

# ODEY EUROPEAN FOCUS ABSOLUTE RETURN FUND

ODEY  
ASSET MANAGEMENT

## Fund Manager Report

European equity markets continued to recover in the second quarter. Falling inflation expectations led to a heightened anticipation for renewed monetary stimulus by both the US Federal Reserve and the ECB. This helped offset a further weakening in global GDP and renewed trade frictions, following a relapse in the US and Chinese trade negotiation. Consequently, global bond markets rallied sharply leaving a record circa \$13 trillion of negative yielding debt and plunging European government bond yields further into unprecedented negative territory. Lower discount rates, coupled with the expectation that another monetary expansion would once again extend what has now become the longest US economic expansion in history, helped propel European and global equity markets back to their highs of last year.

For a second consecutive quarter the fund significantly underperformed. The Fund fell -4.5% versus a +3% rise for the MSCI Europe Index in euro terms. The weak performance was predominantly a function of the funds positioning that witnessed significant relative underperformance in the long portfolio and the short portfolio. In the long portfolio at a stock level performance was largely anaemic although, there were strong gains from H&M, the global clothing retailer, and modest losses from EDF and Imperial Brands, which were sold during the quarter. In the short portfolio, poor performance has been largely a function of the strength in the Fund's interest rate sensitive growth positions and financials, offset to some extent by success in our real estate positions Intu and Wereldhave. Overall, the Fund continues to underperform as the collapse in global government bond yields has represented a major challenge to the funds positioning for a rise in the cost of capital. However, we have not materially changed our positioning beyond managing the gross and net of the Fund. First, those businesses benefiting from falling discount rates have moved to new valuation extremes. Second, we are not convinced that the cost of capital has fallen back as much as bond yields would imply. Third, it is clear that the cost of capital is still rising in the key areas of the long book in European telecom and retail that the fund is currently focused on. Fourth, global and European growth continues to slow and there appears to be an increasingly diminishing economic demand impact from extreme monetary conditions, for example, as highly interest rate sensitive industries, including autos and housing, are not responding in their historical manner. Finally, we continue to believe there are limitations, as actual inflation is not falling back at the same pace as implied inflation, and risks, as is increasingly evident in the European banking and liability system, to the current extreme monetary conditions. Consequently, we have made limited changes to the underlying structure of the portfolio.

Global growth continued to slow in the quarter, again led by a slowdown in the industrial economy, although the overall weakness in GDP continues to be cushioned by resilience in the service economy. Similar trends are evident in Europe where the broadening industrial slowdown has seen GDP growth expectations half in the last 12 months to circa 1% for 2019 but further weakness has so far been softened by a more resilient consumer and service economy than expected, buoyed by high employment levels and low interest rates. This said, there are now increasing signs of a global cooling in employment indicators, a trend that is also becoming evident in Europe, highlighted not only by recent high profile layoffs but also the weakness seen in temporary employment or travel at a microeconomic level. Consequently, European implied inflation has fallen sharply, leading to a renewed focus from the ECB on new monetary stimulus.

The fund overall had pedestrian performance from its main positions during the quarter with most stocks little changed. However, there was notable performance from Hennes & Mauritz, Deutsche Telekom and GEA Group. H&M, the Swedish based leading global clothing retailer, demonstrated further improving sales trends despite the weather in its second quarter and gave materially better

## Performance

**-3.4%** Monthly performance  
**-11.8%** Year-to-date performance  
**-1.5%** CAGR since inception

These figures refer to the past.  
Past performance is not a reliable  
indicator of future results.

