

LF Odey Absolute Return Fund



Fund Manager Report

The fund was down -1.41% in the third quarter with the MSCI TR +6.29%.

Macro

We felt an important statement for markets was underreported at the start of October. Amazon announced it was putting up minimum wages in the US to \$15 an hour. We estimate this is an average 25% wage increase for those 350,000 US employees directly affected. Amazon also raised wages in other countries. Overall it is probably a cost hit of greater than \$1.5bn for Amazon, a figure that shareholders took in their stride. It is not these figures alone which are important, but the greater context. Yes labour markets are very tight, but this is just as much about bowing to socio-political pressure. It probably also accelerates some structural changes, with a disruptor being even more aggressive towards competitors who have less of a productivity opportunity. This was the statement from Amazon:

"We listened to our critics, thought hard about what we wanted to do, and decided we want to lead," said Jeff Bezos, Amazon Founder and CEO. "We're excited about this change and encourage our competitors and other large employers to join us."

Amazon's public policy team will also begin advocating for an increase in the federal minimum wage.

We continue to see the two big risks to asset markets as being the ending of quantitative easing alongside the rising levels of inflation led by wages, which leads to margin pressure and lower multiples. Common rebuttal we get to this view is "What is the catalyst for wage inflation?" and "The Phillips curve is dead". First we see multiple catalysts for wage inflation as listed below:

- **Supply and demand.** OECD unemployment levels are at all time lows since records began.
- **Political pressure.** Populist governments and incumbents are increasingly promising the end of austerity. The forward-looking trend we are seeing in the US, UK, and now parts of Europe is for expansionary fiscal policy. The deputy prime minister of Italy recently called Jean-Claude Juncker 'the enemy of Europe' linked to his austerity attitudes.
- **Social pressure.** This is partly reflected in political pressure but with the increased power of social media and currently unions, employers have to work harder to keep and attract new workers.

At the risk of repeating ourselves, we see QE as a period when asset owners outperform salary earners and QT as a period where this is reversed. With regards to the Phillips curve (the relationship between unemployment levels and wage inflation), yes it is on a different gradient this cycle, but recent data points are showing that the gradient is steepening to pre-Great Financial Crisis levels. The blue dots in the chart below show the pre-GFC plots and the grey dots being post-GFC, with the larger coloured ones being the most recent three quarters.

Performance

1.8% Monthly performance

8.4% Year-to-date performance

12.6% CAGR since inception

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

Fund details¹

£ I Class	305.78
£ R Class	291.32
\$ Class	1.65
€ Class	1.69
Fund Size	£776 million
Strategy AUM	\$1,377 million
Fund Inception	11 May 2009
Class Inception	11 May 2009
Fund Type	UK Long/Short UCITS

