



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%.

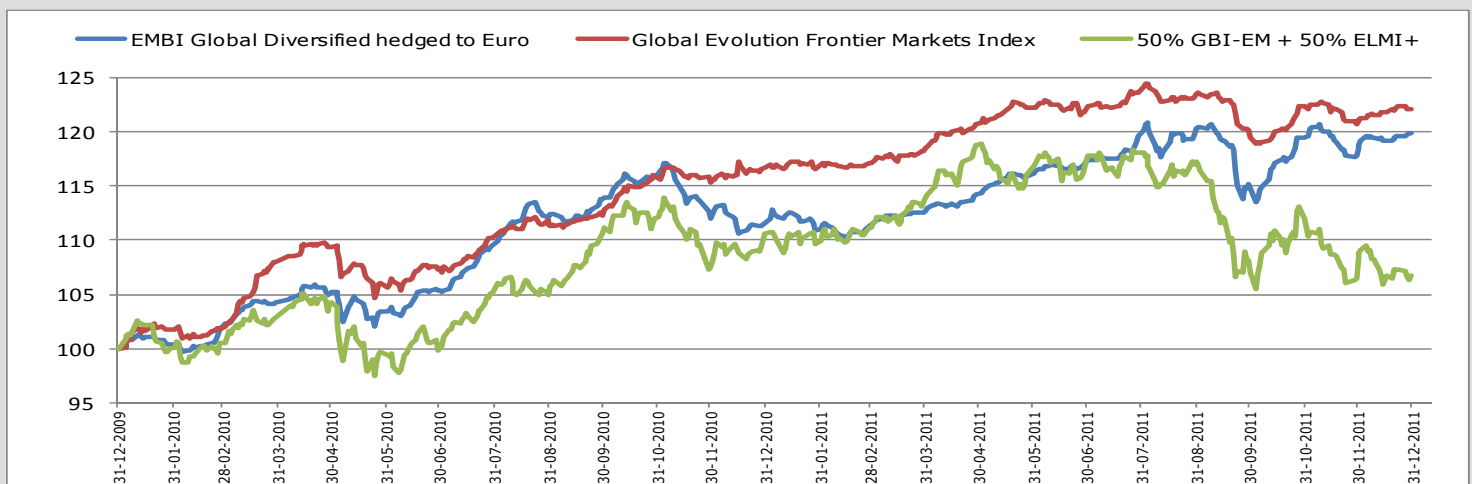
Elsewhere in risk markets, as the dollar gained strength gold lost its appeal leaving the glittering asset down 10.46% on the month. Germany's DAX stock index returned a monthly negative 3.13% whereas US S&P500 stock index gained a monthly 0.85% as US job market data as well as industrial/business data 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 Blended Debt Fund

Performance in December (R-Share Class)	
Portfolio	-0.36%
50% EMBI Global Diversified hedged to euro + 25% GBI-EM Global Diversified in dollar + 25% ELMI+ in dollar	-0.19%
Outperformance	-0.16%
Performance Since Inception	
Portfolio	1.25%
50% EMBI Global Diversified hedged to euro + 25% GBI-EM Global Diversified in dollar + 25% ELMI+ in dollar	0.27%
Outperformance	0.98%

Fund Specification	
Name:	Global Evolution Emerging Markets Blended Debt
Domicile:	Luxembourg
Legal Structure:	Open-end – SICAV – UCITS
Share Classes:	Institutional: I, Retail: R
Registered Countries:	Luxembourg and Denmark
SRI Fund:	Yes
ISIN:	I: LU0616502539, R: LU0616502612
Bloomberg Code:	I: GEEMHLI LX, R: GEEMHLR LX
NAV:	I: 101.25
Fund Size:	€6mn
Benchmark:	50% EMBI Global Diversified hed. to € 25% GBI-EM Global Diversified in USD 25% ELMI+ in USD
Launch Date:	I: 21.11.2011
Min. Investment:	I: €1mn, R: €300
Base Currency:	EUR
Return Profile:	Accumulating (i.e. no dividends paid)
NAV Calculation:	Daily
Management Fee:	I: 0.85% p.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 local currency strategy is to create attractive returns by utilizing a non-benchmark focused and diversified strategy within emerging markets focusing on sovereign local currency denominated debt and currency instruments	

