



Asset Allocation Strategy in EM High Yield

Blue Diagonal Capital

April 2023

EM Specialists

Attractive Returns

Liquidity

EU Regulated



About us



Expertise

- Understanding the economies of emerging and frontier countries
- Having a well-formulated investment process that ensures a consistent approach
- Finding investment opportunities

EMERGING MARKETS



EM Specialists

Attractive Returns

Liquidity

EU Regulated



Investing in Emerging Markets Bonds

EM Opportunity

Part of the Global Economy

75 Countries

Large Diversity

Emerging Markets in the Global Economy

- 85% of the world's population
- 60% of its GDP
- 40% of its exports

EMERGING MARKETS

Frontier Markets
Emerging Markets

Diverse Investable Universe

- 75 countries, with big variations in:
 - Development (HDI)
 - Political stability
 - Rule of law
 - Governance and institutional strength

Diverse Investable Universe

- Variation in revenue streams:
 - Commodities (Oil & Gas, Gold, Metals, Wheat)
 - Tourism
 - Manufacturing
 - Worker remittances

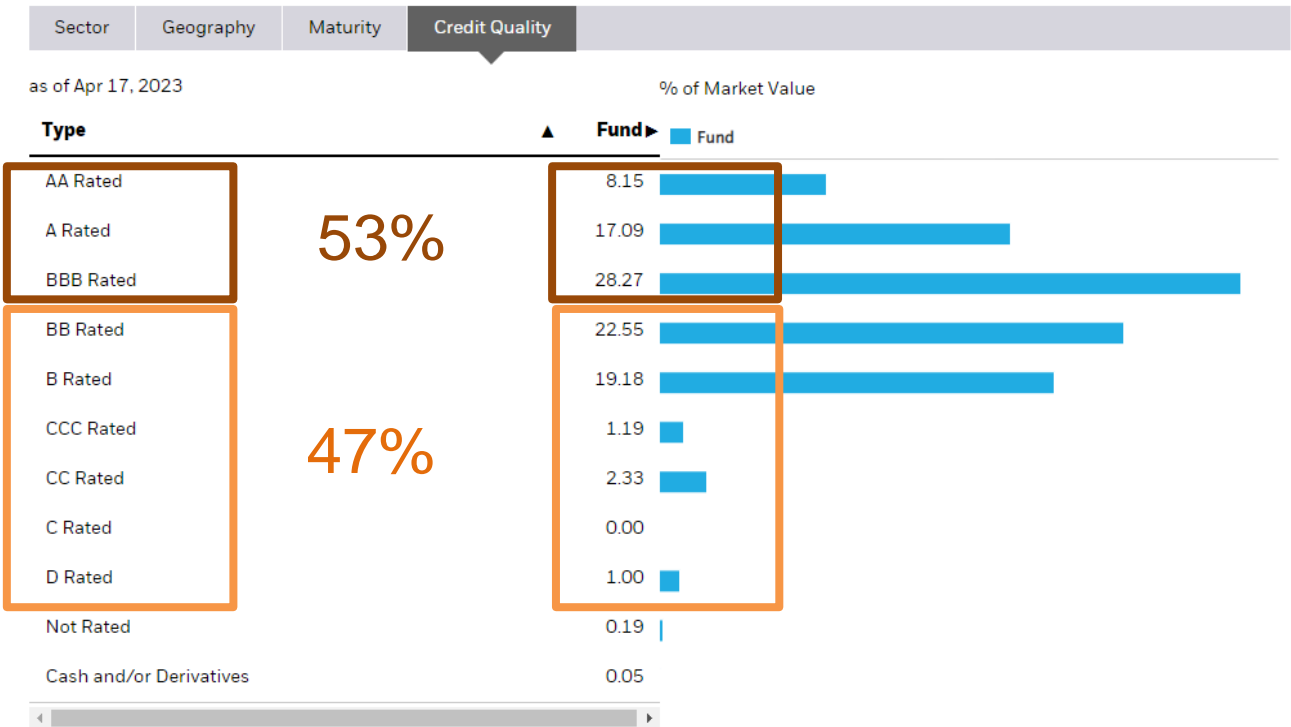
EM Opportunity

Part of the Global Economy

75 Countries

Large Diversity

JP Morgan EMBI Index - Credit Rating



Credit quality ratings on underlying securities of the fund are received from S&P, Moody's and Fitch and converted to the equivalent S&P major rating category. This breakdown is provided by BlackRock and takes the median rating of the three agencies when all three agencies rate a security, the lower of the two ratings if only two agencies rate a security, and one rating if that is all that is provided. Unrated securities do not necessarily indicate low quality. Below investment-grade is represented by a rating of BB and below. Ratings and portfolio credit quality may change over time.

Allocations are subject to change.

Source: <https://www.ishares.com/us/products/239572/ishares-jp-morgan-usd-emerging-markets-bond-etf>

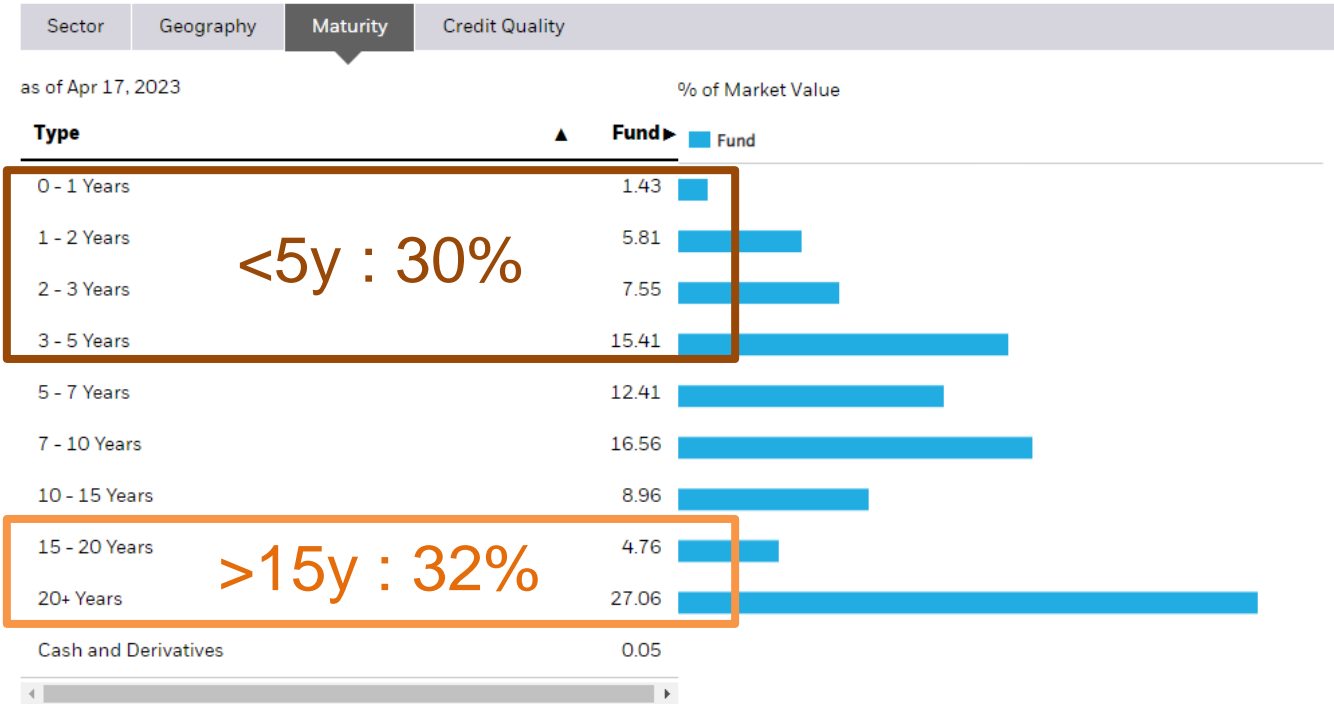
EM Opportunity

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JP Morgan EMBI Index - Maturity Profile

