

## FINISTERRE EMERGING MARKETS DEBT TOTAL RETURN STRATEGY

# Monthly commentary

### MAY 2025

Damien Buchet, CFA and Christopher Watson, CFA

April was all about Liberation. May was all about Capitulation. Having shocked the world (and global financial markets) in early April with the most aggressive tariff proposal in modern memory, May marked a further moderation in President Donald Trump's trade policy approach. Following the 90-day pause announcement that shifted the tone in April, May opened with more positive noises about potential trade deals. On May 8, a United Kingdom/United States deal was announced, but the biggest news came a couple of days later however, when the 115% tariff climb-down between China and the U.S., effectively ended the de facto trade embargo decreed by the early April sky-high tariffs levels announcement. Together with generally benign data-firm payrolls and ISM, low headline CPI. This set the stage for a strong risk rally. Equity and credit markets moved markedly higher in May. The U.S. dollar and rates however did not participate in the festivities. Although the DXY finished the month only slightly lower, the 'dollar vibes' continued to be poor. U.S. rates were under pressure throughout the month, but the pressure intensified following the Moody's downgrade and market disaffection with the U.S. deficit implications of the 'Big Beautiful Bill'. Commodities were largely unchanged on the month.

In this environment, emerging market debt (EMD) performed well with local currency assets once again leading the way. Emerging market (EM) credit was supported by spread tightening offset by the move higher in yields. Overall, the 1/3 equal weight JPM EMD Index delivered a return of 1.05%.

The Finisterre Emerging Markets Debt Total Return Strategy marginally underperformed the reference index, returning 0.94% gross (0.87% net).

#### Market overview

What the U.S. administration is trying to achieve with its trade policy remains something of a mystery—not least because of the vacillations of the President and his team. Is this an effort to raise (much needed) revenue, a genuine desire to reindustrialize America (across the manufacturing value chain), or an attempt to punish America's trading partners? President Trump's messaging at different points over the weeks since Liberation Day has made it difficult to draw a firm conclusion. Whatever the objective, although Trump throws big numbers around, he seems unwilling to stick to them. As Rob Armstrong wrote in the Financial Times: 'Trump Always Chickens Out'. As it stands, it seems reasonable to expect significantly higher tariffs than were in place previously, but the final numbers will almost certainly be much lower than originally proposed. This is even more likely following the judicial decisions to overturn the emergency use justification.

#### U.S. rates

The arbitrariness and lack of seriousness that many see in White House policy initiatives, together with the fiscal laxity in the current budget proposals has created a significant steepening pressure in U.S. yields. Both domestic and international investors remain concerned about U.S. duration and seem inclined to look for increasing term premium in the curve. The large deficits inherent in the 'Big Beautiful Bill' (and retaliatory tax provisions in section 899) have not eased these concerns.

#### Dollar dynamics

Although the generalized U.S. dollar move was not particularly stark in May, there was arguably an intensification of the dollar weakness theme. The narrative around dollar weakness is broadening as the aforementioned concerns about U.S. policy and rates take hold. Investor surveys suggest that positioning has shifted from a huge dollar overweight at the start of the year to a bias for dollar weakness. The surge in the Taiwan dollar in early May focused investor attention on Asia and on those countries with strong current account positions and an accumulation of foreign assets.

#### Oil

Opec+ has now announced more than 1.2 million barrels of daily production increases. Together with lingering concerns about global growth dynamics, this has kept the oil market under continued pressure in 2025. Some risk premium remains in the market because of the simmering tensions in the Middle East and Washington's efforts to put pressure on the Venezuelan regime. Saudi Arabia seems determined to regain market share and maximise budget revenue to support its growth initiatives.

Some specific emerging market highlights for the month were:

**Romania:** The much delayed, once annulled Romanian presidential election was finally concluded in May with a victory for the centrist pro-European Union (EU) Bucharest mayor Romania Nicușor Dan. Markets (and Brussels) were relieved at the victory since the far right, anti-EU candidate had been polling very well. Dan's victory alone will not change the direction of travel for Romania, but it is a necessary precondition. Public finances (and the country's investment grade credit rating) are very fragile and a significant fiscal consolidation effort is required. We went into the election with a modest short position in the RON, a very small EUR sovereign credit position, and have subsequently added more bonds.

