BARINGS CONVERSATION

October 2018

HOW OPPORTUNISTIC IS YOUR INVESTMENT GRADE ALLOCATION?

Non-traditional, more flexible bond portfolios—such as 'multi-asset credit' or 'opportunistic credit' strategies—have gained significant traction in the post-financial crisis era amid investors' search for diversified sources of income and return. In a recent interview, Michael Freno, Head of Global Markets at Barings, discussed this trend and the newly-launched Barings Global Investment Grade Strategies.

What are the main benefits to investors of 'multi-asset' or 'opportunistic' credit strategies?

Unlike traditional fixed income strategies, many of these strategies are benchmark-agnostic, meaning the portfolio manager is not required to adhere to a benchmark when constructing the portfolio. Freedom from the constraints of a benchmark gives portfolio managers considerable flexibility to pursue the best global relative value across asset classes, sectors and geographies.

Having this type of flexible mandate may provide several benefits: **1)** a single point of access to a broad range of investment opportunities; **2)** enhanced portfolio diversification among various income asset classes that may perform differently under similar market conditions (FIGURE 1);

FIGURE 1: FIXED INCOME MARKET LEADERSHIP CHANGES HANDS FROM YEAR TO YEAR

2011	2012	2013	2014	2015	2016	2017	YTD 2018	RETURNS
0.47%	23.66%	9.41%	3.37%	0.46%	15.21%	7.59%	2.82%	higher
0.44%	14.14%	6.80%	2.45%	0.08%	11.40%	6.81%	1.00%	
N/A	11.78%	4.26%	1.08%	-0.28%	6.89%	6.16%	0.73%	
-1.04%	9.27%	1.09%	1.02%	-1.04%	5.83%	4.03%	0.70%	
-3.31%	8.41%	0.97%	0.32%	-1.65%	2.36%	1.66%	0.60%	
-3.99%	2.67%	0.00%	-0.99%	-5.07%	1.35%	1.58%	-0.28%	lower

GLOBAL INVESTMENT GRADE CORPORATES | GLOBAL HY BONDS | EM CORPORATE AND SOVEREIGN DEBT | ABS | CLO[1] | CMBS

1. EQUAL BLEND OF SINGLE A AND BBB-TRANCHES
SOURCE: *BARCLAYS, BARINGS, BAML, JP MORGAN CLOIE, CREDIT SUISSE. AS OF SEPTEMBER 30, 2018.*
PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

> *"For many investors, being able to 'outsource' those tactical moves, as well as more long-term strategic asset allocation decisions, into the hands of dedicated, seasoned investment professionals is a significant benefit of opportunistic multi-asset credit strategies."*

3) the potential for higher current income and better risk-adjusted returns versus traditional or single-sector strategies; and **4)** the ability to potentially exploit price inefficiencies that may arise from short-term market disruptions.

For many investors, being able to 'outsource' those tactical moves, as well as more long-term strategic asset allocation decisions, into the hands of dedicated, seasoned investment professionals is a significant benefit of opportunistic multi-asset credit strategies.

Of course, as with any investment, these strategies also involve risks that investors should discuss with their advisors before committing capital to any strategy.

How can this type of strategy provide flexibility to help navigate today's fixed income headwinds?

For starters, many investors are concerned about today's rising rate environment. Because they are not tied to a benchmark, managers of multi-asset and opportunistic credit strategies may have flexibility with regard to duration management; that is, they can seek to mitigate interest rate risk by dynamically adjusting the portfolio's target duration. At times, they may also choose to favor less rate-sensitive sectors of the fixed income market over those that are more susceptible to rising rates. But even with interest rates on the rise, credit spreads have become tight across much of the market. As a result, we believe many investors are not being adequately rewarded for taking on credit risk and, therefore, are more willing to look beyond traditional fixed income strategies for greater yield and return. A multi-asset credit strategy that can opportunistically invest in higher-yielding assets and sectors, while still managing credit and duration risks, may be an attractive solution.

