

Aktia EMD



Aktia EM Local Currency Frontier Strategy

This is a marketing communication. Please refer to the prospectus of the UCITS and to the KIID before making any final investment decisions.

Aktia

Aktia Asset Management is a part of Aktia Bank Plc., a Finnish financial services group with history dating back to 1826. Aktia Bank Plc. listed on Nasdaq OMX Helsinki since 2009

Aktia AM has carved out a niche for itself and built a strong track record in its chosen areas of expertise

The first mutual funds were launched in 1987, laying the foundation for the business' investment philosophy. Aktia AM has built a strong track record in its chosen areas of expertise, which are Emerging Market Debt and European Credit, receiving recognition both domestically and internationally

Aktia AM has around EUR 14 billion of AUM, a well-established institutional client base in Finland and a growing international presence

Aktia AM builds a sustainable future through responsibility and impact across all asset classes, Aktia's Responsible Investment Policy and Climate Strategy guiding all investment activities

Investment Philosophy in Aktia Asset Management

Shared investment philosophy

Aktia

Implemented in the EMD team

1

Find focus areas where you can add value

Well-resourced team with focus purely on macro economic risks, we don't spend time on analysing corporates. Country selection process creates a holistic approach across EMD platform.

2

Long-term investing creates value

Country fundamental approach and ESG are intertwined as this is key for the longer term outlook. We do not try to create value from short-term trading.

3

Do it your own way

Benchmark is not relevant for portfolio construction. If we believe that a country's fundamentals are deteriorating, it can have a zero weight in the portfolio. We also look at opportunities outside the benchmark.

Aktia Emerging Market Debt Platform

EMD PMs



Henrik Paldynski,
M.Sc. (Tech.)
PM, Head of EMD



Timo Leinonen, M.Sc.
PM



Ulla Huotari, M.Sc.
PM



Mikko Kuisma,
M.P.S (Economics)
PM



Kaj Paulamäki, M.Sc.
PM



Juuso Atrila, M.Sc.
PM



Anton Nykvist, M.Sc.
PM

Quantitative Analysts



Robert Suomi,
MPhil (Economics)
Quantitative analyst



Oskar Murto, M.Sc.
Analyst

Global Outlook Team



Tommi Tähtinen,
PM



Samu Lang, PM



Patrik Moring,
PM



Juha Hytönen,
PM

ESG Team



Markus Lindqvist,
Sustainability
Director



Eeva Toivonen



Ingeli Lönnberg



Aarni Pursiainen,
PM



Annika Broman

Portfolio Analysts



Essi Tarma



Kalle Ahopelto

Diverse Range of EMD Strategies

Aktia emerging market debt platform

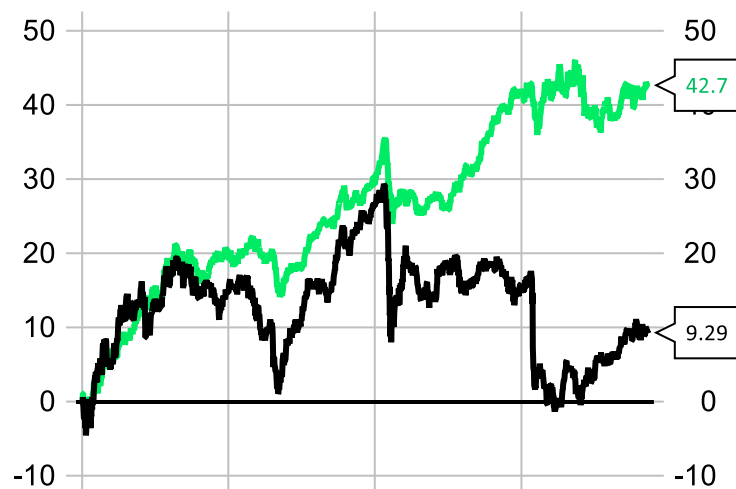
	EM LC Frontier Bond Strategy	EM LC Bond Strategy	EM HC Bond Strategy
Launch Date	7.12.2015	14.10.2008	12.2.2007
Strategy Focus	Local currency Frontier markets	Local currency markets	Hard currency markets
Reference Index	JPM GBI-EM Div.	JPM GBI-EM Div.	JPM EMBI Global Div, EUR Hedged
SFDR-Classification	Article 8	Article 8	Article 8
Performance Target	400 bps over the cycle	100 bps over the cycle	50 bps over the cycle
Tracking Error Target	None	None	None
Liquidity	Daily, Dilution levy	Daily	Daily
Strategy Assets (EUR)	~1300m	~500m	~300m



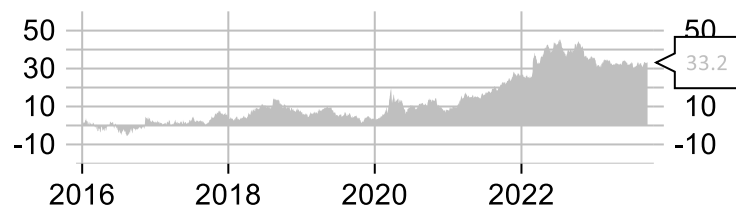
Strategy Performance

10 year performance in EUR (%)*

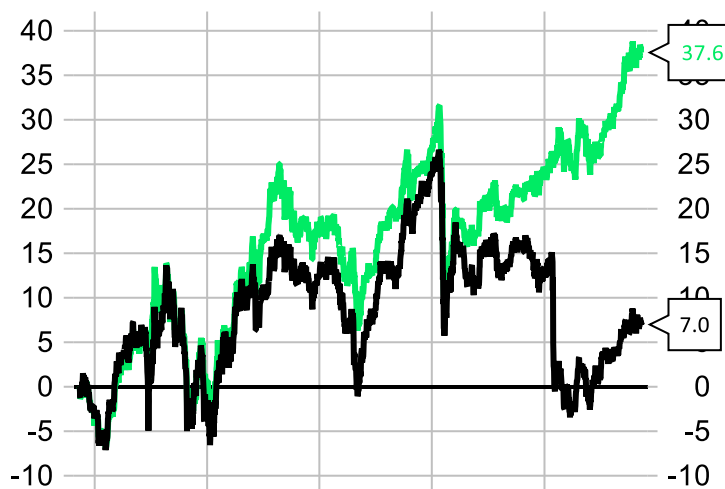
— J.P. Morgan GBI-EM Diversified EUR Unhedged
— Aktia EM Local Currency Frontier Bond+



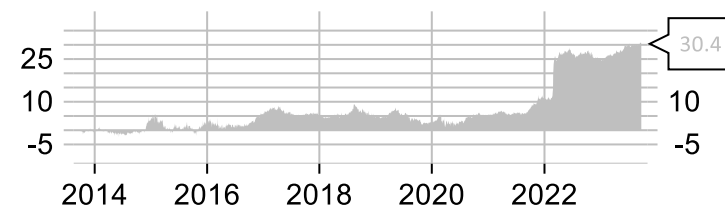
Cumulative alpha (%-points)



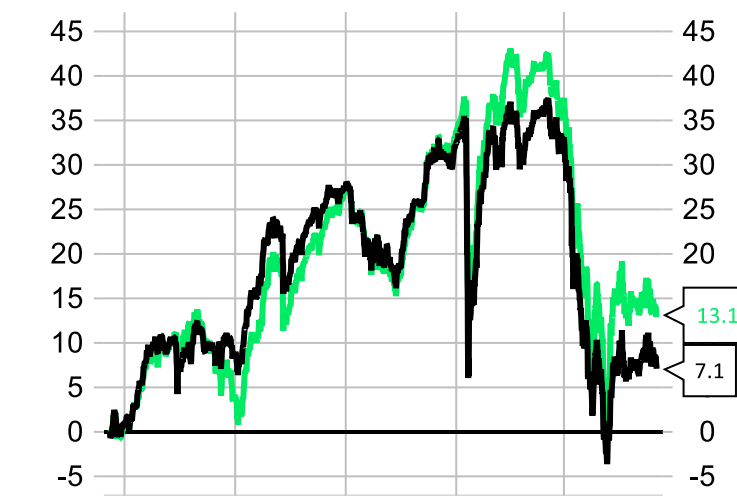
— J.P. Morgan GBI-EM Diversified EUR Unhedged
— Aktia EM Local Currency Bond+



