AUGUST 2018 MONTHLY REPORT

CENTRAL ASIA

STURGEON CAPITAL

FUND COMMENTARY

The fund lost -9.15% in August as Turkey went into full crisis mode, pushing emerging markets substantially lower. Additionally, the US announced further sanctions on Russia which turned sentiment negative across Central Asia and the Caucasus region. Valuations were cheap and have gotten cheaper. The broader question remains: is this the beginning of a larger move or was this just a blip (albeit an extremely painful one)?

So what happened? Turkey historically has had 2 key deficits, trade and fiscal. This means that it is reliant on foreign inflows of capital. With it being a relatively large economy and very financially integrated, it is effectively dependent on flows which can move freely depending on market conditions. Traditionally, high growth and relatively pro-business policies have kept Turkey going, but as the President has pushed for an extremely dovish monetary policy despite high inflation and weakening currency, chaos ensued. In addition, the arrest of an American pastor led to angry tweets from the US President making things worse. In parallel the Argentinean currency devalued as well, leading commentators to claim that Emerging Markets are doomed and that things can only get worse. Brazil has been both a source and a victim of this EM contagion spreading further.

This explains negative sentiment across emerging and frontier markets.

In addition, a new round of potential sanctions have been announced against Russia pushing the Ruble lower. How does this affect our portfolio?

Turkey and Russia are among the largest trading partners of the region and sentiment wise, investors tend to group them together. This means local currencies follow the Ruble and the Lira, hurting banks and consumers while in theory helping exporters.

It is interesting that while Turkey has weak fundamentals, wrong policies with some political risk on top, Russia has healthy fundamentals with responsible policies (at least on the financial side) but with arguably pure sanctions risk.

Where commodity exporters should come out ahead, financials are suffering in different ways mostly due to FX. RUB has lost circa 12% from July end, impacting the banks directly and indirectly (we would expect monetary policy to continue to be tight, NPL's potentially rising, though at this stage on a marginal level) and obviously have negative effects on the wider region - see Kazakhstan (KZT lost 11% from end of June). The Turkish Lira losing 50% in one month over the summer also didn't help.

Our biggest losers were Halyk and TCS, both solid banks. Halyk is trading under 5 times 2018 earnings estimates with a dividend yield close to 8%. TCS is a Russian based fintech bank (or a super APP with a banking license) that has recently reported ROE of 69%. Despite the impressive growth and profitability, it is now trading below 8 times 2018 earnings whilst Bloomberg estimates a dividend yield in excess of 6% for next year. However, these strong fundamentals don't matter if the currency is about to get hit by the EM contagion.

Traditionally, we have therefore reduced our exposure to financials and are currently adding to exporters which benefit from devaluations. According to consensus, EM contagion goes on and on until investors capitulate. Could it be different this time? Usually, it never is, however if you follow the theory that EM contagion needs a source and a point of no return, we believe there is a significant possibility that this has just been a blip:
Despite trade and political tensions, consequences have so far remained subdued.

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INVESTMENT OBJECTIVE

Long bias Equity Fund investing across the Silk Road region

PERFORMANCE USD I SHARE CLASS

Returns	Central Asia Fund
Last Month	-9.15%
Year to Date	-17.43%
NAV	843.12

FUND DETAILS

Structure	UCITS
Domicile	Luxembourg
Launch Date	Oct. 2012
Fund Size USD	$21.4m
Number of Holdings	34
Dealing	Weekly

TOP HOLDINGS

	Company name	%
1	Liberty Bank	11.0%
2	Halyk Bank GDR	8.2%
3	TCS Group	8.6%
4	KazTransOil	5.2%
5	Kazmunaigas Prefs	4.5%

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MONTHLY PERFORMANCE SINCE INCEPTION

I USD	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Year
2018	6.88%	-1.22%	0.28%	-6.82%	-6.05%	0.63%	-2.55%	-9.15%					-17.43%
2017	3.83%	2.57%	-0.23%	4.61%	2.03%	3.44%	4.53%	3.61%	4.83%	-0.42%	-1.69%	3.60%	35.1%
2016	-9.26%	6.23%	8.07%	2.89%	5.56%	2.51%	6.39%	0.23%	3.21%	1.35%	0.13%	2.94%	33.3%
2015	-9.99%	1.74%	-1.25%	8.40%	0.11%	1.79%	-7.74%	-9.83%	-2.90%	-0.70%	-3.02%	-5.77%	-26.8%
2014	-4.66%	2.62%	-2.31%	2.39%	2.90%	4.20%	4.53%	-0.12%	-4.48%	-8.66%	-6.55%	-6.14%	-16.2%
2013	4.30%	-3.18%	-2.54%	-5.60%	-1.13%	-8.77%	6.80%	1.28%	-0.41%	1.24%	0.65%	1.98%	-6.2%
2012										-1.31%	-1.88%	1.70%	-1.5%

* 2012 performance starts from October – when the Fund's first NAV was struck. Performance figures are for a day-1 investor, net of fees

FUND COMMENTARY (CONTINUED):

While the US market is trading on record levels, multiples are high but not extreme despite a record long bull run, particularly compared to interest rates which remain very low (albeit rising). In the midst of this positive scenario, you have had two sources of contagion, Argentina and Turkey, possibly adding Brazil as a third element. Other countries experienced sharp moves in their currency but their impact on financial markets are limited (e.g. Indonesia). Aside from local factors, a strengthening dollar and rising rates may have been the catalyst.

However, the sources of this crisis seem to have been contained (things don't need to be fixed, positive news flow should prove enough for renewed investor appetite):

Argentina has come out with a fiscal package, which coupled with the IMF program, seems to have pleased investors (for now).

