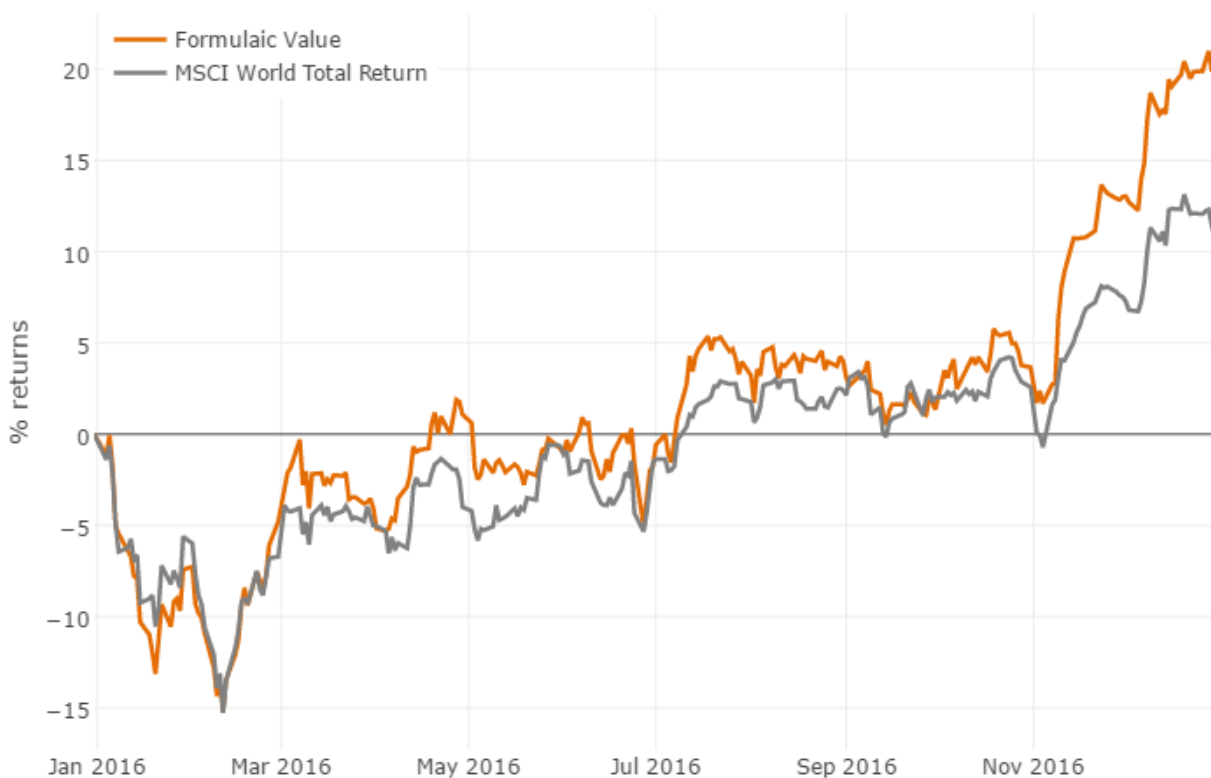


Q4 2016 - The Dawn of a New Era

Year 2016 was special for us. As some of our readers know, we started a new systematic strategy called “Formulaic value” which represents a new investing paradigm. The strategy took off very nicely and outperformed its benchmark by a hefty margin of 9.8% in its very first year. Today, when we can offer something truly outstanding, we are working on a license allowing wide distribution, and will be approaching you shortly.

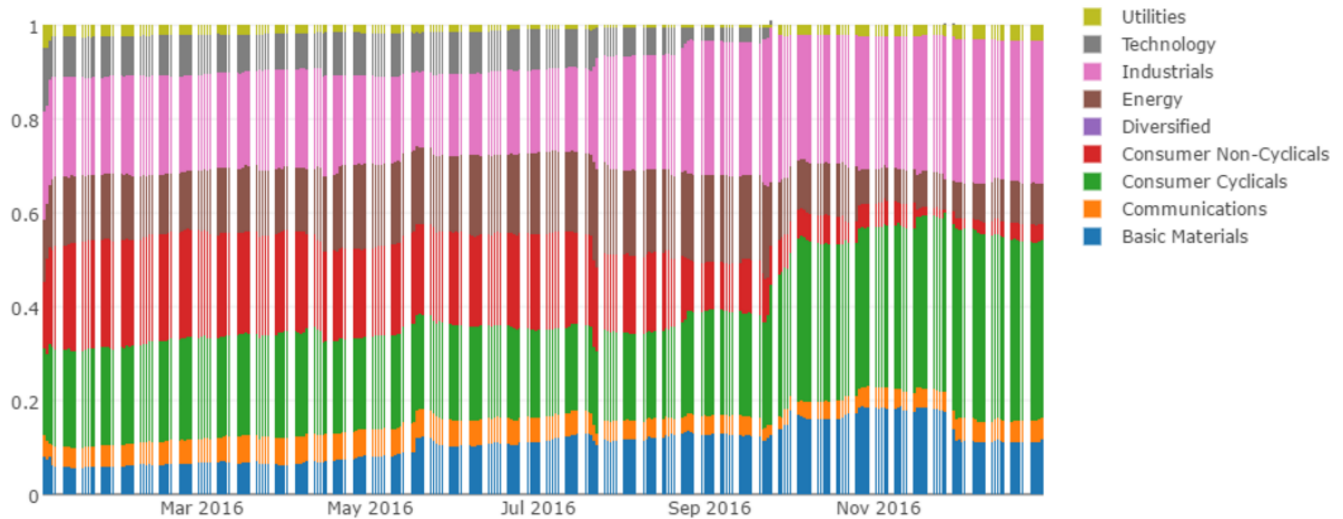
Specifically, *Formulaic value* returned 20.5% (after management, before performance fee) versus [MSCI World Total Return](#) return of 10.7%. This result is even more encouraging in light of the fact that we have only 70-80% net long exposure and 20-30% in cash waiting for a better opportunity.

