FRESH OUTLOOKS

EMERGING MARKETS: A POSITIVE ENVIRONMENT IN 2024

ADVERTISING COMMUNICATION

FRESH OUTLOOKS /4

WITH

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ROUND-TABLE DISCUSSION

AN ENVIRONMENT CONDUCIVE TO CONVICTION-DRIVEN INVESTMENTS IN EMERGING BONDS

The macroeconomic environment appears favourable for emerging sovereign and corporate bonds, which display robust fundamentals. The Fed's policy pivot and a weakening dollar expected in 2024 could prompt investors looking for yield to return to the asset class.

EMERGING BONDS ARE RATHER OVERSHADOWED BY EQUITIES IN THE REGION, AND YET THE FORMER OFFERS A VAST INVESTMENT UNIVERSE...

Lisa Turk: Performance wise, emerging equity markets have been struggling, notably when compared to the S&P500 index. In contrast, emerging corporate and sovereign bonds ranked among the top performing fixed income asset classes last year. Emerging bonds form a wide, liquid, and profitable investment universe that admittedly, still tends to be rather unexplored.

Daniela Savoia: The emerging bond market is much more diversified that the emerging equity market. Its current size and maturity are unprecedented. For example, emerging corporate debt in dollars now weighs 2.5 trillion dollars, while the US High Yield market totals 1.3 trillion dollars. The labelled emerging corporate debt market (green, sustainable bonds etc.) has grown to 900 billion dollars and accounts for 25% of the global market. It has grown eight-fold between 2017 and 2022 and is still developing[1].

Romain Bordenave: One of the main differences between emerging bond and equity markets is the extent of regional diversification. Emerging equity investments tend to focus on just a few countries, such as China and India (see focus). This factor enables us to deploy an effective conviction-driven approach and benefit from multiple opportunities.

WHAT IS THE PURPOSE OF EDMOND DE ROTHSCHILD ASSET MANAGEMENT'S EMERGING PLATFORM?

Stéphane Mayor: The depth and variety of this universe requires thorough knowledge of issuers, the macroeconomic environment, and debt markets. Edmond de Rothschild Asset Management's fixed income platform dedicated to emerging bond markets brings together the expertise of specialised fund managers and analysts with 16 years' average experience. The team's investment approach is based on strong convictions.

The investment process that is applied across our three funds within the range aims to unlock the most attractive opportunities within the universe. These disciplined investment processes are based on flexibility, portfolio concentration, and the optimal weighting of positions.

EDRAM'S EMERGING PLATFORM DRAWS FROM THE FIRM'S EXPERTISE IN OTHER ASSET CLASSES...

Stéphane Mayor: We encourage the exchange of ideas between portfolio managers and analysts, across all asset classes. The analysis of macroeconomic and country risks is conducted in collaboration with the emerging, fixed income and asset allocation committees. Finally, on-going risk management completes the investment process for each of these funds.

YOU HAVE A STRONG CONVICTION ON EMERGING BONDS. ON WHAT EVIDENCE IS THIS BASED?

Lisa Turk: We believe that emerging bonds display robust fundamentals, both in the sovereign and corporate segments. We are expecting economic growth to stabilise, and even improve across the region. In 2024, the IMF forecasts stable growth in emerging countries, at around 4%, compared with a slowdown of around 1.4% in the developed world. The widening gap between GDP growth in emerging and developed countries should largely support the asset class. Commodity prices are also a positive factor.

Finally, emerging country companies are in less debt than their American counterparts. We firmly believe that emerging corporate debt offers attractive opportunities for investing in companies with quality managements.

> **The start of the rate cutting cycle will be a major inflection point.**
> *Romain Bordenave*

Romain Bordenave: Emerging countries have always been used to managing periods of high inflation. In the present cycle, they have been much more pro-active in raising interest rates, and this should also be true when it comes to rate cuts. In this respect, several emerging countries are ahead of developed countries in terms of monetary policy. This is notably the case in Brazil, Colombia, Chile, Peru, and all Eastern Europe. The sovereign debt market in emerging countries has now matured, displaying much stronger fundamentals than during past periods of crisis.