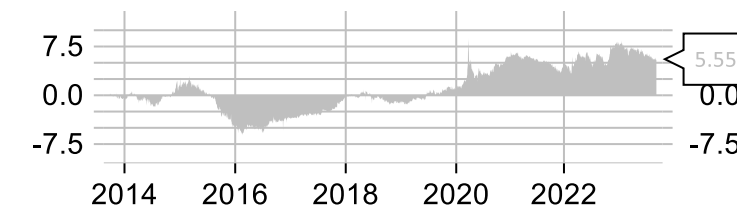
Cumulative alpha (%-points)



— J.P. Morgan EMBIG Diversified Hedged EURO
— Aktia Emerging Markets Bond+



Cumulative alpha (%-points)



Sources Aktia and Macrobond,
Updated: 26/09/2023

*Frontier since inception

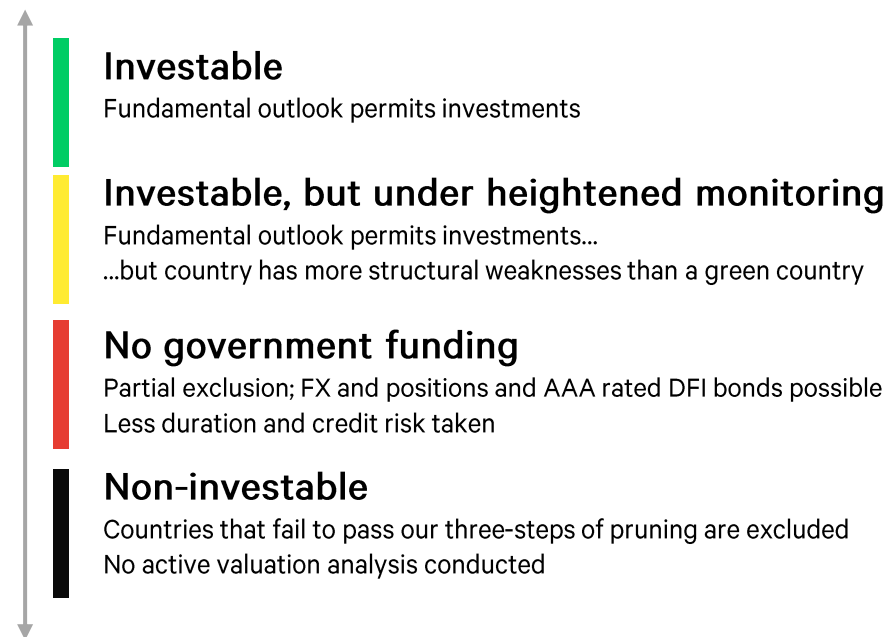
Investment Process Overview

The background of the slide features a series of curved, overlapping lines in shades of gray and black, creating a sense of motion and depth. A single, bright green line curves across the lower right portion of the slide, adding a vibrant contrast to the dark background.

