

FINISTERRE EMERGING MARKETS DEBT TOTAL RETURN STRATEGY

Monthly commentary

DECEMBER 2025

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December was not a particularly exciting month for markets and largely continued the themes that were already in play: equities were stronger, the dollar was weaker, metals higher, oil softer, and rates largely range bound. The shutdown driven data deficit was closed in December with the market once again getting key inflation and labour market releases. Cooling but still reasonable activity numbers, modestly weaker labour market indicators, a surprisingly low CPI print, and the delivery of the well telegraphed December rate cut, gave markets the all clear for a bullish run into the end of the year.

The Finisterre Emerging Markets Debt Total Return Strategy outperformed relative to the reference index. The Strategy finished the month up 0.90% net (0.97% gross), taking the full year return to 15.61% net (16.57% gross) versus the JP Morgan EMD Equal Weight Index at 14.05%.

Market overview

As noted, the return of macro data publications post shutdown didn't dramatically alter the overall narrative. The economy continues to look broadly healthy by most measures but exhibits some potentially worrisome trends in the background. The most notable is a weaker trending labour market, albeit from a strong starting point. The unemployment figure ticked up to 4.6% and the Job Openings and Labor Turnover Survey (JOLTS) data was also soft, although claims figures actually showed an improvement on the month. The most surprising release in December was CPI at 2.7% versus estimates at 3.2%. While markets were pleased to see a number indicating a return to a disinflationary trend, analysts were very cautious about potential statistical distortions impacting the figure.

As widely expected, the Federal Reserve (Fed) delivered a cut at the December meeting, but the voting revealed significant internal divisions. At present, there is not a clear consensus at the Fed regarding the direction that monetary policy should take heading into 2026. Jerome Powell seems to be leaning dovish based on concerns about the labour market but also doesn't seem to be in a rush to cut further. The continuing question marks about the composition of the committee in 2026 makes it even more challenging to hold a strong view on the future direction of United States monetary policy. President Donald Trump has made clear his strong preference for much lower (long term) rates and has repeatedly stated that this is a key criterion for the new Fed chair. Although the final short list seems set, we did not get any firm indications in December about who is likely to be selected. Together with the open questions around Lisa Cook, Powell's future role, and any potential changes to the regional Presidents, there are a great deal of unknowns on the personnel front. At present, the market is biased to see a dovish Fed going forward but not one that loses credibility regarding the management of inflationary pressures longer term.

In a month that saw a broad-based move lower in DXY, Asian foreign exchange (FX) performance saw

some divergence with more idiosyncratic drivers. The RMB broke the psychological 7 level on Christmas day as the fixing continued to grind lower amid the People's Bank of China's (PBOC) change in mindset to focus on its weak domestic economy, where they hope a stronger RMB will drive capital inflows, support domestic confidence, and promote the international adoption of the RMB.

The Korean won has been an underperformer since the summer but saw a gap firmer late December as there was a mix of fiscal measures and strong verbal intervention. The announcement of capital gains tax exemptions on offshore equity investments should incentivise investors to move assets onshore over the next six months. The National Pension System (NPS) moved to a higher strategic hedging target as well as hints of a reduction on the broader offshore asset mix.

The Indian rupee saw a break to the upside of the 90 level with a wave of stops from participants who had bet on the RBI to defend certain levels. While there were some gems on the year in MYR and THB, we enter 2026 having had a disappointing year for Asian FX. There will likely be tactical opportunities for appreciation given cheap valuations, but structurally low carry makes them less of a buy and hold investment.

