Julius Bär

GO FOR YIELD WITH EMERGING MARKET HARD CURRENCY BONDS

FOCUS ON BONDS WITH HIGH INTEREST CARRY

WHAT'S THE STORY?

Emerging market bonds continue to deliver strong returns to investors. After the notable compression in the last 18 months, credit spreads seem to be stabilising at low levels. We maintain our view that valuations look demanding at current levels. However, recent macroeconomic and corporate data has come out better than we anticipated, alleviating our concerns about a reversal in flows. We think valuations can remain at high levels for longer, supported by an improving growth outlook and the lack of compelling yields in other segments of the bond market.

The economic outlook for emerging economies is improving rapidly on the back of strong global growth and trade activity, higher metal commodities and stable crude oil prices. Inflation is declining in many countries, supporting a stronger consumer and prompting interest-rate cuts.

At the corporate level, developments have been equally positive. Deleveraging is becoming a reality. Companies have also improved their liquidity. Not only has the amount of short-term debt declined as a proportion of total debt, but the cash available to cover those liabilities has improved.

In the present environment, we think that investors should focus on high-yielding bonds in countries with an improving or stable economic outlook. To understand the rationale behind our recommendation, we summarise the conditions that currently affect EM bond markets as follows:

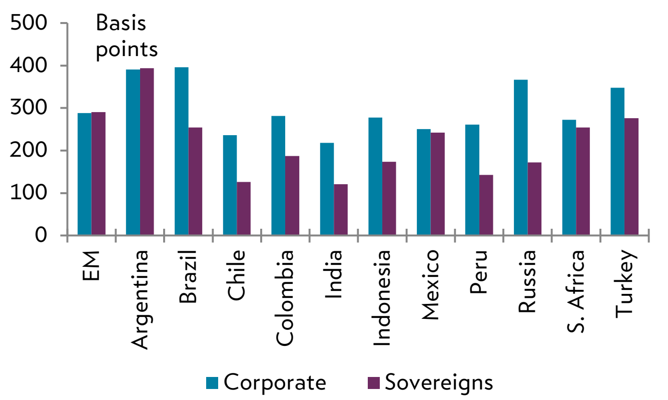
- Solid global growth and trade activity;
- Emerging markets are growing at a more rapid pace, particularly Russia and Latin America;
- Corporate credit profiles continue to strengthen;
- Demanding bond valuations, with little room for further credit spread compression.

Over the coming quarters, returns from EM bonds are likely to be dominated by the interest component, in our view.

The strong performance of the last two years has been supported by price appreciation/tighter spreads as well as the interest carry.

Moving forward, we do not see much room for further tightening, although we believe that credit spreads will fluctuate around current levels. Thus, investors who wish to earn decent returns should focus on bonds with a high interest carry in countries where economic conditions are stable enough to support the stability in spreads.

Countries with high credit spreads



As of 18 August 2017; **Source:** Bloomberg Finance L.P., Julius Baer Fixed Income Research

Which countries meet those criteria? In Latin America we like Argentina, Brazil and to a lesser extent, Mexico. In Asia, we highlight India and Indonesia. In the Middle East, credit spreads are relatively low across almost all countries, but we still see opportunities in Qatar. Lastly, we think Russia looks compelling given still high spreads and the notably good economic data in recent months.

Source: Julius Baer Fixed Income Research, Emerging Market Bonds, 19 September 2017.

OUR IDEAS FOR DIVERSIFIED PORTFOLIOS

Please note that the ideas shown below are not individually tailored investment solutions. Please consult your Julius Baer representative (relationship manager /investment advisor) for more specific solutions to suit your individual circumstances.

Investors should consider focusing on high-yielding bonds in countries with stable or improving economic conditions.

Consider emerging market hard currency high yielding bonds as part of a diversified portfolio

Improving growth outlook in emerging markets (EM) should protect bonds from volatility related to geopolitical tensions and monetary policy announcements from the European Central Bank and the US Federal Reserve. Tight credit spreads but improving fundamentals call for a focus on high-yielding bonds in hard currency. High interest carry should suffice to deliver decent returns. Select bonds from our preferred regions or invest in a dedicated fund.

