

Half-year report

June 30th, 2016

PASTEL & ASSOCIÉS

SOCIÉTÉ DE GESTION DE PORTEFEUILLE

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"There are two classes of forecasters: those who don't know, and those who don't know they don't know"

- John Kenneth Galbraith -

Dear Investor,

Our two funds' half-year performance (respectively more than 10% and 9%) was not only positive but also significantly better than major indices'. Does it herald a new era of outperformance after a long stretch of close to two years of below-average results or will this rebound be soon cut short? Only the future knows the answer to this question. For our part, the current portfolio make-up as well as the investment methodology that we apply in managing our funds, remain the two main factors underlying our optimism with regard to the years to come. Whatever the temporary setbacks that our funds' NAVs may, or may not, go through in the meantime.

The make-up of the portfolio*, its breakdown by geography and industry as well as additional information about its currency exposure and the main trades that took place during the first half of 2016 have been provided in the pages hereafter.

As we were compiling this report, the result of the British referendum on exiting the EU was on everybody's mind. Financial markets, in particular, have taken the issue to heart, leading many pundits to declare some asset classes such as British equities and real estate as off limit to prudent investors, the referendum's result making them too "risky".

However, had the "Remain" vote won, would the future have become less risky? Doesn't the future always carry risks, some of which will materialize while others simply won't? Most often it is only in hindsight that we fully understand what dangers the future, after morphing into the past, was holding. And the years to come will surely bring their own share of surprises, as it would have also been the case if the pro-Europeans had won the referendum.

It will probably take a long time for the consequences of the Brexit vote of June 23rd to fully materialize, if indeed the United Kingdom was to actually leave the EU (considering the past referenda on the European construction, one can justifiably wonder). Anyway, its impact on companies' profitability will be significant, especially for British ones. However, it will be hard to single it out from the impact of other phenomena not directly linked to the Brexit issue, may they be of a political, macroeconomic or microeconomic nature. Many British firms might have to rethink their business model - which some might fail to accomplish - whereas others should continue to thrive. In sum, it is too early to assume, despite the dire predictions of the "usual suspects", be they investment banks' strategists or TV shows' business "experts", that the vote of June 23rd will be the start of a deep and enduring crisis for the British economy.

In this environment, we could increase, maybe significantly, the share of the portfolio invested on the London Stock Exchange, depending on the bargains that Mr Market could offer us in the coming weeks or months. At the time we write these lines, the "sales" period that seemed to have started on June 24th has come to a quick stop. Will it be re-instated soon?

* Margin of Safety Fund being a feeder fund to Valeur Intrinsèque, only data related to the master fund Valeur Intrinsèque are presented in this document.

To conclude this letter, and to illustrate the way we work and analyze our investments, we have drafted a “post-mortem” table of the investments we made over the past two years in the mining sector (see following table). Why “post-mortem”? Not that the companies we had selected have suddenly gone bust, but because we sold all our positions in this industry during the spring. What triggered that decision was the sudden and very strong increase of the share prices of most mining companies during the first half of 2016. Some of the mining stocks in our portfolio have seen their price more than double over a few months, leading us to hold them for a much shorter time than we are used to. Especially as the financial health of some of these companies had worsened over the past months, or as our opinion on them had shifted. Knowledge is an ongoing process and we understand this sector much better today than we did two years ago.

Our first assessment about this “foray” in the mining industry is mixed, but at the very least below our expectations. The return on capital wasn’t good enough, given our profit objectives and the time and energy we put into the study and follow-up of these investments. Nevertheless, these investments have contributed in a positive way to the portfolio’s performance, and we never “bet the house” as the maximum amount invested in buying these stocks has always remained below 10% of the total portfolio’s value. We will probably revisit this issue in our annual management report, and will be available to discuss it with you during our “Cercle Investisseurs 2017”.

Wishing the following pages will answer the questions you might have,

Yours faithfully,

David Pastel

Summary table of our investments in the mining sector

Company	Average cost per share (ACS)	ACS / First acquisition price*	Lowest share price during the investment	Average selling price	Gain or loss realized	Gain or loss realized / Total gross investment	Date of entry	Exit date	Discount / Restated net asset value at entry	Discount / Restated net asset value at exit
Anglo American	3.5	90.90%	2.2	4.89	1 371 073	39.60%	11/2015	04/2016	-52%	0%
Glencore	0.8	96.40%	0.71	1.51	1 999 861	88.50%	12/2015	04/2016	-50%	-2%
South32	0.87	92.60%	0.425	0.68	-1 035 650	-21.60%	06/2015	05/2016	-27%	-24%
Lonmin**					-642 855	-19.40%	07/2015	04/2016	-72%	-80%
Total					1 692 429	12.20%				

The figures are in GBP, except for the percentages. The performance numbers are computed at constant exchange rates. The impact of currency fluctuations on the performances in euro would have been minimal, as the stocks referenced above had all been sold prior to the Brexit referendum.

