Odey Absolute Return (IRL) Fund

ODEY
ASSET MANAGEMENT

Fund Manager Report

Summary

2020 was an extraordinary year for society, economies and markets. The extreme levels of market volatility in the year created the opportunity to earn excess returns. The monetary and fiscal response to the COVID-19 pandemic from authorities was almost as unprecedented as the global lockdown of economies. This, along with positive vaccine data, successfully restored confidence in financial assets leaving the MSCI World TR up +12.28% for the year. The Fund had a good year being up +28.33%.

Review of Q4

It was a good final quarter for the fund which rose +29.88% whilst the MSCI World TR appreciated +7.77%. The long equity book generated returns of +52.57%, the short book down -15.73% and our currency hedges made +1.36%. This was driven by extreme positive long book alpha of +24.4%, offsetting negative short book alpha of -9.31%.

We stated in detail in our last newsletter and on our Q3 2020 conference call that being long a 'vaccine' was a factor risk that we felt had extremely attractive risk return characteristics. We estimated a 90% chance of a successful vaccine approval by the end of Q1-21 with a favourable return profile on our stocks when considering both outcomes. Given what we now know about vaccine approvals 90% was probably too conservative although it is fair to say the greater than 90% efficacy was not our base case though clearly overall we were right to have run this long factor risk, driven by bottom up valuations. A large percentage of our returns in the quarter were catalysed by the vaccine newsflow, and it is not surprising therefore that some of our top contributors were travel companies (Jet2 (+7.95%), IAG (+2.80%), National Express (+1.91%), Ryanair (+1.62%) and Southwest (+0.87%)), cyclicals (ArcelorMittal (+2.32%), IWG (+2.37%) and Glencore (+1.08%)) and banks (Barclays (+1.75%), BNP Paribas (+1.19%), Natwest (+1.12%), TCS (+0.99%) and Alpha Bank (+0.88%)). In terms of diversified alpha it was encouraging for us that AO World was our second biggest contributor (+6.38%) defying the vaccine news flows as it is considered a 'stay at home beneficiary'.

The UK and EU trade deal was another factor risk that we felt showed a favourable return profile in our book at the start of Q4-20. In the end pragmatism between the UK and EU did prevail and our UK holdings benefitted, although we must re-iterate that the quality of the companies that we own meant we would have been happy holders through the volatility of a no deal. Although there is clearly some overlap between this UK factor and the vaccine success an EU deal helped drive returns in some of our UK exposed stocks including BT (+1.37%), Frasers Group (+1.29%), JD Wetherspoon (+1.00%), Vistry (+0.89%), Forterra (+0.84%), Ibstock (+0.74%) and Travis Perkins (+0.57%).

The energy sector, which we mainly bought into at the start of the fourth quarter, contributed positively with Exxon adding +0.56%, Maersk Drilling +0.46%, Royal Dutch Shell +0.40%, Total +0.32%, TGS Nopec +0.33% and National Oilwell Varco +0.16%. We added to the oil space due to various dynamics and cheap valuations. The barriers to entry for the oil majors have risen as the cost of capital has gone up with environmental factors. The price for oil medium term feels well underpinned due to insufficient reserve replacement globally over the last 9 years. The valuations are cheap with sizeable near term cash returns and the shares offer decent upside even assuming no more exploration success. It goes without saying the sector remains deeply unpopular.

Performance

3.0% Monthly performance

28.3% Year-to-date performance

13.7% CAGR since inception

These figures refer to the past. Past performance is not a reliable indicator of future results.

Fund details[1]

£ I Class	130.28
$ I Class	134.62
€ I Class	128.15
Fund Size	£18 million
Strategy AUM	$893 million
Fund Inception	11 Dec 2018
Class Inception	11 Dec 2018
Fund Type	Irish Long/Short UCITS

Portfolio Managers

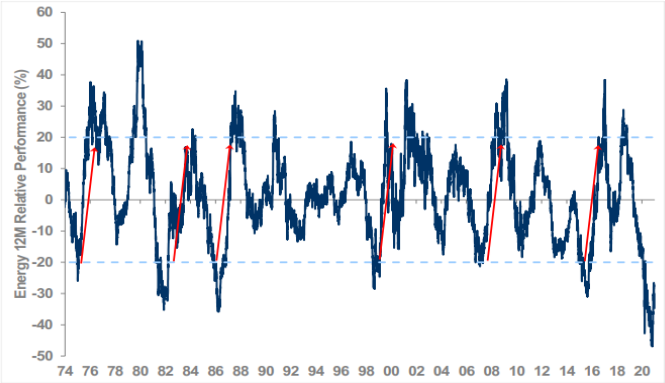
James Hanbury

Jamie Grimston

For full bios visit odey.com

Source: All sources, unless otherwise stated, are Odey internal unaudited data and refer to the £ I share class. All data shown as at 31 December 2020. [1]U.S. Bank Global Fund Services (Ireland) Limited and Bloomberg, calculation on a NAV basis with net income reinvested – the share class prices refer to NAV per share.

Exhibit 1: Relative Performance of the Energy sector



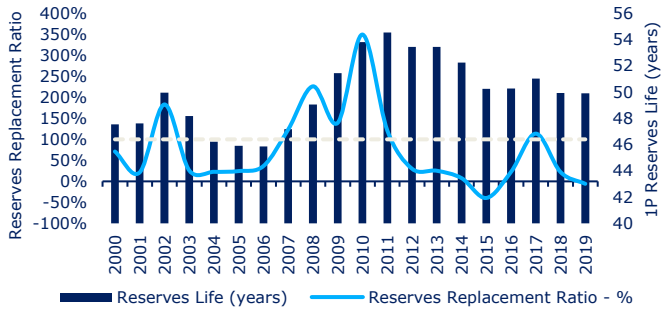
Source: Morgan Stanley, MSCI

Exhibit 2: 2021 FCF yield and dividend yield of Total, RD Shell and BP

	FCF yield (%)		Total div+buyback yield	
	2021E	2022E	2021E	2022E
BP	13%	18%	6.4%	9.9%
TOTAL	9%	11%	7.2%	9.1%
RD Shell	11%	12%	3.3%	6.4%

Source: Goldman Sachs based on closing price 14-Jan-21.

Exhibit 3: Global oil reserves replacement ratio (%) and 1P reserves life (years)



Source: J.P. Morgan estimates, BP Statistical Review of World Energy 2020

Codemasters contributed +1.21% in the quarter, following our building of the position at a less than 2% premium to a recommended and binding offer from US peer Take Two Interactive. We have followed Codemasters since IPO and it was apparent to us that the premium offered by Take Two Interactive was very modest, and that Codemasters itself had an attractive strategic value to other large gaming groups such as Sony, Electronic Arts, Ubisoft, Activision, or even Microsoft. After we took the position Electronic Arts trumped Take Two's offer by 14%. Codemasters is good example of opportunistic use of in-house expertise to make attractive event-driven returns in areas we know well.

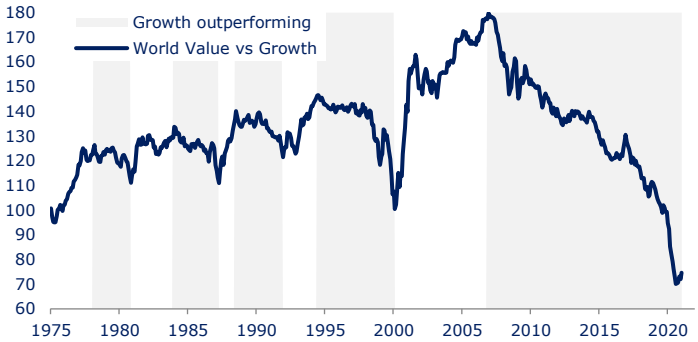
The material negatives in the quarter all came in our short book. Two of our worst performers, **Peloton** (-1.49%) and **HelloFresh** (-1.07%), came from lockdown beneficiaries where we believe that both underlying demand and barriers to entry are overestimated. **Tesla** cost the fund -1.08% as the company benefitted from a Biden win, positive sentiment towards the EV space, retail buying and real rates continuing to fall. To our mind Tesla remains hugely over valued but clearly there has to be an element of common sense risk control with this type of position in this type of market.

Review of 2020

The fund was up +28.33% in the year net of fees with the MSCI world TR +12.28%. The long equity book generated returns of +44.51% during 2020 with the short book losing -4.85% and currency hedges losing -1.92%. Long book alpha was +13.23% and short book alpha was -1.76%.

2020 was the worst year on record for value stocks vs growth/momentum stocks as seen in the charts below and it was the worst year for European equities versus the US for 30 years as the MSCI Europe underperformed MSCI USA by 14.9%.

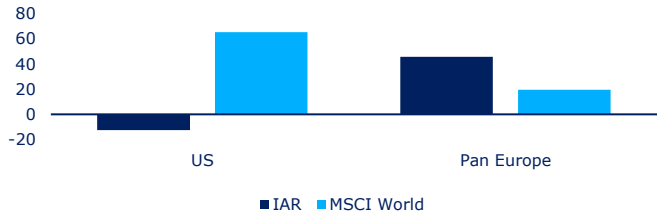
Exhibit 4: World value vs world growth



Source: Goldman Sachs

The relative and absolute performance of value and European equities created a tough backdrop for the fund in 2020. As discussed in previous newsletters the equities we have been rotating into over the past few years have been more in the value camp (although not entirely) and we owned close to nothing in the Nasdaq 500 in 2020. The fund was also materially overweight Europe and underweight the US relative to the MSCI.

