

Frontier Markets Debt Fund

Strategy Profile – August 2021



Strategy overview

The objective of the Fund is to maximise returns by investing in a diversified portfolio of sovereign debt in 'Frontier' countries, off benchmark. The strategy is a blend of local and external market fixed income instruments, but with a bias towards the former combined with an opportunistic holding in USD and EUR denominated bonds. Target return is 8-10% (annually), with an expected volatility of approximately 5-6%.

Portfolio construction

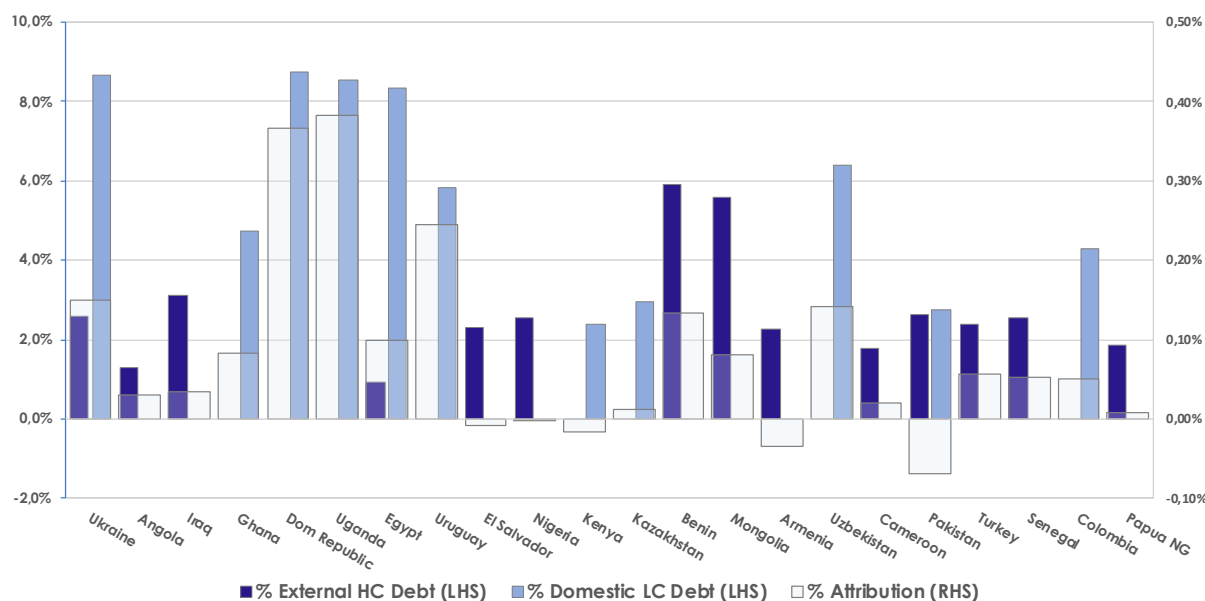
A 'bottom-up' country analysis which includes; instrument and country risk/return and liquidity analysis, and an integrated ESG screening/overlay. USD and EUR interest rate exposure in the portfolio is hedged and EUR foreign exchange risk is hedged to the fund's base currency (which is USD).

Performance analysis

| Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD 2021 |
|---|--------|--------|--------|--------|--------|--------|--------|-----|-----|-----|-----|----------|
| AZ3 Frontier Markets Debt Fund (A Inst USD) | | | | | | | | | | | | |
| +1.02% | +0.75% | +0.79% | +1.54% | +1.21% | +0.67% | -0.03% | +1.55% | | | | | +7.74% |
| Bloomberg Barclays EM Hard Currency Aggregate Sovereign | | | | | | | | | | | | |
| -1.25% | -2.42% | -2.05% | +2.30% | +1.25% | +0.12% | +0.50% | +0.89% | | | | | -0.62% |
| Bloomberg Barclays EM Local Currency Sovereign Universal IG | | | | | | | | | | | | |
| -0.18% | -1.44% | -0.19% | +0.33% | +0.23% | -0.16% | +1.10% | +0.18% | | | | | -0.19% |
| Bloomberg Barclays EM Local Currency Sovereign Universal HY | | | | | | | | | | | | |
| -1.34% | -1.42% | -2.77% | +0.45% | +0.91% | +0.40% | -0.03% | +0.06% | | | | | -3.80% |

Source: Azimut Investments S.A. Bloomberg. Performance for August is calculated from fund NAV on 31st August 2021, net of fees. Past performance is not a good indicator of future returns.

Exposure and Performance Attribution by Country - August 2021



Source: Azimut Investments S.A.

