

FINISTERRE EMERGING MARKETS DEBT TOTAL RETURN STRATEGY

Monthly commentary

FEBRUARY 2025

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Amidst all the fury of the first few weeks of the Trump presidency, emerging markets debt (EMD) assets looked to have coped reasonably well until late February, as perception of a less exceptional United States economy, a less dramatic and more protracted implementation of tariffs threats so far, and a constructive sentiment around U.S. Treasury (UST) secretary Scott Bessent's intents to keep the U.S. budget and U.S. long yields under control, have brought markets some relief. A less exceptional U.S. economy also revived a few bespoke drivers in other regions, including a stronger JPY, a strong performance from Chinese tech equities, but also from broader European Union (EU) equities and the EUR (on hopes of a defence spending boost and better economic surprises versus U.S.), which all combined to keep emerging markets (EM) sentiment constructive. Yet, towards month end, this benign behaviour started to show some cracks on the back of a sharp deterioration of relations between the U.S. and its allies that seemed to show the U.S. favouring Russia over Ukraine and upending the transatlantic alliance. Earlier in the month, the advent of DeepSeek, a cheaper Chinese artificial intelligence (AI) competitor to U.S. tech giants, had poured some cold water on sky-high U.S. tech equity valuations.

In this environment EMD assets continued their positive year-to-date (YTD) momentum with stronger foreign exchange (FX) and tighter spreads, although month end saw a change towards more conservative drivers like U.S. duration and an outperformance of investment grade (IG) over high yield (HY) credits, with the latter seeing their spread widen for the first time in three months, (albeit mostly passively against lower UST yields). Still, the JPM EMBIG Div USD sovereign index and its CEMBI corporate counterpart managed to deliver +1.57% and +1.55% respectively, while the GBI-EM local currency bond index trailed with +0.66%. This was still better than the ICE U.S. High Yield Index at +0.82%, while the S&P 500 and the USD both delivered a rare negative monthly return (-1.30% and -0.70% respectively) which contrasted with the strong standing of EU equities (+3.4%) and China/Hong Kong tech (+13%). Oil underperformed on weaker U.S. data, and a general perception that the U.S. government seeks lower prices through pumping and geopolitical deals aiming to revive production, to help drive U.S. 10-year yields lower.

Against that backdrop, Finisterre's overall stance remained focused on income and alpha generation from our strongest convictions, while keeping our exposure to beta driven assets under tight control and tactically managing our U.S. duration and overall EMFX exposure. The Finisterre Emerging Markets Debt Total Return Strategy composite delivered +1.51% gross (1.44% net), versus +1.26% for the 1/3 equal weighted JPM EMD index for the month of February, bringing the strategy's cumulative YTD outperformance to +91 bpsgross (+0.77 net).

Market developments

Lately a perception has developed of a less potent U.S. economy bracing for some tariffs/regulatory uncertainty (as witnessed by a sustained drop in U.S. data surprise indices, led by sentiment surveys since November 2024), which in turn makes the rest of the world look like a less challenged place. It may also have been a bias from investors to look through the current "stop and go" and "back and forth" of President Donald Trump's tariffs plans against Canada, Mexico, the EU, and China, keeping uncertainty high about timing and impetus. Finally, the combination of the Department of Government Efficiency's (DOGE) initial expenditure cuts (however disruptive and misplaced they may be for the U.S. economy in the medium term), and declarations by Treasury secretary Bessent about his intent to drive U.S. 10-year yields lower. Yet the end of the month and the increasingly confrontational stance of the U.S. against EU and Ukraine with regards to a potential peace deal with Russia, and the advent of DeepSeek, a cheaper Chinese-made AI engine than U.S. ones, conspired to make U.S. equities underperform, while the USD remained under some pressure and U.S. yields retraced down to their December lows. A less dominant U.S., also allowed for more bottom-up factors to express themselves in other regions. The JPY strengthened on continuing speculation of a tighter Bank of Japan monetary policy and lower rates differentials with the U.S.

