Emerging Markets Debt - Insights

With this piece, we are proud to launch a periodic note to our current and prospective investors in the Emirates Emerging Market Debt Fund. The team engages in conversations with industry specialists, management teams and participates in events ranging from investor calls, round tables and conferences on a regular basis. Through this publication, we will cover highlights across the Emerging Markets space as we cover Asia, CEEMEA (Central Eastern Europe Middle East & Africa) and Latin America regions.

Overall risk sentiment has been positive for the first half of July even with negative virus news and geopolitical tensions increasing. The US and China conflict continues to evolve, President Trump said last week that the relationship between the two nations has been "severely damaged" by the pandemic. Despite this, market optimism was supported in part aided by the US economic data that indicates a gradual recovery in the US labor market while Covid-19 infection numbers continue to increase. Looking forward, the 2Q20 earnings season has kicked off with 8% of S&P 500 companies reporting in the first half of the month.

Asia:

China continues to see recovery as Q2 GDP came at 3.2% y/y versus an expected growth of 2.4%. We expect the positive trend in China's economic data to continue as activity normalises and the global economy recovers. Within the Fund, we like the Chinese tech space, especially the TENCENT long end.

In India, we attended a call with Sanjeev Sanyal, Principal Economic Adviser - Government of India. Mr. Sanyal provided insight into the country's challenges in restarting economic activity, containing the virus from spreading, its fiscal policy response and economic support packages. We are positive on India and it remains the top weight in the Fund. Some credits in the Fund are idiosyncratic names which are also good carry plays. We have a few NBFC credits in the portfolio which are attractively priced for short dated maturities. The recent support sought and being received by the NBFC's from the government for USD 1.31 billion under the government's special liquidity scheme further cements our view on those names. Recently the World Bank had approved a USD 750 million emergency response program for India's SME businesses which were severely impacted by the Covid-19 crisis.

We attended the virtual conference with Fitch ratings and had a call on Indonesia's macro-economic outlook. Fitch Ratings provided an update on Indonesia's coal sector and the fall in demand for coal prices. Production is expected to be cut for coal to balance out supply / demand and bring price to normalized levels. The macro call provided color on the support plan for Indonesia's economy (due to COVID 19) which has seen slower growth due to the bureaucracy in the country. We also spoke to companies from the energy and the real estate sectors. Overall, we were more comfortable with the companies from the energy sector who were able to cut down on capex more aggressively. Our fund has 8% exposure to Indonesia and we continue to like the story because of their low debt to GDP and their disciplined fiscal policy.

CEEMEA:

We remain structurally underweight CEEMEA as we see better value elsewhere in the EM space. We have decided to roll over the existing EGP position that matured into longer dated EGP bonds, in order to reflect our bullish stance on Egypt as inflation is tamed and Central Bank reserves remain strong. Elsewhere in Ukraine, the Central Bank Governor Yakiv Smolii tendered his resignation on July 1st citing political pressure which put the EU's EUR 1.2bn macro financial assistance programme and the IMF programme in jeopardy. On the back of this information, the sovereign pulled a new bond issuance from the market and we have now seen Kyrylo Shevchenko replacing the incumbent. That introduced an element of volatility in Ukrainian spreads. Considering that our exposure is limited to that of Metinvest, which has had a decent year so far, we remain comfortable with the exposure.

We have selectively participated in the new issue space as we took part in the Romania 30 year new issue and DP World perpetuals which is the first Islamic corporate perpetual, reflecting our conviction its ability to deleverage and attractive spread over senior metrics. Having said that, we have decided to stay out of Hikma pharmaceuticals as we saw limited potential for spread compression.

Latin America:

In LatAm we had conversations with industry experts including discussions on Braskem and the iron ore sector. Braskem was recently downgraded by Moody's, Fitch and S&P to become another fallen angel, although both Fitch and S&P maintained a stable outlook on the credit. Both downgrades were a result of a weakening macro environment that have elevated challenges that Braskem faces in deleveraging in addition to the uncertainty about the duration of the petrochemical downturn that began in 2019. We continue to hold Braskem and believe that the company fundamentals are still strong (on strong liquidity). Braskem is expected to price a USD-denominated corporate perpetual this week, in doing so they are trying to benefit from the equity credit that they receive from S&P and Fitch.

