

Positive Contributors	FUND	Negative Contributors
<ul style="list-style-type: none"> On a company level: Companhia Siderurgica Nacional, Mironovsky Khleboproduct/MHPSA On a country level: China, Chile 		<ul style="list-style-type: none"> On a company level: Petrobras, Petroleos Mexicanos On a country level: Mexico, Turkey
Opportunities	MARKET	Challenges
<ul style="list-style-type: none"> China announced tax cuts of several trillion yuan and other measures aimed at generating growth The Chinese real estate market stabilised 		<ul style="list-style-type: none"> The market is likely to have reached a peak S&P changed the rating outlook for Mexico (BBB+) to negative

Update from the lead manager, Péter Varga

General Market Description

Again, February presented itself in the best light. Supported by stable US yields and 20 basis points tighter risk premia, our asset class delivered a performance of around 1.2% in euro terms. Risk premia closed at 325 basis points, down from 400 at the end of 2018. There were continuous inflows, mainly from Asia, which further supported the market.

Commodity prices also had a supportive effect in February and oil and industrial metals were able to deliver a positive performance.

Company News

S&P changed the rating outlook for Mexico (BBB+) to *negative*. The rationale behind the change was the suspension of the previous government's oil reform (i.e. more oil production) and its replacement with more refinery activity (i.e. to build more refineries). Faced with globally low profit margins at refineries and falling oil production at Pemex, this step seems to be somewhat out of place. In addition, the government has further confirmed that Pemex can count on immediate aid in case of emergency. Also, Moody's commented on its rating: the rating of Mexico (A3) has plenty of leeway and there will certainly be no rating change this year. The risk premia of Pemex reached the range of 280-300 basis points again, which is equivalent to the widest spread on the market between a sovereign and a company (wholly owned by the state). In comparison, there are companies such as the Peruvian oil company Petroperu, which has debt of over 30 times its operating profit and only trades 80 basis points above Peru's government bonds. Mexico would be able to reduce 20-25 percentage points (!) of annual tax payments in favour of Pemex and Mexico would still remain *Investment Grade*, since a significant portion of Mexico's rating directly depends on Pemex. At these levels, we are going to be a little more constructive for valuation reasons, but will remain underweight for the time being as the EUR bonds in particular are very expensive.

On the earnings side, the picture is heterogeneous. Petrobras and Marfrig reported good figures, while Minerva and BRF (former Brasil Food) reported rather poor figures. Caribbean Digicel bonds heavily dropped in value (see chart 1) as the company is unable to meet its own restructuring plans. We have been underweight for some time. Bharti Airtel has announced a USD 4.5 billion capital increase in order to avoid a downgrade to high yield. This worked out fine as S&P confirmed its BBB rating. Here we are positioned neutrally or slightly overweight depending on the fund and risk requirements. CSN from Brazil also reported good figures, partly due to the preceding sale of iron ore to Glencore for USD 500 million. As a result, the bonds rose by 5-6%. CSN has long been a speculative overweight in the fund. In view of the expected refinancing of the 2019/2020 bonds, we seized the opportunity to reduce the position at these price levels.

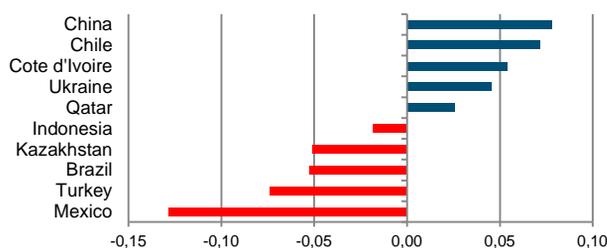
Gross Performance	Feb 2019	YTD	1Y	3Y	5Y	10Y
ERSTE BOND EMERGING MARKETS CORPORATE						
Fund	1.22%	3.77%	1.22%	18.85%	23.58%	176.46%
Investment Universe*	1.22%	3.66%	-0.57%	18.61%	16.66%	131.85%
Difference	0.00%	0.11%	1.79%	0.24%	6.92%	44.61%
ERSTE BOND EMERGING MARKETS CORPORATE IG						
Fund (USD)	1.17%	2.84%	3.50%	12.82%	17.64%	-
Investment Universe** (USD)	1.35%	3.00%	3.66%	15.21%	16.39%	-
Difference	-0.19%	-0.16%	-0.17%	-2.38%	1.26%	-
ERSTE RESPONSIBLE BOND EMERGING CORPORATE						
Fund	0.99%	2.55%	-0.99%	7.02%	14.66%	-
ERSTE BOND EMERGING MARKETS CORPORATE SHORT TERM						
Fund	0.74%	2.20%	3.90%	-	-	-
Investment Universe***	0.79%	2.10%	3.85%	-	-	-
Difference	-0.04%	0.11%	0.05%	-	-	-