**Ukraine/Russia:** Earlier hopes that Trump would be able to quickly secure an end to the Russia/Ukraine conflict have now almost completely receded. Despite a willingness to engage in the formalities of negotiations, there has been no

### Portfolio statistics

**Strategy AUM USD mn (month-end)** 4,647

**Current yield<sup>(1)</sup>** 6.69%

**YTW<sup>(1)</sup>** 9.42%

**YTM<sup>(1)</sup>** 9.55%

**Duration (cash adjusted)** 5.54

**Rating** BB

**Cash & equivalents** 13.40%

**Net EM exposure** 65.95%

**Gross EM exposure** 162.80%

**Long** 114.37%

**Short** -48.42%

Active EM exposures	Net	Gross
Hard Currency Bonds	60.5%	60.5%
Local Currency Bonds	23.9%	23.9%
EM FX Total	3.1%	29.85%
CDS	-31.6%	31.59%
IRS	7.40%	14.34%

Cash / hedge exposures	Net	Gross
DM Rates	9.9%	14.0%
DM FX Total	1.5%	1.5%
US Treasury Notes	-	-
US T-bills	-	-
Free Cash	13.4%	13.4%

Top 5 sovereign / quasi exposures	NAV
COTE D IVOIRE (REPUBLIC OF)	2.22
PETROLEOS MEXICANOS	2.10
ECUADOR REPUBLIC OF (GOVERNMENT)	1.86
SENEGAL (REPUBLIC OF)	1.61
GHANA (REPUBLIC OF)	1.53
<b>Total top 5</b>	<b>9.32</b>

Top 5 corporate exposures	NAV
ENERGO PRO AS	1.27
AZULE ENERGY FINANCE PLC	1.09
IVANHOE MINES LTD	1.07
BBVA MEXICO SA INSTITUCION DE BANCA MULTIPLE GRUPO FINANCIERO BBVA MEXICO	1.01
SAAVI ENERGIA LUXEMBOURG SARL	1.01
<b>Total top 5</b>	<b>5.46</b>

Source: Principal Finisterre. As of 31 May 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.

<sup>(1)</sup> 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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moderation in Russian demands for a ‘peace’ that is really a complete Ukrainian surrender. The recent strike on the Russian bomber forces underscores Ukraine’s continued reliance and ingenuity but it does not change the realities of the conflict. We have reduced risk across the complex and now hold a modest position in the USD “A” cash bonds. With bonds close to post restructuring lows and coupon step-ups coming in August, with think the risk-reward looks reasonable here.

**South Africa:** South Africa had a rare moment in the global spotlight in May when President Trump ambushed Cyril Ramaphosa with the ‘Afrikaner genocide’ video during their White House meeting. Ramaphosa—travelling in the company of very alive and supportive Afrikaners—held his nerve and seems to have come away from the trip no worse for wear. For investors, the more substantive developments in May were the budget and central bank meeting. A market friendly budget acceptable to the full “Government of National Union” was finally delivered in May. The SARB delivered a rate cut as expected at their late May meeting but also announced the intention to lower the inflation objective from the current 3%-6% range to possibly a single 3% target. We have a core holding in long duration local SAGB bonds and continue to believe that the excess premium in the curve will progressively be reduced.

**Poland:** The Polish presidential election on June 1 marked a defeat for Prime Minister Donald Tusk with a narrow victory for the PiS’s Karol Nawrocki. We do not expect a significant adjustment in macro-economic policy in the near term, but the continued political pressures will make any near term fiscal consolidation more unlikely. Poland is running very high deficits, largely on account of a surge in defence spending, and this will likely continue to be the case. EU support for Tusk’s administration will almost certainly continue and the huge pipeline of EU funds (over €100 billion) will likely continue to be disbursed until the end of the current parliamentary term at the end of 2027.

