

Half-year report

As of June 30th, 2017

PASTEL & ASSOCIÉS

SOCIÉTÉ DE GESTION DE PORTEFEUILLE

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Past performances are no guarantee of future ones and are not constant over time. Prior to making any investment decision, investors should read and understand the appropriate legal and regulatory information documents, particularly the KIID and the prospectus relating to each mutual fund, which can be accessed at www.pastel.fr.

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Dear Investor,

Following this short introduction, you will find an inventory of the investment portfolio common to our two mutual funds, Margin of Safety Fund and its master fund Valeur Intrinsèque, as well as details about its geography, industry, and currency exposure, and the main trades that were made during the first half of the year.

Over the first half, the portfolio structure hasn't changed much, with the exception of the entire disposal of two of its long-term holdings, IBM and D/S Norden. Our decision to sell resulted from our increasing discomfort at the changes undergone over the past few years by the business models, the strategies and the financial and operational management of these two companies. In accordance with our methodology we made such a decision despite the apparently attractive levels of their stock price. We will come back more thoroughly on these disposals in the "post-mortems" part of our annual review for 2017, to be published in early 2018.

Our two funds' half-year performances were +0.21% and -3.53% respectively for Margin of Safety (P class) and Valeur Intrinsèque (P class).

As the majority of our investors have been with us for many years, they are, by now, familiar with our investment methodology as well as with our communication policy (see "Our investment principles" and "Investor's manual" on our website). They view half year performance as mere factual data. And six months being too short of a time span compared to our and their multi-year investment horizon, they don't generally expect any particular comment on our part, barring exceptional events. However, to the attention of some of our more recent investors, we have added the following considerations.

The correlations between the half-year performances of our funds, on the one hand, and their multi-year (three- and five-year) performances on the other, have not been statistically significant since the inception of Margin of Safety in 1998 and Valeur Intrinsèque in 2001 and up until today.

Our funds' performance over these past six months is quite reminiscent of theirs in 2015, with a portfolio structure as well as stock and sector exposures that are quite similar to what they were at the time. We believe the comments we provided in our 2015 Annual Review have remained as relevant today as they were at the time of their writing. So please indulge us in quoting here an excerpt thereof.

Back then we wrote:

"Our funds have already been through such phases of [...] performance lags with the major indices. That has been the case in 1998 for Margin of Safety Fund, and in 2007-2008 as well as in 2011 for all our funds."

"Most business sectors go through cycles where stability induces euphoria that leads to excesses followed by sharp corrections, then overwhelming pessimism, which will in turn result in excesses, etc. Hence our confidence that in the oil & gas services sector, [...] winter will be followed by spring, then summer (for the rare reader who might get confused, seasons are used herein only metaphorically)."

Wishing you a very pleasant summer 2017,

Yours faithfully,

David Pastel

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Investment portfolio of Valeur Intrinsèque¹ as of June 30th, 2017

Currency	Company	Shares	Average cost per share (in currency)	Market price per share (in currency)	Gains or losses (in currency)	Gains or losses (in euros)	Market value (in euros)	% Net asset value
EUR	Randstad	56 800	37.13	51.12	37.7%	37.7%	2 903 616	2.0%
	Thermador Groupe	20 242	72.79	93.20	28.0%	28.0%	1 886 554	1.3%
						33.7%	4 790 170	3.2%
GBP	Next Group Plc	76 393	46.17	38.56	-16.5%	-19.9%	3 354 836	2.3%
	Sports Direct International plc	450 000	2.84	2.91	2.4%	-0.2%	1 492 398	1.0%
						-14.7%	4 847 234	3.3%
NOK	Subsea 7	891 807	68.23	112.30	64.6%	51.6%	10 482 513	7.1%
	TGS-NOPEC Geophysical Co.	175 394	140.49	171.10	21.8%	8.2%	3 141 084	2.1%
						38.7%	13 623 596	9.2%
USD	American Express	63 600	69.16	84.24	21.8%	21.5%	4 697 439	3.2%
	Bed Bath & Beyond Inc	57 700	61.29	30.40	-50.4%	-40.1%	1 537 925	1.0%
	Cummins	47 600	118.54	162.22	36.8%	54.7%	6 770 130	4.6%
	Deere & Company	110 350	86.13	123.59	43.5%	63.1%	11 957 526	8.1%
	Diamond Offshore Drilling Inc	1 204 455	15.98	10.83	-32.2%	-33.1%	11 436 805	7.7%
	Leucadia National Corp.	500 387	24.79	26.16	5.5%	20.0%	11 477 028	7.8%
	Markel Corp.	7 850	965.49	975.86	1.1%	-2.7%	6 716 497	4.5%
	Rowan Companies plc	539 210	16.62	10.24	-38.4%	-38.2%	4 841 095	3.3%
	Tenaris	108 500	27.69	31.14	12.5%	5.6%	2 962 334	2.0%
	Ternium SA	306 037	14.45	28.09	94.4%	91.4%	7 537 223	5.1%
	Transocean Ltd	563 486	15.36	8.23	-46.4%	-47.8%	4 066 012	2.8%
						-0.1%	74 000 013	50.1%
CAD	Fairfax Financial Holdings Ltd	10 300	601.89	562.01	-6.6%	-5.2%	3 907 985	2.6%
						-5.2%	3 907 985	2.6%
						Equities	101 168 999	68.5%
						Cash	46 477 429	31.5%
						Net asset value	147 646 428	100.0%

