The Globalization of the High Yield Market:

Why Diversification is an Increasingly Important Consideration in High Yield Investing

The High Yield Team

Stone Harbor Investment Partners

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Executive Summary

- A global investment approach to high yield significantly increases the size of the investment universe and allows investors to participate in some of the fastest growing sectors in the fixed income markets.
- The global high yield market[1] may enable investors to better control risk through adequate diversification across industry and geographic sectors.
- Since 1999, the global high yield market has had only three periods of negative returns: the 2000 downturn due to the telecom/internet bubble, the 2002 economic downturn, and the 2008 financial crisis.
- Over the past 25 years, equities have outperformed U.S. high yield, returning 9.79% annually versus 9.06%. However, equities recorded almost twice the volatility as high yield. During the more recent 10-year period, which included a strong rally in the equity markets, global high yield has outperformed equities with average annual returns of 8.35% versus 8.01%, again with substantially lower volatility. High yield has outperformed equities on a risk-adjusted basis, particularly during volatile economic and market cycles.
- The European high yield market development is similar to that of the U.S. market as both markets have clearly identifiable growth periods.
- The high yield corporate sector of emerging markets debt has grown at a rate in excess of all other high yield markets, increasing 261% over the past five years and currently totals $387 billion[2].
- We believe the next move in the fixed income markets will be driven by an increase in interest rates. In this environment, high yield should outperform other fixed income investments due to its relatively shorter duration and higher spreads. Security selection, however, will continue to be more important than duration management due to the equity-like risks of high yield securities.

The Globalization of the High Yield Market

The global high yield market has grown dramatically over the past decade. While U.S. high yield still comprises the majority, the European and Emerging corporate debt high yield markets are expanding at faster rates. The total face value of the global high yield market now exceeds $2.1 trillion with the U.S. high yield segment representing 62% of the total (with 53% of the issuers in the Global High Yield Index geographically located in the U.S.). This compares with a $292 billion market with 94% U.S. market share at the beginning of 2000 (with 82% of the issuers located in the U.S.).

[1] We define the global high yield market as the worldwide market for below-investment grade corporate credit regardless of domicile.
[2] As of 31 March 2015. Source: BofA Merrill Lynch.

Table 1: Global High Yield Characteristics[3]

	Global High Yield[4]	U.S. High Yield	European High Yield	Emerging Markets
Face Value (USD)	2,186,383	1,365,489	415,247	387,002
Market Value (USD)	2,242,716	1,388,236	444,844	327,534
Number of Issuers	1,759	1,088	393	372
Option Adjusted Spread (bps)	487	482	400	826
Modified Duration to Worst (yrs)	3.82	4.04	3.65	3.88
Avg Coupon (Par Weighted)	6.70%	6.84%	5.93%	6.99%
Avg Price (Par Weighted)	100.41	100.07	105.15	89.28
Composite Rating	BB3	B1	BB3	BB3

[3] As of 31 March 2015. Source: BofA Merrill Lynch.

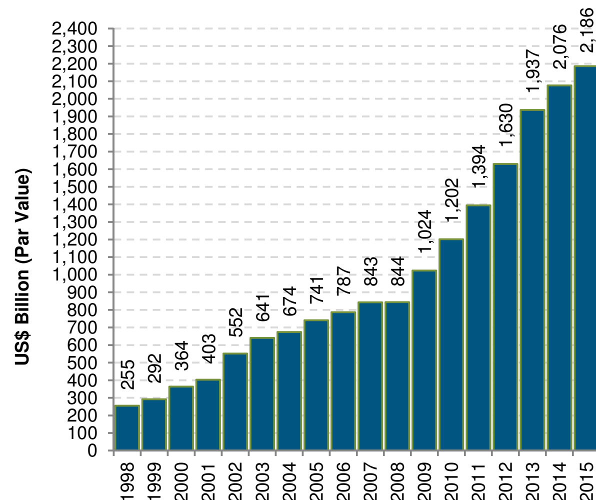
[4] Also includes high issuance in Canadian dollars and U.S. dollar issuance in FX-G10 which together only account for 1% of the market.

Over the past several years, the growth in the European and Emerging Markets high yield debt markets is due to a number of reasons, in our view, including a distressed European banking system forcing companies to turn to public markets for financing; downgrades particularly in the banking sector of the European market; and more vibrant economies in emerging markets with reduced sovereign risks. We will discuss the history and the growth of the individual markets in the following sections. In addition, we will show how a global approach to high yield significantly increases the size of the investment universe and allows investors to participate in some of the fastest growing sectors of the market. The global strategy may also enable investors to minimize geographical and concentration risks while exploiting market inefficiencies.

A global approach to high yield significantly increases the size of the investment universe and allows investors to participate in some of the fastest growing sectors of the market.

The following chart details the annual growth in the global high yield market.

Growth of the Global High Yield Market[5]
Size of the Global High Yield Market has Nearly Tripled in the Last Decade



[5] As of 31 March 2015. Source: BofA Merrill Lynch.

The global high yield market may enable investors to better control risk through adequate diversification across both industry and geographic sectors. The largest global industry sectors include energy, basic industry, and banking with no sector accounting for more than 17% of the market. The industries are not evenly distributed across the geographic segments of the global market. For example, the European segment's largest industry sector is banking (22%), while the largest U.S. industry sector is energy (16%). A larger universe provides additional opportunities to diversify by industry.

