



Performance Overview

Performance in May	
Portfolio	-5.19%
50% GBI-EM Global Diversified in dollar + 50% ELMI+ in dollar	-4.40%
GBI-EM Global Diversified in dollar	-4.35%
Performance Year to Date	
Portfolio	1.12%
50% GBI-EM Global Diversified in dollar + 50% ELMI+ in dollar	-0.29%
GBI-EM Global Diversified in dollar	2.45%

Emerging Markets Overview

What a month. On top of ongoing worries over European debt sustainability and regulatory reforms of the financial sectors in the US and the EU, investors risk willingness was further tested by social unrest in Thailand, tensions between the two Koreas on evidence that a South Korean navy ship was sunk by a North Korean submarine's torpedo, the world's largest oil spill ever and finally - by the end of May - an Israeli raid on a Turkish charity sponsored flotilla carrying humanitarian aid to Gaza threatening to increase tensions in the middle east in general and put a long lasting freeze on the Israeli/Turkish relations. Furthermore, the European sovereign debt crisis caused additional head winds for emerging markets assets as spillover to the banking sector and tight dollar liquidity triggered an unwelcome tightening of global financial conditions in the form of negative basis swap spreads in most currencies including the euro. Consequently, US treasuries rallied with yields dropping 37bps to 3.29% while the dollar gained against most currencies with the euro taking a monthly hit of no less than 7.36%.

In Asia expectations of an imminent de-peg of the Chinese Yuan was put on hold and with monetary hawks suddenly turning into doves receiver trades suddenly were back in fashion be it in Asia or elsewhere. Most Asian currencies partly reversed gains seen in April and on a global scale only few currencies managed to keep up with the dollar.

All things considered one can hardly blame emerging market investors for becoming a little risk averse. Local currency carry trades were closed, external debt spreads suffered from tight dollar liquidity and although inflows to emerging markets fixed income funds initially held up nicely the inflows eventually dried up by the last week of the month with hard currency debt funds suffering a net monthly outflow of USD 102mn/-0.3% AUM and leaving local currency debt funds with a monthly inflow of USD 1.09bn/4.3% AUM.

Heavily influenced by the stronger dollar/weaker euro local debt market benchmark GBI EM Global Diversified made a negative monthly return of 4.34% against the dollar and a positive 3.65% against the euro.

Successful Strategies

Underweight exposure in Poland and Hungary turned out as our most successful strategies in May as these currencies were particularly hard hit as a consequence of ongoing worries over European debt sustainability, fiscal restraints and growth.

Less Successful Strategies

Emerging Markets Matrix

Important EM Indicators	Value	Change
EMBI (EM hard currency)	338bps	70bps
GBI-EM (EM local debt)	6.88%	8bps
EM CDX (EM credit default swaps)	278bps	57bps
10 yr UST	3.285	-37bps
MSCI-EM (global EM equities)	347.51	-8.80%
WTI Crude	73.97	-14.14%
Gold	1215.0	2.78%
EUR/USD	1.2295	-7.36%

Our position in Asia went against us in May. First and foremost, in spite of lethal clashes in the streets of Bangkok the Thai local market was rock solid. With a 10% benchmark weight and us being zero weighted this was a major drag on relative performance. Secondly, our 4% allocation to KRW suffered following a somewhat unexpected large negative market reaction to the evidence of the North Korean sinking of a South Korean warship. We believe the reaction is overdone and still consider KRW among the fundamentally cheapest currencies in Asia. Consequently we increased our KRW exposure through an option strategy.

Investment Outlook

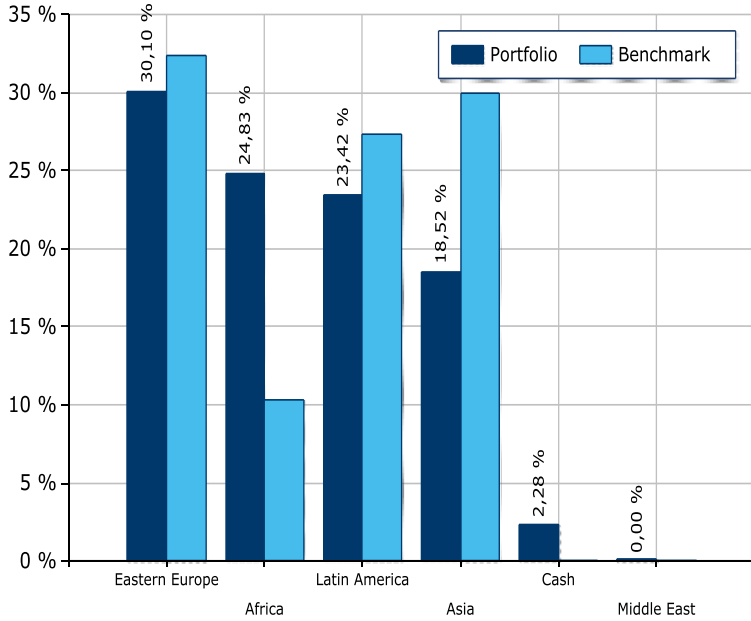
The revision to US Q1 growth from 3.2% to 3.0% may have disappointed investors but elsewhere - especially in Asia a LatAm - the positive growth surprises outnumbered the negative ones. In EMEA the growth picture is rather mixed. EU area periphery states subcontracting to the German export sector may benefit from a weaker euro, but many of the same states face painful fiscal policy restraints in the months to come. The latter became evident in form of less expansionary PMI readings for May released on the first business day of June generally signals a slowdown in growth momentum (Hungary saw its first negative reading in 2010 whereas Turkey was the exception with its PMI accelerating to an all time high). Fear and risk aversion have the potential to become self-fulfilling elements behind a global growth slowdown but to us the song remains the same; unlike many advanced economies Emerging Markets fiscal positions are generally in good shape and growth wise emerging markets have a firm grab on the baton.