The noisy negotiations around a potential peace deal in Ukraine continued in December. Although there is undoubtedly progress being made, serious issues remain to be resolved before an actual deal can be reached. There has clearly been a recognition on the Ukrainian side that some concessions will be required around territories currently held by Russia. Against this however, the Ukrainians very reasonably expect binding security guarantees to ensure that renewed Russian aggression can be contained. Russia seems much less willing to back down from its maximalist demands for the defenestration of the Ukrainian military and still expects the country to return to some kind of vassaldom. The whole process is further complicated by Trump's mercurial nature: he oscillates between seemingly endorsing Russian positions and expressing his displeasure with Vladimir Putin through heightened pressure on his shadow oil fleet and buyers of Russian oil like India. As the peace negotiations continued, Ukraine successfully dealt with the GDP warrants restructuring in December, converting the conditional claim into a new bond. The European Union did not manage to explicitly move ahead with the Russian frozen assets loan but did commit to providing EUR90 billion in new funding, likely in a form that will not be considered debt for the purposes on the debt settlement arrangement (DSA). We remain positioned in the coupon paying securities which we think offer the best risk reward profile at this juncture.

The U.S. removal of President Nicholas Maduro in Venezuela took place on January 3rd—please see our separate publication for detailed thoughts on the developments there and the broader implications.

Politics moved back to the forefront in Brazil as former President Jair Bolsonaro unexpectedly

Portfolio statistics

Strategy AUM USD mn (month-end)	6,676	
Current yield⁽¹⁾	6.70%	
YTW⁽¹⁾	8.29%	
YTM⁽¹⁾	8.52%	
Duration (cash adjusted)	4.77	
Rating	BB	
Cash & equivalents	6.20%	
Net EM exposure	78.30%	
Gross EM exposure	136.91%	
Long	107.60%	
Short	-29.30%	
Active EM exposures	Net	Gross
Hard Currency Bonds	66.0%	66.0%
Local Currency Bonds	26.6%	26.6%
EM FX Total	3.3%	14.79%
CDS	-23.6%	23.56%
IRS	4.17%	4.17%
Cash / hedge exposures	Net	Gross
DM Rates	3.9%	3.9%
DM FX Total		
US Treasury Notes	-	-
US T-bills	-	-
Free Cash	6.2%	6.2%
Top 5 sovereign / quasi exposures	NAV	
ROMANIA (REPUBLIC OF)	2.61	
ECUADOR REPUBLIC OF (GOVERNMENT)	1.59	
GHANA (REPUBLIC OF)	1.49	
EGYPT (ARAB REPUBLIC OF)	1.49	
PETROLEOS MEXICANOS	1.41	
Total top 5	8.59	
Top 5 corporate exposures	NAV	
CZECHOSLOVAK GROUP AS	1.12	
IVANHOE MINES LTD	0.98	
VEON HOLDINGS BV	0.97	
LEVIATHAN BOND LTD	0.93	
SAAVI ENERGIA LUXEMBOURG SARL	0.93	
Total top 5	4.93	

Source: Principal Finisterre. As of 31 December 2025. Information shown above is from the representative portfolio of the Finisterre Emerging Markets Debt Total Return Strategy. NAV is defined as the sum of absolute market value adjusted for derivatives and hedges.

⁽¹⁾ Yields and yield related characteristics shown are only one component of performance or expected performance and are not and should not be viewed as a statement of the current or future performance of the strategy. See the gross and net performance of the strategy.

endorsed Senator Flávio Bolsonaro as the right-wing's pre-candidate for the 2026 election on December 5. Markets reacted negatively, as Flávio is widely seen as less competitive than the more technocratic Tarcísio de Freitas, reducing perceived odds of a change in administration at this year's election. This political development coincided with seasonal corporate USD demand linked to balance-sheet management/dividends, some offshore outflows, and thin year-end liquidity, all of which contributed to BRL underperformance. Our 3.7% exposure to BRL through a combination of local bonds and FX was negatively affected. That said, we are encouraged by the recent retracement, which has already reversed more than half of December's temporary weakness, and we continue to view BRL as an attractive "carry to volatility" opportunity.