Exhibit 5: MSCI weightings of US and Europe vs the net fund weighting of Europe (% of our gross equity assets).



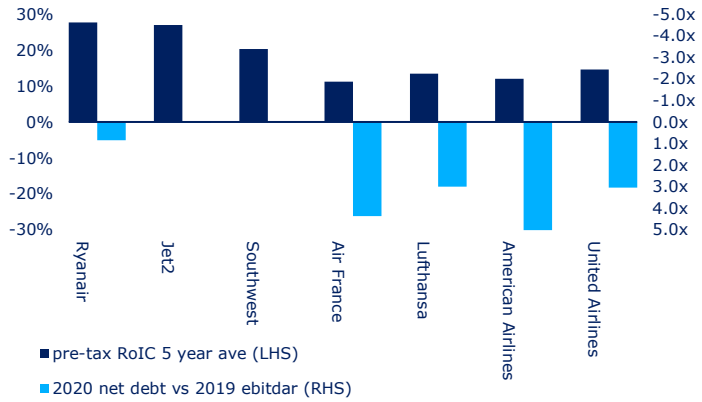
Source: Odey internal unaudited data and Bloomberg.

Although this top down positioning for the fund was clearly a mistake for 2020 as a whole we were aware of the risks coming into the year and communicated it to investors. This underweight of growth stocks led to some of our biggest losses on the short book during the year (Tesla -4.12%, E-Mini Russ 2002 -3.35%, NASDAQ 100 index short -2.25%, EQT -1.94%) and fortunately we only had a small amount of negative alpha on the short book as we had some big notable winners. **Hertz** made +2.58% after it filed for Chapter 11 during the year. **Wirecard** contributed +0.99% after it went bust in fraudulent circumstances. Having

been sceptical about Wirecard for 6 years it was disappointing to not have benefited more from the company's disastrous end. That said the position has generated good alpha while we had it on and has also funded some long positions. Some of our more cyclical and old world shorts where we feel they have structural issues generated great returns for us not surprisingly in this pandemic year (Compass (+2.19%), Lamar (+1.37%), Cinemark (+1.25%))

What was encouraging about our long book performance was 3 of our biggest contributors came from very different and fairly idiosyncratic names, AO World (+15.05%), Plug Power (+7.01%) and Plus500 (+6.15%). What also helped us enormously on both the long and short book during the year was sticking to our strengths and focusing on bottom up valuations. Our internal analyst team and our deep understanding of many of the companies we follow allowed us to have good degree of confidence regarding liquidity, balance sheets, cash flows and operating performance of our companies during the year at times of stress. These times of stress in the market meant there were some absurdly cheap equities on offer giving us a high margin of safety to acquire a new position or add to an existing one. This also meant that we generated some good beta during the year as we generally covered shorts and added to our longs at the right time due to our focus on intrinsic value and margin of safety, particularly with regards to balance sheets. We have been told by a few investors recently 'well done on being brave in the year', whilst we never want to discourage compliments due to our focus on the fundamentals it never felt like we were being brave but rather 'disciplined'. A reflection of how we benefited from trading our positions well was that one of our top contributing sectors in the year was airlines, which added +9.06%. In the airline sector Jet2 added +6.17%, Ryanair +2.22% and Southwest +1.85%, we would consider these to be 3 of the highest quality airlines in Europe and the US with regards to returns and balance sheet strength.

Exhibit 6: Selected European and US airline average pre-tax ROIC (left hand axis) vs 2020 net debt to EBITDA (right hand axis, inverted)



Source: Company filings, Odey internal research.

Another sector that performed well for us in the year was the gambling space which generated a return of +6.90%, **William Hill** (+3.86%), **Gamesys** (+1.77%) and **Stars Group** (+1.53%) were our top contributors. We have almost sold our entire exposure in the gambling space now despite being very bullish on the US opportunity and positive regulation in other countries. We don't feel the market is being realistic about how much taxes could go up for gambling companies, particularly after their windfall year in online. After the Great Financial Crisis it was the banks who paid excess taxes either directly to the government or consumers via claims (PPI for example in the UK). This time round we suspect it will be different sectors but a similar pattern of governments and regulators taxing those companies that benefited during the crisis or 'caused harm'.

Insurance was a profitable sector for us in 2020 as we made +1.37% on the long side and +2.37% on the short side. On the short side **Aegon** (+1.21%) and **Allianz** (+1.16%) offered the good protection to deteriorating credit conditions during the sell off with poor quality balance sheets that we felt were overvalued by the market when we took on the positions. Then during we the year we bought new positions in **Hiscox**, **Beazley** and **Conduit**. We have discussed Hiscox and Beazley before, but Conduit was a position only taken in Q4 through an IPO. Conduit is effectively a start-up reinsurance business, that has a high quality management team where they can benefit from a hardening rate cycle in the reinsurance space but without many of the legacy balance sheet issues that incumbents have. Conduit is trading at book value.

Mistakes made during the year

For the sake of brevity we will only pick out the larger more obvious ones:

Viasat

Our biggest negative contributor on the long book during the year was Viasat (-3.82%), the US satellite business. Whilst inflight WiFi represents a minority of Viasat's business that was negatively exposed to the pandemic, it has overall been a very resilient business given exposure to bandwidth requirements by both the US Military as well as rural American households. In fact earnings for the fiscal year (3/21) are now forecast to be >10% higher compared to expectations at this time last year, pre-pandemic. Even though the launch of Viasat 3 has been put back by a few months given assembly challenges inspired by COVID, the business remains very well placed to continue to win market share and materially grow revenues and earnings. In fact two of the company's principal competitors, OneWeb and GoGo, have either filed for bankruptcy or have had to sell assets to avoid a debt default, providing Viasat with meaningful share gain opportunities. The risk or perceived risk is that SpaceX, majority owned by Elon Musk, is going to substantially grow Starlink, its low orbit satellite broadband internet system, at all costs despite having an inferior technology and cost characteristics compared to Viasat in our view. As Tesla shares have continued to rise and the capital available to Musk has continued to grow, the perceived risk and actual risk to Viasat has also increased. Whilst Viasat continues to perform well operationally and it is now incredibly cheap (<4x times EBIT with just the first two phases of Viasat 3 launched) we cannot ignore the risk of a competitor with a large amount of capital with low financial hurdles. Therefore, we have overall reduced or not added to our Viasat position as it has fallen. It is worth saying that we feel we have seen a similar script with Wework proving to be awkward competitor to IWG for a few years as it grew like a weed with no respect for financial returns. Eventually the gravitational pull of microeconomics brought it back to earth. We continue to be bullish on the Viasat investment case whilst being respectful of

the risks. The mistake we made with Viasat was not being more aware of a potentially economically irrational competitor and also not recognising early enough that in being short Tesla and long Viasat we were taking on similar risks.

Our drawdown in the first quarter

It was clearly disappointing to lose so much in the space of a few weeks when our beta adjusted exposure coming into that pandemic sell off period was materially less than the market. There was without doubt some element of poor fund management but equally there was also an element of very short-term market noise that provided us with some phenomenal buying opportunities. We welcome these irrational volatile moves in the market as ugly as it looks on short-term numbers as it allows us to deliver better returns for investors in the medium term. Examples of just how cheap things got in the March lows are **William Hill** on a negative value with any sensible valuation for their US business, **Jet2** on 3x times recovered EBIT with one of the strongest balance sheets in the sector and no exposure to business travel, **AO World** was trading on a FCF yield to the equity of 40% for 2021 when it was a beneficiary of lock downs and will grow this year at c. 60%, and **Arcelor Mittal** traded on a recovered free cash flow yield greater than 50%. The point being these prices were not real in the sense that it is hard to have seen them being around for more than a few days. We had no edge on the pandemic as it evolved in the early stages but where we made mistakes was in not creating a new pandemic factor risk model quick enough. Our book was incredibly poorly positioned for a global pandemic with national lockdowns, we should have been more aggressive in adjusting it compared to what we did once we recognised what was playing out. For example normally being long airlines and long the oil space offers a decent degree of natural hedge, in a global lockdown like we saw that was clearly not the case as part of the reason that oil prices went negative was that no planes were flying! This sluggishness to create a new factor risk and adjust should not be a mistake we will make again.

Offshore oil drilling exposure

Although we did have some oil short positions in **Matador** and **Tullow** that generated returns of +1.07% and +0.59% respectively our losses in our longs were materially bigger. Our long **Valaris** position lost -3.71% and long **Maersk Drilling** -1.17%. Our investment case had under-priced a further collapse in demand for oil field services from levels that were already recessionary. The losses on Maersk Drilling were within our expected range in the oil environment that played out, but with Valaris we sold before it went into Chapter 11 as two company specific events undermined their liquidity runway. During late 2019 the company bought back $785mn of debt and in early 2020 a drillship dropped its Blow Out Preventer triggering contract cancellation and the loss of $120mn anticipated cashflow during the year. The combined impact on liquidity meant they were unable to survive the events of 2020 and the cancellation of short-term contracts. The debt repurchase caused us unease at the time, elevating the risk profile, but we remained confident in the recovery of the industry. Our mistake was not to adjust the position sizing to reflect the increased risk profile.

