Odey International Fund

Fund Update | 30 November 2019

Total returns

At 30 November 2019	1 month %	3 months %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	Inception % p.a. (Jul 2014)
Odey International Fund	-2.80	-11.41	-17.08	-17.68	-4.12	-12.20	-9.53
MSCI World Index Daily TR Net Local	3.15	7.55	12.99	14.71	11.98	8.57	8.82
Outperformance	**-5.95**	**-18.96**	**-30.07**	**-32.40**	**-16.10**	**-20.77**	**-18.35**

Monthly returns*

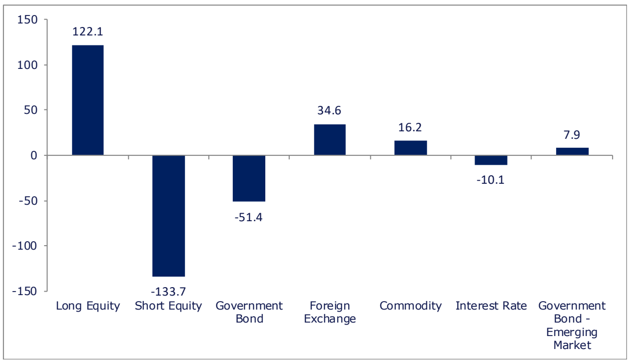
Year	Jan %	Feb %	Mar %	Apr %	May %	% %	Jul %	Aug %	Sep %	Oct %	Nov %	Dec %
2019	-0.48	-8.29	-0.15	-5.46	12.14	-1.59	2.52	-7.23	-9.51	0.72	-2.8	
2018	-3.32	6.59	3.16	4.24	0.52	4.60	1.97	-1.50	9.30	6.98	0.41	2.75
2017	2.12	-3.12	-3.83	-4.74	3.92	-0.39	-8.84	1.35	-5.90	1.63	-1.27	-3.19
2016	4.99	-8.85	-18.42	-8.18	3.59	4.34	-4.64	-6.07	-3.26	-5.92	-5.73	-1.64
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
2014								-0.08	10.51	-5.54	5.42	11.21

*Performance of the Odey International Fund since inception on 29 July 2014

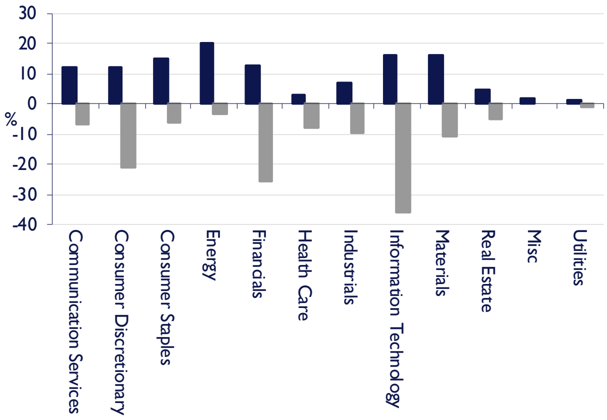
Top 10 holdings

Rank	Security	Strategy	Notional exposure (%)
1	Long Gilt Future Mar20	Short	-27.5
2	Aust 10Y Bond Fut Dec19	Short	-18.1
3	IRS: Fix/Float ICE LIBOR GBP 6 Month	Short	-10.1
4	Melexis	Short	-6.7
5	Netflix	Short	-5.9
6	JPN 10Y Bond(Ose) Dec19	Short	-5.7
7	Telefonaktiebolaget LM Ericsson	Long	5.4
8	SLC Agricola	Long	5.4
9	Hertz Global Holdings	Short	-5.4
10	Banco Macro	Long	5.2

