

First State Emerging Markets Bond Fund

Monthly update

July 2015

Market review

Emerging market (EM) debt returned 0.5% (in US Dollar terms) in July reflecting income. The risk premium on EM debt increased over the month, with the spread on the index rising to 367 basis points (bps). The yield was virtually unchanged at 5.8%, while US 10-year Treasury yields rallied 18bps to 2.17%. The US Treasury rally may have reflected some safe haven buying against a backdrop of plummeting commodities prices and concerns over China, where heavy selling in the stock market continued and economic data was disappointing.

Europe was the strongest performing region over the month as after three weeks of intensive negotiations, Greece secured yet another temporary financing solution that has meaningfully reduced the risk of exit from the euro zone, at least over the short-term. Ukraine was again the strongest performing credit as it continued to rally hard on expectations of a lower haircut for bondholders as part of a debt restructuring. The credit remains a significant underperformer over 12 months. Belarus outperformed on expectations it will receive a new loan from the IMF in return for the country agreeing to structural reforms, while Romania rallied due to the resolution in Greece.

Latin America underperformed overall. Brazil declined amid a raft of further negative news. Finance minister Levy announced this month that the fiscal targets which he had set for this year and next were no longer achievable. He revised the primary deficit target from 1.1% of GDP to 0.15% of GDP for 2015. The fiscal adjustment program has faced resistance in Congress, where some of the government's measures were watered down or not approved. At the same time, tax revenue is plunging due to lower than anticipated growth. The political situation has also deteriorated further, with President Rousseff's popularity reaching new lows and an increased risk of a break-up of the ruling coalition. S&P revised the ratings outlook for Brazil to negative after the government announced the reduction in the primary budget surplus targets. The rating agency believes that the political situation raises execution risks in relation to implementation of fiscal reforms.

On the other hand, Argentina did well, reversing some of the underperformance of the previous month. It is still too early to forecast the outcome of the upcoming presidential election in October, but investors are watching the campaign rhetoric of the candidates closely. In Turkey, political uncertainty remains high as well as the coalition talks between President Erdogan's AKP and potential coalition partners have not yielded a result yet, leaving the possibility of new elections open.

More broadly, underperformers in July were dominated by oil credits, particularly Ecuador, Gabon and Azerbaijan, as the oil price plummeted. Commodity exporters such as Zambia and Mongolia also fared badly due to plunging commodities prices, though the latter has performed strongly in recent months.

Portfolio positioning

We participated in a number of new issues this month, in particular Jamaica and Zambia, which were attractively priced. The fund remains relatively cautiously positioned, as we anticipate further volatility in the run up to the September Fed meeting. The fund remains very selective in the less liquid credits such as the African ones.

Outlook

We anticipate bouts of market volatility in the run up to the first interest rate hike by the Fed. In EM, we expect continued differentiation between the economic and asset price performance of individual countries. Country selection will therefore remain an important driver of performance.

Fund Overview

Emerging market debt has evolved from being a niche opportunity to an attractive alternative to fixed income investments in developed markets.

Low debt-to-GDP ratios, high international reserves and greater growth potential have increased interest in the sector, providing clients long-term investment opportunities.

The First State Emerging Markets Bond Fund invests in government, quasi-sovereign and corporate fixed income securities with the aim of providing investors with superior risk-adjusted returns.

Why the First State Emerging Markets Bond Fund?

A wealth of experience – managed by Helene Williamson and supported by a dynamic team of experienced investment professionals.

Meticulous analysis – we conduct in-depth research of key drivers such as market dynamics and trends, political, fiscal and technical drivers. Using quantitative inputs, the team blends top-down and bottom-up judgments to identify the most attractive investments across the EM universe.

Research-based and repeatable – the emerging markets debt team follows a disciplined, research-based and repeatable investment process designed to deliver risk-controlled outperformance.

A collaborative approach – Helene is supported locally by a team of eight portfolio managers and analysts. This support is augmented by the broader global Fixed Income Team made up of an additional 43 investment staff (portfolio managers, analysts and traders).

Fund information

Fund manager	Helene Williamson
Launch date	October 25, 2011
IMA	Global Emerging Markets Bond
Benchmark	JP Morgan EMBI Global Diversified
ISIN	B GBP Income: GB00BFRB4W06 B Hedged GBP Income: GB00BFRB4V98

Fund manager profile

Helene Williamson is Head of Emerging Markets Debt at First State Investments, where she is responsible for the company's full suite of emerging markets debt portfolios. Helene's extensive experience includes 16 years as Head of Emerging Markets Debt with F&C Asset Management. In this position, she managed F&C's Emerging Markets Debt SICAV, which received a 5-star rating from Morningstar.



Helene Williamson

Head of Emerging Markets Debt

The First State Emerging Markets Bond Fund is not available for investment by U.S. persons.

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