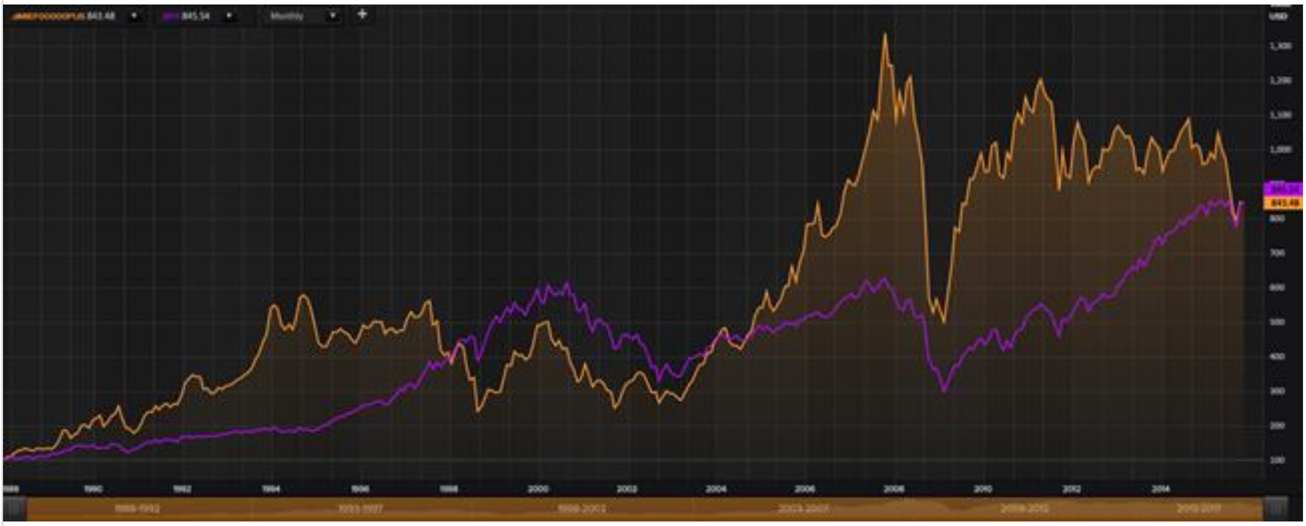
SANNING CAPITAL
EFFICIENCY FUND

2015 November- Are emerging markets an opportunity

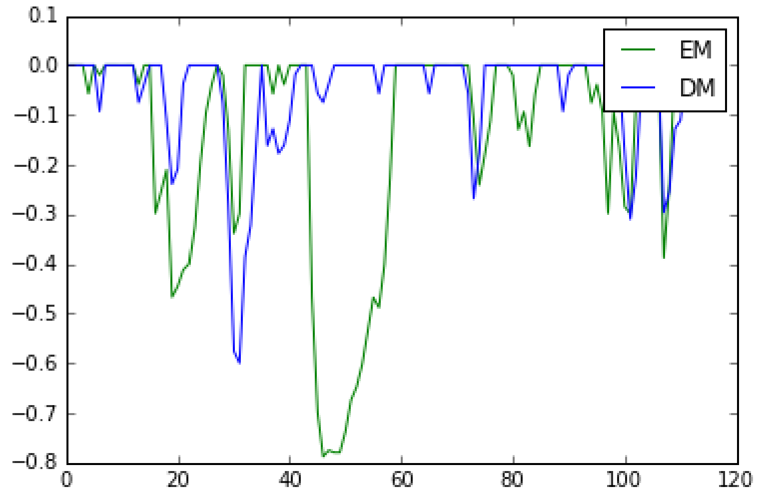
In the times of expensive stocks in US and Europe, one might look for opportunities in emerging markets (EM). For 5 years, EM stocks have lagged behind (see *Graph 1)* those from developed markets (DM) and are now valued much lower (14 x vs. 21 x earnings). Only this year, the EM benchmark MSCI EM (USD denominated) has lost 12%, so one has to wonder if this trend will reverse, presenting an opportunity.



Graph 1. Period matters: 1986-2015 performance of EM (orange line) vs. S&P 500 (purple line) Source: Thomson Reuters.

Even if recent negative trend might easily reverse, we believe EM are not worthy for long term investor. In very long term, EM stocks return less than DM with higher volatility and higher maximum drawdowns (max % difference between peak and through).

Analysis of more than 100 years of drawdowns in EM and DM (illustrated in *Graph 2)* tells another sad story. This insight is hidden to most with a myopic and short term approach to markets, since most datasets go back only 30-40 years (the largest EM drawdown with magnitude of almost 80% is attributable to wipe-out of Japanese equities after WW2). As seen on Graph 2, long term view captures much more EM risks which consist of weak institutional framework, lack of democratic tradition, widespread corruption, geopolitical risk and many others.

