Principal Finisterre

Principal Asset Management℠

FINISTERRE EMERGING MARKETS DEBT TOTAL RETURN STRATEGY

Monthly commentary

OCTOBER 2024

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Those waiting for a political "October Surprise" were left wanting, but there were plenty of surprises on the United States data front. Early in October, U.S. Treasury (UST) yields shot higher on a hotter than expected CPI print and on a sharp rebound in job adds from September. For much of the last year the market has shifted violently between recession fears/rates rallies and no landing/rates selloff; October was certainly a demonstration of the latter. Risk initially, aside from the notable exception of emerging market (EM) foreign exchange (FX), took the move largely in stride. This was all before the U.S. election became the central focus into month end when rates took another leg higher on the market's perception of rising Trump odds.

Most asset classes struggled in this rates higher/risk reduction environment, with the S&P 500 Index suffering its worst monthly drop in six months (-0.9%) and UST's notching their worst monthly performance since 2022 (-2.5%). The dollar surged on the month with DXY Index up 3%. MSCI EM Index dropped -4.3% in the month, giving back a quarter of its year-to-date (YTD) gains.

Emerging market debt (EMD) similarly suffered on an outright return basis with the EMBIG -1.72%, the lower duration CEMBI Index -0.86%, and the GBI suffering its worst return of the year at -4.61%, nearly wiping out the local index's YTD return. Despite the dour total returns, a risk-on mood held in for most of the month allowing spreads to passively tighten; the EMBIG was -24 basis points (bps) tighter on the month. EM really took a backseat during the month to the broader macro shifts in U.S. data/rates and in the run-up to the election. China remains stuck in its internal tug-of-war between their recent realization of the need for stimulus while offering up a string of rather tepid measures thus far. The Finisterre Emerging Markets Debt Total Return Strategy returned -1.35% on the month, significantly outperforming the equal weight reference's -2.40%.

The final surprise waited until November, not so much in outcome but in magnitude. Despite months of deadlocked polls, as we write this, Donald Trump has decisively won a return to the White House, a red Senate, and has a strong potential to complete the sweep once the House results trickle in over the next week. With a Red Sweep possibly in the making, what strikes us is that it will be a challenging environment for EM in terms of headline news flow but one likely to drive significant divergence within EM between the winners and losers.

Market overview

Over the course of October, U.S. yields pushed higher driven by both strong data and a pricing of Trump election risks.

While waiting for the election event, much the EMD community (investors, issuers, and official sector actors) descended on Washington in October.

Compared to previous editions, the recent International Monetary Fund (IMF)/World Bank meetings in D.C. this year were dominated by conversations on geopolitics rather than macro. Uncertainty around the outcome of the U.S. elections and increased geopolitical risk featured prominently among the discussions. While most of the crowd seemed to assume that Trump would be the next President, it still seemed that investors had not fully positioned for this outcome and respected the uncertainty in the opinion polls. On the macro side, there was far less debate around inflation or monetary policy than in previous meetings. A U.S. soft landing appeared to be the strong consensus and inflation was perceived to be far less of a concern than it was in the past. By and large, investors were very cautious on the growth outlook for both China and the Euro area. Conversely, there seemed to be a strong consensus in favour of U.S. exceptionalism.

In terms of country focus, among the larger countries once again Turkey received a great deal of attention, as the authorities were able to tell a convincing story of monetary and fiscal adjustment and investors seemed willing to give them the benefit of the doubt despite still stubbornly high inflation. Similarly, Argentina was another bright spot, although our sense is that the EM real money community was nowhere near as invested as we thought prior to the trip. South Africa was another bright spot, with much of the investor conversations revolving around how quickly the country would be able to enjoy the growth dividend of an improving supply side. The outlook was significantly more challenging for Mexico, where investors face the combined uncertainty of a new Mexican administration and of what a potential new Trump presidency could mean for migration and trade flows. Conversations on Brazil were particularly interesting, once again highlighting the dichotomy between an extremely bearish local investor community and a more balanced international community. The mood in other countries—such as Colombia and central and eastern European countries (CEE)—was subdued due to the combined challenges of a deteriorating fiscal position and bleak growth prospects.

