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Atlanta Society of Finance and Investment Professionals Emerging Markets Debt Review and Outlook

April 8, 2014

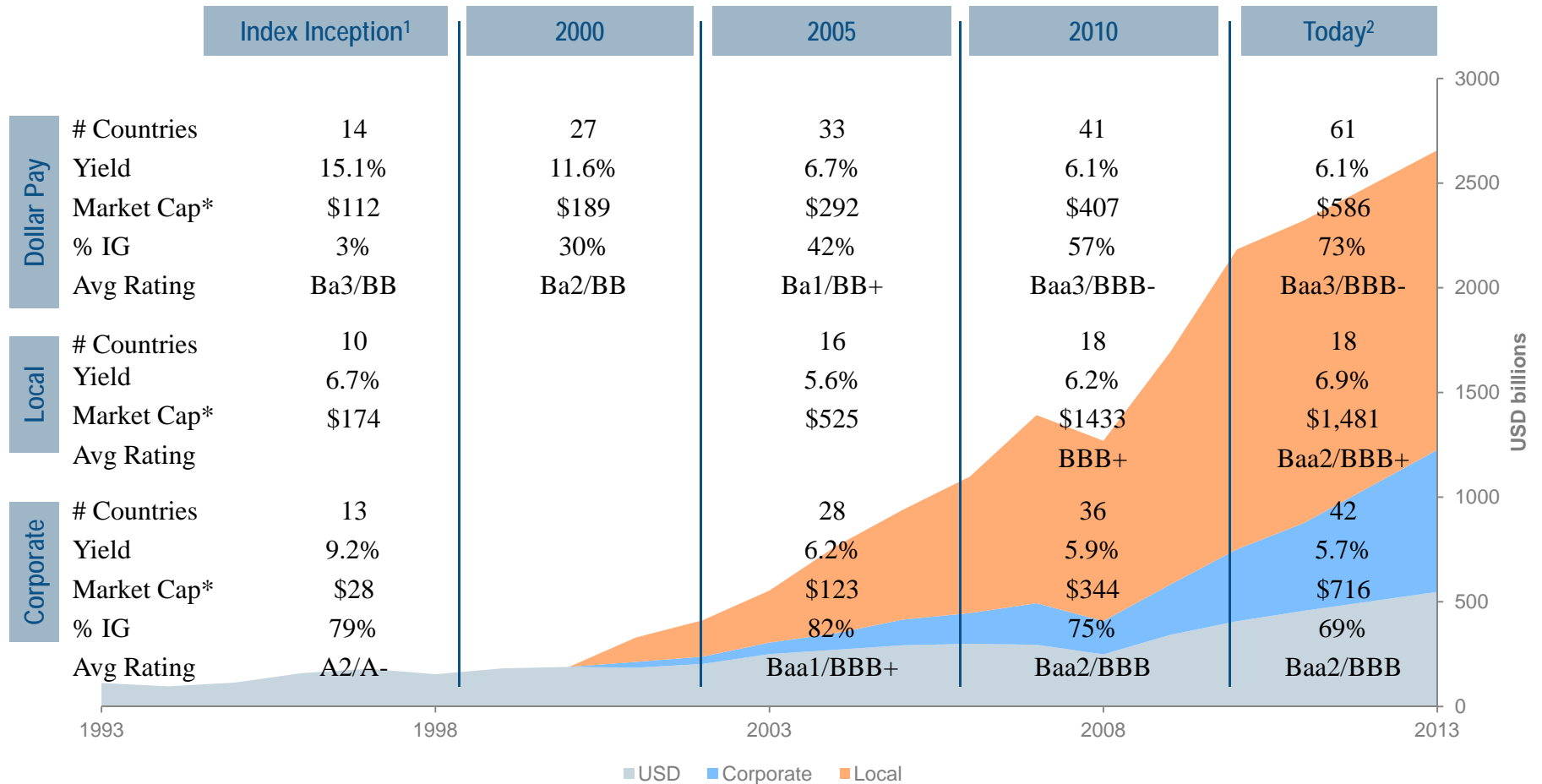
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Emerging Markets are a Changing Asset Class



