

# Monthly Fund Commentary

## Muzinich Emerging Market Debt Fund

September 2018

For Professional Client Use - Not for Retail Distribution

### Fund

Muzinich  
Emerging Market  
Debt 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 strong return and outperformed the ICE BofA Merrill Lynch Emerging Market Corporate Liquid Index. While all regions produced positive returns, Brazil was the strongest on both an absolute and relative basis, on the back of favourable election result expectations and our overweight position, which benefited the fund's performance. Turkey was the second best performer. Relative underperformers (although still positive in absolute terms), included Argentina, given the fund's lower beta positioning versus the index, and Russia given the fund's significant underweight. By sector, the overweight positions in financials and basic materials, and the market weight position in energy, were the top performers over the month. The fund's overweight position in high yield bonds (c. 70% weight) also benefited returns over the month.

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## Outlook

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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.

*The opinions above are those held by Muzinich, as of September 30<sup>th</sup>, 2018, and are subject to change. The Fund is an actively managed portfolio; holdings, sector weightings and leverage, (as applicable) are subject to change at the discretion of the Investment Manager without notice. Any holdings included above are for illustrative purposes only, not to be construed as investment advice. It cannot be assumed that these types of investments will be available to, selected by, or continue to be held by the Fund in future. All references to market performance are sourced from Bloomberg.*

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Please note that investment is subject to documentation, including but not limited to the Prospectus and Key Investor Information Document ('KIID') which contain a comprehensive disclosure of applicable risks. Investors in the UK should also access the Muzinich Supplemental Information Document ('SID'). Each of these documents is available in English at [www.Muzinich.com](http://www.Muzinich.com), together with the Fund's annual and semi-annual reports. KIIDs are available by share class in each language required in the countries in which the share classes are registered. A complete listing of these KIIDs and the KIIDs themselves are also available at [www.Muzinich.com](http://www.Muzinich.com). Investors should confer with their independent financial, legal or tax advisors. Issued in Europe by Muzinich & Co. Ltd, which is authorised and regulated by the Financial Conduct Authority. Registered in England and Wales No. 3852444. Registered address: 8 Hanover Street, London W1S 1YQ.

### 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](http://www.carnegie-fund-services.ch). The Swiss paying agent is: Banque Cantonale de Genève, 17, quai de l'Île, CH-1204 Geneva, Switzerland. The last unit prices can be found on [www.fundinfo.com](http://www.fundinfo.com).

### For Singapore -

The fund is a restricted scheme under the Sixth Schedule to the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations of Singapore. No offer of the units in the fund for subscription or purchase (or invitation to subscribe for or purchase the units) may be made, and no document or other material relating to the offer of units may be circulated or distributed, whether directly or indirectly, to any person in Singapore other than to: (i) "institutional investors" pursuant to Section 304 of the Securities and Futures Act of Singapore (the "Act"), (ii) "relevant persons" pursuant to section 305(1) of the Act, (iii) persons who meet the requirements of an offer made pursuant to Section 305(2) of the Act, or (iv) pursuant to, and in accordance with the conditions of, other applicable provisions of the Act. The offer, holding and subsequent transfer of units are subject to restrictions and conditions under the Act.