

Sub-Fund Astra BrightGate Buy & Hold 5 Year

Bond Fund Tranche I – 2014 Manager Report

The 2014 Bond Market was successful in proving the majority of analysts wrong, with the expected market rout failing to materialize. 10year US Treasury yields were expected to rise north of 3.25%, yet at the close of the year were down at 2.2%. Whilst this yield rally helped to stabilize local currency curves, it was not sufficient to offset negative returns from Emerging Market currency depreciation against the US dollar. This is shown effectively in the fact that in all but one market, that being China, rates outperformed currency returns. Currency depreciation has been, however, relatively controlled and thus, has not had much of a negative impact on sovereign or corporate balance sheets, therefore, no significant widening in bond spreads has occurred. Russia's decline has been one of the most staggering events of the year, caused by EU and US sanctions imposed due to their involvement in Ukraine, as well as the slump in oil price. Emerging Markets local currency debt would only have delivered very small negative return of about -1% if you don't include Russia. The other main issue that has evolved throughout the year is the dramatic decrease in the price of oil, caused by a global supply glut, with the cost per barrel falling from north of 100USD to below 50USD. This has caused turmoil in oil producing countries, most notably Russia, Saudi Arabia and Venezuela and Oil Credits are likely to remain under pressure until there is more clarity on what the new floor for oil prices is. Emerging Markets, on the other hand, did benefit from persistent, very low interest rates and benign inflation in developed economies as investors sought the higher yielding EM assets with Indonesia and India both performing well despite the dominant USD. Asia in general proved resilient to the volatility in EM markets, building up a strong domestic investor base, allowing it to be less sensitive to the outflows from US markets.

We have been very active in 2014. The fund started the year with around 20% of the portfolio invested in global bond markets. We managed to reach the 90% mark in the third week of November making a total average of 55% for the full year. The rest of the portfolio was invested in 1 year maturity Euro Deposits issued by banks of a minimum risk profile of BBB.

The fund invests in the global corporate bond markets with a bias towards China. Throughout the year we have been very positive on bonds issued by SOE (State Owned Enterprises). We like these companies for various reasons: they receive strong support from the government, thus reducing their default probability relative to other companies. Secondly, we invest in strategic sectors of the Chinese Government specifically the sectors that are playing a key role in the future of China (e.g. clean energy, healthcare, education).

In terms of currency exposure, we have direct net exposure to EUR ($\approx 60\%$) and CNY ($\approx 30\%$) and indirect net exposure to USD ($\approx 10\%$). It is necessary to explain this in more detail in order to understand the figures of the currency exposure in net terms shown in our normal reporting (EUR $\approx 90\%$; CNY $\approx 30\%$; USD $\approx -20\%$). We try to play the appreciation of the renminbi (CNY) against the dolar (USD). Since the PBC (People's Bank of China) maintains a peg against the USD with a fluctuation band of $\pm 2\%$, we are indirectly exposed to the USD/EUR rate. Looking at 2014, the US Dollar has performed solidly, gaining 13.73% against the Euro, meaning that the PBC have appreciated its currency against the Eurozone currency in the same range so as to maintain the peg against the dolar. Below we provide the formula explaining the relationship between EUR and CNY.

EUR/CNY performance = USD/EUR performance $\pm 2\%$ of the fluctuation band \pm direct appreciation/depreciation against the EUR.

CNY has appreciated +10.89% against the EUR during this year. Applying the formula we can deduct that the Chinese currency have directly depreciated against the EUR in 2.84% $\pm 2\%$ of the fluctuation band. In the end, therefore, a third trade between EUR/USD was needed to hedge that indirect relationship. This explains our 20% net short position on the USD.

We believe the renminbi will play a dominant role in the Asia FX markets in the future. Policy makers in China have been justifying our beliefs. They have been implementing policies to increment the internationalization of the renminbi since 2002. Two of the major milestones in 2014 were the creation of the Shanghai-Hong Kong Stock Connect (a trial trading program that will allow investors to trade eligible shares listed on each other's markets through local securities firms or brokers) and its subsequent debut which went off with a bang, hitting its RMB13bn one day trading cap in less than five hours after markets opened. As of August 2014 more than 10,000 financial institutions are doing business in RMB up from 900 in June 2011 (from just 3% in 2010, the RMB is now used to settle 18% of China's total trade), China has currency swap agreements with 25 central banks with the total amount of over ¥2.7 trillion, and there are now eight official offshore RMB clearing centres – Hong Kong, Macau, Taiwan, Singapore, London, Germany, Korea, and the latest is Canada (signed November 2014).

In terms of diversification our portfolio has done very well. Our corporate bond positions never exceed the 3% weight mark relative to the size of the portfolio. This helps us to comply with our internal risk controls and minimize the impact of potential credit events. Throughout the year the portfolio was under control in terms of risks. With the fund volatility in the 1.5–2.5% range, we manage to finish the year with a standard deviation of 2.46% and a downside risk of 1.98%.

Our portfolio has reacted very well to the different economic turmoil experienced globally throughout the year. We reduced our exposure to Russia in response to the EU and USA sanctions. What's more we carefully studied the impact of the oil prices in our portfolio, subjecting the portfolio to different scenarios and reducing our positions on corporates that may have a poor performance assuming oil prices to remain low in the midterm. The low correlation of the Dim Sum Bond markets against the equity and fixed income

universe supported this good performance against other asset classes like the US HY, EUR HY, Euro Equities or EM Sovereigns and Corporates.

All these implementations allowed us to post a consistent return of 4.7% return, beating the Bloomberg USD Global High Yield Corporate Bond Index 1 to 5 Year by 6.1%. If we look to risk/return parameters the fund presents a Sharpe Ratio of 1.44 and a Sortino Ratio of 1.51.

Looking at the year ahead and considering that the fund is almost fully invested and employs a Buy&Hold approach, we consider that our efforts in 2015 will be more focused on the maintenance and analysis of the positions in our portfolio, monitoring our investments, and looking at the evolution of their credits. In this way, the search for new opportunities will be subject to new subscriptions or replacement of sold positions.

Jacobo Arteaga Fierro

Investment Manager

Brightgate Capital SGIIC S.A.