9TH ANNUAL NEW YORK VALUE INVESTING CONGRESS

September 16, 2013 • New York, NY

Severely Undervalued Stocks in an Unappealing Market
Christopher Mittleman, Mittleman Brothers

www.ValueInvestingCongress.com
Severely Undervalued Stocks in an Unappealing Market
Mittleman Investment Management, LLC (“MIM”) is an SEC-registered investment advisor serving private clients and institutions on a discretionary basis

**Experienced Team**

- Six senior team members have 100 years of collective experience in investment and business management roles

**Track Record of Superior Performance**

- MIM’s composite has produced a compounded annual growth rate (CAGR) of 22.1% (net of fees), vs. 8.1% for the S&P 500 TR Index and 10.8% for the Russell 2000 TR Index (12/31/02 through 6/30/13)
- Performance since inception ranks in the top 1% of PSN’s Global Equity Universe

**Objective**

- Pursue superior returns through concentrated, long-term investments in what we deem to be significantly undervalued securities
- Invest in 10 to 20 global investment opportunities, unrestricted as to market capitalization

**Investment Strategy and Approach**

- Identify and invest in proven franchises with durable economic advantages, management with an owner mentality, sustained free cash flow generation, trading at a compelling valuation
- “Have opinions at extremes, and wait for extreme moments.” – Joe Rosenberg, Loews Corp.

**Alignment of Interests**

- Partners have majority of liquid net worth invested in the firm and the underlying portfolio holdings

NOTE: Past performance is no guarantee of future results. Performance results are presented net of fees and include the reinvestment of all income. Please refer to the important disclosures on the final pages of this presentation.
**MIM employs a private equity mentality towards public equity investments.**

- Identify undervalued businesses with sustainable free cash flow and high barriers to entry
- Apply long-term, low turnover, risk averse investment approach
- Manage portfolio of 10-20 core positions
MIM Composite Performance

Annualized Performance through June 30, 2013

- MIM (Net of fees)
- S&P 500 TR Index
- Russell 2000 TR Index

Cumulative Performance through June 30, 2013

- MIM (Net of fees)
- S&P 500 TR Index
- Russell 2000 TR Index

NOTE: Past performance is no guarantee of future results. Performance results are presented net of fees and include the reinvestment of all income. Please refer to the important disclosures on the final pages of this presentation.

Lipper MarketPlace’s Best Money Manager ranking is a comprehensive survey of institutional money manager performance. To be eligible for recognition as a Lipper Best Money Manager, performance must be calculated on an asset size, which is at least $10 million in size for traditional US asset classes or $1 million for international and alternative investments. Classifications must fall into one of the categories that Lipper ranks (minimum of 20 contenders). All performance data must be calculated net of all fees.
Revlon (Ticker: REV): $19.15

Carmike Cinemas (Ticker: CKEC): $17.13

S&P 500: 1625.96

Note: May 7, 2013 closing prices
Investment Idea

TV AZTECA

TV Azteca SAB de CV (AZTECACP: MM)
Background

- 2nd largest Spanish language TV programming producer in the world (Grupo Televisa is #1), and 2nd largest TV broadcasting company in Mexico with a 32% market share, vs. 68% for Televisa.

- Formerly state-owned, privatized in 1993 when group controlled by chairman Ricardo Salinas Pliego (now 4th richest man in Mexico, $10 bil. net worth) won privatization auction with $645 mil. bid. Controlling shareholders (mainly Salinas Pliego) own 65% of stock, with 35% in public float.

- 2012 results: $956 mil. in sales, $341 mil. in EBITDA, 36% EBITDA margin.

- Balance sheet: $334 mil. net debt (1x EBITDA)

- Stock trades in Mexico, symbol: AZTECACP MM on Bloomberg, MXN 6.95 ($0.53) on 09/06/13
  2.984 bil. CPOs outstanding (each CPO= 1 Series A voting share, 1 Series D-A share, 1 Series D-L share).
  Non-Mexican shareholders have no voting rights. Dividend yield = 0.68%. Market cap. = $1.6 bil.

- Owns 100% of Azteca America, the 6th largest Spanish language TV network in the U.S., which began operations in 2001 and through affiliated stations now reaches 89% of Hispanic households in the U.S.
  - Anchored by 25% ownership of KAZA in L.A. (acquired for $36 mil. in 2007)
  - Azteca America in 2012: $75 million sales, $28 mil. EBITDA, 37% EBITDA margin (8% of TV Azteca’s total sales, 8% of total EBITDA)
**Positives**

- Durability of franchise proven over 20 years of operations. Maintaining roughly 30% market share versus Grupo Televisa’s 70% throughout most of that time period, despite Televisa’s massive scale.

