Argo Distressed Credit Fund

Argo Capital Management Limited
Authorised and Regulated by the Financial Services Authority.

5th Floor, 80 New Bond Street, W1S 1SB, UK
info@argofunds.com, T: +44 207 535 4000, F: +44 207 493 5691

May 2012

Introduction to Argo

- Argo Group Limited is an alternative investment management group offering a multi-strategy investment platform in emerging markets ("EM"). Its shares are quoted on AIM and the principal operating subsidiaries are in Cyprus and London, supplemented by offices in Argentina, Singapore and Eastern Europe. These companies are individually or collectively referred to as "Argo".
- Argo is a fundamental value investor that aims to deliver low volatility, double-digit absolute returns by utilising an array of different strategies including fixed income relative value, special situations, local currencies and rates, private equity, real estate, high yield corporate credit and distressed debt.
- Argo's extensive investment team is led by founder and CIO, Andreas Rialas.
- Argo manages four funds and has one of the longest investment track records in its peer group (since 2000).
- The Argo Distressed Credit Fund ("ADCF") was launched in late 2008 at a time of major price dislocations in EM credit markets. It takes directional positions in stressed and distressed credit opportunities using bottom-up, fundamental analysis.

The Case for EM

More resilient to economic downturn:

- Unlike in previous decades, the present economic crisis stems from sovereign debt and banking system concerns in the developed world
- Many EM countries are better placed to weather the crisis with better entrenched fiscal discipline, flexible currencies and relatively comfortable balance of payment positions.

EM more likely to be key in any recovery in global financial markets:

- Their stronger economic fundamentals and less leveraged position will stand them in good stead to rebound faster from the current economic downturn - GDP growth is projected to be higher in EM than in developed economies.
- The perception of EM companies has improved with stronger balance sheets, better access to capital markets and increased transparency.
- Less dependence on developed economies with exports to other emerging economies growing. EM countries contribute an increasing share of global growth according to the IMF.

Stronger local growth drivers than their developed counterparts:

- A growing middle class, increased consumer spending and a large savings pool are features of many EM countries.
- EM governments have the scope to facilitate domestic demand through fiscal stimulus packages.
- A growing base of local institutional investors provide domestic liquidity.

EM Offers Long-Term Diversification Benefits

- **Greater product range**: The EM asset class has benefited from an expanding universe of investment products, ranging from equities, sovereign and corporate external debt to distressed debt, local currency and interest rate products. This has offered investors significant potential to add yield and diversification to their portfolios.

- **Deeper capital markets:** Across emerging economies, investors can now pursue more sophisticated strategies, e.g. long/short strategies , relative value opportunities.

- **Less crowded**: Potential for higher risk adjusted returns in the less crowded EM space.

- **Better risk/reward benefits**: Regardless of relative risk measures, emerging economies are still perceived as higher risk. This has given rise to a greater risk adjusted returns in EM , especially in stressed/distressed investment opportunities.

- **Correlation**: Lower correlation to global markets for certain emerging market economies.

Stressed vs. Distressed Opportunities

Common issues that cause a company to become distressed/stressed include, liquidity restraints, excessive leverage, poor trading performance, credit downgrades, breach of covenants, and ownership issues.

Some of these are reversible issues and will determine if a company is stressed or distressed.

Stressed EM Securities

Dislocation in the markets arising from the global withdrawal of liquidity/investors going "off risk" may lead to EM bonds (corporate and sovereigns) trading at levels that do not reflect their fundamentals.

i)Good quality senior unsecured bonds are trading at attractive yield-to-maturities.

ii)Short-to-medium duration bonds.

iii)Opportunities in defensive sectors like telecommunications, which have strong cash flows and less pressing capital expenditure.

iv)Steel and energy companies, which although typically cyclical in nature, may benefit from lower cost of inputs.

v)Issuer exhibits willingness to repay the debt.

Distressed EM Securities

Distressed investing is a bottom-up strategy where returns depend less on the overall credit market cycle than on company or sector-specific factors. Distressed assets include bonds:

i) That have defaulted.

ii) Are at risk of non-payment through lack of refinancing alternatives.

iii) Breach of financial and/or other covenants.

iv) May be trading flat or with accrued

v) The market price of debt already reflects lower enterprise value or reduced cash flow generation .

