war in Syria and has been aggressively bombing rebel forces, including the “moderate rebels” supported by the US. Iran is receiving a financial windfall from its nuclear deal and will use the funds to further its proxy wars in Syria, Iraq, Lebanon, Gaza and Yemen. We see no end to these wars in the foreseeable future. Our analysis shows that Turkey (NATO member), Lebanon, Jordan, Afghanistan, Saudi-Arabia and Egypt are all facing extreme difficulties from within and without and we would not be surprised if one or more of these countries gets sucked into the all-out war in the Middle East. We are not even slightly tempted in invest in any of these countries.

Europe is struggling to cope with three severe problems simultaneously. Their continued economic stagnation, a resurgent and belligerent Russia, and a massive influx of refugees from the Middle-East. We expect Europe will eventually muddle through these issues, but any resolutions remain years in the future. We have no current investments in Europe but are actively searching for bargains.

Given the issues highlighted above, where are the investment opportunities today? Our careful analysis suggests that the US, South Korea, and Israel are currently among the most attractive investment destinations. These three countries are free capitalist democracies with a clear rule of law, strong investor protections, and enforceable property rights. All three countries are enjoying a strong economy with good GDP growth, positive demographics, low inflation rates, and improving business landscapes.

These three countries are also world leaders in technological innovation which is the key driving force behind economic growth. In our view, the age of energy has ended and the age of technological innovation has begun. The US, Korea, and Israel are very well positioned to prosper in this new era. Not surprisingly, the majority of our capital is invested in these three countries.

<u>Fund Exposure Levels:</u>

Fund Exposure by Geography

	US	Europe	Asia	Israel	LatAm	Global/ Mixed
Long	43.9%	0.0%	24.7%	11.0%	0.0%	16.2%
Short	3.8%	0.0%	0.0%	0.0%	0.0%	3.9%
Gross	47.8%	0.0%	24.7%	11.0%	0.0%	20.1%
Net	40.1%	0.0%	24.7%	11.0%	0.0%	12.3%

We would go a step further, borrowing a phrase from the RE industry and argue that we have invested in the "best houses located in the best neighborhoods". Below is a quick snapshot of our top ten long and short positions

Top 10 longs and shorts

Top 10 Longs	As % NAV	Top 10 Shorts	As % NAV
Korea Preferred Stocks Basket	17.1%	TNA – ETF	3.5%
US Financials Basket	13.4%	USO – ETF	3.4%
Howard Hughes Corp	3.9%	Caterpillar	0.8%
Isras	3.6%	Salesforce	0.5%
Discount Bank	3.2%	Total	8.2%
General Motors	3.0%		
Qualcomm	2.9%		
Golf & Co	2.7%		
LG H&H Preferred	2.5%		
Sebang Preferred	2.4%		
Total	54.7%		

In the next section, we will go into greater detail on many of these positions. For now, however, we think it is interesting to point out that our top 10 longs make up over half of our long exposure. As of month end, we were 96% long and 8% short. Our overall net exposure level of 88% reflects the large number of compelling bargains we are finding in global stock markets.

Our main contributors in Q3-2015:

Despite our overall bullishness on our current portfolio, it stumbled along with the markets in the third quarter. Our only significant contributors to performance in the third quarter were from our short book, specifically TNA and United States Oil Fund (USO). Both are poorly designed ETF's which in our view are almost certain to lose value over time and eventually be worth zero.

Short USO

United States Oil Fund (Ticker: USO) is an ETF that is supposed to track the price of a barrel of oil (WTI - west Texas intermediate oil). In theory, it is an interesting financial product that allows investors to easily invest in (or bet against) the future price of oil. It is mostly owned by retail investors that view it as a proxy for directly owning barrels of oil.

Like many Wall-Street "products", USO is a wolf in sheep's clothing. USO does not own any oil directly. Instead, it uses futures contracts to gain exposure to the price of oil. Because these futures contracts are usually in contango (front months cheaper than later months), USO suffers from "roll decay" which makes it lose value over time. Every month, USO needs to sell the front month futures contracts that it owns and replace them with futures contracts that are one month further out, and therefore more expensive. As the month goes by, the newly purchased futures contracts become the front month futures contracts and the process repeats again, every month, forever. This can be summarized as "buy high, sell low, repeat every month forever". Simply put, USO does not accurately track the price of oil and is likely to cause large losses over time to its investors. Given enough time, USO will probably go to zero.

