

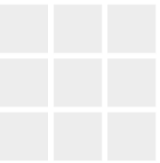


EM DEBT: FALLING KNIFE OR SECULAR OPPORTUNITY?

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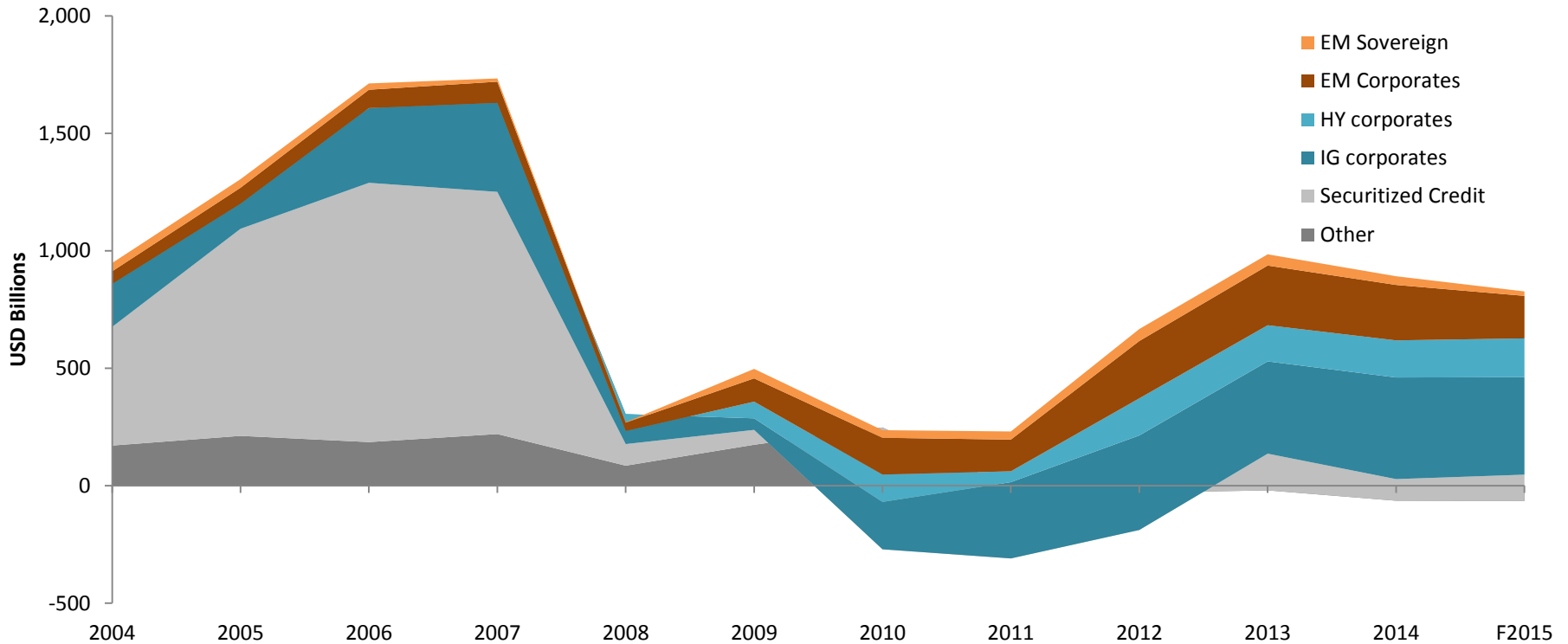
Agenda

- Breaking Down the Opportunity Set
- Market Update
- Secular Opportunity
- Valuations & Outlook

Emerging Markets are Growing in Prominence

As of June 30, 2015

GLOBAL USD DENOMINATED NET BOND SUPPLY EX-TREASURIES AND AGENCIES (USD BN)

