

# LF ODEY ABSOLUTE RETURN FUND



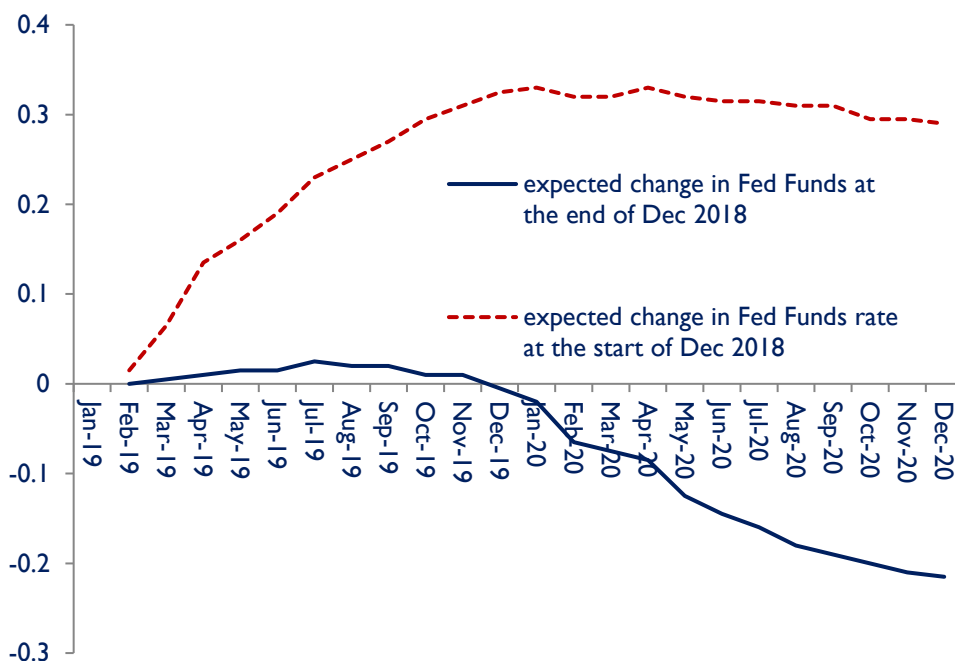
## Fund Manager Report

It was a good year for the fund where we made +3.8%, with a small net long exposure, while most major stock markets were down 5-20%. Performance was driven by exceptional alpha in our short book where we generated +19.6%. This was partially offset by some negative alpha and performance in our long book, which cost the fund -12.1%, and currency hedges that cost -3.3%. The year was marred by a difficult December although at the time of writing much of this has unwound in January.

### Fourth quarter performance review

In the 4th quarter the fund lost -4.3% over a period of heavy falls in global stock markets. Markets fell as macro data came out worse than expected, commodity prices fell dramatically (particularly oil), the US China trade spat continued, company results or outlooks disappointed (particularly in the technology sector) and there was significant deleveraging in the hedge fund space. The market became very pessimistic in December. This is illustrated in the charts below which show the material fall in US interest rate expectations over the month and the fall in the Credit Suisse Global Risk Appetite Index into "Panic".

Figure 1: Change in Fed Funds Expectations over December 2018



Source: Haver; OAM.

## Performance

**-7.3%** Monthly performance

**3.8%** Year-to-date performance

**11.8%** CAGR since inception

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

## Fund details<sup>1</sup>

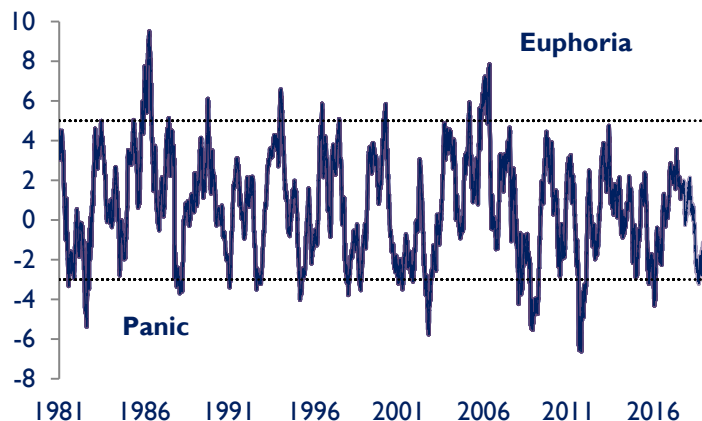
|                 |                     |
|-----------------|---------------------|
| £ I Class       | 292.74              |
| £ R Class       | 278.53              |
| \$ Class        | 1.59                |
| € Class         | 1.61                |
| Fund Size       | £749 million        |
| Strategy AUM    | \$1,295 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](http://odey.com)

**Figure 2: Global Risk Appetite**



Source: Credit Suisse

This was a period where the negative alpha and returns from our long book (-25.0%) more than offset the positive alpha and returns on our short positions (+22.4%). Being hedged on our currency positions cost us -1.3%. Stand out positive contributors in the 4th quarter came from being short Weatherford (+270bps), the oil price (+160bps), the Russell 2000 (+120bps), Aramark (+110bps), the DAX (+100bps), Eurofins (+90bps), Signet (+90bps) and being long KPN (+60bps) and Plus500 (+40bps). Standout negative contributors in the 4th quarter came from being long Softbank (-370bps), Ensco (-250bps), Rowan Companies (-240bps), Sports Direct (-170bps), Playtech (-150bps) and Square Enix (-120bps). One of the areas that gave us good protection in the quarter was being short names in the semiconductor space sector after some excellent work by our analyst Simon Schafer. We made +80bps being short **AMS** and +50bps in **Nvidia** who both had results that significantly disappointed the market on outlook, we also made +60bps being short the Nasdaq. We closed all three of these shorts during the quarter. **KPN** was one of the few positive positions in the long book in Q4 after the merger of Tele2 and T-Mobile in Holland was accepted by the regulator with no remedies. Holland will now become a 3-player market in wireless and with an effective duopoly in fixed with Liberty Global we believe return on invested capital is set to improve at KPN.

