

Positive Contributors	FUND	Negative Contributors
<ul style="list-style-type: none"> Countries: Mexico, Argentina, Indonesia Companies: PEMEX, Turk Telekom AS 		<ul style="list-style-type: none"> Countries: Turkey, Brazil Companies: PT Perusahaan Listrik Negara, Gazprom
Opportunities	MARKET	Challenges
<ul style="list-style-type: none"> Positive price momentum for iron ore Acknowledgement of Braskem's environmental efforts Significant amount of new bond issues in EM 		<ul style="list-style-type: none"> Ongoing geopolitical tensions between US and China Increased likelihood of FED rate cuts in 2019 Further weakness of the Chinese Purchasing Manager Index

Update from the lead manager, Péter Varga

The positive mood in emerging markets continues. The absolute performance of EM corporate bonds barely reached the 2% mark in June, and inflows into the asset class are continuing. The effective yield of the asset class fell below 5% at the end of June, which can be explained by US yields being 15 basis points lower and the spread narrowing by 30 basis points.

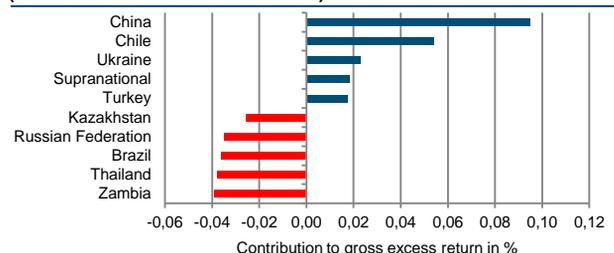
At the beginning of the year, the big question was how far the FED would raise interest rates. Now, some investment banks are already talking about three rate cuts by the end of 2019. What has happened in the meantime? As expected, the geopolitical rivalry between China and the US, disguised as a trade war, has strained the global economy. The indicators for the manufacturing sector are at recession-like levels in many countries. The Chinese Purchasing Managers Index was below 50 for the second time in a row, indicating a contraction in economic activity in this sector. The export component in particular was lower in negative territory - a clear effect of the trade war. The central banks are observing these developments with growing concern. At the ECB, voices for further bond purchases are becoming louder, while on the other side of the Atlantic people are already talking about possible rate cuts. On the surface, this seems odd, since the US economy is still growing at an acceptable rate and unemployment figures are at historically low levels. In our view, the FED will react earlier than before with one or two rate cuts. Why? Unlike in the past, inflation is not an issue in the US at the moment. Import tariffs may only have a one-off effect. The background could be that the FED wants to prevent the dangers of a deflationary spiral if an economic slowdown starts. Due to the economic problems and the expectations towards the central banks, the share of negatively yielding bonds is at a new high. This may be the strongest driving factor behind market positioning and movement.

The oil price (Brent variety) has been able to move up from levels around USD 60 per barrel after Saudi Arabia talked about possible supply cuts. Attacks on oil tankers are interpreted very differently (who and why could be behind them). The increased tension between Iran and the US has not yet had a real impact. However, the price movement of iron ore is notable, as it rose over 20% this month alone, although Brazilian producer Vale is likely to bring one of its mines back to 100% capacity. The movement was positive for our bonds in this sector such as Vale, Metinvest from Ukraine and CSN from Brazil.

Gross Performance	June 2019	YTD	1Y	3Y	5Y	10Y
ERSTE BOND EMERGING MARKETS CORPORATE						
Fund	1.74%	7.63%	8.00%	14.33%	19.05%	123.23%
Investment Universe*	1.85%	7.77%	7.36%	12.48%	11.97%	94.32%
Difference	-0.11%	-0.14%	0.64%	1.86%	7.09%	28.90%
ERSTE BOND EMERGING MARKETS CORPORATE IG						
Fund (USD)	1.96%	8.23%	10.11%	13.15%	18.94%	-
Investment Universe** (USD)	1.96%	8.60%	10.23%	14.22%	18.09%	-
Difference	0.00%	-0.36%	-0.12%	-1.07%	0.86%	-
ERSTE RESPONSIBLE BOND EMERGING CORPORATE						
Fund	1.65%	6.30%	5.49%	5.83%	13.65%	-
ERSTE BOND EMERGING MARKETS CORPORATE SHORT TERM						
Fund	1.09%	4.78%	6.69%	-	-	-
Investment Universe***	1.24%	4.93%	6.95%	-	-	-
Difference	-0.15%	-0.15%	-0.27%	-	-	-

*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, June 2019

Selected new issues in June

Issuer	Coupon	Maturity	Rating	Region
Trust	4.87	15.01.2030	BBB	Latin America
Trust	6.39	15.01.2050	BBB	Latin America

Erste AM EMERGING MARKETS CORPORATE Strategies (In mn EUR)

Pooled Funds	1,012.96
Institutional Mandates	478.9
Total	1,491.9

As of June 2019

Braskem from Brazil should also be mentioned on a single title level. The world's largest biopolymer manufacturer has received its first ever Award for Environmental Protection and Circularity from the American Chemistry Council. On the one hand, the company was recognized for its significant results in reducing harmful gases in the production process, conserving raw materials and reusing products. On the other hand, the company's cooperation with the Philadelphia Eagles Football Team regarding reusing the plastic cups in the stadium and setting up an online platform for 30 science, technology, engineering and mathematics (STEM) schools was also positively praised. However, the planned merger with LyondellBasell Industries will not take place due to differences of opinion with the owners of Braskem. We remain overweight in this company in our conventional and ESG funds for the time being, but the final quarterly figures and trading level are leaving little room for further performance.

The focus on STEM subjects in the US is very strong, which became evident during my stay at the annual Bank of America Merrill Lynch Conference for EM Corporates from late May to mid-June. The conference in Miami was very well attended with over 300 investors and companies from all regions of the world. I was able to interview 18 companies (some already invested, some potential candidates for investment) about business development and plans. Among them were companies like GTE Energy from Colombia, a relatively small oil company from the border region to Ecuador, where I wanted to understand the business model and the relevant risk factors. I was also able to enter into a dialogue with Marfrig from Brazil, the meat processor that surprised and convinced with its ESG commitment. Of course the trade war was a big topic at the conference, where nobody expected a "peaceful" solution. After the conference I had the opportunity to visit the NASA headquarters (Kennedy Space Center) near Orlando, where I could observe a strong sentiment towards "Make America great again". NASA had been somewhat neglected under the Obama administration, but now with Space-X (Elon Musk) and Boeing it seems as if a new era of space travel has begun. The "Let's go for it" mentality, the search for talent, a regained and recognized importance of the space industry and the attention of the young generation to the STEM subjects were noticeable. I left the country with the impression as if it was soon in preparation for a big competition ("war"?). In this context, the old advertising poster on the aircraft carrier "Intrepid" in New York came to my mind, where once women were being recruited for the production of ammunition.

What counts at the moment are the central banks and the inflows, which, despite a good amount of new issues, are shaping the market somewhat one-sidedly. Among other things, we have subscribed to new bonds of the Mexican real estate trust FUNO, as the 10- and 30-year bonds came onto the market relatively cheap. We sold our old holdings in the 2024 bonds, which were already listed at 3.9% and subscribed to new bonds at just under 5% and 6.39% respectively. This has paid off as the new bonds are now trading 1.5-3 percentage points higher, while the old bonds are already trading 50 cents below the level at which we sold them. The relative performance in recent weeks and months has been slightly negatively impacted overall by a somewhat shorter interest rate sensitivity.

Chart: Strong sentiment towards "Make America Great Again" can be felt throughout the US



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ABOUT US

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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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