SANNING CAPITAL
EFFICIENCY FUND

2015 May – Time to End Greek Drama

The Greek debt at current level is not sustainable - a clear conclusion which is undeniable when exposed to a sober eye. We are amazed that despite the full media coverage of yet another round of Greek negotiations, few pundits focus on this essential problem - visible unsustainability. Most cover this seemingly complex geopolitical finance drama as a long range sports event (when Greece scores market goes 2% up, when Greece concedes the market plunges), but few have the courage to call it quits and move on to something more productive (competitiveness and innovation of Europe). Likewise, the global negotiators keep on trying to add more debt on Greece and/or force more austerity and postpone the fall of the curtain on this drama - the final default which is inevitable without a major write off as Greece cannot dig/grow (these are true synonyms in this case) itself out of this hole alone.

Following table shows the minimum necessary GDP growth, which would decrease the debt burden from current 177 % to a more reasonable 125% of GDP (the level of current Italy or Portugal), assuming 2% primary budget surplus is maintained (also hard to imagine with anti-austerity government):

Period length	5 years	10 years	15 years	since 1960	since 2004
Final debt burden (Debt/GDP)	125%	125%	125%	x	x
Needed GDP growth	8.60%	5.80%	4.80%	x	x
Historical GDP growth	x	x	x	2.90%	-1.00%
Comment	Dream	Impossible	Unlikely	History	Reality

Source: World Bank, Eurostat, internal model

As we can see, there is no realistic scenario in which Greece could decrease its debt in foreseeable future. The implied growth rates in chosen scenarios are absurdly high - Greece is no Far East tiger growing more than 5% a year for longer period of time (there is no visible and sustainable advantage in skill or cost of labor). We projected the decrease in indebtedness to other “PIGS” level as a proxy for “sustainability”. This decrease is necessary in our view for the country to liberate itself from bailout packages and secure own financing on financial market. Even if Greece had primary surplus (revenues – expenditures excluding interest payments) due to high cost of servicing debt the total budget would end up being negative and thus needed to be financed.

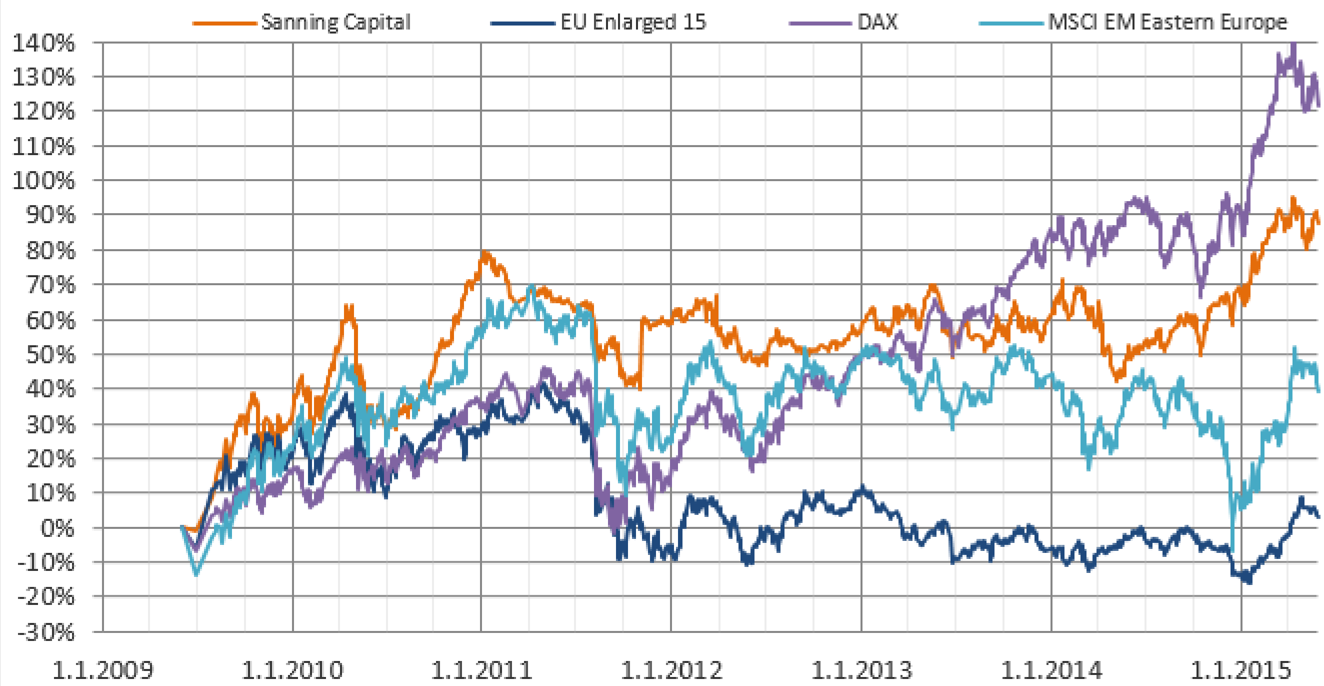
Yes, this is a simple back envelope analysis. More complexity, from our experience, would not lead us to a markedly different conclusion. Rather, complexity would obscure the very facts that we try to flush out (a habit allowing this drama to go for so long).

So, there are only two credible options: 1. Let Greece crash into a bankruptcy or 2. Write a big part of outstanding debt off (30% to 50%, by an immediate explicit write off, or less favorable extension of debt schedule to eternity) and get Greece on a sustainable orbit. Now when/if domino effects of bankruptcy are ring fenced, both of these are much better, than a frustrating marathon filling global media every day. Status quo harms Europe more by taking needed attention from reform and competitiveness. It equals to kicking can down the road, and if anything, serves only as a painful repellent to other potential offenders among weaker EU countries.

If the Greek problem is not solved in near future we will have to reconsider our minor European positions because bigger problems remain unsolved in Europe.

This month we added **2.3%** outperforming **EU Enlarged** (-3.1%), **MSCI EM Eastern Europe** (-3.6%), **DAX** (-0.4%) and **S&P 500** (1.0%). We have underperformed **NASDAQ Composite** which added 2.6%.

Fund vs. Indices



Fund Manager
Jan Pravda
Launch Date
2.6.09
Location
Prague
Fund Currency
EUR
Share Price
€ 1 877.07
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	2.3%	-3.1%	-3.6%	-0.4%	1.0%	2.6%
3 months	1.3%	8.9%	8.8%	0.1%	0.1%	2.1%
12 months	25.1%	6.7%	1.7%	14.8%	9.6%	19.5%
3 years	24.9%	13.8%	13.5%	82.2%	60.8%	79.3%
5 years	38.7%	-13.9%	3.3%	91.4%	93.4%	124.6%
Since inception (2.6.2009)	**87.7%**	3.2%	39.1%	121.9%	123.1%	176.0%

Further Characteristics

Beta relative to:		Volatility [3]	**18.3%**
EU Enlarged 15	**0.28**	Alpha (vs EU15)	**0.11**
DAX	**0.22**	Sharpe ratio	**0.58**

(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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