EMERGING MARKETS LOCAL CURRENCY DEBT
MONTHLY REPORT – JULY 2010

Global Evolution

PORTFOLIO STRATEGY

Performance Overview

Performance in July	
Portfolio	4.17%
50% GBI-EM Global Diversified in dollar + 50% ELMI+ in dollar	4.98%
Outperformance	**-0.81%**

Performance Year to Date	
Portfolio	6.82%
50% GBI-EM Global Diversified in dollar + 50% ELMI+ in dollar	5.09%
Outperformance	**+1.73%**

Emerging Markets Matrix

Important EM Indicators	Value	Change
EMBI (EM hard currency)	310bps	-45bps
GBI-EM (EM local debt)	6.61%	-24bps
EM CDX (EM credit default swaps)	214bps	-57bps
10 yr UST	2.9052	-3bps
MSCI-EM (global EM equities)	373.68	8.33%
WTI Crude	78.95	4.39%
Gold	1183.9	-5.28%
EUR/USD	1.3048	6.45%

Emerging Markets Overview

As expected the European stress test of banks proved defective as only trading books were tested and as testing excluded the impact of a sovereign default. However, a coordinated marketing effort from politicians and central bankers using superlatives like "robustness", "conclusive" and "convincing" apparently did the job of restoring confidence in the European financial system. Consequently, risk willingness continued to build with the support of generally strong Q2 earnings reports.

The rise in risk appetite occurred as the combination of poor data releases from the US and stronger data out of the euro zone seriously questioned the strength of the US recovery and the US growth outlook relative to that of the euro zone. In foreign currency markets this was not left unnoticed. Having finished June with EUR/USD at 1.2238 the euro rallied 6.45% to EUR/USD 1.3048 by end July with the move being supported by a widening in the German-US 2 yr spread to around 25bps from around zero. Needless to say, the move in EUR/USD had a major impact on eastern European local currency debt market performance against the dollar.

US 10yr yield spent most of July in a relatively narrow range around 2.98% and with risk back in fashion several Emerging Market sovereigns tapped the international market in July. In local currency space Chile placed a dual currency deal with 10yr USD 1bn and USD 500mn in pesos whereas Colombia tapped the peso-denominated 2021 bond.

In July, once again all types of Emerging Markets debt funds saw strong inflows. Hard currency debt funds gained a 3 year record high of USD 1.54bn or 3.83% of AUM. Local currency debt funds gained USD 1.37bn or 4.5% of AUM and blended debt funds gained USD 766mn or 3.3% of AUM.

Successful Strategies

Our large underweights in Thailand and Malaysia turned out our most successful strategies in July as the two local markets failed to keep pace with the very strong overall market performance. Our off benchmark exposure to South Korea and later in the month also to the Philippines contributed positively. During the month we also raised our exposure to Malaysia. Underweight exposures in Peru and an overweight exposure in Chile did also contribute small positive gains to the relative return.

Less Successful Strategies

In hindsight we were wrong footed by the very strong turn around in risk sentiment not least towards the euro and eastern European local markets in general. Consequently, our underweights in Eastern Europe that benefitted our performance very well in June went against us in July. Our underweight in Brazil's local debt market was another large contributor to relative underperformance since local bonds had a decent rally following the central bank's surprise rate hike of "only" 50 bps. Diametrically opposed to this Brazil's global bonds in BRL actually fell a bit during the month. Finally our African bucket including several off benchmark positions contributed to relative underperformance since these local markets made returns below that of benchmark.

Investment Outlook

By early August risk remains "on" despite mixed and mildly disappointing manufacturing surveys out of Latin America, Eastern Europe and not least China. Nevertheless, these manufacturing surveys are still expansionary and with more signs that the US recovery is losing momentum QE is back in the markets mind thereby keeping the US treasury market well bid and the carry trade alive. However, should future data confirm that the slowdown in the US is gaining traction with negative implications for investor sentiment there may not be sufficient buffer left in present risk premiums. Soft commodity prices and especially wheat rose sharply in July with wheat jumping more than 40% on the back of drought in Russia. For now inflation problems are non-existing with most CPI statistics making downside surprises in June and July. However, if soft commodities including wheat continue to rise countries with a high share of food in national CPI baskets are exposed to upside inflation surprises going forward. In this respect we will be watching Turkey, Egypt and Ukraine.

Investment Strategy

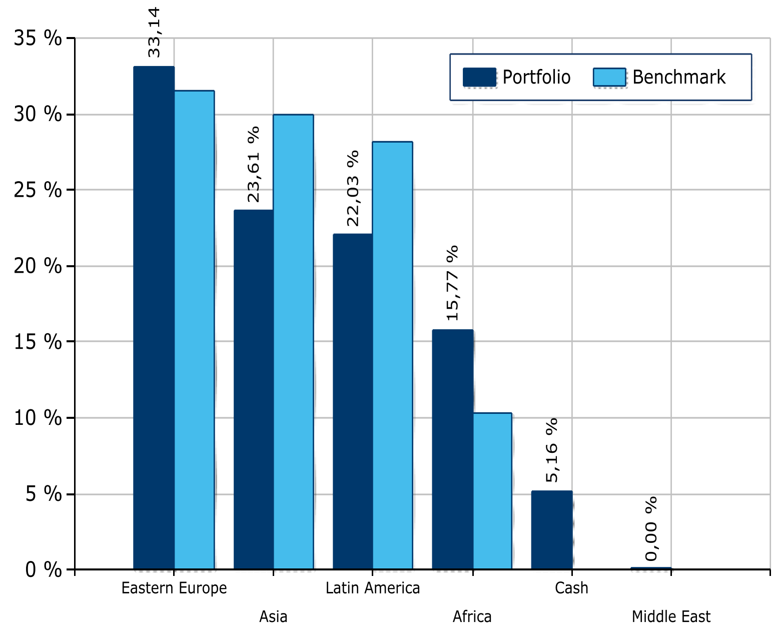
As the euro rebounded in July we scaled up our exposure to Eastern Europe. For now we stick with a near benchmark exposure. Elsewhere, in Egypt a transfer of power could be imminent since the 82 years old Mubarak is rumored to be ill and on more occasions has cancelled or shortened presidential trips for no obvious reason. We believe that the inevitable political transition will run smoothly with either Gamal Mubarak, Hosni Mubarak's younger son, or one of the two Lt. general Suleiman or Lt. general Soliman being the successor. Since EGP have underperformed most other currencies in July we are considering to initiate a unhedged position in Egypt T-bills. Also, we are considering raising exposure to Thailand after the underperformance in July and as a consequence of solid economic indicators. In LatAm we see a good chance that tensions between Colombia and Venezuela will ease following the inauguration of Colombian president elect Santos on 7 August. If so, we might reconsider our below benchmark exposure to COP.

