

Emerging Markets Bond Fund

Information as at: 31 May 2018

KEY FACTS

Asset Class Category	Fixed Income Global Emerging Markets bond
Investment manager	MeritKapital
Total Fund Assets, USD	37,192,994
A USD class, USD	37,192,994
Fund Inception Date	01/09/2016
Strategy Inception Date	01/04/2017
Performance Benchmark	J.P. Morgan EMBI Global Total Return Index
ISIN	CYF000000200
Fund Domicile	Cyprus
Fund Type	AIF-LNP
Bloomberg Ticker	MERFXPT CY
Base currency	USD
Management fee	0.75%
Performance fee	15%
Hurdle rate	3%
Liquidity	Monthly

MINIMUM INVESTMENT

Share class	
A USD	50,000

FUND CHARACTERISTIC

Credit Rating	BB-
Modified Duration	4.7
Yield to Worst	6.3
Cash	9.5

COMPOSITION OF THE FUND

Sectors	% of Total
Government	21.0
Energy	18.6
Basic Materials	17.1
Consumer, Non-cyclical	10.7
Financial	9.6
Utilities	4.9
Industrial	4.8
Communications	3.7
Consumer, Cyclical	0.0

Country	% of Total
Russian Federation	21.7
Argentina	10.1
Turkey	9.0
Oman	8.8
Brazil	6.8
Ukraine	4.9
India	4.2
Nigeria	4.1
Bahrain	3.7
Kazakhstan	2.7
Other	24.0

Currency Break-Down	% of Total
USD	93.9
EUR	6.1

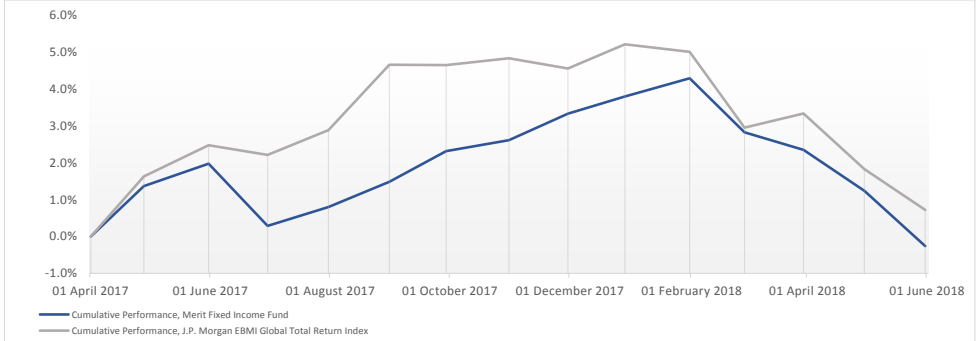
MANAGEMENT TEAM

Portfolio Manager	MeritKapital Ltd
Chief Investment Advisor	Golubjon Zohidov
Investment Advisor	Persella Ioannides

INVESTMENT OBJECTIVE

Merit Fixed Income Fund aims to achieve attractive returns through a combination of capital growth and income preservation. At any one time, 90% of net assets of the fund are invested plus any leveraged amount utilized within the scope of investment purposes in sovereign or corporate debt securities of predominantly emerging market countries.

PERFORMANCE GRAPH*



*The fund remained dormant between Sep 2016 and Mar 2017. The performance is presented from the date the investment strategy was implemented.

Share Class performance displayed in USD, Benchmark performance displayed in USD

PERFORMANCE*

	MTD	Since Inception (14 Months)
MeritKapital Fixed Income Fund - A Shares USD	-1.48%	-0.26%

Share Class performance of -1.48% is calculated on a Net Asset Value (NAV) basis, net of fees.

Total gross performance for May 2018 is -1.40%.

