BARINGS

DAVID NAGLE, CFA
HEAD OF MULTI STRATEGY FIXED INCOME

UNDERSTANDING WHERE THE RISKS AND RETURNS ARE COMING FROM IN YOUR SHORT-TERM BOND STRATEGY

Short-term bond strategies have been consistently popular among investors seeking to protect their capital while also generating a return. These strategies are generally considered lower risk on the spectrum of potential investments, and investors may choose to invest in short-term bond strategies for a number of reasons, including:

- The potential for enhanced cash and higher total returns versus money market funds
- The potential for lower volatility versus equities or other higher-risk markets

What some investors may not realize is that within this space, the risk / return profile of short-term bond strategies can vary quite dramatically. One firm's strategy may be made up of short-term U.S. Treasuries, for instance, while another's may comprise a combination of longer-term corporate bonds and derivatives—although both are considered short-term strategies, the two have very different risk / return profiles. Given the potential for variation within the short-term bond universe, it is crucial that investors look closely at the makeup of a portfolio before making an investment and ask themselves: Where is the risk (and return) coming from?

Two Ends of the Spectrum: Benchmark Huggers vs. the Wild West

From a risk / return perspective, many short-term bond funds fall into one of two categories relative to the index. As follows, the degree to which these funds deviate or tilt from the benchmark becomes the primary driver of performance.

On the one hand, there are low active share funds, or funds that closely resemble the relevant benchmark from both a credit and duration standpoint. These funds, because they don't stray from the index, do not tend to generate the excess returns investors would typically associate with or expect from actively managed strategies.

On the opposite end of the spectrum are funds that typically look nothing like the relevant benchmark, aiming to outperform by taking on interest rate risk, credit risk or some combination of both. Often, these funds—while maintaining an overall investment grade rating—have a meaningful percentage of their portfolios in lower quality / higher yielding investments, and as such tend to outperform during periods of spread tightening. This has been the case over the last year or so, during which spreads have tightened significantly and are now near post-recession tights with little room for further compression. When spreads widen, these strategies can experience greater volatility than your typical investment grade strategy—more akin to equity or high yield. This volatility may come as a surprise to investors who view their short-term bond strategy as a volatility buffer. One example of this was September 2011, when Standard & Poor's downgraded U.S. debt. Following the downgrade, many short-term bond funds experienced losses due to their outsized allocations to below investment grade names. The 2015 / 2016 energy weakness had a similar effect.

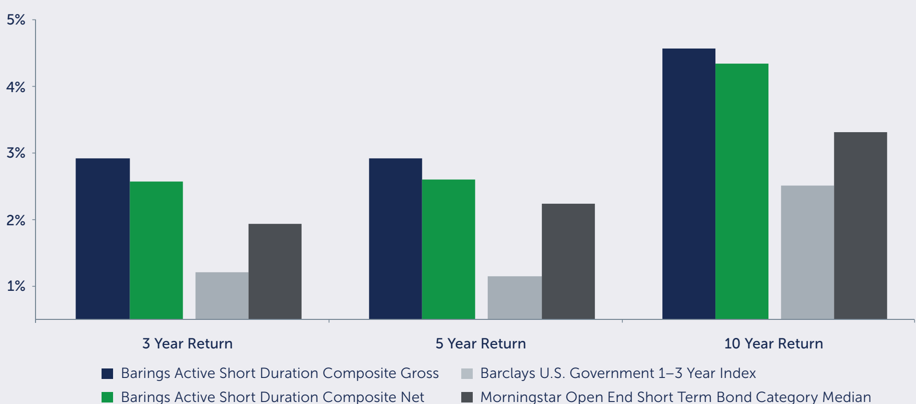
Other funds also aim to outperform by making calls or bets on the direction of interest rates, or anticipating what central banks are going to do and how the short end of the curve is going to react. When their calls are correct over a period of time, these strategies tend to gather a lot of assets. The downside, of course, is that it can be difficult to make these calls consistently, meaning investors are taking a leap of faith that their manager can continue making the correct call on rates.

The Best of Both Worlds

Unlike many comparable strategies, Barings' Active Short Duration strategy does not model duration or sector exposure after the benchmark. From an interest rate risk standpoint, while many funds in this universe are characterized by their static exposure, Barings' Active Short Duration strategy takes a dynamic, rules-based approach to duration management that has been tested throughout our 25 years in the market. As opposed to a subjective approach, the target portfolio duration of our Active Short Duration strategy is determined using the slope of the U.S. Treasury yield curve—duration increases to a maximum of three years as the yield curve steepens and decreases to a minimum of three months as it flattens or inverts.