Global High Yield Industry Breakdown[6]: Industry Diversification Across Geographic Segments

Figure 1: Global High Yield

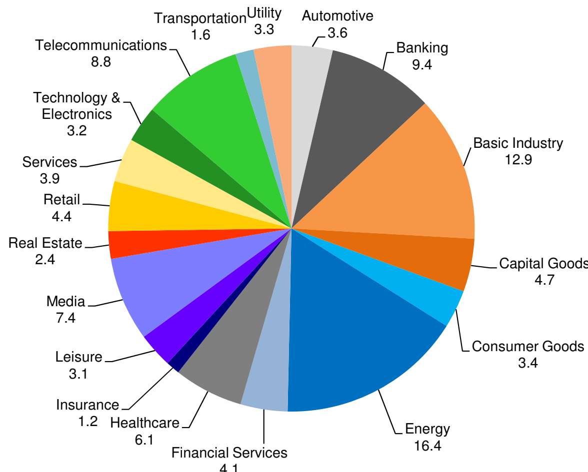
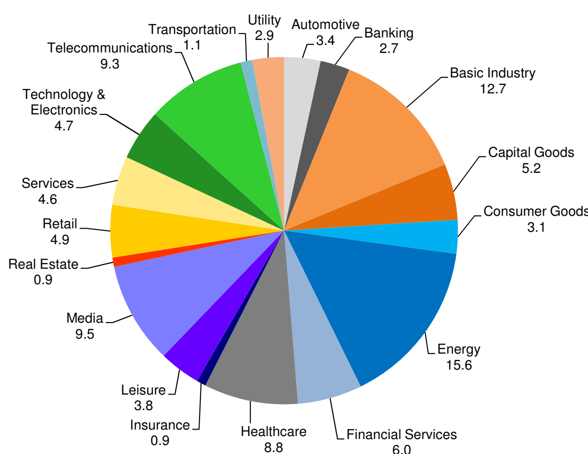


Figure 2: U.S. High Yield



[6] As of 31 March 2015. Source: BofA Merrill Lynch.

Figure 3: European High Yield

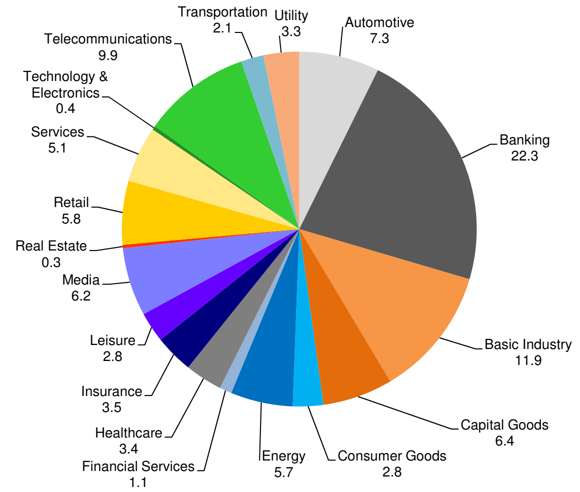
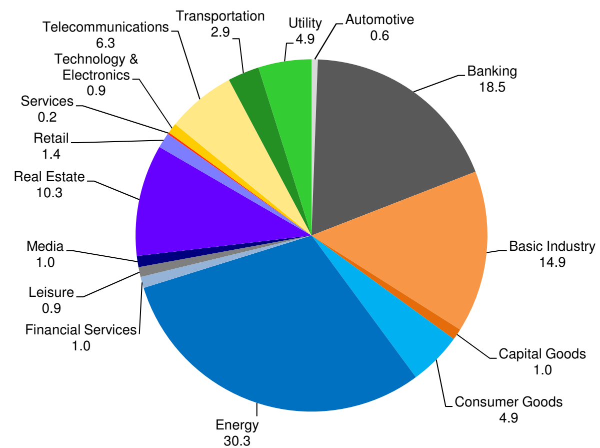


Figure 4: Emerging Markets High Yield

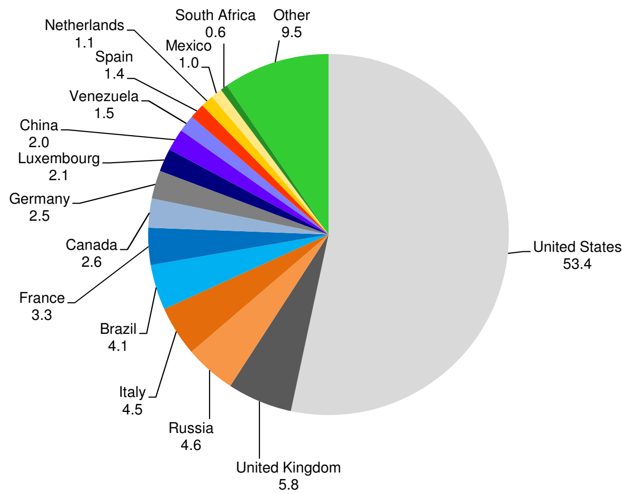


Geographic diversification is also an advantage to investing in a global high yield portfolio as markets have different secular and cyclical characteristics. An investment in a U.S. high yield portfolio would restrict geographic diversification as it is limited to high yield corporate debt issued in the U.S. domestic market. Approximately 84% of the U.S. market pertains to

The global high yield market may enable investors to better control risk through adequate diversification across both industry and geographic sectors.

Global High Yield Country Breakdown[7]:

Country Diversification can allow for Better Risk Control



[7]As of 31 March 2015. Source: BofA Merrill Lynch.

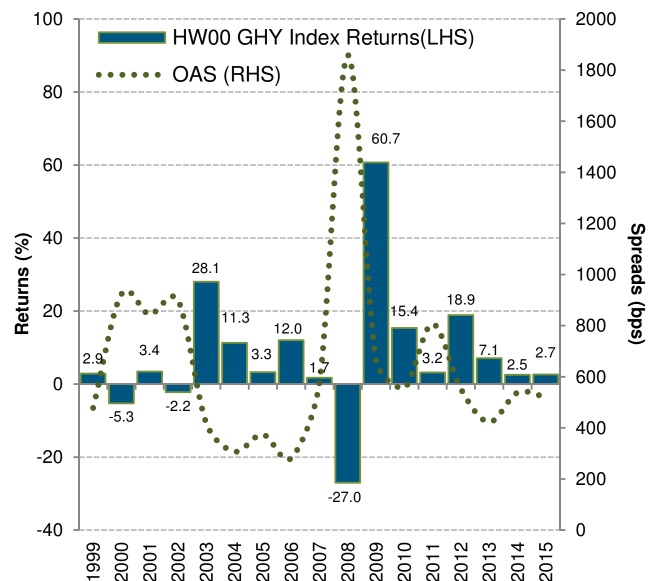
companies domiciled in the U.S. On a global basis, however, the U.S. geographical exposure only constitutes 53%[8] of the global high yield market with no other single country accounting for more than 6% of the index.

