

# The Argo Fund / The Argo Feeder Fund Limited

## Emerging Markets Debt & Macro

### Monthly Letter & Risk Report

February 2020

Performance	
NAV Per Share	318.65
February Return	-0.82%
YTD Return	-1.76%
Annualised Return Since Inception	6.90%
Annualised Volatility Since Inception	11.48%
Sharpe Ratio Since Inception	0.49
Percentage of up months	67.81%
Fund Characteristics	
Structure	Standalone
Jurisdiction	Cayman Islands
Launch Date	2000
AUM (all share classes)	\$99m
Share Class	Class A
ISIN	KYG0540S1084
Subscription	Monthly
Redemption	Monthly
Redemption Notice	120 days
Minimum Investment	\$100,000 (or €/\$ equivalent)
Management Fee	2%
Performance Fee	20%

## Investment Strategy

The Argo Fund is a diversified global emerging markets debt and macro fund with a master/feeder structure. The Argo Fund seeks to capture alpha through long and short investment in EM corporate, sovereign and distressed credit and FX. The fund uses a macro hedging overlay strategy to actively manage portfolio duration, volatility and correlation.

## Monthly Commentary

Financial markets were adversely affected by the spread of the coronavirus towards the end of February. As a result, this newsletter has been delayed as service providers, counterparties and ourselves work from home. This period has stress-tested our operational capacity and we are pleased to report that no problems were identified. Similarly March stress-tested our investment process and ability to deal with a level of volatility not

seen since 2008. The March NAV is estimated down around 6% but we will discuss the drawdown in more detail in the March newsletter. We started February with very low net exposure as we felt the markets were overbought.

We added a short position in S&P futures to hedge the portfolio against wider market volatility, closing the position to take profit after a selloff in the index. We also bought protection against CDX.HY which is a proxy for the US high yield bond market. We closed our long position in the EM and Brazil equity ETFs prior to the market turmoil. Our position in the EM local currency bond ETF suffered as investors sought the relative safety of the US dollar and we subsequently exited the position.

In Argentina, we switched into the 2023 bonds from the 2021 due to the lower dollar price, believing the bonds could be treated similarly on resolution of the debt restructuring process, reducing risk and taking cash out for the same nominal. The government has now moved the restructuring deadline from the end of March and has brought out guidelines for its restructuring offer. This is a core position for the fund but it has proved very volatile and very high beta.

We further added to our small position in Lebanon as the price of the bonds continued to decline ahead of the next Eurobond repayment in early March, on which it defaulted. The country has been receiving technical advice from the IMF but will first have to tackle political factions in order to present a credible economic plan.

Ecuador sovereign bonds were hit after they were downgraded by Moody's to Caa1 from B3 in early February. Whilst the government has been trying to pass key economic reforms over the past year, they have been met with fierce resistance from the population. Other likely factors in the price decline are the drop in oil prices (oil exports comprise ~60% of total exports).

Elsewhere, we opened a small position in Zambia government credit and we believe a default is imminent. We aim to build up a position at lower levels as the credit defaults and participate in the restructuring. Additionally, we shorted South Africa through CDS due to the weak growth outlook and expectations the Moody's downgrade to 'junk' status would be finally confirmed.

We shorted Pakistan versus Sri Lanka sovereign bonds, believing the IMF-induced rally had overshot. We subsequently turned this into an outright short position by selling the Sri Lanka leg. We also exited our entire Russian local bond and fx position and shorted the Turkish lira as risk aversion returned on virus and OPEC uncertainty.

The lack of liquidity in the market has reduced the value of VaR as a yardstick for our risk management. Drawing on our experience in trading through such crises, we felt that adherence to our VaR measure would accentuate the drawdown of the fund as it causes liquidation of positions at the moment of highest stress. We therefore decided to operate from a higher VaR limit of 10% to avoid this risk and ride the volatility particularly in view of our low net exposure and large cash position.

