Giano UCITS Fund
Long/Short Equity

August 2019

FACTSHEET

Performance Returns

The Giano UCITS Fund (EUR Class R Pooled Shares) returned 1.8% for August.

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 1.8% and the Eurostoxx down 1.6%.

Best sectors in Europe were Utilities and Real Estate; the worst Basic Resources and Banks.

In the Fund, the best were Plus500 and GVC, both longs; the worst Aramark and Pets at Home both shorts.

Recent economic data suggest a further deterioration in the industrial cycle: Chinese industrial production is down to a 17-year low; in the US the ISM survey of New Export Orders is at the lowest level of the last 30 years excluding the 08-09 recession. US inventory levels continued to increase; the sector is unlikely to recover before a major inventory correction occurs.

Europe slowed further, specially the UK.

(*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%	-4.40%	-1.60%	1.80%					***-11.9%***
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

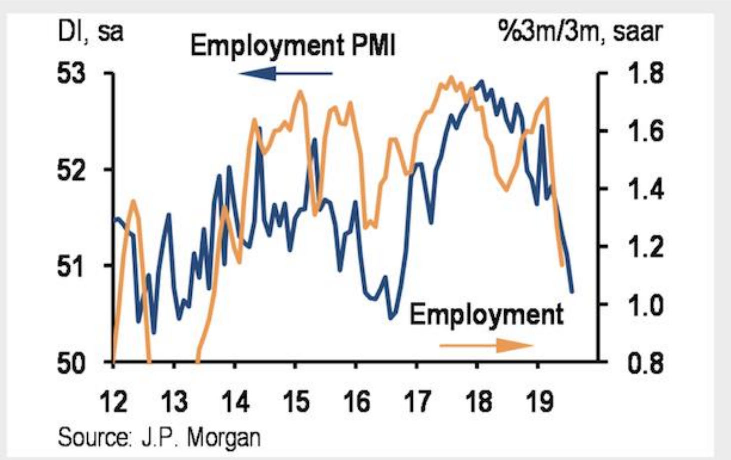
Marco Bianchi heads the systematic research team.

FUND FACTS

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Daily
Fund AUM	€36 million
Strategy AUM	€45 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

At this point of the cycle usually the consumer slows - following a deterioration of the employment environment - and drags down the wider economy.

JP Morgan’s global employment PMI has been falling steeply this year and reached a 3-year low last month; and global employment growth is down to near a 1% y/y.



Government bond yields continued to rally in August; one notable example is the 10y Italian Government bond that has reached a yield of 0.8% in spite of the political crisis, the lowest yield ever.

Stocks have performed much better than normal given the large fall in bond yields. Over the last 20 years a fall of 10y US government bonds of 144bp as we have witnessed over the last 12 months has on average caused a fall of 15% for the MSCI world equity index that is instead flat (source: Morgan Stanley).

