

The Argo Fund / The Argo Feeder Fund Limited

XS2 - Distressed Debt Share Class

Monthly Letter & Risk Report

May 2021

Performance	
NAV Per Share	1,032.05
May Return	0.89%
Return Since Inception	3.20%
Sharpe Ratio Since Inception	-
Fund Characteristics	
Structure	Master-Feeder
Jurisdiction	Cayman Islands
Launch Date	2000
AUM (all share classes)	\$137m
Share Class	Class X Series 2
ISIN	KYG0540S1241
Subscription	Monthly
Redemption	Monthly
Redemption Notice	90 days
Minimum Investment	\$100,000 (or €/£ equivalent)
Management Fee	0.75%
Performance Fee	20%

Investment Strategy

The Argo Fund is a diversified global emerging markets debt and macro fund with a master-feeder structure and the ability to create segregated share classes.

In February 2021, Argo created the Class X Series 2 share class, which seeks to replicate the liquid distressed debt strategy employed within the main, Class A, long/ short, multi-strategy portfolio.

The Class X Series 2 share class invests into actively traded stressed, distressed and restructured EM corporate and sovereign public bonds aiming for a long bias with higher volatility and an emphasis towards capital gains as opposed to carry.

Monthly Commentary

The best performer for the month was Ocyan, a Brazilian deep-sea driller, followed by Zambian sovereign debt. Huarong International, the state-owned Chinese non-performing debt platform, detracted.

The portfolio is characterised by a balance of stressed, distressed, and restructured bonds, with some bonds having nearer-term anticipated catalysts. This portfolio of idiosyncratic, event-driven situations is therefore expected to have reduced correlations with broad benchmark assets such as the S&P500 index or the US 10-yr Treasury bond.

Ocyan's January 2026 bonds traded higher from 41c to 45c, contributing 50bps. At the end of March, Petrobras announced that Ocyan had tendered the lowest priced bid for a new charter for advanced offshore drill ships and that it would commence contract negotiations.

The restructured bonds are collateralized by two of Ocyan's drill ships, which have both been under charter to Petrobras. They do not require mobilization and their staff are already familiar with Petrobras's geology. Argo anticipates that Ocyan will be able to renew the Petrobras lease on the second ship later this year.

Argo holds the second tranche of Ocyan's restructured debt. The senior tranche is due to be repaid this year and Argo targets a par recovery on the second tranche, pending the second ship's charter being renewed. The company does indirectly benefit from higher oil prices and we expect drill ship day rates to firm up over time.

Zambian bonds traded up over the month from 61c to 66c, adding 50bps. The market awaits the August Presidential and National Assembly elections. President Lungu is expected to win a tightly contested re-election. A prompt restructuring is anticipated afterwards regardless of the winner. The country is a copper exporter that ran up debts on infrastructure projects over several years before defaulting in November. Since then, copper prices have surged to all-time highs and recovery estimates on the bonds have been edging higher. The country continues a dialogue with the IMF and a deal anchoring fiscal sustainability is anticipated post-restructuring. Argo see further upside in the position.

Huarong International senior bonds fell from 73.9c to 66.3c in May, detracting 42bps. Delays to their accounts and question marks over profitability have become focal points for the market. Various news headlines over the month drove volatility in the bonds. The company has affirmed to the market that they can and will continue to service the bonds and during May honoured a \$900m offshore repayment.

The Huarong Group is majority owned by the Ministry of Finance. The offshore issuing entity, Huarong International, has extensive balance sheet exposure to mainland Huarong entities, plus a parental 'keepwell agreement'. Huarong is a systemically important financial group in China. Huarong International's Hong Kong balance sheet is HK\$185bn (USD24bn) including \$18bn USD bonds, which represent less than 10% of the overall group balance sheet. While a bond reprofiling is possible, it may be hard to effect in practice and therefore Argo anticipates a significant recovery on the bonds.

Elsewhere in the portfolio we saw small losses on several positions as they drifted lower in absence of news flow, conversely small gains were made in Argentina, +15bps and Sri Lanka, +12bps, as the bonds traded moderately higher.

We have added to existing positions during June and continue to look to add to current or new positions on price weakness.

Month End Risk Exposures¹

Top 5 Country Holdings

Country	Region	%
Argentina	LatAm	15.05%
Indonesia	Asia	11.54%
Zambia	Africa	9.85%
Brazil	LatAm	7.91%
Ghana	Middle East & Africa	6.48%

Top 5 Holdings by Name

Position	Strategy	%
Zambia Sovereign	EM Distressed	9.85%
Province of Buenos Aires	EM Distressed	9.50%
Ocyan	EM Restructured	7.91%
Tullow	EM Stressed	6.48%
Argentina Sovereign	EM Restructured	5.55%

Performance Attribution¹

Largest Movers (bps)

Position	Strategy	Region	Performance
Ocyan	EM Restructured	LatAm	+50
Zambia Sovereign	EM Distressed	Middle East & Africa	+50
Huarong International	EM Stressed	Asia	-42
Argentina Sovereign	EM Restructured	LatAm	+15

Performance Attribution by Strategy (bps)¹

Strategy	YTD
EM Stressed	122
EM Distressed	198
EM Restructured	-4

Benchmarks	YTD
ICE BoA Distressed EM Corp Plus TR Index	-0.16%
Eurekahedge EM Distressed Debt HF Index	-1.43%

Liquidation Profile (% AUM)¹



■ <1 month ■ <1 week

Performance History (Net Return)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021		-0.19%	0.60%	1.88%	0.89%								3.20%

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