GENERALI INVESTMENTS

An opportune time for long duration emerging market debt

aperture investors

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Peter Marber, portfolio manager of the newly launched Emerging Debt Opportunities Fund, explains why the approaching end of the rate hiking cycle is a perfect time for investors to capitalize on longer duration emerging market debt.

KEY TAKEAWAYS

- The US yield curve may be close to normalization and today's emerging market debt yields are considerably higher that their five-year lows.
- The period after US dollar yields peak has historically been very good for emerging market returns.
- A longer duration emerging market debt fund should capture these higher returns opportunities.
- The strategy analyzes by liquidity, credit rating, maturity, and sector to find market outliers – cheap and rich securities within and between countries.

You run an existing emerging debt fund with an average duration of 2.5 years namely New Wold Opportunities Fund, while the average duration of the Emerging Debt Opportunities Fund is 7 years. Could you explain your rationale for offering longer duration exposure to emerging market debt?

As in developed markets, there are different risk levels one can take in emerging markets.

Investors should view our two strategies as "lower" and "higher" risk versions. As you mention, our first fund carries a duration of only 2.5 years and a BBB- blended investment grade credit rating. The new fund is slightly lower rated, averaging BB+, with nearly triple the duration. Over the last decade, the longer duration benchmark has exhibited more than twice the volatility of the shorter duration benchmark. But the longer duration fund also has the potential for much higher returns in certain market environments[1].

We waited to launch the higher duration Emerging Debt Opportunities Fund because of its long duration benchmark and the ultra-low interest rate environment related to COVID. We felt that long duration emerging market debt funds might face steep losses amid a post-COVID normalization of global interest rates – which is what has happened since 2021. Now that the rate hiking cycle is close to the end, it's an opportune time to start such a fund.

Given the vast size of the emerging market debt universe, how do you narrow this down to select the best opportunities?

We have a rigorous quantitative framework that analyzes fundamental economic data from more than 75 emerging market countries. We use this framework as a primary filter for more than 2000 emerging market bonds. We then analyze for liquidity, credit rating, maturity, and sector to find what we believe are market outliers – cheap and rich securities within and between countries. These include government and private sector borrowers. This helps create a shortlist of opportunities that then requires a deeper dive to finalize positions. These opportunities are not limited only to hard currency bonds in the index. We also invest in local bonds, interest rate derivatives, and other related

> "Today's yields are considerably higher now than their five-year lows"

Peter Marber
Fund Manager and CIO
Emerging Markets

Peter Marber is a Portfolio Manager, CIO of Aperture New World Opportunities Fund, Aperture Emerging Debt Fund and Head of Emerging Markets managing over $726m in the EM Debt.

Peter is a recognized authority on emerging market economies. For over 35 years, Peter has professionally invested billions of dollars for many of the world's largest companies at firms including Loomis, Sayles & Company, HSBC, and Wasserstein & Co.

Peter earned his B.A. at Johns Hopkins, his M.I.A. from Columbia, and his Ph.D from The University of Cambridge.

2.86%[2] → EM bond index spread vs US Treasures in 2018

5.00%[2] → EM bond index spread vs US Treasures in 2023

5.75%[2] → Average 10-year emerging market bond yield in 2018

8.50%[2] → Average 10-year emerging market bond yield in 2023

Past performance does not predict future returns. [1]There can be no assurance that the investment objective will be achieved or that there will be a return on capital. [2]Bloomberg, JP Morgan EMBIG index and 10-year US Treasuries, as at 22 March 2023. SFDR DISCLOSURES The Fund is categorised as one that promotes environmental or social characteristics pursuant to Article 8 of EU Regulation 2019 2088 on sustainability related disclosures in the financial services sector (and does not have a "sustainable investment" objective as defined by SFDR

First, we have a strategic overweight to corporate and quasi-sovereign bonds that we believe offer more value than pure government issues. They offer 100-200 basis points of additional yield for similar maturities – sometimes even more. Indonesian, Mexican, and Colombian state-owned oil companies fall into this category.

Second, we have an overall bias towards BBB and BB bonds vs. B's and lower-rated credit. Single B default rates are six times higher than BB bonds, yet they only pay two times the spread on average. We believe you don't always need to buy lower rated bonds for higher returns. There are often better risk-reward situations – you just have to look for them.

Could you illustrate a few of the opportunities or themes you currently hold in the fund, both on the fundamental side and the tactical side?

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Given the uncertainty around global growth and inflation for 2023, why should investors consider this fund now?

The US yield curve has shifted dramatically in the last 18 months and may be close to normalization in the US. And today's yields are considerably higher now than their five-year lows. In 2018, the emerging market bond index spread was as low as 2.86% above US Treasuries, and today it is almost 5.00%[2]. And US Treasury rates are also higher now, so overall yields for the strategy are very attractive. In 2018, an average 10-year emerging market bond yielded around 5.75%; today that same bond yields nearly 8.50%[2].

