Emerging Markets Debt:
Finding Alpha Opportunities in a Volatile Market

Gorky Urquieta
Portfolio Manager, Co-Head of the Emerging Markets Debt Team

Andrew A. Johnson
Portfolio Manager, Head of Global Investment Grade Fixed Income
Emerging Markets Debt ("EMD") Tradable Debt Universe and Size

DOMESTIC DEBT MAKES UP 88% OF TOTAL EMD

($ billions)

- Corporates LC: $5,815 (41%)
- Corporates HC: $941 (7%)
- Sovereign LC: $6,529 (47%)
- Sovereign HC: $730 (5%)

- Total market over 14tr USD
- EMD Local Currency (LC) represents majority of market share
- Growing corporate component in Hard Currency (HC)
- Corporate names increasingly issue debt
- Growth potential in EMD LC


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Key Considerations for Emerging Markets Debt

An often misunderstood asset class

A SUBSTANTIAL SHARE OF GLOBAL BOND MARKETS

Comparison with developed credit markets (in USD)

EMERGING ECONOMIES AS % OF TOTAL WORLD

Source: Bloomberg, FactSet. As of December 31, 2012. Sources: World Bank (Population as of 2010, EME Market Cap as of 2012), CIA World Factbook (FX reserves as of 2012), IMF World Economic Outlook (GDP at PPP as of 2012). See Additional Disclosures at the end of this piece, which are an important part of this presentation.

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Stronger Real GDP Growth in Emerging Markets

Source: IMF World Economic Outlook, as of April, 9 2014.

1. Forecast.

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Emerging Market Fundamentals Still Strong

Improved debt sustainability and credit quality

**GENERAL GOVERNMENT DEBT AS A PERCENTAGE OF GDP**

![Graph showing general government debt as a percentage of GDP for advanced economies and emerging markets.]

**PERCENTAGE OF EMBIG MARKET CAPITALIZATION BY RATING BUCKETS**

![Graph showing the percentage of EMBIG market capitalization by rating buckets, with 2014F and 2015F forecasts.]

1. Source: IMF; Neuberger Berman.
3. Forecast.

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Emerging Markets Debt – Its Role in Today’s Fixed Income Portfolio

A complex asset class that can serve several purposes

YIELD

Asset class offers a yield advantage – As of May 7, 2014

GROWTH AND DIVERSIFICATION

Potential to improve portfolio’s risk-return profile – 10 Year Period Ending February 28, 2014

Source: JPMorgan. Benchmarks used are EMD HC (NB Global Diversified), JPM EMBI Global Diversified (HC Sovereign), JPM CEMBI Diversified (HC Corporate), JPM GBI-EM Global Diversified (LC Money Market), JPM US Liquid Index (US IG Corporates), JPM HY (US HY Corp), JPM EM Free (EM Equity) and S&P 500 Index (US Equity). JPM US Domestic HY (US High Yield); JPM Euro HY (Euro HY); JULI (US IG Credit; Maggie (Euro IG Credit); GBI US (US Treasury); EMU Peripheral.

The above information is based upon the indices as identified above. Please see the Disclosure Section of this book for a complete description of each index. Actual investment results will vary. It is not possible to invest directly in any index. Past performance is not necessarily indicative of future results. As with any investment, there is the possibility of profit as well as the risk of loss.

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Rationale for Investing in Emerging Markets Debt

Investors still underexposed to asset class

<table>
<thead>
<tr>
<th>SIZABLE</th>
<th>INEFFICIENT</th>
<th>DIVERSIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growing asset class. Total EMD market now over $14tr(^1). Acceleration of new issues from countries and corporations.</td>
<td>Under-researched / reported universe creates additional alpha potential. Capital constraints and strong home bias create alpha opportunities.</td>
<td>Dozens of countries, currencies, yield curves, industry sectors, and issuers.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FUNDAMENTALS</th>
<th>YIELD</th>
<th>FX APPRECIATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>As creditworthiness of sovereigns increases this translates into upside across the asset class.</td>
<td>Yield advantage potential over developed markets bonds.</td>
<td>We believe emerging markets Foreign Exchange (FX) holds potential opportunities for revaluation.</td>
</tr>
</tbody>
</table>

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\(^1\) Source: BIS and Bank of America Merrill Lynch, as of December 31, 2012.

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Asset Allocation within EMD Potentially has a Material Effect on Returns

... in spite of high correlations between asset classes

EM FX and HC spread relative returns have been the core driver of the total relative returns

As of March 31, 2014.
Source: JP Morgan Dataquery, EMBI GD for Hard TR, GBI EM GD for Local TR.

