

Positive Contributors	FUND	Negative Contributors
<ul style="list-style-type: none"> Countries: Mexico, Brazil, Israel Companies: America Movil SAB de CV, Pemex 		<ul style="list-style-type: none"> Countries: Zambia, Argentina Companies: First Quantum Minerals LTD, Transportadora de Gas D Sur SA
Opportunities	MARKET	Challenges
<ul style="list-style-type: none"> Excellent export prospects for Marfrig Rating upgrade of Metinvest despite weak steel market 		<ul style="list-style-type: none"> Ongoing volatile sideward market of Argentinian bonds due to open outcome of the political development

Update from the lead manager Péter Varga

After the risk premia had widened in August, the market was able to offset a good part (approx. 50 %) and managed to end September with a positive return of 0.4%. Risk premia at the end of September were at 340 bps, US 10-year yields at 1.66% and the latter widened by 20 basis points.

At the beginning of the month, there were funding problems/ liquidity bottlenecks in the US money market (repo market) as financing rates briefly rose above the 10% mark. This move suddenly created a lot of nervousness in the financial markets. It seems that "smaller" primary dealers (banks, which were invited to the first issue of US bonds, Treasury Bills) are sitting on bond holdings that they cannot get rid of. In brief, lower demand is meeting high issuance activity with a budget deficit that had already exceeded the USD 1 trillion mark in August. Apparently, the bonds were to be offered as collateral with a buy-back agreement for short-term liquidity. The FED intervened on several days with capital injections of over USD 50 billion. Furthermore, the central bank will continue this program (QE4) for the next 6 months.

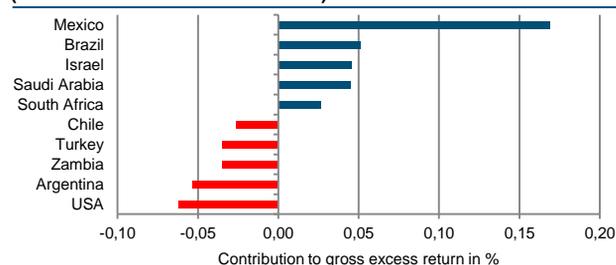
Similar to the recent failure to find buyers below the 0% mark for the newly issued German 30-year bonds, the US bonds did not find a ready market due to low interest rates, high government deficits and other reasons (China...). As expected, the FED lowered key rates to the range of 1.75-2% (-25 basis points) in September, but signaled no rush for further action. However, the US Purchasing Managers Indices published on 1 October are signaling a sharp decline in the manufacturing business (export orders have hit a 10-year low). Hence, FED members may have to change their minds.

In general, we saw further declines in manufacturing in September. The uncertainty/rivalry between China and the US, coupled with structural problems such as those in the automotive sector (small suppliers are increasingly going bankrupt in Germany, larger ones such as Continental have announced big scale restructuring programs), are having noticeable consequences on the real economy.

Gross Performance	Sept. 2019	YTD	1Y	3Y	5Y	10Y
ERSTE BOND EMERGING MARKETS CORPORATE						
Fund	0.66%	8.69%	7.80%	11.67%	23.85%	96.76%
Investment Universe*	0.30%	8.91%	7.63%	9.43%	17.59%	72.79%
Difference	0.35%	-0.22%	0.17%	2.24%	6.26%	23.98%
ERSTE BOND EMERGING MARKETS CORPORATE IG						
Fund (USD)	-0.11%	11.24%	12.14%	14.23%	23.38%	-
Investment Universe** (USD)	-0.21%	11.57%	12.11%	14.67%	22.44%	-
Difference	0.11%	-0.33%	0.03%	-0.45%	0.94%	-
ERSTE RESPONSIBLE BOND EMERGING CORPORATE						
Fund	0.38%	7.76%	7.09%	5.46%	14.86%	-
ERSTE BOND EMERGING MARKETS CORPORATE SHORT TERM						
Fund	0.59%	5.12%	5.99%	-	-	-
Investment Universe***	0.52%	5.33%	6.29%	-	-	-
Difference	0.06%	-0.21%	-0.30%	-	-	-

