Principal Finisterre

Principal Asset Management℠

FINISTERRE EMERGING MARKETS DEBT TOTAL RETURN STRATEGY

Monthly commentary

NOVEMBER 2024

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November was the month that markets had been waiting for all year and it did not disappoint in terms of its significance for 2024 and the years to come. On the night of November 5th, Donald Trump was re-elected as President of the United States, and it subsequently became clear that the Republican Party had regained control of both houses of Congress. Although markets had priced an increasing probability of another Trump presidency over the course of late September and October, the Red Sweep was still considered by many to be a tail event. In some cases, the reaction was exactly as expected—the dollar, crypto, and U.S. equites moved sharply higher—but other markets, notably U.S. rates, did not move as much as forecasted.

The S&P rallied 5.7% on the month. The dollar continued its strong performance with a further 1.7% rally in November. The Federal Reserve (Fed) cut 25 basis points (bps) as expected but some of the additional cuts were unpriced. Front end rates ended up broadly unchanged while 10s and 30s ended up lower.

Emerging market debt (EMD) traded with rates/equity risk (sovereigns and corporates) and dollar/rates (local currency): the Sovereign EMBIG Div Index was up +1.19% on the month, the CEMBI corporate credit index was up +0.60% and GBI was down -0.57% leaving the JPM equal weight EMD Index at +0.41%. The Finisterre Emerging Markets Debt Total Return Strategy delivered further outperformance in November returning +1.05% gross (largely as function our foreign exchange (FX) positioning). We are now at +8.1% gross of the year versus +5.2% for the equal weight.

Market overview

Although the detailed specifics on the new administration's agenda are not yet clear (and the potentially 'moderating' role of figures like Scott Bessent or Elon Musk is to be determined), it seems safe to assume that the direction of travel will be for further American exceptionalism in the economy and markets and a more nationalist trade policy.

U.S. rates markets were one asset class that did not trade 'according to plan'. The broad consensus was that a Trump victory would take rates significantly higher and that a "Red Sweep" would compound this, with a notable steepening bias. While the initial moves were higher, U.S. 10-year yields found strong resistance at 4.50 and moved lower off that level. At this stage the market has decided that the Fed will be far more cautious on the near-term easing cycle (moved from pricing eight cuts by October 2025 in September, to 2.75 today) but the worries about longer term inflationary pressures or a marked deterioration in the U.S. fiscal story are so far contained. Consequently, curves continued to flatten in November. The economic team (Bessent at Treasury, Howard Lutnick at Commerce, and Kevin Hassett as director of the White House National Economic Council) has given the market confidence that the pro-growth, deregulation, and lower tax agenda will not be pursued without consideration for the deficit (and health of the Treasury market).

The administration's initial international agenda is expected to tilt heavily towards the China 'reset', trade protectionism more broadly, and the push for peace in Ukraine and the Middle East. Leaving aside the perhaps unconfirmable iconoclasts for the moment (Tulsi Gabbard at Intelligence and Pete Hegseth at Defence), Marco Rubio at State and Mike Waltz at the NSC are both experienced foreign policy players who represent a relatively conventional Republican hawkishness. Interestingly, Robert Lighthizer himself is not back as United States Trade Representative but his acolyte Jamieson Greer is expected to pursue a similar agenda.

While it can sometimes be tricky to parse what is real policy versus performative posturing in "Trumpland", it seems safe to assume that the rhetoric regarding China is not bluster. One of Trump's key campaign promises was to impose 60% tariffs on all Chinese imports to the U.S. and something to this effect is likely to happen shortly after the inauguration. In light of this, and the continued scepticism regarding the Chinese government's stimulus efforts, the yuan remained under pressure in November.

The actual agenda vis a vis Europe is less clear but weak data, expectations for further rates divergence, and the political and budgetary crisis in France also pushed the EUR notably lower on the month.

