

FINISTERRE EMERGING MARKETS DEBT TOTAL RETURN STRATEGY

Monthly commentary

JULY 2024

Damien Buchet, CFA and Christopher Watson, CFA

July was an eventful month for markets and for American politics.

We opened the month digesting the aftermath of the disastrous first debate for President Joe Biden, which highlighted concerns about his age. With Biden insisting that he was going to remain on the ticket, analysts and forecasters increasingly looked to the implications of a Donald Trump victory in November. Trump trades filled research reports. The momentum of Trump's candidacy seemed to only increase following the assassination attempt on July 13th. Finally, on July 21st Biden bowed to the pressure from across the Democratic Party and stepped down as candidate in favour of Vice President Kamala Harris and the inevitability of a Trump victory began to wane.

Away from politics, the general trend in United States data was towards softer prints on inflation and the labour market. Yields and the U.S. dollar both weakened on the month with the trend accelerating as the month progressed. The narrative from the Federal Reserve (Fed) meeting was taken as confirmation of a cut at the September meeting. Rates markets closed July fully pricing three cuts this year and 150 basis points (bps) by June 2025.

The outstanding mover on the month was the Japanese yen. Having hit the weakest levels since 1990 at the beginning of July, the yen began to strengthen and in the process opened a range of carry trades (including many in emerging markets foreign exchange (EM FX), although a few had already been flushed out after the early June election surprises in some EMs). The Bank of Japan hike at the end of the month (together with the pricing of U.S. cuts) poured further fuel on the fire, sending the yen into a rapid ascent.

Equities were volatile in July with early strength fading later in the month as concerns around growth, earnings, and positioning weighed on markets.

EM debt (EMD) generally had a good month in July although the details were more nuanced than the headlines. The performance of core rates was the key driver of performance with U.S. Treasury (UST) 10-year yield 24 bps lower. EMBI and CEMBI were up 1.87% and 1.50% respectively but in both cases, spreads widened, largely passively. GBI-EM was up 2.27% but this was driven by Asian FX performance versus broad weakness across Latin America, affected by carry trades unwinds. The Finisterre Emerging Markets Debt Total Return strategy delivered a performance of 2.00% gross (1.94% net) on the month versus 1.88% for the blended index.

Market overview

Chinese data continued to disappoint in July, as did the authorities' policy response. Domestic demand remains subdued and nervous consumers seem reluctant to spend. Although the government continues to support infrastructure and high-tech manufacturing, this has not been sufficient to change the momentum. Expectations for the Politburo meeting were high but the actual takeaways were limited. The continued move lower in Chinese yields (and the more generalized weakness in commodities) is indicative of the broader concerns about the country's growth outlook.

Ukraine reached a much-improved agreement with bondholders versus its original proposal. The deal offers Eurobond holders a fixed package of bonds plus a contingent issuance of additional bonds in certain upside scenarios (determined by Ukraine's GDP). At illustrative exit yields of 14%-15%, the total package (including consent fee) would result in present value recoveries of 38-36 cents (excluding contingent issuance/no trigger) and 43-40 cents (including contingent issuance assuming maximum trigger), which still offers significant upside from current prices and would be further boosted by any potential peace deal. All instruments have been designed to be index eligible. Importantly, the deal has been confirmed by the International Monetary Fund as compatible with the debt sustainability analysis and has been endorsed by the official creditor group. In a show of goodwill, the government paid the consent fee and GDP payout on the warrants and negotiations with warrant holders are ongoing. The cross default to bonds will still be removed in a vote this month, to be held concurrently with the bond deal vote. The government has a strong incentive to get a warrant deal done before a large payout is due in May 2025.

The Nigerian local market was a source of underperformance last month as the CBN grappled with ongoing strong local USD demand, despite extremely tight monetary policy conditions, and unwinding of the carry trade by foreign investors. Volatility in the FX market, partially caused by previous heavy, below market, CBN interventions, has severely impacted both local and foreign investor confidence in the local market. We have turned more neutral on the country and prefer to wait for more momentum on the country's nascent reform agenda. There is growing concern about the lack of CBN resolve to support the FX market and anchor the currency. Meanwhile, the prospect of improved USD supply from Eurobond issuance seems more distant.

