SEPTEMBER 2018 MONTHLY REPORT

CENTRAL ASIA

STURGEON CAPITAL

FUND COMMENTARY

"I'm confident that the grave abuse of the role of the U.S. dollar as a global reserve currency will result over time in the weakening and demise of its role," Sergey Lavrov, Russia's Foreign Minister, while in Turkey

The fund gained +1.10% over the month of September as anxiety among investors dissipated. Last month, we anticipated that the positive news flow emanating from Argentina and Turkey could be enough to stop aggressive selling. Whilst markets appear to have stabilised, they have yet to make any substantial rebound. So what now?

We believe the key variable is the US dollar, which is enjoying a number of positive tailwinds. It is backed by the US having the highest interest rates and best performing economy among the most liquid currencies. In addition, after a 10 year long positive cycle, it is enjoying a large fiscal stimulus and – finally and more importantly – has the status of undisputed reserve currency par excellence.

In simple terms however, a stronger dollar would increase pressure on Emerging Markets, particularly those exposed to substantial dollar funding. Yet to some extent, the reverse is also true, a strong dollar makes local exporters more competitive (and the US less so). For example, Turkey is expected to have a record current account surplus in September (historically Turkey had a deficit).

In addition, a stronger dollar effectively provides for a tighter monetary environment for the US, in part doing the Fed's job. Market wise, the S&P 500 has also been –by far – the best performing index (albeit mostly because of a few FAANG stocks).

Conversely, the rest of the World (in USD terms), has underperformed substantially. Europe is down 40% from January 2008 versus the S&P 500 which is up a 100%, MSCI Frontier down 50% and Kazakhstan (no Central Asian benchmark anymore) down 72%.

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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	+1.10%
Year to Date	-16.53%
NAV	852.37

FUND DETAILS

Structure	UCITS
Domicile	Luxembourg
Launch Date	Oct. 2012
Fund Size USD	$18.5m
Units in Issue	21,252
Number of Holdings	33
Dealing	Weekly

TOP 10 HOLDINGS

	Company Name	%
1	Liberty Bank Ord	12.5%
2	TCS Group	9.0%
3	Halyk Savings Bank GDR	8.1%
4	KazTransOil	5.8%
5	Steppe Cement	4.9%
6	Kazmunaigas Prefs	4.8%
7	TBC Bank	3.6%
8	Mail.ru Group	2.9%
9	Turquoise Hill Resources	2.9%
10	Tav Havalimanlari	2.8%

