

Positive Contributors	FUND	Negative Contributors
<ul style="list-style-type: none"> JBS and Mexichem with positive reports on debt reduction Bharti Airtel 		<ul style="list-style-type: none"> On country level: Brazil Southern Cooper - lack of Bond supply on the market
Opportunities	MARKET	Challenges
<ul style="list-style-type: none"> Commodity prices continue to rise. Next economic upswing ahead? Turkey - attractive credit growth 		<ul style="list-style-type: none"> Thin liquidity in many securities Vulnerability to small market corrections with regards to the historic context

Update from the lead manager, Péter Varga

In July, emerging markets continued to perform well after a brief period of weakness at the beginning of the month. At the end of the month, risk premia have narrowed by 10 basis points to 330 basis points. Yields in the US were slightly lower, while they remained relatively unchanged in the euro area.

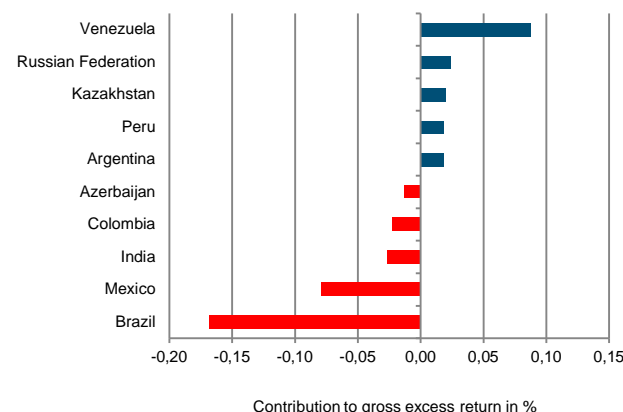
On commodity markets, the overall mood was slightly positive. Iron ore and copper were the exceptions. Prices of these metals have increased significantly. The very solid performance of copper (close to 7%), which is regarded as a traditional economic barometer according to industry insiders, can be explained by the fact that the market has priced in a supply shortage relative to actual demand. With regards to iron ore, there is a certain level of oversupply (as previously reported). Nevertheless, prices have increased by 30% over the last 40 days. Eventually, such price increases are more often than not due to the positioning of macro (hedge) funds and financial investors rather than due to hard facts from the real economy. Thus, one should not jump to fast conclusions.

The strength of the EUR was also very remarkable in July. The currency has gained a solid 4% against the USD. The market has been short EUR for quite some time now (although there might be a significant number of short-term investors with long positions at the moment). Also, the disappointing slow-paced tightening of US monetary policy (comment by FED chairwoman Yellen: „Rates won't have to rise much further to get to neutral.”) as well as the strong economy and comments from the ECB regarding a possible tightening of monetary policy in the euro area in the near term have pushed markets significantly upwards.

Gross Performance	July 2017	Ytd 2017	1Y	3Y	5Y
ERSTE BOND EMERGING MARKETS CORPORATE					
Fund	0.71%	5.39%	6.14%	15.21%	31.62%
Benchmark*	0.80%	5.76%	6.15%	11.24%	23.35%
Difference	-0.09%	-0.37%	-0.01%	3.97%	8.26%
ERSTE BOND EMERGING MARKETS CORPORATE IG					
Fund (USD)	0.54%	4.78%	3.04%	10.03%	-
Benchmark** (USD)	0.54%	5.00%	3.14%	8.83%	-
Difference	0.00%	-0.21%	-0.10%	1.20%	-
ERSTE RESPONSIBLE BOND EMERGING CORPORATE					
Fund	0.42%	3.70%	2.15%	10.80%	-

*BoA ML Q505 – Customized EM Corporate Credit Index
Due to valuation differences between fund and benchmark, the relative YTD performance is lagging behind by 13 basis points.
**BoA ML Q608 – Bond EM exBB1 Total Return Index until 30.6.2016, JPM CEMBI Broad Diversified IG in USD from 1.7.2016

Best and worst relative performance contributors by country



Source: Erste AM, July 2017

Selected new issues in July

Issuer	Coupon	Maturity	Rating	Region
Eurochem Finance DAC	3.95	05.07.2017	BB-	Europe

EAM EMERGING MARKETS CORPORATE Strategies (m EUR)	
Pooled Funds	1,041.77
Special Mandates	833.16
Total	1,874.92

As of July 2017

China's real economy has been growing faster than expected by 6.9% in Q2/17 compared to Q2/16. The government is planning on modernising the regulatory environment. Moody's has changed the bank sector's outlook from negative to neutral.