Top-10 Country Distribution	
Turkey	10.60%
Mexico	9.39%
South Africa	8.01%
Brazil	7.98%
Qatar	5.84%
Malaysia	5.51%
Russia	5.07%
Hungary	4.12%
Uruguay	3.98%
Poland	3.94%
Top-10 Total	64.44%

Fund Data	
Portfolio Yield:	6.84%
Portfolio Duration:	5.68
Number of Countries:	28
Average Portfolio Rating	BB+
Hard Currency Instruments (hedged to euro)	41.1%
Local Currency and FX Instruments:	58.2%
Volatility since inception:	6.98%

Successful strategies

In early December we took 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. The market seemed to agree and consequently we benefitted. Overweight hard currency positioning in two Latin American high beta names, Venezuela and Argentina, also performed well in December supported by the rally in US Treasuries and the positive sentiment characterizing Latin American sovereign credits. Staying in the region, a large off benchmark local currency position in Uruguay performed well as the government announced a debt swap at favorable prices. We switched from Uruguay's 2018 inflation linkers into a new 2028 inflation linker at a pickup in real yields of almost 100 bps. Elsewhere, an overweight duration in local Czech fixed income worked very well as the CZGB 2017 bond held in our portfolio rallied around 45bps. We believe yields could take another leg down. Also, a large overweight in South African local markets worked well in December as the rand (ZAR) proved the only EMEA currency to deliver a positive return. For the same reason our underweight in Polish zloty (PLN) worked very well with the entire Eastern European region on retreat in December.

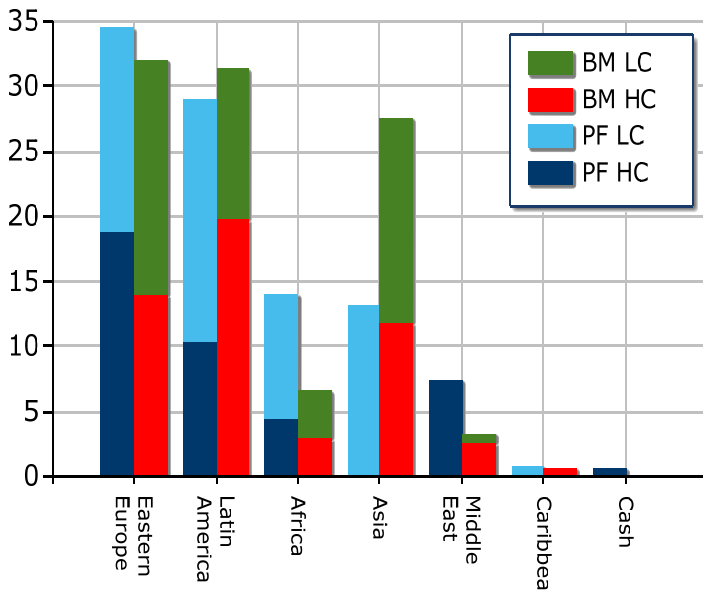
Less successful strategies

In Mexican hard currency debt we suffered relative to benchmark from being underweight and at the same time low on 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. This failed to materialize and for the rest of December the position led to underperformance. We keep Peru zero weight due to little upside potential in our opinion. Turning to local fixed income, overweight positions in Brazil and in Mexico performed poorly during December. However, we remain of the opinion that Mexican peso and Mexican rates are extremely cheap in a scenario where we expect the US economy to muddle through. In Brazil, following the currency depreciation taking place since August 2011, we now find the real (BRL) fairly priced and at the same time well supported by a still attractive carry. Elsewhere, a large underweight in Indonesia turned out a major contributor to underperformance as the Indonesian currency and local fixed income did very well thanks to continuous intervention from the central bank in both markets. We are very skeptical about the durability of central bank intervention especially so in the fixed income market. Therefore we stay underweight Indonesia. In Eastern Europe an overweight duration exposure in Hungary went heavily against us as 10yr yields rose around 90bps on political worries. We acknowledge that recent political developments are worrisome since a new constitution and a new central bank law enacted in December are likely to hand much more power to the government including a larger indirect say on monetary policies. At the time of writing the government is still not playing ball with IMF and the new stand-by program desperately needed to turn market sentiment seems uncertain. That said there are signs of backtracking and we feel the market might have overreacted a bit.