In Colombia, 2025 ended with a significant policy shock that materially alters the macro backdrop. The minimum wage increase (23%, far exceeding expectations) is likely to increase inflation persistence, test the central bank's reaction function, and potentially have broader political ramifications. We were a tad early in fading the rise in short term yields via a 2-year IBR receiver. However, even acknowledging that rate hikes now look unavoidable, the front end of the curve has priced more than 250 basis points (bps) of tightening, which strikes us as aggressive—particularly if firms are unable to fully pass through higher labour costs to prices, or start shedding jobs. Colombia, much like Brazil in early 2025, has become a clear outlier in emerging markets (EM) local rates, and it appears to us that the front end has already discounted the bulk of the bad news.

Oil continued its year-long march lower with Brent seeing a 50\$-handle for the first time of 2025 in mid-December. Signs of a growing supply surplus became more evident in the fourth quarter, and prospects of a potential, yet distant, recovery in Venezuelan production recently added to the pressure. We have been cautious on oil for much of 2025 as the supply glut has been well-telegraphed. Most of our direct exposure comes on the sovereign side where many of the oiliest countries have built up fiscal and/or external buffers, in countries like Ecuador, Nigeria, and even Angola to an extent. Our one high yield (HY) exploration and production (E&P) exposure, to Kosmos Energy, has had a weak Q4, as production disappointments have compounded the impact of lower Brent prices, although fresh successful drilling now offers better prospects. We continue to be relatively cautious on adding energy exposure here even as we do note, we don't see a lot of further downside to Brent.

It has been a busy year for EM primary issuance with crossover inflows and the return of dedicated EM flows, particularly in blended mandates, supporting record sovereign issuance in 2025. Nearly \$270 billion was issued in hard currency sovereigns this year with supply up in all regions. Corporates had a big year as well—up significantly versus 2024 but coming in shy of the record post-COVID deluge. 2026 looks set to be another big year for supply with many investment grade (IG) sovereigns still showing sloppy fiscal balances (i.e. higher funding needs); with the rally in spreads in the lower quality parts of the market, we'd assume many HY sovereigns to be opportunistically issuing again and we expect re-debut's from the likes of Argentina, Ecuador, Pakistan, and some others. In corporates, we expect the primary flavours to be weighted towards debut and commodity-focused issuers where we are happy to be opportunistic for the right names. All told we expect a busy start to the year, providing a nice way to scale up momentum and carry names if we so choose.

Performance and portfolio positioning

Emerging markets debts (EMD) rounded off the year with yet another strong month as the Total Return Emerging Markets Debt Strategy return 0.97% gross (0.90% net) marginally exceeded the JPM 1/3 EMD blended index.

The largest contributor was from our position in long end unhedged South African local bonds which contributed [+27 bps]. The position has continued to benefit from a calmer political story, positive technicals as maturities are invested and strong terms of trade.

External debt also had a strong month with spread compression aided by continued inflows as HY outperformed, in particular Argentina, Egypt, Nigeria, and Ecuador. The largest detractors were from some of our rate positions with the sharp selloff in Colombian rates. We also saw losses in our long U.S. Treasury future position as core rates also saw pressure higher amid expectations for further supply and as economic growth data surprised to the upside.

We retain a short dollar/long EM FX bias and modestly increased it during the month with new long exposures to RON and MYR and additions to our position in PLN, MXN, BRL. We reduced portfolio duration by ~0.4 year as we took profits on our Israel rates receiver and also net reduced our U.S. future position. Credit exposure remained broadly steady to benefit from the constructive risk tone, but we did tactically add a long protection position in Colombia CDS with increasing pressure on local markets and expectations for a large slate of hard currency issuance in 2026.

A market and portfolio strategy scenario for 2026

We remain convinced that 2026 will be a year where EM FX, yields and spreads continue to grind against a background of weak-ish USD and continuing Fed cuts, so that duration helps marginally, but eventually, EMD returns will be increasingly driven by income maximization and the continuing search for alpha idiosyncratic opportunities in the local frontier space, corporate event-driven ideas, or around a few specific sovereign stories.

