MULTI CREDIT INVESTING:
A THROUGH-THE-CYCLE APPROACH TO HIGH YIELD

DAVID MIHALICK
HEAD OF U.S. HIGH YIELD INVESTMENTS

MARTIN HORNE
HEAD OF EUROPEAN HIGH YIELD INVESTMENTS

How does Barings define high yield multi credit investing?

DAVID: At a high level, multi credit investing aims to take advantage of opportunities across the global high yield markets as they appear throughout the credit cycle. At Barings, we consider a high yield multi credit strategy as one that mostly comprises allocations to the "core four" sub asset classes—U.S. high yield bonds, U.S. loans, European high yield bonds and European loans—with the ability to make opportunistic allocations to collateralized loan obligations (CLOs), and stressed and distressed credits (special situations).

MARTIN: The market David identified is over $3 trillion in size, with approximately 3,000 issues, giving investors access to a much larger opportunity set than any one of these markets alone.[1] This wider universe allows portfolio managers to select investments based on their best ideas, while still maintaining a highly diversified pool of corporate credit.

Given the nature of the changes that occur across the high yield markets, it is important that investors be in a position to reallocate in as close to real time as possible

THREE KEY BENEFITS *of a* MULTI CREDIT APPROACH TO HIGH YIELD

A MULTI CREDIT STRATEGY CAN ALLOW MANAGERS TO...

1. Dynamically reallocate capital as pricing opportunities change between the "core four" markets
2. Consolidate best ideas from a market that has more than 3,000 issuers and an opportunity set upward of $3 trillion
3. Dampen technical risks that exist within the high yield markets, leading to a less volatile asset pool

How can a multi credit strategy benefit investors, both in the current environment and longer-term / through a full credit cycle?

MARTIN: In this continued slow-growth, low-rate environment, the search for yield is ongoing, and many investors have become more comfortable with taking on additional credit risk in order to access potentially

1. Source: Credit Suisse. As of September 30, 2017.

more attractive risk-adjusted returns. More and more, investors are looking to take their high yield allocation a step further by employing a strategy that allows their position to be increased or decreased within a set band based on risk tolerance. This is particularly true as they look to hold high yield longer-term or through a full credit cycle. In our view, it makes sense to give that high yield allocation as much flexibility as possible in order to quickly and efficiently capitalize on opportunities as they arise across bonds and loans in the U.S. and Europe.

VALUE IN HIGH YIELD SHIFTS OVER TIME

2011	2012	2013	2014	2015	2016	2017 YTD	RETURNS
4.91%	24.19%	9.38%	5.25%	4.39%	18.32%	7.30%	*higher*
1.82%	14.74%	8.97%	2.49%	1.15%	10.12%	6.67%	
-1.23%	10.51%	7.22%	2.10%	-0.38%	9.88%	3.72%	
-1.47%	9.43%	6.15%	2.06%	-5.38%	5.42%	3.52%	*lower*

U.S. LOANS | U.S. BONDS | EUROPEAN LOANS | EUROPEAN BONDS

SOURCE: *BAML U.S. NON-FINANCIAL HIGH YIELD CONSTRAINED INDEX (U.S. HIGH YIELD BONDS), BAML EUROPEAN CURRENCY NON-FINANCIAL HIGH YIELD CONSTRAINED INDEX (EUROPEAN HIGH YIELD BONDS); CREDIT SUISSE LEVERAGED LOAN INDEX (U.S. LOANS); CREDIT SUISSE WESTERN EUROPEAN LEVERAGED LOAN INDEX (EUROPEAN LOANS).PAST PERFORMANCE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS*

DAVID: I would add that across these "core four" asset classes, the risk / return profiles of the underlying corporates are similar. However, as Martin suggested, these markets have historically been punctuated with periods of dislocation, during which technical factors or risk flare-ups can cause any one sub asset class to outperform or underperform for a period of time. All financial markets can exhibit "top-down" pricing inefficiency during periods of dislocation, which is often disproportionately sentiment-driven rather than related to underlying collateral risk. It is during these periods that managers who take a bottom-up approach to credit selection can often find excess value by investing across the high yield universe.

Can you give examples of past market dislocations that ultimately led to attractive buying opportunities?

