SANNING CAPITAL
EFFICIENCY FUND

2015 February – US the Master of Currency Wars

In the beginning of this year, we decided to dedicate more space to phenomena that are critical for understanding the world, finance and investing. This month, it is Currency Wars.

Let's first look back to last month's topic: Greece. From the current results of negotiations we can say that our base scenario of "long road to hell" seems to be fulfilling. Greece gave the ambiguous promise to continue reforms in exchange for a bailout program extension for another 4 months - neither hard conditions nor goals and deadlines were set. We conclude that this is lip service to reforms and that the real problem has been postponed again. In fact it is even worse, news has been percolating, that a new bailout program, that will pile even more unpayable debt on Greece is being prepared for this summer. We wonder, to what extend has the good old common sense been subdued in the EU.

Now, currency wars, i.e. competitive devaluations of national's currencies, the current round of which started in 2010 and whose end is nowhere in sight. To fully understand what is going on we go back to history where Currency Wars by James Rickards was very helpful.

Currency War I was fought in time of the Great Depression and World War II. The monetary system was based on golden exchange standard, which meant that every currency had fixed ratio of gold and foreign reserves to money supply. Moreover there were unwritten "rules of the game", which secured smooth rebalancing of trading imbalances. Under pressure of the depression, countries started to break the rules and favor national interests such as cheap export and jobs. This led to series of devaluations against gold and the end of the standard accompanied by events today quite unimaginable. The US for instance, confiscated all private gold, devalued dollar against the gold and then paid for the gold in cheap new dollar, effectively taxing the gold owners. In long run, devaluations did not help the world, WW2 broke up and volatile exchange rates harmed international trade.

Currency War II was connected to Bretton-Woods break up and cold war. After an attack on US gold reserves through dollar, President Nixon stopped exchangeability of dollar for gold and applied 10% surcharge on all imports into US. In response USD went down by some 15%. This destroyed competitiveness of European allies, but they had no choice but to accept it, as US army was protecting Europe from USSR. Sounds familiar? Keep reading.

