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Principal Finisterre

Principal Asset Management℠

FINISTERRE EMERGING MARKETS DEBT TOTAL RETURN STRATEGY

Monthly commentary

JANUARY 2026

Damien Buchet, CFA and Christopher Watson, CFA

January was an eventful month: we had Davos and notable speeches from United States President Donald Trump and Canadian Prime Minister Mark Carney; we had an early election decision and significant long-end bond stress in Japan; we had a hawkish Fed meeting and the announcement that Kevin Warsh is the president's choice for Federal Reserve (Fed) chairman and we had a large American 'armada' arrive in Middle East to put pressure on the Iranian government. Additionally, January was the busiest month for bond issuance ever with total global publicly syndicated bond issuance reaching $930 billion. Financial markets trended aggressively for much of the month with the dollar selling off, metals surging higher, and even 2025's laggard—crude oil—catching a bid on the back of Middle East tensions. Global equity markets generally finished higher, although performance was marked by volatility due to geopolitics and shifting interest rate expectations. Treasury yields rose steadily through the month as investors repriced the pace of future cuts: UST 10-year finished at 4.26% up from 4.19% at the end of 2025.

Emerging market debt (EMD) performed well in January, led by strong performance from local currency bonds up 2.18%. The Finisterre Emerging Markets Debt Total Return Strategy returned 2.50% gross (2.43% net), outperforming the J.P. Morgan EMD Equal Weight reference index by +1.35%.

Market overview

As noted above, some of the most notable market moving events during the month had little to do with emerging markets (EM).

January was a busy month for Fed watchers, dominated by both policy and governance developments. Early in the month, the Department of Justice (DOJ) announced an investigation into Chair Jerome Powell, adding to concerns around institutional independence, while separate political uncertainty surrounded the Supreme Court hearing on whether President Trump could remove Governor Lisa Cook before the end of her term. Retiring Senator Thom Tillis stepped in to provide significant support for Fed independence, pledging that protecting the central bank from political pressure is non-negotiable and refusing to advance any Fed nominees until the DOJ inquiry is resolved. Against this backdrop, the Federal Open Market Committee voted to pause the easing cycle after three consecutive cuts late last year, citing solid growth, stabilising labour markets, and still-elevated inflation. The month ended with the White House announcing Kevin Warsh as the successor to Chairman Powell, reinforcing expectations that Fed leadership and independence will remain a key market theme through 2026.

Having been under pressure for much of 2025, Japanese bond yields surged higher in January due to concerns about fiscal credibility, the normalisation of Japanese monetary policy, and weak investor demand in the face of volatility. The Japanese yen has also been weak in recent months, having given back its strength from the first half of 2025. Having hit 159 in the middle of the month, it moved meaningfully stronger on speculation about coordinated intervention from the Japanese and U.S. authorities. For much of the last six months, Asian foreign exchange (FX) has been caught between the twin polarities of strong Chinese yuan and weak Japanese yen. The shift stronger in yen was mirrored in some of the other Asian laggards, with PHP, IDR, and KRW all rallying. We have initiated a position in KRW which we think could perform better this year on the back of efforts from the authorities to stem the weakness.

President Trump's obsession with Greenland reemerged in January with renewed demands that the territory be incorporated into the U.S. because of its importance for national security and Denmark's inability to protect it. In the days preceding the World Economic Forum in Davos, Trump was increasingly strident in his demands and refused to rule out using military force to achieve them. Tensions increased further with the announcement of tariffs on European countries opposed to the annexation. Following a meeting with NATO head Mark Rutte in Davos, 'a framework for a future deal' was reached and the tariff threats were dropped. The Greenland fixation continues to baffle most observers since Denmark has not opposed the U.S.' existing treaty rights to protect its security interests on the territory. The January 'crisis' only served to underscore Trump's mercurial nature and his rejection of the norms of diplomatic relations, even with erstwhile allies.

