

| Positive Contributors  | FUND   | Negative Contributors   |
|--|--------|---|
| <ul style="list-style-type: none"> <li>Countries: China, Brazil</li> <li>Companies: Yandex NV, Unigel Participacoes SA, Ultrapar Participacoes SA</li> </ul> |        | <ul style="list-style-type: none"> <li>Countries: United Arab Emirates, Hong Kong, South Africa</li> <li>Companies: --</li> </ul> |
| Opportunities  | MARKET | Challenges  |
| <ul style="list-style-type: none"> <li>Optimism in vaccine- and test development</li> </ul>  |        | <ul style="list-style-type: none"> <li>Upcoming US elections</li> </ul>   |

## Update from the lead manager Péter Varga

Higher US yields, a steeper interest rate curve and tighter risk premia: these are the recent events in a nutshell. Absolute performance was above 1%, the tightening of risk premia (mainly in the HY-segment) more than compensated the negative effects of increased US interest rates.

Over the second half of the month, US yields rose and the interest rate curve steepened. The development was based on the US Federal Reserve having signaled that in future it would accept a temporary overshooting of the inflation target of 2% in order to be able to maintain inflation on an average rate. Even though this was no big news, it was traded very actively on the market. In particular, we would like to draw the reader's attention towards the US timber market, which has catapulted itself upwards over the last two months (see Graph 1). Reason for that upsurge is the increased demand for residential buildings in US suburban areas (home office possibilities). Such a development, of course, drives up inflation expectations.

Politically, we have spoken in August about the rivalries between China and the US. So far, there is not much new to add. The TikTok affair is being discussed widely and mirrors our line of argumentation. However, in the near future, investors will focus gradually more on US elections and the potentially resulting internal political issues. Should President Trump not acknowledge a possible defeat, it might not be surprising if he were to drive his followers to the streets...

Despite sporadic increases in Covid-19 infections (the number of deaths has hardly risen, which is important), the global economic recovery continues. Most purchasing manager indices are indicating this trend. Furthermore, the global market is regaining some ground: according to the Kiel Institute for the World Economy, recovery is happening faster (despite considerable restrictions and trade wars) than after the Lehman crisis in 2008 – 2009 (see Graph 2). However, the numerous measures taken by governments (moratoria on loans and terminations) have distorted the depiction of the actual state of the economy. News from Continental, for example, where the fate of 30T employees (more than 10% of its workforce) is being decided, draws a gloomier picture. There it is expected that demand will not reach the level of 2017 again until 2025...

After precious metals climbed almost parabolically at the beginning of August, they are currently in a consolidation phase. Base metals followed the strong PMI as well as the positive real estate markets and outperformed precious metals in the second half of the month. Companies such as CSN from Brazil or Nexa from Peru performed well accordingly.

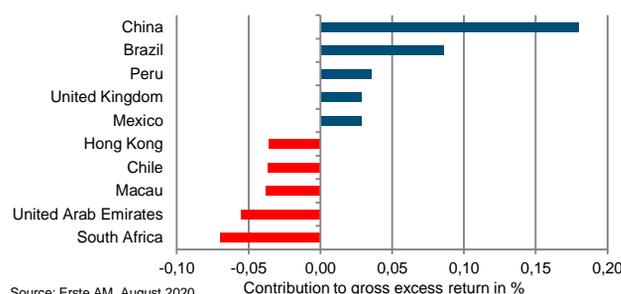
| Gross Performance                          | August 2020 | YTD   | 1Y    | 3Y     | 5Y     | 10Y    |
|--|-------------|-------|-------|--------|--------|--------|
| <b>ERSTE BOND EM CORPORATE</b>             |             |       |       |        |        |        |
| Fund                                       | 1.16%       | 6.14% | 8.62% | 14.32% | 31.86% | 83.18% |
| Benchmark*                                 | 0.88%       | 1.81% | 3.37% | 7.60%  | 25.53% | 54.09% |
| Difference                                 | 0.29%       | 4.33% | 4.88% | 6.73%  | 6.34%  | 29.09% |
| <b>ERSTE BOND EM CORPORATE IG</b>          |             |       |       |        |        |        |
| Fund (USD)                                 | 0.75%       | 5.55% | 6.65% | 18.41% | 29.48% | -      |
| Benchmark**                                | 0.54%       | 4.64% | 5.51% | 17.76% | 31.21% | -      |
| Difference                                 | 0.21%       | 0.92% | 1.14% | 0.64%  | -1.72% | -      |
| <b>ERSTE RESPONSIBLE BOND EM CORPORATE</b> |             |       |       |        |        |        |
| Fund                                       | 0.91%       | 3.48% | 5.23% | 8.08%  | 17.40% | -      |
| <b>ERSTE BOND EM CORPORATE SHORT TERM</b>  |             |       |       |        |        |        |
| Fund                                       | 1.14%       | 3.45% | 6.16% | -      | -      | -      |
| Benchmark***                               | 0.75%       | 2.17% | 4.62% | -      | -      | -      |
| Difference                                 | 0.39%       | 1.29% | 1.54% | -      | -      | -      |