Fund Managers

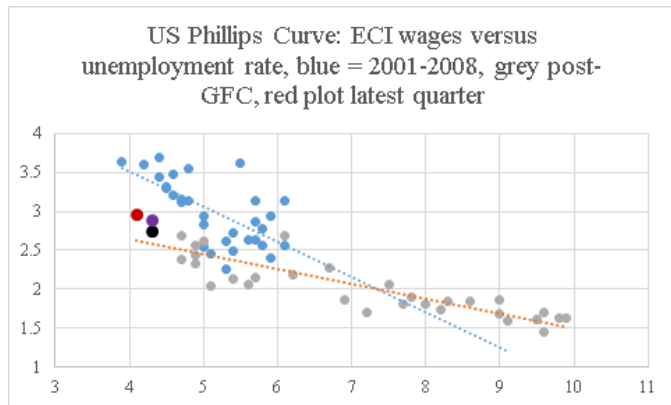
James Hanbury

Adrian Courtenay

Jamie Grimston

For full bios visit odey.com

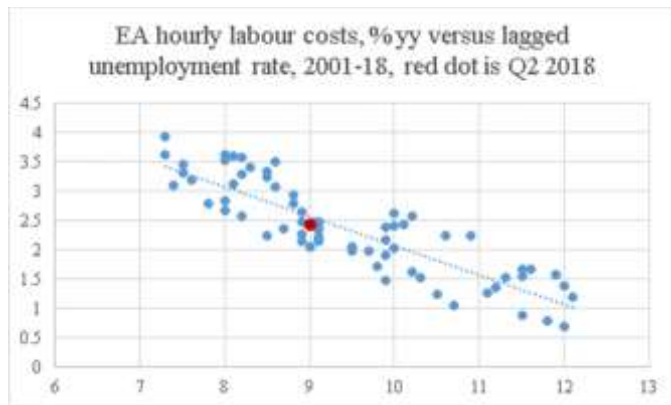
Figure 1



Source: Haver

Interestingly, as seen in the chart below, the European Phillips curve has remained on the same gradient both pre- and post-GFC. This suggests that European Central Bank policy is significantly too accommodative.

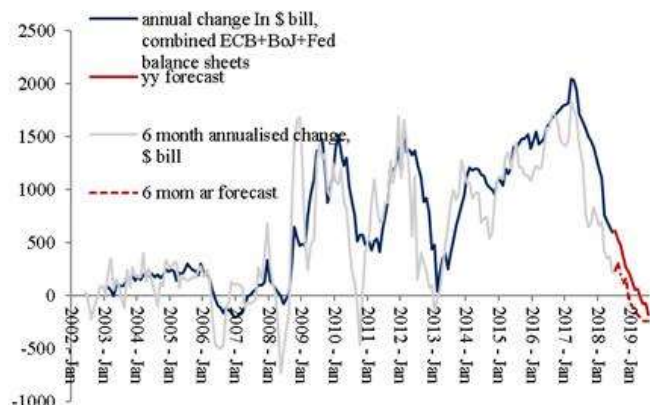
Figure 2



Source: Haver, Odey Research

At the risk of being repetitive from previous letters, we continue to believe that the importance of QE turning into QT can hardly be overstressed. As of September this year the combined balance sheets of the FED, BOJ and ECB started contracting for the first time since 2008. The journey of these collective balance is illustrated below.

Figure 3: 6 month annualised and 12 month changes in collective balance sheet of Fed, ECB and BoJ, \$ bill, actual and forecast from existing policy announcements



Source: Haver, Odey Research

We estimate that from the bottom of the S&P 500 in 2009 to today, more than 50% of the performance has come from rerating (P/B has gone from 1.4x at its trough multiple to currently 3.3x), much of which is linked to lower discount rates. It is crucial we don't forget the influence of discount rates on stock market returns, as yields look like they are rising after a 30 year bull market for bonds.

Figure 4



Source: Bloomberg

We feel our general view of slowing global real GDP and rising inflation is playing out. The IMF has just cut its global GDP forecasts for this year and next and the trend we regress from PMIs has been weakening all year.

Figure 5



Source: Odey Research

Figure 6



Source: Haver, OECD

The US is the only major economy where there is not a slowing trend, mainly due to the huge fiscal stimulus. The effects of this stimulus probably start to wane in the fourth quarter of this year and then more strongly next year. That said even in the US economy there are signs of weakness: auto sales for example are rolling over, which is reflective of the unwind in demand from the QE pull-forward. Overall it is little change from our existing macro view of lower global real GDP growth with strong nominal GDP, with China remaining a significant tail risk.

Fund performance and positioning

The fund performance in the quarter was -1.41% with the MSCI TR +6.29%. This was due to small negative contribution from our long book (-0.20%), small negative contribution on our short book (-0.49%) and our sterling currency hedge costing us -0.90% due to weak sterling in the quarter. Our long book had material negative alpha (c.-4%) in the quarter and our short book had material positive alpha in the quarter (c.+5%).

Softbank was our top positive contributor (+3.07%) as the discount to NAV narrowed to close to 50%. It is always hard to know the exact reasons for a narrowing discount, but it would likely have been a combination of the Sprint/T mobile merger being looked at more positively by the markets, the Japanese telecoms IPO being flagged to happen in December, and a highly regarded investor taking a meaningful position.

