SEVENS REPORT alpha

Webinar #11: Emerging and Frontier Market Debt

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Guests: Robert Morier (Global Evolution) & Greg Stumm (American Beacon Advisors)

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- Goals for Today’s Webinar
  - Robert Morier – Managing Director & Head of North America for Global Evolution and Greg Stumm – National Sales Manager for American Beacon Advisors
    - Differences between investing in emerging market and frontier market debt
    - Investment case for both distinct asset classes
    - Examining the American Beacon Global Evolution Frontier Markets Income Fund
    - How advisors are sourcing allocations

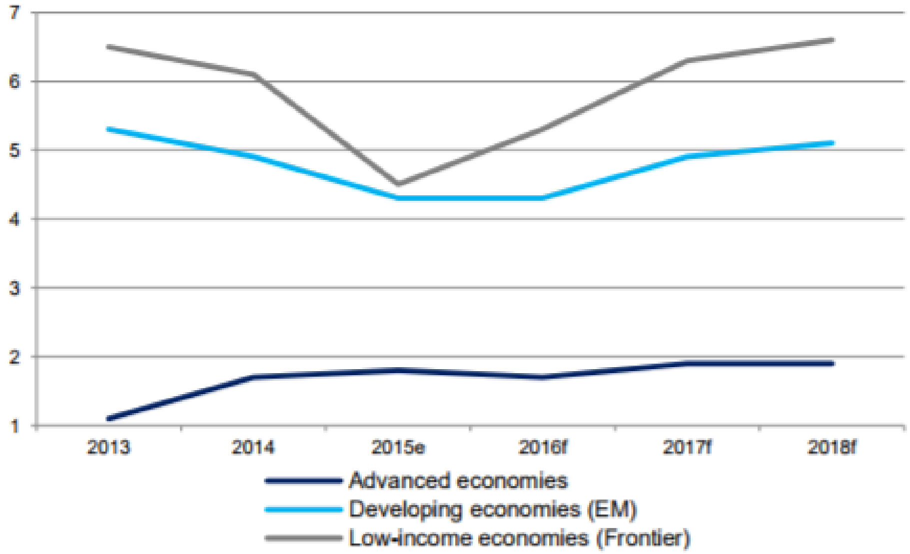
Emerging Markets Vs. Frontier Markets…

The term Emerging Markets (EM) is widely used to describe an economy with a GDP per capita substantially below the advanced world. According to the World Bank's definition an emerging markets country has a GDP per capita of less than approximately USD 9,000. Typically countries are characterized by relatively high growth and positive demographics, but often lack western standards of income and administrative depth in their political and financial institutions. These pre-industrial economies often have a high dependence on agriculture and/or commodities.

Once a country passes a certain threshold in terms of GDP per capita and meets certain cultural norms in terms of best practice for promoting industrial capitalism, it is allowed to join a club of other highly industrialized economies (the Organization of Economic Cooperation and Development, OECD) and call itself advanced or a Developed Market (DM).

The term Frontier Markets (FM) refers to a subset of emerging market countries often characterized by usually relatively small economies, that are at an earlier stage of economic and financial market development.

Chart 1: GDP growth y/y %



Source: IMF

Why Consider Allocating to EM or FM Debt?

