

The Argo Fund / The Argo Feeder Fund Limited

XS2 - Distressed Debt Share Class

Monthly Letter & Risk Report

December 2021

Performance	
NAV Per Share	1,118.57
Monthly Return	-0.69%
Return Since Inception	11.86%
Sharpe Ratio Since Inception	-
Fund Characteristics	
Structure	Master-Feeder
Jurisdiction	Cayman Islands
Launch Date	2000
AUM (all share classes)	\$129m
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 portfolio traded 69bps lower in December as corporates dropped 123bps and sovereigns gained 54bps. Stressed debt lost 24bps and Distressed a further 177bps, while Restructured added 132bps.

The basket of Chinese real estate names saw renewed liquidations as investors fretted about a liquidity crunch spreading. A short in Shimao, which had been entered in the high 90s, added 27bps and was closed. However, longs in select names in the 10-25c price range were sold down further.

Our central scenario is a 'balance sheet run-off' deleveraging for 'red-line breaching' issuers as projects are delivered and the real estate market tails off and becomes more affordable in line with CCP policy. We expect the government to calibrate policy to avoid contagion as much as possible while including the element of loss in what they perceive to be a market-oriented outcome with Chinese characteristics, meaning essentially foreign creditors are at the back of the queue. With this in mind, we feel that the very low dollar prices factor in a much greater collapse of the real estate market than China is prepared to tolerate.

Sri Lankan bonds fell, with the 2027 bond trading towards 50c, detracting 50bps. A fall in remittances in recent months vs an FX peg that is viewed as non-credible and a stubbornly high goods trade deficit, led to a fall in reserves into year-end. The government assured markets that it will prioritize USD debt repayment. The government subsequently drew on a \$1.5bn swap with the Chinese central bank, indicated that further bilateral financing deals were imminent and have since paid the January bond maturity. Tourism started to recover in December. The two-year hiatus cost the country around 10% of GDP in lost USD earnings. It is a key recovery and growth sector. The government has been working through piecemeal strategic initiatives, yet disappoints the market with little fiscal deficit consolidation. The resulting double deficit combined with two years of tourism loss caused the country's balance of payments crisis. We see the USD debt service as achievable, if prioritized against a high political hurdle to go to the IMF. Even in the event of an IMF deal, we would anticipate a higher NPV recovery in a debt reprofiling than current bond prices.

Argentina and Buenos Aires bond prices improved, adding 125bps. The country continues to negotiate a renewed IMF deal, which would leave them with minimal USD debt service prior to the November 2023 elections. Soya beans, a key export, have seen renewed price rises. We think a moderate improvement in sentiment should help the economy start to stabilise and improve, while the IMF deal will limit scope for new populist spending or administrative measures which can hurt business sentiment, such as price controls. The bonds yield in the low 20s - we think an improvement in news flow will leave them looking exceptionally attractive.

The portfolio's performance for 2021 was split between the names that saw improvement, some of which are now near to price target, vs almost half the portfolio which is at or near the lows, as new positions were added, and Corona related disruptions continued for some existing positions.

Issuers with over leveraged balance sheets and ongoing cash flow shortfalls remain at risk of stress. We expect further sovereign and corporate defaults in 2022.

Month End Risk Exposures¹

Top 5 Country Holdings

Country	Region	%
Argentina	LatAm	13.68%
Mexico	LatAm	11.89%
Indonesia	Asia	11.73%
China	Asia	10.20%
Zambia	Africa	9.97%

Top 5 Holdings by Name

Position	Strategy	%
TV Azteca	Distressed	11.89%
Zambia Sovereign	Distressed	9.97%
Province of Buenos Aires	Restructured	9.16%
Ocyan	Restructured	8.61%
Sri Lanka Sovereign	Stressed	6.52%

Monthly Performance Attribution¹

Largest Movers (bps)

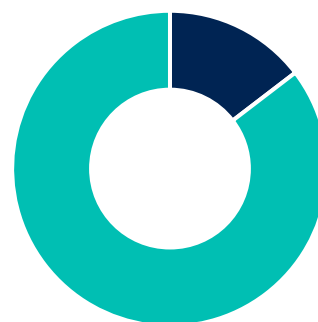
Position	Strategy	Region	Performance
Province of Buenos Aires	Sovereign Restructured	LatAm	+82
Evergrande	Corporate Distressed	Asia	-75
Sri Lanka Sovereign	Sovereign Stressed	Asia	-50
Argentina Sovereign	Sovereign Restructured	LatAm	+44

YTD Performance Attribution by Strategy (bps)¹

Strategy	YTD
EM Stressed	241
EM Distressed	711
EM Restructured	195

Benchmarks	YTD
ICE BoA EM Corp Plus TR Index	-0.81%

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%	2.41%	0.39%	6.07%	0.81%	1.94%	-2.62%	-0.69%	11.86%

Contact Information

Argo Capital Management
2nd Floor, 24-25 New Bond Street
London, W1S 2RR

ArgoInvestorRelations@argocm.com

www.argocm.com

Tel: 0207 016 7660

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