Some losses on high multiple stocks in the short book

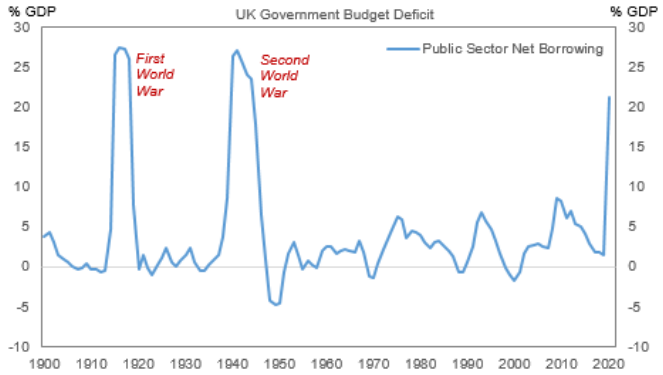
As our contribution data highlighted most of our big losses came from high multiple growth stocks. We believe in these positions being overvalued, and more so now, but we probably didn't have enough respect for the convexity of the trades in terms of controlling risk.

Macro

As ever with the macro we engage and can have strong views but we try not to let it be unduly influencing on the overall portfolio positioning, this is about recognising where we believe our edge is greatest. The equity positions must stand on their own two feet from a fundamental valuation perspective without heroic macro assumptions. At present though we feel that the stars are potentially aligning for our book in that we are finding equities that offer good upside on a stand alone basis but our macro views seem to be playing out and could offer a very material tailwind.

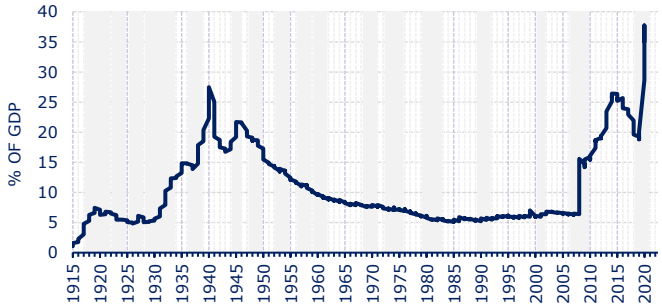
Due mainly to the second order impacts of the global pandemic we have moved into a stage of the economic cycle where fiscal and monetary stimulus are at extreme levels. It appears that authorities have done a good job of providing economic support to cushion the blow to companies and consumers to an almost unprecedented lockdown of economies.

Exhibit 7: UK government budget deficit since 1900



Source: Goldman Sachs Research

Exhibit 8: Federal Reserve Balance Sheet as a percentage of US GDP since 1915

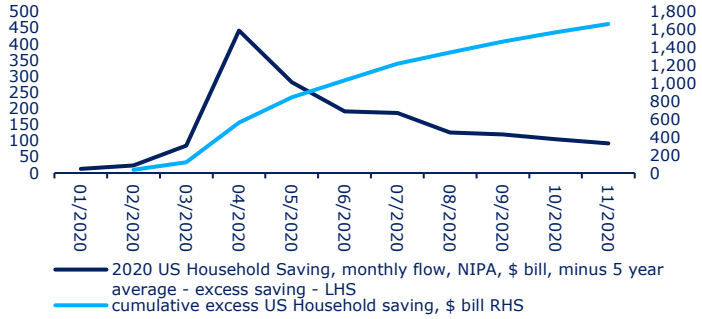


Source: Minack Advisors

As we come out of this pandemic, and thank goodness there is now a bright light at the end of the tunnel thanks to the vaccines, we feel the upside risk to consensus economic growth assumptions are quite significant. The US is representative, in this following example, for how we are think about all western economies at the moment. The current stimulus packages being

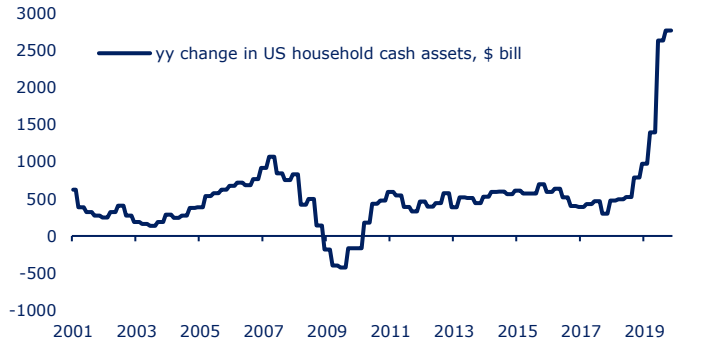
discussed by congress are material and could be as high as 10% of GDP. On top of this there are then some important considerations to be made about how the consumer behaves. Given the vaccine and jobs that have generally been well protected we feel consumer spending can bounce back quite sharply. The first point to make here is that last year due a savings ratio that leaped up the US consumer is sitting on excess savings greater than $1.5-2.2tr. These excess savings represent 7.9-10.4% of UD GDP and we feel there is a good chance that a reasonable % of these get spent this year.

Exhibit 9: Excess US household saving



Source: Macrobond, BEA, Odey Internal Research.

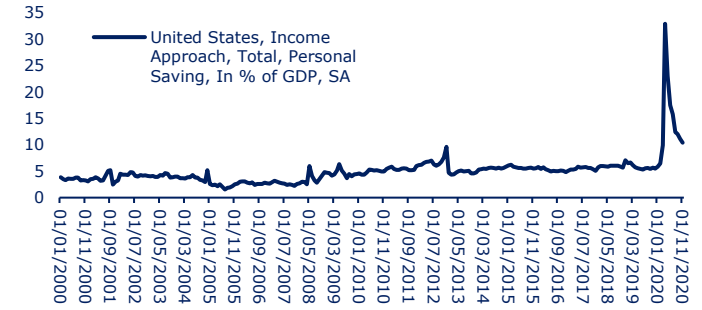
Exhibit 10: Year on Year change in US household cash assets 2000-2020 ($bn)



Source: Macrobond, BEA, Odey Internal Research.

Linked to the previous point but actually a separate driver it seems that the street assumes the underlying savings ratio for consumers fall quite slowly to its long run average over a multi-year period. We can see good reasons why it could fall much quicker than consensus providing extra demand the economy of up to 4.5% of GDP for 2020.

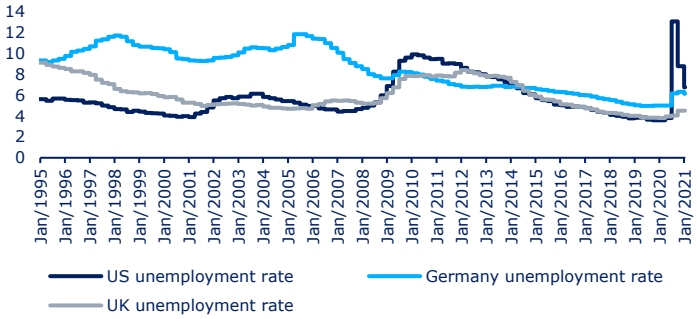
Exhibit 11: US Household saving % GDP



Source: Macrobond, BEA, Odey Internal Research.

Naturally there are concerns over the employment market and whether structural damage has been done after such a severe recession. The first point we would make is that unemployment at present is still low compared to long run levels which again is a credit to the fiscal support programs of governments.

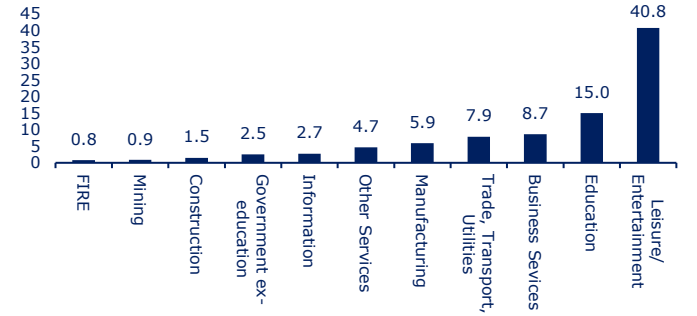
Exhibit 12: US, UK and German unemployment rate



Source: Bloomberg.

Secondly where the jobs have been lost over the last year should be in areas that should come back quite quickly as the economy opens up and particularly if the consumer starts spending some of their excess savings.

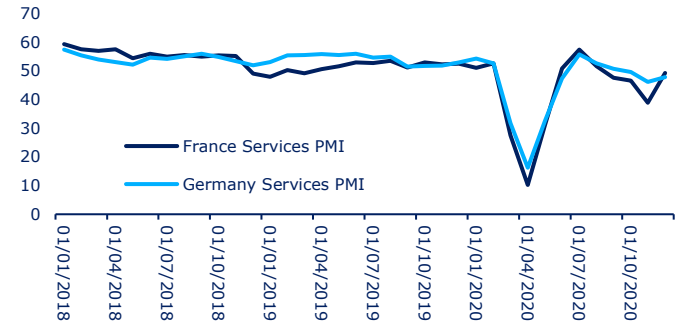
Exhibit 13: Percentage contribution by sector to annual decline in US payrolls as at December 2020



Source: Macrobond, BEA, Odey Internal Research.