Any significant beta-driven uptrend is more likely be provided by potential FX appreciation versus USD, whereas credit spread and local yield contraction should slow to more of a grind. We caution that it may not be a uniform FX appreciation move along the whole of the year.

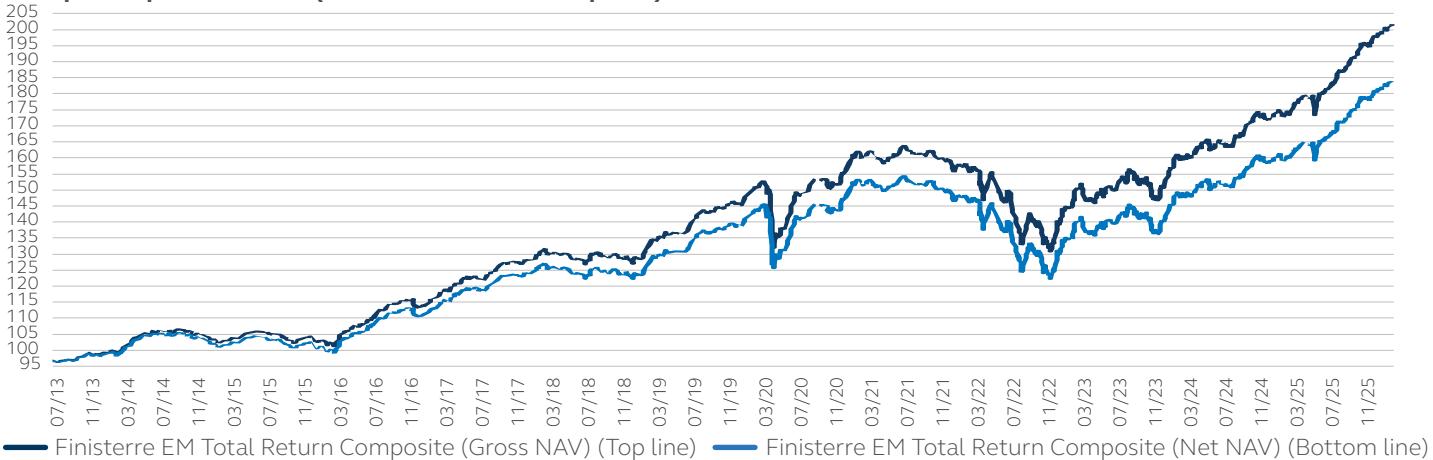
Across EM regions, high-carry Latin currencies, EUR-related Eastern European FX, idiosyncratic frontier FX, whether commodity related or not, or low yielding, capital flow-sensitive Asian currencies will likely exhibit different trading patterns and may not be synchronized all year. This will require clear and distinctive macro themes to be enacted at different times. We would however expect the bulk of EM FX appreciation potential to be frontloaded into the first quarter of 2026, with mounting uncertainties in the run-up to the U.S. mid-terms potentially acting as a dampener of risk appetite.

If 2026 is unlikely to see the repeat of a 15%-odd 2025 performance, given much lower global yields and a less clear-cut outlook for the dollar, it should remain a solid year for EMD. The main return expectations of any EMD portfolio should be wrapped around its current yield stream (6%-9% depending on the mandate of the portfolio), to which we may be able to add 1%-2% of tactical alpha generation across a range of lingering sovereign and corporate situational credits, or specific local macro stories. We caution that the path will be less linear, as clouds on the horizon become darker whether from AI valuation and adoption concerns, the likely accrual of losses in the private debt sector, and the persistence of developed markets (DM) fiscal sustainability worries.

We should therefore brace for occasional risk drawdowns (lower FX, equities, wider spreads) on global fears of such major events, but we feel that any of those will likely not be THE big thing in 2026. Such episodes will continue to provide entry opportunities into an EMD asset class which remains deeply under-owned, and one of the best providers of diversifying income and "value for money".

Growth of \$100

Composite performance (cumulative since inception)



Source: Principal Finisterre, As of 31 December 2025.