Source: Julius Baer Investment Publishing

INVESTMENT PRODUCTS

Consider emerging market hard currency high yielding bonds as part of a diversified portfolio – single bonds of issuers with a 'Buy' rating

Issuer	JB Research Issuer Class.	Rating Mdy's	Payment Rank	ISIN	Cpn	Maturity	Ask Price	YTW	YAS	Minimum
USD bonds										
PETROBRAS GLOBAL FINANCE	Speculative/Buy	B1	Sr Unsecured	US71645WAR25	5.375	27/01/2021	105.64	3.57	176	2,000
CIELO SA/CIELO USA INC	Opportunistic/Buy	Ba1	Sr Unsecured	USP28610AA46	3.750	16/11/2022	99.51	3.85	186	200,000
PETROBRAS GLOBAL FINANCE	Speculative/Buy	B1	Sr Unsecured	US71647NAF69	4.375	20/05/2023	98.86	4.61	256	2,000
PETROBRAS GLOBAL FINANCE	Speculative/Buy	B1	Sr Unsecured	US71647NAM11	6.250	17/03/2024	106.89	4.99	302	2,000

As of 25 September 2017, 14:56 CET; **Source:** Bloomberg Finance L.P., Julius Baer Investment Publishing

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Consider emerging market hard currency high yielding bonds as part of a diversified portfolio – JPMorgan Emerging Markets Corporate Bond Fund

Investment case

- We have a bullish view on emerging market hard-currency bonds. Tight credit spreads but improving fundamentals in emerging markets call for a focus on high-yielding bonds in hard currency issued by local companies. High interest carry should suffice to deliver decent returns.

Fund description

- The fund invests actively in bonds issued by emerging market corporates across the credit and maturity spectrums, denominated in hard currency. The benchmark investable universe is only a basis for the team as they also invest in quasi-sovereigns and high yield names not included in the benchmark.
- The fund is managed by the J.P. Morgan emerging market corporate team, one of the largest and most experienced dedicated groups of investment professionals in the industry.
- The investment process is based on fundamental bottom-up research and benefits from the macro views formulated by the overall J.P. Morgan emerging market team.

Key risks

- Credit risk remains elevated in emerging market corporates and the investor base is still fragmented, so liquidity is much lower than in developed market credit. However, this is offset by the fund's consistent performance since inception, delivering excellent absolute and risk-adjusted returns versus benchmark and peers.

Source: Julius Baer Funds

Please contact your Julius Baer representative (relationship manager/investment advisor) for further information on this fund and its suitability given your individual investment profile.

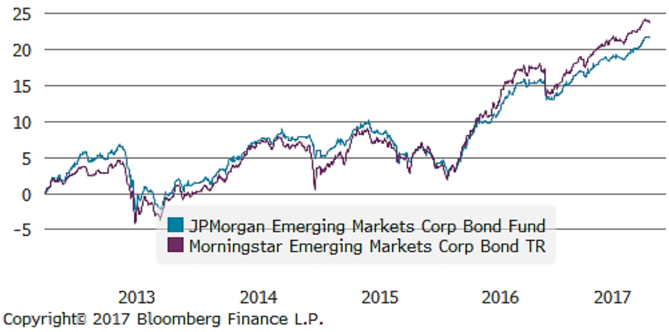
Julius Baer product risk rating

Low	Moderate	Considerable	High

Lower risk ⟷ Higher risk

Fund performance

5-year performance, in percentage (net)



As of 25 September 2017, 12:54 CET; **Source:** Bloomberg Finance L.P., Julius Baer Investment Publishing

Past performance is not a guide to future performance. Performance returns take into account all on-going charges but not transaction fees. The value of your investment may go down as well as up meaning that you may not get back your initial investment.

Fund characteristics

Benchmark	Morningstar EM Corporate Bond TR
Currency	USD
Other currencies	CHF-h, EUR-h, AUD-h, GBP-h, SGD-h
ISIN	LU0512127548
NAV as of 22.09.2017	USD 153.20
Size as of 22.09.2017	USD 2,560.71 million
Domicile	Luxembourg
Inception date	14.07.2010
Ongoing charge	1.22% p.a.
Sales Registrations	CH, DE, FR, IT, SG, SP, UK, others

As of 25 September 2017, 13:08 CET; **Source:** Bloomberg Finance L.P., Julius Baer Investment Publishing;

Additional Information: Provider: JPMorgan Asset Mgmt (Europe) SA r l; domicile: Luxembourg; Swiss paying agent: J.P. Morgan (Suisse) SA; Swiss representative J.P. Morgan (Suisse) SA.

