Giano UCITS Fund
Long/Short Equity

February 2019

FACTSHEET

Performance Returns

The Giano UCITS Fund (EUR Class R Pooled Shares) returned -5.5% for February.

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% and the Eurostoxx up 3.9%. Best sectors in Europe were Construction Materials and Insurance; the worst Real Estate and Telecomms.

In the Fund, the best were Viasat and Piaggio both longs the worst were Plus500 long and Pets at Home short. A terrible month caused by the major position Plus500 of which I will talk further down.

The indicator of industrial activity I look at has deteriorated in February. US orders have weakened; its order/inventory ratio is at levels that implies flat to negative industrial production growth within the following 6 months, compared to >3.5% now. Europe continued to weaken; orders are at recession lows with a very high level of inventories, compromising any imminent recovery in demand. China saw a bit of a pick up in February due to orders back to where they were 3 months ago.

(*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%											**-7.4%**
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	€30 million
Strategy AUM	€42 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

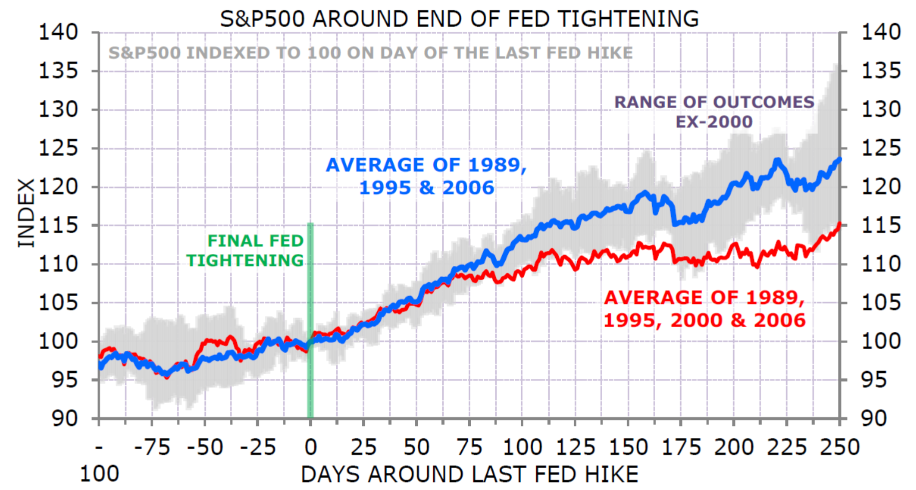
In spite of a strong February the stock market internals remain pretty directionless; however one proprietary bull/bear indicator that we deem important has come out of its bearish pattern.

The semiconductor cycle is giving signs of deteriorating again.

Macro data are disappointing, including in the US. Forecast earnings are being revised down everywhere. The Citibank surprise index for the major economies is as negative as in times like 2016.

Still markets are going up and cyclical stocks are going up (while cyclicals stocks haven't outperformed in Europe they have in US).

The market seems to be anticipating a soft landing of the economies.
I have just read a piece of research showing that equities do well after the last hike even though 75% of the time a Fed tightening cycle ends in a recession. The equity gains occur even if macro indicators continued to deteriorate. History suggests that equities rally for 2-3 quarters after the Fed goes on hold even if recession eventually happens.



Source: Bloomberg; Minack Advisors

I have decided to close most of the cyclical shorts that had been opened in September and October last year and will watch for a clearer entry point to reopen these positions.

As a consequence, as I am writing the fund is slightly net long but with a beta very closed to zero.

Plus500 the main position in the fund was down at one point more than 50% after reporting.
The company reported >150 million of revenues in the 4th quarter (against an expectation of 120/130 millions) but revealed that about 50 of those were made as clients lost money in the market sharp correction of the last Q of 2018 and also revealed that other gains and losses had been made in the past (these had not been made public before); also having seen the level of trading of January the company felt that the average street estimates for sales (568 millions, 142 per quarter on average) for 2019 may be on the high side. These revelations have pushed 2 very important institutions to sell a large part of their shares, by the look of it at any price and as quickly as possible.

I have asked a third party to "audit" their numbers as the stock is trading as if it were a fraud and no suspicious signs in their accounts were found.

Having also communicated with the company a number of times directly and indirectly - while I would have obviously preferred it didn't happen - I am quite confident that everything is in order.

We knew that in certain situations the company would make or lose money against their clients and accept that the exact extent had never been revealed before because inside one year it would be marginal (in fact if they had mentioned the loss in Q4 2017, the market would have been happy about it and should have applied a higher multiple to those earnings); and in any case overall it is only 3% of the revenues over the last 6 years. An explanation for not revealing it could be related to marketing reasons; some clients will be unhappy to have lost money against the company and that may have a short term impact although in the end one would continue to trade with those that offer the best price.

More important is, in my view, to explain the warning on sales. It is important to realise that this company is by far the leader as a trading platform however it is going through what I think is a short term transition after the implementation of the new regulatory regime that came in place on 1st of August 2018. We were very well aware that there may have been a number of slower quarters (3 to 5 perhaps) while some of the retail investors would be migrated to professional investors and those that remain retail investors adapt to a lower level of leverage/higher deposits. We also believe, as it is rational and the experience confirms, that after that transition the stronger players become stronger as it becomes too cumbersome for a small company to comply with the new regulatory regime.

We thought that the very low multiple at which the company was trading would have protected us in case of some short term earnings volatility during this transition period.

I have also analysed all the bearish thesis but also the better ones imply that something in the behaviour of their customers would change (or had already changed) exactly now which doesn't make sense to me.

In the short term, also because of the accounting mess up, we have been wrong, in the longer term I cannot find anything that has changed and have increased the position in the stock.

I think the stock price should be back to where it was at the beginning of February sometime after reporting Q2 this coming summer. After that the company should be back to business as usual.

Michele Ragazzi

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