Amiral Gestion

ENTREPRENEURS INVESTIS

QUARTERLY REPORT

Unit N FR0013202140

March 2019

SEXTANT BOND PICKING

SEXTANT BOND PICKING is an international bond fund that implements a « value/fundamentals » management philosophy:

- We concentrate on managing the credit risk (remuneration versus cost of risk)
- Debt analysis is done internally, without reference to the opinions of rating agencies
- As far as possible, we avoid macroeconomic bets on interest rates (preferring low or modest sensitivities) and exchange rates (most forex risks are hedged)
- We have no self-imposed investment constraints, in order to be free to take positions in the least efficient market segments: unrated issues, out-of-the-money convertibles, bonds in currencies other than the issuer's domestic one, complex paper and/or industries etc.

On an ancillary basis, the fund may also invest up to 10% (maximum) of assets in equities, mainly to arbitrage capital-market deals or buy high-dividend stocks.

Market situation

In first-quarter 2019, the value of risk assets rose strongly in almost all markets. This trend contrasted sharply with fourth-quarter 2018, which saw a severe correction in all segments of the bond market.
This market dynamism in the early part of 2019 can be attributed to several factors, of which two appear dominant:
· Fears about global growth and the outlook for corporate earnings have eased as investors seem less worried about the negotiations for a trade agreement between the US and China.
· Central Banks: the Federal Reserve and subsequently the ECB have adopted a considerably more dovish tone. The Fed began by dispelling fears of a rate hike in the US this year, stating that it would maintain its policy of low interest rates. In Europe, the ECB resumed its programme of long-term refinancing of the region's banks, and stated that its interest-rate policy would remain accommodative for some time.

One consequence was that, by the end of Q1, financial assets had become less attractive again, due to the low returns on offer for a level of debt that had returned to its pre-2008 level – even exceeding that level in the US.

Structure of the portfolio

The performance of the portfolio, coupled with cautious reinvestments, lowered the average yield of the portfolio. In response to the decision of central banks to extend the period of low interest rates and QE, we eased the constraint of relatively short duration very slightly when reinvesting.

At end March, the gross yield net of forex hedging costs for the fund´s invested part was 5.3% (vs 6.2% in December). Sensitivity or the interest-rate risk remained reasonable at 2.2 (vs 1.8).

As a result, the gross yield net of forex hedging costs for the whole fund was 2.8% (vs 3.3%) for sensitivity of 1.0 (vs 1.0). The fund's sensitivity to the equity market (delta) remained controlled (6.9%) as most of our convertibles are far out-of-the-money. The cash position remained high, at close to 47%, Non-euro investments account for 22% of funds invested, but the forex risk is almost fully hedged.

Main transactions

We have initiated positions in:

· Convertibles of **Intu Properties**, a property investment company that specialises in UK shopping malls. The yield implies a credit margin in excess of 700bps and borrowings seem to be largely covered by the value of assets, despite a difficult retail environment in the UK and a wary attitude to commercial real estate in general.
· Senior bonds of AIG, an insurance company whose debt quality is no longer questioned. One variable-rate note was discounted 24 points to par at the time we invested, and thus offered a credit margin of 3.45% without rate risk, mainly for reasons of reduced liquidity.
· **KAS Bank** shares, as risk-arbitrage on the Credit Agricole takeover bid
· **Sorenson**, in the hope that the call would be exercised very soon. This tranche was refinanced by a new issue and management stated its intention of exercising the next call. The fund may then enjoy an annualised yield in the region of 3% after forex hedging.

We also raised our stakes in several long-standing positions (eg Casino, Neopost, Aryzta, Econocom) whose risk seemed adequately remunerated and whose operational trajectories show ongoing improvement.

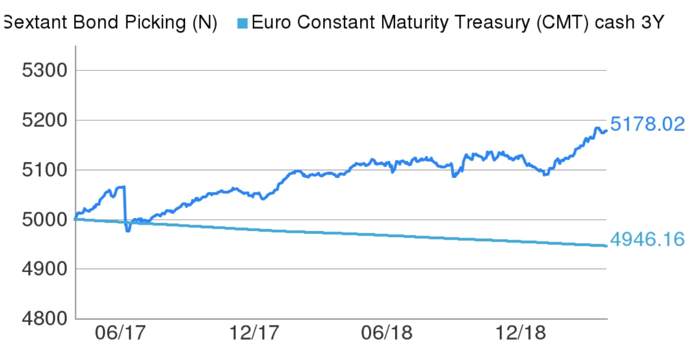
The fund was fully reimbursed by **Vostok New Ventures**, partially by **GP Investment** and we tendered our BinckBank to the current takeover bid.

