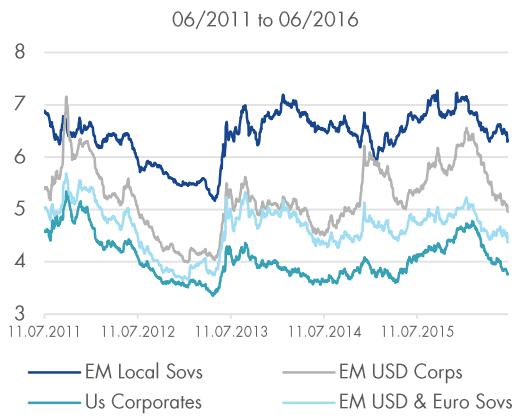


Emerging Markets: Debt Monitor

Yield to Maturity (%)*



Source: FactSet as of 30.06.2016

Market Review – Fran Rodillos, Portfolio Manager

Global emerging markets (“EM”) debt, both hard and local currency, rebounded strongly in June after a significant retracement in May. One of the main drivers behind the resumption of the EM debt rally was yet another shift in interest rate expectations, following a very weak U.S. employment release on June 3. The U.K. Brexit vote on June 23 was an even more significant event, one that placed a very large exclamation point on the renewed expectations for “lower for longer.”

As unpredictable as the Brexit decision was, the fact that the resulting selloff in risk markets reversed so quickly, yet rates continued to fall, was equally difficult to forecast. The net result has been that by early July, some \$11.5 trillion in bonds were trading at negative rates, with 58% of the Barclays U.S. Aggregate Bond Index trading below 1%. Thus, the hunt for yield continued as aggressively as ever. Given the impact that the more hawkish tone struck by the Federal Open Market Committee members had on debt markets in May, the rapidity of the shift back to extremely dovish expectations is somewhat unsettling and leaves one wondering how quickly expectations can swing back the other way.

In the near term, the precarious position of European banks – a situation that has persisted but has moved in and out of focus over the last four years – in combination with a variety of risks to global growth prospects will likely keep the hawks at bay. And while global growth statistics remain within muted expectations, EM debt and equity could remain the beneficiaries of additional capital flows for some time. The inflows to EM debt funds to date in 2016 are quite small relative to what left EM debt funds in 2015.

Under current conditions, we expect to see an acceleration of inflows during the second half of the year. Valuations, positive real rates of interest, and EM central banks with (conventional) policy flexibility are all supportive of the case for EM.

(continued on next page)

Correlation: 5-Year*

	Agg	Corps	Sovs	Sovs	Corps
	US IG Bonds	US HY/IG	EM Local	EM USD & EUR	EM USD
US AGG	1.00				
IUCO	0.71	1.00			
GBIEM	0.32	0.68	1.00		
EMGB	0.40	0.75	0.88	1.00	
EMCL	0.34	0.80	0.84	0.91	1.00

Source: FactSet, monthly as of 30.06.2016

Market Snapshot

Source: FactSet as of 30.06.2016

Characteristic	Sovereign Indices		Corporate Indices	
	EM Local*	EM USD & EUR*	EM USD*	Developed US*
Number of Securities	193	486	1,315	9,285
Number of Issuers	16	79	601	2,060
Market Value (\$B)	693	767	1,052	7,281
Years to Maturity (avg.)	7.36	11.51	6.97	9.69
Effective Duration % (avg.)	4.96	7.21	4.92	6.66
Current Yield % (avg.)	6.07	5.42	5.31	4.46
Yield to Worst % (avg.)	6.14	4.37	4.90	3.72
Coupon % (avg.)	6.27	5.79	5.26	4.72
Rating % (avg.)	BBB2	BBB3	BBB2	BBB1

Total Return (%)

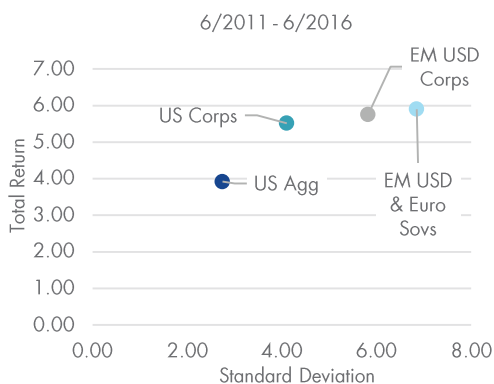
Source: FactSet as of 30.06.2016

Investment Category	Month-End			Month-End		
	1 MO	3 MO	YTD	1 YR	3 YR†	5 YR†
EM Local Sovereigns*	5.89	2.71	14.02	1.99	-3.57	-2.23
EM USD & EUR Sovereigns*	3.03	3.93	9.53	8.96	5.64	5.30
EM USD Corporates*	2.27	4.33	8.71	6.57	5.74	5.55
US Corporates*	1.98	3.94	7.89	6.25	5.18	5.45

† Annualized. All performance quoted represents past performance. Past performance is no guarantee of future results. Not representative of fund or fund indexes. Indexes are unmanaged and are not securities in which an investment can be made. Please see definitions on last page.

