

Emerging Markets Bond Fund

Information as at: 31 December 2018

KEY FACTS

Asset Class
Category

Investment manager
Total Fund Assets, USD
A USD class, USD
Fund Inception Date
Strategy Inception Date

Fixed Income
Global Emerging Markets
bond

MeritKapital
\$37,045,504
\$37,045,504
01/09/2016
01/04/2017

Performance Benchmark

J.P. Morgan EMBI Global
Total Return Index
CYF000000200

ISIN
Fund Domicile
Fund Type
Bloomberg Ticker
Base currency
Management fee
Performance fee
Hurdle rate
Liquidity

Cyprus
AIF-LNP
MERFXPT CY
USD
0.75%
15%
3%
Monthly

MINIMUM INVESTMENT

Share class
A USD

\$50,000

FUND CHARACTERISTIC

Credit Rating
Modified Duration
Yield to Worst
Cash
Repo Instruments
Reverse Repo Instruments

BB
1.60 years
4.74%
16.35%
-1.90%
2.41%

COMPOSITION OF THE FUND

Sectors % of Total

Government	37.52
Financial	29.00
Energy	2.98
Consumer, Non-cyclical	3.94
Basic Materials	4.18
Communications	4.12
Industrial	1.39
Utilities	0.00
Consumer, Cyclical	0.00

Country % of Total

Russian Federation	27.47
Turkey	10.16
Nigeria	10.06
United States	6.76
Cyprus	5.43
Bahrain	4.12
Kenya	4.05
Oman	4.02
Argentina	2.75
Ghana	2.68
Other	5.64

Currency Break-Down % of Total

USD	95.55
EUR	4.45
GBP	0.00

MANAGEMENT TEAM

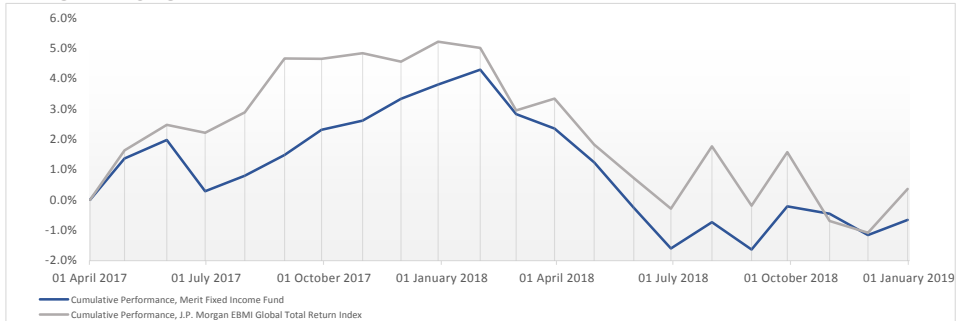
Portfolio Manager
Investment Advisor

MeritKapital Ltd
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	YTD	SI
MeritKapital Fixed Income Fund - A Shares USD	0.51%	-4.29%	-0.66%
J.P. Morgan EMBI Global Total Return Index	1.46%	-4.61%	0.36%

Share Class performance of 0.51% is calculated on a Net Asset Value (NAV) basis, net of fees.

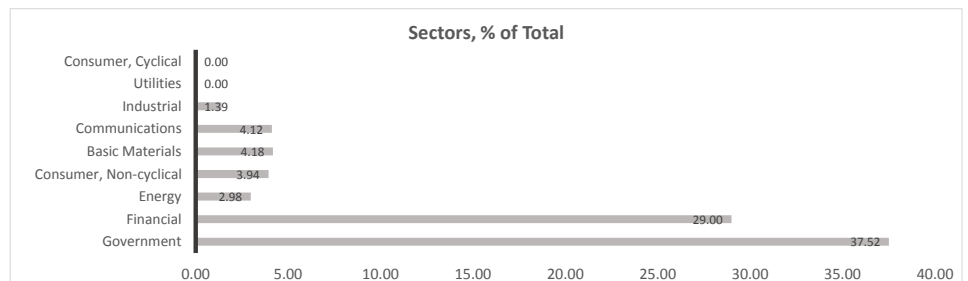
Total gross performance for December 2018 is 0.61%

FUND COMMENTS

Global markets concluded the last quarter of 2018 with a challenging December. Major US equity indices declined further to finish the year in the red (-9% on average) mostly on the back of weaker than expected US corporate earnings, global growth concerns, ongoing US-China trade negotiations and a continuing slide in WTI; WTI dropped to as low as 42\$ handle, down 44% from October highs. In effect, the US Fed tried to appease the markets and delivered a speech that was taken to have a dovish rhetoric as Chairman Powell stated that US interest rates are approaching a 'neutral level'. However, although an interest rate hike of 25bps was already priced in, expectations of a halt to rate hikes in 2019 were not met as the Fed signalled two further ones. Thus, the negative sentiment in global markets had soon reverted.

Emerging markets held their ground except for long dated commodity linked paper and credit negatively affected by factors intrinsic to its region such as that of Ukraine. A more dovish monetary policy outlook for 2019 should keep the dollar currency capped while lower 10-year Treasury yields should lead to a tightening of credit spreads. Additionally, oil importing emerging markets such as Turkey, Indonesia and India should also fundamentally benefit from lower oil prices.