WHY IS THE RISK-RETURN ON EMERGING SOVEREIGN BONDS SO ATTRACTIVE?

Romain Bordenave: We believe that the start of the rate cutting cycle will be a major inflection point. This is a highly positive signal for emerging bonds, and notably for sovereign debt, which is more sensitive to interest rates. In 2022, we experienced a "Lehman Brothers style" shock, when emerging sovereign bond prices fell sharply following the brutal rise in interest rates and the violent widening of spreads - the yield gap with the risk-free rate. This two-pronged shock had lasting effects on emerging bond markets, creating opportunities we can still take advantage of today.

The spread component has already largely been "spent", notably within the Investment Grade[2] and BB segments, and we are now very mindful of the rates component[3]. Indeed, the duration-driven rebound (rates) is likely to be substantial when the Federal Reserve (Fed) begins cutting its rates. The flow component should also contribute to this effect as investors return to the asset class (in two years, emerging bonds experienced very large outflows, wiping around 50% of the inflows of the past 15 years).

"Historically, emerging corporate bonds display lower volatility and more stable yields than other emerging assets."
Stéphane Mayor

WHAT ARE YOUR COUNTRY CONVICTIONS?

The Edmond de Rothschild Fund Emerging Sovereign fund is exposed to Latin America, Africa, Eastern Europe and the Middle East. Turkey (the country's rating was upgraded to B+ with a positive outlook recently by Fitch), Colombia, and Nigeria feature among our strongest convictions. Serbia and Romania were impacted by the conflict in Ukraine, yet their fundamentals are rather strong. In the region, Ukraine could also do quite well this year. The support provided by the International Monetary Fund (IMF) is positive for Ghana, where a programme is currently being signed. This had also been the case for Egypt a few years ago.

WHY DO YOU PREFER THE HIGH YIELD SEGMENT?

Romain Bordenave: We do indeed like to position the portfolio on the High Yield[4] segment. Spreads remain wide enough to absorb the shocks. While valuations are less attractive, we believe that the global environment remains favourable for the asset class.

HOW IS THE EDRF EMERGING CORPORATE FUND POSITIONED?

Stéphane Mayor: Since the launch of the strategy, Edmond de Rothschild Fund Emerging Credit's exposure to High Yield has stood at 75% on average. Historically, emerging bonds display lower volatility and more stable yields than other emerging assets, and notably equities. Valuations and credit ratings, particularly within the High Yield segment, fail to reflect their intrinsic value and their potential for improvement. Finally, our convictions translate into concentrated positions. The top 10 issuers account for 28% of the portfolio[5].

AND WHAT ARE YOUR CURRENT CONVICTIONS WITHIN THE SEGMENT?

In terms of regional allocation, we overweight Brazil, one of the world's major economies. Our positions in the country are highly diversified from a sector point of view. Colombia is also an attractive country in terms of valuations. Our decision to overweight Ukraine was a major performance driver during 2023, and in Q1 2024.

We are also over-exposed to the oil & gas sector in sub-Saharan Africa, notably Nigeria. Finally, we have invested in the logistics and transportation sector in Brazil, which we feel is undervalued considering the credit quality of these companies.

HOW DO YOU SEE FLOWS INTO EMERGING BONDS EVOLVING IN 2024?

Daniela Savoia: Here again, the interest rate environment seems more favourable to emerging bonds. A sharp decline in long-term rates could act as a catalyst and encourage investors' appetite for risk.

Romain Bordenave: Since 2022, many investors have been content with investing in US bonds delivering 5.5%, with little risk. They were not out looking for the excess yields - around 10%, that could be found across a large part of the emerging bond universe[6]. The Federal Reserve (Fed) or the European Central Bank (ECB)'s first rate cuts could prompt investors to search for yield and boost investment flows into the asset class.

