



Performance Overview

Performance in August	
Portfolio	0.32%
50% GBI-EM Global Diversified in dollar + 50% ELMI+ in dollar	-0.17%
Outperformance	0.49%

Performance Year to Date	
Portfolio	7.16%
50% GBI-EM Global Diversified in dollar + 50% ELMI+ in dollar	4.91%
Outperformance	+2.25%

Emerging Markets Overview

The global economy seems to be losing momentum. In the US recent indicators have seen forecasters scaling back optimism with the most pessimistic putting deflation and tail risk double dip scenarios back on the agenda. Also, in a reaction to a downgrade of its assessment of the economic outlook the FOMC on August 10 decided to reinvest proceeds on its holdings of agency and mortgage backed securities in Treasury bonds. Consequently, in August US treasuries rallied hard with 10yr yields dropping to 2.47% - down from 2.91% end July. Elsewhere, against the trend of downbeat data including a down revision of Q2 US GDP growth to 1.6% QoQ from 2.4% QoQ, Germany recorded a surprisingly robust 2.2% QoQ growth in Q2. With an angle to the export dependent eastern European economies this was welcome news. However, it also displayed the dilemma of ECB's one size fits all monetary policy in a two speed Europe.

Market-wise August was characterized by the holiday season with thin liquidity and erratic day-to-day pricing being the consequence. Having rallied 6.65% in July the euro lost 2.75% against the dollar in August. WTI Crude oil lost 8.9% to end the month in USD 71.92 a barrel and at the same time industrial metals as measured by the London Metal Exchange went nowhere (up 0.1%) whereas gold rose at solid 5.61% to USD 1,250.30/oz.

July's sharp price rises on wheat and other agricultural products saw a small correction in August with the overall price level still being elevated. So far this did not translate into broader price pressure.

Traditional funding currencies such as CHF and JPY went from strength to strength thereby fuelling worries over potential unwinding of carry trades. Also, as CHF/HUF rose to an all time high Hungarian household's large FX debt stock was back on the agenda. The fact that Hungarian government officials refused to consider a new IMF deal after the current agreement expire did nothing to calm investor's unease.

The general cautiousness on global growth and risk did not stop investors from putting more money to work in Emerging Markets fixed income. According to data from Emerging Portfolio Fund Research Hard Currency EM debt funds took in USD 1.38bn (3.3% of AUM) and Local Currency EM debt funds took in USD 2.0bn (6.5% of AUM).

Successful Strategies

In August our positioning and bond selection in Latin America and in Eastern Europe were primary sources to relative performance. In Chile we started the month with a sizeable off-benchmark position in the new Global

Emerging Markets Matrix

Important EM Indicators	Value	Change
EMBI (EM hard currency)	321bps	12bps
GBI-EM (EM local debt)	6.44%	-17bps
EM CDX (EM credit default swaps)	263bps	48bps
10 yr UST	2.4683	-44bps
MSCI-EM (global EM equities)	366.43	-1.94%
WTI Crude	71.92	-8.90%
Gold	1250.3	5.61%
EUR/USD	1.2689	-2.75%

CLP 2020 bond. This position served us well thanks to capital gains and a stronger CLP. In Brazil - having underperformed in July - our positioning in the Global BRL 2016 bond outperformed the local market in August. Also, in Mexico we benefitted from duration overweight. Having seen a strong rally we reduced the duration in Mexico just in time to increase duration again following a 35 bps correction up in yield. Finally our new position in off benchmark Mongolia contributed nicely to relative performance.

Less Successful Strategies

Having bought THB (3.65% of AUM) in early August our still large underweight in Thailand (benchmark 10%) turned out a huge drag on relative performance as the THB made solid gains. Other large underweights with negative relative return contribution were Malaysia and Colombia although in Malaysia we did have a decent position of around 5.25% of AUM. In Colombia we only held a position of 1.4% of AUM with a view that the central bank would take initiatives to counter the appreciation. So far this has not been the case. However, we strongly believe that the central bank will dislike excessive currency appreciation going forward.

Investment Outlook

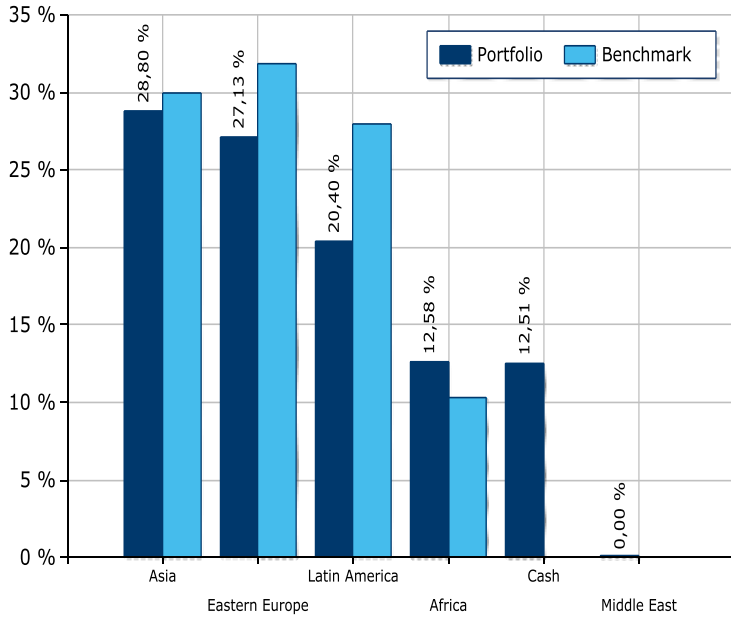
The outlook for world growth may look dire with the US economy at risk of a significant slowdown in the quarters to come. We will carefully watch OECD's CLI (to be released on 13 September) and other forward looking indicators for direction. However, in a world flush in cash and with core market yields almost priced for deflation investors searching for yield have only few alternatives but emerging markets debt. Against this background we expect inflows to Emerging Markets debt funds to remain healthy. As to politics Turkey will have a constitutional referendum on 12 September. A strong endorsement will be a boost to the ruling AKP and a market positive. Venezuela will have parliamentary election on 26 September. With an approval rating of President Chavez at just 36%, a seven year low, the Chavez supportive PSUV could lose its two-thirds majority.

