Q1 | 2025

RVX ASSET MANAGEMENT LLC

# Emerging Markets Debt

**Objective**

*The Emerging Markets Corporate Fixed Income strategy objective is to outperform the JP Morgan CEMBI Broad Diversified Index over the long term by targeting long-only credit opportunities across global Emerging Market Corporate Bonds, Emerging and Frontier Sovereigns and Provincial Debt Markets. By utilizing an active, top-down, fundamental, relative value approach to evaluate countries, sectors and companies RVX believes it can exploit the opportunities created by the positive fundamental change occurring in emerging markets around the globe.*

**Investment Team**

*Raymond Zucaro, CFA*
*Mauricio Kiblisky*

**Director of Fixed Income Operations**

*Felix Wong*

**Composite Inception Date**

*January 1, 2020*

**Strategy Profile**

*Benchmark… JPM CEMBI Brd Div Index*
*Style…………………………. Relative Value*
*Credit Quality………… Ba2/BB min. avg.*
*Duration……………… 85 to 115% of index*
*Security………………………………. 5% max*
*Country……………………………. 25% max*
*Industry……………………………. 30% max*
*Currency……………………………. USD only*

## PERFORMANCE:

**RVX Emerging Markets Debt**

**Total Return %**

| as of 3/31/2025 | QTD | YTD | 1 yr | 3 yr* | 5 yr* | S.I.* |
|---|---|---|---|---|---|---|
| RVX EM Corp FI (Gross) | 2.72% | 2.72% | 10.78% | 6.64% | 6.56% | 3.39% |
| RVX EM Corp FI (Net) | 2.62% | 2.62% | 10.35% | 6.16% | 6.05% | 2.90% |
| JPM CEMBI BD | 2.42% | 2.42% | 7.74% | 4.98% | 4.89% | 2.54% |
| Morningstar EM Corp Bond | 2.66% | 2.66% | 7.45% | 3.54% | 3.02% | 1.02% |

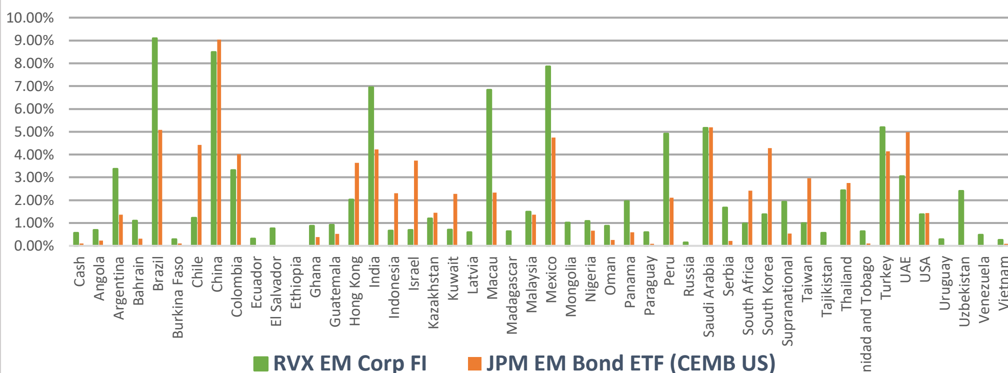
* *Source: RVX Asset Mgmt, JPM CEMBI Br Div Index, and Morningstar EM Corp Bond Index Returns 1+ Years are Annualized, Inception Date: 1/1/2020*
* The performance data quoted represents past performance; Past performance does not guarantee future results
* Specific investments described herein do not represent all investment decisions made by RVX. The reader should not assume that investment decisions identified and discussed were or will be profitable. Specific investment advice references provided herein are for illustrative purposes only and are not necessarily representative of investments that will be made in the future. Please see DISCLOSURE at bottom of page 2 for further details.