Finally, Europe saw an overall improvement in data surprises which continued to contrast with the U.S. Although under unprecedented geopolitical duress from the aggressive stance from the Trump administration, the region's politicians and institutions seemed to wake up and advance towards mutual debt issuance to finance a necessary defence spending boost. Sentiment on the EUR was also helped by a Christian Democratic Union victory in German elections, which will see Friedrich Merz leading a likely grand coalition with the Social Democrats (SPD) looking more fully aligned with most leading EU members on the need for a fresh confidence shock, both on European competitiveness and defence.

Some EM-specific stories also started to see some cracks in the facade, or at least some temporary headwinds to previous positive developments.

Ecuador held the first round of its presidential elections on February 19, where incumbent president Daniel Noboa barely came ahead of his left-wing contender Luiza Gonzalez, a heir to former leftist president Rafael Correa who repudiated and defaulted on the country's debt in 2015. This came as a serious disappointment to investors, who had been led by polls to almost expect a first round victory. As a result and given the long two-month gap until the second round on April 9, Ecuador's USD bonds repriced 20% lower, to a level broadly equivalent to an even chance for both candidates. We continue to expect a thin Noboa victory thanks to a split in the indigenous vote. We had tactically reduced our

Portfolio statistics

Strategy AUM USD mn (month-end)	4,521
Current yield⁽¹⁾	7.07%
YTW⁽¹⁾	8.77%
YTM⁽¹⁾	8.89%
Duration (cash adjusted)	5.08
Rating	BB
Cash & equivalents	10.65%
Net EM exposure	69.53%
Gross EM exposure	143.70%
Long	106.61%
Short	-37.08%

Active EM exposures	Net	Gross
Hard Currency Bonds	67.0%	67.0%
Local Currency Bonds	21.3%	21.3%
EM FX Total	-9.3%	32.11%
CDS	-15.6%	15.58%
IRS	3.32%	4.97%

Cash / hedge exposures	Net	Gross
DM Rates	6.9%	6.9%
DM FX Total	-3.1%	3.1%
US Treasury Notes	-	-
US T-bills	-	-
Free Cash	10.6%	10.6%

Top 5 sovereign / quasi exposures	NAV
PETROLEOS MEXICANOS	2.62
NIGERIA (FEDERAL REPUBLIC OF)	2.42
UKRAINE REPUBLIC OF (GOVERNMENT)	2.17
COLOMBIA (REPUBLIC OF)	1.81
EGYPT (ARAB REPUBLIC OF)	1.57
Total top 5	10.60

Top 5 corporate exposures	NAV
GREENSAIF PIPELINES BIDCO SA RL	1.26
IVANHOE MINES LTD	1.08
AZULE ENERGY FINANCE PLC	1.04
PUMA INTERNATIONAL FINANCING SA	0.97
SAAVI ENERGIA LUXEMBOURG SARL	0.95
Total top 5	5.31

Source: Principal Finisterre. As of 28 February 2025. Information shown above is from the representative portfolio of the Finisterre Emerging Markets Debt Total Return Strategy. NAV is defined as the sum of absolute market value adjusted for derivatives and hedges.

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

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Ecuador allocation into the first round, but maintain a 1.4% exposure for now, at a 16% yield, which make it one of the cheapest CCC sovereigns.

In an unprecedented development, South Africa delayed the presentation of its budget, originally scheduled for February 19. The reason for the delay was a 2 point increase in the VAT rate which the Democratic Alliance (DA) and other parties in the Government of National Unity (GNU) were opposed to. Parties now have until March 12 to find a compromise. According to local newswires, sources in the Treasury have confirmed that a VAT hike remains as one of the options available to the finance minister, although at a reduced magnitude of 0.75 percentage points rather than the initially tabled 2 point increase. The DA remains opposed to any tax hikes and some locals have suggested that the African National Congress had been exploring potential support for the VAT hike from outside of the coalition. We always knew that the GNU are not an easy coalition to manage and despite these developments continue to think that it will hold together for now but acknowledge a higher level of uncertainty.

