

January 2019 – Monthly Review

January Performance: + 2.61%
2019 YTD Performance: + 2.61%

Performance:[†]

Year	Performance
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	-2.4%
2019	2.6% 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	-0.86%	-1.27%
Positive Months	99	102

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.

Monthly Commentary:

Equity markets rebounded hard in January. The US and Tech led the way with NASDAQ adding an impressive +9.7%[†] and S&P +7.9%[†]. Europe and Japan lagged significantly with the DJ Eurostoxx recording +5.3%[†] and the Nikkei a less impressive +3.8%[†]. Salar gained +2.6%[†] in the month, regaining all its 2018 losses (and more) in a single month. This is despite the fact that the MSCI recovered less than 3/4 of its 2018 losses.

In December, we had re-risked the portfolio significantly, selling positions that had protected capital but which had become dull and adding bonds that had dropped from much higher levels but now offered the type of risk reward that we like - strong theoretical downside protection coupled with excellent upside potential. This had the effect of drawing our risk (equity exposure) much closer to the convertible index than it normally is (at the beginning of the year delta was 29% in Salar versus 30% in the TR Global Focus). Nevertheless, we were conservative with our downside risk exposure, with 6% distance to bond floor (vs 9% for the Index). By the end of the month, our delta had risen to 36% (vs the Index at 38%).

We remain overweight Japan and Europe. Disappointingly, these markets were left behind in the January rally. We have built these positions not because we have strong macro views but rather these are the areas that offer the best risk return in the convertible bond asset class.

As we look forward into 2019, the equity market is obviously going to be key. We do not claim to know its direction. However, it feels like a year when the market will surprise. Certainly no investor we have met recently would have predicted the January move in the dark days of December. Indeed, we have not met a bullish investor for many months, so the contrarian outcome in 2019 is for equities to exceed expectations on the upside. PE's went through a substantial drop and could potentially support such a positive move even from these levels. On the other hand, after a 10 year bull market, a brief sub-20% correction, followed by an abrupt +15% rebound in the S&P does not feel nearly enough to put the equity market on solid foundations. Macro pressures (trade war, China slowdown, US yield curve steepening, Brexit) are building and represent significant hurdles for equity markets.

In short, the surprise in markets could be extreme in either direction. Volatility seems to have returned - and this is usually a tailwind for convertibles. We think one prudent solution is to load portfolios with strong asymmetry - upside participation with limited downside risk. We have done this with Salar. Our gamma (the measure of asymmetry) is double that of the Index. We see non-US convertibles as being an attractively-priced source of this type of risk exposure. Convertibles, having performed well relative to other asset classes in 2018, appear to us to fill a strong need for 2019.

	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	-2.02	0.42	-2.77	-2.44
2019	2.61												+2.61

[†] Source: Bloomberg. Monthly performance data is 31/12/18 to 31/01/19. YTD or 2019 performance is 31/12/18 to 31/12/19. Q1 performance is 31/12/18 to 31/03/19.

[‡] Source: Risk calculations by Ferox Capital using Bloomberg MARS model. Using portfolio and TR Global Focus constituents as at 31/01/2019.

Fund Data

Fund Size: \$1,098 mm

Average Yield: 1.4%[‡]

Average Premium: 33.0%[~]

Average Delta: 25.2%

Average Life (Years) 2.42

No. of Long CB Positions 104

[‡]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	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

