



# The Argo Fund

## November 2016

**Net Asset Value** 298.85 (-0.27%)  
**Year to Date** 49.74%

**EM Credit Long/Short Strategy**

### Market Commentary

November was a difficult month for emerging markets following Donald Trump's confirmation as President-elect. Mexican peso-denominated bonds suffered particularly badly, although the effects were felt throughout emerging markets with Brazil, Argentina and others also being adversely impacted. In the portfolio, we felt it wise to diversify a portion of the long position into uncorrelated names, for example, adding a Caribbean telecoms name and a few sovereign issuers in Africa and Asia. On the short side, the fund benefited from Trump's election as a steepening curve position and subsequent outright short position on US Treasury bonds performed very well when the market began to price a higher US budget deficit (arising from increased infrastructure spending plans) and a more hawkish Fed at the December meeting. Overall, the short FX and UST positions offset the losses from our long bond positions to leave the net asset value of the Argo Fund down a respectable 0.27%, to end the month at 298.85.

In other news, OPEC, the oil-producer cartel, finally reached an agreement to cut production at the beginning of December after tense negotiations had dragged on. Saudi Arabia led the pledge which approved a cut of 1.2 million barrels/day or two percent of global oil production. Consequently, oil prices moved higher with Brent back above US\$50 a barrel and analysts have moved up their projections for the coming 12 months after non-OPEC

producers also promised some further cuts.

Oi, the Brazilian telecoms company under restructuring, rose on expectations of advancing talks and rumours of potential deals. However, the situation is complicated by the presence of two separate bondholder committees and the strength of the equity holders in Brazil restructurings. Whilst we remain confident a better offer will be put to bondholders, we do not expect it before the beginning of 2017.

November was a turbulent month in Turkish politics as President Erdogan sought to consolidate his grip on power and distance ties with the EU. He accused Belgium of harbouring Gulenist supporters and threatened to release three million refugees into the EU. Furthermore, there have been numerous reports that he is attempting to utilise the alliance between the ruling AKP party and MHP party to alter the constitution and insert himself as president until 2027. These developments had a negative impact on the lira, on which the fund employed a lucrative short position. Various bomb explosions and the shooting of the Russian ambassador have added to the tension in the country and so the fund may revisit this trade in the near future.

In Latin America, Venezuelan President Nicolas Maduro surprised everyone by announcing the removal of the 100 bolivar notes from circulation at the start of December. We believe this may have been a rather clumsy way to introduce higher denomination

bills after earlier reports that people were having to carry bags of notes just to undertake basic transactions following the currency's large devaluation in the black market recently. Whilst this move seems to have simply exacerbated many of Venezuela's current problems, the OPEC deal should have a short-term positive impact on PDVSA (state-owned oil company) finances, despite limited recent capex on their oil fields. All eyes will now turn to the next maturity in April, though some analysts believe the Venezuelans can and will pay all obligations through 2017. We are taking a cautiously optimistic view on the company, focusing on bonds with low dollar value and low accrued interest.

Overall, we remain cautious on US interest rates, expecting further moves higher on 10 year yields as the Trump presidency vows to open the cheque book to what otherwise appears an already expanding economy with accommodative monetary policy. We remain selective in emerging markets favouring low correlation opportunities and short to medium maturities. Going into 2017 we are also favouring high real interest rates and countries with low risk of potential trade conflicts vis a vis the incoming US administration.

Argo Capital Management  
 20 December 2016

| Returns            |         |
|--------------------|---------|
| Month              | -0.27%  |
| Year to Date       | 49.74%  |
| Last Twelve Months | 50.06%  |
| Since Inception    | 198.95% |
| Annualised         | 7.88%   |

| Portfolio                 |        |
|---------------------------|--------|
| Average Credit Rating*    | B      |
| Average YTM*              | 4.36%  |
| Annualised Volatility**   | 15.46% |
| Monthly Turnover as NAV % | 86.60% |
| *Excludes Cash            |        |
| **3 Years                 |        |

| Risk                               |       |
|------------------------------------|-------|
| Duration                           | -1.30 |
| 1 Day VaR*                         | 0.64% |
| 1 Month VaR*                       | 2.98% |
| Annualised Downside Risk**         | 8.78% |
| Sharpe Ratio (LTM)                 | 1.84  |
| *99% Confidence Level, as % of NAV |       |
| **3 Years                          |       |