## TOP TEN HOLDINGS:

| Security | MV% | Sector | Country | Eff. Dur | YTW | Rating |
|---|---|---|---|---|---|---|
| ARAMCO 2 1/4 11/24/30 | 4.20% | Energy | Saudi Arabia | 5.15 | 4.82 | A+ |
| MEXCAT 5 1/2 07/31/47 | 3.73% | Industrial | Mexico | 11.68 | 7.11 | BBB- |
| VOLCAN 8 3/4 01/24/30 | 3.56% | Basic Materials | Peru | 3.54 | 8.99 | B- |
| MCBRAC 7 1/4 06/30/31 | 2.38% | Energy | Brazil | 3.94 | 11.23 | B+ |
| SAMMIN 9 1/2 06/30/31 | 2.35% | Basic Materials | Brazil | 2.55 | 9.90 | B- |
| ADSEZ 4 3/8 07/03/29 | 1.88% | Consumer, Non-cyclical | India | 3.70 | 7.18 | BBB- |
| BABA 4 12/06/37 | 1.73% | Communications | China | 9.53 | 5.27 | A+ |
| SERBIA 6 06/12/34 | 1.67% | Government | Serbia | 6.88 | 6.12 | BB |
| B 04/01/25 | 1.38% | Government | USA | 0.00 | 0.00 | AAA |
| ADSEZ 3.1 02/02/31 | 1.34% | Consumer, Non-cyclical | India | 5.07 | 7.31 | BBB- |
| | 24.23% | | | | | |

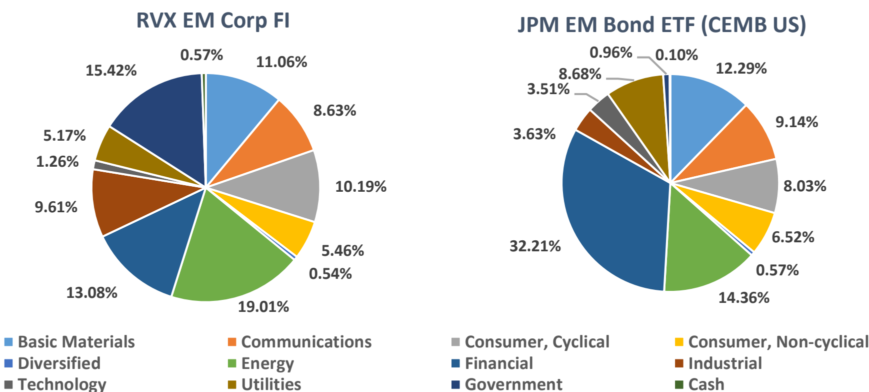
*The Top Ten Holdings were selected based on objective, nonperformance-based criteria and the criteria used is applied consistently from period to period. Fund holdings and allocations are subject to change and should not be considered a recommendation to buy or sell a security. Source: RVX Asset Management Representative Account*

## COUNTRY WEIGHTINGS:




**Source: RVX Asset Management Representative Account and *JPM EM Bond ETF (CEMB US) used as a proxy for the JPM CEMBI Brd Div*

## SECTOR WEIGHTINGS:




**Source: RVX Asset Management Representative Account and *JPM EM Bond ETF (CEMB US) used as a proxy for the JPM CEMBI Brd Div*

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## Investment Process

### Macro View

- *The team begins with an analysis of the global macroeconomic environment, the corresponding impact on Emerging Markets, and the market's overall risk appetite.*

### Sovereign View

- *The team's objective is to analyze credit opportunities in countries benefitting from the global macroeconomic environment, identified as those exhibiting positive rates of change in their economic, political, and social outlook.*

### Industry & Company View

- *The team reviews an assortment of measurements to assess the credit worthiness of particular issuers within the framework of the team's sovereign perspectives and also, the issuers industry outlook.*
- *Each potential security is analyzed through a variety of credit and valuation metrics.*

### Portfolio Construction & Risk Management

- *The team seeks to identify potential mispricing and alpha opportunities.*
- *Broad Diversification across countries, sectors, and credits.*
- *Risk management is integrated throughout the team's investment process. A designated Chief Risk Officer monitors portfolio adherence to guidelines, overall risk levels, and portfolio composition.*