I'd also add that being able to manage or reduce exposures to unwanted idiosyncratic credits risks can be beneficial amid today's macro and geopolitical uncertainties, in our view.

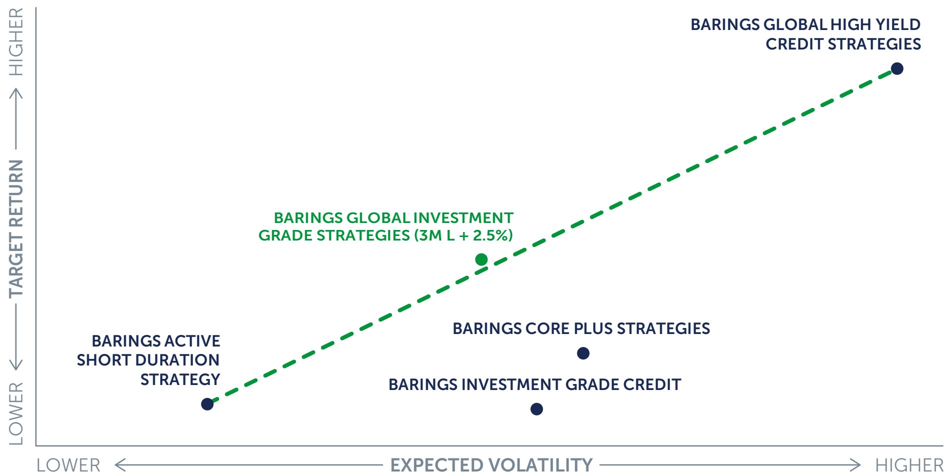
What is the biggest issue for investors looking to add this type of strategy to their portfolio?

I would say evaluating and selecting a strategy when faced with so many different choices. Since these strategies don't track standardized indexes, it can be difficult to compare them—a challenge exacerbated by the fact that any two strategies may not even invest in the same sectors or types of securities. For example, a strategy may call itself 'multi-asset credit' or 'globally diversified' when, in reality, the portfolio is mostly just plain-vanilla Treasuries, with perhaps a small allocation to high yield.

Along with scrutinizing the strategy itself, it's very important to look closely at the investment manager running it. There's no substitute for experience, so does the manager have a successful track record in managing opportunistic or multi-asset credit strategies? Have they demonstrated the potential to outperform through changing market cycles? Also, do they have breadth and depth of investment capabilities, including expertise in each of the fixed income sectors the strategy intends to invest in?

The point is that strategy and manager selection is absolutely critical in this space, but not always an easy task.

FIGURE 2: SEEKING AN ATTRACTIVE BALANCE OF RISK AND POTENTIAL REWARD



SOURCE: *BARINGS.*
FOR ILLUSTRATIVE PURPOSES ONLY. INVESTORS SHOULD BEAR IN MIND THAT THESE ARE GROSS RETURN TARGETS, RATHER THAN ACTUAL RETURNS, AND THAT THE STRATEGIES SHOWN MAY EXPERIENCE SUBSTANTIAL LOSSES. THERE CAN BE NO ASSURANCE THAT SUCH TARGET RETURNS WILL BE ACHIEVED.

Good segue, because Barings has historically had success in the realm of multi-asset opportunistic credit. Talk about your latest product launch in this area.

In early October 2018, we launched a new strategy—Barings Global Investment Grade Strategies—that will serve as Barings' flagship global investment grade, multi-asset credit solution. It targets a Libor + 250 basis points (bps) total return (gross of fees), from income generation and capital appreciation opportunities, over a market cycle by seeking to capture the best global relative value within a wide range of high-grade fixed income assets.

But while the strategy itself is new for Barings, we are by no means venturing into new or unfamiliar territory. In fact, it's right in our wheelhouse because not only do we have a long history of managing investment grade assets and portfolio duration (such as Barings Active Short Duration Strategy), but also a proven track record in opportunistic multi-asset credit strategies (such as Barings Global High Yield Credit Strategies Fund).[1] That success is a byproduct of our strength and experience across the full spectrum of global fixed income sectors and assets.