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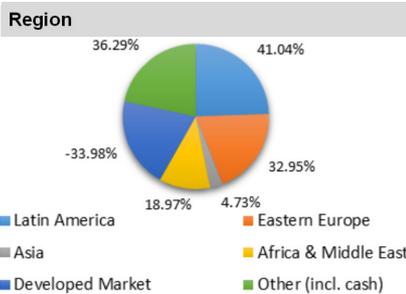


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### Risk Report

#### Fund Exposure



| Country   | Percentage |
|-----------|------------|
| USA       | -37.52%    |
| Brazil    | 12.58%     |
| Argentina | 8.28%      |
| Russia    | 6.56%      |
| Greece    | 5.48%      |

| Top Holdings | Percentage |
|--------------|------------|
| UST 10 year  | -29.55%    |
| Cash Deposit | 15.93%     |
| iBoxx HY TRS | -7.97%     |
| Greece       | 5.48%      |
| Brazil       | 5.18%      |

#### Exposure as % of NAV

|                | Bonds  | Credit Default Swaps* | Interest Rate Swaps* | Cross Currency Swaps* | Index Swaps* | Total  |
|----------------|--------|-----------------------|----------------------|-----------------------|--------------|--------|
| Long           | 62.0%  | -                     | -                    | -                     | -            | 62.0%  |
| Short          | -29.6% | -                     | -                    | -                     | -11.2%       | -40.8% |
| Net exposure   | 32.4%  | -                     | -                    | -                     | -11.2%       | 21.2%  |
| Gross Exposure | 91.6%  | -                     | -                    | -                     | 11.2%        | 102.8% |

\* Expressed as nominal value

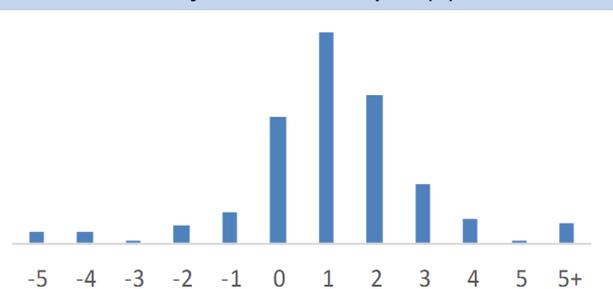
#### Portfolio Basis Point Value Analysis - DV01

|              | Bonds  | CDS | IRS     | CCS | Index Swaps | Total   |
|--------------|--------|-----|---------|-----|-------------|---------|
| Long         | 15,698 | -   | -       | -   | -           | 15,698  |
| Short        | -      | -   | -22,272 | -   | -1,950      | -24,222 |
| Net exposure | 15,968 | -   | -22,272 | -   | -1,950      | -8,524  |

#### Currency Exposure

| Currency     | Net exposure % of NAV |
|--------------|-----------------------|
| EUR          | -1.1%                 |
| ARS          | 4.9%                  |
| THB          | 0.4%                  |
| COP          | 0.3%                  |
| BRL          | 5.2%                  |
| MXN          | -8.2%                 |
| RUB          | 3.4%                  |
| TRY          | -0.4%                 |
| <b>Total</b> | <b>4.6%</b>           |

#### Distribution of Monthly Returns Since Inception (%)



#### Month-end risk allocation by strategy

|                       |         |
|-----------------------|---------|
| Government Bonds      | 35.63%  |
| Corporate Bonds       | 26.37%  |
| Cash                  | 30.90%  |
| Futures (hedge/short) | -29.55% |
| Index Swap            | -11.15% |
| Other                 | 0.06%   |

#### Best Performers (% of NAV)

|                          |       |
|--------------------------|-------|
| Turkish Lira (TRY) short | 0.87% |
| US Treasury short        | 0.66% |
| Greek government bond    | 0.48% |
| Oi Telecom               | 0.26% |
| Euro hedge               | 0.09% |

#### Worst Performers (% of NAV)

|                          |        |
|--------------------------|--------|
| Mexican Bonos            | -0.55% |
| Brazil sovereign bond    | -0.23% |
| Argentina sovereign bond | -0.21% |
| Ukreximbank              | -0.16% |
| Petrobras                | -0.14% |

