

Positive Contributors	FUND	Negative Contributors
<ul style="list-style-type: none"> <li>Countries: India, Chile, Argentina</li> <li>Companies: Turkcell, Turk Telekomunikasyon</li> </ul>		<ul style="list-style-type: none"> <li>Countries: Brazil, Russia</li> <li>Companies: Pemex, Gazprom, Capex Sa</li> </ul>
Opportunities	MARKET	Challenges
<ul style="list-style-type: none"> <li>Argentinian crisis might have bottomed out</li> <li>Positive economic data from China</li> <li>Very interesting emissions for our fund</li> </ul>		<ul style="list-style-type: none"> <li>Risk of further oil prices rise would be harmful for some EM</li> <li>Tensions between Turkey and USA</li> </ul>

## Update from the lead manager, Péter Varga

After a real price firework during the 1st quarter (the best quarter since 2013), the market was somewhat calmer in April. The current spread level is at 320 basis points. The spread tightening of 20 basis points in April led to a plus of 0.55% in the fund. The 10-year US interest rate turned slightly upwards again and closed at 2.5%. According to EPFR data, the asset class recorded further inflows of USD 1.5bn in April. Since the beginning of the year, we saw total inflows of USD 20.4bn, which is more than tripling the outflows in 2018.

### Highlights at the macro landscape

The oil price has meanwhile reached a new five-month high. The driving forces were of a multifaceted nature: the expectation of new US sanctions against Iran, export failures in Venezuela and the blazing civil war in Libya along with the associated export restrictions. However, most people are probably still satisfied with the current oil price level, although a further, uncontrolled rise is certainly not desirable and poses potential problems for certain emerging markets. This is not so much about a rise in inflation as about the tax burden and the widening of current account deficits.

On a country level, the following news were decisive:

Turkey continues to be volatile. The focus was on tensions with the US, President Erdogan's demand for new elections in Istanbul and announced structural reforms. Initially, headlines helped to boost the situation as Turkey was in talks with the US regarding a possible purchase of the Patriot missile defence system, which would indicate an improvement in relations between the two countries. In addition, the US could waive sanctions against Turkey due to the purchase of the Russian missile defence system and Iranian oil. Economics and Finance Minister Albayrak announced an economic plan. The strengthening of the banking sector is intended to boost economic growth. According to Albayrak, state-owned banks are to be „recapitalised“ by issuing TRY 29 billion (around EUR 4.3 billion) in government bonds via an aid fund. In addition, the corporate tax is to be gradually reduced and aims to tax high incomes more „equitably“. The high food prices are to be combated through structural reforms in the agricultural sector. As often, no explanation was given as to how the programme would be financed. We remain curious!

In LATAM, all eyes were on Argentina, because what can be described as a complete meltdown took place in the face of growing concern about the forthcoming presidential elections in October.

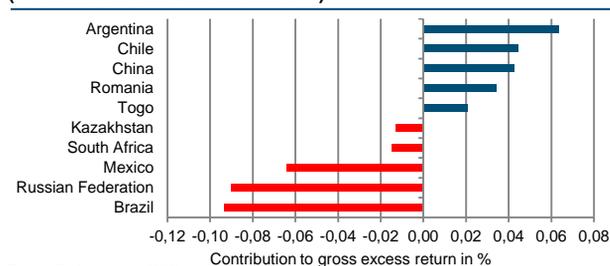
Gross Performance	Apr 2019	YTD	1Y	3Y	5Y	10Y
<b>ERSTE BOND EMERGING MARKETS CORPORATE</b>						
Fund	0.63%	5.35%	3.94%	14.23%	23.96%	144.74%
Investment Universe*	0.62%	5.42%	2.50%	12.61%	17.27%	111.23%
Difference	0.00%	-0.07%	1.45%	1.62%	6.69%	33.52%
<b>ERSTE BOND EMERGING MARKETS CORPORATE IG</b>						
Fund (USD)	0.62%	5.36%	7.21%	11.66%	19.27%	-
Investment Universe** (USD)	0.60%	5.52%	7.05%	13.10%	18.01%	-
Difference	0.01%	-0.17%	0.17%	-1.44%	1.26%	-
<b>ERSTE RESPONSIBLE BOND EMERGING CORPORATE</b>						
Fund	0.65%	4.13%	1.78%	5.29%	14.75%	-
<b>ERSTE BOND EMERGING MARKETS CORPORATE SHORT TERM</b>						
Fund	0.41%	3.06%	4.74%	-	-	-
Investment Universe***	0.51%	3.10%	4.77%	-	-	-
Difference	-0.11%	-0.05%	-0.03%	-	-	-

\*BoA ML Q505 – Customized EM Corporate Credit Index

\*\*BoA ML Q608 – Bond EM exBB1 Total Return Index until 30.6.2016, JPM CEMBI Broad Diversified IG in USD from 1.7.2016

\*\*\*JP Morgan CEMBI Broad Diversified (1–3 years)

### Best and worst relative performance contributors by country (relative to the investment universe)



Source: Erste AM, April 2019

### Selected new issues in April

Issuer	Coupon	Maturity	Rating	Region
Empresa de transmission	5.125	02.05.2049	BBB	Latin America
Celulosa Arauco Constitui	4.250	30.04.2029	BBB	Latin America
Ades International	8.625	24.04.2024	B+	Middle East
Shriram Transport Fin	5.950	24.10.2022	BB+	Asia
Ecobank Transnational	9.50	18.04.2024	B-	Africa

