



EMERGING MARKET CORPORATE DEBT

OPPORTUNITY

A structural investment opportunity in EM corporate debt: The emerging market (EM) corporate debt market has now surpassed \$2trn¹. The universe is diverse, with a rapidly growing number of issuers, and over 60% of outstanding debt is rated investment grade. Although the majority of issuance is in US dollars, market inefficiencies mean that yields are generally higher than for comparable developed market credits, presenting potential opportunity for alpha generation.

A systematic process, generating attractive outperformance: The strategy takes a total return approach, dynamically allocating across the EM corporate high yield and investment grade spectrum, with active management through the interest rate and credit cycle. Securities are selected utilizing Insight's rigorous credit research process, drawing upon fundamental country evaluation to focus on those companies underpinned by stable or improving economic conditions in their core business markets. This has delivered attractive results over time².

Dedicated and highly-experienced team: The strategy is managed by a highly experienced team of EM investment specialists who are supported by eight fixed income traders and the broader fixed income investment team, which includes 48 credit specialists. The team has been managing EM corporate bonds as part of global and wider EM bond mandates since 2005 and launched its first dedicated corporate bond strategy/ solution in 2012.

SNAPSHOT

Strategy inception: January 2012

Strategy assets: \$1,107.9m³

Investment objective: A total return comprised of income and capital growth by investing in bonds and similar debt investments issued by companies listed or located in emerging markets

Quality profile: There is no minimum credit quality; although the average, over time, has typically been BBB

Information ratio: 0.76 (gross) 0.33 (net), annualized over three years²

Investment universe: Countries that can accurately be described as 'emerging' with a regulatory framework that enables investment and sufficient liquidity

Investment approach: Top-down approach, with bottom-up analysis of individual credits

Portfolio manager: Colm McDonagh, supported by four investment professionals

Portfolio manager industry and firm experience: 23 years of industry experience, ten years at Insight

Availability: Separate accounts

Strategy offered by: Insight North America LLC

¹Source: JP_Morgan as of November 2018.

²Past performance is not indicative of future results.

³As of March 31, 2019. Assets under management (AUM) are represented by the value of cash securities and other economic exposure managed for clients. Reflects the AUM of Insight. See footnote on page 3 for more information.

PERFORMANCE⁴



⁴Source: Insight as of March 31, 2019. Performance statistics for the emerging market corporate debt strategy are in USD and, unless otherwise specified, are net of 0.7% annual management charge. USD strategy inception: January 31, 2012 (USC0841). The quoted benchmark does not reflect deductions for fees, expenses or taxes. The benchmark is unmanaged and does not reflect actual trading. There could be material factors relevant to any such comparison such as differences in the volatility, and regulatory and legal restrictions between the index shown and the strategy.

Past performance is not a guide to future performance. Investment in this strategy involves substantial risk of loss. The value of investments and the income from them can fall as well as rise and are not guaranteed, investors may not get back the original amount invested. The performance results are shown both net and gross of investment management fees and reflect the reinvestment of dividends and other earnings. Gross performance results do not reflect the deduction of investment advisory fees; as such, clients' returns will be reduced by the investment advisory fees and other expenses. Please refer to the disclosures and index definition at the back of this document.

INVESTMENT PHILOSOPHY

At Insight we believe that:

- The best way to invest in emerging market corporates is to take a total return approach.
- Investing in EM credit needs global context. Insight's EM debt team and global credit analysts work collaboratively to capture the structural yield premium available in EM corporate debt relative to comparable developed market issues.

- Sovereign, credit and currency markets are inter-dependent and investment teams need the ability to combine investment analysis at both a country and corporate level. This enables the team to pinpoint the potential credit improvement of issuers in emerging countries which undertake reforms and make positive economic progress. It also allows them to avoid investing in countries where there is an economically regressive and deteriorating political outlook.

