



The Argo Fund

October 2016

Net Asset Value 299.66 (+0.76%)
Year to Date 50.15%

EM Credit Long/Short Strategy

Market Commentary

Although the year has been broadly positive for EM assets so far, Q4 has been more challenging. The global environment has turned less supportive in the wake of developed market events (Brexit/Trump receive the attention but there are other issues lurking out there). Looking ahead, the US rates and monetary policy is likely to be less supportive for EM over next year but there should be value in EM assets despite the external uncertainties and added volatility will provide more trading opportunities. More particularly at this point of the cycle as interest rates go up, investors are better served by long/short strategies and the ability to reduce/reverse exposure.

The long-awaited 'State of Capture' report focusing on the investigation of the relationship between the South African President Zuma and the Gupta family was finally released as Zuma dropped an earlier court bid to block it. The report alleges the Guptas claimed to have taken ZAR 6 billion from the state and caused Eskom CEO Brian Molefe to resign the following week. Zuma did not comply with the investigation and a vote of no-confidence against his presidency was defeated in the National Assembly. While the ruling ANC party still hold a majority and the patronage networks remain intact, it is difficult to see Zuma relinquishing power. The report release did not help our short rand position in the fund despite the medium term challenges that remain. As a result we closed out the position with a small loss.

In a year of surprising results, Donald Trump continued the trend by proving the pollsters wrong (again) and defeating Hillary Clinton in the US Presidential race. Mr Trump exceeded expectations in swing states and ran out a comfortable winner in the end, despite losing the popular vote. His message of trade protectionism and rebuilding the US industrial sector resonated with the middle and working classes especially in the 'rust belt' states. The result was undoubtedly negative for Mexico as the peso dropped c.10% after the vote as Trump has promised to exit NAFTA. We had a long position in Mexican local bonds and currency which we exited before the elections as we reduced risk to protect against the potential upset of a Trump victory. The introduction of tariffs would hurt economies with high manufacturing exports (Korea, Taiwan, China, Mexico), as would the possible taxation on remittances. It is unclear how or if these pre-election promises will be delivered but the anti-globalisation rhetoric will not help sentiment towards EM countries.

South Korea's economy has come under increasing pressure as of late. The struggles of giants Hyundai (strike), Samsung (product recall) and Hanjin (restructuring) have recently been highlighted amidst a bizarre presidential scandal, where incumbent Park Geun-hye allowed an old friend to participate in state affairs. As household debt rises and exports drop, the current outlook for the Korean

economy is shaky, particularly against a background of threatened anti-globalisation measures. The KRW weakened by 3.7% in October against the US dollar and it may have further to go.

In Turkey, the post-coup moves from President Erdogan are beginning to weigh on the economy. The suppression of the media and extended state of emergency powers are giving him a blank cheque to intervene at will. This continued insistence on pursuing internal enemies has damaged relations with the west and could lead to capital outflows. The lira continued weakening and we maintained our short on the currency.

In the portfolio, we added a small position on a Peruvian soft drinks manufacturer at what we considered to be an attractive price. The fund continued this theme of diversification by participating in the sale of Delhi international airport bonds. After selling out of PDVSA (Venezuelan state owned oil company) last month, we are cautiously re-entering at a lower price, believing there still to be value despite the country's well-publicised travails.

The NAV of The Argo Fund increased by 0.76% to end the month at 299.66. The short on the Turkish lira was the biggest contributor to the performance but there were widespread gains amongst the Latin American bond positions. We keeping exposure at quite low levels expecting further volatility.

