Principal Finisterre

Principal Asset Management℠

FINISTERRE EMERGING MARKETS DEBT TOTAL RETURN STRATEGY

Monthly commentary

DECEMBER 2024

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December was a month of consolidation for risk assets (after the excitement of November) with equities and crypto flat to weaker on the month. Having eased off the strongest levels in the backend of November, the United States dollar (USD) continued to rally throughout December and looks to be closing the year at the strongest levels since mid-2022. The move higher in the USD was coincident with a significant upward adjustment in U.S. yields. We had noted in the last monthly commentary that the November price action in rates was somewhat anomalous versus the market consensus regarding a U.S. “Red Sweep” election outcome. In December, rates reversed course again and moved higher with a marked steepening, particularly on 2 versus 10 which moved 30 basis points (bps) on the month (U.S. Treasury (UST) 10-year up 40 bps to 4.60%). Perhaps comfortingly for Chair Jerome Powell and his colleagues at the Federal Reserve (Fed) (if not for Treasury Secretary designate Scott Bessent), the move was very much driven by a repricing of real yields. Credit spreads were broadly unchanged on the month with already tight credit spreads largely ignoring the rates moves.

Emerging market debt (EMD) performance was uniformly negative on the month with the rates and the dollar taking their toll: EMBI was -1.40%, CEMBI -0.54% and GBI EM -1.93% taking the 1/3 equal weight index down -1.29%. The Finisterre Emerging Markets Debt Total Return Strategy benefited from our conservative foreign exchange (FX) positioning and high yield (HY) EM credit alpha and returned gross -0.51% on the month.

Market Overview

In line with market expectations, the Fed delivered a 25 bps cut at the December meeting. The tone of the meeting was distinctly hawkish however, with a strong message that the pace of cuts from here would be gradual and that the Fed is highly conscious that inflation remains above target. Market pricing for 2025 is now down to 1.5 cuts with the market having taken out one cut in December. This is a major adjustment over the fourth quarter since the market was pricing six Fed cuts for 2025 at the end of September. Although Powell himself has been very careful not to attribute the Fed’s renewed caution to concerns about the direction of policy under the new administration, others on the committee are clearly concerned about the potential implications of new tariffs and immigration curbs.

Much of the renewed USD momentum came from Asia with notable weakness in KRW, JPY, and INR. The broad concerns around an aggressive tariff agenda being announced on or around the January 20 inauguration served as a generic support for the USD (particularly versus CNH). The Korean won move (-5.5%) continued the trend from October but was driven by the significant deterioration in domestic political conditions following embattled President Yoon Suk Yeol’s attempt to declare martial law at the beginning of the month. While congress managed to reverse the martial law decision almost immediately, the situation remains highly fractious. The Japanese yen weakened a similar amount with markets reacting negatively to the Bank of Japan’s decision to wait and see at its December meeting. While the actual quantum of weakening in the INR was much more contained (-1.25%), it marked a major change in the volatility profile of a currency that has been incredibly stable since late 2022. The recent weakness is a function of external pressures (i.e. broad USD) and concerns about the widening trade deficit and slowing domestic growth. Having been a major carry trade favourite for much of 2023 and 2024, the markets are now testing the RBI’s resolve regarding its longstanding defence of the INR.

Europe was more of the same in December with continued depreciation pressure taking the currency down -1.40% in December. Although it feels as though parity is in play (particularly if significant tariffs targeting European exports are announced) the market seems reluctant to chase the EUR much lower in the near term. As expected, the European Central Bank cut by another 25 bps at its December meeting and the market is still pricing a further 100+ bps of cuts in 2025. European yields followed the U.S. higher on the month, albeit with some modest outperformance. CEE FX was modestly stronger on the month (versus EUR) while rates traded higher in line with core.

In Romania, the new coalition government led by Prime Minister Marcel Ciolacu approved an emergency decree that would limit budget spending and increase revenues in an effort to rein in a deficit which could reach 8.5% of GDP this year. The measures include freezing public sector wages and pensions, and eliminating some tax breaks for information technology, agriculture, and construction workers. These measures were taken against the background of a ballooning deficit (widest in the European Union) and it is not clear how big an effect they will have in the near-term. Also, the government’s plan to get back below the 3% deficit limit only by 2031 can hardly be described as ambitious. Even so, it is on the margin encouraging to see fiscal policy begin to shift towards a consolidating stance.

