MARKETING
COMMUNICATION

Tailwinds for emerging corporate debt

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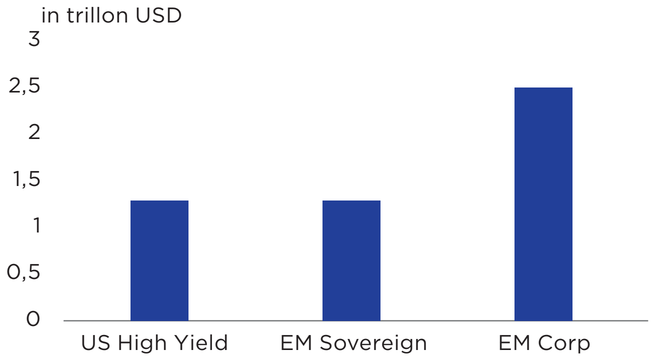
Reduced visibility on the global economic outlook in the current environment has tended to widen performance gaps between regions, companies and asset classes. This complexity is creating interesting pockets of differentiation, notably within bond segments - including emerging corporate debt.

This deep market weighs almost 2,500 billion dollars - more than both emerging sovereign debt (1,400 billion dollars) and the U.S. High-Yield bond market (1,300 billion dollars)[1].

EM Corporate bonds: a deep market



Source : JPM

This vast and contrasting universe calls for a selective and prudent approach aimed at identifying companies that are in the strongest position to capitalise on current market dynamics.

Valuations and ratings: inefficiencies and opportunities remain

In emerging economies, many companies are still suffering from a perception bias owing to their sovereign background. In some cases, issuer ratings are capped by their country ratings. This is notably the case in Argentina, where several companies display robust fundamentals - moderate debt, robust governance, comfortable cash reserves - but are rated CCC.

Identifying these discrepancies between the intrinsic quality of a company and its credit rating is a source of alpha[2] for bond-picking investors.

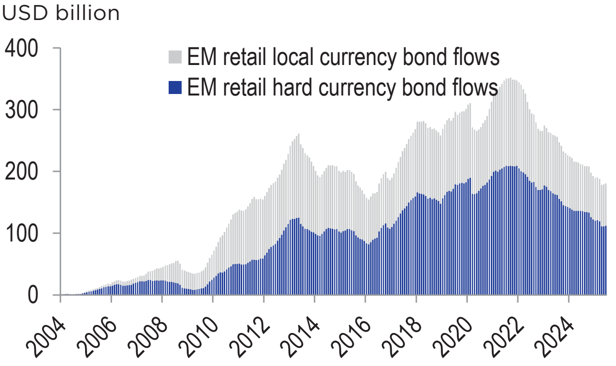
1. Source: JPM. Data at end 2024.

2. Alpha refers to the excess performance generated as a result of careful stock selection or strategic investment decisions.

Technical factors and macroeconomic divergences support emerging countries

After three years of outflows (-137 billion dollars), the asset class is gradually stabilising[3]. The investor base has begun to recover, and potential inflows now appears higher than outflows (see graph below).

Inflows are looking increasingly likely



Source: JP Morgan.

The macroeconomic environment is also constructive for emerging markets. The IMF forecasts 3.7% growth in emerging countries for 2025, compared to a modest 1.4% in the developed world. Several countries display a particularly robust outlook: +5.5% expected in Argentina, +3.0% in Nigeria, +2.8% in Peru, +2.4% in Colombia, +2.7% in Turkey, and +2.0% in Brazil.[4]

A further supporting factor is the recent depreciation of the dollar, which is down 9.8% since January 2025. This trend has eased tensions for emerging sovereign issuers, as their revenue tends to be generated in local currency while their debt is issued in dollars. Emerging market companies are less sensitive to the dollar: many corporate issuers generate revenues in USD which allows them to cover any liabilities in USD. However, a weak dollar remains a tailwind for investor sentiment.

Robust credit fundamentals

Emerging country companies generally display robust fundamentals, supported by low debt and comfortable cash reserves. While it is important to make a distinction between sector, country and issuer dynamics, credit ratios are generally sound, providing the asset class with a solid footing:

- **The net debt/EBITDA ratio** stands at 2.6x for emerging High-Yield, versus 3.5x for U.S. High-Yield and 4.7x for European High-Yield[5].
- **Default rates** are expected to fall to 3.7% for 2025, down from 3.9% in 2024 and 8.7% in 2023. The Chinese real estate sector should continue to concentrate most of these defaults (30.4%). Excluding Chinese real estate, the default rate is forecast at 1.1%[6].
- **The *upgrade* ratio (35) has exceeded the *downgrade* ratio (31)[7]** since the beginning of the year, suggesting that companies are on a positive trend, both in terms of performances and financial outlook.