One of the surprising and encouraging elements of many Western economies in lockdowns is how resilient the service sector has become. This is partly due to government trying to be less restrictive on businesses where they can but also due to the ability of modern-day economies to adapt very quickly in how they operate.

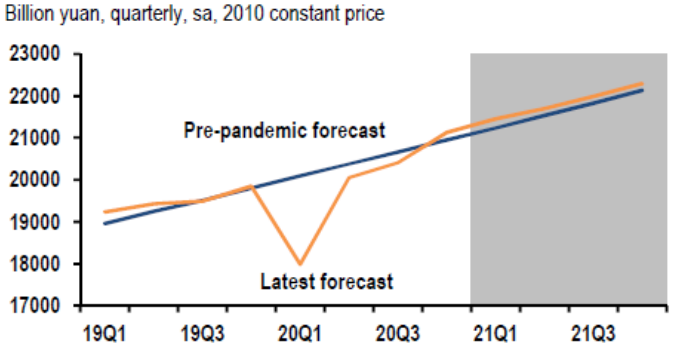
Exhibit 14: German and French Services PMIs, to December 2020



Source: Macrobond, Markit, Odey Internal Research.

When we combine our views on the behaviour of the consumer, employment markets and current economic activity we can see a reasonably likely scenario that US GDP growth this year is above 10% compared to Bloomberg collated consensus of 4.1%. This economic bullishness also holds true for other major economies where we feel they can get back to pre COVID levels much quicker than is expected, China amazingly achieved this in November last year.

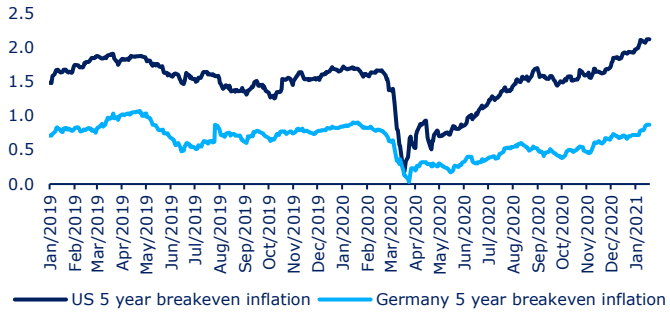
Exhibit 15: Pandemic impact on China's GDP



Source: J.P. Morgan.

This globally synchronised demand shock, mainly driven by the vaccine, could along with supply shortages in many areas see inflation pick up faster than expectations. The market measures of inflation are starting to move and we feel we are well positioned in the portfolio if this continues.

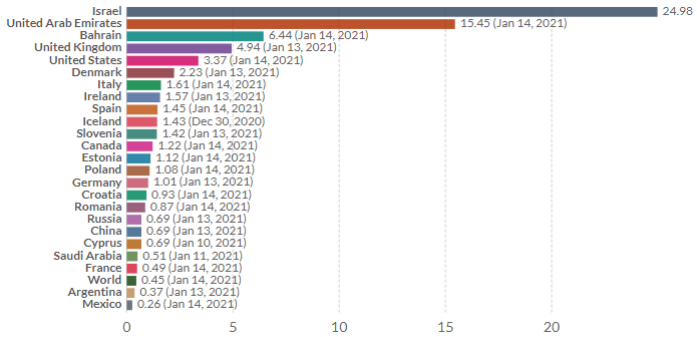
Exhibit 16: US and German 5 year break even inflation rates (%)



Source: Bloomberg.

UK - Very little has changed in our view that the UK is well placed economically and politically and that asset prices remain cheap, although in the short term things have improved with an agreed EU deal. The UK consumer dynamics should be very similar to the US consumer situation, if not better given the slightly larger rise in the savings ratio and the implied pent up demand. The UK has done a good job signing up trade deals in its first 11 months after leaving the EU, with deals now in place across 80% of partners weighted by the value of UK goods exports. With a material Conservative majority for at least another 4 years the government is well placed to have large, well-focused and timely stimulus to kick start the economy. It seems quite likely that job creation, infrastructure, housing, green initiatives, R&D for science and technology will be the focus of this spending. Due to having the infrastructure to achieve it, a fast regulatory approval rate, and having secured supply (helped by having a domestic vaccine) the UK is one of the best placed major economies to roll out the vaccine. The UK is on track by the middle of February to have offered a vaccine to everyone in the most vulnerable groups. These groups have so far accounted for 88% of COVID-19 fatalities. The speed of the vaccine rollout should allow broad normality to return during the second quarter of this year with other western economies closely following.

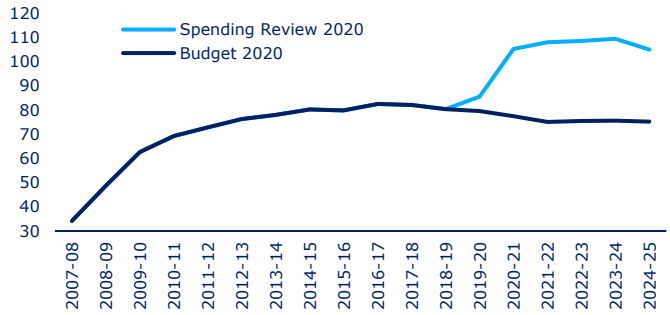
Exhibit 17: Covid Vaccination doses administered per 100 people by country as at Jan 15th 2020:



Source: Our World in Data.

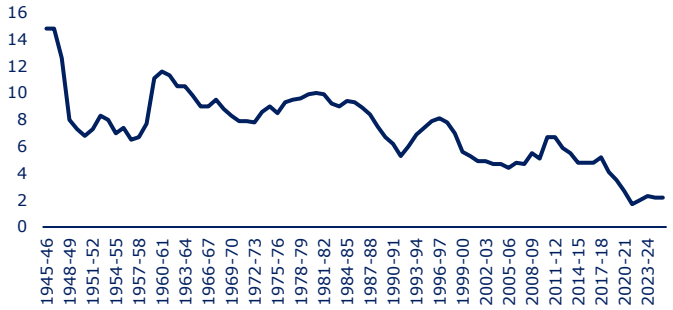
Governments in 2020 have had to bridge the economic chasm by taking on large fiscal deficits and increasing their debt as a percentage of GDP. But due to low interest rates their debt interest payments as a % of tax receipts remain low. If economies get back to escape velocity allowing governments to run low fiscal deficits then this increase in government debt can be seen as an 'exceptional cost', the issue for governments comes if they have a rising yield curve and still large fiscal deficits. In most western economies where central banks are controlling the yield curve and governments are fiscally stimulating all roads should lead to materially higher inflation. It is hard to see interest rates being allowed to rise until demand looks strong and whilst interest rates are this low there is a blank cheque for governments. Markets losing confidence in a currency could be a circuit breaker but given currencies are a zero-sum game and all western economies are going to be playing the same tricks that should be a concern for another day. Having higher levels of inflation would be good for rebalancing the broader economic ecosystem, the question for us is can authorities keep it is as 'good inflation' (broadly below 5%) or will it get out of control? Given the large gross figures of stimulus that are having to be used to support economies and a potentially sharp rebound in demand this transition from deep recession to only 'good inflation' becomes harder to finesse.

Exhibit 18: UK public sector net debt (% of GDP)



Source: Lazarus Economics and Strategy

Exhibit 19: UK government interest payments (% of tax receipts)



Source: Lazarus Economics and Strategy

Current positioning

Whilst our pro-growth/pro-inflation macro views arguably feels quite consensual at the moment, the positioning of our book feels very contrarian. We are overweight value in the portfolio and geographically we are overweight pan Europe and within that the UK. Although not large as a percentage of our gross exposure the sectors that have the highest representation of our long book are European banks, airlines, UK construction and energy companies. On top of these names we have our usual high exposure to idiosyncratic names that tend to move to their own beat. In the short book we have a bias to higher multiple 'growth' names, lock down beneficiaries where we feel the market is overly extrapolating the short-term gains, we are short private equity listed businesses (Partners Group and EQT), Australian food retailers but many of our shorts just sit in their own sector driven by bottom up work.

2020 was a great stress test for the fund's risk controls also implicitly for the quality of the businesses that we own. The challenging environment for companies to operate in gave many of our long book names a chance to shine. We have continuously highlighted the owner manager bias we have in our long book and these names in particular showed huge relative operational outperformance in the year putting them in an even more dominant position to exit the pandemic. The exciting thing for us is that the share prices of these names do not reflect their further improved positions.

Frasers Group, the multiband omnichannel retailer, has grown profits by c. 25% during the pandemic, whilst buying into or fully acquiring distressed brands (DW Sports, Mulberry, Hugo Boss) and strengthening its relationship with its largest supplier, Nike. What is becoming clearer is that the incumbent retailers with good logistics, access to brands, efficient cost structures and digital capabilities are well placed to win in the online world. The profit growth at Frasers this year is after it would have invested an extra £130m into its digital offering. Frasers Group offers a double-digit free cash flow yield to the equity for a growth business.

