BARINGS

A constructive view on Emerging Markets Debt

September 2016

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BISLDCLS\PUBLIC\SALES-MARKETING\HIDDEN-LABELS

Why Emerging Markets Debt, Why Now?

- Emerging Markets are now responsible for greater than 50% of global GDP, up from 31% in 1980
- Many have strong institutions akin to developed markets
- Floating currencies enable countries to make adjustments
- Trade has shifted from regional to global
- Some of the largest companies are from emerging market countries

Why Now

- Positive global growth and low inflation
- Improved data out of China
- Trade volume and capital flows are supportive of stable / stronger currencies
- Accommodative monetary policy
- Lower commodity prices – benefiting EM energy importers

Source: Bloomberg, as of September 7, 2016.

Barings' Views

US Fed	**Neutral**	The first interest rate hike took place in December 2015, and we believe the normalization path will be gradual and strongly dependent on US labor data. EM has become less dependent on portfolio flows and it is therefore less exposed to a gentle normalization of US interest rates.
ECB	**Positive**	In Europe, monetary policy is expected to remain accommodative. In March, Mario Draghi communicated the expansion of the QE program and further interest rate cuts, to act against lower inflation and lower growth. The quantitative easing program is on track.
Global Trade	**Neutral**	Global GDP growth dropped to around 3%[1] in 2015, and a gradual strengthening is expected in 2016 / 2017. Global trade volume growth is positive.
China	**Neutral/ Negative**	China growth continues to slow down during the transformation period as the Chinese economy shifts from the traditional manufacturing / industrial focus to a more service oriented economy. The Chinese authorities have the means and the will to keep growth from decelerating too sharply.
Commodities	**Neutral**	Lower oil and weaker metals prices have put EM commodities producers under pressure. Aggregate industrial production growth is at the weakest level in the last 15 years, and there are few signs of lower oil prices stimulating the EM's industrial sector. Commodity producing countries have adjusted and commodity importing countries are benefiting.
EM FX	**Positive**	While EM currency depreciation has driven underperformance of EM local debt over the past three years, currency valuations now appear cheap relative to the product mix of their exports. Smaller financing needs by Emerging Market countries and still loose global financial conditions should result in some currency appreciation.
Portfolio Flows[2]	**Neutral/ Positive**	EM Fixed Income cumulative fund flows rebounded significantly to +$32.6 billion through September 15, 2016.
Defaults[3]	**Neutral**	During 2015, 28 debt securities across 19 EM Corporate issuers, with a total value of $10 billion defaulted. In 2016, through August, 29 debt securities, across 13 issuers, with a total value of $15.4 billion have defaulted. Although default rates are at high levels (3.8% YTD), they remain within market expectations.
EM Corp. Technicals	**Positive**	Supportive technicals: YTD new issuance has picked up slightly over 2015 (+8% YoY), however it is not expected to increase significantly for the remainder of 2016; buyback activity should keep net supply low and provide support to the asset class.

Outlook

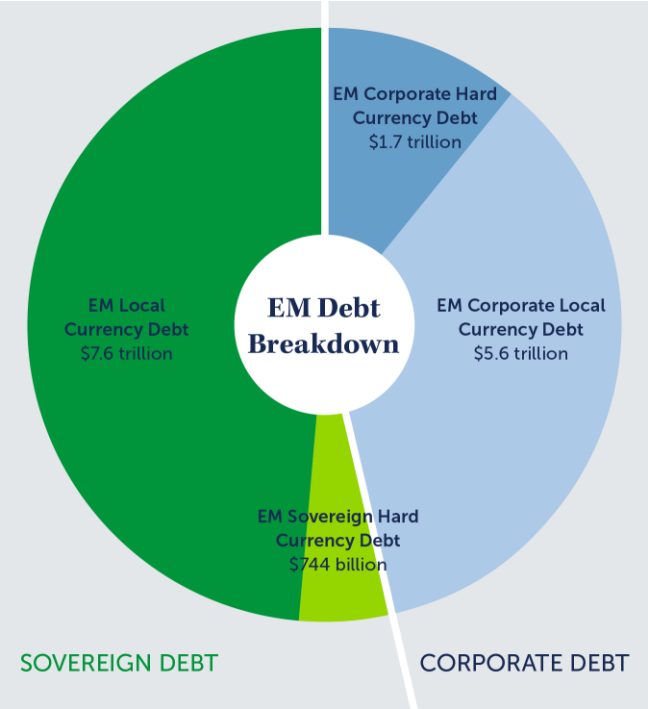
Hard currency	Corporate	Neutral
	Sovereign	Neutral
Local currency	FX	Positive
	Rates	Positive

[1] Source: OECD Economic Outlook, November 2015 [2] Source: JP Morgan as of September 14, 2016 [3] Source; Bank of America as of August 31, 2016

The above information and forward looking statements represents Barings' view as of September 2016 and is subject to change without notice.

