

# Emerging Markets Bond Fund

Information as at: 31 August 2018

## KEY FACTS

Asset Class Category	Fixed Income Global Emerging Markets bond
Investment manager	MeritKapital
Total Fund Assets, USD	36,679,665
A USD class, USD	36,679,665
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	2.8
Yield to Worst	6.1
Cash	19.5

## COMPOSITION OF THE FUND

Sectors	% of Total
Energy	8.8
Government	30.1
Financial	19.2
Consumer, Non-cyclical	10.0
Basic Materials	4.9
Industrial	4.7
Communications	2.7
Utilities	0.0
Consumer, Cyclical	0.0

Country	% of Total
Russian Federation	21.1
Turkey	13.5
Nigeria	8.1
Cyprus	6.0
Bahrain	5.3
Ukraine	4.8
Oman	4.7
Egypt	2.8
Argentina	2.8
Kenya	2.8
Other	28.2

Currency Break-Down	% of Total
USD	93.9
EUR	6.1

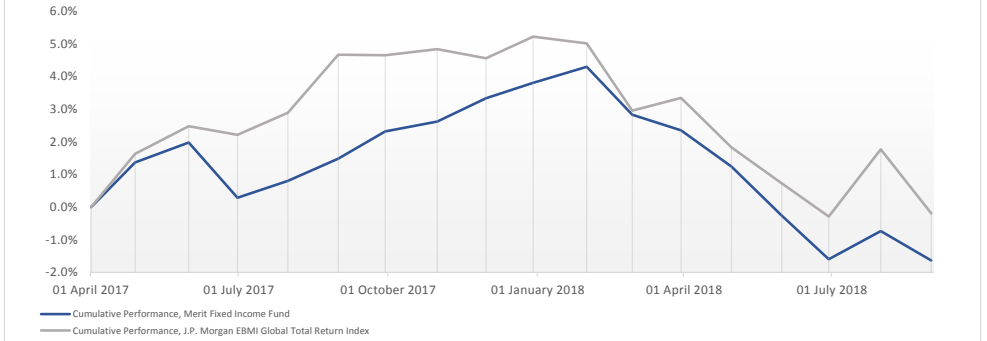
## MANAGEMENT TEAM

Portfolio Manager	MeritKapital Ltd
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 (17 Months)
MeritKapital Fixed Income Fund - A Shares USD	-0.91%	-1.63%

Share Class performance of -0.91% is calculated on a Net Asset Value (NAV) basis, net of fees.  
Total gross performance for August 2018 is -0.82%

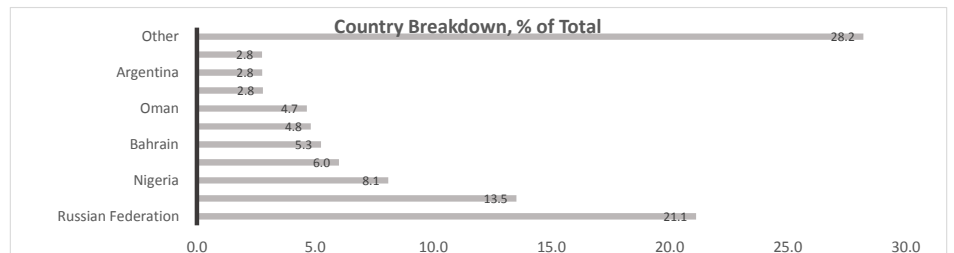
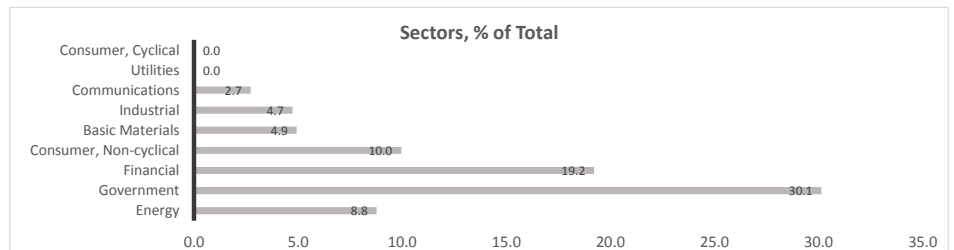
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## FUND COMMENTS

Emerging Markets began the month of August on a relatively positive tone on the back of the US's and China's efforts to defuse the trade wars. With the month of August exhibiting seasonally low liquidity, this initial positive momentum dissipated. Emerging Markets' sentiment deteriorated during the course of the month as the geo-political spectrum in Turkey, Argentina, the USA and China turned particularly negative spurring a market sell off and ETF out-flows.

Turkey, already grappling with high inflation and twin deficits has yet to employ the proper fiscal and monetary policy measures to counter this. Worse yet, it failed to meet the pre-agreed terms of the US on the US Pastor release which led to US sanction impositions and tariffs on aluminium and steel. Turkish Assets sold off and the Lira fell 30% against the USD (MTM). Turkey contagion grappled all Emerging Markets with Argentina's currency under particular pressure. Following, the request by Argentinian President Mauricio Macri to the IMF to speed up payments of a \$50 Billion credit line was taken as a sign of panic by investors and the Argentinian Peso plunged to new lows. The US vs. China trade wars also deteriorated with President Trump considering to impose an additional 200bn\$ worth of tariffs on China and China vowing to retaliate. On the Russian front, the Russian markets also took a beating with possible sanctions discussed by the US Senate on Russia's alleged meddling in the upcoming November US midterm elections and formalized sanctions on the Skripal case. There were no notable Central bank Meetings for the Month August.

