

Giano UCITS Fund

Long/Short Equity

September 2019

Performance Returns

The Giano UCITS Fund (EUR Class R Pooled Shares) returned 2.1% for September

Investment Objective & Strategy

Giano Capital is a long-short equity fund that thrives on innovation by delivering quality investment propositions through highly experienced individuals and machine learning methodologies. The fund vigorously pursues and thrives on innovation; focusing on the integration of new machine learning technology. We have a highly experienced team centred on finding equity opportunities utilising tools that improve the productivity of the investment process, allowing us to identify a greater number of opportunities whilst being more objective and disciplined.

Effective and efficient automation of parts of the investment process, where possible utilising the learning methodologies of the "machine" are used to make quality investment decisions quickly and objectively, complementing the subjective experience of the fund manager.

Monthly Commentary

The S&P closed up 1.7% and the Eurostoxx up 3.6%.

The best sectors in Europe were Banks and Insurance; the worst were Food & Beverage and Personal & Household Goods.

In the Fund, the best were Plus500 and GVC (both longs); the worst were Viasat (long) and Boohoo (short).

A small move up in yields at the beginning of the month caused a savage rotation out of defensives into cyclical causing heavy losses in the long-short community.

At play are historically low interest rates and their impact on defensive stocks (of which I have written in the last two reports), a bearish positioning skewed toward cyclical sectors, Central Banks' intervention and a weakening cycle.

(Monthly Commentary Continued on page 2)

UCITS Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2019	-2.0%	-5.5%	1.5%	-1.2%	-0.9%	-4.4%	-1.6%	1.8%	2.1%				-10.1%
2018	-	-	-	-	-	-	1.0%*	-2.8%	-2.2%	-2.9%	-2.6%	0.3%	-9.1%

The performance figures quoted above represent the performance of the Giano UCITS Fund since launch on the 11th of July 2018. These performance figures refer to the past and past performance is not a reliable guide to future performance.

Odey Giano UCITS Fund Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2018	4.9%	3.4%	-0.7%	2.5%	4.1%	1.4%	0.8%						17.4%
2017	-0.1%	-0.4%	-0.7%	1.1%	2.0%	1.2%	0.8%	4.8%	3.2%	2.9%	1.1%	-3.0%	13.3%
2016	-2.5%	1.8%	-2.2%	-4.4%	0.9%	-1.5%	0.2%	-1.0%	-0.7%	-4.9%	1.5%	-7.4%	-18.8%
2015	0.7%	-5.6%	2.1%	-2.7%	-1.7%	1.1%	-0.5%	1.0%	0.6%	-0.4%	-0.3%	5.3%	-0.9%
2014	0.9%	3.1%	-4.3%	-4.3%	1.5%	-0.3%	-0.7%	1.7%	2.5%	3.6%	2.3%	1.0%	6.9%
2013	-0.3%	5.0%	4.0%	-3.7%	1.7%	2.9%	-1.5%	-0.2%	0.7%	-0.3%	1.9%	3.4%	14.1%
2012	-0.2%	0.4%	-0.2%	4.8%	3.1%	-2.1%	1.7%	-2.1%	1.2%	-0.4%	0.0%	-2.3%	3.8%
2011	-	-	-	-	-	-	-	-	-	-	-0.1%	-1.8%	-2.0%

The performance figures quoted above represent the performance of the Odey Giano Fund since launch on the 17th November 2011. This fund was merged into the Giano UCITS fund on the 11th July 2018. These performance figures refer to the past and past performance is not a reliable guide to future performance.

The Manager

Quay Partners

Michele Ragazzi

Michele Ragazzi will manage the Fund; an experienced manager of long/short equity funds since 1994, he has outperformed the market whilst providing good capital protection under challenging market conditions for his clients whom, in some cases, have invested with him for 20+ years. Michele is passionate about the need to innovate, increasing product value through technology, penetrating new markets and increasing the value-add for the client. Michele identifies the moments of extreme valuations that may be caused by specific company events or by market capitulations.

Marco Bianchi

Marco Bianchi is a senior Quant formerly with the Bank of England - Marco heads the systematic research team.

