Odey International Fund
Fund Update | 31 January 2017

Total returns

At 31 January 2017	1 month %	3 months %	6 months %	1 year %	Inception % p.a. (Jul 2014)
Odey International Fund	2.12	-5.32	-19.06	-43.03	-14.87
MSCI World Index Daily TR Net Local	1.29	6.84	6.78	16.72	6.25
Outperformance	**0.83**	**-12.16**	**-25.84**	**-59.75**	**-21.13**

Monthly returns*

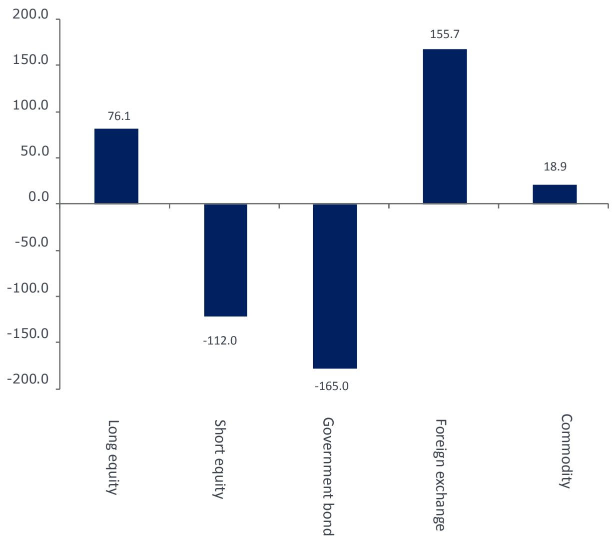
Year	Jan %	Feb %	Mar %	Apr %	May %	Jun %	Jul %	Aug %	Sep %	Oct %	Nov %	Dec %	YTD %	Idx YTD %
2017	2.12												2.12	1.29
2016	4.99	-8.85	-18.42	-8.18	3.59	4.34	-4.64	-6.07	-3.26	-5.92	-5.73	-1.64	-41.43	9.00
2015	3.61	-6.53	3.78	-18.18	4.48	0.31	1.35	5.99	5.99	-12.18	-0.95	4.73	-10.60	2.08
2014								-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

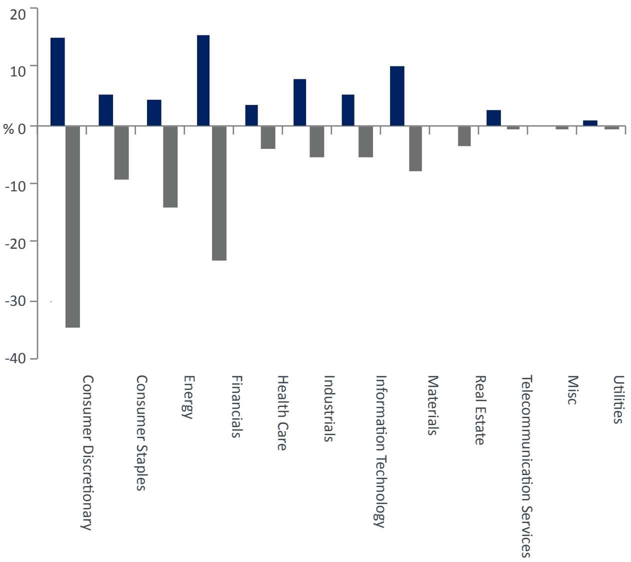
Top 10 holdings

Rank	Security	Strategy	Notional exposure (%)
1	Long Gilt Future Mar17	Short	-129.3
2	JPN 10Y Bond(Ose) Mar17	Short	-25.2
3	Tullow Oil	Short	-8.1
4	Randgold Resources	Long	7.6
5	US 10Yr Note (CBT)Mar17	Short	-7.0
6	Sky	Long	6.0
7	Lancashire Holdings Limited	Short	-5.7
8	db Physical Gold ETC	Long	5.4
9	Berkeley	Short	-5.2
10	Coca-Cola HBC	Short	-4.9

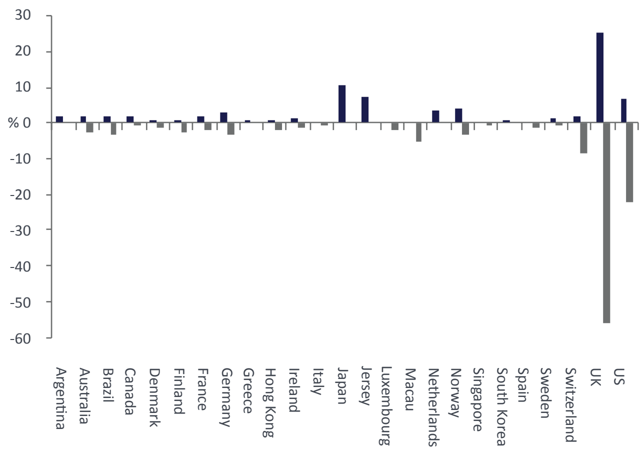
Asset allocation



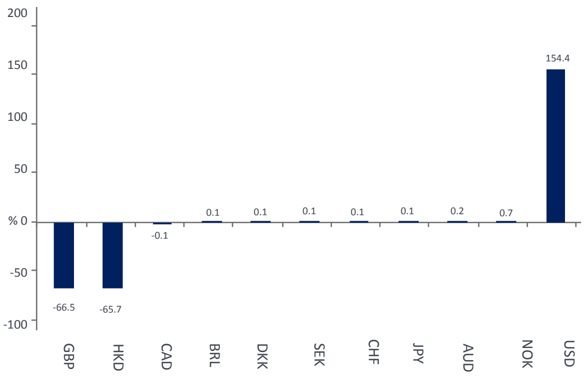
Allocation by industry



Allocation by country



Currency exposure



Performance review

- In January, the Fund returned +2.12% against the MSCI Daily TR Net Europe return of 1.29%.
- Positive returns came from sectors including Energy (+1.6%), Materials (+0.5%) and Industrials (+0.4%). Negative returns primarily came from our holdings in the Consumer Discretionary (-1.1%), Health Care (-0.2%) and the Information Technology (-0.1%) sectors.
- Individual best performers this month were short positions in Seadrill (+1.1%) and Tullow Oil (+0.5%), and a long position in Man Group (+0.4%). The worst were short positions in Wynn Macau (-0.6%), Tesla (-0.6%) and Ashmore (-0.4%).

