

SHINING A LIGHT ON THE..... Odey European Focus Fund

AT A GLANCE

Investment Objective	
The investment objective of the fund is to generate long term capital growth through investing in equities of European companies in developed European equity markets.	

Inception Date	1 July 2015
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F00000W0YB

Management	
Manager Name	Start Date
Oliver Kelton	1 July 2015

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	24.14%
Large	55.36%
Medium	20.50%
Small	0.00%
Micro	0.00%

Top 10 Holdings		
Total number of holdings	20	
Assets in Top 10 Holdings	58.28%	
Name	Sector	% of Assets
France (Govt of)	-	8.68%
Tesco PLC	Consumer Defensive	7.95%
Orange SA	Communication Services	7.72%
Vivendi SA	Consumer Cyclical	6.11%
Royal Philips NV	Industrials	5.58%
Alstom SA	Industrials	5.41%
Bayer AG	Healthcare	4.82%
TDC A/S	Communication Services	4.04%
Danske Bank A/S	Financial Services	4.01%
Centrica PLC	Utilities	3.96%

Volatility Measurements	
3-Yr Std Dev (volatility)	-
3-Yr Mean Return (average)	-

FUND PERFORMANCE

Performance from 1 July 2015 to 31 January 2017:

	2015	2016	2017
Odey European Focus Fund	-1.14%	16.07%	-0.77%
iShares MSCI Europe	-1.95%	15.22%	0.40%

Performance over 12 months and since launch:

	1 year	Since Launch
Odey European Focus Fund	14.26%	13.85%
iShares MSCI Europe	19.23%	13.43%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

UPDATE....

This is perhaps one of the most interesting funds we have reviewed for some time. Firstly, the manager is very personable and clearly very intelligent and knowledgeable. The challenge is how to judge the performance because the fund has only been available under the Odey brand since July 2015. Prior to that, Oliver worked for Waverton Investment Management (since 2001) and managing money since 2003. He took over the management of the Waverton European Fund in 2010, and this fund was merged into the Odey European Focus Fund in 2015.

The process he developed over the years with Waverton was brought across to Odey, so those used to his style will see no change. However, the performance we have is only for a short period; as it stands it doesn't show anything exceptional. We have seen performance from Waverton and he does have a good track record particularly in 2011.

We talked about this and he explained that much of this reflects what he doesn't hold; no exposure to energy/mining and little exposure to financials. Energy/mining as an example went from 3% of the index to 10% in 2016. So, if you weren't in this sector then you were going to be behind the curve.

Speaking to Oliver we believe this reflects his investment style; he is style agnostic, looking for good investments over a 2/3-year timeframe and crucially he is looking to make money from stock picking with an absolute return mindset.

We talked in more detail about what makes a good investment; he explained that he looks at the following areas – shareholders, management, revenue, profitability, cash flow and balance sheet, and what this means.

With shareholders, he used the example of Vivendi where the owner has invested significant amounts of his own money in the business and has a clear vision for turning this around. This is just one part of the story and when added with other elements he sees opportunities for the business in terms of probability of success, which he believes has been missed by the market.

We then discussed the management at Tesco's and he explained that it was what they have done over time which is important. The focus for him is looking how gradually they are moving the business back to traditional retailing. Management is supporting that by putting money back into the company (through share ownership). Again, it is not just about one thing but looking at all the different pieces of information and building a picture of the company. That company might be the most hated company but if everything put together shows an opportunity, then it could be a good reason to invest.

I asked how he selects companies to buy and he explained much of this is about meeting the management. He feels psychology plays a big part in selecting companies; does what they say ring true? It is about listening and then putting this into context. He meets management through conferences, one-to-one meetings and group meetings and this range of contact enables him to formulate ideas.

The fund is highly concentrated with just twenty stocks and I asked whether this added risk to the portfolio. Oliver explained that it is the opposite. He manages the portfolio with an absolute return mindset and has all his money tied up in the strategy so he is very much aligned with investors. He knows each stock and watches them closely, looking for anomalies or anything that would highlight concerns with the investment. If the stock loses 10% then he will automatically cut back, and 20% would almost certainly see an exit from the investment.

He sees little value in energy and financial stocks, so holds almost no companies in these sectors but can see value in certain telecoms and food retailers particularly if macro trends reverse which he believes they will.

Investors selecting this fund are following a contrarian stock picking strategy, and investing in a highly-concentrated fund. The track record is harder to follow because he has only been at Odey since 2015 and the previous track record is hard to identify. Digging deeper there are some areas to consider.

Firstly, the fund holds over 20% cash, and one of its highest holdings is in French government bonds. So over 30% is in cash and gilts. Despite this, it has still delivered performance close to the index and this is the nature of Oliver's investing in that, he won't invest just for the sake of investing. This effectively acts as protection for the fund and going back when he managed the strategy at Waverton we can see in 2010, periods in 2012 and 2014 and through 2013 he held cash below 5%. In 2011 he held significant cash at nearly 40% at one point. So, cash is used to protect on the downside and enables him to invest when opportunities arise. The second part of the equation is that this is Oliver's fund and this does carry risk should anything happen to him, yes others within Odey can take on the fund but ultimately it is his ideas that will drive the performance. But like any fund, if this happened investors could just move their assets away.

Clearly, he is a bright guy, and his approach is contrarian. He will invest in areas where others may feel less comfortable. Personally, we would like to see a three-year track record to see how he performs in his new environment. Understanding why he holds cash and how he manages this makes it interesting and reflects this idea of an absolute return mindset.

In summary, this is a different fund within the European space and one that could shine over the coming years. Personally, we want to monitor the performance but can already see how this could blend well with other strategies within the European sector.

The source of information in this note has been provided by Odey and is correct as at February 2017. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.