Since 1999, the global high yield market has had only three periods of negative returns – during 2000 as technology and telecom companies sold off sharply, the 2002 economic downturn, and during the 2008 financial crisis. The global high yield market had an annualized return of 7.14%, exceeding the 7.04% return for the U.S. High Yield market. During these 16+ years, emerging market returns enhanced performance, while European market returns slightly detracted from performance. We believe the diversification benefits of a global high yield strategy can be used to offset this type of significant region- and industry-specific volatility. During the European sovereign debt/banking crisis, the European high yield market recorded a negative return while all other constituents of the global high yield index, including the index itself, had positive returns providing further evidence of the ability to add alpha through a geographic rotation of a portfolio.

[8] The Merrill Lynch High Yield Index is currency based; therefore a company in a developed market that issues in USD in the U.S. market is included in the U.S. High Yield Index. As a result, only 84% of the U.S. High Yield Index per tains to companies domiciled in the U.S. From a global perspective, only 53% of the Global High Yield Index comprises companies whose underlying country of risk is the U.S.

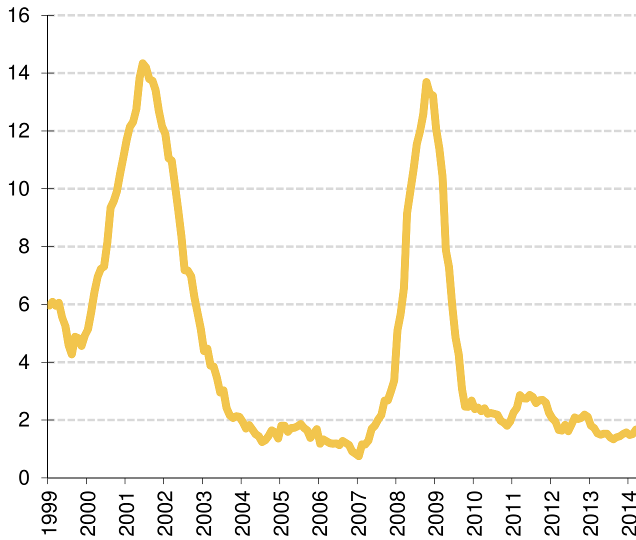
Over the last three years, the global high yield market has outperformed the U.S. market with a 7.80% annualized hedged return versus 7.47%, respectively, driven by higher returns in the European market. Spreads in the global high yield market peaked during the financial crisis driven by higher spreads in all markets and particularly in the European and emerging markets. European spreads also had a pronounced effect on the global market during the sovereign/ banking debt crisis during 2011, primarily due to the significant exposure to banks in the European high yield index. Since then, global defaults have remained low and are expected to maintain a low level with U.S. and European defaults also expected to remain low and emerging markets defaults expected to accelerate. Even when taking into account the differences in trading liquidity, bankruptcy laws, and accounting differences, we believe this geographical volatility gives investors an opportunity to add alpha and reduce risk.

Global High Yield Returns & Spreads[9]



[9] As of 31 March 2015. Source: BofA Merrill Lynch. Returns are USD hedged.

Global Bond Issuers Default Rate (LTM, %)[10]



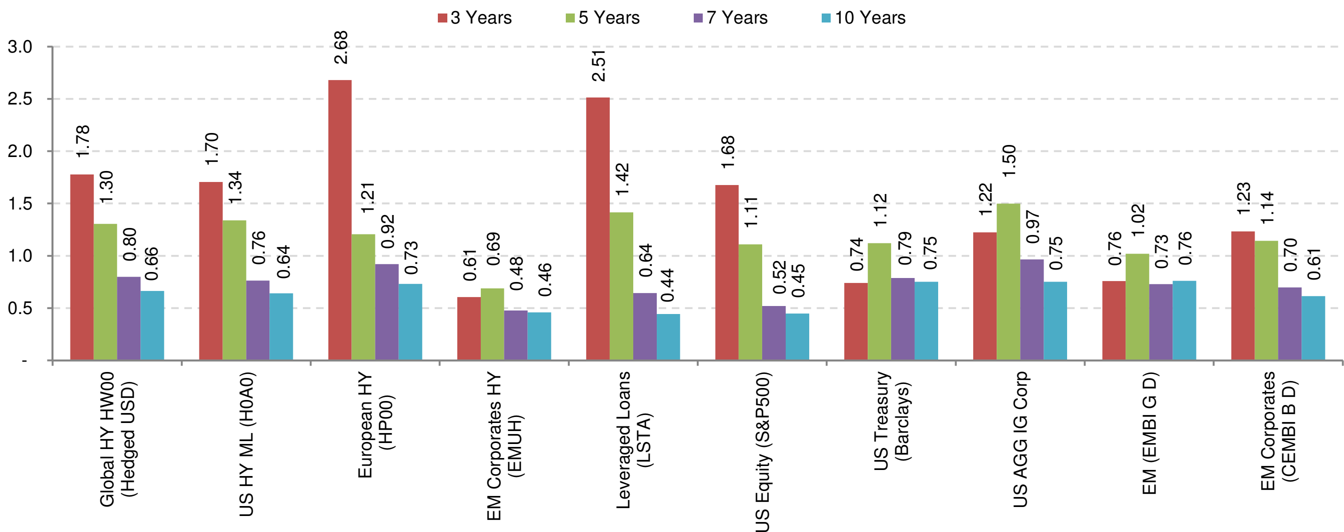
[10] As of 31 March 2015. Source: BofA Merrill Lynch. Default rates on an issuer basis.