*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, February 2019

Selected new issues in February

Issuer	Coupon	Maturity	Rating	Region
Turk Telekom. AS	6.875	28.02.2025	BB+	Asia
MashreqBank PSC	4.25	26.02.2024	A	Asia
GLP China Holdings Ltd.	4.974	26.02.2024	BBB-	Asia
Crédito Real, S.A.B de C.V.	9.5	07.02.2026	BB+	Latin America

Erste AM EMERGING MARKETS CORPORATE Strategies (in mn EUR)

Pooled Funds	991.36
Special Mandates	569.82
Total	1,561.18

As of February 2019

Argentinian bonds, on the other hand, were the losers of the month, with significantly negative performance. Reasons for this are the continuously high inflation and the still weakening economy. The currency was also weaker in February, but with inflation in mind it still has some room for further depreciation. However, figures from companies and from most of the provinces were okay. In the run-up to the important elections in October, with app. 65% chance of a reformist candidate versus app. 35% in favor of Kirchner, we are keeping our slight overweight in the fund.

Vale is not coming to rest. S&P reduced its rating to BB+ with a negative outlook two weeks after the confirmation (mid-February). Unexpected, not yet calculable liabilities are a cause for concern. Compared to Fitch, S&P seems to prefer to stay on the safe side, while Fitch for its part takes a very analytical view on the development and sees the situation more relaxed due to the extremely low level of debt and the high annual free cash flow. Basically, we agree with Fitch, but are still waiting with an increase of the position. With the downgrade by S&P, long-term bonds first fell by 4 points, only to return to their original price an hour later... The latest news was not exactly positive either. According to the news, the safety inspectors were changed in September last year (to TÜV Süd) as they did not want to classify the dams as safe. The CEO resigned at the end of February and took the responsibility.

„Corruption Corner“

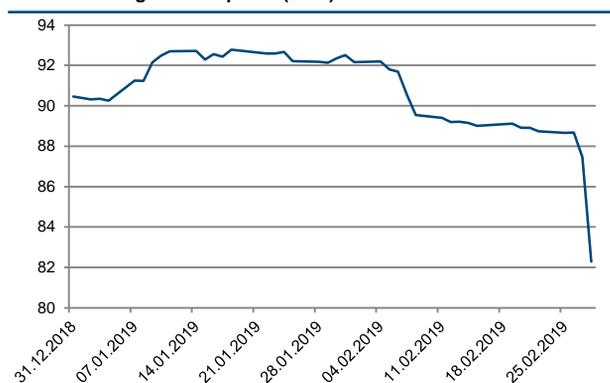
In Ecuador, a local journalist uncovered how the brother of the current president (Lenin Moreno) accepted bribes for the Coca Codo Sinclair (hydroelectrics) project worth USD 18 million.

Outlook

In our opinion, at these levels the market is likely to have reached a peak and could enter into a consolidation phase. There are several reasons for this: A positive negotiation outcome between the US and China seems to be priced in at least to 80%, a complete breakdown of the negotiations or an ambiguous deal would be a negative surprise. China has announced tax cuts of several trillion yuan and other measures (resulting in a higher deficit, see chart 2) aimed at generating growth of 6-6.5% (officially). The real estate market (possibly the main pillar of the economy) also stabilised in February. Increasing demand is being reported. Aoyuan, Logan Property reported positive sales trends (YoY, %) in February. Since November 2018, we have been using short-term (1-2 years) Chinese companies in the residential construction sector for carry trades.

