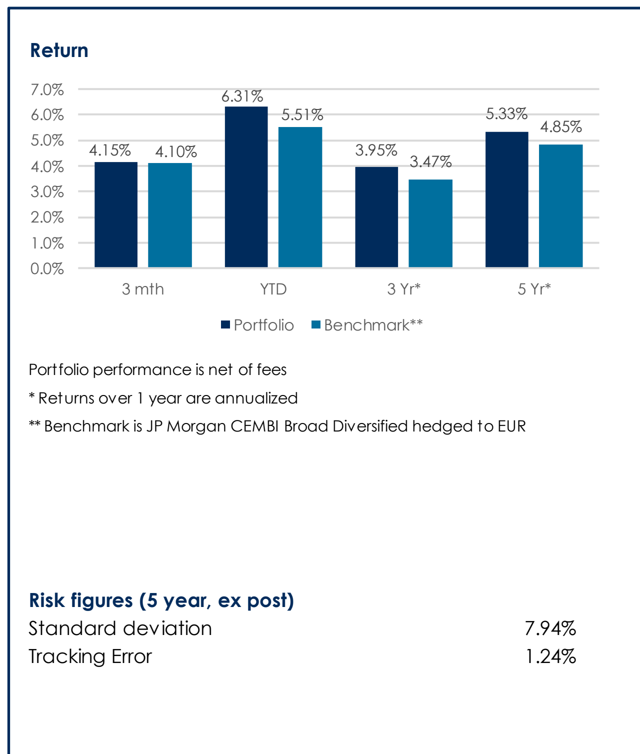
Dear Investor

Please note that information regarding companies (issuers) and financial instruments (e.g. shares or bonds) in this investor letter shall not be considered as investment recommendations to buy, sell or hold any financial instruments. Information about companies and financial instruments shall only be considered as information concerning the fund's portfolio and risk profile for that quarter.

Summary

- 2020 was a very volatile year, but spreads almost unchanged for the year. EM corporate debt delivers positive excess returns as one of the few credit markets.
- The share class outperformed the benchmark again in 2020.
- As we look in the crystal ball for 2021, we cannot escape to feel some reminiscence of January 2020 as markets have come a long way in a very short time.
- We believe that businesses and investors alike will increase the focus on improving the climate and ESG factors in 2021 and that this will bring further green and sustainability-linked issuance.
- Ultimately, we believe that capital markets will become increasingly bifurcated as poor ESG performers will be left behind
- Overall, we expect credit fundamentals to be supported by the rise in demand and higher commodity prices, but also think that the economic growth will be fragile and uneven across emerging markets.



Portfolio performance is net of fees

* Returns over 1 year are annualized

** Benchmark is JP Morgan CEMBI Broad Diversified hedged to EUR

Risk figures (5 year, ex post)

Standard deviation	7.94%
Tracking Error	1.24%

2020 review

Going into 2020, we commented that risk euphoria might have gotten ahead of itself and that H1 2020 would bring bouts of volatility. Clearly, we had not envisioned how the coming pandemic would change the market landscape dramatically. After a seismic gap down the market started its ascent back up on the back of the US FED going nuclear. Altogether this produced a 7.1% return for CEMBI Broad Diversified in USD which is in line with the historic average despite the almost unprecedented volatility over the year. The share class outperformed this handsomely.

Curiously, an intra year spread change of 365 bp for the index had not been seen since GFC in 2009 whereas the year over year change of only 3 bp was the smallest change ever recorded. For most credit markets, the returns in 2020 were mainly due to moves in US treasury rates which again fell notably, but EM corporate debt delivered positive excess returns in 2020 as one of the few and maintained one of the best Sharpe ratios. Investment grade and high yield segments of the universe contributed almost similar returns of 7.2 % and 6.6 % respectively of which high yield credits returned 4 percent in Q4 alone.