Our offshore oil drillers also performed well, with Rowan contributing +0.88% and Ensco +0.68%. What has been satisfying about the performance of our oil related stocks is that we have made good returns without taking on material oil factor risk. Our oil services short Weatherford also had a positive contribution (+0.78%) in the quarter. When reducing factor risk, we are generally trying to find alpha on both sides of the trade and we will not use stock gross exposure where we do not think we have an edge. Although our overall alpha generation on our short book has been good since inception, we have tended to find our standout short performers are often those stocks where there are adjacencies to a long we know extremely well. Huge credit must go to Massey Roborough, our oils analyst and Head of Research, for his long and short calls in this space. The chart below shows the relative performance of Rowan and Weatherford, and an oil services index as a reference, both positions have been in the book simultaneously.

Figure 7

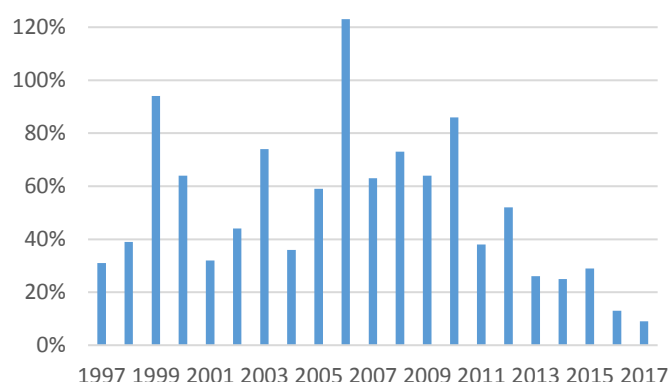


Source: Bloomberg

Since the quarter end, Rowan and Ensco have announced an all-share merger. As 9% shareholders of Rowan and 3% of Ensco we see benefits for both companies and are delighted to see it go ahead. It will create the largest off shore oil driller in the world and it will bring multiple benefits. The cost synergies of \$150m look conservative and we would expect these to be beaten as we saw when Ensco acquired Atwood, the initial synergy target was given as \$65m and it ended up being \$85m. The balance sheet combination is also compelling as the liquidity and duration profile dovetails well and a larger company will have better access to the credit markets in the future. There will undoubtedly be revenues synergies as both companies will have different relationships with IOCs and the oil majors are generally looking to deal with larger partners. As the sector becomes less fragmented it can only be positive for pricing. In our last newsletter we highlighted this sector as one that was ripe for consolidation and we would expect more to occur. A point that we feel is underappreciated is that both management teams are equally bullish on the opportunity to invest into technology. Technology is an area that has generally been an afterthought in the offshore drilling space but for a larger firm with the ambition there is the opportunity to increase the R&D spend and better leverage it allowing them to differentiate their offering. After numerous meetings with management across the sector we feel the rig tender and pricing momentum is strong. As is typical in a cyclical industry investment in new projects has been cut back dramatically in recent years and it looks like this is going to start to unwind.

Figure 8

Global Reserves Replacement (discovered oil & gas barrels/production)



Source: Transocean presentation (Sept 18) and Rystad Energy

Other M&A related news came from IWG (-1.10%), Shire (+0.38%) and Sky (+0.45%). **IWG** was down after the board decided to stop a bid process it had running with 3 potential suitors. They felt the bid process was becoming too much of a distraction and that they would be selling away too much of the upside relative to what they could achieve themselves. We sold our **Sky** position to successful bidder Comcast. We reduced the **Shire** position in the quarter as the spread to Takeda's offer value contracted following US and Chinese anti-trust approval and positive pipeline news. Meanwhile T-Mobile and Sprint contributed +0.90% in the quarter after there has been more engagement from the sell side on what the proposed combined entity would look like both operationally and from a spectrum and valuation perspective. Whilst the disclosed forward economic

guidance from the companies at the time of the merger implies a 8x PE ratio in 3-4 years and as low as a 4x PE “longer term” we would note that these targets are also subject to the political imperative to downplay the ability of the pro-forma company to raise prices and also ignore the substantial business advantage that will be achieved by the merged entity as a result of its combined spectrum holdings. Both Sprint’s and T-Mobile’s management teams have been busy presenting to the FCC and DOJ on the merits of the deal. We currently see the likelihood of the deal being passed as being around 70% but also assess the asymmetry of the situation as attractive given both companies’ under-appraised and continuing standalone merits as challenger telcos.

