MIRAE ASSET
Global Investments

The Case for an Unconstrained Bond Portfolio

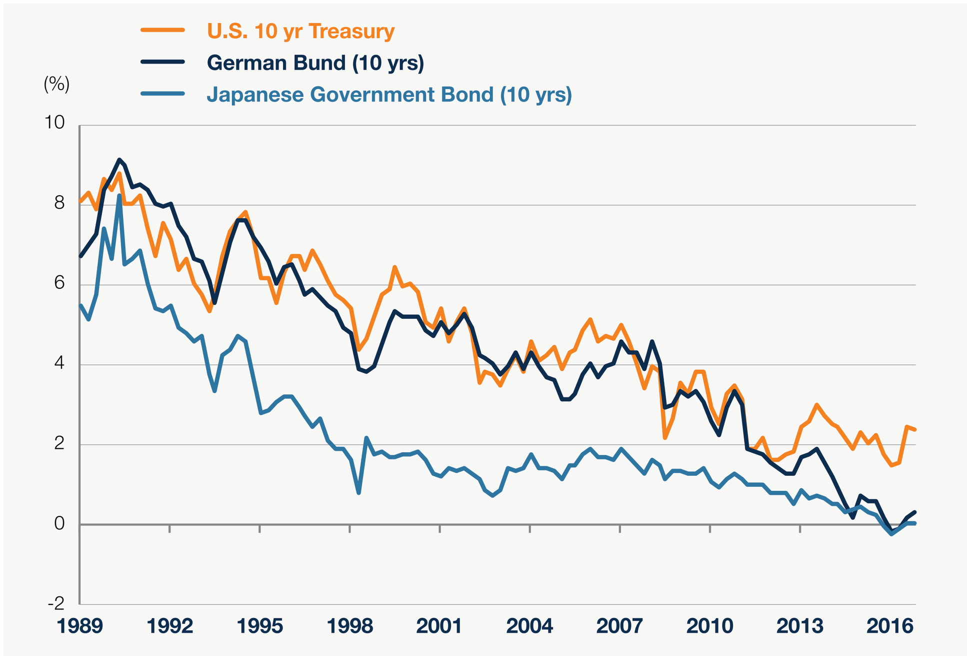
A portfolio that is not constrained by a benchmark can diversify its risk exposure by allocating to a broader range of bond asset classes across various economic cycles.

A dynamic, unconstrained fixed income investing approach with an emerging market bias may potentially offer an attractive outcome from a principal protection and return perspective.

Confluence of Factors Driving Down Bond Yields

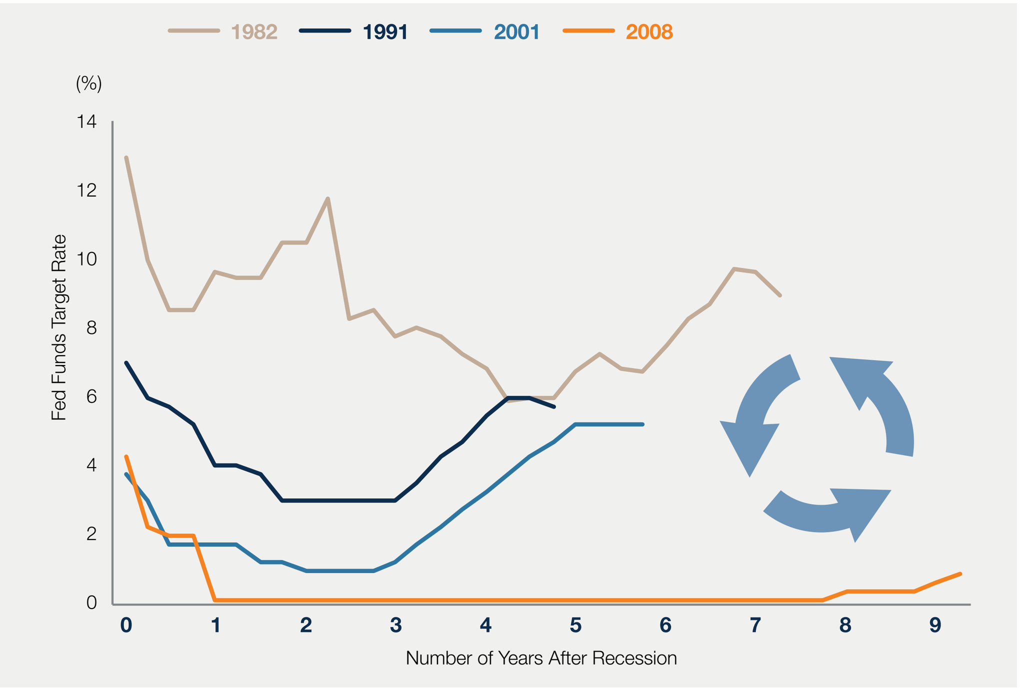
- Declining bond yields in developed markets (DMs) are a result of population ageing, polarization of wealth, investments in capital-light businesses, and automation.
- As the global economy recovers and inflation picks up, policy rates typically recover. However, in the current economic cycle, despite central banks' unconventional monetary policies, low interest rates have failed to stoke inflation in developed markets.

