ODEY
ASSET MANAGEMENT

# Odey International Fund
Fund Update | 31 March 2019

## Total returns

| At 31 March 2019 | 1 month % | 3 months % | 6 months % | 1 year % | 3 years % p.a. | Inception % p.a. (Jul 2014) |
|---|---|---|---|---|---|---|
| Odey International Fund | -0.15 | -8.87 | 0.59 | 21.03 | -8.55 | -8.32 |
| MSCI World Index Daily TR Net Local | 1.61 | 12.61 | -2.19 | 6.66 | 11.17 | 7.81 |
| **Outperformance** | **-1.76** | **-21.47** | **2.79** | **14.37** | **-19.72** | **-16.13** |

## Monthly returns*

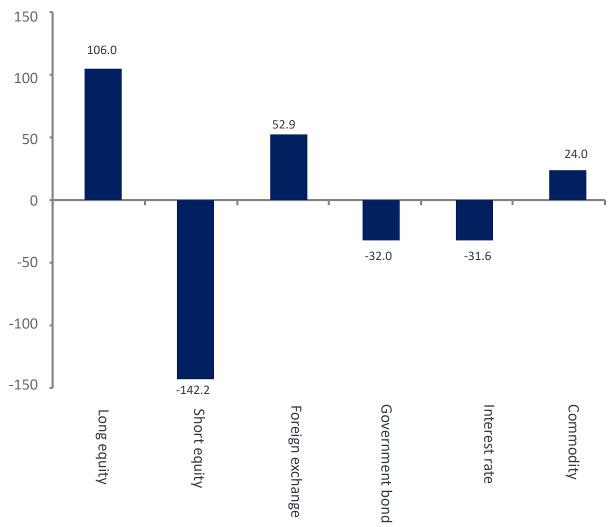
| Year | Jan % | Feb % | Mar % | Apr % | May % | Jun % | Jul % | Aug % | Sep % | Oct % | Nov % | Dec % | YTD % | Idx YTD % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2019 | -0.48 | -8.29 | -0.15 | | | | | | | | | | -8.87 | 12.61 |
| 2018 | -3.32 | 6.59 | 3.16 | 4.24 | 0.52 | 4.60 | 1.97 | -1.50 | 9.30 | 6.98 | 0.41 | 2.75 | 41.19 | -7.38 |
| 2017 | 2.12 | -3.12 | -3.83 | -4.74 | 3.92 | -0.39 | -8.84 | 1.35 | -5.90 | 1.63 | -1.27 | -3.19 | -20.76 | 18.48 |
| 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

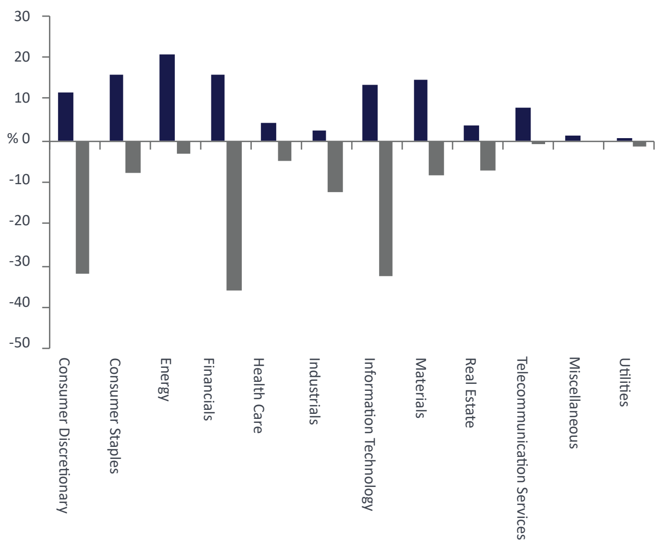
## Top 10 holdings

| Rank | Security | Strategy | Notional exposure (%) |
|---|---|---|---|
| 1 | IRS: Fix/Float ICE LIBOR GBP 6 Month | Short | -31.6 |
| 2 | Long Gilt Future Jun19 | Short | -20.8 |
| 3 | JPN 10Y Bond(Ose) Jun19 | Short | -11.6 |
| 4 | Lancashire Holdings Limited | Short | -6.0 |
| 5 | Shiseido Company | Long | 5.9 |
| 6 | Barrick Gold | Long | 5.5 |
| 7 | Telefonaktiebolaget LM Ericsson | Long | 5.3 |
| 8 | Berkeley | Short | -5.0 |
| 9 | Tesla | Short | -4.9 |
| 10 | Source Physical Gold P-ETC | Long | 4.9 |