DAVID: As I mentioned earlier, the disparity in performance and pricing between the high yield markets is often due to headline risk or technical factors, such as flows into and out of retail funds, rather than to underlying fundamental weakness. Changes in these factors can cause securities to become mispriced relative to their underlying fundamentals and also relative to other sub asset classes, creating short-term opportunities. In recent years, we have seen instances where, due to technical factors impacting the U.S. and European markets differently, senior secured loans issued by the same company, with the same terms, have traded at materially different valuations if one is denominated in euros and one in dollars.

The high yield markets have presented investors with a number of attractive buying opportunities over the last several years. Events like the 2011 Eurozone crisis or the 2013 taper tantrum gave investors the opportunity to buy assets at relatively cheap prices in specific markets. More recently, we have seen volatility and buying opportunities driven by the energy sector in the U.S. market.

MARTIN: It is also worth noting that market prices tend to react quickly to changes in technical factors and risk flare-ups. This means sharp downward movements in pricing are often followed by relatively quick recoveries when the market recognizes the price movements are overdone. For example, during the energy sell-off in 2015, the U.S. bond market significantly underperformed due to widespread concerns over commodity businesses, whereas the European loan market, with less exposure to energy, outperformed. In 2016, this trend reversed, with U.S. bonds significantly outperforming the other three core markets and European loans delivering the lowest returns. In this scenario, as in David's example above, managers with the ability to look holistically across these markets were well positioned to take advantage of the resulting opportunity.

Looking ahead over the next year or so, do you anticipate seeing more of these technical dislocations or instances when one market may outperform another?

DAVID: While it is difficult to predict exactly when volatility will impact the high yield markets or what may cause it, we can be pretty certain it will return at some point. It is important to understand that although you are taking similar risks, these "core four" high yield sub asset classes have their own nuances. In the U.S., for example, we are keeping a close eye on energy, which makes up roughly 15% of the U.S. high yield bond market. Although energy has stabilized in the last year or so, it continues to represent a potential risk, in our view. If oil prices were to decline again, the impact would likely reverberate throughout the U.S. market and potentially create volatility.

Healthcare has also been a topical issue in the U.S., where it makes up roughly 12% of the high yield bond market. At the end of 2016, following the election of Donald Trump, healthcare credits sold off significantly amid uncertainty over the potential repeal and replacement of the Affordable Care Act and concern about what that could mean for hospitals. However, through the course of 2017, many of those credits went on to rally as it became evident that Republican efforts to repeal and replace Obamacare were unlikely to come to fruition. And while this particular sequence of events didn't have a widespread negative impact, it's something that definitely could down the road, and as such it is something we plan to continue watching closely going forward.

MARTIN: More broadly, as we see technical or fundamental pressures intensify in one geography, whether it be the U.S. or Europe, we would be more likely to allocate to loans, which typically exhibit less volatility through periods of dislocation. We would likely move back to bonds upon seeing attractive pricing on a longer-term basis, similar to how we reacted to the commodity cycle movements in 2014 / 2015.

DAVID: The main takeaway here is that even if you do not know exactly what event or trigger may cause a dislocation in the market, having the flexibility and the breadth to move or pivot puts you in a good position to capitalize on the opportunities that emerge in any one sub asset class at any given period of time.

What are some of the arguments for putting tactical allocation decisions into the hands of managers like Barings?

DAVID: Given the nature of the changes that occur across the high yield markets, it is important that investors be in a position to reallocate in as close to real time as possible. For some investors, that may mean delegating the reallocation decision to an investment manager if their own internal decision-making processes cannot opportunistically react to market movements. Even for market participants that are familiar with the frequent risk flare-ups, timing a sell-off or identifying an entry point can be very difficult, and in some cases impossible. Following last year's Brexit vote, for instance, the entry point into the high yield market came and went quickly.

As such, while we are ultimately long-term, fundamental investors, in the short term we track technicals very closely, aiming to capitalize on the opportunities they can create at the individual credit level. Our ability to take advantage of these opportunities relies on accurately assessing and pricing idiosyncratic credit risk, and also taking a holistic look at the markets to assess which region or sub asset class offers the best value.

MARTIN: Ultimately, we are able to do all of this because of the size and depth of our high yield team. At Barings, the cornerstone of our strategy is our large, global high yield platform, which consists of 72 investment professionals in the U.S. and Europe. This breadth gives us the ability to dig deep into each individual issuer we analyze and employ a consistent, bottom-up approach to investing across our key high yield strategies.

