



UNION BANCAIRE PRIVÉE

FRIDAY FRONTIER FLASH

Argentina, the IMF and the G20 | 17 April 2020

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws

Another week in the books for our Frontier Fund. This was a very eventful week, with significant newsflow and the first few days of negative performance since our launch. As in previous weeks, there were significant differences to be found amongst the credits. At the regional level, Africa suffered the most. Looking at oil prices, one might assume that the move was led by the oil producing nations. Indeed Angola was the worst performing country, but followed by Kenya, an oil importer. Gabon who is also heavily reliant on oil saw positive performance week-over-week. (NB, we have a significant allocation to Kenya, a smaller allocation to Gabon and no exposure to Angola). So clearly the market remains very technically driven, for the time being.

On the news front, there were a number of notable events. Last night, the first details around Argentina's bond restructuring proposal were revealed. The market has taken this constructively, as there was a broad-based fear that the initial proposal would take a very harsh form. Instead, while the suggested near-term relief is significant, the principal haircuts proposed are very small at 5%. As such, depending on your accompanying assumptions, the expected recovery value of their initial proposal is ~30 cents on the dollar, which is a bit higher than where bonds were trading going into the event.

The second piece of news that has broader implications for more frontier issuers was the announcement of the G20 offering near-term debt relief for low income countries. Our take is that the relief offered by the G20 is clearly positive. Combined with IMF support (up to USD 1tn pledged, some of it already being disbursed), we think this goes a long way towards meeting the 2020 financing needs of many of these countries. On the other hand, the "call" by the G20 in the same announcement for private creditors to participate and offer similar help would clearly be a negative if implemented. This is something we are seeing echoed in numerous media outlets. We have been participating in the virtual IMF meetings this week (including a number of the low income countries). We would note that none of the IMF representatives have suggested bond holder relief is an important factor in their assessments – in fact Kenya's representative specifically said he thought it was explicitly "not important to them".

Our base case remains this will not come to pass. Firstly, there are very few maturities this year in the space (of the 76 so-called "IDA countries" (International Development Association) eligible for this G20-driven debt relief, only Honduras has a maturity in 2020) and therefore the relief would be limited to coupons which, for many countries, are not a significant cost. Secondly, the magnitude of support the IMF has offered will, on its own, have a significantly larger impact on most of these countries than skipping 1-2 coupons. Take a country like Ethiopia, with \$1bn Eurobond outstanding with a coupon of 6.675 – in other words, \$66.75mm cost per annum. They have reserves of \$2bn, their SDR quota with the IMF is \$301mm, and the 1st year quota of their RFI/RCF (Rapid Financing Instrument / Rapid Credit Facility) is \$411mm.

Add the negative stigma that comes with re-profiling bond holders – and potentially higher funding costs going forward – and it is likely not worth it for many countries. Finally, the practicalities of the suggestion are also extremely difficult – a broad move for all of these bonds to participate would require 300+ separate legal processes, each needing relevant majority (mainly 75% Collective Action Clauses). So far, a number of sell-side analysts seem to agree with our view, as do most of the well-informed people we are in touch with in the industry. But clearly the lack of a significant rally on the back of the news suggests uncertainty remains high.

The IMF representatives we have heard from are clear this will not be necessary or recommended in any negotiations for potential programmes, but the risks remain. In an adverse scenario where bond holders agree to short term debt relief, we should also bear

in mind that many of the bonds in question are trading considerably below par. Therefore, a “restructuring” that simply skips 1-2 coupons, and then assumes ability to service debt afterwards, would result in a recovery value well above where many bonds are trading today. This is what famed restructuring lawyer Lee Buccheit was referring to earlier this week when he highlighted that an orderly, and temporary, suspension of payments could actually benefit both sovereign debtors and creditors.

The UBAM Emerging Markets Frontier Bond fund currently has just under half of its assets in IDA countries’ debt.