ARGO

Active / Passive Strategies

Active investing with control	* Active investing with non-control	* Passive investing
May require partners to block or control. Take control of company through debt/equity swap. Restructure. Equity injection. Exit 2-3 years.	Senior secured or senior unsecured bonds. Active participation in restructuring process. Exit via debt or equity markets (post restructuring). Generally do not exert control. Holding period of 1-2 years.	Undervalued securities trading at distressed levels. Trading driven: Trading/buy-and-hold/senior or senior secured/long-short/relative value. Holding period of 3 months to 1 year is typical.

* Argo generally participates in distressed opportunities via an active non-control and passive investment strategy.

Credit Selection Process

Entry price

Willingness to repay debt

Good track record in company management

Strong financial metrics:
i) Transparent and steady cash flow
ii) Low debt/EBITDA
iii) Strong and prudent balance sheet

Supportive shareholders

Significant market share

i) Establishing where the primary assets are held and studying the ownership structure.

ii) Analysis of corporate documentation.

iii) Understanding the owner's agenda.

iv) Exit strategy and the ability to implement it.

v) Competitor analysis.

vi) Sector analysis.

vii) Corporate structure.

viii) Liquidity.

ix) Local legal framework, exploring the ability to exert rights.

Run Credit Model

Run Sovereign Model

INVEST

Argo's Sovereign & Credit Risk Models

Sovereign Risk Model

i) We adopt a research-driven approach to evaluating sovereign default risk.

ii) Driven by fundamental analysis of macro variables such as balance of payments, fiscal positions, foreign direct investment and other macro factors.

iii) The model is carved out into inter (Risk Rating) and intra (Cyclical History) analysis for comparisons between countries and within a country.

iv) Covers the majority of emerging economies.

v) It gives us the ability to spot trends ahead of the market, i.e. not reliant on moving averages and other typical analysis concepts.

vi) Allows us to monitor shifting risk indicators and identify early warning signs, e.g. risk indicators are shifting negatively towards Eastern Europe.

vii) Argo also runs other models in parallel with its Sovereign Risk Model to uncover discrepancies in the market, e.g. a country's susceptibility to a rating upgrade/downgrade.

Credit Score Model

i) We use a proprietary microeconomic model to establish the credit worthiness of a company.

ii) The model compares an asset's pricing and risk relative to the existing portfolio by taking into account a number of variables, including:

- i) The issuer
- ii) Industry
- iii) Country & region
- iv) FX exposure
- v) Liquidity
- vi) The weighting of the asset

iii) Enables comparison within sectors and/or countries.

iv) Consistency check with external ratings agencies.

Distressed Investing: Argo's Skill Set

Large network	Argo has offices in Nicosia, London, Singapore and Buenos Aires. We also rely on an extensive network of local banks, funds, company owners and brokers.
Legal background	Argo's CIO, Andreas Rialas, trained as an English barrister specialising in banking law. We also have in-house legal counsel as well as access to specialist external legal advisers. Testament to its legal know-how, Argo won a landmark case in 2003 which gave hedge funds greater legal standing in the loan market (*see page 9*).
Negotiation skills/ exposure to bankruptcy proceedings	Argo's investment team has extensive experience and an excellent track record in negotiating better restructuring and pay–out terms for its investors as well as leading companies through bankruptcy proceedings in a number of EM countries.
Restructuring	The investment team has been involved in a large number of debt restructurings, - from Argentina to Russia and Indonesia - some of which are without precedent and have therefore required innovative solutions. For example, we successfully restructured a block of commercial obligations in the Dominican Republic on terms comparable to its 2003/2004 debt exchange programme (*see page 10)*.
Valuations	We apply a fundamental, bottom-up strategy when determining the 'true' value of a company. Among other things, we take into account the company's willingness to repay its debt, its earnings ability, balance sheet strength while considering sector-specific factors. Accurate valuations assist with timing entry and exit strategies and taking the decision to invest in stressed situations in lieu of distressed opportunities.

Litigation: The Argo Fund vs. Essar Steel

"A landmark case which helped establish hedge funds as formidable players in the loan market."

- When Essar Steel, a large Indian company defaulted on its debt, Argo was not prepared to litigate in the local courts as it felt its rights might be difficult to enforce. Instead, Argo sued for repayment through the English courts - and won- in a landmark case which helped establish hedge funds as formidable players in the loan market.

