ODEY
ASSET MANAGEMENT

Odey International Fund
Fund Update | 31 August 2016

Total returns

At 31 August 2016	1 month %	3 months %	6 months %	1 year %	Inception % p.a. (Jul 2014)
Odey International Fund	-6.07	-6.54	-27.48	-32.99	-11.50
MSCI World Index Daily TR Net Local	0.42	3.18	1.90	6.37	4.44
Outperformance	**-6.49**	**-9.72**	**-29.38**	**-39.36**	**-15.94**

Monthly returns*

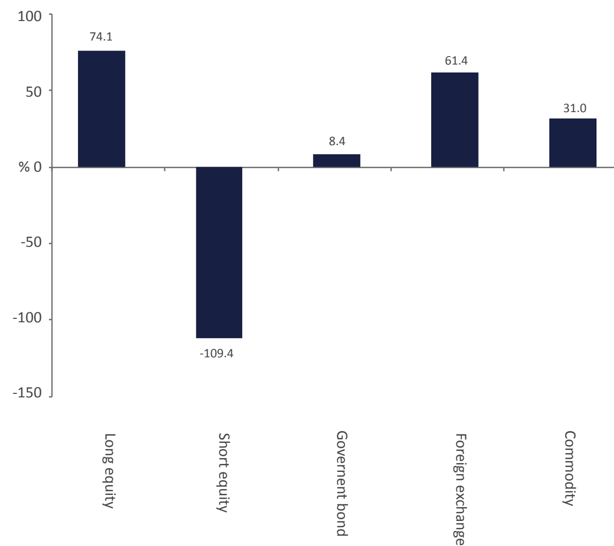
Year	Jan %	Feb %	Mar %	Apr %	May %	Jun %	Jul %	Aug %	Sep %	Oct %	Nov %	Dec %	YTD %	Idx YTD %
2016	4.99	-8.85	-18.42	-8.18	3.59	4.34	-4.64	-6.07					-30.60	3.82
2015	3.61	-6.53	3.78	-18.18	4.48	0.31	1.35	5.99	5.99	-12.18	-0.95	4.73	-10.60	2.08
2014								-0.08	10.51	-5.54	5.42	11.21	24.80	3.34

*Performance of the Odey International Fund since inception on 29 July 2014

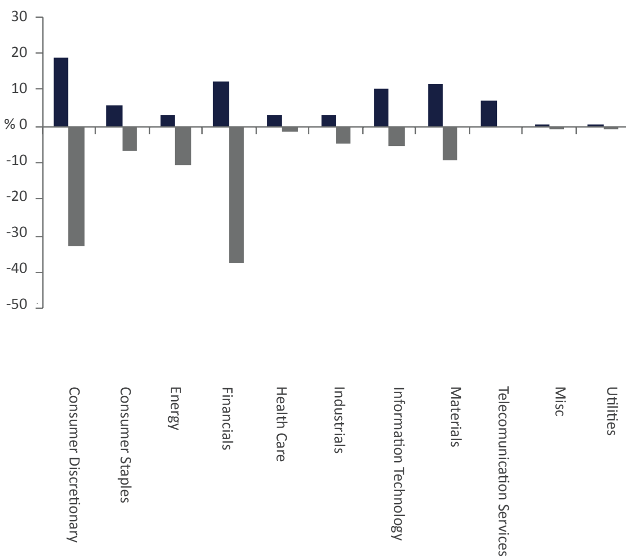
Top 10 holdings

Rank	Security	Strategy	Notional exposure (%)
1	ACGB 2 3/4 04/21/24	Long	30.4
2	JPN 10Y Bond(Ose) Sep16	Short	-24.8
3	Gold Bullion Securities	Long	10.2
4	Source Physical Gold P-ETC	Long	10.1
5	ACGB 3 1/4 04/21/25	Long	7.8
6	db Physical Gold ETC	Long	6.0
7	Tullow Oil	Short	-5.3
8	Long Gilt Future Dec16	Short	-5.0
9	Sky	Long	5.0
10	iShares Physical Gold ETC	Long	4.8