But the real focus of global attention in February was Ukraine. Its sovereign bonds initially hit record highs in mid-February as the market increasingly priced in a ceasefire deal being reached. This was before the heated Oval office exchange between President Voldymyr Zelensky and President Trump sent bonds down 8%-10%, led by the contingency B bonds (whose upside is contingent upon Ukraine's 2028 GDP beating International Monetary Fund (IMF) projections). Bonds then recovered somewhat towards the end of the month as Zelensky made some conciliatory overtures to President Trump and as Europe and the United Kingdom signalled strong ongoing support for Ukraine. We do not believe in a complete "surrender" ceasefire imposed by the U.S. and Russia, as Ukraine, supported by a more resolute EU and U.K. would rather continue the fight, without any credible security guarantees. Our base case continues to be for a fragile ceasefire, involving perhaps an acceptance of territorial loss and no NATO accession from Ukraine, to be reached within the next six months. This will likely fall short of a durable peace deal. In the event of a ceasefire deal, we expect the yield curve to disinvert, disproportionately benefitting the short end of the curve which currently yields close to 16%.

Key performance contributors/detractors

Our best performer last month was New World Development, a rare event-driven corporate story

from Hong Kong. Hong Kong property suffered from cyclical challenges for several years, first with the dampening in sentiment around the 2019 social protests, followed by COVID, and now Hong Kong's effective importation of higher U.S. rates is hurting valuations. While these cyclical struggles contrast sharply with the structural implosion of the mainland Chinese property sector, investors have taken a sell first/ask questions later approach. One of those Hong Kong developers, New World Development, accelerated investment just ahead of these pressures, leaving them over levered and with an increasingly onerous maturity profile. The echoes of China property accelerated a loss of confidence, causing bonds to plunge in December/January. We began building a position in December and further added in January; bonds have rallied on prospects for a holistic bank refinancing which will give them a 1-2-year runway to address their over levered balance sheet.

Beyond this, our Brazilian local bond positions continued to perform well, and the recovery in rates and FX started in early January was allowed to continue amidst a lull in the local political calendar during Congress recess and the Carnival season. We have re-hedged our FX exposure at month end, after a strong performance, and ahead of a possible return to political noise around the fiscal situation.

Our tactical long on 10-year Treasury futures was next on the list, which was entered around 4.65% on a higher-than-expected monthly CPI print on February 14.

Ecuador was a performance detractor, given the above election related drawdown, and Argentina too, to a much lower degree, as profit taking by leveraged accounts after a strong run led to a retracement in prices. We remain firmly in the bullish Argentina camp, given strong prospects of an upcoming new IMF financing deal.

Market outlook and portfolio strategy

The recent rise in tensions between the U.S. and its European allies over Ukraine, an apparent support of Russian theses by the U.S. administration, combined with the ongoing retrenchment in U.S. consumer and business surveys (despite resilience in hard U.S. data), have confirmed a perception of an end to U.S. exceptionalism, and prompted a strong EU/U.K. response on defence spending which is seen as a potential growth booster there. This translates into a rare moment of underperformance for U.S. risk assets to the benefit of the rest of the world, led by EU/U.K. and Chinese assets. Yet, a continuation of that trend could start to affect global risk appetite,

given that U.S. assets still represent an outsized part of global portfolios, both on the equity or credit side. The likely patient attitude of the U.S. Federal Reserve, in need for more "hard data" confirmation before deciding to deliver on the 3.5 rate cuts now priced for 2025, and the realisation that the Trump administration may be ready to accept some market correction as a "price to pay" for its program to unfold, could also unnerve U.S. and global investors in coming weeks.