1) Enhanced yields

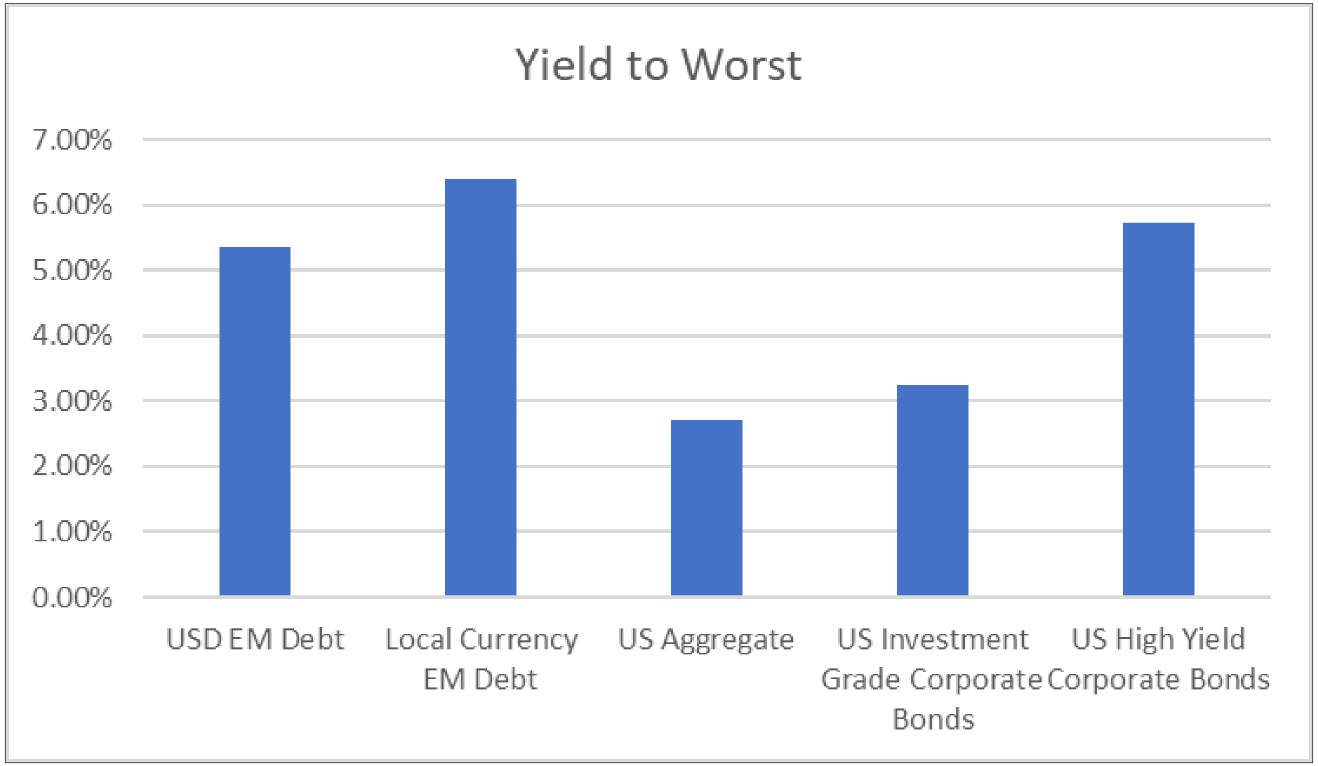
2) Diversification

3) Stronger fundamentals

Let’s dive into each one…

Increased Yields…

