

# The Argo Fund / The Argo Feeder Fund Limited

## Emerging Markets Debt & Macro

### Monthly Letter & Risk Report

September 2020

Performance	
NAV Per Share	332.03
September Return	-2.67%
YTD Return	2.36%
Annualised Return Since Inception	6.94%
Annualised Volatility Since Inception	11.55%
Sharpe Ratio Since Inception	0.49
Percentage of up months	67.50%
Fund Characteristics	
Structure	Master-Feeder
Jurisdiction	Cayman Islands
Launch Date	2000
AUM (all share classes)	\$110m
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

The government of Argentina secured a restructuring on USD65bn of foreign debt with near-unanimous approval in August. One month later, the new bonds have slumped in value after starting trading, despite debt relief of USD38bn over the next decade and no sizeable repayments for four years. Investors have become increasingly rattled by the

government's management of the economy. Earlier in the month, capital controls were tightened to protect its dwindling stock of FX reserves. We remain hopeful for increased transparency over the government's plans for the economy ahead of the IMF visit in October. Additionally, Province of Buenos Aires bonds traded in line with the sovereign and we continue to wait for a restructuring to be finally concluded. We decided to maintain our position since the post restructuring yields make for one of the most compelling risk rewards in emerging market debt. However, the technical position in Argentina is quite difficult because there are a few very large holders "trapped" and the price gets marked down when they try to sell.

Sri Lanka was downgraded from B2 to Caa1 by Moody's at the end of the month, owing to the economic shock from the pandemic. The fallout could significantly weaken Sri Lanka's already fragile funding and external positions and market refinancing will be vulnerable to shifts in investor sentiment. The market is closed for further issuance, but authorities are very confident they can continue servicing their bonds as they access further Chinese funding.

We exited our position in Tullow Oil after the company reported a USD 1.3bn loss in their 1H20 results after it was forced to write down USD 1.4bn of assets due to the oil price outlook. Additionally, we were concerned with the lack of progress over the USD 575mn sale of Ugandan assets to Total, which the company needs given tightening liquidity. We also took profit in our Angolan sovereign bond position to reduce beta after strong performance since the initial entry point.

We added a position in Kazakh oil and gas producer Nostrum Oil at deeply distressed levels. Nostrum's production assets have declined in recent years, but the company has constructed a gas processing plant which they are hoping to supply with third-party input. We believe downside risks are limited at current levels and await a restructuring offer from the company.

In the short book, our EM sovereign positions performed as the market softened following months of outperformance. Additionally, we added CDX: HY and S&P put options to hedge against market weakness ahead of the upcoming presidential elections. We also initiated a short Brazilian equity ETF position, believing the market to be overvalued given the recent outperformance and lingering economic issues.

The Sudan loan position was marked up following Secretary Pompeo's visit to Khartoum and promises to normalize relations. We are negotiating the sale of our position to a large US fund at a much higher price and, in this regard, it is warranted to raise the valuation.

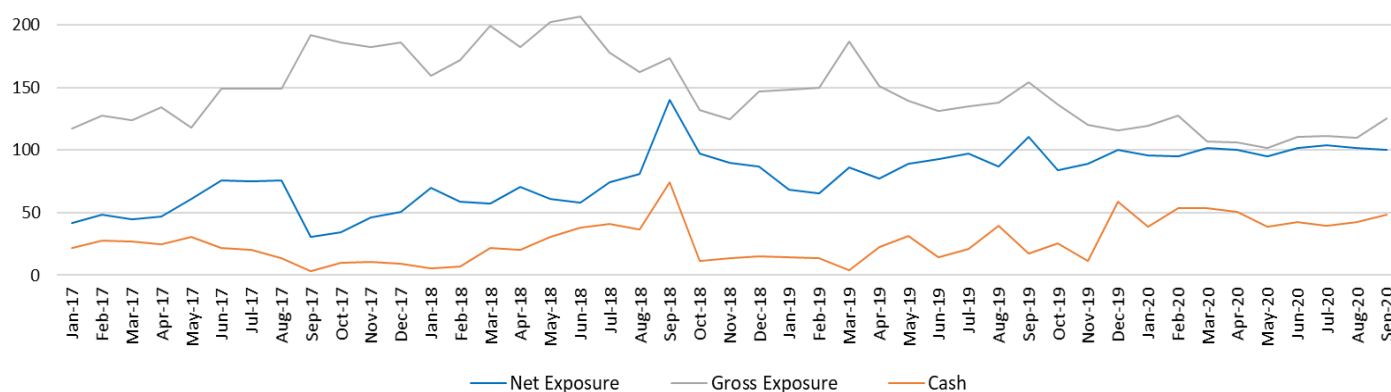
Portfolio Statistics	
Duration	0.80
99% 1-month VaR	7.14%
Average Credit Rating <sup>1</sup>	CCC-
Average Yield to Maturity	3.71%
Annualised Downside Risk (1 Year)	7.86%
Monthly Turnover <sup>2</sup>	43.85%
Cash	48.26%
Leverage:	
Gross Exposure Method	69.08%
Commitment Method	56.05%

