**Market/Economic Update**
The JP Morgan EMBI Global Core Index (the “Index”) tracks liquid, USD emerging market fixed and floating-rate debt instruments issued by sovereign and quasi-sovereign entities. The diversification methodology limits the weights of the larger countries in the Index by only including a specified portion of those countries’ eligible current face amounts of debt outstanding, thus providing a more even distribution of weights across the countries in the Index.

**Portfolio Performance and Positioning**
Security selection in Africa (i.e. Growthpoint Properties of South Africa) and shorter maturity investments in Senegal sovereign positively contributed to the Fund’s performance. During the period, the ETF made the tactical investment on Brazil’s JBS (meat packer) as the spread of African Swine Fever (ASF) in China could lead to an increase in demand for beef proteins from South American suppliers.

Argentina was the main negative contributor to the portfolio. We will wait until October 27 to see the result of the presidential election. Macri and Cambiemos’ chance of winning is not over yet, if they are able to win that election, we expect a massive rally in those bonds. If not, the worst is probably already priced in, but we will probably sell all our holdings of Argentina if Fernandez wins, unless he gives more clarity about his intentions regarding his economic plan.

At the beginning of July, JP Morgan announced its intention to “gradually wind down the weighting assigned to bonds issued by Venezuela and state oil company PDVSA to zero over a five-month period beginning at the end of the month” in its popular EMBI indices. In short, Venezuelan bonds’ weight in the index will be reduced and will, for all intents and purposes, be totally excluded from the Index in five months’ time.

The ETF didn’t own any Venezuelan debt, which was a positive for the ETF early in the quarter. We favour Brazil as we think the new administration will be able to deliver in terms of pension reform, which should be supportive for bonds. We also like Mexico as the new administration is fiscally prudent. On the other hand, we think that China and Russia are expensive.

**Outlook**
We expect the global growth momentum to continue to deteriorate as the weakness in manufacturing activity will likely spread to the service sectors. Emerging markets, which has been slowing since early 2018, is expected to show signs of stabilization on the back of stimulus efforts by China’s monetary easing policy while the U.S. economy, until most recently, maintained solid growth momentum, but is expected to be impacted by the global slowdown. Consequently, we expect the regional growth differential between U.S. and non-U.S. regions to narrow and the backdrop for emerging markets to be mixed. The financial market, which has been resilient on the back of synchronous global policy easing, may not be resilient as the market starts to doubt whether monetary policy is sufficient enough to reflate the global economy, especially when some high ranking officials in Europe criticizes the ECB’s negative yield and QE policy. Together with weakening global growth activity, slowing U.S. economy and a rise in volatility in the rates market, we expect the volatility to rise in general credit markets, which should also raise the volatility in the EM sovereign markets.

The ETF’s strategy heading into Q4 is to position conservatively for the expected rise in volatility in the credit markets including emerging markets sovereign markets. We plan to shorten the Fund’s overall duration and reduce beta exposure however seek opportunities when any sell-offs occur.