Portfolio statistics

Strategy AUM USD mn (month-end)	3,984
Current yield⁽¹⁾	7.98%
YTW⁽¹⁾	9.77%
YTM⁽¹⁾	9.82%
Duration (cash adjusted)	5.24
Rating	BB
Cash & equivalents	5.98%
Net EM exposure	69.38%
Gross EM exposure	141.27%
Long	105.33%
Short	-35.94%

Active EM exposures	Net	Gross
Hard Currency Bonds	69.9%	69.9%
Local Currency Bonds	24.0%	24.0%
EM FX Total	-6.2%	22.16%
CDS	-22.7%	22.7%
IRS	2.53%	2.53%

Cash / hedge exposures	Net	Gross
DM Rates	6.6%	6.6%
DM FX Total	-5.8%	5.8%
US Treasury Notes	-	-
US T-bills	-	-
Free Cash	6.0%	6.0%

Top 5 sovereign / quasi exposures	NAV
PETROLEOS MEXICANOS	3.14
ECUADOR REPUBLIC OF (GOVERNMENT)	2.17
EGYPT (ARAB REPUBLIC OF)	2.42
COLOMBIA (REPUBLIC OF)	2.08
ROMANIA (REPUBLIC OF)	1.96
Total top 5	11.77

Top 5 corporate exposures	NAV
TENGIZCHEVROIL FINANCE COMPANY INTERNATIONAL LTD	1.61
GALAXY PIPELINE ASSETS BIDCO LTD	1.54
GREENSAIF PIPELINES BIDCO SA RL	1.54
HSBC HOLDINGS PLC	1.30
STANDARD CHARTERED PLC	1.22
Total top 5	7.20

Source: Principal Finisterre. As of 31 July 2024. 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.

For Public Distribution in the U.S. For institutional, professional, qualified and/or wholesale investor use only in permitted jurisdictions as defined by local laws and regulations.

The country has recently been rocked by large-scale protests and there is doubt over the government's commitment to undertake serious fiscal consolidation, especially reduction of the significant subsidy bill. Over the medium term, there is still hope that Nigeria's external liquidity position will improve due to gradually improving oil production and the ramping up of refining activity. The local trade continues to benefit from a significant carry cushion, with T-bill yields in the high 20s.

Despite promising signs of progress on the Gaza ceasefire early in the month, we ended July with the regional situation as tense as it has been since the tragic war kicked off in early October. Following a missile strike that killed 12 Druze children in the Golan, Israel killed a leading Hezbollah commander in Beirut and then assassinated Hamas political chief Ismail Haniyeh in Tehran. Both Hezbollah and the Iranians have vowed to retaliate but neither seems keen to escalate the conflict into a full regional war and Western and Arab diplomats are also seeking to contain the crisis.

Performance and portfolio positioning

The main driver of performance in July was duration with strong contributions from UST, Peru, South Africa and Brazil local, and the rates receiver in Mexico. Additionally, the strategy benefitted from the positive proposal for the Ukraine restructuring and the recovery in Ecuador. Credit hedges were the only notable detractor on the month with synthetics outperforming cash spreads.

There was a modest reduction in duration on the month, and a more pronounced one after the month end mini panic on carry trades unwinds, which we tactically faded.

Outlook

July reminds us that things can change very quickly in politics and in markets. From the near certainty of a Trump victory and the unending weakness of the yen to a competitive election and JPY 6% stronger, 30 days is a long time. With three months to go until the U.S. election, it would be naive to predict an outcome with any certainty, but it feels as though there is a path to the White House for Vice President Harris. Additionally, the U.S. data and the commentary from the Fed suggest that a soft landing with normalising U.S. data (inflation and activity) and normalising U.S. rates is achievable.

