



EDMOND  
DE ROTHSCHILD

ASSET MANAGEMENT

# EDR FUND EMERGING CREDIT



EDMOND DE ROTHSCHILD, BOLD BUILDERS OF THE FUTURE.



# EDMOND DE ROTHSCHILD FUND EMERGING CREDIT

## SEPTEMBER 2021 – MONTHLY REVIEW

KEY INDICATORS	Fund	CEMBI Broad
Assets under management	\$900m	
Average Rating	BB-	BBB-
Yield to Worst (USD)	5.8%	4.5%
Modified Duration	4.2	5.0
Credit Premium	450	264
Currency Exposure	USD: 100%	

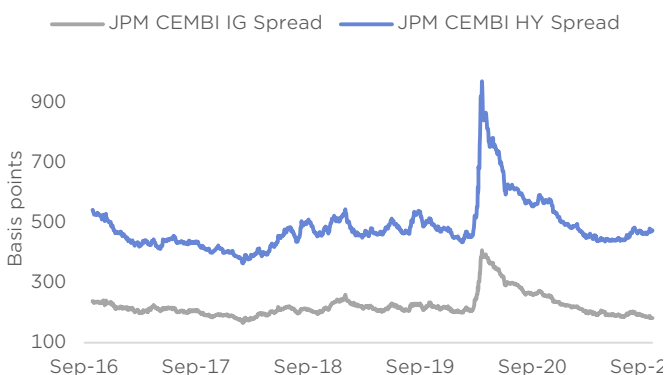
KEY STATISTICS	I-USD	CEMBI Broad	Rel. Perf
MTD	-1.0%	-1.1%	0.1%
YTD	2.8%	0.3%	2.5%
2020	3.8%	7.4%	-3.6%
1-Year	10.7%	4.2%	6.6%
3-Years Cumul.	20.8%	22.5%	-1.7%
5-Years Cumul.	36.7%	28.7%	8.1%

Edmond de Rothschild Fund Emerging Credit is a sub-fund of the Luxembourg SICAV fund authorised by the CSSF. Edmond de Rothschild Asset Management data at 30.09.2021

### MARKET & FUND REVIEW

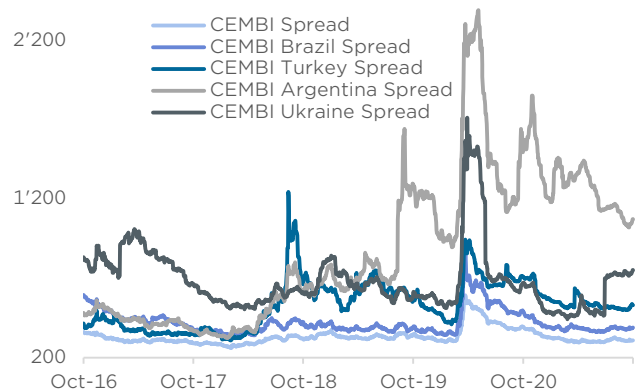
- ▶ Emerging corporate bond markets suffered in September on the back of a hawkish Fed meeting and of increased uncertainties on the Chinese real estate market. The CEMBI Index posted a -1.1% return over the month, mainly driven down by the High Yield segment, -1.6%, versus -0.8% for the Investment Grade segment. The ongoing decline in Chinese real estate (-6.2% MTD) weighed heavily on the index's High Yield segment. EdR Fund Emerging Credit (-0.9%) slightly outperformed the CEMBI index (-1.1%), mainly thanks to its low duration (4.2) and lack of exposure to the China Real Estate market.
- ▶ Sentiment was overall negative following the hawkish FOMC meeting. US interest rates increased by 17.9 bps and the US dollar gained 1.7%, impacting sentiment on emerging fixed income markets, especially longer-maturity Investment-grade bonds. Commodity prices however remained at a high level, with Brent prices increasing 7.6%, reaching \$78.5/bbl as at end-September. Iron ore prices continued to drop in the first half of September, before rebounding in the second half. On the corporate market, concerns about the Chinese real estate market continued, especially after Evergrande entered a 30-day grace period on September 24<sup>th</sup>. While we continue to monitor the Asian real estate market closely, EdRF Emerging Credit still has no exposure to the sector.
- ▶ Overall, all sectors posted negative returns. The Real Estate sector plunged once again (-4.2%) after a small surge last month, due to the negative news flow around Chinese names. Low beta sectors such as Financials (-0.3%) and Utilities (-0.3%) outperformed.
- ▶ Corporates in all major regions posted negative returns. Asia underperformed (-1.5%) the index and Latin America also lost some ground (-1.0%). Europe, Africa and Middle East did better with performances between -0.3% and -0.1%.
- ▶ Companies in most geographies posted negative returns in September. China strongly underperformed (-2.2%) due to the significant drop in its real estate sector. Brazil (-1.6%) and Mexico (-1.2%) were also weak due to their longer duration versus peers. Low beta countries such as Chile (-0.3%), Russia (-0.1%) and UAE (-0.1%) outperformed. Peru (+0.4%) and Nigeria (+0.2%) were the only countries in positive territory.
- ▶ Emerging corporate bond yields increased by slightly more than 20 bps to around 4.5% in September, broadly in line with US Treasury yields, such that spreads remained stable. As at end-September, spreads stood at 310 bps for the CEMBI Broad Index, 502 bps for the CEMBI High-Yield Index, 182 bps for the CEMBI Investment-Grade Index and at 450 bps for EdRF EM Credit.