We have been short USO in the past and it served us well, especially towards the end of 2014 as the price of oil fell sharply. We closed out most of the position at a nice profit in the first quarter of 2015. Fortunately, the price of oil spiked temporarily in April of 2015 and we re-established our short position once again. This re-established short position has already proven profitable in Q3-2015 where we trimmed it again. We are patiently waiting for future spikes in the price of USO so that we can re-establish a large short position yet again. Shorting USO has proven to be the gift that keeps on giving

Our main detractors in Q3-2015:

Main detractors from performance in the third quarter include: Samsung Electronics, General Motors, Qualcomm, Horsehead Holdings, Basket of US Financials and Golf & Co. Below is short discussion of these positions.

Basket of large cap US financials including TARP warrants

The large cap US financial companies in our basket declined as investors were concerned about slower than expected GDP growth and interest rates remaining low for longer than expected. While we share these concerns in the short term, our long term thesis has not changed. The specific details for each bank and insurance company are different, yet the underlying thesis is mostly the same. The large cap financials in the US were all severely hurt in the financial crisis of 2008. Since then they have been working to repair their businesses, reduce risks, simplify operations, and restructure bad loans.

Moreover, the banks in our basket will benefit greatly when interest rates finally increase since they will be able to earn higher returns on assets with only a minor corresponding increase in the cost of their deposit base. For example, if in a few years interest rates are 2% - 3% higher than today then Bank of America and Citibank could earn a 12% - 14% ROE which could justify a 1.6 price to tangible book value multiple (currently about 1.2). Combined with 8% annual book value growth over the next 5 years, this scenario could result in their stock price doubling in 5 years.

General Motors

After a strong Q2, General Motors just reported strong Q3 results with high profits in the US and record sales in China. The stock is up 20% in October yet still trades for just 7 times next year's earnings of $5 per share. Profitability in China and Brazil remains strong although the market is concerned about a possible slowdown in China. GM recently increased its dividend, announced a $5B share repurchase and promised to return additional capital to shareholders in the next few years. GM is unreasonably cheap, trading for 4X EV/ EBITDA and 7X P/E. The company could earn over $5 per share next year (excluding any additional restructuring costs) which could warrant a $50 stock price (vs. current price of $35.90). We are excited about the market finally seeing a profitable, cash generating GM with the burden of its past mistakes in the rear-view mirror.

Samsung Electronics

Samsung is a complex conglomerate with many moving parts and is difficult to fully analyze and follow. Most investors seem focused on Samsung's smart-phone business while paying little attention to its many other highly valuable business segments (DRAM, NAND, chipsets, displays, digital cameras, television sets, tablets, laptops, networking equipment and home appliances). Samsung's stock has started to recover in October as investors realize that its semiconductor business is performing well and the consumer electronics division remains competitive and is cutting costs. At the current cheap stock price we are paying a fair price for the non-smart phone businesses and essentially getting the smart-phones business for free. Samsung is the world's largest integrated electronics manufacturer. It has created tremendous shareholder value over the years and will continue to do so in the future.

Howard Hughes Corp

Combining unique and hugely valuable trophy development assets with an excellent and highly incentivized management team, HHC is arguably the worlds "best" real-estate company. As in previous years, HHC continues to make strong progress developing its assets into income producing properties. The stock fell in Q3 mostly due to concerns about a slowing economy and indirect exposure to energy prices (since it has assets in Texas). We took the opportunity to increase our investment in the company. While placing an exact value on HHC is difficult, we think that NAV will be around $200 per share at the end of 2016 which would provide 60% upside from the current stock price.

Golf & Co

Golf & Co ("Golf") is a leading group of retail chain stores located in Israel, all under the umbrella brand "Golf". The stores fall into two main retail categories: fashion clothing and home accessories. Golf has 281 stores today across all its sub-brands. Sub-brands include Golf Kids & Baby (kids clothing), Intima (lady undergarments), Polgat (men's suits), Max Moretti (lady shoes, purses and accessories), Blue Bird (surf wear), Golf & Co (home accessories), and others.

As the largest retail chain in Israel, Golf enjoys multiple competitive advantages including: a strong and well recognized brand, excellent mall based locations and economies of scale in operations, advertising and purchasing. The Golf brand is generally associated with good value for money, but is not necessarily the most fashionable or cutting edge.

Golf's is executing a multi-year strategic turnaround plan. This plan includes large investments in new and existing stores, more advertising and acquisitions, and a strong push into online retailing. The plan will ultimately result in much higher revenues and profits. Meanwhile Golf's 2015 profitability has been heavily depressed since the company is bearing the increased costs of the plan while not yet enjoying the expected increase in revenues. If Golf manages to even come close to achieving managements projected sales and margins then the stock price should double or triple from where it is today.

