ODEY
ASSET MANAGEMENT

Odey International Fund
Fund Update | 29 February 2020

Total returns

At 29 February 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	-1.17	0.55	-10.93	-11.75	-3.06	-13.40	-9.04
MSCI World Index Daily TR Net Local	-8.10	-6.24	0.83	5.33	7.05	6.24	7.17
Outperformance	**6.93**	**6.79**	**-11.76**	**-17.08**	**-10.11**	-19.64	**-16.21**

Monthly returns*

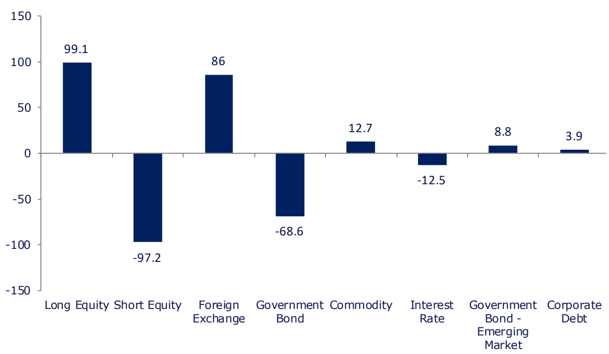
Year	Jan %	Feb %	Mar %	Apr %	May %	Jun %	Jul %	Aug %	Sep %	Oct %	Nov %	Dec %	YTD %	Idx YTD %
2020	-8.32	-1.17											-9.39	-8.33
2019	-0.48	-8.29	-0.15	-5.46	12.14	-1.59	2.52	-7.23	-9.51	0.72	-2.8	10.97	-11.10	27.34
2018	-3.32	6.59	3.16	4.24	0.52	4.60	1.97	-1.50	9.30	6.98	0.41	2.75	41.19	-7.38
2017	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

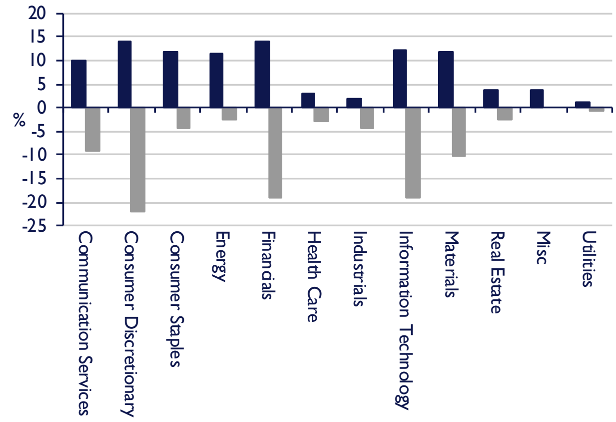
Top 10 holdings

Rank	Security	Strategy	Notional exposure (%)
1	Long Gilt Future Jun20	Short	-27.5
2	JPN 10Y Bond(Ose) Mar20	Short	-23.5
3	Aust 10Y Bond Fut Mar20	Short	-17.6
4	IRS: Fix/Float ICE LIBOR GBP 6 Month	Short	-12.5
5	Banco Macro	Long	6.3
6	Barrick Gold	Long	5.2
7	SLC Agricola	Long	5.2
8	Netflix	Short	-4.9
9	Lancashire Holdings Limited	Short	-4.6
10	Auto Trader	Short	-4.3