December was a particularly poor month for the fund. There was significant negative long book alpha which was exacerbated by taking our long exposure up into December (up to c.30% beta adjusted net long). Much of the increase in our long exposure in December came from going longer UK domestics and taking off our short oil positions. We were consciously increasing our exposure to these two factor risks which proved to be too early but hopefully will prove to be the right decision in the short to medium term. Although the macro data deteriorated quite significantly in the month we didn't have any profit warnings from our long book apart from **Bango**, a small position, and **Playtech** which had a small hit (less than 5%) from a tax increase in Italy. We felt that many of our less cyclical stocks were unduly hit and we took the opportunity to add to them in the month. Our major losses in December came from SoftBank (-200bps), Rowan (-130bps), Viasat (-130bps), Ensco (-110bps), Sports Direct (-90bps) being partly offset by our short book with the largest contributions from Signet (+90bps) and Aramark (+70bps).

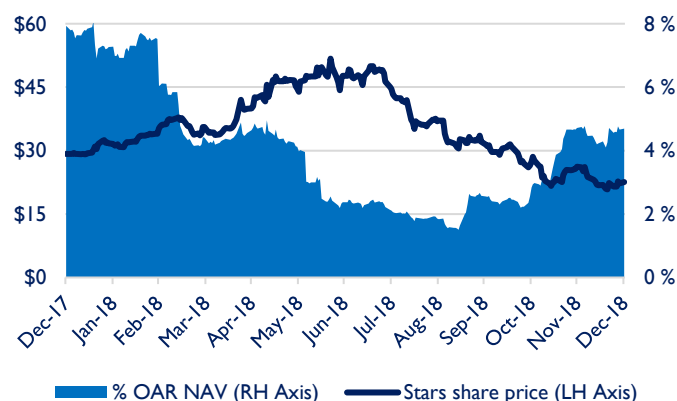
## Full year performance review and stock commentary

Our top contributor on the long book was **Plus500** (+584bps), a company in the CFD trading space. It was pleasing to see our thesis playing out in Plus500, this disruptive fintech business continued to win market share in existing geographies and grow in new geographies like Singapore. Our expectations with tighter regulation is that it will further differentiate the stronger and weaker players. Q4 was the first full quarter after new ESMA regulation came in and it was encouraging to see that Plus500 generated around \$100m of EBIT in this quarter, ahead of market expectations. This reminds us that market volatility and interest is the most important determinant for revenues in a quarter. With \$0.5bn of gross cash on the balance sheet, no debt and competitors struggling the company has interesting M&A optionality. With market share to win, new geographies and verticals to move into we see Plus500 as a growth business valued at 5x EV/EBIT. Our short in the CFD trading space, **IG Group**, also generated positive returns for the fund of +0.39% in 2018.

Notable positive contributors to the long book that have been sold were **Cityfibre** (+139bps) after a cash offer, **Ocado** (+133bps) which we sold after the dramatic share price rally after the Kroger deal announcement and **Shire** (+124bps) which has now left the portfolio after the completion in January 2019 of its acquisition by Takeda. **Takeda** is cheap on equity metrics but has significant leverage and we believe we can find more interesting ideas in this space, namely **Bayer** which we have taken a new position in.

Another name in the long book that contributed well was **Stars Group** (+94bps). Stars Group is a leading online gaming company with ~65% market share in online poker. Our trading of Stars Group in 2018 illustrates how our style of rebalancing our positions according to our view of upside to intrinsic value can add value (see Figure 3 below). At the start of 2018 we had a large position in the fund. As the shares rallied the company raised both debt and equity to fund acquisitions, and whilst the market was initially enthusiastic about this approach we reduced our position. Future earnings from these deals were downgraded and the shares fell dramatically, so we took this opportunity to make Stars a large position in the fund again.

**Figure 3: Stars Group share price vs % OAR NAV**



Source: Odey internal unaudited data

Although Stars Group does have high levels of debt (5.6x net debt/EBITDA), it essentially has no covenants and it is extremely cash generative. We believe as online gaming regulates further over the next few years Stars Group will be a key player and net

beneficiary in a growing and defensive market. The stock is on a FCF yield to the equity of 13% for 2020.

When we look at some of our biggest losers in 2018 we find it encouraging on a forward looking basis. **Playtech** cost the fund -380bps in 2018 as its Chinese business was hit by more competition and there were tax and advertising changes in Italy where Playtech now has large exposure due to its Snaitech acquisition. On our numbers the valuation of Playtech is near a record low, a FCF yield of 11%, and yet the quality of the business mix (with China now materially smaller) has arguably never been higher. We added to Playtech during the year.

**Viasat**, the satellite company, cost the fund -160bps during the year with a very weak December off no news flow. Operationally we could not have been more pleased with how 2018 played out for Viasat, although clearly the market did not agree with our view. We believe the market has been too focused on the residential broadband net add figure, whereas for the company this is one of their least preferred options for capacity. Their ambition is to price up residential broadband customers rather than chase volume. We have a reasonably high level of confidence that 2019 will be a year where the market has to upgrade both its revenue and profit numbers due to the opportunity at government, inflight wifi and community wifi.

