Frontier Markets Debt Fund

Strategy Profile – May 2021

AZIMUT INVESTMENTS

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

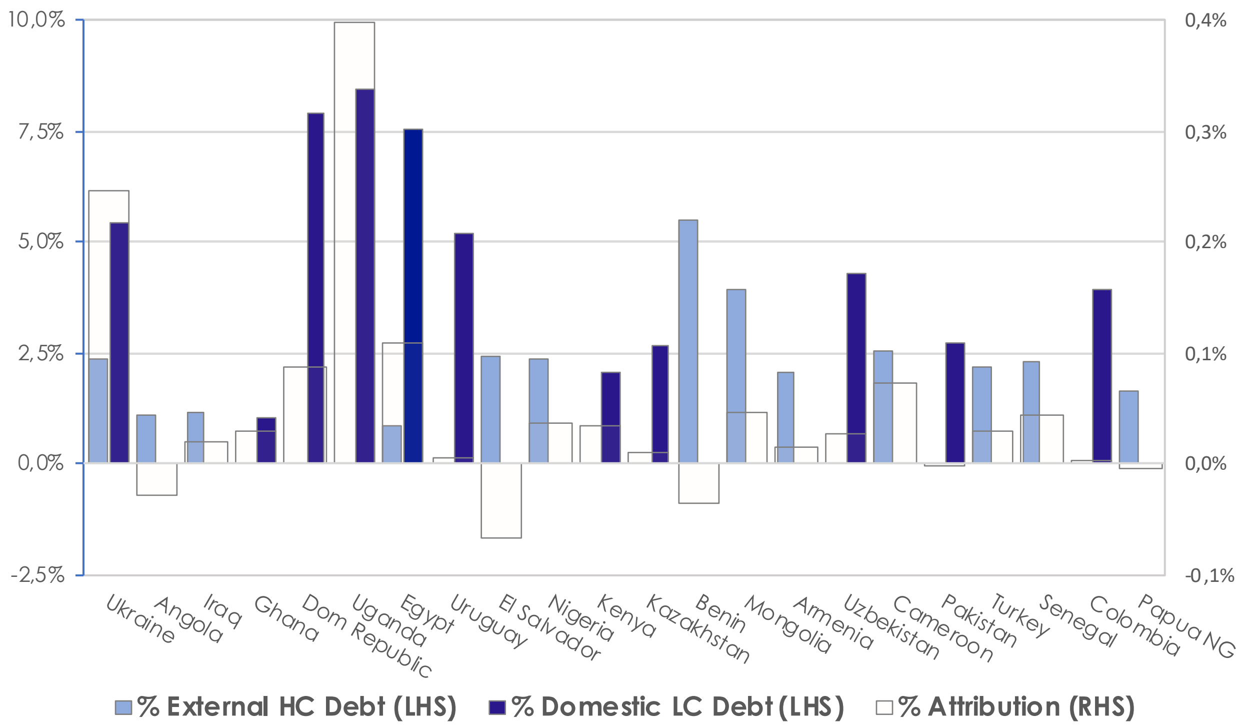
A 'bottom-up' country analysis which includes: Instrument and country risk/return and liquidity analysis, and an integrated ESG screening/overlay. USD and EUR interest rate exposure in the portfolio is hedged and EUR foreign exchange risk is hedged to the fund's base currency (which is USD).

Performance analysis

	Jan	Feb	Mar	Apr	May	YTD 2021
AZ3 Frontier Markets Debt Fund (A-Inst USD)	**+1.02%**	**+0.75%**	**+0.79%**	**+1.54%**	**+1.21%**	**+5.42%**
Bloomberg Barclays EM Hard Currency Aggregate Sovereign	-1.25%	-2.42%	-2.05%	+2.30%	+1.25%	-2.18%
Bloomberg Barclays EM Local Currency Sovereign Diversified Index	-1.14%	-2.41%	-3.06%	+2.07%	+1.48%	-3.05%
Bloomberg Barclays EM Local Currency Sovereign Universal IG	-0.18%	-1.44%	-0.19%	+0.33%	+0.23%	-1.25%
Bloomberg Barclays EM Local Currency Sovereign Universal HY	-1.34%	-1.42%	-2.77%	+0.45%	+0.91%	-4.09%

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

Exposure and Performance Attribution by Country - May 2021



Source: Azimut Investments S.A.

