

Swan Long Short Credit Sicav–SIF October 2018



Strategy

The sub-fund aims to generate significant excess return vs 3m Euribor in combination with extremely low volatility. The strategy combines the “buy and hold” investment in a highly diversified and granular portfolio of liquid short-term fixed income securities with the “opportunistic” allocation to a number of credit active strategies. Leverage is normally included between 0% and 100% of the NAV with invested capital between 1x and 2x the NAV.

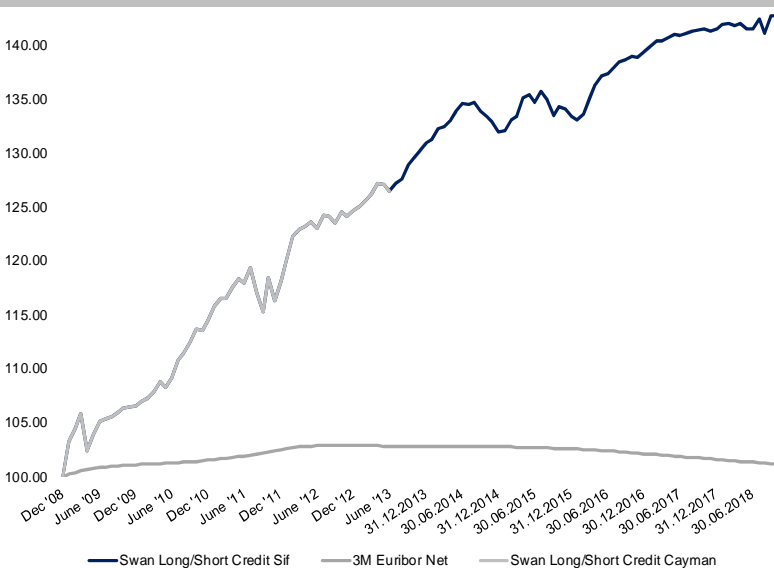
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Risk Profile

Conservative

Intermediate

High Reward



Global Market Picture

October was another volatile month for markets. European credit markets were negative (H9PC Index -0.86%), likewise equity markets, with Eurostoxx 50 and S&P 500 losing respectively 5.93% and 4.41% (first negative month for US stocks since March 2018). The minutes of the FOMC meeting disclosed that several members would raise rates to restrictive territory, with markets pricing slightly more than three hikes until December 2019; economic data showed that US exceptionalism could have reached its peak, notwithstanding Q3 GDP beat consensus at +3.5%. December rate hike is very likely (84% probability), while much more uncertain is how US and China relations will evolve: during the month president Trump reiterated his hard stance in the trade dispute, but at the same time he looked for a possible meeting with Xi at G-20 summit in late November. In the Euro area, weakness in recent data did not influence the tone used by Draghi during the last meeting: he affirmed that recent slowdown was mainly due to specific factors, with improvement in underlying factors still positive and broad based. Yield on 10 Years German Bund went under pressure (-9bps at 0.39%) due to the conflict between Italy and EU commission, with the latter asking to review financial bill proposed by the “populist” government. Emerging markets reported a negative performance, with mixed contribution: both Latam and Ceemea regions registered a slightly positive performance, thanks respectively to Bolsonaro victory in Brazil and recovery in Turkey, while Asia was negative due to continuous headlines on Trade War.

Active portfolio

Credit Allocation Scoring (CAS) indicates a medium-long-dated allocation of -2.35%, flat relatively to the end of September (-2.35%). Fund's actual exposure (beta and duration adjusted) is 13.61%, higher relatively to last month (11.13%). The mix between Strategic and Tactical positions is 0% Strategic and 100% Tactical. The fund has an estimated yield of 5.47% (net of funding cost), a low spread duration of 1.33 and a z spread of 659. A long position on XOVER S29 (short risk), is present in the portfolio with a weight of 4.85%, in addition to a short position on 10 years Bund future.

Yield-type bucket

The bucket generated a positive gross contribution to the monthly performance, with 83% of the positions (65 out of 78) contributing positively. Positive contributions were concentrated mostly on Turkish banks (senior) exposure and YFPDAR 09/19, while significant negative contributions

Performance

MTD :	0.01%	Fund Assets (mln) :	28.9 €
Since inception	12.26%	1 Year Std Dev :	1.13%
Last 12 Months :	0.86%	1 Year Sharpe Ratio :	1.06
NAVps :	EUR 112.26	% of positive months :	73%

* Returns from January 2009 to July 2013 reported in the table below refer to Swan Long/Short Credit Cayman (KKIENDD KY). They were obtained applying the same strategy that is used for Swan Long/Short Credit SIF.

Period	Perf.	Portfolio info
MTD	0.01%	# of Securities 99
YTD	0.88%	% Weight 196.58%
6 months	0.47%	Int Dur 0.29
1 year	0.86%	Yield (gross) 5.47%
2017	1.49%	Spread Duration 1.33
2016	4.53%	Z-spread 659
2015	1.03%	
2014	0.84%	
2013	5.05%	
2012	5.44%	
2011	3.19%	
2010	7.47%	
2009	6.56%	

FX breakdown (fully hedged)

USD	48.75%
EUR	17.77%
NOK	17.12%
GBP	0.00%
SEK	11.46%
SGD	0.00%
CHF	4.90%
TOTAL	100.00%

Geographic breakdown

EU	7.31%
US	0.64%
Oth DEV	34.04%
LATAM	9.52%
EMEA	27.82%
ASIA	20.67%
TOTAL	100.00%

Rating breakdown

AAA	0.00%
AA	0.00%
A	1.56%
BBB	11.86%
tot IG	13.41%
BB	20.11%
B	28.12%
CCC	0.00%
tot HY	48.24%
NR	38.35%
TOTAL	100.00%

Sector breakdown - Top 10

Real Estate	26.74%
Banking	26.72%
Services	25.67%
Financial Services	4.80%
Energy	4.16%
Basic Industry	2.75%
Foreign Sovereign	2.04%
Leisure	1.56%
Consumer Goods	1.55%
Transportation	1.42%

were generated by AABAR 03/20 and EVERRE 03/20. The average life of the yield-type portfolio is very short (7 months or average spread duration of 0.61), combined with a z-spread of 579 basis points and a yield of 4.75%. The fund is levered, being invested at about 197% currently.

Strategic & Tactical buckets

Tactical bucket generated a negative performance during the month. Geographical allocation in EM was significantly negative, but much more than compensated by a strong picking EUR HY.

Fund Structure – Terms & Conditions

Domicile: Luxembourg

Inception Date: 22 July 2013

Minimum Investment: EUR 125k Initial Investment

Liquidity / Reporting: Daily

Fees: 1.2% Management Fee

15% Performance Fee (high water mark)

Investment Manager: Swan Asset Management SA

Sub-Custodian Bank & Prime Broker: BNP Paribas, London Branch

Administrator & Custodian Bank: Banque Privée Edmond de Rothschild

Auditor: PWC

Bloomberg: SWSLSCA LX

ISIN: LU0849750954

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