

# The Argo Fund / The Argo Feeder Fund Limited

## Emerging Markets Debt & Macro

### Monthly Letter & Risk Report

June 2022

Performance	
NAV Per Share	309.03
June Return	-8.77%
YTD Return	-14.25%
Annualised Return Since Inception	6.07%
Annualised Volatility (Trailing 12-month)	12.60%
Sharpe Ratio (Trailing 12-month)	-1.04
Percentage of up months	67.05%
Fund Characteristics	
Structure	Master-Feeder
Jurisdiction	Cayman Islands
Launch Date	2000
AUM (all share classes)	\$114m
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%
Designated Investments	
Jurisdiction	Cayman Islands
Launch Date	December 2019
Return since inception	82.59%
ISIN	KYG0540S1167
Share Class	DI 1
Fixed investment period	36 months
Redemption	Upon realisation
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

EM assets endured another difficult month in June as the risk-off environment persisted. While most of our long positions suffered, particularly in the high-beta segment, there was some mitigation provided by our short book: our S&P put options were the fund's top performer, along with long duration US Treasury shorts.

We took profit on our position in Ghana-focused E&P company Tullow Oil after the company announced a merger with Capricorn Energy. The deal - if consummated - will shore up the new company's cash position, thus substantially reducing net leverage.

Argentina external credit suffered another dismal month of performance. The market focus has shifted towards Argentina's macroeconomic imbalances and its efforts to further water down the modest provisions of the IMF EFF programme. The agreement allows Argentina to defer repayment of IMF debt until 2026 and will save Argentina close to USD40bn of payments to the IMF in the next 2 years. As a result, the external debt structure looks manageable over the medium term. In June, the IMF announced it had reached agreement on the first review of the new programme and all quantitative targets had been met and that progress is underway on the structural reform agenda. However, CPI inflation has risen to 58% YoY in April, well above the inflation corridor in the programme, while the central bank has raised its policy rate by 1,100bps as it looks to deliver positive real policy rates. Additionally, Argentina has struggled to accumulate reserves even amid high commodity prices during its export season.

Ecuador sovereign bonds sold off this month as indigenous groups held a long protest against high food and fuel prices. CONAIE, the indigenous rights group, organised violent protests which paralysed Quito and other regions with the government standing firm against their demands. Eventually the protestors accepted the government's offer of a smaller petrol price cut than was initially sought. Whilst fundamentals have been improving in Ecuador, mostly owing to the high oil price environment, investors have been spooked by repeated challenges to Lasso's authority, even though he survived an impeachment vote towards the end of the month.

Ukraine sovereign credit dropped once again this month as Russia has concentrated on consolidating its position in Eastern Ukraine. As the conflict continues to drag on with no end in sight, market participants began to price in a restructuring scenario with the looming September bond maturity in their minds. We retain our holding in the GDP warrants as we believe recovery values will be higher than the current price.

Elsewhere in the distressed book, we saw weaker prices in Mexican broadcaster TV Azteca. The company continues to delay the restructuring process through non-participation and some smaller scraps of the bond have traded at lower prices in the risk-off environment. We believe the company is opportunistically buying back bonds at a significant discount and will eventually engage with bondholders.

### Portfolio Statistics

Duration	2.11
99% 1-month VaR	8.50%
Average Credit Rating <sup>1</sup>	CCC
Average Yield to Maturity	12.07%
Annualised Downside Risk (1-Year)	10.10%
Monthly Turnover <sup>2</sup>	95.18%
Cash	17.10%
Leverage:	
Gross Exposure Method	108.57%
Commitment Method	56.36%

