Dear Investor

Please note that information regarding companies (issuers) and financial instruments (e.g. shares or bonds) in this investor letter shall not be considered as investment recommendations to buy, sell or hold any financial instruments. Information about companies and financial instruments shall only be considered as information concerning the fund's portfolio and risk profile for that quarter.

April's higher inflation prints in the US prompted a more serious rethink for the markets which was negative for rates and credit. IG papers underperformed albeit long term inflation expectations in the US have remained remarkably anchored. Chinese data showed modest signs of improvement albeit overall impressions remained on the weaker side. Base metals have begun to show signs of life, especially as supply constraints have been in effect in several cases. Crude oil prices remained on the higher side for most of the month albeit with some weakness towards the end despite some slack in terms of supply. The USD had a strong month amid higher yields, but the magnitude of the move was not cause for concern in emerging markets. Our EUR denominated institutional share class returned -1.0% (gross) in April, roughly in line with its benchmark. Similarly, our USD I and II share classes returned -0.9% (gross), also in line with the benchmark.

Asian credits were naturally at the weaker end of the spectrum in April owing to their share of highly rate sensitive credits hence returning on aggregate -1.0% (-1.2% IG / -0.5% HY). The usual IG reference names in Thailand (-1.6%), Taiwan (-1.8%), Hong Kong (-1.7%), and other jurisdictions were some of the biggest underperformers owing to their heightened rate sensitivity. Our allocation has been underweight these credits for some time already. Chinese credits returned -0.5% (-0.8% IG / +1.1% HY), outperforming the region, as some of the distressed real estate names gained on hopes of progress toward some structural relief from the government. Our underweight in Chinese names yielded modest negative relative performance since we have preferred the lower risk/higher visibility names from this jurisdiction. There do not seem to be simple solutions for the real estate debacle as it taps deep into the economic model of the country. The rising geopolitical tensions with western countries also increase event risk which is hard to monitor.

LatAm names were also on the weaker side with a return of -1.0% (-1.8% IG / -0.3% HY). Weakness in the IG space was most pronounced in Mexico, home to the largest selection of highly interest rate sensitive papers in this region. Mexican credits were down by -1.9% (-2.3% IG / -0.9% HY) and, while the weakness in IG was predictable in the context of rising US yields, the weakness in HY was traceable to specific name dynamics (e.g. profit taking after recent rallies for most or renewed fundamental weakness in some cases). Our overweight exposure to Mexican credits produced modest negative relative performance as we have been cautious in terms of additions to both duration risk and spread risk in this jurisdiction. A similar story played out in Brazil with a return of -1.3% (-2.0% IG / -1.0%) with Petrobras driving some instability in the HY space owing to concerns over management decisions and political intervention. Our modest underweight in these names yielded small negative relative performance as profit taking on MCBRAC's recent rally became apparent.

CEEMEA was the outperformer in April with a return of -0.6% (-1.1% IG / -0.2% HY). The usual, large, interest sensitive Middle Eastern oil names like Saudi Arabia (-1.9%), UAE (-1.0%) were weaker on the back of rate volatility. Our exposure to this space has largely been concentrated in the UAE hence our net relative performance was positive. Overt tensions between Israel and Iran brought some concerns to the broader market albeit they were quick to fade as it became clear Iran did not hit critical targets within Israel. Israeli credits posted a return of -1.3% (-1.3% IG / -1.3% HY) as concerns over a future retaliation from Israel left many unsettled. Any escalation beyond what is tolerable by the western coalition might hurt not only the immediate parties but also the wider markets with a potential surge in oil prices which would be especially damaging as governments have yet to contain inflation. Our underweight exposure to credits from Israel yielded small positive relative performance in April.

EM corporate issuance came in at USD30.7bn with almost USD20.1bn coming from the IG space and about USD12bn of the total coming from Asia. LatAm printed USD7.0bn while CEEMEA took the rest with MENA outpacing Emerging Europe by almost twice as much activity. April is usually one of the more active months in the primary market and this one was not the weakest but also not the strongest for emerging markets. Uncertainty over interest rates and the constantly shifting debate from "soft landing" to "no landing" to "higher for longer" to fears over increased tightening and then back to concerns over growth may put a damper on primary activity. Nevertheless, both established names and newcomers across the rating spectrum have been participating in the primary market.

06/05/2024	Return last month (USD)	Return YTD	Yield to Worst	*Last month*	*Δ YTD*	OAS Spread	*Last month*	*Δ YTD*
CEMBI EUR hedged	*-1.02*	*1.52*						
EM Corporate Index	-0.88	2.05	6.89	0.36	0.08	227	-10	-53
CEMBI Investment grade	-1.26	0.48	5.86	0.35	0.31	124	-11	-30
CEMBI High Yield	-0.34	4.39	8.75	0.28	-0.36	414	-18	-96
EMBI	-1.02	0.96	8.37	0.78	0.52	374	32	-9
EMBI Investment grade	-1.36	-2.41	5.82	0.42	0.58	114	-4	-2
EMBI High Yield	-0.68	4.43	11.42	1.20	0.43	682	73	-18
Developed USD IG (JPM)	-2.39	-1.47	5.63	0.42	0.49	100	-4	-12
US High Yield Corp (BarCap)	-0.94	1.47	7.85	0.45	0.26	293	2	-30
5Y US Treasury bond	-1.45	-1.05	4.50	0.50	0.65	n.m.		
10Y US Treasury bond	-3.14	-3.15	4.51	0.48	0.63	n.m.		

Returns in USD except CEMBI EUR hedged

Kind regards,

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