KNIGHT VINKE

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Dear Investor,

I am pleased to report that Knight Vinke Institutional Partners (KVIP), our flagship fund, has had another quarter of very satisfactory performance.

Performance

The table below shows the performance of the consolidated KVIP portfolio, which includes the Fund and related managed accounts, compared to that of the FTSE World Europe Euro Index for Q3 2016 and for the year to date (30 September).

In EUR	2015	Q1 '16	Q2 '16	Q3 '16	2016 YTD
Portfolio Return (gross)	**22.3%**	**9.6%**	**19.0%**	**14.8%**	**49.6%**
FTSE World Europe	**5.5%**	**-7.3%**	**-1.9%**	**3.7%**	**-5.8%**
Outperformance	**+16.8%**	**+16.9%**	**+20.9%**	**+11.1%**	**+55.4%**

Disclosed portfolio investments

The portfolio's performance for 2016 has largely been driven by the merger of FNAC and Darty, a transaction that we initiated and proactively supported by accepting to take FNAC shares instead of cash. As a result, we are now the second largest shareholder of FNAC and have an excellent relationship with the Company and its management. The synergies which we saw in combining the two companies are starting to be seen by the market and this is reflected in FNAC's share price which rose by 11.5% in September.

We also have a strategic investment in E.ON and (based on public filings) are one of the Company's top five shareholders. In October 2014 we proposed that E.ON should spin off and list its regulated network assets – much as RWE has done by spinning off Innogy – thereby setting the stage for E.ON to become one of the most attractive infrastructure investments in a market that is craving for low risk, high yielding assets. Rather than pursuing this path, E.ON's management chose to dispose of its conventional power generation and trading units by spinning off 53% of Uniper (which owns those assets) and committing to sell the remaining 47% interest by 2017-18.

Although sub-optimal, we have supported the spin-off of Uniper in the belief that it represents a major step towards our vision of E.ON as a pure play regulated Network Company. The Company's focus over the past

year has been on executing the spin-off and negotiating a settlement with the Federal Government regarding the decommissioning of its nuclear power stations (see below) but we believe that E.ON could benefit from further restructuring so as to improve its credit profile, underpin its dividend and enhance its ability to invest and create jobs.

In this context, we approached E.ON in early August with a proposal to acquire its remaining 47% holding in Uniper at a valuation of EUR 3.0 billion (i.e. at around EUR 8.00 per Uniper share) so as to eliminate the overhang resulting from so large a block of stock being sold on the market in the next 18-24 months. In addition we also proposed to inject EUR 600 million of new equity into E.ON and EUR 300 million into Uniper so as to strengthen their balance sheets. Our proposal was rejected – mainly, we believe, due to adverse tax consequences that could not be mitigated – but we remain significant shareholders of E.ON and will continue to engage with its Board and Management cordially and constructively.

Separately, and as expected, E.ON's liability for the long term storage and disposal of radioactive nuclear waste will be transferred to a state-controlled trust together with cash equal to its related provisions. The Federal Government will also assume liability for any costs in excess of E.ON's provisions on payment of a single insurance premium amounting to approx. € 2 billion.

During the quarter we have added two (undisclosed) investments to the portfolio. As previously reported, we sold our investments in Carrefour and UBS at the end of last year and continue to evaluate the possibility of re-investing in these stocks as their share prices weaken further.

Long term investment outlook

Knight Vinke's investment philosophy is built on the conviction that the returns available from passive investment in most classes of financial instruments will not be sufficient to meet the needs and aspirations of many of the world's largest institutional and private investors in the future.

Rising levels of public sector debt combined with slower economic growth in most major economies will result in central banks having no choice but to keep the return on financial assets artificially low – thereby depreciating their currencies and increasing the risk of speculative bubbles and short term volatility.

In a report published in May this year, the McKinsey Global Institute concludes that equity market returns in the United States and Western Europe could be 1.5% - 4.0% lower (in real terms) over the next 20 years than they have been since the 1980s. In the case of fixed income instruments the situation is even more critical, with the returns on 10 year bonds expected to be 3-5% lower in the United States and 4-6% lower in Europe.

If the "risk" or "growth" element of an investment portfolio fails to achieve the portfolio's targeted rate of return, there is no way that the portfolio as a whole can achieve that return through efficient diversification (other than by resorting to leverage). The possibility that pension funds and other institutional investors might lose 30-80% of the 5% real return on which so many have staked their future represents the single largest risk they face today.

