

# IS YOUR PORTFOLIO WELL POSITIONED TO Navigate Uncertainties in the Fixed-Income Market?

As low bond yields and below-average stock market volatility persist, we believe the need to be selective is more important than ever when pursuing income and capital appreciation.

## The market has been dealing with... As a result...

### LOW INTEREST RATES GLOBALLY

**IN THE NEWS**




“How **LOW** Can They Go? Germany Sells 2-Year Debt After Yield Slide” – REUTERS, 2/28/17


“Central Banks Embrace Risk in Era of **LOW** Interest Rates” – WSJ, 1/23/17

“Japanese Banks Grapple with **ULTRA-LOW** Interest Rates” – THE ECONOMIST, 12/24/16

### INVESTORS WORLDWIDE ARE HUNTING FOR YIELD




Net Foreign Acquisitions of U.S. Corporate Bonds<sup>2</sup>  
AS OF 12/31/16



2011  
\$112  
bn

**OUTFLOWS**



2016  
\$310  
bn

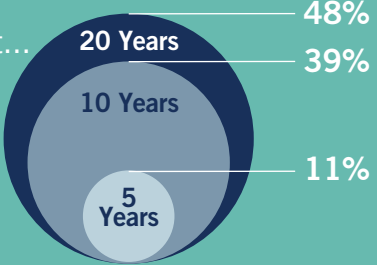
**INFLOWS**

**52% GROWTH 2013-2016**


Second-highest annual inflow in 20 years

### LACK OF U.S. STOCK MARKET VOLATILITY


Percent of Days with the VIX Above 20<sup>1</sup>  
AS OF 12/31/16



Over the last...  
 20 Years: 48%  
 10 Years: 39%  
 5 Years: 11%

**VIX Index** 

Barometer of investor sentiment and market volatility; value below 20 generally indicates investor complacency

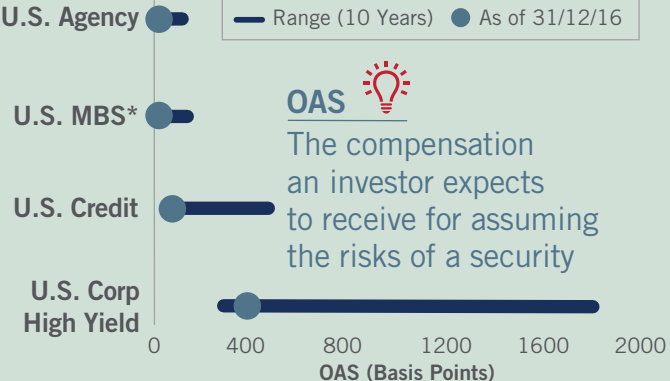


14\* **VIX**

\*As of 12/31/16

### INVESTORS ARE ACCEPTING DECADE-LOW COMPENSATION

Option Adjusted Spread (OAS)<sup>3</sup>  
AS OF 12/31/16




U.S. Agency ● — Range (10 Years) ● As of 31/12/16

U.S. MBS\* ●

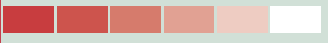
U.S. Credit ●

U.S. Corp High Yield ●

OAS (Basis Points): 0, 400, 800, 1200, 1600, 2000

**OAS** 

The compensation an investor expects to receive for assuming the risks of a security

**HIGH** ←  **LOW**

RISK TOLERANCE

\*MBS: Mortgage-Backed Securities

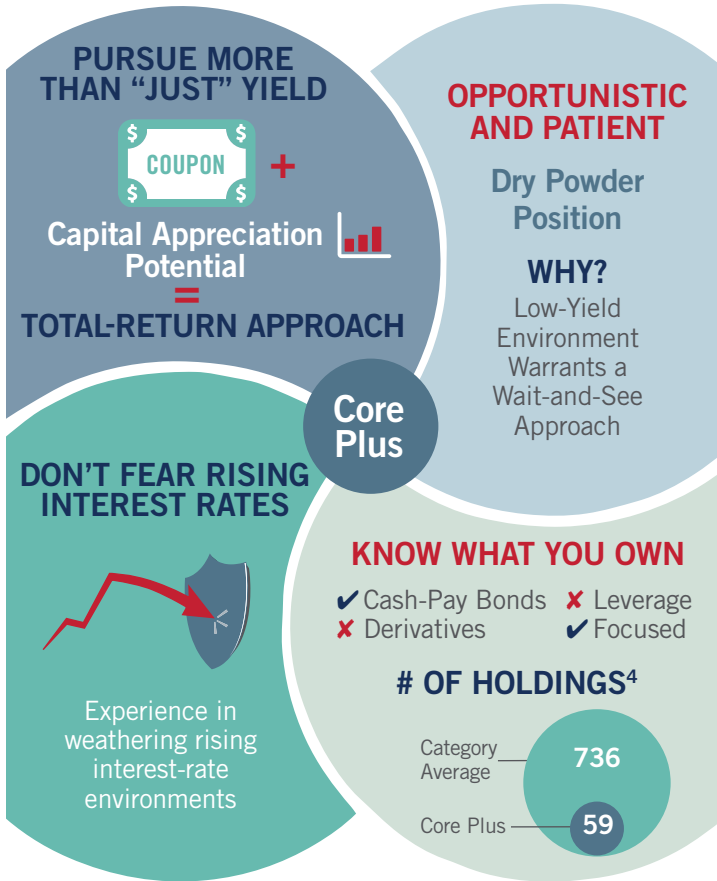
**SCARCE YIELD + LOW VOLATILITY = STRETCHED RISK TOLERANCE?** 