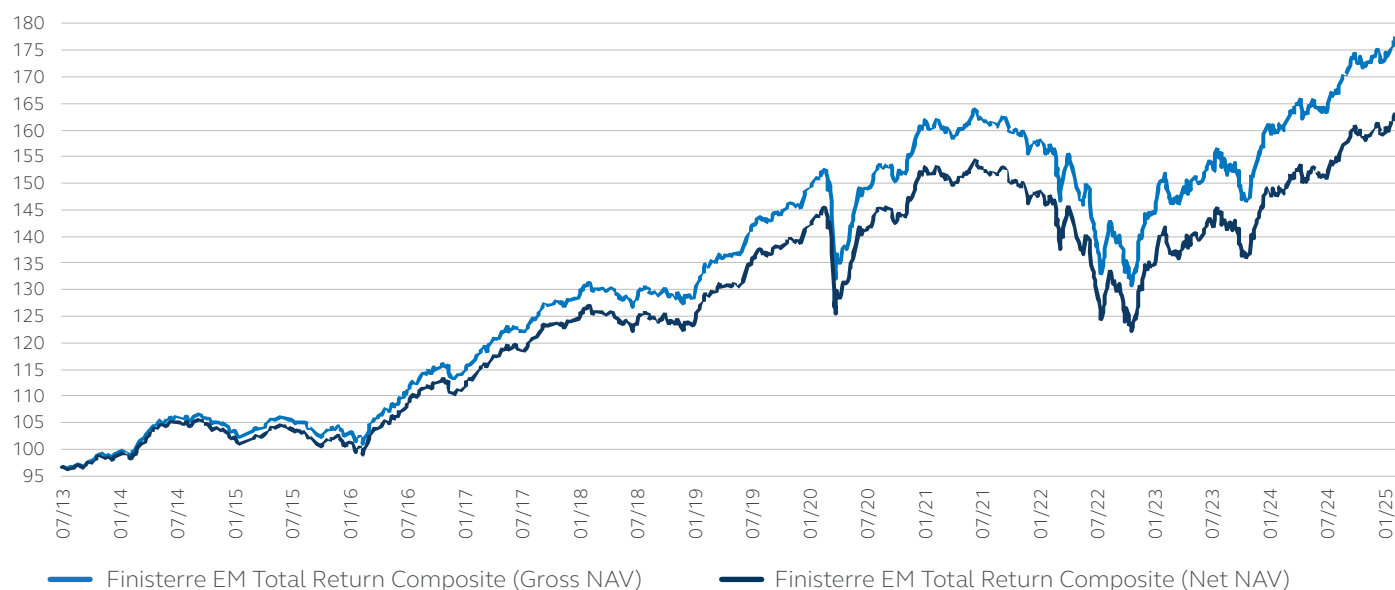
As we have expected since the start of the year, we would not be surprised if a short "risk-off" episode was to materialize in the short term, even if, as far as we can see, EMD flows and technical look far from any "panic" mode. We reaffirm that the global demand for yield and liquid credit remains extremely resilient, so that any such sporadic "risk-off" should be bought into. While the Trump administration's regular rants against some key emerging countries may keep investors on the back foot, we do not see those noises as too significant. Mexico and China remain the key ones to watch fundamentally, given the direct macro impact of tariffs.

This leaves us with a view that we are perhaps closer to the lows than the highs of the trading range on U.S. yields and the USD, even if more weakness is possible. We have switched out of some EUR duration longs towards more U.S. duration exposure in early March to reflect this view. We are also attracted by Asian rates on a potential spike higher and entered into a 5-year Czech rates receiver. Our EMFX exposure remains timid and selective, since EM specific catalysts for appreciation remain elusive, other than indirectly led by EUR or CNH appreciation against the USD. We retain exposure to local carry trades though, from Turkey to Egypt or Nigeria. In credit, our allocation continues to favour carry generation with a bias towards corporates, while our sovereign allocation tends to be dominated by bottom-up views on several specific frontier stories.

The portfolio structure remains focused on Income maximization (60%) and alpha positions (18% ex China Bank CDS), while structural beta exposure remains at low cyclical levels around 15%. The overall portfolio YTM has dropped from 9.25% to 8.78% in line with rally in U.S. yields, but current yield remains resilient above 7% in USD terms, for a BB rating. Cash levels around 10% are unchanged from the previous month, as we aim to keep some dry powder to reinvest on any short-term wobble in global risk assets.

Growth of \$100

Composite performance (cumulative since inception)



Source: Principal Finisterre, As of 28 February 2025.