**India/Pakistan:** The terrorist attack in Indian Kashmir at the end of April escalated quickly into one of the most intense military conflicts between India and Pakistan since Independence. Early May saw a flurry of kinetic activity involving land and air assets across the border. As the intensity of the conflict increased, a U.S. diplomatic intervention quickly gave both sides a de-escalatory off ramp. The net impact on both countries’ bonds and currencies was quite short-lived as the conflict did not have any lasting macro significance on either economy.

Performance and portfolio positioning

The Finisterre Emerging Markets Debt Total Return strategy returned 0.94% gross (0.87% net for the month of May, marginally underperforming the JPM blended index by 11 bps gross (0.18 bps net). Gains were heavily driven by our high yield (HY) beta credits including Argentina, Ghana, and Nigeria as a significant portion of the spread decompression in April was unwound. Our position in longer dated South African local bonds benefitted from the end of the budget spat within the Government of National Union (GNU) and the central bank’s transitions to a lower inflation target. We also made gains from our firmly short USD stance. Our main detractors stemmed from our derivative overlay positions as the surprising speed of the tariff walk back led to a backup in U.S. rates and tightening in CDX spreads.

The portfolio bias is still to be long EM foreign exchange (FX) and this month we have increased exposure to Asia low yielders via the Korean Won and Malaysian Ringgit, while also adding to Egypt local T-bills to benefit from higher yields in a lower volume environment. We also shorted U.S. long bond futures to position more explicitly for curve steepening and a higher fiscal risk premium.

Outlook and portfolio strategy

Two months after the U.S. triggered the worst global tariff hit in a century, followed by a spectacular climb down on U.S.-China tariffs in early May, some themes are becoming much clearer for EMD assets.

Tariffs and erratic policy announcements translated first into a general weakness for the USD versus G10 FX, but also increasingly versus EM currencies, as investors have started hedging some of their \$20 trillion global exposure to U.S. assets.

U.S. assets now display a risk premium linked to the perception of policy and institutional uncertainty, illustrated by higher U.S. Treasury yields and a steeper yield curve. This combines with doubts about the short-term U.S. growth/inflation trade-off and the long-term financing of U.S. fiscal deficits. Meanwhile, U.S. equity and credit valuations were already expensive going into 2025. We see FX hedging as a first step, before actual asset selling by global insurers, pension funds through asset reallocation in the month to come, as their decision process is much slower.

Although U.S. assets will retain a large allocation in global portfolios given their sheer depth and liquidity, global (and U.S.) investors are more open to look for other opportunities.

In this context, EMD assets stand out as a totally overlooked provider of yield, diversification, and liquidity, and could disproportionately benefit from any minimal re-allocation flows, as they continue to show resilience to the global turmoil and provide some distance to the U.S.-focused attention.

Growth risks exist, but mostly for South-East Asia, which no longer represents a major source of performance for EMD investors. Growth and deflationary risks can be monetized by receiving rates there and possibly entering short FX positions versus the USD or EUR when justified, although that is not the case in the short term. Lower oil prices may remain a headwind for weaker producers with higher breakeven prices like Angola and, to a lower degree, some Middle Eastern producers, (although the later have lots of financing options). But this greatly helps importers in Asia, Turkey, or India from an inflation and growth standpoint.

