

September 2018 – Monthly Review

September Performance: + 0.58%
2018YTD Performance: + 1.46%

Performance:[†]

Year	Return
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	3.5%
2018	1.5% Ytd

Fund Details:

Manager	Rupert Mathews
Launch Date	August 2005 [‡]
Structure	UCITS Dublin OEIC
Share Classes	GBP, USD, EUR
Reporting Status	Yes (selected share classes)
Income available	Yes (Income Share Classes)
Management Fee	1.00%
Performance Fee	10% over 3M LIBOR
Dealing	Daily
Administrator	BNP Paribas Fund Administration Services Ireland Limited
Auditor	Ernst & Young LLP

Statistics:

	Salar	TR Focus
12 M Return	2.01%	1.96%
Positive Months	97	100

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:

Japan had a formidable run in September. The Nikkei rose +5.5%[‡]. The US continued its winning run (S&P +0.4%) but the Tech sector faltered for once (NASDAQ -0.8%). Asia failed to recover (Hang Seng -0.4%).

Unsurprisingly given our overweight Japan, Salar's performance was better than the TR Global Focus Index. Salar gained +0.6% versus the Index being essentially unchanged (+0.0%).

We think this portfolio has the potential to give a lot more. The month-end risk figures show a remarkably attractive risk/reward position for the Fund which contrasts starkly with the weaker position of the index. Most investors give these numbers barely a glance. At most they might look at the Delta - the sensitivity of the portfolio to the price of the underlying stocks. However, we think they warrant closer examination at the moment[‡].

Let's start with the upside. Investors tend to focus on delta. This is lower for Salar (35% vs. 40% for the Index). However, this is too simplistic a view - it is only a snapshot of a moving machine. It completely misses possibly the most important aspect - how quickly that delta can change. This change we call 'gamma'. As an analogy, if a convertible fund were a race car and we consider delta to be its current speed, gamma would be the car's acceleration and braking capabilities. A Fiat and a Ferrari could both be doing 40mph but you'd bet on the Ferrari to win a race. As an illustration of the power of gamma, if all stocks were to rise 10%, Salar's delta would rise from the 35% today to 55%. The Index, in the same scenario, moves from 40% to 47.5% - it gets overtaken by Salar. If, instead all markets were to fall 10%, our delta theoretically drops to 15% (the 'car' has almost stopped) but the Index would only drop to 32.5% (it's still travelling almost as fast as Salar was before the metaphorical brakes went on). If you think the equity market might have some sudden curves ahead, this is highly valuable.

On a simple level, our average conversion premium is 27% versus the Index's 35% - we are demonstrably closer to our trades working. This is the 'engine' that gives us the acceleration in our analogy and it has more power.

What about downside risk? Our portfolio is 7.9% from bond floor versus 15.1% for the index - we are carrying virtually half the downside risk on this simplistic measure. However, the downside protection should be even more robust for our portfolio relative to the Index, as our average maturity date (2.4 years) is shorter than that of the Index (3.6 years) and is arguably made up from higher quality bonds (average credit spread 94bp vs 158bp). In short, to the downside, our portfolio should perform far better. That essentially provides the 'brakes' - they are bigger than the opposition's.

We feel we are sitting on a potentially powerful machine of a portfolio. To continue the analogy, the road in 2017 and early 2018 has been a straight motorway, giving this machine little chance to show it's superior capabilities. We don't know what the road ahead looks like but it feels like the motorway is giving way to a more sinuous road. The capabilities we've built into our portfolio may then have the chance to shine.

[†] Source: Bloomberg. Performance data is 31/8/18 to 30/9/18

[‡] Source: Ferox Capital risk calculations based on 1/10/18 portfolio and Index data using Bloomberg MARS model

	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	-0.57	-0.36	0.97	-0.62	-0.31	0.41	0.40	0.58				+1.5

Fund Data

Fund Size:	\$1,334 mm
Average Yield:	1.4% [‡]
Average Premium:	27.4% [~]
Average Delta:	36.2%
Average Life (Years)	2.44
No. of Long CB Positions	123

[‡]Yield outliers excluded
[~]Premium outliers excluded. Premium cap 75%.