South Africa outperformed in rates in December, but the currency weakened notably in the second half of the month. Idiosyncratic CEEMA stories were broadly well behaved. The Egyptian central bank faced a significant wave of offshore T-bill maturities in December and elected to allow some EGP weakness (probably not unrelated to the need to show the International Monetary Fund staff some currency flexibility ahead of the next disbursement under the programme). The Turkish central bank began its much-anticipated cutting cycle at the end of the month with a 250 bps cut and the government announced a

[(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)	4,262
Current yield[(1)]	7.11%
YTW[(1)]	8.98%
YTM[(1)]	9.11%
Duration (cash adjusted)	4.90
Rating	BB
Cash & equivalents	11.34%
Net EM exposure	59.94%
Gross EM exposure	147.93%
Long	103.93%
Short	-43.99%

Active EM exposures	**Net**	**Gross**
Hard Currency Bonds	62.0%	62.0%
Local Currency Bonds	26.1%	26.1%
EM FX Total	-18.3%	30.53%
CDS	-16.4%	16.37%
IRS	4.20%	10.62%

Cash / hedge exposures	**Net**	**Gross**
DM Rates	3.1%	18.0%
DM FX Total	-7.6%	7.6%
US Treasury Notes	-	-
US T-bills	-	-
Free Cash	11.3%	11.3%

Top 5 sovereign / quasi exposures	**NAV**
PETROLEOS MEXICANOS	2.57
UKRAINE REPUBLIC OF (GOVERNMENT)	2.50
NIGERIA (FEDERAL REPUBLIC OF)	2.21
COTE D IVOIRE (REPUBLIC OF)	1.67
COLOMBIA (REPUBLIC OF)	1.53
Total top 5	**10.48**

Top 5 corporate exposures	**NAV**
GREENSAIF PIPELINES BIDCO SA RL	1.26
HSBC HOLDINGS PLC	1.17
PUMA INTERNATIONAL FINANCING SA	1.00
STANDARD CHARTERED PLC	0.96
WE SODA INVESTMENTS HOLDING PLC	0.91
Total top 5	**5.30**

Source: Principal Finisterre. As of 31 December 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.

minimum wage increase at 30% (lower end of market expectations). The "belle of the ball" in December was Nigeria where the naira appreciated sharply on the month driven by a new FX trading regime, a more effective intervention strategy from the central bank, and significant inflows from sovereign offshore financing transactions. The magnitude of the move was something of a surprise and foreign investors (including ourselves) were not positioned as aggressively as they might have liked to benefit from the move. If the central bank is now comfortable with the level of reserves they have accumulated (up some $8 billion on the year in gross terms) there is likely scope for further strength in the currency from here.

Latin America gave us a taste of what will likely be two of the dominant themes for next year: mercurial 'policy' pronouncements from Donald Trump (likely delivered by social media) and bond vigilantes. Panama found itself in the spotlight as Trump demanded that canal transit fees be reduced or 'we will demand that the Panama Canal be returned to the United States of America in full'. As we all learned in the previous administration, it is impossible in the moment to know if these salvos are thought bombs or mark a genuinely new policy direction, but they are sure to keep international leaders (and investors) on their toes. Once again, the most noisy and volatile story in Latin America was Brazil where the local bond vigilantes continued their battle to force a major course correction in public finances. We have discussed Brazil at length in previous notes. The specific developments in December were at the margin positive—passage of the spending bill in both houses, supportive comments from President Lula, and an aggressive intervention program from the central bank of Brazil (BCB) to provide FX liquidity—but local assets remained under pressure. The move higher in yields across core and EM (ex-China) in December is a stark reminder of the pressure that political leaders across the globe will face in 2025 to deliver on spending promises to their disaffected electorates while simultaneously keeping financial markets on side.

Performance and portfolio positioning

Strategy performance on the month was driven by positive contributions from Nigeria (mainly local currency), Ukraine sovereign bonds, Turkey local currency, and Argentina credit. The notable detractors were South African local (ZAR weakness in the second half of the month), Polish rates, and Brazil (predominantly local rates).

As we ended the year, the portfolio retains a moderate duration position (~4.9-year versus 5.3-year for the 1/3 EMD index) and very defensive posture on EM FX but we added some basis trades in local rates where swap spreads screened particularly attractive driven in part by reduced market liquidity. We added a 5-year Czech-bund tightener on the basis of a sharp repricing higher in CNB terminal rates despite the heavy reliance of the economy on the ailing German auto sector. We also added a long end Mbono Asset Swap compression trade (long MBONO 2042 versus 10-year MXN IR Swap), replacing most of our two-year receiver, where we look for a more balanced supply/demand outlook in bonds to drive the spread back towards historical norms. In credit we unwound our position in long EUR Itraxx Xover protection and participated in Nigeria's USD new issue which came with generous concession, while reducing some risk in names we expect to come to market as early as January.