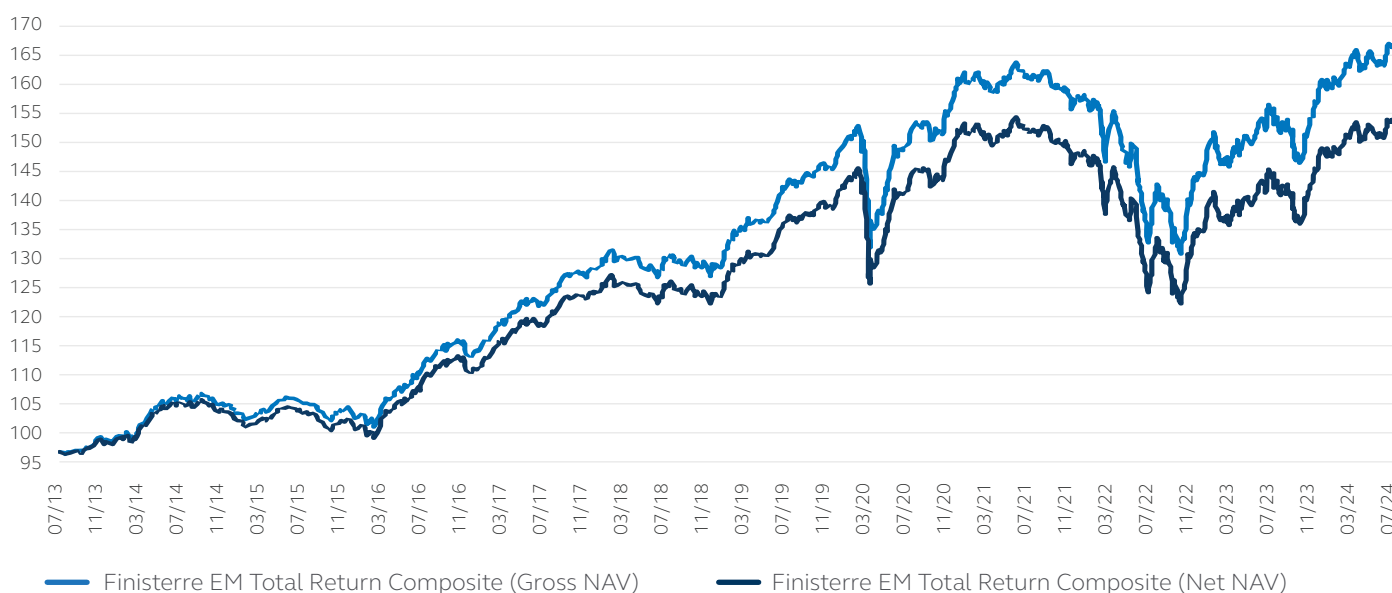
While acknowledging that the election is still very much in play, the almost certainty that the Fed will begin cutting rates in September creates an interesting dynamic for EM. There are a number of central banks in EM that have been forced to delay cuts (and in some cases add hikes) because of the hawkishness of the Fed. With the Fed ready to ease, this will create monetary policy space in the rest of the world as well. As noted above, rates have performed strongly recently but we think there is potentially scope for this rally to continue. Significant downside weakness would have negative implications for risky assets, but we note that credit bonds have positive convexity, since prices will be supported by rates performance even if spreads widen and all the while we are getting our coupon income.

Similarly, after the clearing out of many consensus carry positions by levered account in EM local rates, and FX, EM fundamentals may be able to reassert themselves over technicals. If, as we believe, U.S. data return to a manageable softness regime, this may create a better environment for local assets too.

From a portfolio strategy standpoint this leads us to continue to emphasize income maximization as a priority, while lengthening duration more structurally again through higher quality A/BBB/BB EM sovereign and corporate credits (Guatemala, Ivory Coast, and adding to rates receivers and long local bonds where we have confidence about valuation and positioning. We have been rotating around our alpha positions across Argentina, Ukraine, and Egypt, as some of those stories retain positive catalysts but the trades become more mature. We will still be cautious and selective in deploying risk in an August market still beset by the recent unwind of carry trades, ongoing Middle East uncertainties, and a more balanced but still uncertain U.S. election outlook, but we feel that we are moving towards a better environment for EMD risk taking into September.