Ukraine sovereign bonds outperformed in October, led by the contingency B bonds which were up 20% (the upside on these bonds is linked to Ukraine's nominal GDP outperformance). Bonds rose on building optimism that a ceasefire deal can be reached under the new Trump administration next year, even if this falls short of an enduring peace agreement. Worsening battlefield conditions for Ukraine have led the market to believe that President Volodymyr Zelensky will be more willing to consider talks which could involve territorial concessions. The Putin administration held a seminar recently for deputy governors to discuss a potential "victory narrative" for the war. A fragile ceasefire deal raises hopes that reconstruction efforts can commence next year, boosting economic growth and leading to rising principal reinstatement on the contingency bonds. It is also expected that a ceasefire deal would lead to significant curve disinversion disproportionately benefitting the short end of the curve which currently yields close to 17%.

The conflict in the Middle East seems to be moving closer to a resolution of sorts. Israel has essentially destroyed Hamas in Gaza and severely damaged Hezbollah in Lebanon. With the frontline Axis agents weakened, the Iranian regime has lost

[(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.

Portfolio statistics

Strategy AUM USD mn (month-end)	4,297
Current yield[(1)]	7.02%

YTW[(1)]	9.46%
YTM[(1)]	9.60%
Duration (cash adjusted)	5.01
Rating	BB
Cash & equivalents	13.64%

Net EM exposure	61.81%
Gross EM exposure	139.07%
Long	100.44%
Short	-38.63%

Active EM exposures	**Net**	**Gross**
Hard Currency Bonds	63.6%	63.6%
Local Currency Bonds	22.1%	22.1%
EM FX Total	-11.5%	20.87%
CDS	-22.5%	22.46%
IRS	7.70%	7.70%

Cash / hedge exposures	**Net**	**Gross**
DM Rates	2.0%	11.6%
DM FX Total	-10.6%	10.6%
US Treasury Notes	-	-
US T-bills	-	-
Free Cash	13.6%	13.6%

Top 5 sovereign / quasi exposures	**NAV**
PETROLEOS MEXICANOS	2.44
UKRAINE REPUBLIC OF (GOVERNMENT)	2.39
ISRAEL (STATE OF)	1.99
COTE D IVOIRE (REPUBLIC OF)	1.73
EGYPT (ARAB REPUBLIC OF)	1.48
Total top 5	**10.04**

Top 5 corporate exposures	**NAV**
GREENSAIF PIPELINES BIDCO SA RL	1.30
HSBC HOLDINGS PLC	1.21
PUMA INTERNATIONAL FINANCING SA	1.02
STANDARD CHARTERED PLC	1.00
ENERGEAN ISRAEL FINANCE LTD	0.96
Total top 5	**5.49**

Source: Principal Finisterre. As of 30 November 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.

a key pillar of its strategy. Further escalation will be met by an overwhelming Israeli response, almost certainly supported by the U.S. While there is a camp in Israel looking to press the military advantage, it seems unlikely that this would be supported by President Trump. Israeli risk assets have repriced meaningfully, but we still believe there is scope for further performance.

The much-awaited fiscal consolidation announcements in Brazil did not have the expected positive impact on the market. The government announced on November 27th a (too) long awaited package of expenditure savings worth around 70 billion BRL between 2025 and 2026, which was in line with previous guidance. However, the authorities also announced an income tax reform which would exempt individuals earning up to 5,000 BRL a month from paying any income tax. Although this latter measure is designed to be funded with higher taxes on high earners, the markets reacted negatively. The choice to announce tax cuts at the same time as a much-anticipated expenditure cut was seen as a muddied message and possibly a sign that Finance Minister Fernando Haddad did not have the political capital of pushing much needed spending cuts without also having to accept some tax cuts, a long-standing electoral promise of President Lula. The markets voted with their feet, with USDBRL breaching 6 and the Brazil front-end rates diverging even further from the rest of EM and now pricing in a cumulative 375 bps of hikes by the end of 2025. We do not think the price action in Brazil reflects fundamentals, but it is also clear that domestic sentiment needs to change in order for FX and local rates receivers to perform: additional fiscal measures, an outsized rate hike, clearer messaging from the authorities, and some profit-taking among the local hedge fund community are all possible catalysts.