- In 1997 Essar was granted a loan of US$40m from a syndicate of nine banks and financial institutions, which was due to be repaid two years later under the terms of a Syndicated Loan Agreement. By 1999 however, Essar had fallen into substantial financial difficulty due to a dramatic collapse in the price of steel and could not repay the loan on the due date.

- Argo began to buy tranches of Essar's debt at a substantial discount to its nominal value in the secondary market (price of 25-30 cents on the dollar).

- Essar sought to avoid meeting its debt obligations to Argo by claiming that the latter was not able to own debt it had purchased in the secondary market.

- In June 2003, Argo issued a claim in the Commercial Court alleging Essar was in breach of the Syndicated Loan Agreement.

- Under the terms of the Syndicated Loan Agreement, syndicate members could pass their rights to another by way of assignment and transfer. The restricted class of entities to whom the original syndicate members could transfer their rights was defined as a "bank or other financial institution."

- The outcome of the case rested on whether Argo was a "bank or other financial institution."

- The case went to trial and the court ruled in favour of Argo. Essar Steel was ordered to pay all principal and accrued interest (equivalent to 160 cents on the dollar).

- The case was responsible for broadening the term "financial institution" to include "a legally recognised form or being, which carries on its business in accordance with the laws of its place of creation and whose business concerns commercial finance, and whether or not its business included the lending of money on the primary or secondary lending market."

Sovereign Restructuring: Dominican Republic

- Argo saw the Dominican Republic's 2003/2004 sovereign bond exchange programme as an opportunity to restructure the country's other debt obligations, namely commercial debt, on terms comparable to a bond exchange.

- Following the eruption of the local banking crisis in April 2003, the Dominican Republic was forced to restructure its sovereign external debt through a debt exchange facility.

- The bond exchange was deemed a huge success. There was no haircut, instead maturities were simply extended by five years. The market reacted positively to the exchange and the yield on Dominican Republic debt fell to levels lower than the coupons on its bonds.

- Argo sought to achieve similar terms from restructuring other liabilities. To this end, Argo purchased - through the secondary market- a number of different supplier credits. By buying several obligations, Argo was able to increase its negotiating power with the government and subsequently restructured the block of commercial obligations into a single facility on terms comparable to a debt exchange.

- Following a delay in the implementation of the accord, Argo threatened legal action through the courts in NY. The Dominican Republic settled out of court and has subsequently serviced all its obligations in full.

Corporate Restructuring: Fargo

- Fargo is a leading bakery in Argentina.
- The company defaulted on its debt following the country's economic difficulties post 2001 debt moratorium.
- Argo identified an opportunity to acquire Fargo's unsecured bonds at a price in the low 20s.
- Negotiations were commenced with the debtor and the secured lenders (a Mexican consortium including Bimbo).
- Agreement of an outside settlement at 36 plus accrued interest was reached with the company and Argo worked with all parties to enable Fargo to emerge from the bankruptcy proceedings in December 2008.

Argo Distressed Credit Fund

- Argo Distressed Credit Fund ("ADCF"), initially launched as the Argo Multi Strategy Fund, is targeting absolute returns using little or no leverage from a combination of sources including capital appreciation, fees and interest income.

- It is focused on building a diversified, bottom-up portfolio of an array of credit instruments which may include significant distressed and defaulted securities.

- The fund will have a predominantly long bias though short positions will be entered into should the Investment Manager deem it appropriate. Also as a defensive measure, the fund may hold significant cash or near-cash instruments.

- The fund invests principally in the debt of distressed companies where it is felt that
  i. The price of the security trades at a discount its potential value;
  ii. The Argo team can utilise its expertise to create a profitable exit scenario

- Given the nature of the investments undertaken by ADCF , the fund may not be appropriate for short-term investors or those investors who cannot withstand the risk of loss.

