

Emerging Markets Bond Fund

Information as at: 29 June 2018

KEY FACTS

Asset Class Category	Fixed Income Global Emerging Markets bond
Investment manager	MeritKapital
Total Fund Assets, USD	36,674,233
A USD class, USD	36,674,233
Fund Inception Date	01/09/2016
Strategy Inception Date	01/04/2017
Performance Benchmark	J.P. Morgan EMBI Global Total Return Index CYF000000200
ISIN	Cyprus AIF-LNP MERFXPT CY
Fund Domicile	USD
Fund Type	0.75%
Bloomberg Ticker	15%
Base currency	3%
Management fee	Monthly
Performance fee	
Hurdle rate	
Liquidity	

MINIMUM INVESTMENT

Share class	
A USD	50,000

FUND CHARACTERISTIC

Credit Rating	BB-
Modified Duration	4.3
Yield to Worst	4.8
Cash	20.0

COMPOSITION OF THE FUND

Sectors	% of Total
Energy	22.4
Government	20.7
Financial	11.1
Consumer, Non-cyclical	10.7
Basic Materials	4.8
Industrial	4.8
Communications	2.8
Utilities	2.7
Consumer, Cyclical	0.0

Country

Country	% of Total
Russian Federation	15.1
Argentina	10.9
Turkey	9.1
Brazil	6.8
Oman	6.7
Kazakhstan	5.5
Ukraine	4.8
Nigeria	4.1
Bahrain	3.8
Netherlands	2.8
Other	30.5

Currency Break-Down

Currency	% of Total
USD	94.1
EUR	5.9

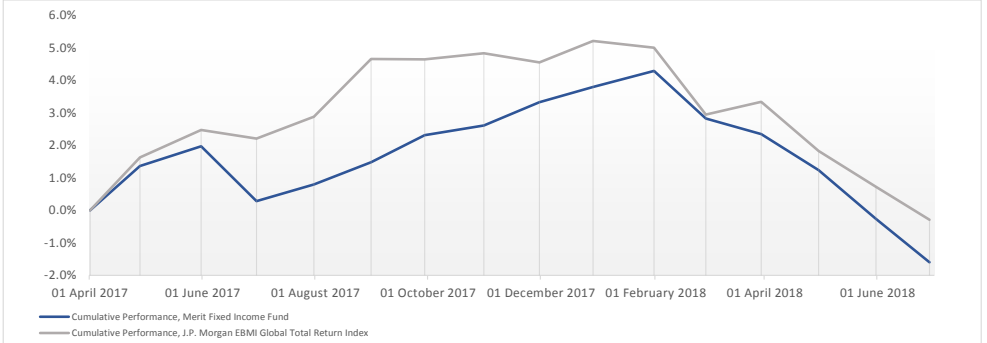
MANAGEMENT TEAM

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 (15 Months)
MeritKapital Fixed Income Fund - A Shares USD	-1.34%	-1.60%

Share Class performance of -1.34% is calculated on a Net Asset Value (NAV) basis, net of fees.

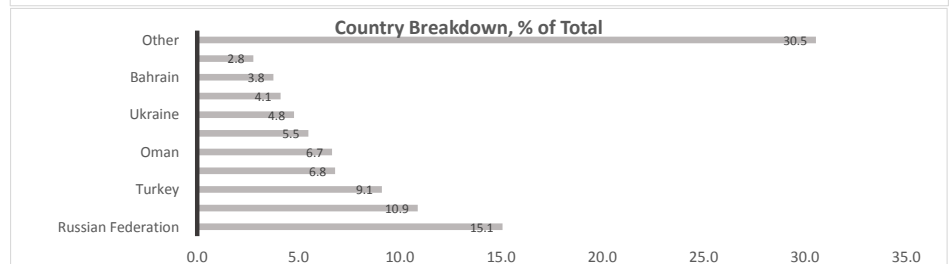
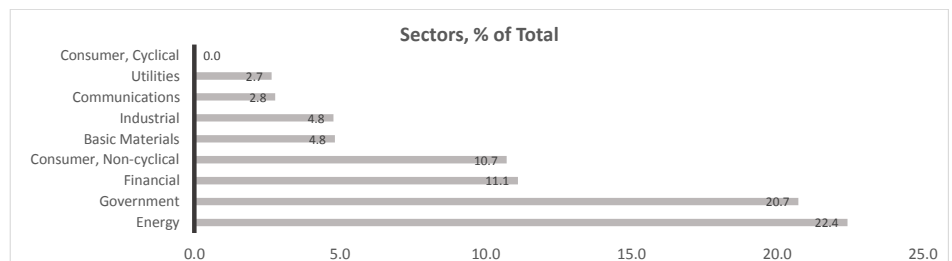
Total gross performance for June 2018 is -1.27%

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FUND COMMENTS

Emerging Market (EM) assets had another difficult month and closed the first half of the year on the back foot. Quantitative Tightening (QT), Geo-Politics, the US Trade War, EM regional Presidential Elections have all been a driver of EM assets (Rates, FX and Credit) over the last two quarters. Those forces were a key technical factor of volatility and a change in sentiment that spurred outflows from the EM space. The pace of outflows accelerated in June as some investors opted to pull money from EM to counter the summer, seasonal "low liquidity" effect. The major macro event of the month has been the ECB meeting where President Mario Draghi surprised the market with his dovish rhetoric to keep rates unchanged through till the summer of 2019 and set December 2018 as an end date for the asset purchasing program. Following this, the bi-annual OPEC meeting was held in Vienna where members decided to boost output by 1mnbpd which came in less than the market anticipated (1.5-2mnbpd). Brent prices rallied more than 6% from \$75 to as high as \$79.4 after the OPEC news was announced. Presidential elections in Turkey where Mr Erdogan was re-elected and Mexico's newly elected leftist ruler, Mr Lopez Obrador, eliminated two major summer events from the EM space leaving few notable, outstanding occurrences within the macro and political fronts.

