Ninety One

Previously Investec Asset Management

Emerging Markets Blended Debt

Quarter ending June 2020

Contents

At Ninety One we believe in investing for a better tomorrow. We want to assist people around the globe to retire with dignity and meet their financial objectives by offering specialist, active investment expertise. We are a patient, long-term business offering organically-developed investment capabilities through active segregated mandates and mutual funds. Our clients include some of the world's largest private and public sector pension funds, financial institutions, corporates, foundations, central banks and intermediaries serving individual investors.

It all began in South Africa in 1991. After more than twenty-six years, we have grown to become an established global investment management firm. We continue to develop our owner culture and are committed to building a long-term inter-generational business. The founding leadership is still in place, offering stability and a long-term investment outlook for clients.

We are deeply committed to creating a better, sustainable future. We are conscious of our responsibility, both as investors of other people's money and of our broader responsibility to society. Through our core investing activities, our leadership in the industry, our environmental initiatives and our commitment to our local communities, we seek to make a positive impact in all that we do.

Our overriding aim is to manage our investments to the highest standard possible and thereby exceed our clients' investment and service expectations.

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For further information on the investment team, investment process, performance target and indices, please see the Important information section.

Executive summary

Given our emerging market roots, Ninety One has a long history of investing in emerging market debt, including both hard and local currency debt markets. Fixed income and cash management in the diverse markets of Africa have been a core part of the business since the beginning. At the same time, our London-based investment team has been investing in emerging market debt for many years.

We believe emerging market bond and currency markets offer excellent opportunities and will see significant increases in investor interest over the years to come as the asset class moves into the mainstream to become a core holding.

The **Emerging Markets Blended Debt Strategy** combines our team's experience in managing Emerging Markets (EM) sovereign and corporate debt with their disciplined top-down asset allocation process. The strategy leverages Ninety One's wider investment teams, including the Natural Resources and Multi-Asset teams.

We believe our key advantages are:

- **Emerging Market pedigree:** our firm comes from an emerging market and has managed Emerging Market Debt (EMD) since the early 1990s. In the mid-2000s we pioneered the management of local EMD, building a process which analyses local bonds and currencies independently. We think this is crucial when managing local EMD. We were also at the forefront of managing EM corporate debt.
- **Experienced, stable team:** we have a diverse, multilingual team, with many years' experience working in emerging markets. We enjoy working together and have had exceptionally low turnover.
- **A holistic approach to blended debt:** we strike a balance between, on the one-hand, a fund-of-funds style approach, and on the other, a pure bottom-up approach. We seek to counter the pitfalls of both approaches through adopting dynamic asset allocation and expressing our decisions through increasing our best bottom-up ideas.
- **Disciplined approach:** we supplement rigorous economic and financial analysis with detailed quantitative modelling and a disciplined scorecard approach which helps manage risks and unearth opportunities.

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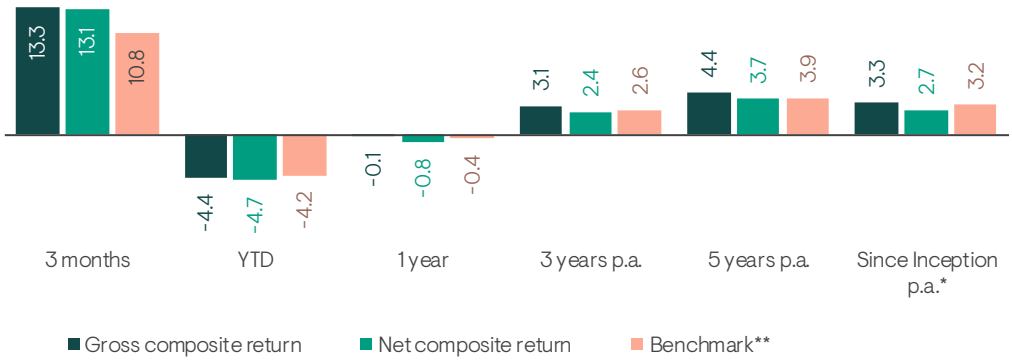
For further information on the investment team, investment process, performance target and indices, please see the Important information section.