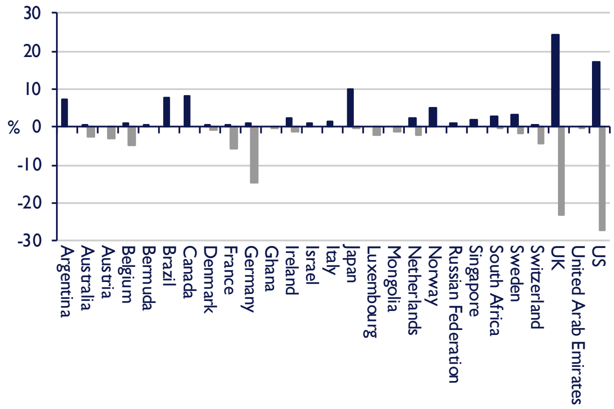
Asset allocation



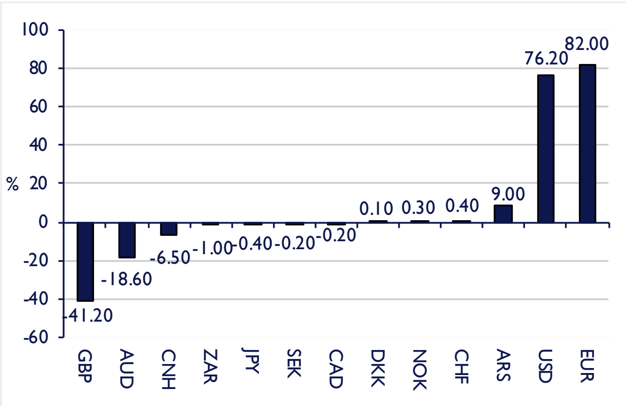
Allocation by industry



Allocation by country



Currency exposure



Manager's commentary

Oliver Cromwell wrote in 1648 'we must not act before and without faith but to be passive now may be more dangerous than to be active.' He obviously never worked for the FCA!

This bear market has come out of nowhere. The bull's head has been cut off from its body with the crown, recently set, still upon it. This market has fallen further and faster than any in my experience. A belief that the markets valuation and the attendant debt in the system made these markets much more fragile than the participants imagined, did not encompass coronavirus or the mayhem that it would cause.

The problem is that the authorities cannot be seen to be too precipitous in their actions, but of course, by not creating a lockdown, the government invites this highly contagious virus to spread widely. Lockdown will create the recession and a recession coupled with the structural issues which have got more intense not less over the last ten years, promise that this could be more than a temporary blip.

The fragility of the structure now becomes the fragility of the path of the world economy. Everything is laced with danger. Shutdown disrupts supply but also demand. Most suppliers cannot afford a week without sales, let alone a month. They will simply not be there. Bringing demand on too quickly without the supply risks instant inflation and that is the risk. Look at the empty supermarket rows.

We have felt the deflationary impact already. The oil war compounds that but think of the consequences of low oil. ESG becomes uncommercial. Electric cars which might have had a 3 year pay back now have a 7 year pay back against petrol cars (with insurance costs it goes out from 7 years to 20 years!). But we know behind the deflation lies a higher oil price. Somewhere over the valley, lurks an $80 oil price or higher.
The weak will disappear, the strong will eventually profit. We are back in the economic cycle. An economic cycle categorically outlawed by central bankers and politicians.

"Now no joy that lacks salt, That is not fraught with pain and weariness and fault..." - Robert Frost

Bear markets are all about seeing the problem in front of you. Trading them is all about working out what tomorrow will bring. Trades done today may look terrible later in the day, but wonderful the next day. Volatility goes up and of course, shorts get smaller very quickly if they are not traded. The whole book gets smaller.

As has been written, this virus appears to be only controlled by putting the economy into an induced coma. Whether that will result in a serious long-term recession obviously relates to the consequences.
The authorities are busy trying to capture the loss of incomes, the loss of production, the counter party risks. Their problem is that they need the banks to extend loans, to be brave etc. but it starts at a time when the banking sector everywhere is only marginally profitable with only very low levels of non-performing loans keeping them alive. The banking sector has fallen nearly as far and as fast as the oil sector.

It is noticeable that the 10 year bond, yields having fallen last Monday to almost zero across the developed world, are on their way back up. They need to rise very sharply because before the banks can be asked by governments to try to stave off the worst effects of a shutdown, some means of subsidising the banks needs to be established. Historically that was always through the yield curve. 10 year bond yields need to be 150bp or 1.5% at the least, if governments want banks to lend yet more money to tide over businesses undermined by lockdown.

Someone somewhere is going to realise that borrowing money with western economy tax rates is much more expensive than it seems. If I borrow £100, I need to earn £200 to pay that back. A company needs to earn £120 to bay back a £100 borrowing. Easy to borrow difficult to pay back. Private individual debt at 90% of gross national income demands a national income of 130% to be repaid in full. No wonder debt does not get repaid.

