FUND COMMENTARY as of 31 October 2020

# American Century Emerging Markets Debt Total Return Fund

a sub-fund of Nomura Funds Ireland plc

American Century Investments

## Portfolio Positioning Highlights

- Overall, emerging markets debt securities increased modestly in October, despite concerns about renewed lockdowns in Europe and U.S. election-related angst.
- Rising U.S. Treasury yields offset the spread tightening across the external space, particularly among investment-grade issues. Emerging markets currencies remained resilient, while local rates generally sold off.
- Within the portfolio, a position in the Mexican peso and local rates and currency positions in South Africa drove performance.
- Currency positions in Brazil and Russia, which struggled as oil prices declined, weighed on portfolio performance.

## Market Review

Risk assets began the month on a positive note, but a resurgence in COVID-19 cases in the U.S. and Europe and U.S. election uncertainty changed the tone. New lockdown measures in several European countries created headwinds for the global growth outlook. Additionally, after remaining in a tight range, U.S. Treasury yields rose to a multimonth high in October. Several polls pointed to a Democrat sweep in the November 3 election, which led to expectations for further fiscal stimulus, driving Treasury yields higher. Meanwhile, the U.S. dollar inched fractionally higher, while oil prices declined.

## Portfolio Summary

The portfolio's monthly gain was nearly evenly split between external and local rates positions. Overall, the portfolio's currency holdings were nearly flat. We continued to favor local rates and currency positions over external holdings. We remain cautious toward external debt due to governments' waning ability to repay that debt, as evidenced by weaker GDP growth, wider fiscal deficits and growing public debt burdens. Our preference for local rates securities is largely due to still-low inflation rates in emerging markets and still-attractive exchange rates for emerging markets currencies. Over the month, we increased U.S. dollar duration and added some credit hedges to protect the portfolio from U.S. election-related turmoil. Among currencies, we favored commodity exporters over oil producers. We also preferred Asian currencies. We remained underweight investment-grade credit, where spreads were near their pre-virus tights, and we were neutral in high-yield credit.

## Key Contributors

Local rates and currency investments in South Africa were key contributors, outperforming on the release of the nation's midterm budget and due to an improving current account balance. Our long position in the Mexican peso also aided results, fueled by continued improvements in Mexico's current account balance. In addition, a long position in local Hungarian bonds aided performance, benefiting from the European Central Bank's bond-buying program. Among external holdings, sovereign positions in higher-yielding countries, including Egypt and Jordan, lifted performance.

## Key Detractors

Long positions in the Brazilian real and Russian ruble weighed on performance as oil prices declined. Our local rates position in Colombia also detracted, as these securities sold off in tandem with U.S. rates. Nevertheless, we still believe Colombian rates offer value due to yield curve steepness.

## Disclosures

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NOMURA ASSET MANAGEMENT

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