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 ongoing inflation rollercoaster continued in June with a moderately dovish tilt until the end of the month when yields climbed higher once again on a mix of US fiscal concerns and a weaker JPY. Commodities gave up some recent gains, particularly copper and agricultural commodities. Chinese economic data was moderately better albeit still not clearly improving. The USD was the outlier in the month with broad strength amid political strife in Europe and weaker fiscal dynamics in several large emerging market countries. CEMBI returned close to 1% with a still strong momentum in its HY segment (unlike in EMBI, where HY lost some momentum after a strong rally) on the back of Chinese HY real estate's positive headlines. Our EUR denominated institutional share class returned 1.0% (gross) in June, which was about 20bps ahead of its benchmark. Similarly, our USD I and II share classes returned 1.1% (gross), also about 20bps ahead of the benchmark.

Performance was roughly uniform across geographies. Asian credits delivered a return of 0.8% (0.7% IG / 1.2% HY) with a strong performance in the Chinese real estate segment. The Chinese government has signaled it is willing to support the sector albeit specifics are still not too clear. Chinese credits returned 0.7% (0.6% IG / 1.2% HY) and our underweight positioning yielded neutral relative performance as we have dipped in small sizes into the Chinese real estate space. Indonesian credits also had a good month with a return of 1.2% (1.3% IG / 0.9% HY) which was broad based across sectors and credit ratings owing to positive news regarding the country's fiscal trajectory under their recently elected president. Our overweight in these names produced neutral relative performance.

CEEMEA names returned 0.9% (1.1% IG / 0.8% HY) with a notable contribution from South African credits which returned 1.7% (1.9% IG / 1.2% HY) on the back of a positive outcome for investors after the latest presidential elections. The promise of government coalition based on more reformist parties was cheered on by investors as fears of more radical parties being decisive for government formation abated. Our underweight yielded modest positive relative performance owing to our lack of exposure to Anglo American whose takeover by BHP fell apart. Credits from Ukraine also had a good month returning 1.8% as sovereign debt negotiations moved forward and western country aid became available. Our small overweight in these names yielded modest positive relative performance. Lastly, GCC names performed well returning close to 1%. Our net underweight in these (Saudi, Qatar, UAE) led to modest negative relative performance.

LatAM credits returned 1.1% (1.0% IG / 1.4% HY) as Mexican names lagged with a return of 0.5% (0.5% IG / 0.6% HY) owing to the negative surprise for investors coming out of the presidential elections. The incumbent party won, which was expected, but the gap relative to the other parties was bigger than expected which triggered fears over dominance in the legislative branch of government which may bring forward populistic measures rejected by investors. Our overweight in Mexican names, despite being biased toward the safer papers, yielded modest negative relative performance. Chilean names were the star performers in the region with a return of 1.9% (1.2% IG / 5.0% HY). The surge in HY performance reflected the confirmation of America Movil's rumored intent to take over distressed broadband player VTR. Our small overweight in Chilean credits yielded positive relative performance owing to our exposure to VTR's bonds.

EM corporate issuance came in at USD32bn which was an acceptable level of participation for the month. About USD19bn came from Asia while close to USD4.0bn came from the Middle East and Africa. Emerging Europe issued close to USD5bn and the remainder came from LatAm. It is worth noting the speed at which corporate issuers reacted to dovish signals earlier in the month hence hinting at still latent supply seeking the appropriate trading windows to reach the market. It remains to be seen if issuers have front-loaded their primary market activity for the year in anticipation of volatility related to the US presidential elections later in 2024.

02/07/2024	Return last month (USD)	Return YTD	Yield to Worst	*Last month*	*Δ YTD*	OAS Spread	*Last month*	*Δ YTD*
CEMBI EUR hedged	*0.81*	*2.80*						
EM Corporate Index	0.93	3.57	6.76	-0.10	-0.05	219	3	-62
CEMBI Investment grade	0.88	1.77	5.78	-0.09	0.23	120	3	-34
CEMBI High Yield	1.00	6.27	8.55	-0.11	-0.56	398	2	-112
EMBI	0.62	1.65	8.54	-0.01	0.69	395	11	12
EMBI Investment grade	1.10	-1.19	5.76	-0.08	0.53	112	2	-4
EMBI High Yield	0.14	4.56	11.94	0.11	0.95	739	23	38
Developed USD IG (JPM)	0.67	-0.83	5.66	-0.03	0.52	106	8	-5
US High Yield Corp (BarCap)	0.94	2.45	7.97	-0.09	0.38	309	1	-14
5Y US Treasury bond	0.88	-0.20	4.42	-0.13	0.57	n.m.		
10Y US Treasury bond	1.25	-2.31	4.46	-0.10	0.58	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 July 2024.