LM CAPITAL GROUP
GLOBAL BOND MANAGEMENT

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Emerging Market Debt Update

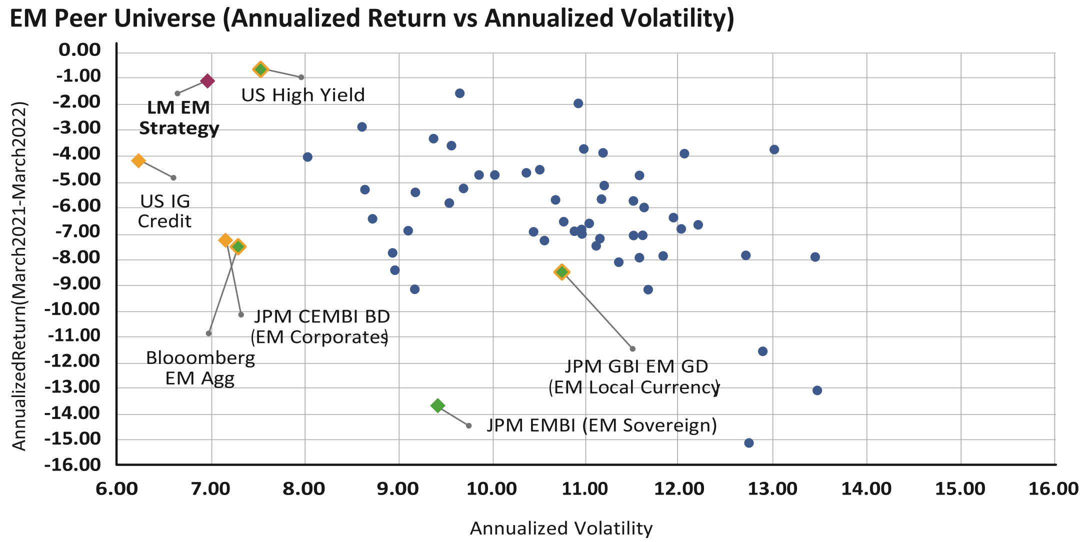
Consistency: It Pays Off

Since the start of the Russian invasion of Ukraine, not many EMD investors would have the luxury of writing a quarterly update without discussing the negative impact of a selloff in Russian bonds on their portfolio returns. At LM Capital, over the past five years, we have avoided many landmines that have caused severe drawdowns in emerging market portfolios. Neither luck nor market timing but a strict adherence to a "Rule of Law" requirement has been the reason for our strategy having no exposure to Russia. This long-standing rule also helped us avoid the crisis in Chinese property sector and selloff in Turkish and Lebanon bonds during 2021. We recently published a paper that further details our "Rule of Law" consideration and makes a case for a very boring EMD Strategy that aims to generate alpha through drawdown minimization and coupon clipping.

After a very successful 2021, we have further added to our outperformance vs EM Indices and continue to rank favorably against our industry peers.

	EMBI+	CEMBI BD	GBI EM LC	LM EMD	US Credit	US High Yield
Q1 2022	**-16.20%**	**-8.82%**	**-6.46%**	**-3.56%**	**-7.69%**	**-4.84%**
1 Year	**-13.76%**	**-7.25%**	**-8.53%**	**-1.09%**	**-4.20%**	**-0.66%**
2021	**-4.52%**	**-0.91%**	**-8.75%**	**-1.94%**	**-1.04%**	**5.28%**
3 Year (Annualized)	**-3.14%**	**1.96%**	**-1.13%**	**3.63%**	**3.02%**	**4.57%**

EMBI+: JPM EMBI+ Index; CEMBI BD: JPM CEMBI Broad Diversified Index; GBI EM LC: JPM GBI EM GD (Local Currency) Index; US Credit Index: Bloomberg US Credit Index; US High Yield: Bloomberg US High Yield Index