The overall sentiment from the IMF meetings on frontier markets was positive. There was a sense that for most countries financing would continue to be supported by a lenient IMF and bilateral partners. IMF support is expected to remain robust particularly in Kenya, Sri Lanka, Zambia, Ghana, and African francophone countries (though there was notable concern about data

[(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)	4,361
Current yield[(1)]	7.14%
YTW[(1)]	9.05%
YTM[(1)]	9.36%
Duration (cash adjusted)	4.85
Rating	BB
Cash & equivalents	15.48%

Net EM exposure	50.55%
Gross EM exposure	142.10%
Long	96.33%
Short	-45.78%

Active EM exposures	**Net**	**Gross**
Hard Currency Bonds	60.4%	60.4%
Local Currency Bonds	24.2%	24.2%
EM FX Total	-15.8%	23.49%
CDS	-26.1%	26.15%
IRS	6.27%	6.27%

Cash / hedge exposures	**Net**	**Gross**
DM Rates	2.1%	11.6%
DM FX Total	-7.3%	7.3%
US Treasury Notes	-	-
US T-bills	-	-
Free Cash	15.5%	15.5%

Top 5 sovereign / quasi exposures	**NAV**
ROMANIA (REPUBLIC OF)	1.92
UKRAINE REPUBLIC OF (GOVERNMENT)	1.83
PETROLEOS MEXICANOS	1.77
ISRAEL (STATE OF)	1.76
EGYPT (ARAB REPUBLIC OF)	1.61
Total top 5	**8.88**

Top 5 corporate exposures	**NAV**
GREENSAIF PIPELINES BIDCO SA RL	1.33
HSBC HOLDINGS PLC	1.23
PUMA INTERNATIONAL FINANCING SA	1.05
STANDARD CHARTERED PLC	1.01
IHS NETHERLANDS HOLDCO BV	0.97
Total top 5	**5.59**

Source: Principal Finisterre. As of 31 October 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.

quality in the West African Economic and Monetary Union (WAEMU) after recent revelations of debt underreporting in Senegal). There was a flurry of excitement about the prospect of a new IMF programme for Angola in the face of a constrained liquidity position and expectation of lower oil prices next year, as the country hinted it has been given a menu of options by the IMF. Egypt was one country where the meeting with the IMF Mission Chief struck a more negative tone due to doubts about the authorities' commitment to a flexible exchange rate regime, privatisation agenda, and implementing revenue-led fiscal consolidation. However, market worries about a prolonged delay in the forthcoming fourth IMF review were somewhat eased by high level comments by IMF Managing Director, Kristalina Georgieva, signalling the IMF might show some flexibility. Market participants were generally assuming lower exit yields (in the region of 10%-12%) on distressed names such as Ukraine and Sri Lanka, a significant downward revision from earlier this year. There was some cautious optimism about Zambia's post restructuring outlook on the expectation of further recovery in copper production next year and the start of El Nina rainfall which will give much needed relief from the devastating drought this year. Despite the drought, Zambia is meeting all IMF quantitative benchmarks and will likely extend their programme to August 2026. Market participants were broadly positive on Nigeria, with interest reignited in both the credit and local markets. This came amidst the recent steps to remove the fuel subsidy, ramping up of production at the Dangote refinery and a hawkish Central Bank of Nigeria.

Performance and portfolio positioning

September was a month with a range of contributors. Over the course of October, we made meaningful adjustments to the portfolio to reduce directionality ahead of the U.S. election. These adjustments involved significant reductions in rates duration, credit spread risk, and our EMFX exposure.

The outperformance on the month was driven by gains in credit positions in Argentina, Ukraine, Zambia, and in European hedges. These gains were offset by losses that were largely related to move higher in global yields—namely the repricing of local markets in Brazil, Peru, Mexico, Poland, Europe, and South Africa.

Considering the incredibly close polling ahead of the election and the strong sense that two candidates would presage very different outcomes for markets, we decided early in the month to dial back overall portfolio risk quite meaningfully. In credit, we reduced risk in low beta longer duration assets like Poland 54 and in higher beta spread assets like Argentina and Pemex. In local rates, we look out risk in Peru and Indonesia with the view that the relatively tight spread to Treasuries (versus historical ranges) would potentially make them vulnerable to U.S. rates. In FX, we decided to come into the election effectively neutral the dollar, having closed long positions in ZAR, PLN, BRL, and across Asian FX leaving us running longs in TRY, EGP, INR, and ILS versus shorts in CNH, MXN, and EUR.

Outlook and portfolio strategy

The decisive Trump election victory (White House, Senate, and the House as well) has caused a strong market reaction. The dollar has continued its move and equities and crypto have been heavily bought. Core rates have been volatile, but the initial moves higher have been faded on the 4.5% 10-year yield line. Credit assets have generally traded well with the overall risk backdrop but spread levels in global credit products do not look overly generous and are likely to be vulnerable if rates move sharply higher again.