Performance



Below, we are presenting several interesting facts about *Formulaic value*.

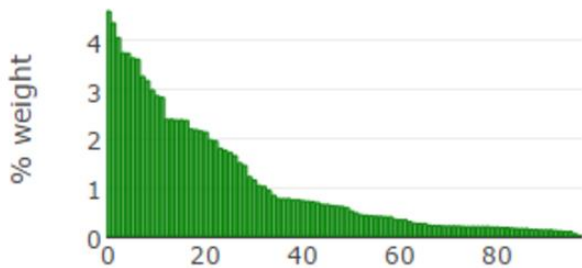
Sectors allocation in time



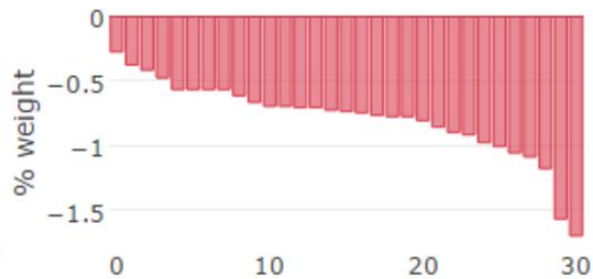
For instance, our strategy was very light on technology, especially in second half of the year when short positions were initiated, resulting even in net negative exposure to techs (see graph above). On the other hand, exposure to consumer cyclicals increased towards the end of the year with growing fears about traditional retailers future. Most importantly, however, no sector was dominant and sector diversification was, in our view, substantial.

From the static perspective, *Formulaic value* was approximately 105-25 long-short in the end of the year. We were holding 98 long and 31 short positions with the following weight distributions:

Long weights distribution



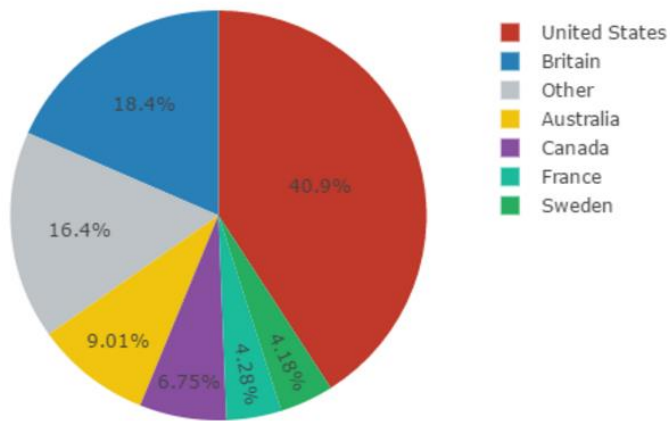
Short weights distribution



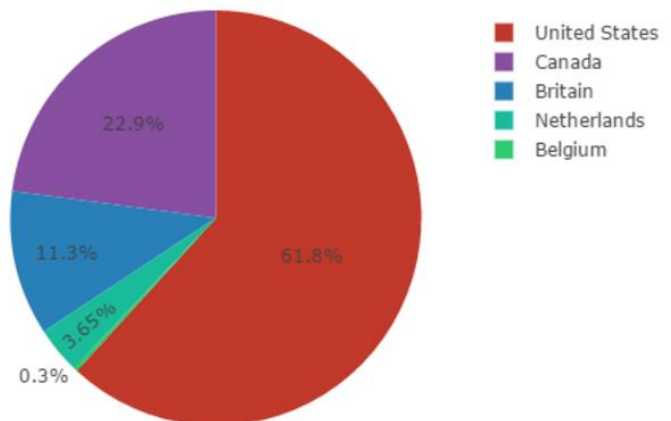
There are no dominant single positions, the strategy is well diversified, but individual stocks' weights vary.

Similarly, as seen from graphs below, geographical diversification is substantial on the long as well as the short side.

Long positions:
Allocation by country



Short positions:
Allocation by country



Sanning Capital exceeded a milestone of returning 100% since inception and it is time to reflect on what brought us here.