- High barriers to entry due to transmission and production infrastructure and talent lock-up.

- Unusually resilient in the face of macro-economic headwinds.
  - 2009: Mexico’s real GDP drops -6.5%. Azteca’s sales +1.6%, EBITDA +6%
  - 2009: USA’s real GDP drops -2.6%. CBS’ sales down -6.7%

- Since 2011 Azteca building nationwide fiber-optic network in Colombia, 60% complete now, with the Colombian government fronting the $235 million cost to build it. This should be a significant new business line (wholesale video, voice, data carrier) when it comes fully online in 2014.
  - Azteca expects fiber ops to boost sales by 2% ($20 mil.) in first year, at 50% EBITDA margin.
Positives: Advertising in Mexico

- TV advertising is 58% of total advertising market in Mexico. But overall advertising has long been suppressed by a lack of competition in the Mexican economy in general (see chart below).

- Huge potential for improvement there as President Pena Nieto seems to be making good on his promise to increase competition and allow more foreign investment.

- Reforms now addressing unfinished business of early 1990s privatizations, should lead to better GDP growth, with more advertising from increased competition in telecom, banking, and other industries.

![Figure 7: Ad Revenues relative to GDP, 2011](chart.png)

Source: Zenith Ad Spend report and J.P. Morgan.
Negatives

- TV Azteca in Mexico, and Azteca America in US, both having horrible 2013 YTD versus competition.
  - TV Azteca Q2 2013 ad sales -6%, vs. Televisa ad sales +6.2%
  - Azteca America Q2 2013 ad sales -18%, vs. Univision & UniMas (Televisa affiliates) +11.4%.

- Poor programming to blame. Potentially worst ratings set-back since 1998-1999 when TV Azteca saw -19% sales drop (audience share lost then recovered by Q4 2000).

- TV Azteca will face new competition in Mexico, as two new TV networks will be created by auction in 2014, with Carlos Slim Helú, the 2\textsuperscript{nd} richest man in the world, expected to be bidding. Will drive up critical sports programming costs when those rights come up for renewal in 5 to 8 years.

- Elevated cap-ex until 2015 to meet mandatory conversion to digital transmission. TV Azteca will spend $150 mil. (mostly on digital transmission equipment) over next three years.

- Ricardo Salinas Pliego paid $7.5 mil. to the SEC in 2006 and withdrew TV Azteca’s NYSE listing in settlement of SEC charges that he and Azteca didn’t disclose related nature of transaction in which Salinas Pliego bought discounted bonds of Unefon, an Azteca sub at the time, through Codisco LLC of which he secretly owned half, and personally profited by $109 mil. when bonds were paid off at par.
Addressing the Negatives

- TV Azteca recent weakness in Mexico appears due to poor results from their telenovelas (soap operas).
  - Company re-hired producer Elisa Salinas (47 year-old aunt of TV Azteca chairman Salinas Pliego) in 2011 to re-assume role of Director of Azteca Novelas, a position she held over 10 years ago with a good track record of many successful shows. She is also a significant shareholder in TV Azteca.
  - Audience share lost during 1998-1999 (-19% sales drop) was quickly recouped (by Q4 2000). Programming changes can have dramatic results (in either direction).
  - Competition from two new entrants beginning in 2014 will be gradual as infrastructure build out will take time, not just money. Won’t affect FIFA World Cup in June/July of 2014.

- Azteca America’s problems appear more dire, but still fixable.
  - Company is replacing morning schedule that was primarily infomercials with original shows. Hired new VP of Programming in May 2013, a 19-year veteran from Galavision and Univision.
  - Azteca America sold soccer broadcasting rights to ESPN in March, to maximize cash flow, but at high ratings cost to the fledgling network. Those rights will revert back to Azteca America in 2016.

