SYMMETRY INVEST A/S

NEWSLETTER

Q2 2019

SYMMETRY INVEST A/S

CVR: 35056467

Purpose of the newsletter:

Symmetry sends out a portfolio report every month to the company's shareholders. Here we talk about the return on the month, news from our individual share investments and much more. In addition, ongoing analyses of companies are sent out as well as an annual investor letter with a review of our largest positions. This newsletter does not intend to copy or replace the above, to which Symmetry's shareholders have exclusive access. The newsletter, being completely free, will therefore only treat singular individual shares in a very limited measure, being that an argument reserved for investors. Instead, the newsletter will review various developments and trends in the general market as well as it will explain, how Symmetry navigates the different markets.

Now and then, the newsletter will mention specific individual shares. These can be shares, which Symmetry is long in or short in. Or shares that Symmetry has no position in, but has an interest in.

The newsletter aims to increase all our stakeholders' knowledge of Symmetry including current investors, potential investors and other individuals, who follow the stock market. Symmetry will continuously describe our strategy and make it as easily understandable as possible for readers.

We will include quotes etc. from well-known value investors and substantiate claims with graphs and other material, which can be used to support our points.

We hope that as many of you as possible will find the newsletter easily readable and useful, and that it will help get as many people as possible signing up for the newsletter to follow us.

Disclaimer:

The newsletter is written and published by Symmetry Invest A/S. The newsletter contains Symmetry's own opinions, assumptions and attitudes. Symmetry does not guarantee the accuracy of the newsletters content.

Shares commented in the newsletter should not be considered a recommendation of purchasing or selling that such stock. Symmetry is a manager of alternative investment funds (AIFM) registered by the Danish Financial Supervisory Authority, *Finanstilsynet*. Symmetry is NOT a registered / authorized investment advisor and, on this basis, does not recommend any specific share. The newsletter only describes Symmetry's own market attitudes and individual shares.

Symmetry is under no circumstances responsible for any loss due to investments based on the use of the newsletter. Symmetry in some cases owns shares in companies mentioned in the newsletter. Symmetry reserves the right to buy or sell shares in mentioned companies without giving notice. Our position or stock price target may be changed on an ongoing basis after the publication of the newsletter. We do not undertake to update in this regard.

Investing in shares is associated with a high risk, and it is therefore always advisable to consult a competent financial adviser before disposing. Images and other material used in the newsletter are copyrighted and cannot be redistributed.

In the newsletter we refer to "us" understood as Symmetry, and sometimes "I" understood as Andreas Aaen.

This letter is translated from Danish to English by a professional translation company. For any doubts on translations etc. the Danish letter wins.

Data are unaudited figures and may therefore be subject to uncertainty. The figures are derived from withdrawals from Symmetry's custodian banks, etc. and it is our best belief that they represent factually correct numbers. Return data and net asset value are audited once a year by the company's auditor at year-end.

Newsletter

In this newsletter we will review short selling and how it works for us in practice by referring to 2 cases which just now played out. At the same time, we will review the importance of an investor's ability to change attitudes.

Q2 2019:

Table: Percentage historical return

The table shows historical returns and net exposure since its founding in 2013

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FYTD	Avg. Net Exposure
FY13						8,1			7,9			15,0	**34,1**	N/A
FY14			3,2			10,2			2,8			17,0	**36,8**	N/A
FY15			6,8			23,2			-13,3			5,7	**20,5**	76,0
FY16			1,3			10,6			3,5			3,4	**19,9**	44,3
FY17	6,2	3,2	0,7	4,0	5,1	-2,7	1,1	-2,7	0,6	3,3	-2,1	-0,7	**16,8**	46,5
FY18	1,9	-4,5	-4,4	0,8	-0,8	-5,9	-4,5	-1,8	-0,9	-12,8	1,9	0,3	**-27,7**	75,2
FY19	7,3	6,4	4,5	4,5	-2,4	6,3							**29,3**	78,0

As always, returns and portfolio updates etc., are distributed to shareholders monthly through the Website.