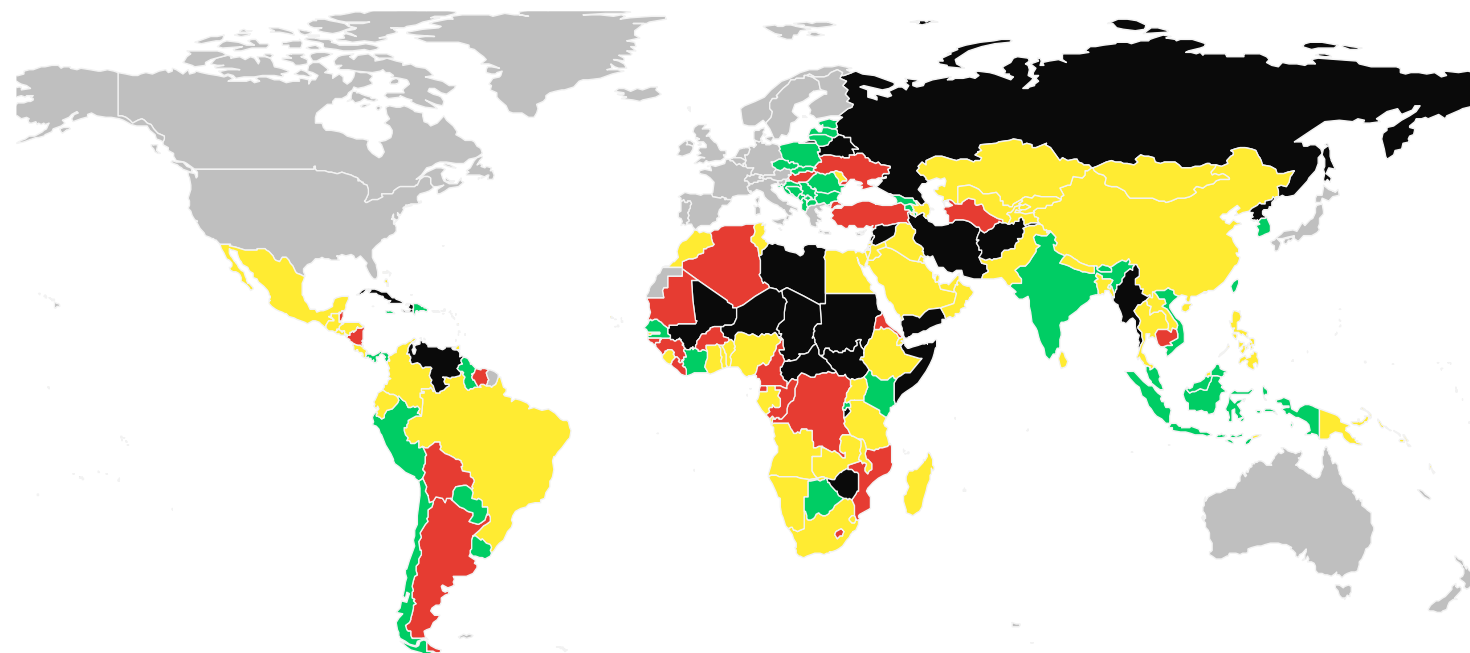
Aktia's Traffic Light Approach

Fundamental long-term views

Positive fundamental outlook

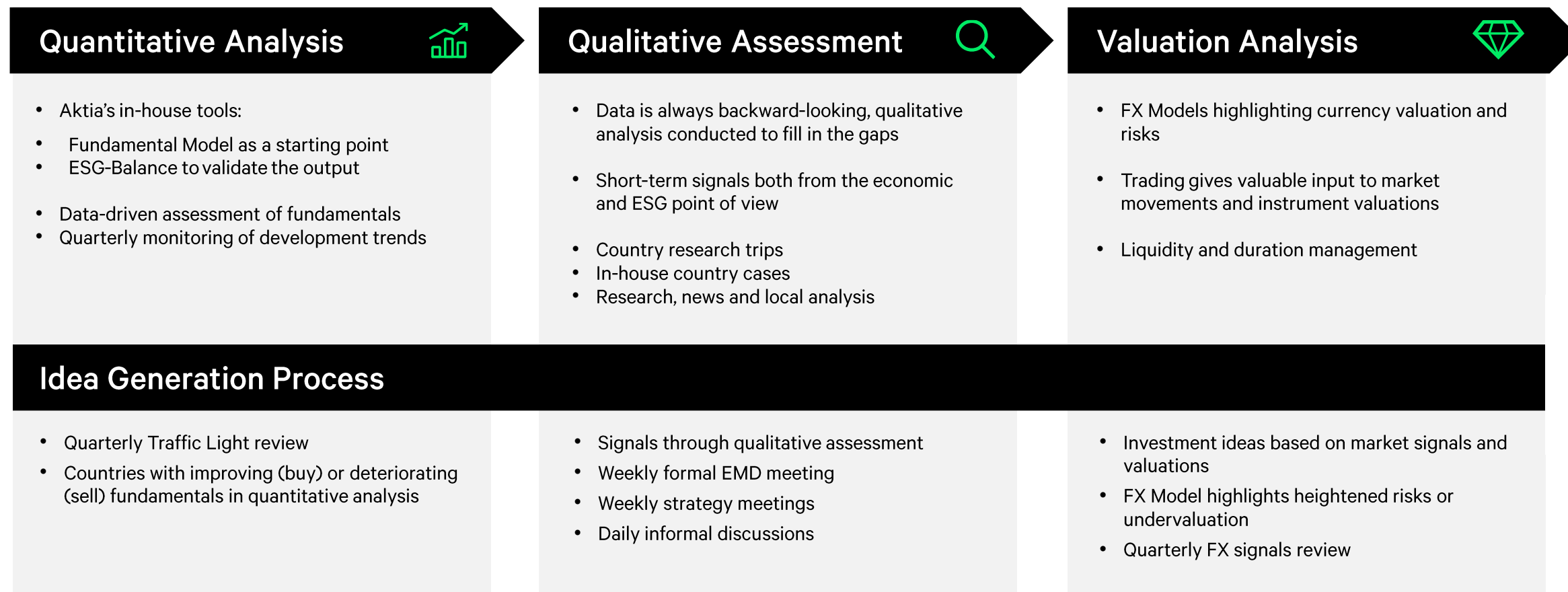


Negative fundamental outlook



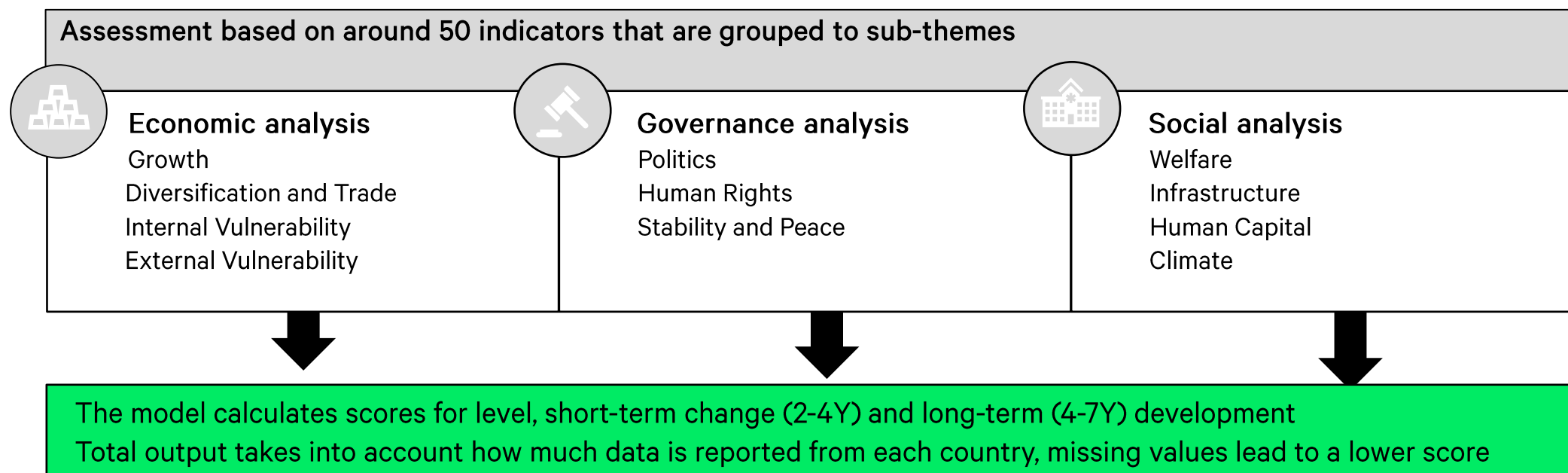
Investments Process and Idea Generation

ESG-integrated investment process combining quantitative and qualitative analysis