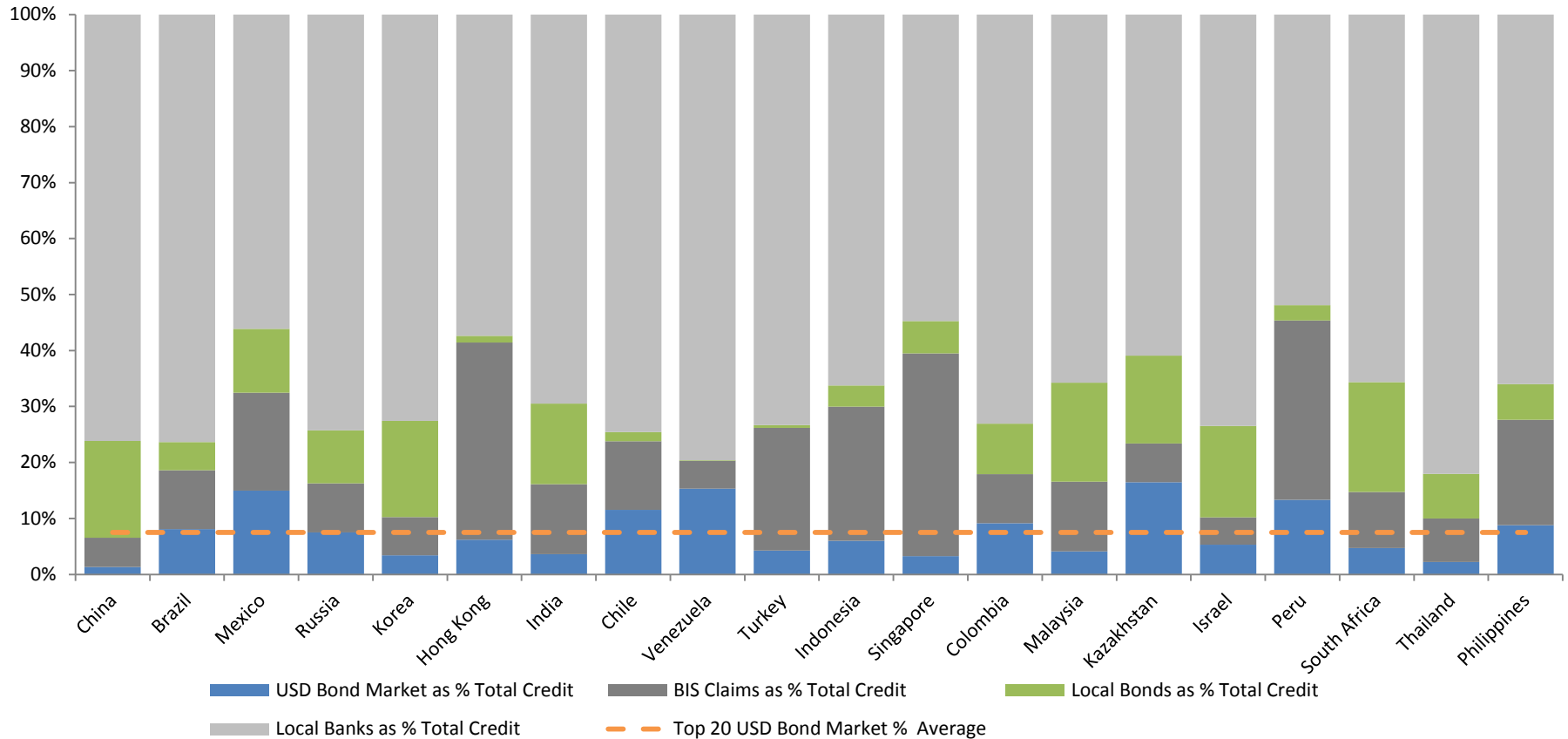


Emerging Markets account for an increasing proportion of USD bond issuance

Source: JP Morgan

Stable Credit Profiles

TOP 20 EM CORPORATE USD BOND MARKETS

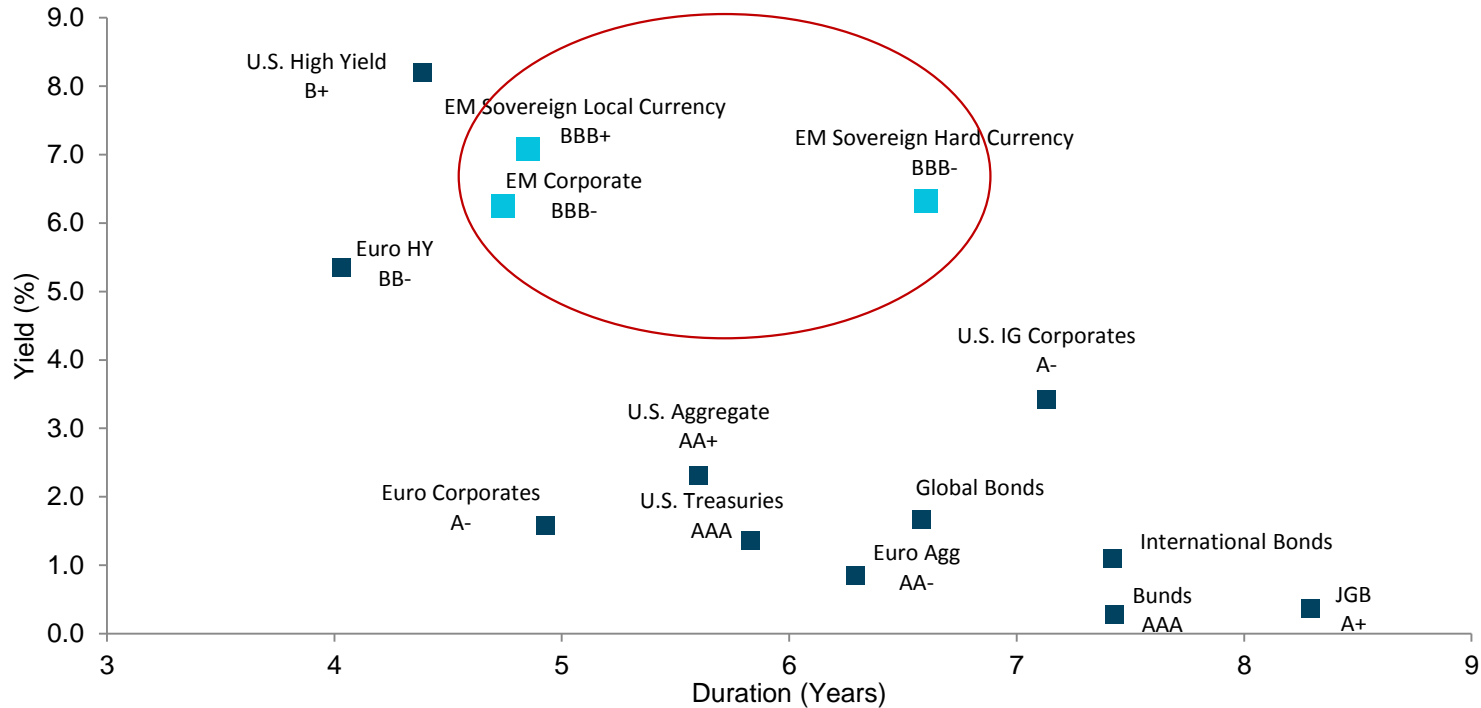


Contrary to some media reports, growth in the EM USD corporate bond market is not feeding a bubble

Source: T. Rowe Price, Bank of America, Fitch, BIS

Divergence in Global Yield and Duration Profiles

As of September 30, 2015



Favorable yield and duration profiles across the emerging markets opportunity set

Source: U.S. Treasuries: Barclays US Treasury Index; U.S. Aggregate: Barclays U.S. Aggregate ;U.S. Corporates: Barclays US Corp IG index; U.S. High Yield: Barclays US High Yield; EM Sovereign Hard Currency: JPM Emerging Market Global Diversified Bond Index; EM Corporates: JPM CEMBI Broad Diversified; EM Sovereign Local Currency: JPM;GBI-EM GD Index; Global Bonds: Barclays Global Aggregate Index; International Bonds: Barclays Global Aggregate ex-US Index; Euro Corporates: Barclays Euro Agg: Corporates Index ; Euro HY: Barclays Pan-European High Yield; EURO Agg: Barclays Capital Euro Agg; JGB: Barclays Asian Pacific Japan; Bunds: Barclays Global Treasury Germany; UK Gilts: Barclays Global Treasury UK

The Three Forms of Emerging Markets Debt

As of August 31, 2015

External Government	Local Government	External Corporate
Return Drivers:		