Fund Facts

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Daily
Fund AUM	€31 million
Strategy AUM	€45 million
Inception	11 July 2018

Share Class	Class M Shares
Currency	EUR/USD/CHF/GBP
Mgt. Fee	0.75%
Perf. Fee	0.00%
Min Init. Sub.	10,000,000
ISIN Codes	EUR: IE00BFX0Y541 USD: IE00BFX0Y871 CHF: IE00BFX0Y764 GBP: IE00BFX0Y657

Share Class	Class R Pooled Shares
Currency	EUR/USD/CHF/GBP
Mgt. Fee	1.25%
Perf. Fee	15.00%
Min Init. Sub.	5,000
ISIN Codes	EUR: IE00BFX0Y988 USD: IE00BFX0YD20 CHF: IE00BFX0YC13 GBP: IE00BFX0YB06

Monthly Commentary cont.

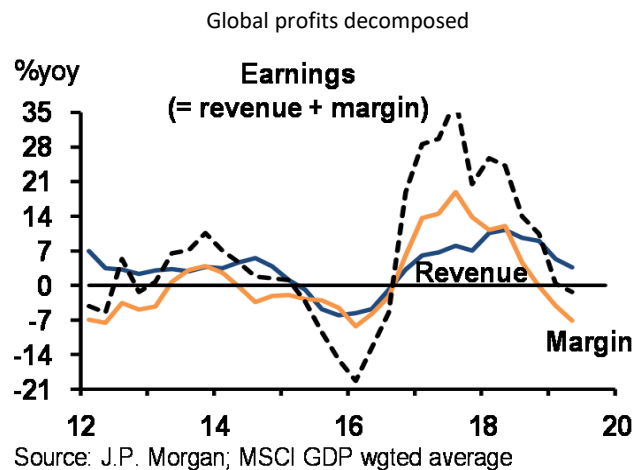
The cycle continues to weaken and given the high level of inventories is unlikely to bottom for at least another 6 months. Both the Euro area and Japan recent data disappointed all observers.

Earnings revisions in Europe have started deteriorating again over the last few weeks; this is likely going to have a negative impact on stock prices in the upcoming reporting season.

Also, these negative readings increase the likelihood that 3Q reporting season will see companies lower guidance further for the next quarters.

One of the main debates between investors - it seems to me - is between the hit we are witnessing to industrial production (bearish) and the strength of consumer spending (bullish).

However, the weakness in corporate profitability - shown in recent data - has the potential to translate in lower hirings and lower consumer spending as such increasing the risks of a recession. What is interesting - typical of late cycle and different from 2016 - is that the weakness is the result of margins compression rather than a slowdown in sales (source: JPMorgan).



The latest profit slowdown is not related to some specific sector but is broadly based.

A positive for the markets - as it has proven to be a contrarian indicator - is that positioning remains quite bearish and skewed toward cyclical sectors.

All the above explains why I decided to close the cyclical positions short during the month of August and rebuild them toward the end of September. The idea is to go through what should be a weak reporting season with these shorts open and close them later this month.

The fund is net short.

Valeo - Short

The company designs and manufactures auto components.

Market Cap of 7.1bn Euros and about 4bn of net debt.

The stock is very expensive at 25x 2019 EV/Ebitda-Capex and 50x 2019 estimated free cash flow.

It is the lowest margin auto-supplier with a stretched balance sheet; so both high operating and financial leverage;

Auto suppliers have become substantially more capital intensive businesses over the last 10 years;

OEMs have outsourced many more components to suppliers (allowing suppliers to report ever higher order books), and this requires significant R&D which cannot be stopped (Hella and Conti have both made statements relating to this). This trend was welcomed by suppliers when volumes were growing, however they will have to suffer the consequences (in the shape of an inescapable earnings headwind) in a downturn;

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Monthly Commentary cont.

Recent surveys show that inventories are high and underlying demand is weak;

Valeo's accounting is very aggressive: the company capitalized 35% of R&D in 2018 vs <4% at Continental; Valeo trades at twice the multiple EV/Ebitda-Capex 2019 than Conti at 25x;

Global Auto suppliers have claimed that the shift toward electric presents a huge opportunity for their content per vehicle however these businesses are heavily loss making today due to the high R&D required;

In addition to a cyclical downturn, the automotive industry is grappling with significant regulatory changes which are weighing on the industry profit pool. As Original Equipment Manufacturers struggle to meet stricter regulatory targets, they are putting pressure onto their suppliers - a comment made by several OEM management teams.

Michele Ragazzi

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