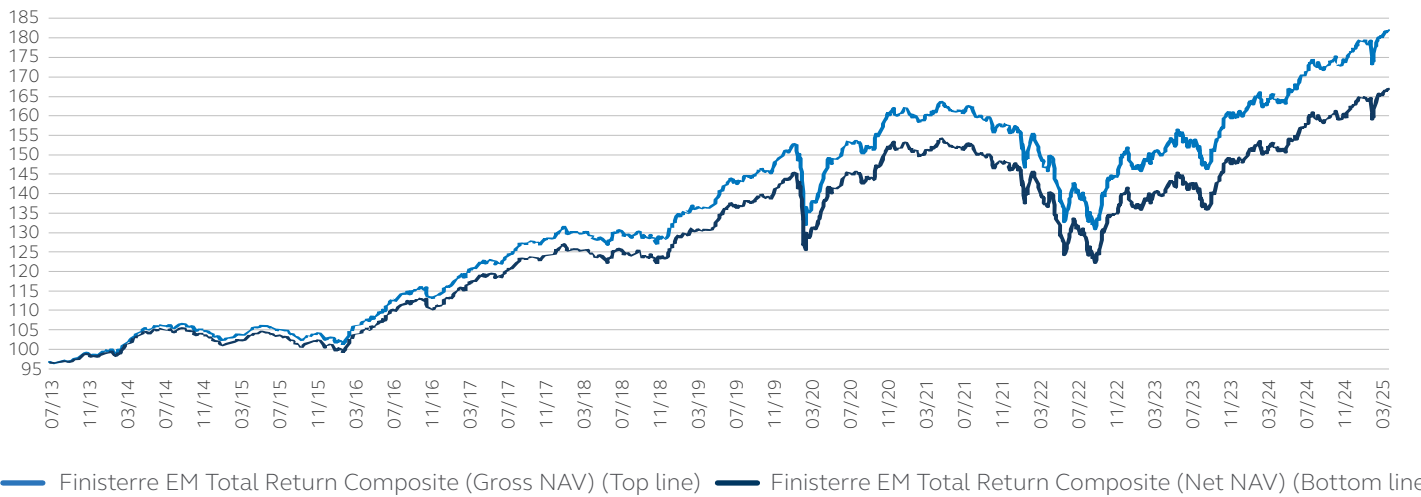
Other key commodities like Iron ore, copper or agricultural staples have remained very stable in USD terms, which improves EMs’ inflation outlook. The main point of attention remains fiscal stability amidst potential growth slowdown or political pressure to win elections: Hungary, Romania, Brazil, Colombia, Mexico, Indonesia must be watched.

As we look ahead, we continue to believe EMD assets are offering true “value for money”. EM corporate U.S. credits continue to exceed U.S. credits at each rating level, EM-ex-Asia local government bonds and interest rates still trade near 20-year high yields and EM sovereign USD credits are a hunting ground for differentiation, where all-in yields remain high despite tighter spreads for some.

Our approach to portfolio strategy remains to maximize the income stream, using a blend of EM short- to mid-duration corporates, and high “carry to volatility” local stories (Brazil, Mexico, South Africa, Colombia) sometimes on an FX-hedged basis. We add extra income via uncorrelated “alpha” sources, with select shorter dated frontier credits, and high income local currency trades (Turkey, Egypt, possibly Nigeria again). Finally, we feel emboldened in adding more EM FX beta, via Asian and EUR-related currencies and the South African rand, to further capitalise on the ongoing USD weakness. We do not seek much long duration risk in USD EM credits, whether sovereign or corporates at this stage, unless sporadically to trade a specific U.S. Treasury move. We maintained some long CDS Index protections on U.S. and EU HY markets, as a placeholder for further weakness in U.S. hard data in the weeks to come.

Growth of \$100

Composite performance (cumulative since inception)



Source: Principal Finisterre, As of 31 May 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	ITD	10-year
<b>Finisterre EMTR Composite (gross)</b>	0.94	5.17	10.72	6.70	4.58	5.56	5.12	3.62	5.24	4.94	4.39	4.13	2.82	1.24	0.91	1.21	1.23
<b>Finisterre EMTR Composite (net)</b>	0.87	4.80	9.86	5.95	3.84	4.80	4.36	3.62	5.24	4.94	4.39	4.13	2.60	1.10	0.76	1.03	1.07
<b>EMBI Global Diversified</b>	1.12	3.15	8.04	5.71	2.01	3.12	3.28	4.26	6.14	6.02	6.21	6.06	1.82	0.90	0.33	0.53	0.49
<b>CEMBI Broad Diversified</b>	0.61	2.61	7.33	5.98	3.29	3.83	3.92	2.29	3.02	2.94	3.13	3.11	3.10	1.93	1.10	1.24	1.20
<b>GBI-EM Global Diversified</b>	1.41	9.22	9.53	5.86	1.42	1.71	0.09	5.95	7.41	7.81	8.84	8.92	1.53	0.77	0.18	0.01	0.19
<b>JPM EM Equal Weight Total Return</b>	1.05	4.97	8.35	5.90	2.28	2.94	2.48	3.55	4.97	5.02	5.47	5.44	2.26	1.15	0.45	0.45	0.53