Table: Performance against MSCI ACWI

Below is our long-term and short-term performance compared to MSCI ACWI and Euro Stoxx 600

	2019	Total	IRR
Symmetry	29,3%	189,3%	18,3%
MSCI ACWI	14,6%	56,5%	7,3%
Stoxx 600	14,0%	33,7%	4,7%

Symmetry has continued the good run from Q1 into Q2. We are now at a considerable distance from the market in 2019. As we have always mentioned, whether it is good or bad for us, we do not believe that the price development within a few months says much about our ability to beat the market. In contrast, we believe our long-term return since the foundation tells a great deal: An average IRR after costs and fees of 18.3% (+ 20% gross) compared to the market's 5-8%.

The best thing about our return in 2019 is, that they are not drawn by a single or two investments. Everything we've done has worked well. We only had 2 shares we lost money on this year. Several of our shares have risen significantly.

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We have also delivered high alpha on the short side. When things really add up this way, it gives great returns. Let's hope it continues.

Short selling in practice

We are often asked, why we use short selling and how we do it. Most ordinary investors have the biased attitude that short sellers are evil people who smash their beloved stocks. Nothing could be more wrong. Short sellers play an important role in the market. They take the top of the worst bubbles and help the authorities detect fraud companies, etc. In this way, they also ensure that dishonest managers find it harder to enrich themselves at the expense of others.

In 2015, Symmetry started to short individual stocks. Since then, we have beaten the market and generated alpha on the short side in every single year. But is has been a learning process along the way.

We are very proud of this performance. Something which creates difficulties for most investors. It should also be mentioned, that our benchmark here is MSCI World. But since most of our shorts historically have been in the United States, one can rightly believe that the S&P 500 or Russell 2000 would have been a better benchmark. In that case, our excess return to the market would have been much greater.

So, what works for us on the short side?

1) We have a good risk diversification. This means, that no short is a significant part of our AUM. And it means, that we can afford shorts to go against us without being forced to close.

2) We have been good at taking our losses. On the short side, you often have more losses than winners. You must therefore be really quick to take your losses, when your case no longer holds.

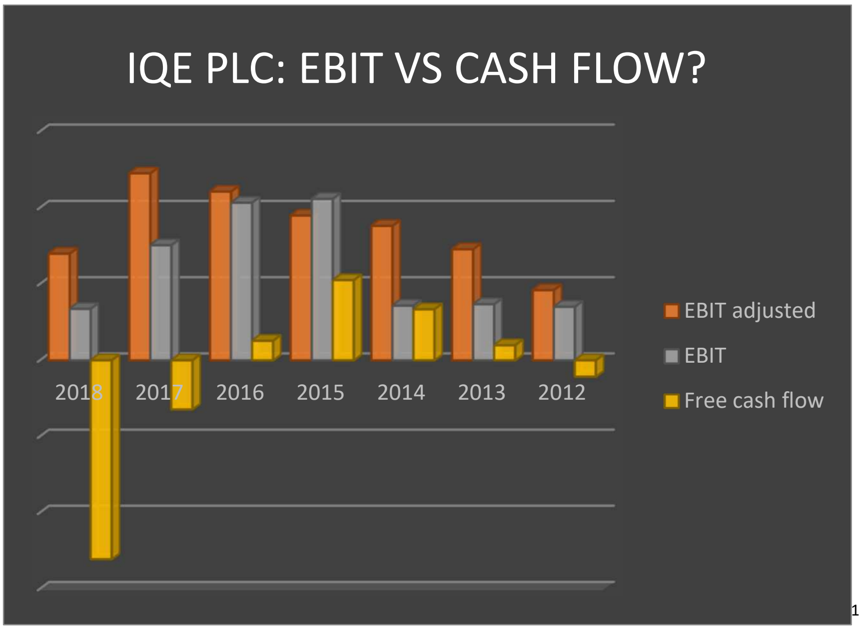
3) We have been good at finding accounting frauds and earnings misses that have served as event driven short in a rising market.

In June 2019, we had a super month on the short side. We will describe below two specific examples of shares we have shorted and which now have played out (disclaimer: we are still short IQE but not EROS).

The first is IQE Plc. from the UK. IQE sells Semiconductors. It is a commodity business with low returns on invested capital. Semiconductors were in an extreme bull market with under capacity from 2015-2017, which gave a good profit for IQE. At the same time, management used some very aggressive accounting methods to inflate the figures. This allowed them to show a high valuation, and insiders could dump their shares at a soaring price.