* The first acquisition price corresponds to the cost per share of our first purchase.

** Regarding Lonmin, an investment program in multiple steps made some computations quite irrelevant. Hence the missing figures.

Investment portfolio of Valeur Intrinsèque* as of June 30th, 2016

Currency	Company	Average cost per share (in currency)	Market price per share (in currency)	% Gains or losses (in currency)	Market value (in euros)	Gains or losses (in euros) (1)	% Gains or losses (in euros) (2)	% NAV (3)	
EUR	ArcelorMittal	5.55**	4.091	-26.2%	7 022 504	-2 497 393	-26.2%	4.8%	
	Randstad	37.13	36.155	-2.6%	2 169 300	-58 700	-2.6%	1.5%	
	Salzgitter AG	22.87	23.685	3.6%	3 112 967	107 287	3.6%	2.1%	
	Thermador Groupe	72.31	78.00	7.9%	1 785 966	130 398	7.9%	1.2%	
	Vallourec SA	3.04**	3.214	5.7%	3 026 302	164 382	5.7%	2.1%	
					17 117 040	-2 181 150	-11.7%	11.6%	
GBP	Next Group Plc	43.73	49.3	12.7%	1 061 518	103 274	10.8%	0.7%	
					1 061 518	103 274	10.8%	0.7%	
DKK	D/S Norden	161.57	93.1	-42.4%	10 829 886	-7 937 036	-42.3%	7.4%	
					10 829 886	-7 937 036	-42.3%	7.4%	
NOK	Subsea 7	68.23	81.3	19.2%	9 067 210	1 026 314	12.8%	6.2%	
	TGS-NOPEC Geophysical	140.49	136.2	-3.1%	3 228 956	-419 781	-11.5%	2.2%	
					12 296 165	606 533	5.2%	8.4%	
USD	American Express	69.16	60.76	-12.1%	3 675 298	-408 773	-10.0%	2.5%	
	America's Car-Mart	37.43	28.24	-24.6%	3 656 901	-287 023	-7.3%	2.5%	
	Bed Bath & Beyond Inc	61.29	43.22	-29.5%	2 244 740	-324 347	-12.6%	1.5%	
	Cummins	118.54	112.44	-5.1%	5 667 798	519 361	10.1%	3.9%	
	Deere & Company	86.13	81.04	-5.9%	10 828 919	966 786	9.8%	7.4%	
	Diamond Offshore Drilling Inc	26.41	24.33	-7.9%	6 988 784	-398 433	-5.4%	4.8%	
	Goldman Sachs Group	151.00	148.58	-1.6%	1 203 673	-43 059	-3.5%	0.8%	
	International Business Machines	154.39	151.78	-1.7%	6 011 360	81 542	1.4%	4.1%	
	Leucadia National Corp.	24.79	17.33	-30.1%	10 886 522	-2 457 516	-18.4%	7.4%	
	Posco	39.66	44.5	12.2%	3 019 928	325 361	12.1%	2.1%	
	Rowan Companies plc	18.99	17.66	-7.0%	5 906 749	-190 241	-3.1%	4.0%	
	Tenaris	27.69	28.84	4.2%	3 102 192	12 379	0.4%	2.1%	
	Ternium SA	14.45	19.06	31.9%	7 154 890	1 789 437	33.4%	4.9%	
	Transocean	16.29	11.89	-27.0%	5 335 072	-1 967 670	-26.9%	3.6%	
				75 682 826	-2 382 196	-3.1%	51.5%		
					Equities	117 015 388	-11 735 499	-9.1%	79.6%
					Cash	30 061 008		20.4%	
					Net asset value	147 076 396		100.0%	

(1) Gains or losses in euros. Gains or losses in euros include the impact of currency fluctuations.

(2) Gains or losses in percentage. Gains or losses in percentage include the impact of currency fluctuations.

(3) Percentage of Net Asset Value

* Margin of Safety Fund being a feeder fund to Valeur Intrinsèque, only data related to the master fund Valeur Intrinsèque are presented in this document.

