



Emerging Markets Overview

December did not play out quite the way we had hoped for as Euro-area debt and fiscal policy worries continued to weigh on market sentiment. On the one hand the ECB actually did deliver as the bank relaxed collateral rules and announced 3-year LTROs on top of lowering the refi-rate by 25bps to 1.00%. On the other hand the outcome of the December 9 EU summit proved somewhat disappointing as the fiscal brakes to be adopted in national constitutions and the monitoring of compliance still needs approval by national parliaments with the outcome being far from certain. Also, the funding of the EFSF's and the ESM, with the latter decided to be brought forward to July 2012, remained somewhat unenthusiastic and unclear. Consequently, the door to ECB all-in quantitative easing remained closed leaving Italian yield spreads and interbank risk metrics close to recent record highs.

With one of the pillars behind our early December call to scale up risk being seriously weakened (the other pillar being the history of solid risk asset performance in December) and with the euro in retreat we were forced to reconsider our investment strategy not least in our blended funds. Nevertheless, the damage was done as local currency debt benchmark GBI EM Global Diversified went from a MTD plus 1.40% to MTD negative 2.50% in a matter of days. GBI EM Global Diversified finished the month down 1.47% with Eastern Europe being the worst performing region, down 4.04%. GBI EM Global Diversified finished the full year down 1.75% (against the dollar). Hard currency debt markets fared better in December thanks to a rally in US treasury bonds leaving US 10yr yields 19 bps lower in 1.88% by the end of the month. Hard currency debt benchmark EMBI Global Diversified returned a monthly 1.13% taking the annual return to a decent 7.35%.

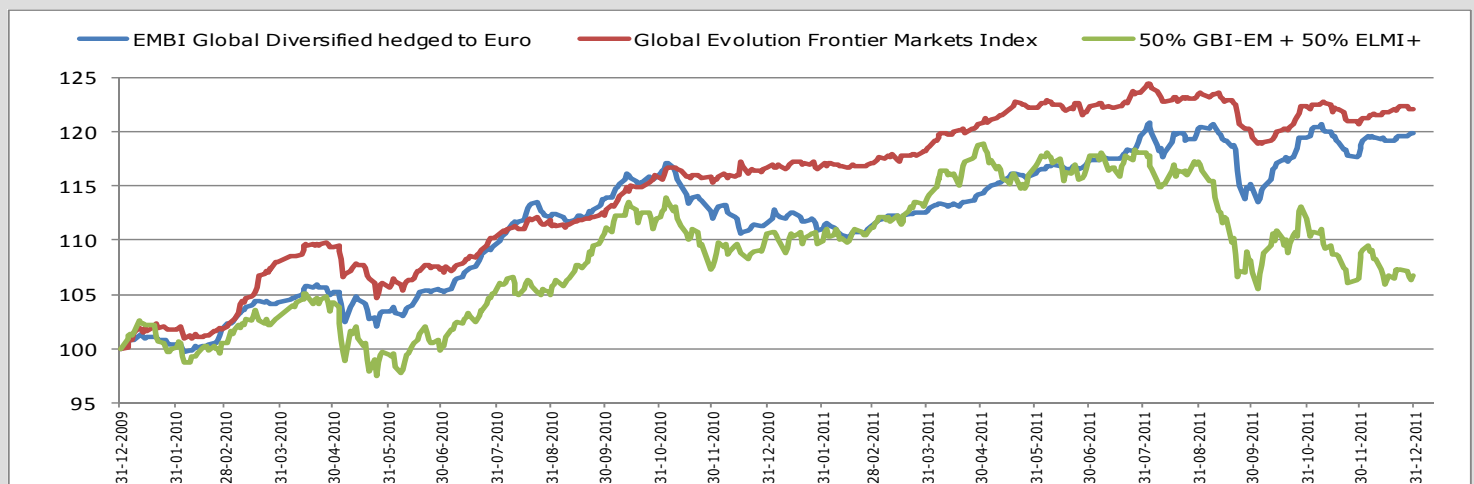
Elsewhere in risk markets, as the dollar gained strength gold lost its appeal leaving the glittering asset down 10.46% on the month. Germany's DAX stock index returned a monthly negative 3.13% whereas US S&P500 stock index gained a monthly 0.85% as US job market data as well as industrial/business data outperformed consensus expectations thereby fuelling expectations for better growth numbers in Q4 2011 and Q1 2012. WTI crude oil at some point during the month traded as low as USD 92.52 per barrel but managed a solid recovery to finish the month in USD 98.83 a barrel on the back of supply worries and Iranian rumblings in the strait of Hormuz.