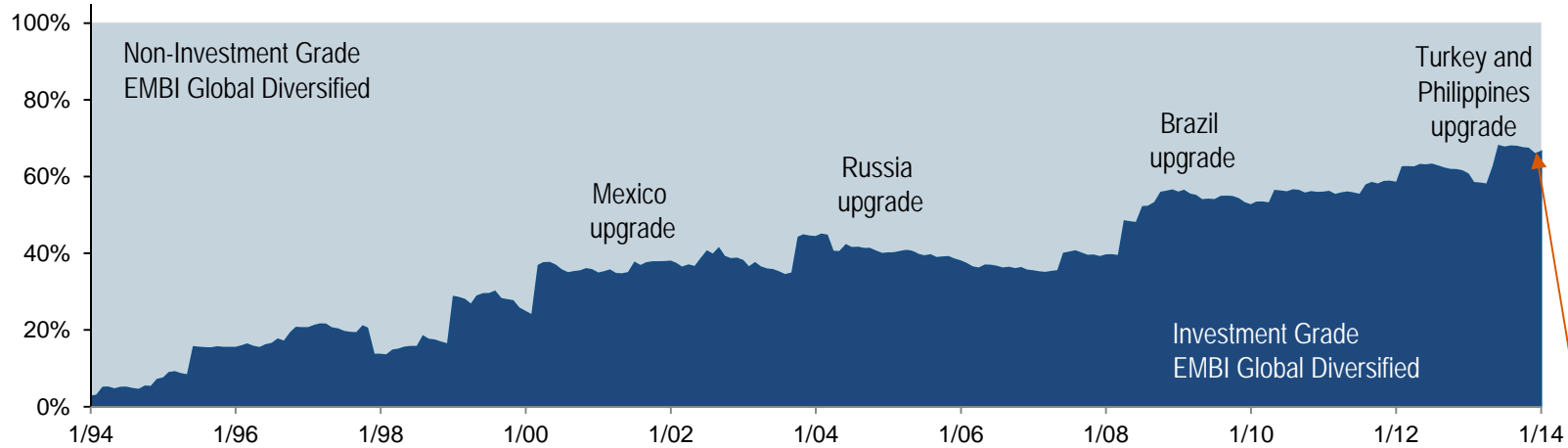
■ While indices provide a useful source for data, both current and historical, the estimated total Dollar-pay debt outstanding is \$1 trillion and estimated Corporate debt outstanding is over \$1.1 trillion. Local currency debt outstanding is estimated at \$7.9 trillion.

Source: JP Morgan
 1- JPM EMBI Dollar Pay Index, 1993. JPM GBI EM Broad, 2002. JPM CEMBI, 2001
 2- As of 12/31/2013.
 *Market capitalization in USD billions of index-eligible bonds.

Emerging Markets Credit Quality Has Improved Significantly



Steady rating upgrades over the last decade have resulted in a higher-quality asset class.



Source: J.P. Morgan

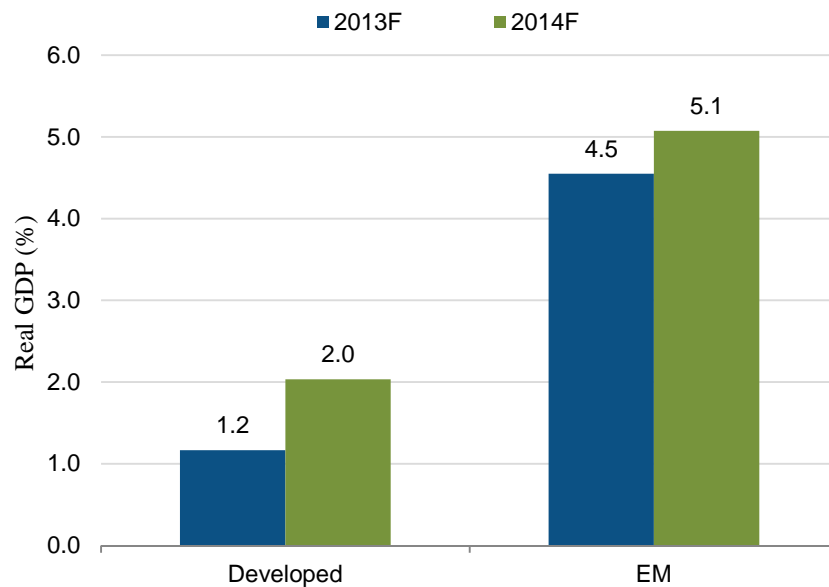
Over 65% of the asset class is now rated investment grade.