## Portfolio Characteristics

*Average Coupon............................ 5.97%*
*Yield to Maturity............................ 7.94%*
*Yield to Worst................................. 7.74%*
*Avg. Maturity.................................. 9.82*
*Effective Duration........................... 3.94*
*Average Quality.............................. BB*
*Number of Holdings........................ 185*
*Number of Issuers........................... 155*

*Portfolio Turnover (TTM).............. 12.56%*

## COMMENTARY:

**First Quarter 2025 Commentary**

During the month of March 2025, the RVX Fixed Income Long Only Strategy **underperformed** the JPM CEMBI index by **16 bps** for a monthly gross return of **-0.12%**.

For the quarter ending March 2025, the RVX Fixed Income Long Only Strategy **outperformed** the JPM CEMBI index by **29 bps** for a three-month gross return of **2.71%.**

For the 3-year-period ending March 2025, the RVX Fixed Income Long Only Strategy **outperformed** the JPM CEMBI index by **556 bps** for a three-year gross return of **21.28%.**

For the 5-year-period ending March 2025, the RVX Fixed Income Long Only Strategy **outperformed** the JPM CEMBI index by **1038 bps** for a five-year gross return of **37.36%.**

And finally, since the 12/31/2019 inception date, the RVX Fixed Income Long Only Strategy **outperformed** the JPM CEMBI index by **504 bps** for a since-inception gross return of **19.11%.**

During the month and for the quarter, the AGG ETF, which is a proxy for the US Aggregate bond index, and the HYG ETF, which is a proxy for the iBoxx High Yield Corporate Index, returned **-0.025%** and **-1.08%** and **2.32%** and **1.24%** respectively[1].

Ok, hear us out. As we've been saying, the tectonic shift that took place on January 20th of this year—with its epicenter in Washington, D.C., but aftershocks spreading worldwide—will continue to have global impacts for years to come. But how does this affect financial markets? Obviously, we don't have a crystal ball, but we want to share some of our thoughts.

Short term: choppy. Medium to long term: for the first time in a long time, we're actually optimistic. We see the real possibility of a U.S. peace dividend[2]—something that never truly materialized for the U.S..

In the short term, the news cycle has been exhausting, from outlandish headlines about the U.S. taking over Gaza to the nearly daily fluctuations in tariffs against both allies and adversaries, as well as curious line-item disclosures of USAID waste and a potentially large reduction in government employment. The current administration has been using the term "flooding the zone," and we can personally say—we feel flooded!

But this is what leads us to medium-term optimism. We see real chances for structural change that we've only ever dreamed of. Having a few more gray hairs (or in the author's case, no hair), we remember the great promise of a global peace dividend after 1989. Being students of history, we saw how once-devastated nations like Germany and Japan, freed from military spending, became industrial giants with robust national social systems. Similarly, the little known or cited, reduction in Sino-Soviet tensions allowed China to redirect military expenditures into productive capital formation, fueling its rise as the world's manufacturing hub.

There have been interesting studies from the IMF (see here[3] and here[4]) discussing the post-Soviet collapse benefits of falling defense spending. These studies highlight lower fiscal deficits, lower taxes, and less "crowding out" of private-sector investment—all while maintaining spending on social security, healthcare, education, and housing. Notably, the U.S. did not reduce military expenditures during this period.

We often have heated internal and external debates about the benefits of maintaining nearly 800 foreign military bases and serving as the world's policeman, along with the technological advances that stem from military spending. However, as Knight, Loayza, and Villanueva (footnote 2 above) note in their IMF Staff Paper, while government spending—military included—may stimulate short-term economic growth by increasing aggregate demand, over the medium to long term, increased military expenditure can depress a country's secular growth.