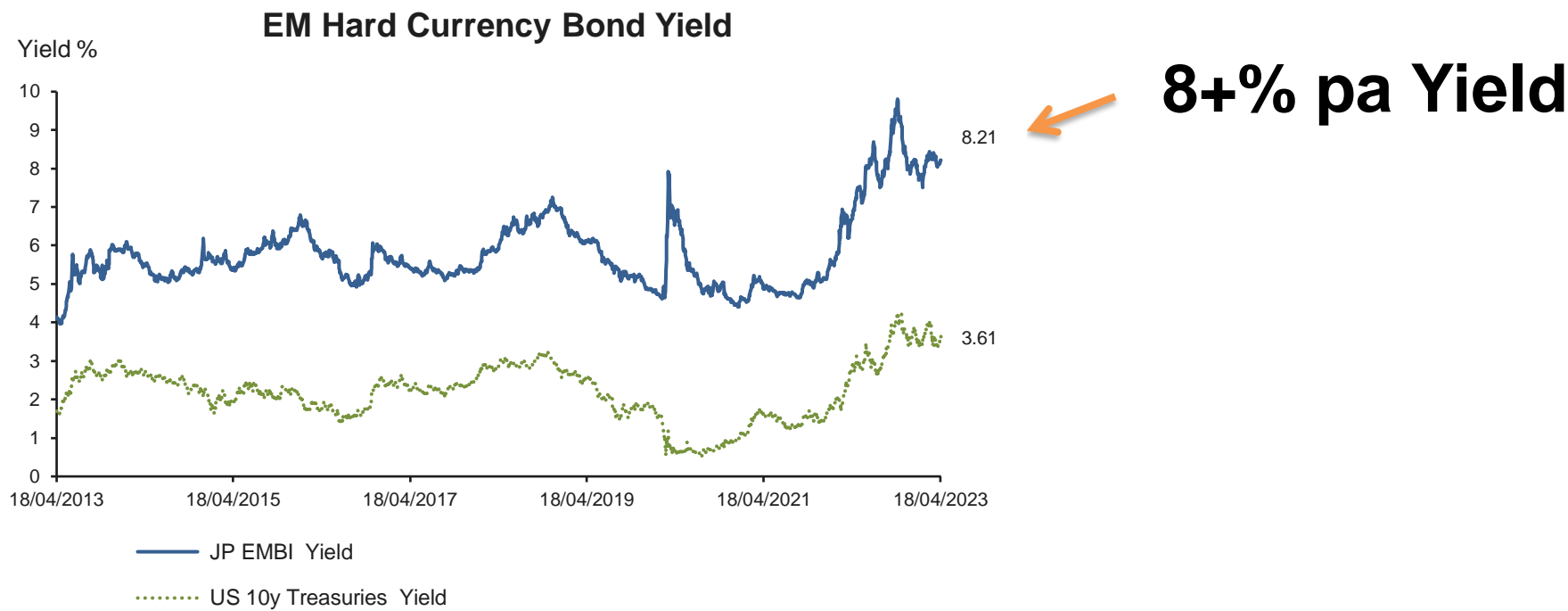


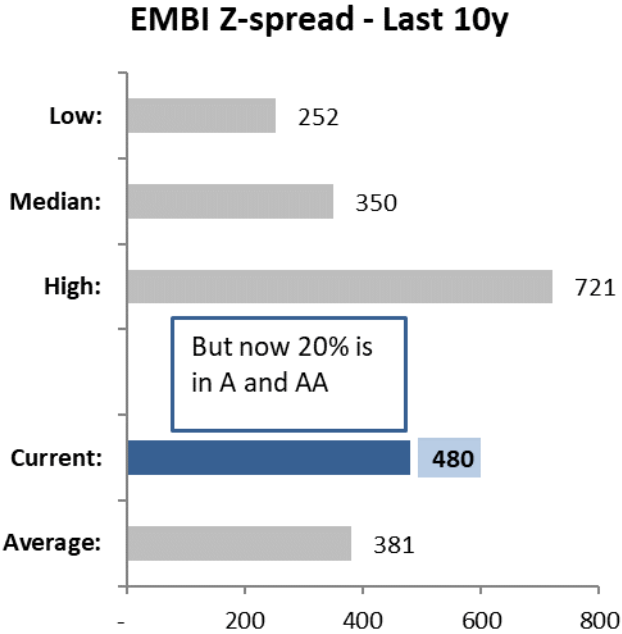
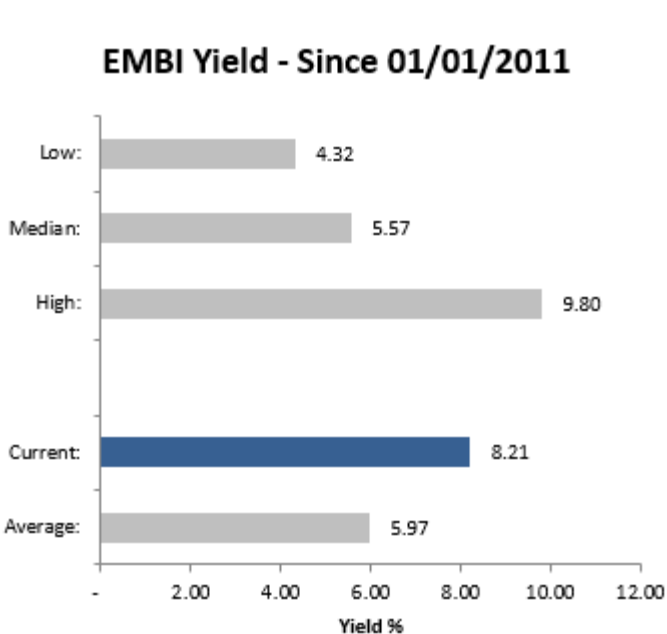
The maturity breakdown above is based on Weighted Average Life (WAL). WAL is the average length of time to the repayment of principal for the securities in the fund. This metric considers the likelihood that bonds will be called or prepaid before the scheduled maturity date.

Allocations are subject to change.

Source: <https://www.ishares.com/us/products/239572/ishares-jp-morgan-usd-emerging-markets-bond-etf>

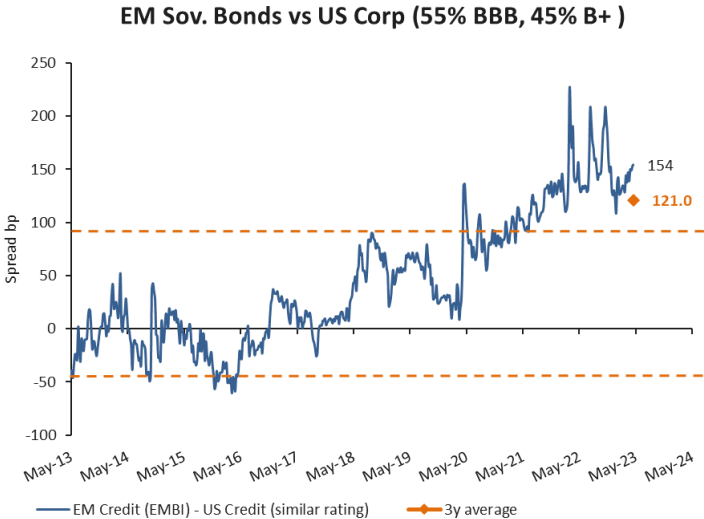
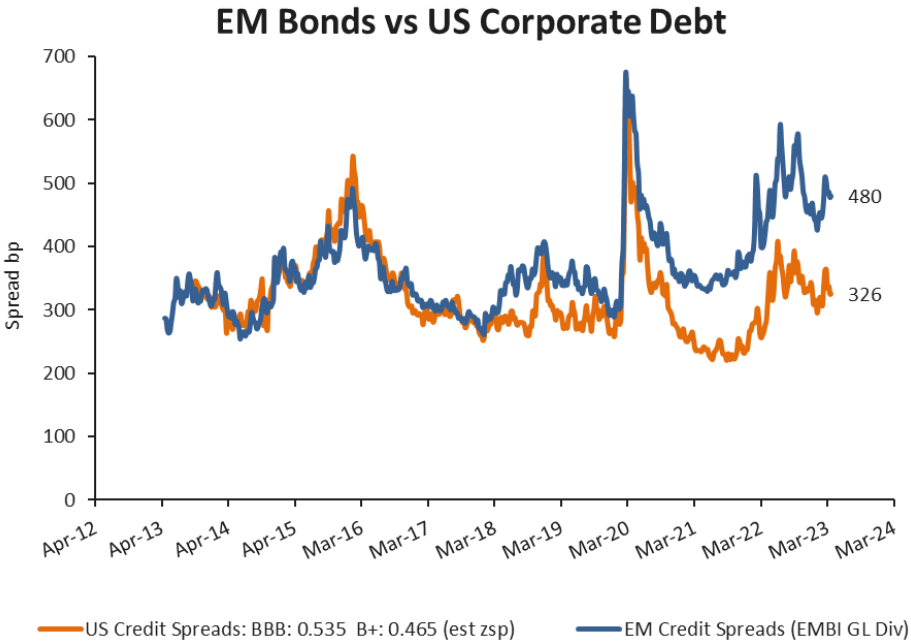




