

Quasar EM Hard Currency HY Bond Fund

Monthly Manager Commentaries – March 2021



Dear Investors and Interested Parties,

This year's challenging environment endured through March. A stronger dollar, widening EM Sovereign CDS and higher US 10-year treasury yields, which widened 34bp to 1.74% contributed to poor performance across the board for Emerging Market High Yield assets, that closed the month -1.5%. Due to low duration and positive developments in idiosyncratic investments, the fund managed to end the month close to breakeven, at -0.62%.

Oil remained resilient during the month, and so did the fund's position in O&G producers despite recent weakness in Brent prices which reached a six-week low of \$60.8/barrel but managed to close March almost flat at \$63.5/barrel. The news flow was quite negative during the month, as stricter lockdowns were put in place in several European countries but, on the other hand, the medium-term outlook remains positive, as vaccine rollouts are being successful and daily availability of doses increases around the world. On the supply side, all eyes are on the April 1st OPEC+ meeting in which production output will be discussed. We expect production cuts to be maintained at similar or slightly lower levels than the current ones, which should support prices.

There was no major shift in the fund's strategy this month, nor major rebalancing changes. We continued to reduce duration, which is now at 2.89 years, down from 3.16 years last month, as well as the fund's exposure to Brazil, which is mainly being invested in China. The main changes were as follows:

- **China:** Increased the fund's exposure to 28.4% from 24.7%;
- **Brazil:** Reduced the fund's exposure to 16.0% from 18.6%;
- **México:** Increased the fund's exposure to 12.2% from 11.6%;
- **Mongolia:** Increased the fund's exposure to 0.7% from 0.2%;
- **Dominican Republic:** Increased the fund's exposure to 1.8% from 0.4%;

It is worth mentioning that most of the Chinese property developers in the fund's portfolio have already reported the 2020 full year audited results, and most of them reported profit increases or limited declines. Only 2 developers had their profitability severely impacted but have solid balance sheets and strong sales that should support cash flows. The 2020 results also showcase that the deleveraging trend to meet the three red lined policy has already started, more prominently in the most leveraged names. Net gearing went down across the board and almost all issuers in the portfolio reported short-term debt cash coverage above 1.0x. As a reminder, the three red line policy sets three guidelines that developers should meet by 2023:

- Net Gearing < 100%
- Cash/Short-term debt > 1.0x
- Liabilities/Assets < 70% (excluding advance receipts)

The fund currently has BB rating, a yield to worst of 8.03% and a duration of 2.89 years, down from 3.16 years in February and 3.84 years as of December 31st, 2020.

According to the EPFR, Hard Currency EM Funds reached outflows of \$6.11bn in March and inflows \$3.34bn year to date.

Kind Regards,

Quasar International