

Q2 2017 - Don't be tempted to explain the noise

In the second quarter 2017 our Formulaic value returned -7% versus MSCI World Total Return return of -2.4% (see graph below).

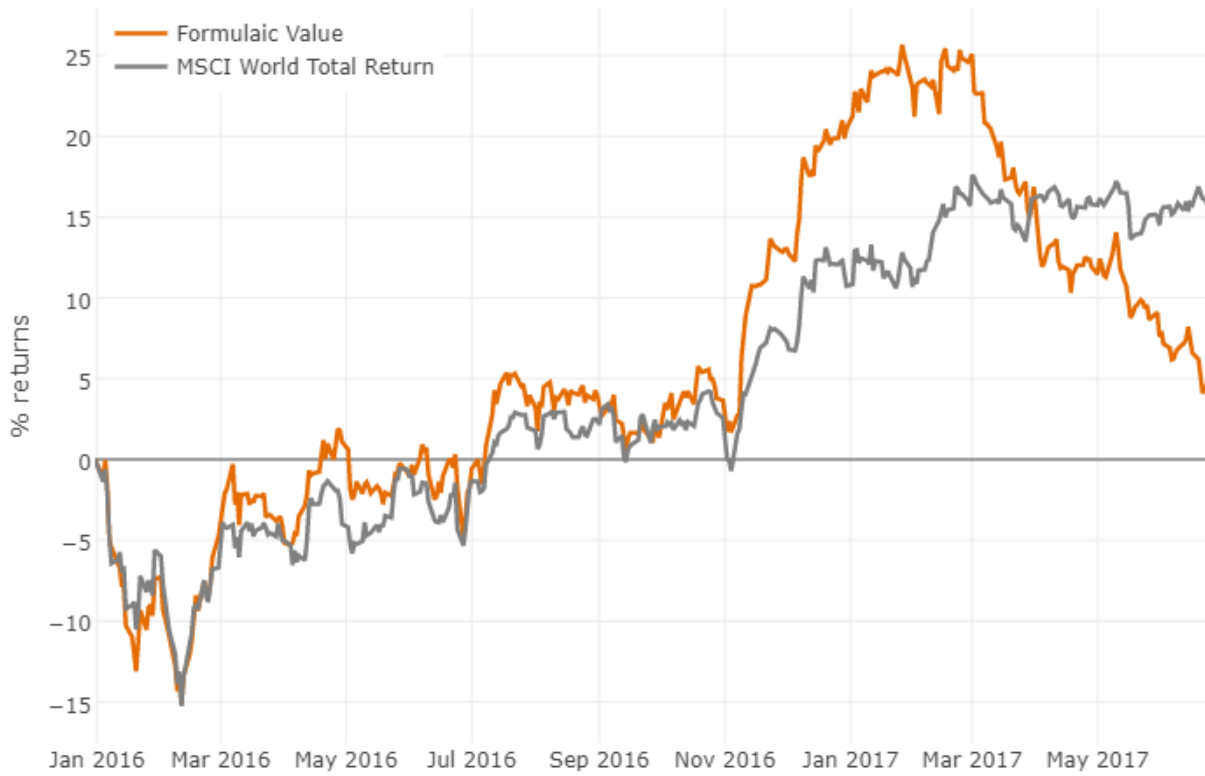
While we do not want to excuse our underperformance, we will mention several short term circumstances playing against us:

1. "Value stocks" underperformed the "glamour stocks" as the prevailing appetite for the risk favoured the "story" or "growth" stocks including the famous FANG (Facebook, Amazon, Netflix, Google). While we agree with pundits that this may not be healthy, it is common for a handful of stocks to drive the entire index. Our real concern is that many money losing companies fared well - e.g. Tesla now the most valuable US automaker (not to speak of huge surge of bitcoin without any intrinsic value). History shows that in the longer term such fortunes reverse and our strategy preferring strong fundamentals performs better.
2. € strengthening (€ currency index +4%). Our fund is denominated in €, but we hold many positions overseas. If \$ depreciates, our overseas holdings value goes down in €. Over longer term, such currency movements should average out.