From a credit risk standpoint, our Active Short Duration strategy takes a deliberate and considered approach to assuming risk. Our strategy includes allocations to individual credits and sectors that we believe will outperform based on the bottom-up analysis conducted by our large team of analysts across sectors

BARINGS' ACTIVE SHORT DURATION STRATEGY: ATTRACTIVE RETURNS OVER 3, 5, 10-YEAR PERIODS



Data as of June 30, 2017. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Source: Bloomberg/Barclays and Morningstar. Please see GIPS Disclosure at the end for more information.

including investment grade corporates, securitized products (commercial mortgage backed securities, residential mortgage backed securities, asset backed securities), U.S. Treasuries, high yield, CLOs and emerging markets debt. We believe the credit-centric nature of our strategy can lead to outperformance, particularly during periods of market stress when overall spreads tend to widen.

Over time, our approach to actively managing credit and interest rate risk has resulted in returns that we believe fairly compensate investors for the level of risk they are taking. More specifically, over the last 10 years, Barings' strategy has delivered 94% of the Bloomberg Barclays U.S. Aggregate return with only 67% of the volatility.

The Barings Team

At Barings, we build portfolios from a bottom-up perspective, conducting rigorous credit analysis on each of the names in which we invest. We have deep research teams covering a range of asset classes and sectors, and our meaningful participation in these markets enables us to assess risk / reward in real-time and make opportunistic portfolio shifts to the potential benefit of our clients. Within our Active Short Duration strategy, the firm-wide emphasis on bottom-up analysis is evident in the way we introduce credit risk, not only allowing us to identify attractive credits but also helping us uncover downgrade and upgrade candidates early in the process. Whether we're looking at investment grade corporate credit, securitized products, emerging markets, CLOs or other parts of the fixed income universe, our deep research teams combined with our dedicated Active Short Duration portfolio team give us the ability to intelligently assess credit risk and thoughtfully incorporate it in our portfolios if we believe investors are being adequately compensated.

BARINGS' ACTIVE SHORT DURATION STRATEGY:

A Tried, Tested & Transparent Approach

- Rules-based approach to rates, tested over 25 years
- Prudent exposure to below investment grade holdings
- Broad diversification across asset classes that seeks to generate risk-managed alpha

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Barings Active Short Duration Composite / Reporting Currency: USD / Schedule of Performance Results

Annual	Composite Annual Gross Return	Composite Annual Net Return	Barclay's Capital Gov't 1-3 Yr Index Annual Returns	Asset-Weighted Dispersion	Composite Standard Deviation	Benchmark Standard Deviation	Total Assets (millions)	Total Firm Assets (millions)	Percentage of Firm Assets	# of Portfolios at End of Period
6/30/2017	2.01%	1.84%	0.48%	NM	1.09%	0.75%	1,208	270,024	0.4%	<=5
12/31/2016	3.36%	3.00%	0.87%	NM	1.07%	0.76%	1,110	178,724	0.6%	<=5
12/31/2015	1.31%	0.96%	0.57%	NM	0.98%	0.57%	1,217	163,934	0.7%	6
12/31/2014	1.98%	1.73%	0.64%	NM	0.72%	0.43%	1,167	157,257	0.7%	<=5
12/31/2013	1.60%	1.34%	0.37%	NM	0.86%	0.49%	1,651	142,832	1.2%	<=5
12/31/2012	3.60%	3.34%	0.51%	NM	1.28%	0.71%	1,164	116,633	1.0%	<=5
12/31/2011	3.98%	3.72%	1.56%	NM	2.20%	0.95%	827	100,213	0.8%	<=5
12/31/2010	6.11%	6.03%	2.40%	NM	3.19%	1.67%	685	95,808	0.7%	<=5
12/31/2009	12.77%	12.68%	1.41%	NM	3.08%	1.80%	389	108,303	0.4%	<=5
12/31/2008	0.37%	0.29%	6.66%	NM	2.43%	1.62%	391	99,036	0.4%	<=5
12/31/2007	6.53%	6.44%	7.10%	NM	1.13%	1.28%	482	95,417	0.5%	<=5

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NM — *The asset-weighted dispersion of five or fewer portfolios for the entire year is not meaningful. Please note that although 2015 ended the year with 6 portfolios, they were not all present for the entire year.*

