



DEEP RESEARCH FUND - RETURN ANALYSIS

Explanation of the net return in 2016

The net return of the Deep Research Fund A-class was +5.1 % in the year 2016. Below you can find more information on how this return came about.

Operational contribution

The main source of the return was the +6.8% average revenue growth of the portfolio companies. This positive contribution was somewhat offset by the negative operating margin development we observed at a few firms. Our retailers experienced slow demand due to unusual warm weather in some regions, while our IT firms were affected by the FASB's US GAAP accounting changes regarding revenue recognition from contracts. We are expecting this impact to reverse over time. Overall, our companies are still very profitable with a mean profit margin of 24.6%.

Valuation

Our average holding period for stocks is above 5 years, hence, we have a low turnover. In 2016, we only added and sold two positions in the fund. The majority of the valuation gain of +5.4% was thus attributable to an increased valuation of our firms by the market.

Use of earned cash

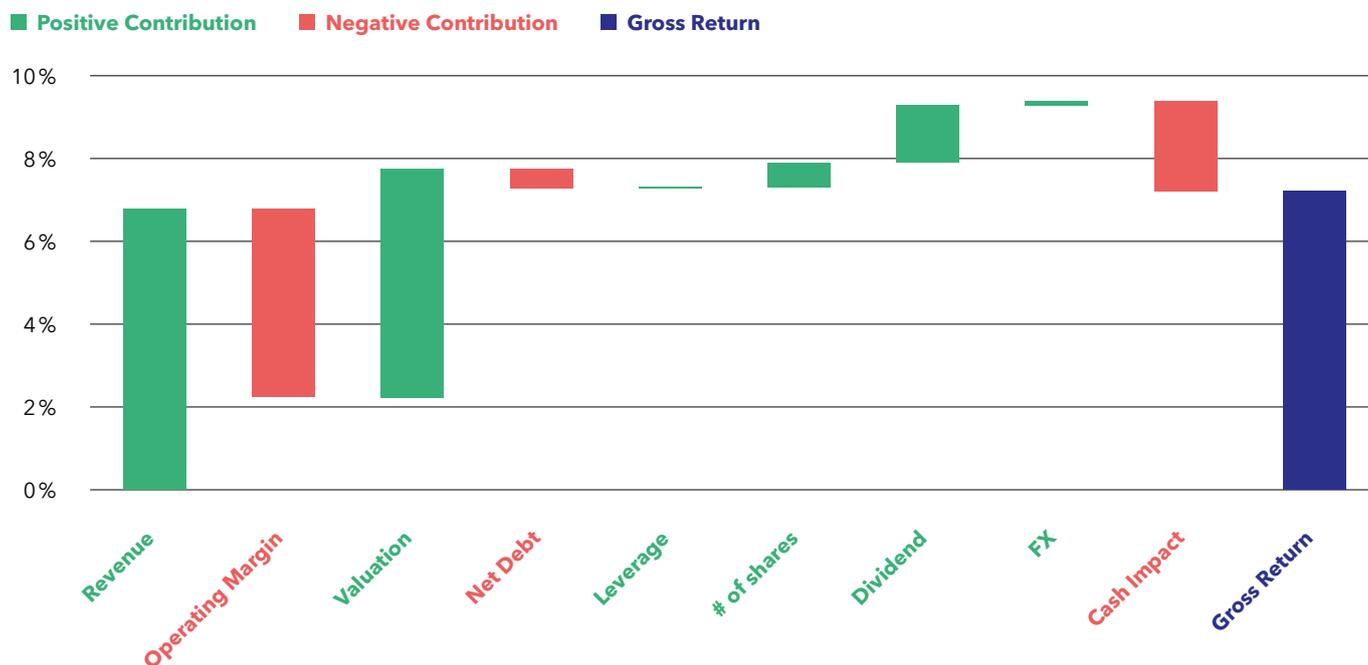
The above-mentioned strong profitability of our companies helped them earn cash, which they used to pay dividends and buy back shares. The net dividend yield was +1.4% and the reduction in share count added another +0.5%.

Other

The average cash position of 17.5% throughout the year caused a -2.2% cash drag. Our aim is to reduce that going forward. Had the fund been 100% invested, the gross return would have been +9.4%. Finally, the TER of 2.5% was a function of the still rather small total size of the fund at launch. As the fund continues to grow, we expect the TER to decrease.

Explanation of the net return of +5.1% in 2016

Deep Research Fund - Class A



Gross Return	7.2%
Total Expense Ratio (TER)	-2.5%
Other	0.4%
Net Return	5.1%

We analyze and report annually on the different factors that led to the Deep Research Fund's return. The return of the fund is in principal comprised of the capital gains, dividend payments and currency exposures of the various stocks in the fund. We go one step further and analyze the capital gains of the stocks in more details.

On our website at www.deepresearchfund.ch in the section Insights, you can read the report called "return analysis" that provides a detailed explanation of our return analysis with a description of how the return can be broken down into the shown factors.

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