- Salinas Pliego’s settlement with SEC in 2006 is disconcerting, but partially as a result, unlikely to recur.
**Valuation**

<table>
<thead>
<tr>
<th>Company</th>
<th>Current Price</th>
<th>Market Cap.</th>
<th>TEV/EBITDA</th>
<th>EBITDA Margin</th>
<th>P / FCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV Azteca (AZTECACP MM)</td>
<td>MXN 6.95 ($0.53)</td>
<td>$1.6 bil.</td>
<td>5.8 x</td>
<td>33%</td>
<td>11 x</td>
</tr>
<tr>
<td>Grupo Televisa (TV)</td>
<td>$ 27.11</td>
<td>$15.6 bil.</td>
<td>8.0 x</td>
<td>39%</td>
<td>18 x</td>
</tr>
<tr>
<td>Hemisphere Media (HMTV)</td>
<td>$11.63</td>
<td>$524 mil.</td>
<td>11.0 x</td>
<td>45%</td>
<td>19 x</td>
</tr>
<tr>
<td>Grupo Prisa (PRIS)</td>
<td>$ 0.99</td>
<td>$265 mil.</td>
<td>7.5 x</td>
<td>17 %</td>
<td>14 x</td>
</tr>
</tbody>
</table>

*Source: Bloomberg, prices as of Sept. 6, 2013, MXN/USD = 13.20*

- **We estimate fair value for TV Azteca at MXN 10.00 which is +44% from current price of MXN 6.95.**

- **Fair value estimate based on a TEV valuation of 8x EBITDA (MXN 4.16 bil. estimated for 2014) and a market capitalization to free cash flow multiple of 16x FCF (MXN 1.9 bil. estimated for 2014).**
CMIC Holdings Co., Ltd. (2309: JP)
**Background**

- Largest independent Contract Research Organization (CRO) in Japan, providing outsourced clinical research, sales, and manufacturing to pharmaceutical companies. CMIC pioneered Japan’s CRO industry in 1992. Facilities in Korea, China, Hong Kong, Taiwan, Singapore, Malaysia, Brazil and US.

- Founder, Chairman & CEO Kazuo Nakamura owns 40.4% of 18.2 mil. shares outstanding.

- 2012 results: $638 mil. in sales, $78 mil. in EBITDA, 12% EBITDA margin.

- Balance sheet: $27 mil. net debt (0.4 x EBITDA)

- Stock trades in Japan, symbol: 2309 JP on Bloomberg, JPY 1,343 ($13.56) on 09/06/13 18.2 mil. shares outstanding. Dividend yield = 2.60%. Market cap. = $245 mil.
**Positives**

- Owner/operator situation, founder & CEO owns 40% (stake worth $100 mil.), in business 21 years. Since 2000, sales grew from JPY 3.15 bil. to JPY 50.3 bil. in 2012, a CAGR of 26% over past 12 years.

- A recession resistant business. More than doubled sales and EBITDA from their 2007 levels to 2012, growing straight through the Great Recession and generating decent free cash flow along the way.

- Japanese pharmaceutical companies sales growing 4% over the past ten years, should continue given Japan’s aging society. R&D expenses growing 10% per year over past ten years.
  - Japanese pharma companies outsourcing at 30% rate now, vs. 50% in the U.S.
  - CMIC is well positioned to continue capturing significant share of that secular growth.

- Significant scale in Japan (3rd largest pharmaceuticals market after US and Europe):
  - Quintiles Transnational (Japan ops) 2012 sales: $400 mil. (estimated)
Negatives

- Larger multi-national CRO companies like Quintiles (Q) and Parexel (PRXL) are taking market share from smaller regional players as big pharma consolidating spending on larger preferred vendors.

- Both CMIC and EPS Corp. in Japan reported quarter ended June 30 results and 2013 guidance well below expectations, likely at least partially due to that adverse trend mentioned above.

- From CMIC’s Aug. 1, 2013 press release:

  “Our consolidated financial position... shows consistent growth in the CRO business and both Net Sales and Operating income have exceeded the initial forecasts; however, as we enter the second half of the year, there is a reduction in consignment production from existing customers in the CMO business, as well as a delay in the start of production for a new consignment due to a client’s business condition that had not been anticipated at the beginning of the fiscal year. In the CSO business, as a result of a slower than expected economic recovery and intensified competition within the contract MR market and consignment areas new orders have been difficult to realize.”

- Risk of Japanese Yen declining further.
Addressing the Negatives

- Overall market growth for CRO/SMO, CMO, and CSO in Japan and Asia should be great enough that even smaller regional players like CMIC can continue growing despite market shift to largest players.

- Market likely overreacting to bad quarter / bad year for 2013. 21-year track record of excellent growth should not be dismissed because of one year of set-back. Much of the excess returns we’ve generated over the years has come from taking advantage of precisely such overreactions to short-term data.

