

Swan High Yield – USD

December 2018



Strategy

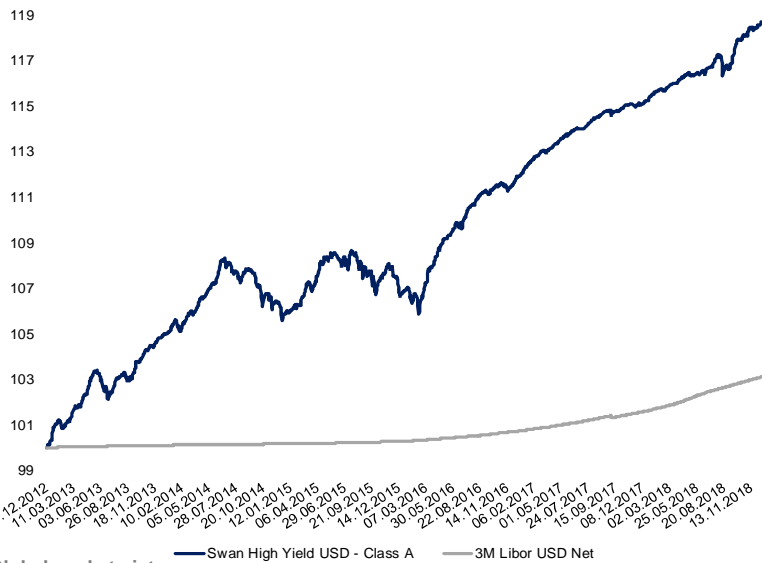
The sub-fund aims to generate a significant excess return vs 3m Libor in combination with below-average market volatility. Depending on market conditions, the strategy combines in variable proportions the "buy and hold" investment in a highly diversified and granular portfolio of liquid short-term fixed income securities with the "strategic" and/or "tactical" investment in HY or EM securities denominated in hard currency.

Risk Profile

Conservative

Intermediate

High Reward



Global market picture

December was another volatile month: European credit markets were negative (H9PC Index -0.72%), likewise equity markets with Eurostoxx 50 and S&P 500 losing respectively 5.41% and 9.18%. The FED meeting on 19th of December was the main catalyst of the month. Markets approached the event already in a sell-off mode and Jerome Powell's speech did not send a "reassuring" message: FED funds rate hike to 2.375% was accompanied by a reduction in dots that now forecast only two hikes for 2019, but investors hoped for a more dovish action. Markets are now pricing a FED on hold for 2019, but economic uncertainty remains a drag for risky assets: CESI Indexes (that measures economic data surprises relative to market expectations) are all in negative territory and downward trend while also ISM and PMI surveys suggest that the economy is slowing. Global growth is expected at around 3% for the first half of 2019, but this outlook looks increasingly challenging and rates movement in December was in line with this skeptical outlook: yield on 10 Years German Bund went under further pressure (-7bps at 0.24%) in tandem with yield on 10 years Treasury down to 2.68% (-30bps in December). The only positive events during the month were the agreement between the EU and the Italian government regarding the fiscal deficit (fixed at 2.04%), that should save Italy from an infringement procedure, and a more constructive in tone in the dialogue between US and China on trade war dispute. Emerging markets reported a positive performance (+0.70%) with Asia being the best performer during the month, partially recovering 2018 underperformance. EM resilience was mainly due to lower US rates and possible truce between US and China.

Active Portfolio

Credit Allocation Scoring (CAS) indicates a medium-long-dated allocation of 15.30%, flat relatively to the end of November (15.30%). Fund's actual exposure (beta and duration adjusted) is 11.93%, lower relatively to last month (12.36%). The mix between Strategic and Tactical positions is 3% Strategic and 97% Tactical. The fund has an estimated gross yield of 3.51%, a low spread duration of 0.99 and a z spread of 386.

Yield-type bucket

The bucket generated a positive gross contribution to the monthly performance, with 80% of the positions (45 out of 58) contributing positively. Positive contributions were

Performance

| | | | |
|------------------|---------------|------------------------|---------|
| MTD : | 0.31% | Fund Assets (mln) : | 100.0 € |
| Since inception | 18.83% | 1 Year Std Dev : | 0.74% |
| Last 12 Months : | 2.98% | 1 Year Sharpe Ratio : | 1.39 |
| NAVps : | USD 118.83 | % of positive months : | 77% |

IMPORTANT NOTIFICATION:

Starting from January 2019 the fund will be renamed the **Swan Short-Term High Yield** to better define its strategy. Fund investment philosophy and strategy will not change.

| Period | Class A | Portfolio info | |
|----------|--------------|-----------------|--------|
| MTD | 0.31% | # of Securities | 83 |
| YTD | 2.98% | % Weight | 99.14% |
| 6 months | 1.87% | Int Dur | 0.68 |
| 1 year | 2.98% | Yield (gross) | 3.51% |
| 2017 | 2.96% | Spread Duration | 0.99 |
| 2016 | 4.84% | Z-spread | 386 |
| 2015 | 0.93% | | |
| 2014 | 0.81% | | |
| 2013 | 4.75% | | |

FX breakdown (fully hedged)

| | |
|--------------|----------------|
| USD | 41.63% |
| EUR | 23.90% |
| NOK | 21.97% |
| GBP | 0.80% |
| SEK | 7.50% |
| CHF | 4.20% |
| AUD | 0.00% |
| SGD | 0.00% |
| TOTAL | 100.00% |

Geographic breakdown

| | |
|--------------|----------------|
| EU | 9.29% |
| US | 0.45% |
| Oth DEV | 35.65% |
| LATAM | 4.64% |
| EMEA | 36.16% |
| ASIA | 13.81% |
| TOTAL | 100.00% |

Rating breakdown

| | |
|---------------|----------------|
| AAA | 0.00% |
| AA | 0.00% |
| A | 0.00% |
| BBB | 4.13% |
| tot IG | 4.13% |
| BB | 25.12% |
| B | 29.57% |
| CCC | 0.00% |
| tot HY | 54.69% |
| NR | 41.18% |
| TOTAL | 100.00% |

Sector breakdown - Top 10

| | |
|--------------------|--------|
| Services | 27.39% |
| Banking | 25.98% |
| Real Estate | 18.79% |
| Financial Services | 7.23% |
| Energy | 6.46% |
| Capital Goods | 2.62% |
| Basic Industry | 2.54% |
| Sovereign | 2.37% |
| Telecommunications | 2.34% |
| Media | 1.71% |

homogeneously distributed while there were not significant negative contributions, the only exception being DNONO 06/19. The average life of the YT portfolio at the end of December is very short (9 months or 0.76 of spread duration), with a combination of yield close to 3.55% and z-spread of 391.

Strategic & Tactical buckets.

Strategic bucket generated a negligible negative performance while the Tactical bucket generated a positive performance (both with homogeneous contributions). Geographical allocation in EM was slightly positive, while picking was positive both in EM and EUR HY.

Sicav Structure – Terms & Conditions

Domicile: Luxembourg

Inception Date: 18 December 2012

Minimum Investment: 1 share

Liquidity / Reporting: Daily

Fees: Class C 0.90% / Class A 1.20% Management Fee

15% Performance Fee (high water mark)

Promoter / Distributor: Corner Banca SA

Investment Manager: Swan Asset Management SA

Custodian Bank: State Street Bank Lux

Administrator Agent: State Street Bank Lux

Auditor: Ernst & Young

Bloomberg: class A: CBASAUH LX

ISIN: class A: LU0860713980

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