Government Bond Yields in Developed Markets



Source: Bloomberg, Mirae Asset Global Investments (2017)

Federal Funds Rate across Economic Cycles

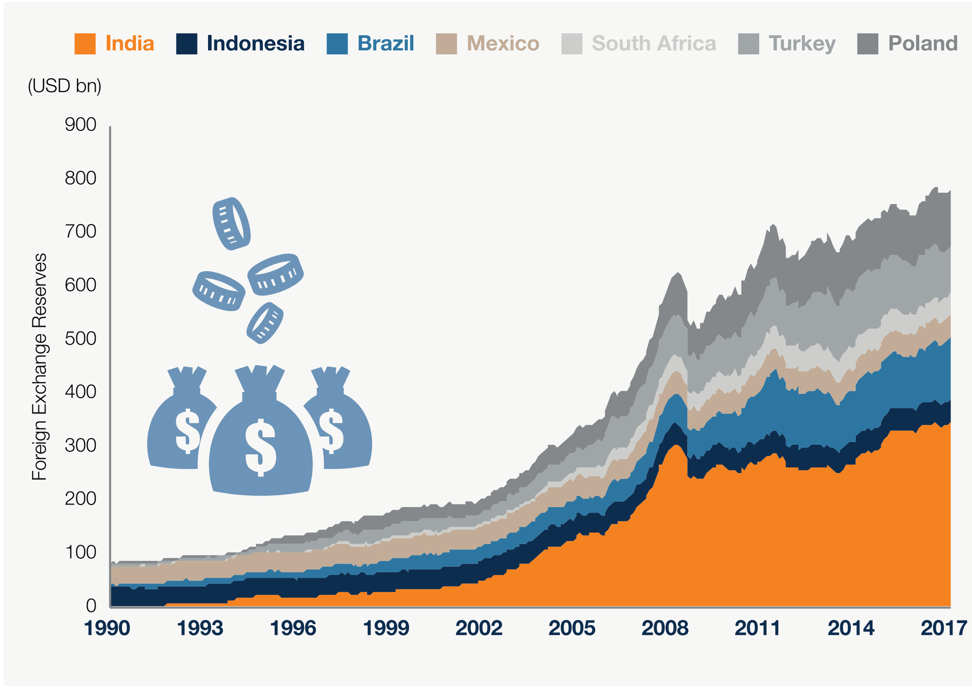


Source: Bloomberg, Mirae Asset Global Investments (2017)

The Growing Role of Emerging Markets in the World Economy

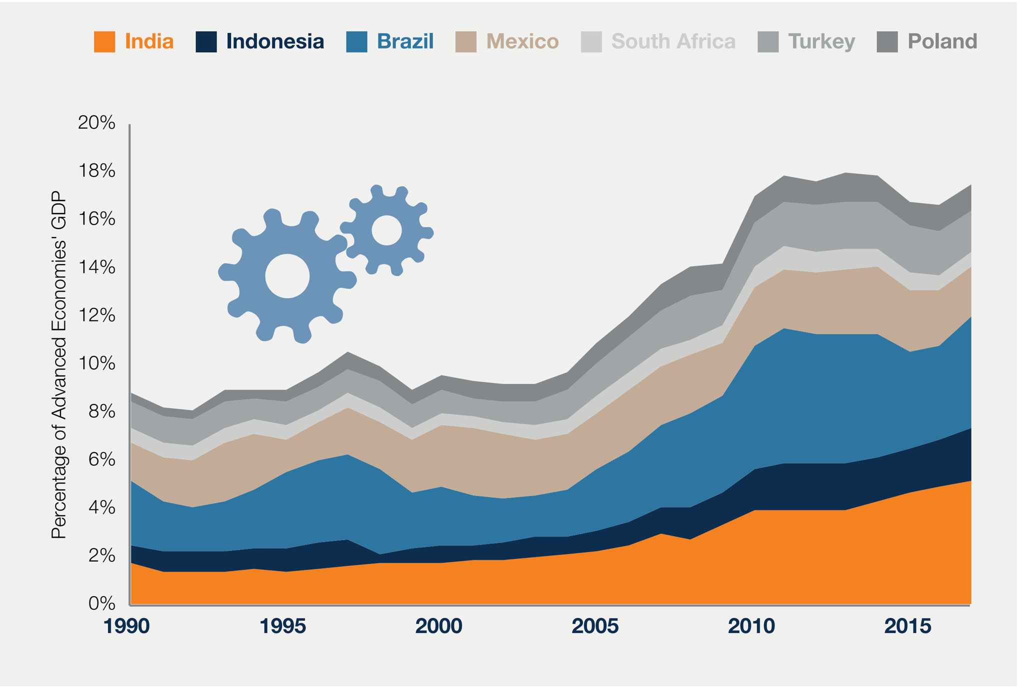
- Many emerging market (EM) countries have built a large war chest of foreign currency reserves to shore up defenses against systematic market risks.
- After a turbulent decade in the 1990s, EMs enjoyed robust growth in the 2000s thanks to favorable external conditions such as demand from China, rising global trade, and accessible financial capital.