While the 'weapons-grade stupid' threats to invade Greenland seem more like trolling than an actual policy initiative, the arrival of the U.S. naval 'armada' in the Middle East theatre seems more serious. Following on the violent suppression of the anti-government protests in Iran at the beginning of the year, Trump has been ratcheting up pressure on the Iranian regime to come to the table for further negotiations regarding the end of its nuclear programme, limits on ballistic missiles, and support for regional proxies. Despite their antipathy for the Iranian regime, America's Gulf Arab allies have reportedly been urging restraint over concerns about a wider regional conflict. We would not be surprised if Trump does authorize further strikes on Iran, but we still struggle to see what upside the U.S. would derive from a major involvement in Iran. Simply put, a Trump initiated Middle Eastern conflagration that pushes oil sustainably over $100 a barrel could contribute to a Republican defeat in the already fragile looking midterm elections, without guaranteeing regime change nor future peace in the region. The president and his allies are certainly aware of those risks.

Ecuador returned to the primary market for the first time since 2019, raising $4 billion in two tranches of a deal with $17 billion in demand. This ends a nagging fear in the markets that despite the VAT hikes, fuel-subsidy cuts, and the best political stability in years, financing could only come from the public sector. This should be a quieter period for Ecuador with no elections, no major reforms initiatives, and budgetary financing secured. While we aren't heady enough to suggest Ecuador should collapse to El Salvador-

[*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)	7,144
Current yield*1	6.73%
YTW*1	9.23%
YTM*1	9.49%
Duration (cash adjusted)	4.43
Rating	BB
Cash & equivalents	10.97%
Net EM exposure	82.58%
Gross EM exposure	159.24%
Long	120.91%
Short	-38.33%

Active EM exposures	Net	Gross
Hard Currency Bonds	63.7%	63.7%
Local Currency Bonds	25.3%	25.3%
EM FX Total	15.2%	34.79%
CDS	-28.6%	28.55%
IRS	5.17%	5.17%

Cash / hedge exposures	Net	Gross
DM Rates	1.7%	1.7%
DM FX Total	-	-
US Treasury Notes	-	-
US T-bills	-	-
Free Cash	11.0%	11.0%

Top 5 sovereign / quasi exposures	NAV
ROMANIA (REPUBLIC OF)	2.66
UKRAINE REPUBLIC OF (GOVERNMENT)	1.91
HUNGARY (GOVERNMENT)	1.73
EGYPT (ARAB REPUBLIC OF)	1.42
PETROLEOS DE VENEZUELA SA	1.38
Total top 5	**9.09**

Top 5 corporate exposures	NAV
CZECHOSLOVAK GROUP AS	0.96
ALDAR PROPERTIES PJSC	0.92
IVANHOE MINES LTD	0.92
LEVIATHAN BOND LTD	0.91
VEON HOLDINGS BV	0.91
Total top 5	**4.62**

Source: Principal Finisterre. As of 31 January 2026. 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.

esqe yields, we do see the latter country's liability management-driven financing approach, and political stability as a case study for how yield curves can grind tighter on sustained good behavior. We tendered some of our Ecuador exposure into the new issue and now are running mostly front-end exposure which we see providing high single digit carry returns with some capital appreciation potential from possible further liability management and on the relative lack of noise this year.

It's been one month since the U.S. capture of Maduro and the subsequent news flow out of Venezuela has been largely positive. Acting President Delcy Rodriguez has shown an ability to wrangle the various elements of Chavismo and make progress on the to-do list assigned by the Trump administration. To close out January, the Assembly approved an oil reform and a general amnesty bill for political prisoners and as a carrot reward, the U.S. issued a general license for U.S. oil companies to go in and drill. We remain far off from a full election or debt restructuring but four weeks in, for bondholders looking for stability, we'd argue its "so far, so good." While there has been some profit-taking, bonds are still up +20-30% YTD, and we are running a somewhat larger position in the VENZ/PDVSA complex to reflect our views that there remains a lot of optionality unpriced in the bonds.

