

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)
- 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 second-quarter 2019, credit margins went through two distinct phases:

- In May, fears arising from the US-China trade talks caused risk premiums to widen significantly,
- But in June, they tightened very significantly on increased central bank support. Following repeated dovish statements by the Federal Reserve over the period, markets are now confidently anticipating two cuts to US key rates. In Europe, Mario Draghi recently explicitly mentioned a possible resumption of bond purchases by the ECB, propelling risk-asset valuations to very high levels. As a result of this strong support from central banks, credit margins on high-yield bonds in euros offered returns at end Q2 that did fully reflect the level of fundamental risk suggested by credit analysis.

Portfolio structure

Significant reinvestment into the portfolio did not lower the overall yield, which was practically unchanged (5.4% net of hedging costs at end Q2, vs 5.3% at the end of April). In order to take advantage of the more favourable interest-rate environment, the average residual duration of the portfolio has been raised from 2.8 to 3.4 years. The fund's cash holdings remain at 35% of assets, the yield is 3.5% for interest-rate sensitivity of 1.6, which looks adequate to us in the market environment described above.

Main transactions

In order to adapt to the change of cap by central banks from the end of the first quarter, part of the portfolio (roughly 18% including reinvestment of maturing bonds) was reinvested. Some of this reinvestment was in companies with strong balance sheets, and in paper maturing in roughly five years:

- **Guala Closures** operates in the niche market for spirit bottle tops that provide advantages in terms of presentation and security. Regionally, company revenues are highly diversified and margins are substantial. These strengths have allowed management to gradually pay down the debt generated by the switch to an LBO structure.
- **Ocado** is the leading online food distributor in the UK, as well as a pioneer in logistical solutions for the sector. In spite of heavy investments that are building up

a protective asset base, **Ocado's** balance sheet has a net cash position.

- At the time that we invested, **Thyssenkrupp** offered attractive five-year yields (in the region of 3%) for satisfactory operational quality. The elevator business has notably attracted the attention of Koné, and a separation from other activities is being considered. In our view, this activity's high valuation reflects a very solvent issuer.
- **Telecom Italia** offers attractive yields for debt coverage by assets that looks appropriate for a long-standing national telecoms operator.
- **Wind Tre** is Italy's leading mobile phones player, although it has more debt than Telecom Italia. However, support from majority shareholder Hutchinson Whampoa is reassuring for holders of its bonds. This support emerged after we had invested, with Hutchinson embarking on very significant purchases of Wind Tre's debt.

Another part of our reinvestment focused on companies with aggressive balance sheets, whose bonds briefly slipped below their issue price when the markets weakened in May.

- **Loxam** is now Europe's biggest renter of construction site material. Its capacity to integrate acquisitions and its robust cash generation makes it a quality, high-yield issuer.
- **Dometic**, whose main activity is refrigerators for leisure vehicles, operates in a volatile market. The new management team has put the emphasis on debt reduction, and is rationalising the production process in order to be more in tune with the various end markets.

In response to rising assets under management and our reinvestment policy, several positions were strengthened in the second quarter: **Aryzta**, **Casino**, **Cibus**, **Intu Properties**, **Neopost** and **Solocal**, which offer attractive discounts or acceptable yields. The fund's **Safilo** and **Sacyr** convertibles have been redeemed in full.

Outlook

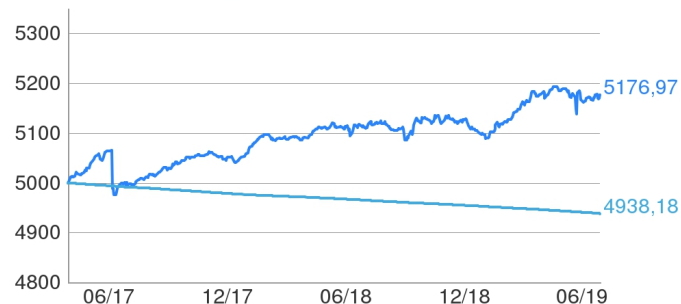
Central bank policies continue to compress risk premiums, leaving bond investors with a highly polarised environment. We are having difficulty finding situations that meet our requirements, as we have to choose between:

- Bonds offering generous yields, but at risk of very severe price corrections because the issuers would generally be hard hit by slower earnings growth, due to overly aggressive balance sheets and/or highly cyclical sectors,
 - High-quality bonds that offer insufficient yields and are a sort of proxy for interest rates – which we consider precarious territory for a defensive medium-term investment.
- Leading economic indicators and valuation measures are signalling a need for caution, in spite of massively supportive monetary policies which themselves suggest low confidence in future economic growth of developed countries. In response to all these observations, we maintain our selective approach and the fund's optional position which, at the end of Q2, offered a yield (cash included) of 3.5% after currency hedging for the 35% of the assets in cash.

