CONTRIBUTORS

COSAN LTD

Description
Family-backed Holding Company

% of portfolio[1]
3.3%

Discount
-20.3%

% of investee company
2.1%

Total return on position FY19 (local)[2]
92.0%

Total return on position FY19 (GBP)
100.5%

Contribution (GBP)[3]
3.25%

ROI since date of initial purchase[4]
56.2%

Cosan Ltd ('CZZ') was, by some way, the largest contributor to performance over the year, adding 325bps to returns. Its share price appreciated by +121% vs the MSCI Brazil's +31%, in USD – a notable turnaround from last year when CZZ was our largest detractor.

CZZ has a complex structure. It has stakes in two listed holding companies, Cosan SA ('CSAN3') and Cosan Logistica ('RLOG'), which in turn own listed and unlisted assets. This complex structure deters other investors, and has led to discounts on discounts. When we first invested in CZZ in July 2017, we saw a group of high-quality assets, run by highly competent management, with huge upside from simplification of the group structure.

In last year's annual report, when commenting on the underperformance of CZZ, we wrote that "we remain convinced by the merits of our investment and look forward to continued buybacks, NAV growth and the ultimate prize – the simplification of the group structure". Since then, CZZ has purchased 9% of its own shares, achieved NAV growth of +86% and begun simplifying the holding structure by taking private Comgás, a listed subsidiary of CSAN3.

Given the risk-free accretion to NAV, we have long been proponents of buybacks. The accretion increases the wider the discount and, with CZZ trading on a 54% look-through discount at the start of the year, we were pleased to see management recognising the upside as well. CZZ conducted two tenders over the year, contributing approximately +9% to CZZ's look-through NAV.

CZZ's impressive +86% NAV growth was driven by both of its holdings – CSAN3 and RLOG – which returned +61% and +110% respectively. Returns at CSAN3 came from good results at Comgás (+15% EBITDA growth); outperformance of their fuel distribution business, Raízen Combustíveis, which achieved fuel growth of +7% versus peers' +1%; and the successful international expansion of their lubricant business driving +43% EBITDA growth. Returns at RLOG benefited from a narrowing of the discount from 29% to 11%, on increased likelihood of restructuring, and a +64% share price gain in Rumo, RLOG's sole holding.

CZZ has consistently communicated its intention to simplify the holding structure. Its aim is to see each underlying company with its own listing held directly by CZZ. We believe that the acquisition of Comgás minorities in March is the start of this process. Comgás is now wholly owned by CSAN3 and management can focus on recapitalising the business and distributing cash to CSAN3 before eventually relisting and spinning out to CZZ.

Management's increased focus on simplification, coupled with buybacks and strong operating performance, saw CZZ's discount narrow from 33% to 20%, and the look-through discount from 54% to 42%. With the strong performance, we took the opportunity to sell down half of our position over the year. On a 42% look-through discount, there is still significant upside and we remain confident about the prospects of the investment.

FONDUL PROPRIETATEA

Description
Closed-end Fund

% of portfolio[1]
4.0%

Discount
-24.5%

% of investee company
2.8%

Total return on position FY19 (local)[2]
20.2%

Total return on position FY19 (GBP)
26.1%

Contribution (GBP)[3]
1.63%

ROI since date of initial purchase[4]
63.4%

Fondul Proprietatea ('FP') had a turbulent year. In late December, the Romanian government introduced an Emergency Ordinance which, had it been successfully implemented, would have resulted in material value impairment for shareholders of FP. The initial package of measures included a tax on turnover for companies operating in the electricity and gas sectors, and a cap on electricity and gas prices. The measures would have affected many sectors to which FP has exposure and, while some of the measures appeared to contravene Romania's obligations under EU law, the market nonetheless responded negatively to the news. FP's discount widened materially, reaching in excess of 40% at the trough.

However, as 2019 progressed, the feared negative outcome appeared to recede further into the distance. By April, the Romanian parliament had significantly softened many of the envisaged measures. May's European elections saw strong performance from the Union to Save Romania ('USR') – a pro-business, pro-EU, pro-reform party. Since the elections, the Bucharest Stock Exchange has recovered by +18% and Fondul's share price is up +25%.

Overall, and despite the turbulent year, FP produced NAV returns of +13% which, together with a tightening of the discount from 32% to 24%, resulted in a share price total return of +28% (in USD terms). At the portfolio level, FP declared a dividend of RON0.09/USD1.08 – equivalent to an attractive dividend yield of 6% on NAV and 8% on the pre-distribution share price.

The potential for an IPO of key assets, including Hidroelectrica (38% of NAV) and Bucharest Airport (8%), remains plausible, providing catalysts to unlock value for shareholders. We believe that both companies are valued extremely conservatively in FP's NAV. With a high dividend yield composed of recurring ordinary and special dividends, high- quality and cheaply-held assets, a policy of returning all sale proceeds to shareholders and a 24% discount to NAV, we continue to believe that FP offers considerable value.

1 For definitions, see Glossary on pages 89 to 92.
2 Weighted returns adjusted for buys and sells over the year.
3 Figure is an estimate by the managers and sum of contributions will not equal quoted total return over the financial year.
4 Figure quoted in GBP terms. Refer to Glossary on pages 89 to 92 for further details.

Source / Rumo

COSAN LTD / RUMO

Rumo SA is a Brazilian rail transportation and logistics business whose key area of activity extends over Mato Grosso, São Paulo and the southern states of Brazil, home to four of the country's most active ports, through which most grain production is exported. The company operates 12,000km of lines, 1,000 locomotives and 25,000 wagons, as well as distribution centres and storage facilities. Cosan Logística will benefit from long-term Brazilian economic development and the increased use of rail transportation.

3.3%

% of portfolio