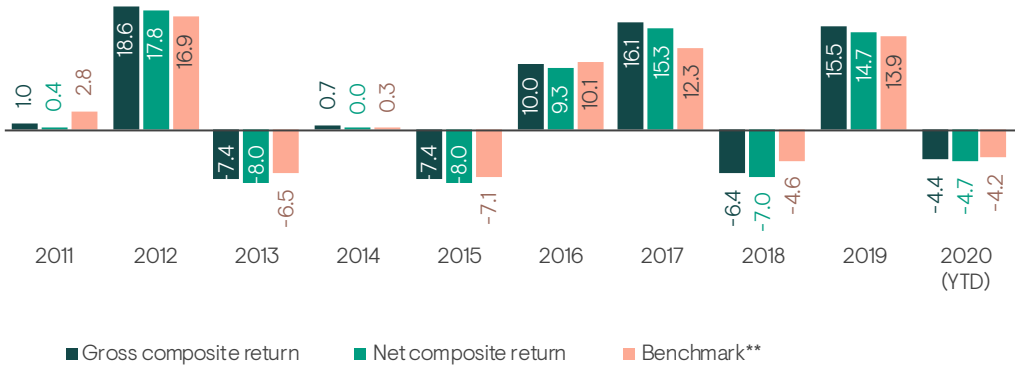
Performance

The performance of Ninety One's Emerging Markets Blended Debt composite is represented in the tables and chart below.

Emerging Markets Blended Debt composite – Annualised (Gross and Net) performance (USD)



Emerging Markets Blended Debt composite – Annual (Gross and Net) performance (USD)



Past performance is not a reliable indicator of future results, losses may be made.

Source: Ninety One as at 30 June 2020. Gross performance (returns will be reduced by management fees and other expenses incurred). Net performance (net of highest institutional segregated portfolio management fee), income is reinvested in USD

*Composite inception date: 01 January 2011 returns of less than one year are not annualised.

** Benchmark: 50% JPM GBI-EM Global Diversified, 25% JPM EMBI Global Diversified, 25% JPM CEMBI Broad Diversified (pre 01/12/19: 50%/30%/20%).

For further information on indices please see the Important Information section

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For further information on the investment team, investment process, performance target and indices, please see the Important information section.

Performance cycles

Potential outperformance

Our investment process is specifically designed with the aim of doing well in all market environments. Our 'Compelling Forces™' approach ensures that we focus on those countries and currencies where fundamentals, valuation and market behaviour all line up in the same direction. Our process incorporates a wide range of active positions across currencies, countries, yield curve plays and issue selection. We believe that this helps to ensure that we are not reliant on one investment theme, dampen volatility and provides the potential for outperformance in a wide variety of market conditions. We believe that relative value opportunities present themselves in both bear and bull markets.

Having said this, being a fundamentals-based investment process, we find that the Strategy has tended to perform best in environments of higher dispersion where returns are being driven by economic and corporate fundamentals. Our process relies on the experience of our team, our detailed bottom-up research and the output from our models. All of these are based on fundamentals and, as such, the Strategy has tended to perform best when bonds, currencies and corporates are responding to changing underlying country and corporate dynamics.

Potential underperformance

We believe our Strategy may perform less well in the following environments:

- A period when markets reverse very sharply, particularly when markets are moving from a general bull market to a general bear market or vice versa, is likely to prove particularly challenging for any investment manager.
- We firmly believe that fundamentals drive markets over the medium and long term. Our process is therefore likely to suffer on occasions where markets behave less rationally, are driven by event risk or appear to ignore fundamentals.

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For further information on the investment team, investment process, performance target and indices, please see the Important information section.