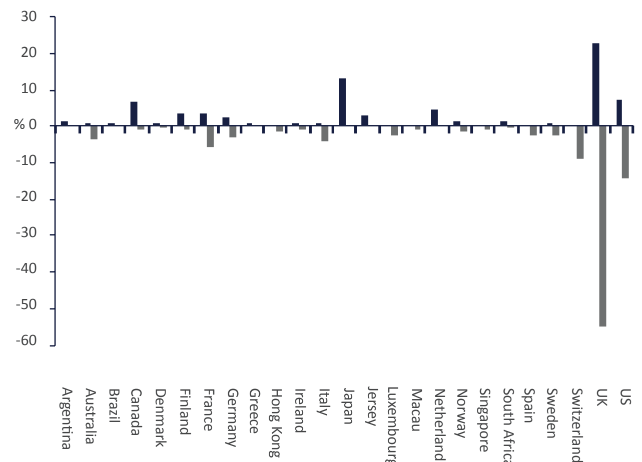
Asset allocation



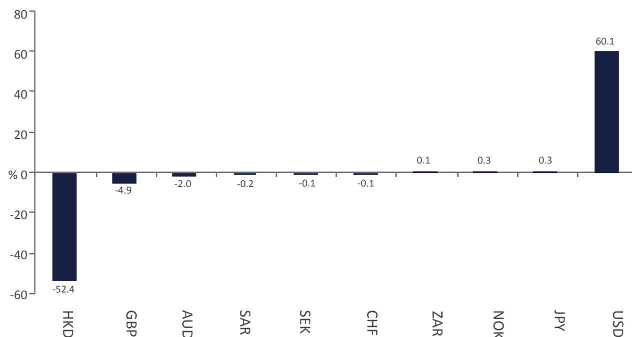
Allocation by industry



Allocation by country



Currency exposure



Performance review

- In August the Fund returned -6.07% against the MSCI World Index Daily TR Net Local return of +0.42%.
- Negative returns primarily came from our holdings in the Materials (-2.5%) and Financials (-1.0%) sectors as well as from Commodities (-0.9%).
- Individual best performers this month were long positions in Hunter Douglas (+0.4%) and Rohm (+0.4%), and a short position in Seadrill (+0.3%); the worst were long positions in Randgold Resources (-1.2%) and Kinross Gold Corporation (-1.0%), and a short position in Tullow Oil (-0.6%).

Manager's commentary

In the early 1970s, the trading system built on Bretton Woods started to crack. Thanks to the costs of the Vietnam War, the US started running a large current account deficit. Production, which had happily been running along at 3.5% per annum, fell to under 1% and the developed world's obsession then with full employment meant that wage increases of 6% suddenly became inflation of 6% per annum. By the late 1970s, many were predicting the death of capitalism. But just then steps forward Milton Friedman and a world dominated by free market determination of prices and we enter a new 30 years of growth. What cemented the new regime was that in the Anglo Saxon world at least, privatisation of credit was instituted at the same time. As individuals gained access to leverage in a world that was globalising, individuals became richer (thanks to asset price inflation) even if their incomes were constrained by growing international competition. However, by 2005, asset price inflation and the expansion of the balance sheet had created a world in which wage earners could no longer afford the asset prices. The reaction of the authorities since then has been to lower interest rates so as to support asset prices and intervene via QE where appropriate. However, none of these policies has been good for growth. Productivity in the west has now fallen to almost negative rates, investment has stalled and individuals have turned against globalisation. This is a long answer as to why Brexit was always likely to be popular in the UK. It also lies behind Trump's possible success later this year. Without productivity growth, capitalism becomes unpopular, globalisation becomes unpopular and politicians become unpopular.