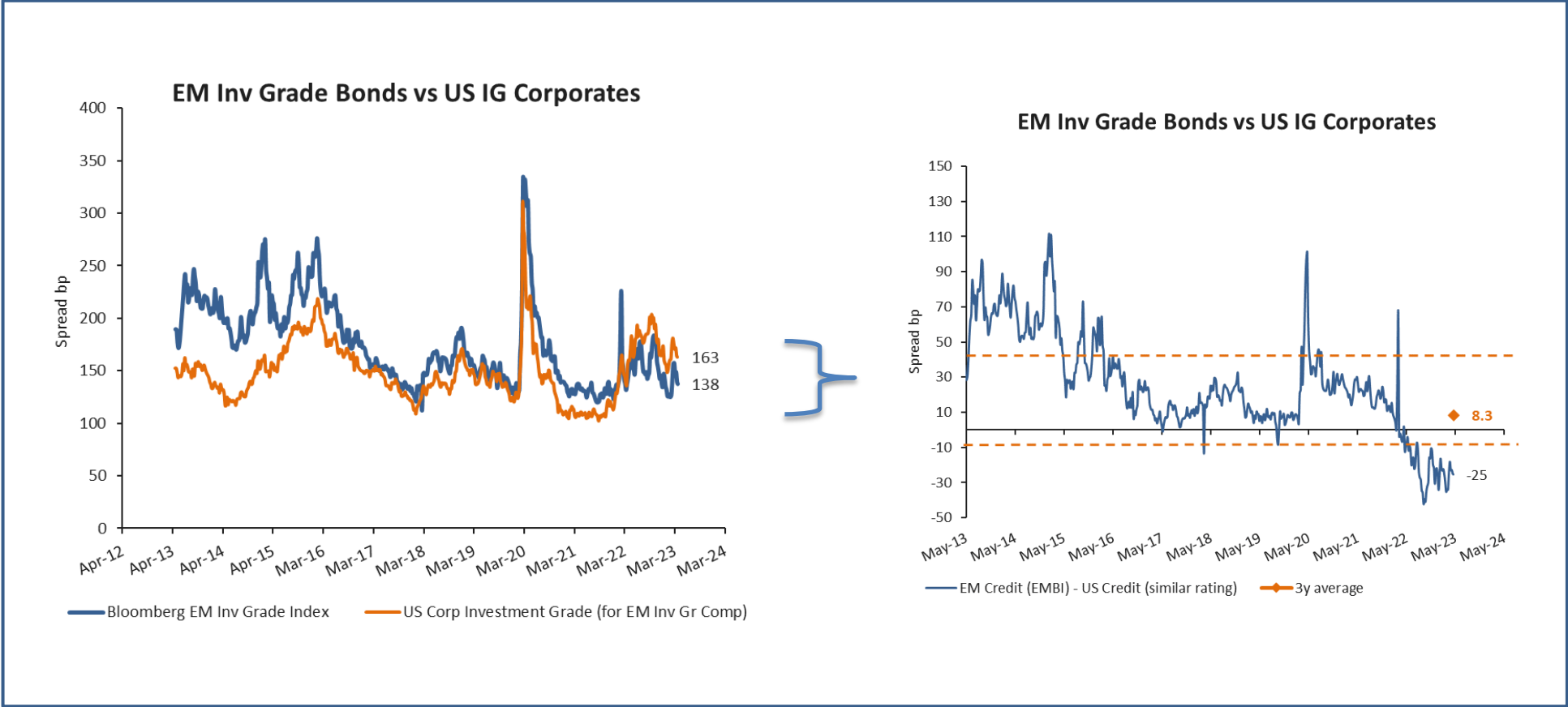


Across all EM, credit spreads look attractive compared to the spreads offered by US Corporates – But where is the value?

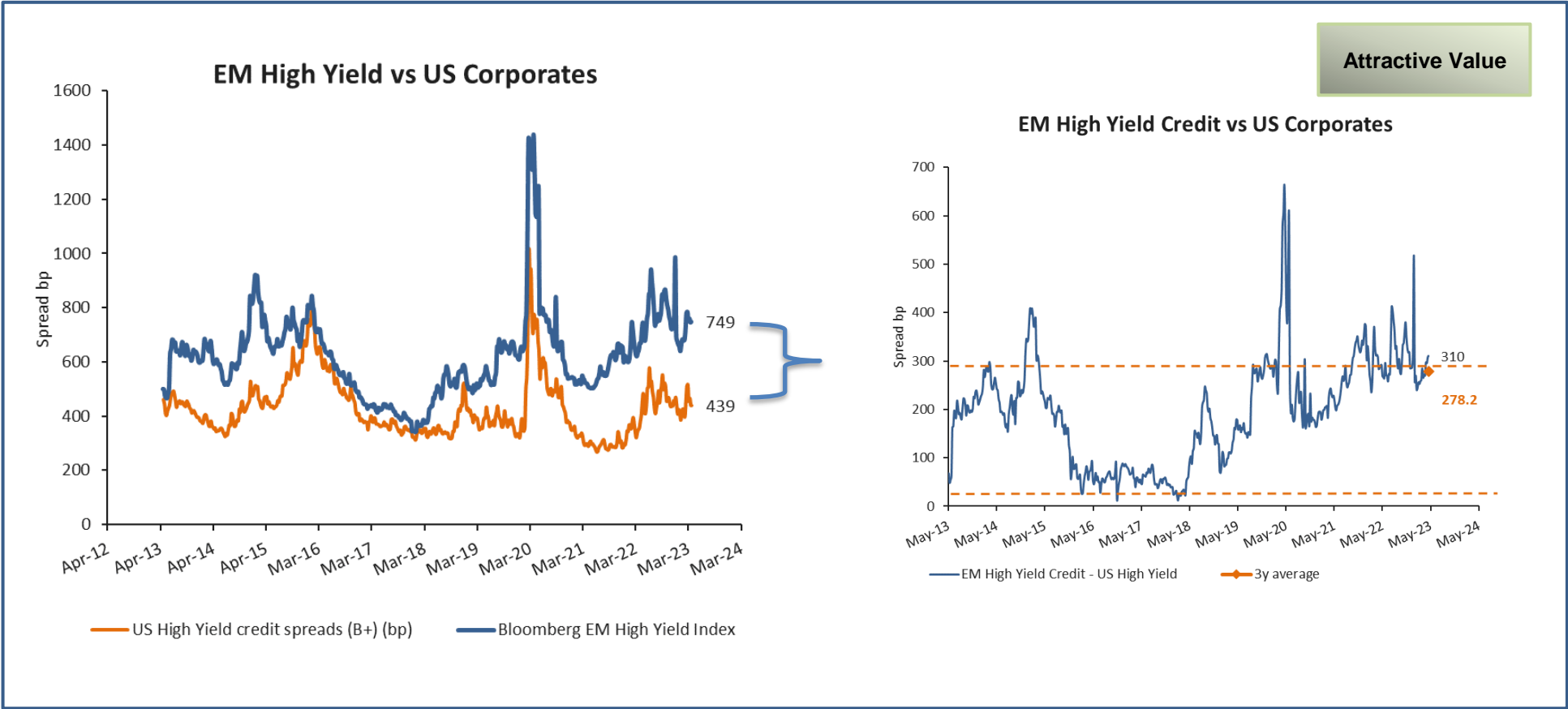
Attractive Value



EM Investment Grade credit spreads look full priced / expensive compared to the spreads offered by US IG Corporates



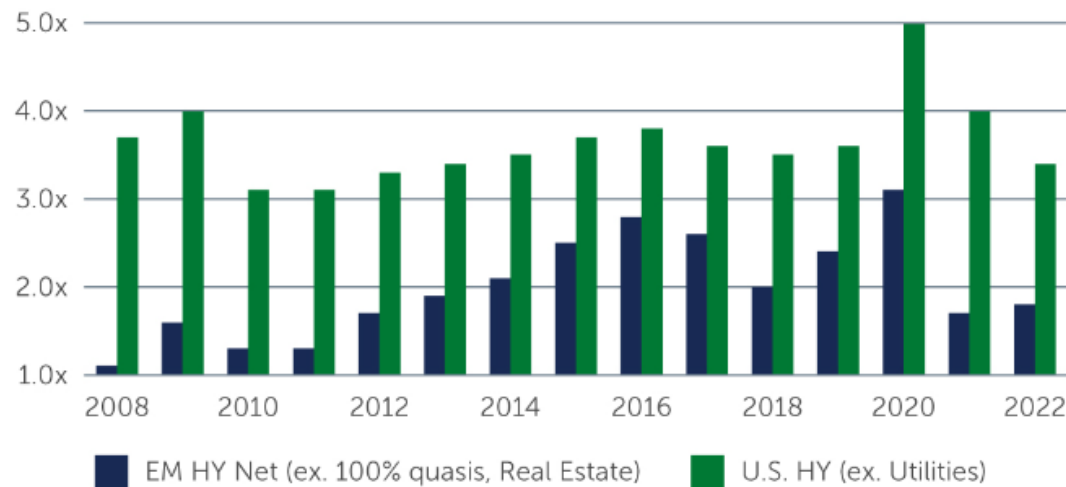
Value to be found in EM High Yield (BB/B/C)
We see opportunities in the better quality BB credits



EM HY Corporates have lower Net Leverage than US HY

Attractive Value

Figure 1: EM vs U.S. High Yield Corporate Net Leverage



Source: J.P. Morgan. As of December 31, 2022.