A large detractor in the quarter was **Plus500** (-1.19%), although its contribution has to be seen in the context of our short **IG Group** position (+1.04%). It is all part of the natural ebb and flow of this sector that when volatility and financial news is low (and crucially reducing) then trading for the CFD providers will be weak. Q3 was an exceptionally weak quarter for the sector. We saw poor results from IG and a profit warning from CMC. Plus500 will certainly have suffered in Q3. That said we expect them to have continued to have won material market share. Our channel checks also suggest that they took the high-quality decision to invest heavily in marketing when everyone else was cutting back and in particular focusing on higher value customers. Therefore we expect to see EBITDA margins very depressed in Q3 but setting them up nicely for future quarters. From the 1st August there was also some further regulatory change which will be a short-term headwind for retail customers. However medium term we continue to think this is good for Plus500. As a reminder the company is guiding that by year-end they expect that more than 50% of their ESMA area revenues will be classified as professional customers. We are very confident in this guidance. The share price reaction to us suggests that the market is confusing regulatory change with short-term market headwinds. We expect that Plus500 has to once again upgrade guidance for this year and we expect Q4 has had a very strong start. We have taken the opportunity to add on weakness. Very simply we believe the existing Plus500 business has the capability of doing c. \$100m of EBIT a quarter, with a large standard deviation around this figure linked to market volatility. On top of this there are great growth opportunities ahead of them in the next 18 months including getting new licences in Hong Kong, Japan, the US, and moving into new verticals. The current EV of Plus500 is around just \$1bn. We are short IG not only because it reduces factor risk to the sector (regulatory and market) but also because we believe the market under-appreciates the quality difference in the two companies and how much more exposed it is to regulatory change compared to Plus500. The tables below highlight what we see as the key differences from a quality perspective and then from a regulatory perspective. An often missed but important point is that Plus500 has always offered negative balance protection but now IG is having to pick up that extra cost for its retail investors whilst still not offering it to its professional investors.

EDF was also a strong performer for us in the quarter (+0.86%) after carbon prices rallied from 15 euros per tonne to over 22 euros per tonne. Given its mainly zero-carbon nuclear and hydro production, EDF largely benefits from these moves which formed a part of our EDF investment thesis. Further clarity was given by the French government on the ARENH pricing and the possibility of the break out of the nuclear fleet into a regulated asset base business.

Figure 9: Comparison of Plus500 and IG Group

Quality of business		
	Plus500	IG Group
3 year annual sales growth rate (to last FY)		
	24%	13%
2017 margins (EBIT)		
	59%	49%
2017 ROE		
	147%	31%
Non-marketing costs as a % of revenues		
	14%	41%
Dividend payout ratio (last 3 years)		
	96%	71%
N12m PE multiple		
	6.4x	11.3x
Surplus Capital (\$m)		
	300	210

Exposure to recent ESMA regulation changes		
	CYSEC	FCA
Exposure for Plus500 to ESMA revenues		
	57%	16%
Exposure for IG Group to ESMA revenues		
	0%	63%
Previous overall leverage limits		
	50-1	Unlimited
Previous crypto currency leverage limits		
	5-1	Unlimited
Bonusing prior to 1st August		
	Not allowed	Allowed
Negative balance protection prior to 1st August		
	Compulsory	Not Compulsory
	Plus500	IG Group
% of customers within ESMA guided to be professional		
	>50%	>50%
% of revenues with ESMA		
	c. 70%	c. 70%
% of revenues coming from top 10% of customers		
	c. 90%	c. 80%
Previously offering binary options		
	No	Yes