¹ Margin of Safety Fund being a feeder fund to Valeur Intrinsèque fund, the data presented in this document relate solely to Valeur Intrinsèque, except if otherwise indicated.

Breakdown by industry sector as of June 30th, 2017

Sectors	Weight
Oil and gas services	23.0%
Diamond Offshore Drilling Inc	
Rowan Companies Plc	
Subsea 7	
TGS-NOPEC Geophysical	
Transocean Ltd	
Holdings	14.9%
Leucadia National Corp.	
Fairfax Financial Holdings Ltd	
Markel Corp.	
Capital goods	12.7%
Cummins	
Deere & Company	
Heavy industry	7.1%
Tenaris	
Ternium SA	
Non-food retailing	4.3%
Bed Bath & Beyond Inc	
Next Group plc	
Sports Direct International	
Financial services	3.2%
American Express	
Business to business services	2.0%
Randstad	
Other(s)	1.3%
Thermador Groupe	
Cash (€)	31.5%

Forex exposure as of June 30th, 2017

As a reminder, regarding Valeur Intrinsèque, the H class of shares is systematically hedged against nominal non-euro risk whereas the other classes (I and P) are subject to a partial hedging strategy (resulting in a hedge ratio usually comprised between 25% and 75%). Regarding Margin of Safety Fund, the exchange rate risk is subject to partial hedging against nominal non-dollar risk (resulting in a hedge ratio usually comprised between 25% and 75%).

For both funds, the hedging policies - be they systematic or partial - are generally only implemented for currency exposures greater than 10% of the portfolio.

Currency hedging

	Valeur Intrinsèque			Margin of Safety Fund	
	I Class	P Class	H Class	I Class	P Class
Reference currency	Euro		Euro	USD	
USD	97.9%		95.2%	-	
GBP	0.0%		0.0%	0.0%	
NOK	0.0%		98.5%	0.0%	
CAD	0.0%		0.0%	0.0%	
EUR	-		-	19.5%	

Apparent hedging ratios (I and P classes), of almost 100% for the US dollar and zero for the NOK are mainly due to the fact that the Scandinavian companies the funds have invested in, make most of their business in US dollars. As a result we have made the decision to hedge these investments as if they were denominated in US dollars. Adjusting for this, the US dollar versus Euro hedging ratio would be closer to 75%.

Notwithstanding the above discussion, regarding the H class, any greater-than-10% nominal currency exposure is systematically hedged back into the euro. For more details on the management of H class currency risk, please refer to the fund's prospectus.

Main transactions over the period

- Partial or complete disposal of positions: D/S Norden (Denmark), IBM (USA), Leucadia National Corp. (USA), Ternium SA (Luxembourg) et TGS-NOPEC Geophysical Co. (Norway).
- Newly built or reinforced positions: Diamond Offshore Drilling Inc. (USA), Fairfax Financial Holding Ltd (Canada), Markel Corp. (USA), Next Group (UK) et Rowan Companies plc (USA).
- The "cash" position was up at 31.5% of the portfolio as of June 30th, 2017, versus 27.1% at the end of 2016.