Finisterre EM Total Return Composite inception date 31 May 2013.

Past performance does not guarantee future return.

	Returns (%)		Annualised returns (%)					Volatility (%)					Sharpe ratio				
	MTD	YTD	1-year	3-year	5-year	10-year	ITD	1-year	3-year	5-year	10-year	ITD	1-year	3-year	5-year	IDT	10-year
Finisterre EMTR Composite (gross)	0.97	16.57	16.57	11.79	4.55	6.95	5.73	3.28	4.18	4.76	4.36	4.05	4.68	2.67	0.93	1.38	1.54
Finisterre EMTR Composite (net)	0.90	15.61	15.61	10.98	3.79	6.18	4.97	3.28	4.18	4.76	4.36	4.05	4.43	2.49	0.78	1.20	1.37
EMBI Global Diversified	0.72	14.30	14.30	10.58	1.78	4.40	3.97	3.61	4.72	5.75	6.10	5.90	3.70	2.13	0.31	0.66	0.71
CEMBI Broad Diversified	0.48	8.73	8.73	8.47	2.48	4.77	4.21	1.91	2.30	2.81	3.06	3.02	4.38	3.54	0.87	1.37	1.52
GBI-EM Global Diversified	1.49	19.26	19.26	9.46	1.12	3.88	0.79	4.68	6.23	7.34	8.48	8.68	3.77	1.45	0.15	0.09	0.45
JPM EM Equal Weight Total Return	0.90	14.05	14.05	9.54	1.84	4.41	3.04	2.81	3.92	4.78	5.32	5.29	4.68	2.33	0.38	0.57	0.81

Gross returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013						-3.37	0.10	0.19	0.68	1.73	-0.47	0.76	-0.47
2014	-0.75	2.37	1.95	1.55	0.72	0.53	0.18	0.18	-0.53	-0.62	-0.36	-1.34	3.86
2015	-0.54	0.64	0.45	1.53	0.36	-0.53	-0.36	-0.89	-1.80	1.28	0.63	-1.08	-0.36
2016	-0.64	0.92	2.81	1.59	0.52	1.99	1.61	1.76	0.74	0.49	-2.09	1.07	11.21
2017	1.63	2.10	1.33	1.47	0.38	-0.32	1.45	1.73	0.88	0.21	0.44	0.57	12.51
2018	1.93	-0.85	-0.27	-0.58	-0.46	-0.44	2.12	-1.08	0.75	-1.52	-0.03	0.36	-0.14
2019	4.24	0.99	0.34	0.55	0.39	2.87	1.85	-0.37	0.75	1.28	-0.33	2.51	16.04
2020	0.94	-1.50	-8.54	1.85	5.14	2.20	2.59	0.29	-1.64	0.50	3.63	3.09	8.15
2021	-0.58	-0.23	-0.97	1.02	1.32	-0.10	-0.63	0.74	-1.61	-0.42	-2.16	1.44	-2.24
2022	-0.94	-3.18	2.16	-3.72	0.57	-7.83	0.53	0.48	-4.68	0.25	6.83	1.36	-8.60
2023	3.91	-2.09	1.19	1.25	-0.05	2.34	1.28	-1.54	-2.35	-1.42	5.21	3.56	11.52
2024	-0.32	0.86	2.04	-1.28	0.84	-0.38	2.00	1.99	2.42	-1.35	1.05	-0.51	7.46
2025	2.08	1.51	-0.62	1.18	0.94	2.51	0.80	2.08	1.58	1.53	0.90	0.97	16.57