Real Returns (p.a.)		Historical			Next 20 Years Slow Growth		Next 20 years Growth Recovery	
		Last 100 Years	Last 50 years	Last 30 years	Low	High	Low	High
Debt	USA	1,7%	2,5%	5,0%	0,0%	1,0%	1,0%	2,0%
	Europe	1,6%	4,4%	5,9%	0,0%	1,0%	1,0%	2,0%
Equities	USA	6,5%	5,7%	7,9%	4,0%	5,0%	5,5%	6,5%
	Europe	4,9%	5,7%	7,9%	4,5%	5,0%	5,0%	6,0%

Source: Diminishing returns: why investors may need to lower their expectations, McKinsey Global Institute (May 2016)

As many investors increasingly recognize, the answer lies in taking a radically different approach, focusing on long term objectives rather than short term market outperformance, acting as an "owner" rather than as a "renter", and spending as much time and effort on value creation as on value selection. The main challenge for the largest global investors is how to do so on a scale the "moves the dial".

Knight Vinke's different approach to infrastructure investment

Infrastructure represents a particularly interesting area of opportunity for institutional investors with very long dated liabilities, not only because of its very attractive risk-reward profile but also because the returns that are available reflect a chronic shortage of available funding. The World Economic Forum estimated in 2011 that once institutional and regulatory constraints are taken into account, the amount of capital that is available for investments with an expected duration of 10 years or more amounts to only $6.5 trillion *in total* – that is to say 10% of the world's professionally managed assets. To place this into perspective the estimated global requirement for infrastructure alone represents $3.0 trillion *per annum*[1].

Nowhere do we see this more clearly than in Germany, where the Government is seeking more than €100 billion of private sector investment in network assets to support its clean energy policy. In order to promote this, the Federal Regulator currently allows companies such as E.ON to earn a pre-tax return on equity of 9.05% underpinned by what is effectively a quasi-sovereign guarantee. With 10 year Bunds yielding -0.15%, the spread is remarkable bearing in mind that Germany has a AAA sovereign credit rating and a rock solid commitment to the rule of law[2].

Despite the attractions, the OECD's annual survey of the world's largest pension and sovereign wealth funds finds that the level of investment in infrastructure in the form of unlisted equity and debt is still very limited, at around 1.1% of assets under management. It also finds that target allocations amongst funds

[1] *The Future of Long-term Investing*, World Economic Forum (in collaboration with Oliver Wyman), 2011.
[2] The rate of return that is currently permitted is 9.05% and the rate of return that has initially been proposed for the next regulatory period (2018 for gas and 2019 for electricity networks) is 6.91%. Once the consultation process is over we expect that the new rate will be in excess of 8.0%.

with dedicated infrastructure exposure range from 1% to 20% of AUM but that none of these funds has yet achieved its targeted allocation – either because it was unable to invest or was unwilling to do so.[3]

The obstacles most often cited include regulatory constraints, shortage of quality brownfield assets (as opposed to greenfield projects which are more risky), political and financial instability (particularly in emerging markets) and what is perhaps the most significant constraint, the very high prices being paid in the private market for prime assets.

These difficulties are epitomised by a decision taken by the Norwegian Ministry of Finance in April this year ruling that its sovereign wealth fund, the largest in the world, may not invest in unlisted infrastructure due to political risks and the relatively small size of the market.

We believe that regulated infrastructure assets in Western Europe represent some of the most attractive investments that a pension fund or other long term investor could possibly seek to own. The largest and most attractive of these assets lie buried within European energy conglomerates which typically trade at 6x - 8x EBITDA. When such infrastructure businesses trade as standalone public companies their valuations rise to 10x - 14x EBITDA and when traded in the private markets the multiples can rise even further. By way of example, Fortum's Swedish network assets, which are comparable to E.ON's, were recently sold for 16.6x EBITDA.

Those who wish to invest meaningful amounts of capital in prime infrastructure assets – without paying excessively high prices – should be looking to the public markets where large cap companies such as E.ON provide numerous opportunities for restructuring.

Yours sincerely

Eric Knight

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[3] *Annual Survey of Large Pension Funds and Public Pension Reserve Funds*, OECD, 2015.