**Sports Direct** was also a large detractor to the fund in 2018 (-220bps), with much of this poor performance coming in December. Half year results reported in December were good with underlying EBITDA growth of more than 15%. The shares sold off dramatically though when Mike Ashley, the founder and CEO, discussed current trading and said *'November was the worst on record, unbelievably bad'*. Other retailers like Primark, ASOS and Next backed up this statement but recently we have had evidence that UK retail spending bounced back considerably in December. The market has also taken a negative stance on the acquisition of House of Fraser. Our analysis suggests that even if Sports Direct kept open only the House of Fraser Glasgow store and the .com business that this would be a good deal at £90m. Sports Direct has the optionality on what it wants to do with the remaining 56 stores, depending on the rental deal it gets from the landlords, the profitability of the stores and the potential it has to use some of its existing fascias within the stores. Mike Ashley has also bought other businesses out of administration and will look at further opportunities. The market prices this negatively which is not rational. There is huge asymmetry of information between the market and Mike Ashley on these deals, he has not taken a dividend or salary out of the business since IPO and he owns 62% of the company. Ashley has one of the UK retail sector's best track records of capital allocation over the past 30 years. He has also often been a highly contrarian investor and allocator. Furthermore, when you adjust for the property on the balance sheet, Sports Direct is on a FCF yield of over 15% and we believe the company is well-placed in the structurally challenged world of retail.

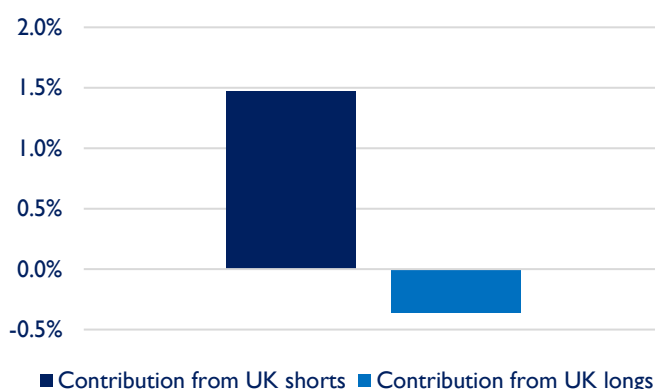
Our short book added extremely good alpha in 2018, with average exposure of c.110% it contributed nearly 20%. It is a nature of our short book that there is more churn, out of our top 10 contributors, half of them are no longer in the book. **Weatherford**, the oil services company, contributed +440bps as cash flow materially disappointed and it struggled to sell its assets at acceptable prices given its high levels of debt. We closed the position in the fourth quarter. **Nielsen** contributed +140bps following cuts to guidance for profit and cash generation and the announcement that both its

CEO and CFO would be departing. The business is now effectively up for sale but we continue to hold a smaller short position as we don't feel that the structural challenges facing both of its divisions are adequately reflected in the current 18x cash EBIT multiple. Further, Nielsen's previous ownership by private equity should mean a relatively limited additional cost optimisation opportunity. We made good money from being short US retail names which as a group contributed c.150bps. Our thesis here is that the hit to sales in an online world is well understood but we feel that the hit to profits is still underestimated. The cost to do business enforced on the sector mainly by Amazon is rising every year. We tactically covered the shorts in Q4 apart from **Walmart** and **Signet**. **Just Eat** (+100bps) was a helpful short as profit numbers had to be downgraded as it became apparent that more investment is required in delivery. We believe that in the UK (which is more than 100% of Just Eat's profits) it is still underestimated how much more investment is required into delivery. This is dilutive to both margins and returns and may even be negative to profits in an absolute sense.

### UK Domestic exposure

This has been a drag on performance in our long book for the past few years, given it has been about 20% of our long book exposure. As you can see below, in a rising market we have lost a small amount of money on these longs. We have though generated some good alpha on our short book, making absolute money in a rising market.

**Figure 4: Contribution to OAR from UK book (30% of revenue or profit from the UK) from Brexit Referendum to December 2018**



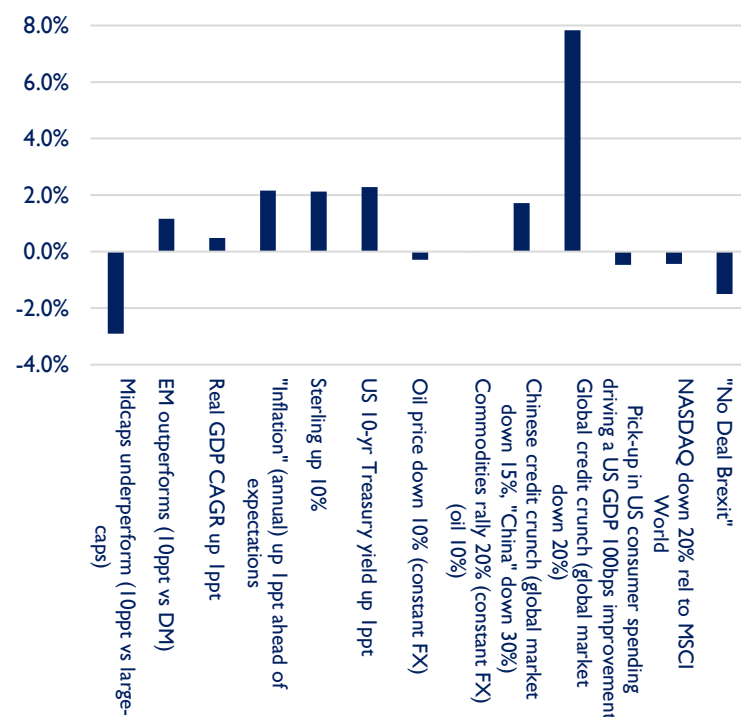
Source: Odey internal unaudited data

As UK domestic stocks have generally de-rated over the past couple of years we have been reducing our short book (e.g. Berkeley Group, ITV, Autotrader, Marks and Spencer, Metro Bank and the FTSE mid cap index short) and buying more on the long side. There is a general impression outside of the UK that the UK is uninvestable due to Brexit and with high levels of index shorting there has been a large amount of indiscriminate selling.