Net returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013						-3.44	0.03	0.12	0.61	1.66	-0.54	0.69	-0.94
2014	-0.82	2.30	1.88	1.48	0.65	0.47	0.11	0.12	-0.58	-0.68	-0.41	-1.40	3.10
2015	-0.60	0.58	0.40	1.48	0.30	-0.59	-0.41	-0.95	-1.86	1.23	0.58	-1.14	-1.05
2016	-0.70	0.86	2.75	1.53	0.46	1.93	1.55	1.70	0.68	0.43	-2.15	1.01	10.43
2017	1.57	2.05	1.27	1.42	0.32	-0.37	1.39	1.67	0.82	0.15	0.38	0.51	11.73
2018	1.86	-0.90	-0.33	-0.64	-0.53	-0.50	2.06	-1.15	0.69	-1.59	-0.10	0.30	-0.90
2019	4.18	0.93	0.27	0.49	0.33	2.81	1.79	-0.43	0.69	1.21	-0.39	2.45	15.20
2020	0.88	-1.56	-8.60	1.79	5.08	2.13	2.52	0.23	-1.70	0.44	3.56	3.02	7.34
2021	-0.64	-0.29	-1.04	0.96	1.26	-0.16	-0.69	0.68	-1.67	-0.48	-2.22	1.38	-2.94
2022	-1.00	-3.23	2.10	-3.77	0.51	-7.89	0.47	0.42	-4.74	0.20	6.76	1.31	-9.23
2023	3.85	-2.14	1.13	1.20	-0.11	2.29	1.22	-1.60	-2.40	-1.48	5.16	3.50	10.79
2024	-0.38	0.80	1.99	-1.34	0.78	-0.43	1.94	1.93	2.36	-1.42	0.98	-0.58	6.70
2025	2.01	1.44	-0.69	1.11	0.87	2.44	0.73	2.01	1.51	1.46	0.83	0.90	15.61

12-month net rolling return (%)

	Jan 2021-Dec 2021	Jan 2022-Dec 2022	Jan 2023-Dec 2023	Jan 2024-Dec 2024	Jan 2025-Dec 2025
Net	-2.94	-9.23	10.79	6.75	15.61

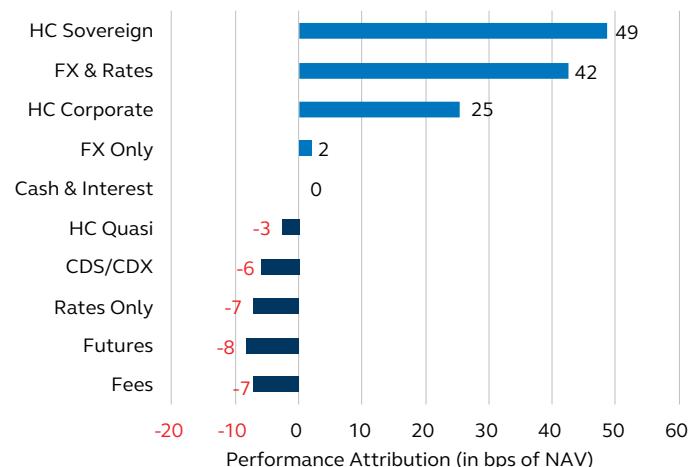
Source: Principal Finisterre, As of 31 December 2025.

Finisterre EM Total Return composite inception date: 31 May 2013.

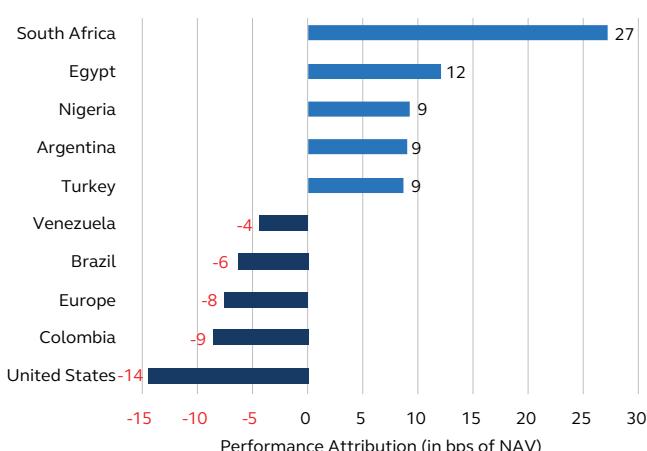
Past performance is not indicative of future performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees, accrued daily YTD figures are compounded monthly. Additional information on calculation of composite performance data is available on request. Actual investment advisory fees charged to clients may vary. Portfolio performance, characteristics and volatility may differ from the benchmark shown.