- 2X, 3X, and 4X the yields of traditional fixed income investments.



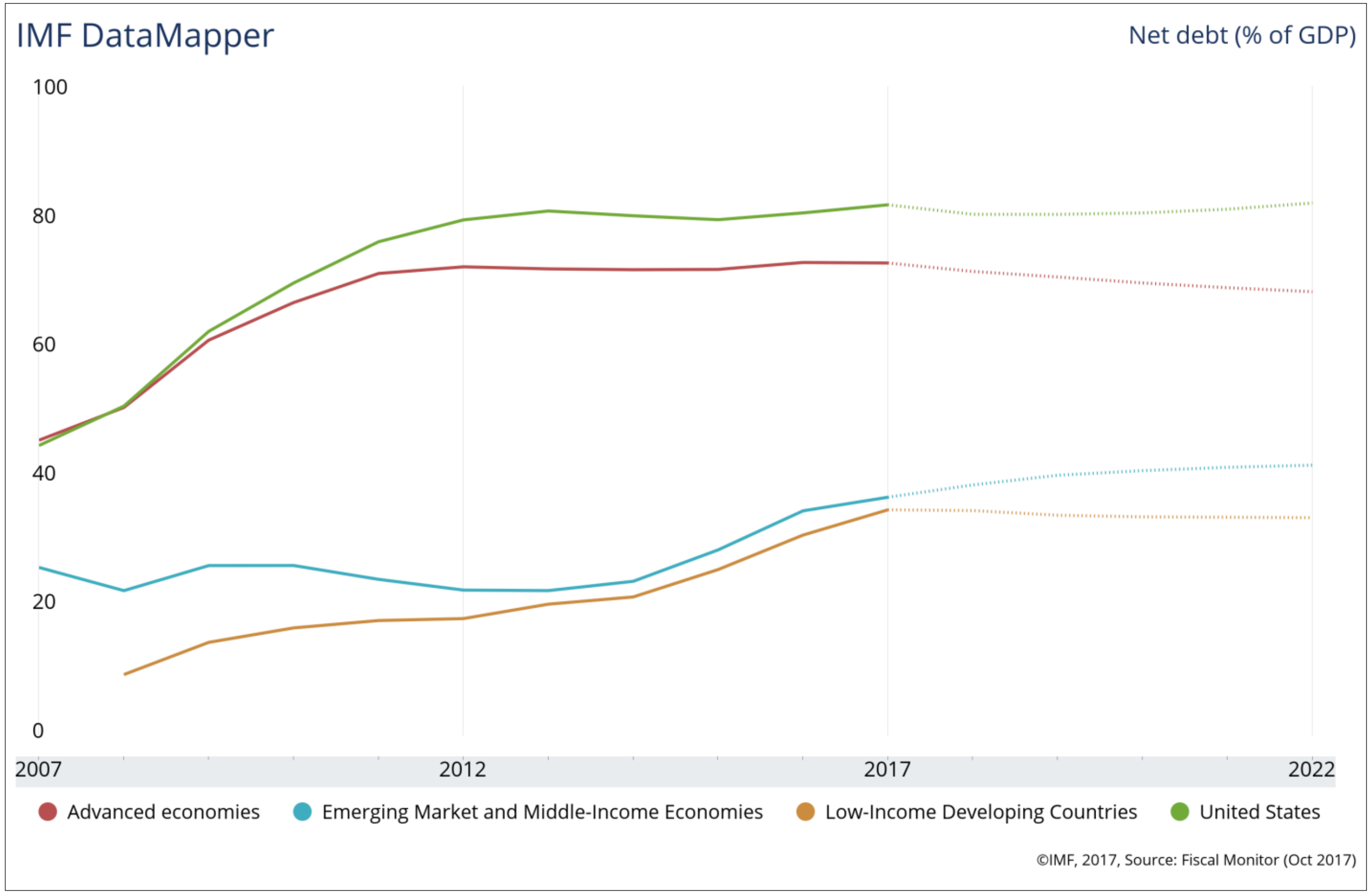
* Frontier market debt didn’t make the chart – It’s above 8%!