Current Portfolio

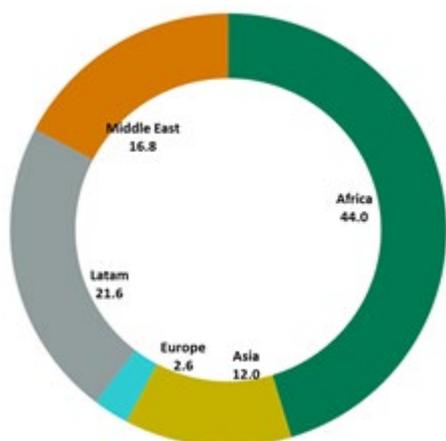
We continue to see some inflows into the fund. AUMs have now reached close to USD 70 mln. The fund is invested almost fully invested across 25 issuers (24 sovereign, 1 quasi-sovereign).

Key Metrics

17.04.2020	UBAM - Emerging Markets Frontier Bond
YTM (portfolio)	9.8%
YTM (bonds only)	9.9%
Modified Duration	7.6
Average credit rating (bonds only)	B

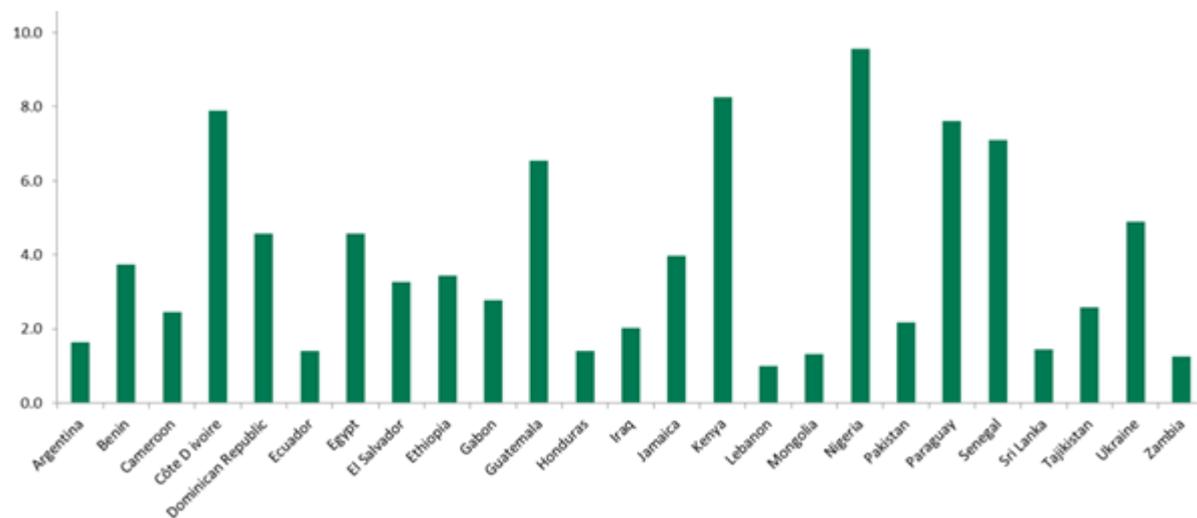
Source: UBP, Bloomberg Finance L.P. – Past performance is not an indicator of current or future results

Regional Breakdown



Source: UBP, Bloomberg Finance L.P. – as at 17.04.20

Country Breakdown



Source: UBP, Bloomberg Finance L.P. – as at 17.04.20

Do not hesitate to contact Karine or myself for more information.

Best regards,

Karine Jesiolowski

Senior Investment Specialist

Emerging Fixed Income

UBP Asset Management (France)

116 avenue des Champs Elysées | 75008 Paris | France

T +331 75 77 18 52 | M +336 07 45 25 53 | karine.jesiolowski@ubp.com



PRI

Principles for
Responsible
Investment



Please consider the environment before printing.

