



**STRATEGY FOR  
MERIT FIXED INCOME FUND**



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## MAIN INVESTMENTS

The scope of the fund is to apportion 90% of net assets, plus any leveraged amount utilized within the scope of investment purposes, in sovereign or corporate debt securities of emerging market countries. The fund generally considers emerging markets to be any non-U.S. country where these countries do not include those classified by the World Bank as high-income OECD economies. In addition, the fund may consider additional countries as emerging market countries, based on a broader assessment on their development stage.

Once the proper macro economic and fundamental analysis is undertaken, investment in emerging market bonds targets to enhance the overall risk-adjusted return of the fund. Characteristics of emerging market bonds outperform traditional asset classes due to alpha generation and diversification.

## INVESTMENT PHILOSOPHY IN EMERGING MARKETS

Investments in emerging markets initiate with a secular global economic breakdown, further fine-tuned on a cyclical basis. Within this scope the process is segregated into further steps to guide the underlying investment decisions within the emerging market periphery.

Primarily, countries carrying solid, underlying credit fundamentals such as strong fiscal positions, stable or improving political situations, assuring reserve levels, and debt specifics that can endure financial downturns are filtered. Subsequently, the impact of the investment team's global outlook upon these countries is studied which includes prospects for demand from advanced economies, changes commodity prices, interest rate trends and other external environment components. Finally, the credit is analyzed technically to identify both the upside and the imbalances that could potentially lead to market dislocations.

This disciplined and thorough doctrine serves as the fundamental approach to appropriate the respective country weighting, duration, curve, currency and instrument selection decisions, as well as relative value assessments. As a result these set of strategies optimize underlying investment decisions while mitigating the downside risk.

The fund's set of emerging markets strategies aim to outperform by capitalizing on the high quality countries which usually bring about the most attractive risk-adjusted-return opportunities over a market cycle. On the other hand, countries vulnerable to the risk of default or credit deterioration are avoided.

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## CORE VALUES

The fund's investment philosophy encompasses the below key principles to structure the investment process in a disciplinary manner:

- Higher weights should be allocated in countries which carry strong or improving underlying fundamentals, attractive valuations, and potential return catalysts
- Structure the fund's top-down macroeconomic forecasts by formulating specific underlying country profiles to assess the impact from the external environment variables and global economic cyclicalities
- Countries deficient of strong economic fundamentals and are prone to a defacto credit quality downgrade should be avoided
- Fundamental analysis should be coupled with a thorough underlying security selection process to lock in relative value opportunities across and within markets


## TACTICAL

The addition of an emerging markets strategy to an overall investment strategy should be an opportunity to be capitalized upon. The subsequent diversification from other markets, the resulting declining volatility, and the ensuing improving fundamentals of chosen countries should, together, incline investors towards this asset. Moreover, as market driven opportunities arise, the fund seeks to capitalize on them outright or on a relative value basis.

## RISK MANAGEMENT

The fund has embedded the following risk management metrics in an effort to boost the underlying functionality and result to a value add for the investor:

1. Underlying functionalities pertaining to money management are split into investment decisions, trade processing and client service. Segregating the said functionalities adds checks to the overall process and ensures individuals involved in the overall process act within the required guidelines

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2. An integrated and well thought out IT platform encompasses the overall environment and ensures the distinction of the said functionalities and that checks are in place and carried out
  3. The fund's local network of contact, as well as the frequent visits of the underlying team ensures that economic, political and other developments are in tune with the investment strategy of the fund and may trigger any underlying securities rebalancing to remain in tune with the fund's targeted risk profile

## **EMERGING MARKETS EXPERIENCE**

The fund's affiliated companies has been involved in the emerging economies, specifically Russia and the CIS, space since the late 90s. The respective experience has enabled a solid understanding of the underlying geopolitical environment and has created a strong network of local contacts that provide a timely and reflective insight of underlying country specific developments. The fund is benchmarked against either the JPMorgan Emerging Markets Bond Index Global (EMBIG) or a custom index, though several other appropriate benchmarks are utilized.