

Swan Long Short Credit Sicav–SIF September 2020

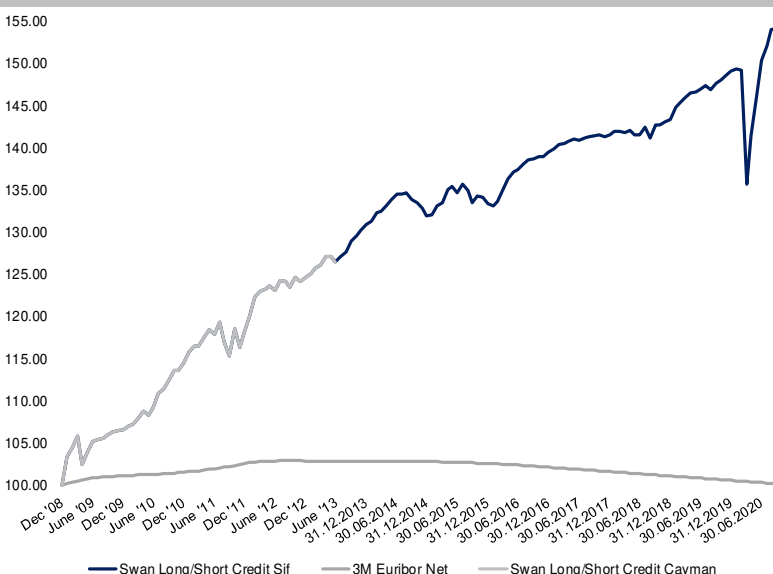


Strategy

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.

Risk Profile

Conservative Intermediate **High Reward**



Global Market Picture

During September European credit markets experienced a negative performance (H9PC Index -0.59%), in tandem with the movement of the Eurostoxx 50 (-2.41%) and S&P 500 (-3.92%). In this context Swan funds continued to move higher with a positive monthly performance ranging from +0.09% to 0.20%: our SIF funds are in positive territory (+3.37% SLSC and +2.86% for SBE) and also UCITS funds registered positive performance YTD (+1.13% USTB and +1.07% for STHY), while credit markets are still reporting negative returns YTD (European HY -2.71%, Emerging HY -0.02%, US HY -1.67% and EUR IG +0.68%). In US monthly data signaled a slowing growth, while politics added further uncertainty with negotiations on new fiscal stimulus still stalling. The 1st presidential debate did not bring significant news about candidate programs, but markets was scared by Trump continuous declaration about a unpeaceful transfer of power should he loses to Joe Biden. In its meeting the FED committed to a dovish policy until inflation has risen to 2% and is “on track to moderately exceed 2% for some time”, with dots now forecasting rates at these levels for the next three years. In Europe, notwithstanding the increase in COVID-19 cases especially in Spain and France, lockdown measures were only local and selective, but flash PMIs show signals of weakness. Government bond yields moved lower (10yrs Bund @ -0.52% and 10yrs Treasury @ 0.68%), while gold continued its retracement from August peak. We think that this is an interesting entry point for our strategy: current YTM combined with an average maturity of the bonds around 1 year give us confidence on the capability to generate positive performance in line with targets during 2020 and give us the opportunity to build portfolios with attractive returns on a 1 year horizon.

Active portfolio

Credit Allocation Scoring (CAS) indicates a medium-long-dated allocation of -2.20%, flat relatively to the end of August (-2.20%). Fund's actual exposure (beta and duration adjusted) is 20.17%, lower relatively to last month (21.21%). The mix between Strategic and Tactical positions is 0% Strategic and 100% Tactical. The fund has an estimated yield of 10.91% (net of funding cost in EUR), a low spread duration of 1.73 and a z spread of 1285. The short position on 10 years Bund future (-4.70%) generated a slightly negative performance.

Yield-type bucket

The bucket generated a positive gross contribution to the monthly performance, with 71% of the positions (87 out of 123) contributing positively. During the month we increased our invested

Performance

| | | | |
|------------------|---------------|------------------------|--------|
| MTD : | 0.09% | Fund Assets (mIn) : | 48.3 € |
| Since inception | 21.22% | 1 Year Std Dev : | 3.82% |
| Last 12 Months : | 4.41% | 1 Year Sharpe Ratio : | 1.27 |
| NAVps : | EUR 121.22 | % of positive months : | 75% |

* 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 | 0.09% | # of Securities | 181 |
| YTD | 3.37% | % Weight | 207.76% |
| 6 months | 13.60% | Int Dur | 1.31 |
| 1 year | 4.41% | Yield (gross) | 10.91% |
| 2019 | 3.97% | Spread Duration | 1.73 |
| 2018 | 1.36% | Z-spread | 1285 |
| 2017 | 1.49% | | |
| 2016 | 4.53% | | |
| 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 | 47.79% |
| EUR | 28.46% |
| NOK | 14.45% |
| SEK | 7.15% |
| CHF | 1.83% |
| GBP | 0.32% |
| TOTAL | 100.00% |

Geographic breakdown

| | |
|--------------|----------------|
| EU | 21.41% |
| US | 1.11% |
| Oth DEV | 31.26% |
| LATAM | 4.79% |
| EMEA | 24.22% |
| ASIA | 17.22% |
| TOTAL | 100.00% |

Rating breakdown

| | |
|---------------|----------------|
| AAA | 0.00% |
| AA | 0.00% |
| A | 0.64% |
| BBB | 11.60% |
| tot IG | 12.24% |
| BB | 23.27% |
| B | 22.80% |
| CCC | 2.74% |
| tot HY | 48.81% |
| NR | 38.95% |
| TOTAL | 100.00% |

Sector breakdown - Top 10

| | |
|--------------------|--------|
| Services | 20.87% |
| Real Estate | 19.56% |
| Banking | 18.08% |
| Basic Industry | 8.31% |
| Financial Services | 5.49% |
| Energy | 4.50% |
| Foreign Sovereign | 3.65% |
| Capital Goods | 3.10% |
| Telecommunications | 2.48% |
| Transportation | 2.27% |

capital: conditions are always attractive in the short-term part of the credit curve. The average life of the yield-type portfolio is very short (8 months or average spread duration of 0.63), combined with a z-spread of 1032 basis points and a yield of 9.41%. The fund is levered, being invested at about 208% currently.

Strategical & Tactical buckets

Tactical bucket generated a positive performance during the month, with homogeneous contributions. Geographical allocation in EM was slightly positive while picking was positive both in EM and 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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