EM Specialists

The Fund Manager

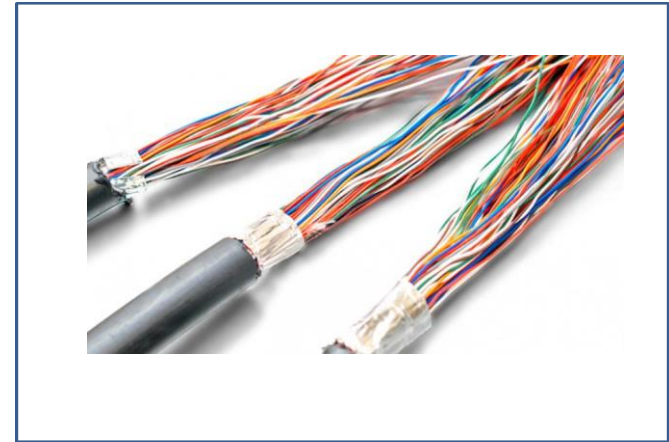


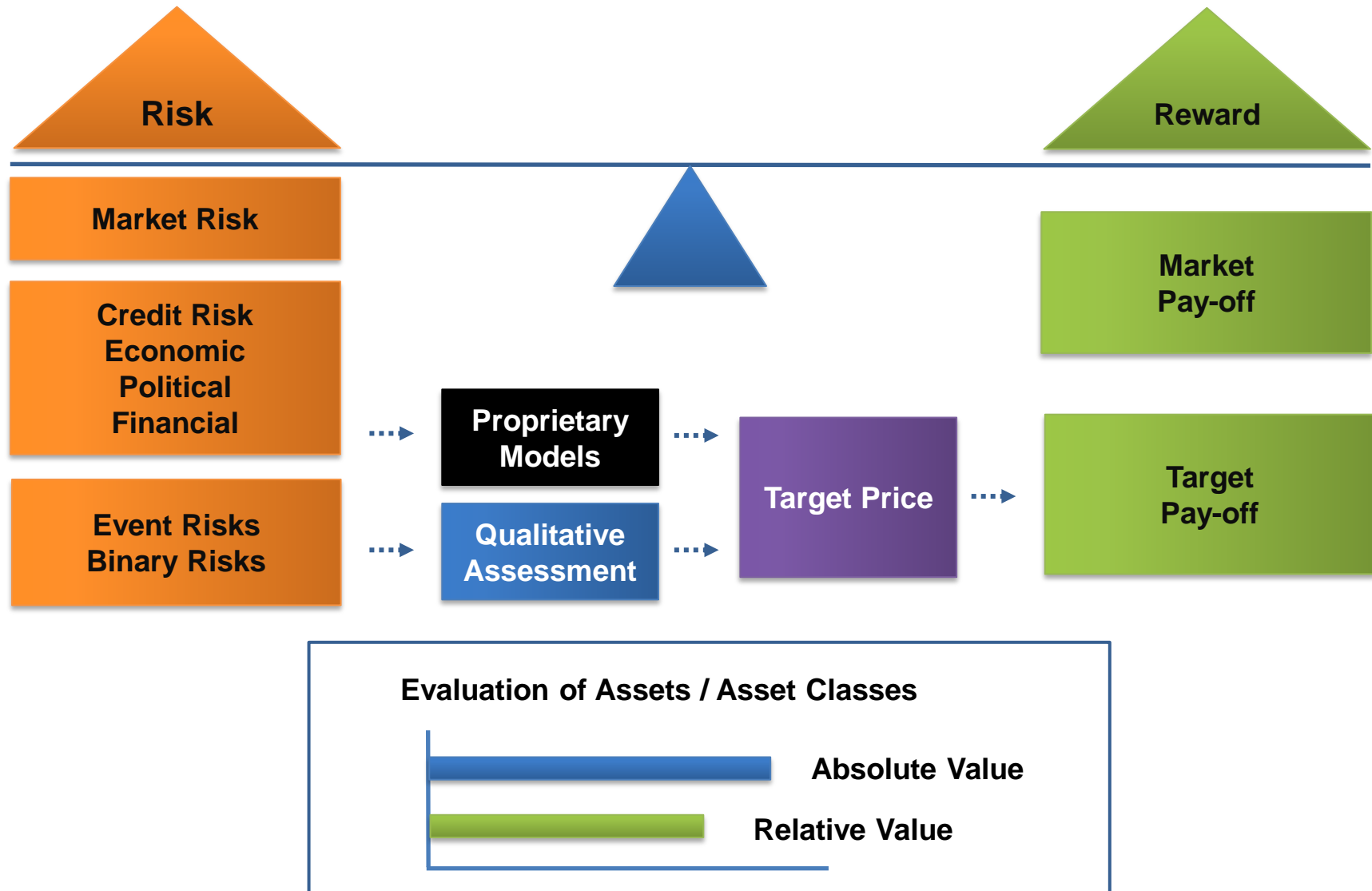
Investment Philosophy & Approach

EM Specialists

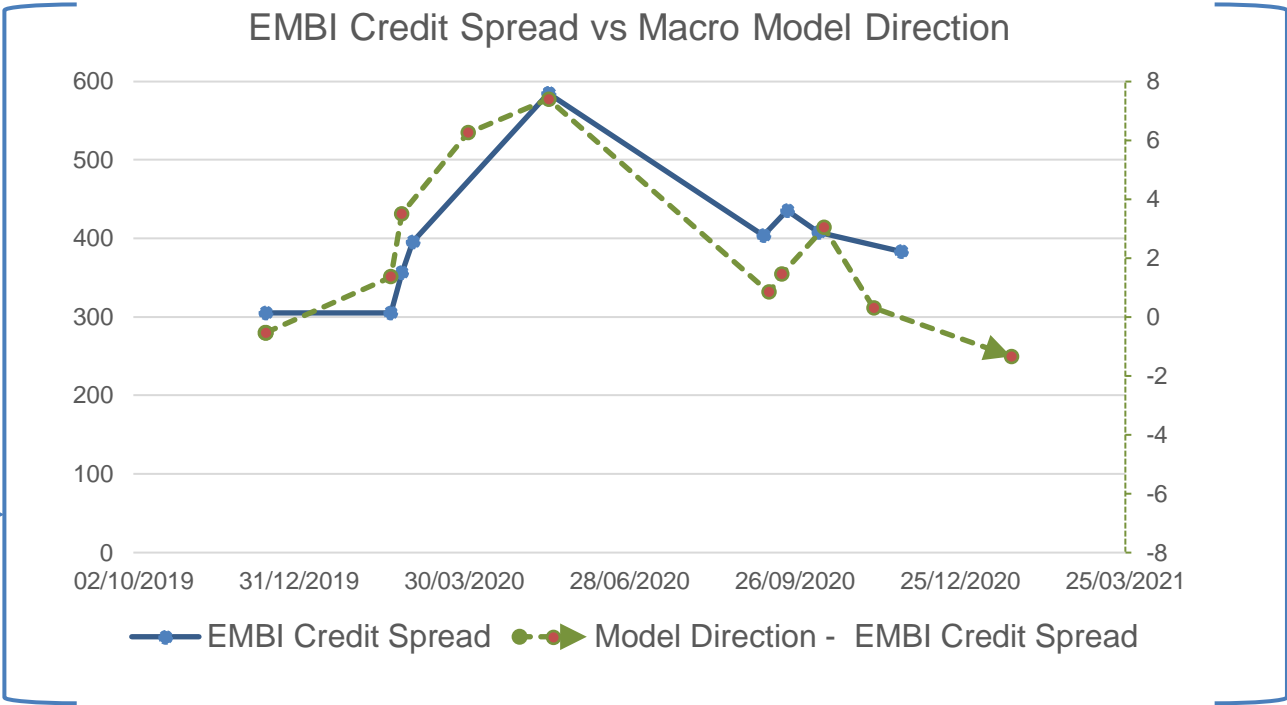
We translated our investment philosophy in our methodology to ensure consistency in our search for alpha