### CEMBI IG SPREAD VS. CEMBI HY SPREAD



Source: Bloomberg, data as at 30.09.2021

### SPREAD TRENDS: CEMBI, UKRAINE, TURKEY, ARGENTINA AND BRAZIL



### EDMOND DE ROTHSCHILD

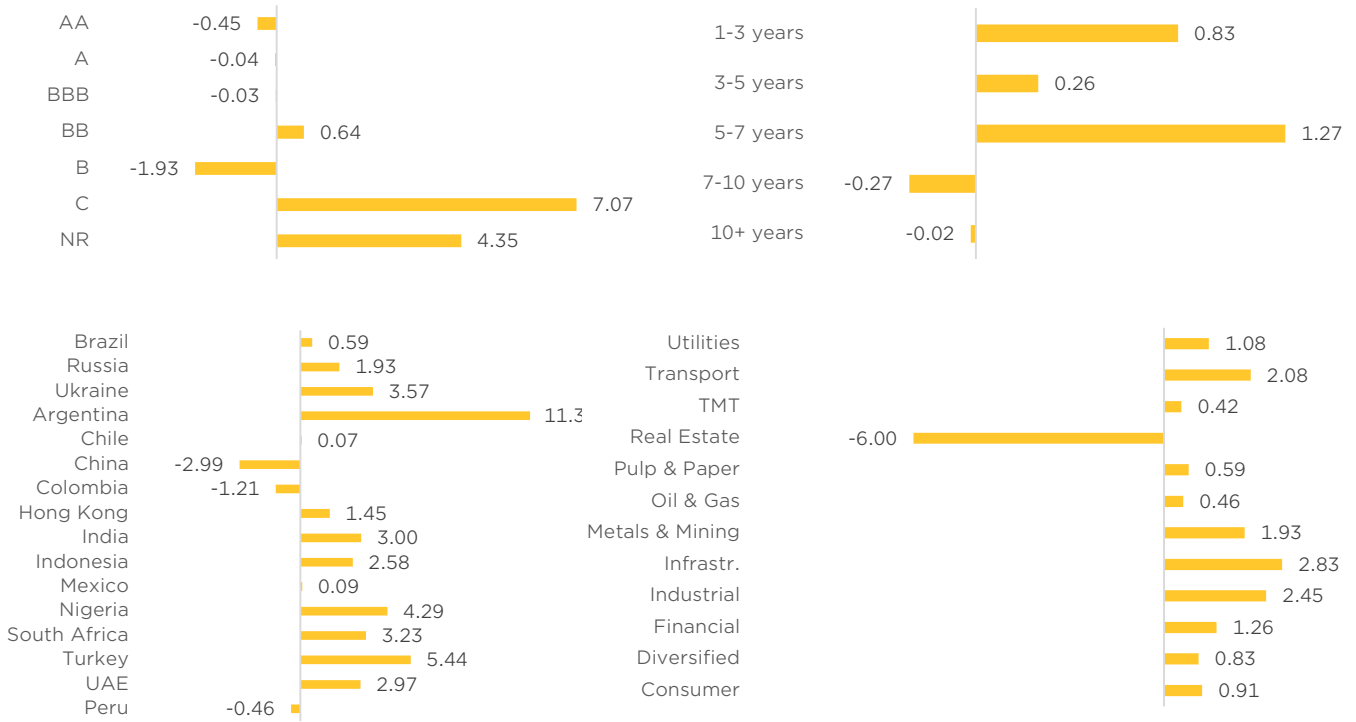
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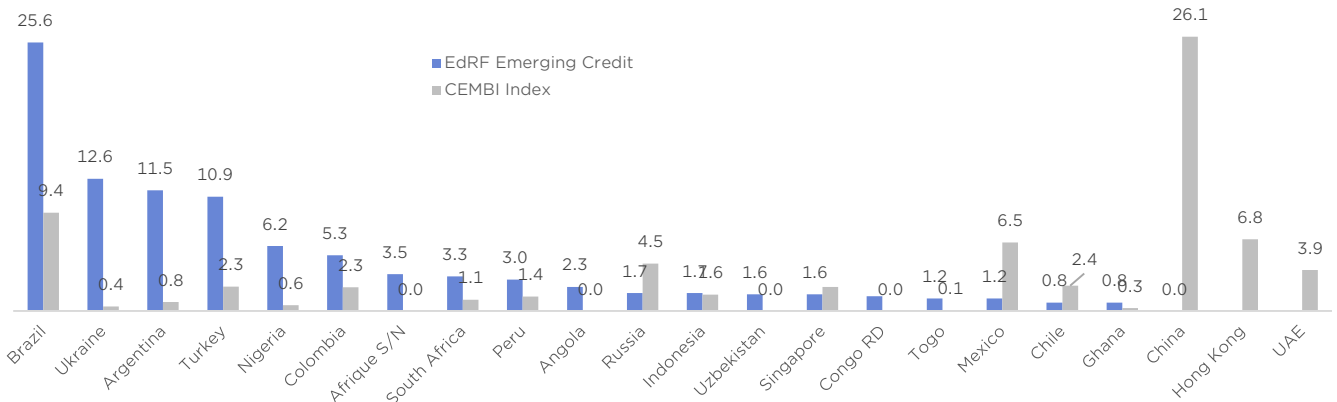
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## SEPTEMBER 2021 - MONTHLY REVIEW