**They highlight two key mechanisms:**

1. Increased military spending negatively impacts investment in productive fixed capital, creating a "crowding out" effect.
2. Government expenditures on the military must be financed by either taxes or borrowing (future taxes), reducing after-tax returns on productive capital while limiting the flow of savings available for domestic investment.

Now, we know we've probably lost some of you—or at least bored most of you—but we wanted to provide context for our current outlook.

For the first time in a long time, we are optimistic about the U.S. economy and Emerging Markets while remaining pessimistic on the Eurozone[5]. If this administration delivers on its peace and government "weight-loss program," we see many potential green shoots ahead. Lower government spending and debt reduction could lead to lower interest rates, impacting cost-of-capital calculations. A reduction in global tensions could drive meaningful declines in commodity prices—including oil, metals, and fertilizers.

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## COMMENTARY:

And let's not forget innovation. Imagine what technological advancements could be driven by increased capital flows when, in just the past year, we've seen breakthroughs in AI and starship rocket boosters caught with 'chopsticks.' [6] We believe in American exceptionalism—who wouldn't, seeing this level of innovation?—but we also take a realist's view when evaluating global market valuations.

We are optimistic about the US economy in the medium term, we do think some to market valuation adjustments are needed in the short term. As noted on CNBC interview on 3/7/2025, Treasury secretary Bessent noted that the "top 10% of Americans are 40% to 50% of consumption and that it is an unstable equilibrium. The bottom 50% of working Americans have gotten killed".

When we look at one-year and two-year forward P/E ratios for the Dow Jones, S&P 500, and Nasdaq—20.21x, 20.79x, 25.62x and 17.76x, 18.44x, 21.48x, respectively—it's hard to argue that the U.S. market is cheap compared to global alternatives[8].

As we mentioned above, we are sanguine on Europe and want to expand on our thoughts.

What is an Anchor? According to the Merriam-Webster Dictionary[9], of the eight definitions listed, numbers 2 and 3 best illustrate the point we are trying to make. They are: a reliable or principal support and something that serves to hold an object firmly.

We have long viewed Germany as the fiscal anchor of Europe—providing the reliability and support that gave us confidence when assessing the Eurozone as a whole. Germany has by far the largest economy in Europe[10]. According to IMF projections, Germany's nominal GDP stands at $4,713.58 billion (23.40% of the EU total), making it 48% larger than France, the second-largest economy, which has a nominal GDP of $3,176.65 billion (15.77% of the EU total).

The recently elected Friedrich Merz and his coalition government have taken steps to remove Germany's constitutional debt brake, a move that could lead to a significant rise in German debt levels over the next decade. According to the German government-owned Deutsche Welle, Germany's debt-to-GDP ratio could rise from the current 62% to 90%[11].

The Eurozone is a beautiful region, rich in history, but it is not particularly endowed with the natural resources needed for a modern industrial economy. Historically, Germany's economy has been driven by manufacturing and industry, with global leaders such as Volkswagen, BMW, Siemens, and BASF at its core. However, the world has changed in recent years. As we outlined in our 4Q'24 write-up[12], we see the world dividing into spheres of influence, and Europe is increasingly finding itself on the sidelines.

By cutting itself off from its natural resource supplier to the East, Europe has triggered a meaningful and long-term rise in production costs. At the same time, it has alienated historic clients in Asia and now faces added costs from U.S. tariffs.

In summary, German debt is set to rise significantly, weakening what has historically been Europe's fiscal anchor. Even just optically, if Germany's debt-to-GDP ratio climbs to 90%, as Deutsche Welle speculates, it will have ripple effects across the EU. While a 45 percentage point increase in German debt may not sound dramatic on its own (it does to us), other EU nations will inevitably experience higher borrowing costs.

Countries like Greece, Italy, France, Belgium, and Spain—which already have debt-to-GDP ratios well above 100%—will face even greater financial strain. Compounding this issue, Germany's increased borrowing will be directed toward military buildup and climate protection, rather than the country's Ratios taken from Bloomberg, data drawn on March 31th, 2025. historically export-focused industries. This shift will alter the flow of funds within Germany and across Europe.