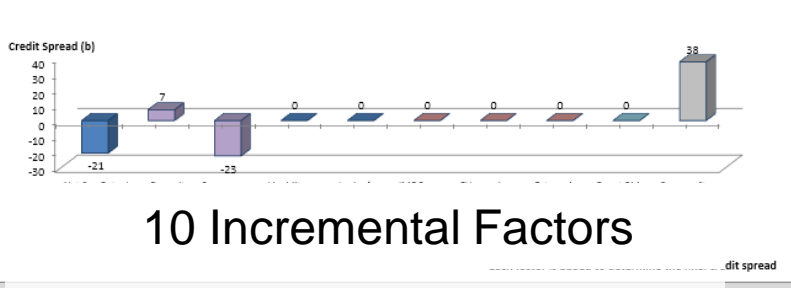
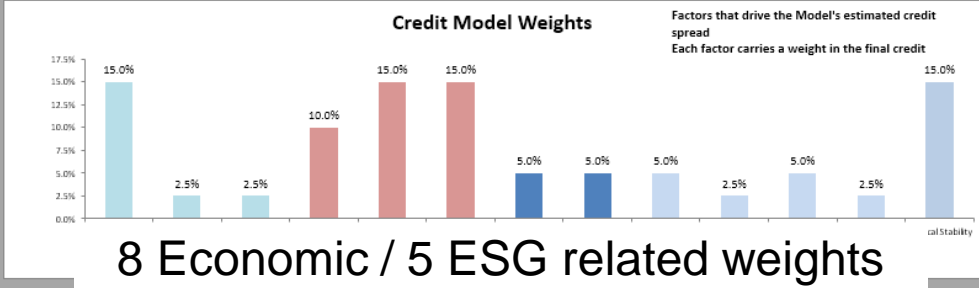
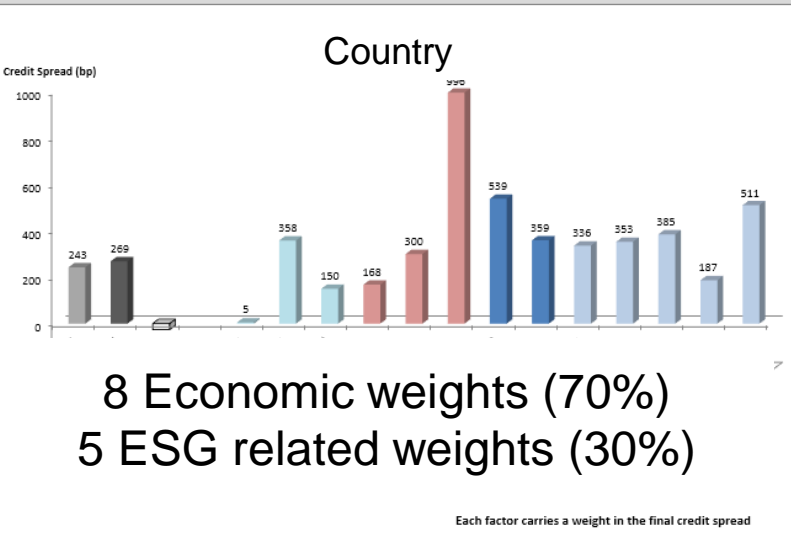
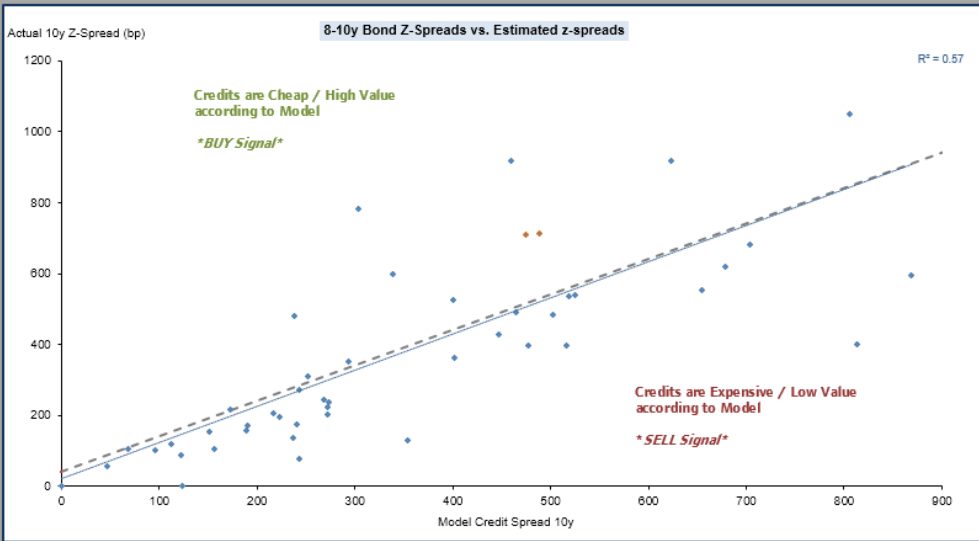
“We transform complex economic ecosystems, grouping the constituent parts into transmission factors, and calibrating the relative contributions of these factors”



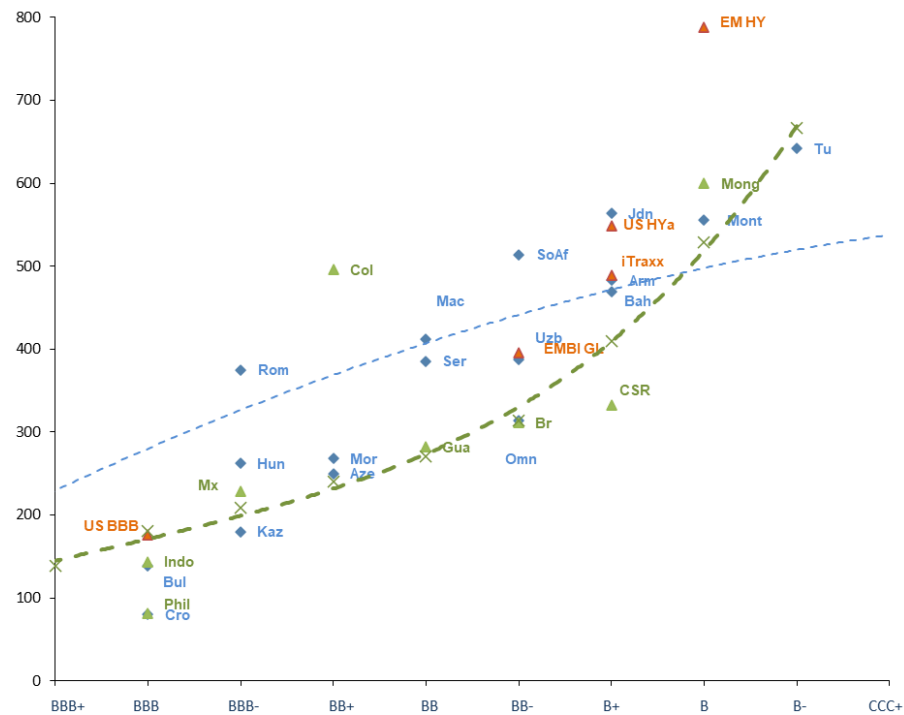


Credit Spreads / USD / US Tr. Yields / Commodities / Equities / Volatility etc

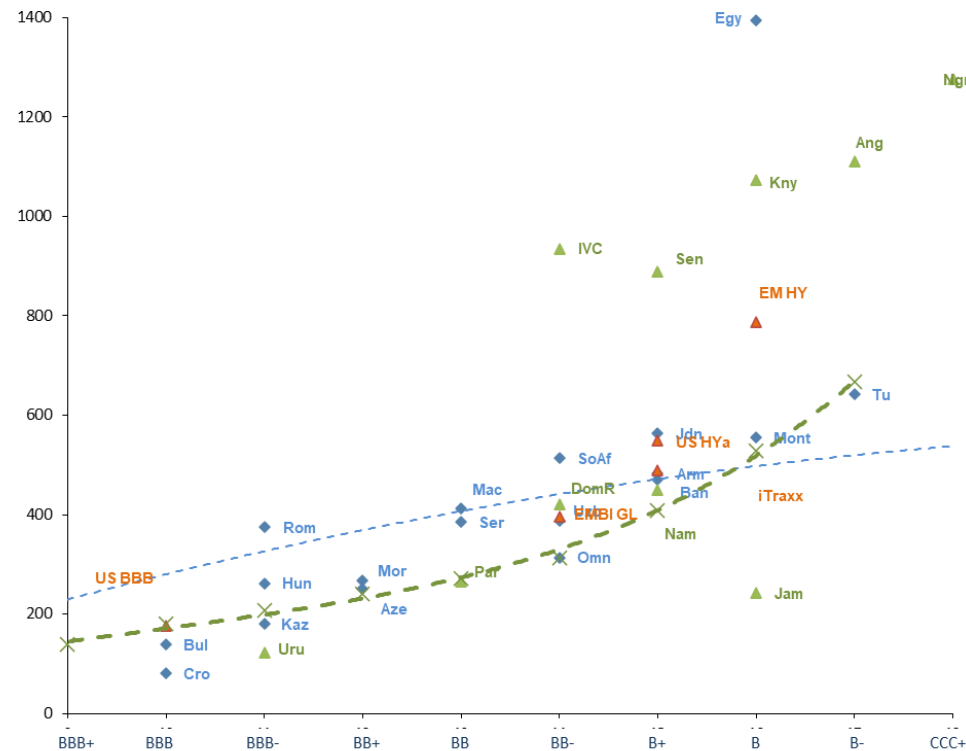




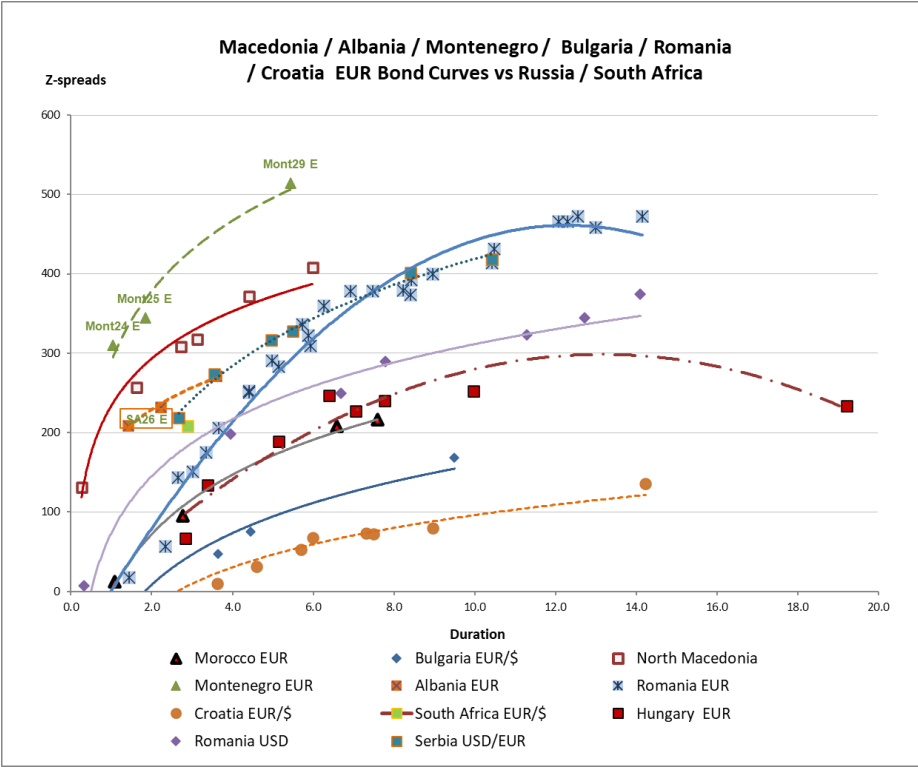
CEEMEA 10y Credit Spreads (bp) vs. Latam and Asia (against Ratings)