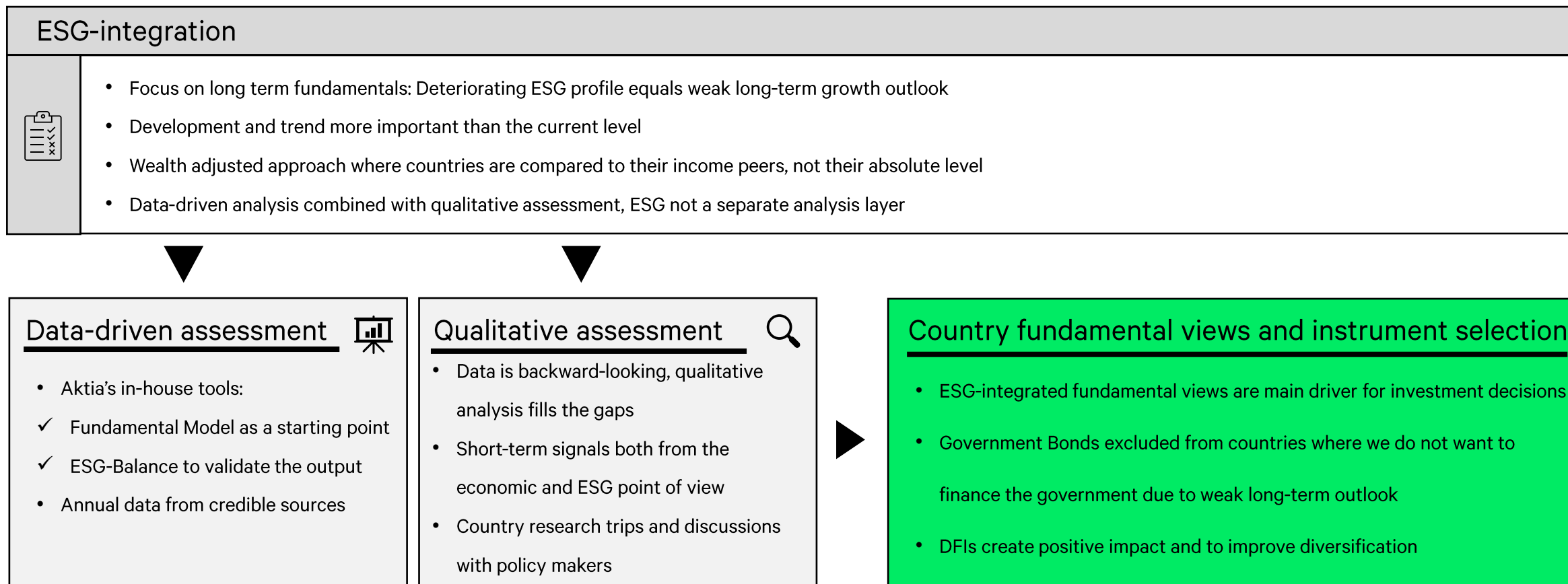
Quantitative Analysis

In-house Fundamental data model



ESG Integrated in the Long-Term Fundamental Analysis

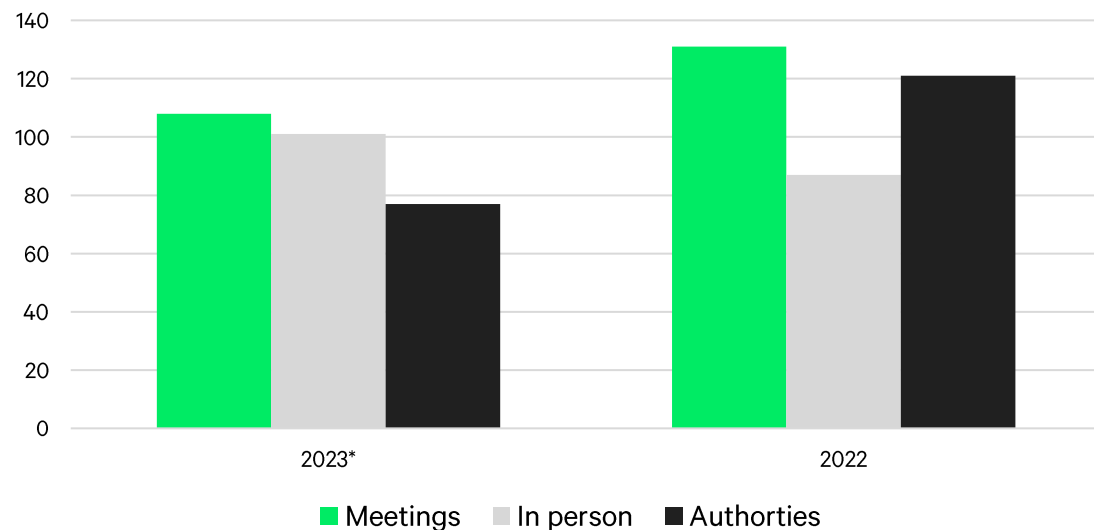
Investment process overview



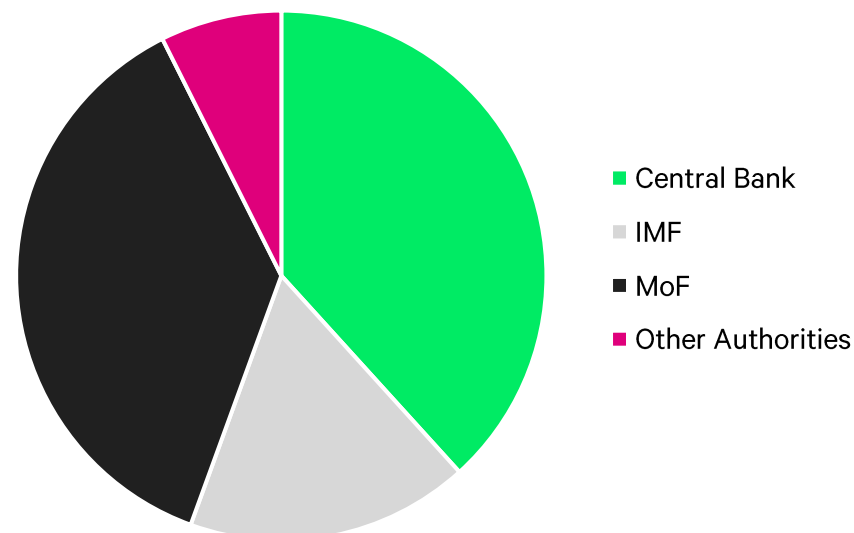
Meetings with Authorities are a Key Part of Qualitative Research

- Discussions with policymakers give valuable insight on fundamentals and development trends
- Opportunity to get informal information on both politics and economic developments
- Possibility to engage in important topics such as transparency, corruption and climate

Meetings during the year



2023 Meetings with authorities



Aktia EM Local Currency Frontier Strategy

Local Currency Frontier as an Asset Class

Attractive risk-reward profile due to low volatility and high running yield

Aktia EMD

Long track of investing in LC Frontier markets and expertise in countries that are overlooked by other investors. Focus on economically, socially and politically improving countries.

Investment process

Aktia's Traffic Light Approach: Tools, research and trading done by the team, giving an enhanced view on the countries, pricing and market movements.

Investment thesis

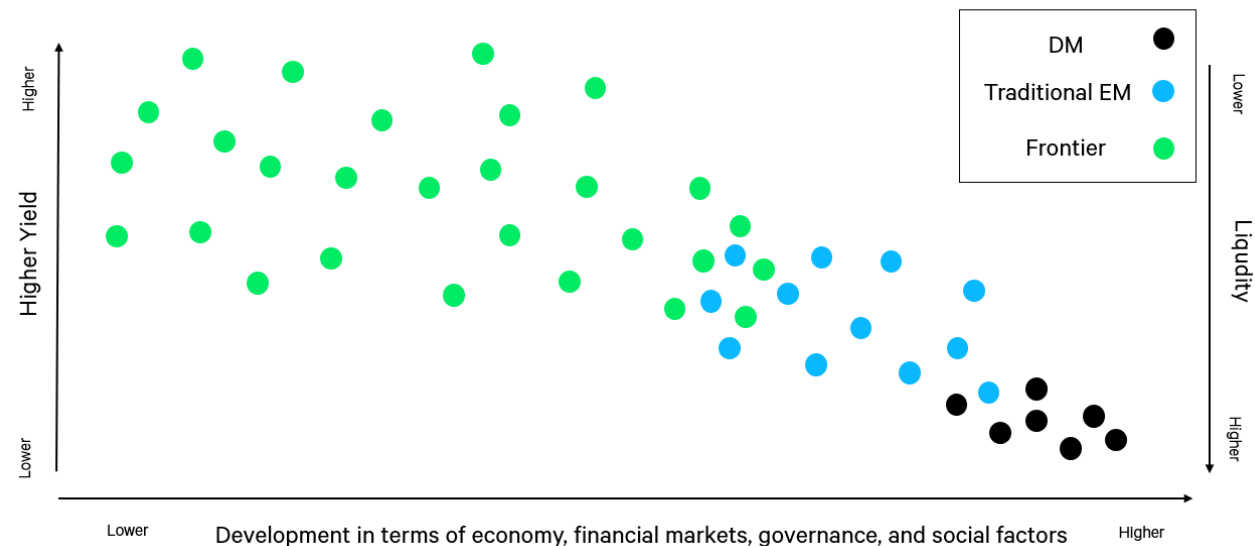
High and stable carry that offsets weakening trend of FX, a well-diversified portfolio without benchmark restrictions. Government bonds, FX derivatives and DFI bonds.

Benchmark agnostic

No benchmark restrictions, provides freedom to ignore countries that do not meet our investment criteria's due to ESG reasons.