Over the last 10 years, global high yield has had a comparable return with appreciably lower volatility than U.S. equities.

Global high yield has a negative correlation to U.S. Treasuries, making it an advantageous asset class in a rising rate environment.

High yield is more volatile than other fixed income assets but is less volatile than equities. Over the last 10 years, global high yield has had a comparable return with appreciably lower volatility than U.S. equities. During the same period, high yield has also had a higher Sharpe ratio than leveraged loans, equities, and emerging market corporate bonds. On a risk-adjusted basis, global high yield slightly outperformed U.S. high yield over the last 3 years due to the high Sharpe ratio in the European sector as it recovered from the sovereign/banking debt crisis. In longer time periods, global high yield has slightly outperformed. Global high yield has a negative correlation to U.S. Treasuries, making it an advantageous asset class in a rising rate environment.

Sharpe Ratio[11]



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Correlation[11]

Ending: Mar-2015	H0A0	HP00 Hedged USD	HW00 Hedged USD	EMUH Hedged USD	LSTA	S&P 500	Barcap U.S. Treas.	U.S. AGG IG Corp	EMBI G D	CEMBI B D
US HY ML (H0A0)	1.00									
European HY (HP00 Hedged)	0.87	1.00								
Global HY (HW00 Hedged)	1.00	0.90	1.00							
Emerging Markets HY Corporates (EMUH)	0.80	0.71	0.81	1.00						
Leveraged Loans (LSTA)	0.76	0.69	0.77	0.70	1.00					
Equities (S&P 500)	0.60	0.61	0.63	0.53	0.42	1.00				
Barcap US Treasury	(0.06)	(0.29)	(0.20)	(0.04)	(0.35)	(0.13)	1.00			
Investment Grade (US AGG IG Corp)	0.55	0.40	0.55	0.60	0.32	0.26	0.69	1.00		
Emerging Markets Sovereign Debt (EMBI G D)	0.55	0.51	0.60	0.83	0.31	0.53	0.19	0.50	1.00	
Emerging Markets Corporate (CEMBI B D)	0.75	0.68	0.75	0.93	0.60	0.49	0.25	0.80	0.90	1.00
Start Date	Jan-91	Jan-98	Jan-98	Jan-99	Jan-97	Jan-91	Jan-91	Jan-91	Jan-94	Jan-02

The following is an analysis of the global high yield market focusing on the size, growth, diversification, return and return volatility, and default history of the various segments of the market.

The U.S. High Yield Market

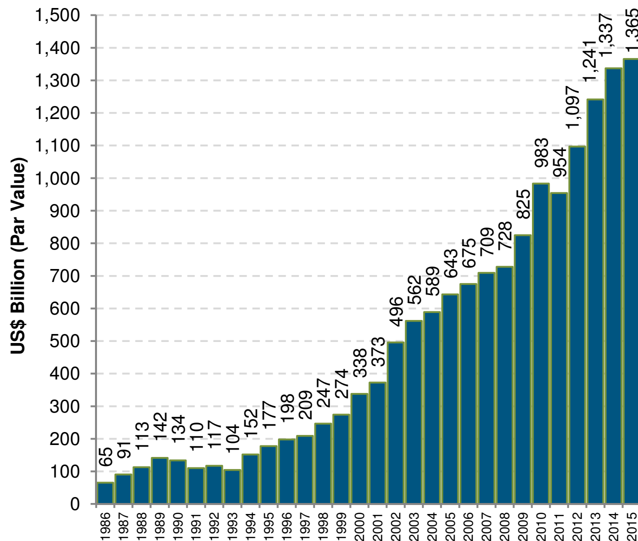
Prior to the 1980s, high yield securities consisted of the outstanding bonds of former investment grade companies that had been downgraded to below investment grade. Companies deemed speculative grade were effectively prohibited from participating in the public capital markets and forced to rely on more expensive and restrictive bank loans and private placements. The mid-1980s marked a pivotal point for the asset class as investment banks began selling bonds of companies that were unable to achieve an investment grade rating. It was confined to the U.S. capital markets, as there was no global high yield market. The high yield market grew during this period as high yield bonds were used to finance mergers and acquisitions and leveraged buyouts. It also provided financing for companies that were previously unable to access the capital markets due to many factors including insufficient business size or operating history. Part of this growth is also attributable to investment grade companies becoming more comfortable operating with higher leverage. The market went through various stages in its development including the rise and fall of Drexel Burnham (the primary underwriter of high yield bonds) in 1990, the telecom era from boom and bust of the late 1990/early 2000s, the financial crisis of 2008, and three credit cycles.

Since the mid-1980s, the U.S. high yield market has grown from $65 billion to $1.4 trillion at the end of March 2015. The market, as defined by the BofA Merrill Lynch index is comprised of corporate debt issued in the U.S. domestic market with the geographic risk confined to developed countries. The U.S. market has 1,088 issuers with quality ratings of 45% BB rated, 40% B rated, and 15% CCC rated. The market is well diversified by credit rating, industry, type of security and issuer.

Since the mid-1980s, the U.S. high yield market has grown from $65 billion to $1.4 trillion as of the end of March 2015.

[11] As of 31 March 2015. Source: Stone Harbor Investment Partners.
H0A0 = Merrill Lynch High Yield Master II Index Level Un-hedged U.S. DOLLAR
HP00 Hedged USD = BofA Merrill Lynch European Currency High Yield Index Level Hedged U.S. DOLLAR
HW00 Hedged = Merrill Lynch Global High Yield Index Total Return Hedged U.S. DOLLAR
LSTA = S&P/LSTA Leveraged Loan Index Index Level Local U.S. DOLLAR
S&P 500 = S&P 500 Index Primary Level Local U.S. DOLLAR
Barcap U.S. Treasury = BarCap U.S. Treasury Index Index Level Un-hedged U.S. DOLLAR
U.S. AGG IG Corp = BarCap U.S. Agg Corp Index Level Not Applicable U.S. DOLLAR
EMBI G D = JPM EMBI G D Index Level Local U.S. DOLLAR
CEMBI B D = JPM CEMBI B D Index Level Local U.S. DOLLAR

Growth of the U.S. High Yield Market
The Market has Grown from $65 billion to $1.4 trillion[12]



[12] As of 31 March 2015. Source: BofA Merrill Lynch.