So we view Barings Global Investment Grade Strategies as a natural progression for Barings that leverages many of our firm's longstanding strengths. It's a powerful complement to our existing fixed income suite in that it seeks to offer a 'middle ground' risk profile between the two strong-performing strategies I just mentioned (FIGURE 2).

What types of fixed income assets and sectors do you expect the strategy to invest in?

As I noted, the strategy can—and will—look to identify the best relative value opportunities across a variety of fixed income asset classes and sectors.

It will draw on Barings' deep capabilities in securitized asset classes and allocate to asset-backed securities (ABS), commercial mortgage-backed securities (CMBS) and residential mortgage-backed securities (RMBS). Barings' well-resourced Structured Products Team will allow the strategy to source opportunities within the collateralized loan obligations (CLO) space. Portfolio allocations will also include global investment grade corporate bonds and emerging markets debt.

In addition, while the strategy will always maintain an overall investment grade rating, it can opportunistically allocate up to 20% of the portfolio in high yield based on relative value.

1. Barings Active Short Duration Strategy dates back to 1991; Barings Global High Yield Credit Strategies Fund to 2013.

What do you think sets Barings Global Investment Grade Strategies apart from other strategies?

Certainly we think Barings' robust fixed income investment capabilities, as I just described, set the strategy apart. Beyond that, I'd point to several differentiating factors:

- The strategy follows a consistent, disciplined investment approach that has been effectively implemented in other strategies across our firm—driven largely by fundamental, bottom-up credit selection, with the potential to add alpha through top-down asset class allocations and relative value.

- It utilizes a unique rules-based duration management process, dictated by the front end of the U.S. Treasury yield curve between 3 months and 3 years. This process has been time tested through multiple market cycles over the past 27+ years. The duration management overlay enables us to decouple credit selection from duration management, allowing for greater flexibility within credit allocations.

- The strategy will target a compelling risk-reward tradeoff relative to traditional investment grade strategies, as well as other multi-asset credit strategies. Broadly speaking, the strategy will aim to achieve a higher total return with attractive current income, along with lower volatility, than competitive universes and indexes (FIGURE 2).

- Unlike traditional single-sector global credit strategies, the strategy will seek to generate returns from multiple sources of potential alpha, rather than exclusively corporate credit.

- Credit allocations and duration positioning are not anchored to a benchmark, easing requirements around adding low-yielding sectors such as sovereign debt, agency debt and agency MBS.

- Unlike other funds within the global unconstrained universe, the strategy will be less reliant on large allocations to high yield and currencies (FX) in pursuit of its target return.

For these reasons and others, we believe Barings Global Investment Grade Strategies can play a key role in a well-diversified, long-term fixed income portfolio.

> *"Unlike traditional single-sector global credit strategies, the strategy will seek to generate returns from multiple sources of potential alpha, rather than exclusively corporate credit."*

MAIN RISKS: Past performance is no guarantee of future results. Investing involves risks, including the risk of loss of principal. There can be no guarantee that any investment strategy will achieve its investment objective or be appropriate for all investors. Diversification does not ensure a profit or protect against a loss. Each asset class in which the strategy invests is subject to various risks that may adversely impact performance in different market cycles. Fixed income investments are subject to certain risks, including market, interest-rate, issuer, credit and inflation risks. Some of these risks may be heightened in high yield debt, emerging markets debt and other sectors in which the strategy may invest.

Barings is a $310+ billion global financial services firm dedicated to meeting the evolving investment and capital needs of our clients. We build lasting partnerships that leverage our distinctive expertise across traditional and alternative asset classes to deliver innovative solutions and exceptional service. Part of MassMutual, Barings maintains a strong global presence with over 1,900 professionals and offices in 16 countries.*

*As of September 30, 2018