Monthly composite attribution

Performance attribution by sector (bps)

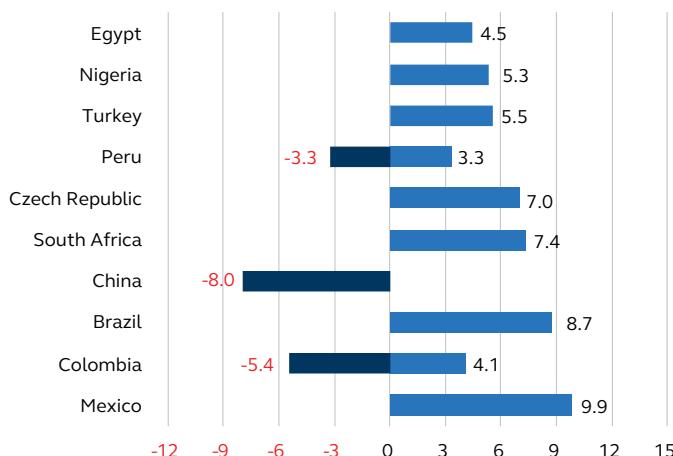


By country (top 5 contributors and detractors, bps)

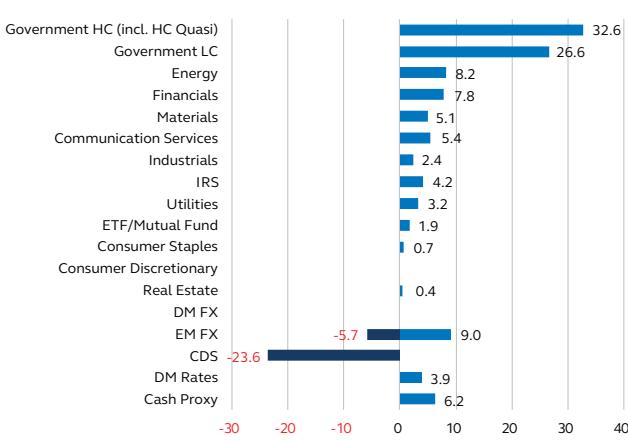


Month-end representative portfolio exposures

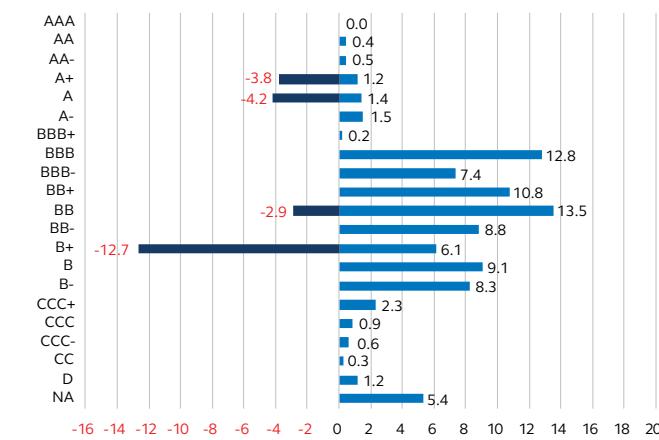
Top 10 country gross exposure (% NAV)