MONTHLY PERFORMANCE SINCE INCEPTION

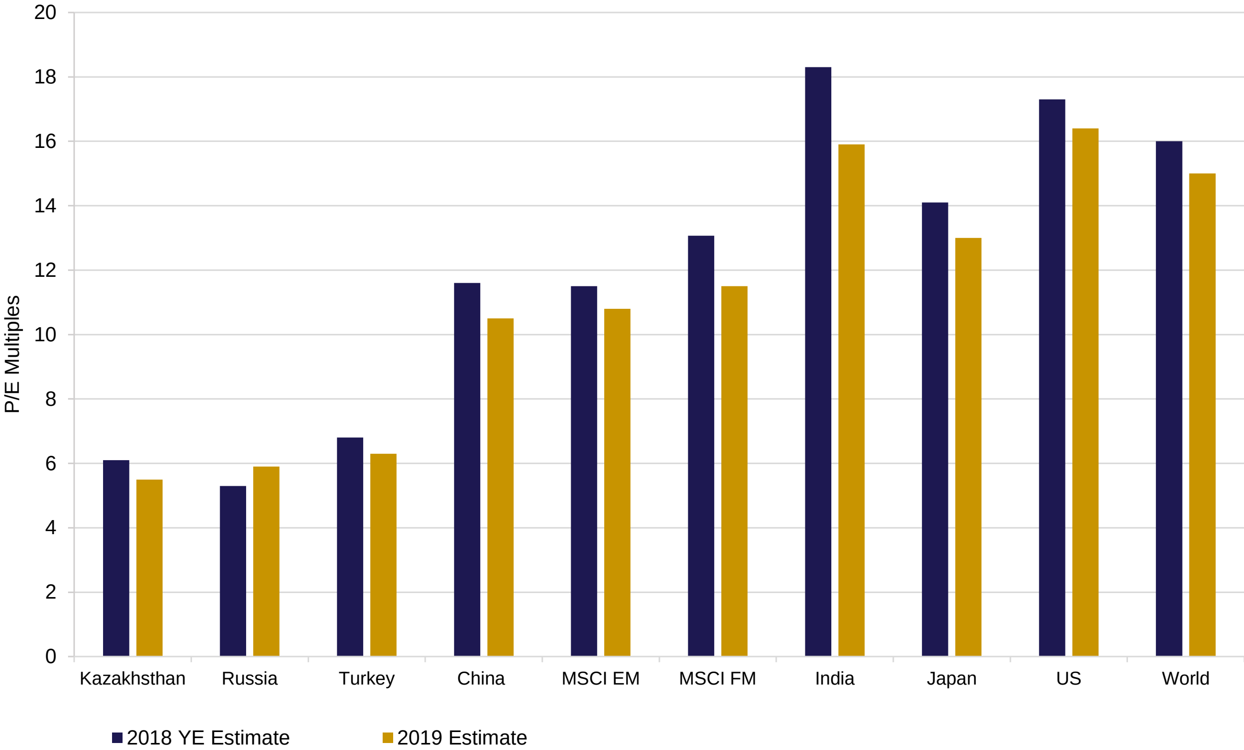
I USD	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Year
2018	6.88%	-1.22%	0.28%	-6.82%	-6.05%	0.63%	-2.55%	-9.15%	1.10%				-16.53%
2017	3.83%	2.57%	-0.23%	4.61%	2.03%	3.44%	4.53%	3.61%	4.83%	-0.42%	-1.69%	3.60%	35.1%
2016	-9.26%	6.23%	8.07%	2.89%	5.56%	2.51%	6.39%	0.23%	3.21%	1.35%	0.13%	2.94%	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):

From a different perspective, we observe a similar pattern: Value vs Growth from 2008 –10/2018. We compared MSCI Global Value versus MSCI Global Growth.

Both indices are heavily tilted towards the US market and both exhibit positive performance. However whilst value is up only 11%, growth is up over 70%. We will avoid detailing how margins are high by historical standards, meaning that Price Earnings (even cyclically adjusted) are understated, as when margins decline, P/E ratios are likely to increase vertically. Going back further in time, it is fair to say that whilst since the mid-70s (that's as far as Bloomberg/MSCI goes) value has outperformed growth, the divergence today is quite extreme by historical standards. A similar conclusion can be made on the S&P's outperformance.



The point here is whether this is an indication of structural differences compared to the past ("this time is different"/ "the trend is your friend") or whether this behaviour is simply likely to mean revert going forward. We don't believe this divergence can defy gravity for much longer. The reason that we think this is the case is valuation. Whilst price earnings multiples are an imperfect measuring tool, on aggregate it offers some interesting insights. Kazakhstan, our largest allocation, trades at roughly half the valuation of the emerging and frontier market indices, which itself trades at 30% discount compared to the S&P 500. In simple terms, a company that generates $1000 of net income (YE2018) is worth (based on market weighted average) $6000 in Kazakhstan, $11'000/13'000 in the Emerging/ Frontier markets and $16'000 on the US markets.

This difference is high by historical standards (although the data only goes back to 2000s). Unlike Russia for example, Kazakhstan is not plagued by sanctions - its outlook is bright and debt levels across the economy (consumer, corporates or sovereign) are a fraction of the country's FX reserves. It's international assets in its sovereign wealth fund are higher than its combined public debt, relative to that of other frontier or emerging market economies. Central Asia has also another advantage compared to its peer group, which is its main revenue comes from commodities which are paid in hard currencies. Its liabilities are limited and so there is limited exposure on that side.