Emerging Markets Debt An Overview to Investment Opportunities

Currently $15.6 trillion, exceeding global investment grade and global high yield



Global Fixed Income Market Size*

	2015 ($TRILLION)	GROWTH SINCE 2007
Emerging Markets Debt	15.6	107%
Mortgages / Securitized Debt	12.0	-10%
Global Investment Grade Corp.	7.8	79%
Global High Yield	3.8	47%

*DOES NOT INCLUDE DEVELOPED MARKET SOVEREIGN DEBT.
SOURCE: *SIFMA; BANK OF AMERICA MERRILL LYNCH; BARCLAYS; CREDIT SUISSE.*
AS OF OCTOBER 31, 2015.

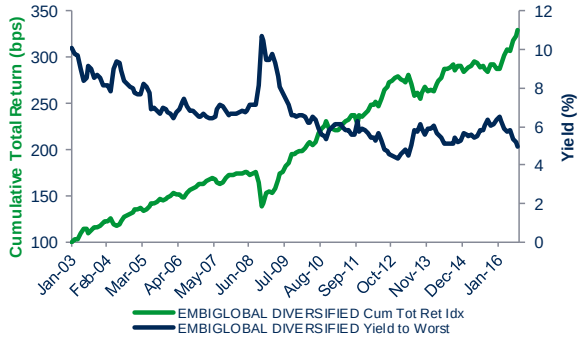
Source: J.P. Morgan; Barings estimates, as of December 31, 2015.

Sovereign Hard Currency Debt

- Sovereign hard currency bonds are typically denominated in U.S. dollars or euros, “hard currencies”
- Perceived to be relatively stable given investors are not directly exposed to the currencies of the countries in which they invest
- Historically, this has helped draw investors to the asset class because it provides a potential buffer against some of the risks and instability inherent in developing markets
- Sovereign debt also includes quasi-sovereign companies that are wholly owned by emerging market governments, examples:
  - PEMEX in Mexico
  - ESKOM in South Africa

J.P. Morgan EMBI Global Diversified

Number of Countries	66
Net Asset Value ($USD Billions)	455
Number of Issuers	142
Weighted Average Rating	Ba1 / BB+
Yield	4.82%
Duration	6.8 years
Spread	346

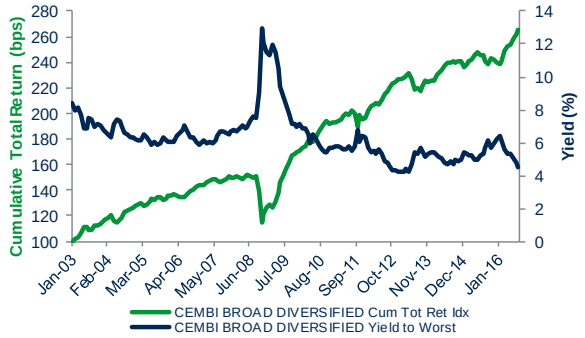


Source: Bloomberg, as of September 7, 2016.

Corporate Debt

- Corporate bonds are issued by domestic and multinational companies from EM regions
- EM corporate local currency bonds are denominated in the issuing company's domestic currency.
  - The corporate local debt market, with $5.6 trillion in outstanding bonds, has experienced tremendous growth in the last decade
- EM corporate hard currency bonds are typically issued in U.S. dollars or euros
  - The corporate hard currency debt market has approximately $1.7 trillion in outstanding bonds, a high proportion of which are investment grade-rated (63%)
  - Examples of EM corporate issuers:
    - China Petroleum & Chemical (Sinopec), South Korea's Samsung Electronics and Mexico's CEMEX

J.P. Morgan CEMBI Broad Diversified	
Number of Countries	50
Net Asset Value ($USD Billions)	397
Number of Issuers	504
Weighted Average Rating	Baa2 / BBB
Yield	4.53%
Duration	4.7 years
Spread	321



