Frontier Markets Debt Fund

Strategy Profile – June 2021

AZIMUT
DEFINING INVESTMENT DIRECTION

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%.

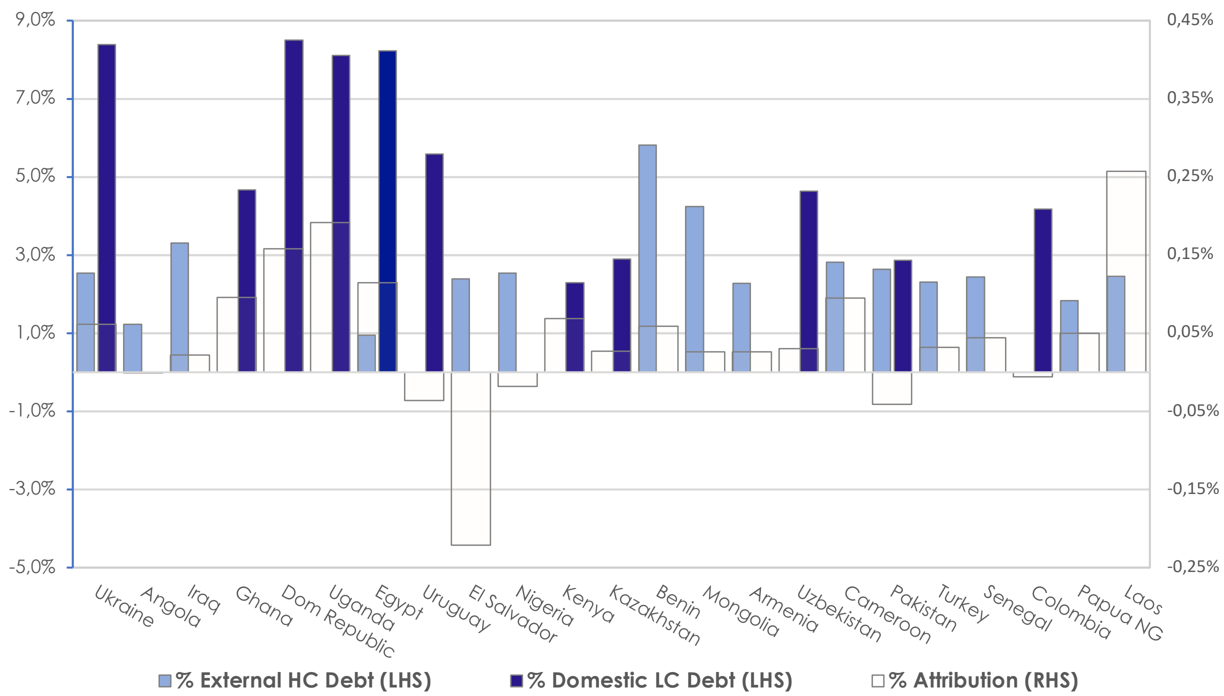
Portfolio construction

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	YTD 2021
AZ3 Frontier Markets Debt Fund (A-Inst USD)	**+1.02%**	**+0.75%**	**+0.79%**	**+1.54%**	**+1.21%**	**+0.67%**	**+6.13%**
Bloomberg Barclays EM Hard Currency Aggregate Sovereign	-1.25%	-2.42%	-2.05%	+2.30%	+1.25%	+0.12%	-1.99%
Bloomberg Barclays EM Local Currency Sovereign Diversified Index	-1.14%	-2.41%	-3.06%	+2.07%	+1.48%	-1.16%	-3.98%
Bloomberg Barclays EM Local Currency Sovereign Universal IG	-0.18%	-1.44%	-0.19%	+0.33%	+0.23%	-0.16%	-1.46%
Bloomberg Barclays EM Local Currency Sovereign Universal HY	-1.34%	-1.42%	-2.77%	+0.45%	+0.91%	+0.40%	-3.61%

Source: Azimut Investments S.A. Bloomberg. Performance for May is calculated from fund NAV on 30th June 2021, net of fees.
Past performance is not a good indicator of future returns.



Source: Azimut Investments S.A.

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2H21 – A goldilocks US economy?