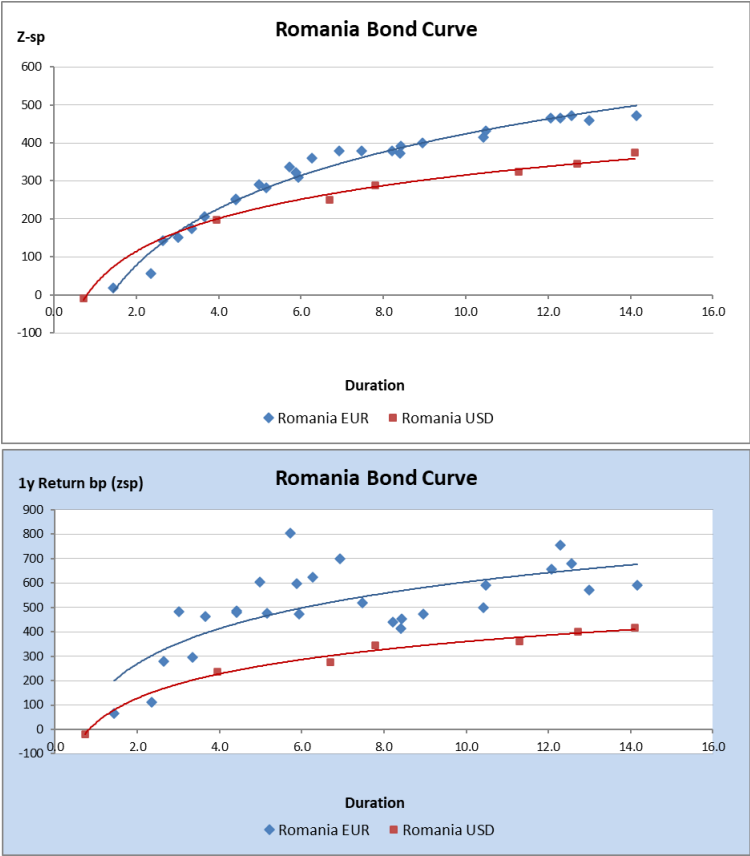
CEEMEA 10y Credit Spreads (bp) vs. Africa (against Ratings)

