



Performance Overview

Performance in June	
Portfolio	1.41%
50% GBI-EM Global Diversified in dollar + 50% ELMi+ in dollar	0.67%
GBI-EM Global Diversified in dollar	0.89%
Performance Year to Date	
Portfolio	2.55%
50% GBI-EM Global Diversified in dollar + 50% ELMi+ in dollar	0.10%
GBI-EM Global Diversified in dollar	3.36%

Emerging Markets Overview

European debt sustainability remained a prime concern among investors in June as G20 political leaders displayed their disagreement on how to prioritize fiscal stimulus and debt sustainability. Over the weekend 19/20 June the Chinese central bank, PboC, finally moved on currency flexibility planning to set the value of the CNY against a basket of currencies. At first sight the announcement was cheered by financial markets but the move was soon deemed too little and more designed to ward off critics at the upcoming G20 summit held the following weekend. Consequently, having rallied strongly on Monday 21st Asian currencies like the Koerean won and Malaysian ringit gave up initial gains of as much as 2.6 %. As the month went by investors confidence in the Chinese power house took a hit as more indicators pointed towards a slowdown in growth momentum.

Elsewhere, in the US, the growth outlook was questioned by a series of downbeat housing market indicators and retail sales numbers as well as a loss in consumer confidence and a Q1 GDP revision to 2.7% from 3.0%. Deflation worries, risk aversion and safe haven buying took its tool on the US stock market and the drift lower in yields continued with 10yr treasury yields dropping 33bps to 2.93% thereby taking out 3% yield for the first time since April last year.

Ongoing concerns over European debt sustainability, depressed US housing numbers and worries that the global growth is stalling were strong forces behind the return in investor's appetite for emerging market debt products witnessed in June. Following two weeks of outflows in end May and a net monthly outflow from hard currency debt funds, all types of emerging debt funds had positive flows in June. Hard currency debt funds gained USD 474mn or 1.3% of AUM, local currency debt funds gained USD 928mn or 3.4% of AUM and blended funds gained USD 719mn or 3.5% of AUM. Funds dedicated to Emerging Markets debt attracted USD 17bn of net inflows in H1 2010.

Successful Strategies

Once again the most successful strategies were our underweights in Poland and Hungary which we traded actively with reasonable success. Our asset selection in Brazil, Mexico and Indonesia were also strong contributors to the relative outperformance during June with offshore bonds in Brazil outperforming the onshore bonds, a relatively high duration in Mexico working well and finally the 10 year sector in Indonesia performing strongly.

Less Successful Strategies

Our large underweight in Colombia went strongly against us in June since COP was among the best performing currencies in the EM universe. In hindsight we have clearly

Emerging Markets Matrix

Important EM Indicators	Value	Change
EMBI (EM hard currency)	355bps	17bps
GBI-EM (EM local debt)	6.84%	-4bps
EM CDX (EM credit default swaps)	271bps	-7bps
10 yr UST	2.9311	-35bps
MSCI-EM (global EM equities)	344.96	-0.73%
WTI Crude	75.63	2.24%
Gold	1245.9	2.54%
EUR/USD	1.2257	-0.31%

underestimated the positive growth story and the prospects for FDI related to the mining and oil sector as well as the positive spin about the presidential election being won by outgoing president Uribe's "man". A number of smaller off benchmark positions in Africa including Ghana also contributed to our underperformance.

Investment Outlook

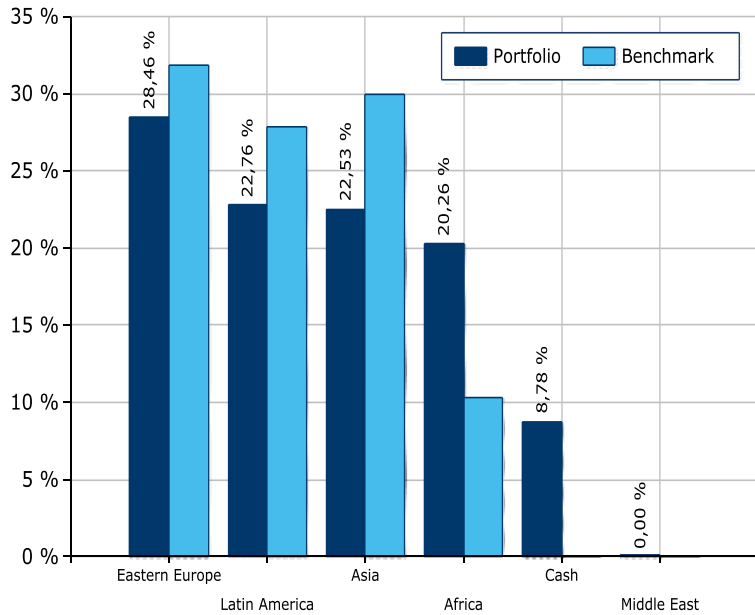
With investors confidence in the global recovery on retreat the US Q2 earnings season kicking off around 12 Juli will be scrutinized for affirmation that the real world recovery is on track. Also, a stress test of banks in the EU to be revealed in the second half of July is on the agenda. Needless to say these outcomes could have major influence on the overall risk assesment, the dollar and US-treasury yields. As has been the case for month the risk of contagion from the eurozone cannot be neglected. Sovereign risk is everywhere. However, barring the most extreme risk off scenario we feel confident that superior growth and debt metrics will help investors overcome the psychological barrier related to the concept of EM debt as a 'risk on' asset. Consequently we expect inflows to the asset class to remain a strong supportive factor.