### Portfolio Statistics

Duration	0.43
99% 1-month VaR	4.94%
Average Credit Rating <sup>1</sup>	B
Average Yield to Maturity <sup>2</sup>	7.82%
Annualised Downside Risk (1 Year)	6.08%
Monthly Turnover <sup>3</sup>	77.39%
Cash	53.91%
Leverage:	
Gross Exposure Method	46.33%
Commitment Method	62.59%

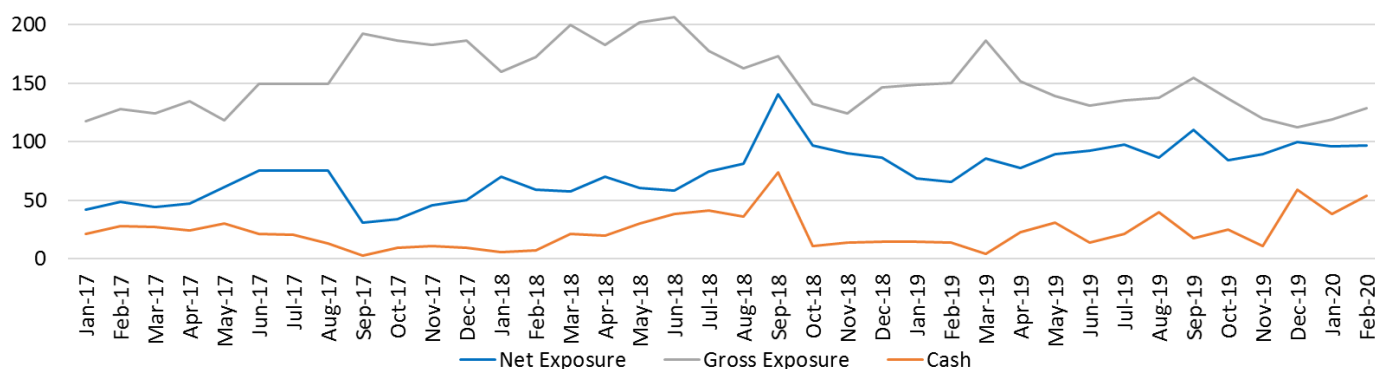
### Notes:

1. Includes long and short positions & excludes cash
2. Excludes cash
3. % AUM
4. Excludes de minimis exposure in FX
5. Monte Carlo VaR as calculated by Bloomberg Risk Analytic and where not available calculated by Argo based on historic 3-month data.
6. As % of NAV
7. Gross performance in bps of average AUM of the period
8. Assuming normal market conditions

All figures as of 29<sup>th</sup> February 2020

Figures published are for the Feeder Fund from December 2019

### Fund Exposure (%)



### Month End Risk Exposures

NAV sensitivity for -100bps shift in the yield curve

#### Strategy <sup>4</sup>

EM Corporate	EM Distressed	Macro Hedge	EM Sovereign	Total
0.21	0.41	0.00	-0.19	0.43

#### Region

Middle East & Africa	Asia	Europe	LatAm	US	Total
-0.20	-0.08	0.05	0.66	0.00	0.43

### 99% 1 Month Component VaR (%)

#### By Strategy

EM Corporate	EM Distressed	FX	Macro Hedge	EM Sovereign	Total
0.21	4.44	-0.06	-0.07	0.42	4.94

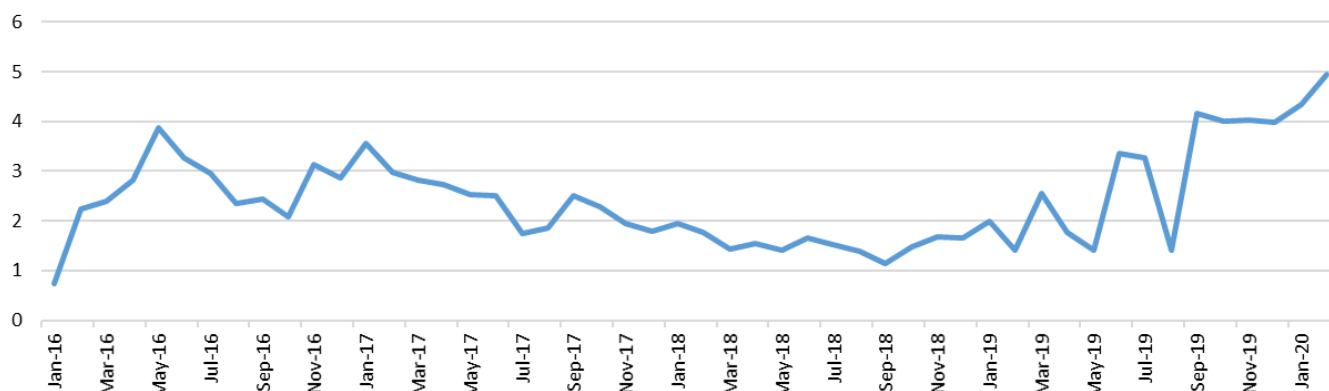
#### By Region

Middle East & Africa	Asia	Europe	LatAm	US	Total
0.38	0.06	-0.06	4.63	-0.07	4.94

### By Maturity

0-1yr	1-3yr	3-5yr	5-7yr	7-10yr	10+yr	Total
-0.09	1.45	1.64	0.19	1.60	0.15	4.94

### Monte Carlo 99% 1 Month VaR (%) <sup>5</sup>



### Top 5 Country Holdings <sup>6</sup>

Country	Region	%
Argentina	LatAm	12.20%
Indonesia	Asia	7.87%
East African Sovereign	Middle East & Africa	-5.43%
Republic of Sudan	Middle East & Africa	4.04%
Pakistan	Asia	-3.85%