Our investment expertise

The Fixed Income team is organised into specialist groups across Global Emerging Market Debt, Developed Market Credit, Developed Market Rates and South African Fixed Income. Each group applies their expertise to focused areas in which they have proven their ability to perform. This facilitates effective decision making and ensures accountability.

Within Global Emerging Market Debt, we have two sub-teams; Emerging Market Sovereign & FX and Emerging Market Corporate Debt. The Sovereign & FX team is organised by region, typically working in pairs to cover the regions across three asset classes: sovereign local debt, hard currency debt, and currencies. The Corporate Debt team is organised by sector. The teams work closely together, bisecting countries and sectors to support broader investment views and themes. Investment ideas are generated by the analysts before being debated by the broader team. Once a suggested trade has been approved by the PMs it will filter into relevant strategies via the team's disciplined portfolio construction process.

We regard the strengths of the team as follows:

- Stable team with a strong shared culture
- As one of the pioneers in EMD, we have extensive experience in local, hard and corporate EMD
- Semi-annual team off-sites facilitate development and innovation.
- The team leverages Ninety One's wider multi-specialist investment framework
- Dedicated Blended PM team, focused on finding best ideas across asset categories

Peter Eerdmans and **Grant Webster** are the co-portfolio managers for the Strategy and take full responsibility for positioning and performance. The following chart shows the
Global Emerging Markets Blended Debt team:

Peter Eerdmans
Strategy Leader
Top-Down

Grant Webster
Strategy Leader
EEMEA & Top-Down

Investment Specialists – Sovereign & Currency

Werner Gey van Pittius EEMEA	Mark Evans Asia
Vivienne Taberer LatAm	Wilfred Wee Asia
Michail Diamantopoulos CE	Thys Louw Africa
Antoon de Klerk Africa	André Roux Asia
Roger Mark Middle East	

Investment Specialists – Corporate

Victoria Harling Corporate Strategist	Stacy Xie Financials
Juliet Lim Oil & Gas, Infrastructure	Kevan Salisbury Resources
Leah Parento Transport & Consumer	Alan Siow Real Estate
Tammy Lloyd Telecom & Utilities	

Internal Support

Julia Poszmik Business Manager	Tom Peberdy Product Specialist

Quantitative Support

Nicholas Marshall Quantitative Analyst*	Jonathan George Analyst*

Global Investment Infrastructure Support

Trading | Environmental, Social and Governance (ESG) | Risk & Performance | Implementation

Investment team is subject to change not necessarily with prior notification. As at August 2020.
*Shared resource with South Africa Rates.

Detailed biographies of the Strategy Leaders can be found in the Appendix.

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For further information on the investment team, investment process, performance target and indices, please see the Important information section.

Investment philosophy

Our investment philosophy is built on the following foundations:

- We believe that the best approach to building a blended EMD portfolio is to use 'best ideas' to achieve a combination of top-down allocation and bottom-up, high-conviction assets. Once asset allocation targets have been set – for overall portfolio risk and then for the allocation of that risk between local currency sovereign, hard currency sovereign and hard currency corporate credit – we achieve those targets by implementing our highest conviction individual ideas. This ensures that, even where the portfolio has reduced exposure (for example if we are underweight local currency bonds), the bonds we do choose to hold are expected to deliver high returns for clients. Similarly, in the event we are overweight sovereign credit in our asset allocation, we will scale up only our highest conviction ideas.
- We go to great lengths to ensure that we do not get caught up in a single theme which can be a pitfall of some strategies that rely exclusively on a top down or bottom up approach. Instead, we manage the portfolio holistically by selecting the assets from each country with the highest expected return vs. risk while carefully ensuring that we do not end up with excessive exposure to a single country, currency or economic outcome. In contrast, a fund-of-funds approach to creating an EMD blend portfolio, which is common in our industry, can end up delivering excessive country concentration and holdings of low conviction assets. Similarly, a pure bottom-up approach can deliver large asset allocation misalignments.
- We access country exposure through what we believe are the most attractive entry points across FX, sovereign debt and corporate debt markets. By using various appropriately sized trades, across the various asset classes, we seek to generate consistent alpha over time.
- We use a structured analytical approach, with our team's insight supplemented by advanced proprietary econometric modelling and valuation tools. Over the past several years, we have significantly invested to further our proprietary technology-related IP to ensure the team is supported with the best research, investment decision making and portfolio management tools.
- We apply strong diversification through a disciplined portfolio construction process, which automatically captures risks, including liquidity risk, at the trade implementation stage.