Prospects

In view of the difficulty in finding investment ideas that satisfy our criteria (mainly a relatively attractive yield that can easily absorb sensitivity to low risk-free rates and good fundamental quality), the fund did not reinvest a large share of its cash holdings in Q1. The new environment of risk-free rates implies a material change to the investment environment that we have integrated into our approach. In the second quarter, the fund should reinvest part of its liquidity in companies of acceptable quality whose debt is slighter longer than the average of our portfolio. The duration constraint may be eased slightly, even though credit margins remain low, and the portfolio should benefit from dynamism in this market segment. However, the risk profile will remain moderate thanks to selective investment, reasonable average maturity and high cash holdings, although it may be lower than in preceding quarters.

Performances

	Sextant Bond Picking (N)	Euro Constant Maturity Treasury (CMT) cash 3Y
1 month	0.4%	0.0%
3 months	1.6%	-0.1%
6 months	1.0%	-0.3%
1 year	1.7%	-0.5%
3 years	-	-
5 years	-	-



	2018	2019
Sextant Bond Picking (N)	0.8%	1.6%
Euro Constant Maturity Treasury (CMT) cash 3Y	-0.5%	-0.1%

QUARTERLY REPORT

SEXTANT BOND PICKING

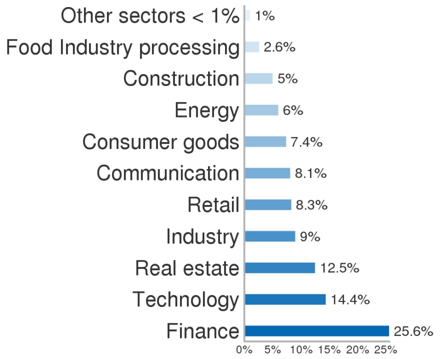
Breakdown of assets

Maturity	< 1 year	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	> 10 years	perpetual	Equities
Base 100%	29.8%	32.1%	20.8%	2.6%	2.0%	1.5%	2.4%	8.9%

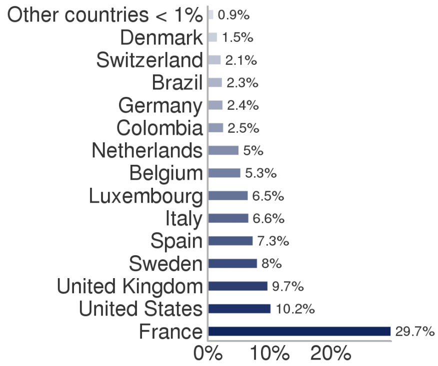
Allocation

Bonds	**47.4%**
o/w sovereign	0.2%
o/w corporate	28.3%
o/w financials	7.3%
o/w convertibles	11.6%
Equities	**5.7%**
o/w risk arb strategy	1.0%
o/w yield strategy	4.7%
Cash & quasi-cash	**46.9%**

Distribution by sector *



Geographical distribution *



*** of net assets invested**

Main holdings

Issue	Currency	Sector	Country	Net asset %
Casino TSSDI 2049	EUR	Retail	France	4.4%
Cibus RE 05-21	EUR	Real estate	Sweden	3.4%
Playtech OC 11-19	EUR	Technology	United Kingdom	3.3%
Eramet 4.5% 11-20	EUR	Energy	France	3.2%
Safilo OC 05-19	EUR	Consumer goods	Italy	3.1%

Indicators

	Fixed income part	Total assets
Gross yield	5.8%	3.0%
Yield after cost of forex hedging	5.3%	2.8%
Spread (basis point)	546	279
Residual duration (years)	2.8	1.4

	Fixed income part	Total assets
Interest-rate sensitivity	2.2	1.0
Equity sensitivity (delta)	4.7%	6.9%
Net/gross forex exposure	11.0% / -0.1%	
Number of lines / Average outstanding	54 / 341 M€	

Main characteristics

Legal form	UCITS / French mutual fund
Share category	Unit N
ISIN code	FR0013202140
Bloomberg code	
AMF classification	Bonds and other international debt securities
Benchmark	Euro Constant Maturity Treasury (CMT) cash 3Y
NAV / Net assets	5 178.02 € / 195.231 M€
Share NAV period	Daily

Risk profile	1	**2**	3	4	5	6	7

Scale from 1 (lowest risk) to 7 (highest risk); category-1 risk does not mean a risk-free investment. This indicator may change over time.

Launch date	Fund : 30/03/2017 Unit : 29/12/2017
Recom. invest. duration	Over 3 years
Centralis.-Settlem. /Delivery	D-1 at 10 AM / D+2
Custodian	CACEIS BANK
Transfert agent	CACEIS BANK
Tax provisions	- -
Entry charge	5.0% including tax maximum
Exit charge	0.0% including tax maximum
Fixed management fee	0.85% including tax
Performance fee	15% including tax of the mutual fund's outperformance vs the benchmark, plus 350 bps

Source: Amiral Gestion at 29/03/2019

GLOSSARY

The full glossary is available in the monthly report of your fund, on the website www.amiralgestion.com.