Horsehead Holdings

Horsehead Holdings declined heavily as the company failed to achieve expected Zinc production rates and continues to experience delays and cost overruns at its new Mooresboro facility in North Carolina. Production delays and setbacks are a predictable occurrence with any new industrial plant yet we had hoped they would not get so bad.

We think this unique and important business will eventually be generating around $150M of EBITDA once its new plant is running at full capacity. Applying an 8 times EBITDA multiple gets us to a target price around $20 (current price is $4). We acknowledge that this has not been an easy stock to own and are relieved that it was always a small position for us.

We share these setbacks with you for two reasons. First, to provide transparency into our portfolio. Second, to convey why we think we have one of the most compelling and undervalued portfolios in the history of EVCM Fund. In our view, our market to market losses in the third quarter are not permanent. Furthermore, the market swoons in the third quarter gave us an opportunity to add to names that we like at cheaper prices including Howard Hughes Corp, General Motors, Interactive Brokers and Short USO.

<u>Update - Basket of Korean Preference Shares:</u>
Our thesis about Korean Preferred Stocks has been playing out exactly as we expected. Recall that when we purchased our basket, many of them were trading at 60% - 70% price discounts to their respective common stocks. The current price discount in our basket has narrowed to about 53% which has provide a boost to the strong returns of the stocks that we selected. Overall our basket is up about 100% since we started investing in Korea and we think there is another 100% upside remaining. Following is a brief analysis of two of the Korean Preference shares in our basket.

LG Household & Healthcare Preferred Shares
LG Household & Health Care (LG H&H) manufactures and distributes cosmetics, household & personal goods and Coca-Cola beverages (carbonated and non-carbonated) in South Korea. It has a leading market share in all 3 business segments. The household goods segment includes laundry detergents, aromatics and hygiene products with leading brand names including: Perioe, Say, Elastine, Tech and Saffron. The cosmetics segment includes skin care and hair care products with leading brand names including: O-HUI, Whoo, Sooryehan and Isa Knox.

The company was spun off from LG Chemical (now LG Corp) in 2001 and has since been focused on western style brand management and shareholder value creation. LG H&H management is well regarded and shareholder friendly. Over the years the company has allocated capital wisely by investing in its core businesses, repurchasing shares and completing multiple value creating acquisitions. The company operates in multiple overseas markets, including the US, China, Taiwan, Vietnam and Europe.

We view LG H&H as one of the best businesses in Korea. It enjoys strong consumer brands and significant growth drivers both domestically and internationally. We want to own it, but are unwilling to pay 28 times earnings for its common stock. Luckily, we can buy it at a much cheaper price via its preference shares.

The preference shares of LG H&H trade at a 55% price discount to the common stock. By investing in LG H&H's preference shares we are paying about 11 times earnings, a cheap price for an excellent, well managed consumer brands business with significant growth prospects. The preference shares also pay a 1% dividend yield.

Lotte Chilsung Beverage Preference Shares

Lotte Chilsung Beverage, a subsidiary of the Lotte Group, has a 40% share of the Korean beverage market. It sells leading products in all main beverage categories including carbonated soft drinks, coffee, tea, energy drinks, bottled water, beer and whiskey. Its top brands include Chilsung Cider (lemon-lime soft drink), Let's Be (canned coffee), Sunny 10 (sparkling ade), Cheoeum Cheoreom (Soju – alcoholic drink), and Hot Six (energy drink). Lotte Beverage also owns multiple subsidiaries and non-core assets including a 34% stake in Pepsi-Cola Phillipines, real-estate development projects, and a securities portfolio.

The company's alcoholic beverage sales continue to grow rapidly driven by hit products Soju and Soonhari. Lotte Chilsung is responding accordingly and rapidly expanding its production capacity. Lotte's preference shares trade at a 60% price discount to the common shares which means they are effectively trading for less than 6X EV to EBITDA – an unreasonably cheap price for such a high quality growing business.

Concluding Remarks:

The recent past has not been great for value investors, with many value stocks remaining cheap while growth and momentum stocks outperform. We have been able to preserve capital and even post slight gain in this environment thanks to our careful risk management. Sooner or later stock markets will mean-revert and value stocks will outperform. Our portfolio is well positioned for this. We own an excellent collection of good business trading at cheap prices and located in safe countries around the world.

As bottom-up stock pickers, we do not target any particular level of market exposure. Rather, we invest our capital if, and only if, we find compelling opportunities. EVCM Fund is close to fully invested which is a strong indicator of the excellent opportunities we are finding. Our portfolio contains multiple unique and compelling value investments that should provide high returns over the next few years.

Thank you, our investors and shareholders, for your trust and support of EVCM fund. Please don't hesitate to call with any questions, thoughts or comments.

Sincerely Yours,
Ori Eyal
Managing Partner