Sub-Fund Astra BrightGate Buy & Hold 5 Year Bond Fund Tranche I – 2015 Manager Report

I would like to start with a basic overview of the Fund. The evolution of the NAV was 106.11 at 31st of December 2015, with an annual return of 1.35%. The fund was originated the 14th of October 2013 and return since inception was 6.11%. The ISIN code for the fund is LU0942882589.

2015 has been a challenging year to manage anything, but in particular a Fixed Income strategy. Despite the environment, we delivered a healthy +1.35% at the end of the year. We keep reiterating that the Buy & Hold nature of our strategy, with a defined maturity and different geographic allocations does not make easy to benchmark our fund against an index –and to some extend it does not make sense, nor is the aim of the Manager and our investors. However, we consider healthy to provide references against a few indexes that, one by one, may have some analogies. These would be (i) Bloomberg USD High Yield Corporate 1-5 Bond Index, which closed the year with a negative performance of -2.68%, and (ii) the Bloomberg Global High Yield 1-5 Corporate Bond Index, which also closed the year with a negative performance of -4.82%.

Should we compare against Investment Grade indexes (our portfolio holds a 35% in IG) such as Bloomberg Global IG USD or Bloomberg Global IG in Euros, our fund comfortably outperformed them both during 2015. As a matter of fact, both Investment Grade indexes closed in negative.

Since the inception of the fund in October 2013 until today, we have achieved an accumulated return above 6% in an unquestionably rough market environment. See Fund vs Bloomberg USD High Yield Corporate 1-5 Bond Index and Bloomberg Global High Yield 1-5 Corporate Bond Index.

Now I will continue with the relevant events during the year. The Quantitative Easing (QE) program started in January by the ECB, which consists in buying European public debt. Interest rates dropped to 0% and a wave of enthusiasm floated the financial markets. The exchange rate EUR/USD fell to a minimum of 1.045. In April Scotland organized a referendum to claim the independence from UK, which concluded with a negative result. From May to September the Greek elections took place, which the left radical wing won (Syriza) and after long negotiations with the European Union they finally extended the rescue with severe conditions. After the resign of Yanis Varufakis (Greek Finance minister), reelections took place and again won the same political party but this time they accepted all the reforms required by the European Union.

August was a key month due to the Chinese stock exchange, since it had a huge fall. Then the BOCH (Chinese Central Bank) decided to adopt severe policies, such as the devaluation of the Yuan. The three devaluations were equivalent to a 3% loss in the Yuan´s value. After the summer the most relevant fact was the Volkswagen scandal related to pollution where they found “unexplainable irregularities” in the emissions of carbon dioxide. In December the FED decided to increase interest rates and rumors about lack of liquidity in the High Yield North American market arose. The probability of default ratio increased to 4.7% with the consequence of bond prices falling. Lastly, it is also relevant the 70% decrease in the value of a lot of commodities, included oil.

We will be continuing with the investment policy on currency. From the inception of the fund we clearly stated that our fund is a credit fund, and as such our core mission was to study and select bond issues wisely. But we also stated that we would tactically invest in the Renmimbi due to the historical stability shown in the past years and the strong positive carry provided. PBOC´s decision in the month of August of depreciating the Renmimbi in "one shot" and starting a slow liberalization process of the currency impacted the markets both in the "mark to market" of the Bonds and from the currency side. In August we had some exposure to the Renmimbi and hence suffered losses – always within controlled and reasonable limits. When the market relaxed, the Bonds recovered and the Yuan entered in the first phase of stabilization, we decided to hedge part of the Renmimbi against the Euro Forward 1 year.

Previous to the IMF meeting at the end of November, when they had to decide whether the Yuan was going to be included in the IMF basket of currencies, we had the intuition that the likely inclusion would be interpreted by the market as an additional step in the liberalization process to a "free-float" of their currency and therefore attract a bearish attitude to the Yuan. The day before the meeting we decided to hedge all our Renmimbi exposure, making our fund a 100% Euro portfolio. It proved to be, a wise decision, since the additional depreciation of the Yuan did not impact our portfolio against the "mark to market", which suffered additional pressures.

This is a Buy & Hold Fund with an active management of global credit. This means that we will be over weighted wherever we find the best and most attractive credit opportunities. It is not the usual Buy & Hold, where there is a one-off analysis exercise and the investment is kept till maturity. Instead, we review and re-analyze our companies constantly. Quarterly results are incorporated to our credit model in order to keep track of the evolution of the key ratios. Since inception, we have swapped more than 25 positions, whose credit quality fell below our strict standards. Rather than a Buy & Hold strategy, ours should be better explained by "Buy and Hold it while the credit quality remains optimal".

We have been over weighted in Asia and Oceania over that period (Bonds in China, Singapore, Australia, Hong Kong and Indonesia) completing the portfolio with US Corporate, some EUR Corporates and some other in Emerging Europe and Middle East. We have not been invested in Latin America. It would have been easy to create a high-yielding Bond portfolio in this region. However, we thought that the credit quality was not worth the risk. It was rapidly deteriorating due to the high weight of issues in USD of companies whose revenues were in local currency which at the same time had bearish pressures and therefore their balance sheets were in danger. We did not look into Russian Bonds either, in contrast to other High Yield Funds, which in the absence of interesting returns in the European region, finally entered into these markets to offer a higher yield.

We were invested 62% in China & HK, 7.37% in Europe & UK, 12.77% in North America, 4.22% in Emirates & Eastern Europe, 13.65% in Asia & Oceania. Accordingly, the distribution by industry has the maximum in Consumer (cyclical) with a 20% and the least in Communications with 5.47% and a total variety of 11 different industries.

Our investments in Asia, especially in China, have been focused on companies of the "New Economy", and not in the Industrials, Mining, or the "Old China". We have been over weighted in Stated-Owned Enterprises – SOE in which we would never be invested as equity investors. However, the state backing provides a safer investment as a bond holder. Our weight in the Oil and Gas industry has been limited, and pretty much focused on refineries, instead of drilling companies or oil extraction industry. Nevertheless, we have not completely avoided the negative effects of a collapsing oil price.

Our distribution of Bonds in Investment Grade is 37%, BB is 24%, B/CCC is 6% and Non Rated is 33%.

We have not been invested in American Corporate HY not because there aren´t good companies with good credit, but because they had "lousy" yields. Some months ago the Bloomberg HY 1-5 Indexes paid a Yield to Worst around 6%, which are low yields from our point of view. The situation has now changed significantly, since the index is now paying 10.42% with duration of 2.6. Interesting opportunities are starting to arise in this market, paying now returns according to the level of risk.

It is highly probable that over 2016 we will transit our Asian credit portfolio in Renmimbis to an Asiatic credit in USD and American credit in USD for the main reason that the Renmimbi is very expensive to cover against the Euro (approx. 4% annual of negative carry) while against the USD remains acceptable. The European credit in a context of Quantitative Easing makes it impossible to find a good return-risk ratio. We are not going to rush into the mentioned transition since we want to wait until rumors regarding China calm down and Bond prices recover. We also think that American corporates between 3 and 5 years may keep correcting even more.

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