### CAPITAL LLP

# January 2018 – Monthly Review

January Performance: + 0.97% 2018YTD Performance: + 0.97%

#### Performance:† Year 2005 15.5% Ann 2006 11.2% 2007 12.8% 2008 -28.4% 2009 40.3% 2010 10.1% 2011 -9.2% 2012 12.9% 2013 13.4% 2014 2.8% 2015 3.3% 2016 3.7% 2017 2018 1.0% Ytd Fund Details: Rupert Mathews Manager August 2005† Structure UCITS Dublin OEIC GBP, USD, EUR Share Classes

Launch Date

Yes (selected share classes)

Reporting Status

Income

available

Management 1.00%

Performance 10% over 3M LIBOR Fee

Dealing

Daily

BNP Paribas Fund Administration Services

Yes (Income Share Classes)

Administrator

Ireland Limited

Auditor

Ernst & Young LLP

| Statistics: |  |
|-------------|--|
|             |  |
|             |  |

Positive Months

LIBS Salar Focus

7.2%

96

12 M Return 4.2%

93

## **Investment Objective:**

To generate capital growth, whilst seeking to preserve capital through careful selection of convertible bonds near their bond floor where the underlying equity has potential for price appreciation. Whilst the Fund is "long only", it is not benchmarked to an index but rather targets absolute returns in excess of LIBOR with low volatility. The fund structure is UCITS offering daily liquidity. Ferox Capital is a London based investment management firm specialised purely in convertible bonds. The firm was set up in 2000 and manages a range of traditional and alternative convertible funds.

## Monthly Commentary:

Equity markets had their strongest start to the year in many decades. MSCI jumped +5.6%, as did the S&P. Asia and the US were the main contributors and pickings were thinner elsewhere. Europe and Japan lagged somewhat (DJ EuroStoxx +3.0% and Topix +1.05%). Salar started the year with a

We saw some good gains in Japan as SBI jumped 12% (following some larger gains in previous months). Steinhoff also saw some good gains too as investors took a more sanguine view of the prospects for the bonds (we have lightened our position into this strength). Our Asian positions also saw good gains as HK financials had a particularly strong start to the year. The US move was focused on tech (NASDAQ up an astonishing +7.4%) and large caps (the S&P was +5.6% but the Russell 2000 was only +2.6%).

Clearly, the type of underlying market move that we saw in Salar is not ideal for us. We are overweight Japan and we are carrying relatively little exposure to US tech (so average move +1% versus +7%). We nevertheless did well where we do hold US names - both Tesla and Altbaba (Yahoo) were in our top ten winners.

The asymmetry of our risk return was evident in the month - our top 15 winners covered the losses of the biggest 15 losers 3.3x over (the TR Focus Index could only manage 2.5x).

Issuance was extremely active. After a quiet final quarter in 2017, the calendar exploded into life. We saw 30 deals raising \$14.6bn. Asian issuance in January alone was more than we've seen in any of the last three years. To a certain extent, the market has been crying out for more Asian bonds, so the added size and diversity is a huge bonus. US issuance was also above average. There are two possible reasons why. Firstly, Trump's tax reforms limiting the amount of interest deduction allowable at 30% of income will focus bond issuers on lower coupon ways to raise capital (e.g. convertibles). Secondly, rising rates in the US will have a similar effect. These could be very positive indeed for issuance.

However, that did cause some cheapening in existing bonds, as long-only investors made room for them in their portfolios. Japan, in particular, is at multi-year valuation lows.

We cannot sign off the letter without at least a mention of February so far. We have had a sharp correction in markets. Volatility has spiked. Salar protected capital well in the sudden move and we added a little more equity risk at the lows. The next move is uncertain - the initial bounce seems to have run out of steam but equally underestimating this bull market has never been a good idea. Either way, it is a timely reminder that the equity market has teeth and offers the potential of a nasty bite. Salar's combination of low risk and high asymmetry is a potential antidote.

|      | Jan   | Feb   | Mar   | Apr   | May  | Jun   | Jul   | Aug   | Sept  | Oct   | Nov   | Dec   | YTD   |
|------|-------|-------|-------|-------|------|-------|-------|-------|-------|-------|-------|-------|-------|
| 2013 | 2.87  | 1.28  | 1.39  | 2.13  | 1.32 | -1.22 | 1.39  | -0.01 | 1.61  | 1.24  | -0.11 | 0.84  | +13.4 |
| 2014 | -0.02 | 1.34  | -0.08 | -0.08 | 0.81 | 0.33  | 0.04  | 0.36  | -1.39 | -0.08 | 1.42  | -0.02 | +2.8  |
| 2015 | 0.90  | 2.14  | 0.76  | 2.42  | 0.31 | -1.53 | -0.10 | -1.98 | -1.70 | 2.66  | 0.32  | -0.82 | +3.3  |
| 2016 | -3.03 | -0.80 | 2.19  | 0.87  | 0.67 | -1.44 | 2.36  | 0.69  | 0.12  | 0.67  | 0.01  | 1.41  | +3.7  |
| 2017 | 0.27  | 1.00  | -0.23 | 0.83  | 0.50 | -0.16 | 0.46  | -0.30 | 0.51  | 1.12  | -0.03 | -0.53 | +3.5  |
| 2018 | 0.97  |       |       |       |      |       |       |       |       |       |       |       | +1.0  |

| Fund Data                   |            |
|-----------------------------|------------|
| Fund Size:                  | \$1,312 mm |
| Average Yield:              | 0.7%‡      |
| Average Premium:            | 22.9%~     |
| Average Delta:              | 34.2%      |
| Average Life (Years)        | 2.21       |
| No. of Long CB<br>Positions | 131        |

