ODEY
ASSET MANAGEMENT

Odey International Fund
Fund Update | 31 January 2020

Total returns

At 31 January 2020	1 month %	3 months %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	Inception % p.a. (Jul 2014)
Odey International Fund	-8.32	-1.12	-16.39	-18.10	-3.71	-14.36	-8.97
MSCI World Index Daily TR Net Local	-0.25	5.23	7.58	18.44	11.23	9.29	8.93
Outperformance	**-8.07**	**-6.35**	**-23.97**	**-36.54**	**-14.94**	-23.65	**-17.90**

Monthly returns*

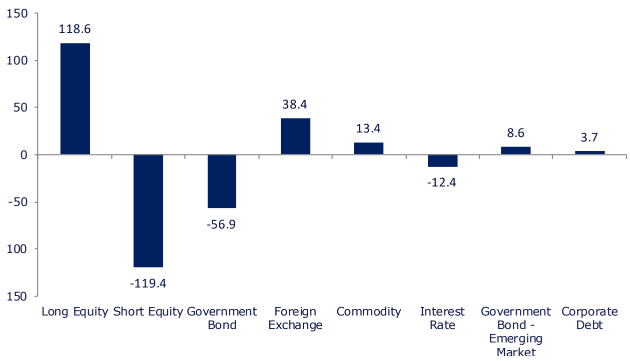
Year	Jan %	Feb %	Mar %	Apr %	May %	Jun %	Jul %	Aug %	Sep %	Oct %	Nov %	Dec %	YTD %	Idx YTD %
2019	-0.48	-8.29	-0.15	-5.46	12.14	-1.59	2.52	-7.23	-9.51	0.72	-2.80	10.97	-8.32	-0.25
2018	-3.32	6.59	3.16	4.24	0.52	4.60	1.97	-1.50	9.30	6.98	0.41	2.75	41.19	-7.38
2017	2.12	-3.12	-3.83	-4.74	3.92	-0.39	-8.84	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

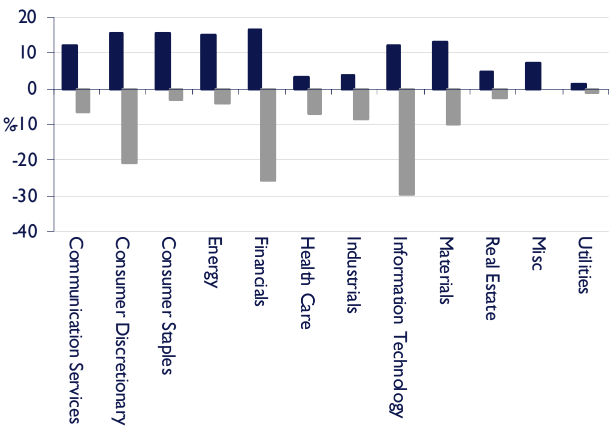
Top 10 holdings

Rank	Security	Strategy	Notional exposure (%)
1	JPN 10Y Bond(Ose) Mar20	Short	-22.2
2	Aust 10Y Bond Fut Mar20	Short	-18.2
3	Long Gilt Future Mar20	Short	-16.5
4	IRS: Fix/Float ICE LIBOR GBP 6 Month	Short	-12.4
5	SPDR Bloomberg Barclays U.S. TIPS UCITS ETF	Long	3.7
6	iShares Physical Gold ETC	Long	3.1
7	db Physical Gold ETC	Long	3.0
8	Source Physical Gold P-ETC	Long	2.9
9	ETFS Physical Gold	Long	2.9
10	ARGTB 0 04/28/20	Long	2.3

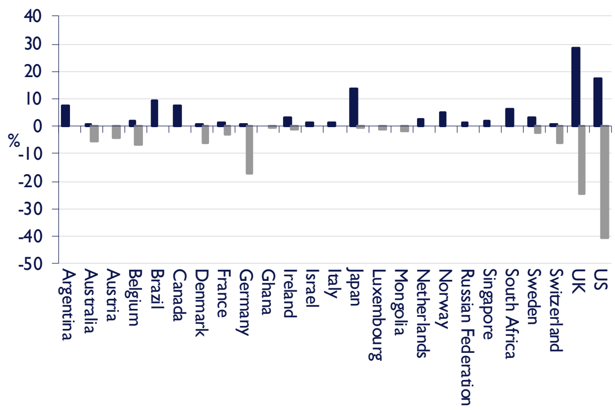
Asset allocation



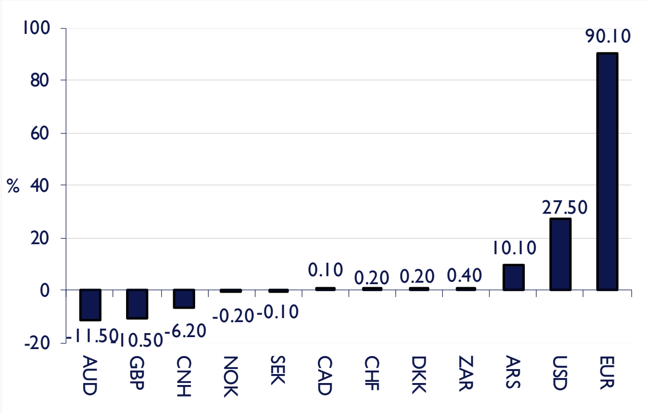
Allocation by industry



Allocation by country



Currency exposure



Manager's commentary

"And every life became
A brilliant breaking of the bank
A quite unlosable game"

Philip Larkin

No need to listen to a bear when the bull market is reaching its climax. Just as the coronavirus became lethal when it crossed from bat or snake or pangolin to human, so this bull market became lethal when it crossed over from a bond market, where 25% of the developed world bonds were negative yielding, to equity markets. Because in equity markets there are no limits to individuals' ability to believe, valuations are potentially infinite.