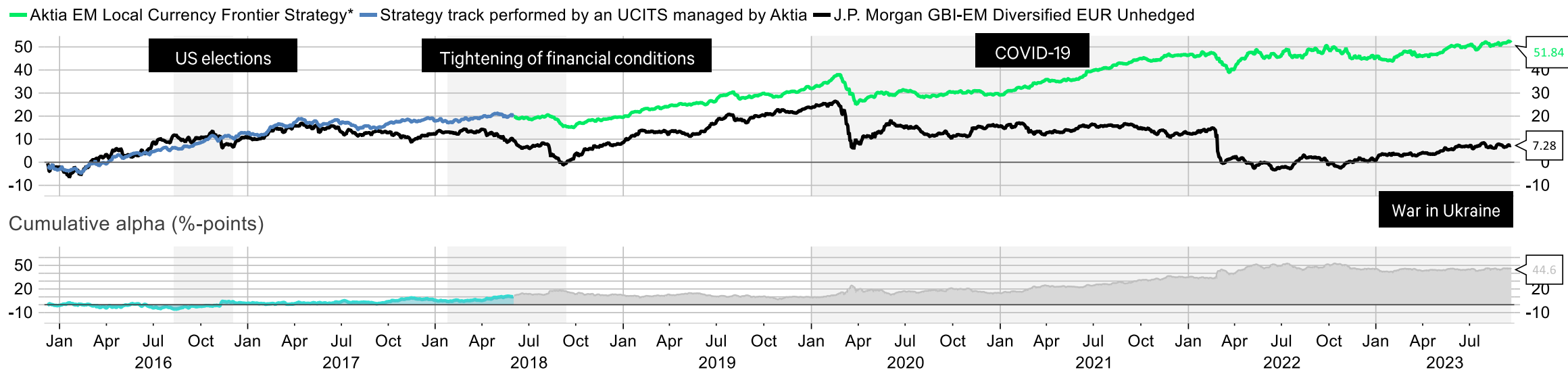
Lower beta

Focus on less liquid markets with lower foreign participation, which lowers volatility and correlation to other markets. Excellent tool for diversification.



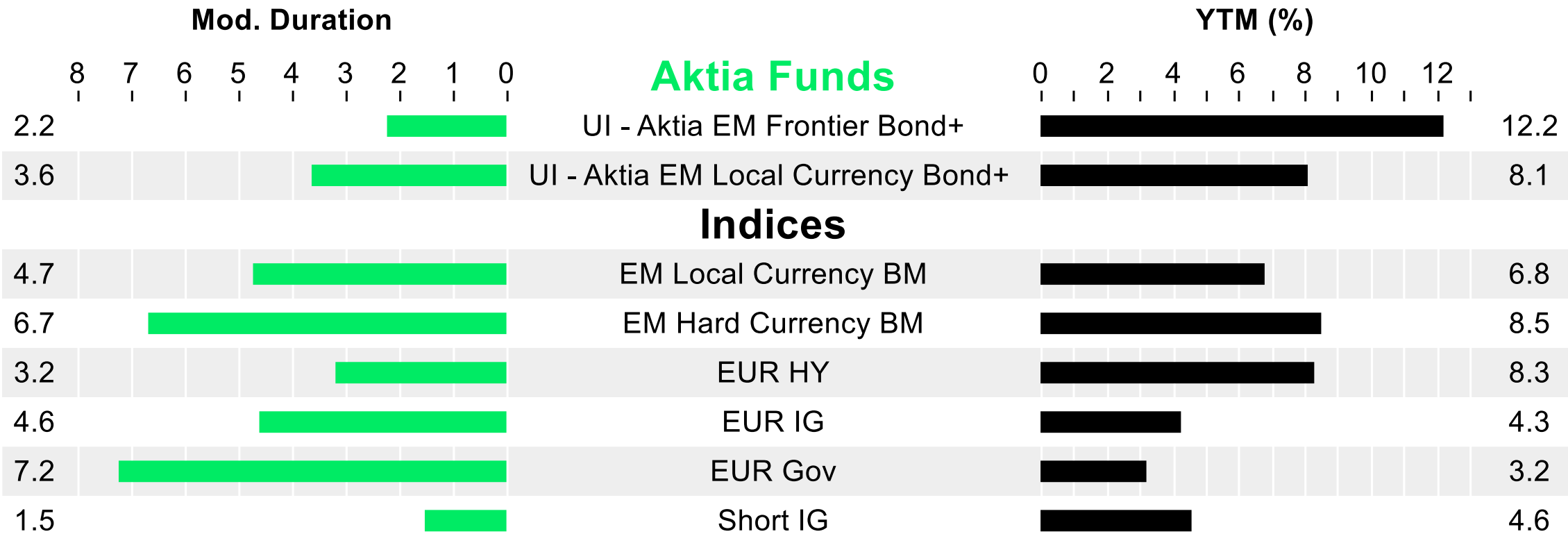
Strategy's Long-Term Performance Against the Benchmark

- The long-term performance of the strategy is based on an analysis of countries' long-term development potential, where we aim to find countries with improving fundamentals over the long term.
- Strategy will underperform in a market environment that is driven by strong positive inflows. The fund has been typically defensive in times of high global uncertainty, as now. According to the strategy's history, negative rolling returns for 12-month period are expected to be relatively uncommon compared to its benchmark.



Sources Aktia and Macrobond,
Updated: 21/09/2023

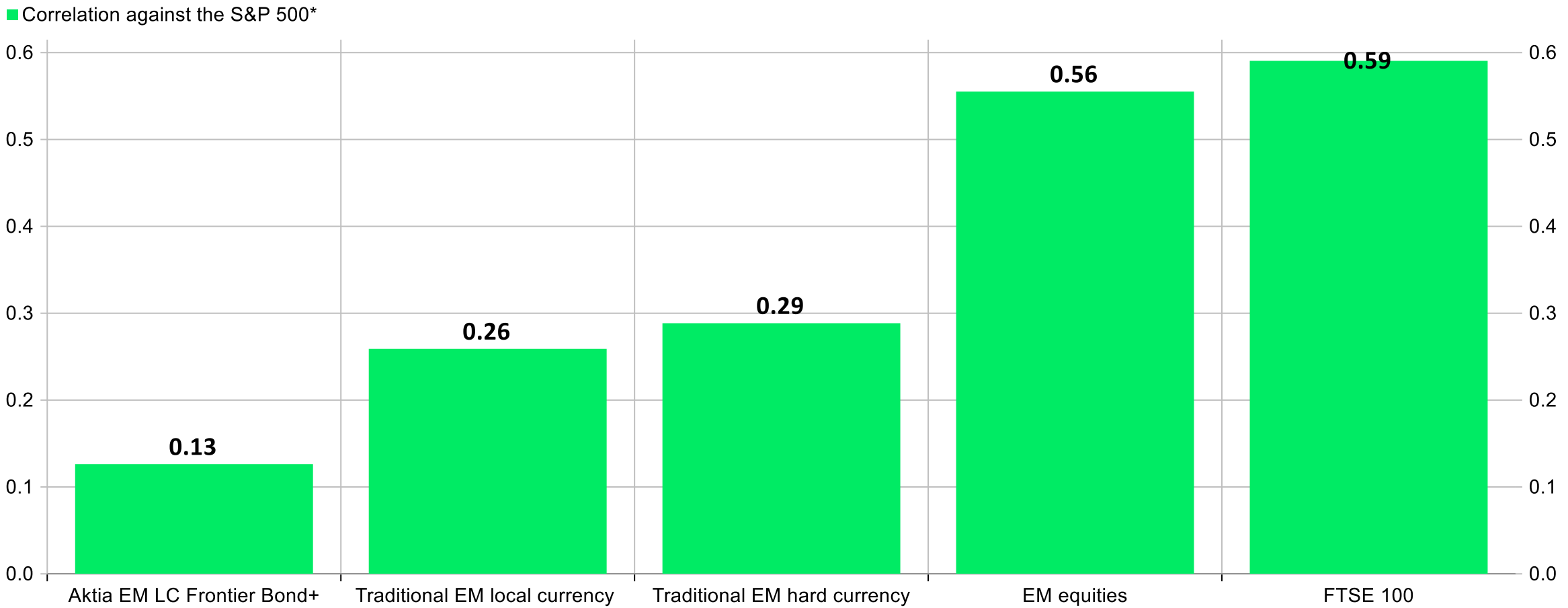
Lower Modified Duration and Higher YTM Than Most Indices