Investment Strategy

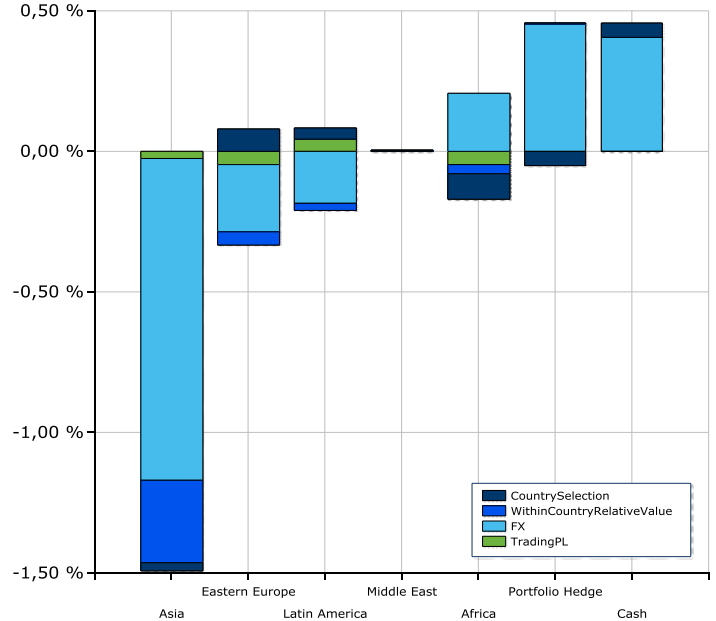
Growth and good fundamentals are back in fashion with growth differentiation being one of the key themes for FX markets. Clearly, in hindsight our long position in South Korea and zero position in Thailand were major drags on our performance in May. However, we stick with these positions since - in the case of South Korea we believe that the country is well positioned in terms of fundamentals, competitiveness and export. In the case of Thailand social unrest may have eased and export and growth indicators may have surprised to the upside. However, we believe that the political situation remains fluid and that statistics for May will be negatively affected by May's unrest. For now we stick with our zero allocation to Thailand. Also, we believe that there is more fiscal trouble ahead for the Euro zone and will keep a defensive stance towards Eastern Europe but at the same time actively trade the positions. Based on fundamentals we think that the underperformance of PLN is unjustified and will be looking for entry points to take more exposure to the currency.



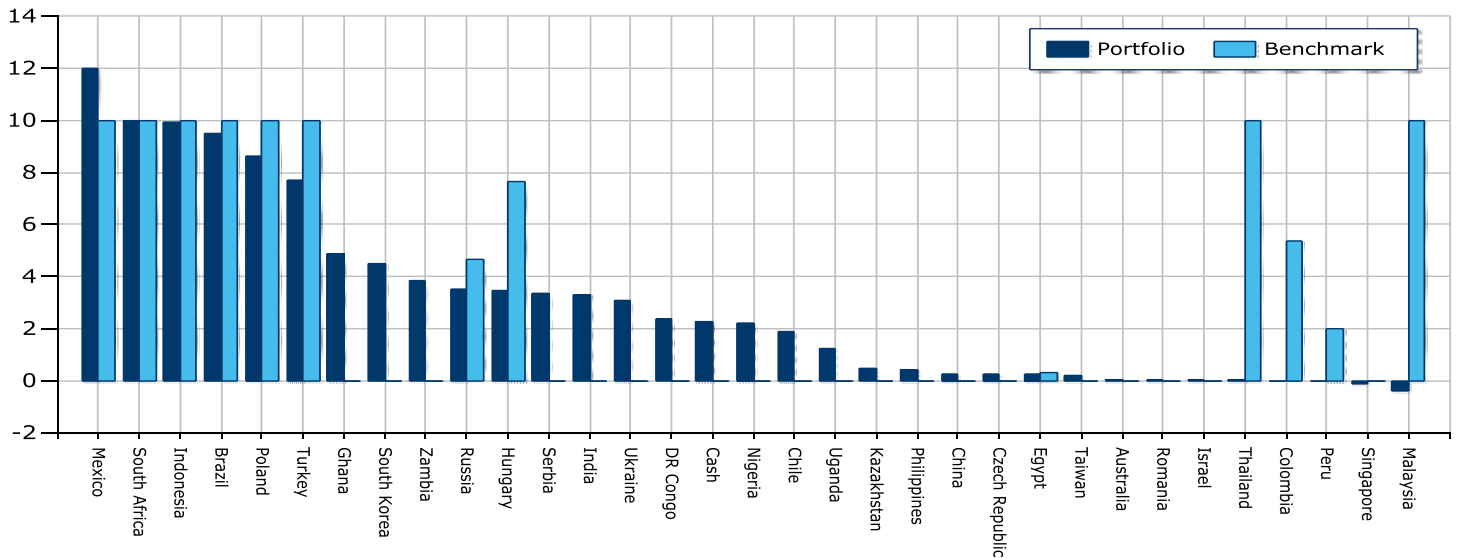
Regional Distribution



Regional Relative Performance



Portfolio Country Distribution



Portfolio and Benchmark Duration Contribution