Growth of \$100

Composite performance (cumulative since inception)



Source: Principal Finisterre, As of 31 July 2024.

Finisterre EM Total Return Composite inception date 31 May 2013.

Past performance does not guarantee future return.

For Public Distribution in the U.S. For institutional, professional, qualified and/or wholesale investor use only in permitted jurisdictions as defined by local laws and regulations.

	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)	2.00	3.78	7.17	1.19	3.05	4.63	4.70	4.84	5.78	5.50	4.32	4.18	1.43	0.21	0.55	1.10	1.05
Finisterre EMTR Composite (net)	1.94	3.37	6.46	0.51	2.32	3.89	3.95	4.84	5.78	5.50	4.32	4.18	1.29	0.09	0.42	0.93	0.88
EMBI Global Diversified	1.87	4.26	9.18	-2.13	0.10	2.75	3.05	5.82	7.02	7.80	6.28	6.21	1.51	-0.31	0.01	0.48	0.43
CEMBI Broad Diversified	1.50	5.41	9.87	0.10	2.35	3.68	3.78	2.54	3.45	3.96	3.16	3.17	3.70	0.03	0.59	1.17	1.14
GBI-EM Global Diversified	2.27	-1.52	0.08	-2.40	-1.02	-0.54	-0.61	7.42	8.53	9.13	9.13	9.15	0.01	-0.28	-0.11	-0.07	-0.06
JPM EM Equal Weight Total Return	1.88	2.68	6.32	-1.44	0.52	2.01	2.12	4.87	5.79	6.40	5.60	5.59	1.26	-0.25	0.08	0.37	0.36

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						3.78

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						3.37

12-month net rolling return (%)

	Aug 2019-Jul 2020	Aug 2020-Jul 2021	Aug 2021-Jul 2022	Aug 2022-Jul 2023	Aug 2023-Jul 2024
Net	5.27	4.94	-14.49	11.53	6.46

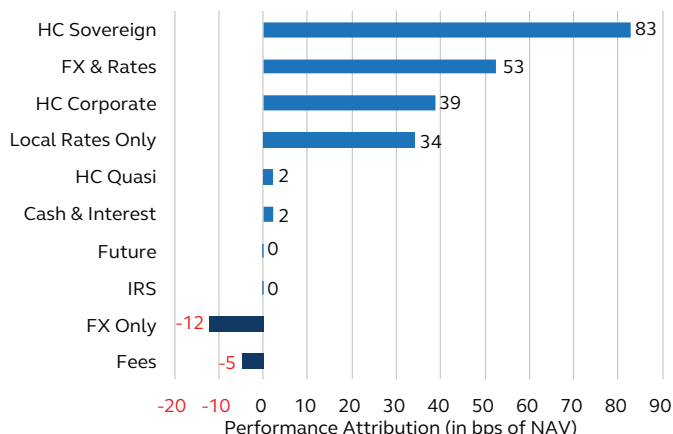
Source: Principal Finisterre, As of 31 July 2024.

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

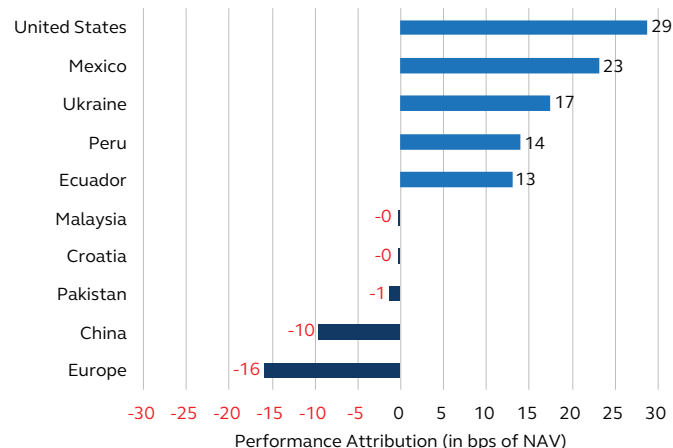
Past performance is not indicative of future performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees, accrued daily YTD figures are compounded monthly. Additional information on 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)