We are finding UK domestic stocks that we believe are cheap whatever type of Brexit we get (or not). Stocks that we own that are materially exposed to the UK economy are **Sports Direct**, **B&M**, **Dart Group**, **Greene King**, **Tesco**, **AO World**, **Barclays**, **IWG** and we have reversed our short index position in the FTSE 250. We still have short positions in the UK domestic space like **ITV**, **Just Eat**, **Royal Mail**, **Autotrader**, **Intu**, **Hammerson** and

**Legal and General** but this short exposure is generally reduced and in these examples we still feel the valuations do not compensate for either the structural challenges or balance sheet risk. As shown in the multi factor analysis in Figure 5 below the portfolio's estimated factor exposure from a "no deal" Brexit is -1.5%; this excludes returns from net equity exposure.

**Figure 5: OAR: Estimated Factor Return (excluding return from net equity exposure)**

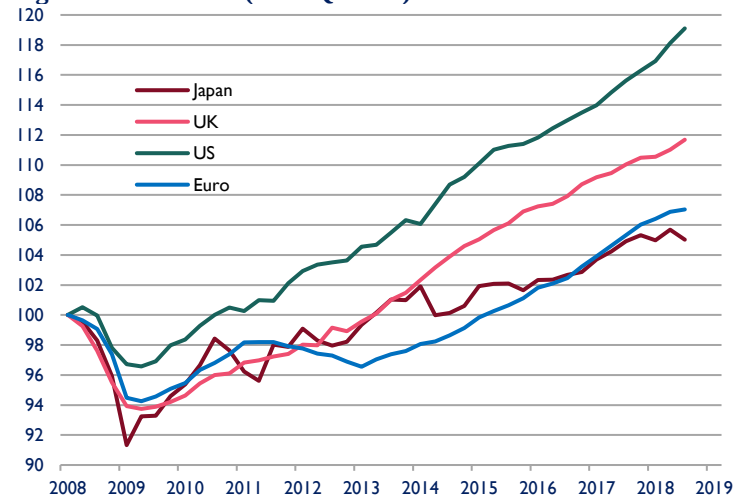


Source: Odey internal unaudited data

*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.*

Actually when one steps back and looks at the UK economy we feel it is in a good place relative to its history and other OECD economies.

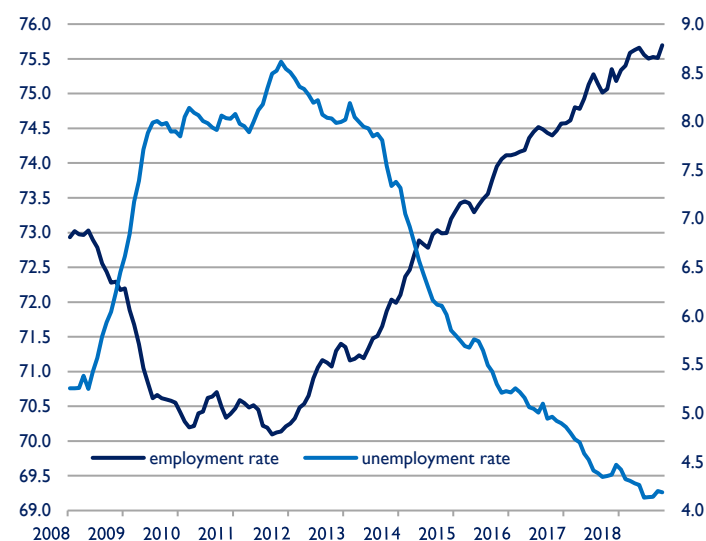
**Figure 6: Real GDP (2008 Q1=100)**



Source: Datastream from Refinitiv; Lazarus Economics & Strategy

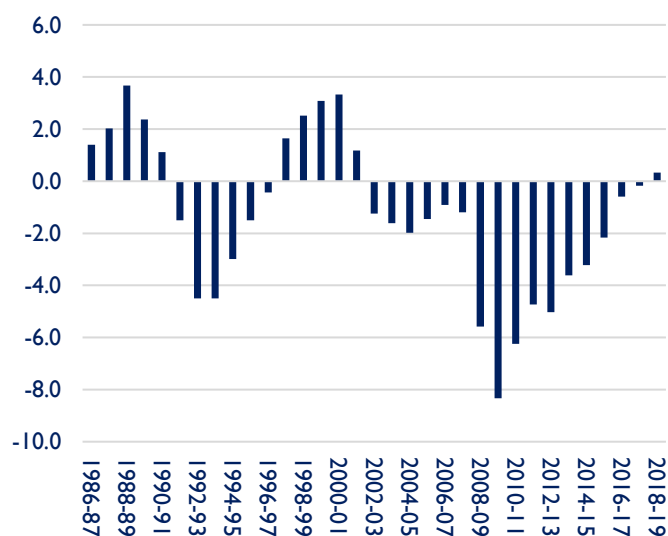
Clearly Brexit creates uncertainty but unemployment levels are near record lows, there is a primary fiscal surplus, the trade balance in goods and services is heading in the right direction and although the amount of consumer debt is high there are rising real incomes due to falling inflation and rising wages.