EMERGING MARKETS LOCAL CURRENCY DEBT
MONTHLY REPORT – JULY 2010

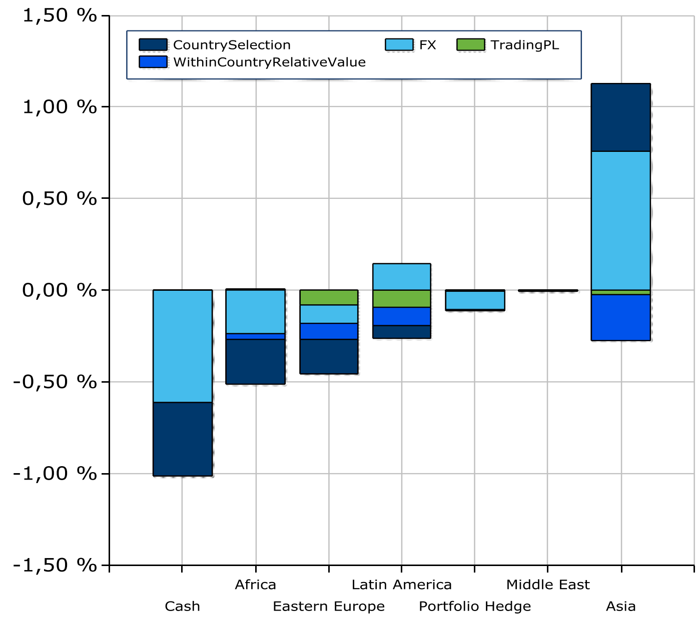
Global Evolution

PORTFOLIO OVERVIEW

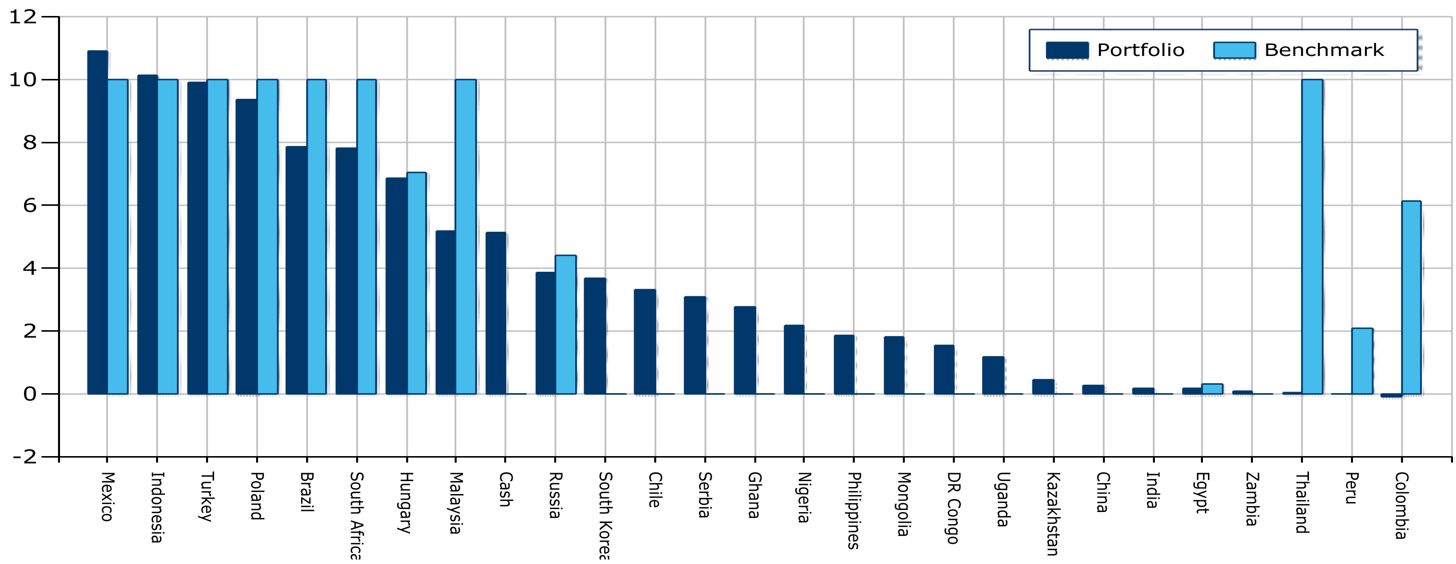
Regional Distribution



Regional Relative Performance



Portfolio Country Distribution



Portfolio and Benchmark Duration Contribution