Aktia and Macrobond

Low Correlation to Other Global Assets Due to Idiosyncratic Drivers

Aktia EM Local Currency Frontier Strategy

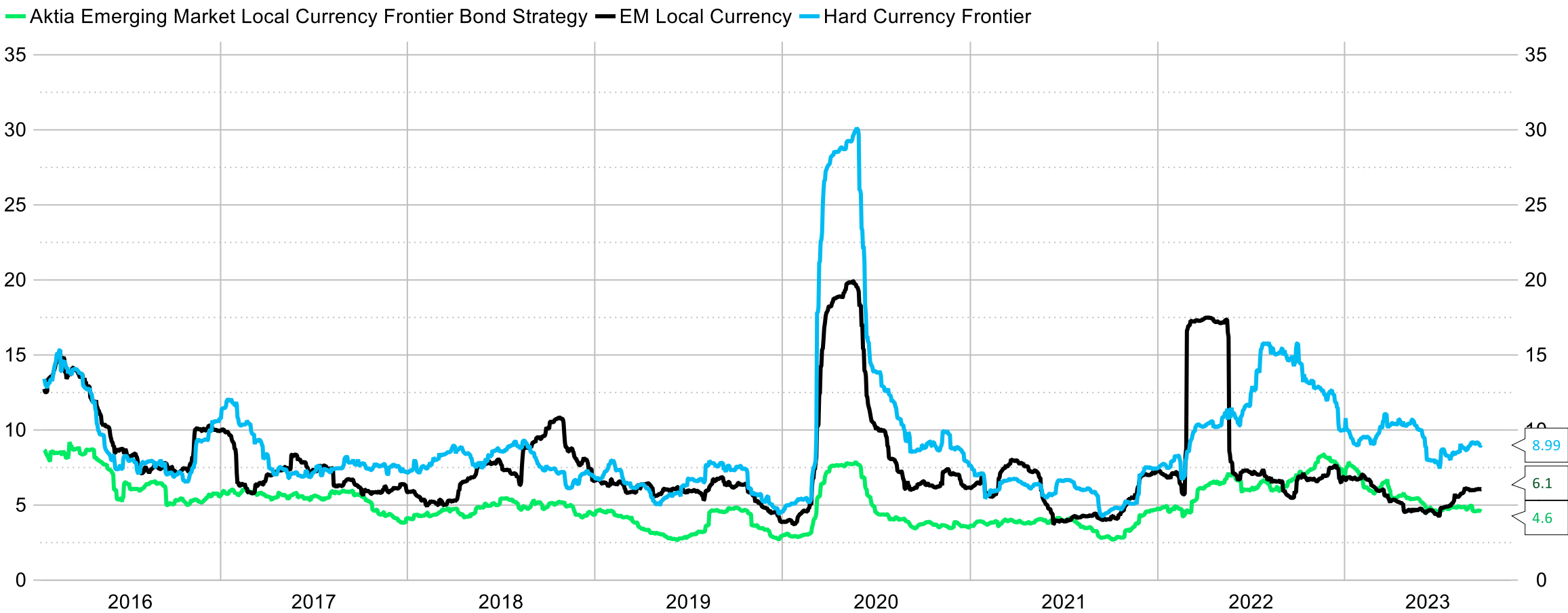


Source: Aktia and Macrobond

*Monthly averages over last 5Y

Lower Volatility Than in Other EMD Markets

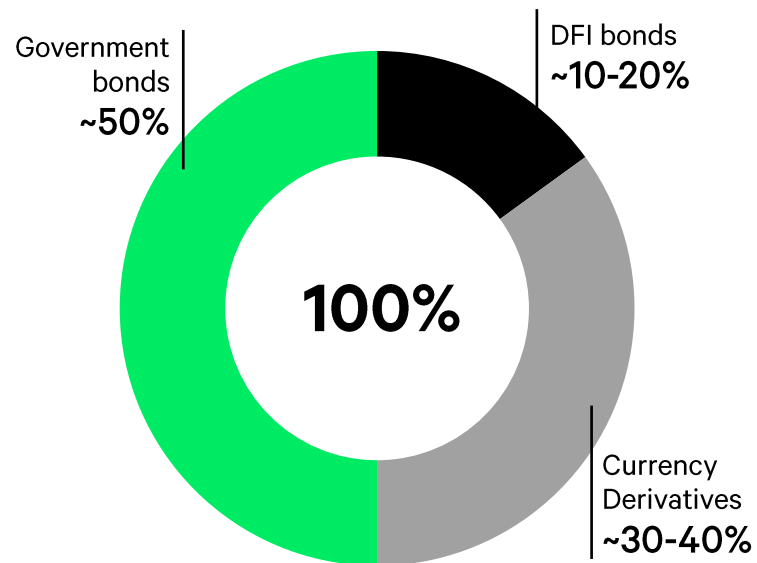
3M realized volatility (%)



Sources: Aktia and Macrobond

Investment Process Overview

Aktia EM Local Currency Frontier Strategy: Portfolio construction



Currency Derivatives

- Typical maturity range 0-1 years
- Typical average maturity 6 months
- Typical yield level 5-15 %

- Increased liquidity and no government exposure
- Provide access to markets without functioning bond markets

DFI bonds issued by AAA rated Supranationals & Agencies

- Typical maturity range 0-5 years
- Typical average maturity 3 years
- Typical yield around 10 %

- Provide exposure to markets without functioning markets
- Provides opportunity to create positive impact
- Only FX risk and AAA rated counterparty risk