- Trying to gauge where any freely trading currency might be valued against the USD over the next few years is much harder than the fair value appraisals we do on stocks, so we don’t have a strong opinion on JPY/USD at 99.04 currently. But given the well-known and unresolved imbalances facing Japan’s overall financial position, reasons that the Yen might weaken further seem numerous, so hedging that risk might make sense for some US investors.
Aug. 1, 2013 - CMIC reports big quarterly miss, lowers 2013 guidance, stock drops 17% on Aug. 2, 2013:

<table>
<thead>
<tr>
<th></th>
<th>FY2012</th>
<th>Previous Forecast</th>
<th>Revised Forecast</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>50,303</td>
<td>53,200</td>
<td>51,000</td>
<td>+1.4%</td>
</tr>
<tr>
<td>Operating Income</td>
<td>3,918</td>
<td>4,300</td>
<td>3,800</td>
<td>△3.0%</td>
</tr>
<tr>
<td>Ordinary Income</td>
<td>3,835</td>
<td>4,200</td>
<td>3,600</td>
<td>△6.1%</td>
</tr>
<tr>
<td>Net Income</td>
<td>2,241</td>
<td>2,300</td>
<td>1,600</td>
<td>△28.6%</td>
</tr>
</tbody>
</table>
### Forecast for FY2013
(Sales by Business Segment)

(Millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>FY2012</th>
<th>Previous Forecast</th>
<th>FY2013</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRO Business</td>
<td>18,954</td>
<td>20,500</td>
<td>21,500</td>
<td>+13.4 %</td>
</tr>
<tr>
<td>CMO Business</td>
<td>17,230</td>
<td>17,300</td>
<td>15,800</td>
<td>△8.3 %</td>
</tr>
<tr>
<td>CSO Business</td>
<td>6,144</td>
<td>6,300</td>
<td>5,200</td>
<td>△15.4 %</td>
</tr>
<tr>
<td>Healthcare Business</td>
<td>8,526</td>
<td>9,500</td>
<td>9,000</td>
<td>+5.6 %</td>
</tr>
<tr>
<td>IPD Business</td>
<td>71</td>
<td>300</td>
<td>300</td>
<td>+318.5 %</td>
</tr>
<tr>
<td>Less inter-segment sales</td>
<td>△623</td>
<td>△700</td>
<td>△800</td>
<td>–</td>
</tr>
<tr>
<td>Consolidated</td>
<td>50,303</td>
<td>53,200</td>
<td>51,000</td>
<td>+1.4 %</td>
</tr>
</tbody>
</table>

Source: CMIC Holdings., Ltd.
Market Size

Domestic Market for CRO/SMO and Sales (includes Overseas)

Market Environment
- Increase in outsourcing rate (outsourcing rate of Japan domestic pharmaceutical companies is 30%; an increase in foreign subsidiaries)
- From large drugs to the unmet area
- Furtherance of globalization
- Penetration of information technology
- Rapid increase in demand for generics and PMS
- Growth of the SMO market is on a plateau

Competition Environment
- Concentration to leading CROs/SMOs and reorganization
- Competition/partnership with overseas CROs

Share
- FY2012: 17%
- FY2016: 20-22%

Source: CMIC Holdings Co., Ltd.
Market Size

Japanese Market of the CSO and Sales

Market Size

[Diagram showing market size with 450 million yen (FY2012) and 600 million yen (FY2016)]

Sales

- FY2012: 52
- FY2016: 100

Expansion of Existing Businesses

Growth by New Measures

Market Environment

- Increase in outsourcing of MRs (5%⇒10% in Japan)
  cf. 10% for USA, 25% for EU
- Increase in the need for specialist MRs for fields such as cancer
- Increase in the need for academic MRs with specialist knowledge

Competition Environment

- The top company in the industry accounts for about 50% share.
- Competition for the second position is becoming active.
- Newcomer companies are on the rise.