Dividend yields show a similar pattern as price/earnings ratios. Again, stand alone data points can be misleading but taken on aggregate, lead to a similar conclusion. Current dividend yields in Kazakhstan are twice its emerging markets peer group and three times the Standard and Poor's.

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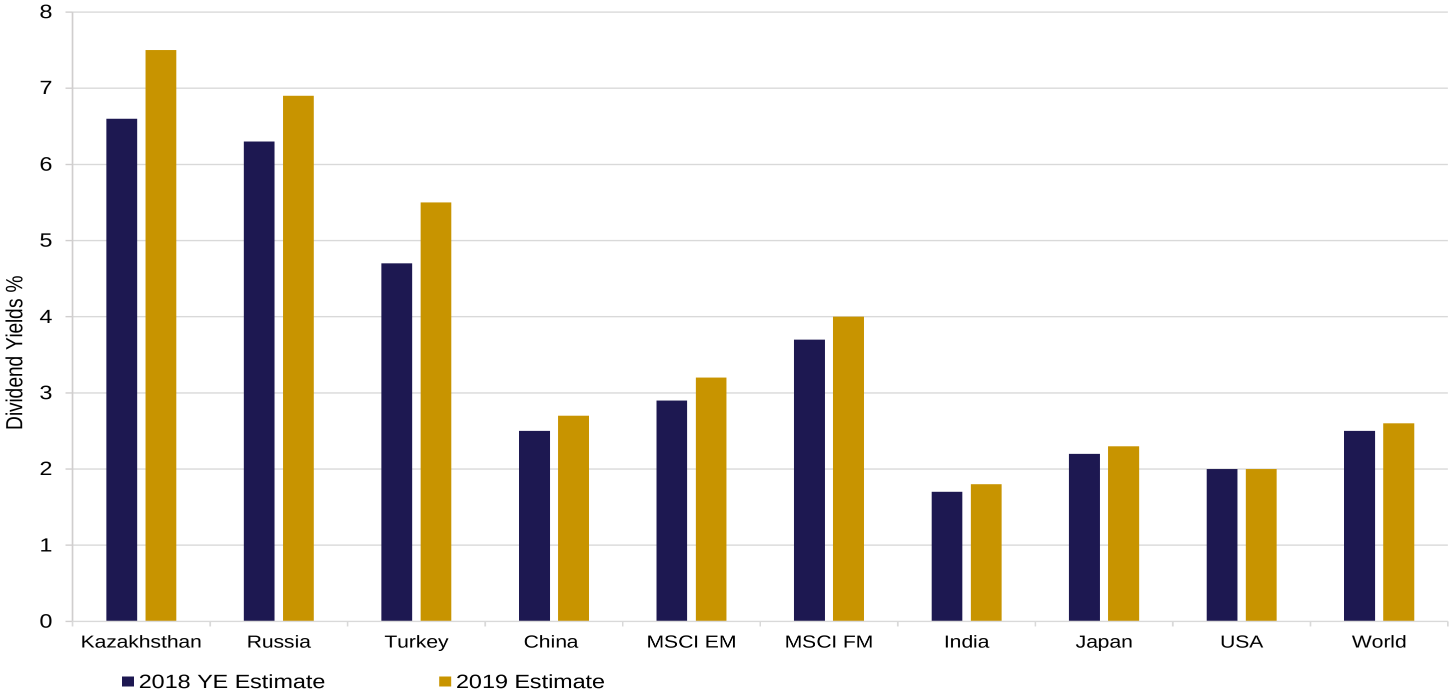
FUND COMMENTARY (CONTINUED):



We don't necessarily see this divergence converging overnight, but would expect some mean reversion going forward, i.e. markets like Kazakhstan trading up inline with historical averages. Potential catalysts are out there, be it a trade war, tighter monetary conditions on top of a highly levered system, or some "unknown unknown".
Whilst overall conditions seem to point to a continuation of benevolent market conditions, we would expect Central Asia to outperform both EM and FM indices as well as US indices. The rebalancing is long over due.