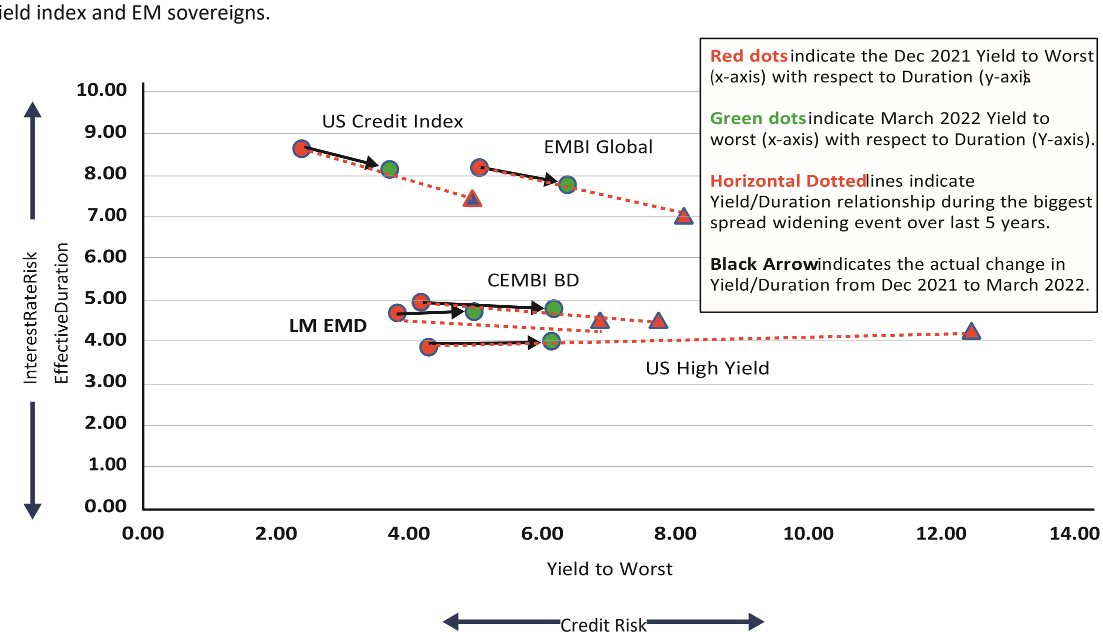
Source: EMD manager universe is calculated using gross of fees returns from Bloomberg Mutual Fund data for 53 funds with 5 years of track record; Using gross of fees returns for LM Capital's EMD Strategy. Volatility is calculated using 5 years of monthly returns

US Dollar EM Debt: Vulnerable to rising interest rates

We have highlighted the interest rate risk inherent in US Dollar EM Bonds during the last quarterly update. The most recent quarter saw dollar denominated EM bonds suffer a one-two punch as geopolitical events pushed credit spreads wider while US interest rates kept marching higher with a Federal Reserve steadfast on its path to fighting inflation. With almost an identical effective duration to US Credit indices, the USD EM sovereign index are the most vulnerable to rising US interest rates.

Although there is a 250bps pickup in yield for USD EM Sovereigns and Corporates over the US Credit index, we prefer to remain overweight EM Corporates due to the diversifying nature of issuers and reduced duration risk.

When looking at historical spread widening events, we believe that USD EM Corporates offer the best risk adjusted returns when compared to a similar duration US High Yield index and EM sovereigns.



Source: Bloomberg, JP Morgan Indices. LM Capital's EMD strategy represents characteristics for our representative account

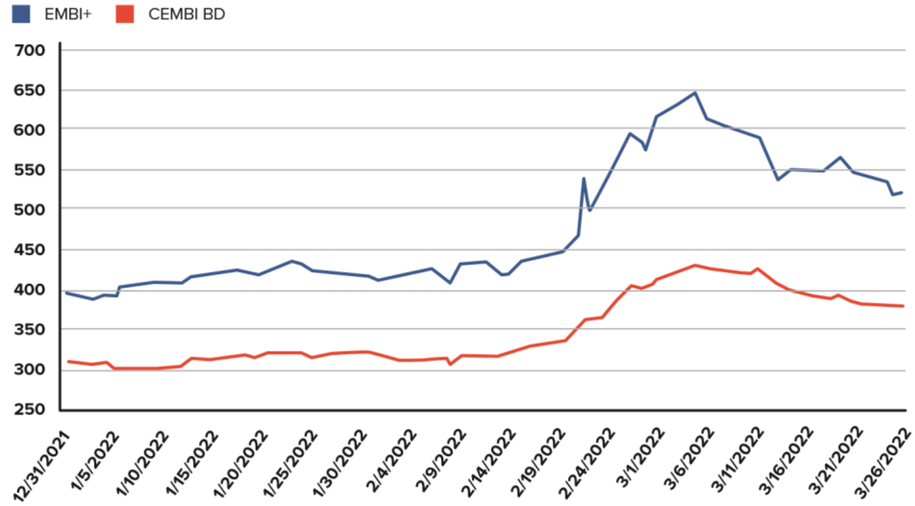
US Dollar EM Debt: Tighter Financial Conditions would widen Credit Spreads

The start of the war between Russia and Ukraine, and the resulting commodity supply shock, poses a dilemma for central banks who are forced to choose between trying to tame inflation or to supporting growth. Central banks have so far suggested that they view inflation as the more pressing problem to tackle, unless the growth outlook weakens.

