

Positive Contributors	FUND	Negative Contributors
<ul style="list-style-type: none"> On a company level: PT Pertamina, Elementia SAB de CV On a country level: Chile, Ukraine 		<ul style="list-style-type: none"> On a company level: Pemex, Gazprom On a country level: Mexico, Brazil
Opportunities	MARKET	Challenges
<ul style="list-style-type: none"> High Yield positions in China and Indonesia From a fundamental point of view, we rate the market as slightly attractive 		<ul style="list-style-type: none"> Ongoing development of the trade war between US and China

Update from the lead manager, Péter Varga

The bounce is back! With a performance of approximately +1.5%, July was a strong month for our asset class. At the same time, it was the first month in 2018 with a positive performance even though US yields increased. Risk premia have dropped from slightly below 350 basis points to 300 basis points. EM Corporates (with a high yield share of only 30%) outperformed US high yield bonds, in line with European high yield bonds. The adjustment of relatively "mispriced" EM assets mentioned in the previous month thus occurred earlier than expected. Also, EM stocks performed significantly better than DM stocks.

It was an exciting month and not just on the markets, which is rather unusual for the summer time. In the trade war, the rhetoric did not mellow. President Trump threatened to set 25% tariffs on goods worth over USD 200 billion from China. Automotive companies such as Ford or General Motors and food producers such as Tyson Foods meanwhile pointed out that due to the policies (tariffs) their costs have increased and their profits have fallen. The positive effects of the trade war still are a long time coming. China has not responded explicitly to the new threats, but there has been a clear devaluation of the currency against the US dollar (Chart 1). The central bank offered banks money on favourable terms, thereby encouraging them to roll SME loans (in order to stabilize the increased corporate bankruptcies in this environment) and invest in local corporate bonds. It is a kind of quantitative easing. Also, it is a (necessary and unwanted) shift away from the policy of slow economic restructuring, with the aim that only those companies survive which are profitable. However, this is only an interim action. China's expansion in Africa continues, the country wants to invest over USD 3 billion in the Nigerian oil industry.

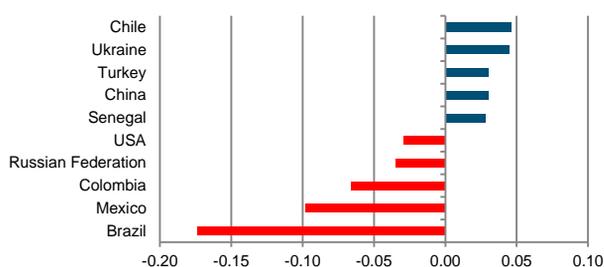
Contrary to expectations, the Turkish National Bank has not raised interest rates and significantly revised its inflation forecast upwards at the end of the month. It seems as if Turkey would rather try to implement the necessary reforms on the fiscal side. These reforms are expected in September in order to avoid a further increase in key interest rates. What the central bank did not deliver came from the market itself: yields on local government bonds have risen significantly above 20%. The country is also trying to diversify its financing sources and has received a USD 3.6 billion loan from China. Fitch lowered Turkey's rating to BB. The outlook remains negative.

Gross Performance	July 2018	YTD	1Y	3Y	5Y	10Y
ERSTE BOND EMERGING MARKETS CORPORATE						
Fund	1.46%	-2.32%	-0.41%	12.02%	25.20%	100.02%
Investment universe*	1.65%	-3.32%	-1.57%	11.34%	18.89%	71.46%
Difference	-0.19%	1.00%	1.16%	0.68%	6.32%	28.56%
ERSTE BOND EMERGING MARKETS CORPORATE IG						
Fund (USD)	0.85%	-1.62%	-0.43%	7.27%	17.90%	-
Investment universe** (USD)	0.88%	-1.19%	-0.02%	9.25%	17.00%	-
Difference	-0.03%	-0.43%	-0.41%	-1.98%	0.90%	-
ERSTE RESPONSIBLE BOND EMERGING CORPORATE						
Fund	0.94%	-2.94%	-1.94%	4.89%	-	-
ERSTE BOND EMERGING MARKETS CORPORATE SHORT TERM						
Fund	0.74%	0.51%	2.01%	-	-	-
Investment Universe	0.57%	0.42%	1.60%	-	-	-
Difference	0.17%	0.09%	0.42%	-	-	-