## Fund details<sup>1</sup>

€ I Class	94.78
£ I Class	97.40
Fund Size	€112 million
Strategy AUM	\$127 million
Fund Inception	04 Jan 2016
Class Inception	04 Jan 2016
Fund Type	Irish Long/Short UCITS

## Fund Managers

Oliver Kelton

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initial indications for the third quarter. After several years of poor sales trends, disrupted by rapidly growing online peers, more innovative physical business models, including Primark, and internal performance issues, the heavy investments the company has been making in its business and brand for the last two to three years are now starting to show increasing evidence of taking hold. With profitability severely depressed by this weak historical sales performance and a huge current investment burden, the scope for recovery is considerable. Further, continued share buying from the founding family and management are also adding to the confidence in the turnaround. Deutsche Telekom, the German incumbent telecom operator, rose despite the more competitive than expected German 5G auction, as their first quarter saw further progress in their German and US operations and the proposed merger with Sprint in the US advanced to the next stages with approval from the US FCC. GEA Group, the leading German processing equipment manufacturer, saw improving order trends in its first quarter, and the new management later made their first moves at improving the company's performance with initial layoffs and a new divisional framework ahead of the new strategic roadmap to be laid out in September.

On the negative side the fund saw notable weakness in EDF and Imperial Brands. EDF, the French electricity incumbent, entered the year as one of the Funds largest positions following substantial gains in 2018 on the back of rising French electricity prices and the prospect of releasing value from the upcoming French energy reforms. Unfortunately, we have had to cut the position aggressively this year and have now exited the investment entirely as despite still strong electricity pricing, the French political environment has taken its toll on the company's prospects in the reform process, and legacy issues, most notably from the extraordinarily delayed Flammenville nuclear reactor re-emerged with a new costly three-year delay. Imperial Brands, the leading UK tobacco company, fell sharply in the second quarter as its trading update revealed accelerating volume declines in several European markets and a less robust take up of its US vaping brand than hoped. Following increasing evidence of the growing competitive threat of vaping in Europe we had already started to cut back on the position and exited the position with small gains for the year.

Overall, we made minimal changes to the structure of the long portfolio. We cut our poorly performing positions of EDF and Imperial Brands, and initiated new positions in Inditex, the global clothing retailer, Serco, the UK outsourcer, as well as small positions in Flutter, the leading online gaming company, and AkerBp, the leading Norwegian E&P. Inditex remains the best in class operator in the global clothing retail industry despite the challenges facing the industry. However, having de-rated for five years to a more attractive multiple and demonstrating continued operating resilience we believe the shares are now appealing. Serco, was the first of the major UK outsourcers to succumb to the perils of an aggressive bidding environment some five years ago. Now, after a long process of cleaning the company up, management is finally on the front foot as its competitors are struggling. Organic sales trends are accelerating, onerous contracts ending, profitability recovering and recent acquisitions adding to the momentum. Consequently, the company is on track for mid-term targets that leave the company interestingly valued.

In regards to the short portfolio, the principle underperformance has been from our interest rate sensitive growth companies, particularly related to the consumer, where consumer strength has

surprised us to the upside. The Financial positions in insurance and asset managers have also been painful given the strength of asset markets. On the positive side, there have been gains in Intu Properties, the UK shopping mall operator, as further bankruptcies, rent renegotiations, and stress in UK retail have added to rental risk, Fevertree, the soft drink manufacturer, where supernormal growth has slowed substantially, and Asos, the online retailer, as growth trends continue to deteriorate on industry pressures and execution issues. Overall, the performance of the short book was disappointing.

In summary, the Fund was weak for a second consecutive quarter predominantly led by its positioning. However, we made limited changes to the underlying positioning of the fund.

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**Oliver Kelton**

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## Performance

	1-month	3-month	1-year	3-year	YTD inception	Since inception	CAGR since inc.
<b>Fund</b>	-3.4	-4.5	1.6	-5.0	-11.8	-5.2	-1.5
<b>MSCI Daily TR Net Europe</b>	4.4	3.0	4.5	26.8	16.3	20.6	5.5
<b>Relative</b>	-7.9	-7.5	-2.9	-31.8	-28.1	-25.8	-7.1

## DISCRETE YEARLY PERFORMANCE

	1-year to	30 Jun 17	29 Jun 18	28 Jun 19
<b>Fund</b>		-9.5	3.3	1.6
<b>MSCI Daily TR Net Europe</b>		18.1	2.8	4.5
<b>Relative</b>		-27.6	0.5	-2.9