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EMD Performance Vs. Developed Markets

Concerns regarding liquidity reduction hit EMD hardest, but EM cyclical downturn added fuel to the fire

<table>
<thead>
<tr>
<th>Rating</th>
<th>Duration</th>
<th>Index Return (%) 2013</th>
<th>Index Yield Change (bps) 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMBI Global</td>
<td>Baa3 / BBB-</td>
<td>6.5</td>
<td>-6.6%</td>
</tr>
<tr>
<td>CEMBI Broad</td>
<td>Baa2 / BBB</td>
<td>5.3</td>
<td>-1.3%</td>
</tr>
<tr>
<td>GBI-EM Global Diversified</td>
<td>Baa2 / BBB+</td>
<td>4.6</td>
<td>-9.0%</td>
</tr>
<tr>
<td>JULI (US HG ex EM)</td>
<td>A3 / A</td>
<td>7.0</td>
<td>-0.7%</td>
</tr>
<tr>
<td>JPM US HY</td>
<td>B</td>
<td>3.6</td>
<td>8.2%</td>
</tr>
<tr>
<td>EMU Peripheral</td>
<td>Baa3 / BBB</td>
<td>5.8</td>
<td>13.7%</td>
</tr>
</tbody>
</table>

Data as of December 31, 2013.
Source: JP Morgan Index Movers Daily.
The above information is based upon the indices as identified above. Please see the Disclosure Section of this book for a complete description of each index. Actual investment results will vary. It is not possible to invest directly in any index. Past performance is not necessarily indicative of future results. As with any investment, there is the possibility of profit as well as the risk of loss.

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Breakdown of Historical Benchmark Returns

**HARD CURRENCY SOVEREIGN RETURNS**

<table>
<thead>
<tr>
<th>Year</th>
<th>UST Return</th>
<th>Spread Return</th>
<th>Carry and Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>8.0%</td>
<td>-2.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2006</td>
<td>7.0%</td>
<td>-5.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2007</td>
<td>9.0%</td>
<td>34.0%</td>
<td>2.3%</td>
</tr>
<tr>
<td>2008</td>
<td>11.0%</td>
<td>-10.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2009</td>
<td>8.0%</td>
<td>3.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2010</td>
<td>10.0%</td>
<td>-9.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2011</td>
<td>10.0%</td>
<td>1.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2012</td>
<td>7.4%</td>
<td>-3.6%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2013</td>
<td>18.0%</td>
<td>-2.3%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2014</td>
<td>YTD</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**HARD CURRENCY CORPORATE RETURNS**

<table>
<thead>
<tr>
<th>Year</th>
<th>UST Return</th>
<th>Spread Return</th>
<th>Carry and Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>5.0%</td>
<td>-10.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2006</td>
<td>12.0%</td>
<td>-9.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2007</td>
<td>-10.0%</td>
<td>1.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2008</td>
<td>10.0%</td>
<td>-9.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2009</td>
<td>0.9%</td>
<td>9.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2010</td>
<td>11.0%</td>
<td>10.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2011</td>
<td>11.0%</td>
<td>10.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2012</td>
<td>7.0%</td>
<td>0.9%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2013</td>
<td>0.1%</td>
<td>-0.4%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2014</td>
<td>YTD</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**LOCAL BOND RETURNS**

<table>
<thead>
<tr>
<th>Year</th>
<th>UST Return</th>
<th>LB Spread Return</th>
<th>Carry and Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>6.0%</td>
<td>6.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2006</td>
<td>7.0%</td>
<td>6.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2007</td>
<td>11%</td>
<td>6.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2008</td>
<td>6.0%</td>
<td>7.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2009</td>
<td>11%</td>
<td>6.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2010</td>
<td>6.0%</td>
<td>6.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2011</td>
<td>6.0%</td>
<td>6.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2012</td>
<td>6.0%</td>
<td>6.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2013</td>
<td>6.0%</td>
<td>6.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2014</td>
<td>YTD</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**2014 YTD**

<table>
<thead>
<tr>
<th></th>
<th>UST</th>
<th>SPREAD</th>
<th>CARRY AND RES</th>
<th>FX SPOT</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>HC</td>
<td>2.3%</td>
<td>0.9%</td>
<td>1.8%</td>
<td>5.0%</td>
<td></td>
</tr>
<tr>
<td>Corp</td>
<td>1.2%</td>
<td>0.1%</td>
<td>2.6%</td>
<td>3.9%</td>
<td></td>
</tr>
<tr>
<td>LB</td>
<td>0.9%</td>
<td>-0.4%</td>
<td>2.1%</td>
<td>0.1%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Blended</td>
<td>1.3%</td>
<td>0.1%</td>
<td>2.2%</td>
<td>0.1%</td>
<td>3.6%</td>
</tr>
</tbody>
</table>


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Strong Emerging Market Rebound in March and April

