

Positive Contributors	FUND	Negative Contributors
<ul style="list-style-type: none"> <li>On a company level: Pan American Energy LLC, Pampa Energia SA</li> <li>On a country level: Argentina, South Africa</li> </ul>		<ul style="list-style-type: none"> <li>On a company level: Turkish banks</li> <li>On a country level: Turkey, Mexico</li> </ul>
Opportunities	MARKET	Challenges
<ul style="list-style-type: none"> <li>We expect attractively priced new issues in the upcoming weeks</li> <li>Interest rate rise in Turkey marked the beginning of a recovery in emerging markets</li> </ul>		<ul style="list-style-type: none"> <li>Upcoming elections outcome in Brazil may not imply much needed reforms</li> <li>Dramatically reduced liquidity of Russian corporate bonds</li> </ul>

## Update from the lead manager, Péter Varga

With a performance of over 1% (in EUR), September has been one of the strongest months of the year so far. Risk premia fell by more than 50 basis points for EM corporate bonds. US yields faced strong headwinds, with the 10-year bond trading stably above 3% - an increase of 20 basis points. Although the FED raised interest rates again, the meeting was more or less a non-event. The longer-term, neutral yield declined by 5 basis points to 3%. Compared to the FED's estimate, the market continues to price in around 50-60 bps lower interest rates for 2020-2021. At the beginning of the year, we forecasted yields of at most 3.25% (10yr), which we have now, by the end of the year.

Commodity prices were stable. Strengthened by geopolitics, the oil price was one of the winners, as the US wants to tighten its sanctions against Iran.

The Turkish National Bank has raised key interest rates to 25%. At least, President Erdogan can point to the independence of the National Bank. The increase was more pronounced than expected and marked the beginning of a recovery in the emerging markets. The country will subsequently establish a "bad bank" for the distressed loans of the banks. These have managed to place subordinated lira bonds of more than USD 2 billion in value, in recent weeks. However, buyers and yield-levels remain unknown. Therefore, one can assume either state or foreign (China, Qatar) investors. According to market participants, China is also considering to acquire the bankrupt parent company of Turkish Telekom. Our defensive positioning (banks underweighted, telecoms overweighted) in the run-up to the rate decision and due to Erdogan's interest rate opinion turned out to be disadvantageous, in retrospect. Nevertheless, we have learned from it. Turkey was the main reason for underperforming the benchmark in September. However, our positioning in Turkey still shows a positive performance for the year as a whole. Nevertheless, we remain underweight for the time being, especially in longer-term bonds. The price level for emissions of better credit institutions is slowly becoming attractive again, so we do not expect further, aggressive price increases at present.

Russia wants its oligarchs to invest USD 120 billion in their own country over the next 5 years. Apparently, the sanctions should be counteracted with local investments.

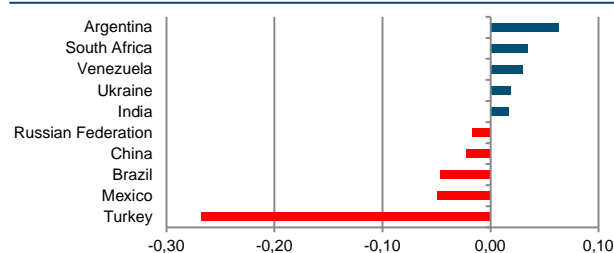
Further sanctions can only be expected after the US

Gross Performance	Sept 2018	YTD	1Y	3Y	5Y	10Y
<b>ERSTE BOND EMERGING MARKETS CORPORATE</b>						
Fund	1.15%	-2.60%	-2.06%	16.32%	23.77%	118.73%
Investment universe*	1.39%	-4.13%	-3.71%	17.30%	17.76%	84.80%
Difference	-0.23%	1.53%	1.65%	-0.98%	6.01%	33.93%
<b>ERSTE BOND EMERGING MARKETS CORPORATE IG</b>						
Fund (USD)	-0.16%	-1.56%	-1.15%	9.99%	17.18%	-
Investment universe** (USD)	-0.17%	-1.06%	-0.70%	12.59%	16.39%	-
Difference	0.01%	-0.50%	-0.45%	-2.60%	0.79%	-
<b>ERSTE RESPONSIBLE BOND EMERGING CORPORATE</b>						
Fund	0.28%	-3.98%	-3.77%	5.71%	-	-
<b>ERSTE BOND EMERGING MARKETS CORPORATE SHORT TERM</b>						
Fund	0.86%	0.74%	1.43%	-	-	-
Investment Universe	1.18%	0.86%	1.33%	-	-	-
Difference	-0.32%	-0.11%	0.10%	-	-	-

\*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, September 2018

Contribution to gross excess return in %

## Selected new issues in September

Issuer	Coupon	Maturity	Rating	Region
Country Garden Holdings Co.Ltd	8	27.01.2024	BBB-	Asia
Poly Real Estate Finance Ltd.	4.75	17.09.2023	BBB+	Asia
DP World Ltd.	2.375	25.09.2026	BBB+	Asia
Petrobras Global Finance B.V.	5.299	27.01.2025	BB-	South America

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

Pooled Funds	982.53
Special Mandates	652.54
<b>Total</b>	<b>1,635.07</b>

As of September 2018

mid-term elections as part of a broader law-catalog of political influence. With regard to the dramatically reduced liquidity of Russian corporate bonds - fewer and fewer market participants are providing constant and reliable prices - and sanctions, we remain underweighted. VTB has sold its Russian subsidiary to the management, another indicator for potential sanctions.