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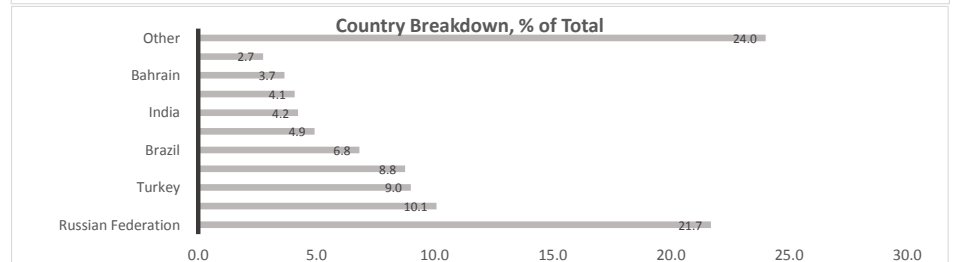
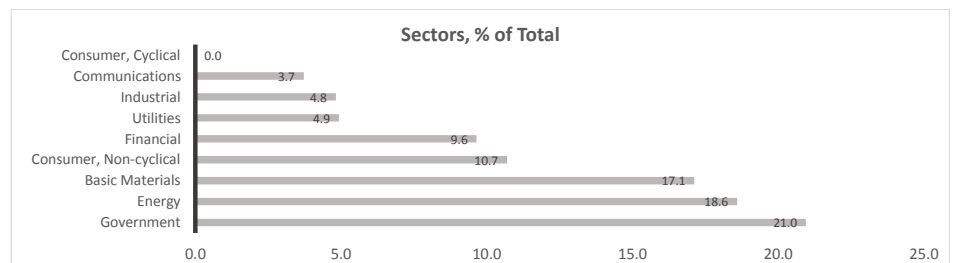
FUND COMMENTS

Emerging Markets (EM) experienced a new wave of repricing, but this time it has been driven by the weakness of EM FX. During the month of May, it all started with the sell off of Argentina Peso (ARS) and Turkish Lira (TRY) which provoked a sell off in EM hard currency bonds which are mostly perceived as benchmarks and form parts of major indices.

By the end of the first week of May, the EMBI index was down to 5.2% YTD and had been widely spread to 361bp (highs of Jan 2017). By mid May, US 10 year notes yields tracked back above 3%, the dollar index (DXY) continued to strengthen (+1.5% in 2 weeks of May) while the EURUSD broke the 1.2 support level. The latter was on the back of concerns that the new Populist Coalition in Italy was discussing a debt write-down, as well as the EURO currency referendum and other anti euro measures.

Commodity prices held up the bull trend with oil prices reaching the \$80 mark as the US kept Iran under sanctions despite opposition of the move by the European Union, a US ally. Positively, the month concluded with some surprise rate hikes by both Argentina and Turkey which helped stabilise the FX and the sentiment on both local and external bonds. Both Central Bankers admitted that countries were in need of structural reforms in the midst of an increasing inflation rate, low FX reserves and a rising current account deficit.

The fund underperformed the benchmark index, down -1.48% MTD vs. the benchmark index performance of -1.08% for the month of May. The cash position of the fund was reduced to 9.5% from 13.1% and the duration declined to 4.7 from 5.7. The weighted average credit rating of the portfolio remained unchanged at BB-. The yield of the portfolio improved further to 6.3% from 6.2%. The underperformance of the fund was largely driven by the overweight position in LATAM exposure. During the month, the cash position was deployed into short dated bonds in Russia, whilst LATAM exposure was reduced from 32.6% to 18.8%. Russia/CIS is now the largest overweight region with a portfolio consisting of 32.6% followed by MENA 28.1%. We continued to grow Russia/CIS allocation mainly in Russian short dated high-quality credits. The portfolio duration was cut sharply from 5.7 to 4.7 as we reduced holdings of bonds with maturities over 5 years from 49% to 34.6%.



Top 10 Holdings

	% of Total
GAZPRU 9 1/4 04/23/19	5.7
OMAN 6 1/2 03/08/47	5.1
PGILLN 4.699 03/28/22	3.9
KERPW 8 3/4 01/31/22	3.6
TATAIN 5.45 01/24/28	3.0
EVRAZ 8 1/4 01/28/21	2.9
ARGENT 6 1/4 11/09/47	2.8
NOGLN 8 07/25/22	2.7
SEPLLN 9 1/4 04/01/23	2.7
IMHRUS 7 1/2 05/04/22	2.7