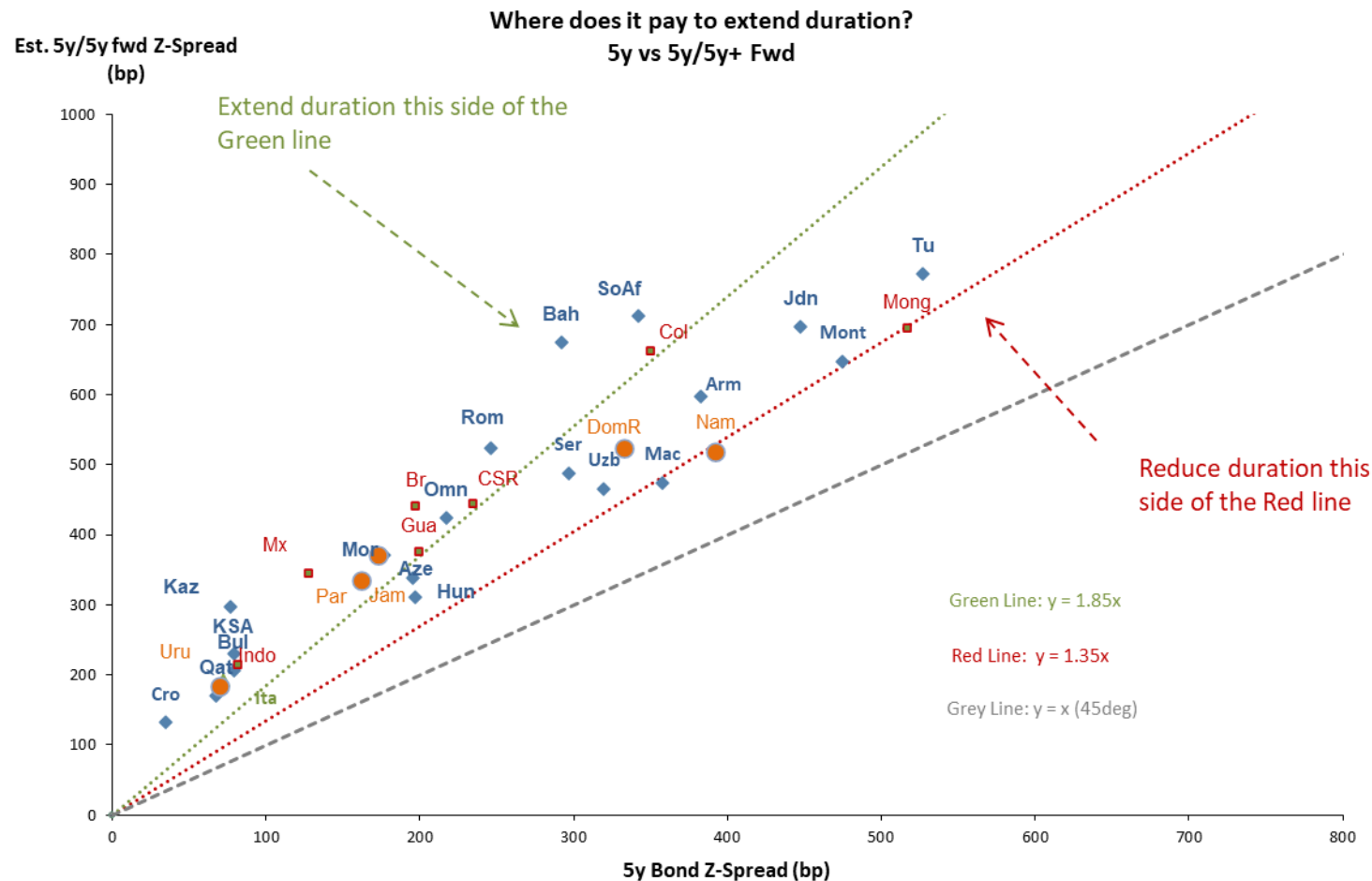


Yield Curve Analysis



Bond Return Analysis



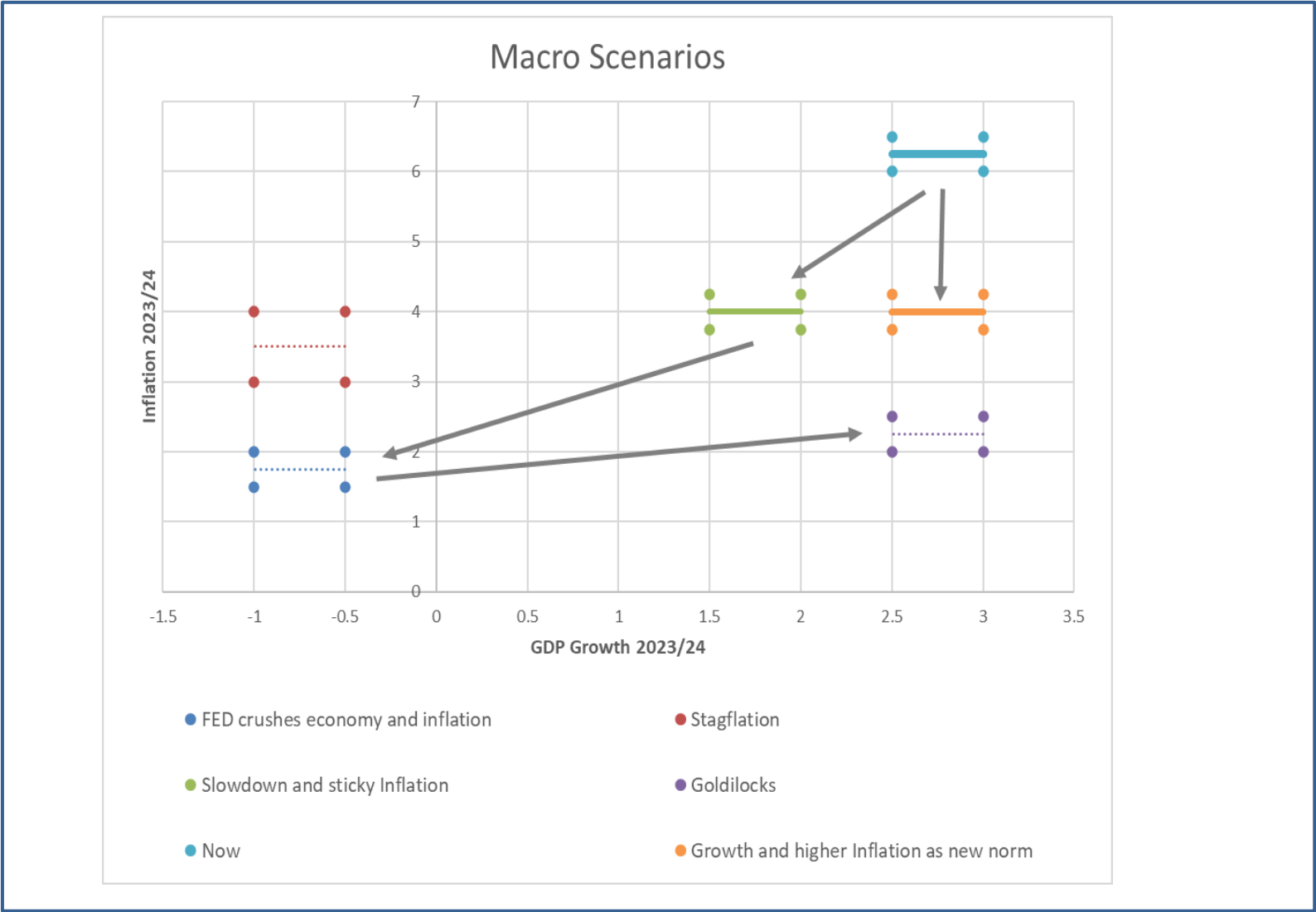


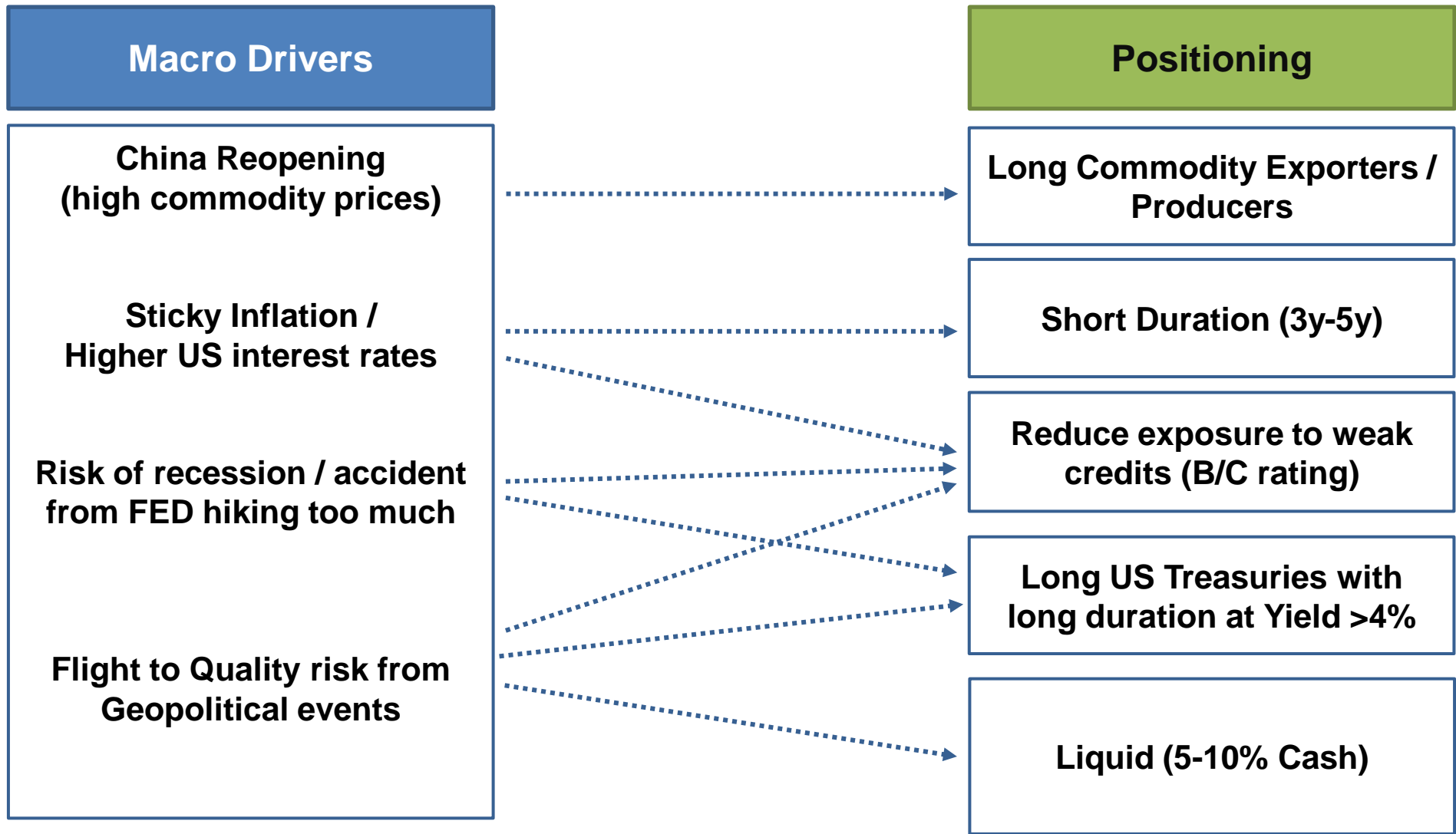
EM Specialists

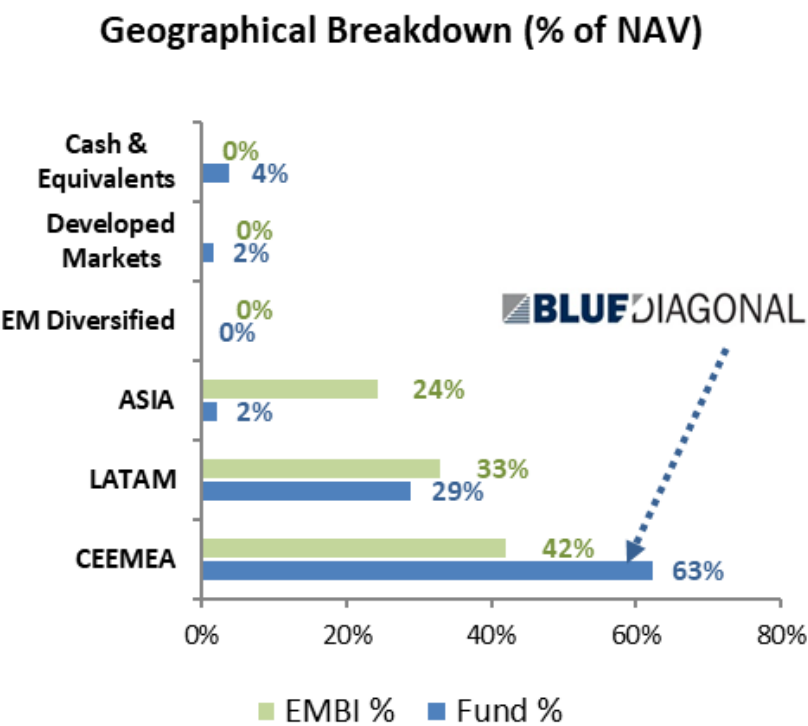
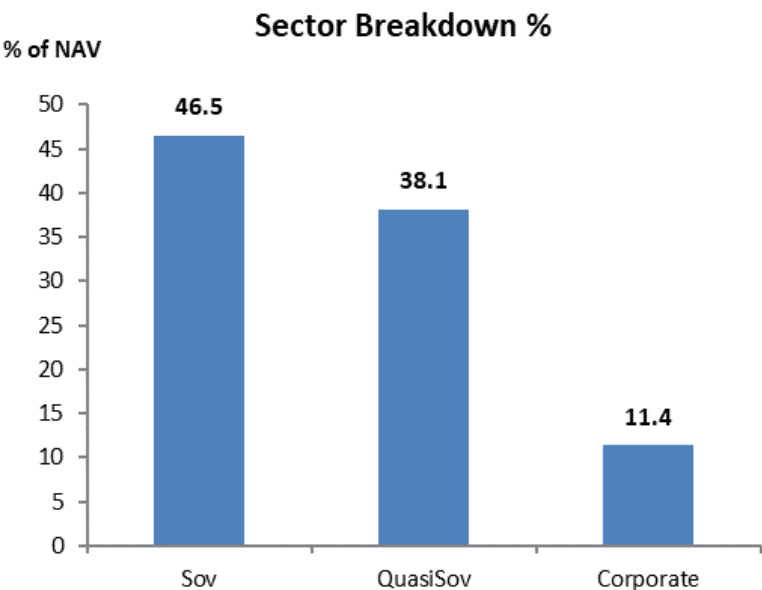
The Fund Manager