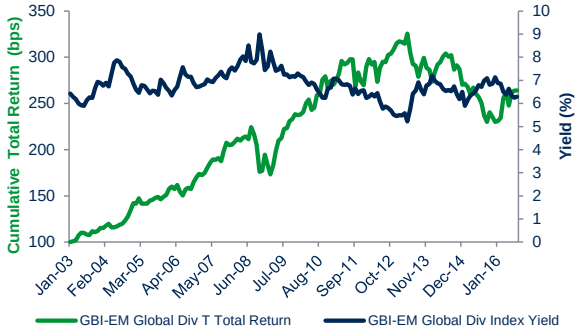
Source: Bloomberg, as of September 7, 2016.

Local Currency Debt (Sovereign)

- Local currency bonds are issued by EM governments and denominated in the issuing country's domestic currency
- Many local bond markets are open to foreigners, enabling foreign investors to invest in both a market's interest rates and currencies
- Due to its inherent currency risk and exposure to local financial policies, local currency debt typically offers higher yields than both corporate and sovereign hard currency bonds
- Local currency debt, with $7.6 trillion in outstanding bonds, is now significantly larger than the $744 billion sovereign hard currency debt market

J.P. Morgan GBI-EM Global Diversified

Number of Countries	15
Net Asset Value ($USD Billions)	715
Number of Issuers	15
Weighted Average Rating	Baa2 / BBB
Yield	6.04%
Duration	4.99 years

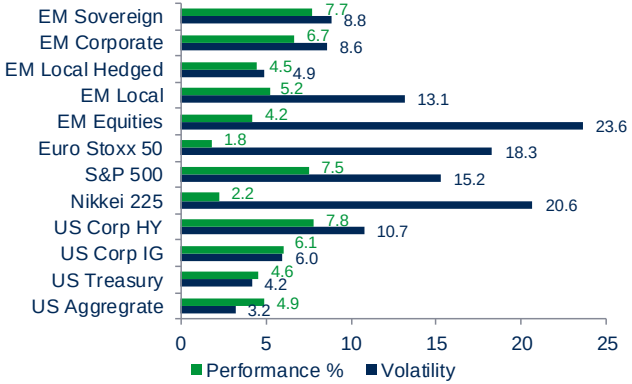


Source: Bloomberg, as of September 7, 2016.