Investment Strategy

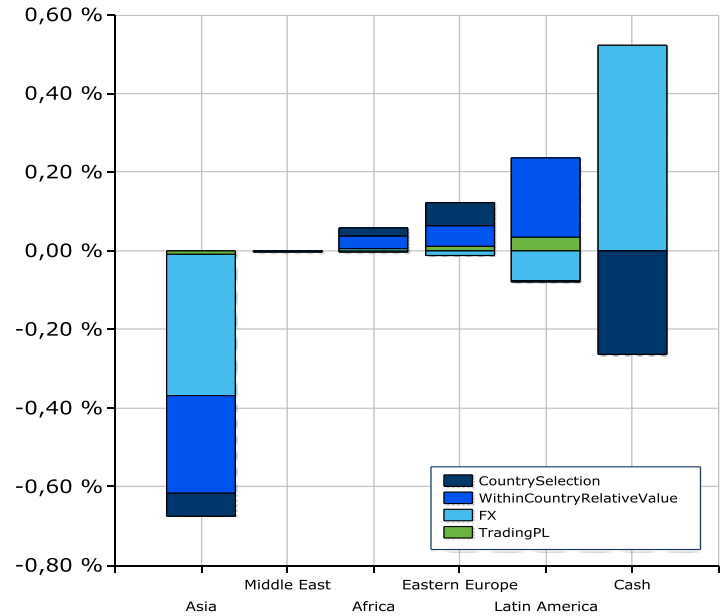
Our food price related inflation worries have so far proved unfounded. Nevertheless, prices on agricultural products remain elevated and the UN Food and Agriculture Organisation's index of meat prices in August has risen to its highest level since 1990, up 16 per cent over the past year. We will be on alert and expect upcoming CPI reports to make upside surprises not least in Turkey, Ukraine and Egypt. In Brazil we may take partly profit on our position in the Global BRL-bond.



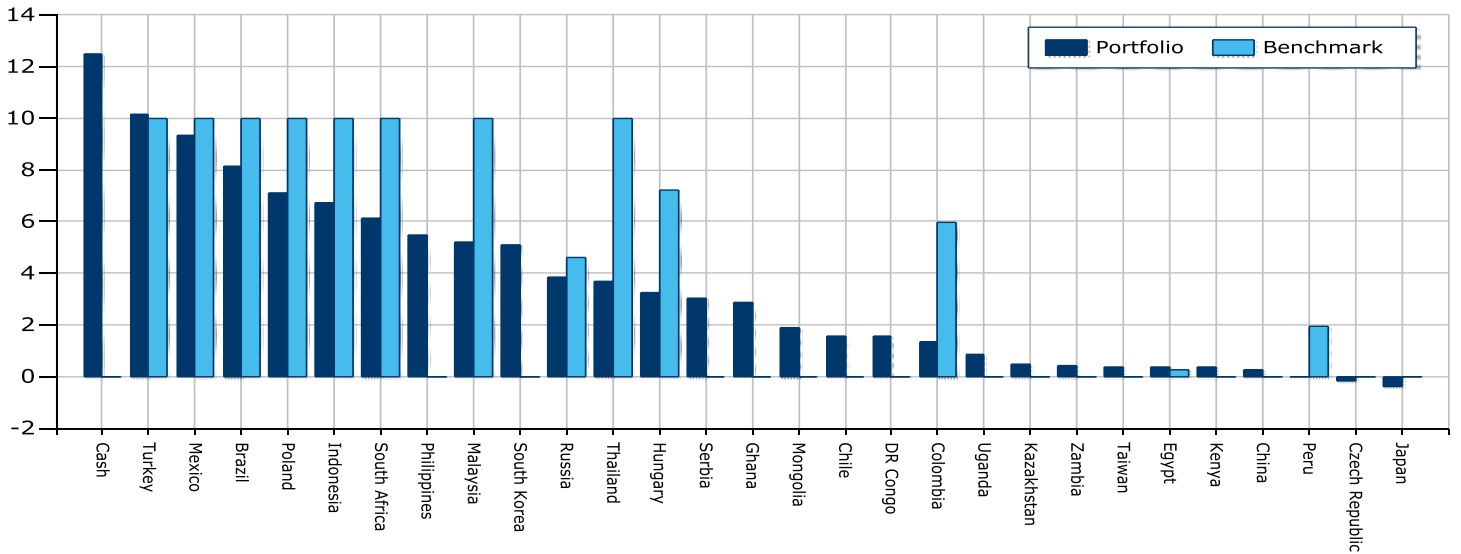
Regional Distribution



Regional Relative Performance



Portfolio Country Distribution



Portfolio and Benchmark Duration Contribution