**Figure 7: UK Employment rate and unemployment rate (%)**



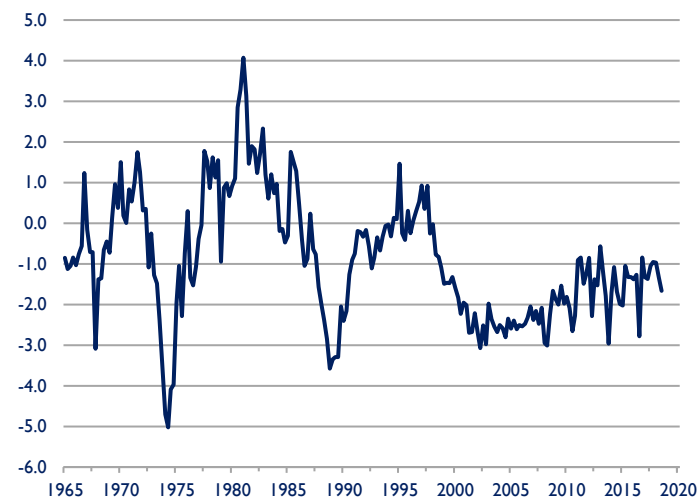
Source: ONS; Lazarus Economics & Strategy

**Figure 8: UK primary budget balance as a % of GDP**



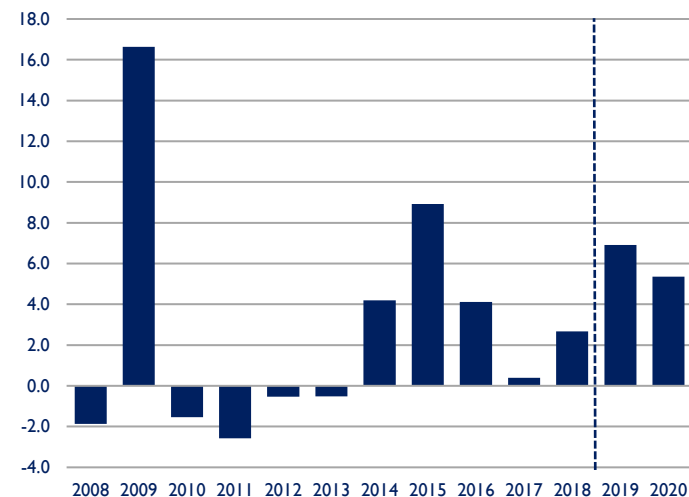
Source: Lazarus Economics and Strategy

**Figure 9: Trade balance goods & services (% GDP)**



Source: ONS; Lazarus Economics & Strategy

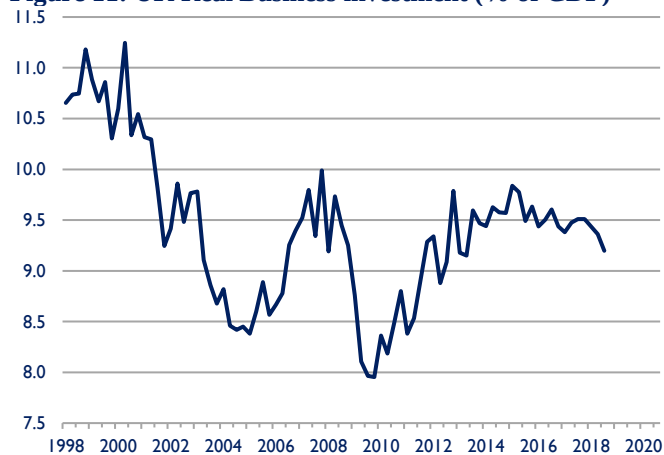
**Figure 10: UK household cash flow (% change on a year earlier)**



Source: ONS; Lazarus Economics & Strategy

Business investment income has been held back in the last couple of years due to Brexit but one cannot help feeling that if there is a bit more clarity on the direction of Brexit then there could be a significant amount of pent up demand to come through.

**Figure 11: UK Real Business investment (% of GDP)**



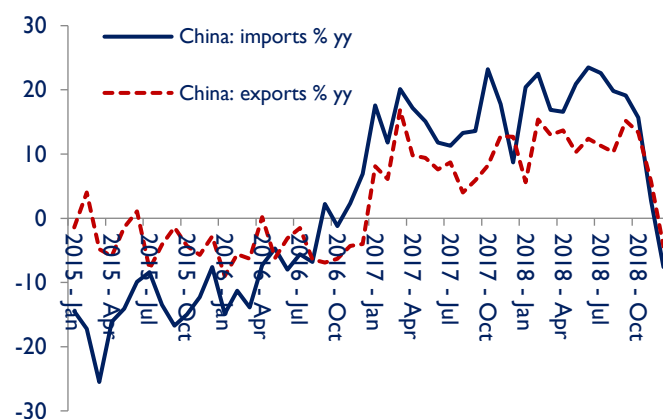
Source: ONS; Lazarus Economics & Strategy

Of course the UK is not perfect and as a reasonably open economy it remains quite 'high beta' but relative to the commentary and what is priced in we assess the reality as much better. There is no doubt that if Jeremy Corbyn gets into power then 'all bets are off' but we feel this is a significantly overpriced event and we see the probability in the 5-10% range.

### Global macro

The economic data deteriorated quite significantly in the 4th quarter and early into the New Year across all major economic areas. The drop in the US ISM new orders index in December ranked in the top 1.5% of monthly declines since 1960. The ongoing trade dispute between the US and China is proving to be a headwind to the Chinese and other economies and we have recently seen a material drop off in China's export activity.