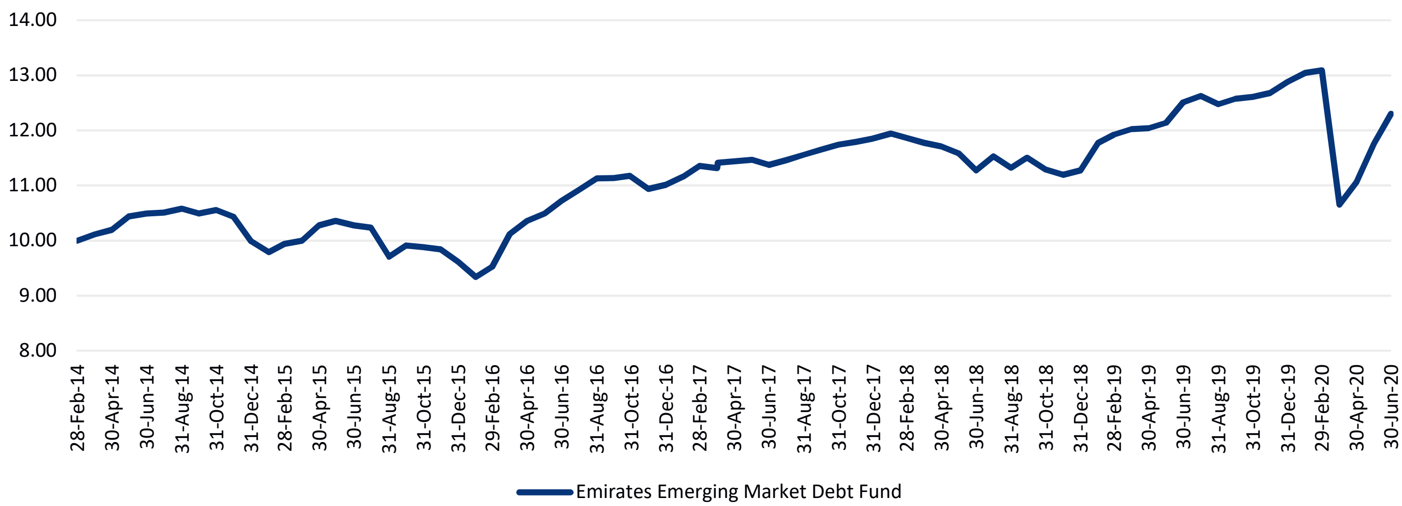
The iron ore industry has been having a very strong year in terms of margins, the result of lower supply than usual and recovering demand from Asian markets. Iron ore prices have reached a level exceeding $110/ton, which leaves room for margins as high as 70% for selected corporates. Our fund holding company CSN has benefitted from higher prices and is expected to meet its deleveraging goals as a result. Vale, the top iron ore producer in Brazil, is a name to watch as it is expected to ramp up production in the second half of 2020.

We continue to focus on Mexico with 7% exposure of the fund. May numbers for industrial production in the country implied that the bottom had not been reached, but we expect the macro environment to begin improving in the comings months as the effects of the June loosening up of lockdowns are realized.

Emirates Emerging Market Debt Fund:

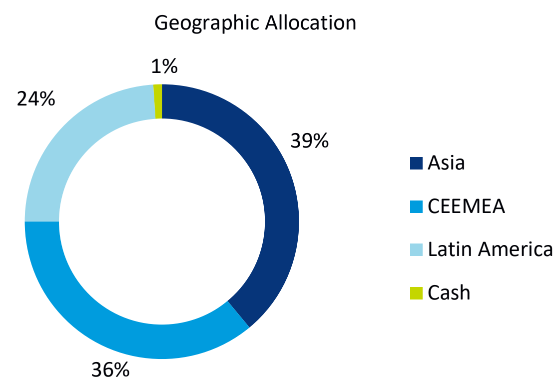
Emirates Emerging Market Debt Fund is well positioned to take advantage of the recovery that is expected to occur in the second half of 2020 and 2021. The fund is well diversified across 85-90 EM issuers and offers an attractive yield of close to 10% with average portfolio quality of BB/Ba2 and duration of 6 years. The Fund distributes cash dividend yield of 6% annualized (paid 1.5% quarterly).

Emirates Emerging Market Debt Fund



	1 Month	3 Months	YTD	12 Months	Since Inception	Dividend Yield
Emirates Emerging Market Debt Fund	4.57%	15.48%	-4.50%	-1.68%	23.02%	6%

Key Metrics	
Yield to Maturity	9.16%
Current Yield	7.22%
Average Credit Rating	BB



Source: Emirates NBD Asset Management, I Share Class, bid to bid, USD terms with net income reinvested. As at 30th June 2020.