*EM Local Sovereigns: JPMorgan GBIEM Global Diversified Index (GBIEM) tracks local currency denominated EM government debt. EM USD & EUR Sovereigns: BofA Merrill Lynch Emerging Markets External Sovereign Index (EMGB) tracks US dollar and Euro denominated EM government debt. EM USD Corporates: BofA Merrill Lynch US Emerging Markets Liquid Corporate Plus Index (EMCL) tracks the US dollar denominated non-government debt of EM. U.S. Corporates: The BofA Merrill Lynch US Corporate and High Yield Index (IUCO) tracks the US dollar denominated investment grade and below investment grade corporate debt issued in the US domestic market. U.S. IG Bonds: Barclays US Aggregate Index (US AGG) tracks fixed-rate, publicly placed, dollar denominated and non-convertible debt issued in the US domestic market.

Risk/Return: 5-Year*



Source: FactSet, annualized as of 30.06.2016

Market Review (continued)

The risks are many, including further growth deceleration and a reversal in the commodity price recovery. On the flip side, a rate shock, as unlikely as it may seem at the moment, could cause a sharp reversal in flows to various debt asset classes, including EM.

Within EM, the Brexit impact, predictably, was felt most poignantly in Central and Eastern Europe. These countries have the highest dependence on Britain and the EU for trade. Romania, Poland, and Hungary were the laggards in the local currency space, while high beta countries such as Brazil, South Africa, and Colombia posted total returns (from both local interest rates and foreign currency movements) of between 10% and 15% in June alone. Despite recovering 1.8% in June, Mexico's local debt is the only major market with a negative return year-to-date return (-2%) for the first half of 2016, all due to persistent weakness in the peso. In hard currency markets, Venezuelan debt continued to recover, returning more than 12% in June. Brazilian, South African, and Colombian sovereign and corporate U.S. dollar-denominated bonds were among the top performers as well, particularly sovereign bonds with returns in excess of 5%. That being said, overall in June, credit spreads on hard currency EM debt were only marginally tighter (virtually unchanged in the corporate markets). Duration and the U.S. Treasury rally were very much the drivers of return.

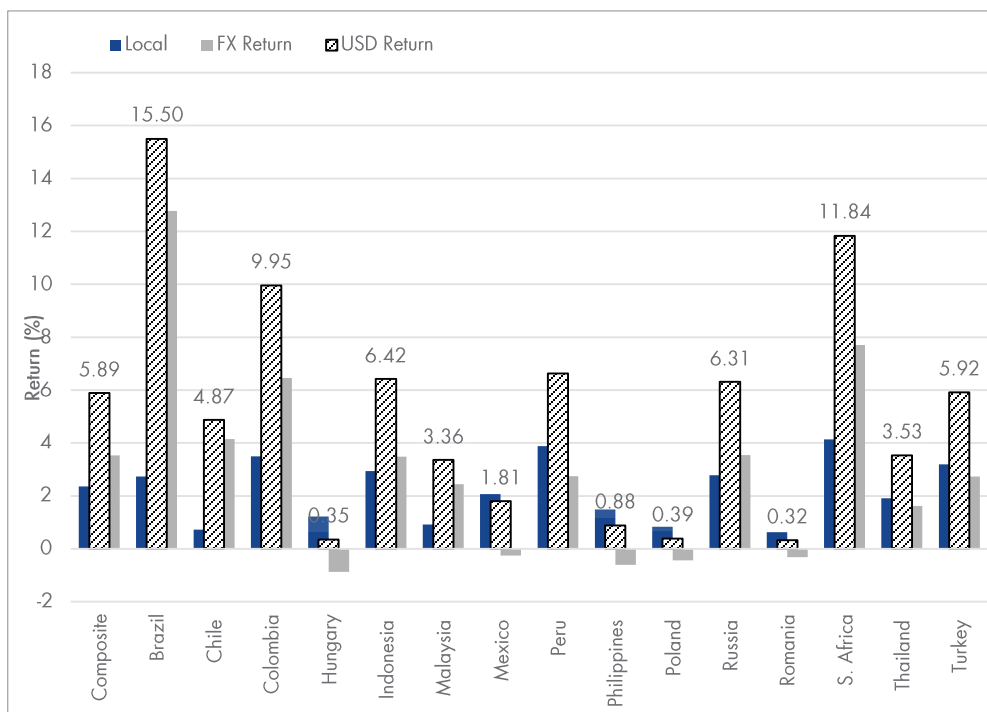
Source for all data: Barclays and J.P. Morgan Emerging Markets Bond Index Monitor, as of 30.06.2016.