Performance and positioning

Our performance on the month was driven by 1) continued performance from stressed/distressed high yield (Argentina and Ukraine which are seen to benefit from Trump); 2) the reduction in risk premium across Israeli assets; 3) long rates positions in Poland and South Africa; 4) shorts in EUR; and 5) short Chinese yuan. Small losses were taken in tactical positions in CLP and KRW (both subsequently closed) and more notably in Brazil local bonds and rates (as discussed above).

November was an active month for trading. As noted in the last monthly newsletter, we had significantly reduced risk heading into the U.S. election event with the view that a simpler book would enable us to respond more effectively once the outcome was clear. We shorted EUR and added to our existing CNH short versus USD. We added back some credit risk over the month (reloading longs and reducing some synthetic shorts on the European Union Xover CDS index).

Outlook and portfolio strategy

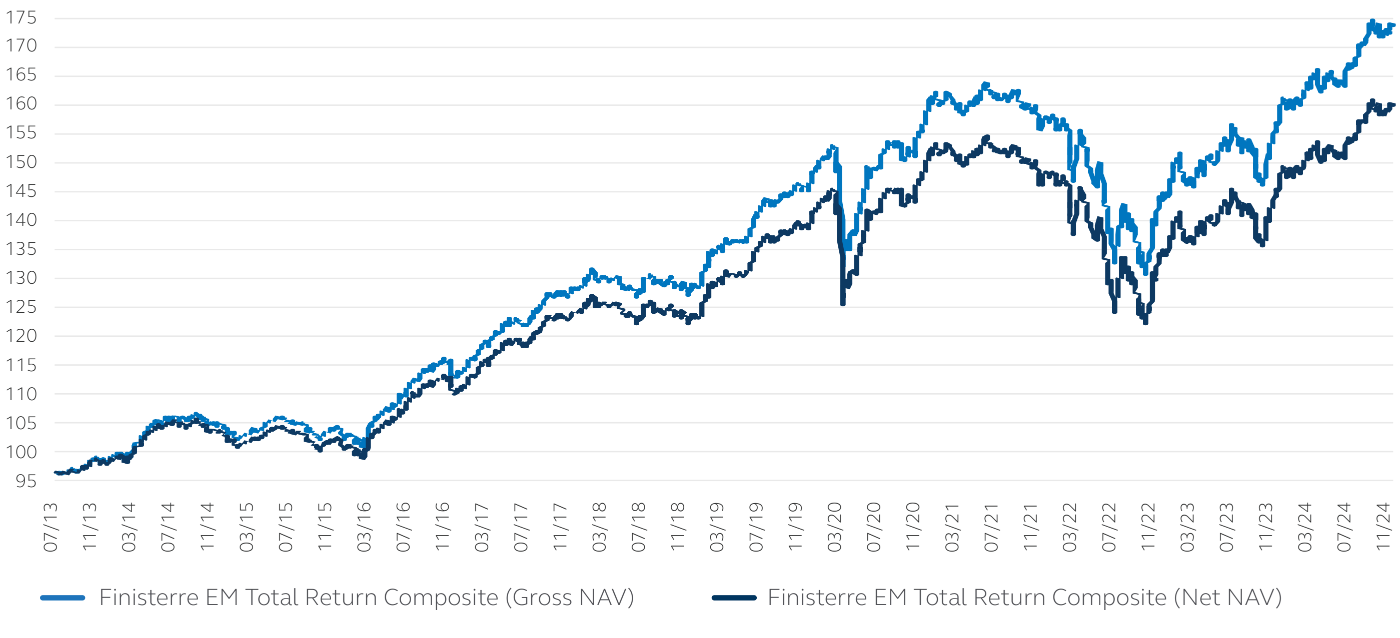
We are not pollyannaish enough to suggest that the outcome of the election is a positive for emerging markets (EM), we are not so melancholic as to say that all is lost. America first Trump is going to be trying for the rest of the world but there are opportunities to be exploited as well. Let's just first agree that most of the EMD universe is not in the first line of fire of Trump's policies. Those which are, are either representing a very small part of the EMD opportunity set (low yield, low volatility China, South East Asia rates, and credit markets), or like Mexico, have ample room to provide transactional offsets to Trump to alleviate tariffs or other risks. The EM universe also comes into 2025 with significant strengths: EM ex-China growth continues to hold up well above 3%, fiscal policies remain broadly credible (with many EMs planning to tighten policy into 2025), most monetary stances remain tight and credible with room to ease, current accounts are strong, corporate balance sheets are healthy, and FX valuations are undemanding. The EMD asset class remains as under-owned as ever and if one still agrees that, with a slowing U.S. economy in the first half of 2025 and a more balanced than expected U.S. fiscal scenario, the Fed still has room to ease well into 2025, (alongside the European Central Bank and the People's Bank of China), global technical and liquidity trends still look quite favourable for EMD. Overall, in a world where risk assets' valuations look increasingly rich, EMD remains an attractive place offering a strong blend of "value for money", diversification, and high yields.

