

# Brook European Focus Absolute Return Fund

**BROOK**  
ASSET MANAGEMENT

## Portfolio Manager Report

European equity markets rose modestly during the quarter. On the one hand, the fear of recession remained strong amongst investment commentators as the Chinese economic recovery stuttered, European macroeconomic datapoints were mixed, fears persisted over the knock-on effects to the US regional banking crisis, and investors worried about the lagging impact of rising interest rates. However, overall macroeconomic demand, most notably in the service economy, remains resilient, particularly in the US, despite these concerns. On the other hand, further signs of disinflation helped the debate on a peaking in the interest rate cycle. At a microeconomic level, developments in artificial intelligence (AI) spurred a notable rally in technology shares.

The fund fell -0.69% versus a rise of +2.33% for the MSCI Europe Index in Euro terms during the second quarter. The underperformance that began in the first quarter in the wake of the US regional banking crisis continued in the second quarter, predominantly as growth stocks outperformed, primarily reflecting recessionary fears and the expectations of a peaking in the interest rate cycle. In the long portfolio, the fund's strongest performance came from Ryanair and Inditex, while its energy shares continued to lag in concert with the weaker oil price, and the telecom positions gave back their gains of the previous quarter. In the short portfolio, performance was muted but we made two notable changes, first, realizing the strong gains we have made in real estate companies over the last year, including in Balder, Sagax, Tritax Big Box and WDP, and second, reducing the exposure to technology given the risks of the AI induced rally. Overall, the net position remains just over 40% net long.

Although European GDP expectations remained largely unchanged during the period, with consensus expectations remaining for circa 0.5% growth in 2023, a series of weaker European macroeconomic data points during the quarter increased investors' concerns over recession. Our expectations for a backdrop of largely anemic growth remains largely unchanged, with the well-rehearsed downside risks balanced by the positives of an end to the more severe than usual inventory cycle, a bottoming in real wages and while maybe not of the same magnitude that many had hoped for, a still recovering Chinese economy. Our perspective on inflation also remains largely unchanged. Consequently, we are still positioned for a normalization in the cost of capital and compelled by the opportunity on offer.

In the long portfolio, the fund had strong performance from most notably, Inditex and Ryanair. Inditex, the fashion retailer, is seeing the benefit of its omnichannel business model evolution, as strong execution has seen them gain more market share into a still robust consumer. Ryanair, Europe's leading low-cost airline, moved higher as their new aircraft order with Boeing cemented the capacity profile for the medium term, underlying demand remains strong, European short haul capacity is structurally constraint, and their lowest cost position further widens. It should also be noted that despite the US regional banking crisis and the demise of Credit Suisse, our positions in European banks continue to perform well, highlighted by a solid first quarter reporting season.

### Performance

**-0.7%** Quarterly performance

**3.8%** Year-to-date performance

**3.9%** 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	133.35
£ I Class	138.95
Fund Size	€89 million
Strategy AUM	\$98 million
Fund Inception	04 Jan 2016
Class Inception	04 Jan 2016
Fund Type	Irish Long Short UCITS

### Portfolio Manager

Oliver Kelton

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During the quarter, we invested most notably in commodity positions, increasing the weighting in Arcelor as well as initiating new positions in Norsk Hydro and K+S. K+S, the German potash company, is particularly interesting. Spiking potash prices were something of a symbol of the initial fears of the Russian invasion of Ukraine. However, potash prices have since fallen back over 70% from their peak and consequently K+S has pulled back materially. At current levels, K+S, despite having finally restored the balance sheet to a net cash position, and with the long running investment in the world leading Canadian mine operating well, is now trading near record a low P/B, a level below even the replacement cost of just the leading Canadian asset. Against this backdrop too, the potash market is substantially supply constrained, even in event of peace in Ukraine, for the next several years at a minimum, and demand is likely to recover sharply as lower farmer usage will likely now significantly challenge crop yields unless usage improves.

In the short portfolio, Sagax, Tritax Big Box, and WDP, the fund's warehouse shorts all continued to fall on challenging industry dynamics. We have now covered all the real estate positions given elevated short positioning in the sector.

In summary, while the fund has underperformed since the outset of the US regional banking crisis, we continue to believe we are well positioned. The long portfolio, at circa 8x P/E the fund still trades near a record low valuation and the opportunity offered in both the long and short portfolios by a continued normalization in the cost of capital remains compelling.