Although EM spreads have mostly retraced to levels seen before the Ukraine conflict, we think the crisis will play out in tighter financial conditions. This will lead to a risk off sentiment that should put a widening pressure on credit spreads. We have used the recent rally in EM bonds to reposition the portfolio to maintain a higher quality bias while identifying strong corporates that stand to benefit from an inflationary environment.

We have excluded 3/31/2021 G-spreads in the chart on the right due to index rebalancing rules that led to exclusion of Russian bonds from the index.

Credit Spread Comparison: JPM EMBI+ Index vs JPM CEMBI BD Index



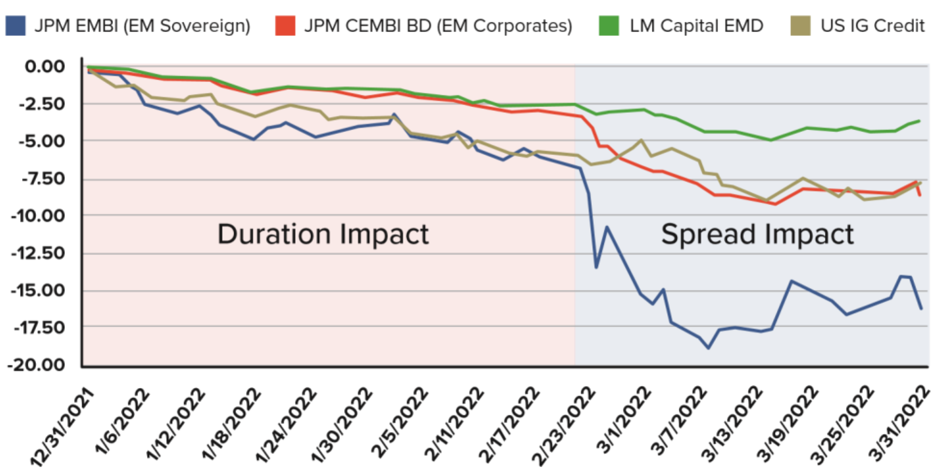
Source: JP Morgan Indices.

US Dollar EM Debt: Tale of two risk factors (Interest Rate Risk & Credit Risk)

The chart on the right demostrates the path of cumulative returns for LM Capital's EMD strategy compared with USD EM indices (Sovereigns & Corporate) and US Credit Index.

Until the last week of February when the Russian invasion materialized, USD EM and US Credit Returns were largely driven lower as a function of rising US Interest rates and marginal spread widening through tighter financial conditions. With higher duration risk for US Credit and USD EM Sovereign Indices, we expected to underform the USD EM Corporates. After the war broke out, we saw a signficant change in risk sentiment that blew credit spreads wider with USD EM sovereign and Corporate indices being the most vulnerable.