**Figure 12: China import and export growth**

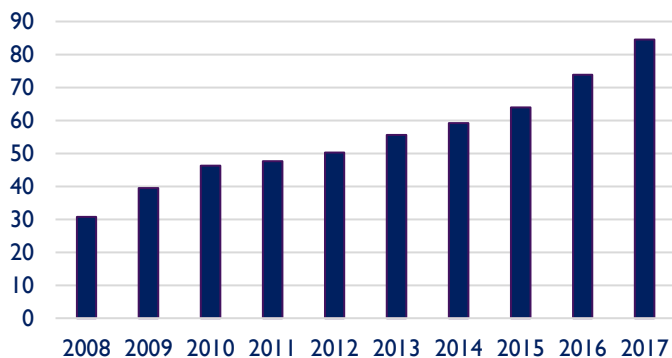


Source: China Customs; Haver Analytics; OAM.

The European economy is also proving to be weak and it is clear to see that escape velocity in Europe is very hard to achieve without healthy key trading partners.

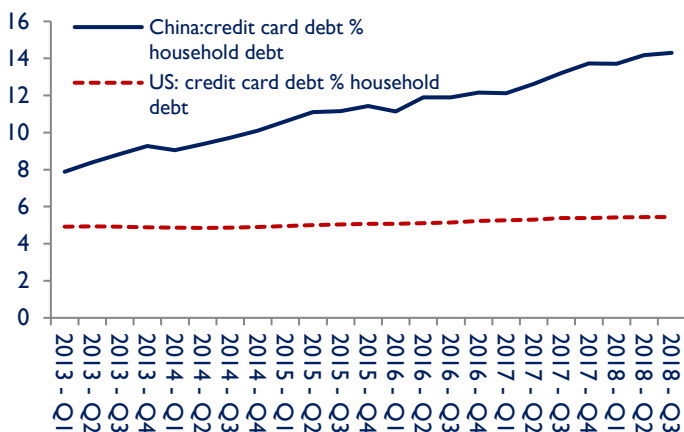
Undoubtedly the odds of a recession in major developed economies in the next 18 months has picked up with much of this linked to business confidence falling due to geo-political tensions. That said we do believe that key policy makers should provide some sort of counter balance given recent developments. We feel that both China and Trump want a deal and a 'positive' resolution would not surprise us. Equally the FED have recently made it clear that it will be flexible according to the data and we could see the uncertainty of Brexit reducing as the year progresses. Our base case remains that real GDP will continue to weaken with wage inflation continuing to be strong. This is an ugly combination for corporate margins and we feel we have a short book that gives us good protection in this environment. One of the areas where we appear to be more nervous compared to consensus is a slowdown in domestic China. With the fiscal deficit in China close to its cap, with unsecured consumer credit at high levels (and potentially much more concentrated than the national data would imply) and with returns on incremental fixed asset investment potentially negative China finds itself with far less levers to reaccelerate the economy than it has done in the past decade. It is very noticeable how the money supply growth has continued to weaken despite recent stimulative measures. The flip side of this is that this is a good time for America to be negotiating with China and it increases the likelihood of a positively taken trade deal.

**Figure 13: China: Household debt as a % of disposable income**



Source: Chinese national data; Haver; OAM.

**Figure 14: Credit card debt as % of household debt in China and the US**



Source: Chinese national data; Haver; OAM.

**Figure 15: China money supply**



Source: People's Bank of China/Haver Analytics

## Positioning and outlook

In recent weeks we have increased our exposure to cyclicals where we consider them to be overly discounting macro risks and where we like the bottom up businesses; we took new positions in **Goldman Sachs, Barclays, Delta** and added to **Rowan**. As discussed above we have also been adding to some of our poor performers of 2018 and have taken a new position in **Bayer** and **GVC**. Our short book median EV/EBIT multiple is 14 x versus 12 x for our long book. Our short book is made up of an eclectic mixture of stocks where we feel there are structural, valuation and accounting risks, and as we have said before many of our best shorts are adjacent to our longs where we believe they are alpha generating units as well as pair trades.

The fund's net exposure in 2018 had a small net long bias (c.15%) with exposure ranging from 5% to 30% depending on valuations and opportunities. At the time of writing we are currently c.20% net long beta adjusted. We see many macro risks to the economy and concerns with regards to corporate profitability but we are not net short or totally market neutral for the following reasons.

- General level of caution is now quite high in the market as shown in the earlier chart but it is also a fairly schizophrenic market and positioning can change quite rapidly.
- Valuations in some stocks, particularly cyclicals are very cheap and appear to be putting a high probability on a recession.
- We believe we have a higher edge in stock picking than macro positioning.
- The idiosyncratic nature of our stocks means that stock risk generally makes up the majority of our portfolio risk.
- With QE having turned into QT it feels like we are leaving the world of lower volatility behind us. Large rallies (even in a bear market) can make managing a net short position very challenging.

Overall we feel very good about our portfolio of names and hope that higher volatility in 2019 provides some interesting opportunities for us.