Source: Company data, Bloomberg, Odey Research

Figure 10



Source: Bloomberg

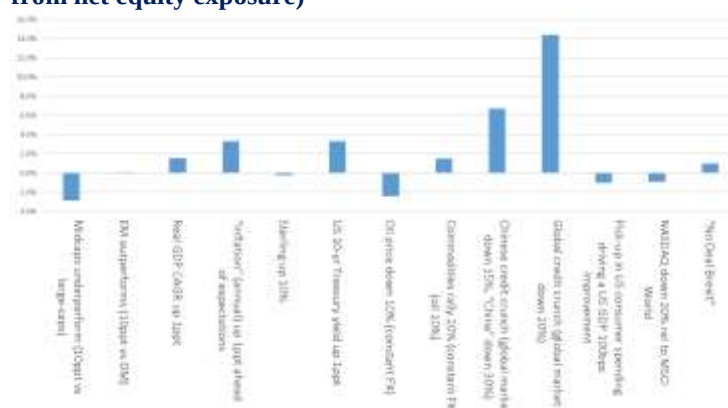
The largest negative contributor for us in the quarter was **Playtech** (-1.64%). We discussed this last quarter after the business had a profit warning linked to its Chinese business. The multiple has compressed to 7x PE and the quality of the business has improved so we have added significantly to the positions.

Our short book has generated good alpha this year. Some returns have come from 'adjacent positions' in the portfolio like Weatherford and IG Group but the vast majority being standalone positions that tend to be quite uncorrelated and unthematic. **Tesla** contributed +0.66%. We shorted some more after the news of a potential bid as the return profile looked very attractive. We are sceptical of the valuation anyway, but under the bid scenario you had capped upside of c. 15% if the bid was genuine and up to 100% downside if it turned out not to be. We have subsequently significantly reduced the position after the bid from Elon Musk turned out not to be credible and the shares fell. **Just Eat** contributed +0.57% in the quarter. We don't believe that the barriers to entry in Just Eat's markets are as high as the market believes. The evidence is that >90% of restaurants are very willing to have more than one platform linked to them (e.g. Just Eat, Uber Eats, Deliveroo). The main barrier to entry is offering a good delivery service and capital. The trouble with delivery is that in the UK it is loss-making (>100% of Just Eat's EBITDA comes from the UK) and is therefore dilutive to margins and returns. Just Eat historically has been in a position where it has not needed to offer delivery and it would rely on the restaurants to do it. Now that Uber Eats and Deliveroo are winning market share at a rapid rate, Just Eat are being forced to invest in their own delivery network. But in the UK this is mainly outsourced and is only 10% of their deliveries at present. First we believe the investment in delivery is defensive not offensive, and secondly we see 10% of orders being delivered as being a first step, and that ultimately they will have to be closer to the likes of Grubhub in the US which delivers c. 25% of orders. Hence we think margin and profitability assumptions will have to come down. On top of this we see UK order growth assumptions in the market, due to their competitive position, being significantly too high. Unless there is a serious increase in marketing spend, then we see mid- to high-single digits growth being more realistic over the next few years than the high-teens order growth that the market seems to expect. In Australia where Uber Eats is more mature, Just Eat's order growth has gone negative. On the market numbers, Just Eat trades on a forward PE multiple of 33x.

Factor risk

We focus closely on factor risks. In 2016 we made mistakes linked to our factor risks around Brexit and the US consumer. Since then we have improved our processes and focus considerably more on our in-house models. Our aim is not to fully neutralise factor risk, as the hedging costs become high and it is a poor use of gross. Our aim is to be fully aware of where we are taking on factor risk and to minimise it where appropriate. One thing we have separately modelled is how exposed we are to climbing wages as in the discussion above. Our analysis shows it to be broadly neutral to a small positive for the fund if wage inflation is above expectations, we get good protection from names on the short book like Compass, Bunzl, Aramark and WPP. Given the idiosyncratic nature of many of our names, and how they are often unrelated, it means the fund is not particularly thematic and should not have high levels of factor risk. The chart below shows how we see our exposure to what we consider to be important current factor risks.