Annex: Performance since inception of Margin of Safety Fund and Valeur Intrinsèque

Total annual returns (in percentage)				Total annual returns (in percentage)			
	Margin of Safety Fund (P class)	MSCI World (USD) dividends reinvested	Difference		Valeur Intrinsèque (P class)	MSCI World (EUR) dividends reinvested	Difference
1998	2.5	21.0	(18.5)				
1999	42.0	24.9	17.1				
2000	15.1	(13.2)	28.3				
2001	5.7	(16.8)	22.5	2001	14.8	(14.9)	29.7
2002	(13.4)	(19.9)	6.5	2002	(22.1)	(32.0)	9.9
2003	43.8	33.1	10.7	2003	32.9	10.7	22.2
2004	23.9	14.7	9.2	2004	16.3	6.5	9.8
2005	5.3	9.5	(4.2)	2005	14.5	26.2	(11.7)
2006	20.9	20.1	0.8	2006	13.2	7.4	5.8
2007	(4.0)	9.0	(13.0)	2007	(11.3)	(1.7)	(9.6)
2008	(40.1)	(40.7)	0.6	2008	(38.1)	(37.6)	(0.5)
2009	69.9	30.0	39.9	2009	57.2	25.9	31.3
2010	16.2	11.8	4.4	2010	19.7	19.5	0.2
2011	(19.7)	(5.5)	(14.2)	2011	(17.4)	(2.4)	(15.0)
2012	20.8	15.8	5.0	2012	22.6	14.0	8.6
2013	31.2	26.7	4.5	2013	26.8	21.2	5.6
2014	(8.8)	4.9	(13.7)	2014	(3.1)	19.5	(22.6)
2015	(20.8)	(1.8)	(19.0)	2015	(16.6)	10.4	(27.0)
2016	29.8	7.5	22.3	2016	31.8	10.7	21.1
2017 (30.06)	0.2	10.7	(10.5)	2017 (30.06)	(3.5)	2.3	(5.8)
Cumulative performance	372.6%	182.8%		Cumulative performance	144.6%	72.0%	
Annualized performance	8.3%	5.5%		Annualized performance	5.7%	3.4%	

Fund's inception on February 2nd, 1998

Fund's inception on June 6th, 2001

The performance of the other classes of shares is available on our website www.pastel.fr.

Pastel & Associés

Pastel & Associés is an independent asset manager which, since its inception in 1997, has implemented a “value” investing process, based on the concepts of intrinsic value, margin of safety and independent investment research. The objective of our investment process is twofold: to reduce the risk that our funds suffer a permanent loss of value, and to generate for each of our funds a satisfactory long term rate of return per share*.

The two investment funds (UCITS) managed by the company, Valeur Intrinsèque (established in France and started in 2001) and Margin of Safety Fund (established in Luxembourg and started in 1998) are invested primarily in shares of companies listed on the stock exchanges of OECD countries. But if the manager considers that reasonably priced investment opportunities have become too scarce, the investment portfolio may be allocated, to a significant extent, to fixed income and monetary assets.

The investment process implemented by Pastel & Associés is detailed in “Our investment principles” which is available on the company’s website www.pastel.fr under the heading “Philosophy”.

Any decision to subscribe to any of these funds should be based on a thorough analysis of the funds’ prospectus and KIID, which are available on the company’s website under the heading “Funds”.

* The investment time horizon of the funds Valeur Intrinsèque and Margin of Safety Fund is 5 years or longer and the risk of permanent loss of capital is significant.

Investor Relations

The investment partnership that Pastel & Associés is looking to build with its investors is described in the document “Investor’s manual”, which is available on the company’s website.

Pastel & Associés is not in the investment advisory business. Therefore, it is up to each investor, or his own representative and/or advisor, to decide whether and to what extent he is ready to invest in the funds managed by Pastel & Associés. However, Pastel & Associés will be pleased to provide any explanation or assistance with regard to the documents published on the company’s website.

In order to follow up with their investment, unitholders can use three types of documents that are published and made available on the company’s website: a quarterly report, a biannual report and an annual review, the latter being designed in the spirit of the annual report of a public company. In order to preserve the equal treatment of all its funds’ investors, the company does not provide any other additional information.

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