



UNION BANCAIRE PRIVÉE

FRIDAY FRONTIER FLASH

Distressed Outperformance and More DSSI Chatter | 26 June 2020

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Week-over-week, frontier markets continued the positive performance, with our fund returning roughly 0.5% from Friday to Thursday. Our fund saw relatively steady performance through the week, before some weakness appeared on Thursday. So far, today we are higher again with the macro rally. The performance of the asset class was led by distressed names (as it has been since launch) – Angola is up 9.9% week-over-week, followed by Belize (6.6%), Sri Lanka (4.5%), Zambia (4.4%) and Tajikistan (3.6%). We have/had exposure to all but Belize. A few countries posted negative performance, led by Belarus down 3.3% over the week. The Dominican Republic was down 2.8%, El Salvador was down 1.5%, Papua New Guinea posted negative returns of 1.4%, and Ghana was down 0.8%. Of those 5 underperformers we have no exposure to Belarus (as noted last week we did not participate in the new issue – so far a prudent choice), Papua New Guinea, or Ghana, but maintain positions in the Dominican Republic and El Salvador. In the former, we view recent comments by both main candidates in the upcoming election as constructive and believe this weeks weakness is due to a technical, as there are concerns they might issue more. We took the opportunity to add slightly earlier today, and hold a considerable position in the Dominican Republic. In El Salvador, we remain concerned with the longer term, but with enough cash raised to avoid any liquidity issues for a while, we believe we are still reasonably compensated to hold a small position.

Part of the distressed space outperformed on little-to-no news, but we did have noteworthy events in Zambia and particularly Angola. In Angola, it was reported that a debt-moratorium has been agreed with Chinese lenders. This is supposed to encompass both official and bank sources, amounting to nearly \$22bn, and last for 3 years (although Angolan officials are pushing for 5 years) – final details have not been released. This debt moratorium, combined with higher oil prices, is clearly positive for Angola, and helps recovery value in any potential restructuring scenario. That said, with debt-to-GDP likely peaking above 125% we still question the solvency of the country, and remain of the view that an eventual credit event is likely. As such, we sold our position in the Angola '48s on the back of the positive news (at \$78.125) realising a gain of more than 100% since the bonds were purchased in late April (at \$38.5 on April 22nd). The decision to buy Angola was based on valuations, as the bonds traded below our projected range of recovery values. Even with considerably lower exit yields today, compared with April when we purchased them, we believe recovery value would now likely be below where the bonds trade. In hindsight we could have added more aggressively when bonds were below the range. However, we erred on the side of caution/prudence, given the debt relief talks ongoing at the time of purchase, and Angola's clearly deteriorating credit fundamentals. In Zambia the news were less significant, though still worth noting, as the potential for a constructive reprofiling increased in our view. Two pieces of news underscoring this – first, the relationship with the IMF appears to be improving as the mission chief to Zambia made some positive comments, and second, a bond holder group formed, reportedly with a blocking stake in all 3 bonds. This would make future negotiations simpler than, say, Argentina where the government is currently trying to find common ground with 3 groups of investors at the same time.

On the debt relief front, the Executive Secretary of the UN's Economic Commission for Africa wrote an op-ed in the Financial Times. In it, she outlined a proposal for an SPV that would "allow" private creditors to participate in providing debt relief. We have written about this a number of times before, but we continue to view any such plan as highly unlikely to come to fruition. Many countries don't have a solvency problem that would justify this action, and in the current market context, most countries that might qualify would likely have market access anyway. A significant portion of bonds in Sub Saharan Africa are now trading above par,

with many more in the high \$90s. Not exactly a picture suggesting countries in such dire need of help as to require complicated financial engineering to save coupon payments.

As noted above, the fund sold its exposure to Angola, moving to a 0 weight. If the country moves back to trading with other Sub Saharan “oil beta” names, there may still be some upside left. That said, we don’t think the fundamentals (in particular the debt load) would justify this, so we were happy to take profit. The fund instead added to its exposure to Ukrainian GDP warrants. We still believe these are undervalued compared with the country’s fundamentals with a large payment likely to result from the eventual 2021 growth bounce. We believe it’s in the authorities best interest to try to do a liability management exercise to remove this significant contingent liability. It’s likely Ukraine would have to pay a (perhaps significantly) higher price than where the warrants are currently marked in order to get enough participation.