We believe we can construct an attractive yield-based portfolio that can weather the potential event-driven volatility we might face into 2025. It is our view, that any sporadic widening in EM yields and spreads levels will quickly be met by fresh buying, and that a "grind tighter" in spreads and local yields is the most likely overall pattern of 2025, even if it brings us to seemingly more expensive levels. We are convinced that any sporadic widening in EM yields and spreads levels will quickly be met by fresh buying, and that a "grind tighter" in spreads and local yields is the most likely overall pattern of 2025, even if it brings us to seemingly more expensive levels. Our net dollar positioning remains cautious: the dollar move since September has been profound and it is tempting to fade it, but the overall macro environment continues to favour USD. As noted, EUR looks vulnerable on the downside with weak data, tariff concerns, and political dysfunction. The story with the yuan is similar—in the event that the new administration moves ahead with tariffs, a further devaluation of CNY is almost inevitable. It is hard to be bearish the dollar with EUR and CNY trending weaker. Our current bias is to trade longs in idiosyncratics like TRY, BRL, and ILS versus short EUR and CNY. When it comes to local currencies, we assume that the key to 2025 will be to trade EM FX in a more tactical way, with a "relative value" bias, which should also increasingly lead us to consider other funding currencies than the USD for our EM FX longs.

As it stands, we are earning 9.5% with a portfolio of high yielding local debt, steady income streams from performing corporate credits and a cross section of short- to mid-duration hard currency sovereigns with a visible fundamental improvement path. Despite all the headlines about Trump 2.0, the reality of EMD returns is more likely to be one centred around the portfolio income stream, augmented from a net positive performance from duration, and value from tactical positioning in currencies and specific idiosyncratic sovereign credits.

Growth of $100

Composite performance (cumulative since inception)



Source: Principal Finisterre, As of 30 November 2024.
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)	1.05	8.06	11.91	3.77	3.61	5.19	4.93	3.69	5.74	5.50	4.33	4.15	3.04	0.64	0.64	1.16	1.17
Finisterre EMTR Composite (net)	0.98	7.37	11.13	3.06	2.88	4.45	4.18	3.69	5.74	5.50	4.33	4.15	2.85	0.52	0.52	0.99	1.00
EMBI Global Diversified	1.19	8.05	13.16	0.02	0.80	3.03	3.28	4.72	6.97	7.76	6.28	6.14	2.61	0.00	0.10	0.53	0.48
CEMBI Broad Diversified	0.60	8.22	11.54	1.31	2.48	3.89	3.91	2.16	3.44	3.95	3.16	3.14	5.05	0.38	0.62	1.22	1.21
GBI-EM Global Diversified	-0.57	-0.46	2.73	0.20	-0.67	0.02	-0.50	6.49	8.54	9.12	9.10	9.07	0.41	0.02	-0.07	-0.06	0.00
JPM EM Equal Weight Total Return	0.41	5.23	9.09	0.56	0.91	2.36	2.27	4.07	5.77	6.39	5.59	5.54	2.13	0.10	0.14	0.41	0.42

