

# Giano UCITS Fund

## Long/Short Equity

November 2019

### Performance Returns

The Giano UCITS Fund (EUR Class R Pooled Shares) returned -2.6% for November.

### 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 3.4% and the Eurostoxx up 2.7%

Best sectors in Europe were Technology and Basic Resources; the worst Utilities and Telecomms.

In the Fund, the best were Stars and Vestas (both longs); the worst Gamesys (long) and Pets (Short).

Economic numbers over the last month have generally been mixed. In Europe we keep on seeing improvements from very low levels while the US numbers have been more on the negative side.

*(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%  | 1.8%  | -2.6% |      | -10.8% |
| 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 11<sup>th</sup> 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 17<sup>th</sup> November 2011. This fund was merged into the Giano UCITS fund on the 11<sup>th</sup> 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

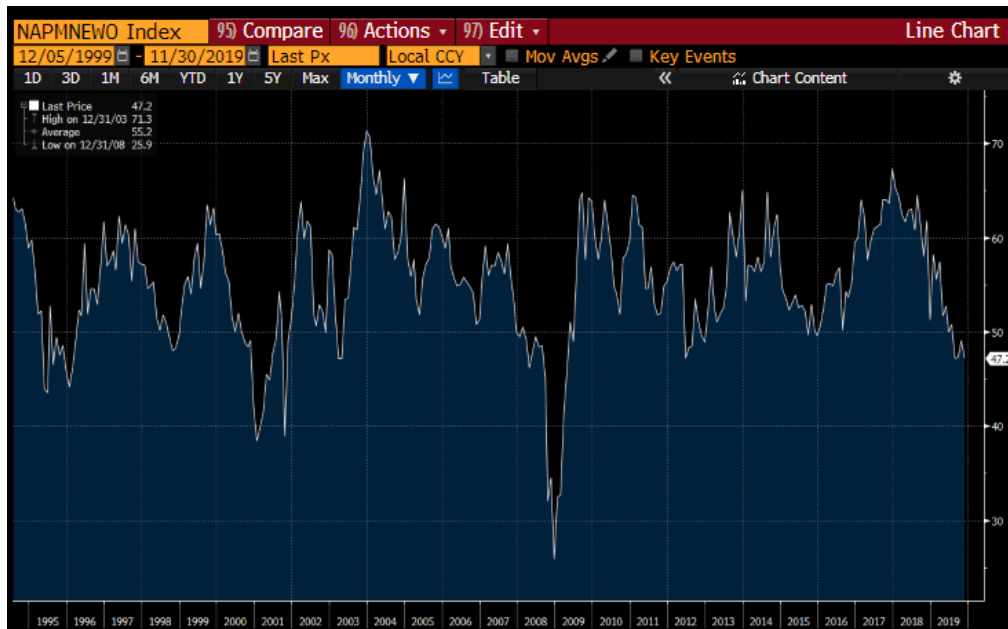
|              |              |
|--------------|--------------|
| Structure    | UCITS Fund   |
| Domicile     | Ireland      |
| Liquidity    | Daily        |
| Fund AUM     | €29 million  |
| Strategy AUM | €42 million  |
| Inception    | 11 July 2018 |

|                |  |
|----------------|--|
| 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<br>USD: IE00BFX0Y871<br>CHF: IE00BFX0Y764<br>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<br>USD: IE00BFX0YD20<br>CHF: IE00BFX0YC13<br>GBP: IE00BFX0YB06 |

### Monthly Commentary cont.

Here is the chart of the New Orders inside the NAPM industrial survey reaching the lowest level outside the two recessionary times.



Source: Bloomberg Dec 2019

The level of inventories - very important for the profitability of large parts of the industrial sectors - has now corrected substantially in the US and if it stabilizes would be the sign that the industrial sector could recover from 2Q 2020.

Europe, unusually, might be ahead of the US in this cycle perhaps rebounding from Brexit uncertainties and car manufacturers production issues of late 2018. This month orders hit a 10-month high. In the last two months, European orders have improved at the fastest pace since the debt crisis recovery in 2013. Europe's new orders to inventories ratio remains below 1.00, but at a 12-month high, suggesting the region has bottomed out. Germany has been the key driver, rebounding at a record pace ex 2009.

Cyclical stocks seem to have already anticipated the possibility of a recovery with stock prices having recovered to the levels of before the slowdown started in 2Q of last year.

An area of the market that seems to be still offering an opportunity on the long side is the UK mid cap to which we have a substantial exposure.

**Pets at Home** (short), reported good interim results in November driven by store sales, the stock was up 22%. It is positive for the company that online competition is failing, on the other hand the stock is now trading on 19x March 21 earnings with still a number of issues to be resolved on the side of the Vet business.

#### **Serco** - Long

Market Capitalisation is £1.8bn.

Serco delivers essential outsourced services principally to the UK and US governments. Contracts are usually long term and thus offer good revenue visibility.

This is a company we have been following for many years.

New management took years to unravel a messy set of financials and digest a lot of loss-making contracts, still visible although completely provisioned for.

It is attractive that the sector has become a lot less competitive; recent bids for contracts have seen 4 participants while only 5 years ago similar outsourcing contracts had 80 bidders. Also the risks assumed with the new contracts seem a lot lower reducing the likelihood of loss making contracts in the future.

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### Monthly Commentary cont.

Management (CEO and CFO) have very strong background, own a lot of shares and are very well incentivised on the right metrics (Return on Capital, Earnings per Share and Total Shareholder Return).

The current Enterprise value is £2.3bn. Headline valuation multiples are 65% EV/Sales and 15x cash EBIT. Conservatively assuming 3-5% growth in Invested Capital and 7% Cost of Capital (WACC) - also conservative in today's markets - the stock has 50% upside.

**Michele Ragazzi**

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