Amundi
Investment Solutions

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Amundi Emerging Markets Platform
Our Cross-Asset Approach

October 2024 For Professional Investors only

A 360º DEGREE PERSPECTIVE FOR UNLOCKING ALPHA OPPORTUNITIES

WHY DO WE ADVOCATE A CROSS-ASSET APPROACH TO INVESTING?

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While selectivity in a world of heterogeneity is important, we believe a **360º degree cross-asset approach results in more efficient portfolio construction. We believe this approach** offers investors **a more comprehensive set of factors that may impact risk and return.**

In our view, an in depth understanding of a company's entire capital structure is valuable in offering a broader perspective when considering investment opportunities. An **equity portfolio manager** considering a **company's long-term growth prospects** could benefit from understanding the **implications on a company's debt dynamics as well as the outlook for its exchange rate. All of the above factors may drive the return potential of an investment.**

In that regard, in addition to a bottom-up analysis, typically performed in collaboration with a dedicated equity analyst team, portfolio managers can leverage on first-hand access to the following important return and risk drivers in order to have a more holistic picture of company:

- Geopolitical risks
- Idiosyncratic country politics
- Interest rate and macroeconomic outlook
- FX fair value and views
- Local bonds versus equity arbitrage
- Top-down country and sector/industry views

These factors are key to deepen a portfolio manager's understanding of the environment that companies are facing in order to hone in on the most attractive investment opportunities.

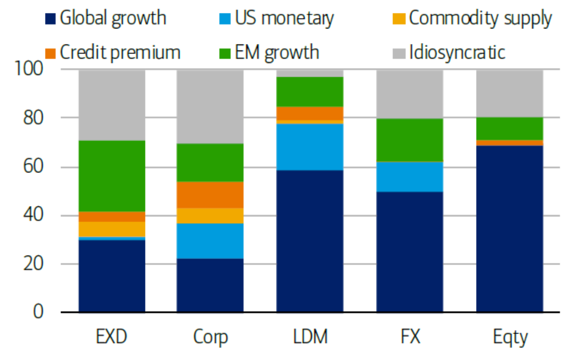
Although common factors drive returns across EM sub-asset classes, their impact is varied

While the return potential from EM sub-asset classes is largely influenced by macroeconomic factors, idiosyncratic, or country-specific factors, are also important considerations. **In our view, the varied drivers of returns across EM sub- asset classes gives rise to unique investment opportunities, depending on where we are in the economic cycle.**

The primary drivers impacting returns across emerging market sub-asset classes is illustrated in the chart below from **Bank of America Global Research**. These **conclusions are based on a long-term study of the drivers of returns across EM assets** (10 year period from 2009 to 2019).

For instance, US monetary policy, which most consider to be a significant driver of EM external debt returns, has historically only been a modest contributor as illustrated in the chart below. One of the main reasons is the period under consideration, when growth and monetary policy cycles became highly correlated due to rapid globalisation. Therefore, what one might intuitively attribute to monetary policy is actually captured by global growth, which is in fact shown as a key driver of EM external debt returns.

Decomposition of weekly EM returns into high-frequency macro drivers (%)



Source: BofA Global Research utilising 10 years of data from 2009 to 2019. GEMs Viewpoint - Year Ahead 2023: Re-Emerging Markets, published on 22 November 2022. EXD: external sovereign debt (hard currency); Corp: external corporate debt (hard currency); LDM: local government debt (local currency); FX foreign exchange; Eqty: equities.

On the other hand, EM currency and equity returns are impacted most significantly by global growth, which as expected, is due to the effect of rapid globalisation during the period under consideration. Moreover, local currency government bonds are most exposed to global growth and US Fed policy, while idiosyncratic factors such as company fundamentals or industry dynamics are important drivers for corporate debt as well as equities.

RETURNS SUSTAINABILITY SHOULD BE VIEWED IN THE CONTEXT OF RISKS

Our investment objective is to extract the potential return and/or yield premium of investment in EM while managing overall risk exposures, including ESG risks, to mitigate any negative impact. We therefore **assess the sustainability of potential returns in the context of the risks.**

The table below indicates the risk exposures by sub-asset class and the considerations driving the investment case.

	RELATIVE RISK EXPOSURE (in benchmarked portfolios)	INVESTMENT CONSIDERATIONS
External Debt (Hard Currency)	▪ Contribution to Duration Times Spread (DTS) ▪ Ex-ante tracking error	▪ Macroeconomic fundamentals ▪ Political risk factors ▪ ESG considerations ▪ Technical factors
Local Debt (Local Currency)	▪ Nominal yield ▪ Contribution to duration ▪ Ex-ante tracking error	▪ Macroeconomic fundamentals (inflation, monetary policy) ▪ ESG considerations ▪ Relative levels of real yields ▪ Shape of the local yield curve
FX	▪ FX Risk EM ▪ FX Risk G10 ▪ Ex-ante tracking error	▪ Macroeconomic fundamentals ▪ Central Bank policy action ▪ Political risk factors ▪ Technical factors
Corporates	▪ Contribution to Duration Times Spread (DTS) ▪ Ex-ante tracking error	▪ Corporate and macroeconomic fundamentals ▪ ESG considerations ▪ Political risk factors ▪ Technical factors
Equities	▪ Beta ▪ Ex-ante tracking error	▪ Corporate and macroeconomic fundamentals ▪ ESG considerations ▪ Political risk factors ▪ Technical factors

Source: Amundi Asset Management as of Sep 2024. Duration Times Spread (DTS) is a bond risk measure which incorporates the country's spread and its sensitivity to changes in spread. Beta is an equity risk measure which indicates the sensitivity of a stock to the market.