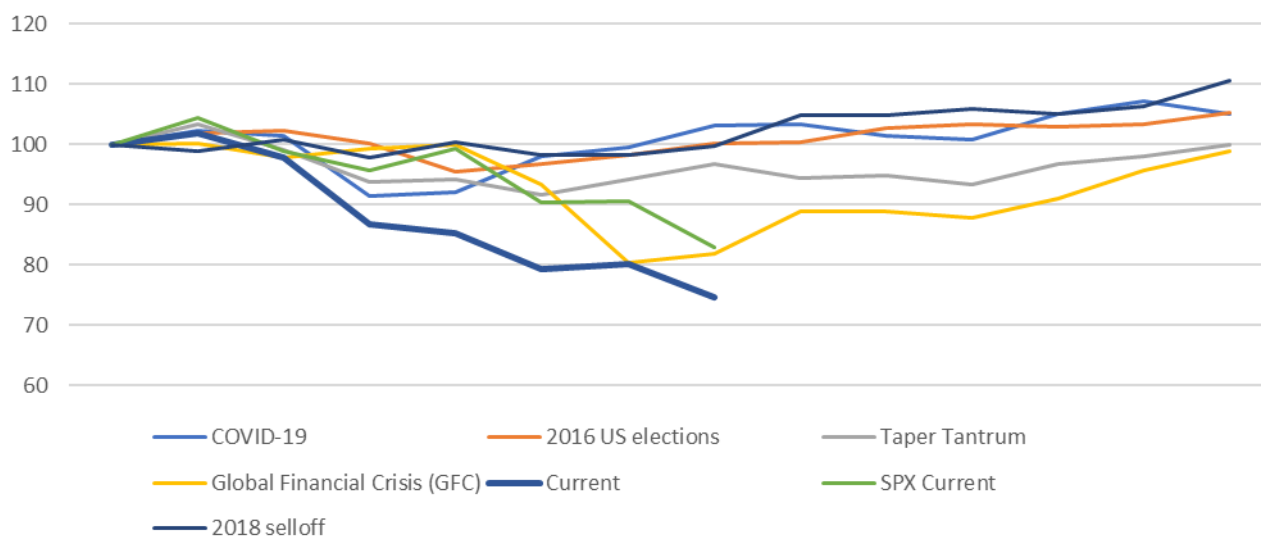
### Notes:

1. Includes long and short positions & excludes cash
2. % AUM
3. Excludes de minimis exposure in FX
4. Monte Carlo VaR from Bloomberg and internal estimates
5. As % of NAV
6. Gross performance in bps of average AUM of the period
7. Assuming normal market conditions

All figures as of 30<sup>th</sup> June 2022

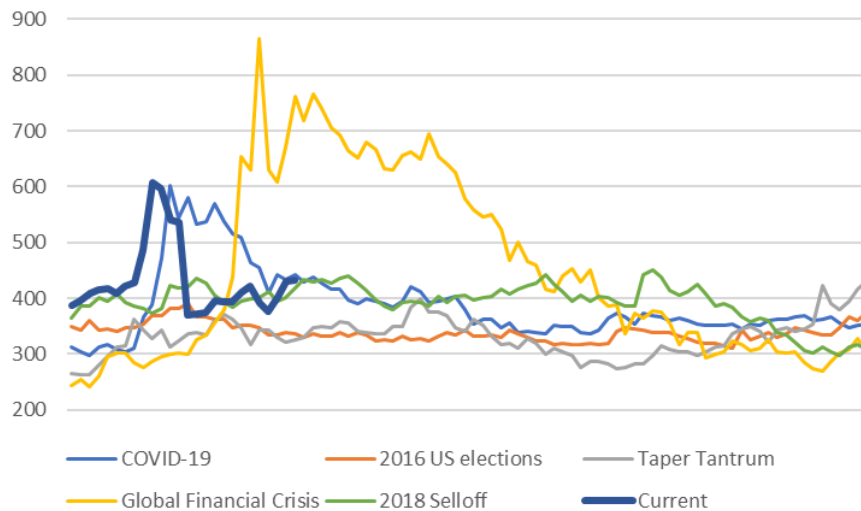
## EM market stress events

Taking stock of the current risk-off environment in EM, we have had a look at EMBI+ performance in previous extreme sell-offs. In terms of magnitude, only the GFC is comparable to the current levels. However, at that time, central banks and governments committed to a coordinated policy response, which quickly provided relief to emerging markets.



