

Aperture New World Opportunities Fund

Quarter in Review

To paraphrase the 16th century poet John Donne, no fund is an island.

Investment funds function in financial markets, and the interactions between the real economy, interest rates, and asset prices cannot be overlooked, even amidst a historic global pandemic.

2020 did generate unprecedented surprises for fund managers. But 2021 has also already delivered its share of unforeseen American events with global repercussions:

January 5th – US Democrats win two upset victories in the Georgia US Senate elections and gain effective control over the US Congress

January 6th – Domestic attack on the US Capitol – the country’s first in two centuries

January 14th – President Elect Biden floats \$1.9 trillion stimulus idea

January 19th – In contrast to problematic vaccine rollout by the Trump administration in late 2020, the new administration launches one of the fastest vaccine rollouts worldwide

February 24th – Biden revokes ten key Trump Executive Orders, some with economic impact

March 21st – New US \$1.9 trillion stimulus bill passed

March 31st – \$2.25 trillion infrastructure proposal by President Biden

March 31st – More than 30% of the US population inoculated against COVID vs only 12.88% in the European Union ¹

While markets welcomed the faster-than-expected reopening of the US economy conceptually, inflation fears grew beginning with vaccine announcements and dovish US Fed guidance in 4Q 2020. 1Q 2021 announcements resulted in huge reversals in equity sector leadership and a backup in global interest rates not seen since the 2013 Taper Tantrum. 10-year US Treasuries, which hit a low of 51bps in August 2020, climbed from roughly 90 bps to 170 during the quarter.²

As a sentiment gauge, a Bank of America of fund managers in March no longer identified the virus as the top tail risk – a first since the pandemic started. Rates and bond volatility polled ahead of the global pandemic.

1) Source: NYTimes Vaccination Tracker; <https://www.nytimes.com/interactive/2021/world/covid-vaccinations-tracker.html>

2) Source: Bloomberg, L.P. as of March 31, 2021



Peter Marber
Portfolio Manager

Aperture New World Opportunities

Amid all varieties of market exposures, our strategy protected capital far better than most broad investment indices and was among the best in the Emerging Markets category for the quarter.¹ ANWO finished the quarter down 26bps net of fees, short of its benchmark's 3bps drop for the period,² though well ahead of the broad US Aggregate bond index which fell -3.37%, the JPMorgan EMBI dollar sovereign bond index -4.54%, and JPMorgan's local bond index -6.68% in US dollar terms.³

Our Fund's Performance in 1Q 2021

In terms of the four sub-strategies within our Fund, our **Fundamental** sleeve lost roughly 20bps. Most of that underperformance derived from a modest duration overweight that was reduced over the quarter from 3.0 to 2.8 years versus the benchmark's 2.55 years.⁴ The team also implemented some US Treasury shorts and credit hedges to offset the risk of larger potential bond losses. The average rating of our bond portfolio as of March 31 was BBB with a 4.00% yield-to-worst and exposure to more than 150 issuers in 50+ countries. Cash and US Treasuries were approximately 8% of the Fund which enabled us to pivot amid the fluid recovery environment.

The other three sub-strategies - or alpha-focused sleeves - made money in the first quarter and helped mitigate losses in the Fundamental strategy. **Special Situations** added 9 bps from trades including curve steepeners in Israel and Hungary as well as a tactical receiver in the front end of Mexican interest rates during the quarter.

Relative Value, which provided more than 200 bps in performance in 2020, made 18 bps in the first quarter. Currency pair trades, as well the tech / value rotation also accounted for much of the gain in this bucket. Our structural long/short digital commerce strategy was quick to migrate into reopening trades and recorded a flat quarter. Our **Technical** sub-strategy also ended the quarter marginally positive, catching the value and reopening sentiments through a handful of short-term trades.

Historical Cycle of EM Outperformance, Finally?

After a contraction of -3.5% in 2020, global GDP is expected to accelerate 6% in 2021, with advanced economies growing at 5.1% and EMs bouncing back even further at 6.7%, according to the IMF.

Many analysts predict cross-border trade to pick-up as well with higher commodity prices boosting EM current account balances – both of which could spur a virtuous cycle of economic growth and outperformance not seen in nearly a decade. As global trade data suggests, EM exports began to accelerate in late 2020 with optimism for a global reopening, and EM exports tend to be highly correlated with EM FX and equity strength.