## MONTHLY PERFORMANCE SINCE INCEPTION

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2019</b>	-5.2	-3.8	1.1	-5.3	4.5	-3.4							-11.8
<b>2018</b>	-2.2	-0.6	1.6	1.8	-0.4	1.3	1.6	-0.4	3.3	5.4	2.8	1.8	16.8
<b>2017</b>	-1.7	-1.8	0.3	-1.4	2.7	-1.0	0.6	3.0	-2.3	0.6	1.6	-1.4	-1.0
<b>2016</b>	1.4	-1.2	0.1	-3.3	-0.4	3.3	-3.9	0.5	0.0	1.3	-2.9	-1.9	-7.0

## Fund details<sup>1</sup>

<b>€ I Class</b>	94.78
<b>£ I Class</b>	97.40
<b>Fund Size</b>	€112 million
<b>Strategy AUM</b>	\$127 million
<b>Fund Inception</b>	04 Jan 2016
<b>Class Inception</b>	04 Jan 2016
<b>Fund Type</b>	Irish Long/Short UCITS
<b>Comparators</b>	Primary: Cash Secondary: MSCI Daily TR Net Europe EUR
<b>Base Currency</b>	€

## Live fund dashboard

Get the latest fund information on the odey.com fund dashboard (registration required)

[View dashboard on odey.com >](#)

## Top ten equities as percentage of NAV

	Strategy	Notional Exposure
<b>Orange</b>	Long	9.2%
<b>Koninklijke KPN</b>	Long	6.5%
<b>Deutsche Telekom</b>	Long	6.5%
<b>Telefonaktiebolaget LM Ericsson</b>	Long	5.9%
<b>H &amp; M Hennes &amp; Mauritz</b>	Long	4.8%
<b>Tesco</b>	Long	4.8%
<b>Bouygues</b>	Long	3.7%
<b>Melexis</b>	Short	-3.5%
<b>Gestamp Automocion</b>	Short	-3.2%
<b>Vivendi</b>	Long	3.1%

## Statistics

	1-year	3-year	Inception
<b>Fund annual s.dev.</b>	12.5	8.9	8.7
<b>Index annual s.dev.</b>	13.8	10.6	10.3
<b>Alpha</b>	0.5	0.3	0.2
<b>Beta</b>	-0.7	-0.5	-0.5
<b>Correlation</b>	-0.8	-0.7	-0.6
<b>Sharpe Ratio</b>	0.3	0.0	-0.2
<b>Information Ratio</b>	0.0	-0.4	-0.5
<b>Tracking Error</b>	25.0	17.8	17.3
<b>Tracking Error</b>	25.0	17.8	17.3

## Important information

These figures refer to the past. Past performance is not a reliable indicator of future results.

This document is a marketing communication. Before subscribing please read the prospectus and the KIID, available at odey.com. The performance calculation shown is based on the EUR share class. If the past performance is shown in a currency which differs from the currency of the country in which you reside, then you should be aware that your performance may increase or decrease as a result of currency fluctuations.