Investment Strategy

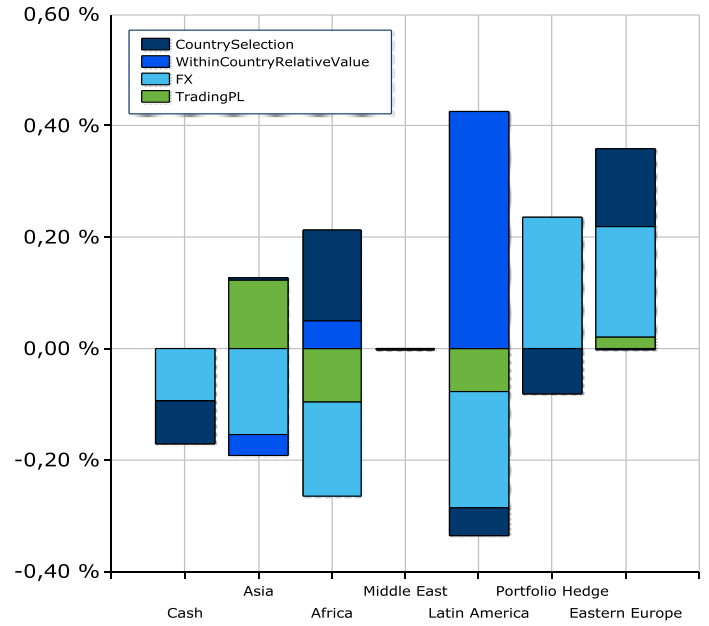
EUR/USD is a major source of volatility and random performance in local currency fixed income markets. By early Juli the euro has recovered around 5% from the lows against the dollar in June in what seems to be a correction from oversold territory - or simply an unwinding of carry strategies using the euro as funding vehicle. For now we remain underweight in CEE keeping an eye at the FX-borrowing exposure of Hungarian households and the somewhat worrisome development in CHF/HUF. At the same time we are aware that focus may shift towards the fiscal troubles in the US and the risk of a downturn in the US economy in the second half of the year. Elsewhere, in Colombia we may add exposure on any correction in COP in acknowledgement of the likely stronger economic rebound under way. We strongly believe that the centralbank may reinstate daily dollar purchases at USD/COP 1900 and therefore keep our underweight to COP at present levels. Finally, we were somewhat surpriced to see how the market first cheered the Chinese move on currency flexibility and how quickly the positive sentiment towards currencies like the MYR and KRW went into reverse. For now we hold on to our long KRW position since we feel the KRW has been hit to much by growth worries, positioning and a relatively mild - but longer term positive - increase in capital controls.



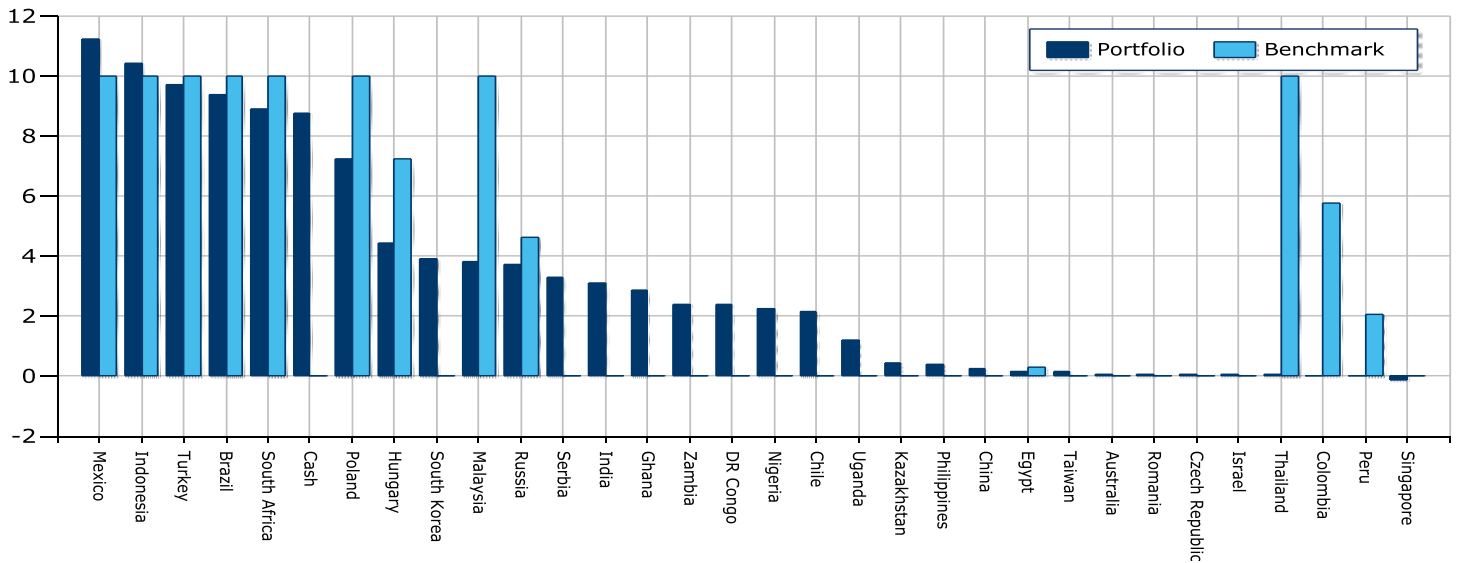
Regional Distribution



Regional Relative Performance



Portfolio Country Distribution



Portfolio and Benchmark Duration Contribution