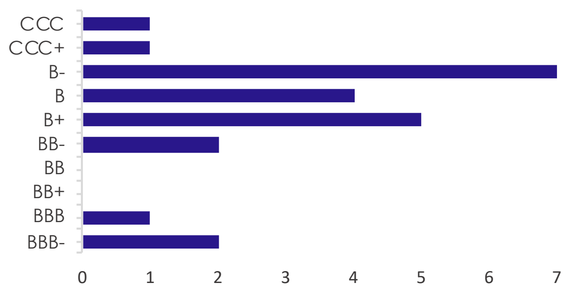
Strong global growth rates, expected transitory inflation and supportive central banks have dominated the first half of 2021 economy. With 850 thousand jobs added in June in the US, employment is also moving in the right direction after disappointing figures earlier in the year. Looking into the second half of 2021 risks for emerging economies are expected to come from a normalization of negative USD real yields. The June FOMC anticipation of the Fed tightening projects only a very slow policy normalization path with 2 hikes in 2023; on the Fed asset purchase front the market expects tapering of the USD 120bn purchases only at the beginning of 2022. The risk comes from a change in price stability, which is widely dismissed now; the US monetary tools to fight such a scenario are not there as the US budget cannot afford higher rates.

On the global investment cycle the high dependence on China in the last decade (China accounted for 47% of global investment growth since the financial crisis) is expected to diminish significantly in the years to come. The meaningful US capex increase should normalize commodities price volatility and provide a strong support to the current account of emerging economies.

On the inflation side EM economies are in a much better position than in 2013 when the taper tantrum prompted a sell off. Special drawing rights will assign meaningful USD reserves at a time when an economic pick-up will again prompt demand for USD.

We therefore remain constructive on the second half of the year on frontier markets foreign exchange in local markets. However, the divide between exporters and consumption/tourism dependent economies is widening, and we expect some trouble in external debt of the latter (Sri Lanka, Kenya to a lesser extent).

Portfolio composition by rating (S&P)



Top Fund Holdings	NAV %
Dominican Republic (local)	8.51 %
Ukraine (local)	8.39 %
Egypt (local)	8.23 %
Uganda (local)	8.32 %
Benin (EUR)	5.97 %
Uruguay (local)	5.73 %
Ghana (local)	4.79 %
Uzbekistan (local)	4.74 %

Positions and changes

The early 2021 trend continued in June with local currency (LC) outperformers being **Uganda** (+2.65%), **Ukraine** (+1.02%) and **Dominican Republic** (+2.68%). In **Ghana** (2.74%) there has been a significant bifurcation between the fixing and the effective onshore rate for USD which we expect to be addressed with new USD financing. In external debt, **Laos** (+12.74%) was the strongest contributed; **El Salvador** (-10.12%) surprised by passing a law on bitcoin adoption as legal tender currency; inevitable questions on regulatory challenges sparked a sell off.

We took a short dated distressed position in **Laos** HC as the opportunity arose earlier in the month expecting the 'battery of East Asia' as it is called - due to its hydropower capacity to be supported by China in the repayment of its bonds due at the end of June.

We increased our exposure in **Kazakhstan** selling USDKZT in a non-deliverable forward, expecting a catch up in the Ruble Tenge cross after the rally in Brent Crude.

We established a position in Pakistan external short-dated debt as some stalling in the ongoing IMF disbursement provided a good entry point.

Country specifics

Argentina: the government has reached an agreement with the Paris Club for a partial payment of the $2.4bn due at the end of July. The agreement rests on the premise that the government reaches a deal with the IMF by March allowing for a negotiation of extension of the remaining $2bn. The current account has significantly improved in the first half of 2021, but a softening in commodities have cooled in June and international bonds retraced from their highs (39) back to the mid-thirties.

Mozambique's President Nyusi accepted regional military help to control the territory around Palma where ISIS insurgence endangered regional security. Bonds have rallied to 84, but Total has not laid out a plan yet to resume their significant liquid natural gas investment.

Ethiopia: elections are underway, but in an unexpected development Tigray troops reconquered Mekelle. Bonds are back to 92 with the risk of a country disaggregation building on an uncertain G20 framework restructuring.

Ukraine: the Rada (Parliament) continued with the process of approving the reform agenda, surprising once again. There has been some cooling in demand for local bonds and IMF disbursements are key in the second half of this year.

Nigeria: The Petroleum Industry Bill passed both houses of parliament this week. Buhari's approval should reform the sector after 20 years of advocacy and prompt much needed investments to allow increased production. Since the Niger Delta crisis in 2016, Nigeria oil has never recovered and requires much needed capital expenditures.