PORTFOLIO

In September MSCI Turkey (+16%) and MSCI Russia (+9.3%) outperformed both KZKAK Index (-1.51%) and MSCI Frontier Markets (-0.38%) on the back of the rebound of the Turkish Lira (appreciated by 8%) and Russian Ruble (appreciated by 3%). Despite volatility during the month, Kazakh Tenge stayed flat and Georgian Lari depreciated by 1.5%. Brent oil price increased by 6%.

Kazakhstan continues its efforts to clean the banking sector, which still suffers after the financial crisis of 2008-2009. National Bank of Kazakhstan has revoked the license of smaller Astana Bank. It is the third bank which has had its license revoked after Qazaq Banki and Eximbank. Market consolidation should help Halyk Bank - one of our largest holdings - to strengthen its leading position in the market. National Bank of Kazakhstan has kept the interest rates stable at 9%, pointing to the risk of hitting the upper boundary of its inflation target of 4-6% for 2019.

In Georgia the Central Bank has kept the interest rates on hold at 7%. The 22nd September saw Uzbekistan's Central Bank increase interest rates by 2pp to 16%, the main reason being inflationary pressure. Moody's confirmed their forecast for the country's economic growth at 5% in 2018-2019. The Mongolian Tugrik has reached new lows of 2541 vs the USD. At the same time based on higher commodity exports and increased domestic credit the Asian Development Bank has upgraded Mongolia's growth forecast for 2018 and 2019 to 6.4% and 6.1% from previously 3.8% and 4.3% respectively. The Turkish market and Turkish Lira have rebounded in September, increasing by 17% and 8% respectively. During its September meeting, the Central Bank of Turkey increased interest rates by 625bps, which was more than the market had expected, halting at least for now the depreciation of the currency. The Russian market had a positive month as well. The Ruble has appreciated almost 3% on the back of the strong oil prices, pushing MXRU 9% higher.

The best performing stocks in the portfolio were Turkish Airlines, Steppe Cement and Mail.ru Group. Turkish Airlines has gained 26.5% on the back of the stronger Lira and expectation of the launch of the third airport in Istanbul in October. Steppe Cement has gained 15% in September, thanks to the strong 1H2018 results. Revenues were up 22% and operating profit increased by more than 200%, as the company continued to focus on prices over volumes. Housing programs Nurly Zher and the new initiative 7-20-25 (7% interest rate, 20% down payment, 25 years duration) are helping cement demand as well. Mail.ru was up 26% in September. The company has signed a JV agreement with Alibaba, Megafon and the Russian Development Fund to combine their efforts in online consumer business. Additionally Mail.ru together with Megafon have agreed to launch a cloud business in Russia.

Kaztransoil, Turquoise Hill and Altyn were the main negative contributors to the portfolio. Kaztransoil reported neutral numbers at the end of August, its share price lost 5% over the month of September. The main item was a one-off write down of its Georgian assets. We expect its dividend yield to remain in the lower double digits. Turquoise Hill Resources, operator of the giant Oyu Tolgoi copper project in Mongolia was down 8.5% in September, negatively affected by the gold and copper prices and concerns over delays of the project because of the dispute between Rio Tinto and the Mongolian government on the electricity source for the mine. Altyn has suffered from the lack of news on financing of their project, however they managed to swing to profit in the 1H18 thanks to increased volumes and higher ASP.

BUSINESS UPDATE:

We are pleased to welcome a new member to our Investment Team. Rustam Mursalimov joins us as Senior Analyst to focus on our Central Asia investments. He has 8 years of experience investing in Global Emerging Markets, consistently achieving strong performance. He previously was a Portfolio Manager at Gazprombank Asset Management in Moscow and Deka Investment in Frankfurt as Equity Portfolio Manager. Rustam holds a Masters Degree from University of Münster, Germany. He is fluent in Russian, Lithuanian, German and English. Rustam brings a wealth of experience and knowledge specific to the region which ultimately will strengthen the firms' investment capability.