The fund underperformed the benchmark index, down -1.27% MTD vs the benchmark index performance of -1% for the month of June. The cash position of the fund was increased to 20% from 9.5% and duration was further reduced to 4.3 from 4.7. The weighted average credit rating of the portfolio remained unchanged at BB-. The yield of the portfolio fell to 4.8% from 6.3%. The underperformance of the fund was driven by sovereign exposure to Argentina, Oman and corporates in LATAM and Asia. The increase in cash position was as a result of exiting high beta bonds and capitalising gains on positions to reduce the volatility of the portfolio ahead of a seasonally low liquidity period. Given the ongoing correction in EM assets, we reduced the allocation of bond positions with BB and B credit ratings rated bonds from 64.6% to 57.1% and increased shorter dated allocation i.e. 0-3 years from 37.8% to 46.4%. The latter had an impact on both the portfolio's duration which fell to 4.3 from 4.7 and on the portfolio's yield which fell from 6.3% to 4.8%.



Top 10 Holdings

	% of Total
GAZPRU 9 1/4 04/23/19	5.7
T 3 1/8 05/15/48	5.6
OMAN 6 1/2 03/08/47	5.0
KERPW 8 3/4 01/31/22	3.5
KZOKZ 9 1/8 07/02/18	2.8
VIP 5.2 02/13/19	2.8
CCOLAT 4 3/4 10/01/18	2.7
IMHRUS 7 1/2 05/04/22	2.7
SEPLLN 9 1/4 04/01/23	2.7
VEBBNK 4.224 11/21/18	2.7

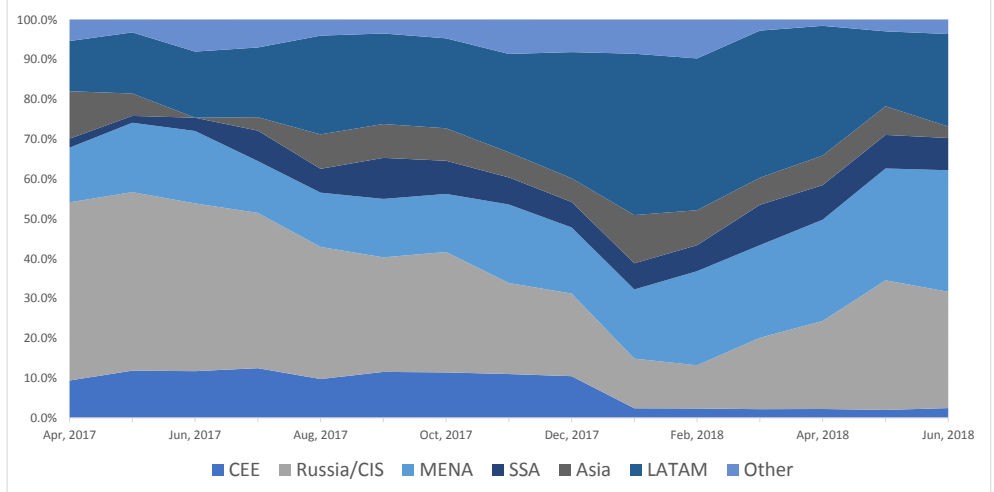
Duration Breakdown

	% of Total
0 - 1 yrs	32.7
1 - 3 yrs	13.7
3 - 5 yrs	21.5
5 - 7 yrs	11.7
7 - 10 yrs	2.1
10+ yrs	18.2

Rating Breakdown

	% of Total
Cash	20.0
AAA	0.0
AA	0.0
A	2.6
BBB	15.4
BB	28.5
B	28.6
CCC	4.5
CC	0.0
C	0.0
D	0.3

Asset Allocation History By Region



	Jul, 2017	Aug, 2017	Sep, 2017	Oct, 2017	Nov, 2017	Dec, 2017	Jan, 2018	Feb, 2018	Mar, 2018	Apr, 2018	May, 2018	Jun, 2018
CEE	12.5%	9.8%	11.5%	11.4%	11.0%	10.5%	2.4%	2.4%	2.2%	2.2%	2.0%	2.5%
Russia/CIS	39.0%	33.2%	28.8%	30.3%	22.9%	20.8%	12.5%	10.8%	17.9%	22.1%	32.6%	29.2%
MENA	13.0%	13.6%	14.7%	14.6%	19.7%	16.6%	17.4%	23.6%	23.3%	25.4%	28.1%	30.5%
SSA	7.6%	6.0%	10.3%	8.3%	6.8%	6.4%	6.6%	6.5%	10.2%	8.7%	8.4%	8.1%
Asia	3.4%	8.7%	8.5%	8.2%	6.3%	5.9%	12.1%	8.8%	6.8%	7.4%	7.2%	2.9%
LATAM	17.5%	24.8%	22.7%	22.6%	24.7%	31.7%	40.5%	38.1%	37.0%	32.6%	18.8%	23.2%
Other	7.0%	4.0%	3.5%	4.7%	8.6%	8.2%	8.5%	9.7%	2.8%	1.5%	2.9%	3.6%
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's 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.