



The Argo Fund

September 2016

Net Asset Value **297.40 (+0.66%)**
Year to Date **49.02%**

EM Credit Long/Short Strategy

Market Commentary

Government finance ministers and business leaders descended on Washington DC at the beginning of October for the IMF & World Bank annual meetings. The IMF set the tone for the meetings by announcing that global debt had reached \$152 trillion, which is 228% of global GDP. Latin American countries continue to carry out counter cyclical fiscal policies while central banks' tightening seem to have run its course. Markets are looking ahead to easier policies, particularly in Argentina, Brazil and Colombia, now that the inflation monster appears to have been slayed. The one exception is Venezuela where hyperinflation, food shortages and chaos remain the order of the day.

PDVSA announced a debt swap exchange offer for their 2017 bonds. They have over US\$5bn of redemptions beginning in November 2016 that they are desperate to rollover. PDVSA announced that the aggregate participation in the exchange offer was 39.43%, short of the 50% threshold originally stated as the minimum requirement. The exchange offer comes after two years of low oil prices and a decline in crude output, despite which Venezuela has always managed to service its debts. Prices on PDVSA and sovereign bonds had declined prior to the outcome of the exchange offer being known but recovered post-announcement. We sold most of our PDVSA holdings earlier this month at close to the year high but may add again if entry prices become attractive.

Ahead of its sovereign ratings review this December, South Africa was thrown into turmoil once again as Finance Minister Gordhan was summoned by public prosecutors in relation to his actions at the time he was head of the Treasury's tax authority. Many observers believe the charges are without merit and this is yet another round in the battle running inside the ANC between those aligned with Zuma/Guptas and those trying to protect the independence of the state and its arms. Gordhan is seen as one of the last barriers protecting the state from further "plundering" and we remain negative on South Africa's outlook.

In Turkey, President Erdogan successfully appealed to the government to extend the state of emergency for 3 months. Meanwhile the Gulenist opposition maintain the July 15 coup was an excuse for Erdogan to "cleanse" the army. Amidst the infighting, Turkey suffered their second credit rating downgrade since July as Moody's placed the country below investment grade. Market response seemed ambivalent as the lira devalued 1% and the yield on benchmark 2-year bond increased by 0.3% to 9%. Fitch is now the only remaining rating agency to classify Turkey as investment grade.

The Argo Fund gained 0.66% to end September at 297.40. Aside from PDVSA, there were gains from a variety of external bonds and Russian and Brazilian local currency bonds. We also added hedges in the form of US Treasuries and total return swaps on bond indices to guard against any sell-off ahead of the US elections.

There have been a plethora of EM new issues in recent weeks, both sovereign and corporate. We will participate on a selective basis and also look to accumulate risk in short-duration corporate bonds where we are reasonably confident about the underlying business. On the local currency side, the focus is likely to remain on the dollar ahead of next month's presidential vote and we are looking to add to existing positions.

Argo Capital Management, 25 October 2016

Returns	
Month	0.66%
Year to Date	49.02%
Last Twelve Months	27.09%
Since Inception	197.40%
Annualised	7.93%

Portfolio	
Average Credit Rating	*BB
Average YTM	5.39%
Annualised Volatility	26.28%
Monthly Turnover as NAV %	33.50%

*Excludes Cash

Risk	
Duration	2.46
1 day VaR*	\$0.31mn
30 day VaR*	\$1.55mn
Annualised downside risk	4.42%
Sharpe Ratio (inception)	0.48

*99% Confidence Level

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Risk Report

Fund Exposure

Region	Country	Holdings
	USA	US Treasuries 12.68%
	Brazil	iBoxx Short TRS 8.01%
	Argentina	Province of Buenos Aires 6.38%
	Mexico	Petrobras 5.32%
	Russia	Mexican Bonos 4.55%

Exposure as % of NAV

	Bonds	Credit Default Swaps*	Interest Rate Swaps*	Cross Currency Swaps*	Index Swaps*	Total
Long	80.7%	-	-	-	-	80.7%
Short	-	-	-3.1%	-	-8.2%	-11.3%
Net exposure	80.7%	-	-3.1%	-	-8.2%	69.4%
Gross Exposure	80.7%	-	3.1%	-	8.2%	92.0%