The US have imposed new sanctions against Russia, which did not have any impact on markets. The economy is currently self-sustaining.

JBS is progressing very well with the refinancing of short-term debt as well as the sale of shares, which is helping them to pay off further debt and penalties. The bonds have performed very well. We had a small underweight, but as reported in the previous month, we have already decreased our underweight position a lot.

Bharti Airtel (Telekom) from India has reported relatively good figures. There have been rumours of a potential merger with Tata Group or Softbank (according to the media, Softbank is also interested in Charter Communication in the US). Bharti is our biggest overweight in India as we believe that negative industry news have already been priced in.

The figures for Mexichem were very strong. The level of debt sank to 1.3 times EBITDA as the company focused on margins rather than revenues in their newly announced strategy. We have therefore overweighted this title in the fund.

Pemex's figures were fairly neutral. Due to this as well as the operational stability of the company and the relatively favourable valuation on the long end (which is where we initially bought the bonds, while selling long-dated Mexican government bonds), we have increased our position to a slight underweight.

Southern Copper has delivered good figures. However, since the bonds are not available on the market, it cost us some performance this month.

Turkish banks also delivered good figures. The high credit growth (30-40%) led to profits for banks, which resulted in improved capitalization, but at the same time also disguised the large proportion of bad loans. We have a neutral position and have recently shortened maturities.

Due to the recent political developments, PDVSA bonds were trading at low levels. We do have an underweight, which we are going to decrease gradually as soon as the bonds are trading below 30.

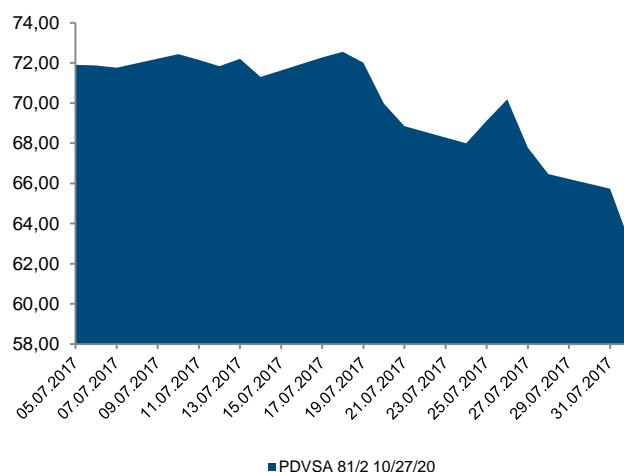
Over the course of the month the market was very well supported by high inflows in the asset class as well as stable returns.

For many titles it is impossible to get an offer. Generally speaking, the liquidity of older issues is exceptionally low.

The strong EUR leads to significant gains in currency hedging, which reduces the level of investments in the strong market.

Longer-term bonds from AMX, SCCO and VALE have performed particularly well this month, trading partly on the narrowest levels ever. We continue to regard the market as fully valued and susceptible to small corrections in the historical context.

Political developments in Venezuela highly correlated to PDVSA bond's performance



Source: Bloomberg

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We believe that active management is the best way to generate value in inefficient markets. Emerging markets corporate bonds offer these kind of investment opportunities. Our clients appreciate and benefit from the integrative research and portfolio manager team approach that provide the basis for a structured and efficient decision making process. This stable process and our focus on excellence has made us the partner of choice for institutional clients all over Europe.

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