As we continually stress, short term volatility and underperformance is nothing to be concerned about as it is clearly visible in our backtests. It is literally the price we pay for high long term returns. As famous investor Joel Greenblatt said recently:

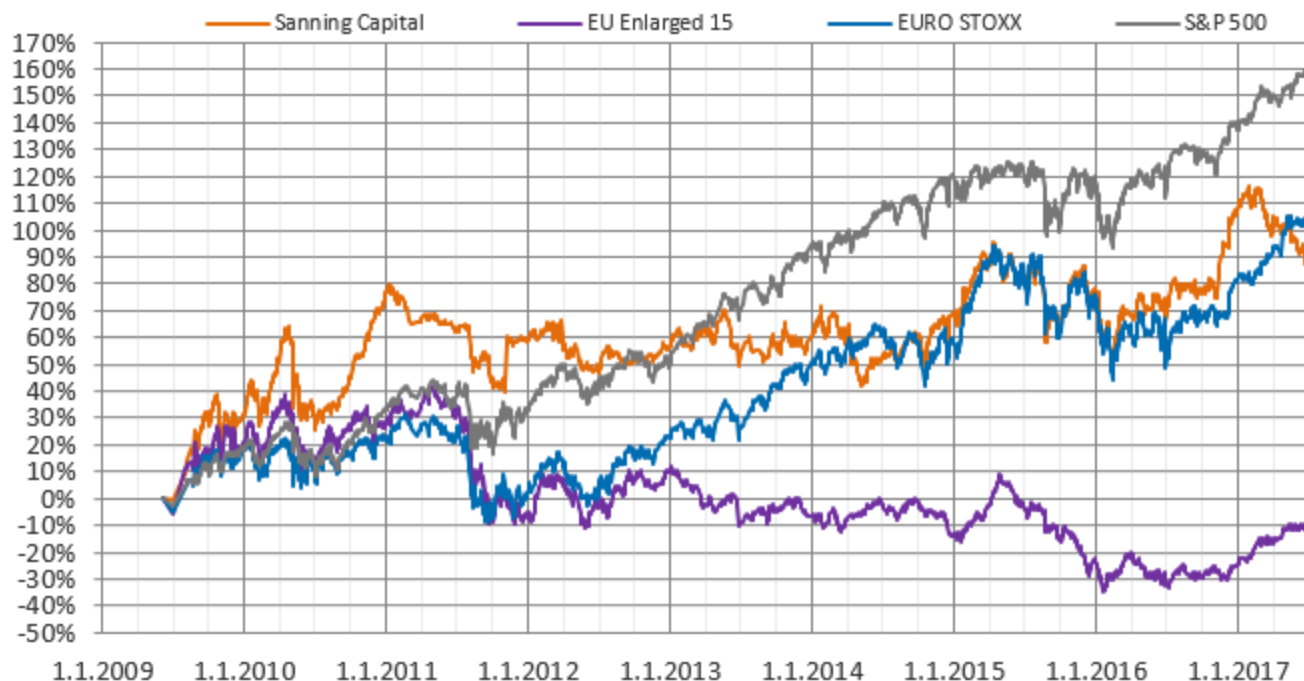
"The big picture is to beat the market. If that's your goal, you have to do something different than the market, which means returns are going to zig and zag differently. Investors with good long-term performance zig and zag differently. That means sometimes you are going to outperform, sometimes you are going to underperform."

Performance



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

€ 1904.69

Performance Fee

20 % HWM

Management Fee

2% p.a.

Cumulative Performance

Period	Sanning ⁽¹⁾	EU Enlarged ⁽²⁾	EURO STOXX	S&P 500
1 month	-1.6%	-1.1%	-2.6%	0.5%
3 months	-7.1%	5.7%	1.3%	2.6%
12 months	10.6%	27.5%	24.6%	15.5%
3 years	24.8%	-10.5%	22.7%	23.6%
5 years	29.8%	-11.5%	86.1%	77.9%
Since inception (2.6.2009)	90.5%	-12.1%	96.7%	156.5%

Further Characteristics

Beta relative to:		Volatility ⁽³⁾	17.9%
EU Enlarged 15	0.25	Alpha (vs EU15)	0.09
EURO STOXX	0.30	Sharpe ratio	0.44

(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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