Cumulative Returns - 1Q 2022



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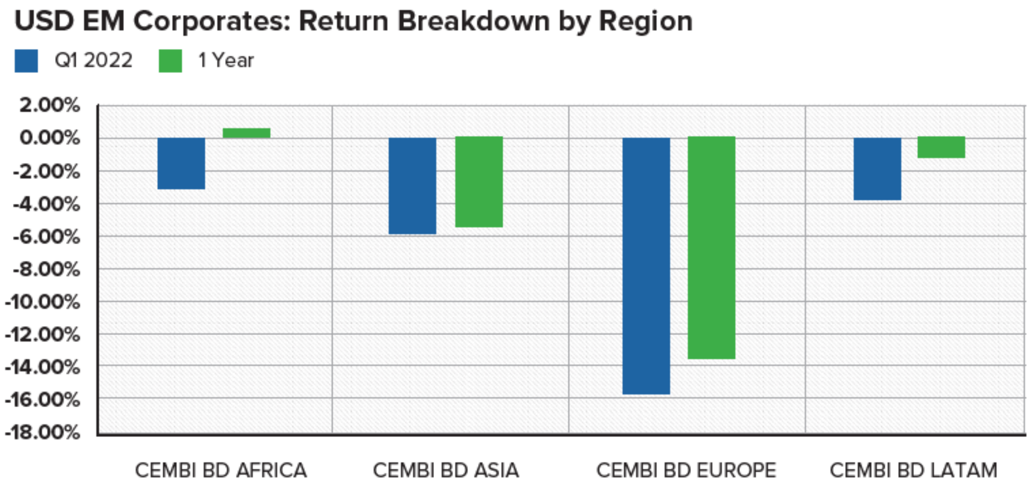
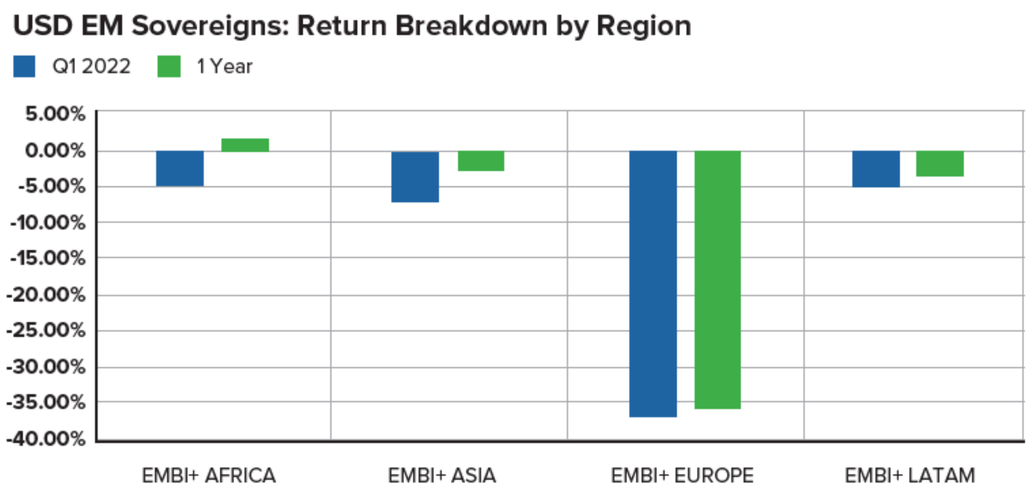
LM's EMD strategy through its lower duration risk and higher quality bias, was able to outperform the EM indices through the quarter by better navigating the two risk factors. Tactically balancing the scale between the two risk factors (Interest rate & Credit spread) will be the key to investing in emerging markets through the end of the year.

Latin American Corporates – Oasis of Stability

Certain pockets of Asia (India and Indonesia) and Latin America offer significant diversification across industry groups. We expect these regions to benefit as recent geopolitical events will reshape the nature of global trade.





Source: JP Morgan Indices.

Issuers in India, Indonesia and Latin America have emerged as an oasis of stability amid the global bond rout spurred by geopolitical events in Eastern Europe. For both USD Sovereigns and USD Corporates, Latin American issuers have significantly outperformed their counterparts in Asia and Europe.

The harder-to-judge risks come from Russia and Ukraine's integration into global supply chains and their importance in commodity markets. As major economies in Latin America don't have strong trade links to Russia and stand to benefit from the massive rally in commodity and grain prices, debt issuers in the region remain attractive in the face of tighter financial conditions.

Rising food prices, however, could be a significant risk for the rest of emerging markets. Russia and Ukraine supply around a quarter of the world's wheat exports. Prices have surged 50% since the start of 2022, with much of this supply goes to emerging markets in the Middle East and Africa. Food prices are an issue for inflation but are also a risk for political instability and civil unrest in many emerging economies.

We continue to remain underweight in lower rated sovereigns that have deteriorating fiscal situations. Higher food prices are not only an issue for inflation but are also a risk for political instability and civil unrest in these countries. We remain overweight emerging market corporates that play a critical role in the supply chains for non-consumer facing products and services. We expect fundamentals for these corporates to continue to improve at a marginal pace, leaving them as much better investments compared to their sovereign counterparts.

Emerging market local currency

We believe local markets are cheap, for both bonds and currencies as most EM central banks are approaching the end of their hiking cycle having started much before their developed market peers. Although geopolitical events continue to put upward pressure on inflation and US Dollar strength, the available carry in local bonds is attractively priced.

As a result, we will continue to monitor and add commodity currencies in countries where central banks have been ahead of the curve. As an example, we see Colombia, Chile, Brazil and Indonesia potentially benefiting from the current environment with a cautious outlook on the domestic political situation in Colombia (upcoming election) and Chile (rewriting of the constitution).