** Regarding the average cost per share for ArcelorMittal and Vallourec, you may find additional information in section "Major operations over the period"

Portfolio structure as of June 30th, 2016

Sectors	Distribution
Oil and gas services	20.8%
Diamond Offshore Drilling Inc	
Rowan Companies Plc	
Subsea 7	
TGS-NOPEC Geophysical	
Transocean	
Heavy industry	18.0%
ArcelorMittal	
Posco	
Salzgitter AG	
Tenaris	
Ternium SA	
Vallourec SA	
Capital goods	11.2%
Cummins	
Deere & Company	
Holdings	7.4%
Leucadia National Corp.	
Transportation	7.4%
D/S Norden	
Business to business services	5.6%
International Business Machines	
Randstad	
Non-food retailing	4.7%
America's Car-Mart	
Bed Bath & Beyond Inc	
Next Group plc	
Financial services	3.3%
American Express	
Goldman Sachs Group	
Other (s)	1.2%
Thermador Groupe	
Cash (€)	20.4%

Exchange rate risk exposure

As a reminder, regarding Valeur Intrinsèque, H class is systematically hedged against nominal non-euro risk whereas the other class (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 a partial hedging against nominal non-dollar risk (resulting in a hedge ratio usually comprised between 25% and 75%).

Exchange rate risk hedging

	Valeur Intrinsèque			Margin of Safety Fund	
	I Class ⁽¹⁾	P Class ⁽¹⁾	H Class ⁽²⁾	I Class ⁽³⁾	P Class ⁽³⁾
Reference currency	Euro			USD	
USD	96.5%		96.3%	0.0%	
GBP	78.0%		95.9%	77.6%	
DKK*	0.0%		94.9%	0.0%	
NOK*	0.0%		93.2%	0.0%	
EUR	0.0%		0.0%	18.7%	

(1) I and P shares of Valeur Intrinsèque fund are partially hedged against nominal non-euro risk

(2) H share of Valeur Intrinsèque fund is systematically hedged against nominal non-euro risk

(3) I and P shares of the Sicav Margin of Safety Fund are partially hedged against nominal non-dollar risk

* Apparent hedging ratios (I and P shares), of almost 100% for the US dollar and zero for the DKK and NOK are mainly due to fact that the Scandinavian companies the funds have invested in, make most of their business in US dollar. As a result we have made the decision to hedge their shares as if they were denominated in US dollar. Adjusting for this, the US dollar versus Euro hedging ratio would get closer to 75%. In the case of the H shares, the hedging policy being by definition systematic, such consideration were not taken into account.

Margin of Safety Fund's asset distribution

Margin of Safety Fund's underlying investment portfolio has been managed according to the same value-oriented investment methodology since the fund's inception on February 2nd, 1998. Since March 26th, 2013, the fund has been a feeder fund to Valeur Intrinsèque, a French UCITS, which has also been managed according to the methodology applied by Pastel & Associés.

Margin of Safety Fund Sicav's shares are denominated in US dollar and are subject to a partial hedging strategy through non US dollar forward selling.

Major operations over the period

During the first half, investments were made in either new positions or added to existing ones, such as D/S Norden, Goldman Sachs, Next Group plc, Randstad, Subsea 7 and TGS-NOPEC.

At the same time, a number of positions were entirely or partially disposed of, such as Anglo American plc, ArcelorMittal, Glencore, IBM, Lonmin plc, Posco, Rolls-Royce Holdings, Salzgitter and South32.

As a result of these transactions, the equity portion of the portfolio represented, as of June 30th, 79.6% of the net asset value.

Specific trades following the rights issues of ArcelorMittal and Vallourec: in both cases we have sold part of the subscription rights that were issued to us, in order to maintain the weight of these two positions in the portfolio following the capital increase.

When taking into account the sale of those rights, the “economic” average cost per share for the ArcelorMittal line is close to €5.15, compared to an “accounting” average cost per share of €5.55.

Concerning Vallourec, we have also benefited from a temporary mispricing of the share price versus the exercise price of the rights as a result of the scarcity of shares made available for lending by the existing shareholders. Thus, we have sold the entire cash position while buying the corresponding amount of rights. Hence while the “accounting” average cost per share is €3.04, corresponding to the purchase and exercising price of the rights, the “economic” average cost per share for the Vallourec line is close to €6.45.

Appendix: Investment performances of Margin of Safety Fund and Valeur Intrinsèque Fund

	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**	9.2	(2.1)	11.3	2016**	10.1	(1.6)	11.7
CAR***	7.8%	4.7%		CAR***	5.1%	2.7%	
Cumulative performance	296.9%	132.7%		Cumulative performance	111.8%	49.4%	

* Fund's inception on February 2nd, 1998

** June 24th, 2016

*** Compound Annual Returns since inception

* Fund's inception on June 6th, 2001

** June 30th, 2016

*** Compound Annual Returns since inception

The performances of I and H shares are available on our website www.pastel.fr.

PASTEL & ASSOCIÉS

SOCIÉTÉ DE GESTION DE PORTEFEUILLE

17, rue de Miromesnil 75008 Paris - France
33 (0)1 58 36 24 00 - www.pastel.fr
Agrément AMF GP 97-108