Share

- FY2012: No. 3 in the industry
- FY2016: No. 2 in the industry

Source: CMIC Holdings., Ltd.
**Business Model**

Toward a Business Innovator (PVC Model)

Toward Further Growth with Innovative Approaches to Technology, Process, and Business Model

Source: CMIC Holdings., Ltd.
Business Model

Business Areas of CMIC Group

CSO
Contract Sales Organization

CMO
Contract Manufacturing Organization

CRO
Contract Research Organization

PVC Model
Become a strategic partner to client companies by putting to use the know-how and experience gained through each business

Healthcare
Services for medical institutes, patients and general consumers

IPD
Intellectual Property Development

Source: CMIC Holdings, Ltd.
Facility Locations

CMIC Group Global Deployment

Overseas: 7
(Plants: 2)

Domestic: 38
(Plants: 2)
(Labs: 6)

Source: CMIC Holdings., Ltd.
### Valuation

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<tbody>
<tr>
<td>CMIC Holdings Co., Ltd. (2309:JP)</td>
<td>JPY 1,343 ($13.56)</td>
<td>$245 mil.</td>
<td>4.5 x</td>
<td>11%</td>
<td>8 x</td>
</tr>
<tr>
<td>EPS Corp. (4282 JP)</td>
<td>JPY 91,900</td>
<td>$336 mil.</td>
<td>6.5 x</td>
<td>11%</td>
<td>13 x</td>
</tr>
<tr>
<td>Quintiles Transnational (Q)</td>
<td>$ 42.82</td>
<td>$5.52 bil.</td>
<td>11.5 x</td>
<td>16%</td>
<td>17 x</td>
</tr>
</tbody>
</table>

Source: Bloomberg, prices as of Sept. 6, 2013, JPY/USD = 99.04

- Other large CRO companies TEV/EBITDA: CVD trading at 11x, PRXL at 10x, CRL at 10x, ICLR at 10.7x, and WX at 9.3x.
- Recent takeovers of CRO companies: PPDI at 11.3x in Dec. 2011, KNDL at 13.7x in July 2011

- **We estimate fair value for CMIC Holdings Co. is JPY 2,500 which is +86% from current price of JPY 1,343**

- **Fair value estimate based on a TEV valuation of 8x EBITDA (JPY 6 bil. estimated for 2014) and a market capitalization to free cash flow multiple of 15x FCF (JPY 3 bil. estimated for 2014).**
Questions?
### Mittleman Investment Management Composite

#### ANNUAL DISCLOSURE PRESENTATION

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</thead>
<tbody>
<tr>
<td>2013 (6/30)</td>
<td>220</td>
<td>211</td>
<td>0%</td>
<td>368</td>
<td>24.55%</td>
<td>23.60%</td>
<td>13.82%</td>
<td>15.86%</td>
<td>-</td>
<td>25.00%</td>
<td>13.38%</td>
<td>18.34%</td>
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<tr>
<td>2012</td>
<td>134</td>
<td>123</td>
<td>0%</td>
<td>302</td>
<td>51.34%</td>
<td>49.06%</td>
<td>16.00%</td>
<td>16.35%</td>
<td>4.62%</td>
<td>27.64%</td>
<td>15.09%</td>
<td>20.20%</td>
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<tr>
<td>2011</td>
<td>66</td>
<td>66</td>
<td>0%</td>
<td>217</td>
<td>2.08%</td>
<td>0.54%</td>
<td>2.11%</td>
<td>(4.18)%</td>
<td>2.15%</td>
<td>41.19%</td>
<td>18.71%</td>
<td>24.99%</td>
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<tr>
<td>2010</td>
<td>56</td>
<td>55</td>
<td>0%</td>
<td>179</td>
<td>66.35%</td>
<td>63.99%</td>
<td>15.06%</td>
<td>26.85%</td>
<td>8.68%</td>
<td>49.77%</td>
<td>21.85%</td>
<td>27.69%</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>35</td>
<td>34</td>
<td>&lt;1%</td>
<td>163</td>
<td>154.28%</td>
<td>150.86%</td>
<td>26.46%</td>
<td>27.17%</td>
<td>26.93%</td>
<td>46.24%</td>
<td>19.63%</td>
<td>24.83%</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>15</td>
<td>14</td>
<td>&lt;1%</td>
<td>172</td>
<td>(63.63%)</td>
<td>(64.26%)</td>
<td>(37.00%)</td>
<td>(33.79%)</td>
<td>5.36%</td>
<td>28.70%</td>
<td>15.08%</td>
<td>19.85%</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>48</td>
<td>47</td>
<td>&lt;1%</td>
<td>183</td>
<td>(3.64%)</td>
<td>(5.05%)</td>
<td>5.49%</td>
<td>(1.57%)</td>
<td>5.41%</td>
<td>12.14%</td>
<td>7.68%</td>
<td>13.16%</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>49</td>
<td>48</td>
<td>&lt;1%</td>
<td>161</td>
<td>17.44%</td>
<td>15.75%</td>
<td>15.79%</td>
<td>18.37%</td>
<td>5.64%</td>
<td>12.64%</td>
<td>6.82%</td>
<td>13.75%</td>
<td></td>
</tr>
<tr>
<td>2005*</td>
<td>-</td>
<td>36</td>
<td>31%</td>
<td>118</td>
<td>18.86%</td>
<td>17.89%</td>
<td>4.91%</td>
<td>4.55%</td>
<td>7.36%</td>
<td>17.60%</td>
<td>9.04%</td>
<td>15.08%</td>
<td></td>
</tr>
<tr>
<td>2004*</td>
<td>-</td>
<td>27</td>
<td>76%</td>
<td>92</td>
<td>26.86%</td>
<td>26.51%</td>
<td>10.88%</td>
<td>18.33%</td>
<td>14.72%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>2003*</td>
<td>-</td>
<td>17</td>
<td>84%</td>
<td>69</td>
<td>83.01%</td>
<td>82.63%</td>
<td>28.68%</td>
<td>47.25%</td>
<td>32.00%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