A dynamic issuance pipeline

The primary market has been particularly active with 208 billion dollars recorded so far for a total estimate of 383 billion by the end of 2025. While conventional refinancing continues to account for a large share of volumes, some new issuances stand out: **Nutresa**, the leading food service company in Colombia, and **Vista**, the energy player in Argentina[8].

The improved sovereign environment in Argentina, notably following the gradual lifting of the capital controls, is also a positive factor for investors, and could support the arrival of new issuers keen to raise capital in the bond market.

Trade tensions: indirect impacts but few systemic risks

The EdR Fund Emerging Credit strategy has limited exposure to countries directly targeted by additional tariffs from the United States. **Almost 80% of the portfolio is invested outside of Asia, with a sharp concentration in Latin America (60%) and Africa (20%)[9].** In these regions, the direct impact of tariffs remains contained: in Brazil, Colombia, Argentina or Peru, the rises should not exceed 10%, in our view.

While the immediate effect of these tariffs seems marginal, their indirect consequences - notably for global

3. Source: JP Morgan.

4. Growth scenarios are based on historical data and current conditions and offer no guarantees as to future growth rates.

5. Source: Edmond de Rothschild Asset Management, data as of 31/05/2025. The data is provided for indicative purposes and should not be interpreted as a recommendation to buy. Past performance is no guide to future returns.

6. Source: Edmond de Rothschild Asset Management. Default rate forecasts for 2025 are based on market assumptions determined by the asset management company and should in no way be interpreted as a guarantee.

7. Source: Edmond de Rothschild Asset Management.

8. The information on companies should not be perceived as reflecting the Edmond de Rothschild group's opinions on their future performances nor, and where applicable, the future performance of the instruments they issue. This information should not be construed as a recommendation to buy or sell these securities.

9. The investment process described above includes a number of investment constraints developed by the portfolio management team. The process as it stands today may change over time.

growth and volatility in commodity markets – are worthy of attention. Several sectors, such as aluminium, steel and the automotive industry, could indeed be affected. Nevertheless, most of our investee companies generate less than 10% of their revenue in the United States, which limits their exposure to U.S. trade-related risks[10].

Since *Liberation Day*[11], however, the oil sector has been under pressure. Mid-sized companies, notably in Colombia and Sub-Saharan Africa, remain sensitive to the price of crude (Brent), particularly when prices move close to 60 dollars per barrel. This volatile environment has strengthened the need for a selective and thorough approach when making our investment choices.

Meanwhile, trade tensions are causing shifts in capital flows. Brazil and Argentina, for example, have recorded a major increase in food exports to Asia: soybeans, cereal, animal protein, beef or poultry. These regional dynamics are creating targeted opportunities which we are gradually incorporating into the portfolio, notably by strengthening our exposure to selected agricultural or protein producers in Latin America[12].

Performance drivers and fund positioning

Despite narrow credit spreads relative to their historical average and a limited potential for any further compression - notably owing to revised growth forecasts for 2025 - emerging corporate debt continues to benefit from a positive outlook.

Our analysis of the performance drivers for the EdR Fund Emerging Credit strategy has revealed three key levers: spreads, interest rates and carry. **Over the short and mid-term, we believe the carry and rates components are likely to be the main performance drivers.** Spreads, on the other hand, should remain rather stable, although a sharp slowdown or recession scenario could cause them to widen. The fund displays an attractive carry, with an average coupon of 6.2%[13], a robust 'core' income that could help cushion any future market turmoil.

Furthermore, **the fund has maintained an intentional focus on the High-Yield segment, with exposure ranging between 75% and 80% and an average BB credit rating[14].** This allocation aims to leverage market inefficiencies, by investing in bonds that fail to reflect the intrinsic quality of the issuing company. This selective approach allows us to identify mispriced opportunities, notably within issuers displaying robust fundamentals.

Our investments focus on two key regions: Latin America and Africa

These countries offer a combination of growth momentum and attractive sector diversification, as well as local companies with strong international exposure. In Africa, for example, sectors such as telecommunications, energy or banks benefit from high growth potential, supported by the continent's dynamic demographic trends. Overall the portfolio invests in almost 90 issuers[15], thereby reducing idiosyncratic risk while maintaining a targeted exposure to the most attractive opportunities.

With uncertainty over the economic environment rising, we have reinvested a percentage of the fund's assets into defensive sectors that are less sensitive to commodity markets. Meanwhile, we have modestly increased the fund's credit quality by strengthening our exposure to Investment Grade bonds.

10. Data as of 31/05/2025.

11. Liberation Day refers to April 2nd, 2025, when Donald Trump announced a series of additional tariffs, presented as a newfound economic independence for the United States.