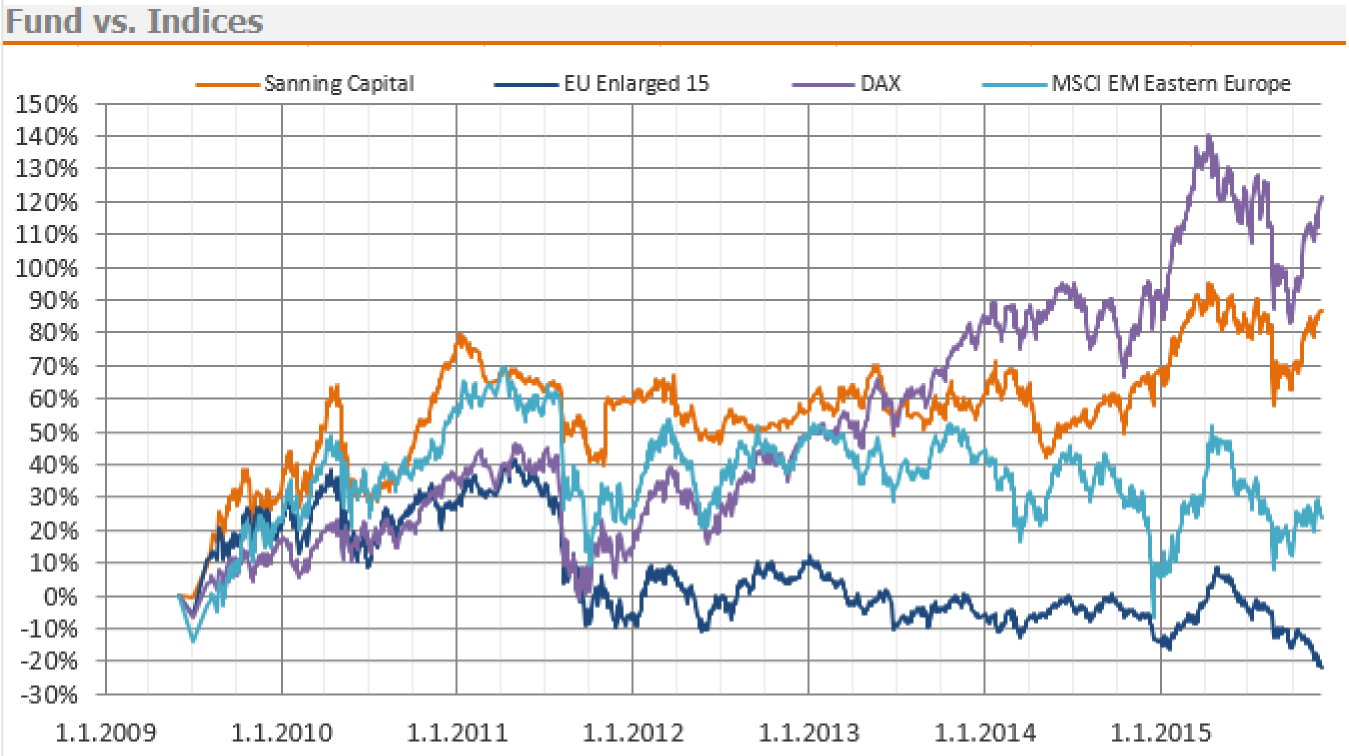


Graph 2. Maximum drawdowns of EM vs. DM. Source: Dimson, E., March, P., Staunton, M.

The last 30-40 years, even though definitely not so clearly, suggest something similar. From*Graph 1* we can see that the EM and DM returns have been comparable but volatility was much worse in EM than in DM, i.e. EM have had lower Sharpe ratio. However, mentioning this just couple of years ago in the midst of EM euphoria would make anyone look like a fool. Nevertheless, significant risks often responsible for devastating losses are there, whether one sees them in recent data or not.

Anyone considering EM as an investment, *caveat emptor*!

This month our performance was 3.9% beating our U.S. benchmarks S&P 500 (0.1%) and NASDAQ (1.1%). With respect to EU benchmarks we outperformed EU Enlarged 15 (-9.1%), MSCI EM (2%) and underperformed DAX (4.9%).



Fund Manager

Jan Pravda

Launch Date

2.6.09

Location

Prague

Fund Currency

EUR

Share Price

€ 1,868.04

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	3.9%	-9.1%	2.0%	4.9%	0.1%	1.1%
3 months	10.1%	-13.1%	2.6%	10.9%	5.5%	7.0%
12 months	12.2%	-16.1%	-0.3%	14.0%	0.6%	6.6%
3 years	20.9%	-25.7%	-12.2%	53.7%	46.9%	69.7%
5 years	11.6%	-35.5%	-14.2%	70.2%	76.2%	104.5%
Since inception (2.6.2009)	**86.8%**	-21.7%	23.7%	121.3%	120.2%	178.1%

Further Characteristics

Beta relative to:		Volatility [3]	**18.6%**
EU Enlarged 15	**0.27**	Alpha (vs EU15)	**0.12**
DAX	**0.24**	Sharpe ratio	**0.51**

(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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