We believe it is important to research beyond surface level data to get a better understanding of a company and/or country. When analysing a company, an in-depth diligence of its business fundamentals, sector trends and market drivers from both a fixed income and equity perspective is valuable**.** Equity investors are more concerned about revenue and earnings prospects, while fixed income investors are focused on debt sustainability. Along with financial analysis, **relevant trends and themes such as environmental, social, governance, demographic, regulatory and technological issues are also considered**. For instance, if we believe a country is going through a structural growth uptrend due to its demographic dividend, the ideal investment may be in domestic equities. However, if the economy turns and monetary easing commences, bonds may be better positioned to benefit from a lower rate environment.

Our experience shows that while credit and equity markets are symbiotic, they are not always efficient. Therefore, **a deep understanding of a company's capital structure provides a holistic perspective in uncovering attractive investment opportunities**.

Below is an illustration of how a holistic analysis of the capital structure can result in more efficient portfolio positioning:

SELECTION IN TURKISH BANKS IN 2019 THROUGH CROSS-ASSET DISCUSSIONS

Cross-asset platform discussions helped the investment team to have a holistic picture of the macro backdrop and the corresponding bottom-up impact on Turkish banks. **Although the equity and credit analyst held contrasting views, they constructively challenged and debated the risks and opportunities to determine the best investment opportunity.**

- Our **equity analyst maintained a bearish view** due to sluggish economic growth and political uncertainty. The risk-return trade-off for positioning in banking stocks was therefore deemed to be unattractive.

- On the other hand, the **credit analyst held a more constructive view** due to solid capitalization of the sector and strong return on equity and cash flows to service debt levels. This resulted in increased exposure in Turkish bank debt.

- Maintaining an open dialogue between credit and equity analyst teams helped to factor in how **risks such as liquidity, refinancing, etc. could adversely impact banks' balance sheets**.

Source: Amundi Asset Management, Emerging Markets Platform as of April 2024.

Finally, it is also important to consider the extent of government support as the implication from an equity perspective is different from that of a fixed income perspective. Companies with strategic importance to the country may withstand economic pressures better than peers with no government support. For a quasi-sovereign company, proximity to the government renders it vulnerable from an equity returns' perspective when the company is used for public policy implementation, but remains well-protected during crisis periods, thus benefiting fixed income investors.

OUR CROSS ASSET CAPABILITIES

Amundi's **integrated cross-asset EM platform** with **over EUR 40bn** in assets under management spans EM Debt, Equities, and EM Cross Assets, making it **one of the most comprehensive offerings** in the market. As Europe's largest asset manager and one of the top 10 worldwide, our global expertise and commitment to responsible investing, including voting and engagement practices, can enhance the platform, positioning us as a leader in EM investments.

Our investment team follows a **research-backed, value-driven approach** with a **focus on active management**. With an average of over 20 years of experience across its 27 fixed income portfolio managers and 23 equity portfolio managers, the team is supported by extensive EM research capabilities, including 10 credit analysts, 7 equity analysts, 6 sovereign and macro analysts, 1 geopolitical expert, 2 portfolio construction analysts and 70+ ESG specialists[1]. Our investment process **prioritises a combination of top-down analysis and bottom-up selection**. We seek to maximise risk-adjusted returns in all market conditions.

We offer a **diverse range of EM solutions**, providing investors with **access to the full EM universe**. Strategies span sovereign and corporate credit, local rates, equities and currencies. We offer **both traditional building block solutions as well as flexible, aggregate approaches**. Investors can choose from a **variety of alpha-generating opportunities** based on their **individual risk and return preferences**, benefiting from our **strong long-term track record**.

We believe our **commitment to responsible investing sets us apart**, with all actively managed funds adhering to a **strict exclusion policy** and **leveraging the firm's global voting and engagement framework**. Our 80-member EM team operates out of **eight global investment centres**, **speaks 29 languages**, and brings a wealth of expertise[1]. This global, **multi-cultural perspective** strengthens Amundi's ability to navigate diverse EM markets, aiming to create a unique value proposition for investors.

With deep research capabilities, proactive risk management, and expertise across the EM landscape, Amundi stands as a trusted partner for EM investments.

Source: 1. Amundi data as at 30/06/2024
2. IPE "Top 500 Asset Managers" published in June 2024, based on assets under management as at 31/12/2023

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IMPORTANT INFORMATION

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