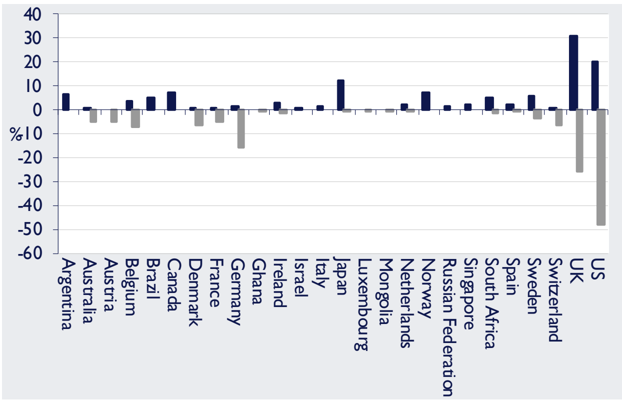
Asset allocation



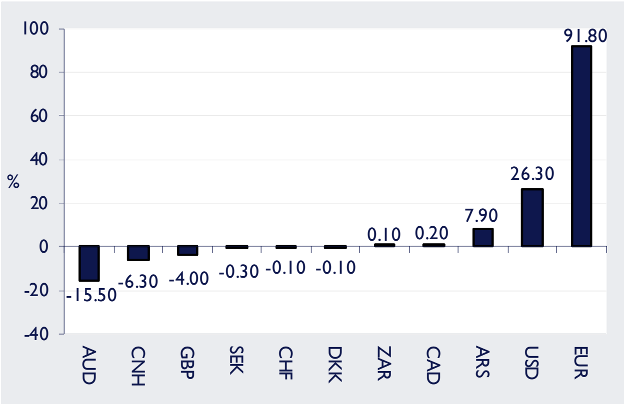
Allocation by industry



Allocation by country



Currency exposure



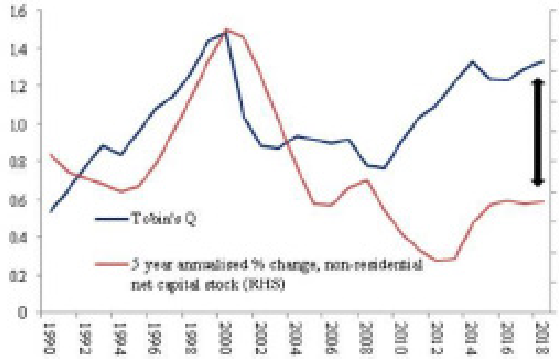
Manager's commentary

Bernanke was a true child of history. He knew that the depression was created by debt deflation caused by banks calling in bad debts accumulated in the bubble years – a trend which fed on itself. He successfully, in 2008/9, stopped the doomsday machine by cutting interest rates to nothing and expanding the central bank balance sheet via QE. He avoided the 20% hit to economic output that attended the 30's. He ensured that things never got bad enough to bring in a Hitler or a Stalin. But there are consequences to dismantling the creative destruction, natural to seasons and in economies. As the Bank for International Settlements has pointed out, at least 11% of the economy is populated by Zombie companies.

A world in which creditors cannot get possession in the event of default is not one that banks can operate in profitably. But in a world in which 60 cents out of a dollar of new lending does no result in GNP growth, interest rates have to keep falling just to keep the economy from being overwhelmed by mounting debt. What is now brutal is that saving the world from running out of the means of paying for the debt that supports uneconomic activities is actually still not enough to allow politicians in advanced democratic countries to win elections. Productivity falls to zero and everything becomes about redistribution. The good is not good enough increasingly to stave off a bad outcome. That is why populism continues to grow.

One escape from the lack of productivity growth has been to invest heavily in technology. Surely, this is leading to much higher productivity growth than is captured in the GNP numbers? Sadly no. Productivity means that you have more to spend with your money at the end of the year thanks to improvements in how everything is created. That is not happening. Instead it is just driving politicians to start meddling with what is left of the price mechanism to invoke growth by spending more money themselves (a very bad idea) and in some cases just cutting the price paid for goods and services unilaterally (train fare cuts and energy cuts).

For investors, they should be frightened because there is no easy answer, no long-term stable equilibrium. There is merely a feeling of zugzwang. Low interest rates, operating through depleted bank net interest margins, longer depreciation schedules and lower interest rates, have done everything they can to bring forward consumption. But from here, whither?



Source: Haver and Odey Research.

This chart shows it all. Tobin's Q highlights whether markets are expensive both against prior times and in terms of themselves. When Tobin's Q is above 1 it signifies that returns on investment are such that it pays for companies to invest to harvest greater profits. Therefore, there is a strong correlation between capex and Tobin's Q, or always has been up until now.

Suddenly Tobin's Q is showing markets at their most expensive and yet capex barely moving. Either companies are becoming more monopolistic (which they are) and therefore do not need to invest to increase profits, or companies are showing higher levels of profits than they are making, by disguising labour costs in share option schemes (which they are), or this should no longer be called Tobin's Q but Tobin's QE because it reflects that asset prices have been bubbled up by excessively low interest rates whilst returns on assets haven't risen. None of this makes one sleep easily.

And here I come to the paradox because Argentina, thanks to its pariah status in the world, is forced to deal with all these problems – low productivity, populist measures which undermine the price mechanism – without the benefit of credit.

As a result, on August 11th, when suddenly it looked like Fernendez and Kirchner were going to win the presidency, the government bond market shut down for business internationally. Bonds trade at 40% of par. The economy is in recession: GNP is down some 3% year over year. But that is not bad when since August credit has died. No benefit from the Fed expansion in September and October for them. Argentina is in a dark place but it knows it is there. I can work out several easy things that Fernandez can do now he is president, which could create the conditions for a sustainable economic recovery. With government debt trading at 25% of GNP, which itself is massively understated thanks to the black economy, an agreement with international creditors to pay 5% p.a. over 6 years would be easily payable out of a trade surplus of 4% GNP. So, whilst in the developed world we all have to hang by our fingernails and hope, in Argentina the fall looks behind us and the climb is ahead.

There is an old Peronist saying ‘signal left and turn right’. If Fernandez has any sense, that is what he will do.

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

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