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For further information on the investment team, investment process, performance target and indices, please see the Important information section.

Investment process

Our tried and tested investment process combines a strong bottom-up process, within a rigorous top-down framework. Ultimately we aim to construct the portfolio in a holistic way to ensure that the bottom-up country and corporate selection complements the top-down asset allocation.

Top-down/Asset allocation

Nowcasting models are used to predict short-term economic dynamics. Nowcasting estimates are based on our proprietary dynamic factor models using third party data. These models are only utilised as part of the team's wider investment analysis

- The team adopts a dynamic and definitive approach to asset allocation and will shift the strategy's allocation to the core asset classes within a typical range of +/- 20% from the strategic allocation. We firmly believe that in selecting a blended approach, clients are expecting a strategy that displays dynamic asset allocation.
- Decisions are informed by our asset allocation scorecard, which has two major components. The first, called the "Beta Score", give us an overall steer to the amount of risk the portfolio should contain relative to the benchmark. The second component, called the "Relative Scores", gives a ranking of the relative attractiveness of the three EM asset classes: local currency debt, dollar debt and currencies. This component helps to determine how we should allocate relative risk to the individual asset classes to achieve our overall risk exposure.
- The scorecard is qualitative-based but the process is assisted by an industry leading toolkit of top-down tools and models ranging from near-term global macroeconomic forecasts ("nowcasts") to valuation models and positioning indicators. There is a monthly (or more frequently if required) top-down asset allocation meeting to specifically discuss and agree on the top-down asset allocation. As well as our proprietary toolkit, the team's views are assisted by discussions with the wider Ninety One fixed income team and the "Global Macro Forum", which involves cross-firm and cross-asset class participation to discuss global economic and market trends.

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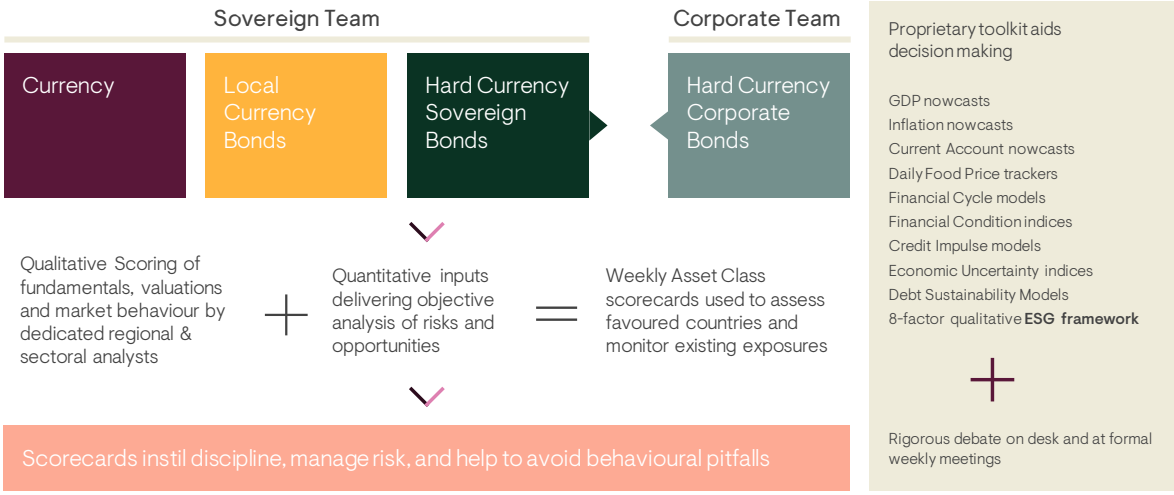
Bottom-up selection