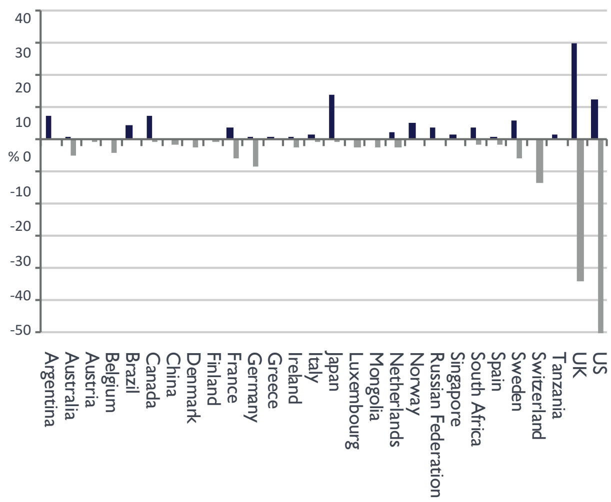
## Asset allocation



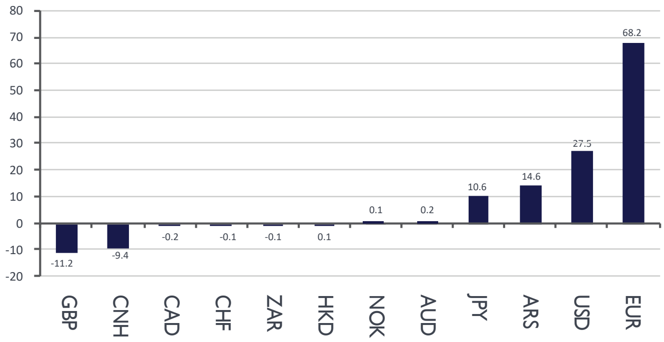

## Allocation by industry




## Allocation by country



## Currency exposure




## Manager's commentary

We are all exhausted. Brexit has worn us out. Like the markets it has been everywhere but eventually gone nowhere. Worn out. The establishment have won for now. Similarly with the markets. We are back to the old highs of September and February of last year. The mood music is optimistic again. As in 2016, China and the USA have relaxed monetary policy.

However, it is another two years of growth that we have had. Some $50 trillion of new lending globally has produced some $10 trillion of additional global incomes, meaning that debt deflation continues to become a growing not a shrinking problem. Global debt is some $230 trillion against $84 trillion of global GNP. Investors are now accustomed to almost no economic cycle and so today's fall in industrial activity, signified by large stockpiling across industries from semi-conductors to autos, is seen as temporary. The first quarter earnings' numbers which are about to follow will show the pain of all of this, as felt through the P&L, but we are assured markets will look to the future and indeed on the back of easier monetary conditions and some fiscal easing in China, there are signs that this downdraught is flattening out.

Does it matter to the portfolio? The shorts in the semi space have hurt a little. And to be fair the performance of the semis speaks to a world of forgiveness. Is this the beginning of a new up cycle? Given the carnage in the Chinese auto market and the near death experience of crypto currencies, this hope does feel weakly underpinned by any reality. But it certainly marries with the market's belief that the governments and central banks will keep this global growth cycle going.

Is it at any cost? Well the absence of a recession has hardened the divide between rich and poor, young and old. The recent opinion poll in the UK showed only 4% of those under 25 years old would vote for the conservatives. It is difficult to imagine this number could get worse but current policies should exacerbate the trend.