*BoA ML Q505 – Customized EM Corporate Credit Index until 30.06.2019, JP Morgan CEMBI Broad Diversified EUR hedged Index from 1.7.2019
 **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, September 2019

Selected new issues in September

Issuer	Coupon	Maturity	Rating	Region
MHP Lux S.A.	6.25	19.09.2029	B+	Europa
Longfor Group Holdings Ltd.	3.95	16.09.2029	BBB	North America
IHS Netherlands Holdco B.V.	7.125	18.03.2025	B+e	Europa
Industrias Peñoles S.A.B. de C.V.	5.65	12.09.2049	BBB	Latin America

Erste AM EMERGING MARKETS CORPORATE Strategies (in mn EUR)	
Pooled Funds	996.96
Institutional Mandates	490.13
Total	1,487.09

As of September 2019

In Argentina, preparations for a "friendly" debt restructuring are continuing. Macri and his immediate environment were at the IMF to inform about the macro situation. After the introduction of capital controls to prevent a continuation of record high exports in August (see chart on next page), foreign exchange reserves were sinking on a slower level. However, the net foreign exchange reserves will only last for approximately another 6 months in case the country does not receive further support and access to the capital market. The Argentine peso is trading on a stable level between \$65-70 per US dollar on the black market, which is about 20-25% below the official price.

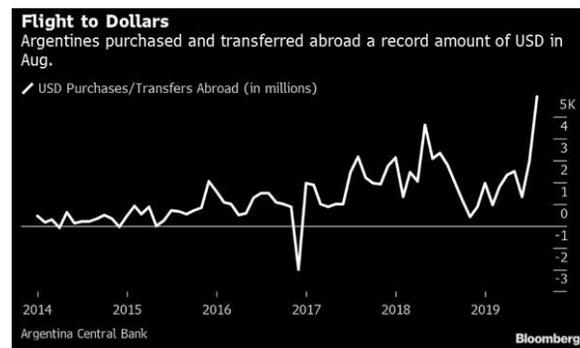
After Fernández de Kirchner's camp demands a much more left-wing policy with nationalisations such as price settings, for example for energy, it will be interesting to see whether such a policy will also convince the financiers. Otherwise, it remains to be seen whether the voters will then tolerate further savings measures. The prices for the bonds are trading sideways volatile for the time being.

In the Ukraine, bonds reacted negatively to recent developments in the Trump case. The involvement of President Zelenskyy had a negative impact. In addition, the private bank's nationalisation plans were resumed (the ex-owners were allegedly the campaign financiers of the new president). Another drag was the country's heavy overweight in many portfolios due to the pursued reform course so that the buy-side was missing. We remain overweight in MHPSA and Metinvest. Metinvest in particular has been upgraded to "BB-". We like the company despite the currently weak steel market and subscribed to the new issue at the beginning of October.

On an individual security level, Pemex repurchased a large proportion of the short- and medium-term bonds and issued new 7-, 10- and 30-year bonds in return. Vale from Brazil also bought back USD 1 billion of bonds. Petrobras bought back several billion and issued 10-year bonds. Marfrig's rating of "BB-" was confirmed by Fitch, which reaffirms our decision to leave the company as a core overweight position. The company is efficiently positioned, National Beef in the US is doing very well and export prospects to China (swine flu) are excellent for the next 12-18 months.

Despite volatile bond markets, we were able to make up for much of the underperformance in August. The underweight in TEVA (opioid problem) has paid off. We earned 11 basis points on the yield curve (good timing in extending interest rate sensitivity by loading up oversold long-term AMX 2049 bonds during the interest rate correction phase) and our Turkish telecom bonds, together with Marfrig, were the top performers in September.

Chart: Record high capital exports are putting pressure on Argentina's foreign currency reserves



Source: Bloomberg

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