Logically, fewer European exports mean less demand for Euros to pay for those goods. With higher input costs[13] weakening the industrial anchor and the removal of the debt brake undermining the fiscal anchor, the European Union will have fewer tools to address any political or economic storms on the horizon.

In summary:

- We are comfortable with interest rates at current levels and see opportunities for them to go lower.
- We are optimistic about the possibility of a global peace dividend.
- However, this transition period could result in lower U.S. equity valuations.
- Combining these factors, we are especially optimistic about Emerging Markets.

When dissecting performance from a country perspective, the largest contributors for the quarter were India, Peru and Mexico. As you may recall, India was weak at year-end due to yet more headline risk from the Adani related companies. We view these as very politically driven and frankly expect them the reduce in a post Biden period. That said, Adani port continues to print excellent results with headline revenue growth of 14% year-over-year and EBITDA growth of 19% year-over-year and a net-debt reduction from 2.3 times to 2.1 times. Peru performance was driven again by strong performance of Volcan mining. During the month the company reported strong financials results with year-over-year leverage dropping from 2.9x to 1.5 on a gross level. Finally, Mexico. We expect valuations in Mexico to be violate as they are near the front of the line in terms of tariffs headlines. That said our holdings in Mexico performed in the month, mainly due to our longer duration position as opposed to any bottom-up credit drivers.

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## COMMENTARY:

The largest detractors to performance for the quarter were Colombia, Chile and South Korea. Colombia underperformance was driven by weakness in Gran Tierra. While from a bottom-up perspective the company has operated well and with all-in-cost structure of $40/bbl the company continues to generate cash but given the countries where they operate they have been caught up in tariff concerns, however it seems that investors forget that their actual production is largely exempt. Both Chile and South Korea were underperformers for the quarter due to our large underweights in both markets. We continue to find better opportunities in neighboring countries but are constantly on the lookout for opportunities.

Currently, portfolio quality is at BB, versus the benchmark BBB-. Portfolio duration is 3.95 versus the benchmark's 4.48. We are currently running higher than normal cash and cash equivalent levels as we are in this period of transition that we discussed earlier. As such we are relying more on our single name bottom-up credit calls to be drivers of performance in the short-term while this macro trends.

***Footnotes:***

1. Performance from Bloomberg, data drawn on April 7th, 2025.
2. Peace dividend - Wikipedia https://en.wikipedia.org/wiki/Peace_dividend
3. https://www.imf.org/external/pubs/ft/fandd/1997/03/pdf/clements.pdf
4. https://www.elibrary.imf.org/downloadpdf/view/journals/024/1996/001/article-A001-en.pdf
5. Increased defense spending, less reliable energy inputs and alienation of key Emerging Markets like China and Russia
6. SpaceX catches Starship rocket booster with 'chopsticks'
7. CNBC Transcript: United States Treasury Secretary Scott Bessent Speaks with CNBC's "Squawk Box" Today
8. Ratios taken from Bloomberg, data drawn on March 31th, 2025.
9. ANCHOR Definition & Meaning - Merriam-Webster
10. https://www.imf.org/en/Publications/WEO/weo-database/2024/October
11. €1 trillion impact: What easing debt brake means for Germany – DW – 03/17/2025
12. https://rvx-am.com/wp-content/uploads/RVX-EM-Corp-fact-sheets/EM-Debt-Fact-Sheet-Q4-2024.pdf
13. https://www.reuters.com/business/basf-dials-up-cost-cuts-germany-flags-earnings-rebound-2024-02-23/

***DISCLOSURES:***

Primary Index: J.P. Morgan CEMBI (Corporate Emerging Markets Bond Index) Broad Diversified Index
Secondary Index: Morningstar Emerging Markets Corporate Bond Index