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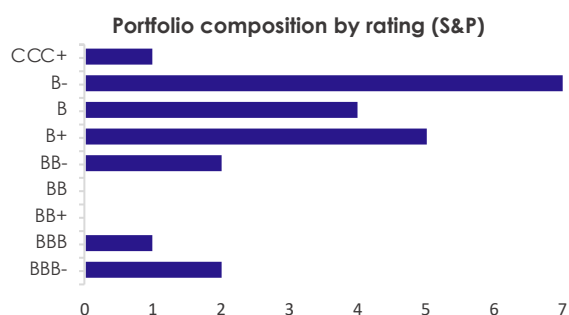
USD supply continues unabated

USD rates moved marginally higher in August, with Chairman Powell stating at Jackson Hole that tapering could begin as early as in 2021; on the labour side disappointing August non-farm payroll figures were overshadowed by high wage inflation. In the Euro area, high German inflation prints boosted hawks' case for dialling back the ECB's bond-buying activities with its pandemic emergency purchase programme (PEPP).

Emerging Markets USD spreads tightened (0.2%). USD liquidity supply remains at the highest since the Global Financial Crisis, with basis spreads between USD and major currencies at its lowest in a sign of easy funding conditions; in emerging economies the bid for USD is at historic lows, with limited import activity and replenished reserves after the Special Drawing Rights assignments in late August.

August has been an eventful and dramatic month in frontier with a change in power in **Zambia** where opposition candidate Hichilema surprisingly won the presidential vote against incumbent Lungu, while the ill-fated retreat of Western forces in **Afghanistan** opens pandora box re stability in central Asia.

On the monetary policy front, the Central Bank of **Uruguay** raised rates by 50 bps to 5%, willing to tackle high inflation also with coordinated labour reform on indexed wages; the currency rallied. Also, the Central Bank of **Sri Lanka** tightened its monetary policy stance by 50 bps with the different objective of tackling the trade deficit which continued to widen during the first half of 2021; foreign currency preservation is now paramount given the precarious external balance situation. The Sri Lanka authorities seem to be shifting the narrative from the priority of repayment of external debt to a more likely IMF program which may require some private sector debt restructuring. Finally, in **Georgia** rates were raised from 9.5% to 10% to tackle double-digit consumer price index inflation.



| Top Fund Holdings | NAV% |
|----------------------------|-------|
| Dominican Republic (Local) | 8.73% |
| Ukraine (Local) | 8.67% |
| Uganda (Local) | 8.55% |
| Egypt (Local) | 8.32% |
| Uzbekistan (Local) | 6.40% |
| Benin (EUR) | 5.89% |

Positions and changes

The local currency portfolio (LC) outperformed with the **Uruguay** linker position (+4.2%) boosted by the Uruguayan Pesos rally and **Dominican Republic** (+3.7%) by the persistent rally in rates with strong demand from local investors as the government continues to cancel new debt auctions. Dominican Peso long term interest rates tightened from 8% in January to the current 5% in the belly. **Uganda** continues to outperform with inflation year-on-year at 2%, allowing the Central Bank to confirm in August the 6.5% benchmark interest rate. Pakistan instead underperformed (-2.3%) with oil imports and geopolitical concerns taking a toll on the Rupee. The external debt portfolio (HC) tightened against treasuries: **Turkey** (+2.4%) improved its macro fundamentals (balance of payments) while **Ukraine** (+2.0%) rallied despite the underwhelming second quarter GDP on prospects of an IMF tranche disbursement. **El Salvador** (-0.3%) is about to introduce the closely followed Bitcoin law on September 7th.

We rolled an Egypt non deliverable short USD forward to a 12-month maturity.

Country specifics

Zambia: Zambian opposition leader Hakainde Hichilema's surprise win in the August 16th presidential election may lead to a fresh start in the country's relationship with the mining sector: Lungu had damaged this beyond repair with the copper miners; frequent disputes and systematically funding fiscal deficits with miners' extraordinary impositions. The Kwacha rallied 30% from the lows in July and debt/GDP is back to 125% taking into account the latest domestic debt stock number which increased materially in the first half of 2021, with several private placements and external arrears. Debt/GDP had reached 155% as the USD GDP figure contracted with the severe Kwacha depreciation. Hichilema appointed the former finance minister Musokotwane who confirmed the urgency for entering into the IMF program and the G20 debt restructuring. External debt rallied further, but as a quarter of the total is held by either China or Chinese entities, negotiations for IMF relief will be complex.

Ecuador: President Lasso continues to enjoy a strong popular support and has managed to progress on the fiscal reform despite the National Assembly weak support. Fitch upgraded the country rating to B-, with bonds now in the high eighties.

Mongolia: Rio Tinto made concessions to the government of Mongolia on loan financing terms as it seeks to complete the development of the huge Oyu Tolgoi copper project.

Lebanon: Mikati is closer to forming a government than his predecessor Hariri as he enjoys some support from Hezbollah and the Sunni community. Bonds have traded higher in the 13s in the hope that a caretaker government will spend the time between now and the April 22 election to put a reform process in place.