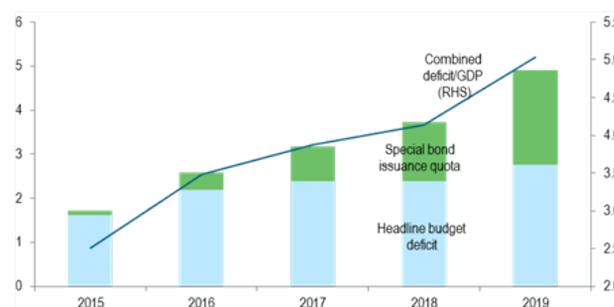
The general valuation of the market can be described as fair in light of the current economic situation and current risk premia. Currently, we only see limited opportunities for further, significantly positive price movements. It seems as if the markets are ahead of the current economic situation, so we are not in a hurry to find new opportunities at the moment.

Chart 1: 6% Digicel Group Ltd. (2021)



Source: Bloomberg

Chart 2: Broad budget deficit continues to rise



Left-hand side: CNY tn, right-hand side: %

Source: State Council, MoF, Standard Chartered Research

CONTACT

Erste Asset Management GmbH
Am Belvedere 1, A-1100 Vienna, Austria
Tel.: +43 50100-14298

www.erste-am.com
institutional@erste-am.com

Disclosure according to § 25 MedienG see www.erste-am.com/en/imprint

ABOUT US

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.

DISCLAIMER

This document is an advertisement. All data is sourced from Erste Asset Management GmbH, unless indicated otherwise. Our languages of communication are German and English.

The prospectus for UCITS (including any amendments) is published in Amtsblatt zur Wiener Zeitung in accordance with the provisions of the InvFG 2011 in the currently amended version. Information for Investors pursuant to § 21 AIFMG is prepared for the alternative investment funds (AIF) administered by Erste Asset Management GmbH, pursuant to the provisions of the AIFMG in connection with the InvFG 2011.

The fund prospectus, Information for Investors pursuant to § 21 AIFMG, and the key investor document/KID can be viewed in their latest versions at the web site www.erste-am.com or obtained in their latest versions free of charge from the domicile of the management company and the domicile of the custodian bank. The exact date of the most recent publication of the fund prospectus, the languages in which the key investor document is available, and any additional locations where the documents can be obtained can be viewed on the web site www.erste-am.com.

This document serves as additional information for our investors and is based on the knowledge of the staff responsible for preparing it at the time of preparation. Our analyses and conclusions are general in nature and do not take into account the individual needs of our investors in terms of earnings, taxation, and risk appetite. Past performance is not a reliable indicator of the future performance of a fund. Please note that investments in securities entail risks in addition to the opportunities presented here. The value of shares and their earnings can rise and fall. Changes in exchange rates can also have a positive or negative effect on the value of an investment. For this reason, you may receive less than your originally invested amount when you redeem your shares. Persons who are interested in purchasing shares in investment funds are advised to read the current fund prospectus(es) and the Information for Investors pursuant to § 21 AIFMG, especially the risk notices they contain, before making an investment decision.

Please consult the corresponding information in the fund prospectus and the Information for Investors pursuant to § 21 AIFMG for restrictions on the sale of fund shares to American citizens. Misprints and errors excepted.

Note for Switzerland: For interested parties the fund regulations or the articles of incorporation, the prospectus, Information for Investors pursuant to § 21 AIFMG and the key investor document (KID) in their current versions as well as the annual and semi-annual reports are provided free of charge at the offices of the management company and at the offices of the custodian banks and at the representative in Switzerland (ACOLIN Fund Services AG, Affolternstrasse 56, CH-8050 Zurich, www.acolin.ch). Paying agent in Switzerland is NPB Neue Privat Bank AG, Limmatquai 1/am Bellevue, Postfach, CH-8022 Zurich.