In terms of portfolio flows the story in December was much the same as in November. Reflecting the dire outlook for global growth and not least the uncertain fate of the Euro-area, according to Emerging Portfolio Fund Research dedicated emerging markets fixed income funds suffered a monthly outflow of USD 611mn (0.5% of AUM) leaving YTD inflows at 5.6% of AUM. Local Currency funds saw monthly outflows worth 2.1% of AUM (up 11.1% YTD), whereas hard currency funds had a small monthly inflow representing 1.1% of AUM (up 2.6% YTD). Blended funds saw monthly outflows worth 0.5% of AUM (up 5.5% YTD).

Investment Outlook & Strategy

The Euro-area sovereign debt crisis is bound to dominate headlines and market sentiment in weeks to come starting with the Merkel-Sarkozy meeting on January 9 and to be followed by a minister of finance meeting on January 23 and a full EU27 summit by end January. With no doubt a status on the agreed incorporation of fiscal brakes in national constitutions will rank high on the EU27 summit agenda. Other issues likely to dominate risk sentiment in January are EMU sovereign financing needs and the raising of capital by European banks struggling to meet the 9% core Tier 1 ratio by end H1. Banks are expected to test investors risk appetite already in January whereas EMU sovereigns will test the demand among fixed income investors with an estimated financing need worth about 220bn in Q1. According to ECB statistics the money is there as deposits with the central bank rose to a record high EUR 446bn as of January 2nd. A lot of those money will have to be put to work, but to what extend will EMU sovereign coffers benefit? Medium term and longer term we strongly believe that Emerging Markets fixed income will see an increase in crossover flows from G3 institutional investors previously focusing on core markets fixed income. However, short term much will depend on overall risk sentiment, legal considerations and solvency issues. As for emerging markets hard currency debt despite the many uncertainties the technical picture looks good as investors remain structurally underweight and as sovereign net issuance in 2012 is expected to be about flat with more than 33% of coupon payments and amortizations to hit the market in Q1.

The fact that Chinese PMI surveys recently have risen to expansionary territories and that business and consumer confidence in the US and the EMU are diverging with the former beating consensus expectations are clearly positives supporting commodities and risk assets in general. However, due to short term headline risk and from a risk/reward perspective, while we see decent value in emerging markets hard currency debt we are inclined to reduce exposure to crowded local currency debt not least in Eastern Europe.



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Global Evolution Emerging Markets Debt

Performance in December (I-Share Class)

| Portfolio | 1.40% |
|--|---------------|
| EMBI Global Diversified hedged to euro | 1.13% |
| Outperformance | 0.27% |
| Performance YTD | |
| Portfolio | 5.25% |
| EMBI Global Diversified hedged to euro | 7.39% |
| Outperformance | -2.13% |

Fund Data

| | |
|--------------------------|-------|
| Portfolio Yield: | 6.82% |
| Portfolio Duration: | 6.51 |
| Number of Countries: | 43 |
| Average Portfolio Rating | BB |
| Volatility 1 year: | 4.20% |

Fund Specification

| | |
|-----------------------|--|
| Name: | Global Evolution Emerging Markets Debt |
| Domicile: | Luxembourg |
| Legal Structure: | Open-end – SICAV – UCITS |
| Share Classes: | Institutional: I, Retail: R |
| Registered Countries: | Germany, Austria, Luxembourg, Sweden, U.K. and Denmark |
| SRI Fund: | Yes |
| ISIN: | I: LU0616502026, R: LU0616502299 |
| Bloomberg Code: | I: LX GEEMHCI LX, R: GEEMHCR LX |
| NAV: | I: 102.14 |
| Fund Size: | €90mn |
| Benchmark: | EMBI Global Diversified hedged to EUR |
| Launch Date: | I: 21.06.2011 |
| Min. Investment: | I: €1mn, R: €300 |
| Base Currency: | EUR |
| Return Profile: | Accumulating (i.e. no dividends paid) |
| NAV Calculation: | Daily |
| Management Fee: | I: 0.75p.a., R: 1.35% p.a. |
| Performance Fee: | 5% |
| High Water Mark: | Yes |
| Reporting: | Monthly |
| Contact: | em@globalevolution.com |

Investment Objective

The objective of the emerging markets debt strategy is to create attractive returns by utilizing a non-benchmark focused and diversified strategy within emerging markets focusing primarily on **sovereign** hard currency debt, but also on strategies that include sovereign local currency denominated debt and currency instruments.

