MAY 2018 MONTHLY REPORT

CENTRAL ASIA

STURGEON CAPITAL

FUND COMMENTARY

May proved particularly challenging as we witnessed a broad selloff of assets in markets such as Brazil and Turkey that related to volatility spikes in emerging markets. Or looking from a different perspective, the US dollar has rallied in excess of 5% (DXY against a trade weighted index) from mid-April to the end of May. The MSCI Frontier index was down 10% over the month of May.

While speculating on the potential for contagion is a thankless task, I think it would be appropriate to detail a few factors on how Central Asia is different from other emerging markets and how some countries today are much better equipped to deal with exogenous shocks compared to the last cycle.

First of all, post 2009, Central Asia in general, and Kazakhstan in particular, has had very limited investment flows. The “hot money” flows in particular were scarce due to negative perception and limited appetite for the region.

The previous period of banking sector internationalisation where you had the presence of Royal Bank of Scotland, HSBC, in addition to Kookmin and Unicredit owning local banking operations (under the CentreCredit and ATFbank brands) has fully reversed. The landscape today is much more different as the only really foreign player is Sberbank. This in turn has made the sector more reliant on local funding and therefore less susceptible to a sudden change in mood by foreign capital. Hard currency funding, eurobond have also been quite limited and mostly confined to sovereign or quasi sovereign issuers. Financials and corporates have been either unable or unwilling to take on much debt.

The Kazakh government enjoys debt/GDP at circa 20% while it is benefitting from higher oil prices and increasing commodity exports. What has changed is that the country is less dependent on foreign funding, particularly in areas where the credit quality is more volatile. On the fiscal side, whilst consolidation has been very limited, the National Fund continues to benefit from incoming payments, meaning international reserves today stand in excess of $90bn (as of end of May), more than a half of GDP.

The other country with sizeable foreign flows is Georgia. Georgia has a more efficient and flexible monetary and fiscal set up but is also more exposed to market sentiment in two ways. Its fiscal and capital balance are negative and it is exposed to Turkish Lira weakening. In addition, foreign credit is concentrated on its financial sector which we would argue is more sensitive to FX and spreads volatility. On the positive side, the economy and its financial sector are so far in great health and there seem to be some early signs of de-dollarization in the economy which would add resilience. As Georgia Capital, the investment holding of Bank of Georgia has spun-off, we are reviewing our exposure in the Georgian banking sector.

Incoming corporate data remains positive as is the outlook for Central Asia, in particular thanks to higher commodity prices and positive sentiment across the Belt and Road Initiative. However this has to be balanced with increased sensitivity to broader emerging markets as the Fed normalises monetary policy.

Continued overleaf

INVESTMENT OBJECTIVE

Long bias Equity Fund investing across the Silk Road region

PERFORMANCE USD I SHARE CLASS

Returns	Central Asia Fund
Last Month	-6.05%
Year to Date	-7.3%
NAV	946.40

FUND DETAILS

Structure	UCITS
Domicile	Luxembourg
Launch Date	Oct. 2012
Fund Size USD	$25m
Number of Holdings	32
Dealing	Weekly

TOP HOLDINGS

Company name		%
1	TCS Group	8.9%
2	Halyk Bank	8.8%
3	Liberty Bank	8.7%
4	KazTransOil	5.7%
5	Turquoise Hill	3.9%

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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%								-7.3%
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%

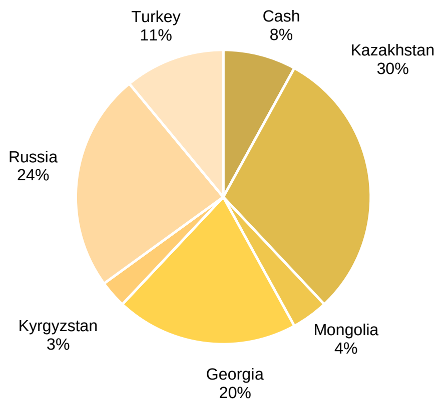
* 2012 performance starts from October – when the Fund’s first NAV was struck. Performance figures are for a day-1 investor, net of fees