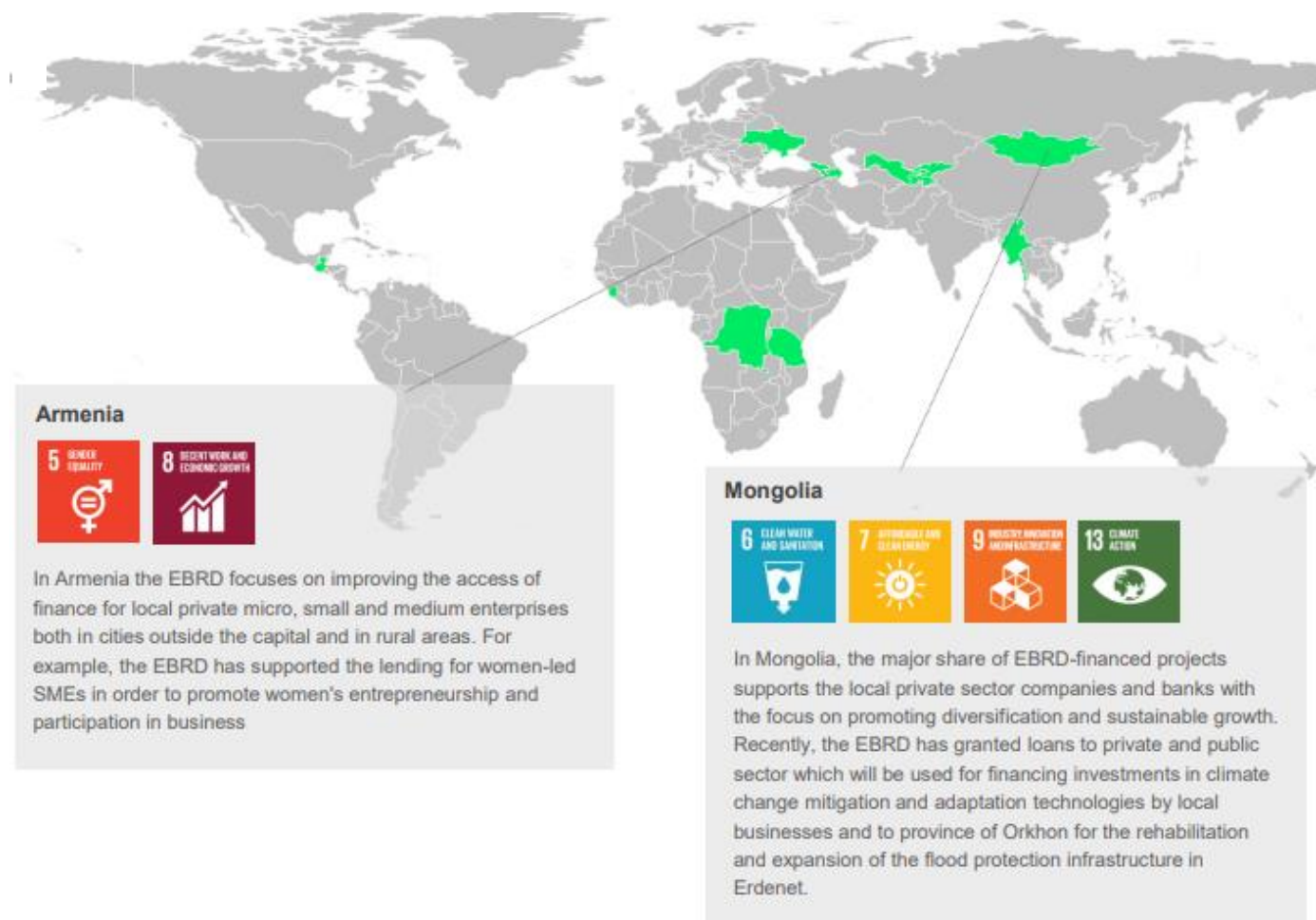
Government bonds

- Typical maturity range 0-20 years
- Typical average maturity 10 years
- Typical yield range 5-20 %

Aktia EMD and DFIs

Overview of our investments in the Frontier Strategy

- We have a long history of cooperating with Development Financial Institutions
- DFIs want to hedge their FX risk
- We want to invest into the local currency, as such the only exposure we have is to the FX and AAA-rated DFIs. No project specific risk.
- Since the inception of the Frontier Strategy we have done investments in 30 countries and in c.100 instruments
- Since inception, the total size of investments in the Frontier strategy amount to almost EUR 1 billion



UI – Aktia EM Frontier Bond+

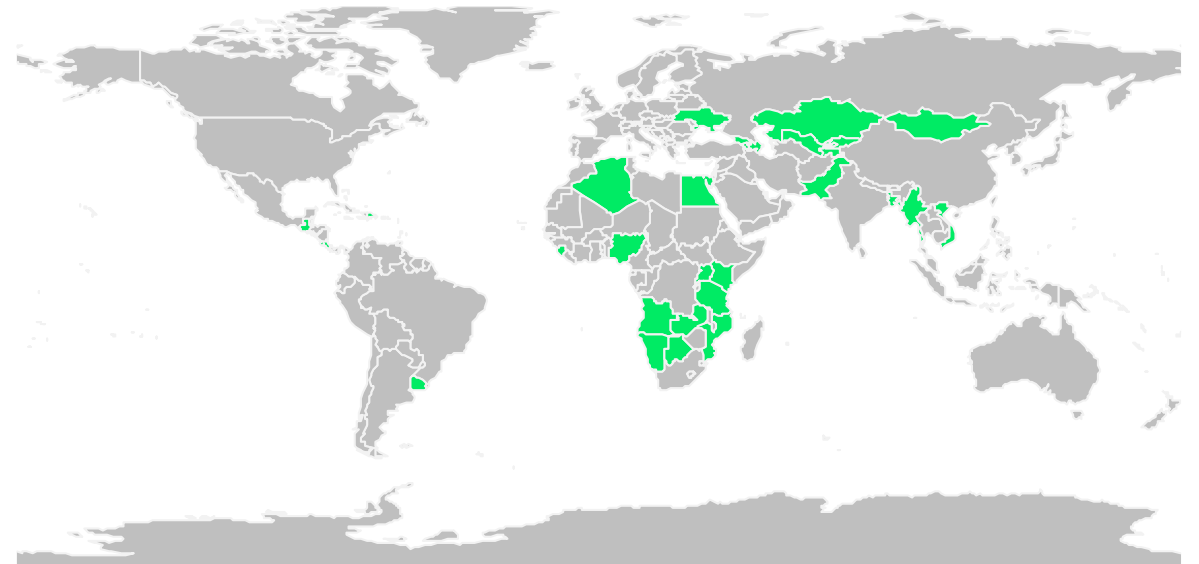
Portfolio Characteristics

	YTM	Mod. duraation	Countries	AUM (EUR)	Government bonds	FX derivatives	DFI	Cash	Mid. Rating
Fund	12.2%	2.1	31	831 million	41.2%	33.0%	21.2%	4.6%	A
Benchmark	6.8%	4.7	16	-	100.0%	0.0%	0.0%	0.0%	BBB

AAA	21.2%
AA	0.0%
A	33.3%
BBB	12.8%
IG	64.9%
BB	12.0%
B	16.4%
CCC	0.0%
CC	0.0%
C	0.0%
D	0.0%
HY	28.4%

Top Country Exposure	
Kazakhstan	9.0%
Uzbekistan	8.8%
Uruguay	8.2%
Uganda	7.4%
Dominican Republic	7.2%
Maturity Buckets	
< 1 y	49.3%
1 - 2 y	15.1%
2 - 5 y	9.2%
5 - 10 y	15.3%
> 10 y	6.8%

Currency Exposure



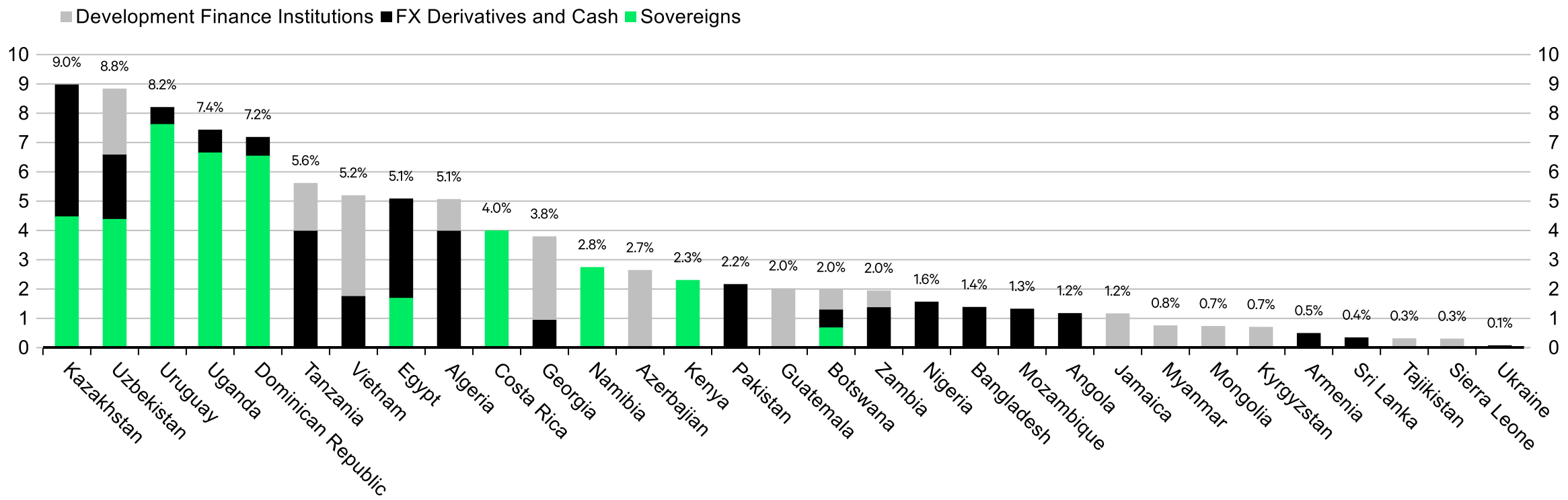
Appendix

An abstract background graphic on the right side of the slide. It consists of numerous thin, curved lines that sweep upwards and to the right, creating a sense of motion and depth. The lines are primarily dark gray, with a single, prominent bright green line that stands out near the bottom right corner.