### Gross returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2013</b>						-3.37	0.10	0.19	0.68	1.73	-0.47	0.76	-0.47
<b>2014</b>	-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
<b>2015</b>	-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
<b>2016</b>	-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
<b>2017</b>	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
<b>2018</b>	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
<b>2019</b>	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
<b>2020</b>	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
<b>2021</b>	-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
<b>2022</b>	-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
<b>2023</b>	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
<b>2024</b>	-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
<b>2025</b>	2.08	1.51	-0.62	1.18	0.94								5.17

### Net returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2013</b>						-3.44	0.03	0.12	0.61	1.66	-0.54	0.69	-0.94
<b>2014</b>	-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
<b>2015</b>	-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
<b>2016</b>	-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
<b>2017</b>	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
<b>2018</b>	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
<b>2019</b>	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
<b>2020</b>	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
<b>2021</b>	-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
<b>2022</b>	-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
<b>2023</b>	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
<b>2024</b>	-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
<b>2025</b>	2.01	1.44	-0.69	1.11	0.87								4.80

### 12-month net rolling return (%)

	Jun 2020-May 2021	Jun 2021-May 2022	Jun 2022-May 2023	Jun 2023-May 2024	Jun 2024-May 2025
<b>Net</b>	10.82	-8.39	-0.31	8.59	9.86

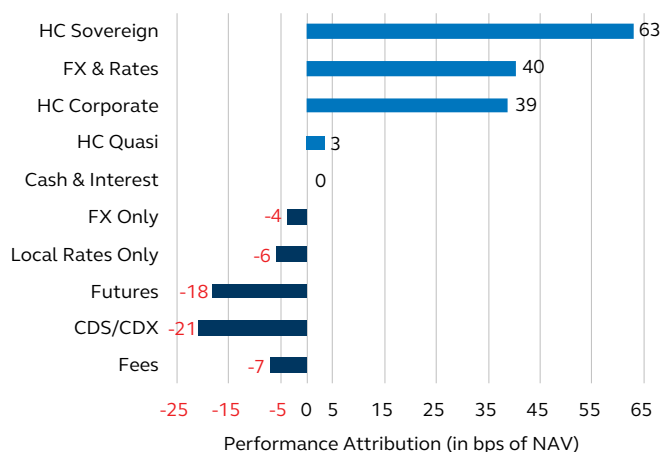
Source: Principal Finisterre, As of 31 May 2025.

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

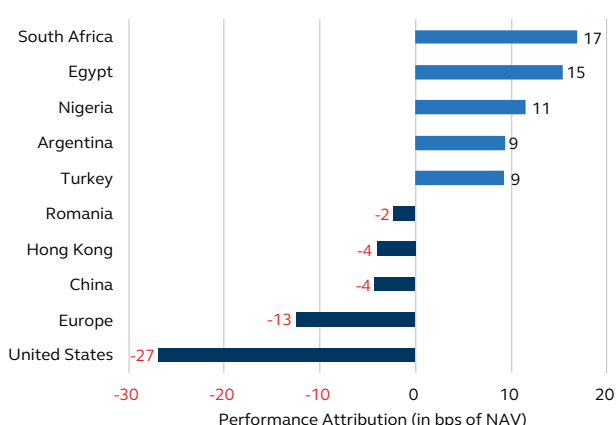
Past performance is not indicative of future performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees, accrued daily YTD figures are compounded monthly. Additional information on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

