

## November 2014 – Pleasant Weather, Currency Storm on Horizon

This month was “boring” for US stock market. Stocks went up gradually whole month with no big swings, backed by positive economic data showing US recovery and by solid earning season. A 60% of reporting companies have beaten the estimates. On the other hand the energy sector was hit by falling oil prices and lost about 7% this month.

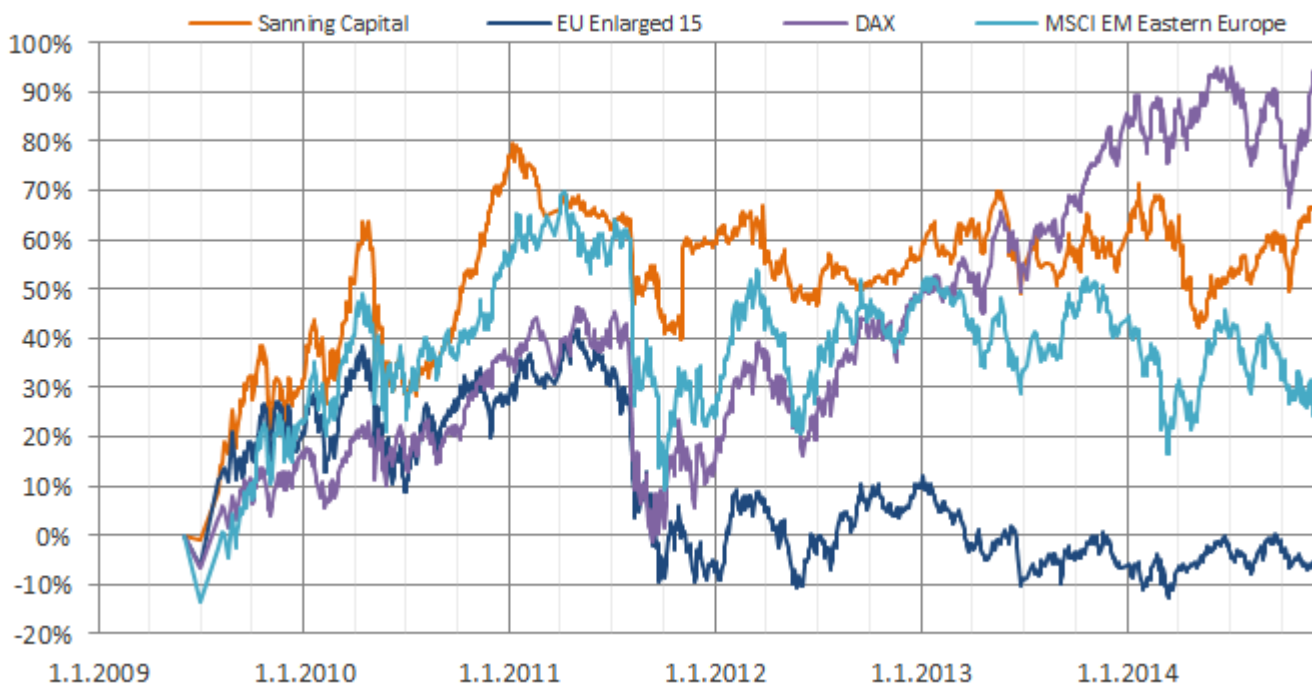
The European stocks have shown more dynamics, especially in the second half of the month after two statements by Mario Draghi: first on 17<sup>th</sup>, when he said it would be willing to provide additional monetary stimulus to keep inflation from staying too low and second on 21<sup>st</sup>, when he reiterated that the ECB is ready to expand its asset purchases if inflation stays too low for too long.

In connection with such QE, we looked at Japan, as a possible preview of what could be coming to the EU. Japan faces 3 intertwined problems: 1. high amount of debt (230% debt-to-GDP), substantial fiscal deficits (7.6%) and 2. shrinking of population in productive years caused almost no growth in last two decades and are also causing 3. weakening of demand hence deflation. Their options how to reduce debt-to-GDP ratio, are very limited. With falling population it is impossible to increase the output, without high growth in productivity - unimaginable for such a developed country. Another option is to induce the inflation, which erodes outstanding debt and increases demand, also unimaginable with falling output and downward pressure on prices. The only remaining, and chosen option, is devaluation of the currency. Weaker Yen helps Japanese businesses to be more competitive abroad and lifts the prices of imports, reducing deflation. Until growth or inflation arrive, (and those seem to be far) we expect further decline of Yen relative to major currencies. What is more scary is that BoJ has really no choice, their hand was partially forced by pension funds, which gave up on Japan and started selling Japanese government bonds with low yields and reallocating their capital to global equities. Because of high amount of debt, BoJ cannot let yields on government bonds go up, as Japanese budget could not finance high interest yield in future. Most importantly, the devaluation of Yen will not be left without response of other central banks, especially in Asia. The next round of currency wars is brewing. What is the relevance for rest of the world? We will continue to study this topic as it is crucial for understanding the future of financial markets.

This month we have added 2.1%. We outperformed **EU Enlarged** (-2.9%) and **MSCI EM Eastern Europe** (-6.9%). We underperformed **DAX** (+7.0%), **S&P 500** (+2.5%) and **NASDAQ** (+3.5%).

We again stepped into SolarCity position after deep decline due to drop in oil prices and closed the position later with 7.7% return. We also committed very small part of the fund to venture capital project Oru Kayak. This business produces unique foldable kayaks for affordable price. The project offers valuation of venture capital projects, but already generates positive EBITDA and has significant demand for its product. We will carry this investment forward at book value.

## Fund vs. Indices



### Fund Manager

Jan Pravda

### Launch Date

2.6.09

### Location

Prague

### Fund Currency

EUR

### Share Price

€ 1 665.46

### Performance Fee

20 % HWM

### Management Fee

2% p.a.

### Cumulative Performance

Period	Sanning <sup>(1)</sup>	EU Enlarged <sup>(2)</sup>	MSCI EM EU <sup>(2)</sup>	DAX	S&P 500	Nasdaq
1 month	2.1%	-2.9%	-6.9%	7.0%	2.5%	3.5%
3 months	5.2%	-2.4%	-7.7%	5.4%	3.2%	4.6%
12 months	4.2%	-5.7%	-14.6%	6.1%	14.5%	18.0%
3 years	5.0%	-3.8%	-7.1%	63.9%	65.8%	82.9%
5 years	---	---	---	---	---	---
Since inception (2.6.2009)	<b>66.5%</b>	-6.7%	24.1%	94.0%	118.8%	160.9%

### Further Characteristics

Beta relative to:		Volatility <sup>(3)</sup>	<b>18.6%</b>
EU Enlarged 15	<b>0.29</b>	Alpha (vs EU15)	<b>0.11</b>
DAX	<b>0.21</b>	Sharpe ratio	<b>0.51</b>

(1) Net off management fees, gross off performance fees

(2) These two indexes presented only to illustrate performance in 2009-2014, when focused on Central Eastern Europe

(3) Annualized standard deviation since inception

**SANNING CAPITAL LIMITED** is an opportunity fund based on fundamental research focused on investments into publicly traded companies providing global improvements of efficiency and/or reduction of consumption of energy, capital and time. It is funded by the managers' own capital and several private investors.

[follow on Twitter](#) | [Visit our website](#) | [forward to a friend](#)

*Copyright © 2014 Sanning Capital Limited, All rights reserved.*

**Our address:**

Sanning Capital Limited  
Opletalova 1417/25  
Prague 11000  
Czech Republic

[Add us to your address book](#)

[Subscribe to our mailing list](#) | [Unsubscribe from our mailing list](#)