Disclaimer

This is a marketing document and is intended for informational and/or marketing purposes only. This document is confidential and intended only for the use of the person(s) to whom it was delivered. It may not be reproduced (in whole or in part) or delivered, given, sent or in any other way made accessible to any other person without the prior written approval of Union Bancaire Privée, UBP SA or any entity of the UBP Group ("UBP"). This document reflects the opinion of UBP as of the date of issue. This document is for distribution only to persons who are Professional Investors in Switzerland or Professional Clients or an equivalent category of investors as defined by the relevant laws (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. It is not intended for distribution, publication, or use, in whole or in part, in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it directed at any person at whom or entity at which it would be unlawful to direct such a document. In particular, this document may not be distributed in the United States of America and/or to US persons (including US citizens residing outside the United States of America). This document has not been produced by UBP's financial analysts and is not to be considered financial research. It is not subject to any guidelines on financial research and independence of financial analysis. Reasonable efforts have been made to ensure that the content of this document is based on information and data obtained from reliable sources. However, UBP has not verified the information from third sources in this document and does not guarantee its accuracy or completeness. UBP makes no representations, provides no warranty, and gives no undertaking, express or implied, regarding any of the information, projections or opinions contained herein, nor does it accept any liability whatsoever for any errors, omissions or misstatements. The information contained herein is subject to change without prior notice. UBP gives no undertaking to update this document or to correct any inaccuracies in it which may become apparent. This document may refer to the past performance of investment interests. Past performance is not a guide to current or future results. The value of investment interests can fall as well as rise. Any capital invested may be at risk and investors may not get back some or all of their original capital. Any performance data included in this document does not take into account fees, commissions, and expenses charged on issuance and redemption of securities, nor any taxes that may be levied. Changes in exchange rates may cause increases or decreases in investors' returns. All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements do not guarantee future performances. The financial projections included in this document do not represent forecasts or budgets, but are purely illustrative examples based on a series of current expectations and assumptions which may not eventuate. The actual performance, results, financial condition and prospects of an investment interest may differ materially from those expressed or implied by the forward-looking statements in this document as the projected or targeted returns are inherently subject to significant economic, market and other uncertainties that may adversely affect performance. UBP also disclaims any obligation to update forward-looking statements, as a result of new information, future events or otherwise. None of the contents of this document should be construed as advice or any form of recommendation to purchase or sell any securities or funds. This document does not replace a prospectus or any other legal documents, which can be obtained free of charge from the registered office of the fund they relate to, or from UBP. The opinions herein do not take into account individual investors' circumstances, objectives, or needs. Each investor must make his/her own independent decision regarding any securities or financial instruments mentioned herein and should independently determine the merits or suitability of any investment. In addition, the tax treatment of any investment in the fund(s) mentioned herein depends on each individual investor's circumstances and may be subject to change in the future. Investors are invited to carefully read the risk warnings and the regulations set out in the prospectus or other legal documents and to seek professional financial, legal and tax advice. This document should not be deemed an offer nor a solicitation to buy, subscribe to, or sell any currency, funds, products, or financial instruments, to make any investment, or to participate in any particular trading strategy in any jurisdiction where such an offer or solicitation would not be authorised, or to any person to whom it would be unlawful to make such an offer or solicitation. Telephone calls to the telephone number stated in this document may be recorded. UBP will assume that by calling this number you consent to such recording. UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority and is authorised in the United Kingdom by the Prudential Regulation Authority. UBP is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Any subscriptions not based on the funds' latest prospectuses, KIIDs, annual or semi-annual reports or other relevant legal document shall not be acceptable. The latest prospectus, articles of association, KIID and annual and semi-annual reports of the funds presented herein (the "Funds' Legal Documents") may be obtained free of charge from Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1 ("UBP"). The Funds' Legal Documents may also be obtained free of charge from UBP Asset Management (Europe) S.A., 287-289 route d'Arlon, 1150 Luxembourg, Grand Duchy of Luxembourg, and from Union Bancaire Gestion Institutionnelle (France) SAS, 116 avenue des Champs-Élysées, 75008 Paris, France. The Swiss representative and paying agent of the foreign funds mentioned herein is UBP. The Funds' Legal Documents may be obtained free of charge from UBP, as indicated above.