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		8.06

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		7.37

12-month net rolling return (%)

	Dec 2019-Nov 2020	Dec 2020-Nov 2021	Dec 2021-Nov 2022	Dec 2022-Nov 2023	Dec 2023-Nov 2024
Net	6.74	-1.36	-9.16	8.44	11.13

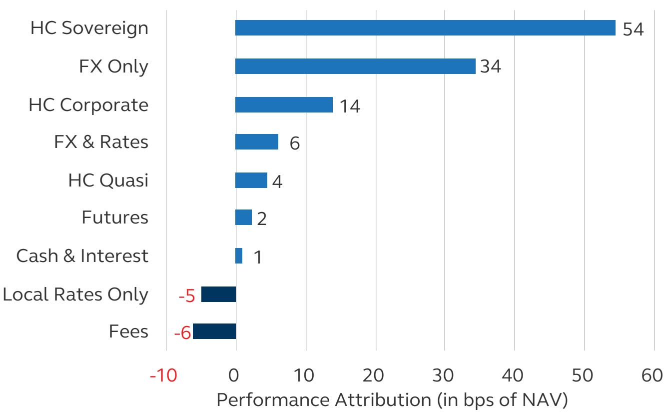
Source: Principal Finisterre, As of 30 November 2024.

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

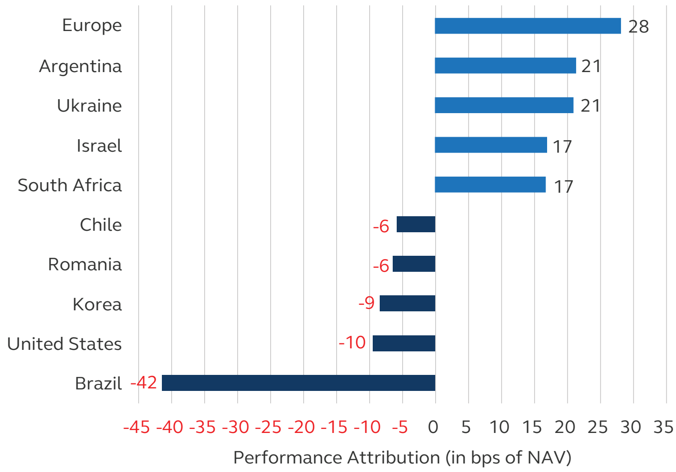
Past performance is not indicative of future performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees, accrued daily YTD figures are compounded monthly. Additional information on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

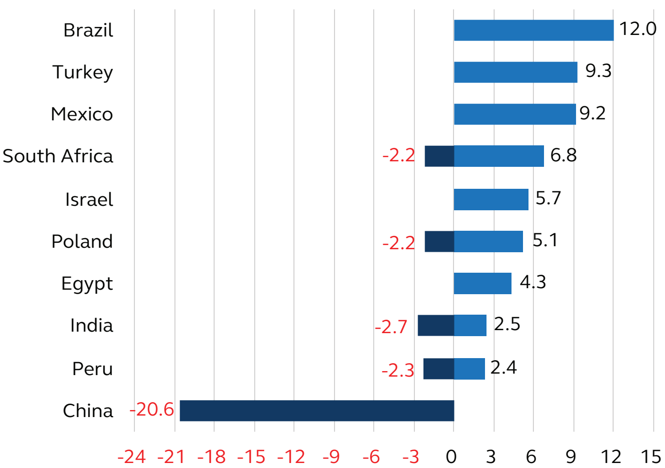


By country (top 5 contributors and detractors, bps)