Performances

	Sextant Bond Picking (N)	Euro Constant Maturity Treasury (CMT) cash 3Y
1 month	0.2%	-0.1%
3 months	0.0%	-0.2%
6 months	1.6%	-0.3%
1 year	1.3%	-0.5%
3 years	-	-
5 years	-	-

Sextant Bond Picking (N) ■ Euro Constant Maturity Treasury (CMT) cash 3Y



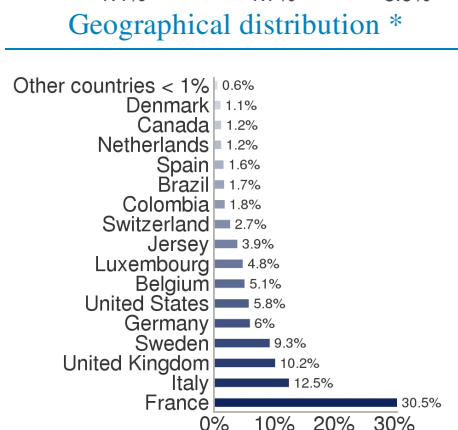
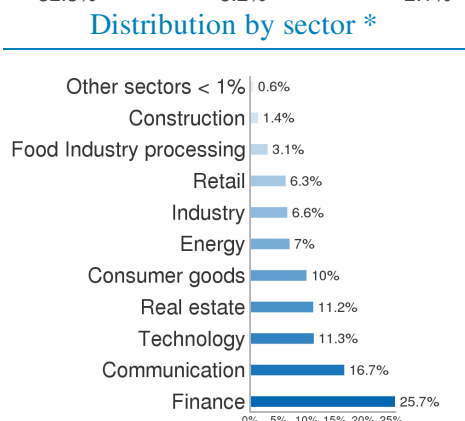
	2018	2019
Sextant Bond Picking (N)	0,8%	1,6%
Euro Constant Maturity Treasury (CMT) cash 3Y	-0,5%	-0,3%



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%	14.2%	34.5%	32.3%	5.2%	2.1%	1.4%	1.7%	8.6%

Allocation	
Bonds	57.9%
o/w sovereign	0.1%
o/w corporate	45.4%
o/w financials	6.9%
o/w convertibles	5.4%
Equities	6.3%
o/w risk arb strategy	0.8%
o/w yield strategy	5.5%
Cash & quasi-cash	35.8%



* of net assets invested

Main holdings

Issue	Currency	Sector	Country	Net asset %
Casino TSSDI 2049	EUR	Retail	France	4.0%
Solocal 03-2022	EUR	Communication	France	3.9%
Eramet 4.5% 11-20	EUR	Energy	France	3.7%
Wind Tre 01-24	EUR	Communication	Italy	3.1%
Cibus RE 05-21	EUR	Real estate	Sweden	3.0%

Indicators

	Fixed income part	Total assets		Fixed income part	Total assets
Gross yield	5,7%	3,7%	Interest-rate sensitivity	2,7	1,6
Yield after cost of forex hedging	5,4%	3,5%	Equity sensitivity (delta)	2,9%	7,2%
Spread (basis point)	544	342	Net/gross forex exposure	15,4% / -0,1%	
Residual duration (years)	3,4	2,1	Number of lines / Average outstanding	58 / 537 M€	

Main characteristics

Legal form	UCITS / French mutual fund	Launch date	Fund : 30/03/2017 Unit : 29/12/2017
Share category	Unit N	Recom. invest. duration	Over 3 years
ISIN code	FR0013202140	Centralis.-Settlem. /Delivery	D-1 at 10 AM / D+2
Bloomberg code		Custodian	CACEIS BANK
AMF classification	Bonds and other international debt securities	Transfert agent	CACEIS BANK
Benchmark	Euro Constant Maturity Treasury (CMT) cash 3Y	Tax provisions	- -
NAV / Net assets	5 176,97 € / 226,349 M€	Entry charge	5,0% including tax maximum
Share NAV period	Daily	Exit charge	0,0% including tax maximum
Risk profile	1 2 3 4 5 6 7	Fixed management fee	0,85% including tax
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.		Performance fee	15% including tax of the mutual fund's outperformance vs the benchmark, plus 350 bps

Source: Amiral Gestion at 28/06/2019

GLOSSARY

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

Notice

This commercial document aims to present the characteristics of the fund on a simplified basis. For further information, you may refer to the key information document for investors and to the prospectus, which are legal documents available on the management company's internet site or by request to the management company. The performances shown are not a reliable guide to future performance. Performance may vary over time.

Amiral Gestion - 103 rue de Grenelle - 75007 Paris - T. +33 (0)1 47 20 78 18 - F. +33 (0)1 40 74 35 64 - www.amiralgestion.com

Asset management company authorised by the Financial Markets Authority under the number GP-04000038 / Insurance broker company registered with ORIAS under the number 12065490 / Simplified joint-stock company with capital of €629 983 - RCS Paris 445 224 090 - VAT: FR 33 445 224 090