

FS ASSOCIATES

2020

PERFORMANCE REPORT JANUARY 2020



FS ASSOCIATES
STUDENT INITIATIVE OF
FRANKFURT SCHOOL

REPORT BY QUIRIN ZUNDL & JUAN MARTIN ALEAGA

TO WHOM IT MAY CONCERN

At FS Associates we wish you a very happy and successful new year! We have now completed the fourth month of long-short trading and are finally profitable.

Quirin Zundl

QUIRIN ZUNDL

MANAGING DIRECTOR



LONG PORTFOLIO

FS Associates is exposed long with a total of \$40k and £10k of initial portfolio value in gold and silver corporations (Royal Gold, First Majestic Silver and Polymetal International). We are keen on diversifying our portfolio both regarding currencies and industries, so we are not reluctant regarding investments in companies traded in foreign currencies. In the past monthly reported, we noted that with round about 10% of total portfolio value, we found our precious metals exposure to be relatively moderate. Observing the current development of precious metals and our intention to act upon promising opportunities, we have increased our exposure in First Majestic Silver to now \$20k after a surprising fall in price of this stock.

Additionally, we have held on to our full strategic €60k Wirecard exposure. We bought this position early, but the risk is paying out so far. We are still inclined to believe that KPMG's report will be positive and that it is no coincidence that major asset managers including Goldman Sachs are long Wirecard. We also continue to be aware of large short-selling activity, however this does not concern us too much, as this activity has at least in the short run failed at scaring away large

amounts of retail investors. The major investors are also not backing out of Wirecard. As of January, our Wirecard position is up 9.929,80€, so over 15%. Our initial target price is 160€ per share. We have the strong opinion that when trading Wirecard it is and remains crucial to be liquid at the right times.

+5,46%

Long performance

In order to hedge against political tensions in the Near East region with possible negative effects on the global oil supply, we are exposed £10k in Royal Dutch Shell. Unfortunately, due to the fear of a global pandemic, oil prices have reduced drastically in the recent weeks and so has the share price of Shell. We are considering buying further oil exposures at attractive entry levels. We exited Fresenius Medical Care in January, generating profits.

Our only further current long holding is Beiersdorf, for technical reasons discussed on our Instagram page.

In total, our long portfolio is up €10.927,06 (+5,46%) since inception, as of 31 January 2020. The main reason for our current good long performance is the Wirecard position, which has developed as anticipated.



SHORT PORTFOLIO

FS Associates is exposed short €20k in the banking sector with Deutsche Bank and Commerzbank. The banking shorts are overall loss-making. While Commerzbank is profitable for us, Deutsche Bank has increased in price. We find this ironic, since Commerzbank is performing better than Deutsche, the latter writing multi billion losses year in and year out. We are considering closing the Commerzbank position and shorting only Deutsche instead. Another short target is the automotive supplier industry (LEONI and Michelin, recently also Dürr), and we have decided to

hold on to these shorts until our ambitious return targets are met. It is a strategic position.

+0,63%

Short performance

Other short positions are Salzgitter, Hugo Boss, Telefónica Germany, SGL Carbon, Netflix and Bayer, all for technical reasons discussed on our Instagram page.

In total, our short portfolio is up €1.269,19 (0,63%) since inception, as of 31 January 2020. The turnaround can also not be much of a surprise, with markets plunging in fear of the coronavirus and an economic slowdown in China.

LONG-SHORT VIEW

In total our long-short portfolio is finally profitable. We continue to be effectively net short: 110k short, 50k metals (effectively also negatively correlated with the market) and 80k long, resulting in round about 80k short. Overall, we are up €12.196,25 (3,05%), as of 31 January 2020.

In general, we continue to be pessimistic on the markets in the short term, believing that corrective movements are not yet over. We saw a major threat for the global economy in the conflict between US and China, however this seems to be solved. The Brexit also looks ordered now, Great Britain has left the European Union. Obviously, we have a political opinion on Brexit, but it is irrelevant for this article. We are only here to navigate global markets in a way which optimizes returns and risks. Political opinions do not and should not affect our decisions.

In the beginning of January, a war between Iran and the US seemed thinkable, however the risk was soon mitigated, and markets continued to rally. Then, very suddenly, the Coronavirus started to occupy global headlines. The major difference we see between all risks of the past months and the Coronavirus is that past risks (Brexit, tariffs, possible war...) were all man-made. Hence, they could all be solved by man in relatively short time. This time, with the risk being a virus, humanity is confronted with a risk which is not man-made. What makes things even worse, it is hard to estimate how large the risk really is, both for the global economy and humanity. The growth rate of new infections has lately been around 20% per day(!!!), a number which to us is shocking to say the least.

Yet, we are only able to observe and act accordingly. We saw major sell-offs in oil and copper, as well as Chinese equity indices. The sell-offs were followed by falling equity indices in Europe and the US as well as increased volatility. If Ray Dalio of Bridgewater still owns his put options on the S&P500 and EuroStoxx50 he is likely to have gotten off to a good start into 2020. For us, the virus has also meant a financial turnaround, since with increased volatility our hedged portfolio was able to develop very well. Especially, our net short positioning finally paid off. We want to emphasize that it is not our wish nor our hope that the world is endangered by a global pandemic. However, we also want to note that we have no impact on whether this will be the case or not. We merely see the risk that it could possibly happen, and we saw the risk during the past rally that some risk could endanger global growth and similarly the growth in equity valuations. Now we are confronted with what we think is a very significant risk. If we had had the choice regarding the particular risk, we would have preferred a risk which only has economic consequences, not humanitarian consequences. Unfortunately, we were and are not able to decide.

+3,05%

long-short performance





+2,44%

*Overall, the fund is up
€12.196,25 since inception.*

PERSONALLY:

Personally, as the Managing Director of FS Associates, I want to disclose that I still own my real-money stake in Royal Gold Inc with a buy price of \$113,5 per share. I also still hold stocks in Wirecard and bought shares First Majestic Silver. I am also currently short FDAX. Particularly the DAX future has developed very well.

I am proud of our what we have achieved and learned. It is my distinct pleasure to announce that at FS Associates, we have a group of very motivated students.

Unfortunately, I must announce that Timur has decided to leave the initiative. We wish him all the best for his future career!

FS Associates is a team striving for excellence, just as I had imagined when thinking about founding this initiative. It is my great pleasure to work with this exceptional team.

Quirin Zundl

QUIRIN ZUNDL
MANAGING DIRECTOR