Current Portfolio

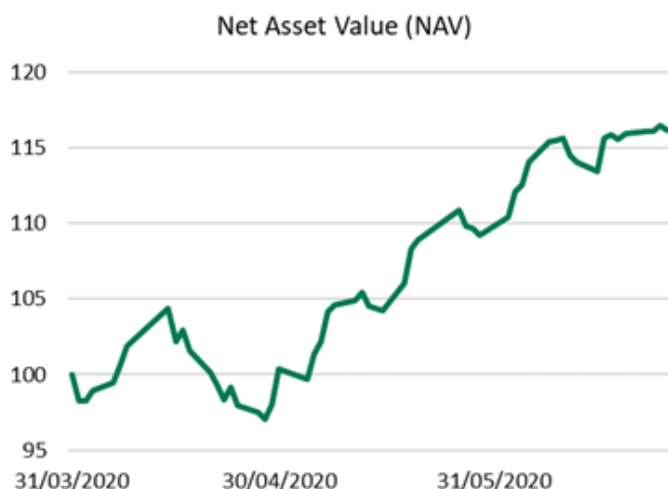
This week inflows returned to the fund, and AUM are now at USD 109 mln. The fund remains fully invested across 26 issuers (25 sovereign, 1 quasi-sovereign).

Key Metrics

| 25/06/2020 | UBAM - Emerging Markets Frontier Bond |
|---|---------------------------------------|
| YTM (portfolio) | 7.17% |
| Modified Duration | 7.86 |
| Average credit rating (bonds only) | B |

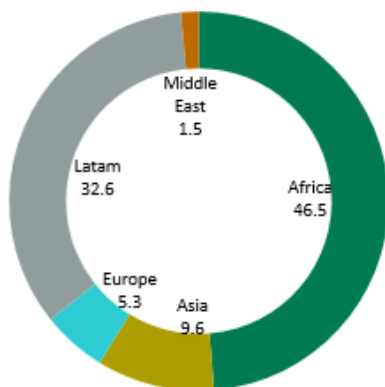
Source: UBP, Bloomberg Finance L.P. – Past performance is not an indicator of current or future results

Fund NAV



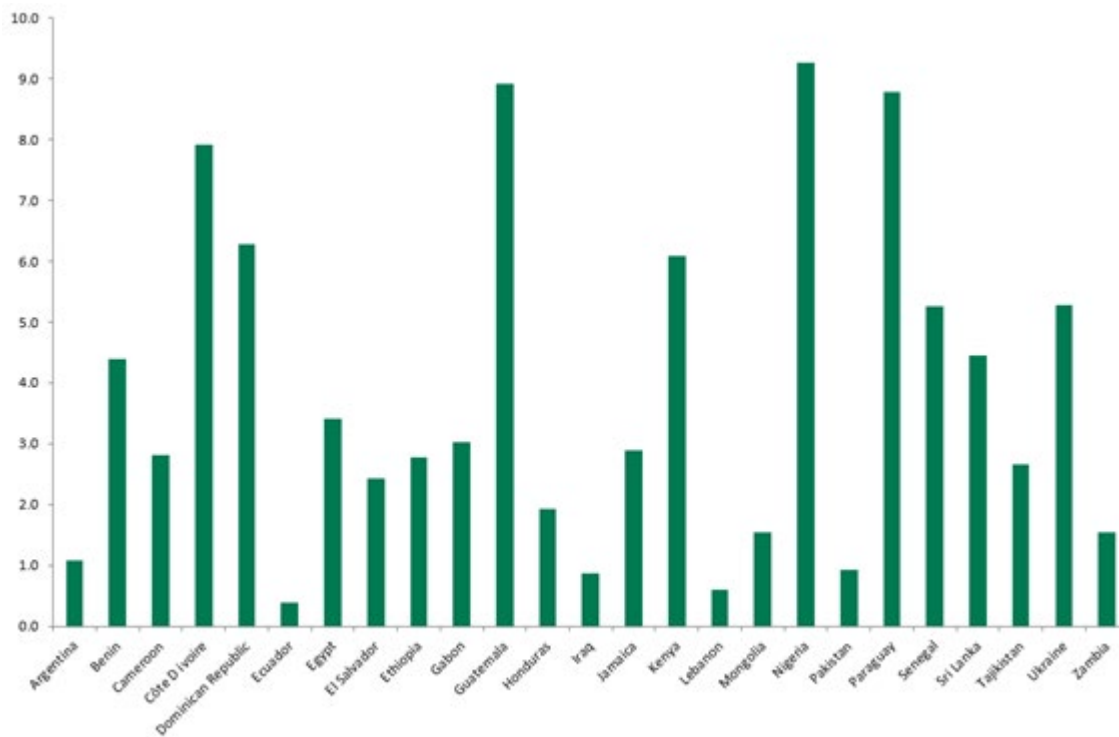
Source: UBP, Bloomberg Finance L.P. – as at 25.06.20 – Past performance is not an indicator of current or future results (reference share class: IEC USD)

Regional Breakdown



Source: UBP, Bloomberg Finance L.P. – as at 25.06.20

Country Breakdown



Source: UBP, Bloomberg Finance L.P. – as at 25.06.20

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

Best regards,

Thomas Christiansen

Managing Director
Head of Sovereign & Frontier EMD

Union Bancaire Privée, UBP SA
Seymour Mews House | 26 – 37 Seymour Mews
London | W1H 6BN
T +44 20 7663 1584 | thomas.christiansen@ubp.com



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