—

*Oliver Kelton*

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## Performance (EUR)

	1-month	3-month	1-year	3-year	5-year	YTD inception	Since inception	CAGR
							since inc.	
<b>Fund</b>	0.7	-0.7	12.8	53.5	42.9	3.8	33.4	3.9
<b>MSCI Daily TR Net Europe</b>	2.4	2.3	16.7	39.6	37.8	11.1	59.1	6.4
<b>Relative</b>	-1.7	-3.0	-3.9	13.9	5.1	-7.3	-25.7	-2.5

## DISCRETE YEARLY PERFORMANCE

	1-year to	28 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23
<b>Fund</b>		1.6	-8.3	25.0	8.8	12.8
<b>MSCI Daily TR Net Europe</b>		4.5	-5.5	28.0	-6.5	16.7
<b>Relative</b>		-2.9	-2.8	-2.9	15.3	-3.9

## MONTHLY PERFORMANCE SINCE INCEPTION

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2023</b>	3.9	2.4	-1.9	1.4	-2.8	0.7							3.8
<b>2022</b>	7.9	-1.9	0.5	0.5	4.2	-2.6	-2.2	1.3	-1.3	6.0	3.9	0.9	17.8
<b>2021</b>	-3.4	9.6	3.7	-0.7	2.6	-1.4	-2.7	0.7	3.7	0.0	-4.3	3.3	10.8
<b>2020</b>	-3.0	0.3	-2.7	2.0	-1.6	2.0	-3.4	3.4	-3.1	-0.5	16.0	1.2	9.7
<b>2019</b>	-5.2	-3.8	1.1	-5.3	4.5	-3.4	-0.8	4.4	-3.5	-3.0	-2.9	0.5	-16.6
<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	-1.7	0.3	-1.4	2.7	-1.0	0.6	3.0	-2.3	0.5	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>

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<b>Fund Size</b>	€89 million
<b>Strategy AUM</b>	\$98 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>	€

## Top ten equities as percentage of NAV

	Strategy	Notional Exposure
<b>Orange</b>	Long	5.1%
<b>Shell</b>	Long	4.3%
<b>Noble Corporation</b>	Long	3.9%
<b>Ryanair</b>	Long	3.7%
<b>TOTAL</b>	Long	3.6%
<b>BNP Paribas</b>	Long	3.5%
<b>Telefonica</b>	Long	3.5%
<b>ABN AMRO Bank</b>	Long	3.4%
<b>Tesco</b>	Long	3.4%
<b>UBS</b>	Long	3.0%

## Statistics

	1-year	3-year	5-year	Inception
<b>Fund annual s.dev.</b>	9.1	14.1	13.1	11.5
<b>Index annual s.dev.</b>	16.3	15.4	16.0	14.0
<b>Alpha</b>	0.7	0.8	0.5	0.3
<b>Beta</b>	0.3	0.5	0.2	0.2
<b>Correlation</b>	0.5	0.6	0.3	0.2
<b>Sharpe Ratio</b>	1.1	1.1	0.6	0.4
<b>Information Ratio</b>	-0.3	0.3	0.0	-0.2
<b>Tracking Error</b>	14.4	14.0	17.9	16.4

## Important information

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

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## Fund team and contact details

### PORTFOLIO MANAGER

Oliver Kelton

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### ENQUIRIES

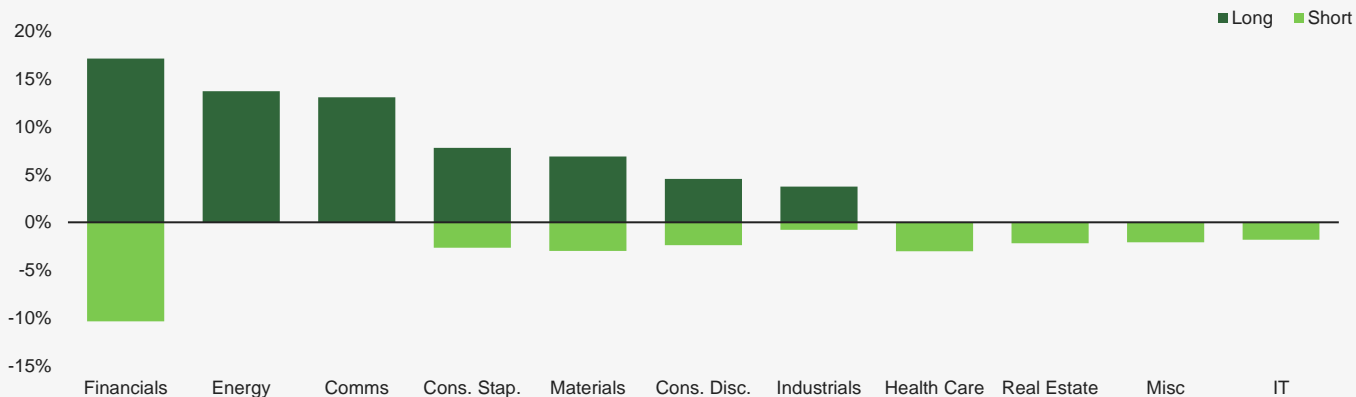
T: +44 (0)20 7208 1400

E: [clientservices@brookam.com](mailto:clientservices@brookam.com)