The Fund maintained its conservative approach going into August despite the late July market rally by exiting some long duration and high beta bonds where possible. The Fund outperformed the benchmark, down -0.91% Month-to-date versus the benchmark index performance of -1.92% for the month of August. The cash position decreased from 26.1% to 19.5% and duration slightly increased to 2.8 from 2.4 years. The weighted-average credit rating of the portfolio decreased slightly to BB- from BB. The outperformance of the fund was predominantly due to the decrease in the exposure to long dated, high beta securities. The yield for the portfolio further improved to 6.1% from 4.9% as it allocated funds to solid credit that corrected. We further decreased our allocation of short-dated bonds - i.e. 0 - 3 years from 77.4% to 68.9%.



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## Top 10 Holdings

	% of Total
GAZPRU 9 1/4 04/23/19	5.7
OMAN 6 1/2 03/08/47	4.7
BOCYCY 9 1/4 01/19/27	3.8
KERPW 8 3/4 01/31/22	3.5
EGYPT 5 3/4 04/29/20	2.8
ACCESS 9 1/4 06/24/21	2.8
YFPDAR 8 7/8 12/19/18	2.8
BHRAIN 6.273 11/22/18	2.8
KENINT 5 7/8 06/24/19	2.8
CCOLAT 4 3/4 10/01/18	2.7

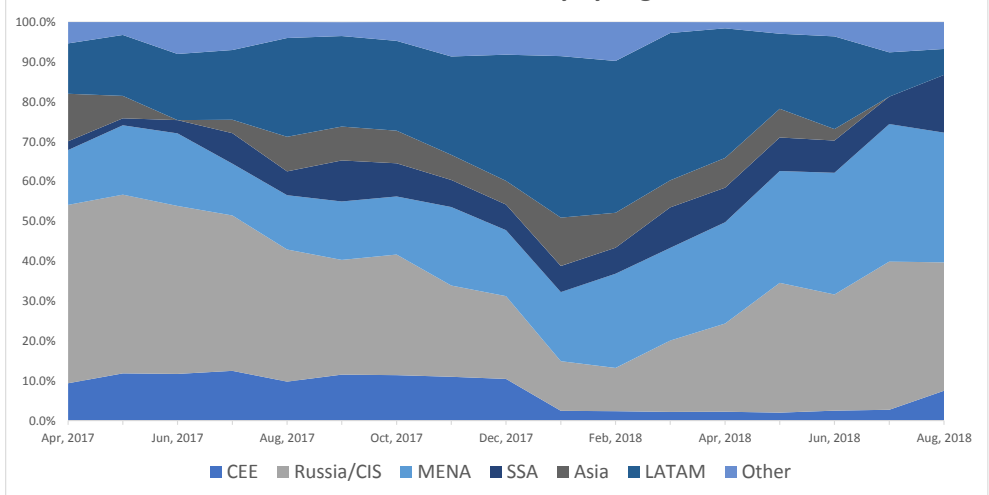
## Duration Breakdown

	% of Total
0 - 1 yrs	51.5
1 - 3 yrs	17.4
3 - 5 yrs	12.7
5 - 7 yrs	6.6
7 - 10 yrs	0.0
10+ yrs	11.9

## Rating Breakdown

	% of Total
Cash	19.5
AAA	2.7
AA	0.0
A	0.0
BBB	12.8
BB	32.2
B	25.9
CCC	6.6
CC	0.0
C	0.0
D	0.3

## Asset Allocation History By Region



	Sep, 2017	Oct, 2017	Nov, 2017	Dec, 2017	Jan, 2018	Feb, 2018	Mar, 2018	Apr, 2018	May, 2018	Jun, 2018	Jul, 2018	Aug, 2018
CEE	11.5%	11.4%	11.0%	10.5%	2.4%	2.4%	2.2%	2.2%	2.0%	2.5%	2.7%	7.5%
Russia/CIS	28.8%	30.3%	22.9%	20.8%	12.5%	10.8%	17.9%	22.1%	32.6%	29.2%	37.2%	32.2%
MENA	14.7%	14.6%	19.7%	16.6%	17.4%	23.6%	23.3%	25.4%	28.1%	30.5%	34.5%	32.6%
SSA	10.3%	8.3%	6.8%	6.4%	6.6%	6.5%	10.2%	8.7%	8.4%	8.1%	6.9%	14.5%
Asia	8.5%	8.2%	6.3%	5.9%	12.1%	8.8%	6.8%	7.4%	7.2%	2.9%	0.0%	0.0%
LATAM	22.7%	22.6%	24.7%	31.7%	40.5%	38.1%	37.0%	32.6%	18.8%	23.2%	11.1%	6.5%
Other	3.5%	4.7%	8.6%	8.2%	8.5%	9.7%	2.8%	1.5%	2.9%	3.6%	7.6%	6.7%
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%

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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.

Contact  
 EFTAPATON COURT, 2nd Floor  
 256 Makarios Ave., Limassol, Cyprus  
 P.O Box 53180, CY-3301, Limassol, Cyprus  
 Tel.: +357 25 857 900  
 Fax: +357 25 340 327

info@meritfixed.com  
 www.meritcapital.com

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