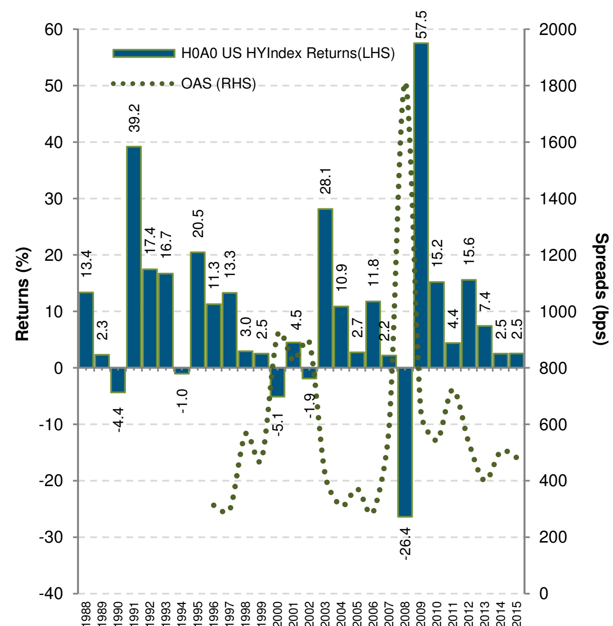
The U.S. high yield market has shown consistent positive returns over the last 25 years with only 5 years of negative returns and an average annual return of 9.06%. Over the same period, equities have outperformed high yield returning 9.79% annually with substantially more volatility. However, over the last 10 years, high yield has equaled equity performance with significantly less volatility. High yield has outperformed equities on a risk-adjusted basis, particularly during volatile economic and market cycles. During the telecom/technology downturn of 2000 through the economic downturn of 2002, high yield returned -2.75%, while the S&P 500 returned -37.61%. In the following recovery year, high yield returned 28.15%, while equities returned 28.68%.

The U.S. high yield market has shown consistent positive returns over the last 25 years with only 5 years of negative returns and an average annual return of 9.06%.

During the 2008 financial crisis, high yield returned -26.39% and equities returned -37.00%. In the recovery year, high yield dramatically outperformed equities, returning 57.51% versus 26.46%, respectively.

High yield securities tend to behave with some of the performance attributes of both fixed income and equities. Currently, high yield performance is akin to a fixed income investment due to low yields and record low Treasury rates.

U.S. High Yield Returns & Spreads
The Market has Shown Consistent Positive Returns[13]



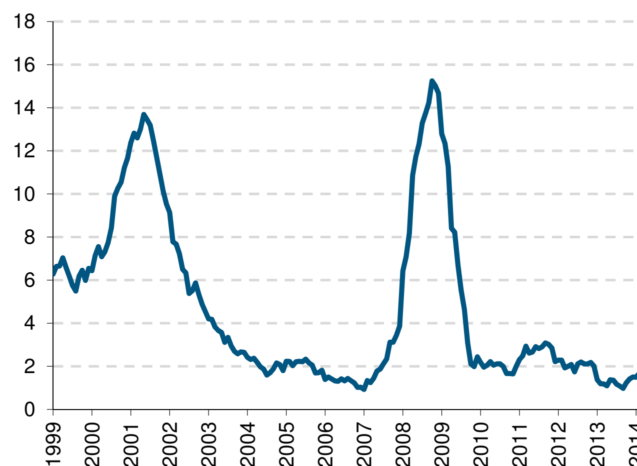
[13] As of 31 March 2015. Source: BofA Merrill Lynch. Spreads prior to 1996 are not available.

If we examine spread levels throughout a credit cycle, we see that spreads historically widen during the latter stages of a credit cycle and prior to an economic downturn. This is followed by an increase in the default rate. Spreads widened considerably during each of the telecom, technology and financial crisis economic downturns. High yield defaults, on an issuer basis, have averaged 4.7% since 2000, which includes both economic downturns where default rates reached a

high of 13.7% and 15.3%, respectively. The current default rate has declined to 1.8% and has maintained an average rate of 1.6% for the past two years. As a predictor of future defaults, the distressed ratio (bonds with spreads greater than 1000 bps) rose to 11.2% from less than 5% last summer due to the decline in commodity prices and the U.S. high yield market's large exposure to the energy sector. Emerging markets were also affected by commodity prices increasing its distressed ratio to 23.1% from 15.9% last summer. The European distressed ratio remains low at 4.6% due to the expected economic recovery and the market's low exposure to commodity issues, particularly in the energy sector. In our view, the higher distressed ratio could signal that the market expects defaults to increase, especially in commodity related sectors. The current U.S. distressed ratio is also significantly lower than the 10-year average of 14.0%. Even in the current global economic environment, we believe the U.S. high yield market is supported by stable underlying fundamentals with healthy earnings. Default rates remain well below long term averages on an issuer basis. Although we remain constructive on company fundamentals, we believe that the low point in defaults has been reached for this cycle. Overall, however, company balance sheets are solid with reasonable, although slightly increasing, leverage, high cash balances, and few near term maturities, in our view. Our current expectations are that the market will experience more negative event risk through increasing downgrades and fallen angels due to the size of commodity related sectors within the market. We do not believe that aggressive issuance (leveraged buyouts and dividend financing) has substantially increased and the percentage of those financings are insignificant and not yet concerning.

High yield bonds tend to outperform in the early part of the credit cycle as spreads tighten, while balance sheets are repaired. As the cycle matures, cash flows historically improve and credit performs well. In the latter part of the credit cycle, credit becomes readily available, new issues become more speculative and spreads rise in anticipation of increasing defaults. Experienced analysts become crucial, in our view, to avoiding the late cycle excesses as profits fall, balance sheets worsen, and fixed income spreads widen due to increasing default rates.