### Top 5 Holdings by Name <sup>6</sup>

Position	Strategy	%
Argentina Sovereign Credit	EM Distressed	8.23%
East African Sovereign	EM Distressed	-5.43%
Indonesia Local Sovereign	EM Sovereign	5.26%
Republic of Sudan	EM Distressed	4.04%
Province of Buenos Aires	EM Distressed	3.97%

### Performance Attribution <sup>7</sup>

#### Largest Contributors (bps)

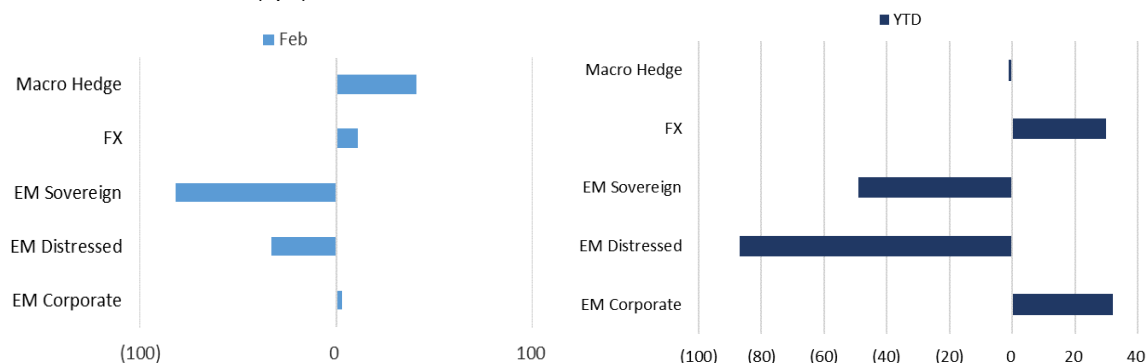
Position	Long/Short	Strategy	Region	Performance
S&P Index Futures	Short	Macro Hedge	US	+25
Province of Buenos Aires	Long	EM Distressed	LatAm	+25
EM Equity ETF	Long	Macro Hedge	Global	+22
Turkey 5yr CDS	Long	EM Sovereign	Europe	+16
Republic of Sudan	Long	EM Distressed	Middle East & Africa	+12

#### Largest Detractors (bps)

Position	Long/Short	Strategy	Region	Performance
Ecuador Sovereign Credit	Long	EM Sovereign	LatAm	-64
Argentina Sovereign Credit	Long	EM Distressed	LatAm	-35
Lebanon Sovereign Credit	Long	EM Distressed	Middle East & Africa	-35
EM Local bond ETF	Long	EM Sovereign	Global	-31
Indonesia Local Sovereign	Long	EM Sovereign	Asia	-19

## Performance Attribution by Strategy

Gross Performance Attribution (bps)



## Performance History (Net Return)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	-0.95%	-0.82%											-1.76%
2019	2.74%	1.26%	-0.89%	-0.06%	0.00%	1.17%	0.86%	-5.74%	1.14%	-0.93%	-0.37%	3.27%	2.18%
2018	1.85%	-0.22%	0.04%	-0.15%	-1.50%	-1.93%	-0.56%	-1.96%	0.67%	0.47%	-2.31%	-0.12%	-5.65%
2017	1.53%	0.72%	1.88%	1.61%	-1.22%	0.10%	0.88%	1.24%	1.15%	1.00%	-0.05%	1.41%	10.70%
2016	10.44%	0.17%	2.22%	5.03%	1.13%	19.17%	2.09%	1.30%	0.66%	0.76%	-0.27%	1.70%	52.30%

## Liquidation Profile (% AUM) <sup>8</sup>



■ >1 month ■ <1 week ■ Cash

## Contact Information

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## Comparatives

	MTD	YTD
The Argo Fund	-0.82%	-1.76%
JPM EMBI+	-0.82%	1.40%
JPM CEMBI	-0.01%	1.53%
JPM EMFX	-2.59%	-5.14%
Barclays EM USD Aggregate	-0.20%	1.34%
HFRI EM Total	-2.44%	-3.01%

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