- Our approach to bond and FX selection focuses on both qualitative analysis and quantitative economic and financial modelling. The team uses a scorecard system to bring together these inputs into a disciplined and repeatable framework. The key to alpha generation is the expertise of our analysts – by having a regional or sector focus they are truly experts in their respective fields.
- The analysts' qualitative scores are structured within a framework specific to each sub-asset class to ensure thorough review, from macro drivers to valuations and market behaviour. The qualitative assessment is assisted by market-leading econometric modelling, such as country-level macroeconomic 'nowcasts', which helps to ensure our analysts have an informational advantage in making their qualitative assessment.
- These qualitative views are complemented by direct quantitative inputs into our scorecards. These inputs include models assessing trends, relative value and currency risk versus reward. The quantitative inputs serve an important role in ensuring that objective input of risk and opportunities in the asset class feeds directly into our scorecards. However, it should be stressed that the scorecards are not followed mechanically, but rather help to generate ideas, monitor positions, reinforce discipline and maintain a track record for trades.

Portfolio construction

We construct the portfolio in a holistic way to ensure that the bottom-up country and corporate selection complements the top-down asset allocation.

From a bottom-up perspective, our investments in FX, local debt and dollar debt (sovereign, quasi sovereign and corporate) are made with a deliberate awareness to total country exposure. We will seek the best asset (or assets) to access a country theme. Where we have specific country or corporate concerns we will hold zero exposure within the strategy. All positions are implemented through a structured approach to risk sizing whereby each asset is assigned into a different risk bucket based on volatility, liquidity and general risk profile.

From a top-down perspective, asset allocation targets are achieved by emphasising the team's existing bottom-up best ideas. For example, if a decision is made to increase the tactical allocation to hard currency sovereign debt, the team will increase exposure to a selection of existing high-conviction hard currency positions. This approach to asset allocation has the following key benefits:

- Top-down asset allocation enhances bottom-up bond and currency selection, rather than detracting from it, which can be the consequence of a more 'fund-of-fund' style approach.
- The team can easily monitor the strategy's positions and ensure that there is no concentration of risk in any one country or economic theme.
- The transaction costs of shifting the Strategy's asset allocation can be minimised by taking special care to trade in a small group of more liquid markets, using bond auctions and new issues, as well as by avoiding incurring unnecessary taxes such as by locking in capital gains taxes on sells.

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For further information on the investment team, investment process, performance target and indices, please see the Important information section.

Investment risk management and key characteristics

We have a comprehensive Governance and Oversight structure in place at Ninety One to manage risk throughout the business and this includes our approach to investment risk. Managing risks across our investment strategies is an integral part of the portfolio management process and consists of both explicit limits as well as additional measures to ensure that the appropriate level of risk is employed to meet the risk and return objectives of our investors.

The four main areas that are of primary focus to Ninety One from an investment risk perspective are:

1. **Philosophy and Process:** Ensuring that investment capabilities adhere to investment style and mandate.
2. **Research and Analysis:** Confirming that suitable research and analysis underpins the investment decision-making process.
3. **Concentration and Liquidity:** Cognisance of the strategy's concentration and liquidity characteristics.
4. **Risk Measurement:** Making sure appropriate risk measurement and stress testing is carried out.