EDR FUND EM CLIMATE BONDS, CREATED A YEAR AGO, IS THE LATEST ADDITION TO EDMOND DE ROTHSCHILD ASSET MANAGEMENT'S EMERGING BOND RANGE. WHAT IS THE OUTLOOK FOR THIS NEW MARKET?

Lisa Turk: The green and sustainable bond market in emerging countries is growing

FOCUS

Risk-return ratio tends to be less attractive in China

Since the Covid pandemic, the weakness of economic growth in China has weighed on investor sentiment regarding emerging markets. In the whole of Asia, valuations are less attractive than in other emerging countries. Our EM Credit and EM Sovereign funds therefore underweight Asia. *"Asia is a heavyweight in emerging bond indices"* explains Stéphane Mayor. *"This is a principally Investment Grade market that is not particularly attractive for a fund that has a large High Yield bias, both in terms of interest rates and returns". "Countries like South Korea, Taiwan or Hong Kong display characteristics that are similar to those of developed countries".*

Within the High Yield segment, Edmond de Rothschild Asset Management's emerging platform has steered clear of the Chinese property market, which has been in crisis for two years now. *"We have never invested in this sector in China, as we lack visibility on companies and on their balance sheets; research and access to management are also wanting, as we like to meet company managers on a regular basis"*, adds Lisa Turk.

fast. Labelled emerging bonds deliver similar yields to traditional corporate emerging bonds, but their purpose is to generate a positive impact for the environment. The investment universe is also continually expanding within this segment. While Asia accounts for 64%[7] of labelled emerging bonds (green and sustainable), new opportunities for diversification are opening up in other regions.

WHAT ARE THE UNDERLYING CONVICTIONS SUPPORTING THE STRATEGY APPLIED TO EDR FUND EM CLIMATE BONDS?

Lisa Turk: As energy consumption continues to rise, the funding needs for the energy transition in emerging countries are huge. Emerging countries are expected to account for 66% of CO_2 emissions by 2030[8] but they only receive an infinitesimal share of the transition funding today. The asset re-allocation this entails is opening up major green investment opportunities in emerging countries. Furthermore, according to the World Bank, investing one dollar in resilient infrastructure generates four dollars of benefits, on average. We are convinced that green bonds are an effective way to fight against climate change.

Daniela Savoia: Climate investments in emerging markets are materialising on a large scale and generating positive impacts. Emerging countries are able to avoid the ineffective and polluting models of the past, and to head straight to low-carbon solutions. In sector terms, we invest in three pillars: sustainable energy, transportation, and industry.

> **"As energy consumption continues to rise, the funding needs for the energy transition in emerging countries are huge."**
> *Lisa Turk*

WHAT ESG (ENVIRONMENT, SOCIAL, GOVERNANCE) CRITERIA DOES THE EDR FUND EM CLIMATE BONDS FUND MEET?

The investment strategy is aligned with the Paris Agreement, with a portfolio compatible with a 2°C trajectory. 75% minimum of the portfolio's net assets are invested in labelled green, sustainable and sustainability-linked bonds; the actual percentage is 100% today. Our investment policy excludes oil & gas and the bottom 20% companies in terms of ESG and carbon dioxide (CO_2) emission rankings.

THE EDMOND DE ROTHSCHILD FUND EM CLIMATE BONDS STRATEGY FOCUSES ON THE INVESTMENT GRADE SEGMENT. WHERE DOES THIS PREFERENCE STEM FROM?

> **Emerging countries are able to avoid the ineffective and polluting models of the past, and to head straight to low-carbon solutions.**
>
> *Daniela Savoia*

Lisa Turk: The fund invests in a combination of corporate (75% min.) and sovereign bonds (max. 25%), with an average Investment Grade credit rating[9]. We do indeed focus on higher quality issuers. Admittedly, these companies deliver slightly weaker yields, but the bonds are also less volatile as their balance sheets are robust and their cash flow generation is on a positive trend. The net leverage - net debt/Ebitda ratio[10] - is currently at historically low levels: 1.0X for Investment Grade companies[11]. We expect the category to be a source of strong resilience and attractiveness in an uncertain macroeconomic environment.