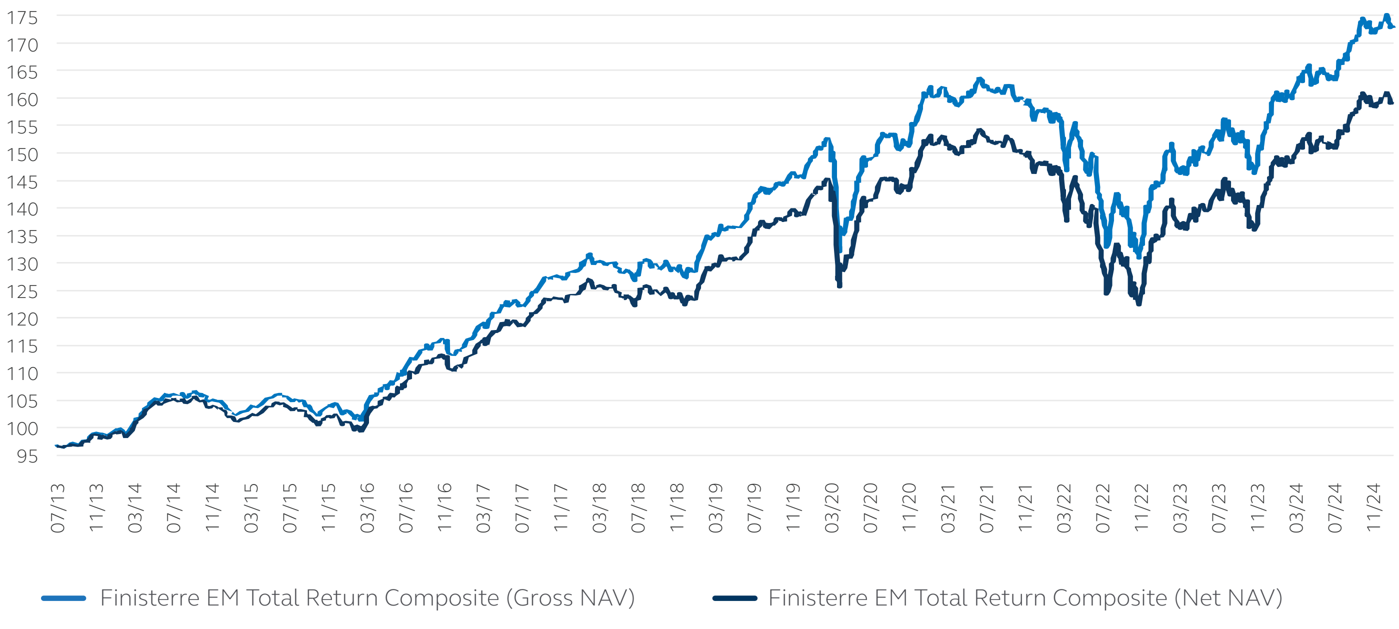
Outlook

We have laid out on global and EM specific views for 2025 in the November monthly commentary and our Year Ahead publication. Looking immediately into January, the key focus for markets will almost certainly be the January 20 U.S. presidential inauguration. As noted above, there remains considerable uncertainty as to exactly what President Trump will do when he officially returns to the White House. Although his campaign rhetoric emphasized an America-first, tariff driven protectionist trade policy coupled with low taxes and reduced government spending, his key personnel appointments may belie this view. What kind of economic policy we will actually get from Bessent, Howard Lutnick, Russell Vought, and Jamieson Greer is unclear but the unfolding debates around immigration between skilled immigration advocates like Elon Musk and Vivek Ramaswamy and the nativist MAGA core make clear that the disparate groups that coalesced around Trump in 2024 and returned him to the White House are in no way unified as to the actual agenda for the new administration. Our expectation is that we will see aggressive tariff announcements in short order.

