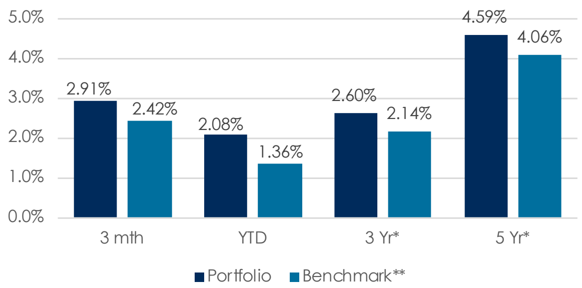
Dear Investor

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

- Another strong quarter with tightening spreads, but ending on a weak note
- Markets are now waiting for the US election. The outcome will impact EM overall and individual countries depending on location and dependence on international trade.
- We still believe that credit spreads look decent over a normalized business cycle but do find that path dependency from here requires careful risk taking in the short term.
- Record high issuance due to low absolute yields and companies refinancing and lengthening debt profiles

Return



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	7.98%
Tracking Error	1.26%

The strong recovery in the valuations of risky assets persisted throughout most of 3Q20 albeit with less vigor. Market participants have been enthused by the supportive backdrop provided by the US Federal Reserve and other central banks. The rich valuations in most markets gave way to some volatility by the end of the quarter. CEMBI returned 2.75% (+2.6% IG / +2.9% HY) in USD, falling short of US HY credit (+5.2%) but still ahead of DM USD IG credit (+1.5%). CEMBI performed slightly better than its sovereign counterpart, EMBI, which returned 2.32% (+2.6% IG / +2.0% HY). The EUR I share class returned 2.91% in EUR during the quarter, being ahead of its benchmark.

The good performance of EM credit during 3Q20 took place at a time where US treasury yields seemingly reached a limit in their race down and went slightly higher temporarily. The market priced in higher inflation premia across the curve on the back of the massive stimulus being deployed globally (precious metals also reacted with a sharp rally and the USD weakened throughout most of the quarter). Nevertheless, after much volatility, US 10 yr yields ended virtually flat qoq around 68bps and 30 yr yields did the same ending flat qoq around 144bps. CEMBI spreads ended 46bps tighter qoq with IG spreads 37bps tighter and HY spreads 61bps tighter.

The favorable market sentiment and the good performance of commodity prices, which prevailed throughout most of the quarter, favored LatAm in the EM corporate space. LatAm returned 4.1% (+3.9% IG / +4.5% HY). No country in this region posted a negative return during the quarter, with Argentina barely registering a gain of 0.1% after the success of the sovereign debt negotiations gave way to increasing concerns over policymaking and economic fundamentals. CEEMEA returned 2.4% a(+2.7% IG / +2.3% HY) during the quarter. Most of the performance came from the MENA and African spaces which also have a strong reliance on commodities (particularly oil prices which remained stable through the quarter). Asia returned 2.2% (+2.0% IG / +2.8% HY) propelled by the recovery in valuations for growth sensitive Indian and Indonesian assets. Asia continued to dominate primary market activity and Chinese credit performed well with a return of 1.8% (+1.8% IG / +2.0% HY).

Waiting for the US elections

As mentioned above, the markets have gone into a more cautious mode after the unprecedented rally since the March trough and in anticipation of the US presidential elections.

While we do not envision as big swings in US treasury rates as after the 2016 elections, we believe the worst fear for markets would be a contested election which prolongs uncertainty. Something which the market increasingly has been discounting at the end of Q3. Therefore, it can be argued that the best outcome for markets, including EM assets, would be decisive wins for either candidate, although longer term EM most likely would benefit more by Mr. Biden winning given his more favorable view towards trade and multilateralism which could more than offset fears of increased regulation and tax hikes etc.

So, while EM overall might benefit from a Biden win, individual countries might benefit more or less from this. Most likely, there will be continued pressure on China regardless of who wins the elections. At the other end of the spectrum, Mexico and Latin America in general could see less confrontational politics where particularly Mexico could benefit from a continued demand for reshoring of supply lines which also remains one of our core convictions for the foreseeable future. Last, but not least, would we envision more pressure on autocratic regimes in Russia, Turkey and perhaps even Saudi Arabia if Biden wins where threats of sanctions could resurface once again as the US' focus on human rights will be more present again. Furthermore, a Biden administration would also underpin investors' focus on ESG given its return to the Paris accord and more environmentally friendly policies.

Economic data has broadly improved significantly post the dramatic decline in H1 as evidenced by better PMI data and rising commodity prices. However, rising Covid-19 cases seem still to prevent economies from getting back to 2019 levels and the risk of second and third waves during autumn and winter in the Northern Hemisphere could jeopardize the nascent recovery economies currently are facing. This is indeed worrisome as few governments can afford to shower voters with the same level of economic goodies as in the spring. Rather these governments might increasingly be forced to pull back or reduce the trays with economic painkillers. This in fact creates an interesting dilemma when a vaccine is announced as questions would quickly arise whether markets would lose stimulus, see higher yields and potentially even see more mass demonstrations and social unrest as people no longer fear getting affected through mass gatherings.

We would anticipate new issue activity to moderate not least after a September which had the second highest monthly net issuance on record for EM corporates. While net supply this year has surpassed expectations, most of it has come out of Asia with other regions often using proceeds to refinance and extend maturities which is a healthy sign.

All things considered, we took advantage of the healthy markets in August to scale down our relative market exposures given the reduced visibility going into the latter part of Q3 and Q4. We still believe that credit spreads look decent over a normalized business cycle but do find that path dependency from here requires careful risk taking in the short term. Overall, we continue preferring exposure with resilient business models and low refinancing needs and see the better risk/reward at the better part of the HY spectrum and lower part of IG.

Q3 2020	Return last Q	Yield	*Chg. last Q*	OAS Spread	*Chg. last Q*	% HY
EM Corp Index*	2.42	4.25	-0.45	370	-46	41.4
EM Corp IG*	2.31	2.87	-0.36	221	-37	
EM Corp HY*	2.57	6.73	-0.61	632	-61	
EM Sov Index*	1.93	5.12	-0.36	432	-42	44.8
EM Sov IG	2.58	2.94	-0.16	193	-22	
EM Sov HY	1.99	8.15	-0.73	754	-78	
Dev . USD IG	1.53	2.61	-0.10	170	-16	
Dev . USD HY	5.20	5.77	-1.10	517	-109	
5Y UST	0.17	0.28	-0.01	n.m.		
10Y UST	0.27	0.68	0.03	n.m.		

*: EUR hedged return

Kind regards,

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Last edited 30th September 2020.