Quasar EM Hard Currency HY Bond Fund

Monthly Manager Commentaries – February 2021

Dear Investors and Interested Parties,

February was a difficult month for markets overall, as concerns on recovery and inflation hit the market. The US treasury curve shifted considerably during the month, with 10-year yields closing February at 1.41%, widening 34 bps from 1.07% on January 29th, and briefly reaching 1.55% on February 25th. The S&P 500 reversed almost all its monthly gains in the last week but still managed to close the month positive at +2.6%. The same cannot be said about fixed income instruments, as US High Yield (HY) and Emerging Market (EM) HY bonds closed the month in negative territory. Despite the challenging month, the fund returned **+1.31%** in February, recovering all of January losses and reaching +0.23% year to date.

How have we been able to achieve positive results this month? Low duration!

New EM HY issuance has increasingly longer maturities, and is able to attract strong demand from buyers, frequently being over-subscribed by more than 3.0x. We believe that this is due to the lack of yield in Investment Grade (IG) markets, which is forcing investors into the BB/BB+ part of the HY spectrum. These investors that are seeking yield by extending duration in BB/BB+ companies are creating demand and causing yields of longer-dated bonds to tighten. The issue is that as investors pile into long duration debt, they are not only adding to their credit risk, but they are also greatly increasing their interest rate risk in a moment where 10-year yields are at depressed levels and could be up for an inflection point.

Our strategy to generate returns for investors is much more related to credit risk than to interest rate movements. This way we mitigate interest rate risk by decreasing the fund's duration, which stands now at only 3.16 years and shields our investors from interest rate fluctuations. Furthermore, our credit risk is being mitigated through diversification and portfolio building: we are playing many different credit stories with over 85 bonds within different sectors and countries.

This month we rebalanced the portfolio significantly, and the changes were as follows:

- **Brazil:** Reduced the fund's exposure to 18.6% from 32.3%;
- **China:** Increased the fund's exposure to 24.7% from 22.0%;
- **Mexico:** Increased the fund's exposure to 11.6% from 11.0%.

We decided to reduce Brazil due to, amongst many reasons, government interventionism in state-owned companies. First, it opposed a branch restructuring plan by Banco do Brazil stating that the bank has to have a social role and continuously pressured the Bank's president, who is said to be quitting. President Bolsonaro then fired Petrobras' CEO after an outstanding quarter, having complained about the company's fuel pricing policy and the CEO's work from home routine. We have no exposure to Banco do Brazil or Petrobras.

Last but not least, the proceeds from the divestments in Brazil were mostly reinvested in Mexico and in China. As we aim to keep the fund's duration short, these new purchases are focused on carry trades (mostly bonds maturing within 3 years).

The fund currently has a yield to worst of **7.71%** duration of **3.16** years, down from 3.84 years as of December 31st, 2020.

According to the EPFR, Hard Currency EM Funds reached inflows of $3.85bn in February and $9.45bn this year.

Kind Regards,

Quasar International