Investing in Global Fixed Income – opportunities in a low yield environment

Institutional Money Kongress
21st February 2017
Why global bonds?
Why Global Fixed Income?… A continuous search for opportunities

- Increased opportunity set
- Enhanced diversification
- Potential for greater returns

A domestic bond manager performs well when economies do badly
A global bond manager performs well in any environment

Source: Rogge Global Partners Ltd
Active management benefits from a global opportunity set

Barclays Global Aggregate Bond Index
Exposure by Currency, 31 Dec 2016

Source: Rogge Global Partners, Barclays
Government bond market performance varies significantly

- Active management can add significant value to a domestic bond portfolio
- Average annual spread (highest-lowest) = 8%

**Major Market Government Bond Returns** *(quoted are in EUR-hedged terms)*

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</table>

- There is a significant dispersion of returns
- No market is consistently the best or worst performer

Source: Citigroup; data as at 31/12/2016. Past performance is not a reliable indicator of future results.
Higher annual range of global government bond returns vs Euro markets

- Average annual spread between top and bottom performing government bond markets since 1999:
  - Globally: 30%
  - Within Euro area: 3%

Including currency, the global bond market offers more options for outperformance

Source: Rogge Global Partners, Citi World Government Bond Indices, Barclays EUR Aggregate Bond Indices, as at 31 Dec 2016: Past performance is not a reliable indicator of future results.
Global bond market opportunities beyond major developed markets

- As GDP per capita rises in some emerging economies, there are a growing list of countries that can be analysed versus “traditional” developed markets
- Relatively attractive real yields and FX valuations in some of these markets

Source: Rogge Global Partners, Bloomberg, Thomson Reuters Datastream, as at 31 Jan 2017. Past performance is not a reliable indicator of future results.
Emerging Market opportunities
Emerging Market opportunities

Contributions to Global Growth

% points

-0.2 0.2 0.4 0.6 0.8 1.0 1.2 1.4 1.6 1.8

Asia Developed economies* Latin America E. Europe Middle East

* US, Japan, UK, Euro area, Canada, Australia, Denmark, Sweden, Switzerland, New Zealand

Source: Consensus forecasts, Rogge Global Partners Ltd., as at 31 Dec 2016: Past performance is not a reliable indicator of future results.
Emerging Markets performance varies significantly

- Average annual spread (highest-lowest) = 19%

**Major Emerging Market Local Government Bond Returns** *(quoted are in EUR-hedged terms)*

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</table>

For major liquid Emerging Markets with an index return history of +10 years

- There is a significant dispersion of returns
- No market is consistently the best or worst performer

Source: JPM; data as at 31/12/2016. Past performance is not a reliable indicator of future results.
Global Credit opportunities
The Global Investment Grade Corporate opportunity set

Excess returns vs Treasuries (%), Global Corporate Universe

Returns by country of risk

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For countries of >1% weight in global index

Highest Return

Lowest Return

Average spread (highest - lowest): 7%

Returns by currency denomination

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<td>6.4</td>
<td>-0.2</td>
<td>0.1</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Highest Return

Lowest Return

Average spread (highest - lowest): 4%

Source: Barclays, Rogge Global Partners Ltd., data as at 31/12/2016. Past performance is not a reliable indicator of future results.
Global credit investing offers improved sector diversification

Global vs. USD and EUR Investment Grade Corporate indices by industry

- EUR index skewed towards Financials
- USD index skewed towards Energy

<table>
<thead>
<tr>
<th></th>
<th>OAS</th>
<th>Duration</th>
<th># of Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>127 bp</td>
<td>6.4 yr</td>
<td>12,649</td>
</tr>
<tr>
<td>USD</td>
<td>128 bp</td>
<td>6.9 yr</td>
<td>7,246</td>
</tr>
<tr>
<td>EUR</td>
<td>122 bp</td>
<td>5.3 yr</td>
<td>2,438</td>
</tr>
<tr>
<td>GBP</td>
<td>146 bp</td>
<td>8.5 yr</td>
<td>712</td>
</tr>
</tbody>
</table>

Source: Rogge Global Partners Ltd / Bank of America Merrill Lynch, as at 31 Dec 2016. Past performance is not a reliable indicator of future results.
Why global bonds now?
Key risk factors in 2017

**Economic policy**
- Headline fiscal policies good for many US domestic industries and global growth, but has market overreacted?

**US dollar and Emerging Markets**
- US dollar strength still a concern for commodities and EM?
- Cyclical dynamics in EM are improving, but worries about protectionism are rising

**Volatility**
- European elections – volatility is opportunity
- China growth story – intact?

**Growth and interest rates**
- Base case is global growth will be above trend and interest rates remain low, although possible US versus EU/UK divergence given monetary and fiscal policy outlook

A global focus allows us to better navigate the risk landscape, and capitalise on opportunities

Source: Rogge Global Partners Ltd.
Credit cycles are different across the world

US
- Growth: Positive
- Company Fundamentals: Stable / Could improve?
- Leverage: Deteriorating
- Political Risk: Unknown / deteriorating

Latin America
- Growth: Stable
- Company Fundamentals: Diverging
- Leverage: Neutral
- Political Risk: Diverging

Europe
- Growth: Positive
- Company Fundamentals: Neutral
- Leverage: Neutral
- Political Risk: Deteriorating

China
- Growth: Stable
- Company Fundamentals: Deteriorating
- Leverage: Deteriorating
- Political Risk: Neutral

Global growth outlook: Leading indicators signal above trend global growth
Current opportunities in global fixed income
Focus on credit for real returns

- Government bond yields are close to record lows – have we reached an inflection point for long-end yields?
- Credit markets are fair valued – future outperformance will rely on active security selection
- Attractive valuations remain in real estate fixed income, dominated by Floating-Rate Notes

Conclusions

Favour low duration strategies

Look at unconstrained credit strategies to provide the best flexibility

Seek opportunities in Commercial Mortgage-Backed Securities

Source: Rogge Global Partners Ltd
Disclaimer

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Thank you!