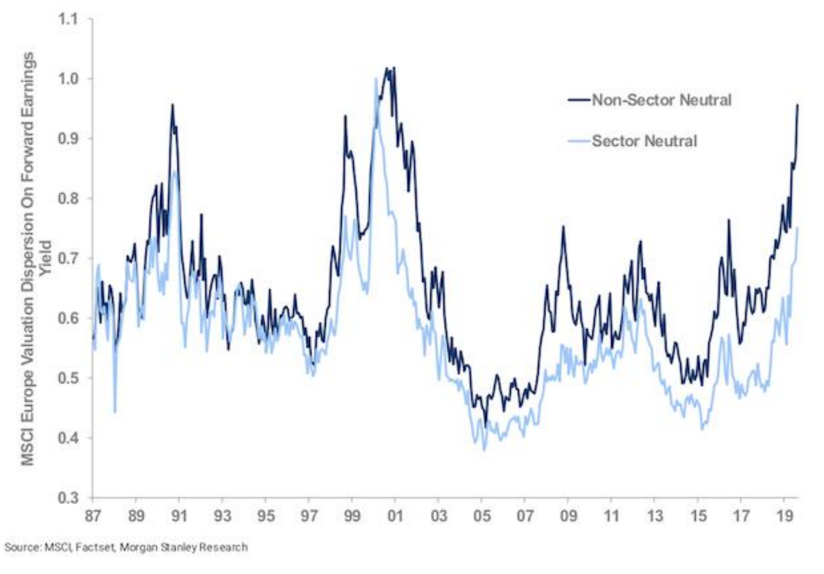
Plus500

Plus reported full details of Q2 in August which was of very high quality. Very low customer churn, lower customer acquisition cost - consequence of lower competition induced by regulation - and strong new customer numbers. The company also announced 50m $ of buy back and we have seen company’s directors and shareholders buying considerable amounts of shares. In August also came the announcement of the Australian new regulatory regime, which came slightly stricter than expected. The stock is trading on 7x this year earnings and has 30% of the market cap in cash on the balance sheet after the buy back and recently paid dividend. IG Group, a good comparable, in spite of growing a lot less if at all, is trading at almost twice the multiples. It is taking longer than I thought for this stock price to normalise, but I can’t see how this is not going to double over the next 6 months.

The Fund is entering the month of September long, having closed some cyclical positions short that had gone quite extreme; I would expect to reduce the exposure again after the main central banks easing of the next few weeks.

In the last monthly commentary I mentioned some of the challenges we have been faced this year with the rally in defensive stocks even when earnings deteriorated, probably the consequence of the very sharp rally in Government bonds; as the following chart is showing that valuation anomaly seems to have reached quite extreme levels.

Valuation dispersion in Europe is fast approaching its all time 2000 high; With expensive stocks being those with quality/defensive characteristics.



We are now working to identify those stocks that have rerated like these defensive/bond-like stocks but don't have the same operating characteristics; we have called them "the fake Nestlés". We believe Sodexo is one of those.

Sodexo -Short

Its business is in Corporates Services Outsourcing specially Catering and Facility management.

Market Capitalisation 15bn Euros.

Valuation is at its high in spite of earnings having come off over the last 2 years. EV/Ebit at 14x compared to a range mainly of between 8.5x to 13x over the last 10 years; it has rerated - on a number of different metrics by 20/30% - over the last few years.

Stretched balance sheet once adjusted for restricted vouchers cash and reverse factoring (close to 2x net debt/Ebitda and 2.7x post IFRS 16)

On a backdrop of maturing outsourcing markets, there is evidence that the foodservice industry is getting more competitive with rising capex levels, hence lower returns on capital employed.

It is trading on 25x free cash flow yield. Low capex to sales ratio compared to its competitors over the last few years (1.5% vs >3%) may indicate that the company has underinvested, hence the free cash flow may be overstated and there are signs that the company needs to increase capex to keep its contracts.

It seems that the company needs to grow its revenues at around 3% to keep the same Ebit margin which the company has barely achieved over the last few years, will also face a macro environment that is becoming more challenging with structural risks from employment patterns (the company also provides meals to employed people) and is fairly exposed to Europe whose employment growth is already very close to zero; Europe is a more cyclical foodservice market (Compass said that volumes fell by 6-7% in 2009) and margins drop more due to a less flexible labour market.

Most companies in the sector have been missing targets or guiding weaker growth this year already.

There are some red flags in their accounting.

Short interest is low at around 4% but the stock is a sell side consensus sell recommendation.

Michele Ragazzi

Contact Details

Investor Contact
MontLake Funds (UK) Ltd
Park House, 116 Park Street
London, W1K 6AF, UK
T: +44 20 3709 4510
info@montlakefunds.com

Management Company
MontLake Management Ltd
23 St. Stephen's Green
Dublin 2, Ireland
T: +353 1 533 7020
investorrelations@montlakefunds.com

Investment Manager
Quay Partners Investments (UK) LLP
21 Knightsbridge
London SW1X 7LY
T: +44 (0)20 3746 4410
Marketing@ethoses.co.uk

Disclaimer