Figure 11: OAR: Estimated Factor Return (excluding return from net equity exposure)



Source: Odey estimates

Note: Assumes full currency hedging and no overall market beta; 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

At the start of October the markets have been weak and the levels of volatility have picked up materially. As I write, both China and Italy are in official bear markets and the German Dax is about 4% off being in one. This is an environment that as stock pickers we enjoy, where indiscriminate selling can be prevalent. It is fascinating to see how the President of the United States sees the reasons behind the market moves:

President Trump- Nov 2017- *"The reason our stock market is so successful is because of me"*

President Trump- Oct 2018- *"The problem (causing the market drop) in my opinion is Treasury and the Fed. The Fed is going loco and there's no reason for them to do it. I'm not happy about it."*

Overall the portfolio continues to be broadly market-neutral, although in the recent sell-off we have slowly been reducing short positions and adding to a few longs. The non-systematic risk in the portfolio is 62% and we are fully hedged back to sterling.

James Hanbury

LF Odey Absolute Return Fund

ODEY
ASSET MANAGEMENT

Performance

	1-month	3-month	1-year	3-year	5-year	Since YTD inception	CAGR since inc.
Fund	1.8	-1.4	1.7	-3.5	11.3	8.4	205.8
MSCI Daily TR Net World	0.2	6.3	14.4	70.0	93.5	9.4	225.0
Relative	1.5	-7.7	-12.8	-73.5	-82.2	-1.0	-19.2

DISCRETE YEARLY PERFORMANCE

	1-year to	30 Sep 14	30 Sep 15	30 Sep 16	29 Sep 17	28 Sep 18
Fund		5.2	9.6	0.9	-5.9	1.7
MSCI Daily TR Net World		12.1	1.6	29.8	14.4	14.4
Relative		-6.8	8.0	-29.0	-20.3	-12.8

MONTHLY PERFORMANCE SINCE INCEPTION

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	-0.3	0.7	0.9	4.8	3.2	0.3	2.6	-5.6	1.8				8.4
2017	1.2	-3.4	0.0	1.6	2.9	0.6	-1.3	7.1	0.9	1.4	-1.6	-6.0	2.9
2016	-3.8	5.3	-5.2	-3.6	4.4	2.1	-2.0	-1.2	0.4	-8.9	-1.1	-4.8	-17.9
2015	-2.6	-2.3	1.1	5.6	-5.4	5.0	1.4	1.0	-1.2	4.5	-0.6	1.4	7.6
2014	0.4	3.0	-1.7	-4.7	1.4	-3.0	-0.5	0.3	3.6	2.4	3.2	1.5	5.5
2013	6.7	3.0	1.2	2.0	7.9	1.2	3.5	1.1	4.9	1.8	2.0	3.0	45.6
2012	6.9	8.9	2.3	-1.2	-3.3	3.7	0.9	3.6	3.0	4.1	1.4	2.3	37.2
2011	7.6	2.8	1.7	1.0	2.4	-1.1	-1.1	-10.9	1.1	3.8	-2.9	0.4	3.5
2010	-0.5	-0.5	0.8	2.9	-2.5	-4.7	3.4	-4.8	9.2	2.4	2.8	7.2	15.7
2009					3.9	2.0	2.3	6.3	8.8	-1.4	-1.0	0.5	22.9

Fund details¹

£ I Class	305.78
£ R Class	291.32
\$ Class	1.65
€ Class	1.69
Fund Size	£776 million
Strategy AUM	\$1,377 million
Fund Inception	11 May 2009
Class Inception	11 May 2009
Fund Type	UK Long/Short UCITS
Comparators	Primary: Cash Secondary: MSCI Daily TR Net World
Base Currency	GBP

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
Plus500	Long	9.9 %
SoftBank	Long	9.6 %
ViaSat	Long	8.0 %
Playtech	Long	6.6 %
Rowan Companies	Long	4.8 %
T-Mobile US	Long	4.8 %
Ensco	Long	4.7 %
Hargreaves Lansdown	Short	-4.6 %
Koninklijke KPN	Long	4.5 %
Sports Direct	Long	4.5 %