Portfolio by Risk Country/Currency and Instrument Type

Aktia EM Local Currency Frontier Strategy

- Higher conviction allocation done through government bond investments
- Investments in smaller and less liquid markets through FX and DFI investments
- Soft limit of 10% per currency



Key Information of UI-Aktia EM Frontier Bond+

Aktia EM Local Currency Frontier Strategy.

Key information	
Launch Date	16.11.2017**
Countries in investment universe	132
Investment guidelines	Only local currency instruments
	Max 10 % issuer
	Max 10 % per currency
	No off-benchmark exposure limits
	No tracking error limits
	No stop-loss limits
FI Instruments used	Government cash bonds and T-bills, DFI issued AAA rated bonds
FX Instruments used	Forwards, NDFs

Key Figures		Benchmark Index
YTM	12.2%	6.8%
Duration	2.2	4.7
Countries in allocation	31	16
Alpha since inception p.a. (gross)*	3.8%	-
Volatility*	5.9%	6.0%
Tracking error*	6.8%	-
Average rating	BBB	BBB

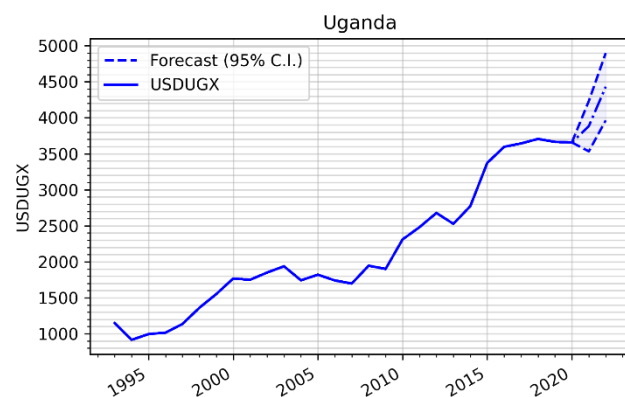
** Strategy launch 2015 (Finnish domiciled)

*UI-Aktia EM Frontier Bond+ I

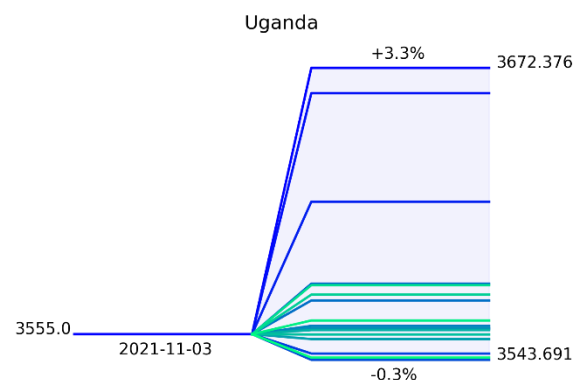
FX Models in a Nutshell

Case study of Uganda: risks surrounding UGX are rather balanced, or slightly tilted towards depreciation.

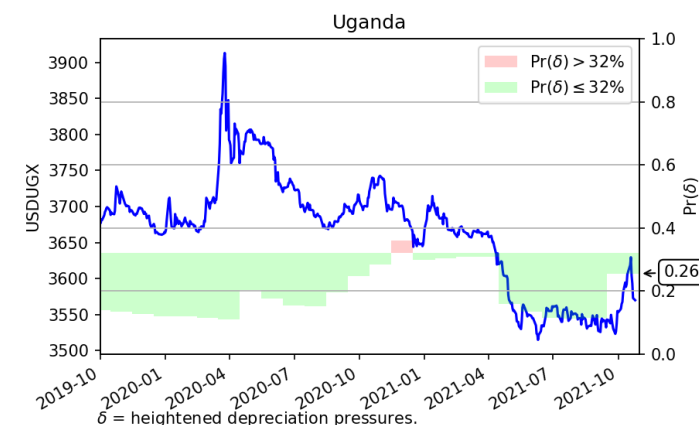
- **FAVAR:**
- Uses IMF data on macroeconomic aggregates and exchange rates to generate FX forecasts.
- Typically these types of models are used by central banks to model inflation and output.
- Here it has been adapted to model FX dynamics.
- **Analysis:** joint macroeconomic dynamics point towards the Ugandan shilling depreciating. Short term valuation gap $\approx 8\%$ above spot.



- **REER:**
- Provides insights into a currency's relative strength with respect to its historical REER values.
- REER models typically use arbitrarily selected time intervals to calculate the average REER, such as five or 10 years.
- Here different lengths are used (green=longest*, blue=shortest**).
- **Analysis:** the Ugandan shilling is close to fair value. Fair value $\approx 1\%$ above spot.



- **EWS:**
- Uses FX reserves, external loans, GDP growth, trade balance, and REER as variables to model periods of heightened external vulnerability.
- The output yields a probability of heightened risk.
- The cut-off threshold signifies the "average probability" for a specific country.
- **Analysis:** pressures facing the Ugandan shilling are balanced, although risks have slightly increased during the past months.



* At max, since 2000.

** At min, five years.

Disclaimer

This presentation is produced by Aktia Bank plc (“Aktia”) for investors. The information has been collected from available public sources, considered by Aktia to be trustworthy. However, Aktia cannot guarantee that the information is correct or all-inclusive. The presentation is meant as a tool, among others, to help the investor to make decisions. The investor’s investment decision is his own, and it should always be founded on information and analyses that the investor himself deems to be sufficient. The investor should observe that there may be swift changes on the market, affecting this presentation. Aktia, its subsidiaries and associated companies, co-operation partners, or employees of said companies are not responsible for direct or indirect losses or damage caused by the use of this presentation, or parts of it, in investment operations. The presentation is meant to be shown in conjunction to a spoken presentation, and it should not be used without the presentation. The contents of this presentation is aimed for the target group it was presented to, and it shall not be made available to any other recipients. Copying or quoting the presentation, or parts of it, is not allowed without the permission of Aktia.

Investments always involve financial risks. The customer bears the responsibility for the financial impact of his investment decisions. The investment may fail to yield a profit, or the invested capital may even be lost. The customer may be debited the costs for financial services irrespective of the investment results. It is always advisable to study the investment market and alternative investments in detail before making the decision to invest. Aktia cannot give assurance to the materialisation of the expected yield presented. The information is based on assumptions based on the historic yield from different financial instruments, but it is no guarantee for future development of yield or value. This presentation is part of Aktia’s marketing material, and therefore not necessary put together in accordance with the rules for independent investment analysis. Trade restrictions concerning investment analysis is not applied on the financial instruments presented. This presentation is not based on the customer’s individual data, and it is not intended to be investment advice. The aim is to present the financial instruments, and their characteristics, included in the quotation. We would be happy to set a date for preparation of an individual investor profile and to give you individual investment advice. The customer may be obliged also to pay taxes and official charges other than those debited by Aktia. The customer should be aware that investments and investment property are subject to taxation, the impact of which was not necessarily taken into consideration in this presentation. Future performance is subject to taxation which depends on the personal situation of each investor, and which may change in the future. The customer is responsible for the gathering of necessary information regarding taxation of his investments and his decisions concerning these.

Aktia