The last couple of years have been all about the attempt, especially by central banks, to prevent the deflationary forces from taking hold. We have watched them go way beyond their mandate, but it's proving less and less effective in promoting growth. Increased credit growth with negative productivity only results in economies effectively eating their capital. Elsewhere, when you see the Bank of Japan buying 5% of the stock market with printed money, it seems strange that nationalisation has so quickly been reinstated after 'privatisations' were the mantra of the last 30 years. When will central banks realise that monetary policy which holds up asset prices while growth disappears actually exacerbates the divide between the haves, who own the assets, and the have-nots, who are losing their jobs?

It is always dangerous to fight the Fed and that is what we have been doing this year. World economic growth continues to disappoint despite the benefit of lower energy costs. Corporate earnings in most parts of the world have continued to fall and now the US is experiencing falling earnings. My thinking this year was that stock markets would follow earnings. What we did not expect was that markets would re-rate massively into an earnings downturn. Moreover, it still seems to be a re-rating which is not supported by hopes that earning will soon recover but only by the monetising undertaken by central banks. The quest for yield explains 100% of this year's performance. Quite apart from the pain that this policy is bringing to pension funds, insurance companies and banks, it has ensured individuals have been buyers of dividend streams that are not underwritten by earnings streams. There is nothing sustainable about the current status quo.

Already we have seen, since the crisis of '09, central banks expand cash in the system by around 700%, so that cash is now closer to 100% of GNP up from 13% of GNP, when things were normal. No one will ultimately trust Fiat money again, but the fact they have gone so far, means there is no way back for these guys. We saw that, in the UK, Carney's reaction to a Brexit result,

which immediately took 10% off the trade-weighted value of sterling and was the equivalent of a massive monetary expansion anyway, was to lower rates and increase QE. All assets responded to the 'bubble' machine. But next year will be a different one for the UK economy. The balance of payments could show a 10% current account deficit. Inflation could easily be 4%, or if not, real wages will take the equivalent hit. Investment uncertainty will take its toll. Fiat money may meet its nemesis then.

Since it is the central banks that are responsible for the bubbles, it is no surprise that the epi-centre of the bubbles lies in the sovereign bond markets. After all, $14 trillion of government bonds now have a negative yield up to 10 years. While world GNP stands at around $75 trillion, M2 now stands at close to $83 trillion, the stock markets are close to $75 trillion, bank lending somewhere in the $140 trillion range and government bonds at around $40 trillion. No one is spared.

The bulls on equities argue that sentiment remains negative even as stock markets hit new highs. However, we worry that earnings and prices are going in different directions. Take the UK equity market. Since 2011, the earnings for the FTSE 100 companies have fallen from 500 to 119 currently or nearly 80%, while the stock market has risen by around 10%. That would be okay if we were at the beginning of an up cycle but indications point to a peaking in demand for most production. This peaking is coinciding with new capacity coming on stream. No wonder sentiment is a little off-colour.

Investors are being driven to invest further and further from home. Keynes wrote in the 1930s that “people should travel, goods should travel but savings should never travel.” I never understood that remark until now. The developed world has always had a surplus of savings because, on the whole, capital is protected and labour is not. In the developing world they are always chronically short of capital because labour is protected and capital not. Sadly savings, thanks to QE, are going into a place where the odds of their survival are slim. Who is responsible for these irresponsible policies?

We think the Republican presidential candidate, Donald Trump, would do much better if he could only moderate some of his statements. He appeals to a lot of people, who have the feeling that in the past 30 years, their life has got much worse and they have not had any of the benefit of the glut of money. At the same time, the rich are doing better than ever. That is why Trump likes to criticise the Federal Reserve.

The result of the Brexit referendum was a vote against the political class. Politicians must respond to that. Theresa May's job will be a difficult one. Leaving the EU will drag on for years. During that time, Europe will change.

