Giano UCITS Fund
Long/Short Equity

May 2019

FACTSHEET

Performance Returns

The Giano UCITS Fund (EUR Class R Pooled Shares) returned -0.9% for May.

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 down 6.6% and the Eurostoxx down 5.7%.

Best sectors in Europe were Food&Beverage and Real Estate; the worst Autos&Parts and Banks.

In the Fund, the best were Plus500 and Grand City, both longs; the worst Pets at Home short and Ocado long.

May was a big risk-off month ignited by the US president starting a new protectionist wave on a background of weak - and overlooked - worldwide industrial production figures.

The S&P had the 3rd worst monthly performance in the last 92 years, but most striking were some moves in the bond markets with the 10 year German government bonds reaching an historic low yield of -0.2%. The US futures market is now implying that interest rates will be cut by more than 50 basis points this year and almost 1% over the next 12 months.

(*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%								***-8.0%***
2018	-	-	-	-	-	-	0.98%*	-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 heads the systematic research team.

FUND FACTS

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Daily
Fund AUM	€33 million
Strategy AUM	€43 million
Inception	11 Jul 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

In the first 6 months of the last 3 significant FED easing cycles the S&P was substantially up once - in ‘89, in spite of the recession that ensued - and down twice in ‘01 and ‘07 when the economy also ended up in recession; ‘95 shouldn’t be overlooked - although it wasn’t much of an easing cycle, it followed a tightening cycle - and the market rallied very strongly. The conclusion here is that forecasting stock market directions over the next few months seems even more difficult than usual.

The industrial slowdown that started around a year ago should have more to go given the high level of inventories still present in the economies; we believe that over the next few months the market may give a buying opportunity similar to the one that was presented last December.

The US yield curve (10 years - 3 months) has inverted again and recent data suggests that US corporate profitability has peaked at the end of 2018. These are necessary conditions and early indicators for the outset of a recession that could come sometimes next year; they have now come into place.

The stock market internals weakened dramatically last month and start showing signs of capitulation in value stocks.

12m fwd P/E Premium of MSCI Growth vs Value

Source: Factset, Goldman Sachs Global Investment Research

The market seems to have also discriminated a lot inside sectors; I don’t think that it is entirely justified and I believe this has opened some opportunities.

During the month the exposure of the fund was reduced.

Piaggio was cut as the stock achieved the highest valuation of the last few years. **RHI Magnesita** was cut as the stock is cyclical, the valuation, although cheap, is back to where it was before the cyclicals stocks correction of last fall, is very illiquid and still needs to prove that sector consolidation will have a positive impact on margins. **Vestas Wind** position was halved as the valuation has improved substantially over the last 12 months and has reported mixed numbers. **ABF** and **Next** positions have been reduced as valuations have improved and UK retail remains extremely weak. **DSM, Schneider** and **EMS-Chemie** have been shorted as I believe that the spread that has opened up between many other cyclical stocks and these offers a very good risk-reward opportunity.

Pets at Home (short) reported better than expected numbers and the stock rose about 25%. I haven’t seen anything new that makes the short thesis change.

Asos - Short

Market Capitalization 2.9bn pounds

The company is a global web only fashion retail business aimed mainly at 20-30 year old clients.

I originally shorted the stock in the summer of last year mainly based on a very high valuation, worsening cash flows and increasingly aggressive accounting.

Since then the company negatively warned (on sales growth and margins) last December but it's still trading on a very high valuation of about 1x EV/Sales August 2019 (their Year end) and 70x P/E and will probably only produce a minimal amount of free cash flow - if at all - for at least the next 2 years.

Online competition - both from high quality store based peers and other platforms - is a lot stronger than it used to be 10 years ago when Asos built its impressive UK presence; Inditex, for example, only started selling online in 2010 but today online sales account for 13% of group sales and are growing 40%.

One very important point, in my view, is that convenience no longer is the competitive advantage it once was. Both from a convenience and particularly economic point of view to give customers the opportunity to pick or return their order in store has become crucial. Zara, Next and H&M in the UK are now more competitive than Asos in terms of costs and speed of standard delivery; Click and Collect has become very popular, about 1/3 of Inditex online orders is picked in store and a lot more are returned to a store (the cost of delivering to a store is probably less than 50% of delivering to home).

One consequence of this for Asos is that it has become a lot more difficult and expensive to acquire new customers; one example is marketing spend divided by net change in active customers that shows a 60% increase YoY.

Another consequence is that the profitability of each order is declining as a consequence of: a) order size that continues to decline and gross margin that is declining both in UK and outside; b) need of improvements in delivery proposition (next day or even same day delivery) that together with lack of last mile infrastructure is causing delivery costs as a percentage of revenues to rise and these costs cannot be transferred to the consumer without becoming uncompetitive.

In my view, the valuation is not justified given the increasing market competitiveness that is having an impact on top line growth and the cost structure.

Main risks to the shorts are a) sales growth coming from the expansion in new product categories (beauty, own-brand homewares); b) Asos is going to be a beneficiary of the capacity exit in UK apparel (Debenhams, New Look, Arcadia); c) the market may focus on sales growth only forgiving Asos lack of profitability for some time; although it is unlikely that the company could surprise upward giving the weakness of the UK market.

Michele Ragazzi

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