Finally, what we've seen in the past is that when US dollar yields (and the US dollar) peak, the periods afterwards tend to be very good for emerging market returns. Credit spreads often tighten, currencies appreciate, and equity markets rally. Our long duration fund should capture these opportunities.

> **"In the past when US dollar yields peak, [credit] spreads often tighten, currencies appreciate, and equity markets rally"**

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Based in New York and London, Aperture offers actively managed investment strategies and a unique fee model that aligns fund manager incentives with client performance.

The firm charges low, ETF-like fees when performance is at or below stated benchmark. A performance-linked fee is charged only when returns are generated in excess of a strategy's benchmark. Investment teams are therefore compensated primarily on outperformance.

Aperture Investors is part of the Generali Investments platform.

KEY FACTS as at 1st of March 2023

Fund Manager	Peter Marber	**SFDR Classification[3]**	Article 8
ISIN (I, USD, Acc)	LU2475548744	**Entry / Exit charge (%)**	5% / 1%
AUM	$128 M (Fund) total investments in EM Debt: $726 M	**On going charges**	0.77%
Inception Date	1 March 2023	**Management fee**	VMF minimum 0.65%
Benchmark	JP Morgan Emerging Markets Bond Index Global Diversified	**Performance fee[4]**	Variable
Currency	USD	**Investment Manager**	Aperture Investors
Domicile	Luxembourg	**Management Company**	Generali Investments Luxembourg S.A.

[2]Bloomberg, JP Morgan EMBIG index and 10-year US Treasuries, as at 22 March 2023. [3]SFDR DISCLOSURES The Fund is categorised as one that promotes environmental or social characteristics pursuant to Article 8 of EU Regulation 2019 2088 on sustainability related disclosures in the financial services sector (and does not have a "sustainable investment" objective as defined by SFDR. [4] Performance fee: for its services to the Sub-fund, the Investment Manager is entitled to a variable management fee ("VMF"), which is calculated and accrued daily, at a rate of 1.025% (the "VMF Midpoint"). The VMF Minimum portion of the VMF will be calculated and accrued daily based on the Sub-fund's NAV. The rest of the VMF amount, if any, will be calculated and accrued daily based on the Sub-fund's daily Modified Net Assets, adjusted upward or downward by a performance adjustment (the "Performance Adjustment") that depends on whether, and to what extent, the performance of the Sub-fund exceeds, or is exceeded by, the performance of the Benchmark over the Performance Period. Depending on the Fund's performance, the variable management fee (" will range from a minimum of 0 65 %%(if the strategy's performance is equal to or lower than that of the Benchmark) to a maximum of 1 40 %%(if the strategy's performance exceeds the benchmark by 7.50 or more). For a full description of the VMF please see the applicable section in Appendix A contained in the Prospectus.

RISK AND REWARD PROFILE

Lower risk | Higher risk

1	2	3	4	5	6	7

Potentially lower rewards | Potentially higher rewards

The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you. We have classified this product as 5 out of 7, which is a medium-high risk class.

Main risks of the Fund: Interest rate risk; the Sub-fund may invest in securities rated below Investment Grade, which present greater risk of loss to principal and interest than higher-quality securities; Credit risk; Credit default swaps; Emerging markets; Derivatives; Foreign exchange; Stock Connect; Liquidity risk; Short exposure risk; Securitized debt; Distressed securities; Equity; Rule 144A and/or Regulation S securities Investment in CoCos; Sustainable finance risk; Investment in SPACs. Risk of capital loss: This Fund is not a guaranteed product. Investments bear risks. You may not recover all of your initial investment. Investment may lead to a financial loss as no guarantee on the capital is in place.

Investment objective: The objective of the Fund is to generate returns in excess of the JP Morgan Emerging Markets Bond Index Global Diversified (the "Benchmark") by investing, either directly or indirectly, in different financial asset classes with a focus on Emerging Markets. The Fund is actively managed – The Benchmark is used for the purpose of calculating the variable management fee ("VMF") payable to the Investment Manager.

The Fund promotes, among other characteristics, environmental or social characteristics as per Article 8 as per Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector ("SFDR"). The Fund is not an Article 9 as per SFDR (it does not have sustainable investment as its objective). For more information about E/S Strategy and Objective, Biding elements, and methodological limits, please refer to the Annex B of the pre-contractual document in the Prospectus or visit the related Sustainability at: webdisclosureat:https://www.generaliinvestments.lu/lu/en/institutional/sustainability-related-disclosure.

IMPORTANT INFORMATION