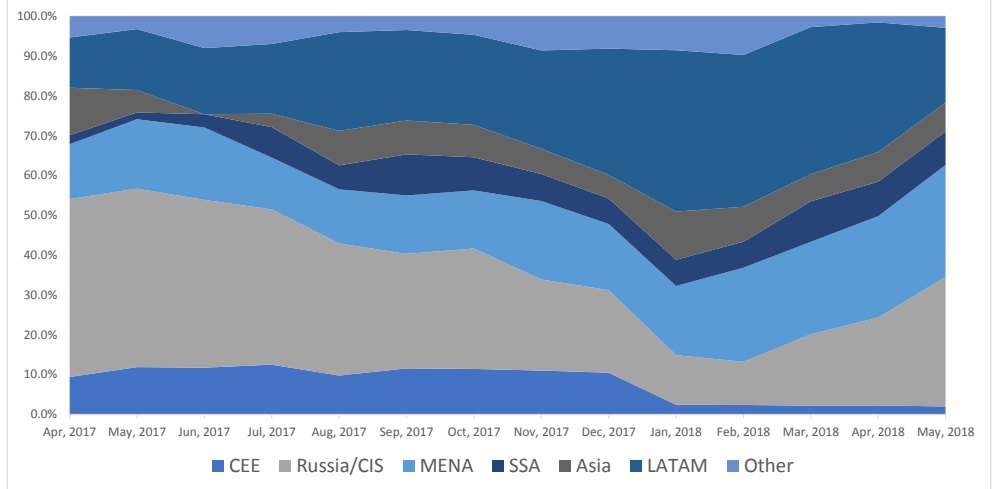
Duration Breakdown

	% of Total
0 - 1 yrs	19.4
1 - 3 yrs	18.4
3 - 5 yrs	27.6
5 - 7 yrs	11.9
7 - 10 yrs	6.1
10+ yrs	16.6

Rating Breakdown

	% of Total
Cash	9.5
AAA	0.0
AA	0.0
A	2.5
BBB	17.2
BB	34.2
B	30.4
CCC	5.9
CC	0.0
C	0.0
D	0.3

Asset Allocation History By Region



	Jun, 2017	Jul, 2017	Aug, 2017	Sep, 2017	Oct, 2017	Nov, 2017	Dec, 2017	Jan, 2018	Feb, 2018	Mar, 2018	Apr, 2018	May, 2018
CEE	11.7%	12.5%	9.8%	11.5%	11.4%	11.0%	10.5%	2.4%	2.4%	2.2%	2.2%	2.0%
Russia/CIS	42.1%	39.0%	33.2%	28.8%	30.3%	22.9%	20.8%	12.5%	10.8%	17.9%	22.1%	32.6%
MENA	18.2%	13.0%	13.6%	14.7%	14.6%	19.7%	16.6%	17.4%	23.6%	23.3%	25.4%	28.1%
SSA	3.3%	7.6%	6.0%	10.3%	8.3%	6.8%	6.4%	6.6%	6.5%	10.2%	8.7%	8.4%
Asia	0.0%	3.4%	8.7%	8.5%	8.2%	6.3%	5.9%	12.1%	8.8%	6.8%	7.4%	7.2%
LATAM	16.6%	17.5%	24.8%	22.7%	22.6%	24.7%	31.7%	40.5%	38.1%	37.0%	32.6%	18.8%
Other	8.0%	7.0%	4.0%	3.5%	4.7%	8.6%	8.2%	8.5%	9.7%	2.8%	1.5%	2.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

DISCLAIMER

Merit Fixed Income Fund Limited (the "Fund"), is reserved for professional and well-informed investors as defined by the Alternative Investment Funds Law n.131(I) of 2014 (the "Law") who, on the basis of the Offering Memorandum (the "Offering Memorandum") and the subscription agreement, should make their own assessment of the conditions of their participation in the Fund. It is the responsibility of participating investors, to determine whether the fund described in the Offering Memorandum is suitable to their expectations of performance and risk. The Fund operates as an Alternative Investment Fund with Limited Number of Persons according to the Law, regulated by the Cyprus Securities and Exchange Commission, license # LPAIF05/2014, in the legal form of a variable capital investment company. Prospective investors are not to construe the contents of the Offering Memorandum or any communication relating to this offering as investment, legal or tax advice. Each investor should, however, consult his own legal counsel, accountant and other professional adviser as to legal, tax and related matters concerning an investment in the Fund. The Offering Memorandum, the Memorandum & Articles of Association as well as the latest monthly report are available from the registered office of the Manager and from the Fund's administrator. An investment in the Fund involves financial risk and prospective investors are advised to read the Offering Memorandum carefully in its entirety. With respect to any quotation of expected returns throughout this Report or the Offering Memorandum, it must be noted that these are generated from part research and cannot be guaranteed. The value of an investment in the Fund may fluctuate. Forward looking statements by nature comprise risks and uncertainty since they are related to events and circumstances that may or may not occur or materialise in the future. Due to various risks and uncertainties, actual events or results, the actual performance of the Fund may differ materially from those reflected or contemplated in such forward looking statements. There can be no assurance that the Fund; investment objectives will be achieved and investment results may be achieved over time. Investment in the Fund is not intended on a complete investment program for any investor. Prospective investors should carefully consider if an investment in shares in the Fund is suitable for them in light of their circumstances and their resources. No application has been made to list the shares of the Fund on any stock exchange. Important: shares in the fund are offered solely on the basis of the information and representations contained in the Offering Memorandum and the documents specified therein, which are available for inspection at the Fund's registered office and no other information or representation relating thereto is authorised.