January 2015 – Greece in the Spotlight Again

Having entered a new year, we identified at least 4 key topics we expect to drive equity markets. We will cover them throughout 2015.

1. Oil price dip is now close to its end. Recovery has already started or starts soon and so will our response: we consider entering into long positions focused on E&P equity.
2. Global macro will see intensifying currency wars. The best defense? Holding global equities to be diversified against bilateral devaluations.
3. Strong US macro will continue although we are a bit concerned that the US locomotive may not strong enough to pull the slowing world forward. Our possible answers to this:
    a. Focus on the oil play – that is where recovery will be very likely.
    b. Keep NASDAQ exposure highest as there the non-cyclical outperformance is the most likely
4. Macro EU looked OK until the new round of Greek crisis. We are fascinated by the fact that markets ignore our most likely scenario – another renegotiation of debt combined with mere lip service to reforms.

As Greek crisis is currently the hottest topic, we debated its possible outcomes. In the end, we arrived at 3 most probable scenarios that can happen from now on:

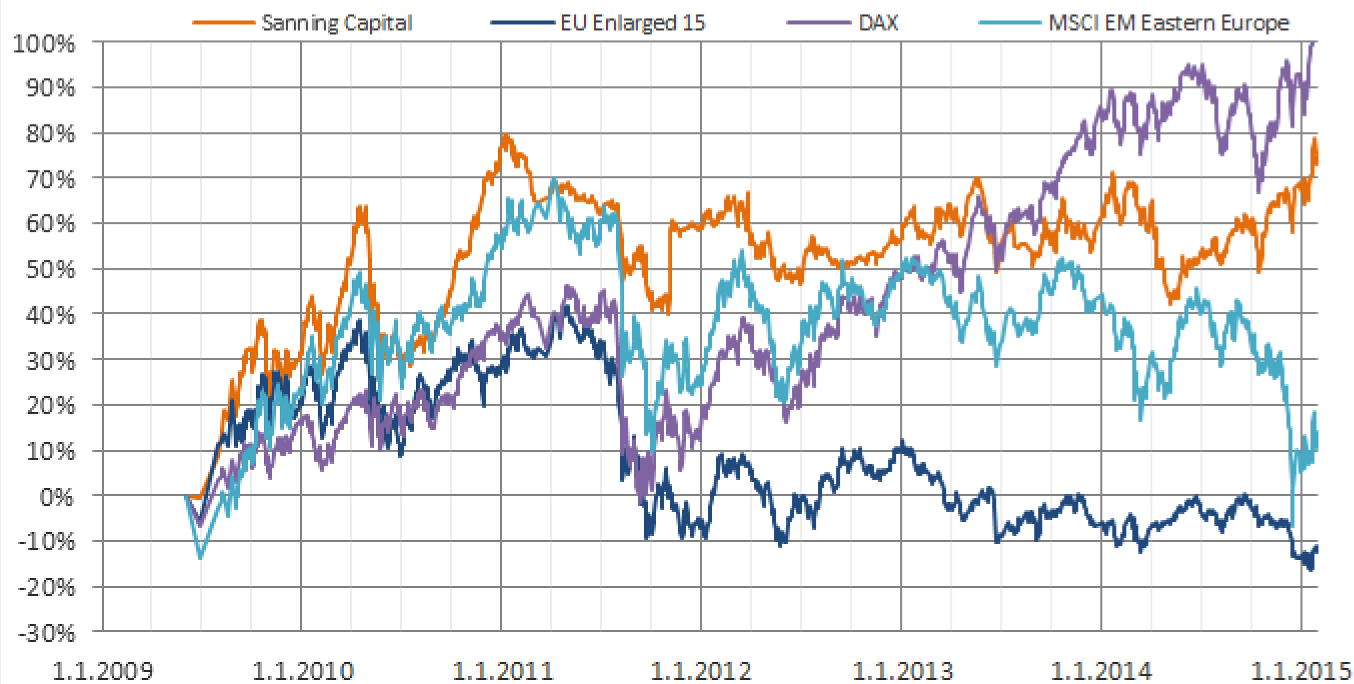
1. Communist scenario – road to hell.
    - Debt write-off + no reforms. If Syriza managed to persuade the rest of EU (with help of newly strengthened leftist voices from Podemos, Die Linke, etc.) that the reforms are bad, Europe would set a bad precedence for other periphery countries and would embark on a road to hell.
2. EU classic - a longer road to hell.
    - Debt write-off + reforms continue in a mild manner. But can the reforms be done with radical left running the country? The new government may end up paying lip service to reforms in exchange for some form of debt restructuring compromise. This means a road to hell again – a longer one – and sort of European classic of postponing problem solution to the future.
3. Hardcore scenario
    - No debt write-off + no reforms = Default and Grexit. This could be a way for EU to revitalize, but will the politicians find courage?

In our internal vote the 2nd scenario was a big winner. Even though Syriza original promises were radical (nationalization, NATO exit), the encounter with political reality and above all the fear of responsibility for country default soften the edges of Syriza rhetoric. Latest news give this idea some credit as Alexis Tsipras, claimed mutually beneficial agreement with creditors can be reached and new finance minister Yanis Varoufakis offered a moderate debt swap for growth indexed bonds. Syriza will have to balance its idealism with economic pragmatism and the result will be some form of debt renegotiation accompanied by illusion of continuing reforms.

Our key point is that none of the scenarios is bullish for Europe; moreover the most likely one seems to be the worst in long term. Old problems of economically incoherent Eurozone with single currency are persisting and no one knows when or if these will be dealt with. There will be more pain ahead. We therefore reduced our EU position.

This month we added **3.2%**, outperforming EU **Enlarged 15** (+2.4%), **S&P 500** (-3.1%) and **NASDAQ Composite** (-2.1%). We underperformed **MSCI EM Easter Europe** (+5.1%) and **DAX** (+9.1%).

Fund vs. Indices



Fund Manager

Jan Pravda

Launch Date

2.6.09

Location

Prague

Fund Currency

EUR

Share Price

€ 1 730.84

Performance Fee

20 % HWM

Management Fee

2% p.a.

Cumulative Performance

Period	Sanning[1]	EU Enlarged[2]	MSCI EM EU[2]	DAX	S&P 500	Nasdaq
1 month	3.2%	2.4%	5.1%	9.1%	-3.1%	-2.1%
3 months	6.1%	-7.6%	-17.0%	14.7%	-1.1%	0.1%
12 months	5.7%	-1.2%	-17.1%	14.9%	11.9%	12.9%
3 years	7.3%	-15.8%	-21.7%	65.6%	52.0%	64.7%
5 years	24.7%	-28.5%	-14.2%	90.7%	85.8%	115.9%
Since inception (2.6.2009)	**73.1%**	-11.2%	10.7%	107.9%	111.2%	152.4%

Further Characteristics

Beta relative to:		Volatility [3]	**18.6%**
EU Enlarged 15	**0.29**	Alpha (vs EU15)	**0.11**
DAX	**0.21**	Sharpe ratio	**0.53**

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

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

(3) Annualized standard deviation since inception

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