Argo Capital Management
 22 November 2016

Returns

Month	0.76%
Year to Date	50.15%
Last Twelve Months	47.74%
Since Inception	199.66%
Annualised	7.94%

Portfolio

Average Credit Rating*	BB+
Average YTM*	6.67%
Annualised Volatility**	15.46%
Monthly Turnover as NAV %	18.90%

*Excludes Cash
 **3 Years

Risk

Duration	1.98
1 day VaR*	\$0.278mn
30 day VaR*	\$1.304mn
Annualised downside risk**	8.68%
Sharpe Ratio (LTM)	0.96

*99% Confidence Level
 **3 Years

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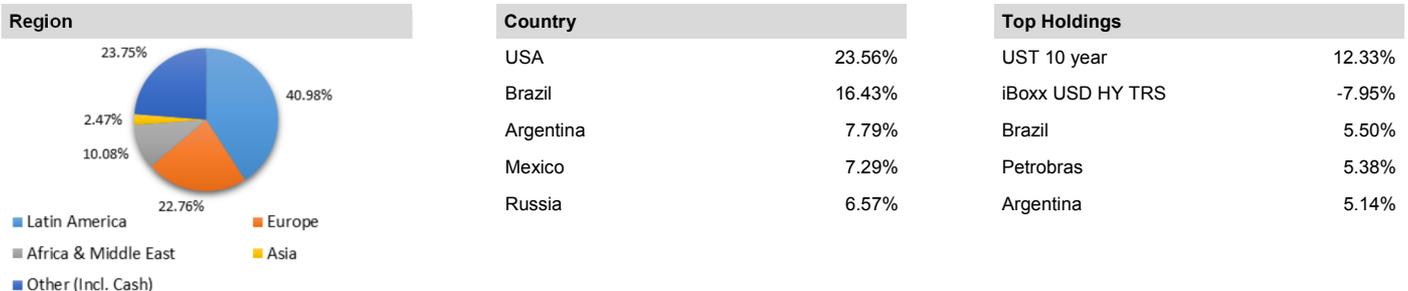


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Risk Report

Fund Exposure



Exposure as % of NAV

	Bonds	Credit Default Swaps*	Interest Rate Swaps*	Cross Currency Swaps*	Index Swaps*	Total
Long	78.3%	-	-	-	-	78.3%
Short	-	-	-3.3%	-	-8.0%	-11.3%
Net exposure	78.3%	-	-3.3%	-	-8.0%	67.0%
Gross Exposure	78.3%	-	3.3%	-	8.0%	89.6%

* Expressed as nominal value

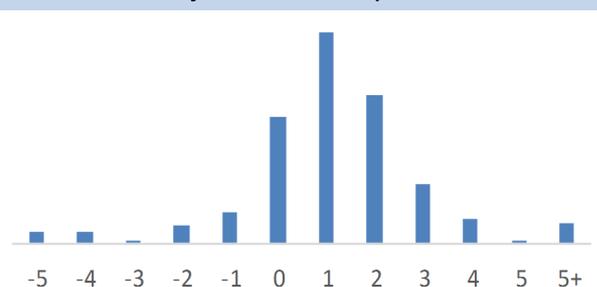
Portfolio Basis Point Value Analysis - DV01

	Bonds	CDS	IRS	CCS	Index Swaps	Total
Long	23,860	-	-	-	-	23,860
Short	-	-	-8,009	-	-1,962	-9,971
Net exposure	23,860	-	-8,009	-	-1,962	13,889

Currency Exposure

Currency	Net exposure % of NAV
BRL	5.50%
ARS	5.14%
MXN	4.71%
RUB	3.26%
EUR	2.89%
THB	0.45%
COP	0.30%
ZAR	-5.16%
Total	17.09%

Distribution of Monthly Returns Since Inception



Month-end risk allocation by strategy	Best Performers	Worst Performers
Government Bonds 46.29%	Proshares TBT 0.28%	UST 10 year -0.24%
Corporate Bonds 31.98%	TRY put option 0.19%	South African Rand -0.12%
Cash 28.33%	Petrobras 0.13%	Greece -0.07%
Currency Forwards -0.34%	Mexican Bonos 0.12%	PDVSA -0.04%
Options 0.47%	PDVSA 0.12%	Ajecorp -0.04%
Other -6.74%		

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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	0.76			50.15

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