The Bundesbank, in the post-war years allowed M3 growth of only 6%. Their rationale was that this meant that bank balance sheets could only grow by 6%, that 4% facilitated real GNP growth and 2% was for the inflation rate. Their fear was monetary growth in excess of natural real demand would induce bubbles. Bubbles make for a massive misallocation of resources and can only be followed by recessions / depressions.

Should the authorities be worried? They really should have been worried long ago about the risks of bubbles. However, they have been obsessed by the fall off of productivity because they need productivity growth to power investment spend and allow governments to expand fiscal spending and normalise the cycle. The markets are obsessed about this as well. It drives the ESG quest and the tech bubbles. But the results are disappointing. Now governments will just borrow at these low rates irrespective of whether there is any productivity gain from the projects. Governments have understood what everyone else has. At 1% interest rates per annum over 100 years, if I borrow I am certain to beat the lender's return. But it is one thing to borrow at 1% for a 100 years, it is another to invest in a company on a price/earnings ratio of 40 or 50x. Profits are a residual, after every other cost has been subtracted – tax, wages, interest rates, regulation, competitive pressures – to say nothing of the fact that they have historically been subjects to the highs and lows of a business cycle.

In the thirties, it was the business cycle which obsessed politicians and economists. Keynes was early to believe that the gold standard protected money gainst the risks of inflation but at the expense of the business cycle. The down cycles were a waste, in his eyes, because they coincided with high unemployment and weak output. How much better if one did away with the gold standard and ran the global economy for maximum economic growth?

Today we appear to have solved both problems. We have no inflation but nor do we suffer a business cycle. It is all very clear but it curiously makes one feel very old. Several friends were closely involved in the bull market in equities in Japan in the late eighties. Japan, prior to 1986, had been thoroughly mercantilist. They undervalued their exchange rate, grew exports, starved the domestic economy and invested in export dustries. In 1986 the Americans said No. Japan from then on would have to allow their currency to rise, their domestic economy to expand and to see their export economy throttle back. Japan had always overinvested up until 1985. The new policy however meant Japanese corporate cashflows were no longer reinvested and were instead spent within the Japanese economy. Just as today, money lost all its value and over time the Japanese people became obsessed in buying what they most wanted irrespective of the price.

This process took out those who tried to maintain traditionalrelationships between returns and assets. It ultimately rewarded only those who followed the market's own logic which was to buy as if money did not matter. By the end of those five years my friends that had been involved in the markets had been frazzled and fried by the experience. Most of them never got another job in the city. It was as if they had seen life speeding towards them at a pace which was too frightening to escape or to survive. They were put off markets by watching them destroy everything that they believed in – not by falling but by rising.

This bull market is more frightening because it is just so big. When Tesla's share price rose by 400% in just three months it added $140 billion to its market cap. It joined the select group of companies that were going to take over the world. Who cares that they only had 70% of the 5% of electric cars that were sold last year and that their market share this year in the EV class is falling closer to 20%? Parabolic price action reflects a market which has closed its eyes to the natural uncertainties of life in order to 'live the dream.' History never forecasts the ultimate high of these shares, but it does tell you that the end is quite close. That doesn't help most of us who get caught up in this madness, but for you who are still participating on the long side, enjoying the technology sector which is now worth 27% of the S&P in an S&P that is 55% of world markets, another tell-tale signal of the end is here.

But really what kills markets is rising prices. Nothing more. Does coronavirus do it? Maybe but not sure. Once governments feel empowered to spend money big time thanks to the free money on offer, then we must be even closer to the end. Savings disappeared a long time ago. Credit has the ability to vanish, just when you want it.

The end of these bull markets are painful. Everyone gets drawn in by the easy gains, and the last stage is especially painful for the bears because the money that goes into the bubble stocks comes from the bear market stocks – the value shares. It is precisely this squeeze which the funds are feeling.

It has not been helped by our Omani partners in Tri-Star overspending dramatically on the refinery in Oman, which has escalated costs unnecessarily and forced us to call time on their incessant cries for equity. As a minority owner representing 40% of the underlying entity, if we have no voice, we refuse to put any more money in.

We have not been helped by Tesla and a few other investments becoming bubble stocks. The only shorts that have worked have been where bankruptcy is beckoning. Intu in the UK with its shopping malls which are fast losing tenants. Whiting in the USA where an oil price of $50 per barrel cannot sustain any cashflows let alone pay the interest on excessive debt.

The book has been reduced on both sides to get us through this chapter but the widening chasm between the global economy's direction and the markets will provide great opportunities going forward.

- 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.

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