Foreign Exchange Reserves of Select EM Countries



Source: IMF, Mirae Asset Global Investments (2017)

Percentage of Advanced Economies' GDP

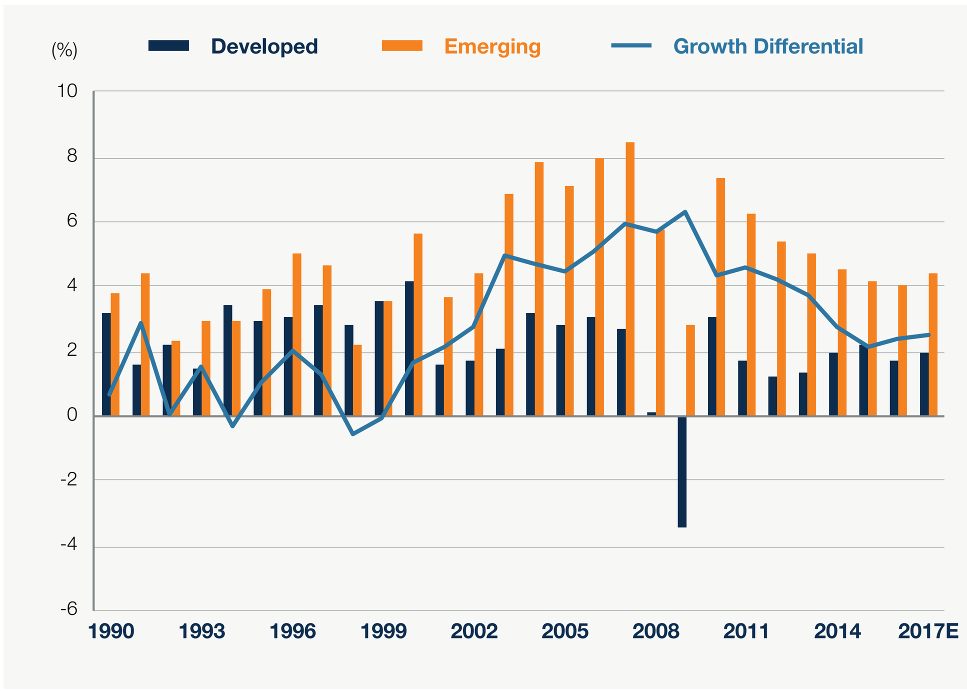


Source: IMF, Mirae Asset Global Investments (2017)