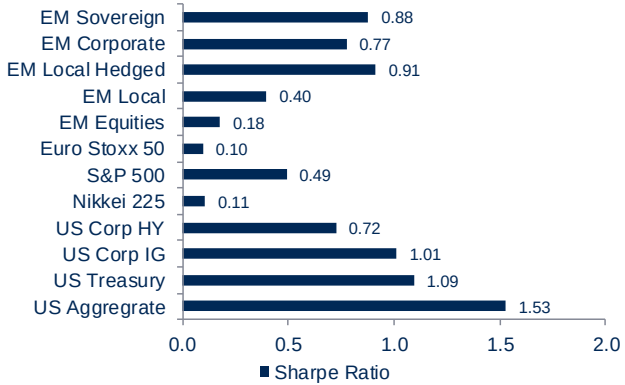
Asset Class Returns and Risk

EM strategies can generate equity type returns with better return-to-risk ratios

10 Year Returns and Volatility



10 Sharpe Ratio



EM strategies can offer diversification opportunities for Asian investors

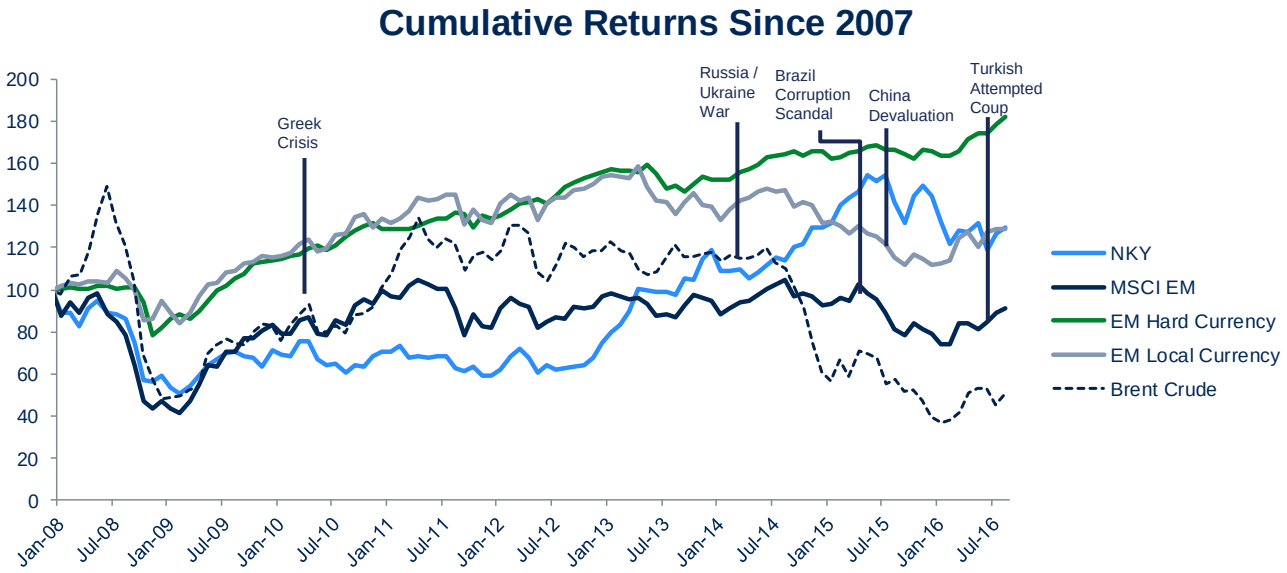
	US Aggregate	US Treasury	US Corp IG	US Corp HY	Nikkei 225	S&P 500	Euro Stoxx 50	EM Equities	EM Local	EM Local Hedged	EM Corporate	EM Sovereign
US Aggregate	1.00	0.84	0.80	0.23	-0.11	0.03	0.00	0.17	0.41	0.65	0.51	0.58
US Treasury	0.84	1.00	0.40	-0.28	-0.39	-0.32	-0.33	-0.22	0.08	0.41	0.07	0.16
US Corp IG	0.80	0.40	1.00	0.63	0.26	0.35	0.33	0.50	0.58	0.65	0.78	0.78
US Corp HY	0.23	-0.28	0.63	1.00	0.55	0.73	0.66	0.76	0.65	0.46	0.78	0.78
Nikkei 225	-0.11	-0.39	0.26	0.55	1.00	0.70	0.70	0.61	0.43	0.26	0.51	0.43
S&P 500	0.03	-0.32	0.35	0.73	0.70	1.00	0.84	0.79	0.65	0.39	0.62	0.60
Euro Stoxx 50	0.00	-0.33	0.33	0.66	0.70	0.84	1.00	0.70	0.53	0.36	0.54	0.52
EM Equities	0.17	-0.22	0.50	0.76	0.61	0.79	0.70	1.00	0.83	0.51	0.72	0.72
EM Local	0.41	0.08	0.58	0.65	0.43	0.65	0.53	0.83	1.00	0.79	0.72	0.81
EM Local Hedged	0.65	0.41	0.65	0.46	0.26	0.39	0.36	0.51	0.79	1.00	0.61	0.74
EM Corporate	0.51	0.07	0.78	0.78	0.51	0.62	0.54	0.72	0.72	0.61	1.00	0.93
EM Sovereign	0.58	0.16	0.78	0.78	0.43	0.60	0.52	0.72	0.81	0.74	0.93	1.00
	Bloomberg/Barclays US Aggregate	Bloomberg / Barclays US Treasury	Bloomberg / Barclays US Corporate Investment Grade	Bloomberg / Barclays US Corporate High Yield	Nikkei 225	S&P 500	Euro Stoxx 50	MSCI Emerging Markets	JP Morgan GBI EM Global Diversified	JP Morgan GBI EM Global Diversified (Currency Hedged)	JP Morgan CEMBI Broad Diversified	JP Morgan EMBI Global Diversified

Source: Bloomberg, Barings as of September 7, 2016.