Low Correlations to Other Major Asset Classes…

	FRONTIER	JPM NEXGEM	EMBI GD	GBI-EM GD	CEMBI BD	MSCI EM	WTI	S&P500	UST 5-7 YR
FRONTIER	**100.00%**	55.41%	49.21%	28.43%	45.40%	39.53%	15.97%	22.84%	-13.27%
JPM NEXGEM		**100.00%**	81.93%	50.92%	72.52%	52.15%	22.67%	28.70%	-7.05%
EMBI-GD			**100.00%**	65.00%	83.22%	55.91%	23.86%	28.23%	12.19%
GBI-EM GD				**100.00%**	51.99%	69.44%	31.93%	36.29%	-3.61%
CEMBI BD					**100.00%**	54.93%	15.47%	16.01%	11.67%
MSCI EM						**100.00%**	29.52%	45.97%	-19.77%
WTI							**100.00%**	34.60%	-22.67%
S&P 500								**100.00%**	-38.29%
UST 5-7 YR									**100.00%**

Healthier Fundamentals Than You Think…

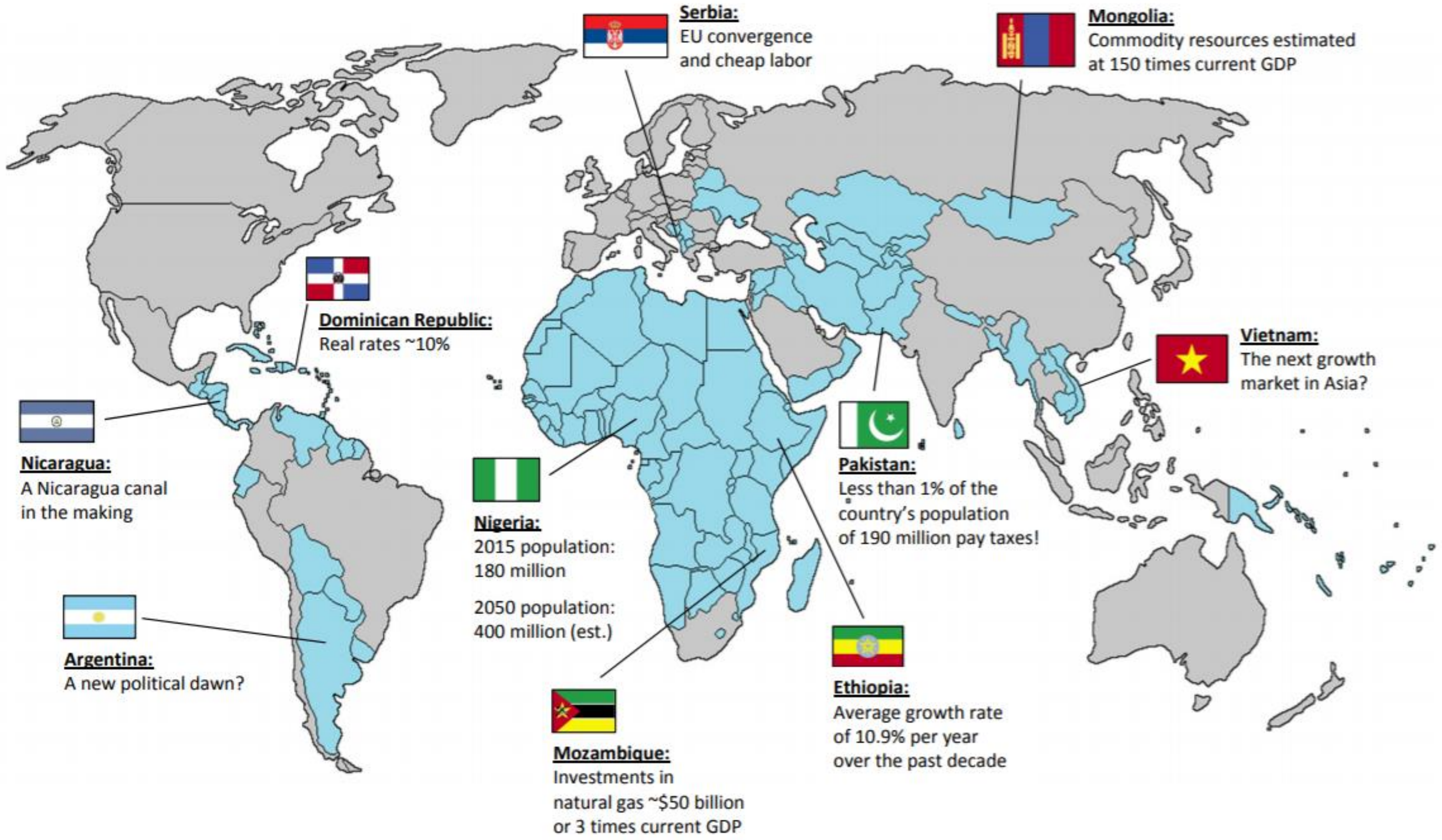
- Many developing countries have lower net debt-to-GDPs, economies growing at higher rates, and a faster-growing middle class.



American Beacon Global Evolution Frontier Markets Income Fund…

- Actively-managed fund
- $188 million in assets
- 8.4% yield
- Low duration of 3 years
- Currency weightings: 58% non-US dollar/42% US dollar
- Credit quality: roughly, 70% rated “B” or higher/5% below “B”/25% not rated
- Approximately 80 holdings
- 2017 return: +15.21% (double-digit returns last 2 calendar years)
- AGEYX (100K aggregate minimum with expenses of 1.26%)

Investing in Places Where Few Other Funds Invest…



Global Evolution's "Impact Investing" Approach…

Debt investing alleviates poverty:
The process of responsibly investing in government debt especially in early stage emerging and frontier markets has an extraordinarily positive impact on poverty alleviation.

Raising productivity levels:
The huge historic leap forward in average living standards under industrial capitalism and the subsequent alleviation of absolute poverty in many countries has been achieved by making individuals more productive.

Building physical and human infrastructure:
Once physical security is established we believe electricity adds more to an individual's productivity than any other form of investment. Building other physical infrastructure such as roads, rail, ports, telecoms, water or health and education delivery also clearly have huge impacts on productivity.

Government investment is key to early stage industrial take off:
At early stages of development much of this investment is government sponsored and financed by their borrowing.

Capital market developments lower investment costs:
Developing local capital markets and attracting foreign portfolio flows reduces the costs of debt financing.

Getting the macro-policy mix right lowers investment costs:
Working with governments on getting the macro-policy mix right also assists in pulling down debt financing costs.

PRI Principles for Responsible Investment

THE WORLD BANK

TRANSPARENCY INTERNATIONAL

INTERNATIONAL MONETARY FUND

THE GLOBAL COMPACT

Economist Intelligence Unit | The Economist

FFP

maplecroft Global Risk Analytics

Lastly, How are Advisors Sourcing Allocations to EM and/or FM Sovereign Debt Funds???

- From domestic fixed income?
- From US equities?
- From international equities (namely, emerging markets)?
- From somewhere else?

Q&A