Please find supporting documents (fund fact sheet, prospectus, annual report, etc.) on www.fundinfo.com, or contact your Julius Baer representative for further information.

Consider emerging market hard currency high yielding bonds as part of a diversified portfolio – Investec GSF Latin American Corporate Debt Fund

Investment case

- We have a bullish view on emerging market hard-currency bonds. Tight credit spreads but improving fundamentals in emerging markets call for a focus on high-yielding bonds in hard currency issued by local companies. High interest carry should suffice to deliver decent returns.
- In Latin America we like Argentina, Brazil and to a lesser extent, Mexico.

Fund description

- The fund primarily invests in USD bonds issued by Latin American corporates (a sub-set of the broad Emerging Market Corporate bond universe). It may invest in government or local currency bonds from time to time but the main drivers of returns will remain USD Latin American corporate debt.
- The fund has a focus on high yield (HY) issuers which resulted in a historical HY exposure between 50-70%.
- It's a diversified portfolio exclusively focused on Latin America with a focus on 'best investment ideas' in Latin American corporate debt, not replicating the index.
- They combine the firm's top-down macro views with thorough bottom-up credit analysis. Value added is achieved by active management of currency, duration, credit and liquidity risks.
- The fund is managed by Compass Group, a leading Latin America specialist with a strong regional presence including regional offices in Argentina, Chile, Colombia, Mexico, Peru, Uruguay and Panama.

Key risks

- Credit risk remains elevated in emerging market corporates and the investor base is still fragmented, so liquidity is much lower than in developed market credit. Investors should expect volatile returns

Source: Julius Baer Funds

Please contact your Julius Baer representative (relationship manager/investment advisor) for further information on this fund and its suitability given your individual investment profile.

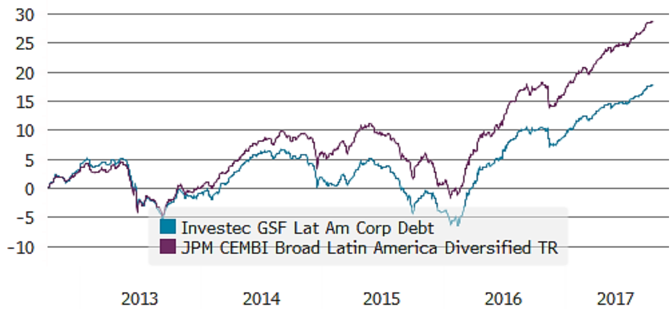
Julius Baer product risk rating

Low	Moderate	Considerable	High

Lower risk ← → Higher risk

Fund performance

5-year performance, in percentage (net)



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Past performance is not a guide to future performance. Performance returns take into account all on-going charges but not transaction fees. The value of your investment may go down as well as up meaning that you may not get back your initial investment.

Fund characteristics

Benchmark	JPM CEMBI Broad LatAm Div. TR USD
Currency	USD
Other currencies	EUR-h
ISIN	LU0492942718
NAV as of 22.09.2017	USD 29.06
Size as of 22.09.2017	USD 1,123.26 million
Domicile	Luxembourg
Inception date	30.04.2010
Ongoing charge	1.92% p.a.
Sales Registrations	CH, DE, FR, HK, SG, SP, UK, others

As of 25 September 2017, 13:54 CET; **Source:** Bloomberg Finance L.P., Julius Baer Investment Publishing;

Additional Information: Provider: Investec Asset Management Luxembourg domicile: Luxembourg; Swiss paying agent and representative: RBC Investor Services Bank S.A., Zurich.

Please find supporting documents (fund fact sheet, prospectus, annual report, etc.) on www.fundinfo.com, or contact your Julius Baer representative for further information.

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Methodologies

Please refer to the following links for more information:
Research Methodology: www.juliusbaer.com/research-methodology
Funds Methodology: www.juliusbaer.com/funds-methodology
Structured Products Methodology: www.juliusbaer.com/structuredproducts-methodology

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Net Asset Value (NAV) information: The Net Asset Value is calculated on the basis of the fund's dealing frequency and will be published with a delay.