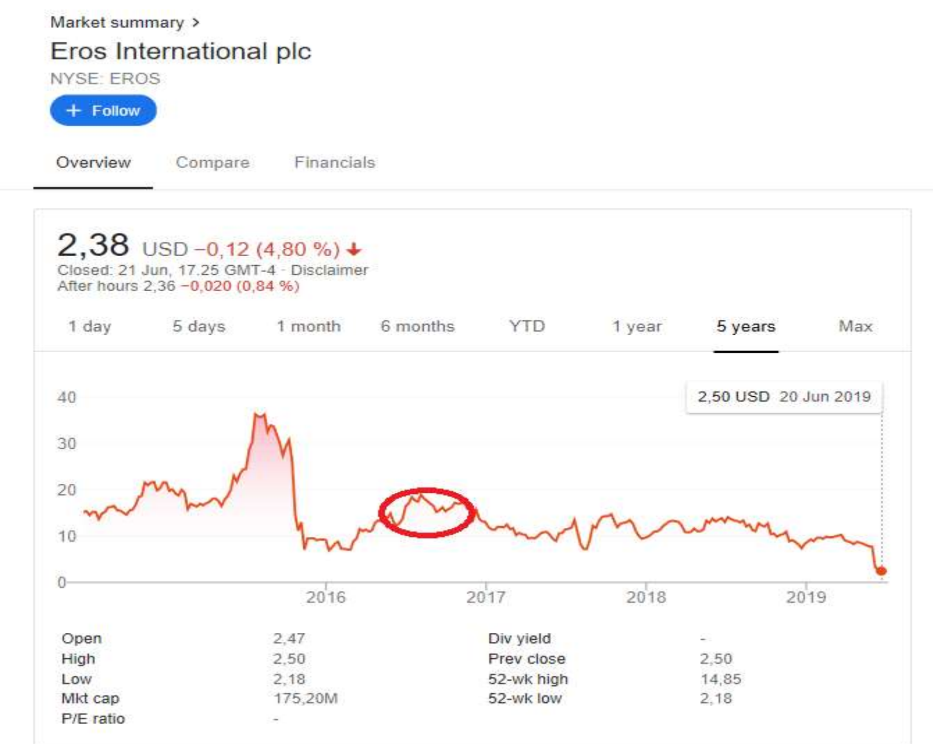
In 2017, we shorted IQE in 2 laps as seen by the red circles above. We first became interested in IQE in the summer of 2017 when they came up with their books for 2016. One thing was that we felt the sector was overvalued. The other thing was, that the company's accounts were starting to look weird. The company's adjusted EBIT increased nicely compared to 2015, but real EBIT fell. At the same time, the free cash flow decreased significantly. Over the next 12 months, our patience was strongly tested. Our average price was approx. 100 pr. per share, but the share increased to over 160p per share, giving us a 60% loss on the position. However, we slowly realized that our analysis was correct. When the 2017 accounts came in, the trend appeared confirmed. Increase in adjusted EBIT and decrease in real EBIT. What really impressed us here was, that the free cash flow ended up being negative. In 2018, the company's problems escalated. Both adjusted and real EBIT decreased compared to 2017 due to significant downward adjustments. The company's free cash flow ended up being negative, equivalent to 2x positive EBIT. Here in 2019, the problems remain for IQE accompanied by a significant profit warning. We believe, that IQE will run into massive cash-flow problems in the coming years, which will force the company to make massive cuts or a larger stock dilution. Therefore, even though we have a return of 40-50% at present, we expect further declines for IQE.

Below, we have shown the reported EBIT and the adjusted EBIT and compared them to the free cash flow for IQE since 2012. Most people will probably agree with us that something looks wrong?