AO World benefitted from the lockdowns, being the leading online seller of major domestic appliances and electrical devices in the UK. During the year AO has materially grown its market share, seen large growth in its customer numbers and has kept up its industry leading customer satisfaction scores, it also has gained access to premium brands that were previously unattainable. AO's now profitable growth in Europe is in the nascent stages of a huge opportunity. AO has permanently won some customers who previously would have taken years to migrate to buying their products online. Yes the sales comparisons for some of this year will be tough but we feel the market misunderstands how the replacement cycle for many of AO's products has changed as consumers structurally spend more time at home in the future. We think short and medium term sales growth is underestimated by the market. AO should be a business that offers at least 20% sales growth for many years and trends towards a high single digit margin with a high return on invested capital. AO currently trades below 1x sales.

IWG, the serviced office company, showed in 2020 how it could still generate cash in a year which should have been a perfect storm for their business. It used the crisis to structurally cut its cost base by well over £200m, which is over 150% of its 2019 operating profits. The company raised money to buy distressed assets and improve its offering to customers. IWG should be a natural winner in a world that sees companies decentralising their office space, and employees who want to have a more flexible setup with lower commute times. IWG trades 20% below where it did at the start of 2020 despite a strong balance sheet and our expectations for future profits that are now materially higher than they were a year ago.

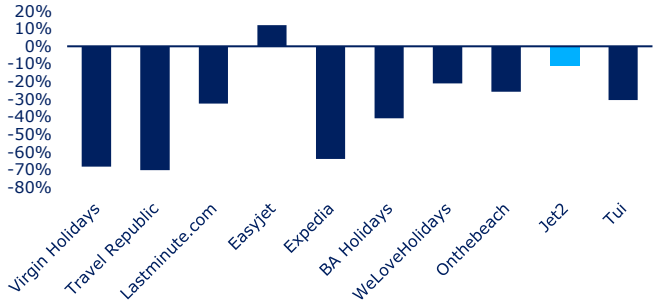
Airlines. This sector really should be a case of the strong get stronger; the airlines we own (Jet2, IAG, Ryanair, Southwest and Easyjet) are all well-placed to take share as capacity exits and remaining competition is hampered by weak balance sheets and/or new state ownership (Thomas Cook, Norwegian, Tui, Air France-KLM). Our top position is Jet2, the budget airline and tour operator hybrid, who are solely focused on leisure travel. As highlighted in Exhibit 7 Jet2 has one of the strongest balance sheets in the sector; during the crisis the company was able to improve its relative brand perception by returning customer deposits much more quickly than competitors and also grow its geographical exposure moving into Bristol at a time when others were exiting. We see the potential for Jet2's fiscal year to March 22 to reach record profitability. There should be high levels of demand for holidays due to consumers being tied to the UK for much of the last year. We also believe that packages will win share over DIY holidays in the short to medium term due to the Package Travel Regulations which cover all UK package holiday providers – these offer the consumer extra legal protection in the event of disruption or cancellation versus if they had booked the elements separately. One such element is the requirement for operators to pay into the ATOL scheme (which repatriates customers if an operator goes bust) where the application data tells us the industry has reduced its intended capacity by about 30%. We could easily see a supply-demand imbalance allowing the industry to capture pricing and with Jet2 having reduced its ATOL-licensed capacity the least out of all the established tour operators. Additionally, Jet2 would be best placed to respond to late booking demand and add some capacity if needed. Jet2 has great growth opportunities ahead of it – being in such a good financial position in a troubled sector with what we believe is a top-tier offering. The shares trade on 4-6x recovered EBIT.

Exhibit 20: Moneysavingsexpert survey for customer refunds, July 2020

FIRM	RANK	# RESPONSES	NET SCORE
Jet2 Holidays	3	2,283	79
Jet2	4	3,269	77
British Airways	16	3,248	11
Tui	28	5,901	-21
Onthebeach	36	1,042	-34
Easyjet	40	6,407	-39
Loveholidays	58	2,806	-81
Ryanair	65	8,897	-89

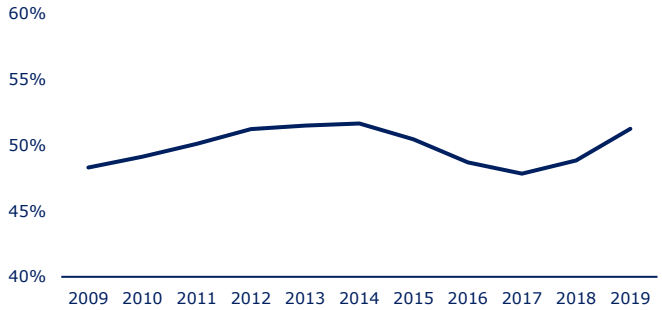
Source: moneysavingexpert.com

Exhibit 21: ATOL applications % change YoY



Source: Civil Aviation Authority & Odey research

Exhibit 22: Package holidays as percent of total short haul holidays



Source: ONS and Odey Research

ArcelorMittal- Following widespread steel plant closures across the industry in Q2 and steady reopening in the second half of the year, markets have been left short of steel driving prices higher. We see strong demand across end markets driven by consumers focussing spending on products (notably white goods and autos) rather than services, as well as increased infrastructure investment particularly around renewable power. Fossil fuel and shipping investment remains at low levels but with improving prospects for a recovery. This has created a perfect storm for pricing and margins, which in the spot market are the highest in 10 years. Our EBITDA forecasts for 2021 are 75% ahead of sell-side consensus. Even with conservative assumptions on working capital and capital investment that implies a 23% free cash flow yield. After the ill-advised capital increase earlier in the year, we have already seen a $500mn buyback in H2 and we expect the company to return cash aggressively through buybacks and dividends having hit its debt targets by Q3 2020. 2020 saw further consolidation for the sector which can only helpful for returns going forward and the general focus of government spending in the medium term should be helpful for the steel sector. It is also worth noting that the company's non-core stake in Cliffs Resources now accounts for nearly 10% of the market capitalisation.

New positions- Either side of the vaccine news we took new positions in oil majors and European banks. As discussed above we subscribed at IPO to a position in Conduit in Q4. Last year we also took some new positions in the commodity space mainly through Glencore but also Rusal. We have been working on and taking new exposure in the agricultural space through CNH and SL Agricola.

European banks European banks have strong capital positions and look well placed to benefit from the improving macro environment. They now apply the IFRS9 accounting framework, which encourages them to frontload provisions. On top of this, credit quality will benefit from the various government support schemes that each government has enacted. It is likely that provisions would be closed to normalized levels in 2022. Our estimated banks profitability in a more favourable environment, laid out in the table below, is driven by an improvement in net interest margins if the yield curve were to shift. It does not include improvement in other factors, such as loan growth, fees, and provisioning, which we would expect to materialize over time in a stronger macro environment.

Exhibit 23: bank price to tangible book ratios and ROEs under different yield curve scenarios.

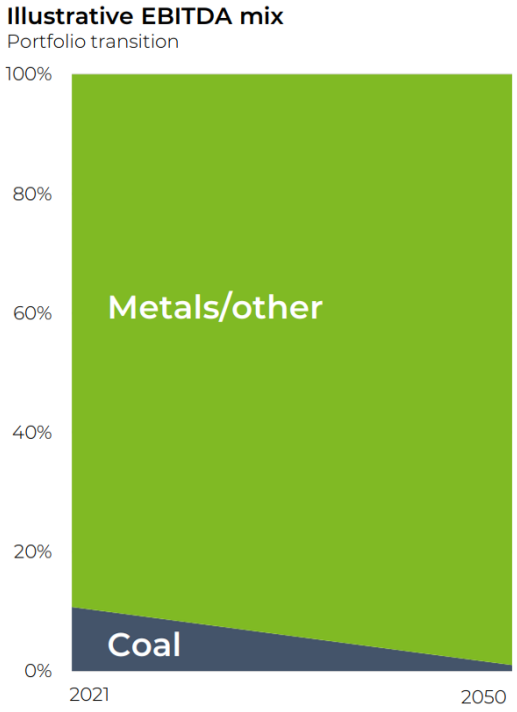
Name	Price/ Tangible Book Value	Estimated return on tangible equity 2022, Current yield curve (%)	Estimated return on tangible equity 2022 assuming 100 bps upwards parallel shift in the Yield curve (%)
Natwest	0.6 x	7%	9%
Barclays	0.5 x	7%	9%
BNP	0.6 x	8%	9%
DBK	0.4 x	7%	9%
Commerzbank	0.3 x	4%	7%
Socgen	0.3 x	6%	7%
Sberbank	1.0 x	17%	19%
Lloyds	0.7 x	8%	9%