Key Investment Professionals

Andreas Rialas
Chief Investment Officer
Prior to founding Argo, Andreas worked for Deutsche Bank for three years where he was involved in emerging markets proprietary trading and trade finance specialist products. Before that, he was at London Forfaiting (Asia) Ltd as Head of Secondary Debt Trading in emerging markets. Andreas has travelled extensively in both Eastern and Western Europe visiting and cultivating relationships with banks. He originated and syndicated many pioneering syndicated loan and trade finance transactions for Eastern European borrowers in the Baltic States, Bulgaria, the Czech Republic, Croatia, Kazakhstan, FYR Macedonia, Romania, Russia, Slovakia and Ukraine. In his role as Head of Secondary Debt Trading at London Forfaiting, he developed extensive knowledge of the Asian Debt Markets and was responsible for the secondary trading in Europe of primary assets originated by the Hong Kong subsidiary of London Forfaiting (Asia) Ltd. He studied law at the University of London, graduating in 1991 and subsequently trained to be an English Barrister specialising in banking law qualifying in 1993

Nathan Chua CFA
Nathan was most recently a senior portfolio manager at ABN Amro Asset Management responsible for asset allocation and portfolio construction across asset classes. Between 2000 and 2003, he worked for Merrill Lynch in Singapore where he headed up their regional fixed income sales and trading desk for the Asia (ex-Japan) region. Between 1996 and 2000, Nathan was a proprietary trader in fixed-income for Citibank N.A. and before that he spent six years working for JP Morgan Chase in New York as a credit analyst. Nathan holds an MBA from the University of Michigan. He is a CFA charterholder

Marcelo Saez CFA
Prior to joining Argo, Marcelo was a portfolio manager for a number of emerging market hedge funds with focus on emerging market local debt and FX. Before that he was a portfolio manager for Threadneedle Asset Management and Aberdeen Asset Management in emerging market debt portfolios. After graduating from Macquarie University in Australia with an Actuarial/Economics degree Marcelo joined AMP,one of the largest insurance and investment companies, as an actuarial analyst and eventually moved into asset management as a credit analyst and then as portfolio manager. He is a CFA charterholder

Key Investment Professionals

Marios Stellakis

Marios joined Argo in 2005 and is part of the financial modelling and risk management team. He has wide experience in asset management, proprietary trading while working as a licensed broker at Parma Brokerage. His experience in financial modelling includes fixed income, currencies and equities and he has worked as project manager developing software and IT solutions. He has developed programs for defining and solving real options problems using lattice and Monte Carlo simulation. Mr. Stellakis holds an MBA from the University of Chicago (Fulbright Scholar) and a B.Eng in computer science from Imperial College (Commonwealth Scholar). He is a CFA charterholder

Sophocles Sophocleous

Sophocles is responsible for coordinating all research at Argo. Prior to joining the company in 2002, he was Head of Research at CNH Capital Markets in Nicosia, where he specialised in the Cypriot equity and debt markets. Before that, he worked as an M&A analyst at Equity Securities in Minneapolis, US. Sophocles has a BA in Economics and Finance from the University of Illinois in the US. He is also a qualified CFA.

Stephen Rothwell

Stephen has extensive experience trading in emerging markets. He was a former Managing Director of Dresdner Kleinwort where he ran the EM illiquid debt business and, more recently, the distressed debt & special situations trading desk. Before joining Dresdner in 2000, Stephen spent fifteen years in sovereign and credit research with London Forfaiting, a listed company which arranges and provides finance to emerging market borrowers.

Risk Management

- Conventional risk metrics such as correlation, duration, DVO1 are measured and monitored continuously at both the portfolio level and individual position level.
- Stress testing is regularly applied.
- Allocation limits/risk concentration:
    - Maximum 15%in any one issuer; 25% in any one country
    - Minimum 75% of non-cash positions in bonds/CDS
    - Currency exposure limited to 30% of NAV
    - Aggregate long and short positions no greater than 4x NAV
- Allocations are determined by the Investment Manager.
- Target monthly volatility and loss tolerance: below 15% and 3% respectively.
- Independent risk management function with authority to close out positions.

ADCF Fund Details

Founded: August 2008

Registered: Cayman Islands

Investment Manager:
Argo Capital Management (Cyprus) Limited,
regulated by the Cyprus Securities and Exchange Commission.

Investment Advisor:
Argo Capital Management Limited,
authorised and regulated by the Financial Services Authority.