Statistics

	1-year	3-year	5-year	Inception
Fund annual s.dev.	10.8	11.9	11.3	12.5
Index annual s.dev.	8.1	8.5	8.6	10.9
Alpha	0.1	-0.1	0.4	0.6
Beta	0.2	0.0	-0.1	0.4
Correlation	0.2	0.0	-0.1	0.4
Sharpe Ratio	0.2	-0.1	0.3	1.0
Information Ratio	-0.7	-1.3	-0.7	-0.1
Tracking Error	12.7	15.3	14.8	13.3
Sortino	0.3	-0.2	0.4	1.3

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

FUND MANAGERS

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Adrian Courtenay
Jamie Grimston

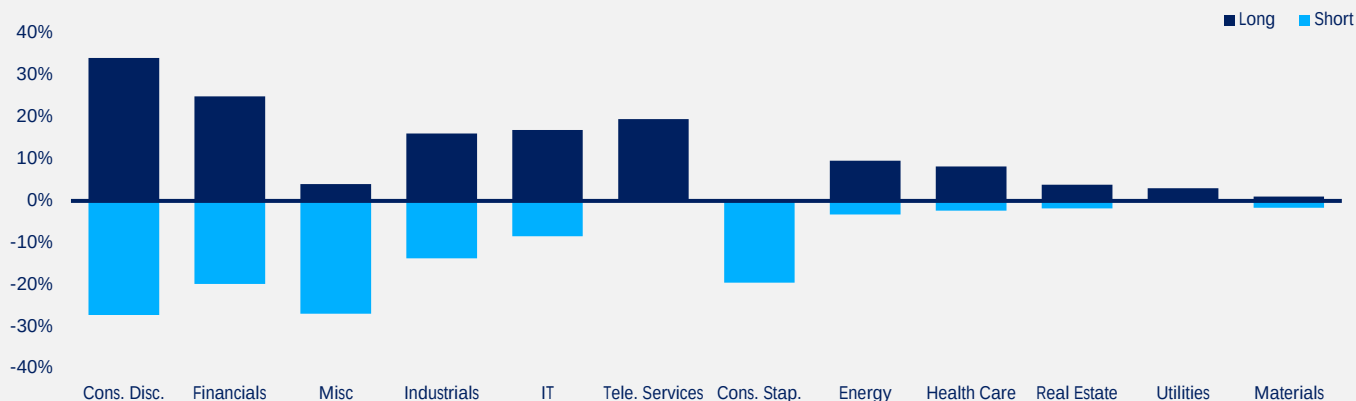
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ENQUIRIES

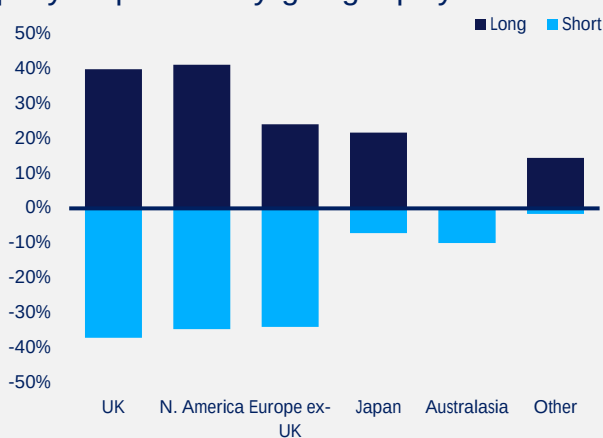
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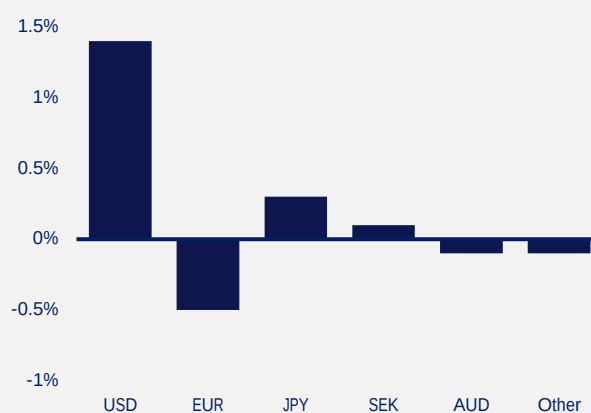
Equity exposure by sector