#### Notes:

1. Includes long and short positions & excludes cash
2. % AUM
3. Excludes de minimis exposure in FX
4. Monte Carlo VaR as calculated by Bloomberg Risk Analytic and where not available calculated by Argo based on historic 3-month data.
- 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> September 2020

## Fund Exposure (%)



## 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
0.29	0.81	-0.28	-0.02	0.80

### Region

Middle East & Africa	Asia	Europe	LatAm	US	Total
-0.08	-0.41	0.23	1.34	-0.28	0.80

## 99% 1 Month Component VaR (%)

### By Strategy

EM Corporate	EM Distressed	FX	Macro Hedge	EM Sovereign	Total
1.21	4.74	0.00	-0.43	1.62	7.14

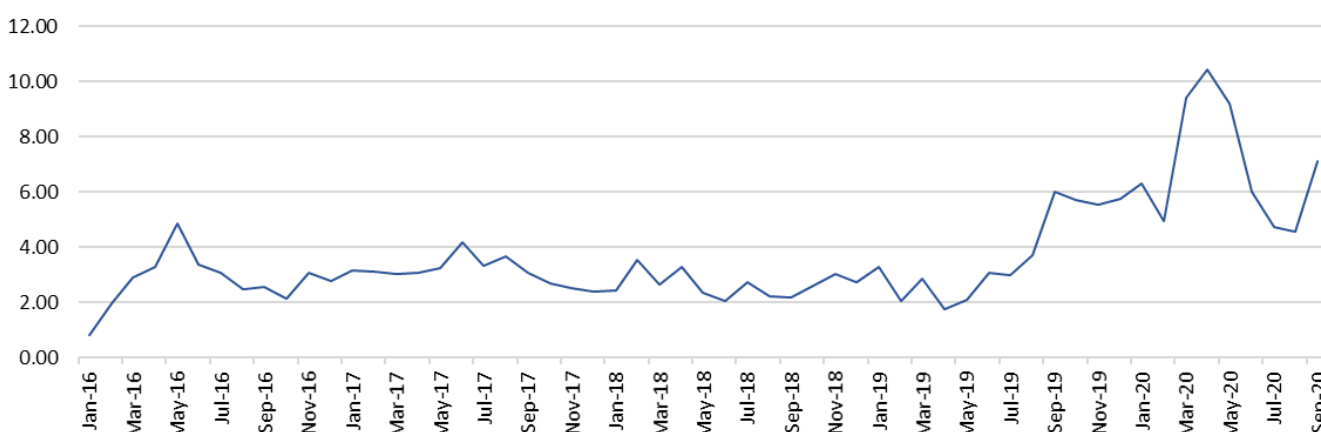
### By Region

Middle East & Africa	Asia	Europe	LatAm	US	Total
0.59	-0.05	0.80	6.05	-0.25	7.14

### By Maturity

0-1yr	1-3yr	3-5yr	5-7yr	7-10yr	10+yr	Total
-0.49	0.24	0.20	0.49	3.08	3.62	7.14

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



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

Country	Region	%
Argentina	LatAm	17.53%
Sudan	Middle East & Africa	5.84%
Lebanon	Middle East & Africa	4.73%
Ukraine	Europe	4.14%
East African Sovereign	Middle East & Africa	-4.10%