BARINGS HIGH YIELD TEAM

consists of

72

INVESTMENT PROFESSIONALS

49 IN THE U.S.

23 IN EUROPE

that underwrite more than

1300 CREDITS

GLOBALLY

When looking at the high yield markets today, we believe that fundamentals continue to look stable and leverage ratios remain in reasonable territory. But looking ahead over the next several months, there are a handful of issues—ongoing Brexit negotiations, sector-specific risks in the U.S. around energy, retail and healthcare, and geopolitical events across multiple regions—that we can point to as potential volatility triggers. In this environment, a multi credit approach can be particularly beneficial, as it gives managers the flexibility to pivot to those regions or sub asset classes that offer the most attractive opportunities at any given point in time.

Barings is a $299+ 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. A member of the MassMutual Financial Group, Barings maintains a strong global presence with over 650 investment professionals and offices in 16 countries.*

LEARN MORE AT BARINGS.COM

IMPORTANT INFORMATION
For Professional Investors / Institutional Investors only. This document should not be distributed to or relied on by Retail / Individual Investors.

Barings LLC, Barings Securities LLC, Barings (U.K.) Limited, Barings Global Advisers Limited, Barings Australia Pty Ltd, Barings Japan Limited, Barings Real Estate Advisers Europe Finance LLP, BREAE AIFM LLP, Baring Asset Management Limited, Baring International Investment Limited, Baring Fund Managers Limited, Baring International Fund Managers (Ireland) Limited, Baring Asset Management (Asia) Limited, Baring SICE (Taiwan) Limited, Baring Asset Management Switzerland Sarl, and Baring Asset Management Korea Limited each are affiliated financial service companies owned by Barings LLC (each, individually, an "Affiliate"), together known as "Barings." Some Affiliates may act as an introducer or distributor of the products and services of some others and may be paid a fee for doing so.

NO OFFER:
The document is for informational purposes only and is not an offer or solicitation for the purchase or sale of any financial instrument or service in any jurisdiction. The material herein was prepared without any consideration of the investment objectives, financial situation or particular needs of anyone who may receive it. This document is not, and must not be treated as, investment advice, an investment recommendation, investment research, or a recommendation about the suitability or appropriateness of any security, commodity, investment, or particular investment strategy, and must not be construed as a projections or predictions.

In making an investment decision, prospective investors must rely on their own examination of the merits and risks involved and before making any investment decision, it is recommended that prospective investors seek independent investment, legal, tax, accounting or other professional advice as appropriate.

Unless otherwise mentioned, the views contained in this document are those of Barings. These views are made in good faith in relation to the facts known at the time of preparation and are subject to change without notice. Individual portfolio management teams may hold different views than the views expressed herein and may make different investment decisions for different clients. Parts of this document may be based on information received from sources we believe to be reliable. Although every effort is taken to ensure that the information contained in this document is accurate, Barings makes no representation or warranty, express or implied, regarding the accuracy, completeness or adequacy of the information.

Any forecasts in this document are based upon Barings opinion of the market at the date of preparation and are subject to change without notice, dependent upon many factors. Any prediction, projection or forecast is not necessarily indicative of the future or likely performance. Investment involves risk. The value of any investments and any income generated may go down as well as up and is not guaranteed by Barings or any other person. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Any investment results, portfolio compositions and or examples set forth in this document are provided for illustrative purposes only and are not indicative of any future investment results, future portfolio composition or investments. The composition, size of, and risks associated with an investment may differ substantially from any examples set forth in this document. No representation is made that an investment will be profitable or will not incur losses. Where appropriate, changes in the currency exchange rates may affect the value of investments. Prospective investors should read the offering documents for the details and specific risk factors of any Fund discussed in this document.

These materials are being provided on the express basis that they and any related communications (whether written or oral) will not cause Barings to become an investment advice fiduciary under ERISA or the Internal Revenue Code with respect to any retirement plan, IRA investor, individual retirement account or individual retirement annuity as the recipients are fully aware that Barings (i) is not undertaking to provide impartial investment advice, make a recommendation regarding the acquisition, holding or disposal of an investment, act as an impartial adviser, or give advice in a fiduciary capacity, and (ii) has a financial interest in the offering and sale of one or more products and services, which may depend on a number of factors relating to Barings' business objectives, and which has been disclosed to the recipient. Nothing set forth herein or any information conveyed (in writing or orally) in connection with these materials is intended to constitute a recommendation that any person take or refrain from taking any course of action within the meaning of U.S. Department of Labor Regulation §2510.3-21(b) (1), including without limitation buying, selling or continuing to hold any security or other investment. You are advised to contact your own financial advisor or other fiduciary unrelated to Barings about whether any given course of action may be appropriate for your circumstances. The information provided herein is intended to be used solely by the recipient in considering the products or services described herein and may not be used for any other reason, personal or otherwise.