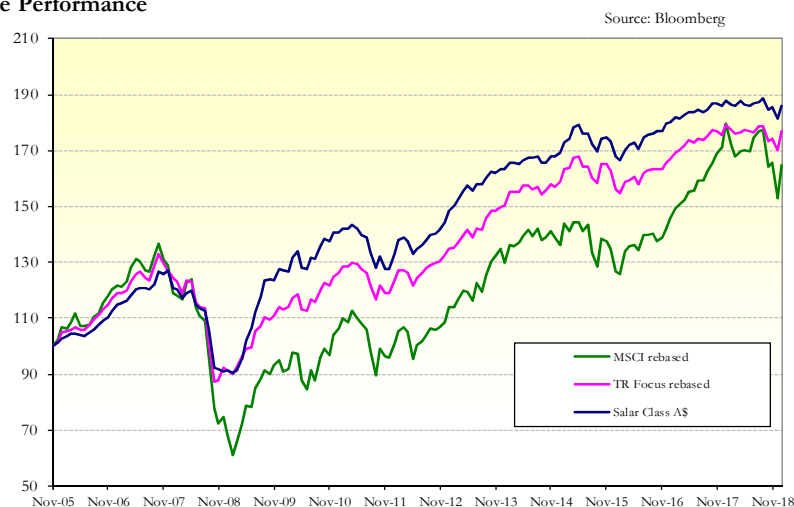
Retail Share Class - 1.5% AMC with 0.5% Trail

Class	Type	ISIN	Reporting 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	IE00B3N9KCR11	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

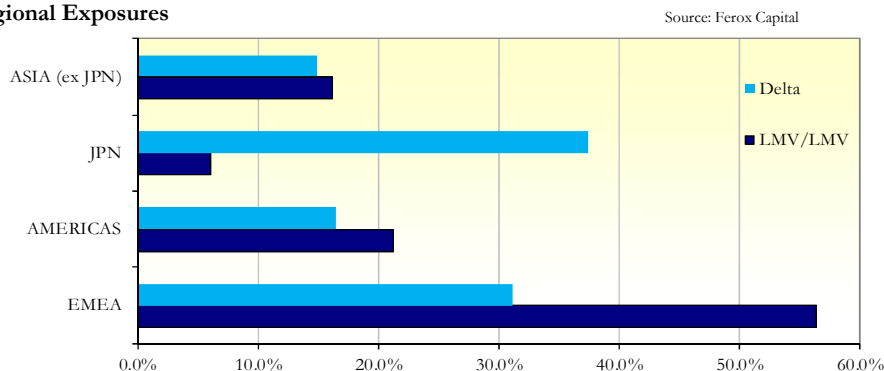
* intends to apply for reporting status

Cumulative Performance

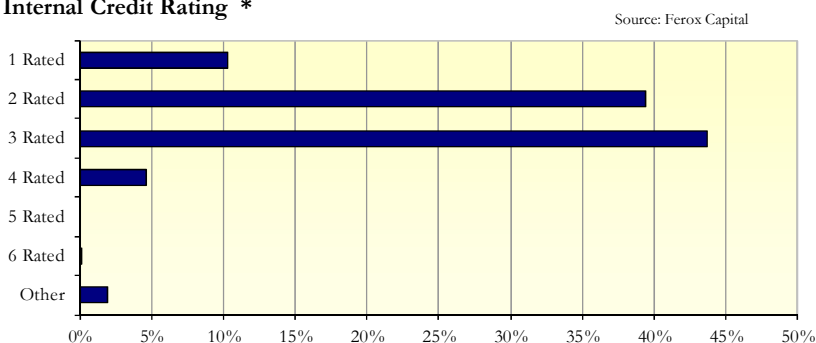


[†]Performance is for Salar Fund Ltd Class A\$ which launched in Nov 2005. From September 2014 performance is simulated from Salar Fund Plc Class A1\$. All performance is net of fees. Please contact Ferox Capital for the track record of specific share classes.

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. 62% 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.

[†] Source: Bloomberg. Monthly performance data is 31/12/18 to 31/01/19. YTD or 2019 performance is 31/12/18 to 31/12/19. Q1 performance is 31/12/18 to 31/03/19.

[‡] Source: Risk calculations by Ferox Capital using Bloomberg MARS model. Using portfolio and TR Global Focus constituents as at 31/01/2019.

Dealing:

Daily dealing, subscriptions T+1
and redemptions T+1.

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