Investment characteristics

The risk controls of Ninety One's Emerging Markets Blended Debt Strategy are as follows:

Benchmark	50% JP Morgan GBI-EM Global Diversified 25% JP Morgan EMBI Global Diversified 25% JP Morgan CEMBI Broad Diversified
Risk controls	**Internal parameters**
Active Positions (Bond & FX)	Typically the fund would have exposure to the debt of 25-45 countries where the debt could be sovereign and/or corporate debt denominated in local currency and/or hard currency.
Duration	Typically Benchmark +/- 2 years
EMFX Exposure	Typically 25-75%
Local currency EM Debt	Typically 25-75%
Hard Currency EM Debt	Typically 0-50%
Corporate EM Debt	Typically 0-50%
Maximum per country	3 risk units
Maximum per currency	3 risk units

Derivative use: Futures, IRS, TRS, FX Forwards allowed within above investment rules under UCITS fund with extended investment powers. UCITS rules: max 5%, but max 10% allowed as long as sum of issuers between 5-10% < 40%.

Internal limits are subject to change not necessarily with prior notification. These are for information purposes and describe current investment process.

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General risks:

The value of investments, and any income generated from them, can fall as well as rise. Where charges are taken from capital, this may constrain future growth.

Past performance is not a reliable indicator of future results. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations.

Investment objectives and performance targets are subject to change and may not necessarily be achieved, losses may be made.

Specific risks:

Currency exchange: Changes in the relative values of different currencies may adversely affect the value of investments and any related income.

Default: There is a risk that the issuers of fixed income investments (e.g. bonds) may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss.

Derivatives: The use of derivatives may increase overall risk by magnifying the effect of both gains and losses leading to large changes in value and potentially large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss.

Interest rate: The value of fixed income investments (e.g. bonds) tends to decrease when interest rates rise.

Emerging market (inc. China): These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems.

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Environmental, Social and Governance integration

Environmental, Social and Governance (ESG) integration is a priority for the leadership at Ninety One. We believe it adds more value to our clients to treat material ESG issues as an integral part of the investment analysis process rather than as a separate procedure.

We have a dedicated global ESG team, which is steered by a senior Investment Governance Committee. Together with all the investment teams, the ESG team focuses on integration strategies, ESG research and engagement efforts.

ESG integration within sovereign Emerging Market Debt

Proprietary ESG analysis	Investment process integration	Outcomes
Sovereign ESG scorecard – Comprehensive eight factor scoring of **ESG trends** based on **qualitative assessment** by regional specialists – Informed by analysis of third party data, policy analysis and interaction with policy-makers Ongoing collaboration and interaction with ESG team	ESG scores feed into **all** our investment scorecards across sovereign, FX and rates scorecards with 5% weight Complemented by a **Political Risk** score capturing shorter-term **governance** outlook **Engagement** with company management, NGOs and country policy makers	Structured ESG process **embeds ESG risk management** in portfolio construction Ability to **tailor ESG solutions** for institutional clients **Collaboration with clients** ranging from sharing of quarterly ESG trend scorecards and qualitative views to ad hoc ESG interaction on particular topics, companies and countries.

ESG scorecard sub-categories

Environmental Policy			Social Policy			Governance	
Climate Action	Resource Strategy	Land & Water Management	Built Environment	Human Capital	Inclusive Growth	Institutional Capacity	Economic Policy

We have incorporated ESG-related factors in our investment process since the inception of our emerging market debt (EMD) capability. The details have naturally evolved as the asset class has matured and as ESG data has become more readily available. We now run an eight-factor ESG momentum scorecard that ensures we cover all the key elements of ESG, including 16 of the 17 SDGs. This scorecard provides a framework for our assessment of ESG policies and implementation, and their relevance to the long-run prospects for an economy, which in turn can influence asset returns.

ESG is integrated into our standard investment process through the ESG impact score. The ESG impact score is complemented by a political risk score that captures near-term governance shifts (which can potentially impact longer-term ESG trends).

Both these scores feed into all our investment scorecards – currencies, local rates and sovereign credit. Thus, all other things equal, markets with improving ESG scores will be higher up the scorecard rankings than those that are deteriorating.