Source: Bloomberg, Odey Internal Research

Glencore, a diversified miner and commodity marketing company, is cheap and trades at a discount to rest of the mining sector on our most favoured metrics. We feel this is unjustified given the spread of the materials it mines, the quality of its assets and management team. The majority of its profit come from metals that enable low-carbon and carbon-neutral technologies like batteries, solar power, wind power and electronics. At this point in time demand for these Glencore metals of copper, cobalt, nickel, aluminium, zinc and vanadium from the 'renewables' world is small but there should be strong growth in demand global for decades as the world continues to shift towards green initiatives. The image of the company has suffered due to potential fines, over leverage, aggressive accounting, a founder CEO who is leaving, a poorly timed IPO and mining coal. Many of these issues are now behind them and management have been clear that the coal assets, which were c. 10% of

EBITDA in 2020, will be put into run off. We actually feel that coal provides an undervalued proxy to gas prices which have been at all-time lows (thermal coal is a substitute for gas), and hence any move up in the gas price, as we have seen recently, would be highly beneficial for Glencore's coal business. From an ESG view, we think it is right that a publicly held miner like Glencore run these assets down over time, and rehabilitate them, rather than them be in the hands of a counterparty with poor credit quality that may extend mine life further, and eventually wind up the business without rehabilitating the mines in a sustainable fashion. Further, with regards to the marketing business, the expectation for a continued tight and volatile market provides exceptional opportunity for geographical, product and time arbitrages, which Glencore executes on so well, at minimal risk. Our central case for the DOJ investigation is that Glencore settle in a similar manner to peers Vitol and Trafigura before departure of their CEO this year, which would be a material positive catalyst for the stock. In the meantime you are left with a company trading on a FCF yield 11.5% and 18% for 2021 and 2022 respectively and ticks a lot of ESG boxes. There is of course two-way commodity price exposure here but on balance given our inflationary stance we like this risk.

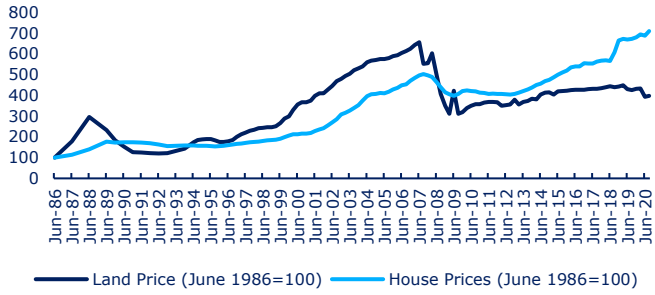
Exhibit 24: Illustrative shift in Glencore's EBITDA mix, 2021 to 2050



Source: Glencore 2020 investor update

We like the UK construction and infrastructure sector from a micro and macro perspective and have our exposure spread across it through a variety of names (**Travis Perkins**, **Forterra**, **Ibstock**, **SIG**, **Breedon**, and **Vistry**). One of our observations in the house building sector is that the capacity that came out after the great financial crisis has created a much more disciplined and returns focused sector. This can be seen in the long term average price for land paid by the industry relative to house prices. Of course there is a risk that the house builders' oligopoly doesn't hold and margin come under pressure for them but given our exposure a pick-up in volumes would be good for us.

Exhibit 25: UK average land prices and UK average house prices indexed to 1986

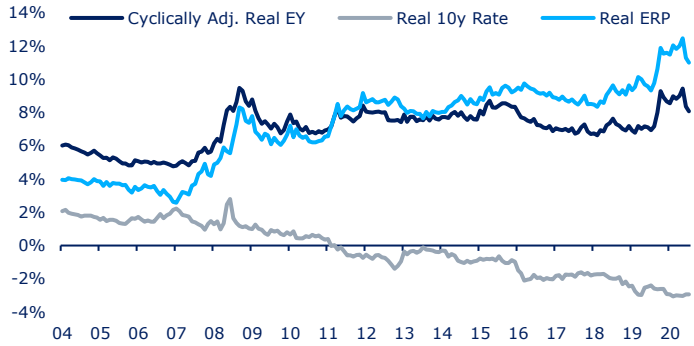


Source: Savills, Jefferies, Halifax, Odey internal research

Vistry, a UK housebuilder, is new position for us, it trades at 1.1x book value for a business that should do a ROE above 15%. Despite Vistry being one of the cheapest stocks in the sector it has favourable characteristics in its business, one of which is it has fixed its forward costs longer than most.

Equities in many of the sectors we have discussed look attractively priced to us right now. We are concerned about inflation and we are continuously working to stress test how the business models of our companies would cope if there was a material pick up. With real equity risk premiums at high levels right now the backdrop for the equity market should be supportive, although this is clearly helped by the extremely low government yield curve which may not be sustainable in the new 'twin stimulus' era. At a top down level we are more concerned about the higher multiple stocks in the market. If inflation continues to pick up then the market may lose confidence in how long central banks can hold down the yield curve. Most market participants do not have the ability to hedge high multiple stocks with a negative real rate position so they may not move in synchrony.

Exhibit 26: UK real Equity Risk Premium



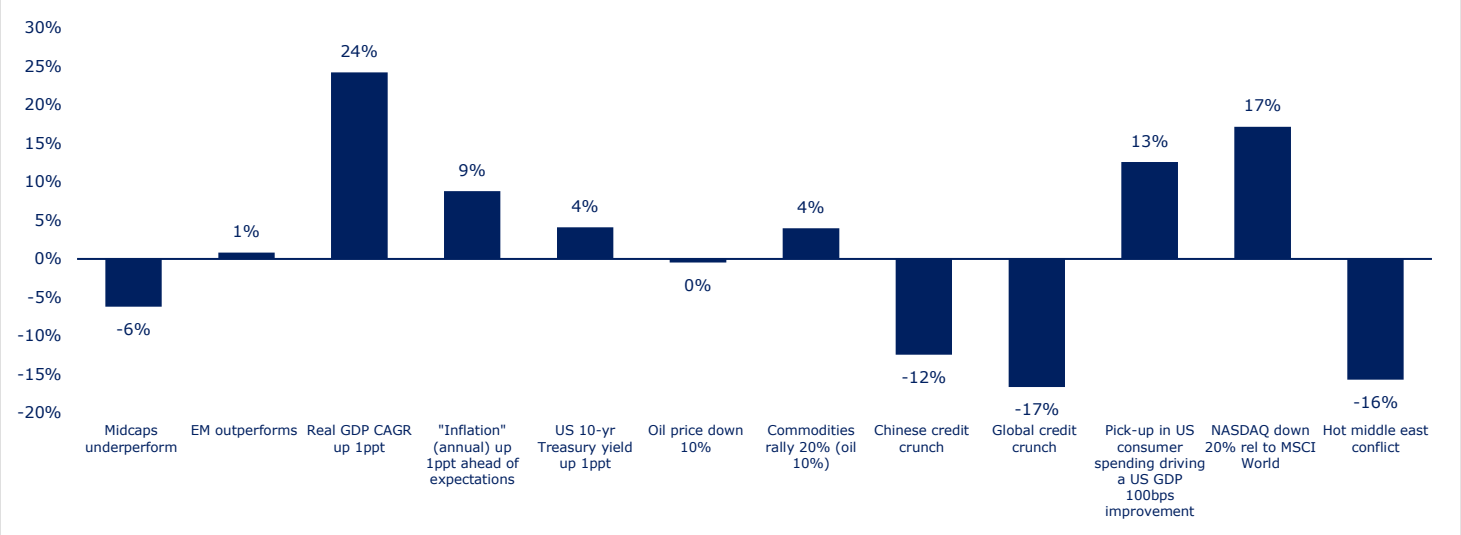
Source: Datastream, Haver Analytics, Goldman Sachs Global Investment Research

In summary we are c. 5% beta adjusted net short but with much longer pure accounting exposure, as our shorts are higher beta. It is also worth saying that our 60 day beta adjusted exposure (our preferred measure) is varying a fair bit at the moment so taking it in combination with the 200 day beta adjusted exposure of c. +74% is more helpful. Our non-systematic risk is 6%. The main factors and sectors that we are overweight are value, the UK and pro economic growth. We are fully hedged on our non-sterling positions.

Conclusion

In summary 2020 was a good year for the fund particularly given the extreme headwinds we had in terms of factors and geographic exposure. We have high conviction in our current book and feel that 2020 proved many of our long-term holdings to be even higher quality businesses than was previously considered. We are grateful for the support shown to us by clients in what was a volatile year for the fund. It was also really encouraging and rewarding to see how well the firm operated in a potentially disruptive pandemic year

Exhibit 27: Factor risks as at 18-Jan-21



Note: Assumes current currency hedging; The information above is an estimation of the expected factor return; Odey may make investment decisions that are inconsistent with these views expressed in this communication. The chart above presents projections of future performance. These projections are based on a number of assumptions that may or may not prove to be accurate. Future performance is subject to a wide range of significant risks. As a result, there can be no assurance that the projections in the chart above will prove to be accurate.
Source: Odey unaudited internal data as at 18-Jan-21.