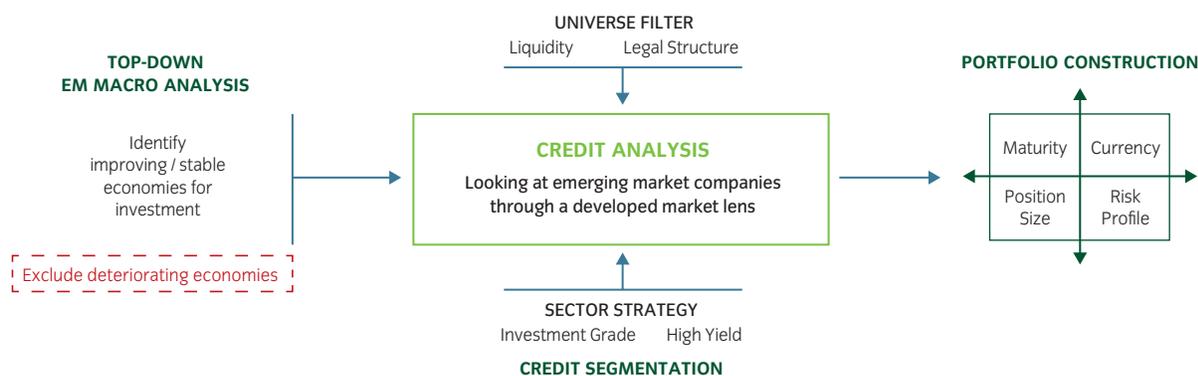
INVESTMENT PROCESS

The team follows a systematic and repeatable investment process. This combines top-down dynamic allocation between segments of the credit universe and bottom-up credit selection utilizing the firm's global credit analysts. There are five key components to the process:

- 1 Universe filter:** Identifies those credits which meet our criteria in terms of liquidity and legal structure and which merit further detailed analysis. Only those credits upon which we can conduct detailed financial analysis of the issuer are included for further consideration.
- 2 Country macro analysis:** Employs a scenario planning approach to identify improving or stable countries where we believe the economic backdrop will support business growth. Excludes companies whose business is meaningfully exposed to countries with an economically regressive and deteriorating political outlook.

- 3 Credit analysis:** Focuses on the blurring of lines between emerging and developed markets to undertake credit analysis on EM corporates through a developed market lens. Once ideas are identified, our credit analysts undertake a fundamental analysis of the company, examining balance sheets, income statements and model cash flow analysis under different stress scenarios.
- 4 Credit segmentation and sector strategy:** Utilizes inputs to assess strategic and tactical views for the EM corporate bond universe as a whole and for different segments of the universe (e.g. investment grade versus high yield).
- 5 Portfolio construction:** Translating our views to select the optimal instruments in terms of maturity, currency and size of holding that reflect our 'best ideas' with the aim of capturing the structural upside from investing in EM credit.

Figure 1: Emerging market corporate debt investment process



THE TEAM

- The emerging market investment team consists of five investment specialists, backed up by 48 credit analysts, a dedicated trading team and is supported by Insight's wider fixed income group.
- The team members have extensive experience in managing emerging market debt. They have invested across the spectrum of the asset class including government, corporate, local

currency and defaulted instruments, through different market cycles and major market events including the Asian financial crisis and the Russian and Argentinian debt defaults.

- Insight's global Fixed Income Group numbers 115 investment professionals, with an average industry experience of 17 years.

THE OPPORTUNITY IN EMERGING MARKET CORPORATE DEBT

Emerging market corporate debt is a rapidly growing and increasingly diverse asset class, now \$2.3 trn in size⁵. This is a material asset class where many global investors are under-represented. Over 60% of the EM corporate debt market is rated investment grade and the diversity within the asset class can provide significant alpha opportunities.

Emerging markets continue to benefit from positive demographic trends and higher growth than their developed market counterparts. Per capita income is forecast to rise quickly and this will drive consumption trends, creating demand for a wide range of goods and services including telecoms, retail, food and beverages, financial services, consumer goods and infrastructure. As established and new companies seek financing to expand and meet this demand, they will further expand the asset class and the opportunities within it.

As investors continue to search for returns in a low yield world, yields available on EM corporates remain more attractive than

many other global fixed income asset classes. Corporate fundamentals are also attractive: in many cases, for similarly rated bonds, leverage is lower and yields higher in EM corporates than in their developed market counterparts. EM corporate dollar asset returns have been consistently strong over the last few years with relatively low volatility.