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Frequently used terms

Bbl	Barrel	Bn	Billion	Bu	Bushel
CCY	Currency	Conversion premium	Percentage amount of price paid for the convertible security exceeding its current straight price.	CPN	Coupon
Delta	The ratio comparing the change in the underlying asset to the corresponding change in the price of a derivative (in %)	DUR	Duration in years	DY	Dividend yield
EBIT	Earnings before interest and taxes	EBITDA	Earnings before interest, taxes, depreciation and amortisation	ECB	European Central Bank
EPS	Earnings per share	ETC	Exchange Traded Commodity	ETF	Exchange Traded Fund
Fed	United States Federal Reserve System	Incr.	Increment; smallest possible positive change of the nominal amount tradable (on top of the minimum nominal investment size)	ISIN	International Securities Identification Number
KG	Kilogram	Lb	Pound	mBtu	Million British Thermal Units
Mdy's	Moody's	Mn	Million	NAV	Net asset value
Nom.	Nominal; minimum nominal investment size (in respective currency)	Oz	Ounces	P/B	Price-to-book value
P/E	Price-to-earnings ratio	PEG	P/E divided by year-on-year EPS growth	Payment rank	Rank with respect to payment of distributions for the security.
QE	Quantative easing	ROE	Return on equity	TER	Total expense ratio
T	tonne	YAS	Yield adjusted spread; option adjusted risk premium in basis points over respective government bond yield curve	YTC	Yield to Call; in %
YTM	Yield to maturity; in %	YTP	Yield to Put; in %	y/y	Year-on-year

Indices

AEX	Amsterdam Exchange Index (Dutch stock market index)	CAC40	Cotation Assistée en Continu (French stock market index)	DAX	Deutscher Aktien Index (German stock market index)
FTSE100	FTSE Group Index (London stock market index)	HIS	Hang Seng Index (Hong Kong stock market index)	KFX	Copenhagen Index (Danish stock market index)
MEXBOL	Mexican Bolsa (Mexican stock market index)	OMX	Stockholm Index (Swedish stock market index)	SMI	Swiss Market Index
SPX	Standard & Poor's Index	TPX	Topix – Tokyo Stock Price Index (Japanese stock market index)		

Major currencies

AUD	Australian dollar	JPY	Japanese yen
CHF	Swiss franc	NZD	New Zealand dollar
EUR	Euro	SEK	Swedish krona
GBP	British pound	USD	US dollar

Other currencies

BRL	Brazilian real	MXN	Mexican peso
CNY	Chinese yuan (onshore version)	PLN	Polish zloty
CZK	Czech koruna	RMB	Chinese renminbi
HUF	Hungarian forint	RUB	Russian rouble
INR	Indian rupee	TRY	Turkish lira
KRW	Korean won	ZAR	South African rand

Methodologies

EQUITIES

Rating system (stocks)

Buy	Expected to outperform the MSCI regional industry group by at least 5% in the coming 9–12 months, unless otherwise stated.
Hold	Expected to perform in line (±5%) with the MSCI regional industry group in the coming 9–12 months, unless otherwise stated.
Reduce	Expected to underperform the MSCI regional industry group by at least 5% in the coming 9–12 months, unless otherwise stated.

Risk rating system

The risk rating (High/Medium/Low) is a measure of a stock's expected volatility and risk of losses in case of negative news flows. This non-quantitative rating is based on criteria such as historical volatility, industry, earnings risk, valuation and balance sheet strength.

Frequency of equity rating updates

The Buy-rated equities are updated quarterly. The Hold and Reduce-rated equities are updated semi-annually or on an ad-hoc basis.

FIXED INCOME

Rating system

Buy	Within its risk category, the issuer is highly recommended due to its financial and business condition (strong balance sheet, income statement, cash flow and good position in the industry). Debt instruments of the issuer are regarded as an attractive investment from a risk/return perspective.
Hold	Maintain position based on stable credit fundamentals and/or average expected return characteristics within peer group.
Sell	The rating is changed to Sell, depending on a significant deterioration in the fundamental data of the issuer in relation to the industry peers. The investment is no longer justified from a risk/return perspective for the relevant category.