*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. |
|--------------------------------|---------|---------|--------|--------|--------|---------------------|-----------------|
| <b>Fund</b>                    | -7.3    | -4.3    | 3.8    | -12.3  | -0.4   | 3.8                 | 192.7           |
| <b>MSCI Daily TR Net World</b> | -7.5    | -11.4   | -3.0   | 39.0   | 62.5   | -3.0                | 188.1           |
| <b>Relative</b>                | 0.1     | 7.1     | 6.9    | -51.3  | -62.9  | 6.9                 | 4.7             |

## DISCRETE YEARLY PERFORMANCE

|                                | 1-year to | 31 Dec 14 | 31 Dec 15 | 30 Dec 16 | 29 Dec 17 | 31 Dec 18 |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Fund</b>                    |           | 5.5       | 7.6       | -17.9     | 2.9       | 3.8       |
| <b>MSCI Daily TR Net World</b> |           | 11.5      | 4.8       | 28.2      | 11.8      | -3.0      |
| <b>Relative</b>                |           | -5.9      | 2.8       | -46.1     | -9.0      | 6.9       |

## MONTHLY PERFORMANCE SINCE INCEPTION

|             | Jan  | Feb  | Mar  | Apr  | May  | Jun  | Jul  | Aug   | Sep  | Oct  | Nov  | Dec  | YTD   |
|-------------|------|------|------|------|------|------|------|-------|------|------|------|------|-------|
| <b>2018</b> | -0.3 | 0.7  | 0.9  | 4.8  | 3.2  | 0.3  | 2.6  | -5.6  | 1.8  | 0.4  | 2.8  | -7.3 | 3.8   |
| <b>2017</b> | 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   |
| <b>2016</b> | -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 |
| <b>2015</b> | -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   |
| <b>2014</b> | 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   |
| <b>2013</b> | 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  |
| <b>2012</b> | 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  |
| <b>2011</b> | 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   |
| <b>2010</b> | -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  |
| <b>2009</b> |      |      |      |      | 3.9  | 2.0  | 2.3  | 6.3   | 8.8  | -1.4 | -1.0 | 0.5  | 22.9  |

## Fund details<sup>1</sup>

|                        |                                                     |
|------------------------|-----------------------------------------------------|
| <b>£ I Class</b>       | 292.74                                              |
| <b>£ R Class</b>       | 278.53                                              |
| <b>\$ Class</b>        | 1.59                                                |
| <b>€ Class</b>         | 1.61                                                |
| <b>Fund Size</b>       | £749 million                                        |
| <b>Strategy AUM</b>    | \$1,295 million                                     |
| <b>Fund Inception</b>  | 11 May 2009                                         |
| <b>Class Inception</b> | 11 May 2009                                         |
| <b>Fund Type</b>       | UK Long/Short UCITS                                 |
| <b>Comparators</b>     | Primary: Cash<br>Secondary: MSCI Daily TR Net World |
| <b>Base Currency</b>   | 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 |
|------------------------|----------|-------------------|
| <b>Plus500</b>         | Long     | 9.7 %             |
| <b>ViaSat</b>          | Long     | 7.8 %             |
| <b>SoftBank</b>        | Long     | 7.1 %             |
| <b>Playtech</b>        | Long     | 6.1 %             |
| <b>Sports Direct</b>   | Long     | 5.1 %             |
| <b>ORIX</b>            | Long     | 4.8 %             |
| <b>SHIRE</b>           | Long     | 4.7 %             |
| <b>Stars</b>           | Long     | 4.7 %             |
| <b>Koninklijke KPN</b> | Long     | 4.7 %             |
| <b>T-Mobile US</b>     | Long     | 4.4 %             |

## Statistics

|                            | 1-year | 3-year | 5-year | Inception |
|----------------------------|--------|--------|--------|-----------|
| <b>Fund annual s.dev.</b>  | 11.7   | 12.5   | 11.6   | 12.6      |
| <b>Index annual s.dev.</b> | 12.3   | 10.0   | 9.8    | 11.3      |
| <b>Alpha</b>               | 0.5    | -0.4   | 0.0    | 0.5       |
| <b>Beta</b>                | 0.5    | 0.1    | 0.1    | 0.4       |
| <b>Correlation</b>         | 0.6    | 0.1    | 0.1    | 0.4       |
| <b>Sharpe Ratio</b>        | 0.3    | -0.3   | 0.0    | 0.9       |
| <b>Information Ratio</b>   | 0.6    | -1.0   | -0.7   | -0.1      |
| <b>Tracking Error</b>      | 11.5   | 15.7   | 14.9   | 13.3      |
| <b>Sortino</b>             | 0.4    | -0.5   | 0.0    | 1.2       |

## Important information

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

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## Fund team and contact details

### FUND MANAGERS

James Hanbury  
Adrian Courtenay  
Jamie Grimston

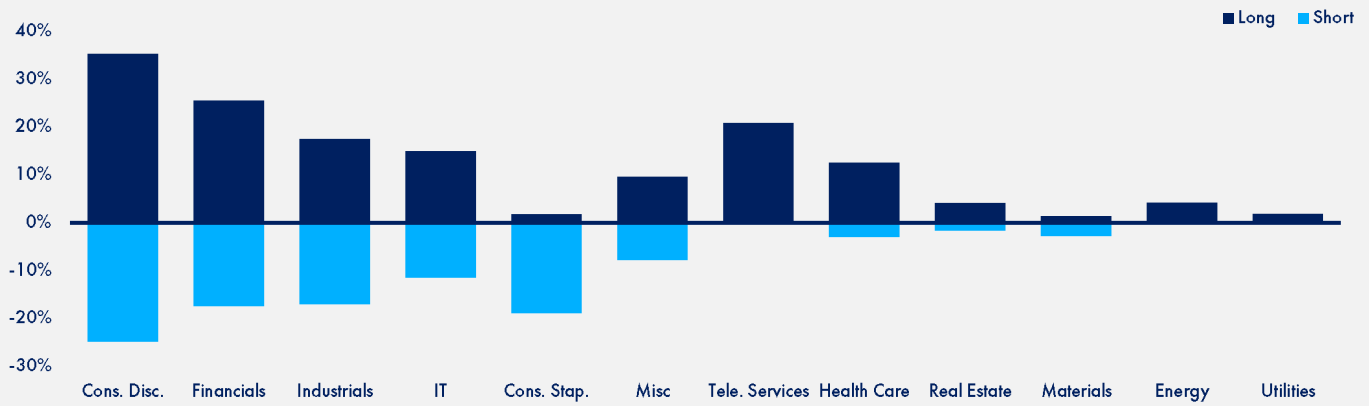
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### ENQUIRIES