If you remember when Hitler invaded Russia, the Russian tanks were at a distinct disadvantage for the first few months, because they only had maps of Germany – they were about to invade! So this bear market has hit investors very hard because, as the US purchasing managers index for January showed, the global economy was poised to grow strongly after a difficult 2019. Everyone was wearing warm weather clothes. The sense of shock is therefore great.

Compounding that sense of shock, was the decision by Putin to start an oil war. Only last month I was writing that of all the countries that looked sound, Russia stood out. Now we know why. Putin has ensured no Russian companies are indebted and he has cleverly created an economy that can provide subsidised food, water and energy for the masses and combine that with exports which provide the income necessary for him and his government to prosper. He has looked at MBS and realised that Saudi can't long survive a sub $70 oil price because the regime is dependent on welfare payments and a sub $45 oil price will take out the shale gas and oil industry in the USA. Shale was already showing itself to be treacherous prior to this but now looks terminal. MBS is praying for a quick war because he cannot afford anything more, which means a low oil price.

This can provide rich pickings for us. The means of getting this new oil glut to market has meant incentivising tankers and refinery and suddenly these sectors of the economy will witness super normal profits. We are looking at 70% returns to shareholders immediately. For refiners like Saras in Italy, the advent of cheap economy cycle at an £8 per barrel margin is a happy moment coming after difficult years when all the new flow was light shale crude. These shares have all sold off in the crisis, wrongly, especially since the benefits are being reaped imminently and for some of them with no debt on their balance sheets.

In bear markets, only solid yields make the difference. By solid, one means a 12% earnings yield and a 5% dividend yield with earnings growth.

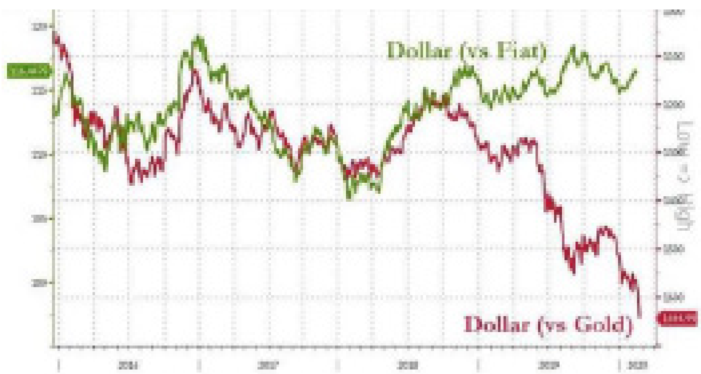
This is difficult because there is the uncertainty of a recession and the likely fiscal expansion and backing up of long rates, all of which provides head winds. Hopefully experience in the market counts. I hope that is enough.

Now we come to the mistakes. Escaping debt and all the dangers of the developed world, I find myself in a world of pain from another quarter. Argentina has been costly for me since it started to misbehave itself under Mr. Gonzalez. Other people's problems are so easy to solve when one's own are insolvable and utterly painful. Remember that crisis can bring a resolution quite impossible without. So far, Gonzalez has not chosen to embrace the opportunity. He wants to interfere in the price mechanism, introduce complications. He is right to compel bondholders to take much lower interest rates but please explain to them that it is necessary. A stable funding model for the government would provide a stable credit market for the private sector. If he would understand, there could be years of prosperity ahead for this pigmy of the developed world with a nominal income of $10,000 per head.

But there has not yet been one word of sense issued and so I remained frightened that he might not do the right thing. BMA, with a share price of $19 is on 3x earnings, using the penal blue chip exchange rate. It will pay a dividend of 40% of that or nearly 14% in US dollars. Running yield is the only garlic necklace I want to wear to ward off this bear market.

Gold has been disappointing recently - reflecting that in the short term it is the deflationary influences which are winning. However as this chart shows, gold is the only way to escape fiat currencies and the US dollar has properly joined that club now.

Is the dollar ever going down again?



Source: Bloomberg

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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