**EM INDICES OUTPERFORMING BROADER CREDIT MARKETS YTD**

<table>
<thead>
<tr>
<th>Total Return</th>
<th>April</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>EM External Debt (USD)</td>
<td>6.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>EM Frontiers ex Argentina (USD)</td>
<td>4.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>European Equities</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Euro High Yield</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Gold</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>EM Local Markets</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>EM Corporates (USD)</td>
<td>-2.0%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Euro High Grade</td>
<td>-4.0%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>US High Yield</td>
<td>-6.0%</td>
<td>-6.0%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>-8.0%</td>
<td>-8.0%</td>
</tr>
<tr>
<td>US Treasuries</td>
<td>-8.0%</td>
<td>-8.0%</td>
</tr>
<tr>
<td>US High Grade</td>
<td>-8.0%</td>
<td>-8.0%</td>
</tr>
<tr>
<td>EM FX (ELMI+)</td>
<td>-8.0%</td>
<td>-8.0%</td>
</tr>
<tr>
<td>EM Equities</td>
<td>-8.0%</td>
<td>-8.0%</td>
</tr>
</tbody>
</table>

**THE REBOUND IS CAUSED BY A COMBINATION OF FAVORABLE FACTORS**

- Political tensions easing and market-friendly outcomes in several EM (Turkey, India, Indonesia, Brazil)
- Supportive global monetary policy: Gradual Fed, ECB concerned with disinflation, and Bank of Japan discussing potential for further easing
- Russia-Ukraine crisis worsened but has so far not led to serious sanctions
- Low volatility in core markets is reigniting the appetite for carry trades – though this is vulnerable to US data flow and Fed policy

As of May 7, 2014.
Source: Bloomberg, JP Morgan.

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Outlook: Support for Export-led EM Recovery

Global PMI is strong at 52.4, April PMIs in US rebounded after weak Q1, EZ PMIs are on strong trend

EM PMIs still showing big gap with US, but EM Asia and EM Europe January PMIs are stronger

EM Exports increased in February, continuing a catch up with DM import growth

Source: Chart 1: Bloomberg, Markit, as at April 2014; Chart 2: CEIC, NB Forecasts from Feb–July 2014 (forecast).

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Real Effective Exchange Rates in Emerging Markets

Fragile Five REERs have bottomed

FRAGILE FIVE (INR, IDR, ZAR, TRY, BRL) VS. REMAINDER

As of May 2, 2014.

Source: Bloomberg GBI EM – Weighted index of Brazil, Chile, China, Colombia, Hungary, India, Indonesia, Malaysia, Mexico, Peru. South Africa, South Korea, Thailand, Turkey, Philippines, Singapore.

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EM Current Accounts Vs. IG Sovereign Spread Changes
May–Dec 2013
Rank of current account balances and current account deterioration in the last 3 years correlates well with Spread changes in the investment grade space selloff May–Dec 2013

Source: Bloomberg as of Dec 9, 2013.
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Real Yields Attractive on a Historical Basis

Source: Neuberger Berman.
As of April 30, 2014.

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EM Sovereign Valuations Compelling Relative to Developed Markets

**EMBIG IG VS. DM IG CREDIT**

**EMBIG HY VS. DM HY**

**CEMBI IG VS. EMBI IG**

**CEMBI HY VS. EMBI HY**

Source: JPMorgan, as of May 6, 2014.

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Demand for EMD
Significant outflows since tapering discussion but only retail

**INFLOWS PER CALENDAR YEAR**

**INVESTOR TYPE**


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EMD Outlook – Our Views

**EMERGING MARKETS DEBT**

- We are constructive on EMD due to generally attractive valuations, technical factors, supportive global market conditions and improving EMD fundamentals.

- Continued recovery in developed markets, stronger EM exports and global manufacturing data create a positive backdrop for the asset class.

- Fed tapering is fully priced in, but improving labor market conditions and stronger growth dynamics in the US create risks of upward pressure on Treasury yields.

- Within EMD we currently have a slight bias in favour of local bonds relative to hard currency as valuations in hard currency have become less attractive following the spread and yield contraction so far in 2014.

Opinions expressed herein reflect the opinion of Neuberger Berman and are subject to change without notice.
Biography

Gorky Urquieta, Managing Director, joined the firm in 2013. Gorky is a Portfolio Manager and Co-Head of the Emerging Markets Debt team. He joined the firm from ING Investment Management where he was most recently global co-head of EMD, responsible for global emerging markets debt external and local currency strategies. Gorky joined ING in 1997 as a member of Emerging Markets Investors, a hedge fund manager affiliated with ING Furman Selz Asset Management, where he conducted analysis of sovereign and corporate bonds and loans, local currency investments and equities. Previously, Gorky worked at Dart Container Corporation where he was part of a research and trading team active in emerging and developed markets. He obtained a BA in Business Administration from the Bolivian Catholic University in La Paz, Bolivia, and a Master’s degree in Finance from the University of Wisconsin.