Credit Quality (%)

Index	AAA	AA	A	BBB	BB	B	Below B	NR
EM Local Sovereigns*	0.10	19.53	19.66	44.41	14.66	-	-	1.63
EM USD & EUR Sovereigns*	-	7.09	10.31	43.32	18.75	16.80	3.73	-
EM USD Corporates*	0.56	8.62	22.34	31.95	23.41	10.15	2.87	0.09
US Corporates*	1.04	9.26	34.29	37.07	9.14	6.75	2.44	0.01

Source: FactSet, BofA Merrill Lynch composite as of 30.06.2016

GBI-EM Index 1-Month Total Return by Country



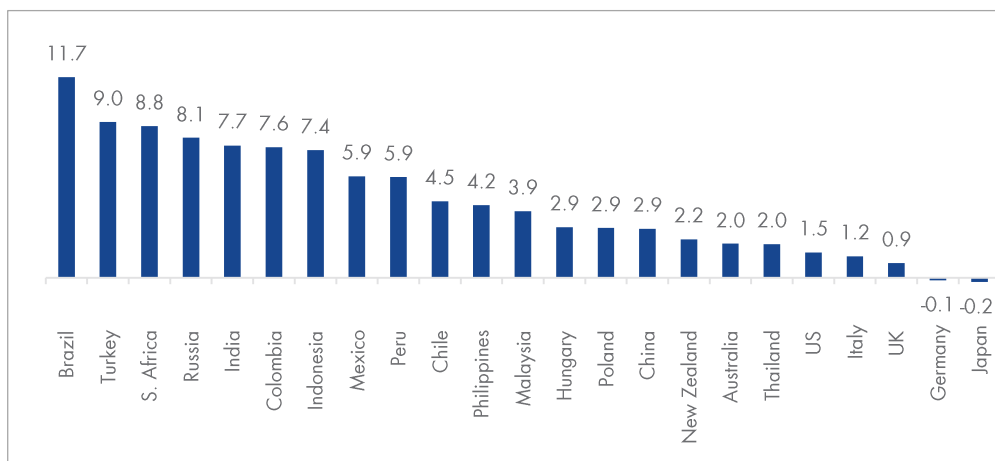
Source: FactSet as of 30.06.2016

FX Rates (Per U.S. Dollar)

Currency	GBIEM Countries		% Change
	30.06.2016	31.05.2016	
Brazilian Real	3.20	3.60	12.43
Chilean Peso	662.07	689.35	4.12
Colombian Peso	2909.00	3090.47	6.24
Hungarian Forint	284.15	281.69	-0.87
Indonesian Rupiah	13212.50	13660.00	3.39
Malaysian Ringgit	4.03	4.13	2.42
Mexican Peso	18.45	18.40	-0.25
Nigerian Naira	282.75	199.05	-29.60
Peruvian New Sol	3.29	3.38	2.64
Philippines Peso	47.05	46.77	-0.60
Polish Zloty	3.96	3.94	-0.43
Russian Rouble	63.88	66.08	3.44
Romanian New Leu	4.07	4.06	-0.31
South African Rand	14.65	15.73	7.40
Thailand Baht	35.14	35.73	1.66
Turkish New Lira	2.88	2.95	2.64

Source: FactSet as of 30.06.2016.

10-Year Local Currency Sovereign Bond Yields (%)



Source: FactSet as of 30.06.2016

All performance quoted represents past performance. Past performance is no guarantee of future results. Not representative of fund or fund indexes. Indexes are unmanaged and are not securities in which an investment can be made.

Credit rating scale is as follows, from excellent (high grade) to poor (including default): AAA to C, with intermediate ratings offered at each level between AA and CCC. Anything rating lower than a BBB- rating is considered a non-investment-grade or high-yield bond.

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