

FACTSHEET

THE MANAGER

Performance Returns

The Giano UCITS Fund (EUR Class R Pooled Shares) returned -2.2% 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 0.4% and the Eurostoxx 600 up 0.2%.

Best sectors in Europe were Basic Resources and Oil & Gas; the worst Real Estate and Technology.

In the Fund, the best were AMS (short) and IG Group (short); the worst were Plus500 (long) and Ocado (long).

The market environment has deteriorated fast over the last few weeks.

The early signs of weakness in the economy and markets have increased. The PMI based indicators (mentioned in my last report) have deteriorated further and are signalling a sharp slowdown in Europe which based on historic data is likely to be followed by the US; inventory levels are also very high which is another bad sign. The semiconductor cycle has deteriorated further. Also market's internals have been deteriorating a lot including the sharp underperformance of mid-cap stocks.

(Monthly Commentary Continued on page 2)

UCITS Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2018	-	-	-	-	-	-	1.0%	-2.8%	-2.2%	-	-	-	-4.1%

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.

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.

Ilario di Bon

Ilario di Bon has a very strong fundamental background has started working with us from the beginning of August. His main task will be to develop the fundamental side together with the systematic team to achieve the advantages of productivity, higher discipline and results that we have in mind.

FUND FACTS

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Daily
Fund AUM	€35 million
Strategy AUM	€50 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: IE00BFX0Y13 GBP: IE00BFX0Y0B6

What also makes the equity environment very dangerous, in my view, is the fact that the US Central bank is still in tightening mode.

The narrative, expressed in my last report, that companies around the world would have been increasing inventories to face the uncertainties of upcoming tariffs and trade barriers makes a lot of sense and is confirmed by a number of bottom up anecdotes; this is also boosting earnings giving the impression that everything is fine. A similar episode happened ahead of Y2K.

To take into account the above view, during the month of September and the first week of October I made some changes in the book.

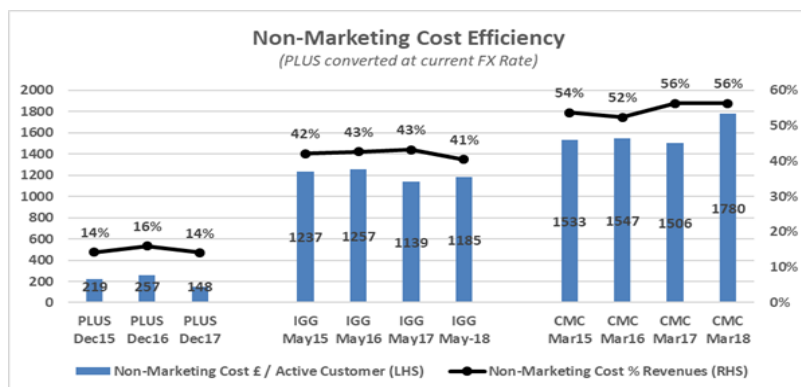
Man Group position has been reduced very substantially; although I like this company and find it good value, the described environment would be very challenging for the stock price of a fund manager.

Infineon, STM and **SKF** have been added to the short side of the book. Infineon is a good company however remains very cyclical, is trading on 2.6x EV/Sales - which is the highest multiple over the last 10 years excluding the last 12 months - and has announced a very large investment last spring which is what often happens at the peak of the cycle. STM is also very exposed to the semiconductor cycle, a bad company, with very high operating leverage, on 1.4x EV/Sales could easily half from here. SKF is a very early cycle capital goods company very related to the European auto industry; inventories are at the highest level since 2009. A cyclical reduction in demand and an adjustment of inventories would cause a very substantial reduction of margins and earnings.

The negative performance of September has been impacted by some specific stock events but also by the fact that the book tends to be exposed on the long side to mid-cap stocks that have generally been taking a beating.

Plus500 was down 13%; comparable companies IG Group and CMC reported poor numbers. We are short **IG Group** - down 31% - but it is a substantially smaller position.

One of the reasons why we really like Plus500 is its cost advantage - illustrated right - which is also one of the reasons to be short IG Group. Between the many reasons why I like Plus500 is the fact that I believe it is one of the few “antifragile” (as defined by Taleb, the opposite of fragile, it performs better when mishandled) companies that I know. In fact being a trading platform when markets go down, volatility increases, people trade more and they earn more; it is not only theory as we have seen trading earnings increasing substantially at IG Group in 2008/2009.



Betting companies **Stars, JPI** and **GVC** all long (down 13%, 8% and 17%). Stars position had been cut by 70pct last April and has been increased in Sept. They are all on at least 10pct free cash flow yield 1yr forward.

Ocado (long) was down 16%. No reasons for the correction other than it's a “growth” stock and as such possibly suffering higher yields and is also mid cap stock.

Bohoo (short) up 32%, reported well, the short argument doesn't stand up anymore I closed the position.

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