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)	1.51	3.62	10.82	5.79	3.84	5.65	5.10	3.26	5.44	5.43	4.32	4.11	3.16	1.03	0.69	1.21	1.27
Finisterre EMTR Composite (net)	1.44	3.48	10.02	5.05	3.11	4.90	4.34	3.26	5.44	5.43	4.32	4.11	2.93	0.91	0.56	1.03	1.11
EMBI Global Diversified	1.57	3.03	9.82	3.36	0.61	3.26	3.34	4.07	6.41	7.71	6.19	6.08	2.30	0.52	0.08	0.54	0.52
CEMBI Broad Diversified	1.55	2.36	8.75	4.06	2.34	4.09	3.98	1.85	3.14	3.92	3.11	3.10	4.54	1.27	0.59	1.26	1.29
GBI-EM Global Diversified	0.66	2.72	2.41	1.66	-0.38	0.81	-0.43	5.97	7.75	9.06	8.97	8.99	0.40	0.21	-0.04	-0.05	0.09
JPM EM Equal Weight Total Return	1.26	2.71	6.98	3.07	0.89	2.77	2.34	3.58	5.22	6.35	5.50	5.48	1.89	0.58	0.14	0.42	0.50

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											3.62

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											3.48

12-month net rolling return (%)

	Mar 2020-Feb 2021	Mar 2021-Feb 2022	Mar 2022-Feb 2023	Mar 2023-Feb 2024	Mar 2024-Feb 2025
Net	7.08	-6.14	-3.71	9.46	10.02

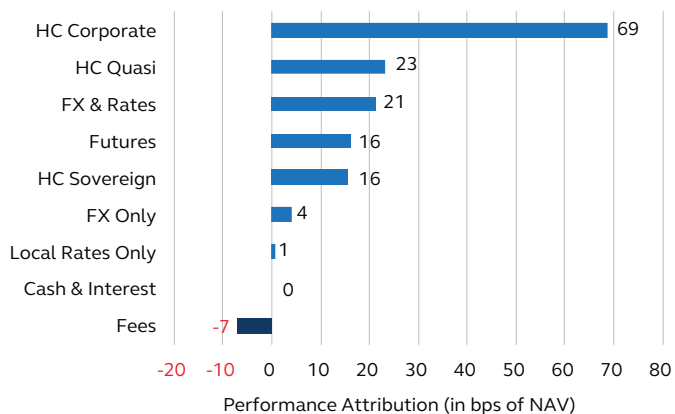
Source: Principal Finisterre, As of 28 February 2025.

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

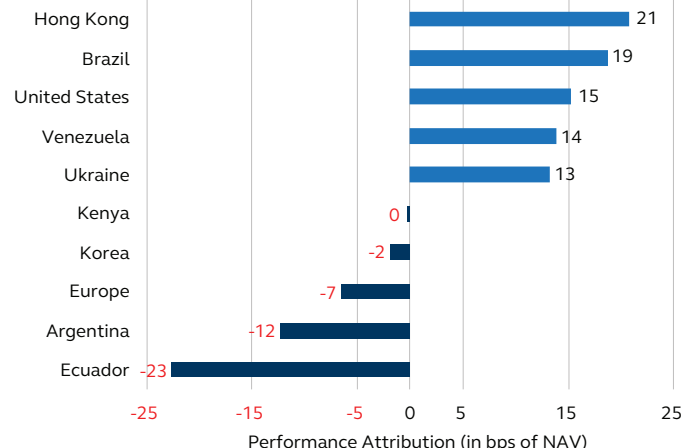
Past performance is not indicative of future performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees, accrued daily YTD figures are compounded monthly. Additional information on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

Monthly composite attribution

Performance attribution by sector (bps)

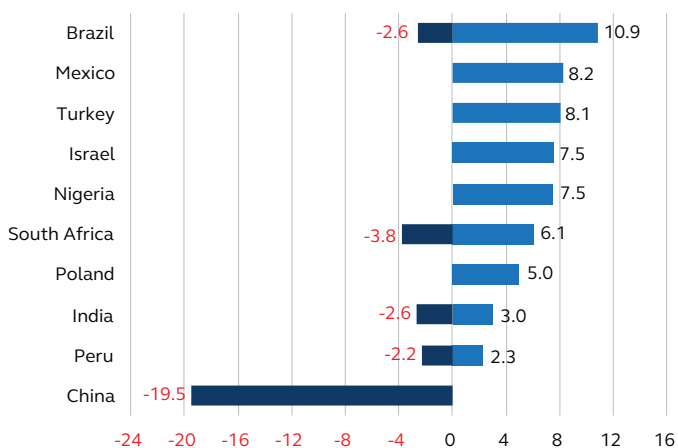


By country (top 5 contributors and detractors, bps)