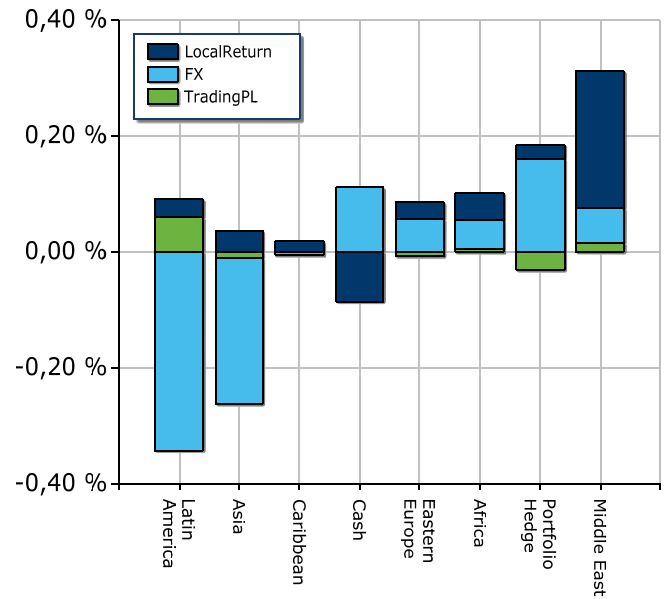


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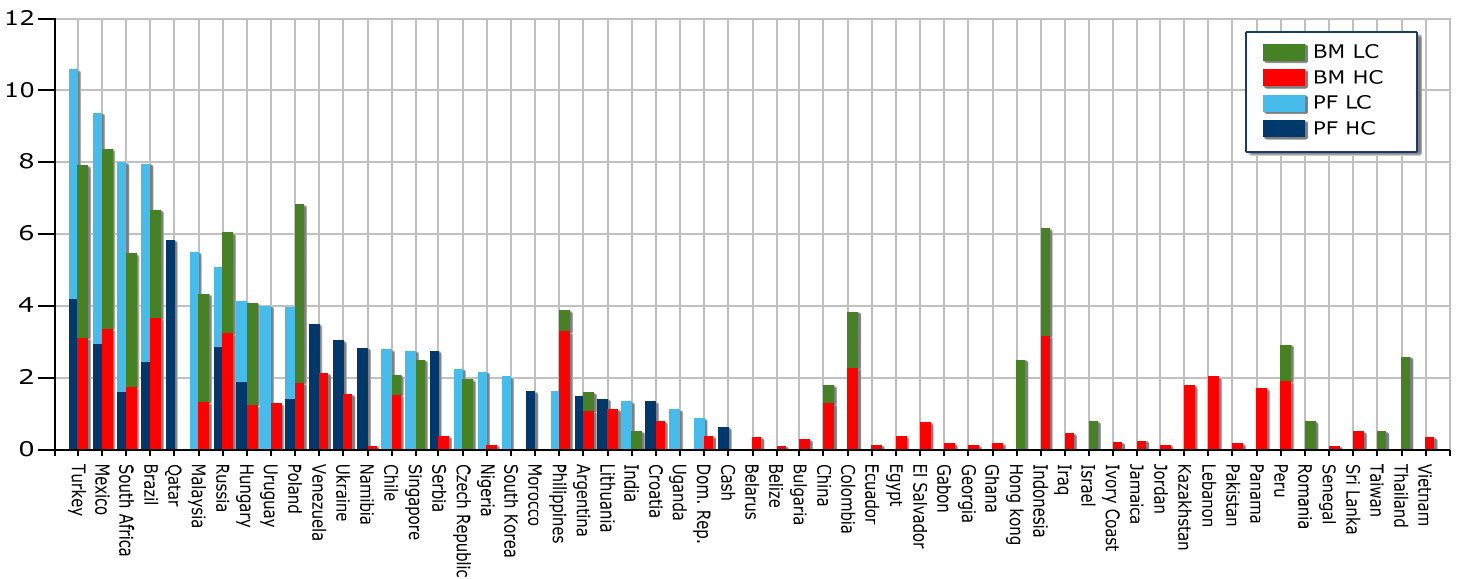
Regional Distribution



Regional Relative Performance



Portfolio Country Distribution



Portfolio and Benchmark Duration Contribution