Auditor: KPMG

Legal Advisor:
Berwin Leighton Paisner LLP (UK)
Maples and Calder (Cayman Islands)

Custodian:
BNP Paribas, Isle of Man

Administrator:
HSBC, Dublin

Terms of Investing:
Share Class: A, B [leveraged]
Currencies: EUR and USD

Minimum Initial Investment: US$100,000 or EUR100,000
Liquidity: Quarterly
Fees:

- 2% annual fee paid monthly
- 20% of increase in Net Asset Value (NAV) over previous NAV high paid annually

Contact:

Telephone: +35722668900/+442075354000
Email: info@argofunds.com
Website: www.argogroupltd.com

Website Sources:

www.cogenthedge.com
www.hedgefund.net
www.globalhedgesource.com
www.hedgefundresearch.com
www.fund-sp.com
www.eurekahedge.com
www.hedgefundnews.com

ADCF Fund Performance

ADCF's Monthly Performance Since Inception													
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
2008	-	-	-	-	-	-	-	-	-	-1.96%	2.14%	0.35%	**0.49%**
2009	-0.25%	-0.70%	0.41%	2.30%	1.65%	1.82%	3.00%	1.81%	3.34%	-1.68%	-1.81%	0.80%	**11.06%**
2010	2.85%	4.08%	1.40%	0.71%	-3.85%	-0.42%	1.69%	0.68%	4.27%	0.92%	-3.21%	1.08%	**10.32%**
2011	1.47%	0.20%	0.25%	-0.78%	-1.89%	0.55%	4.06%	-1.96%	-6.25%	4.49%	3.67%	-2.12%	**1.18%**
2012	0.10%	0.72%	-0.34%	-0.76%*									**-0.29%***

** estimated performance*

ARGO

Achievements

Hedge Funds Review European Awards, June 2008

Highly Commended Best Fixed Income Hedge Fund on a Risk Adjusted Basis and Best Event Driven Hedge Fund on a Risk Adjusted Basis

HFMWeek European Awards, April 2008

Voted Best Single Manager in Emerging Markets

EuroHedge, December 2007

Short listed Best High Yield, Emerging Market & Distressed Debt Fund 2007

Marhedge Magazine, March 2006

Top 10 ranking for 5-year Sharpe ratio amongst 400 Hedge Funds

Global Emerging Markets Funds Ranking

Ranked in the top 5 over a 3-year period

Eurekahedge, April 2004

Ranked 3rd in Sharpe Ratio among all emerging market funds

hedgefund.net

Ranked 3rd in Sharpe Ratio among all emerging markets funds

Disclaimer

This document is issued by Argo Capital Management Limited which is authorised and regulated by the Financial Services Authority. It is intended only for Eligible Counterparties and/or Professional Clients (as defined in the FSA Handbook). An investment in shares of a fund must be made on the terms of the relevant prospectus and no reliance can be placed on this document

United States: the fund Shares have not been and will not be registered under the Securities Act of 1933 of the United States (as amended) ("the 1933 Act") or the securities laws of any of the states of the United States. The Shares may not be offered, sold or delivered directly or indirectly in the United States or to or for the account or benefit of any "US Person" as defined in Regulation S under the 1933 Act except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the 1933 Act and any applicable State laws.

The Shares are being offered outside the United States pursuant to the exemption from registration under Regulation S under the 1933 Act. Each applicant for Shares will be required to certify whether it is a US Person.

The Fund will not be registered under the United States Investment Company Act of 1940 ("the 1940 Act"). Based on interpretations of the 1940 Act by the United States Securities and Exchange Commission, if the Fund has more than 100 beneficial owners of its Shares who are US Persons, it may become subject to certain requirements under the 1940 Act. To ensure that the number of holders of Shares who are US Persons does not exceed this limit, the Directors may require the compulsory redemption of Shares beneficially owned by US Persons.

Notwithstanding the foregoing prohibitions, Shares may be offered to a limited number of investors in the United States that qualify as "accredited investors" as defined under Regulation D under the 1933 Act and as "qualified eligible participants" as defined in Regulation 4.7(a) under the United States Commodity Exchange Act ("CEA"). The Directors do not intend to permit Shares acquired by investors subject to the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and by other benefit plan investors to equal or exceed 25 per cent of the value of the Shares.

Cayman Islands: no invitation may be made to the public in the Cayman Islands to subscribe for the Shares.

Generally: the distribution of this document and the offering of shares may be restricted in certain jurisdictions. The above information is for general guidance only, and it is the responsibility of any person or persons in possession of this document and wishing to make application for shares to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for shares should inform themselves as to legal requirements also applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

Please note that this is not an offering circular and it should not be relied upon for your investment decision. Investment in the fund should be made only on the basis of the prospectus of the fund and only after due consideration of the risk disclosures detailed there in.