Lingering Covid-19 scars versus reflation

Generally, we anticipate that the Covid-19 pandemic could lead to some of the main risks in 2021 not only related to the number of infections, but also to the policy reaction function. Market expectations are for an effective vaccine rollout, but any disappointment caused by mutations or supply imbalances could delay the economic recovery and derail sentiment. For some of the weaker emerging market economies, this would be particularly troublesome given already thin liquidity buffers and inability for continued or increased QE-like measures. In fact, we anticipate lingering consequences of the pandemic on the political stability across many countries as it will leave a legacy of higher debt burdens, displaced workers, and loss of

faith on the back of increased inequality within and among nations.

As credit forbearance as well as fiscal support for SMEs and households might begin to taper off, this poses risks for weaker countries and/or countries with weaker banking sectors which in 2020 were shielded by forbearance measures. Therefore, we believe it is safer to stick to diversified economies in countries with robust basic balances and fiscal credibility as this will provide more resilience in case of setbacks.

The continued rift between China and US is not expected to disappear with a new US administration. In fact, we think that there is strong US bipartisan support of the pressure on China although this might return to a more orthodox diplomatic pressure. The most contentious area remains the South China Sea and Taiwan although we still view military engagement as a tail risk. Bottomline is that we think tensions between the US and China to remain topical but expect a more predictable and inclusive US trade policy generally which on the margin should be supportive for global trade and hence emerging markets. Having said this, it remains our conviction that the reshoring of supply chains away from China will continue and should benefit places like Indonesia, Mexico, and Eastern Europe.

On reflation, we believe that financial repression will remain an important toolbox for policy makers in the developed world. However, it is also our anticipation that developed markets, and the emerging economies who can afford it, will need to use Keynesian policies to spur growth and dampen inequality. This combination of loose monetary and fiscal policies should continue to support commodity prices as 2021 progress. Overall, this should be very supportive for emerging market assets and we anticipate most commodity exporters to see improved credit fundamentals in 2021. Our only worry in this respect would be if the Chinese credit impulse weakens substantially as this could prelude some tapering of commodity demands. Likewise, we fear that the global rise in inequality could bring renewed social unrest within and between nations as people no longer fear the pandemic.

Emerging Markets to go greener

A structural trend which took off in 2020 and will gain pace in 2021 is the focus of ESG. We believe that businesses and investors alike will increase the focus on improving the climate and ESG factors in 2021 and that this will bring further green and sustainability-linked issuance. At the same time, the demand will only grow and continue to warrant higher valuations for this kind of paper. As experienced and responsible investors, we have always strived for better governance to deliver solid returns and are increasingly committed towards providing better overall ESG exposure as we believe this solidifies the sustainability and stability of returns going forward. This is not least important considering the risk of rising social discontent.

Ultimately, we believe that capital markets will become increasingly bifurcated as poor ESG performers will be left behind and where heavy carbon emitting industries could be discriminated by capital markets and left with state-related creditors which might be less worried about poor ESG performance relative to strategic importance. We already see such tendencies among coal industries but think this carbon emission and water intensity premia might increase over time.

2021 to bring lower, but positive returns

Summing up, we think emerging markets will deliver compelling returns in 2021 and that most value will come from credit selection and by timing the inevitable bouts of volatility. It is our view that high yield spreads will continue to compress versus investment grade credits, but that the uneven and fragile upswing is better captured through the better high yield credits and the lower part of investment grade as this will also insulate against the waning default rates of around 3 % for EM high yield corporates. Therefore, we stick to our prudent credit selection of issuers with solid track records in terms of fundamentals and sustainability. Altogether this would provide for decent returns around 5 % for the year as we assume US treasury rates will only rise moderately given the continued financial repression. This should also continue to allure developed market investors into EM as in prior periods of rising global growth differentials in favor of EM which will continue to absorb the only moderate new net supply anticipated.

Kind regards,

Annie Chen, Chresten Hagelund, Eduardo Ordonez and Søren Bertelsen

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