Source: Bloomberg

When looking at EMBI spread levels, the move is similar to the pandemic (although impacted by Russia's removal from the index in early March). It is interesting to note the divergence between IG and HY credit spreads currently, as IG – dominated by commodity-exporting GCC nations – continues to trade extremely tight. On the other hand, HY has been battered by refinancing risks in the higher rate environment and a number of idiosyncratic distressed names. The GFC saw a more indiscriminate spread widening and, as the graph below shows, took far longer to recover to normal levels than during the pandemic. However, as discussed earlier the post pandemic environment creates headwinds for emerging markets particularly for the HY component as sovereigns find themselves with no market access and a need to reduce deficits created during the pandemic. Nevertheless, this time round most countries have flexible exchange rates and are more willing to accept IMF policy recommendations as it is the only source of liquidity.



Source: Bloomberg

It is rare for credit spreads and rates to move in tandem and sudden declines in EM debt have historically been brief and as shown above, the recovery has been rapid. We believe pockets of the market are oversold at these levels and issuer differentiation will be key to capturing upside as the market recovers.

## Month End Risk Exposures

### NAV sensitivity for -100bps shift in the yield curve

#### Strategy <sup>3</sup>

EM Corporate	EM Distressed	Macro Hedge	EM Sovereign	Total
0.50	1.87	-0.22	-0.04	2.11

#### Region

Middle East & Africa	Asia	Europe	LatAm	US	Total
1.00	0.10	0.05	1.40	-0.44	2.11

### 99% 1 Month Component VaR <sup>4</sup> (%)

#### By Strategy

EM Corporate	EM Distressed	FX	Macro Hedge	EM Sovereign	Total
0.49	8.51	-0.11	-0.43	0.04	8.50

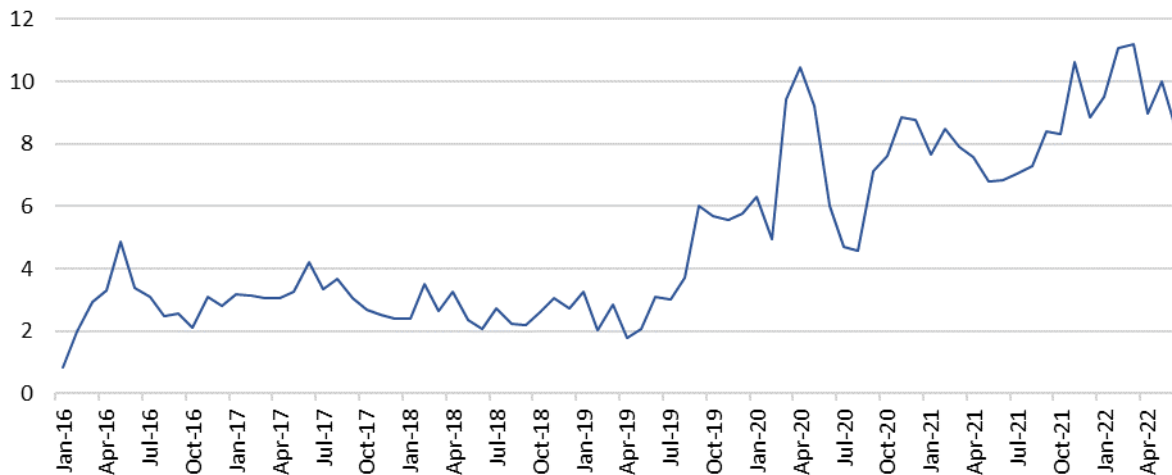
#### By Region

Middle East & Africa	Asia	Europe	LatAm	US	Total
2.55	1.08	0.84	4.66	-0.63	8.50

#### By Maturity

0-1yr	1-3yr	3-5yr	5-7yr	7-10yr	10+yr	Total
-0.29	1.10	1.98	0.44	2.39	2.88	8.50

### Monte Carlo 99% 1 Month VaR (%)



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

Country	Region	%
Argentina	LatAm	16.36%
Mexico	LatAm	8.54%
Brazil	LatAm	8.44%
South Africa	Middle East & Africa	4.32%
Ghana	Middle East & Africa	3.91%

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

Position	Strategy	%
Ocyan	EM Distressed	8.44%
Argentina Sovereign	EM Distressed	8.20%
Province of Buenos Aires	EM Distressed	8.16%
EMB Equity ETF	EM Sovereign	-6.82%
Eskom	EM Corporate	4.67%