[1]

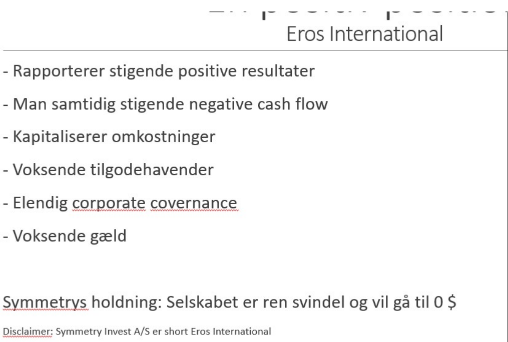
The other stock we have been successful in shorting, is EROS International:



[1] Compiled by Symmetry based on LSE filings from IQE

As can be seen above, in many ways our short in EROS has been reminiscent of IQE: a long period of approx. three years from the time we opened our short until our investment case worked. The share is now at $ 2.4 against the approx. $ 15 we shorted the stock at.

Below you can see a slide from a power presentation which Symmetry delivered for an investor conference in the summer of 2017:

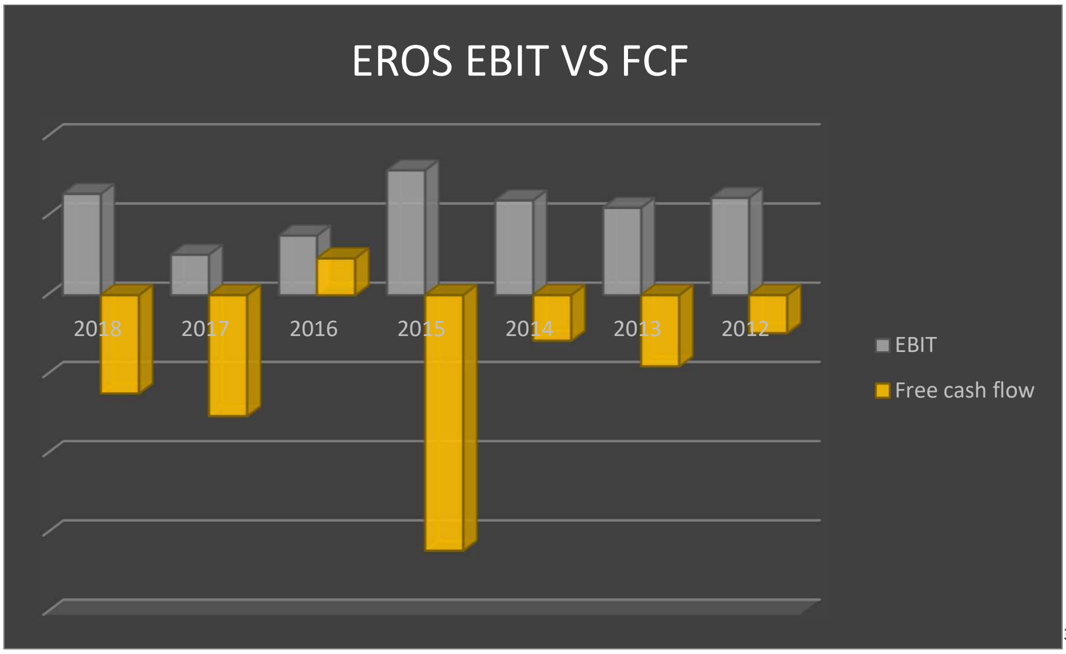


- Reports increasing positive results
- But also increasing negative cash flow
- Capitalize costs
- Growing receivables
- Really bad corporate governance
- Rising debt

Symmetry´s opinion: The company is only fraud and will end at 0 $

Disclaimer: Symmetry Invest A/S is short Eros International

So why did we think, that EROS was such a good short? It is often said, that a picture says more than 1,000 words. So, let's try with a picture:



[3]

Like the case of IQE, EROS burned massive amounts of cash while reporting positive results. Where we thought, that IQE was "just" very aggressive accounting, we think that EROS is a fraud. We believe their receivables and capitalized intangibles are totally fake and the stock is worth 0.

[2] Internal slide from private investor conference
[3] Prepared by Symmetry based on SEC filings from EROS - (positive cash flow in 2016 is solely due to factoring of some receivables)

Studying the difference between reported EBIT and free cash flow is often a good way to screen for potential short candidates. Other successful shorts we have found in this way, include Tutor Perini as well as Telit Communications. However, this is not a fact list as there are also good companies which burn money because they invest in the future.

