

Positive Contributors	FUND	Negative Contributors
<ul style="list-style-type: none"> <li>On a company level: Petroleos Mexicanos, Indonesia Asahan Aluminium TBK</li> <li>On a country level: Mexico, Indonesia</li> </ul>		<ul style="list-style-type: none"> <li>On a company level: Infra Energetica Nova SAB, Aeropuertos Dom Siglo XXI SA</li> <li>On a country level: Dominican Republic, Brazil</li> </ul>
Opportunities	MARKET	Challenges
<ul style="list-style-type: none"> <li>Temporary de-escalation in the trade dispute between the USA and China</li> <li>Weakness of Mexican banks</li> </ul>		<ul style="list-style-type: none"> <li>Increasing tensions in the light of the G20 summit in Argentina</li> <li>Worsened relations between Ukraine and Russia</li> </ul>

## Update from the lead manager, Péter Varga

In November, EM corporate bond markets were slightly weaker, which was also due to the increasing tensions in the light of the G20 summit in Argentina. At the end of the month, risk premia were 35 basis points higher than in the previous month and thus at the highest level of the year. The return in our universe was 6.5% - almost 200 basis points higher than at the beginning of the year. US yields were buoyed by the US Federal Reserve Chairman's speech, who (following a very critical Trump-tweet regarding excessively high interest rates) surprisingly signalled that while interest rates are still low in historical terms, they are somewhat below the neutral level with respect to the economic situation. The performance of the universe was slightly over -1% in November.

Commodity markets were weak. The oil market is slowly realising the impending tsunami of US shale oil shipments that are expected in 2019, whereby, after several decades, the US will become a net oil exporter again. The exceptions granted by China and India (among others) regarding Iranian oil supplies, the weakening Chinese economy and the market's positioning on rising prices created a carnage on the oil market. Steel prices as well as industrial metals came under pressure due to the weakening economic outlook in Europe and China.

As mentioned earlier, the world kept an eye on the G20 meeting in Buenos Aires, some tried to reduce positions ahead of it. Usually, the market tends to become illiquid towards the end of the year due to US banks' accounting processes. So, liquidity was lacking in many cases and quoted prices were significantly higher (1-2 points) than tradable prices or actually traded ones. On 1 December, the dinner of the US and Chinese delegations ended in a "90-day armistice" in which the parties are supposed to work on further steps (opening the Chinese market, technology theft, etc.). In the meantime, Trump promotes China's concessions regarding the purchase of more US agricultural products and a reduction of car tariffs as a great success (domestically, he is under considerable strain). However, Chinese media quoted certain statements of Trump, but concessions were left unmentioned. Final results remain to be seen, but one thing is certain: also in the future, the two superpowers will keep driving a hard bargain and a possible final agreement within the next 90 days is highly uncertain, as the stances on important issues are deadlocked on both sides. Nonetheless, the market celebrated the temporary reduction of pressure and prices rose by 0-3 points on Monday, 3 December, depending on maturity and beta – which was neutralised in the following days.

In Mexico, the government wants to reduce the cost of banking services (withdrawals, transfers, etc.). It is a fact that these costs are rather high in Mexico compared to other countries, however, the market took it as another intervention in the economy by president AMLO. Therefore, Mexican corporate bonds and banks were more or less only tradable on an order basis for a long time. As already reported in the previous month, we rather used

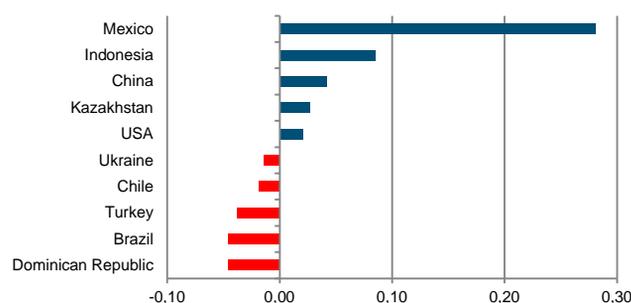
Gross Performance	Nov 2018	YTD	1Y	3Y	5Y	10Y
<b>ERSTE BOND EMERGING MARKETS CORPORATE</b>						
Fund	-0.77%	-4.26%	-4.29%	11.00%	20.46%	193.07%
Investment universe*	-1.08%	-6.08%	-6.23%	9.71%	13.84%	144.61%
Difference	0.31%	1.82%	1.94%	1.29%	6.62%	48.46%
<b>ERSTE BOND EMERGING MARKETS CORPORATE IG</b>						
Fund (USD)	-0.13%	-2.06%	-2.01%	7.80%	15.22%	-
Investment universe** (USD)	-0.21%	-1.69%	-1.60%	9.99%	14.13%	-
Difference	0.08%	-0.37%	-0.41%	-2.18%	1.09%	-
<b>ERSTE RESPONSIBLE BOND EMERGING CORPORATE</b>						
Fund	-0.56%	-5.02%	-5.05%	2.95%	-	-
<b>ERSTE BOND EMERGING MARKETS CORPORATE SHORT TERM</b>						
Fund	0.16%	1.02%	1.26%	-	-	-
Investment Universe***	0.22%	1.28%	1.55%	-	-	-
Difference	-0.06%	-0.26%	-0.29%	-	-	-