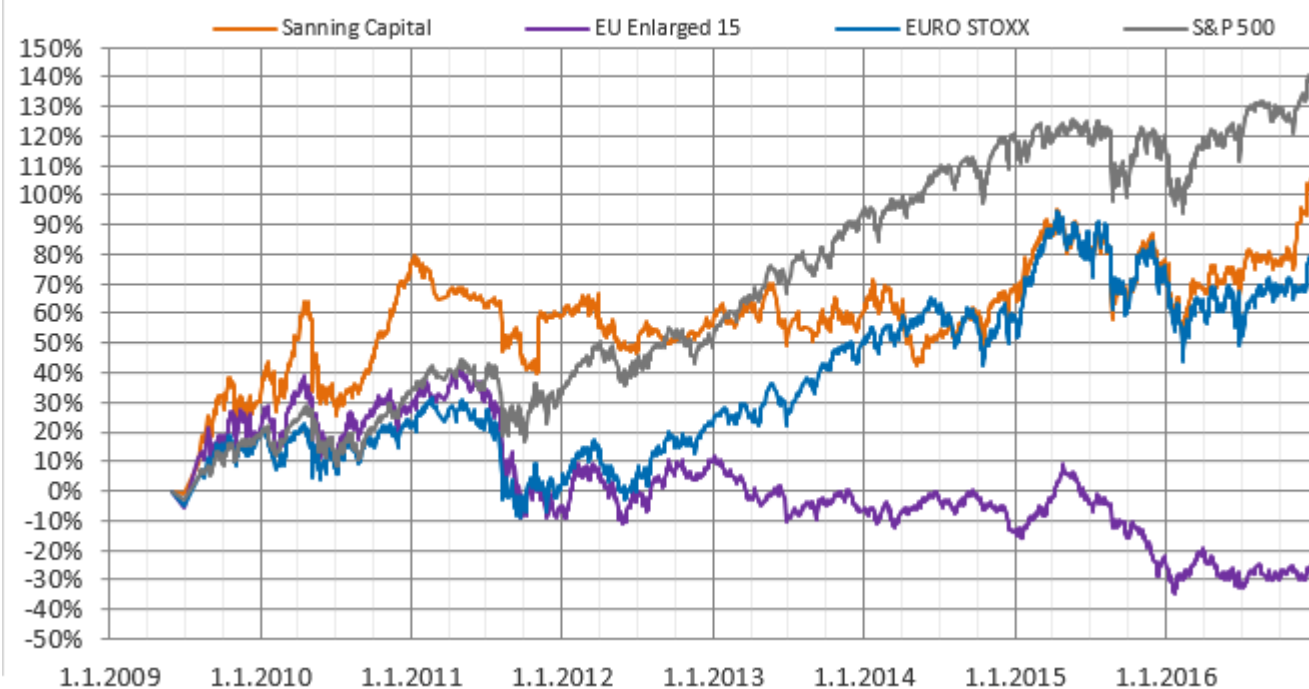
First, in years 2009 to 2012 we were looking for value (alpha) only in Central Europe which was the closest to us and we thought that we knew it well. We significantly outperformed that market even though our valuation methods were intuitive and conventional at best. It is fair to admit, that outperformance of central europe was partially due to luck and partly due to leverage. In our today's language, it would translate into: "We did not know what we were doing back then".

In 2012, amidst euro crisis we did not see much promise in central europe and started searching for opportunities elsewhere. This meant not only different regions but more importantly different perspectives. We experimented with number of investment approaches on both theoretical and empirical level. Years of hard work and dedicated research, even for a price of performance just in line with benchmark, resulted in substantial in-house know-how on which we built *Formulaic value* and our confidence in it.

The development of the strategy is a continuous never ending process. The cornerstones have been laid but improvements will continue to be made so our investors get the best product possible.

Below, we present the performance for entire Sanning Capital fund since 2009.

Fund vs. Indices



Fund Manager

Jan Pravda

Launch Date

2.6.09

Location

Prague

Fund Currency

EUR

Share Price

€ 2,073.29

Performance Fee

20 % HWM

Management Fee

2% p.a.

Cumulative Performance

Period	Sanning ⁽¹⁾	EU Enlarged ⁽²⁾	EURO STOXX	S&P 500
1 month	6.6%	7.6%	7.1%	1.8%
3 months	17.1%	7.9%	8.0%	3.3%
12 months	17.0%	0.0%	4.1%	9.5%
3 years	28.6%	-19.2%	19.7%	21.1%
5 years	30.2%	-18.3%	76.7%	78.0%
Since inception (2.6.2009)	107.3%	-24.3%	81.4%	137.0%

Further Characteristics

Beta relative to:		Volatility ⁽³⁾	18.2%
EU Enlarged 15	0.26	Alpha (vs EU15)	0.12
EURO STOXX	0.30	Sharpe ratio	0.51

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

(2) Presented only to illustrate performance in 2009-2014, when focused on Central Eastern Europe

(3) Annualized standard deviation since inception

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