Investment Grade Emerging Market Countries (Feb 2014)							
Region	Country	Moody's	S&P	Region	Country	Moody's	S&P
Latin America	Brazil	Baa2	BBB	Europe	Azerbaijan	Baa3	BBB-
	Chile	Aa3	AA-		Bulgaria	Baa2	BBB
	Colombia	Baa3	BBB		Kazakhstan	Baa2	BBB+
	Mexico	A3	BBB+		Latvia	Baa2	BBB+
	Panama	Baa2	BBB		Lithuania	Baa1	BBB
	Peru	Baa2	BBB+		Poland	A2	A-
	Trinidad & Tobago	Baa1	A		Romania	Baa3	BB+
	Uruguay	Baa3	BBB-		Russia	Baa1	BBB
					Slovak Republic	A2	A
Asia	China	Aa3	AA-	Turkey	Baa3	BB+	
	India	Baa3	BBB-	Africa	Morocco	Ba1	BBB-
	Indonesia	Baa3	BB+		Namibia	Baa3	NR
	Malaysia	A3	A-		South Africa	Baa1	BBB
	Philippines	Baa3	BBB-				

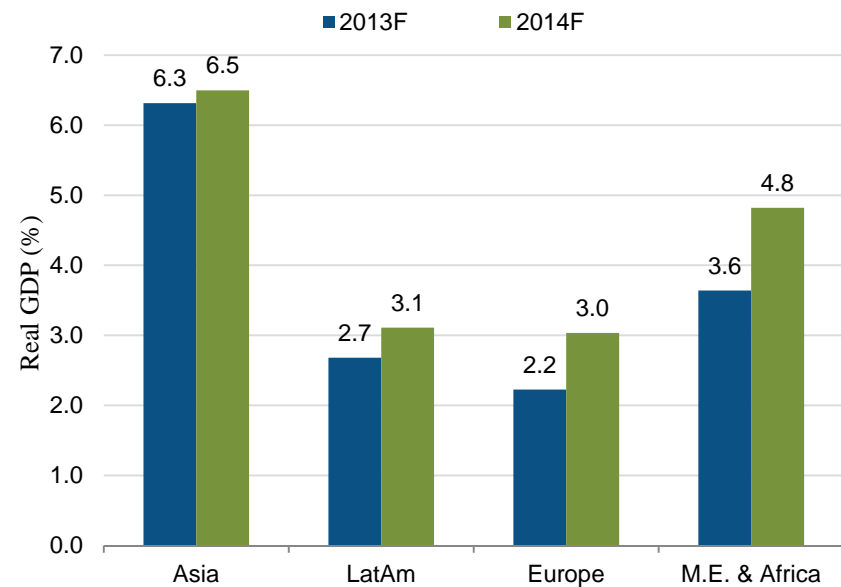
EM Growth Ticking Up in 2014



Growth: Developed vs EM



Growth: Emerging Markets by Region



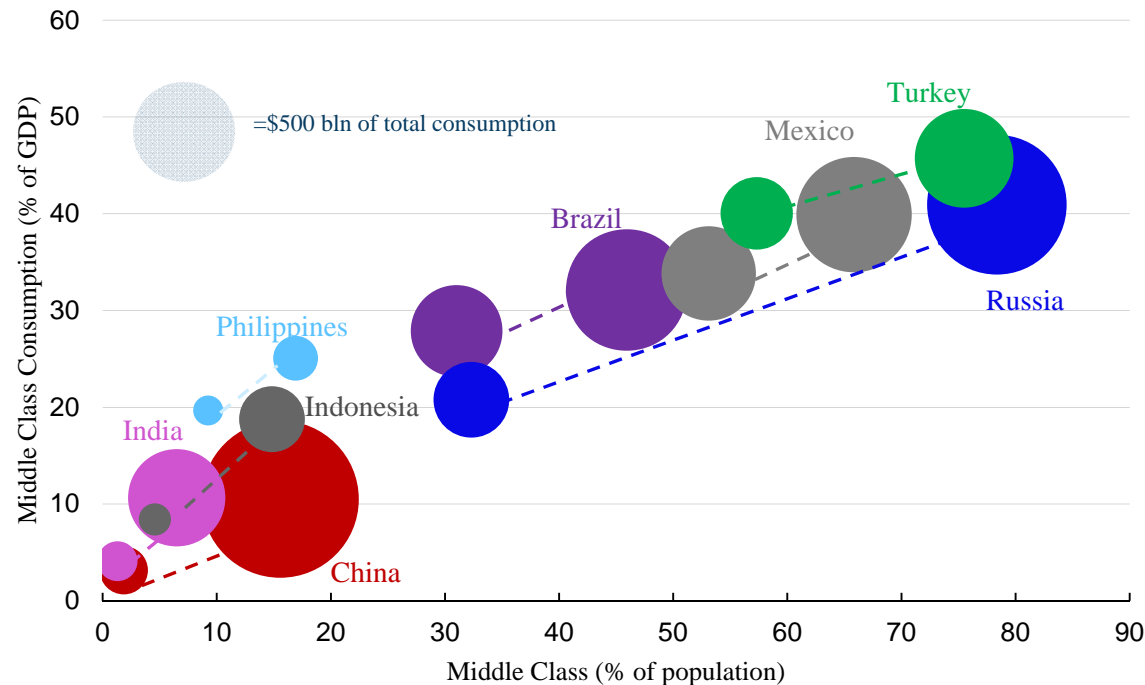
Source: IMF WEO

- EM growth will improve from a disappointing 2013, but remain slower than pre-financial crisis levels due to structural slowdowns in larger EM countries.
- Growth will improve most in 2014 in Mexico and Eastern Europe, but remain subdued in Brazil and Russia.
- The fastest-growing countries in EM for 2014 should include China, Nigeria, Tanzania, Panama, Peru, Indonesia, and Kazakhstan.

Larger Middle Classes Have Been Demanding a Greater Political Voice



Middle Class in Select EMs: 2000 to 2012



Source: Brookings Institute and Eurasia Group

* Per Brookings, middle class variables estimate and provide forecasts of the number of people living in households earning or spending between 10 USD and 100 USD per person per day (2005 PPP USD).

- High growth in Emerging Markets during recent years has produced a burgeoning middle class.
- This year, protests in EMs have been dominated by growing middle class demands for political accountability and better access to public services.
- In countries with less developed middle classes, such as China or India, these pressures are less acute.