### YTD PERFORMANCE: JPM CEMBI INDEX BY RATING, MATURITY, SECTOR, COUNTRY (%) (30.09.2021)



### COUNTRY ALLOCATION: EDR F EMERGING CREDIT VS. JPM CEMBI INDEX (%)



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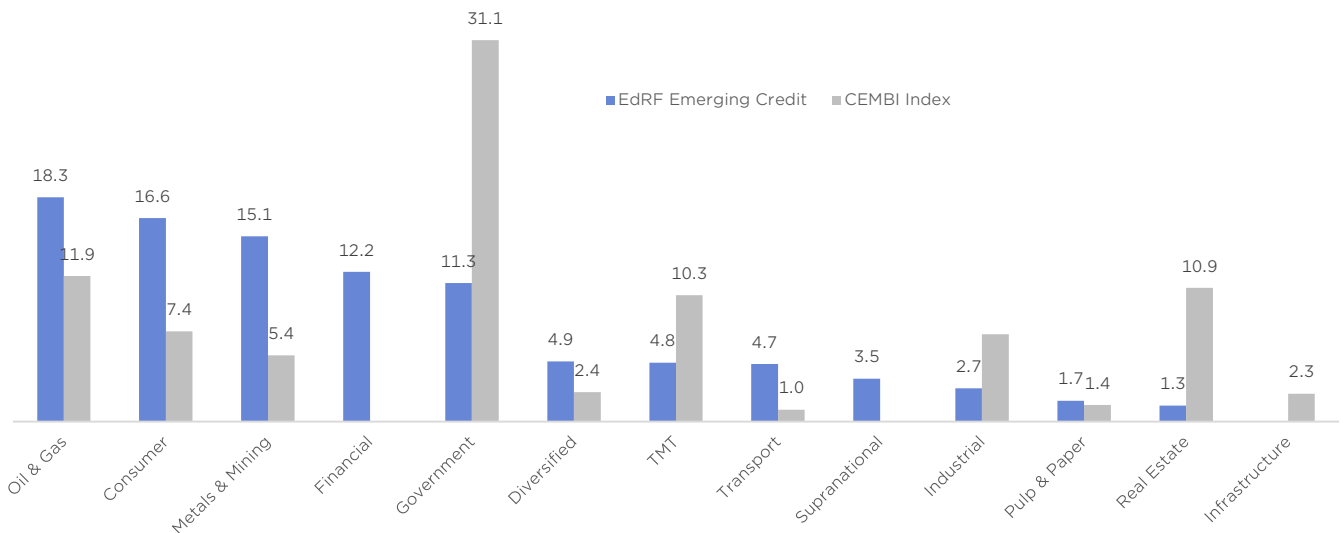
# EDMOND DE ROTHSCHILD FUND EMERGING CREDIT

## SEPTEMBER 2021 – MONTHLY REVIEW

### FUND PERFORMANCE ANALYSIS

- ▶ In September, we noted mixed performances among our main exposures. The Investment Grade segment in Brazil underperformed due to its relatively long duration. In the high beta segment, Ukraine slightly underperformed (-1.2%) but Argentina (0.0%) and Turkey (-0.6%) showed resilience despite an unexpected cut in the policy rate by the Central Bank. Performance in Nigeria (0.2%) was supported by the positive trend in oil prices. Peru continued its recovery after the political turmoil (+0.4%) and Argentina continued to perform well on a relative basis, it was flat over the month. It remained a significant contributor to the positive performance year-to-date along with Turkey, Nigeria and Ukraine.
- ▶ Sector-wise, our allocation to commodity-related sectors performed in line with the index: Metals & Mining and Oil & Gas both lost about 1%. Pulp and Paper (-1.6%) underperformed due to its longer duration. Financials (-0.3%) and Utilities (-0.3%) outperformed as low beta sectors.
- ▶ AUM slightly decreased to \$903 million at the end of September. The fund has recorded net inflows of about \$92 million since the beginning of the year.

### SECTOR ALLOCATION: EDR F EMERGING CREDIT VS. JPM CEMBI INDEX (%)



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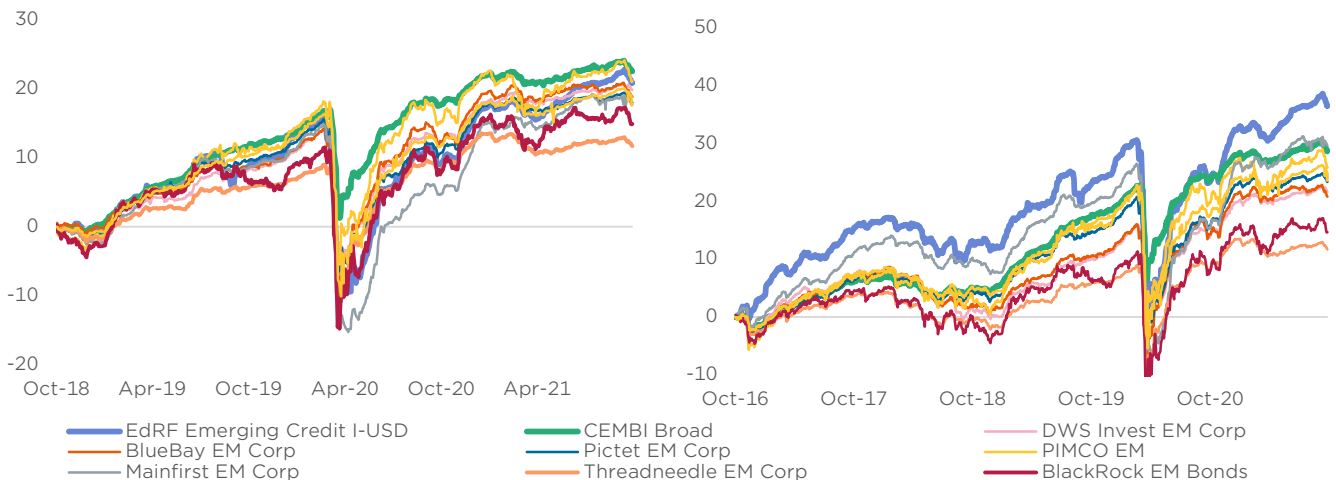
# EDMOND DE ROTHSCHILD FUND EMERGING CREDIT