FUND COMMENTARY (CONTINUED):

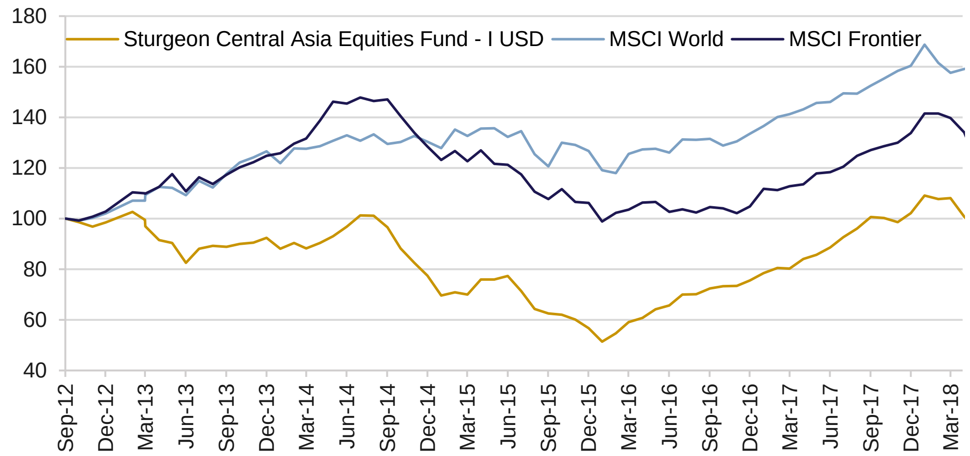
Portfolio: We are looking to reduce our exposure to financials (except in Kazakhstan) in favour of gold and more domestic driven companies and to potentially buy some downside protection.

Having recently visited Singapore, Hong Kong and Seoul, we saw a distinct shift in perception on Central Asia. Though the region remains lightly covered in London, we are seeing growing interest from Asia as the Belt and Road Initiative is facilitating trade and capital flows. Take the West's obsession with the G7 and the various commentary on Trump for example: As the summit was taking place in Canada, the Shanghai Cooperation Organisation (SCO) meeting was being held in China. One cannot ignore that the SCO now represents roughly 40% of the world's population and 20% of global GDP, while the G7 accounts for less than 10% of the world population and 40% of its GDP. This is while the SCO's share is rapidly rising while the G7's is declining. Something to keep in mind.

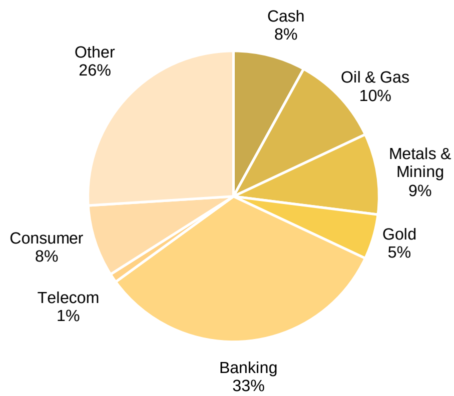
GEOGRAPHICAL ALLOCATION



CUMULATIVE PERFORMANCE



STRATEGY ALLOCATION



FUND STATISTICS

Performance (%)	USD I	USD R	EUR R	GBP R
One Month	-6.05%	-6.08%	-2.48%	-2.67%
Three Months	-12.21%	-12.29%	-7.61%	-8.34%
Year To Date	-7.32%	-8.41%	-4.77%	-6.19%
One Year	10.38%	8.69%	3.94%	2.63%
Three Years	10.57%	9.59%	7.05%	12.06%
Five Years	-0.48%	-0.24%	0.96%	3.36%

Risk & Return: Since Inception	USD I	USD R	EUR R	GBP R
Return Since Inception	-0.97%	-0.28%	0.26%	3.42%
Standard Deviation (%)	15.92%	16.48%	14.28%	14.28%
Sharpe Ratio	0.02	0.07	0.09	0.31
Correlation				
MSCI World	0.50	0.48	0.42	0.28
MSCI Frontier	0.69	0.72	0.55	0.49

* 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