

# MONTHLY INVESTMENT REPORT – 31 MARCH 2023

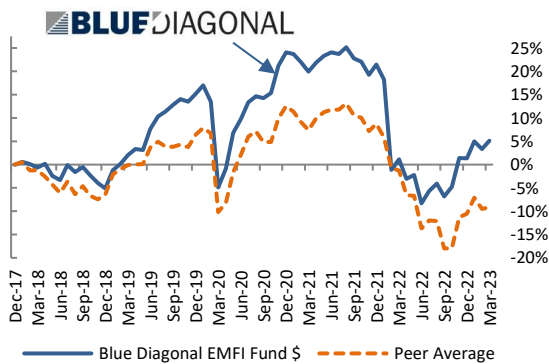
## BLUE DIAGONAL EM FIXED INCOME FUND

Class A (EUR) NAV per share: 0.925898 (0.911872)  
 Class B (USD) NAV per share: 1.138517 (1.118739)

Class A (EUR) Monthly Ret: +1.5% (1y Ret: +1.7%)  
 Class B (USD) Monthly Ret: +1.8% (1y Ret: +4.0%)

### Fund Performance

The Fund had a positive month, outperforming the benchmark JP EMBI Global Index by ~40bp for the month – and by 1.50% in the first quarter.



Source: Blue Diagonal Capital, Bloomberg

### Macro Environment

Economic data in both the US and Europe continued to surprise on the upside while inflation is proving sticky and more difficult to bring down than previously expected.

While economic data remains buoyant despite the fast rise in interest rates over the past 12 months, higher interest rates have provided a challenging environment for the smaller US regional banks that suffered losses from their holdings in long duration government bonds. A bank run led to the collapse of SVB bank and raised doubts about the strength and resilience of the broader US banking sector. The US government stepped in to support weaker banks from failing, and protected depositors from suffering losses. Plans to impose stricter banking regulations are under way, which will be positive for long-term financial stability, but the transition to stricter regulations will contribute to tighter lending standards.

EM sovereign credit spread widened to 400bp from 370bp on the month as uncertainty rose, but the asset class benefited from the lower USD yields with the 10y US Treasury yield falling to 3.5% from 3.95%.

The price of Brent broke out of its recent weak range (\$70-80) jumping to \$85 as OPEC+ announced fresh production cuts over the weekend, re-igniting some inflation fears.

### Investment Outlook

The uncertainty created by the US banking troubles needs time to settle and it is too soon to conclude about potential spill-over effects. The US FED Chairman also stated that the FED is not yet in a position to fully assess the impact of the banking crisis on the economy.

Against this uncertain background the markets have assumed the worst and are aggressively pricing a recession, and forecasting the US FED to cut interest rates this year. 2y US Treasury yield fell from 5% to 4% in March, pricing the 1y rate in 1y time at 3.6% vs 4.9% before the SVB collapse.

We think that the actions by the US Treasury / FED in dealing with the banking issues have been both swift and decisive, significantly reducing the risk of a banking crisis induced hard landing. Should the US economy continue to prove to be resilient and inflation sticky, against a background of a stronger EU economy and China bouncing back strongly from the end of the covid lockdown, US interest rates may move higher again.

If the US were to go into a recession, but inflation stays sticky then the ability of the FED to cut rates will be limited. The dollar will weaken further (having already lost 3% in March vs EUR) as the EU / China fare better. The outlook for Emerging markets credit is mixed. A US recession is negative whilst a weak dollar is positive. Strong China growth is good for commodity prices, and benefitting EM commodity producers / exporters.

In the event that the economic strength across the US/EU/China continues, we expect yields to rise again and stay higher for longer as the focus will return to fighting the high and sticky inflation.

We are fully invested in a portfolio of quality EM credits, with a bias toward commodity exporters with a low interest rate duration (3-5 years) that is around half of the benchmark. If yields move higher, it will provide an opportunity to extend duration in high quality credits, with an emphasis on selected commodity exporters / producers.

**BLUE DIAGONAL EM FIXED INCOME FUND (the “Fund”), an investment compartment of Blue Diagonal AIF V.C.I.C. Plc**  
 Blue Diagonal AIF V.C.I.C. Plc is authorised by CySEC (AIF17/2014)  
**The Fund is externally managed by Blue Diagonal Capital Limited, Cyprus**

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The Fund is actively managed and is not managed in reference to any benchmark index.

Investors should note that past performance does not predict future returns. The performance data do not take account of the commissions and costs incurred on the issue and redemption of units. The fund invests in international securities denominated in foreign currency, and movements in exchange rates will have an effect on the value, either favourable or unfavourable, of such securities. The Fund is exposed to geopolitical risk, and any deterioration in the creditworthiness of countries, and/or the imposition of sanctions on countries may lead to substantial losses for the Fund. Some investments, especially financial derivatives, may display a high level of volatility which could result in the net asset value of the fund experiencing sudden and large falls in its value causing losses when the investment is realised.

The Fund may make use of leverage which could increase the assets under management to more than hundred percent of the net asset value of the fund attributable to investors, which could substantially increase the potential losses that the investors in the fund may incur pursuant to adverse market movements.

Investors may redeem shares on the dates as described in the relevant fund supplement, but investors should note that in volatile markets or where the fund experiences large outflows, the Investment Manager may at his sole discretion suspend the redemption of shares. In addition, the Investment Manager at his sole discretion may impose a redemption charge on any particular dealing date. The factors described above and in more detail in the fund Prospectus and Supplement, may lead to losses which may equal your original investment resulting in a loss of the total sum invested.

The investment in the fund may not be available to or suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk, including, but not limited to, the risk of capital loss. Disclosures about the risks and rewards of purchasing shares in the Fund may be found in the pre-investment disclosures documents, and specifically in the Prospectus and Supplement of the Fund, as well as the KIDs for the share classes. Investors should obtain and carefully review the pre-investment disclosure documents from the Investment Manager (investor\_relations@blue-diagonal.com) or from the Fund directly (<https://blue-diagonal.com>) prior to making an investment decision.

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