ZPR GLOBAL EQUITY FUND

Montly Factsheet | December 2018

am.orion.lt

Fund Strategy

Goal	Return higher than index
Strategy	Value
Analytical method	GRAPES
Assets	Shares and cash
Distribution of income	Reinvestment

Fund Facts

Management company	Orion Asset Management
UCITS III compatibility	Yes
Legal form	Investment Fund
Liquidity	Daily
Fund size (USD)	0,56 millions
Unit value (USD)	2 117,74
Currency	USD
ISIN code	LTIF00000070
Ticker	OAMZPRFV
Benchmark	MSCI World USD
Type	Open-ended
Manager	Vaidotas Petrauskas
Custodian	AB SEB bankas
Supervisor	Bank of Lithuania
Auditor	EY
Establishment date	2004 03 31

Fund Fees

Management fee	2%
Subscription fee	up to 3%
Performance fee	Not applicable
Redemption fee	Not applicable

Key Indicators

	Fund	Index
YTD	-27,37%	-8,20%
1 month change	-8,80%	-7,57%
3 months change	-18,43%	-13,31%
6 months change	-20,34%	-8,89%
12 month change	-27,37%	-8,20%
Return from inception	111,02%	137,00%
Average annual return	5,19%	6,02%
Standard deviation	10,58%	11,40%
Sharpe ratio	-2,72	
Tracking error	9,27%	
Portfolio turnover rate	156,85%	
Total expense ratio	2,98%	

Fund results (%)

	Fund	Index
2004	10,43%	11,35%
2005	11,28%	4,55%
2006	27,30%	18,37%
2007	0,26%	-1,57%
2008	-36,07%	-33,79%
2009	43,66%	27,17%
2010	20,16%	26,85%
2011	-5,91%	-4,18%
2012	9,93%	16,35%
2013	13,23%	27,36%
2014	3,91%	5,50%
2015	-1,62%	-0,32%
2016	13,18%	8,15%
2017	25,31%	23,07%
2018	-27,37%	-8,20%

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Monthly comment

Vaidotas Petrauskas, CFA
Fund Manager

WHAT HAPPENED?

December capped off an incredibly difficult and frustrating year for the ZPR fund. One of the worst. Foreign stock markets peaked around January 26, 2018. So for us, investing in Asian stocks, the whole year has been one big struggle. U.S. stocks kept rising until September, then, what started out as a minor downturn in October and November turned into a major sell-off in December. Global stocks sank into a bear market.

The reasons for the weakness of Asian stocks in 2018 are now obvious and many are stemming from the U.S.:
A strong dollar because of the Fed tightening and capital flows;
Trade war fears and tariffs implemented by the Trump administration on foreign imports;
A global economic slow-down which is related to the trade war. A slowdown in local economies of Japan and Thailand. A slowing of China's economy has ripple effects through other economies, especially in Asia.

These factors have dragged down Asian stocks the whole year as money was pulled out of Asian assets in favor of U.S. assets. Then, a big sell-off, which started in the U.S. in the 4th quarter, dragged down Asian stocks further. In the 4th quarter the volatility was incredible as the market was wrestling with a wide range of different inputs. The December 20-25th sell off of Japanese small caps (following losses on Wall Street) clearly had signs of panic selling or forced end-of-year selling. On Christmas day the Japanese market was open and it finished that day down more than 6%. Then it recovered all of that loss in the next two trading sessions following an advance of U.S. stocks.

I think the market realized that the Fed will not necessarily come to the rescue of a falling stock market. There is a worry that the Fed will make a mistake and push the US economy into a recession. But it also seems as likely to me that the markets could talk themselves into a recession as a negative feedback loop comes into play. Being overly concerned about an economic recession could actually cause one. As of now, most of the warning signs are coming from the financial markets rather than the real economy.

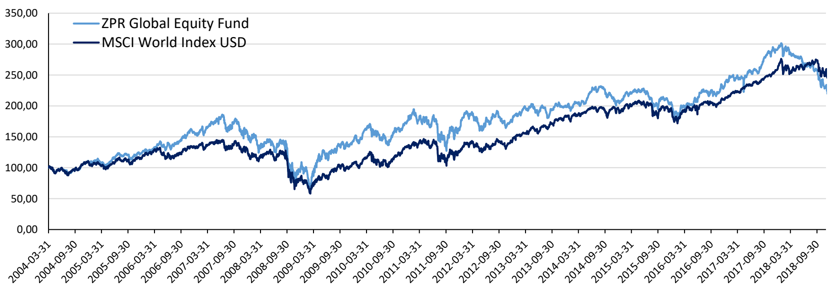
WHAT'S NEXT?

I do know this, however: Markets do not fall forever – like all trends, this one too will end, the worst time to sell is after a market crash. Market corrections happen in a short period of time while market advances take a long time. The market will rebound when investors least expect it, in fact, when things look the worst. As painful as they are, market sell-offs provide a good set up for future gains. We need the market to go down sometimes so that it can sustain the ups.

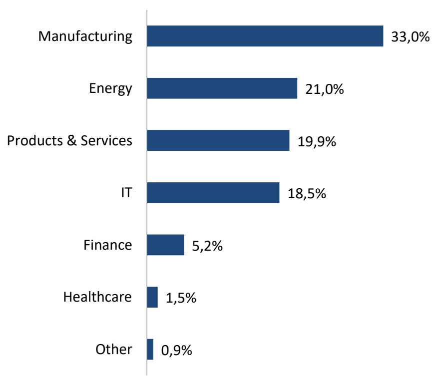
Having said all that, I do believe we are in for a rebound. The December sell-off seems clearly overdone to me. We may experience a strong January effect rally. History is also on our side. An analysis of historical market returns by awealthofcommonsense.com showed that declines like the one we've seen in the 4th quarter have seen the market rally by about 25% in the following year, by 50% over the next three years and come very close to doubling over the next five years. Outside of the Great Depression, market returns have never been negative over the twelve months following a quarter as weak as the 4th quarter of 2018. Of course, no two time periods in history are identical, but we can recognize that historically market returns have been much stronger than average after periods like the one we are in.

I certainly expect there will be more volatility in 2019. The challenges of China-US trade tension, central banks retreating from easy money policy, European political uncertainty, and recession fears will not go away soon. Trump is not helping markets by discussing the firing of the Fed chairman and shutting down the government. This makes markets even more nervous and adds additional risks when we have plenty already.
We enter 2019 with the global economic slow-down, and particularly Chinese economy's slow-down, first on investors' minds. I am sure these will be replaced by new worries as the year progresses, but I believe ZPR fund will perform better this year than in 2018.

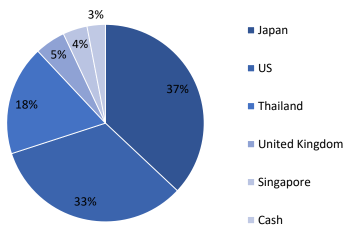
Fund Performance



Investments by sector (%)



Allocation by country



Top 5 fund positions (%)

DMS Inc	4,1%	Japan
KEMET Corp	3,9%	USA
Shinnihon Corp	3,5%	Japan
Ihara Science Corp	2,9%	Japan
Southern Concrete Pile PCL	2,8%	Thailand

Important information