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### Monthly returns since inception

| The Argo Fund |       |       |       |       |       |       |       |       |       |        |       |       |               |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|-------|---------------|
|               | Jan   | Feb   | Mar   | Apr   | May   | Jun   | Jul   | Aug   | Sep   | Oct    | Nov   | Dec   | Total         |
| <b>2000</b>   |       |       |       |       |       |       |       |       |       | 0.40   | -1.79 | 1.67  | <b>0.25</b>   |
| <b>2001</b>   | 1.11  | 2.46  | 3.27  | 0.82  | 2.52  | 1.83  | 0.60  | 2.10  | 1.51  | 2.29   | 5.66  | 3.67  | <b>31.53</b>  |
| <b>2002</b>   | 1.83  | 2.23  | 2.18  | 2.39  | 2.57  | 0.54  | 0.97  | 1.36  | 2.09  | 0.48   | 2.03  | 2.02  | <b>22.74</b>  |
| <b>2003</b>   | 1.73  | 1.69  | 1.27  | 3.66  | 2.50  | 3.35  | 1.39  | 1.16  | 1.76  | 1.29   | 1.13  | 2.44  | <b>26.01</b>  |
| <b>2004</b>   | 1.89  | 0.80  | 2.05  | 0.80  | -0.15 | 0.47  | 0.32  | 1.50  | 1.63  | 1.47   | 1.95  | 1.15  | <b>14.78</b>  |
| <b>2005</b>   | 0.44  | 1.33  | 0.13  | 0.73  | 1.53  | 1.34  | 0.81  | 1.31  | 0.50  | -0.05  | 0.16  | 0.90  | <b>9.51</b>   |
| <b>2006</b>   | 0.68  | 0.08  | 0.28  | 0.95  | 0.65  | 1.60  | 0.62  | 0.64  | 0.74  | 0.65   | 1.56  | 2.14  | <b>11.11</b>  |
| <b>2007</b>   | 0.36  | 0.89  | 0.51  | 0.92  | 1.82  | 1.76  | 0.41  | 0.19  | 0.62  | 0.43   | 1.80  | 1.98  | <b>12.31</b>  |
| <b>2008</b>   | 0.68  | 0.48  | 0.75  | -0.24 | 0.57  | 0.43  | -0.23 | -0.67 | -7.60 | -31.05 | -4.41 | -2.96 | <b>-39.86</b> |
| <b>2009</b>   | -3.17 | 0.48  | 3.87  | 0.89  | -0.15 | 3.43  | 1.37  | 0.69  | 1.87  | 1.00   | 0.40  | 1.05  | <b>12.18</b>  |
| <b>2010</b>   | -0.69 | 1.54  | 1.82  | -0.46 | -2.48 | 0.72  | 1.75  | 1.56  | 1.91  | 1.32   | -2.66 | 4.13  | <b>8.55</b>   |
| <b>2011</b>   | -0.09 | 0.44  | -0.33 | 1.72  | -0.13 | -0.57 | 1.58  | -0.52 | -4.55 | 3.41   | 0.19  | -0.84 | <b>0.10</b>   |
| <b>2012</b>   | -2.30 | 0.41  | -0.13 | -0.45 | -2.63 | 0.37  | -1.20 | 0.64  | 0.20  | 0.11   | -0.69 | 5.85  | <b>-0.07</b>  |
| <b>2013</b>   | -1.25 | -4.59 | -1.06 | 17.56 | -0.58 | -0.29 | 0.31  | -0.31 | 0.54  | -0.26  | -0.19 | -0.23 | <b>8.49</b>   |
| <b>2014</b>   | -0.67 | 0.63  | -0.37 | -0.10 | -0.77 | 0.80  | -0.91 | -0.54 | -1.32 | -0.44  | -0.29 | -1.02 | <b>-4.94</b>  |
| <b>2015</b>   | 0.04  | -1.20 | -0.74 | 0.96  | -0.49 | -0.01 | -1.08 | -0.25 | -0.43 | -13.32 | -1.82 | 0.21  | <b>-17.42</b> |
| <b>2016</b>   | 10.44 | 0.17  | 2.22  | 5.03  | 1.13  | 19.17 | 2.09  | 1.30  | 0.66  | 0.76   | -0.27 |       | <b>49.74</b>  |

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