*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

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



Source: Erste AM, July 2018

Selected new issues in July

Issuer	Coupon	Maturity	Rating	Region
SF Holding Investment Ltd.	4,125	26.07.2023	A-	Europe

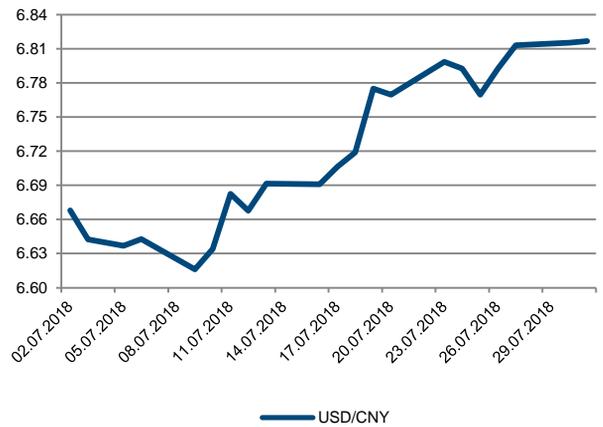
Erste AM EMERGING MARKETS CORPORATE Strategies (in mn EUR)	
Pooled Funds	1,012.04
Special Mandates	653.92
Total	1,665.96

As of July 2018

The majority of EM companies published positive quarterly figures. Mexichem and Alpeka are currently benefiting from increased demand for petrochemicals (polyester, PVC) from Asia, while other companies in Mexico, such as Fibra Uno (commercial real estate), BBVA (bank) or Alfaa, Alpeka's holding company, Tnemak and Sigma also reported positively. We are overweighted in Fibra Uno and Alfaa. Much like Vale, one of the world's largest producers of nickel and iron ore, Brazilian companies Klabin and Fibria strongly benefited from the ongoing Asian demand for paper and pulp supported by a weak home currency (BRL). Moody's has upgraded Vale's rating to investment grade as the last one of the three major agencies – two notches higher than Brazil's current rating. We are positioned neutrally in Vale and, for valuation reasons (too expensive), are not invested in the paper companies. In Turkey, several banks, with the exception of Akbank, reported relatively weak figures. The destitute energy industry and the weak currency are hampering capitalization. Arcelik, the manufacturer of household appliances such as Beko (No. 2 in Europe), also reported relatively poor figures. The positive effects of the currency weakness could not compensate for the increased financing costs and the rise in raw material prices. Debt rose to more than three times the operating profit. We are underweighted in both, the banks and Arcelik, but overweighted in Türkcell (telecom), a company that reported excellent figures. The company was able to raise its prices above inflation rates and has no significant net USD liabilities (after hedging).

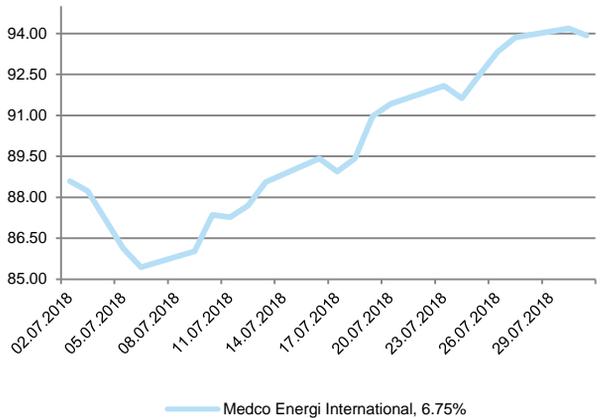
Our high yield admixture in Indonesia (Medco Energi - see Chart 2 - , Modernland, Lippo Karawaci) and China (Cifi, Logan) performed very well in July. Whereas our slightly defensive positioning, as well as the somewhat too early established and too strongly underweighted position in Pemex, contributed negatively. From a fundamental point of view, we rate the market as slightly attractive, based on healthy balance sheets and company profitability. However, in view of the top-down news situation and the performance in July, we are now rather neutral.

Chart 1: Devaluation of the Chinese Yuan relative to the US Dollar



Source: Bloomberg

Chart 2: Good performance of the Medco Energi International, 6.75% (2025) bond



Source: Bloomberg

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