Lebanon performed strongly in January as one of the primary beneficiaries of a weaker Iranian regime. Bonds rallied alongside widespread social unrest in Iran and the increasing likelihood of U.S. and/or Israeli action against the regime. A fall or substantial weakening of the Iranian regime and by extension a significant weakening of its key regional proxy Hezbollah, could pave the way for greater Lebanese funding from the Gulf Cooperation Council and U.S. as well as improve the chances of Lebanese authorities passing International Monetary Fund (IMF)-friendly reforms. On this front, the cabinet approved the long-awaited Financial Stability and Deposit Recovery (FSDR) Act (a.k.a. Gap Law), which is a positive development though amendments are needed before it is fully compliant with IMF requirements. After these amendments are made, the Gap Law will need parliamentary approval which could prove tricky if the elections remain scheduled for May 2026. The authorities will also likely need to pass a 2026 Budget and medium-term fiscal framework before they can secure an IMF staff level agreement.

Ukraine bonds were supported by ongoing ceasefire negotiations in January as well as increasing comfort that the newly approved European Union (EU) loan for Ukraine would not count as debt creating under the IMF's new Debt Sustainability Analysis (DSA). The new EU €90 billion loan covers Ukraine's funding gap through 2027. The treatment of the loan should mean there is now more headroom in Ukraine's DSA and pushes back the risk of a second restructuring. IMF board approval for Ukraine's new IMF programme is expected over the next couple of months. Meanwhile, a trilateral meeting to discuss a potential ceasefire has been moved to 4-5th February in Abu Dhabi. Volodymyr Zelensky commented that the Ukrainian side is ready for a "substantiative discussion". Russian envoy Mr. Kirill Dmitirev has commented about "constructive" discussions with U.S. Treasury Secretary Scott Bessent. The issue of territorial control remains a key sticking point. Lastly, the new Ukraine 32 bonds (a.k.a Bond C) performance was boosted by entry into the JP Morgan EMBI index and an enhanced loss reinstatement feature.

Performance and portfolio positioning

EMD concluded with yet another strong month of performance whereas the Finisterre Emerging Market Debt Total Return strategy return of 2.50% gross (2.43% net) substantially exceeded [+1.35%] the JPM 1/3 EMD blended index. Most of the largest contributors were our idiosyncratic positions in credit, namely Venezuela/PDVSA, Lebanon bonds, and Ukraine (contributing 0.32%, 0.20%, 0.06% respectively) given the tailwinds of the political events that unfolded during the start of the year. Our local markets (short dollar) positions were also a significant contributor.

Retaining a short dollar/long EMFX bias we increased overall FX exposure by 10.5% with risk additions in CHN, KRW, HUF, and TRY while un-hedging the existing COP and PEN local positions, resulting in an increase of the portfolio VaR in the FX space. We tactically initiated a short position in IDR (2%) while halving our long ZAR exposure and taking profits over our long-end bond holdings in the SA risk curve. In light of the strong data, particularly in the U.S., we are somewhat cautious of rates risk here and took down overall portfolio duration on the month, largely through the sale of a range of UST+ credit exposures. Duration wise, lifted 0.23 years on our 5-year U.S. TSY Futures and incrementally entered a 2-year MXN rate receiver of the same magnitude. Portfolio duration ended lower by c. 0.35 month-on-month by exiting a range of UST+ credits. Our local and EUR duration stayed relatively stable.