<ul style="list-style-type: none"> • Structural reforms • Growth premium • Credit quality trends 	<ul style="list-style-type: none"> • Dovish monetary policy • Currency appreciation potential • Attractive carry 	<ul style="list-style-type: none"> • Rising consumption trends • Domestic growth potential • Credit quality trends
Risk Factors:		
<ul style="list-style-type: none"> • Longer duration profile • Credit deterioration • Potential asset/liability mismatch 	<ul style="list-style-type: none"> • Further currency weakening • Persistent inflation trends • Geopolitical events 	<ul style="list-style-type: none"> • Liquidity • Credit deterioration • Corporate governance
Associated Characteristics:		
<ul style="list-style-type: none"> • Least volatile type of EM debt • Most inclusive of frontier markets • Most diverse EMD opportunity set 	<ul style="list-style-type: none"> • Least credit risk within EM debt • One of highest-yielding assets in EM • Most liquid among EM debt assets 	<ul style="list-style-type: none"> • Exposure to private sector growth • Greatest market inefficiency • Growing opportunity set
Key Statistics¹:		
<ul style="list-style-type: none"> • 63 countries • 129 issuers • \$678 billion outstanding 	<ul style="list-style-type: none"> • 16 countries • 195 instruments • \$864.5 billion outstanding 	<ul style="list-style-type: none"> • 51 countries • 569 issuers • \$829.8 billion outstanding