During the China-Africa Cooperation Forum in Beijing, China pledged some USD 15 billion in special loans (interest-free or at extremely favourable terms) and USD 20 billion in "normal" loans to the African continent. Furthermore, the country wants to increase (commodity) imports from Africa and, where possible, settle trades in local currency. To Angola alone, China will distribute another USD 11 billion - the African countries are clearly living from one IMF package to the next and from the support of China. But also the US are not idle and want to establish the US International Development Finance Institute, which should act as a counterpart to China's "Belt & Road". On the "battlefield", however, there are currently 60 billion from the US compared to rumoured 1000 billion from China. Moreover, the US has imposed punitive tariffs of 10% on goods worth more than USD 200 billion. From January, this will be increased to 25% if China does not cooperate. We continued to increase our position in China in September with the bonds of Country Garden (8% 2024, BB / BBB-) and CIFI 2022 (8.56% B + / BB), as we believe the yield levels are fairly compensating for possible worsenings in the news flow.

Next week, there will be elections in Brazil. The socialist candidate Haddad, from the party of Lula, is now leading for the first time (2nd round) compared to right-wing Bolsonaro. Recently, one of our colleagues returned from London (JPM EMC Conference) with a negative impression. She fears that if Bolsonaro should win, he could not form a majority for his reforms because of the high aversion of his person and if Haddad should win (focusing on Marx and Soviet Union during his studies) no reforms at all are to be expected. We will now critically review our positioning (already slightly underweighted).

### Some relevant company news in short:

- Minerva (BR) plans a capital increase and partial IPO of the subsidiary in Chile to reduce debt. Accordingly, bonds have risen sharply and we have reduced our overweighting.
- Indonesia's Lippo Karawaci, on the other hand, sells assets to stabilize debt levels. We see this positively and have been slightly overweighted for weeks (since 70/71 in the bond price).

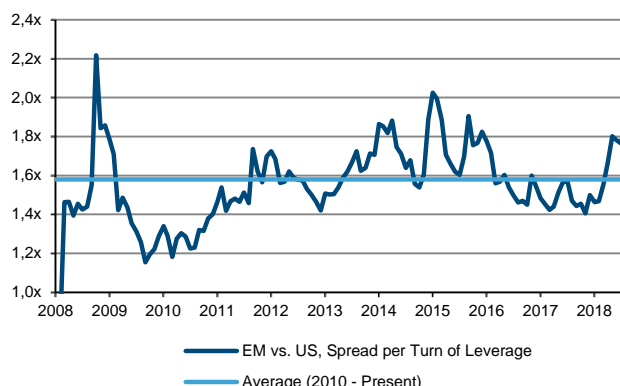
### Corruption Corner:

Guatemala's president, Jimmy Morales, a former TV comedian - he won the elections with the slogan: "I am not a thief and not corrupt", for example - sent police and armoured cars to the CICIG (International Commission Against Impunity in Guatemala) office which accused him of corruption. He gives the UN subsidiary one year to finish its work and leave the country. It is another part of the dismantling of "checks and balances" in the country, which can nowadays be observed more and more around the world. The US does not say anything... which fits in

with its anti-UN rhetoric. Meanwhile, Zimbabwe's president wants to offer Donald Trump land for the development of golf clubs...

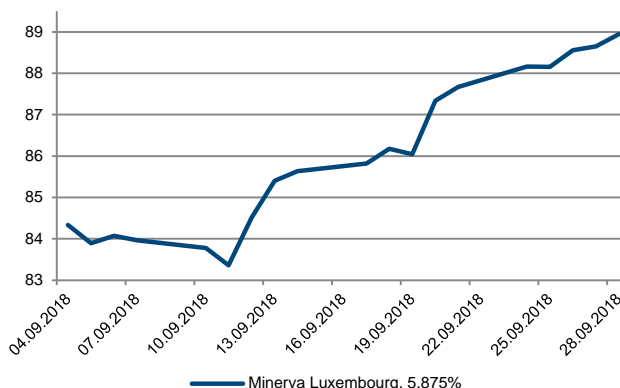
Some investors have regained confidence over the past two weeks, which is reflected in strong asset inflows. For the upcoming four weeks, we are expecting a continuing volatile environment (especially in Brazil), with attractively priced new issues. Our flagship continues to position itself in the 1st quartile of the peer group.

Chart 1: EM/US Spread per Turn of Leverage



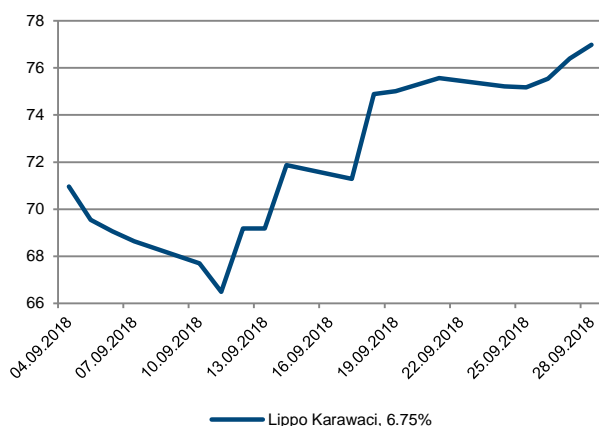
Source: ML BofA, Erste Asset Management; balance sheet ratios as of 31.12.2017, Spreads as of 31.08.2018

Chart 2: Minerva Luxembourg, 5.875%



Source: Bloomberg

Chart 3: Lippo Karawaci, 6.75%



Source: Bloomberg

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From a strong Emerging Europe position Erste Asset Management, part of Erste Group, has become a successful global emerging market investment house over the last 10 years.

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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