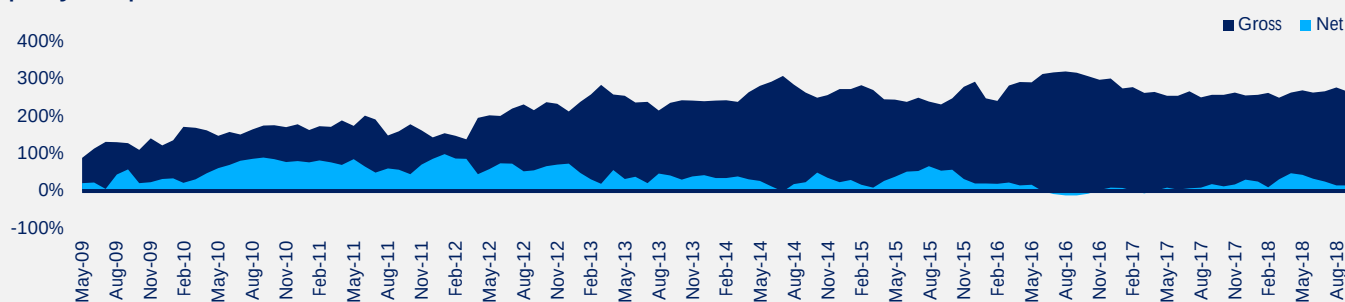
Equity exposure by geography



Non-base currency exposure



Equity exposure



ASSET ALLOCATION AS PERCENTAGE OF NAV

Long equity	141.8	Net	17.2
Short equity	-124.6	Gross	266.4

Note: Allocation figures are taken at close of business whereas Fund performance is taken at 10am. Equity exposure includes all equity related instruments. Government Bond exposure can be provided on a ten-year adjusted basis. Currency exposure shows non-base currency through forward currency contracts and portfolio holdings. Commentary is provided on a quarterly basis. Equity exposure as classified by GICS.

Source: All sources, unless otherwise stated, are Odey internal unaudited data and refer to the £1 share class. All data shown as at 28 September 2018. ¹Link Fund Solutions 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 LF Odey Absolute Return Fund ("The Fund") aims to achieve long-term capital appreciation and a positive absolute return on a 12 month rolling basis independent of market conditions. Capital is at risk and there is no guarantee that a positive return will be delivered over any one or a number of 12 month periods. The Investment Manager seeks to achieve this objective principally through managing a portfolio of securities, bonds and currencies and related financial instruments.

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	R (£), I (£, €, \$) Acc.	Minimum investment	R £5,000; I £1,000,000
Share class hedging	Non-base currency share classes are hedged	Dividends	Accumulation shares only
Trade date	Daily	Authorised Corporate Director (ACD)	Link Fund Solutions Limited
Dealing	Forward to 10am	Auditor	Ernst and Young LLP
Valuation	10am	Depository	National Westminster Bank Plc
Front end fee	Up to 4%	Price reporting	Prices published daily in Financial Times
Annual management fee	R 1.25%, I 0.75%	ISIN	R: GB00B55NGR79, £I: GB00B55NGS86, €I: GB00B3SX1S66, \$:GB00B3Z00X80
Performance fee basis	20% of the increase in the value per share of the fund between the beginning and the end of the year. Fees crystallise annually. Losses carried forward.	SEDOL	R: B55NGR7, £I: B55NGS8, €I: B3SX1S6, \$:B3Z00X8
Anti-dilution fee	May apply up to 0.75% to NAV on subs/reds if large deals (typically >5%) occur		

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 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 assets 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.