## Fund team and contact details

### FUND MANAGERS

Oliver Kelton

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### ENQUIRIES

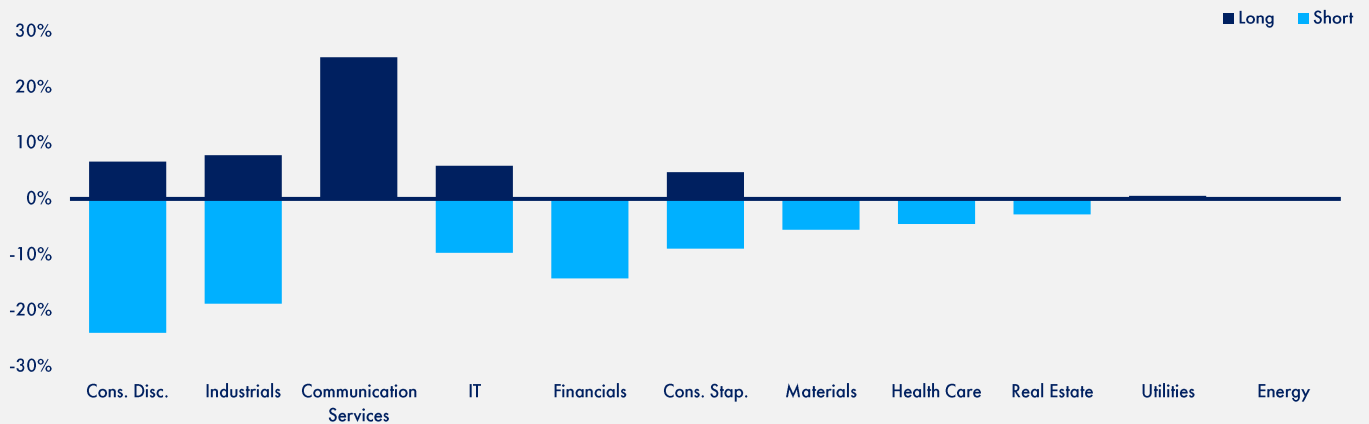
T: +44 (0)20 7208 1400

E: [marketingteam@odey.com](mailto:marketingteam@odey.com)

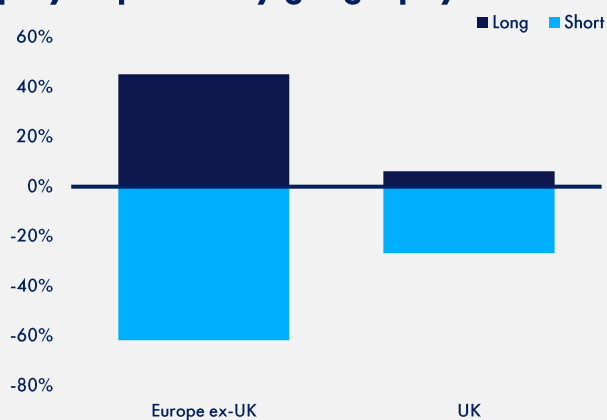
W: [odey.com](http://odey.com)