In contrast to 2016, when Trump's victory was clearly a surprise to financial markets, risk takers around the world have had time to adjust portfolios over the last couple of months. At this stage, we are in a period of 'calm' as we wait for new information about the shape and intentions of the new administration. There are differing opinions as to the likely initiatives that will be pursued in the new year. Some are arguing that Trump 2.0 may be more reasonable than many are expecting and that a fiscally prudent, market friendly school could dominate the agenda. Others are less sanguine and expect the administration to quickly push ahead with the tariffs, tax cuts, and immigration restrictions that were central to his campaign. To be sure, initial nominations seem to confirm a hawkish stance on China, health, identity politics, and immigration, but the jury is still out when it comes to the UST, where reasonableness could prevail, as well as nominees for the White House Chief of staff or the head of the CIA.

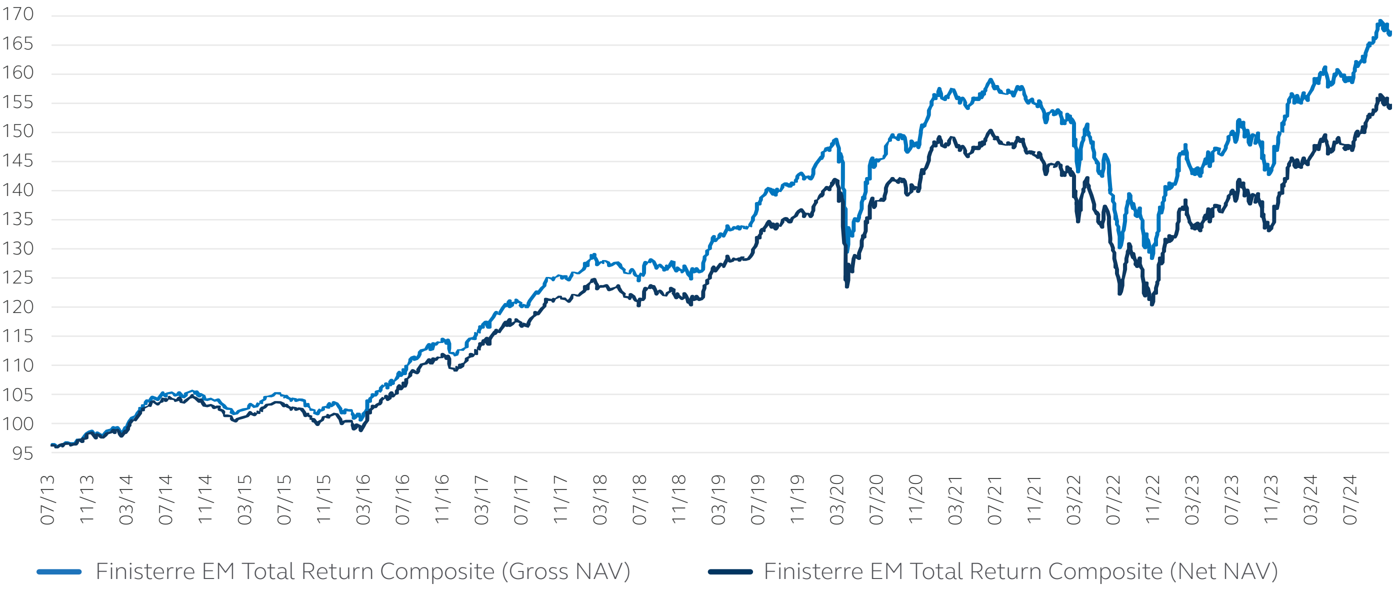
While we would not be unhappy if the first camp is correct, we think it is unlikely that the new Trump administration will walk away from issues that dominated his discourse during the campaign. As a consequence, we feel that ultimately the market will push stronger dollar, higher yields, and steeper curves, although, in the very short term we may have priced enough for that stage of the political process. We may need to wait until the January inauguration to see the true colours of Trumponomics 2.0.

What does this mean for EMs and our portfolios? At the moment, we feel that caution is still warranted. We remain selective in our FX positioning, wary on duration and with a bias towards income, and alpha in credit. We are ready to deploy risk more aggressively but would like to see further clarity on policy and a further adjustment on valuations before we do so. That said, absent any further adjustment in risk positions in the next two weeks, we do not exclude the potential for a year-end rally, on the basis that all the information available for now, until inauguration, may be in the price.