Current Investment Outlook



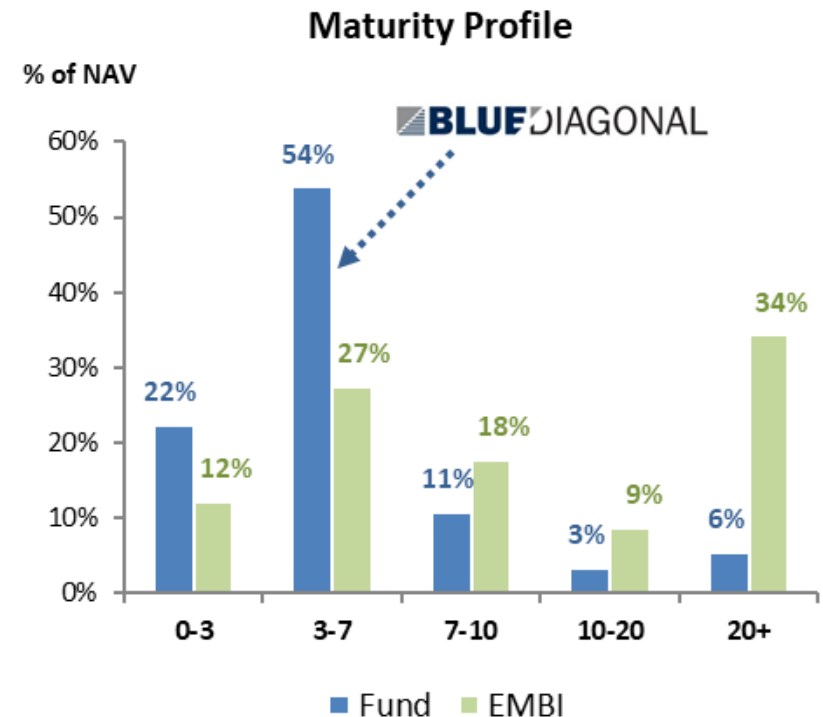




Duration

- Lower duration (40 to 60% lower than the EMBI) that limits downside in a rising interest rate / risk-off environments

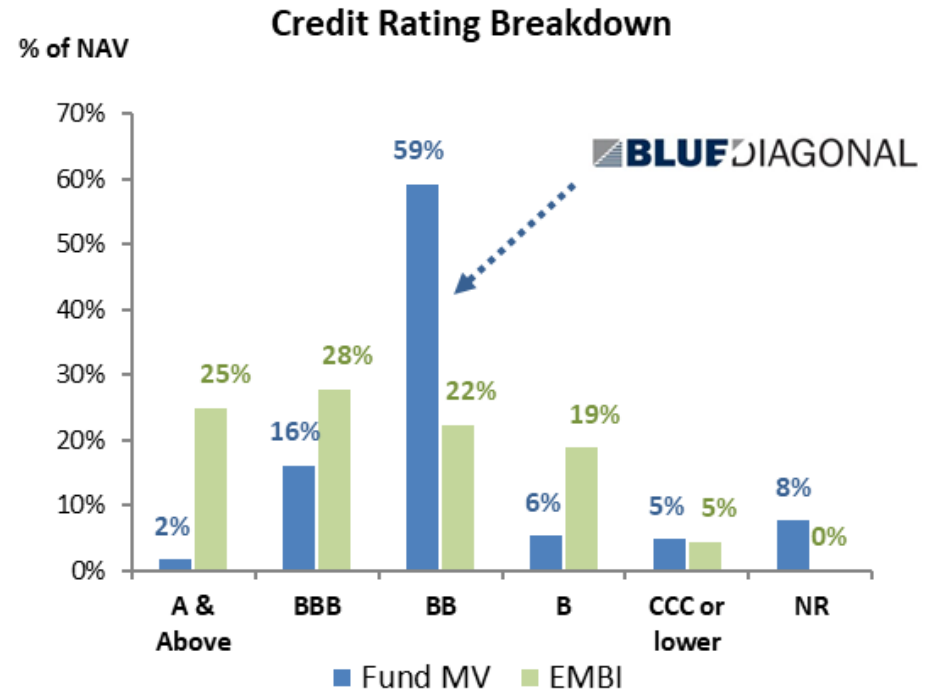
Short Duration (3y-5y)



Credit Quality

- Larger allocation to BB credit, and smaller allocation to lower quality single B credits than the benchmark, to benefit from risk-reward, and avoid weak credits

Value in BB

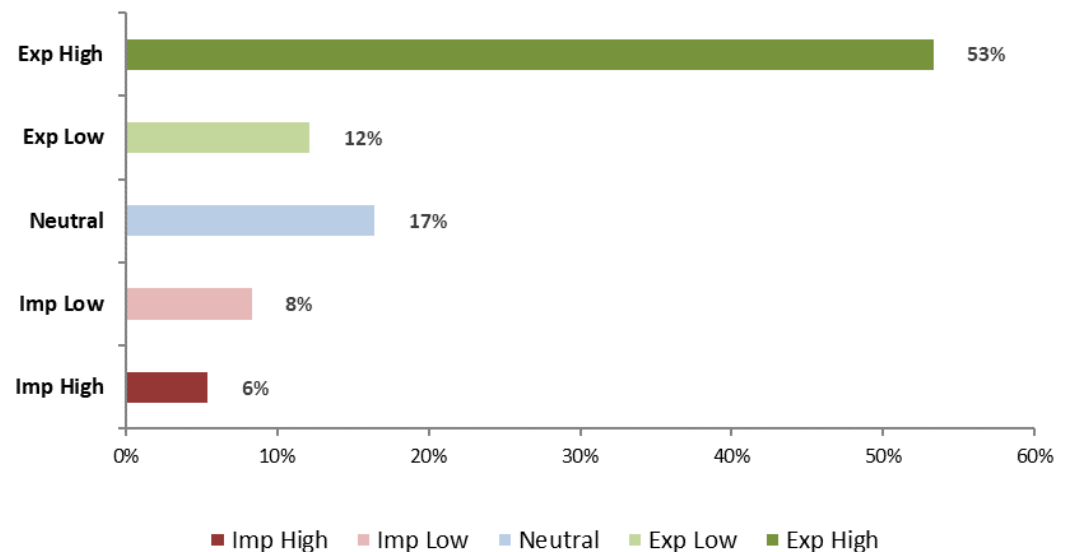


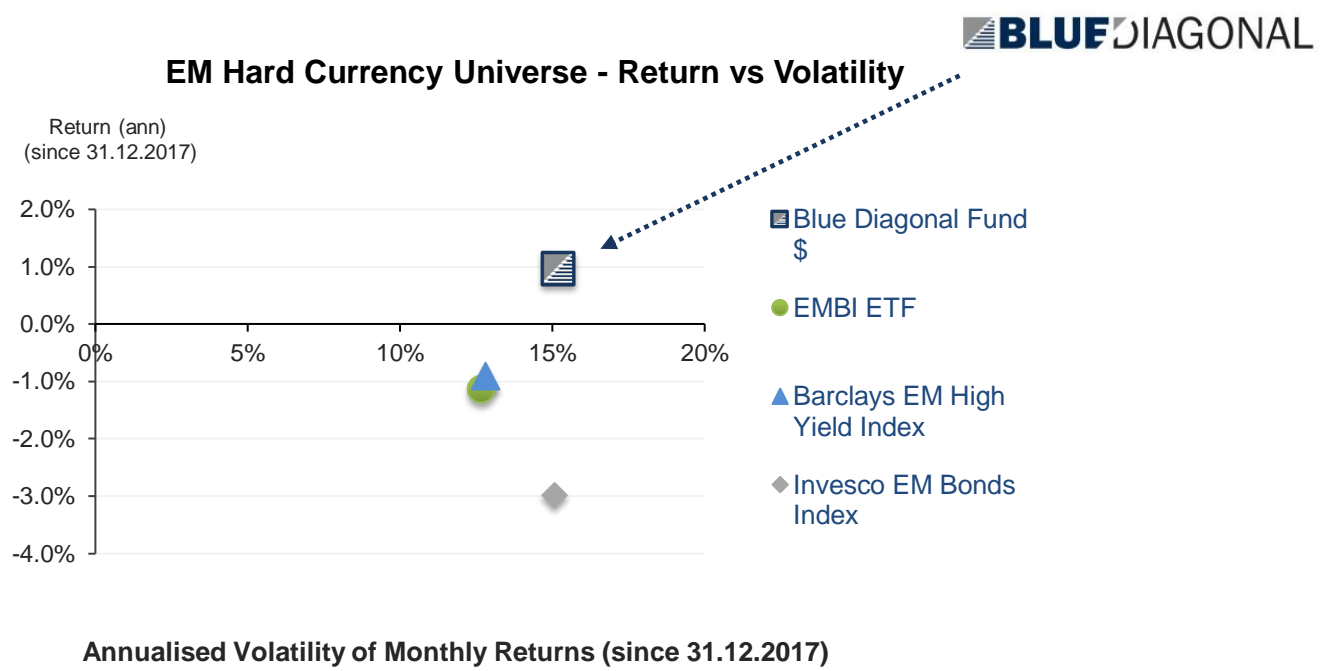
Exposure to Commodities

- Strong bias towards commodity exporters and producers that benefit from the current environment of high commodity prices

Long Commodity Exporters / Producers

Exposure to Commodity Prices as % of NAV





Fund Metrics vs Indices			
From 31.12.2017 - 31.03.2023	Beta	Correlation	Alpha (annual) ^{1,2}
Fund (Class J) vs JPM EM Bond Index (EMB):	102.5%	85.5%	2.42%
Fund (Class J) vs Invesco EM Bond Index (PCY):	87.9%	87.1%	3.46%
Fund (Class J) vs Barclays EM High Yield Bond Index:	99.7%	84.0%	2.15%
1: The result shows by how much the fund outperformed the benchmark indices			
2: Risk-free return = Return of US Treasury 1-3Y Index			
Source: Blue Diagonal Capital			

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