Emerging Markets Underrepresentation in Global Bond Index Inclusion

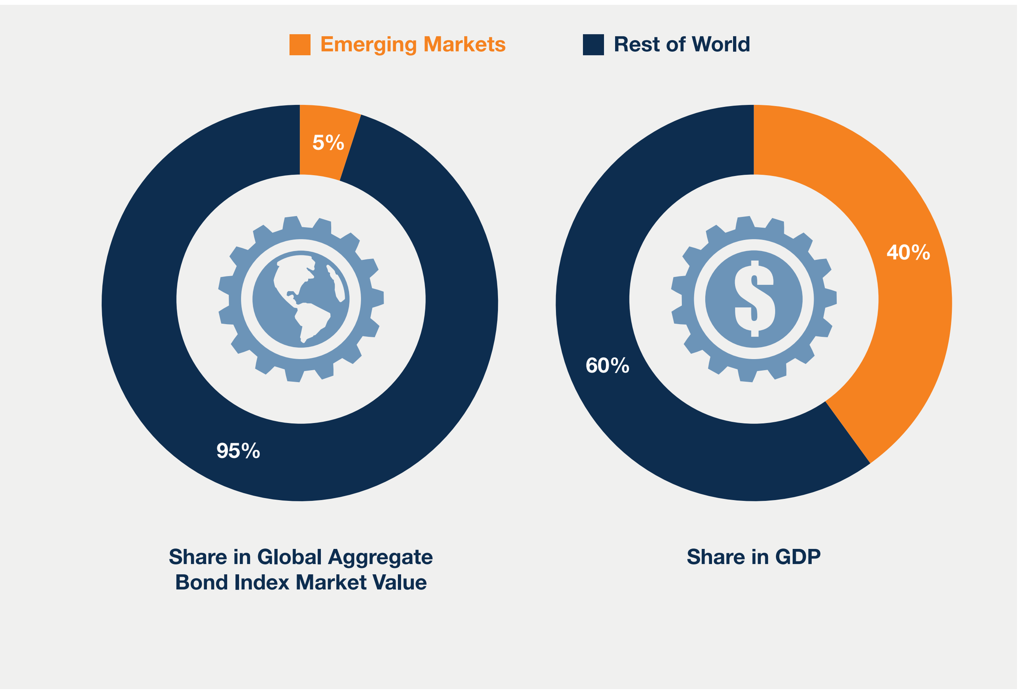
- The growth differential between EM and DM countries has once more begun to widen and emerging markets now account for 40% of the world's GDP. However, EMs remain underrepresented in the global bond index at just 5% of total.
- As EM debt continues to improve in credit quality, demand from local institutions and individuals, such as pension funds and a developing middle class, will expand local EM liquidity and fuel the demand for dollar-denominated spread products.

EM-DM Growth Differential



Source: IMF, Mirae Asset Global Investments (2017)

Emerging Markets: Global Bond Representation vs. GDP

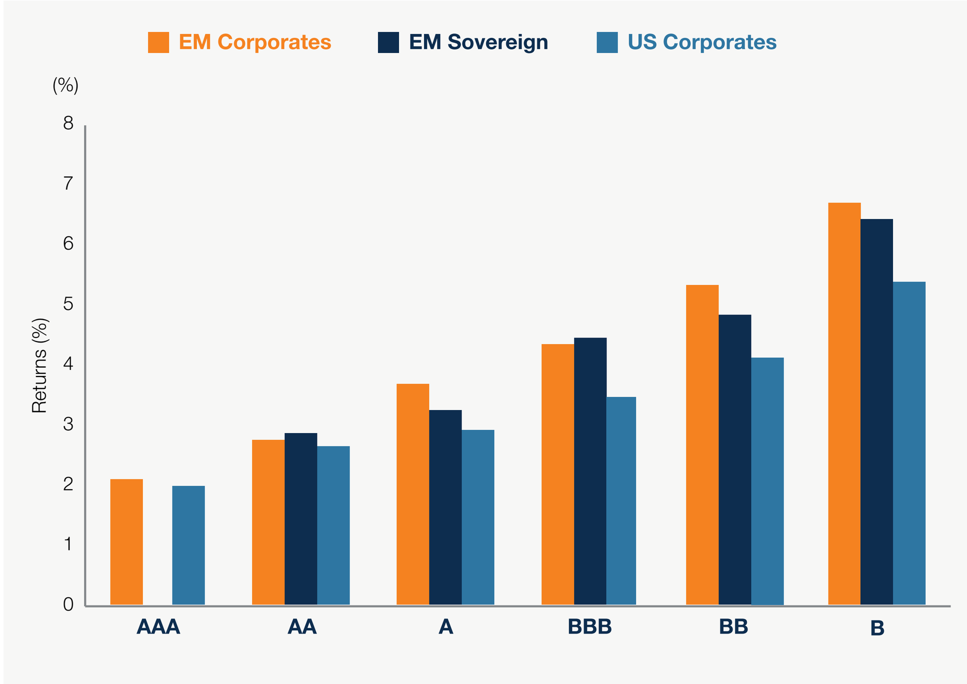


Source: IMF, Bloomberg, Mirae Asset Global Investments (2017)

