## 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.*

The usual holiday lull took over the first half of December albeit US yields, both real and nominal and particularly in the longer tenors, heated up toward the end of the month as inflation expectations continued to edge higher and undid the move downwards in yields from late November. Even the US Federal Reserve suggested they might be more cautious going forward after months of seeing the debt markets go against their views. The broader financial market remains transfixed on the ramifications of Donald Trump's upcoming new presidential term in the US which, according to many economists, could pose relevant inflationary risks for the economy. Nevertheless, the still standing US economic exceptionalism and the higher interest rates kept the USD supported against DM and EM currencies in December. In China, skepticism over the impact of the announced economic stimulus measures remained in place as local Chinese interest rates plunged to record lows. CEMBI returned -0.5% in USD/-0.7% in EUR in December (with IG down by -0.9% while HY was only down -0.1% in USD) as the interest rate shock from US yields reverberated across the markets (with limited spread implications owing to the nature of the shock, as has been the norm in recent years). Our EUR denominated institutional share class returned -0.5% (gross) and was about 20bps ahead of its benchmark. Similarly, our USD I and II share classes returned -0.4% (gross) and were about 20bps ahead of the benchmark.

Asian credits suffered the most owing to the high count of IG rated names issuing long duration papers in the region hence delivering a return of -0.7% in December (-0.9% IG / -0.2% HY). As usual during previous interest rate shocks, credits from IG stalwarts Taiwan (-1.5%) and Thailand (-2.3%) were among the weakest. Our exposure to such names has been deeply underweight for some time now. Indian credits had a better month after a rough November (i.e. Adani indictments) with a return of -0.1% (0.0% IG / -0.2% HY) as high yielder commodity conglomerate Vedanta maintained its positive momentum and renewable energy Greenko screened attractive for the short tenors. Our overweight exposure to Indian credits yielded positive relative performance. The Adani indictments have not produced further negative headlines and the amounts involved, about USD300mn, are not large in the context of recent scandals in the corporate world thus the valuations of these papers has stabilized.

Credits from LatAm were also weak in December with a return of -0.6% (-1.3% IG / -0.2% HY). Similar to Asia's case, IG and long duration heavy countries like Chile (-0.6%) and Mexico (-1.2%) were weaker on the back of the rate shock (Mexican IG papers were down by almost -2%). Our overweight in Mexican names, particularly in short dated papers, yielded positive relative performance while our small underweight in Chilean names yielded modest negative performance. Brazilian names stood out in December with a return of -1.7% (-1.7% IG / -1.7%HY) as months of noise over irresponsible fiscal dynamics at the sovereign and thus higher local interest rates spilled their toxic effects beyond local currency assets. The situation remains fluid albeit it may be that an agreement between the different branches of government will eventually produce an acceptable, albeit not ideal, compromise for government spending. Our modest overweight in Brazilian names produced small positive relative performance driven by bottom-up stories.

CEEMEA credits fared better than those from other regions, delivering a return of -0.3% (-0.7% IG / +0.1% HY). As was the case in other regions, the IG oriented jurisdictions from the GCC like Saudi Arabia (-1.2%) were among the weakest on the back of the interest rate shock. We have maintained a net underweight exposure to these credits (namely Saudi Arabia, Qatar, UAE) with a preference for the UAE. Our exposure to industrial and oil names in the UAE contributed positively to relative performance. The HY selection in CEEMEA remained active with Ukrainian names producing a return of 0.9% with a strong contribution from the grain and poultry name MHP after months of positive newsflow. Our overweight exposure to names from Ukraine yielded neutral relative performance as we have preferred other credits besides the previously mentioned MHP.

EM corporate issuance came in at about USD6bn which is not unusual for this time of the year as the market slows down. IG paper only amounted to USD2.4bn of the total and Asian paper took USD3.1bn of the total with the remaining issuance activity commanded by LatAm. Geopolitical uncertainties remain elevated and US fiscal and monetary policies still have left many questions unanswered. This means January may be a heavy month for primary activity as issuers may choose to fund themselves before Donald Trump is inaugurated as president in the United States.

| 03/01/2025 | Return last month (USD) | Return YTD | Yield to Worst | *Last month* | *Δ YTD* | OAS Spread | *Last month* | *Δ YTD* |
|---|---|---|---|---|---|---|---|---|
| *CEMBI EUR hedged* | *-0.70* | *0.04* | | | | | | |
| EM Corporate Index | -0.54 | 0.05 | 6.56 | 0.26 | 0.00 | 208 | -4 | 2 |
| CEMBI Investment grade | -0.88 | 0.05 | 5.68 | 0.26 | 0.00 | 114 | -5 | 1 |
| CEMBI High Yield | -0.08 | 0.06 | 8.18 | 0.23 | 0.01 | 377 | -4 | 3 |
| EMBI | -1.40 | 0.10 | 7.86 | 0.24 | 0.00 | 326 | -11 | 1 |
| EMBI Investment grade | -2.21 | -0.08 | 5.91 | 0.34 | 0.02 | 122 | -3 | 3 |
| EMBI High Yield | -0.63 | 0.26 | 10.11 | 0.03 | -0.03 | 557 | -31 | -2 |
| Developed USD IG (JPM) | -1.78 | 0.02 | 5.56 | 0.33 | 0.00 | 93 | -3 | 1 |
| US High Yield Corp (BarCap) | -0.43 | 0.17 | 7.44 | 0.35 | -0.05 | 282 | 21 | -5 |
| 5Y US Treasury bond | -0.60 | 0.04 | 4.37 | 0.33 | -0.01 | n.m. | | |
| 10Y US Treasury bond | -2.22 | 0.07 | 4.55 | 0.40 | -0.02 | n.m. | | |

Returns in USD except CEMBI EUR hedged

*Kind regards,*

*Aksel Madslien, Chresten Hagelund, Eduardo Ordoñez, Jakob Christensen, and Søren Bertelsen.*

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*Last edited 08th January 2025.*