* Expressed as nominal value

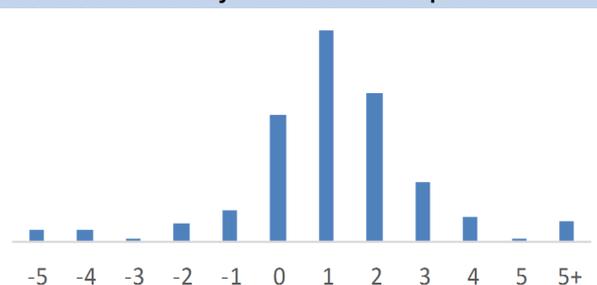
Portfolio Basis Point Value Analysis - DV01

	Bonds	CDS	IRS	CCS	Index Swaps	Total
Long	25,804	-	-	-	-	25,804
Short	-	-	-7,875	-	-1,950	-9,825
Net exposure	25,804	-	-7,875	-	-1,950	15,979

Currency Exposure

Currency	Net exposure % of NAV
BRL	3.4%
RUB	3.3%
EUR	3.0%
MXN	1.4%
THB	0.5%
COP	0.3%
Total	11.9%

Distribution of Monthly Returns Since Inception



Month-end risk allocation by strategy

Government Bonds	48.25%
Corporate Bonds	32.44%
Cash	26.61%
Currency Forwards	-0.22%
Options	0.14%
Other	-7.22%

Best Performers

PDVSA	0.40%
Russia	0.13%
Province of Buenos Aires	0.09%
Ghana	0.09%
US Treasuries	0.09%

Worst Performers

Mexican Bonos	-0.10%
Proshares - Short UST	-0.09%
iBoxx TRS (Short)	-0.08%
South African Rand	-0.07%
Cemex	-0.05%

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Monthly returns since inception

The Argo Fund													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2000										0.40	-1.79	1.67	0.25
2001	1.11	2.46	3.27	0.82	2.52	1.83	0.60	2.10	1.51	2.29	5.66	3.67	31.53
2002	1.83	2.23	2.18	2.39	2.57	0.54	0.97	1.36	2.09	0.48	2.03	2.02	22.74
2003	1.73	1.69	1.27	3.66	2.50	3.35	1.39	1.16	1.76	1.29	1.13	2.44	26.01
2004	1.89	0.80	2.05	0.80	-0.15	0.47	0.32	1.50	1.63	1.47	1.95	1.15	14.78
2005	0.44	1.33	0.13	0.73	1.53	1.34	0.81	1.31	0.50	-0.05	0.16	0.90	9.51
2006	0.68	0.08	0.28	0.95	0.65	1.60	0.62	0.64	0.74	0.65	1.56	2.14	11.11
2007	0.36	0.89	0.51	0.92	1.82	1.76	0.41	0.19	0.62	0.43	1.80	1.98	12.31
2008	0.68	0.48	0.75	-0.24	0.57	0.43	-0.23	-0.67	-7.60	-31.05	-4.41	-2.96	-39.86
2009	-3.17	0.48	3.87	0.89	-0.15	3.43	1.37	0.69	1.87	1.00	0.40	1.05	12.18
2010	-0.69	1.54	1.82	-0.46	-2.48	0.72	1.75	1.56	1.91	1.32	-2.66	4.13	8.55
2011	-0.09	0.44	-0.33	1.72	-0.13	-0.57	1.58	-0.52	-4.55	3.41	0.19	-0.84	0.10
2012	-2.30	0.41	-0.13	-0.45	-2.63	0.37	-1.20	0.64	0.20	0.11	-0.69	5.85	-0.07
2013	-1.25	-4.59	-1.06	17.56	-0.58	-0.29	0.31	-0.31	0.54	-0.26	-0.19	-0.23	8.49
2014	-0.67	0.63	-0.37	-0.10	-0.77	0.80	-0.91	-0.54	-1.32	-0.44	-0.29	-1.02	-4.94
2015	0.04	-1.20	-0.74	0.96	-0.49	-0.01	-1.08	-0.25	-0.43	-13.32	-1.82	0.21	-17.42
2016	10.44	0.17	2.22	5.03	1.13	19.17	2.09	1.30	0.66				49.02

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