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

Position	Strategy	%
Argentina Sovereign	LatAm	10.74%
Province of Buenos Aires	LatAm	6.73%
Sudan	Middle East & Africa	5.84%
Lebanon Sovereign	Middle East & Africa	4.73%
East African Sovereign	Middle East & Africa	-4.10%

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

#### Largest Contributors (bps)

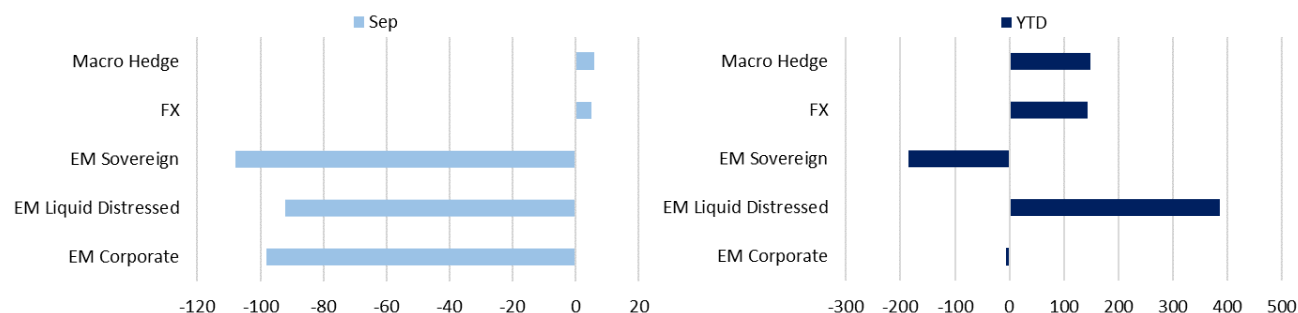
Position	Long/Short	Strategy	Region	Performance
Sudan	Long	EM Distressed	Middle East & Africa	+164
East African Sovereign	Short	EM Sovereign	Middle East & Africa	+15
Brazil Equity ETF	Short	Macro Hedge	LatAm	+12
Pakistan Sovereign	Short	EM Sovereign	Asia	+10
Turkey Sovereign	Long	EM Sovereign	Asia	+7

#### Largest Detractors (bps)

Position	Long/Short	Strategy	Region	Performance
Argentina Sovereign	Long	EM Distressed	LatAm	-136
Province of Buenos Aires	Long	EM Distressed	LatAm	-116
Ecuador Sovereign	Long	EM Sovereign	LatAm	-55
Sri Lanka Sovereign	Long	EM Sovereign	Asia	-34
Tullow Oil	Long	EM Corporate	Middle East & Africa	-34

## Performance Attribution by Strategy

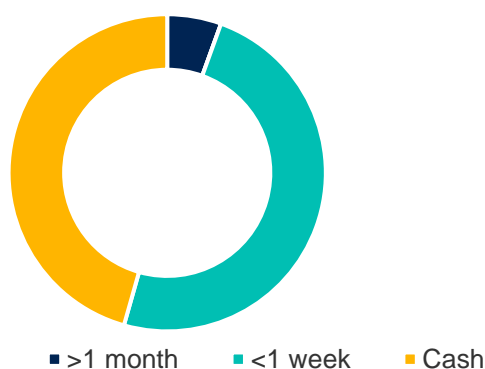
Gross Performance Attribution (bps)



## Performance History (Net Return)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	-0.95%	-0.80%	-6.00%	1.70%	6.79%	4.24%	-0.33%	0.92%	-2.67%				2.36%
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>7</sup>



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## Comparatives

	MTD	YTD
The Argo Fund	-2.67%	2.36%
JPM EMBI+	-1.95%	1.34%
JPM CEMBI	-0.48%	2.58%
JPM EMFX	-1.68%	-11.23%
Barclays EM USD Aggregate	-1.26%	1.93%
HFRI EM Total	-1.41%	1.15%

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