Heavy 2014 Election Calendar in EMs



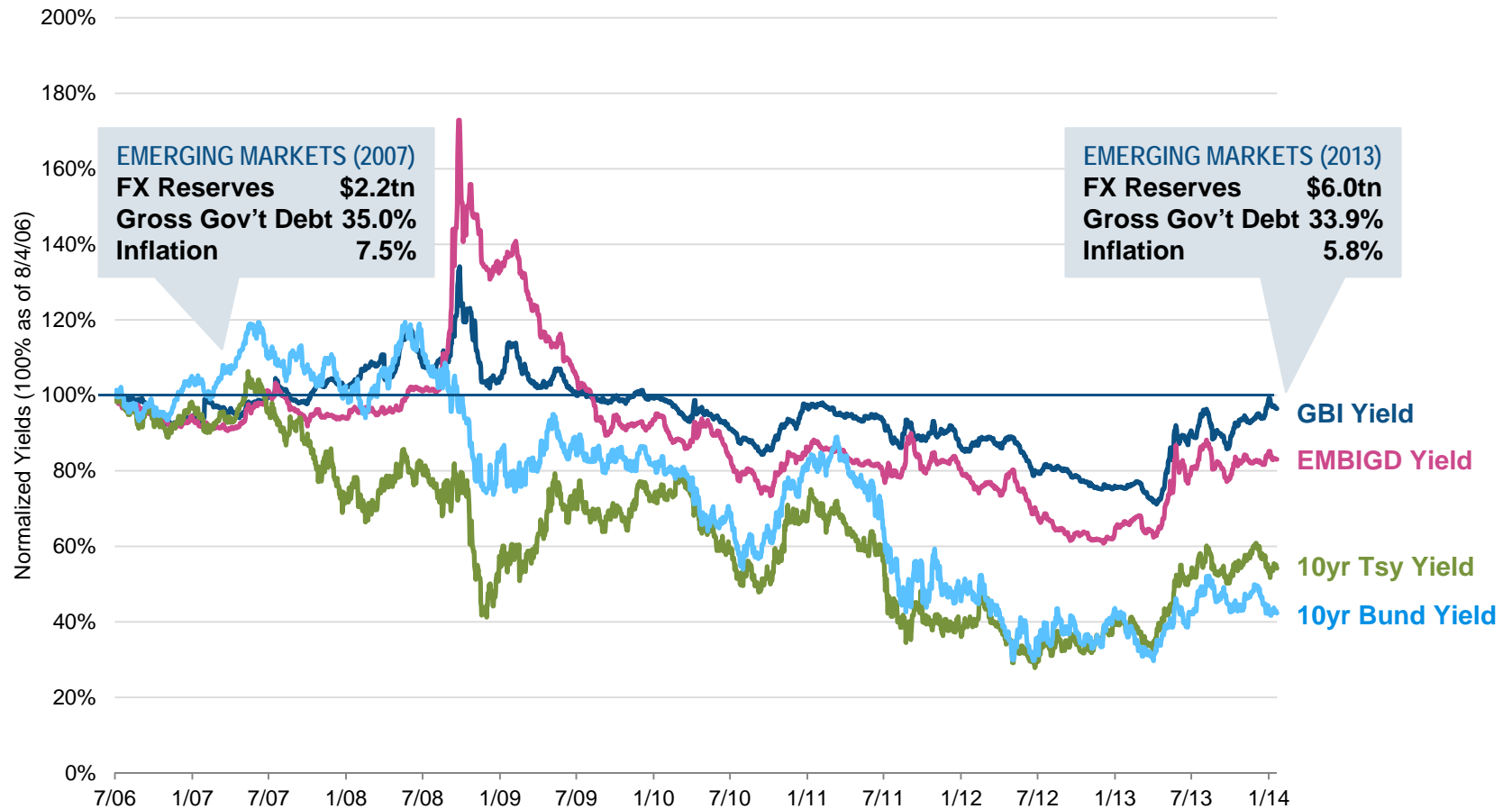
2014 Emerging Market Political Calendar

Country	Election Type	Date	Market Significance
Thailand*	Parliament	Feb-14	High
Costa Rica	President/Congressional	Feb-14	High
El Salvador	Presidential	Feb-14	Low
Egypt*	Parliament	Feb/Mar 2014	High
Turkey	Local Elections	Mar-14	Moderate
Hungary	Parliament	Spring-2014	Low
Iraq	General Elections	Apr-14	High
South Africa	General Elections	April-Jun 2014	Moderate
Lithuania	Presidential	May-14	Low
Colombia	Presidential	May-14	Moderate
Panama	President/Congressional	May-14	Low
India	General Elections	May/June 2014	High
Egypt*	Presidential	Jul-14	High
Indonesia	Presidential	Jul-14	Moderate
Turkey	Presidential	Aug-14	High
Brazil	President/Congressional	Oct-14	High
Uruguay	Presidential	Oct-14	Low
Lebanon*	Parliament	Nov-13	High
Namibia	President/National Assembly	Nov-14	Low
Bolivia	Presidential	Dec-14	Moderate
Romania	Presidential	2014	Moderate

* Dates subject to change

- In the next year many Emerging Market countries will hold important elections.
- We rank countries based on the market significance of elections. For countries with ranked “low,” the electoral outcome is unlikely to change policy direction.
- For countries where market significance is “high”, we see the potential for: a) at least one candidate to materially alter the policy direction of the sovereign; and/or b) an elevated probability for election related developments to drive spreads.
- For example, in countries subject to higher event risk associated with an unsettled political backdrop (e.g. Iraq or Egypt), we are cautious about investment prospects.