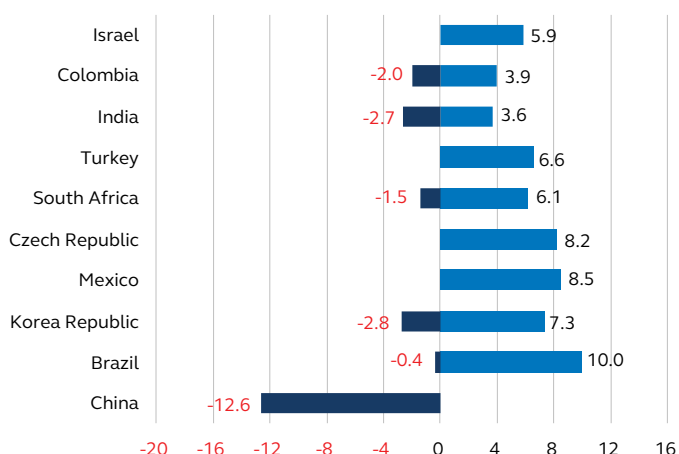


### By country (top 5 contributors and detractors, bps)

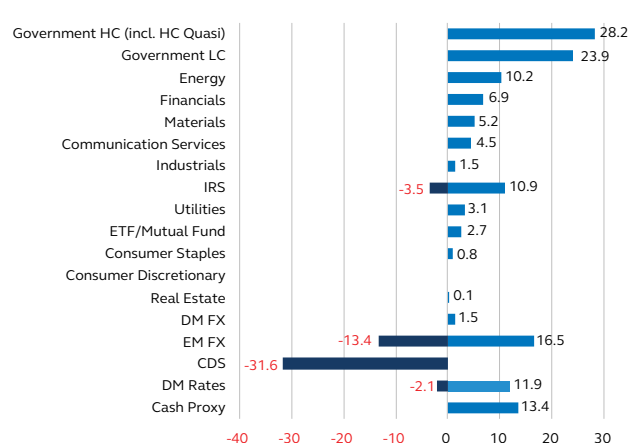


## Month-end representative portfolio exposures

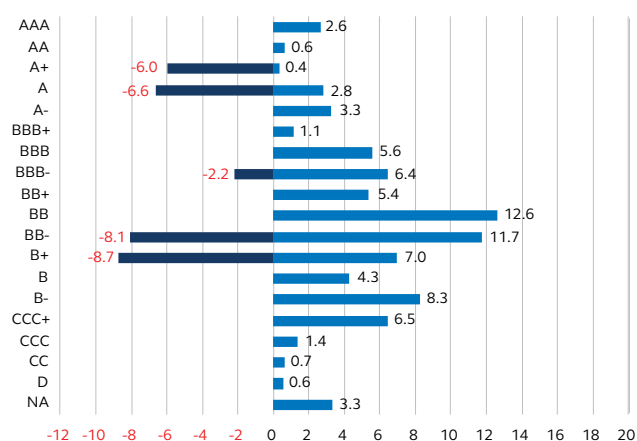
### Top 10 country gross exposure (% NAV)



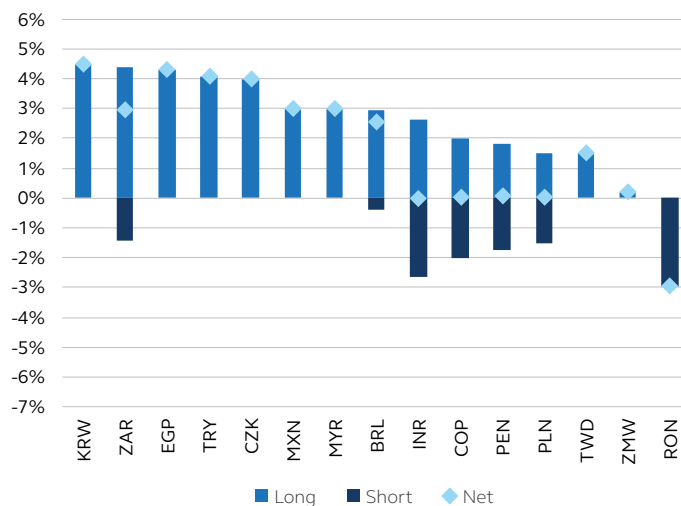
### Sector allocation (% NAV)



### Credit allocation (% NAV)



### Local currency exposure (% NAV)



## 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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