Top-10 Country Distribution

| | |
|--------------|--------|
| Turkey | 10.31% |
| Brazil | 6.59% |
| Philippines | 6.12% |
| Mexico | 5.69% |
| Russia | 5.13% |
| South Africa | 4.63% |
| Ukraine | 4.59% |
| Uruguay | 4.3% |
| Argentina | 4.01% |
| Lithuania | 3.72% |
| Top-10 Total | 55.09% |

Successful strategies

In early December we added an off benchmark position in Qatar as the Gulf country tapped the primary market in 5, 10 and 30 year bonds. We were allocated from the syndicate desk in the 10 year bond and bought the 30 year bond in the secondary market. In our opinion, relative to peers and given the solid economic fundamentals the Qatari bonds were launched very cheap. Elsewhere, quasi sovereign bonds from Kazakhstan suffered during December on the back of banking sector debt restructuring news (BTA) and escalating social unrest in some of the country's mining cities. We are zero weighted in Kazakhstani quasi sovereign debt. Consequently we outperformed the benchmark. Turning to Eastern Europe an overweight in Croatia contributed to overall outperformance as the December 4 parliamentary election ended in line with opinion polls leaving a new centre-left coalition with a controlling 81 seats in parliament. We and the market expect the new government to have an IMF friendly approach which should bode well for Croatian sovereign debt performance. The announcement from the December 9 EU summit that Croatia was cleared for EU membership was another positive. In Latin America Uruguay performed well in December as the sovereign announced a debt swap targeting a higher local currency debt duration profile at the expense of an early redemption on part of the sovereign's dollar denominated debt. The tender was generous and well received by the market. We participated in the tender and had 25% of our nominal holdings of the 2022 dollar bond redeemed while the rest immediately traded up close to the tender level causing our overweight to outperform.

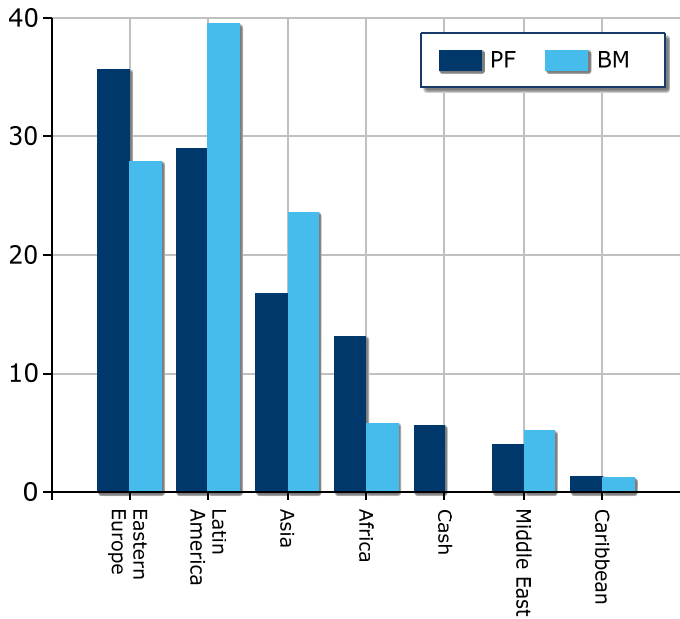
Less successful strategies

An overweight position in Turkey turned out a drag on overall performance in December. From a valuation perspective we generally like Turkey's dollar denominated sovereign debt and have consequently been overweight. However, we are considering reducing exposure as we are somewhat worried about the ongoing pressure on the Turkish economy and not least its external balances. Turning to Latin America, our positioning in Brazil contributed negatively mainly due to our local currency exposure and a below benchmark duration. In Peru we went zero weight by mid December in a tactical bet that a cabinet reshuffle promoting a former military officer as interior minister would be taken negatively by the market. Our expectations failed to materialize and for the rest of December the zero weight contributed negatively. We keep Peru zero weight due to little upside potential in our opinion. We expect Peru to come to the primary market in early 2012 which could give us a good entry point to take new exposure. Elsewhere, we suffered on our Mongolian exposure in December as Mongolian Tugrik (MNT) depreciated more than 4% against the dollar. Apparently the depreciation was caused as rapid fiscal expansion this year pushing inflation to the mid teens forced some foreign investments to a standstill on fears that higher borrowing costs will cut the profitability of mining projects. In response the Mongolian government announced spending cuts in the 2012 budget which is certainly a step in the right direction. Despite the negative sentiment towards MNT in December S&P affirmed the country's BB rating and revised the outlook to positive from stable.