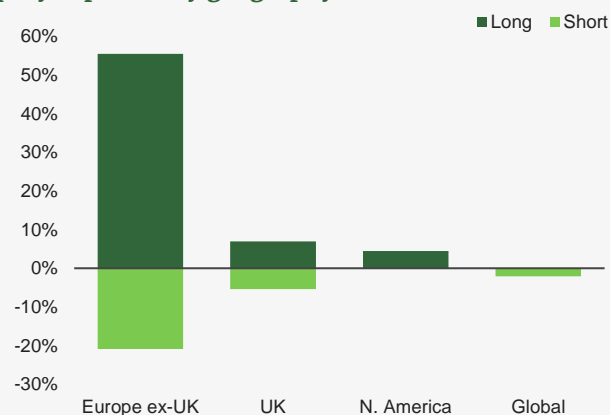
W: [brookam.com](http://brookam.com)

Brook Asset Management, 18 Upper Brook Street, London, W1K 7PU

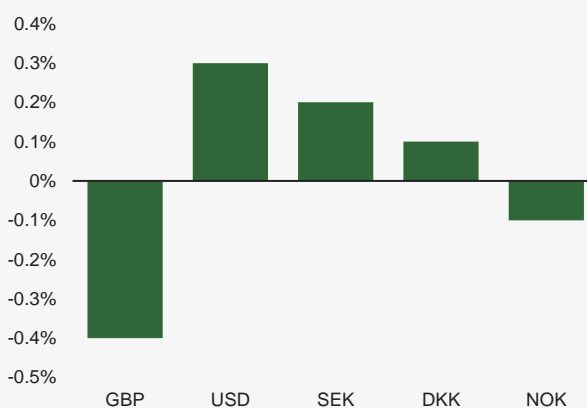
## Equity exposure by sector



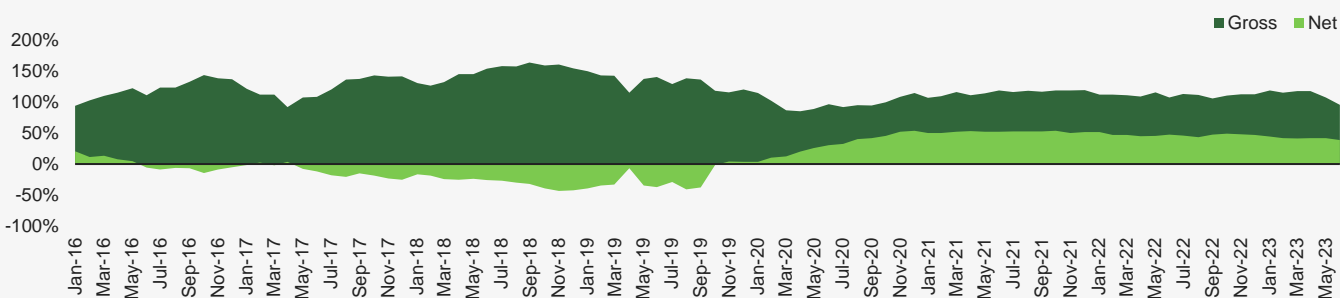
## Equity exposure by geography



## Non-base currency exposure



## Equity exposure



## ASSET ALLOCATION AS PERCENTAGE OF NAV

Long Equity	66.8
Short Equity	-28.3
Foreign Exchange	0.6

Net Equity	38.5
Gross Equity	95.1

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. The fund was renamed effective 8 February 2021 from Odey European Focus Absolute Return Fund to Brook European Focus Absolute Return Fund. All performance in EUR.

Source: All sources, unless otherwise stated, are Brook internal unaudited data and refer to the € I share class. All data shown as at 30 June 2023. <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 Brook 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 Brook 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>Share class hedging</b>	Non-base currency share classes are hedged
<b>Trade date (T)</b>	Daily
<b>Dealing</b>	By 2pm T-1
<b>Valuation</b>	Close of business T-1
<b>Front end fee</b>	Up to 5%
<b>Annual management fee</b>	I 0.75%
<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>Anti-dilution fee</b>	May apply to subs/reds if net subs/reds+ >5% of NAV

<b>Minimum investment</b>	I £1,000,000 (or equivalent in €)
<b>Dividends</b>	Income potentially distributed on £1
<b>Administrator</b>	U.S. Bank Global Fund Services (Ireland) Limited
<b>Auditor</b>	Deloitte & Touche, Ireland
<b>Depository</b>	J.P. Morgan Bank (Ireland) plc
<b>Price reporting</b>	Prices published daily on brookam.com, Bloomberg and by other third party data providers.
<b>ISIN</b>	€I IE00BZ1J0335, £I IE00BZ1J0228
<b>SEDOL</b>	€I BZ1J033, £I BZ1J022

## 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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**Don't invest unless you're prepared to lose all the money you invested. This is a high-risk investment and you are unlikely to be protected if something goes wrong. [Take 2 mins to learn more.](#)**

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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 Brook 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.

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

**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.