### Performance Attribution <sup>6</sup>

#### Largest Contributors (bps)

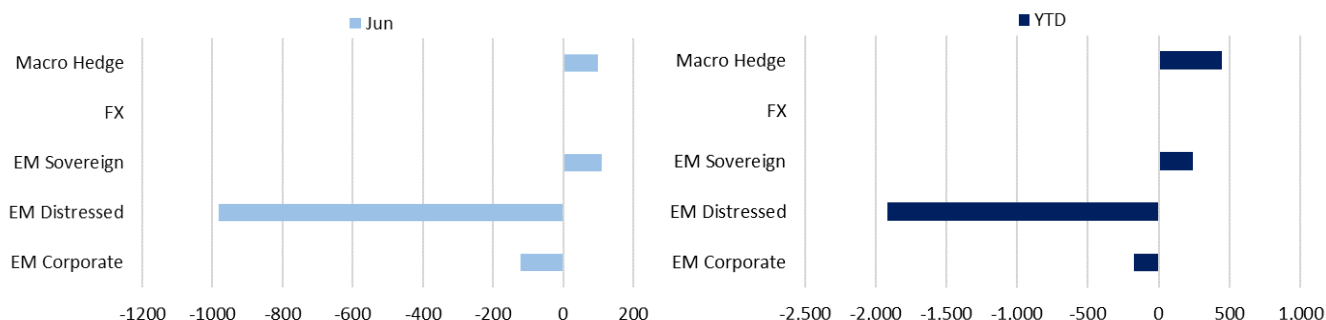
Position	Long/Short	Strategy	Region	Performance
UST Bond Futures	Short	Macro Hedge	US	+63
S&P Put Option	Short	Macro Hedge	US	+54
EMB ETF	Short	EM Sovereign	US	+43
CDX:EM	Short	EM Sovereign	US	+39
Tullow Oil	Long	EM Distressed	Middle East & Africa	+17

#### Largest Detractors (bps)

Position	Long/Short	Strategy	Region	Performance
Province of Buenos Aires	Long	EM Distressed	LatAm	-201
Argentina Sovereign	Long	EM Distressed	LatAm	-176
Lebanon Sovereign	Long	EM Distressed	Middle East & Africa	-129
Ukraine Sovereign	Long	EM Distressed	Europe	-122
TV Azteca	Long	EM Distressed	LatAm	-100

## Performance Attribution by Strategy

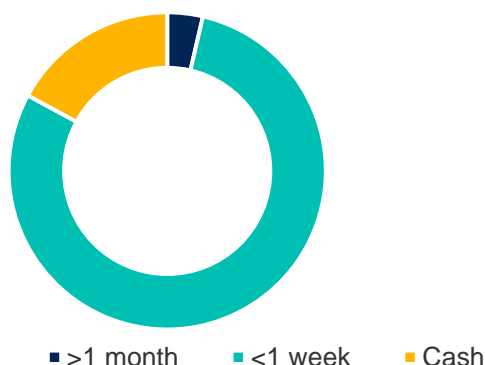
Gross Performance Attribution (bps)



## Performance History (Net Return)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2022</b>	0.36%	-5.70%	3.25%	0.14%	-3.95%	-8.77%							-14.25%
<b>2021</b>	-1.33%	-0.18%	-0.09%	3.95%	1.80%	0.14%	0.22%	2.98%	0.29%	0.32%	-3.65%	0.91%	5.29%
<b>2020</b>	-0.95%	-0.80%	-6.00%	1.70%	6.79%	4.24%	-0.33%	0.92%	-2.67%	-1.95%	2.50%	2.58%	5.53%
<b>2019</b>	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%
<b>2018</b>	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%
<b>2017</b>	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%
<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%	1.70%	52.30%

## Liquidation Profile (% AUM) <sup>7</sup>



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## Comparatives

	MTD	YTD
The Argo Fund	-8.77%	-14.25%
JPM EMBI+	-6.91%	-26.65%
JPM CEMBI	-3.06%	-13.94%
JPM EMFX	-2.16%	-1.75%
Barclays EM USD Aggregate	-4.57%	-17.14%
HFRI EM Total	-4.90%	-14.22%

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