Doing short selling also has other good effects. It generally helps one to be a better long investor. The successful short seller Ricky Sandler of Eminence Capital explained it as follows:

Without having a commitment to the short side, it's difficult to be offensive when you should be. The highest-return opportunities are available when markets are in free fall, but if you're getting shelled, you may not have the emotional conviction to be aggressively opportunistic, and you may not even be able to do it, because of redemptions. Being able to be offensive when everybody else is defensive, in and of itself, can yield excess returns. A second element is that as true, committed short sellers, we have to be immensely sceptical, and scepticism is a terrific quality in a value investor. A key reason for our success is that we have a high batting average on the long side. We're better at avoiding mistakes because we're attuned to those situations where value gets destroyed, or where it isn't really there in the first place, say, because of phony accounting.

Carlo Cannell from Cannell Capital explained the reason why he does short selling:

We short because I think it is the most prudent way to manage a portfolio, from a risk perspective, and because I believe the key to successful long-term investing is to avoid losses. We also short because in certain subsections of the markets it's easier than buying stocks. There are always classes of companies that are dying. If you really track the mortality rates of companies, you'd concluded that the market does not have the upward bias everyone thinks it does. The market is actually a carefully pruned garden".

About changing attitudes

One of the things which has had the biggest impact on my development as a manager over the past year, has been the study of behavioural economics. Just to make it clear, I have not begun to "study again" in the traditional sense (enrolling in university, etc.). Life as a fund manager is a constant learning phase. If one does not constantly develop, one is overtaken by others. Many studies have been conducted in the field of behavioural economics (I can clearly recommend the book "Thinking fast and slow" by Daniel Kahneman). Kahneman has explained that, although we consider ourselves as rational people who always make rational decisions, very rarely this is correct. We intuitively form a mental bias (a biased attitude) for the decisions we make.

One of the major conclusions is the so-called "consistency bias". Generally, as persons and investors, we have a great reluctance to change attitude, even if the facts change. If by a biased attitude we convince ourselves, that a stock is good, we tend to reject negative data afterwards. This does not only apply to shares we have already bought. It is also part of our due diligence. If, as investors, we are researching a stock and have spent maybe 1-2 months on intensive due diligence, we tend to reject negative data points at the end of our due diligence. We simply want to be able to convince ourselves, that the time we have spent on research is not wasted. Therefore, investors tend to buy a stock, based on the amount of time spent researching the stock and not the quality of the research done.

Another factor is our ability to constantly chase views that support our biased attitude, rather than seeking out attitudes and data which might disprove our conviction. We simply tend to automatically agree with, and take views that support our original conclusion, rather than seeking opposing views and re-evaluating our original conclusion.

This, in fact, is why many fund managers often do not want to share their "research" publicly, show their reports etc. It has been proven, that it is much harder to change the attitude on a case, if you have publicly spoken about the case. That makes sense. It is harder to admit to everyone that you were wrong, than to just admit it to yourself.

It must be remembered, that because you subsequently change the attitude on a case, it is not necessarily because you made a mistake in the first place. Investors tend to think, that if a stock is sold at a loss or poor return, then it has been a wrong decision to buy it. This is not necessarily correct. There may have been a reasonable basis for buying a share, but subsequent events may have made it better to sell again.

Jon Jacobson of Highfields Capital has explained in details the ability to change attitude:

> *"To be successful in any business you have to have a certain competitiveness and a certain paranoia. In our business there they keep score every day and your problems are staring you in the face, you need to be incredibly focused on the problems in the portfolio and constantly assess whether your analysis is right and the consensus is wrong. There's a fine line between having done your homework and having a conviction in it and just being stupidly stubborn. The best investors figure out how to walk that line, recognizing their mistakes and moving on when the situation warrants. All of that is very hard – if it were easy, everyone would be good at it".*

As most regular readers of our newsletter know, I'm a big fan of David Einhorn of Greenlight Capital. David Einhorn explained the ability to change attitude as follows:

> *" We try not to have many investing rules, but there is one that has served us well: If we decide we were wrong about something, in terms of why we did it, we exit, period. We never invent new reasons to continue with a position when the original reasons are no longer available".*

May all of you a pleasant summer.

With kind regards

Andreas Aaen