DO YOU HAVE ANY EXAMPLES OF CURRENT BOND HOLDINGS?

Daniela Savoia: Interchile, Chile's power transmission company, is one of our investment convictions[12]. The company is a key player in the country's energy transition, knowing that Chile has chosen to exit coal by 2025, over a period of just 5 years. In India, we have developed a strong conviction on the solar and wind power company Renew[12], which is not affected by the supply chain issues experienced by European players.

1. Source: Bloomberg - March 2024. **2.** Investment Grade refers to low-risk bonds displaying credit ratings ranging between AAA and BBB-. These bonds carry a low risk of default, and their yields are lower than those observed on High Yield bonds. **3.** Since the end of 2022 spreads have narrowed in this segment. The upside potential of this component therefore seems more limited. **4.** High Yield: High Yield credit refers to corporate bonds bearing a larger risk of defaulting that Investment Grade bonds; this higher risk is offset by a higher coupon. High Yield bonds have credit ratings below BBB- (S&P ratings). **5.** Source: Edmond de Rothschild Asset Management – March 2024. Portfolio holdings may vary over time. **6.** Source: Bloomberg - 20th March 2024. **7.** Bloomberg Terminal, data ranging from 2010-2023. **8.** Source: World Energy Outlook 2023, IEA. **9.** Data as of 15/03/2024. Portfolio holdings may vary over time. **10.** Earnings before interest, taxes, depreciation and amortization. **11.** JPM, 2024 Outlook Emerging Markets Corporate Strategy, 2023.11.28. **12.** The information on companies should not be perceived as reflecting the Edmond de Rothschild group's opinions on their future performances nor, and where applicable, the future performance of the instruments they issue. This information should not be construed as a recommendation to buy or sell these securities.

MAIN INVESTMENT RISKS

This indicator is used to assess the level of risk of this product in comparison to other funds and a category 1 rating does not mean that the investment is risk free. In addition, it indicates the likelihood that this product will incur losses in the event of market movements or our inability to pay you.

This indicator assumes that you hold the product until the end of the recommended holding period of this fund. The actual risk may be very different if you choose to exit before the end of the recommended holding period of this Fund.

The risks described below are not exhaustive.

Risk of capital loss: The UCITS does not guarantee or protect the capital invested; investors may therefore not get back the full amount of their initial capital invested even if they hold their units for the recommended invest-ment period.

Credit risk: The main risk is that of the issuer defaulting on payment, failing to pay the interest and/or repay the capital. Credit risk also relates to the downgrading of an issuer. Investors' attention is drawn to the fact that the Fund's net asset value may drop in the event of a total loss being recorded on an operation following a coun-terparty default. The presence of corporate bonds in the portfolio – either directly or through UCITS – exposes the Fund to the effects of changes in credit quality.

Risks associated with investing in emerging markets: The portfolio may be exposed to certain securities with a higher degree of risk than that generally associated with investments in the main financial markets, in particular due to local political and/or regulatory factors. The legal framework of certain countries in which the underlying UCITS and investment portfolio may invest may not provide the same protection or information to the investor as is usually provided in the main financial markets. Securities issued in certain so-called emerging markets may be significantly less liquid and more volatile than those issued in more mature markets. In this respect, securities from emerging countries offer less liquidity than those from developed countries; consequently, holding these securities may increase the level of portfolio risk. As a result, the net asset value may fall more sharply and rapidly than in developed countries.

Interest rate risk: By holding debt securities and money market instruments, funds are exposed to changes in interest rates. This risk is defined as a rise on interest rates causes a decline in bonds valuation and therefore a fall in of the fund's NAV.