**ARE YOU OVERPAYING FOR YOUR RETURN POTENTIAL?**

<sup>1</sup>Source: Bloomberg as of 12/31/2016. Past performance is not a guarantee of future results.  
<sup>2</sup>Source: Federal Reserve Statistical Release Z.1 Financial Accounts of the United States. Past performance is not a guarantee of future results.  
<sup>3</sup>Source: Bloomberg Barclays Indices. Past performance is not a guarantee of future results. One cannot invest in an index. U.S. Agency: Bloomberg Barclays U.S. Agency Bond; U.S. Mortgage Backed Securities: Bloomberg Barclays U.S. Mortgage Backed Securities; U.S. Credit: Bloomberg Barclays U.S. Credit Bond; U.S. Corporate High Yield: Bloomberg Barclays U.S. Corporate High-Yield Bond.

# Brandes Core Plus Fixed Income Strategy: Value and Transparency

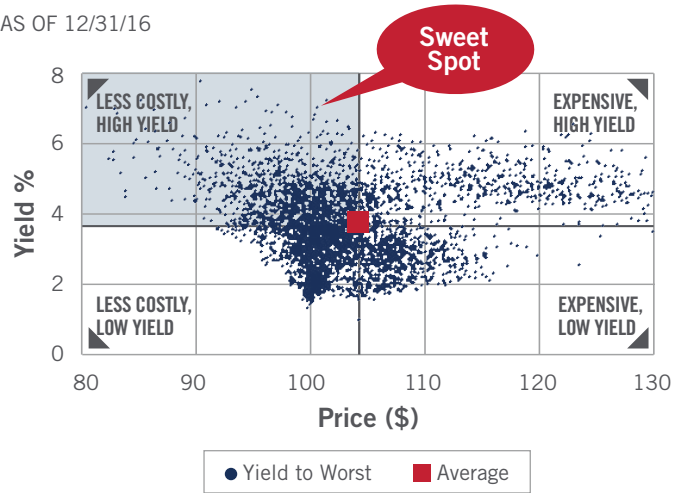
## NAVIGATING CURRENT ENVIRONMENT



## TO AVOID OVERPAYING, TARGET THE SWEET SPOT

Bank of America Merrill Lynch Corporate Master, BBB Rated Index<sup>5</sup>

AS OF 12/31/16



*"Most investors don't have the time, determination or 'mental equipment' required for aggressive bottom-up bond-by-bond research and analysis."*

- Benjamin Graham

## PARTNER WITH A PATIENT AND TRANSPARENT VALUE BOND PICKER

**Dry Powder:** Securities that can be liquidated on short notice to provide emergency operational funding or purchase assets. **Option Adjusted Spread:** Difference between a fixed-income security rate and the risk-free rate of return adjusted to take into account an embedded option. **Basis Point (BPS):** 1/100 of 1%. **Value Bond:** One selling below our estimate of intrinsic value. **Sweet Spot:** Sweet spot comprises securities with below-average prices and above-average yields. **Yield:** Annual income from the investment (dividend, interest, etc.) divided by the current market price of the investment. **Yield to Worst:** The lowest potential yield that can be received on a bond without the issuer actually defaulting. **Derivative:** A security whose pricing is derived from one or more underlying assets.

**Indices:** **CBOE Volatility (VIX):** Market estimate of expected volatility based on the midpoint of real-time S&P 500® Index option bid/ask quotes. Intended to provide instantaneous measure of how much the market thinks the S&P 500 will fluctuate in the 30 days from the time of each tick of the VIX. **Bloomberg Barclays U.S. Agency:** Public securities of U.S. government agencies and quasi-federal corporations, and U.S.-guaranteed corporate or foreign debt. **Bloomberg Barclays U.S. Mortgage-Backed Securities:** Total return of fixed-rate, mortgage-backed pass-through securities of Ginnie Mae, Fannie Mae, and Freddie Mac. **Bloomberg Barclays U.S. Credit Bond:** Total return of dollar-denominated, publicly issued, fixed-rate corporate securities. **Bloomberg Barclays U.S. Corporate High-Yield Bond:** Total return of dollar-denominated, non-investment-grade, fixed-rate, taxable corporate bonds. **Bank of America Merrill Lynch Corporate Master, BBB Rated:** BBB rated corporate issues based on an average from Moody's Investors Service, Standard & Poor's and/or Fitch Ratings.

Diversification does not assure a profit or protect against a loss in a declining market.

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<sup>4</sup>Source: Morningstar Direct as of 3/31/2017. Category: U.S. Intermediate-Term Bond. Holdings subject to change. Although the firm's investment guidelines permit the use of derivatives (including futures, options, swaps, and structured products) in its fixed income investment strategies, the fixed income investment committee seeks to avoid these types of securities except in extraordinary situations.

<sup>5</sup>Source: Bank of America Merrill Lynch as of 12/31/16.