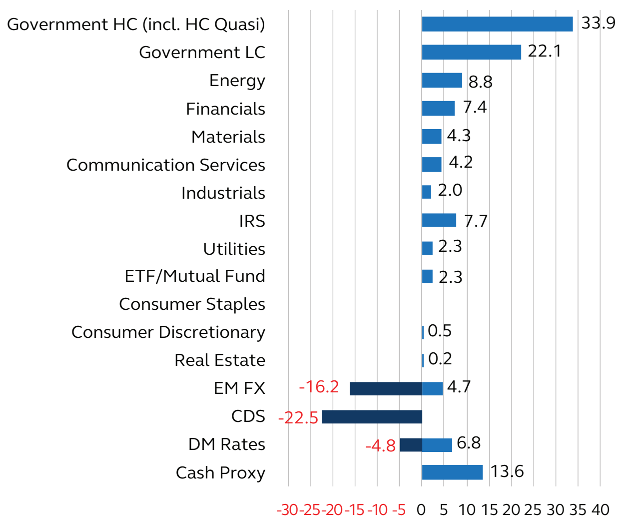


Month-end representative portfolio exposures

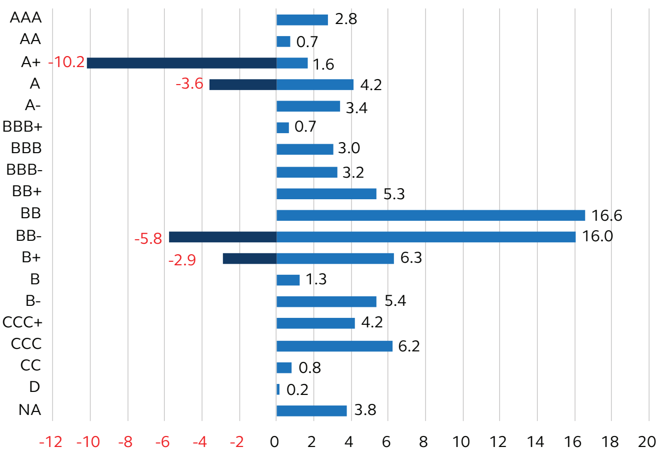
Top 10 country gross exposure (% NAV)



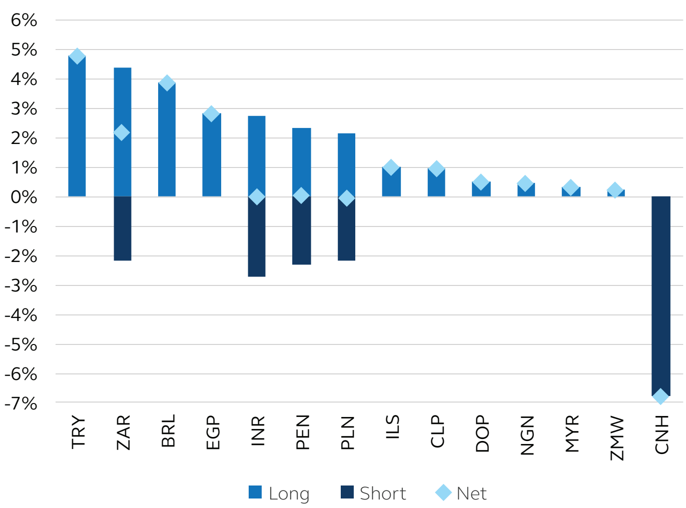
Sector allocation (% NAV)



Credit allocation (% NAV)



Local currency exposure (% NAV)



Source: Principal Finisterre. Data as of 30 November2024. 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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