U.S. Bond Issuers Default Rate (LTM, %)[14]



[14] As of 31 March 2015. Source: BofA Merrill Lynch. Default rates on an issuer basis.

We believe the next move in fixed income will be a result of a rise in interest rates. In this environment, high yield should outperform other fixed income investments due to its relatively shorter duration and higher spreads. Security selection, however, will continue to be more important than duration management due to the equity-like risks of high yield securities, in our view.

The European High Yield Market

The development of the European high yield market resembles that of the U.S. market with clearly identifiable growth periods. The market includes all euro and sterling denominated noninvestment grade debt publicly issued in the eurobond, sterling domestic or euro domestic markets. It began in the late 1990s,

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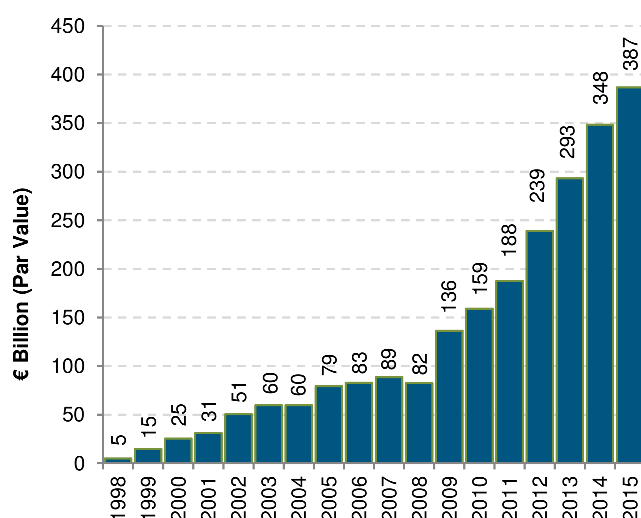
focused primarily on financing a growing telecom/media sector, similar to what was occurring in the U.S. In 1998, the market was only €4.9 billion (35 issues) with the communications sector accounting for 49% of the market. This phase ended poorly in the early 2000s as the telecom sector became overbuilt and over leveraged, leaving many companies in default on their debt. This period was followed by the leveraged buyout phase, effectively mirroring the U.S. market. During this period, the market grew from €52.7 billion as of March, 2003 to €84.1 billion four years later. This was driven, as in the US, by private equity companies using leverage to undertake acquisitions during the boom years prior to 2007. The financial crisis that began in late 2007 brought an end to the leveraged buyout stage.

Size and Growth of European High Yield Market Displays Clearly Identifiable and Similar Growth Patterns as the U.S. High Yield Market[15]



[15] As of 31 March 2015. Source: BofA Merrill Lynch.

After a brief pause in 2008, the market began its most recent stage of development -- the refinancing phase -- with the market growing €304 billion since 2008 to €387 billion through March 2015. We believe the exceptional growth during this stage was directly linked to changing regulatory framework that required banks to sharpen their attention around risk exposure to sovereign debt issues and constrained banks' appetite to lend; and ultimately led corporations to tap into the capital markets for new financing, as well as refinancing needs.

Another key contributor to growth during this period has been downgrades of companies to high yield ("fallen angels") from their former investment grade status. Since 2009, fallen angels have accounted for approximately 27% of the growth in the market. Key drivers have included: 1) downgrades of sovereign ratings, such as Greece and Portugal, and the effect on the sovereign corporate ratings; and 2) downgrades of subordinated bonds of banks as rating agencies adjust their ratings criteria to conform to new banking regulations as well as deterioration of credit matrices of banks particularly those from crisis countries in southern Europe.

The European high yield market totals €387 billion at the end of March 2015 or approximately 18% of the global high yield index. Its rating composition is 66% BB rated, 27% B rated, and 7% CCC rated. With the growth in the high yield market, industry diversification has also increased. Broadly defining the market into 18 industry sectors, the top three industry sectors (i.e., banking, basic industry, and telecommunications) make up 44% of the market, with banking accounting for 22% of the market. The euro zone crisis has created the unusual environment of several sovereign countries continuing to struggle with high debt levels, while European corporate debt leverage and operations remain relatively healthy.

Geographically, the asset class has diversified as well. Today, the asset class is more evenly represented by issuers from a host of European countries with companies located in the UK (21%), Italy (18%), and France (12%) representing the largest borrowers.

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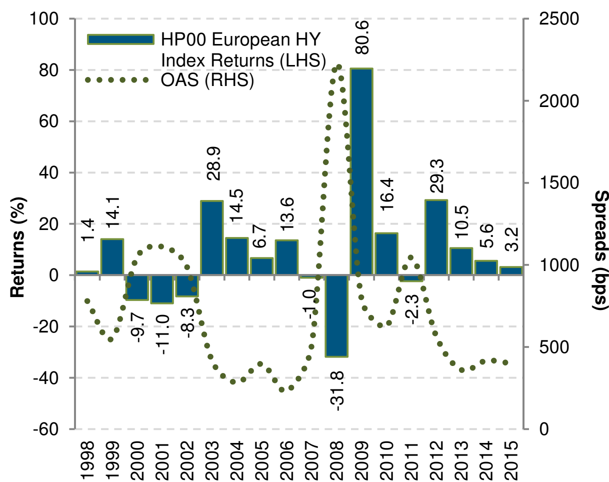
With borrowing costs in Euros currently at historic lows, there is great demand by institutional and retail investors for assets that may yield higher than the essentially zero and even negative rates of European government bonds. As a result, we believe overall growth in the European High Yield market is set to continue.

