KNIGHT VINKE

Knight Vinke Research (UK) Ltd
25 Hanover Square
London W1S 1JF
Tel: +44 207 518 1440
www.knightvinke.com

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Dear Investor,

I am pleased to report that Knight Vinke Institutional Partners (KVIP), our flagship fund, has continued to perform very satisfactorily notwithstanding difficult market conditions.

As of 30 April the Fund's gross performance year-to-date amounted to 33.9% in EUR (40.5% in USD)[1]. Net of all fees and expenses, the return amounted to 33.2% in EUR (39.7% in USD)[1]. These figures are consolidated and include IMAs managed as part of the Fund but exclude co-investments in single stocks.

For reference, the Fund's performance in 2015 amounted to 22.3% (gross) and 21.1% (net) in EUR and 10.5% (gross) and 9.4% (net) in USD[1].

The return this year has largely been driven by strong performance from Darty, the largest electrical retailer in France and Belgium. Following a period of underperformance in this stock, Knight Vinke increased its holding in the company to 25.0% in 2012 and obtained board representation in 2013. This allowed us to promote and oversee the restructuring of the Group, eliminating its loss-making international activities and re-focusing on Darty in France (its core business). Convinced of the need for industry consolidation in the face of competition from large on-line retailers such as Amazon, I resigned from the Board in late 2014 and in 2015, we hired bankers to help us find the best partner for Darty. This resulted in the proposed merger with Fnac – a transaction whose estimated synergies are almost equal to the 2015 combined operating profits of the two companies – and vindicates the strategy we adopted.

We are currently focusing on our investment in E.ON, one of the world's largest gas and power utilities. Since 2007, when E.ON was Germany's largest public company, its market cap has fallen by 85% (from € 110 billion to € 16 billion) due to the Government imposed shut-down of all nuclear power stations, the subsidies awarded to renewable power generation and the falling prices of coal and carbon. We have actively engaged with E.ON's board and management to persuade it that it should separate its regulated network business (which on its own would command a very high valuation multiple and could, in our opinion, support a substantial increase in debt and therefore also justify a higher dividend) from its power generation and supply businesses, which carry commodity risk. In this context, we view the spin-off of E.ON's conventional power generation business which is due to take place in August/ September as a very encouraging first step.

Although the stock has so far only made a small contribution to the year's performance (+1.2% in EUR, +6.1% in USD)[1] we expect the investment to perform well during the run-up to the spin-off and will continue to engage constructively with the Company.

As previously reported, we sold our position in UBS in December, booking an overall gain on the investment of 95.8%, but continue to monitor the stock with a view to potentially re-investing as the share price continues to fall.

Over the past several years our portfolio has been significantly overweight in the utility, universal banking and retail sectors. In each of these our conviction is underpinned by a strongly held investment thesis which can be replicated.

Our thesis in the utility sector is built on the idea that regulated infrastructure assets (such as gas pipelines or electricity grids) have no business being part of energy conglomerates such as E.ON (or ENI in which we had an investment until 2013). The European Third Directive makes it illegal for the owners of regulated infrastructure monopolies to derive any commercial advantage (or synergy) from ownership. The networks are available to all competitors on a non-discriminatory basis. Given that the market gives a much higher valuation to regulated infrastructure businesses as stand-alone entities than it does to the conglomerates that own them it follows, we believe, that shareholders and regulators share a common interest in promoting the separation of the regulated network companies from their conglomerate parents. As you will recall, ENI sold SNAM, its pipeline business, in 2012-13 at our instigation and with the regulators' blessing.

The global universal banking model that has been prevalent since the late 1990s largely relies on the notion that common ownership of (1) wealth management/ retail banking and (2) institutional sales and trading that accounts for 80-90% of the balance sheet of many large investment banks, results in substantial added value (or synergies) for shareholders and wealth management customers. Our view is that these supposed synergies are in fact very small and that the "sweet spot" in wealth management resides in the smaller, more profitable accounts whose needs are satisfied with relatively standard products that are manufactured in-house (i.e. by wealth management) or can be outsourced. These accounts, which generate most of the profits in wealth management, derive little or no incremental benefit from having wealth management and institutional sales and trading activities sit under the same roof. Shareholders have much to gain through the separation of wealth management/ retail banking from institutional sales and trading and here too, as in the case of the utility sector, the interests of shareholders and regulators (who seek to reduce risk) are aligned.

It is no secret that traditional retailers face tremendous challenges in competing with on-line giants such as Amazon but many are successfully fighting back by integrating their in-store and on-line activities such that the margins from each channel are the same and the retailer is therefore indifferent as to how the sale is booked. In highly competitive sectors such as electrical retailing the price one pays for many key products is virtually identical from one retailer to the next and what matters more is the quality of service (advice, delivery, warranties etc.) and the reputation and strength of the retailer's brand. Size also matters increasingly since this gives certain retailers an advantage when dealing with global suppliers both in terms of volume discounts – think of the impact of a 1% discount to a retailer whose margin may be of the order of 3-4% – and in terms of being given exclusivity for a while on the latest new product that everyone wants for Christmas.

I hope you will find this update to be of interest.

Kind regards

Eric Knight
Founder and CEO

[1] *This letter is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. The information, opinions, estimates and forecasts contained herein are as of the date hereof and are subject to change without prior notification. The price and value of any investments referred to in this letter may fluctuate. Gross and Net Performance calculated by State Street using the monthly Modified Dietz methodology. Fund's fees and expenses are detailed in its confidential offering memorandum. Past Performance is not indicative of future results. Any opinions, expectations and projections within this document are solely those of Knight Vinke which is an investment adviser registered with the Securities and Exchange Commission. Copy of current Form ADV Part 2A is available upon request by contacting +44 207 518 1440 or at www.advisorinfo.sec.gov.*

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