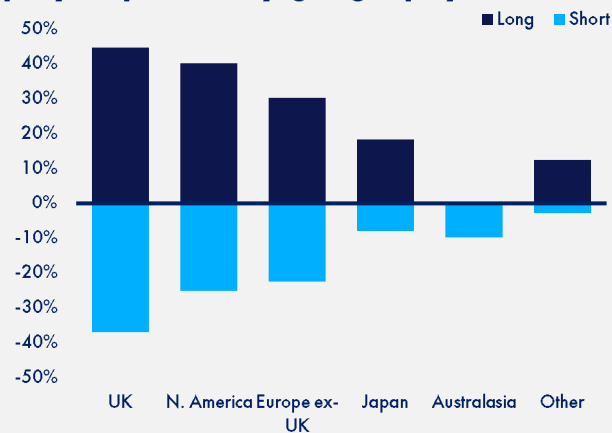
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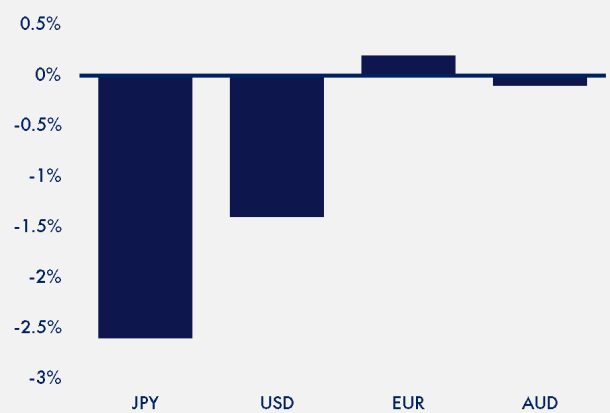
## Equity exposure by sector



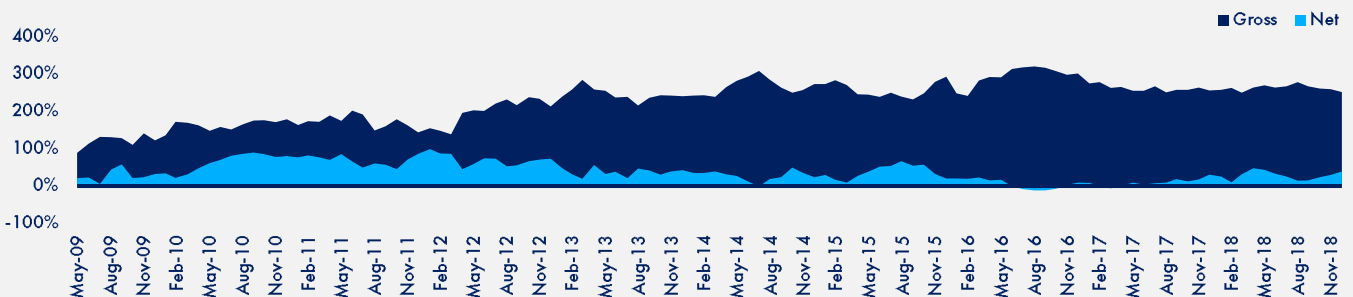
## Equity exposure by geography



## Non-base currency exposure



## Equity exposure



## ASSET ALLOCATION AS PERCENTAGE OF NAV

|              |        |       |       |
|--------------|--------|-------|-------|
| Long equity  | 146.3  | Net   | 41.4  |
| Short equity | -105.0 | Gross | 251.3 |

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 £ I share class. All data shown as at 31 December 2018. <sup>1</sup>Link 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 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 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

|                              |                                                                                                                                                          |                                            |                                                                      |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|----------------------------------------------------------------------|
| <b>Share classes</b>         | R (£), I (£, €, \$) Acc.                                                                                                                                 | <b>Minimum investment</b>                  | R £5,000; I £1,000,000                                               |
| <b>Share class hedging</b>   | Non-base currency share classes are hedged                                                                                                               | <b>Dividends</b>                           | Accumulation shares only                                             |
| <b>Trade date</b>            | Daily                                                                                                                                                    | <b>Authorised Corporate Director (ACD)</b> | Link Fund Administrators Ltd.                                        |
| <b>Dealing</b>               | Forward to 10am                                                                                                                                          | <b>Auditor</b>                             | Ernst and Young LLP                                                  |
| <b>Valuation</b>             | 10am                                                                                                                                                     | <b>Depository</b>                          | National Westminster Bank Plc                                        |
| <b>Front end fee</b>         | Up to 4%                                                                                                                                                 | <b>Price reporting</b>                     | Prices published daily in Financial Times                            |
| <b>Annual management fee</b> | R 1.25%, I 0.75%                                                                                                                                         | <b>ISIN</b>                                | R: GB00B55NGR79, £I: GB00B55NGS86, €I: GB00B3SX1S66, \$:GB00B3Z00X80 |
| <b>Performance fee basis</b> | 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. | <b>SEDOL</b>                               | R: B55NGR7, £I: B55NGS8, €I: B3SX1S6, \$:B3Z00X8                     |
| <b>Anti-dilution fee</b>     | 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.