OTHER RESTRICTIONS:
The distribution of this document is restricted by law. No action has been or will be taken by Barings to permit the possession or distribution of the document in any jurisdiction, where action for that purpose may be required. Accordingly, the document may not be used in any jurisdiction except under circumstances that will result in compliance with all applicable laws and regulations.

Any service, security, investment or product outlined in this document may not be suitable for a prospective investor or available in their jurisdiction.

INFORMATION:
Barings is the brand name for the worldwide asset management or associated businesses of Barings. This document is issued by one or more of the following entities:

Barings LLC, which is a registered investment adviser with the Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940, as amended (Barings LLC also relies on section 8.26 of NI 31-103 (international adviser exemption) and has filed the Form 31-103F2 in Ontario, Quebec, British Columbia, Alberta, Nova Scotia, Manitoba, New Brunswick, Newfoundland and Labrador, Prince Edward Island and Saskatchewan);

Barings Securities LLC, which is a registered limited purpose broker-dealer with the Financial Industry Regulatory Authority (Baring Securities LLC also relies on section 8.18 of NI 31-103 (international dealer exemption) and has filed the Form 31-103F2 in Ontario, Quebec, British Columbia, Alberta, Nova Scotia, Manitoba, New Brunswick, Newfoundland and Labrador, Prince Edward Island and Saskatchewan);

Barings (U.K.) Limited, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 194662) and is a Company registered in England and Wales (No. 03005774) whose registered address is 61 Aldwych, London, WC2B 4AE;

Barings Global Advisers Limited, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 552931) and is a Company registered in England and Wales (No. 07622519) whose registered address is 61 Aldwych, London, WC2B 4AE and is a registered investment adviser with the SEC;

Baring Asset Management Limited, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 170601) and is a Company registered in England and Wales (No. 02915887) whose registered address is 155 Bishopsgate, London EC2M 3XY;

Baring International Investment Limited, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 122628), and is a Company registered in England and Wales (No. 01426546) whose registered address is 155 Bishopsgate, London EC2M 3XY, is a registered investment adviser with the SEC (Baring International Investment Limited also relies on section 8.26 of NI 31-103 (international adviser exemption) and has filed the Form 31-103F2 in Quebec and Manitoba;

Barings Real Estate Advisers Europe Finance LLP, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 401543); or

BREAE AIFM LLP, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 709904);

Baring Fund Managers Limited, which is authorized as a manager of collective investment schemes with the Financial Conduct Authority in the United Kingdom and is authorized as an Alternative Investment Fund Manager in several European Union jurisdictions under the Alternative Investment Fund Managers Directive (AIFMD) passport regime;

Baring International Fund Managers (Ireland) Limited), which is authorized as an Alternative Investment Fund Manager in several European Union jurisdictions under the Alternative Investment Fund Managers Directive (AIFMD) passport regime and, since April 28, 2006, as a UCITS management company with the Central Bank of Ireland;

Baring Asset Management Switzerland Sàrl, which is authorized by the Switzerland Financial Market Supervisory Authority to offer and/or distribute collective capital investments;

Barings Australia Pty Ltd (ACN 140 045 656), which is authorized to offer financial services in Australia under its Australian Financial Services License (No: 342787) issued by the Australian Securities and Investments Commission;

Baring Asset Management (Asia) Limited, which is licensed by the Securities and Futures Commission of Hong Kong to carry on regulated activities Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) in Hong Kong in accordance with the requirements set out in the Securities and Futures Ordinance (Cap 571);

Barings Japan Limited, which is registered as a Financial Business Operator (Registration No. 396-KLFB) for Type II Financial Instruments Business, Investment Advisory and Agency Business, and Investment Management Business with the Financial Services Agency in Japan under the Financial Instruments and Exchange Act (Act No. 25 of 1948);

Baring SICE (Taiwan) Limited, an independently operated business (Business license number: 2008 FSC- SICE- Xin- 030; Address: 21 F, No.333, Sec. 1 Keelung Road, Taipei 11012; Taiwan Contact telephone number: 0800 062 068); or

Baring Asset Management Korea Limited, which is authorized by the Korean Financial Services Commission to engage in collective investment business and is registered with the Korean Financial Services Commission to engage in privately placed collective investment business for professional investors, discretionary investment business and advisory business.

**As of September 30, 2017*