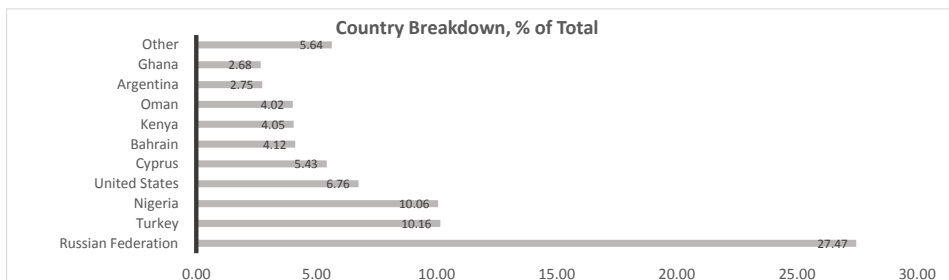
The fund was up 0.5% in December. Positions in Turkey performed well, on the back of declining oil prices and on a further improvement of political relations with the US. Russia was also a positive contributor to the fund as news on the possible lifting of sanctions of aluminium producer Rusal improved investors' sentiment towards the country. Our exposure to SSA continues to perform as it comprises of well yielding paper of short duration. We cut exposure to Ukraine due to its underperformance on escalating political tensions with Russia on the Black Sea clash. We added short-duration papers of Qatar, Chile and Mexico on yield gains arising from the regions' inclusion in major EM indices, on relative value metrics and on short term political volatility shocks respectively. Underperformers of the fund were holdings on OMAN 47 and GHANA 26 due to lower oil prices and December thin liquidity, but both are trading considerably higher at the time of writing of this note.



Top 10 Holdings

% of Total

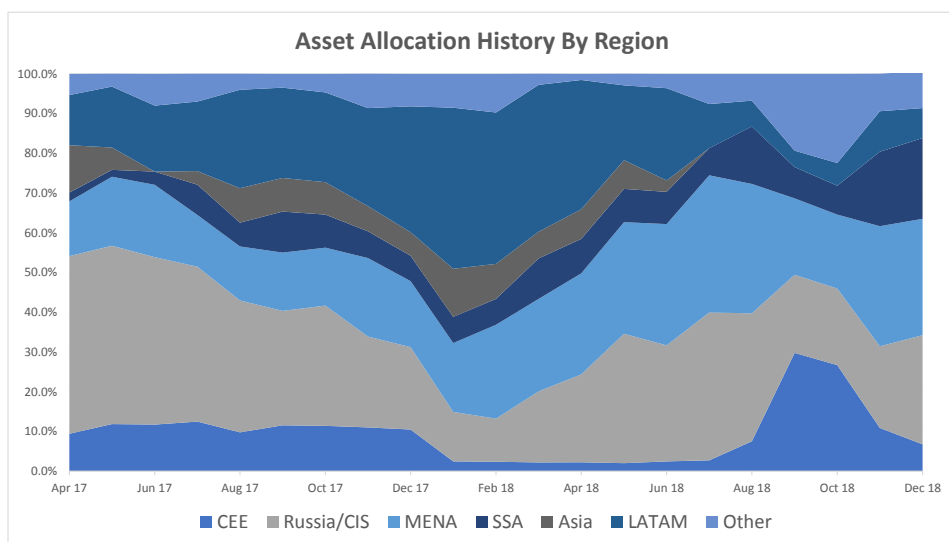
SBERRU 5 1/2 02/26/24	6.86
RUSSIA 3 1/2 01/16/19	5.47
T 1 1/2 01/31/19	5.41
VIP 5.2 02/13/19	4.12
BHRAIN 5 1/2 03/31/20	4.12
KENINT 5 7/8 06/24/19	4.05
OMAN 6 1/2 03/08/47	4.02
BOCYCY 9 1/4 01/19/27	3.74
ZENITH 6 1/4 04/22/19	3.27
GAZPRU 9 1/4 04/23/19	2.78



Duration Breakdown

% of Total

Cash	16.35
Repo Instruments	-1.90
Reverse Repo Instruments	2.41
0 - 1 years	52.15
1 - 3 years	17.49
3 - 5 years	7.79
5 - 7 years	1.68
7 - 10 years	0.00
10+ years	4.02



Rating Breakdown

% of Total

Cash	16.35
Repo Instruments	-1.90
Reverse Repo Instruments	2.41
AAA	6.76
AA	0.00
A	1.30
BBB	9.48
BB	36.06
B	21.48
CCC	7.85
CC	0.00
C	0.00
D	0.20

	Jan 18	Feb 18	Mar 18	Apr 18	May 18	Jun 18	Jul 18	Aug 18	Sep 18	Oct 18	Nov 18	Dec 18
CEE	2.4%	2.4%	2.2%	2.2%	2.0%	2.5%	2.7%	7.5%	29.8%	26.7%	10.9%	6.8%
Russia/CIS	12.5%	10.8%	17.9%	22.1%	32.6%	29.2%	37.2%	32.2%	19.7%	19.2%	20.6%	27.5%
MENA	17.4%	23.6%	23.3%	25.4%	28.1%	30.5%	34.5%	32.6%	19.2%	18.6%	30.2%	29.3%
SSA	6.6%	6.5%	10.2%	8.7%	8.4%	8.1%	6.9%	14.5%	7.9%	7.3%	18.7%	20.3%
Asia	12.1%	8.8%	6.8%	7.4%	7.2%	2.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LATAM	40.5%	38.1%	37.0%	32.6%	18.8%	23.2%	11.1%	6.5%	4.1%	5.7%	10.2%	7.6%
Other	8.5%	9.7%	2.8%	1.5%	2.9%	3.6%	7.6%	6.7%	19.3%	22.4%	9.4%	9.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.7%

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.

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