*Performance presented prior to January 2006 occurred while the Portfolio Manager was affiliated with a prior firm and the Portfolio Manager was the only individual responsible for selecting the securities to buy and sell. N/A - Information is not statistically meaningful due to an insufficient period of time.

### Mittleman Investment Management Composite

Mittleman Investment Management, LLC’s value-oriented strategy is to invest in a concentrated portfolio of primarily common stocks, unrestricted as to market capitalization, of both domestic and international companies which we deem to be significantly undervalued. The Composite was created in April 2008 and incepted on January 1, 2003.

Mittleman Investment Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Mittleman Investment Management, LLC has been independently verified for the periods January 1, 2006 through June 30, 2013. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Mittleman Investment Management composite has been examined for the periods January 1, 2006 through June 30, 2013. The verification and performance examination reports are available upon request.

Mittleman Investment Management, LLC is an SEC registered investment advisor. Results are based on all fully discretionary separate accounts under management, including those accounts no longer with the firm. The U.S. Dollar is the currency used to express performance. Withholding tax on dividends is treated as a reduction of the security’s dividend income for companies not domiciled in the U.S. Withholding tax on U.S. equities held by non-domestic accounts is treated as a cash withdrawal. Returns include the effect of foreign currency exchange rates. Composite performance is presented net of foreign withholding taxes on dividends, interest income, and capital gains. Withholding taxes may vary according to the investor’s domicile. Composite returns are presented gross and net of management fees and includes the reinvestment of all income. Net of fee performance was calculated using actual management fees.

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Non-fee paying accounts are included in this composite. Prior to January 1, 2006 some accounts did not pay a direct management fee as they paid for their management through higher commissions as the portfolios were managed while the portfolio manager was affiliated with a broker/dealer. Prior to 2005 monthly returns were calculated from statement dates that were not as of calendar month end; however, the year-end valuations are as of December 31. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Past performance is not indicative of future results. While not a significant part of the strategy some portfolios did go on margin. Margin is employed opportunistically, with leverage almost never exceeding 1.5 to 1.0 and only where suitable for the client’s risk tolerance parameters. Margin is generally employed only when extraordinary opportunities arise during a period in which the accounts may already be fully invested. MIM uses leverage on a transitory basis and does not maintain systematically leveraged accounts. The management fee schedule is an annual 1.5% fee, paid quarterly. Actual investment advisory fees incurred by clients may vary.

For comparison purposes only, the composite is presented against the S&P 500 Total Return Index. For additional information, the composite has also been compared to the Russell 2000 Total Return Index. The S&P 500 Total Return Index is an unmanaged index compiled by Standard and Poor’s. The Russell 2000 Total Return Index is an unmanaged index compiled by Russell Investments. Both indexes are weighted by market capitalization and their returns include the reinvestment of dividends. The indices do not account for transaction costs or other expenses which an investor might incur in attempting to obtain such returns. The S&P and Russell indices are taken from published sources and deemed reliable. Investments made by Mittleman Investment Management, LLC for its clients differ significantly in comparison to these (and any other) indexes in terms of security holdings, industry weightings, and asset allocations. Accordingly, investment results and volatility will differ from those of the benchmarks.

For more information or for a copy of the firm’s fully compliant presentation and the firm’s list of composite descriptions, please contact us at (516) 686-6200.