MONTHLY INVESTMENT REPORT – 28 APRIL 2023

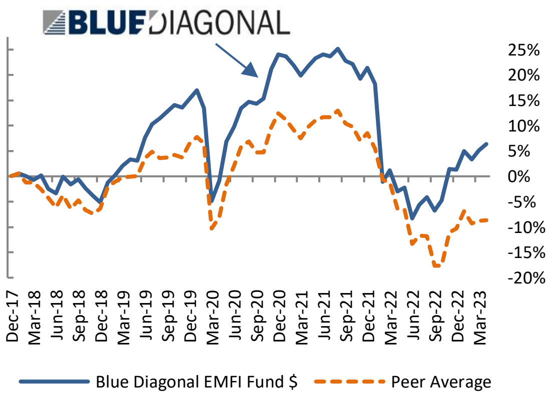
BLUE DIAGONAL EM FIXED INCOME FUND

Class A (EUR) NAV per share: 0.935001 (0.925898)
Class B (USD) NAV per share: 1.151560 (1.138517)

Class A (EUR) Monthly Ret: +0.98% (1y Ret: +7.9%)
Class B (USD) Monthly Ret: +1.15% (1y Ret: +9.7%)

Fund Performance

The Fund had a positive month, outperforming the benchmark JP EMBI Global Index by ~70bp for the month, and by 2.20% Year to Date. The Fund has also outperformed the EM High Yield Index by 4.5% YTD.



Source: Blue Diagonal Capital, Bloomberg

Macro Environment

The US economy has started to show some signs of slowing from its strong start of the year. The failure of some regional banks highlighted the impact of the sharp rise in interest rates on the US banking sector, challenging the rationale of the banking model for smaller US regional banks. Deposits are flowing out of the smaller banks into safer and higher yielding money market funds contributing to credit tightening and slowing down the economy. Many economic indicators however point to a robust US economy, especially in services, and to sticky inflation. The FED is expected to raise interest rates by 25bp this week to 5.25%, to be followed by an extended pause.

In Europe, the economy is performing better than expected. The comprehensive banking sector supervision in Europe should prevent the banking sector issues of the US.

EM sovereign credit spread was stable at ~400bp during the month, while 10y US Treasury yield was broadly unchanged at ~3.50%. The price of oil (Brent crude) is back down to $80 pb, confirming that the surprise OPEC+ output cut announced a month ago was appropriate to stabilize supply with demand.

Investment Outlook

The market is beset with uncertainty about the trajectory of both US/EU inflation and growth against a background of rising geopolitical tensions. The fragmentation of the global economy and the stated intent of Western nations to build economic resilience (independence) points to higher inflation and possibly lower growth ahead.

Market economists are predicting a US recession and a sharp reduction in US interest rates by year-end. If this scenario materialises then weak credits will suffer and struggle to refinance, and a risk-off environment will likely cause an equity market sell-off.

Our base case scenario is more optimistic, with the US economy avoiding a recession but inflation remaining above 3.5%. In this case, markets will have to re-evaluate their interest rate cut expectations for the end of this year and next (interest rates are forecasted to fall to 3% from 5.25% by the end of 2024).

The uncertainty surrounding the resolution of the US debt ceiling impasse is starting to concern investors. In the past, compromise resolutions were found, but the highly polarized state of US politics points to a tense last-minute deal that could unsettle the market and cause the US dollar to come under pressure.

The portfolio is positioned to reduce the risk from the above scenarios. We are underweight weak credits (B rating), and are overweight selected BB credits with superior risk-reward characteristics. We also run a considerably shorter interest rate duration than the benchmark (3y vs 7.3y). We are actively evaluating the risk of a more severe economic downturn or risk-off than currently priced, in which case we will extend / increase duration with high quality credits / US Treasuries.

We maintain a long commodity bias that would benefit from high commodity prices based on our view that the reopening of the Chinese economy will fuel strong demand for commodities.

Blue Diagonal Capital Ltd is a Cyprus Alternative Investment Fund Manager authorised and regulated by CySEC (AIFM15/56/2013)
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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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