We closed the year with rates, equities, and the USD all near their 2024 peaks. For fixed income markets, one of the most interesting questions for the next few weeks is how the January global bond and credit supply will be absorbed. January is always a big month for primary markets and our conversations with syndicate desks suggest that the pipeline for this year will be very busy once again. In 2024, global credit was strongly supported by yield buyers. We expect that to remain the case in 2025 but are cognisant that spreads have so far been extremely resilient in the face of higher yields (anomalously so versus history). Some key Street strategists have written about a 'Danger Zone' for risk assets with UST10 at 4.50%, although our view remains much more constructive. We start the year with U.S. 10-year yields above 4.60% without any impact so far on risk assets. It will be interesting to see how markets react if these levels persist, particularly with a wall of issuance across credit markets. Additionally, despite the well-flagged outflows from dedicated EM mandates in 2024, the global yield buyer provided a deep bid in support of the asset class, particularly in primary. Our view is that this bid will continue in the near term in light of the valuation advantages that EM still offers versus similar developed market (DM) product but we are cognisant that there may be some indigestion if DM investors decide to stay closer to home. As such we are not excluding the possibility of a sporadic risk down-trade into end January-early February, which we would see as a technical buying opportunity for the rest of the year.

Growth of $100

Composite performance (cumulative since inception)



Source: Principal Finisterre, As of 31 December 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)	-0.51	7.46	7.46	3.10	2.99	5.29	4.85	3.42	5.71	5.48	4.32	4.13	2.11	0.53	0.54	1.15	1.19
Finisterre EMTR Composite (net)	-0.58	6.70	6.70	2.39	2.26	4.54	4.09	3.42	5.71	5.48	4.32	4.13	1.90	0.41	0.41	0.97	1.03
EMBI Global Diversified	-1.40	6.49	6.49	-0.91	0.12	3.13	3.13	4.38	6.95	7.74	6.12	6.12	1.44	-0.13	0.02	0.50	0.50
CEMBI Broad Diversified	-0.54	7.57	7.57	0.99	2.17	4.03	3.83	1.95	3.43	3.94	3.12	3.13	3.73	0.29	0.55	1.20	1.27
GBI-EM Global Diversified	-1.93	-2.36	-2.36	-0.96	-1.86	0.43	-0.67	6.09	8.52	9.11	9.02	9.04	-0.39	-0.11	-0.21	-0.07	0.05
JPM EM Equal Weight Total Return	-1.29	3.84	3.84	-0.24	0.18	2.59	2.14	3.75	5.76	6.38	5.53	5.52	1.00	-0.04	0.03	0.38	0.46

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

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

12-month net rolling return (%)

	Jan 2020-Dec 2020	Jan 2021-Dec 2021	Jan 2022-Dec 2022	Jan 2023-Dec 2023	Jan 2024-Dec 2024
Net	7.34	-2.94	-9.23	10.79	6.70

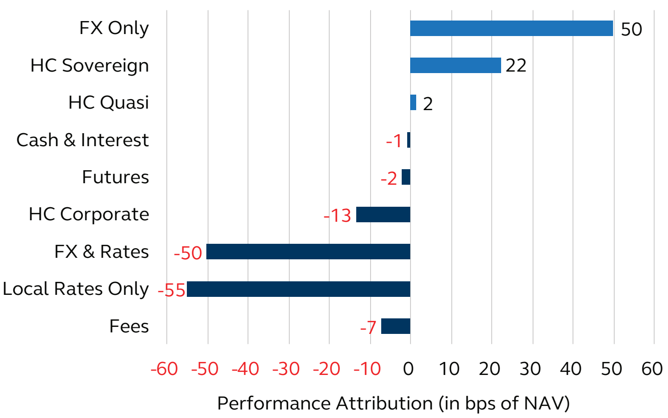
Source: Principal Finisterre, As of 31 December 2024.

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

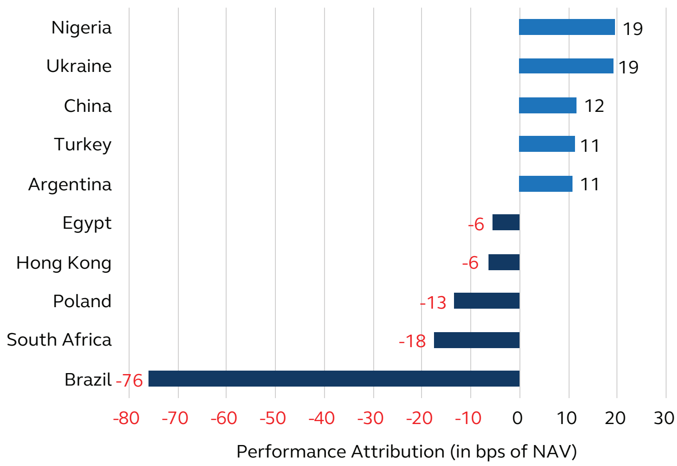
Past performance is not indicative of future performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees, accrued daily YTD figures are compounded monthly. Additional information on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