1Q Review

John Chalker Managing Director, Portfolio Manager

Invasion, Inflation and Interest Rates

Once again, we continue to see some significant hesitation in the markets as investors weigh the continued geopolitical cross currents with the ever-present change in the Federal Reserve's monetary policy stance. The Russian invasion of Ukraine and its continued escalation in February negatively affected risk sentiment. Additionally, the FOMC marked a historic shift in monetary policy by finally raising rates by 25 bps during their March meeting and made it clear that additional, possibly more aggressive, hikes may be coming throughout the year and a plan for the balance sheet reduction will be released soon. Economic data proved to be mostly positive though many of the data points lagged the oncoming effects of inflation, which is now beginning to unfold, meaning producers will continue to pass along any price increases to the consumer in the future – so we don't expect that trend to change near term. Additionally, the secondary effects of the war in the Ukraine have only exacerbated those concerns as certain commodities have skyrocketed in price, demanding the attention and action of governments at home and abroad to help temper the lasting economic effects. Lastly, fears of an oncoming recession are beginning to litter headlines as the list of possible tipping points has grown in recent weeks, making markets a dangerous environment for those wanting to take unnecessary risk. The 10yr began the quarter at 1.51%, determined to regain its trend toward higher levels, it rose 104 bps to touch a high at 2.55% before finishing the quarter at 2.34% - a number not seen since early May, 2019.

Even in the midst of the Russia-Ukraine conflict, which pressured rates down for about three straight weeks in the middle of the quarter, investors wouldn't take their eyes off the Fed's policy shift and their need to be aggressive in fighting inflation. The US Dollar finished much higher this quarter once again, advancing +2.76% as a strong flight to safety trade remained all quarter. While selling across all sectors occurred throughout the quarter, it was noted that duration risk was quick to be removed as longer duration credits and Treasuries both significantly underperformed versus shorter dated issues from a total return perspective. The plus sectors performed very poorly as investors looked to reduce portfolio risk across the board. While the High Yield sector performed slightly better than the Aggregate Bond Index, the EMD sector was very weak as the impact on emerging economies was uncertain or viewed negatively. Even those issuers who would benefit from a high inflation, rising commodity price scenario, performed poorly as investors looked to reduce risk exposure. Yields rose dramatically such that by the end of the quarter, there were some attractive opportunities with sufficient risk premium to begin attracting buyers. We continued to hold our sector weightings throughout the quarter and emphasize that security selection in the Plus sectors is becoming even more important than usual.

Market Outlook

In addition to the rising rate environment and consistently strong inflation data, the Russian invasion of Ukraine added fuel to the inflationary fire. The imposition of very strong economic sanctions against Russia and many other corporate entities has ushered in a new "economic cold war" with an intensity far greater than any seen versus the former Soviet Union. Meanwhile, China is dealing with the collapse and near bankruptcy of several of its largest real estate developers. In our opinion, these developments have changed the world and will have a long lasting impact on inflation, globalization, and the financial markets. When coupled with the FOMC's change to a tighter monetary policy, including an expectation of an aggressive series of rate hikes in the Fed Funds rate in 2022, we continue to maintain a more defensive portfolio position as we have outlined in previous commentary. This defensive position includes a duration position targeted at 10-13% short versus the benchmark index, with a significant underweight in the Treasury sector which is positioned in a barbell structure. Our corporate sector holds a meaningful overweight and is focused on intermediate securities. The MBS sector is close to an index weighting. Our Core Plus and Enhanced Return strategies continue to maintain reduced positions in the High Yield and EMD sectors, with a focus on energy and raw material issuers when appropriate.

LM Capital Personnel Updates

LM Capital is pleased to announce the return of David Tossie to assume the position of Director of Operations. David had previously worked in operations at LM Capital before moving to an insurance company in the Los Angeles area for the past two years. David rejoined the firm on March 28th and will coordinate turnover with Ezra Betech, the former Director of Operations. Ezra has been promoted to the trading desk to work with Rachel Wilson, Director of Trading. In other changes, Tobias Gorodzinsky liquidated his equity position in LM Capital during the first quarter for personal reasons, and he will remain at the firm as Controller and Administrator. The company purchased his shares which will eventually be offered to other employees as the firm continues to expand employee ownership. Finally, we wish to extend a hearty congratulations to Mike and Jesika Chalker on the birth of their first child, Sutton Rose Chalker, on March 22, 2022; mother and baby are doing fine.

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