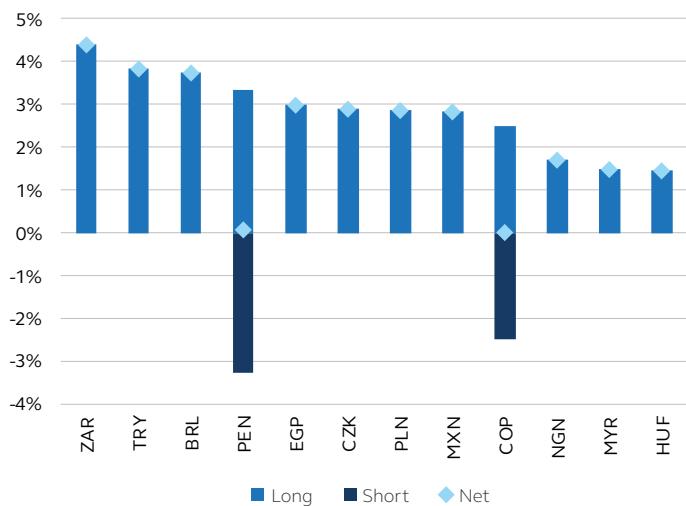
Sector allocation (% NAV)



Credit allocation (% NAV)



Local currency exposure (% NAV)



Source: Principal Finisterre. Data as of 31 December 2025. Monthly attribution is shown based upon gross performance.

Investment objective

The Finisterre Emerging Markets Debt Total Return Strategy is an active, unconstrained, adaptive, long-biased, benchmark-agnostic multi-EMD fixed income strategy. The strategy seeks to earn a high yield utilizing an unconstrained, holistic approach to the entire EM fixed income universe and associated derivative instruments.

Investment team

DAMIEN BUCHET, CFA - Chief Investment Officer, Principal Finisterre

CHRISTOPHER WATSON, CFA - Senior Portfolio Manager

About Principal Finisterre

Our vision remains today what it was at our launch: to remain an investment manager with an unrelenting focus on active investing in Emerging Market Debt.

We are a solutions-driven organization and aim to deliver the investment knowledge and experience that our clients need, combined with striving to consistently provide competitive investment performance and outstanding service.

JP Morgan EM Equal Weight Index: An equal-weighted blend of CEMBI Broad Diversified, EMBI Global Diversified, and GBI-EM Global Diversified, gross of withholdings taxes, rebalanced monthly.

CEMBI Broad Diversified: Corporate Emerging Markets Bond Index – Broad Diversified is a market capitalization weighted index consisting of USD denominated emerging market corporate bonds with a broad distribution of country weights.

EMBI Global Diversified: Emerging Markets Bond Index – Global Diversified is liquid US dollar emerging markets debt benchmark that tracks total returns for actively traded external debt instruments in emerging markets.

GBI-EM Global Diversified: Government Bond Index-Emerging Markets Global Diversified is a comprehensive Emerging Markets debt index that tracks local currency bonds issued by Emerging Market governments that do not have explicit capital controls.

MOVE Index: The Move Index is a measure of price volatility in government bonds

Indices are unmanaged and do not take into account fees, expenses and transaction costs are not available for direct investment.

Composite Performance results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite performance is presented net of foreign withholding taxes on dividends, interest income, and capital gains. Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce portfolio performance. Net performance results reflect a reduction for investment advisory fees based on the firm's applicable asset management fee schedule. Additional information on calculation of composite performance data is available on request. Actual investment advisory fees charged to clients may vary.

Each portfolio included in the composite is managed according to its own individual investment restrictions and limitations and therefore their characteristics may vary from those of the Representative Portfolio shown.

Risk Considerations

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Derivatives are volatile and carry a high degree of risk, including liquidity risk. Leverage can magnify losses as well as gains. Investment in foreign currency can result in losses and values may fluctuate based on foreign exchange rates, exchange restrictions, or other actions of governments or central banks. Currency hedging may reduce but will not remove risk. Hedging will incur more transaction costs and fees which will affect overall return. International and global investing involves greater risks such as currency fluctuations, political/social instability, and differing accounting standards. Risk is magnified in emerging markets, which may lack established legal, political, business, or social structures to support securities markets. Emerging market debt may be subject to heightened default and liquidity risk.

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