Exchange rate risk: Assets may be exposed to exchange rate risk when currency exposure of certain assets of the relevant Sub-Fund into another currency.

FUNDS INFORMATION

The risk indicator rates this fund on a scale of 1 to 7. This indicator is used to assess the level of risk of this product in comparison to other funds and a category 1 rating does not mean that the investment is risk free. In addition, it indicates the likelihood that this product will incur losses in the event of market movements or our inability to pay you. This indicator assumes that you hold the product until the end of the recommended holding period of this fund. The actual risk may be very different if you choose to exit before the end of the recommended holding period of this Fund.

EDR FUND EM CLIMATE BONDS

EdR Fund EM Climate Bonds is a sub-fund of the Luxembourg SICAV authorised by the CSSF and authorised for marketing in France, Switzerland, Italy, Spain, Germany, Austria and Luxembourg.

EdR Fund EM Climate Bonds is registered at the CNMV under No 229.

Inception date: 28/06/2023
Fund Currency: USD
ISIN Codes: A Share: LU2541299256 / I Share: LU2541300872
Subscription fee: A Share: Max 1% / I Share: None
Minimum initial subscription: A Share: 1 share / I Share: $ 500 000
Subscription tax rate: A Share: 0.05% / I Share: 0.01%
Maximum management fees: A Share: 1.00% incl. tax / I Share: 0.50% incl. tax
Variable management fees: 15% of outperformance above the reference index
Redemption charges: None
Benchmark: JP Morgan EM Credit Green Bond Diversified Index
Recommended investment horizon: > 3 years
*Shares described herein are the main USD-denominated shares. The fund also has shares in EUR and CHF. Please ask you sales contact for any further information.

EDR FUND EMERGING CREDIT

EdR Fund Emerging Credit is a sub-fund of the Luxembourg SICAV authorised by the CSSF and authorised for marketing in Austria, Switzerland, Germany, Spain, France, UK, Italy, Luxembourg, Netherland and Portugal.
EdR Fund Emerging Credit is registered at the CNMV under No 229.

Fund Currency: USD
Inception date: 25/05/2009

ISIN Codes: A share: LU1080015420 / I share: LU1080015933
Management fees: A share: 1% max. / I share: 0.40% max.
Variable management fees: 15% of performance in excess of the benchmark
Subscription fee: A share: 1% / I share: None
Subscription tax rate: A Share: 0.05% / I Share: 0.01%
Minimum initial subscription: A share: 1 unit / I share: 500,000 USD
Redemption charges: None
Benchmark: JP Morgan CEMBI Broad Diversified Composite (USD)
Recommended investment horizon: > 3 years
* Shares described herein are the main euro-denominated shares. The fund also has shares in EUR and CHF. Please ask you sales contact for any further information.

EDR FUND EMERGING SOVEREIGN

EdR Fund Emerging Sovereign is a sub fund of the Luxembourg-regulated SICAV which is approved by the CSSF and approved

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EdR Fund Emerging sovereign is registered at the CNMV under No 229.

Inception date: 21/12/2018
ISIN Codes: A Share EUR (H): LU1897613763 / I Share EUR (H): LU1897614902
Maximum management charges: A Share EUR (H): 1% TTC / I Share EUR (H): 0,40 % TTC
Variable management fees: 15% of performance in excess of the benchmark.
Minimum initial subscription: A Share EUR (H): 1 share / I Share EUR (H): 500 000 €
Front load charge: A Share EUR (H): 1% max / I Share EUR (H): None
Redemption charge: None
Benchmark: JP Morgan EMBI Global Diversified Index
Recommended investment horizon: > 3 years

*Shares described herein are the main in EUR, systematically and fully hedged against USD/EUR currency risk via forward currency contracts, swaps or currency option. Please ask your sales contact or refer to the prospectus to have details concerning all the fund shares available.

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AMF Registration No. GP 04000015 - 332.652.536 R.C.S. Paris

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