European High Yield Market Returns & Spreads[16]



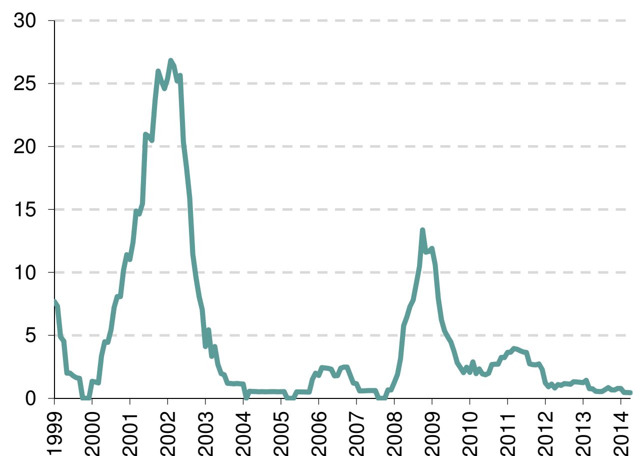
[16] As of 31 March 2015. Source: BofA Merrill Lynch.

Over the last 15 years, the European high yield market has returned an average of 7.11% with 6 years of negative returns on a hedged USD basis.

The European high yield market has exhibited higher returns than the U.S. and global high yield markets over the last 10 years when hedged into U.S. dollars. However, with the lack of depth and history, the European market has had higher volatility, particularly in recent years, due to the sovereign debt crisis. Spreads also widened substantially more than the U.S. market during both the financial crisis and the sovereign debt crisis.

Spreads peaked during the financial crisis due primarily to the significant amount of financial securities in the European high yield market. Recently, European spreads have tightened considerably more than the U.S. due to the expected European financial recovery, the easing of monetary policy, and the lack of energy issues. Declining from a peak in 2003 (the end of the leveraged buyout period), default rates have remained generally lower than the U.S. high yield market, except for short periods during the financial and sovereign debt crisis. The distressed ratio at 4.63%, indicates that the market expects defaults to remain well below historical levels.

Europe Bond Issuers Default Rate (LTM, %)[17]



[17] As of 31 March 2015. Source: BofA Merrill Lynch.

Emerging Markets High Yield Market

Emerging markets high yield corporate debt accounts for approximately 18% of the global high yield market, and is comprised of below investment grade, dollar denominated corporate debt from countries outside the G10, select Western Europe countries, Australia and New Zealand. All debt in this high yield market segment is issued in the U.S. or euro bond market.

Emerging markets corporate debt has grown at a rate in excess of all other high yield markets, increasing 261% over the past five years and currently totals $387 billion. This growing sector of the high yield market gives investors access to companies in emerging markets, a segment of the world economy that accounts for approximately 50% of total GDP.

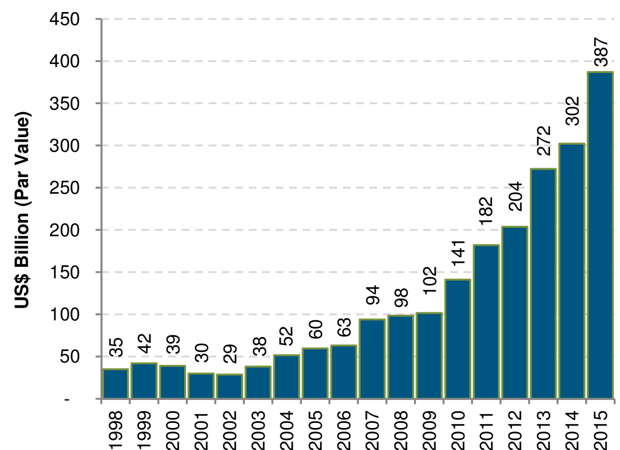
Many high yield companies in these countries are active participants in two broad areas of their economies: infrastructure and the development of a middle class of consumers. Both of these economic segments are expected to be long term drivers of growth. The market has 372 issuers with a quality rating breakdown of 64% BB rated, 22% B rated, and 14% CCC rated. The market is less diversified than the more developed countries with the energy sector accounting for 30% of the index. The energy sector increased from 12% of the index at the end of 2014 to current levels due primarily to the inclusion of Gazprom and Petrobras. Other large industry sectors include banking (19%) and basic industry (14%).

This growing sector of the high yield market [emerging markets high yield corporate debt] gives investors access to companies in emerging markets, a segment of the world economy that accounts for approximately 50% of total GDP.

Emerging market bonds have evolved from being an extremely volatile asset class in the early 1990s to a larger, more mature segment of the global financial markets as emerging nations have gradually improved in terms of political stability, the financial strength of the issuing countries, and more conservative government fiscal policies. Credit quality improvements in emerging market sovereigns have created opportunities for companies to access the market for USD denominated financing. Despite superior growth and improved credit quality in emerging markets, spreads in the emerging markets corporate sector tend to be wider than in other high yield sectors when comparing similar credit quality. We believe historical skepticism about emerging markets credit quality, accounting transparency issues, market size and par ticipants, individual country bankruptcy laws, combined with the sovereign ceiling concept, contribute to consistently wider spreads in the emerging markets corporate sector.

While the emerging markets corporate high yield sector has grown dramatically over the past five years, the amount of assets benchmarked to the sector has remained quite low. The investor base has been largely composed of cross-over investors from emerging market sovereigns. In addition, survey evidence indicates that U.S. insurance companies and U.S. high yield managers have very low allocation to emerging markets corporate debt.

Size and Growth of the Emerging Markets Bonds EM Debt has Increased 261% Over the Past Five Years[18]

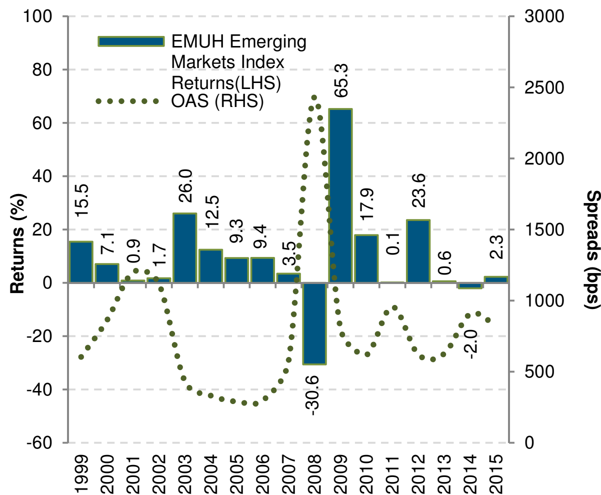


[18] As of 31 March 2015. Source: BofA Merrill Lynch.