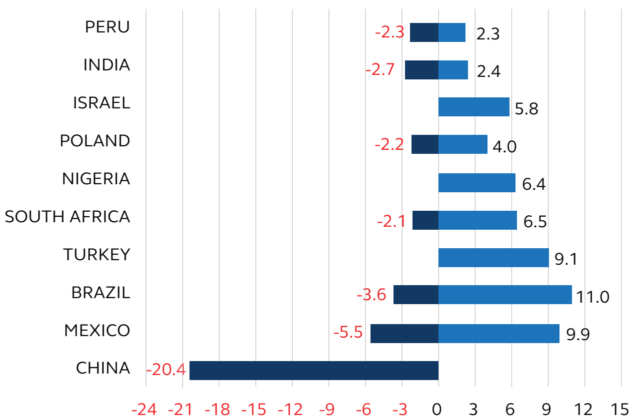


By country (top 5 contributors and detractors, bps)

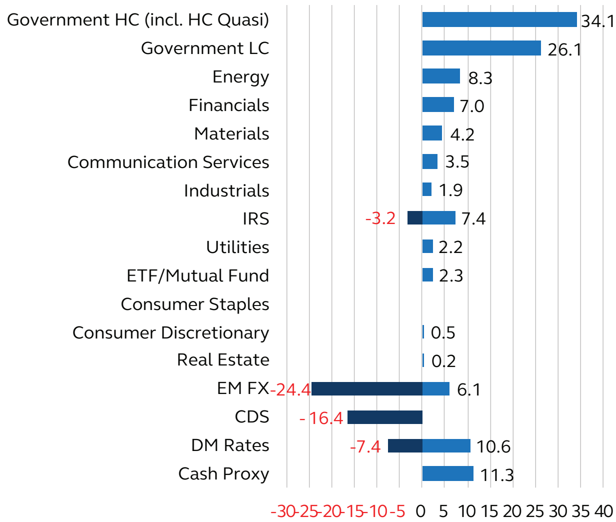


Month-end representative portfolio exposures

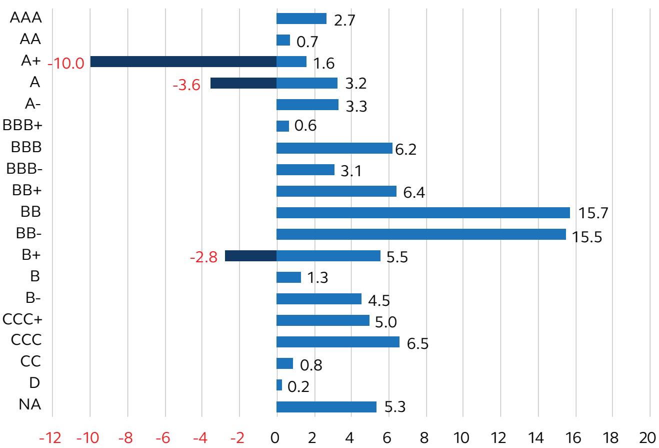
Top 10 country gross exposure (% NAV)



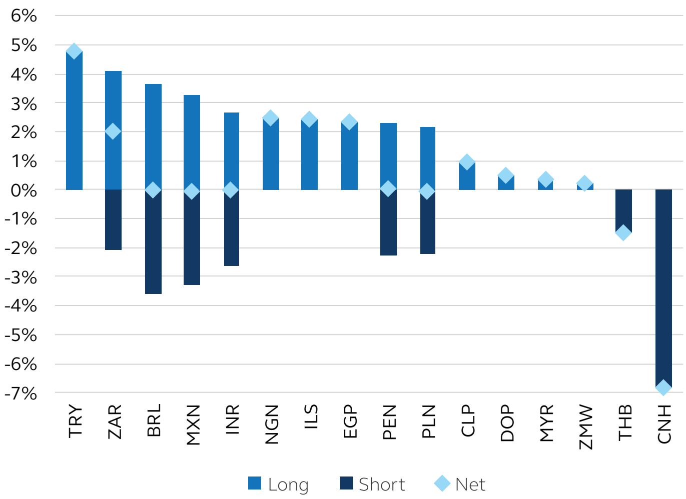
Sector allocation (% NAV)



Credit allocation (% NAV)



Local currency exposure (% NAV)



Source: Principal Finisterre. Data as of 31 December2024. 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

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