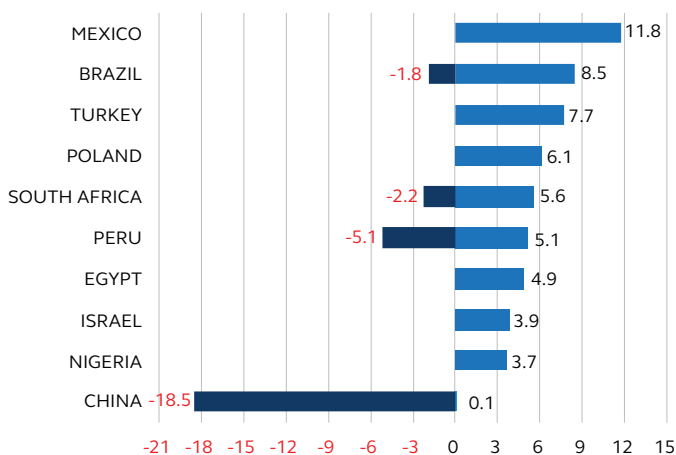


By country (top 5 contributors and detractors, bps)

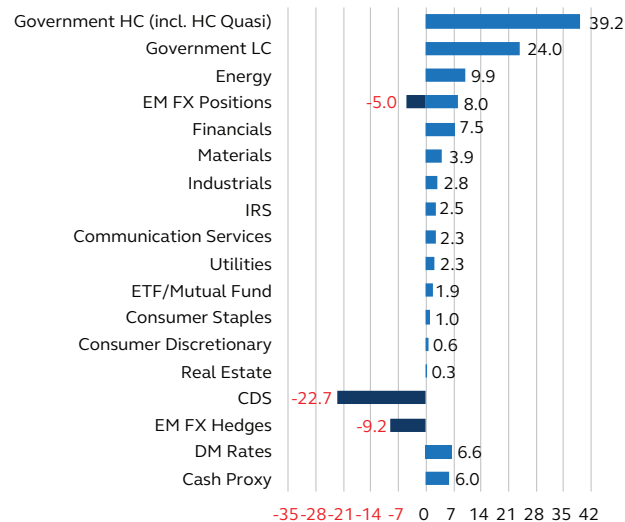


Month-end representative portfolio exposures

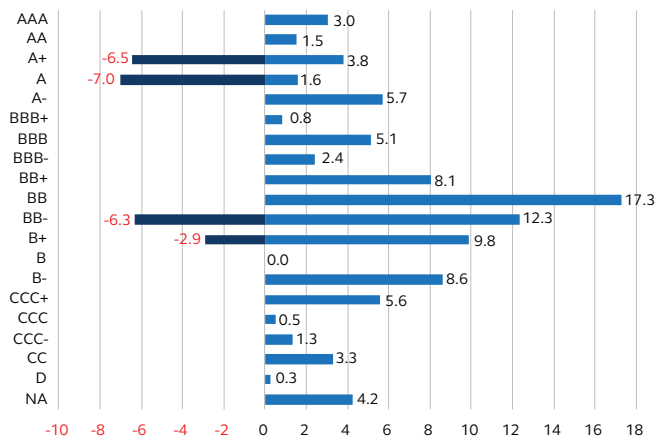
Top 10 country gross exposure (% NAV)