Odey Asset Management, 12 Upper Grosvenor Street, London, W1K 2ND

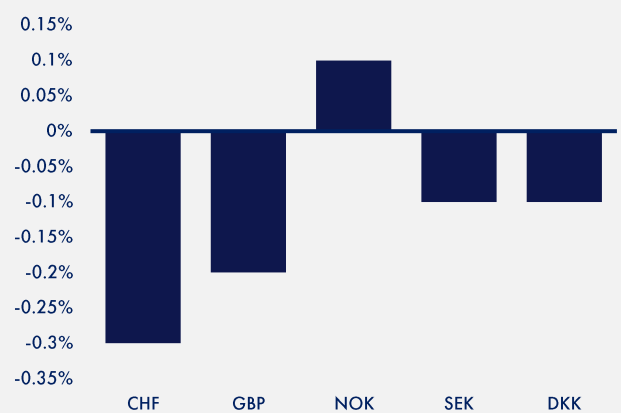
## Equity exposure by sector



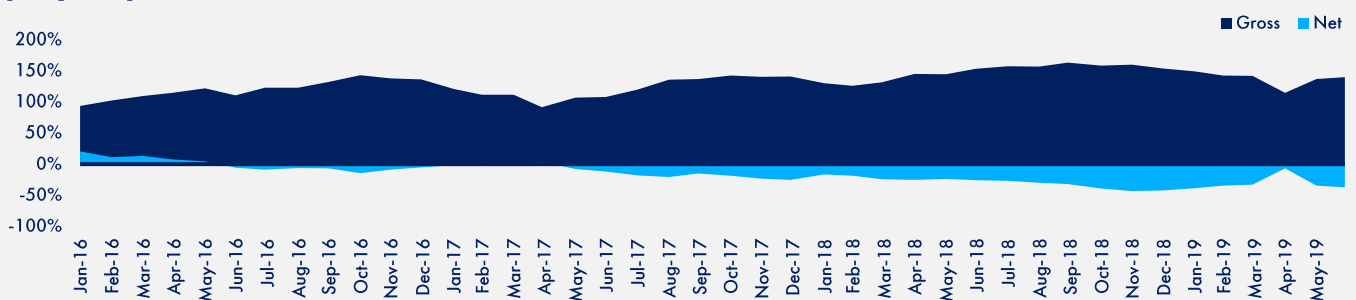
## Equity exposure by geography



## Non-base currency exposure



## Equity exposure



### ASSET ALLOCATION AS PERCENTAGE OF NAV

Long equity	51.5	Net	-37.0
Short equity	-88.4	Gross	139.9

Note: Equity exposure includes all equity related instruments. Any option positions included on a delta-adjusted basis. Currency exposure relates to exposure of all assets held by the fund, including any forward currency positions. Commentary is provided on a quarterly basis. Past performance is net of fees and other charges and includes the reinvestment of dividends. Equity exposure as classified by GICS.

Source: All sources, unless otherwise stated, are Odey internal unaudited data and refer to the € I share class. All data shown as at 28 June 2019. <sup>1</sup>U.S. Bank Global Fund Services (Ireland) Limited and Bloomberg, calculation on a NAV basis with net income reinvested.

## Investment objective and policy

The Odey European Focus Absolute Return Fund ("The Fund") aims to provide a positive absolute return independent of market conditions over the medium to long term. The fund aims to achieve long-term capital appreciation.

### APPROACH

The Fund is a concentrated, return-seeking European long-short equity strategy harnessing the expertise and judgement of the portfolio manager Oliver Kelton and the internal Odey research team. Oliver undertakes a rigorous program of meetings (>500 per year) with company management, industry specialists and local brokers to identify opportunities where a company's competitive position, industry dynamics and cash generation will drive strong share price performance. The Fund is built without formal reference to an index and typically holds 20-40 mid and large cap European companies both long and short.

### RISK CONSIDERATIONS

The Fund has considerable latitude over its asset allocation both long and short equities and it may employ leverage and own sophisticated instruments such as futures and options. The performance stream is likely to be volatile and the Fund is suitable only for investors who have a long time horizon (>5 years) and can tolerate high risk. Investors may not get back all the money invested and an investment in this Fund should only form part of an investor's total portfolio. Investors should discuss the suitability of this Fund with their professional adviser.

## Investor information

<b>Share classes</b>	I (€, £)	<b>Minimum investment</b>	I £1,000,000 (or equivalent in €)
<b>Share class hedging</b>	Non-base currency share classes are hedged	<b>Dividends</b>	Income potentially distributed on £1
<b>Trade date (T)</b>	Daily	<b>Administrator</b>	U.S. Bank Global Fund Services (Ireland) Limited
<b>Dealing</b>	By 2pm T-1	<b>Auditor</b>	Deloitte & Touche, Ireland
<b>Valuation</b>	Close of business T-1	<b>Depository</b>	J.P. Morgan Bank (Ireland) plc
<b>Front end fee</b>	Up to 5%	<b>Price reporting</b>	Prices published daily on <a href="http://www.odey.com">www.odey.com</a> , Bloomberg and by other third party data providers.
<b>Annual management fee</b>	I 0.75%	<b>ISIN</b>	€I IE00BZ1J0335, £I IE00BZ1J0228
<b>Performance fee basis</b>	20% of the absolute outperformance of the share class during a performance period. Fees crystallise annually, and on redemption. Underperformance is carried forward.	<b>SEDOL</b>	€I BZ1J033, £I BZ1J022
<b>Anti-dilution fee</b>	May apply to subs/reds if net subs/reds+ >5% of NAV		

## Important information

**This is a marketing communication and it is not intended to be viewed as a piece of independent investment research.**

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## Glossary of terms

Please refer to the fund's prospectus for detailed information. Some terms listed are not relevant for every fund. This document is intended for use by individuals who are not familiar with investment terminology. Please contact Odey if you need an explanation of these terms.

