

FINISTERRE EMERGING MARKETS DEBT TOTAL RETURN FUND

Monthly commentary - March

Investment Manager

Principal Global Investors (Australia) Limited
ABN 45 102 488 068 | AFSL 225385

Sub-Advisor

Principal Global Investors (Australia) Limited, the Investment Manager, has delegated the day-to-day investment management of the Finisterre EMD Total Return Fund (Fund) to Finisterre Capital (Finisterre), an internal investment management group and trading name of Principal Global Investors (Europe) Limited, the Sub-Advisor. The Sub-Advisor will assume primary responsibility for discretionary portfolio management for the Fund subject to the oversight of the Investment Manager.

Investment objective

The Fund seeks to generate total returns through income and capital appreciation, while limiting volatility and potential capital losses

Fund facts

Fund size \$240M (AUD)
Base currency AUD
Fund domicile Australia
Pricing Daily

Fund Facts

Seed date 20 July, 2021
Currency AUD
Hedging -
Minimum investment \$500,000
Management fee(s) 85 Basis Points
Income distribution Quarterly

Fund Performance (%)

	1M	3M	1YR	3YR	5YR	SI*
Fund Gross Performance	1.99	3.83	11.43	-	-	1.96

*This figure represents the annualised performance of the Fund since inception - 20th July, 2021.

Fund analysis

	Fund
Average Duration	4.92
Average Maturity (Years)	8
Current Yield	6.70
Yield to Worst	9.00
Yield to Maturity	8.18

Any yields quoted on the fact sheet are calculated at portfolio level gross of tax and expenses.

- Current Yield is the annual interest earned on the underlying bonds divided by the market price of the underlying portfolio of bonds. The figure is not the dividend yield received by the investors and is subject to change depending on the underlying portfolio of bonds.
- Yield to Worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. The yield to worst is calculated by making the worst-case scenario assumptions on the issue.
- Yield to Maturity is a concept used to determine the rate of return an investor will receive if a long-term, interest-bearing investment, such as a bond, is held to its maturity date. Please note that this is not the return or dividend to be received by investors in the fund.

Credit quality net (%)

	Fund
AAA	2.94
AA	1.57
A	-1.20
BBB	17.70
BB	32.56
B	15.08
CCC and below	12.45
Not Rated	2.96

Credit Quality refers to the credit ratings for the underlying securities in the Fund as rated by Standard & Poor's, Fitch or Moody's Investors Service, and typically range from AAA/Aaa (highest) to C/D (lowest). If Moody's, Fitch and S&P assign different ratings, the second highest rating is used. Ratings methodologies and individual ratings can change over time.

Top 10 gross exposure (%)

	Fund
CHINA BANKING SECTOR CDS	14.46%
CNH CURRENCY	8.79%
BRAZIL LOCAL SOVEREIGN	5.96%
INDONESIA LOCAL SOVEREIGN	4.71%
EGYPT LOCAL SOVEREIGN	3.49%
POLAND LOCAL SOVEREIGN	3.17%
PERU LOCAL SOVEREIGN	2.82%
KRW INTEREST RATE SWAP	2.82%
ARGENTINA SOVEREIGN CREDIT	2.63%
ECUADOR SOVEREIGN CREDIT	2.54%

* Excludes FX hedges, bond futures, US T-Bills, US T-Notes and cash.

Top 5 issuer gross exposures (%)

	(% nav)
GALAXY PIPELINE ASSETS BIDCO LTD	1.57
GREENSAIF PIPELINES BIDCO SA RL	1.44
TENGIZCHEVROIL FINANCE COMPANY INTERNATIONAL LTD	1.38
STANDARD CHARTERED PLC	1.28
HSBC HOLDINGS PLC	1.23

Top 5 Sovereign exposures (%)

	(% nav)
ARGENTINA REPUBLIC OF GOVERNMENT	2.63
ECUADOR REPUBLIC OF (GOVERNMENT)	2.54
EGYPT (ARAB REPUBLIC OF)	2.44
COLOMBIA (REPUBLIC OF)	2.24
ISRAEL (STATE OF)	2.14

Regional allocation (net exposure %)

	Fund
LATAM	35.23
AFRICA	20.87
EASTERN EUROPE	15.20
MIDDLE EAST	12.26
INDEX SNAT	0.72
ASIA	-7.56

Local currency exposures (Top 5 by net %)

	Fund
BRL	5.96
IDR	4.71
EGP	3.49
PLN	3.17
INR	2.94

Contact us

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Commentary

The Ides of March came and went this year without causing any significant damage to markets. Although there was the predictable chatter at the end of February about the potential perils of March for investors, the benign trends that have so far characterized 2024 remained intact. In light of the persistently strong data, some cautionary language from key Federal Reserve (Fed) officials and the resulting retracement in yields versus year-end 2023 levels, markets were cautious on what the March Fed meeting might portend. Despite some meaningfully hawkish adjustments to the Summary of Economic Projections, Uncle Jay made clear in his press conference that he remains biased to ease and pushed back on every attempt to lead him otherwise.

Emerging Market Debt (EMD) once again traded with macro. The Finisterre Emerging Markets Debt Total Return fund was up 1.99% on the month. This takes the year-to-date to +3.38%.

March returns were once again driven by the spicier parts of the EM universe. Argentina and Ecuador continued to march higher with investors increasingly confident that both countries are on track to avoid credit events in 2025. As noted above, Ukraine performance was driven by expectations for an imminent start to the debt operation and positivity around the updated IMF DSA. Nigeria produced gains in local currency and in corporate exposure. Detractors came from local currency positions in Indonesia, Korea, South Africa, and Chile as well credit hedges.

Our overall outlook is essentially unchanged since last month: we remain positive growth, risk, and the continuation of the low volatility regime. The global bias to lower policy rates that we noted in the last monthly newsletter remains intact and was confirmed by the Fed and ECB messaging (even the Bank of Japan hiked dovishly).

We think EMD assets continue to look good and expect Strategy returns for the year to be attractive. There are some nuances around these views however and it was actually a relatively active month for us on the trading side as a consequence. There is much debate about the attractiveness (or lack thereof) of spreads—a debate which has quite different outcomes depending on normative versus relative comparisons.

Across most parts of the global credit landscape (be it EM or developed markets (DM), investment grade (IG) and high yield (HY)) spreads are at/approaching the 2021 quantitative easing (QE)-induced tightness but all in fixed income yields are as attractive as they have been at any point in the last 20 years. At the same time, the spread advantage to move from the U.S. to EM has been remarkably stable, near multi-year averages. That leaves us in the slightly uncomfortable position of being unenthused by generic spreads (but without a catalyst for systemic widening) while being extraordinarily enthused by yields.

In March we shortened up risk across the African credit complex taking out risk in longer dated bonds to focus on short-dated income. Additionally, we reduced risk across a range of corporate names where we felt that current valuations were no longer particularly compelling. In local markets, the biggest development was the addition of T-bill positions in Egypt and Nigeria. We flattened out the last of our Hungarian risk and added to Poland. In Brazil, we closed out our January 27 receivers and added the duration in long end inflation linkers (adding to our FX exposure in the process).

Performance note

This document presents the performance of this particular unit class of the Fund from the date of inception of the unit class in its unit class currency, as specified on the front page.

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