### Erste AM EMERGING MARKETS CORPORATE Strategies (In mn EUR)

Pooled Funds	994.56
Special Mandates	472.96
<b>Total</b>	<b>1,467.52</b>

As of April 2019

The market literally exploded, which could mean a possible return of Cristina Kirchner and the ultimate fear of later failure. The 5y CDS reached a new three-year high of 1241 basis points. However, there is also positive news from Argentina in the agricultural sector. The Buenos Aires Grain Exchange has raised its soy harvest forecast for 2018-19 by about 4%. The wheat harvest for 2019-20 is also expected to increase by 8.4% on an annual basis. In addition, President Macri announced that by the end of October the prices of about 60 food staples such as sugar and milk are to be kept at the same level and the price for electricity, gas and transport is to remain unchanged for the rest of the year.

The central bank announced that the aim is to have the Argentine peso trading between 39 and 51 (44.71 as of 10.05.2019) against the US dollar by the end of the year. The IMF was also confident that the lowest point had been reached in Argentina and that the economic reforms are now beginning to take effect. The same as in Turkey also applies here: we are cautious and remain very cautiously invested in the fund.

The election in Indonesia was completed on 17th of April. The official results are scheduled for 22nd of May. Based on quick polls, the incumbent President Joko Widodo was re-elected for a second five-year term.

In India, the first of seven phases of the presidential elections began. Prime Minister Narendra Modi leading the Bharatiya Janata party promised in case of a re-election to invest around USD 1,44 trn into the infrastructure sector.

Russian bonds were able to trade firmly, especially on the basis of the strong oil price. After headlines regarding possible new US sanctions, interim weakness became apparent.

In the Ukraine, the political newcomer and comedian Volodymyr Zelensky won a landslide victory in the presidential elections (73% of the votes).

South Africa was also able to trade positively in front of a solid macro environment. In addition, Moody's decided not to change its rating or outlook – some had feared a downgrade. At Eskom, however, talks began about possible additional financial support.

Positive economic data came in from China. Economic growth in the first quarter rose by +6.4% year-on-year and surprised positively.

In Brazil, the reform of social security passed the first hurdle after the proposal was approved by the Committee of Constitution and Justice. According to Bundestag President Maia, the meetings of the special committees would take place in May and June (a minimum of 10 and a maximum of 40 meetings lasting three to four weeks). Then the reform proposal goes to the two votes in the House of Commons and then to two votes in the Senate. The political will is certainly there and is also expressed in many places, but a distinct dilution can be assumed.

## About the Fund

There were some interesting emissions again, which we proceeded very selectively as always.

The most positive to mention here is Ecobank, which is headquartered in Togo, in the midwest of Africa. In three countries, the company ranks among the top 3 in the market and is represented in another 15 African countries with a total of 19 million customers. In particular the improving asset quality convinced us. The emission earned 4 price points right from the start.

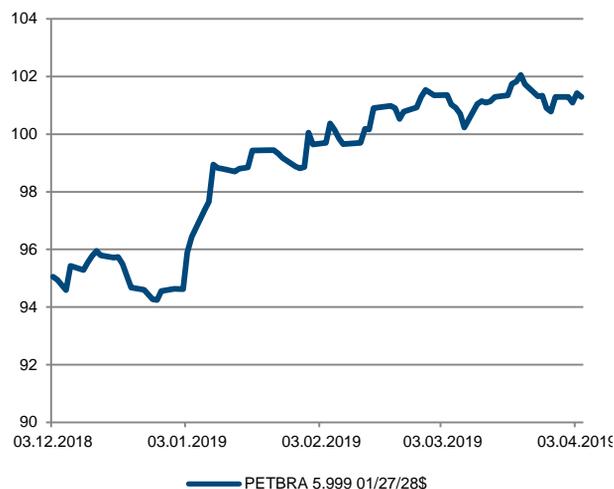
Petrobras also surprised the market with a new disposal strategy for the refining sector. The plan includes the sale of 8 refineries. The plan could flush USD 15-20bn into the cash registers. A final decision is expected in June. We bought our position in PETBRA 5,999 01/27/28 (see chart), but are still slightly underweight (6% weight in the benchmark), which had a small negative impact on performance.

Where did we not participate in the primary market? Saudi Aramco entered the market with a total volume of USD 12bn in five tranches and maturities between 3 and 30 years. There was an order equivalent of around USD 100bn in the books. A yield of 3.56% in the 10 year-range and 4.46 % in the 30-year maturity respectively, is simply too low for us.

## Outlook

The current market situation can certainly be assessed as fair. We consider a further significant spread tightening as rather unlikely. However, the „insidious“ thing about a sideways phase is the lost carry if you are only partly invested or not invested at all.

**Chart 1: Petrobras surprised the market with new strategy on the refining sector**



Source: Bloomberg

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We believe that active management is the best way to generate value in inefficient markets. Emerging markets corporate bonds offer these kind of investment opportunities. Our clients appreciate and benefit from the integrative research and portfolio manager team approach that provide the basis for a structured and efficient decision making process. This stable process and our focus on excellence has made us the partner of choice for institutional clients all over Europe.

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