**Absolute return:** The return that an asset/fund achieves over a period of time looking at the appreciation or depreciation (expressed as a percentage) that the asset/fund achieves.

**Acc/Accumulation class:** A share class which accumulates and reinvests net investment income and net realised capital gains and does not pay dividends.

**Active currency exposure:** The percentage of a fund's assets which are invested in a particular currency.

**Administrator:** The specialist entity who maintains the register of shares, provides fund valuation and accounting services.

**AIF:** Alternative Investment Fund as regulated by the Alternative Fund Management Directive.

**Alpha:** A measure of performance on a risk-adjusted basis, often seen as the active return on an investment.

**Annual management fee:** The fee payable by the fund to the investment manager to cover expenses associated with running the fund.

**Anti-dilution fee/levy:** A fee levied by a fund on investors buying/selling shares to protect current shareholders from the dealing costs incurred when paying out or taking in clients.

**Asset class:** A group of securities that exhibits similar characteristics, behaves similarly in the marketplace and is subject to the same laws and regulations. The three main asset classes are equities (or stocks); fixed income, or bonds and cash equivalents, or money market instruments.

**Base currency:** Each fund has a base currency and this is the currency which the fund uses to calculate its net asset value.

**Beta:** A measure of the fund's volatility in comparison to its benchmark.

**CAGR:** Compound Annual Growth Rate (CAGR) is the rate at which the fund/benchmark has grown on an annual basis to reach the current performance since inception.

**Capital growth/appreciation:** Capital growth is measured on the basis of the current value of the asset or investment, in relation to the amount originally invested in it.

**Commodity:** A physical substance (such as food, grain, metal) which investors buy and sell through futures contracts.

**Comparative/Index/Benchmark (e.g. MSCI):** A comparator the fund has used to compare its performance to or for its performance fee calculation.

**Contribution:** Used to explain the breakdown of a fund's absolute performance.

**Correlation:** A statistic that measures the degree to which two securities move in relation to each other.

**Dealing:** Arranging the sale and purchase of shares in a fund.

**Delta:** A ratio comparing the change in the price of an asset to the corresponding change in the price of its derivative.

**Derivatives (futures, options, swaps and contracts for difference):** A financial contract based on an underlying asset or financial index with its value determined by fluctuations in the underlying asset/index. Derivatives may be used to manage risk in portfolios, for greater flexibility to lower costs, to gain leverage and to enhance returns.

**Dist/Distributing Class/Inc/Income:** A share class which pays dividend distributions.

**Dividends:** A sum of money paid regularly (typically annually) by a company to its shareholders out of its profits (or reserves).

**Equity/Security:** The percentage of the fund that is currently invested in the equity market.

**Exposure:** The amount invested in a particular type of security, market sector or industry, usually expressed as a percentage of the total portfolio holding.

**Fixed income security:** A type of investment which pays out periodic income of a fixed amount on a fixed schedule e.g. a bond is a fixed-income security.

**Forward currency contracts:** A foreign exchange contract that locks in the exchange rate for the purchase or sale of a currency on a future date.

**Front end fee:** The initial fee/sales charge applied at the time of an initial purchase of an investment.

**Fund:** Odey European Focus Absolute Return Fund.

**Global Industry Classification Standard (GICS):** A standardized classification system for equities developed jointly by Morgan Stanley Capital International (MSCI) and Standard & Poor's.

**Government bond:** A bond issued by a government to support government spending, often issued in the country's domestic currency.

**Gross:** The total rate of return on an investment before the deduction of any fees or expenses.

**Hedged class:** A share class giving exposure to assets denominated in foreign currencies without the currency risk of the fund's base currency. Techniques and instruments are used to limit the currency risk between the hedged class and the base currency.