Turkey, after months of "non-orthodox" monetary policy has finally surprised the market with 625bps raise in rates, despite comments against the move from Erdogan just a few hours before the announcements. The point of no return (banks going under) has not been reached (for now).

Finally, Brazil is expected to elect a populist right wing candidate which happens to be the markets preferred candidate.

Will this be enough to change sentiment? Arguably when it comes to financial markets, sentiments affect fundamentals and unless investor sentiment changes for the better, good stocks at attractive valuations simply won't be enough.

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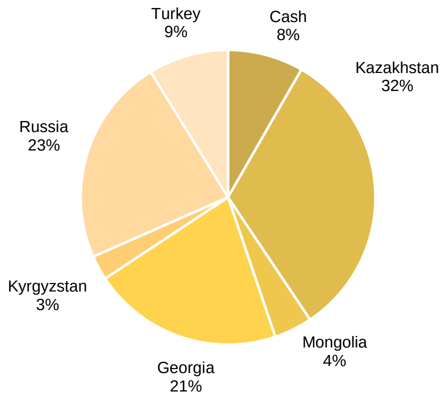
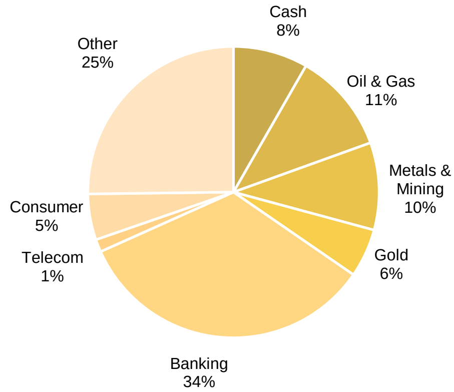
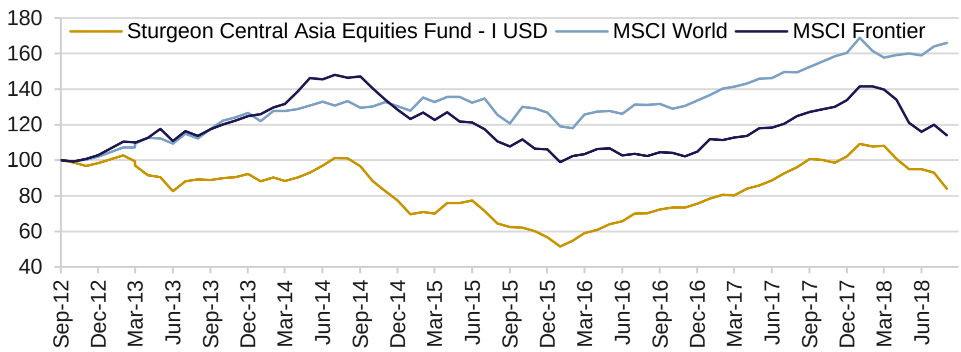
GEOGRAPHICAL ALLOCATION



STRATEGY ALLOCATION



CUMULATIVE PERFORMANCE



FUND STATISTICS

Performance (%)	USD I	USD R	EUR R	GBP R
One Month	-9.15%	-6.57%	-11.63%	-8.30%
Three Months	-10.91%	-8.46%	-13.40%	-8.88%
Year To Date	-17.43%	-16.16%	-17.54%	-14.53%
One Year	-12.22%	-11.06%	-14.57%	-14.07%
Three Years	6.39%	6.40%	2.04%	8.64%
Five Years	-2.75%	-1.99%	-1.90%	1.46%

Risk & Return: Since Inception	USD I	USD R	EUR R	GBP R
Return Since Inception	-2.84%	-2.17%	-2.16%	1.41%
Standard Deviation (%)	16.06%			
Sharpe Ratio	-0.10			
Correlation				
MSCI World	0.48			
MSCI Frontier	0.76			

* I USD and R EUR share classes were launched Oct. 2012, R GBP share class was launched July 2013 and R USD share class on Feb. 2014. All data is since class inception.

FUND TERMS

	USD I	USD R	EUR R	GBP R
Minimum Subscription	200,000	5,000	5,000	5,000
Additional Subscription	No minimum	No minimum	No minimum	No minimum
Management Fee	1.5%	2%	2%	2%
Performance Fee	20% with high water mark	20% with high water mark	20% with high water mark	20% with high water mark
ISIN Code	LU0815065403	LU0815065312	LU0815065585	LU0815065742
Bloomberg Code	STCAEIU LX	STCAERU LX	STCAEIE LX	STCAERS LX
Management Company	Alter Domus	Alter Domus	Alter Domus	Alter Domus
Administrator	RBC	RBC	RBC	RBC
Custodian	RBC	RBC	RBC	RBC
Subscription	Weekly	Weekly	Weekly	Weekly
Redemption	Weekly	Weekly	Weekly	Weekly

FUND COMMENTARY (CONTINUED):

On the other hand, it is possible that this time will be different indeed. If the news flow on Argentina, Turkey and Brazil improves, suddenly emerging markets could become the Eldorado of high growth and low valuations.

Most of Central Asia being commodity exporters with strong reserves and limited capital flow are better positioned than other emerging markets should this contagion in fact get worse.
This scenario though, also ignores other sources of negative news: trade wars, Italy's fiscal problems and tensions in the Middle East spring to mind…

Other news include: Russia, Iran, Azerbaijan, Kazakhstan and Turkmenistan - all countries bordering the Caspian Sea - have agreed in principle on how to divide it up. This has been a long-standing issue and source of significant tensions as the Caspian Sea is rich in oil and gas deposits as well as the sturgeon fish which provides the World's most exclusive caviar. It also addresses its environmental protections. Some experts remain sceptic, however having been close observers of the issue for many years and working at a firm called Sturgeon (being focussed on the Caspian Sea region), we believe this landmark deal is welcome news.