—

James Hanbury

Odey Absolute Return (IRL) Fund

ODEY
ASSET MANAGEMENT

Performance

	1-month	3-month	1-year	YTD	Since inception	CAGR since inc.
Fund	3.0	29.9	28.3	28.3	30.3	13.7
MSCI Daily TR Net World	1.8	7.8	12.3	12.3	30.8	13.9
Relative	1.2	22.1	16.1	16.1	-0.5	-0.2

DISCRETE YEARLY PERFORMANCE

1-year to	31 Dec 19	31 Dec 20
Fund	7.5	28.3
MSCI Daily TR Net World	22.8	12.3
Relative	-15.3	16.1

MONTHLY PERFORMANCE SINCE INCEPTION

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	-5.7	-4.2	-12.9	9.5	8.3	2.2	-7.3	14.3	-2.2	4.7	20.4	3.0	28.3
2019	6.1	-4.9	0.6	-1.8	3.0	-6.0	-4.0	0.4	0.2	4.7	2.1	8.0	7.5
2018												-5.6	-5.6

Fund details[1]

£ I Class	130.28
$ I Class	134.62
€ I Class	128.15
Fund Size	£18 million
Strategy AUM	$893 million
Fund Inception	11 Dec 2018
Class Inception	11 Dec 2018
Fund Type	Irish Long/Short UCITS
Comparators	Primary: Cash Secondary: MSCI Daily TR Net World GBP
Base Currency	£

Live fund dashboard

Get the latest fund information on the odey.com fund dashboard (registration required)

View dashboard on odey.com >

Top ten equities as percentage of NAV

	Strategy	Notional Exposure
JET2	Long	9.6%
AO World	Long	9.5%
IWG	Long	8.5%
Plus500	Long	8.1%
NATIONAL EXPRESS GROUP PLC	Long	4.7%
International Consolidated Airlines Group	Long	4.6%
Codemasters	Long	4.6%
HelloFresh	Short	-4.6%
Barclays	Long	4.6%
BT	Long	4.5%

Statistics

	1-year	Inception
Fund annual s.dev.	31.9	25.0
Index annual s.dev.	19.8	15.5
Alpha	1.0	0.2
Beta	1.4	1.0
Correlation	0.9	0.6
Sharpe Ratio	0.9	0.8
Information Ratio	0.9	0.0
Tracking Error	18.7	19.8

Important information

These figures refer to the past. Past performance is not a reliable indicator of future results.

This document is a marketing communication. Before subscribing please read the prospectus and the KIID, available at odey.com. The performance calculation shown is based on the GBP share class. If the past performance is shown in a currency which differs from the currency of the country in which you reside, then you should be aware that your performance may increase or decrease as a result of currency fluctuations.

Fund team and contact details

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Jamie Grimston

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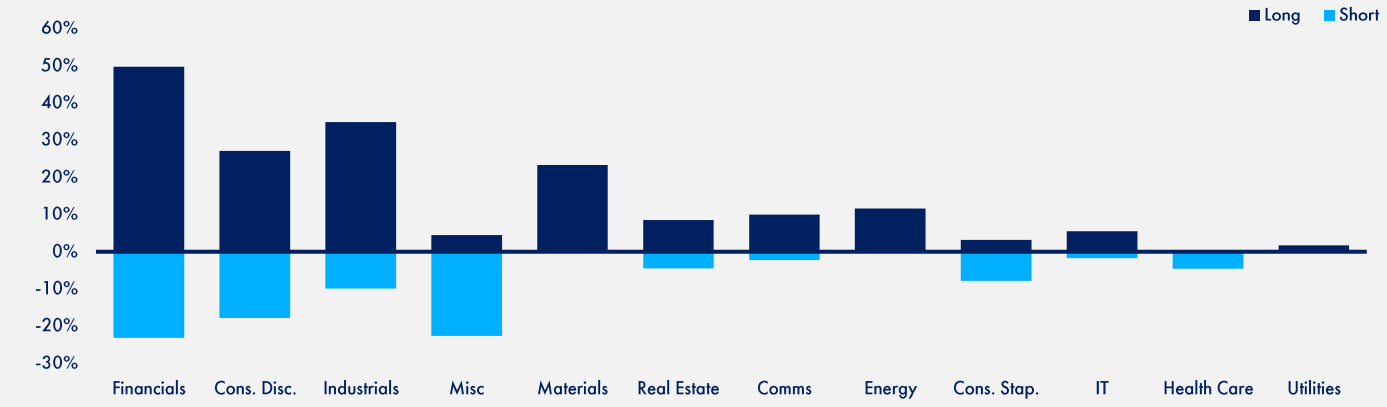
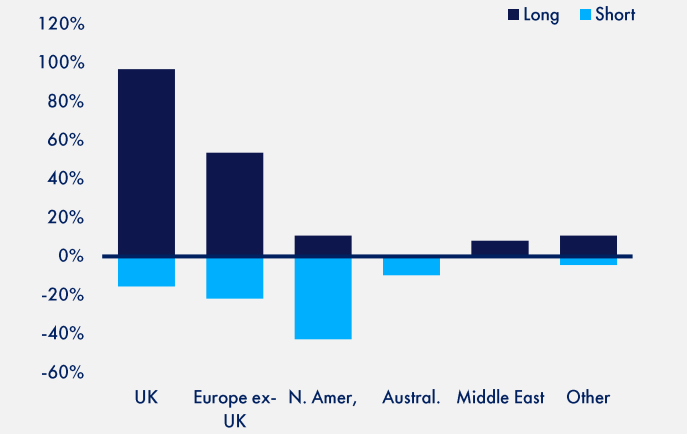
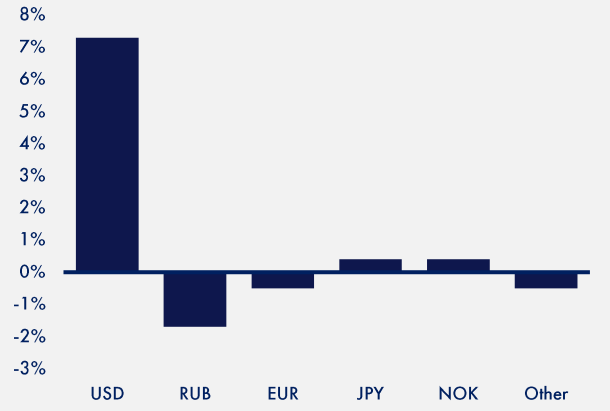
Equity exposure by sector



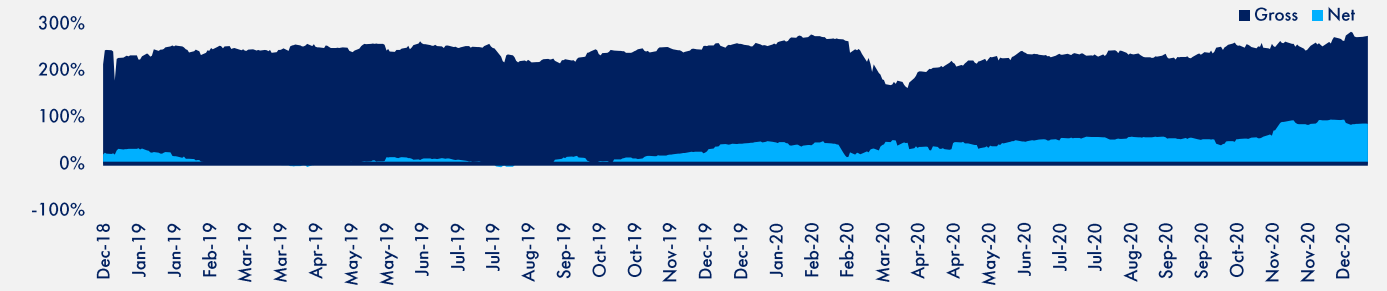
Equity exposure by geography



Non-base currency exposure



Equity exposure



ASSET ALLOCATION AS PERCENTAGE OF NAV

Long Equity	180.0
Short Equity	-94.4
Foreign Exchange	8.2

Net	85.6
Gross	274.3
Beta adjusted net exposure (2yr)	63.9

Note: Equity exposure includes all equity related instruments. Any exposure to fixed income, bond futures or interest rate futures is provided on a ten-year adjusted basis. Currency exposure shows non-base currency through forward currency contracts and portfolio holdings. Equity exposure as classified by GICS. Commentary is provided on a quarterly basis.
Source: All sources, unless otherwise stated, are Odey internal unaudited data and refer to the £ I share class. All data shown as at 31 December 2020. [1]U.S. Bank Global Fund Services (Ireland) Limited and Bloomberg, calculation on a NAV basis with net income reinvested – the share class prices refer to NAV per share.

Investment objective and policy

The investment objective of the Fund is to provide a positive absolute return and capital appreciation independent of market conditions over the medium to long term. The Fund aims to achieve its investment objective by investing in a portfolio of global equity and equity related securities, debt securities and currencies.

APPROACH

The Fund is a concentrated, return-seeking global equity-long short strategy. It harnesses the experience and judgement of James Hanbury, his investment team and the significant research resource at Odey. The portfolio managers are opportunistic in scope and, while not a prerequisite, are attracted to owner-managed companies and situations where, in their view, the perceived risk is higher than the actual risk, which often occur during reorganisations or complex restructurings. The team invest for the medium to long term though continuously resize positions to ensure the portfolio remains focused on their highest conviction ideas. The Fund is built without formal reference to an index and typically contains 30-50 positions both long and short with a higher concentration in the top 10 positions.