12. The investment process described above includes a number of investment constraints developed by the portfolio management team. The process as it stands today may change over time.

13. Source: Edmond de Rothschild Asset Management, data as of 31/05/2025. Past performance is not a reliable indicator of future returns. This figure is based on market assumptions determined by the asset management company and should in no way be interpreted as a guarantee.

14. Source: Edmond de Rothschild Asset Management. Data as of 31/05/2025. Source for ratings: Second best (S&P, Moody's, Fitch)

15. Source: Edmond de Rothschild Asset Management. Data as of 31/05/2025.

Disclaimer

Edmond de Rothschild Fund Emerging Credit is a sub-fund of the Luxembourg SICAV authorised by the CSSF and authorised for marketing in Austria, Switzerland, Germany, Spain, France, United Kingdom, Luxembourg, Netherlands and Portugal.

Glossary

High Yield: corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.

Spread refers to the difference between the yield to maturity of a bond and that of a risk-free bond of the same maturity.

Carry can be defined as the amount of money an investor earns by holding a bond over the long term after deducting financing costs.

The net debt/EBITDA ratio is a measure used to evaluate a company's capacity to repay its debts.

The upgrade ratio indicates that the number of upward revisions in financial ratings or credit classifications exceeds the number of downgrades.

Main investment risks

Risk indicator:

1	2	**3**	4	5	6	7

The risk indicator rates this fund on a scale of 1 to 7. This indicator is used to assess the level of risk of this product in comparison to other funds and a category 1 rating does not mean that the investment is risk free. In addition, it indicates the likelihood that this product will incur losses in the event of market movements or our inability to pay you.

This indicator assumes that you hold the product until the end of the recommended holding period of this fund. The actual risk may be very different if you choose to exit before the end of the recommended holding period of this Fund. The risks described below and in the next slide are not exhaustive.

Warning relating to the risk of inflation: The characteristics of the UCI do not protect the investor from the potential effect of inflation during the period of investment in the UCI. Thus, the amount invested in principal and the possible income from movable property received during the period will not be revalued by the rate of inflation over this same period. Therefore, the real performance of the UCI, i.e. the net performance of the UCI corrected by the inflation rate, could be negative

Risk of capital loss: The UCITS does not guarantee or protect the capital invested; investors may therefore not get back the full amount of their initial capital invested even if they hold their units for the recommended investment period.

Credit risk: The main risk is that of the issuer defaulting on payment, failing to pay the interest and/or repay the capital. Credit risk also relates to the downgrading of an issuer. Investors' attention is drawn to the fact that the Fund's net asset value may drop in the event of a total loss being recorded on an operation following a counterparty default. The presence of corporate bonds in the portfolio – either directly or through UCITS – exposes the Fund to the effects of changes in credit quality

Risks associated with investing in emerging markets: The portfolio may be exposed to certain securities with a higher degree of risk than that generally associated with investments in the main financial markets, in particular due to local political and/or regulatory factors. The legal framework of certain countries in which the underlying UCITS and investment portfolio may invest may not provide the same protection or information to the investor as is usually provided in the main financial markets. Securities issued in certain so-called emerging markets may be significantly less liquid and more volatile than those issued in more mature markets. In this respect, securities from emerging countries offer less liquidity than those from developed countries; consequently, holding these securities may increase the level of portfolio risk. As a result, the net asset value may fall more sharply and rapidly than in developed countries.

Interest rate risk: By holding debt securities and money market instruments, funds are exposed to changes in interest rates. This risk is defined as a rise on interest rates causes a decline in bonds valuation and therefore a fall in of the fund's NAV.

Currency risk: The capital may be exposed to foreign exchange risk when the securities or investments it is composed of are denominated in a currency other than that of the Fund. Currency risk is the risk of a reduction in the net asset value of the Fund when an investment is made in a currency other than that of the Fund.

Funds characteristics

Investment Objective: EdR Fund Emerging Credit's objective is to achieve long-term optimum growth of the invested capital via investments in regulated capital and money markets. In particular, the Fund aims to outperform its benchmark. Fund Currency: USD

Inception date: 25/05/2009

ISIN Codes: A share: LU1080015420 / I share: LU1080015933

Management fees: A share: 1% max. / I share: 0.40% max.

Variable management fees: 15% of performance in excess of the benchmark

Subscription fee: A share: 1% / I share: None

Subscription tax rate: A Share: 0.05% / I Share: 0.01%

Minimum initial subscription: A share: 1 unit / I share: 500,000 USD

Redemption charges: None

Benchmark: JP Morgan CEMBI Broad Diversified Composite (USD)

Recommended investment horizon: > 3 years

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