Share Class Identifiers

Institutional Share Class - 1% AMC

Class	Type	ISIN	Reporting Status
A1£	Acc	IE00B2PLHD34	N
A1€	Acc	IE00B2PLHB10	N
A1\$	Acc	IE00B2PLHH71	N
C1£	Dist Non-Inc	IE00B2PLHP55	Y
C1€	Dist Non-Inc	IE00B67X0W83	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

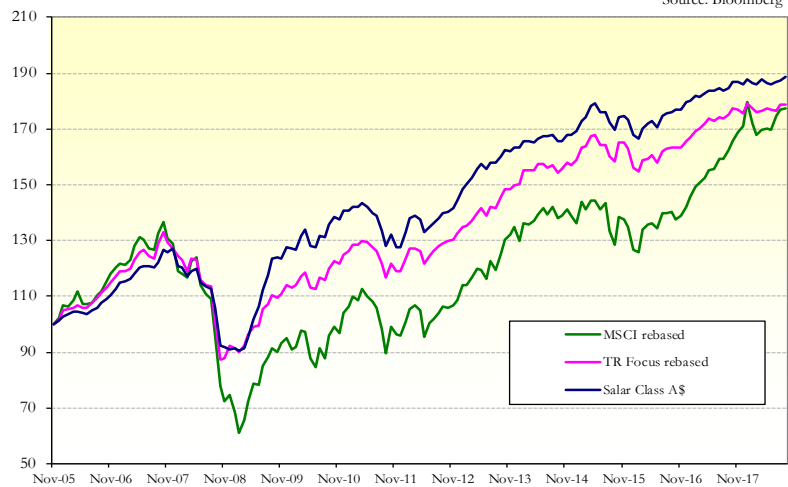
Retail Share Class - 1.5% AMC with 0.5% Trail

Class	Type	ISIN	Reporting Status
A2£	Acc	IE00B2PLHJ95	N
A2€	Acc	IE00B2PLHIG64	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

* 2% share class with 1% trail fee

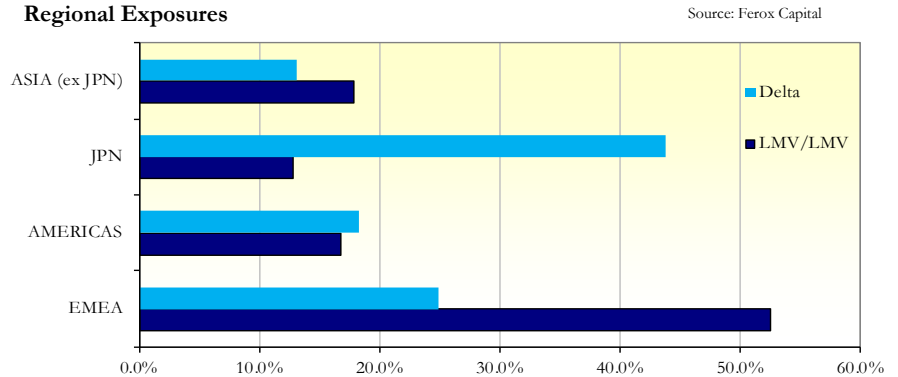
* intends to apply for reporting status

Cumulative Performance

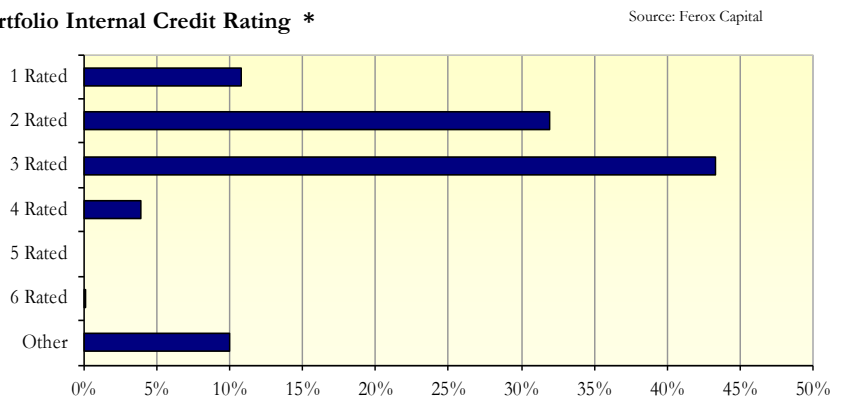


[†]Performance is for Salar Fund Ltd Class A\$ which launched in Nov 2005. From September 2014 performance is simulated from Salar Fund Plc Class A1\$. All performance is net of fees. Please contact Ferox Capital for the track record of specific share classes.

Regional Exposures



Portfolio Internal Credit Rating *



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. 54% 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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