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Pedal to the Metal

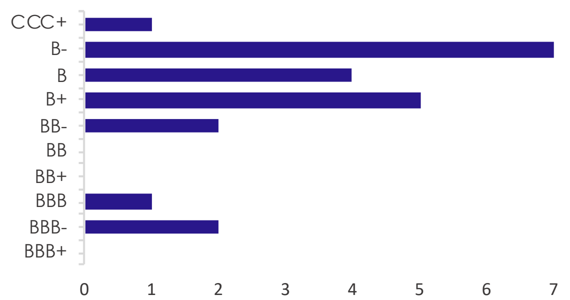
USD rates traded in range in May, with positive industrial and consumer data counterbalanced by the very low (260k) non-farm payroll increase for April. All eyes are now focused on the May numbers with expectations of 650k addition, slightly short of the March number (770k). Two-year treasuries linkers (TIPS) are trading at – 3.50% and 2-year nominal treasuries yield 0.14%; the FED is mopping up liquidity in the system accepting USD 500bn cash in the new reverse repo facility to avoid short rates going negative; **capital conditions are at their most accommodating for the last decade for emerging markets**. FOMC talks of tapering the USD 120bn monthly securities purchases will likely start in June reading between the lines of last minutes "a number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases."

On the emerging markets current account side China's production and export data were positive in May and the Government is fighting an overheated commodity pricing cycle with limited success.

Capital and balance of payments tailwinds supported emerging markets fixed income in May with the USD weakening and emerging markets sovereign credit spread tightened by 10 bps.

Moving to local rates, Ghana's Central Bank cut the official rate from 14.50% to 13.50% following the April inflation print at 8.50%. All other Central Banks (with the exception of Egypt) are hawkish and are at different stages of starting a tightening cycle; this warrants short duration risk.

Portfolio composition by rating (S&P)



Top Fund Holdings	NAV %
Dominican Republic (local)	7.94 %
Egypt (local)	7.72 %
Uganda (local)	7.46 %
Ukraine (local)	5.50 %
Benin (EUR)	5.58 %
Uruguay (local)	5.21 %
Uzbekistan (local)	4.33 %
Ghana (local)	4.22 %

Positions and changes

Outperformers this month in local currency (LC) were again **Uganda** (+6.28%), **Ukraine** (+2.12%) and **Dominican Republic** (+1.20%) while in external debt (HC) **Cameroon** (+2.80%) benefited from a liability management maturity extension and Egypt tightened back to issuance levels (+2.50%); among detractors **El Salvador** (-3.20%) has been on a rollercoaster with President Bukele assertively pressing ahead with his agenda seeking bilateral funding while being directly criticized by the US Administration for tightening his grip. At a portfolio level LC modified duration at month end slightly compressed this month to around 2.70, while HC slightly increased to 6.13 (hedged via futures).

We took a new position in **Papua New Guinea** HC after a price correction in early May; the economy, heavily reliant on mining, suffered from the closure of the Porgera complex after the expiry of a concession with Barrick; by securing an extension at more favorable terms, we expect a return to growth next year with gold and copper exports resuming.

We increased our exposure to **Egypt** by selling USDEGP in a non-deliverable forward, diversifying into a liquid instrument with less cross border sensitivity than our core local market position.

We marginally increased exposure to **Iraq** considering the improvement in Brent prices and renewed dialogue between the US and the Islamic Republic of Iran.

Country specifics

Zambia: the IMF and Zambia will agree on an Extended Credit Facility (ECF), likely after the August elections; while HC has traded flat since late last year, a significant improvement to the terms of trade (Zambia is the second largest copper producer in Africa) encouraged investors to bid USD 400mm for local bonds at end of May auction. Thinly traded bonds moved from 32% to 28% and the interbank foreign exchange market rebalanced after trading with demand only since the Covid outbreak. Reserves at the Central Bank still cover less than two months of imports, but there is a noticeable improvement in interbank liquidity.

Dominican Republic launched an offer to repurchase all the local notes expiring before 2027 in a liability extension exercise to preserve the external rating

Belarus: A flight from Athens to Estonia was diverted to seize a dissident on board. Bonds were down 4 figures before Russian started snatching them up.

Ukraine: the Rada (Parliament) approved at the first reading a law on criminal liability, on National Anti-Corruption Bureau and on banking regulations opening the door for a potential disbursement by the IMF in the second half of the year. Export activity in April was very strong with a record current account surplus near USD 1billion. As the National Bank is not accumulating reserves, further inflows in the local market should lead to a stronger spot market in the weeks ahead.