RISK CONSIDERATIONS

The Fund has considerable latitude over its allocation both long and short equities and it may employ leverage and own sophisticated instruments such as futures and options. The Fund may hold a large weighting in a small number of investments and may therefore be subject to larger than normal swings in its value. The performance stream is likely to be volatile and the Fund is suitable only for investors who have a long time horizon (>5 years) and can tolerate high risk. Investors may not get back all the money invested and an investment in this Fund should only form part of an investor's total portfolio. Investors should discuss the suitability of this Fund with their professional adviser.

Investor information

Share classes	I (£, €, $), R (£, €, $).
Share class hedging	Non-base currency share classes are hedged.
Trade date (T)	Daily.
Dealing	By 2pm T-1.
Valuation	Close of business T-1.
Front end fee	Up to 5%.
Annual management fee	I 0.75%, R 1.25%.
Performance fee basis	20% of the increase in absolute outperformance of the share class during a performance period. Fees crystallise annually, and on redemption. Losses carried forward.
Anti-dilution fee	Applies to subs/reds if net subs/reds >5% of NAV.

Minimum investment	I £1,000,000; R £5,000; or equivelant in EUR or USD.
Dividends	Reporting and accumulation share classes available.
Administrator	U.S. Bank Global Fund Services (Ireland) Limited.
Auditor	Deloitte LLP Dublin.
Depositary	J.P. Morgan Bank (Ireland) Plc.
Price reporting	Prices published daily in Financial Times.
ISIN	£I: IE00BF7JHD63, €I: IE00BF7JHG94, $I, IE00BF7JHJ26, £R: IE00BF7JHF87, €R: IE00BF7JHH02, $R, IE00BF7JHK31.
SEDOL	£I: BF7JHD6, €I: BF7JHG9, $I, BF7JHJ2, £R: BF7JHF8, €R: BF7JHH0, $R, BF7JHK3.

Important information

This is a marketing communication and it is not intended to be viewed as a piece of independent investment research.

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Glossary of terms

Please refer to the fund's prospectus for detailed information. Some terms listed are not relevant for every fund. This document is intended for use by individuals who are not familiar with investment terminology. Please contact Odey if you need an explanation of these terms.

Absolute return: The return that an asset/fund achieves over a period of time looking at the appreciation or depreciation (expressed as a percentage) that the asset/fund achieves.

Acc/Accumulation class: A share class which accumulates and reinvests net investment income and net realised capital gains and does not pay dividends.

Active currency exposure: The percentage of a fund's assets which are invested in a particular currency.

Administrator: The specialist entity who maintains the register of shares, provides fund valuation and accounting services.

AIF: Alternative Investment Fund as regulated by the Alternative Fund Management Directive.

Alpha: A measure of performance on a risk-adjusted basis, often seen as the active return on an investment.

Annual management fee: The fee payable by the fund to the investment manager to cover expenses associated with running the fund.

Anti-dilution fee/levy: A fee levied by a fund on investors buying/selling shares to protect current shareholders from the dealing costs incurred when paying out or taking in clients.

Asset class: A group of securities that exhibits similar characteristics, behaves similarly in the marketplace and is subject to the same laws and regulations. The three main asset classes are equities (or stocks); fixed income, or bonds and cash equivalents, or money market instruments.

Base currency: Each fund has a base currency and this is the currency which the fund uses to calculate its net asset value.

Beta: A measure of the fund's volatility in comparison to its benchmark.

CAGR: Compound Annual Growth Rate (CAGR) is the rate at which the fund/benchmark has grown on an annual basis to reach the current performance since inception.

Capital growth/appreciation: Capital growth is measured on the basis of the current value of the asset or investment, in relation to the amount originally invested in it.

Commodity: A physical substance (such as food, grain, metal) which investors buy and sell through futures contracts.

Comparative/Index/Benchmark (e.g. MSCI): A comparator the fund has used to compare its performance to or for its performance fee calculation.

Contribution: Used to explain the breakdown of a fund's absolute performance.

Correlation: A statistic that measures the degree to which two securities move in relation to each other.

Dealing: Arranging the sale and purchase of shares in a fund.

Delta: A ratio comparing the change in the price of an asset to the corresponding change in the price of its derivative.

Derivatives (futures, options, swaps and contracts for difference): A financial contract based on an underlying asset or financial index with its value determined by fluctuations in the underlying asset/index. Derivatives may be used to manage risk in portfolios, for greater flexibility to lower costs, to gain leverage and to enhance returns.

Dist/Distributing Class/Inc/Income: A share class which pays dividend distributions.

Dividends: A sum of money paid regularly (typically annually) by a company to its shareholders out of its profits (or reserves).

Equity/Security: The percentage of the fund that is currently invested in the equity market.

Exposure: The amount invested in a particular type of security, market sector or industry, usually expressed as a percentage of the total portfolio holding.

Fixed income security: A type of investment which pays out periodic income of a fixed amount on a fixed schedule e.g. a bond is a fixed-income security.

Forward currency contracts: A foreign exchange contract that locks in the exchange rate for the purchase or sale of a currency on a future date.

Front end fee: The initial fee/sales charge applied at the time of an initial purchase of an investment.

Fund: LF Odey Absolute Return (IRL) Fund.

Global Industry Classification Standard (GICS): A standardized classification system for equities developed jointly by Morgan Stanley Capital International (MSCI) and Standard & Poor's.

Government bond: A bond issued by a government to support government spending, often issued in the country's domestic currency.

Gross: The total rate of return on an investment before the deduction of any fees or expenses.

Hedged class: A share class giving exposure to assets denominated in foreign currencies without the currency risk of the fund's base currency. Techniques and instruments are used to limit the currency risk between the hedged class and the base currency.

Hedging: Hedging against investment risk means strategically using financial instruments in the market to reduce the risk of adverse price movements.

High water mark: The highest value that an investment fund or account has reached over a specified period of time.

Information ratio: A measure of the fund's returns above the returns of the benchmark to the volatility of those returns.

Investment Manager: Odey Asset Management LLP.

ISIN: An ISIN (International Securities Identification Number) uniquely identifies a security.

KIID: A KIID (Key Investor Information Document) must be provided to anyone who invests in a UCITS.

Leverage: An investment strategy of using borrowed money and/or financial instruments to increase the potential return of an investment.

Long: The practice of buying securities with the expectation the asset will rise in value.

NAV: The NAV (net asset value) of a fund is the value of the fund's assets less its liabilities. NAV per share is the value per share and is calculated by dividing the total NAV of the fund by the total number of shares.

Net: The total rate of return on an investment after the deduction of any fees or expenses, including annual management fee and performance fee where applicable.

Notional Exposure: The total value of a fund's leveraged assets.

Ongoing Charges Figure (OCF): A figure showing all annual charges and other operational expenses payable by a fund.

Performance attribution: A set of techniques that are used to explain why a fund's performance differs from a benchmark.

Performance fee: A fee payable to the investment manager on returns that, subject to a High Water Mark, the fund achieves either in absolute terms or relative to a performance fee benchmark. Please refer to fund prospectus for details.

Portfolio: A group of financial instruments such as shares, funds, bonds, cash and cash equivalents held by an investor and managed by a financial professional.

Proprietary currency positions: Foreign exchange contracts entered into by the fund for investment rather than hedging purposes.

Quoted securities: A quoted or listed security is a financial instrument that is traded through an exchange, such as the LSE, NYSE or Nasdaq.

Rebased method: Used to illustrate a fund's performance against comparative benchmark on a chart whereby they both start at the same point.

Rel/Relative: Calculates how much the fund has out/underperformed its comparative benchmark.

SEDOL: A SEDOL (Stock Exchange Daily Official List) is a unique number assigned by the London Stock Exchange and used in the UK and Ireland to identify securities.

Share class: A designation applied to a specified type of security such as shares in a fund. Each share class has its own rights.

Sharpe ratio: A measure for calculating risk-adjusted performance; the higher the ratio, the better risk-adjusted performance.

Short: The practice of selling borrowed securities with the expectation that the asets will decrease in value whereupon they will be repurchased and returned to the lender.

Since inception/Since inc.: Inception date is the date on which the fund launched.

Sortino: A variation of the Sharpe ratio that differentiates harmful volatility from total overall volatility by using the asset's standard deviation of negative asset returns, called downside deviation. The Sortino ratio takes the asset's return and subtracts the risk-free rate, and then divides that amount by the asset's downside deviation.

Standard deviation/Sta. dev.: Measures the degree of variation of returns around the mean (average) return. When applied to the annual rate of return, it shows the historical volatility.

Statistics: Statistical measurements used to analyse historical fund data such as performance, volatility etc.

Strategy AUM: The total assets of the funds managed by the Investment Manager to a similar investment mandate.

Ten-year adjusted basis: Shows any exposure to Fixed Income, Bond Futures or Interest Rate Futures on a 10-year duration basis.

Tracking error: A risk measure showing how closely a fund's performance follows a particular benchmark.

Treynor: Treynor ratio, also known as the reward-to-volatility ratio, is a metric for returns that exceed those that might have been gained on a risk-less investment, per each unit of market risk.

UCITS: Undertakings for the Collective Investment of Transferable Securities (UCITS) is an EU regulatory framework creating a harmonized regime throughout EU for the management and sale of funds.