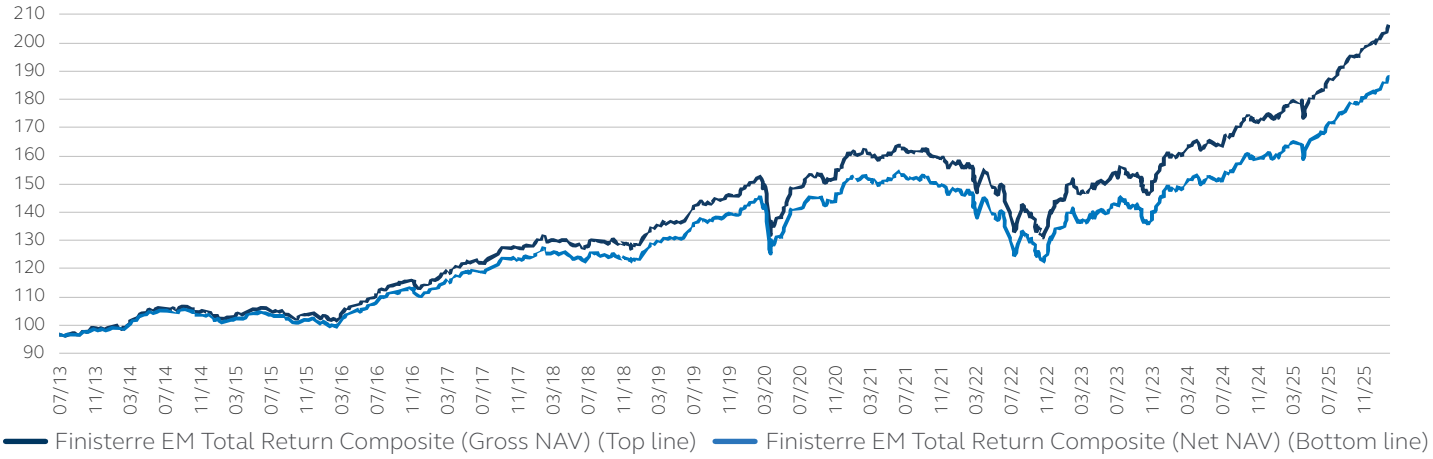
Outlook

The violent early February retracement in precious metals prices, together with fresh equity doubts about how artificial intelligence-related disruptions may reverberate across the tech sector, are a stark reminder that speculative rallies (and extended positioning) can reverse very quickly. Investors are questioning any potentially overextended trades, and questions are being asked about EM following $61 billion of inflows last year and $45.2 billion YTD (a lot of which arguably intra-regional Asian flows though). While we are aware that sentiment towards EM has shifted meaningfully, we still feel that, unlike crypto or some metals, most people do not have their money where their mouth is on EMD. Although short-term positioning has increased, it comes after three years and $180 billion of consistent outflows, still leaving the asset class very under-owned at this point.

Post month end, we witnessed USD consolidation after January's weakness. At this juncture, the dollar is caught between somewhat contradictory impulses. On the one hand, the U.S. economy continues to surprise to the upside and Fed rhetoric has turned less dovish, factors that would, in isolation, be supportive for the dollar. On the other hand, economic surprise indices have also improved elsewhere, not just in the U.S., narrowing the relative growth advantage and creating an impression of global growth convergence. At the same time, fiscal policy is turning more expansionary across most major economies. This should support global growth and trade, reinforcing a broader risk-on environment. Historically, such a backdrop tends to favour high-beta currencies, including EMFX, rather than the USD. More structurally, the theme of diversification away from the USD—prominent in theory but muted in practice last year—has regained impetus after the Greenland saga and ICE-related U.S. domestic events. Even if a Warsh-led Fed proves less unconditionally dovish than some of the alternatives once discussed, the near-term policy bias under the new Chair is still likely to be towards lower rates. More importantly, investors' perception of the U.S. institutional and policy framework has deteriorated, strengthening the strategic case for large institutional investors to continue diversifying away from the dollar. Taken together, the broader USD down trend should remain intact. In a supportive risk environment—combined with increasingly orthodox policymaking in EM and still-elevated real interest rates—EMFX continues to be well placed to capture part of that move. Meanwhile, even though a short-term positioning shakeout is always possible on the most crowded, tightly valued global macro trades (tech, metals, developed markets credits), this will be seen as a further entry opportunity into EMD assets. The path of least resistance through such events, therefore, remains towards even tighter spreads, higher EMFX, a continuing search for income and diversification, amidst heightened attention and less tolerance for negative event risks or "half baked" fundamental stories. In a nutshell, a perfect environment for whoever is able to express strong convictions and discrimination in their EMD investment approach.

Growth of $100

Composite performance (cumulative since inception)



Source: Principal Finisterre, As of 31 January 2026.
Finisterre EM Total Return Composite inception date 31 May 2013.
Past performance does not guarantee future return.