Premium outliers excluded. Premium cap

#### Share Class Identifiers

<sup>‡</sup>Yield outliers excluded

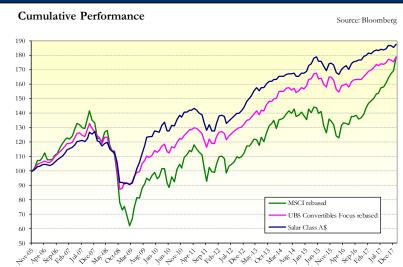
75%

#### Institutional Share Class - 1% AMC

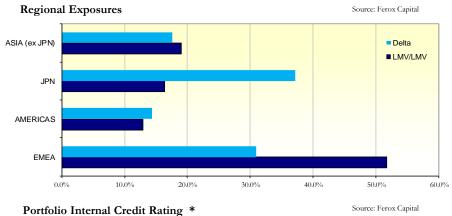
| Class | Type         | ISIN         | Reporting<br>Status |
|-------|--------------|--------------|---------------------|
| A1£   | Acc          | IE00B2PLHD34 | N                   |
| A1€   | Acc          | IE00B2PLHB10 | N                   |
| A1\$  | Acc          | IE00B2PLHH71 | N                   |
| C1£   | Dist Non-Inc | IE00B2PLHP55 | Y                   |
| C1€   | Dist Non-Inc | IE00B67Y0W83 | Y                   |
| C1 \$ | Dist Non-Inc | IE00B68XGB59 | Y                   |
| C1£   | Dist Inc     | IE00B3NPCX99 | Y                   |
| C1€   | Dist Inc     | IE00B3QCDB21 | Y                   |
| C1\$  | Dist Inc     | IE00B3NPK028 | Y                   |
| E1£   | Acc          | IE00B51KV998 | Y                   |
| E1€   | Acc          | IE00B520F527 | N                   |
| E1\$  | Acc          | IE00B50W0L11 | N                   |
| E1£   | Dist Inc     | IE00BBR6N758 | Y                   |
| E1€   | Dist Inc     | IE00BBR6N535 | N                   |
| E1\$  | Dist Inc     | IE00BBR6N642 | N                   |

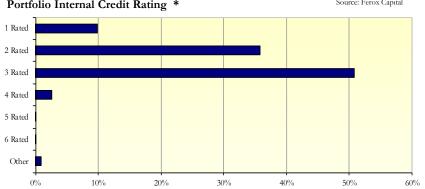
| Class  | Type         | ISIN         | Reporting<br>Status |  |  |
|--------|--------------|--------------|---------------------|--|--|
| A2£,   | Acc          | IE00B2PLHJ95 | N                   |  |  |
| A2€    | Acc          | IE00B2PLHG64 | N                   |  |  |
| A2\$   | Acc          | IE00B2PLHK01 | N                   |  |  |
| C2£    | Dist Non-Inc | IE00B2PLJ042 | Y                   |  |  |
| C2€    | Dist Non-Inc | IE00B67XZ758 | Y                   |  |  |
| C2\$   | Dist Non-Inc | IE00B691DG27 | Y                   |  |  |
| C2£    | Dist Inc     | IE00B3N9KZ94 | Y                   |  |  |
| C2€    | Dist Inc     | IE00B3N9KR11 | Y                   |  |  |
| C2\$   | Dist Inc     | IE00B3QSM021 | Y                   |  |  |
| E2£    | Acc          | IE00B51ZKG48 | Y                   |  |  |
| E2€    | Acc          | IE00B520G822 | N                   |  |  |
| E2\$   | Acc          | IE00B51ZK080 | N                   |  |  |
| E3£**  | Acc          | IE00B523PS49 | Y                   |  |  |
| E3€**  | Acc          | IE00B50VYD81 | N                   |  |  |
| E3\$** | Acc          | IE00B51ZL161 | N                   |  |  |
| E2£    | Dist Inc     | IE00BBR6NB95 | Y*                  |  |  |
| E2€    | Dist Inc     | IE00BBR6N865 | N                   |  |  |
| E2\$   | Dist Inc     | IE00BBR6N972 | N                   |  |  |
| E3£**  | Dist Inc     | IE00BBR6ND10 | Y*                  |  |  |
| E3€**  | Dist Inc     | IE00BBR6NC03 | N                   |  |  |
| E3\$** | Dist Inc     | IE00BBR6NF34 | N                   |  |  |

\* intends to apply for reporting status



†Performance is for Salar Fund Ltd Class A\$ which launched in Nov 2005. From September 2014 performance is simulated from Salar Fund Plc Class A1\$. All performance is net of fees. Please contact Ferox Capital for the track record of specific





Total return will fluctuate with the market conditions and changes in currency exchange rates. An investor's capital value may go up as well as down and an investor may not get back the original capital amount invested. Past performance may not necessarily be repeated and is no guarantee or projection of future results.

\*The above graph shows the internal rating of the total current portfolio. 81% of the portfolio currently unrated by Rating Agency rankings. Rating Agencies include S&P, MOODY, FITCH and R&I. Each bond will be assigned an internal rating of 1 to 6 based on our confidence that the issuer can pay us back (1 being a very high level of confidence, 6 being a low level of confidence). Our internal ratings are deliberately designed not to replicate the Rating Agency rankings - our central focus is on credit quality. A high rated bond does not necessarily imply it is investment grade - our process is centred on the certainty of repayment of the bonds we own.

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#### **CAPITAL LLP**

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