\*J.P. Morgan CEMBI Broad Diversified Composite Index Hedged in EUR

\*\*J.P. Morgan CEMBI Broad Diversified IG in USD

\*\*\*J.P. Morgan CEMBI Broad Diversified, Maturity 1-3 years Index

## Best and worst relative performance contributors by country (relative to the benchmark)



## Selected new issues in August

| Issuer                                | Coupon | Maturity   | Rating | Region          |
|---------------------------------------|--------|------------|--------|-----------------|
| COCA-COLA FEMSA, S.A.B. DE C.V.       | 1.85   | 01.09.2032 | A-     | Central America |
| ICBCIL Finance Company Ltd.           | 1.75   | 25.08.2025 | A      | Asia            |
| Yuzhou Group Holdings Company Limited | 7.85   | 12.08.2026 | B+     | Asia            |

## Erste AM EM CORPORATE Strategies (In mn EUR)

|                        |                 |
|------------------------|-----------------|
| Pooled Funds           | 1,033.41        |
| Institutional Mandates | 453.24          |
| <b>Total</b>           | <b>1,486.65</b> |

As of August 2020

At the Covid-19 front, several drugs are in the third phase of clinical tests. Abbott and Roche have both developed blood plasma based rapid tests that show results in about 15 minutes. Russia has started to distribute its vaccine “Sputnik V” (see Graph 3) to teachers and other selected individuals. With test results in 15 minutes and vaccines “on the doorstep”, sectors such as airlines, hotels and airports will certainly be able to rejoin the market rally soon.

The reporting season of EM companies went as expected. In China, the majority of real estate companies relevant for us delivered neutral figures. Relative indebtedness has increased mostly due to weaker margins (promotions in Q2). With refinancing and new issues on the USD market, liquidity has improved significantly. The outlook is positive, also because the Chinese government intends to control the industry’s borrowings. This will initially apply to the largest companies and will be made dependent on achieving certain relative debt factors.

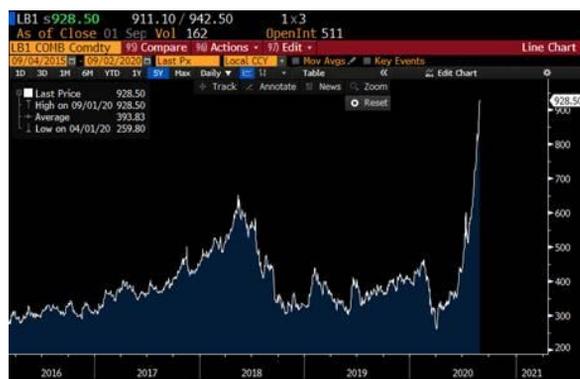
Telecom companies and meat producers continued to deliver good figures. However, they have probably reached the peak of their margins, meaning that this performance will be difficult to repeat over the coming quarters. We have used this circumstance to sell all meat producers, also because, on a sector level, this is where the fund had the largest overweight since the beginning of the crisis. An important indication for us, with regard to Turkish telecom bonds (currently overweight), is that the Argentinian government is freezing telecom tariffs and hence hindering their ability to keep up with inflation (~ currency devaluation).

Companies in the metals industry delivered mixed figures (CNS, for instance, better, Nexa weaker figures). However, market prices are indicating significantly better figures for the third quarter. Furthermore, CNS wants to go public with part of its iron ore mining operations in order to reduce its debt – a never ending story, which might actually come to an end now. Based on this news and the stable high iron ore prices, we have built a position in the 2023 bond with a yield of over 7%.

As seen from the performance, the market was in good shape during the summer holiday season. However, liquidity was very thin or in some cases simply not available. New issues can still be placed on the market quite well and this trend will certainly continue at an accelerated pace in September.

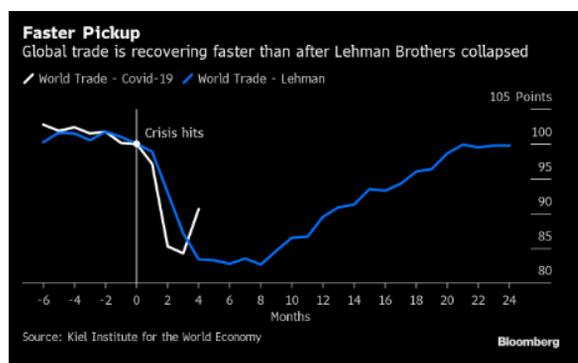
Due to the reported positioning with regard to the fund’s interest rate sensitivity and selected convertible bond holdings, our performance outperformed the benchmark. In the convertible bond part of the fund, we took profits on some positions and rebuilt others. We were also able to add an Indonesian security, which is still heavily sold off, to the portfolio and it has already started off well. In comparison to the seemingly unreasonable euphoria on the stock market (at least in regard to some companies), EM corporate bonds still offer investible pearls!

Graph 1: Price explosion in the US timber market



Source: Bloomberg

Graph 2: The recovery phase in this crisis is much stronger than after Lehman



Source: Bloomberg, Kiel Institute for the World Economy

Graph 3: Based on the colour, one can probably not tell which bottle contains the vaccine



Source: Russian Direct Investment Fund

## CONTACT

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

[www.erste-am.com](http://www.erste-am.com)  
[institutional@erste-am.com](mailto:institutional@erste-am.com)

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