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	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)	2.50	2.50	17.05	11.30	5.18	7.28	5.90	3.25	4.09	4.74	4.35	4.04	4.84	2.62	1.07	1.42	1.62
Finisterre EMTR Composite (net)	2.43	2.43	16.09	10.48	4.42	6.50	5.13	3.26	4.09	4.74	4.35	4.04	4.58	2.44	0.91	1.24	1.45
EMBI Global Diversified	0.68	0.68	13.45	9.70	2.14	4.48	4.00	3.54	4.61	5.73	6.08	5.88	3.56	2.01	0.37	0.67	0.72
CEMBI Broad Diversified	0.74	0.74	8.67	7.66	2.64	4.89	4.24	1.88	2.23	2.80	3.05	3.01	4.43	3.30	0.93	1.38	1.56
GBI-EM Global Diversified	2.18	2.18	19.41	8.73	1.78	4.07	0.95	4.37	6.09	7.28	8.42	8.65	4.06	1.37	0.24	0.11	0.47
JPM EM Equal Weight Total Return	1.20	1.20	13.79	8.73	2.23	4.54	3.12	2.68	3.82	4.75	5.29	5.27	4.82	2.19	0.46	0.58	0.84

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
2026	2.50												2.50

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
2026	2.43												2.43

12-month net rolling return (%)

	Feb 2021-Jan 2022	Feb 2022-Jan 2023	Feb 2023-Jan 2024	Feb 2024-Jan 2025	Feb 2025-Jan 2026
Net	-3.29	-4.78	6.27	9.31	16.09

Source: Principal Finisterre, As of 31 January 2026.
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.

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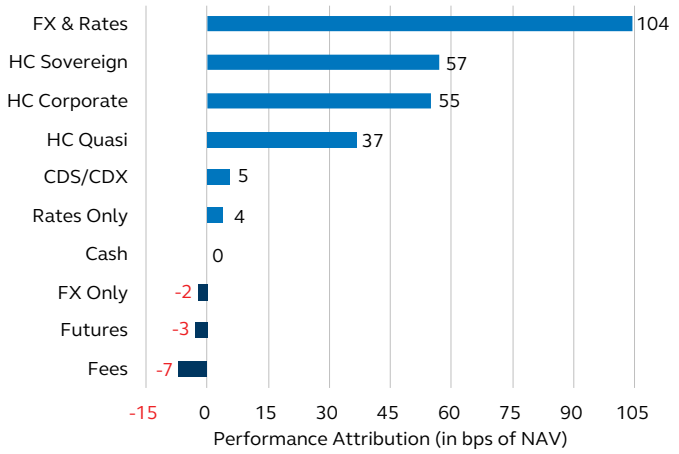
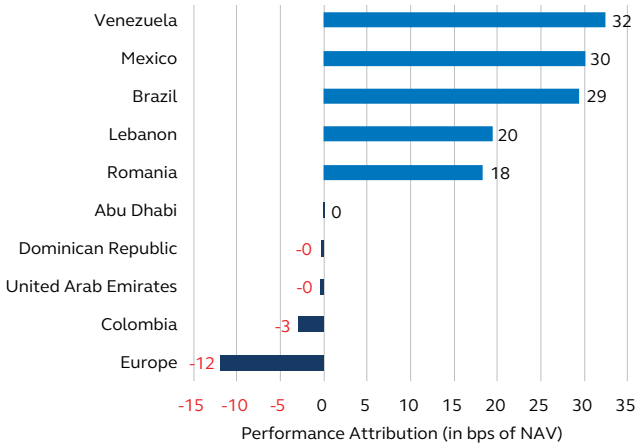
Monthly composite attribution

Performance attribution by sector (bps)