<=5 — *Five or fewer portfolios.*

Compliance Statement: *Barings, fka Babson Capital Management LLC, claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Barings has been independently verified for the periods 1993-2016 as Babson Capital Management LLC. See firm definition for further information. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Active Short Duration composite has been examined for the periods 2010 - 2016. The verification and performance examination reports are available upon request.*

Definition of the Firm: *Barings, "Firm", provides investment management and advisory services to both institutional and individual clients. For purposes of compliance with the Global Investment Performance Standards (GIPS®), the Firm defines itself as consisting of the portfolios that it manages directly. In the third quarter of 2016, the previous subsidiaries of Babson Capital Management, "Babson", including Babson, were consolidated under the Barings name. Those entities included Babson Capital Management LLC, Cornerstone Real Estate Advisers LLC, Barings Asset Management Limited, and Wood Creek Capital Management LLC. For 2016 the "firm" assets reflected above represent Babson Capital Management LLC for GIPS® purposes. In 2017, the firm assets will represent the consolidated entity. A list of the Firm's composite descriptions is available upon request.*

Policies: *The Firm's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.*

Composite Description: *Portfolios in the composite seek to achieve a high total rate of return primarily from current income and to minimize fluctuations in capital values by investing primarily in diversified portfolios of short-term investment grade fixed income securities. By utilizing a yield preference approach, the duration is managed to a target (intended to be three years or less) that depends on the shape of the yield curve. Duration may be increased when longer-term investments are believed to offer sufficiently higher yields. Conversely, the duration may be decreased when short-term investments are believed to offer more attractive yields than longer-term investments, but with less risk. Portfolio duration changes will be made primarily by reinvesting cash flows and by selective trading. Additional value is added through sector rotation and issuer selection. Portfolios in the composite may invest up to 10% of total assets in below investment grade debt securities rated Ba3/BB- or higher. Derivative use within the composite membership incorporates certain options, futures contracts, options on futures contracts, forward contracts, swaps, caps, floors, collars, structured notes, indexed securities, options on indexed securities and other derivative instruments to modify risk exposures, such as Duration, Sector & issuer spread, Term structure, and Volatility. Derivative activity within the composite is not viewed as material. The minimum portfolio value requirement for inclusion in the composite is USD $15,000,000. The composite was created in June 2000.*

Benchmark: *The Barclays Capital Government Index: 1-3 Years, "Index" has been selected as the benchmark for the composite. The Index includes securities in the U.S. Government Index that have between one and three years until maturity. In 2008, Barclays Capital Inc. acquired portions of Lehman Brothers businesses and re-branded its unified family of indices under the "Barclays Capital Indices" name.*

Fees: *Returns are presented gross of management fees, custodial fees, and withholding taxes but net of all trading expenses. Net of fee performance results are calculated by deducting from the gross monthly return using the highest fee charged for a member portfolio on an annual basis dedicated to this strategy during the periods presented. Applicable Fees for 2006-2010: 8bps, 2011-2014: 25bps, and 2015 forward: 35bps. Actual fees may depend on, among other things, the applicable fee schedule and portfolio size.*

Significant Cash Flow: *Any portfolios determined to exceed the Significant Cash Flow Percentage, "SCFP", within a month, will be removed from the composite assignment for a period of at least one month and up to three months, depending on the timing of the client directed cash flow and/or the investment strategy. The SCFP for this composite is 10%. Additional information regarding the treatment of significant cash flows is available upon request.*

Performance Results: *Results are calculated using a time-weighted total-rate-of-return formula and are expressed in U.S. dollars. The composite is asset-weighted; individual portfolios are valued daily on a trade-date basis and include accrued income. The composite and benchmark results assume the reinvestment of distributions. Performance results include all portfolios under the Firm's management that meet the Composite Definition. A portfolio is included in the composite when it is deemed that the investments made by the investment advisor fully reflect the intended investment strategy. Past performance is not a guarantee of future performance.*

Assets, Composite Dispersion, Ex-Post Standard Deviation: *The asset base used to calculate the composite's percentage of Firm assets includes both discretionary and non-discretionary portfolios managed by the Firm, and also includes non-fee paying portfolios. The asset-weighted dispersion calculation measures the deviation of individual portfolio returns around the aggregate composite return. Only portfolios that have been managed for a full annual period have been included in the dispersion calculation. No Dispersion is reported for periods with five or fewer portfolios for the entire year (shown as NM). The three-year annualized ex-post standard deviation of the composite and benchmark are displayed above.*