\*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, November 2018

Contribution to gross excess return in %

### Selected new issues in November

Issuer	Coupon	Maturity	Rating	Region
PT. Indonesia Asahan Aluminium [Persero]	5.71	15.11.2023	BBB-	Asia
KWG Group Holdings Ltd.	9.85	26.11.2020	BB-	Asia
Scenery Journey Ltd.	11	06.11.2020	B+	Asia

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

Pooled Funds	957.13
Special Mandates	560.40
<b>Total</b>	<b>1,517.53</b>

As of November 2018

the weakness to increase than to reduce positions. Banks like BBVA, Santander Mexico and Banco Inbursa were among the losers. Banco Inbursa's 2024 senior bond yield (owned by Mexico's richest person Carlo Slim, rating BBB +, core capital ratio app. 20%) traded approximately 25 basis points higher than Banco do Brazil 2025 (BB-, core capital ratio app. 10%), in contrast to -150 bp in the previous month (see Chart 1).

In China, we saw a further slowdown in economic activity (purchasing manager's indices) and, according to a UBS survey, significantly fewer people plan to buy real estate this or next year. The outlook to buy property has been postponed (by 2 years or undefined time). However, sales figures for new real estate were relatively stable in November as was the purchasing manager's index for services. The real estate market is and will remain the most important driver of the domestic economy and also the most important consumer of many raw materials and machines. The US warned of the company Huawei conducting internet espionage (the CFO was arrested on 1 December for the alleged breach of Iran-sanctions in Canada). One can see the increased scrutiny on Huawei also as a consequence of the company conquering the number 2 spot in handset sales, topping Apple from the USA (see Chart 2). New Zealand, UK and Germany therefore possibly are going to exclude the company from the 5G license process and have already expressed strong concerns. China's internet espionage is on everyone's lips, but one should not forget that other countries, including the US, are doing the same... We increased Chinese HY bonds in the real estate sector (also some short-maturity bonds via new issues), which were responsible for a positive performance this month. Chinese Chuying Agro-Pastoral Group Co wants to pay its creditors with products. The company offers regular ham deliveries - "Payment in kind" (PIK) becomes "Payment in Ham" (PIH). Despite turbulences, the great optimism regarding e-commerce is prevailing.

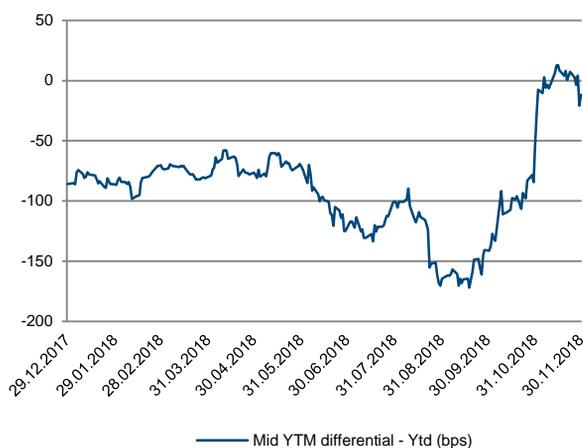
According to a study by Temasek Holding and Google, the volume of goods purchased online in Asia is going to increase from the current USD 72 billion to approximately USD 250 billion.

The situation between Ukraine and Russia has once again intensified. Russia controls the Sea of Azov more and more (following the bridge construction for over USD 3 billion), which significantly limits the economic activities of the region. Ukrainian bonds were on the losing side. Here, we have increased our position in MHPSA, the chicken producer, during the weakness yielding 9.8%. However, the situation remains very tense.

In Indonesia, we bought the first new issue of the state-owned Asahan Aluminum which was very favourably priced in a difficult market environment. The bonds rose 2-3 points on the first trading day, a rare firework these days.

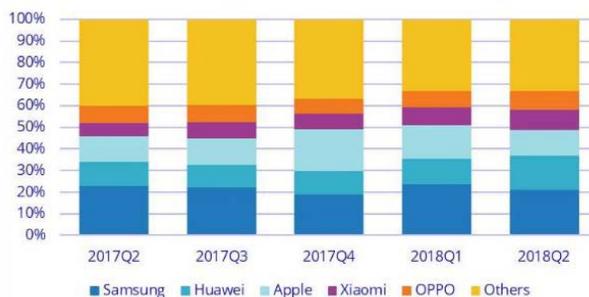
2018 was a very challenging year that saw a lot of idiosyncratic events in Turkey, Argentina, Mexico or even in China. The upcoming year seems to be starting in a similar way, albeit buying opportunities will become more and more obvious.

Chart 1: Risk Premium of Inbursa 2024 vs. Banco do Brasil 2025



Source: Bloomberg

Chart 2: Worldwide Top 5 Smartphone Companies, 2018 Q2 Unit Market Share



Source: IDC 2018

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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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