Endless pump priming has created a world of full employment and falling productivity growth. Misallocation of capital will in turn be exacerbated by populist policies to spare the poor and the young. It will be mirrored by under investment. Today we start to hear MMT (modern monetary theory) arguing for a policy of increased fiscal spending to accompany QE or the buying of government debt by itself. Such a policy should accelerate things towards a warm end.

Last year gold had no good reason not to fall sharply. With the Fed tightening, real interest rates in the USA were positive and rising. So why did gold perform? Because central bankers were increasingly looking to buy gold rather than each other's currency. This so reminds me of 2008 when commercial banks refused to lend to each other because they knew what they were doing to their own balance sheets.

Technology has again been the leading performer in the first quarter with software companies especially strong. Most are on valuation of at least 8x sales. Factset are typical in this regard. With sales of $1.39 billion, their enterprise value is $10.274 billion, just over 7.3x sales. Factset offered a cheaper version of the Bloomberg terminal allied to back office features used by asset managers. They were promising at least a 7% rise in revenues this year driven by price increases. At Odey, we were taking their attribution analysis software. They came to us to say that when we were paying $180,000, sadly the new price was $250,000. Geoff Poore, head of Odey Software Development said he could write a good replacement. They then tried to raise the price of an email analyser from $30,000 to $155,000, but Geoff said we could write the software to replace that also. The whole fight between accelerating data feed prices and back office costs and falling front end revenues in our industry is just starting. Best of luck anyone buying these revenues on such sky high valuations.

Lastly we come to oil. The oil price has obviously risen sharply this year – over 30%. The oil majors have seen their reserves fall from 14 years, ten years ago, to 10 years today. Without shale oil's massive increase in output, up from 6 million barrels to near ly 12m barrels per day, the world would be dangerously under supplied. At today's oil price, shale oil is profitable but depletion is their problem. Lots of activity, not much profit and real questions over replacement make the oil sector interesting. Maybe the oil industry is afflicted by a sense of its own doom. The millennials are starting to hate the extraction industries. Climate change is becoming an important political and economic event. The oil industry has always known that the externalities pose a huge undiscounted cost for them. As the carbon price rises through to €27, the oil industry already has a €40 price priced into their plans. However the whole sector has already underperformed.

But of course oil is not the only industry to feel the chill winds of ESG. The auto industry is in the midst of producing electric cars at any price and cost to themselves, to stay in business. It is precisely because of their willingness to produce at a loss that Tesla has little chance of surviving. A poor manufacturer at the best of times, it is now forced to compete with good manufacturers.

But the car industry cannot look to the future with any optimism. Today the consumer is being taxed for high emissions but tomorrow promises black boxes which will force all cars to drive inside speed limits. When you catalogue this legislation alongside the IMO 2020 laws for bunker fuel in ships, the tighter laws on social media, you start to build up a picture of increasing interference by the state in all aspects of society.

Whether the authorities can maintain the allusion of calm by monetary expansion whilst all this is going on is the question which we must all hope is answered in the affirmative. Because like Mrs May, I don't think they have a plan B.

***— Crispin Odey***

## About Odey Asset Management

Odey Asset Management is a highly regarded London-based investment firm managing around $5.9 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 that 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 availability**
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

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|---|---|---|
| **John Clothier** | General Manager, Distribution | 0408 488 549 \| jclothier@copiapartners.com.au |
| **Iain Mason** | Director, Institutional Business | 0412 137 424 \| imason@copiapartners.com.au |
| **Mani Papakonstantinos** | Distribution Manager | 0439 207 869 \| epapakonstantinos@copiapartners.com.au |
| **Matthew Roberts** | Distribution Manager | 0438 297 616 \| mroberts@copiapartners.com.au |
| **Jude Fernandez** | Distribution Manager | 0414 604 772 \| jfernandez@copiapartners.com.au |
| **Sam Harris** | Distribution Manager | 0429 982 159 \| sharris@copiapartners.com.au |