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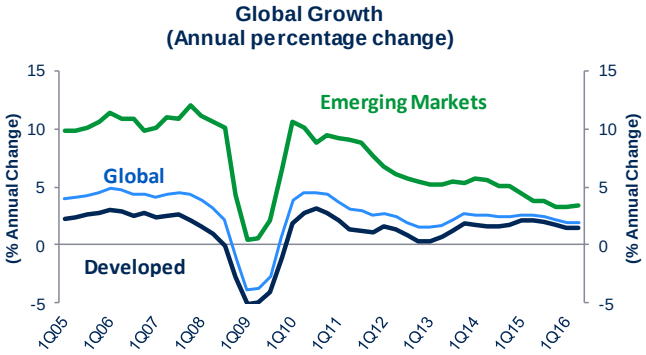
Emerging Market Index Returns and Headline News

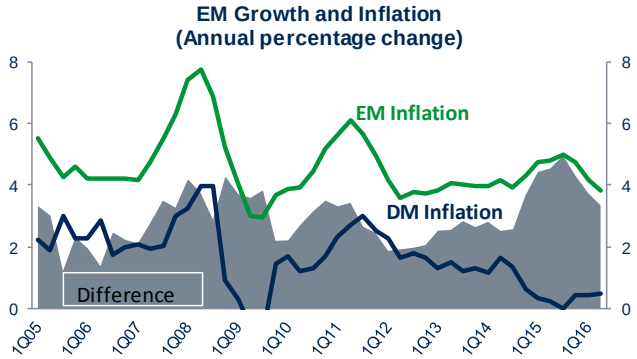
EM strategies can generate equity type returns with better return-to-risk ratios

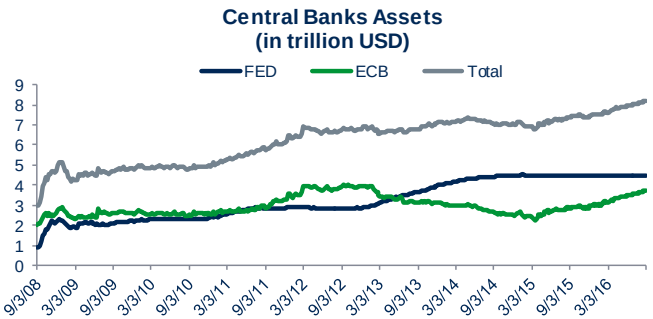


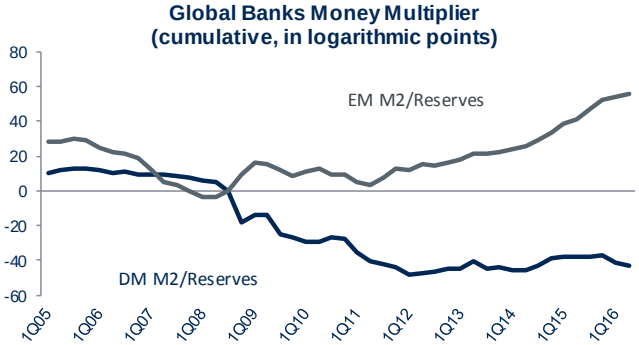
Source: Bloomberg, as of September 7, 2016.
EM Hard Currency returns is the average return of the J.P. Morgan CEMBI Broad Diversified and J.P. Morgan EMBI Global Diversified indices.

Macroeconomic Backdrop





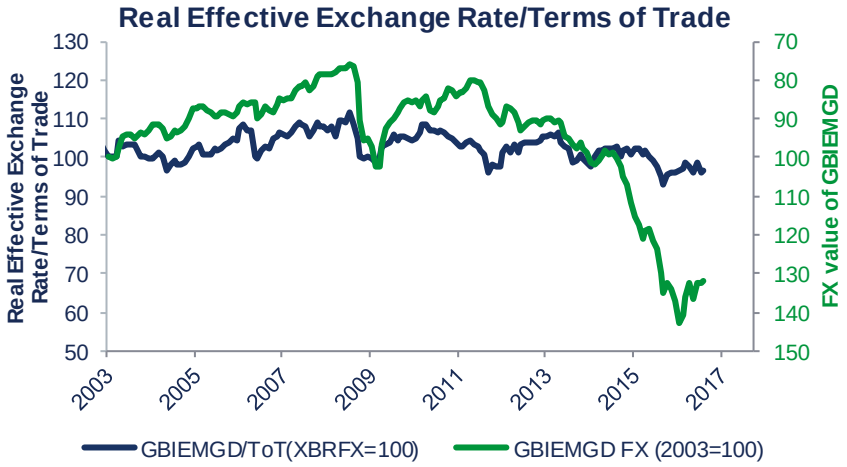




Source: Bloomberg Professional, Haver and Barings

Source: As of August 31, 2016.

Macroeconomic Backdrop



Source: Haver Analytics, J.P. Morgan, Barings LLC, as of August 31, 2016.

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