• RVX Asset Management, LLC ("RVX" or the "Firm") claims compliance with the Global Investment Performance Standards ("GIPS"®), and has prepared and presented this report in compliance with the GIPS standards. RVX has been independently verified for the periods 1 November 2018 to 31 December 2024. The verification report is available upon request.
• A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.
• RVX is an investment advisor registered with the Securities and Exchange Commission ("SEC") under the Investment Advisers Act of 1940. The Firm was founded in 2015, and initially registered with the SEC in 2016. RVX provides asset management services to institutions and other investment advisors (excluding pooled funds as a distinct business). The Firm invests client assets ("Accounts") primarily in emerging and frontier market government and corporate debt, and currencies which are allocated among asset classes based on the client's risk and return requirements. RVX is an independent investment management firm that is not affiliated with any parent organization.
• The RVX Emerging Markets Corporate Debt Composite ("EMCorp Composite") consists of fully discretionary Accounts invested in its related investment strategy ("Strategy"). Accounts consist primarily of emerging market corporate bonds across a variety of durations and credit qualities. The investment objective of the Strategy is to outperform the index 1.5 to 2% annualized over a market cycle by targeting credit opportunities across global emerging market corporate bonds, and emerging and frontier sovereign and provincial debt markets. Securities are subject to general market risks due to factors that affect the overall market, which may include, but are not limited to, government actions, investor behavior, and economic conditions. Economic conditions may be influenced by liquidity risk, geopolitical risks, monetary and fiscal policy, interest rate risk, and inflation, among others. Key material risks include the risks that bond prices will decline, foreign currency prices will decline, available liquidity will decline, rule of law will decline, and the composite will underperform its benchmark.
• The composite was created in January 2022, and the inception date is 1 January 2020.
• The primary benchmark is the J.P. Morgan CEMBI (Corporate Emerging Markets Bond Index) Broad Diversified Index, which tracks the performance of U.S. dollar-denominated bonds issued by emerging market corporate entities. The secondary benchmark is the Morningstar Emerging Markets Corporate Bonds Index, which measures the performance of USD denominated, fixed-rate, investment grade and high-yield corporate bonds issued by emerging market entities. It is market capitalization weighted with capping constraints. The benchmarks are provided for comparative purposes only to represent the investment environment during the time periods shown. The benchmarks are unmanaged and reflect no fees or expenses. Individuals cannot invest directly in an index. The composite Accounts differ from the indices content and asset allocation of the benchmarks, as unmanaged indices.
• Account returns are calculated using a time-weighted return ("TWR") methodology that calculates period-by-period returns reflecting the change in value, and negating the effect of external cash flows. The monthly composite return is the asset-weighted performance of all Accounts in the composite. Monthly composite returns are geometrically linked to form year-to-date and annual returns. Returns include the reinvestment of dividends and other earnings. Valuations are computed and performance is reported in U.S. dollars.
• Gross-of-fee returns are presented before management and custodial fees, but after all trading expenses. Composite and benchmark returns are presented net of non-reclaimable withholding taxes. Net-of-fee returns are calculated by deducting a monthly model management fee of 0.0417%, 1/12th of the highest annual management fee of 0.50%, from the monthly gross-of-fee composite return. Beginning 1 January 2024, the management fee schedule for Accounts is as follows: 0.40% on the first $50 million; 0.30% on the subsequent $50 million; 0.25% thereafter.
• Internal dispersion is calculated using the asset-weighted standard deviation of annual gross-of-fee returns of those Accounts that were included in the composite for the entire year.
• The three-year annualized standard deviation measures the variability of the composite's gross-of-fee returns and the benchmark's returns over the preceding 36-month period.
• Investing in securities always carriesthe risl of potential loss of investment principal. Actual Account returns may be higher or lower than the Composite returns due to differences in portfolio holdings, timing of security transactions, and account inception date. Please see our Form ADV Part 2 for a complete description of advisory fees. Returns of less than one year are not annualized. You can obtain RVX's Investment Policy Statement, firm and investment strategy information, as well as fee information by contacting RVX.
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