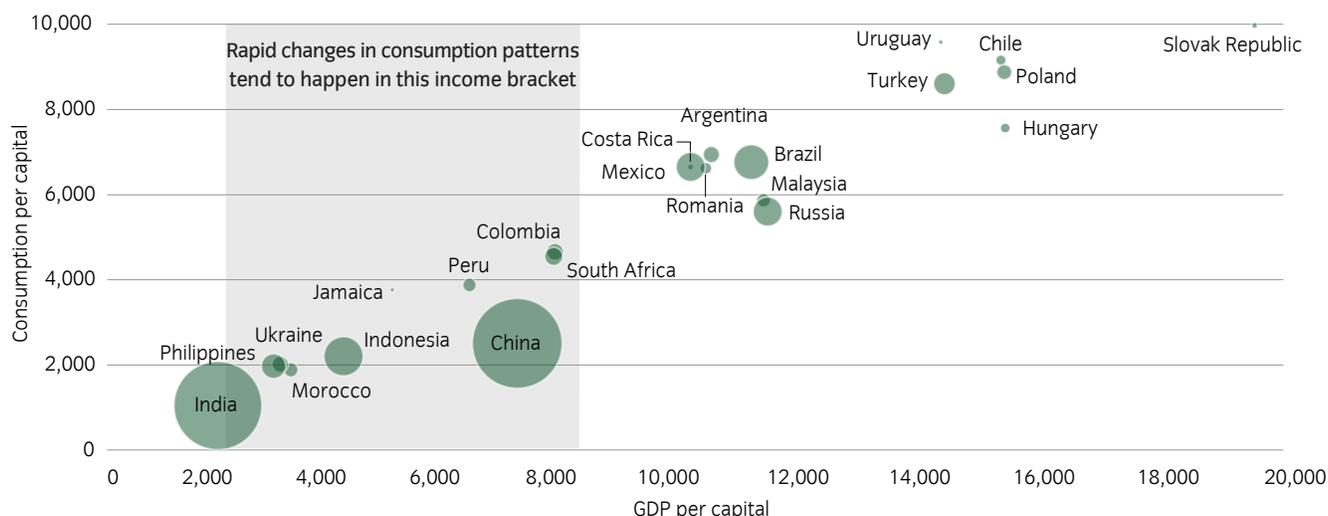
We believe that shifting global lending practices have fueled the rapid evolution of the asset class since the 2008-09 financial crisis and created a structural opportunity that merits a standalone allocation for global fixed income investors.

SAMPLE GUIDELINES

- Minimum 75% of bond risk in EM corporate
- Maximum 5% country exposure over the benchmark (JP Morgan CEMBI) weight
- Maximum 10% convertible bonds
- Maximum 25% in foreign currency exposure
- There is no minimum credit quality; although the average, over time, has typically been BBB

⁵Source: JP Morgan as of November 2018.

Figure 2: Emerging market consumer debt is in a strong growth phase



Source: Insight, IMF, as of January 2018. Bubble size equals size of population. For illustrative purposes only.

ABOUT INSIGHT INVESTMENT

Insight Investment is a leading investment manager with key operations in the UK, Germany, US, Australia and Japan. Through its predecessor companies, Insight has a 25-year history in North America and manages \$844bn globally. It is built on three main pillars: fixed income; absolute return and unconstrained investment; and risk management solutions:

- Insight's global fixed income team has a demonstrated long-term track record both for performance and innovation.
- Risk management solutions have played a significant role in the Insight story. In Europe, members of Insight were pioneers in liability-driven investment.
- Insight has been managing currency risk for two decades.
- Insight has a decade-long history of applying institutional-quality processes and governance to absolute return and unconstrained mandates.
- We understand the complex requirements of insurers through substantive team experience.

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FIND OUT MORE

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JPMorgan Corp EMBI Broad Diversified: The JP Morgan Corporate EMBI Broad Diversified Index is a liquid basket of emerging markets USD-denominated corporate issues. The index is calculated daily based on market cap weights.

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