## SEPTEMBER 2021 - MONTHLY REVIEW

### CONCLUSION & OUTLOOK

- ▶ The September FOMC meeting and uncertainty on the Chinese real estate market offered some reason for caution and for profit-taking in September after a very positive first half of the year. Despite these events, we remain comfortable with the return emerging corporate markets can offer until the end of this year. We expect US interest rates to increase gradually and thus to be well accepted by the market. US Treasuries are still trading within a low range of 1.20%-1.60%, real interest rates thus remain negative, even in the US High Yield segment, and should not divert the search-for-yield attitude of global investors. Vaccine roll-outs continue to gain steam in emerging markets and should be coupled with an economic recovery. Additionally, the solid credit metrics remain very supportive for emerging corporate debt.
- ▶ High commodity prices should also continue to support emerging corporates. Despite the recent setback in iron ore prices, they remain 40% above pre-crisis levels and offer corporates a comfortable buffer. Other base metal prices such as copper, zinc or nickel are consolidating at very high levels. Oil prices have reached levels last seen in 2018.
- ▶ Even if we expect some volatility on the markets until the end of the year, we believe there is still a catch-up potential in selected high-beta markets, notably Argentina and Ukraine, where corporates are still undervalued in our view and are trading at attractive levels relative to their credit metrics. We expect sectors linked to the economic recovery in emerging markets to continue to outperform at least until the end of this year, with Metals & Mining, Energy, Transportation and Infrastructure in the lead. In this regard, the fund is well positioned and should continue to outperform its index and peers. Year-to-date, the performance stands at +2.8% versus +0.3% for the index.
- ▶ The evolution of the dollar is being closely monitored by the portfolio managers and the portfolio allocation is being adapted accordingly. The fund's low duration offers protection against a steepening of the yield curve, which remains a risk in the medium term.

### 3-YEAR AND 5-YEAR PERFORMANCES VS. COMPETITORS



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## SEPTEMBER 2021 – MONTHLY REVIEW

TERMS & CONDITIONS	A Class	B Class	I Class	K Class
ISIN code	USD - LU1080015420 EUR - LU1080015693	USD - LU1080015776 EUR - LU1080015859	USD - LU1080015933 EUR - LU1080016071	USD - LU1564424452
Bloomberg symbol	USD - ERECAAU LX EUR - ERECAAE LX	USD - ERECBIU LX EUR - ERECBIE LX	USD - ERECIU LX EUR - ERECAE LX	USD - ERECKUA LX
Currency	USD, EUR (H), CHF (H)	USD, EUR (H), CHF (H)	USD, GBP (H), EUR (H), CHF (H)	USD, GBP (H), EUR (H)
Accumulation/Income	Accumulation	Distribution	Accumulation	Accumulation
Subscription tax rates	0.05%	0.05%	0.01%	
Subscription fee	Max. 1%	Max. 1%	N/A	N/A
Overall management fees	Max. 1.00%	Max. 1.00%	Max. 0.40%	Max. 0.70%
Outperformance fee	15% (HWM)	15% (HWM)	15% (HWM)	N/A
Eligible investors	Individual investors	Individual investors	Institutional investors	Institutional investors
Minimum initial subscription amount	1 share	1 share	I-EUR (H): €500,000 I-GBP(H): £500,000 I-USD: \$500,000	I-EUR (H): €500,000 I-GBP(H): £500,000 I-USD: \$500,000
Date of inception of the fund	25/05/2009			

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October 2021

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