Monthly Fund Commentary

Muzinich EmergingMarketsShortDuration Fund

September 2018

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Fund

Muzinich EmergingMarkets ShortDuration Fund

Market Review

September was a month of recovery within emerging market (EM) corporates, following an eventful summer dominated by idiosyncratic geopolitical events. Performance was strong across the board, driven, in our view, by reduced currency volatility that improved sentiment towards the asset class and valuations that look cheap, especially on a relative basis to Western markets. By region, some of the strongest returns came from Europe and the CEEMEA region, while returns from Asia were flat. In terms of sector performance, financials and oil & gas credits did well, with the latter boosted by higher oil prices. In terms of credit rating, high yield outperformed investment grade over the month, which should be expected in a broad basis rally. The countries that had made headlines earlier in the summer – Argentina and Turkey – were among the strongest performers in September as both countries made steps towards economic reforms. In Argentina, investors welcomed an amended deal with the IMF, which increased the size and speed of disbursements of the package. Meanwhile in Turkey, the central bank raised rates 600bps to 24%, a move designed to highlight the bank's independence from the government and an attempt to anchor the currency and prevent further deterioration. Towards month end, the Turkish finance minister also announced an economic plan to help the country move forward after the recent currency crisis. There was also no further deterioration in relations with the US, and banks have successfully rolled over financing through the global senior loan markets. In Brazil, the presidential election campaign continued to gain momentum with the polarisation of voters made evident in the increasing popularity of far right and far left candidates in early polls. Two rounds of voting will occur in October and a new president will be elected by the end of the month.

Fund Review

The fund produced a positive return and outperformed the ICE BoA Merrill Lynch Emerging Market Short Duration Index. At the sovereign level, the fund's overweight positioning in Brazil proved positive over the month. Brazil was the best performing sovereign in both total and relative terms. Brazilian credit had started to rally as expectations that preferred presidential candidate Bolsonaro's prospects of winning had improved. The fund underperformed on a relative basis in Argentina, where the fund's beta position is less than the index, and Russia were the fund is significantly underweight. In terms of sectors, the best performer was banking, which was driven by the rally in Turkish banks, and energy, which rallied in line with the oil price; WTI broke US$70 a barrel and Brent US$80 in September, as the expectation of supply/demand dynamics were adjusted to the prospect of Iranian oil being removed from global supply. The fund is overweight both these sectors. The fund's overweight stance in high yield bonds also benefited returns over the period. The duration of the fund remained conservative at 1.8yrs. The combination of low duration and high yield positioning should help protect the fund as interest rates raise.

Outlook

Divergence in fiscal and monetary policies and the changing international trade landscape are increasing downside risk. Within emerging markets, lower US dollar liquidity and rising US short rates have challenged the most vulnerable countries, which cumulated in high foreign currency debt and too loose fiscal policies (e.g. Argentina, Turkey). Other countries, like Brazil, which are not suffering from high external imbalances, are going through their election calendar and therefore have limited policy responses to international pressure. Although the succession of idiosyncratic stories has resulted in a reassessment of the fundamentals of emerging market economies by some investors, we believe recent events have created more attractive valuations which should see more recognition from global portfolios, after the political uncertainties have passed.

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For Switzerland –

The prospectus (edition for Switzerland), the Key Investor Information Documents, the Trust Deed, the annual and semi-annual report, in French and further information can be obtained free of charge from the representative in Switzerland: Carnegie Fund Services S.A., 11, rue du Général-Dufour, CH-1204 Geneva, Switzerland, tel.: + 41 22 7051177, fax: + 41 22 7051179, web: www.carnegie-fund-services.ch. The Swiss paying agent is: Banque Cantonale de Genève, 17, quai de l'Ile, CH-1204 Geneva, Switzerland. The last unit prices can be found on www.fundinfo.com.

For Singapore –

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