Manager's commentary

We have now seen enough of Trump to get some idea of the man. He starts with a sound idea. The US has been generous in its dealings with the rest of the world because it was rich. The US is no longer rich and it can no longer afford to be generous. This is a man who will do what he has promised. He has not come through the congressional system and he will use his populist appeal to outflank Congress and the swathes of lobbyists in Washington. He will continue to surprise markets. He does not think about second order effects.

It is easy to see what annoys him about the current set up. He feels that America has had to pay for the defence of the West. 3.7% of US GNP spent on defence contrasts with little over 1% of GNP being spent by most of their allies. He sees Americans paying 3x the average price for pharmaceutical drugs and feels that at least two thirds of this pricing must be reduced. He can see that since Americans typically buy their own drugs, such a policy will be very popular.

He expects the Mexicans can pay for their own wall. This sense of unfairness has an enormous appeal. If the liberals start rioting over his social policies, he will be pleased to show he is the master of law and order. This is the man.

There has been much discussion of the tax system in the US and the Ryan/Grady plans have been going backwards and forwards between the Senate and the House of Representatives. There is agreement that the current system of taxation penalises American companies when it comes to exports and corporation tax. There needs to be change but as always, once the lobbyists have gotten involved, the changes proposed look puny.

My view, and it is only my view, is that Trump will see this as an opportunity. He will propose a version of VAT as we have it in Europe. He may propose a 20% rate. It will be a Federal tax. Why VAT? Because exports are exempt from VAT. It will make all goods covered by VAT 20% more expensive, but it will mean that exports become 20% cheaper than imports. To cries of 'this will be so unpopular hurting the little man', my reply is that with the US at full employment, these costs will be passed on in full. Also, remember that in Europe where VAT is now 20%, actual tax collected is only 7% of GNP (i.e. only 35% of the economy is paying this tax).

He will sell it to his supporters because he will explain that foreign imports are disproportionately affected by this tax. It will bring in $1.2 trillion, which he then must spend to keep the economy going. He will spend this on a combination of corporate tax cuts, capital spending incentives and infrastructure programmes. Those people who were worrying about where the money was going to come from to support all his ideas, now become the very people who are urging him to spend on infrastructure in order to avoid a slowdown. That infrastructure spending will have a multiplier effect.

Meanwhile, the Fed will not know where to look. Inflation will rise, most probably by around 7%. Yellen and the Fed are already far behind the curve. She may easily resign and the dollar may very well rise as imports suffer relative to exports.

Is it good for world trade? No. Does he mind? Can it happen? It feels a long shot but we have already seen long shots becoming reality regularly in the new world. All of this soaks up that liquidity provided by central banks over the last seven years. Do equities outperform bonds? Yes, but the 70s showed that in a world of inflation all financial assets underperform nominal GNP growth. Working capital requirements, as we are seeing with steel companies at present, swamp the return to profitability.

Moreover, it happens at a time when China has become that much more dependent on the dollar. In 2012, Chinese holdings of US treasuries amounted to 100% of the monetary base of its banking system, its loans. Today, after expanding money supply by some 150% over five years, its treasury holdings only represent 40% of its monetary base. A rise in the US dollar against the renminbi means monetary policy must naturally tighten in China. That is why the shibor rate is always threatening to rise. They can only stop this by lending more money and in the end becoming much more dependent upon the dollar. China is already exporting inflation to the rest of the world. Its current account surplus is shrinking. It is in a weak position if Trump introduces VAT. (Interestingly in Europe, given imports are 16% GNP, VAT is 50% paid for by imports).

There is a twist. Trump will have to give a leave period before VAT is imposed. During this period, individuals are likely to buy everything before prices rise, akin to what we have seen in the UK since the Brexit vote. There will be an inventory effect, which will be positive, and then a transactional effect which will be long-term negative.

Ultimately, however, what individuals will discover is that they will have less choice, more expensive goods but wages will be growing. After a year in which markets proved to be the servant of governments and central banks, we appear to be entering a time when governments are pitting themselves against each other and their own central banks. Oddly this makes life easier.

About Odey Asset Management

Odey Asset Management is a highly regarded London-based investment firm managing in excess of $7 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 who contribute to the delivery of superior portfolio performance.

About the Fund

Managed by Crispin Odey, 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 features

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.

CONTACT COPIA

1800 442 129 | clientservices@copiapartners.com.au | copiapartners.com.au

John Clothier	General Manager, Distribution	0408 488 549 | jclothier@copiapartners.com.au
Adam Tweedale	State Manager, Southern Region	0425 804 727 | atweedale@copiapartners.com.au
Angela Vincent	State Manager, Northern Region	0477 347 260 | avincent@copiapartners.com.au
Sean Paul McGoldrick	Account Manager, Northern Region	0421 050 370 | spmcgoldrick@copiapartners.com.au
Julian Sutton	Institutional Sales	0427 717 210 | jsutton@copiapartners.com.au