Over the last five years, investors have not been compensated for the additional volatility as emerging markets has underper formed the global high yield market, returning 6.30% versus 8.60%, respectively. Spreads have historically been higher than the other high yield sectors and reached a high of over 2600 basis points during the financial crisis, exceeding all other global high yield sectors. We believe spreads

will remain wide relative to other more mature high yield market sectors to compensate for the additional volatility the market has experienced.

Emerging Markets Returns & Spreads Spreads Remain Attractive Compared to Other High Yield Sectors[19]

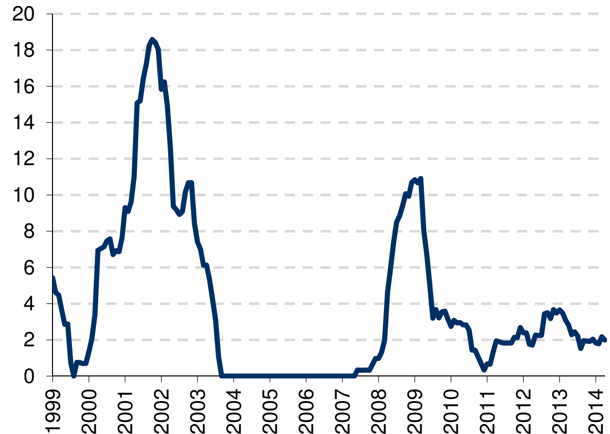


[19] As of 31 March 2015. Source: BofA Merrill Lynch. Returns are in USD 100% hedged.

Emerging market default rates peaked during the 2002 slowdown at 17.4%. During that period, emerging markets totaled only $29 billion, before the market entered its growth stage. Over the last five years, the default rate has averaged slightly higher than the U.S. and the European markets. The distressed ratio, however, remains higher than both the U.S. and European ratio, indicating some ongoing skepticism that may create opportunities.

Over the last five years, however, the default rate [of emerging markets high yield corporate debt] has averaged slightly higher than the U.S. and the European markets.

Emerging Markets Bond Issuers Default Rate (LTM,%)[20]



[20] As of 31 March 2015. Source: BofA Merrill Lynch. Default rates on an issuer basis.

Conclusion

As global high yield markets continue to grow and mature, we believe the opportunity set is broadening for investors seeking diversification and a potential source of alpha. While we believe that global credit markets are integrating, they continue to have secular and cyclical characteristics that are dif ferentiated by market and region. Adopting a global approach to high yield increases the size of the investable universe and allows market inefficiencies to potentially be exploited through a cross market and sector allocation process by specialized portfolio managers who are well equipped to seek to take advantage of differences in growth, inflation, regional events, and credit cycles. We believe, our bottom up fundamental analysis by our experienced global industry specialists will continue to be the key criterion in seeking to produce alpha within an expanded top down framework.

Stone Harbor Investment Partners

Index Definitions

BofA Merrill Lynch High Yield Master II Index (H0A0): The BofA Merrill Lynch US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch).

BofA Merrill Lynch European Currency High Yield Index (HP00): The BofA Merrill Lynch European Currency High Yield Index tracks the performance of EUR and GBP denominated below investment grade corporate debt publicly issued in the eurobond, sterling domestic or euro domestic markets. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch).

BofA Merrill Lynch Global High Yield Index (HW00): The BofA Merrill Lynch Global High Yield Index tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or eurobond markets. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch).

BofA Merrill Lynch Global High Yield Constrained Index (HW0C): The BofA Merrill Lynch Global High Yield Constrained Index contains all securities in The BofA Merrill Lynch Global High Yield Index but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%.

S&P/LSTA Leveraged Loan Index (LSTA): The S&P/LSTA Leveraged Loan Index (LLI) reflects the market-weighted performance of U.S. dollar-denominated institutional leveraged loan portfolios. Facilities are eligible for inclusion in the index if they are U.S. dollar-denominated term loans from syndicated credits and meet the following criteria at issuance: minimum initial term of one year; minimum initial spread of LIBOR+125; minimum initial size of $50million. The index primarily consists of senior secured facilities; however, it does include second lien and unsecured loans if they are broadly held by CLO's and other traditional loan accounts.

S&P 500 Index: An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. Companies included in the index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. The S&P 500 is a market value weighted index - each stock's weight is proportionate to its market value.

BarCap US Treasury Index: The BarCap 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. Securities in the index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices. The U.S. Treasury Index was launched on January 1, 1973.

BarCap US Agg Corp Index: The BarCap U.S. Aggregate Corporate Index is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements. Securities in the index roll up to the U.S. Credit and U.S. Aggregate Indices. The U.S. Corporate Index was launched on January 1, 1973.

JPM EMBI Global Diversified: The J.P. Morgan EMBI Global Diversified limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global. The J.P. Morgan GBI-EM Global Diversified consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. The weightings among the countries are more evenly distributed within this index.

JPM CEMBI Broad Diversified: The CEMBI tracks total returns of US dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries. Two variations are available: CEMBI Broad and CEMBI. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds. Both indices are also available in Diversified version. The J.P. Morgan CEMBI Broad Diversified limits the current face amount allocations of the bonds. Both indices are also available in outstanding countries with larger debt stocks. Qualifying corporate bonds have a face amount greater than USD 300 million, maturity greater than 5 years, verifiable prices and cash flows, and from countries within Asia ex-Japan, Latin America, Eastern Europe, Middle East, and Africa.

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