**Hedging:** Hedging against investment risk means strategically using financial instruments in the market to reduce the risk of adverse price movements.

**High water mark:** The highest value that an investment fund or account has reached over a specified period of time.

**Information ratio:** A measure of the fund's returns above the returns of the benchmark to the volatility of those returns.

**Investment Manager:** Odey Asset Management LLP.

**ISIN:** An ISIN (International Securities Identification Number) uniquely identifies a security.

**KIID:** A KIID (Key Investor Information Document) must be provided to anyone who invests in a UCITS.

**Leverage:** An investment strategy of using borrowed money and/or financial instruments to increase the potential return of an investment.

**Long:** The practice of buying securities with the expectation the asset will rise in value.

**NAV:** The NAV (net asset value) of a fund is the value of the fund's assets less its liabilities. NAV per share is the value per share and is calculated by dividing the total NAV of the fund by the total number of shares.

**Net:** The total rate of return on an investment after the deduction of any fees or expenses, including annual management fee and performance fee where applicable.

**Notional Exposure:** The total value of a fund's leveraged assets.

**Ongoing Charges Figure (OCF):** A figure showing all annual charges and other operational expenses payable by a fund.

**Performance attribution:** A set of techniques that are used to explain why a fund's performance differs from a benchmark.

**Performance fee:** A fee payable to the investment manager on returns that, subject to a High Water Mark, the fund achieves either in absolute terms or relative to a performance fee benchmark. Please refer to fund prospectus for details.

**Portfolio:** A group of financial instruments such as shares, funds, bonds, cash and cash equivalents held by an investor and managed by a financial professional.

**Proprietary currency positions:** Foreign exchange contracts entered into by the fund for investment rather than hedging purposes.

**Quoted securities:** A quoted or listed security is a financial instrument that is traded through an exchange, such as the LSE, NYSE or Nasdaq.

**Rebased method:** Used to illustrate a fund's performance against comparative benchmark on a chart whereby they both start at the same point.

**Rel/Relative:** Calculates how much the fund has out/underperformed its comparative benchmark.

**SEDOL:** A SEDOL (Stock Exchange Daily Official List) is a unique number assigned by the London Stock Exchange and used in the UK and Ireland to identify securities.

**Share class:** A designation applied to a specified type of security such as shares in a fund. Each share class has its own rights.

**Sharpe ratio:** A measure for calculating risk-adjusted performance; the higher the ratio, the better risk-adjusted performance.

**Short:** The practice of selling borrowed securities with the expectation that the assets will decrease in value whereupon they will be repurchased and returned to the lender.

**Since inception/Since inc.:** Inception date is the date on which the fund launched.

**Sortino:** A variation of the Sharpe ratio that differentiates harmful volatility from total overall volatility by using the asset's standard deviation of negative asset returns, called downside deviation. The Sortino ratio takes the asset's return and subtracts the risk-free rate, and then divides that amount by the asset's downside deviation.

**Standard deviation/Sta. dev.:** Measures the degree of variation of returns around the mean (average) return. When applied to the annual rate of return, it shows the historical volatility.

**Statistics:** Statistical measurements used to analyse historical fund data such as performance, volatility etc.

**Strategy AUM:** The total assets of the funds managed by the Investment Manager to a similar investment mandate.

**Ten-year adjusted basis:** Shows any exposure to Fixed Income, Bond Futures or Interest Rate Futures on a 10-year duration basis.

**Tracking error:** A risk measure showing how closely a fund's performance follows a particular benchmark.

**Treynor:** Treynor ratio, also known as the reward-to-volatility ratio, is a metric for returns that exceed those that might have been gained on a risk-less investment, per each unit of market risk.

**UCITS:** Undertakings for the Collective Investment of Transferable Securities (UCITS) is an EU regulatory framework creating a harmonized regime throughout EU for the management and sale of funds.