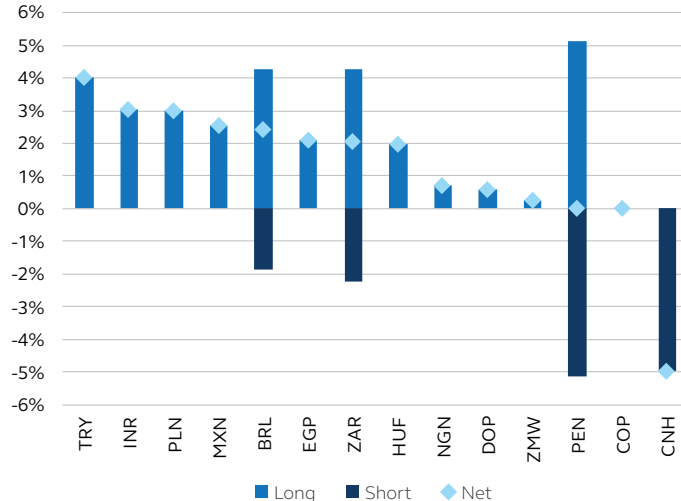
Sector allocation (% NAV)



Credit allocation (% NAV)



Local currency exposure (% NAV)



Source: Principal Finisterre. Data as of 31 July 2024. 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.

Important Information

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. The opinions and predictions expressed are subject to change without prior notice. The information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account. Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided.

This material may contain 'forward-looking' information that is not purely historical in nature and may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

All figures shown in this document are in U.S. dollars unless otherwise noted. All assets under management figures shown in this document are gross figures and may include leverage, unless otherwise noted. Assets under management may include model-only assets managed by the firm, where the firm has no control as to whether investment recommendations are accepted, or the firm does not have trading authority over the assets.

This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This document is issued in:

- **The United States** by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.
- **Europe** by Principal Global Investors (Ireland) Limited, 70 Sir John Rogerson's Quay, Dublin 2, D02 R296, Ireland. Principal Global Investors (Ireland) Limited is regulated by the Central Bank of Ireland.

Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (Ireland) Limited ("PGII") will not benefit from the protections offered by the rules and regulations of the Financial Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients do contract with PGIE or PGII, PGIE or PGII may delegate management authority to affiliates that are not authorised and regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority, or the Central Bank of Ireland. In Europe, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID).

- **United Kingdom** by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorised and regulated by the Financial Conduct Authority ("FCA").
- **Singapore** by Principal Global Investors (Singapore) Limited (ACRA Reg. No. 199603735H), which is regulated by the Monetary Authority of Singapore and is directed exclusively at institutional investors as defined by the Securities and Futures Act 2001. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.
- **Australia** by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS Licence No. 225385), which is regulated by the Australian Securities and Investments Commission and is only directed at wholesale clients as defined under Corporations Act 2001.
- This document is marketing material and is issued in **Switzerland** by Principal Global Investors (Switzerland) GmbH.
- **Hong Kong SAR (China)** by Principal Investment & Retirement Services Limited, which is regulated by the Securities and Futures Commission. This document has not been reviewed by the Securities and Futures Commission.
- **Other APAC Countries/Jurisdictions**, this material is issued for institutional investors only (or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.
- **United Arab Emirates** by Principal Global Investors LLC, a branch registered in the Dubai International Financial Centre and authorized by the Dubai Financial Services Authority as a representative office and is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organisation.

Principal Global Investors, LLC (PGI) is registered with the U.S. Commodity Futures Trading Commission (CFTC) as a commodity trading advisor (CTA), a commodity pool operator (CPO) and is a member of the National Futures Association (NFA). PGI advises qualified eligible persons (QEPs) under CFTC Regulation 4.7.

Principal Finisterre is an investment team within Principal Global Investors.

Principal Asset ManagementSM is a trade name of Principal Global Investors, LLC.

© 2024 Principal Financial Services, Inc. Principal®, Principal Financial Group®, Principal Asset Management, and Principal and the logomark design are registered trademarks and service marks of Principal Financial Services, Inc., a Principal Financial Group company, in various countries around the world and may be used only with the permission of Principal Financial Services, Inc.