Andrew A. Johnson, Managing Director, joined the firm in 1989. Andy is the Head of Global Investment Grade Fixed Income and lead Portfolio Manager for multiple Fixed Income strategies. He is the Chief Investment Officer for Global Investment Grade strategies with responsibility for the overall direction of the investment process and research. Andy leads the senior investment team that sets overall portfolio strategy, and serves on numerous investment grade sector specialty teams. He is also a member of Neuberger Berman’s Fixed Income LLC’s Board of Directors and Neuberger Berman’s Partnership Committee. Prior to joining the firm, Andy was a manager of financial planning and analysis at Illinois Bell. Previously, he had been an R&D engineer at Northrop Defense Systems Division. Andy earned his BS and MS degrees in Electrical Engineering at the Illinois Institute of Technology and his MBA from the University of Chicago.
Index Definitions

Emerging Markets – Corporate Debt
The Corporate Emerging Market Bond Index series (CEMBI) track USD denominated debt issued by emerging market corporations. The CEMBI family of indices expands JP Morgan’s regional corporate indices – JACI, LEBI, RUBI, which provide benchmarks for Asia, Latin America, and Russia, respectively.

Emerging Markets – Local Debt
The local debt package consists of the Government Bond Index-Emerging Markets (GBI-EM) series, which was developed in response to an increase in investor appetite towards local currency debt. The package contains three variations – the GBI-EM, GBI-EM Global and GBI-EM Broad – which cater to different investment objectives and inclusion criteria. The indices span over 15 countries and are also available in diversified weighting versions.

Emerging Markets – External Debt
The family of JP Morgan Emerging Market Bond Index (EMBI) is the most widely used and comprehensive emerging market sovereign debt benchmarks. Historical information is available since December 1993.

Emerging Markets – Local Currency Money Markets
The JP Morgan Local Market Index Plus (ELMI+) tracks total returns for local-currency denominated money market instruments in 24 emerging markets countries. The benchmark was introduced in June 1996 and consists of foreign exchange forward contracts laddered with maturities ranging from one to three months. Country weights are based on a trade-weighted allocation, with maximum weight of 10% for countries with convertible currencies and 2% for countries with non-convertible currencies.

Emerging Markets – Investment Grade Corporates
The JP Morgan US Liquid Index (JULI) provides performance comparisons and valuation metrics across a carefully defined universe of investment grade corporate bonds, tracking individual issuers, sectors and sub-sectors by their various ratings and maturities.

JPM EMBI Global is designed to measure total returns for traded external debt instruments in the emerging markets. This includes U.S. dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million.

JPM EMBI Global Diversified segments further the universe included in the JPM EMBI Global Index by limiting the weights of countries with larger debt stocks by only including a specified portion of these countries’ eligible current face amounts of debt outstanding.

JPM CEMBI Diversified is designed to measure the total returns for corporate emerging market fixed rate securities. The benchmark is calculated on a total return basis.

Barclays European High Yield Index measures the market of euro-denominated, noninvestment grade, fixed-rate corporate bonds. Inclusion is based on the currency of issue, and not the domicile of the issuer. The index excludes emerging market debt.
S&P/LSTA Leveraged Loan Index is a daily total return index that uses LSTA/LPC Mark-to-Market Pricing to calculate market value change. It tracks the current outstanding balance and spread over LIBOR for fully funded term loans. The facilities included in the index represent a broad cross section of leveraged loans syndicated in the U.S., including dollar-denominated loans to overseas issuers.

Barclays U.S. Credit Index comprises the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

Barclays Euro Corporate Index tracks the fixed-rate, investment-grade euro denominated corporate bond market. Inclusion is based on the currency of the issue, not the domicile of the issuer. The index includes publicly issued securities from industrial, utility, and financial companies that meet specified maturity, liquidity and quality requirements.

Barclays U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting.

Barclays Global Treasury Index tracks fixed-rate local currency government debt of investment grade countries. The index represents the Treasury sector of the Global Aggregate Index and currently contains issues from 37 countries denominated in 23 currencies. The three major components of this index are the U.S. Treasury Index, the Pan-European Treasury Index, and the Asian-Pacific Treasury Index, in addition to Canadian, Chilean, Mexican, and South-African government bonds.

Barclays U.S. Aggregate Bond Index represents securities that are U.S. domestic, taxable and dollar-denominated. The Index covers the U.S. investment-grade, fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities.

BofA ML U.S. High Yield Constrained Index contains all securities in the BofA Merrill Lynch U.S. High Yield Index but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount. The BofA Merrill Lynch U.S. High Yield Index is comprised of U.S. dollar-denominated below investment grade corporate debt securities publicly issued in the U.S. domestic market.

S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value-weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.

FTSE 100 Index consists of the 100 companies listed on the London Stock Exchange with the highest market capitalization.
Disclosures

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