Risk categories

Conservative	Incorporates supranational issuers, top-rated sovereign issuers and bodies that are directly and fully guaranteed by these institutions. These issuers are most likely to preserve their top rating throughout the business cycle.
Quality	Incorporates sovereign and corporate issuers that are very likely to service and repay debt within a five-year credit scenario. They are likely to preserve their investment-grade rating throughout a normal business cycle.
Opportunistic	Incorporates issuers that are quite likely to service and repay debt within the five-year credit scenario. Such issuers have an attractive risk/return profile in the current credit scenario but are subject to rating downgrade risk and, thus, might be exchanged periodically.
Speculative	Incorporates sub-investment-grade issuers in Europe and the USA as well as local issuers in emerging markets. Issuers are likely to service and repay debt in the current credit scenario. Investors must note that these issuers are subject to a higher downgrade and default frequency and that an active management of these positions is crucial.

Credit ratings, following the definitions and methodology of credit rating agencies

	Moody's	S&P	Fitch / I BCA	Credit rating definition
Investment grade	Aaa	AAA	AAA	Obligations rated Aaa are judged to be of the higher quality, with minimal credit risk.
	Aa1 Aa2 Aa3	AA+ AA AA-	AA AA-	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
	A1 A2 A3	A+ A A-	A+ A A-	Obligations rated A are considered upper-medium grade and are subject to low credit risk.
	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-	Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.
Non-investment grade	Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-	Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.
	B1 B2 B3	B+ B B-	B+ B B-	Obligations rated B are considered speculative and are subject to high credit risk.
	Caa1 Caa2 Caa3	CCC+ CCC CCC-	CCC+ CCC CCC-	Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.
	Ca	CC C	CC+ CC CC-	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
	C	D	DDD	Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Frequency of issuer rating updates

The issuer ratings are updated semi-annually, on a rating change or on an ad-hoc basis.

COMMODITIES

Rating system

Bullish	We see upside to the futures curve.
Neutral	We believe the futures curve is fairly priced.
Bearish	We see downside to the futures curve.

CURRENCIES

Rating system

For each of the currencies in our universe we award a **bullish**, **neutral** or **bearish** ranking based on the following method of calculation. Calculation procedure: the currency ratings are based on the forecasted spot exchange rate against the US dollar. The forecasted spot exchange rates are used to determine the total expected returns by calculating the percentage deviation from the respective forward exchange rates. If forward exchange rates are not available, then non-deliverable forward exchange rates are used. The expected total return is adjusted by the implied volatility of the exchange rate. The resulting volatility-adjusted total returns are scaled by using a normal distribution function. Currencies in the top quartile of the scaled ranking are awarded with a bullish ranking while currencies in the bottom quartile receive a bearish ranking. The currencies in-between are ranked neutral.

The methodologies mentioned above are based on Julius Baer Research.

FUNDS

Investment styles

Independent growth	Aims to achieve positive return over a cash benchmark irrespective of market movements. May be appropriate for clients aiming to generate steady returns.
Opportunistic	Focus on investment ideas of high conviction managers which could also result in underperformance in the shorter term. May be appropriate for long term oriented investors.
Market exposure	Aiming to outperform the benchmark while providing a full and diversified exposure to the respective market. May be appropriate for investments in markets expected to outperform.
Prudent participation	Controlled exposure to the underlying universe with a higher focus on limitation of losses rather than fully capturing the upside. May be appropriate for clients aiming to achieve a cautious stance towards a market.

Distribution types

Accumulation	All capital income (e.g. dividends, interest income) is reinvested.
Income	Capital income (e.g. dividends, interest income) is distributed among investors. The amount of distributed capital income is at the discretion of the fund manager.

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Moderate	Funds of the category “moderate” offer a combination of modest income and growth potential but may experience short term losses and moderate fluctuations of the investment value.
Considerable	Funds of the category “considerable” may experience the risk of considerable fluctuation of the investment value while offering higher potential for capital growth and income.
High	Funds of the category “high” are exposed to significant risk and fluctuation including the loss of the investment value, while providing the potential to maximize long term growth opportunities.

Frequency of fund rating updates

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STRUCTURED PRODUCTS

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