This remains a bold call to make at this juncture, although our positioning would allow us to quickly turnaround the portfolio risk profile towards more FX and duration, thanks to the liquidity and tradability of EMFX and rates derivative markets.

Growth of $100

Composite performance (cumulative since inception)



Source: Principal Finisterre, As of 31 October 2024.
Finisterre EM Total Return Composite inception date 31 May 2013.
Past performance does not guarantee future return.

	Returns (%		Annualised returns (%)					Volatility (%)					Sharpe ratio				
	MTD	YTD	1-year	3-year	5-year	10-year	ITD	1-year	3-year	5-year	10-year	ITD	1-year	3-year	5-year	IDT	10-year
Finisterre EMTR Composite (gross)	-1.35	6.94	16.52	2.65	3.32	5.05	4.87	4.19	5.82	5.53	4.34	4.17	3.64	0.45	0.59	1.14	1.13
Finisterre EMTR Composite (net)	-1.42	6.33	15.73	1.96	2.60	4.31	4.12	4.19	5.82	5.53	4.34	4.17	3.48	0.33	0.46	0.97	0.97
EMBI Global Diversified	-1.72	6.78	18.16	-0.98	0.47	2.92	3.19	5.11	7.03	7.79	6.29	6.16	3.26	-0.14	0.06	0.51	0.46
CEMBI Broad Diversified	-0.86	7.57	14.90	0.92	2.44	3.81	3.88	2.33	3.47	3.97	3.17	3.15	5.95	0.26	0.61	1.21	1.18
GBI-EM Global Diversified	-4.61	0.10	8.76	-0.53	-0.92	-0.06	-0.46	6.78	8.56	9.13	9.11	9.09	1.24	-0.06	-0.10	-0.05	-0.01
JPM EM Equal Weight Total Return	-2.40	4.80	13.92	-0.15	0.70	2.28	2.25	4.34	5.81	6.40	5.59	5.55	3.00	-0.03	0.11	0.40	0.40

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			6.94

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			6.33

12-month net rolling return (%)

	Nov 2019-Oct 2020	Nov 2020-Oct 2021	Nov 2021-Oct 2022	Nov 2022-Oct 2023	Nov 2023-Oct 2024
Net	2.66	4.47	-16.81	10.10	15.73

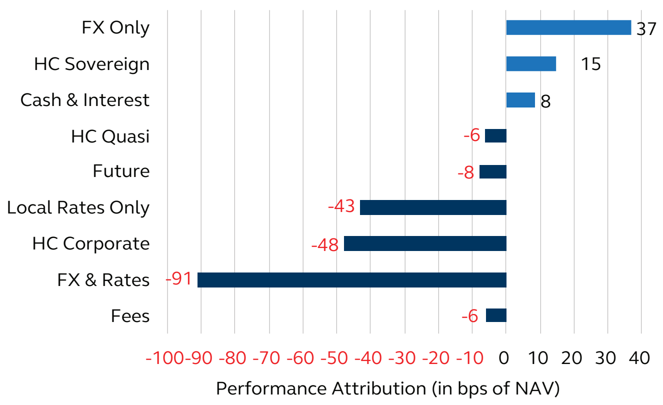
Source: Principal Finisterre, As of 31 October 2024.

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

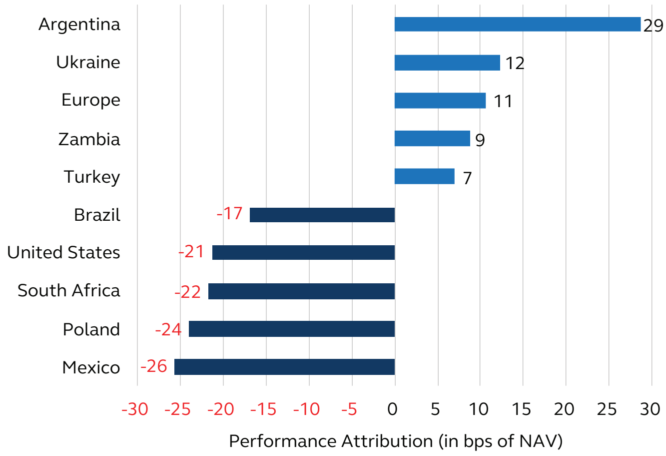
Past performance is not indicative of future performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees, accrued daily YTD figures are compounded monthly. Additional information on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