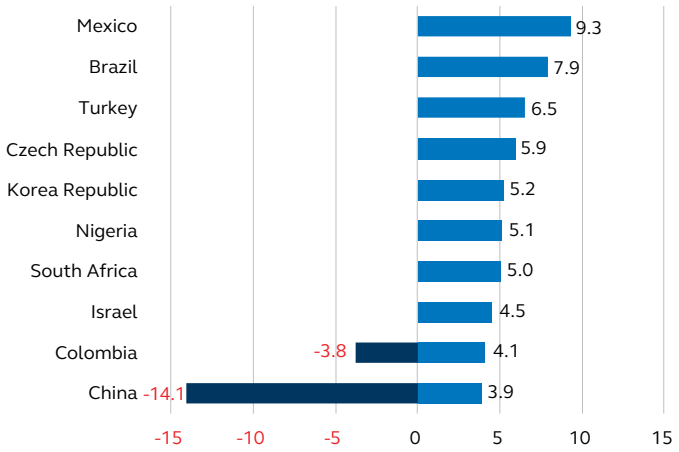


By country (top 5 contributors and detractors, bps)

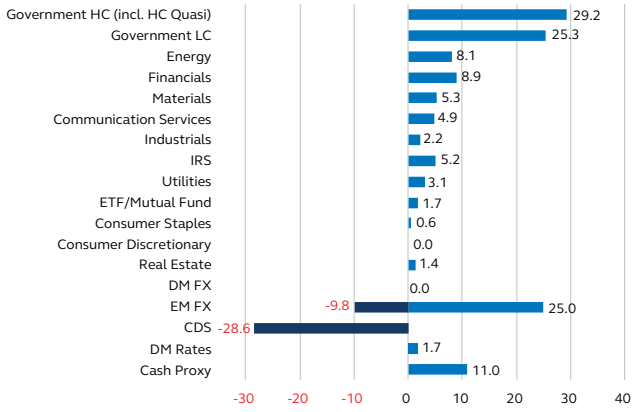


Month-end representative portfolio exposures

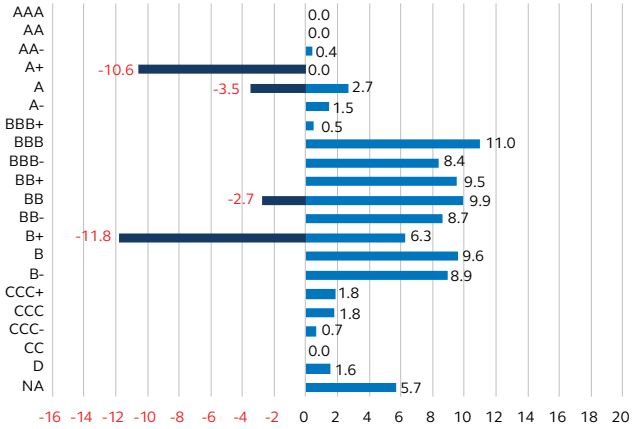
Top 10 country gross exposure (% NAV)



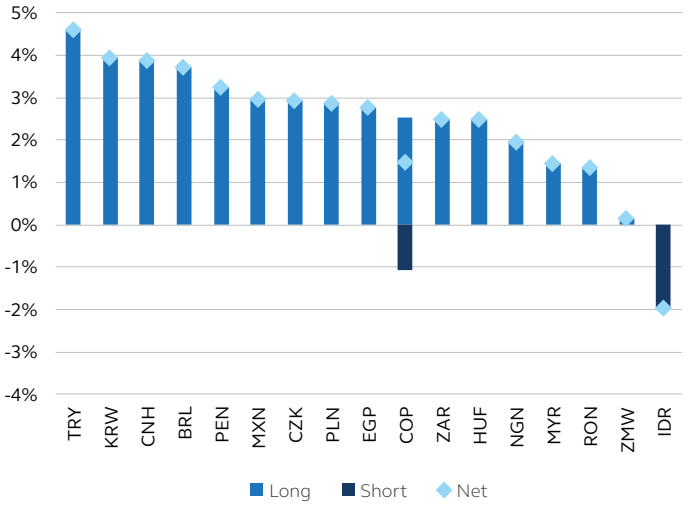
Sector allocation (% NAV)



Credit allocation (% NAV)



Local currency exposure (% NAV)



Source: Principal Finisterre. Data as of 31 January 2026. 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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