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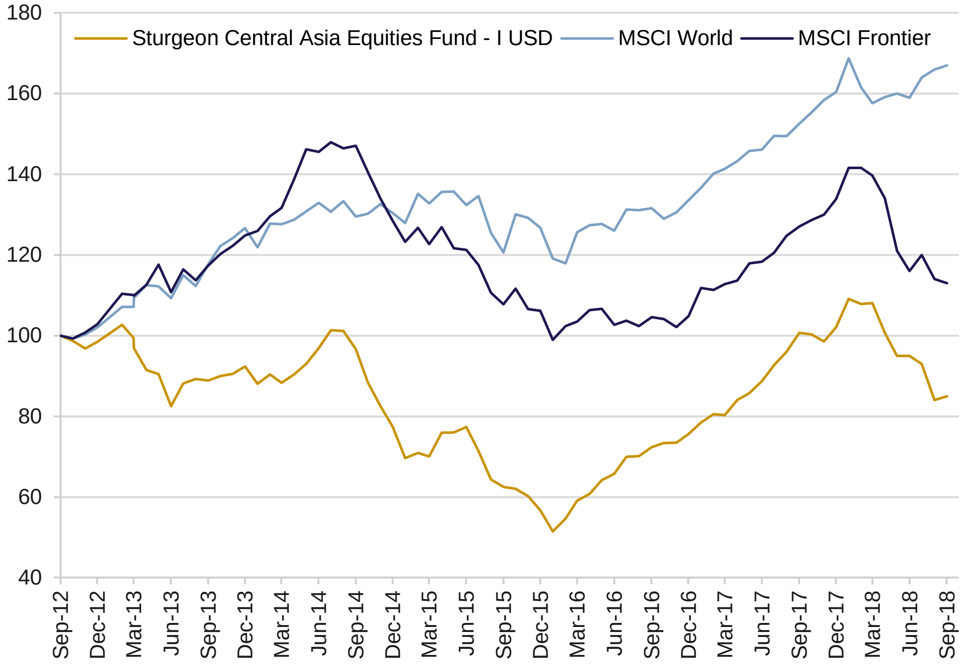
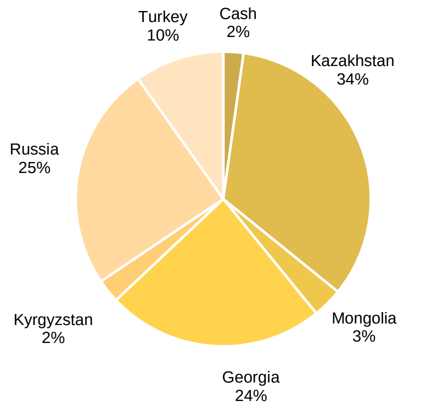
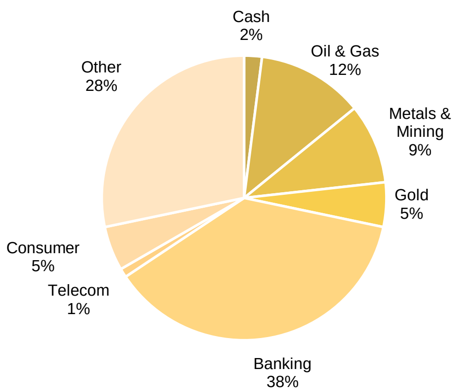
CUMULATIVE PERFORMANCE



GEOGRAPHICAL ALLOCATION



STRATEGY ALLOCATION



CONTACT DETAILS

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FUND STATISTICS

Performance (%)	USD I	USD R	EUR R	GBP R
One Month	1.10%	-1.79%	4.17%	0.73%
Three Months	-10.50%	-10.61%	-10.15%	-9.50%
Year To Date	-16.53%	-17.66%	-14.10%	-13.91%
One Year	-15.35%	-16.64%	-14.62%	-13.84%
Three Years	10.90%	9.95%	8.45%	13.97%
Five Years	-0.84%	-2.34%	1.45%	1.50%

Risk & Return: Since Inception	USD I	USD R	EUR R	GBP R
Return Since Inception	-2.63%	-2.51%	-1.46%	1.53%
Standard Deviation (%)	15.95%			
Sharpe Ratio	-0.09			
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

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