Valuation in Emerging Market Debt is Compelling



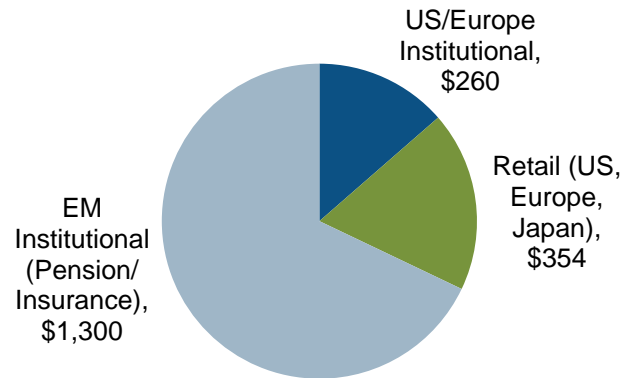
Source: Bloomberg, Payden & Rygel

- Emerging Market yields have almost retraced to 2006/07 levels, while Developed Market yields still have some way to go.
- The valuation is made more compelling given the improved fundamental backdrop of higher FX reserves, lower government debt and lower inflation.

EM Fixed Income is Predominantly an Institutional Asset Class

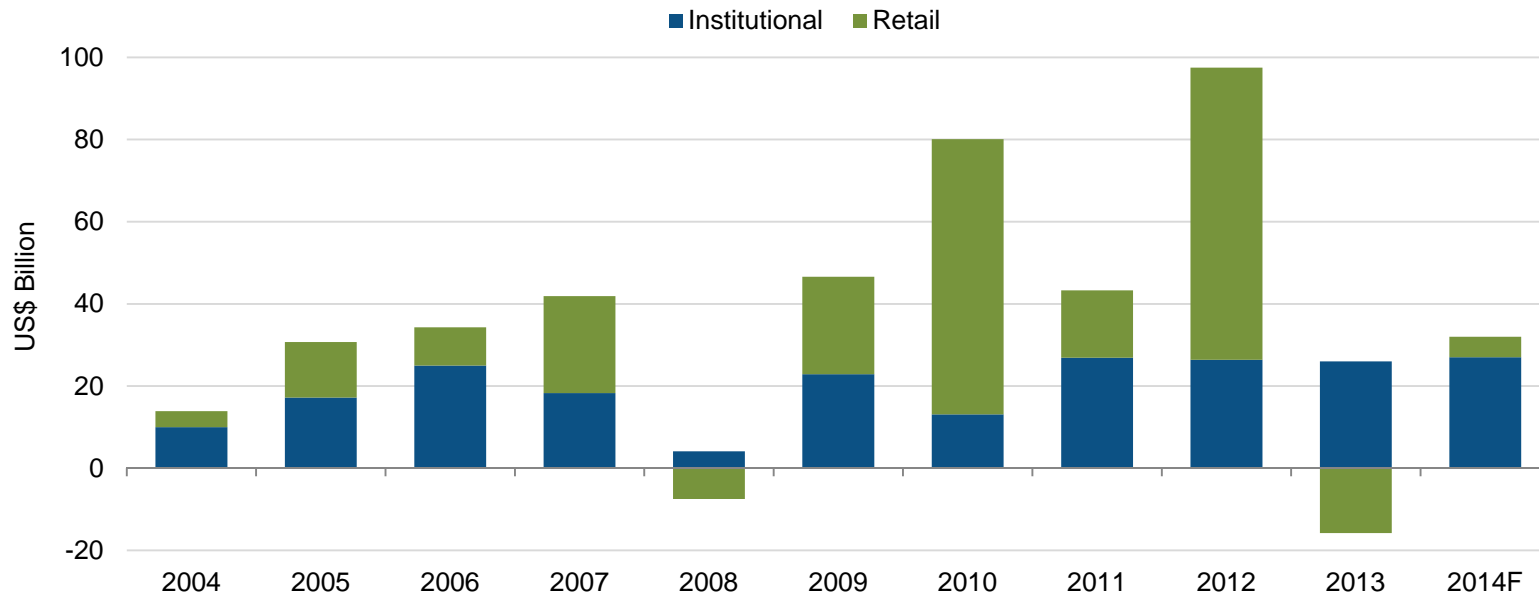


EM Debt Held by Investor Type – USD billion



- Institutions comprise about 80% of the holders of EM debt assets.
- Retail flows have been volatile, but institutions have steadily allocated.
- We expect continued inflows, given the under-allocation of pensions, insurance, foundation and endowment funds.

EM Debt Flows – Institution Steady, Retail Choppy



Source: JP Morgan. As of 12/31/2013.