It would certainly be simpler to follow the market. But then we would be ignoring the fundamental data. At present, we are selling insurance shares. Interest rates can hardly go any lower. The credit cycle and with it, economic growth, will be more difficult and all asset classes are simply overvalued. At the same time, the insurance industry lacks capital and the financial regulators would like to see more of it. In the boom years, the dividends paid out were too high. At present, we would only pay 0.5 of book value for insurance companies. However, in reality, the book value is about 2.5. We are not very enthusiastic either about Swiss watchmaker Swatch, or video-on-demand operator, Netflix.

About Odey Asset Management

Odey Asset Management is a highly regarded London-based investment firm managing in excess of $9 billion for institutions, private banks and individual investors. Since inception, founder and Chief Investment Officer, Crispin Odey, has built a strong investment and research team which comprises over 30 investment professionals who contribute to the delivery of superior portfolio performance.

About the Fund

Managed by Crispin Odey, a renowned hedge fund manager, the Odey International Fund is an Australian-domiciled global long/short, absolute return unit trust that aims to deliver investors long-term capital appreciation by investing predominantly in equities and equity-related securities. The Fund invests in Odey Asset Management's long-standing and successful flagship strategy, Odey European Inc., which Crispin Odey established in 1992.

About Crispin Odey

Crispin Odey
Founder, Chief Investment Officer

- Established Odey Asset Management in 1991 to focus on active investment management with a focus on generating superior returns.
- One of the UK's most respected professional investors having delivered exceptional returns for investors over the long term.
- Heads the investment management team which comprises over 30 investment professionals.
- Prior to founding Odey Asset Management, Odey managed the Baring European Growth Trust and Continental European pension funds at Barings Asset Management and Framlington Fund Managers.
- Graduated from Christ Church, Oxford, in 1980 where he read History and Economics.

Key facts

Manager
Odey Asset Management

Responsible Entity
Copia Investment Partners

Product inception
The Fund is a 'feeder fund' for the Odey Swan Fund, a UCITS[1] vehicle that is modelled on Odey's flagship and longest-running strategy, Odey European Inc., which began in 1992.

Suggested investment time frame
At least 5 years

Risk level
High

Minimum investment
$10,000

Management fee
1.36% p.a. (including GST and net of RITC)

Performance fee
20% (including GST and net of RITC) of the amount the Fund outperforms its hurdle

Performance hurdle
Positive return

High water mark
Yes

Platform availabilty
Asgard, BT Wrap, Federation Alliance, Macquarie Wrap, netwealth

[1] UCITS or 'Undertakings for Collective Investments in Transferable Securities' provides a single regulatory framework for an investment vehicle which means it is possible to market the vehicle across the European Union without concerns about the country in which it is domiciled.

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Past performance is not a reliable indicator of future performance. The total returns of the Odey International Fund (the Fund) over specified periods are shown in the table on the first page. This table contains information regarding total returns to 31 July 2016. Total returns are calculated after taking into account performance fees. A performance fee equal to 20.5% (including GST and net of RITC) of the amount the Fund outperforms its hurdle. The total return performance figures quoted are historical, calculated using end-of-month mid-prices and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. The performance is quoted net of all fees and expenses. This document is for general information purposes only and does not take into account the specific investment objectives, financial situation or particular needs of any specific reader. As such, before acting on any information contained in this document, readers should consider the appropriateness of the information to their needs. This may involve seeking advice from a qualified financial adviser. Copia Investment Partners Ltd (AFSL 229316, ABN 22 092 872 056) (Copia) is the issuer of the Odey International Fund (ARSN 166 549 917). A current PDS is available from Copia located at Level 25, 360 Collins Street, Melbourne Vic 3000, by visiting the website odey.copiapartners.com.au or by calling 1800 442 129 (free call). A person should consider the PDS before deciding whether to acquire or continue to hold an interest in the Fund. Any opinions or recommendation contained in this document are subject to change without notice and Copia is under no obligation to update or keep any information contained in this document current.