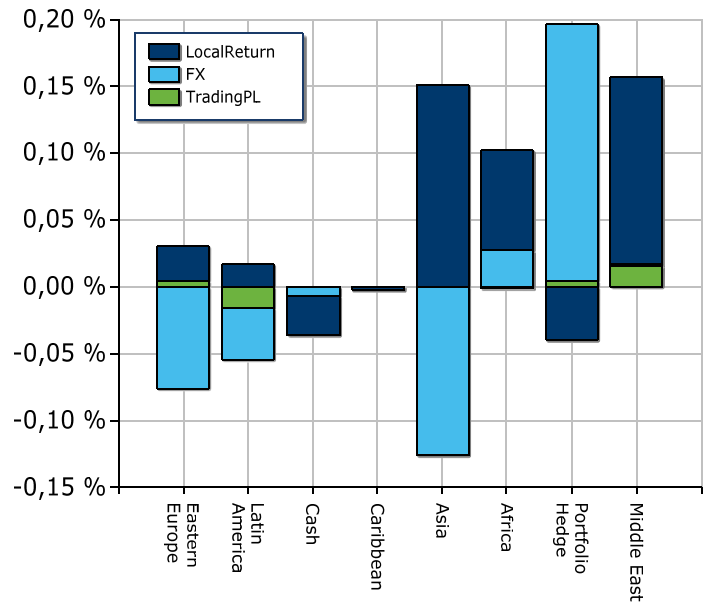


Global Evolution Emerging Markets Debt

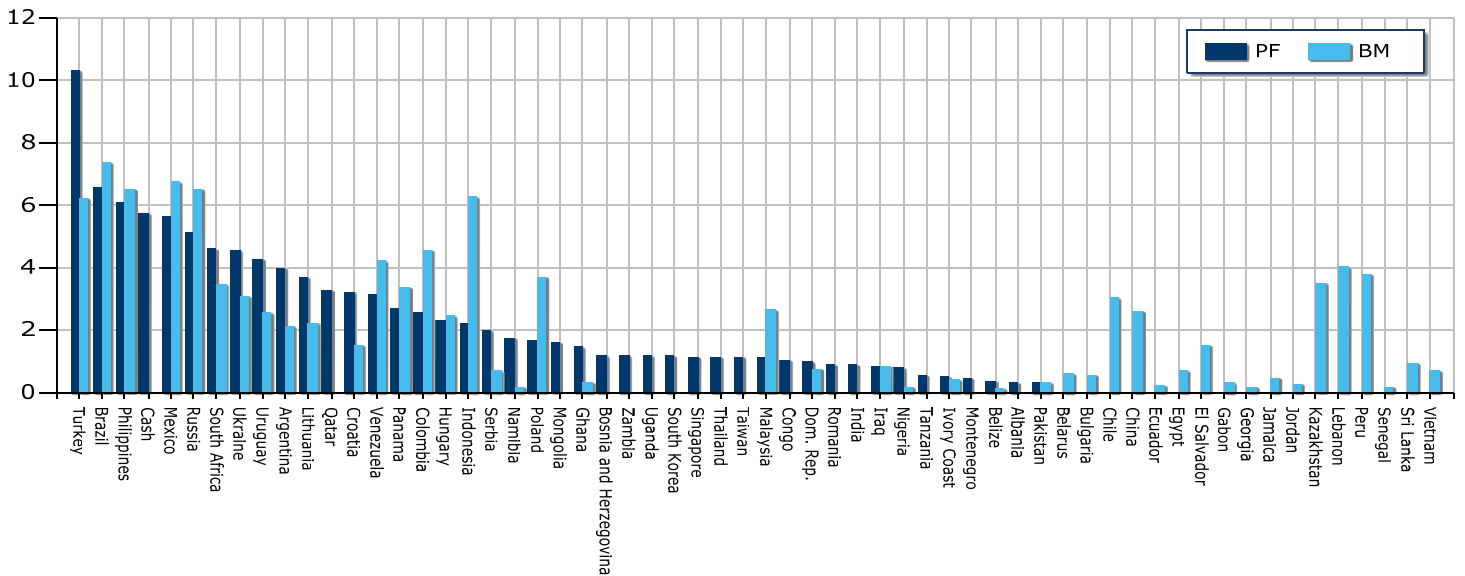
Regional Distribution



Regional Relative Performance



Portfolio Country Distribution



Portfolio and Benchmark Duration Contribution