Within corporate debt we monitor ESG issues using MCSI ESG Research, which combines quantitative and qualitative analysis to assess companies and countries from an ESG perspective. Corporate governance is one of the eight fundamental factors in our quantitative screen of the benchmark universe.

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Appendix

Strategy leader biographies

Peter Eerdmans

Head of Fixed Income and Co-Head of Emerging Market Sovereign & FX
Joined the firm in 2005
Joined the industry in 1995

Peter is Head Fixed Income and Co-Head of Emerging Market Sovereign & FX at Ninety One. He is jointly responsible with Werner Gey van Pittius for all global emerging market sovereign debt strategies. Peter is also responsible top-down analysis within the team. He joined the firm in 2005 from Watson Wyatt, where he was responsible for bond and currency manager research. Prior to his time at Watson Wyatt, he spent six years as a senior portfolio manager responsible for global bond management at Robeco, where he helped develop the credit process and lead on numerous projects improving the process and tools of the department. He graduated in 1995 with a Master's degree in Econometrics from Erasmus University Rotterdam.

Grant Webster

Portfolio Manager
Joined the firm in 2006 and again in 2011
Joined the industry in 2006

Grant is an investment specialist and portfolio manager in the Global Emerging Market Debt team at Ninety One. He is responsible for managing the Emerging Markets Blended Debt Strategy and Emerging Markets Multi-Asset Strategy, and EEMEA regional and Top-Down asset allocation research. Prior to joining the firm, Grant worked in London as a quantitative analyst and portfolio manager of global macro and convertible bond funds at RWC Partners. He also spent a year working as an equity analyst for Ninety One in Cape Town in 2006. Grant holds a Bachelor of Business Science (Hons) degree from the University of Cape Town and a Master's degree with distinction in Finance from London Business School, concentrating on investments and quantitative finance. He is a qualified Actuary (AIA) and CFA Charterholder.

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For further information on the investment team, investment process, performance target and indices, please see the Important information section.

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Additional information on our investment strategies can be provided on request.

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Investment Team

There is no assurance that the persons referenced herein will continue to be involved with investing for this Strategy, or that other persons not identified herein will become involved with investing assets for the Manager or assets of the Strategy at any time without notice. References to specific and periodic team meetings are not guaranteed to be held or fully attended due to reasonable priority driven circumstances and holidays.

Investment Process

Any description or information regarding investment process or strategies is provided for illustrative purposes only, may not be fully indicative of any present or future investments and may be changed at the discretion of the manager without notice. References to specific investments, strategies or investment vehicles are for illustrative purposes only and should not be relied upon as a recommendation to purchase or sell such investments or to engage in any particular Strategy. Portfolio data is expected to change and there is no assurance that the actual portfolio will remain as described herein. There is no assurance that the investments presented will be available in the future at the levels presented, with the same characteristics or be available at all. Past performance is no guarantee of future results and has no bearing upon the ability of Manager to construct the illustrative portfolio and implement its investment strategy or investment objective.

Performance Target

The target is based on Manager's good faith estimate of the likelihood of the performance of the asset class under current market conditions. There can be no assurances that any Strategy will generate such returns, that any client or investor will achieve comparable results or that the manager will be able to implement its investment strategy. Actual performance of Strategy investments and the Strategy overall may be adversely affected by a variety of factors, beyond the manager's control, such as, political and socio-economic events, adverse changes in the interest rate environment, changes to investment expenses, and a lack of suitable investment opportunities. Accordingly, target returns may be expected to change over time and may differ from previous reports.

Specific Portfolio Names

References to particular investments or strategies are for illustrative purposes only and should not be seen as a buy, sell or hold recommendation. Unless stated otherwise, the specific securities listed or discussed are included as representative of the Strategy. Such references are not a complete list and other positions, strategies, or vehicles may experience results which differ, perhaps materially, from those presented herein due to different investment objectives, guidelines or market conditions. The securities or investment products mentioned in this document may not have been registered in any jurisdiction. More information is available upon request.

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