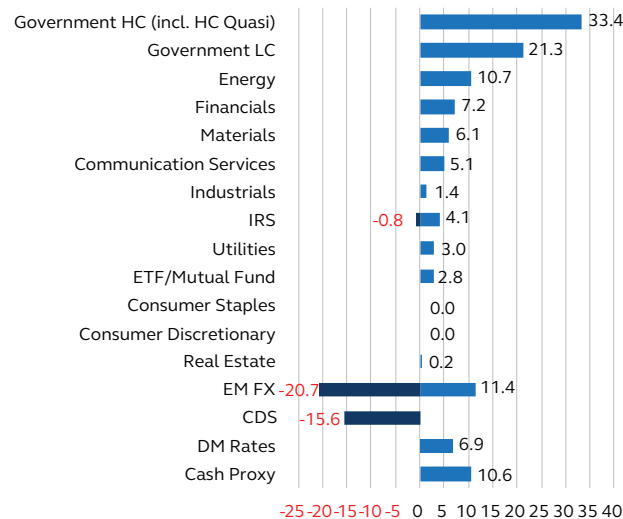


Month-end representative portfolio exposures

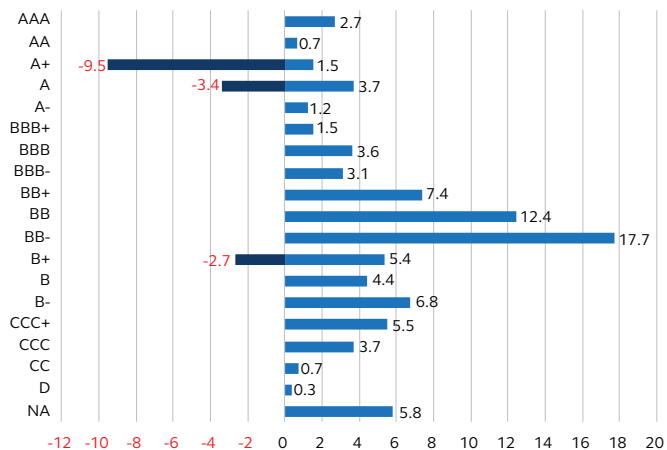
Top 10 country gross exposure (% NAV)



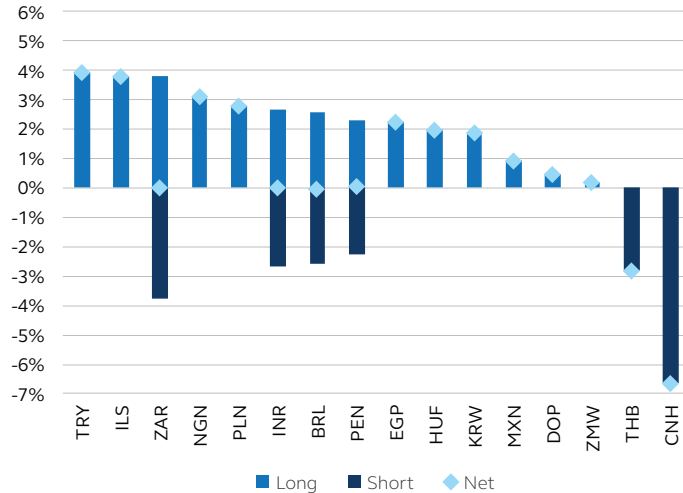
Sector allocation (% NAV)



Credit allocation (% NAV)



Local currency exposure (% NAV)



Source: Principal Finisterre. Data as of 28 February 2025. Monthly attribution is shown based upon gross performance.

Investment objective

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

Investment team

DAMIEN BUCHET, CFA - Chief Investment Officer, Principal Finisterre

CHRISTOPHER WATSON, CFA - Senior Portfolio Manager

About Principal Finisterre

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

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

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

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

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

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

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

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

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

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

Risk Considerations

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

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