Comparing Risk and Return Profiles

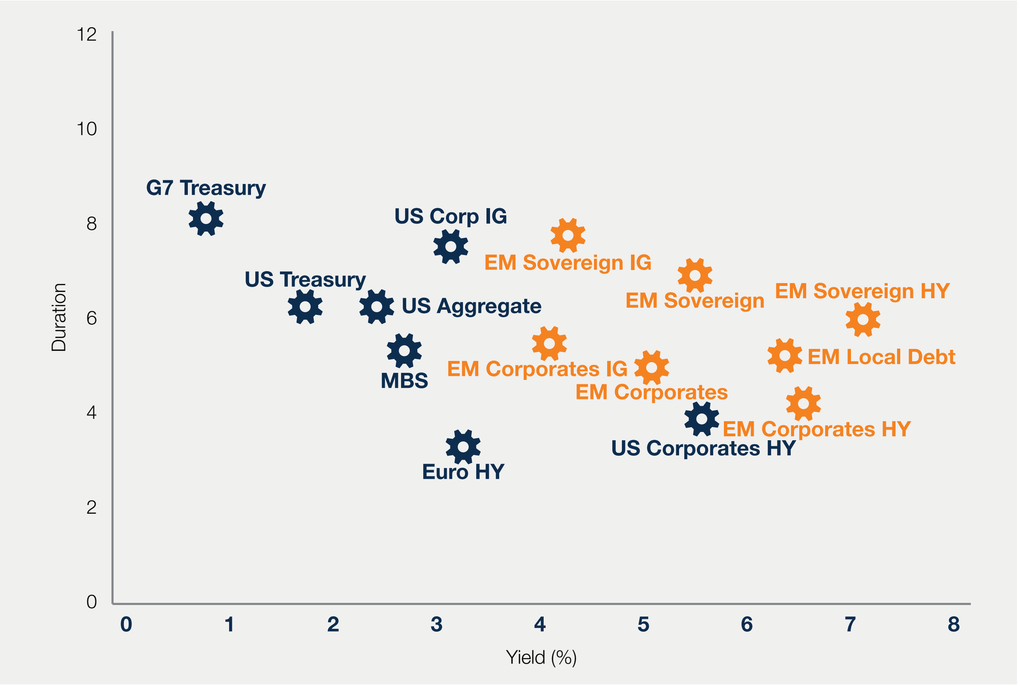
- After adjusting for credit quality, EM bonds generally offer appealing risk/return profiles relative to those of DMs.
- Similarly, duration risk and yield balance in EM asset classes are compelling against DM assets. The extra yield premium compounds over time and therefore offers the potential for higher total return compared to DM assets over a long-term investment horizon.

Return Profiles by Credit Rating: EM vs. DM



Source: JP Morgan, Bloomberg, Mirae Asset Global Investments (2017)

Duration vs. Yield Map



Source: JP Morgan, Bloomberg, Mirae Asset Global Investments (2017)

Historical Timeline of Dynamic Returns

- Every asset class has a distinct risk profile and reacts differently to changing economic and geopolitical environments.
- Consequently, a flexible allocation between EMs and DMs, as well as a tactical allocation between strategic and defensive sectors, enables agile navigation in dynamic market conditions.

Annual Fixed Income Returns by Sector

2008	DM Treasury 9.42%	Short UST 2.85%	EM Local -7.92%	EM Sovereign -12.03%	EM Corporate -15.86%	High Yield -25.24%
2009	High Yield 57.69%	EM Corporate 34.88%	EM Sovereign 29.82%	EM Local 21.01%	DM Treasury 0.72%	Short UST 0.37%
2010	EM Local 15.44%	High Yield 15.07%	EM Corporate 13.08%	EM Sovereign 12.24%	DM Treasury 4.24%	Short UST 0.29%
2011	EM Sovereign 7.35%	DM Treasury 6.17%	High Yield 3.63%	EM Corporate 2.31%	Short UST 0.23%	EM Local -1.91%
2012	High Yield 19.24%	EM Sovereign 17.44%	EM Corporate 15.02%	EM Local 14.98%	DM Treasury 4.20%	Short UST 0.15%
2013	High Yield 6.47%	Short UST 0.14%	DM Treasury -0.35%	EM Corporate -0.60%	EM Sovereign -5.25%	EM Local -8.52%
2014	DM Treasury 8.48%	EM Sovereign 7.43%	EM Corporate 4.96%	High Yield 2.58%	Short UST 0.09%	EM Local -4.68%
2015	DM Treasury 1.35%	EM Corporate 1.30%	EM Sovereign 1.18%	Short UST 0.13%	High Yield -0.69%	EM Local -16.98%
2016	High Yield 15.60%	EM Local 11.73%	EM Sovereign 10.15%	EM Corporate 9.65%	DM Treasury 3.69%	Short UST 0.52%

Source: Bloomberg, Mirae Asset Global Investments (2017)