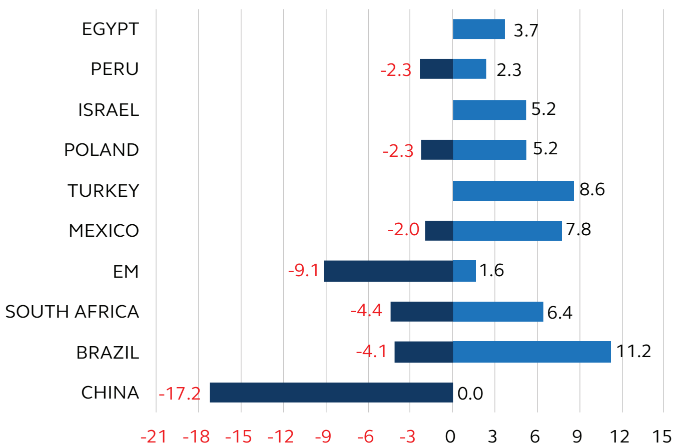


By country (top 5 contributors and detractors, bps)

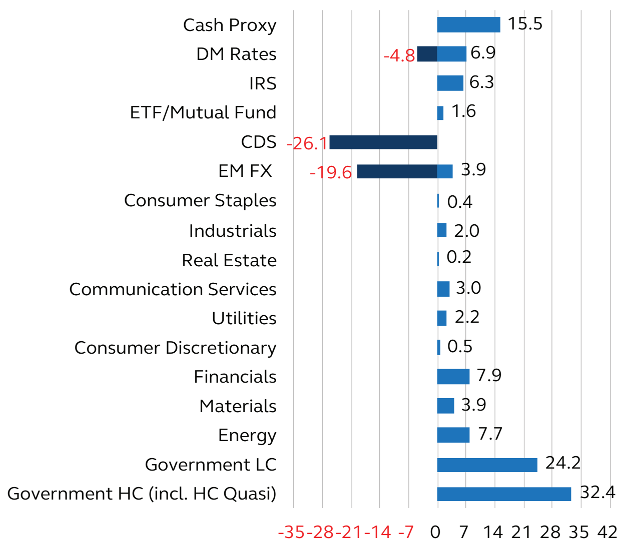


Month-end representative portfolio exposures

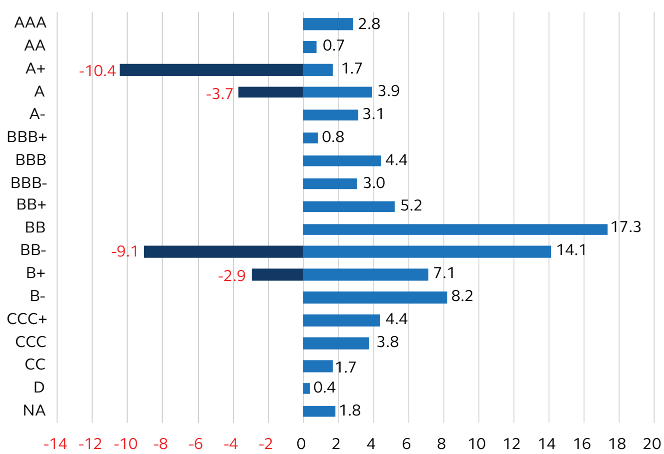
Top 10 country gross exposure (% NAV)



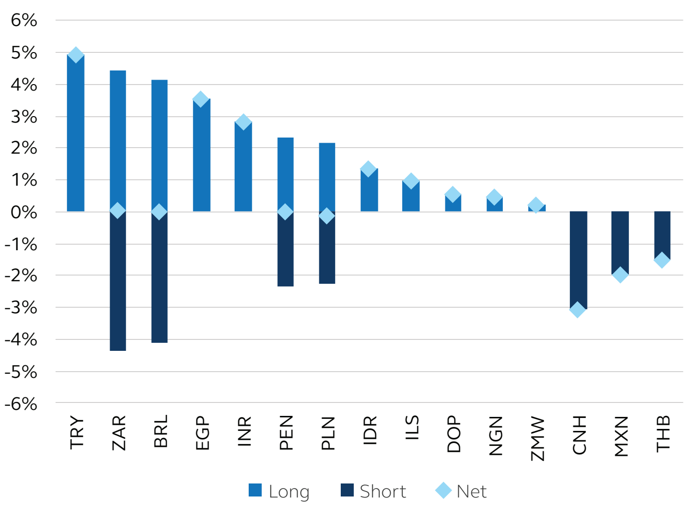
Sector allocation (% NAV)



Credit allocation (% NAV)



Local currency exposure (% NAV)



Source: Principal Finisterre. Data as of 31 October 2024. 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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