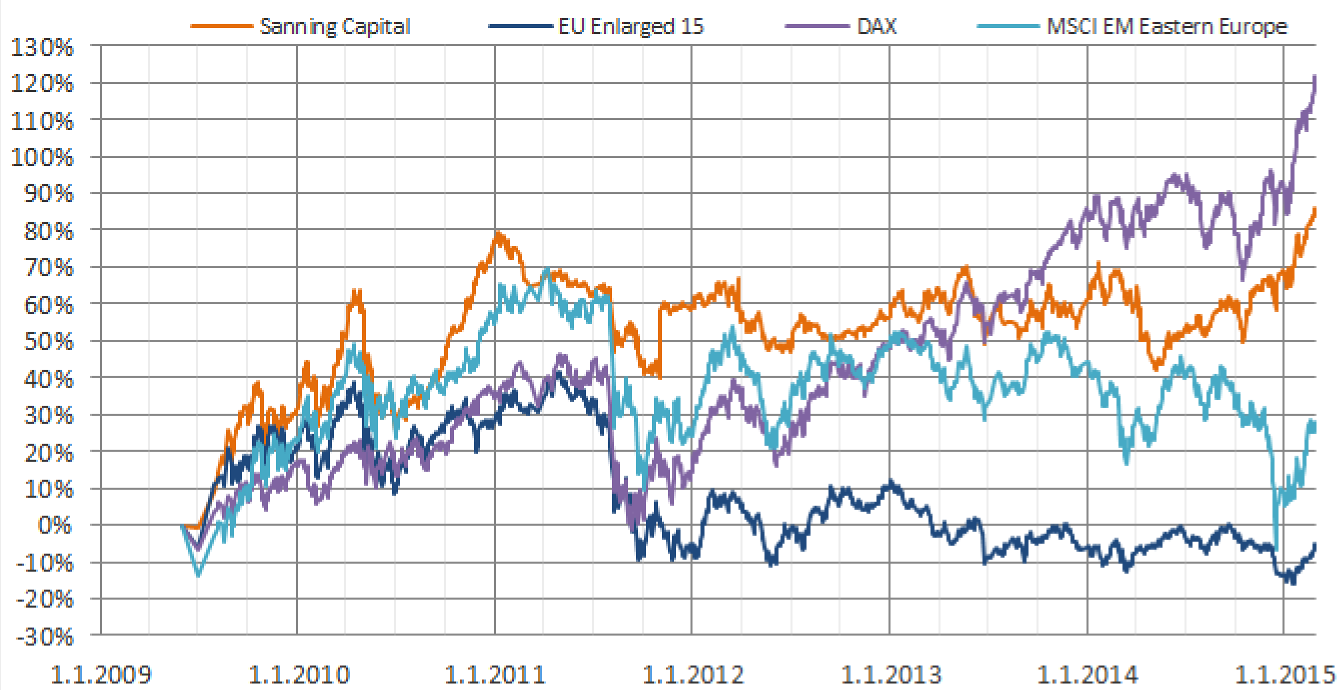
Currency War III (the one we are in right now) started by quantitative easing in US and Japan aimed again at exports and jobs during Great Recession (the subprime crisis) at the expense of emerging markets and Europe. Yet again it worked for US and helped restart its economy, not so much for Japan. 5 years later ECB managed to join the game and started quantitative easing. The question is if cheap currency is enough to remain in the race (let alone winning the race). In our view, there is a serious need of reforms leading to labor competitiveness and industrial innovation. We remain unimpressed by the approach to Greece, the state of welfare state and the lack of innovation. EU is not on track to become the next economic Tiger (this will be one of our next topics). The EU funding aimed at innovation seems a noble idea, but the implementation remains challenged. In fact, this seems to be a unique EU take on the Currency War III.

Our lesson from this is twofold: 1. as we saw steep appreciation of dollar in recent months, it is hard to imagine that US would let their jobs go to cheap Europe and Japan for long time. US, the master of currency wars, may step in unexpectedly, when dollar gets too expensive and inflation remains tame. The increasing threat of Russia and rising need of US military support in Europe provides yet another reason for US to act as the instability outside US will make it even more difficult yet profitable to devalue the dollar. 2. Diversification – in the times when the currency wars are fought and the future moves of the participant are unpredictable, we recommend to hold globally diversified portfolio the best natural hedge against currency wars as always one side benefits and the other is harmed.

We are preparing effective strategy for global asset allocation for clients, which will provide hedge against currency wars and at the same time will benefit from temporarily disfavored regions (another future topic).

This month we added **7.1%,** beating **S&P 500** (5.5%), **DAX** (6.6%), **EU Enlarged** (6.8%) and **NASDAQ** (7.08%). We underperformed **MSCI EM Eastern Europe** (15.5%).

Fund vs. Indices



Fund Manager

Jan Pravda

Launch Date

2.6.09

Location

Prague

Fund Currency

EUR

Share Price

€ 1 853.67

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	7.1%	6.8%	15.5%	6.6%	5.5%	7.1%
3 months	11.3%	1.6%	2.9%	14.2%	1.8%	3.6%
12 months	10.1%	-0.4%	-4.0%	17.6%	13.2%	15.2%
3 years	12.4%	-11.8%	-14.6%	66.3%	54.1%	67.3%
5 years	39.6%	-20.8%	1.6%	103.7%	90.5%	121.8%
Since inception (2.6.2009)	**85.4%**	-5.2%	27.8%	121.6%	122.8%	170.2%

Further Characteristics

Beta relative to:		Volatility (3)	**18.5%**
EU Enlarged 15	**0.29**	Alpha (vs EU15)	**0.12**
DAX	**0.21**	Sharpe ratio	**0.62**

(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

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

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