1) Morningstar Category: 4th percentile in US Fund Emerging Markets Bond YTD through March 31, 2021

2) Bloomberg Barclays EM USD Agg 1-5 Year Unhedged TR Index, the Fund's benchmark

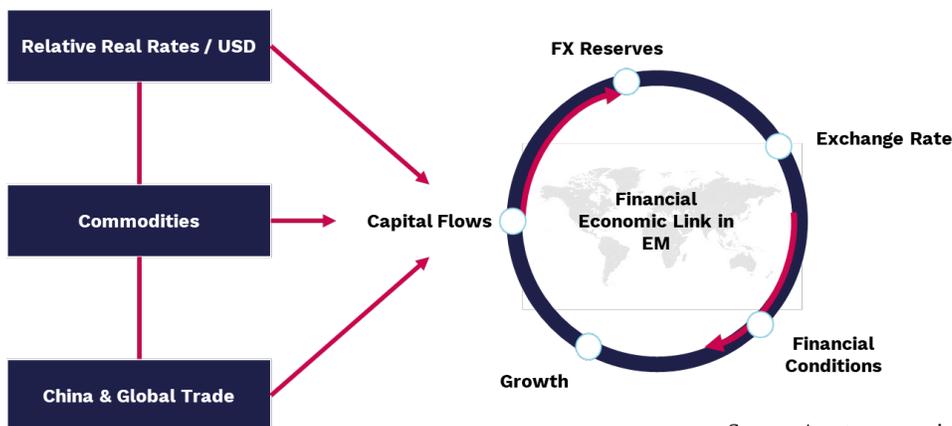
3) Bloomberg Barclays US Aggregate, ticker LBUSTRUU; JPMorgan EMBI, ticker JPEIDIVR; JPMorgan Local Bond, ticker JGEVUUG. Price returns sourced from Bloomberg, L.P.

4) Duration measure used is the Weighted Average Option-Adjusted Duration

US assets have outperformed EM for the last decade and many have hit all-time highs and with what appear to be bubbly valuations. Compared to the US, EM stocks are trading at a below-average 32% discount based on price-to-earnings multiples (P/E). In our opinion the frenzy over Bitcoin, SPACS, and IPOs in the US also reeks of speculative bubbles.

History suggests that after sharp global GDP contractions such as the 2008-09 GFC, EM countries often snap back faster and therefore have the potential for outperformance. With 2021 increasingly looking like a strong recovery year for the global economy, the multi-decade US Dollar cycles could fuel an EM asset rally not seen in a decade. The cycles since 2000 have been ignited by higher relative rates vs. the US, commodity demand, and expanding trade – all of which look likely for 2021.

The Case for a Post-COVID Rally in Emerging Markets



Source: Aperture proprietary analysis

While commodity demand alone has often driven EM markets, a new EM outperformance cycle could be complemented by the rapid digitization of their economies over the last two decades. The COVID-19 pandemic accelerated e-commerce migration not only in advanced markets like the US and Europe, but also in emerging markets including China, the world's second largest economy. Digitization has been a driving thesis behind our Relative Value trades since the Fund's formation. Growing EM internet penetration, smartphone use, and technology leapfrogging could fuel faster consumption than what has historically been more closely tied to brick-and-mortar infrastructure build-out.

Positioning for this Environment

Although EM GDP growth is expected to be faster paced than that of Developed Markets in 2021, economic recoveries will most likely be uneven among regions and countries – the results of the effects of COVID and different vaccine roll-outs. The Fundamental credit book has its shortest duration in more than year, and the fund has cash to be reinvested as the pandemic recoveries unfold around the world.

Whether the cyclical EM mega-rally begins in 2Q 2021 is anyone's guess, but there certainly will be some countries that benefit more than others. Our Fund attempts to exploit the best global opportunities – both long and short - and uses a multi-strategy approach to construct trades with what we perceive to be more asymmetry to the upside than typical short-duration bond funds. We believe this should enable us to produce greater long-term outperformance while also minimizing downside risk.

Depository: State Street Bank International GmbH, Luxembourg Branch.

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