# Galloway EM Hard Currency HY Bond Fund

Monthly Manager Commentaries – January 2021

Dear Investors and Interested Parties,

Developed markets were having a good run until mid-January, but amid concerns of systemic risk due to an internet-fueled trading frenzy, the S&P500 almost erased its gains by the end of the month. Debt markets had it a bit worse, as the 10-y treasury widened 16bps from 0.91% to 1.07% and so US High Yield debt finished the month slightly in red territory. Emerging Markets were more affected, and fell between 1.0% and 1.5%, in which range our fund is included, ending the month with a **-1.07%** loss.

Despite the loss, most of our portfolio was flat during the month, and the loss was mostly attributed to our position in China. So, what is happening there?

China has beaten estimates for 2020 growth, growing 2.3% year-over-year, and the Real Estate Sector remained strong, up 66% y-o-y, due to the low-base effect from last year's pandemic. Well then, if all is well, why is the Chinese Real Estate portfolio underperforming?

**In fact, it is not**. Most bonds have remained flat during the month, but we were affected by a sell-off in China Fortune Land Development, the country's largest industrial park developer. A large portion of its industrial parks are built for local governments, and receivables from these governments rose sharply y-o-y to $8.5bn as of September. Fortune land is also facing a maturity wall in the short-term, but we expect it to succeed refinancing its debt by receiving support from its second-largest shareholder Ping An Insurance, a $220bn state-owned insurance company listed in Hong Kong and by receiving support from local governments, mainly by sorting out outstanding receivables as the industrial parks developed by Fortune Land are extremely important for industry growth.

The only relevant rebalancing change country-wise was in China, where we reduced our exposure by **4.6%** to **22.0%**. Our thesis remains unchanged: we are still bullish and expect the spread between the B and BB-rated developers to tighten, but we reduced exposure to the most indebted and cash-stripped B-rated issuers because the market could become increasingly weary of providing funding to them until the Fortune Land situation settles.

In turn, we added a basket of low duration bonds issued by property developers. These have smaller scale but have comfortable leverage and liquidity. Going forward, we can increase this basket by adding more names and add back the most leveraged names to the portfolio when the situation stabilizes.

Therefore, we lowered duration and raised **7.2%** of cash, which makes the portfolio more resilient to higher volatility (should it affect the bond market) and interest rates going forward.

The fund has a yield to worst of **7.59%** duration of **3.79** years, down from 3.84 years as of December 31st.

According to the EPFR, Hard Currency EM Funds reached inflows of $5.60bn inflows in January.

Kind Regards,

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