¹ Benchmarks: Local Government: J.P. Morgan GBI – EM Global Diversified; External Government: J.P. Morgan Emerging Markets Bond Index Global; External Corporate: J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified



MARKET UPDATE

Volatility has Prevailed Since 2H14

As of September 30, 2015

JP MORGAN EMBI GLOBAL DIVERSIFIED CREDIT SPREADS



JP MORGAN EM CURRENCY INDEX (in USD)

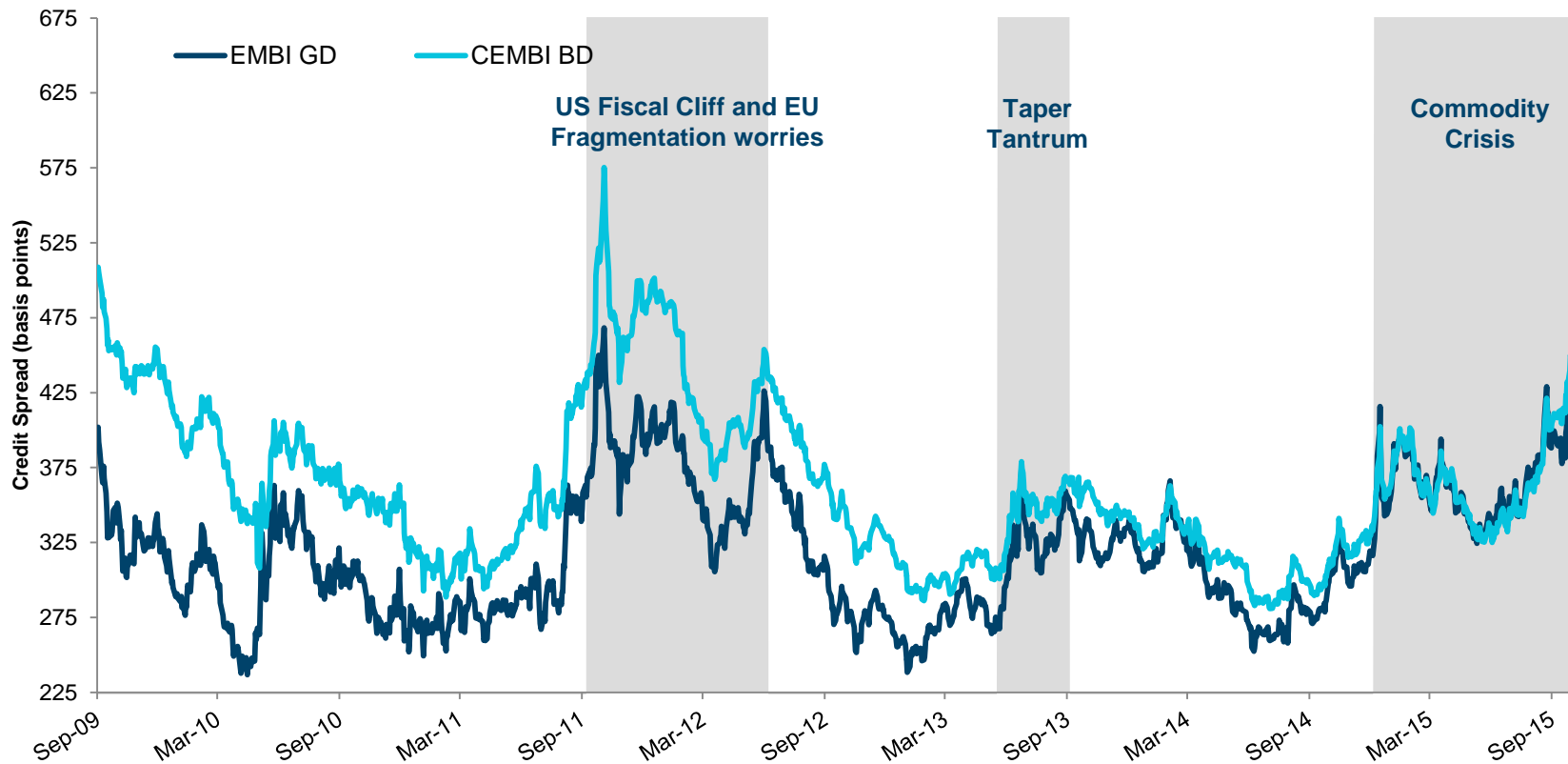


Despite periodic bouts of respite, EM credit spreads and currencies have weakened over the last 12 months.

Source: JP Morgan

Are Current Valuations Justified?

As of September 30, 2015



Credit spreads are near their widest levels since the global financial crisis

Source: JP Morgan

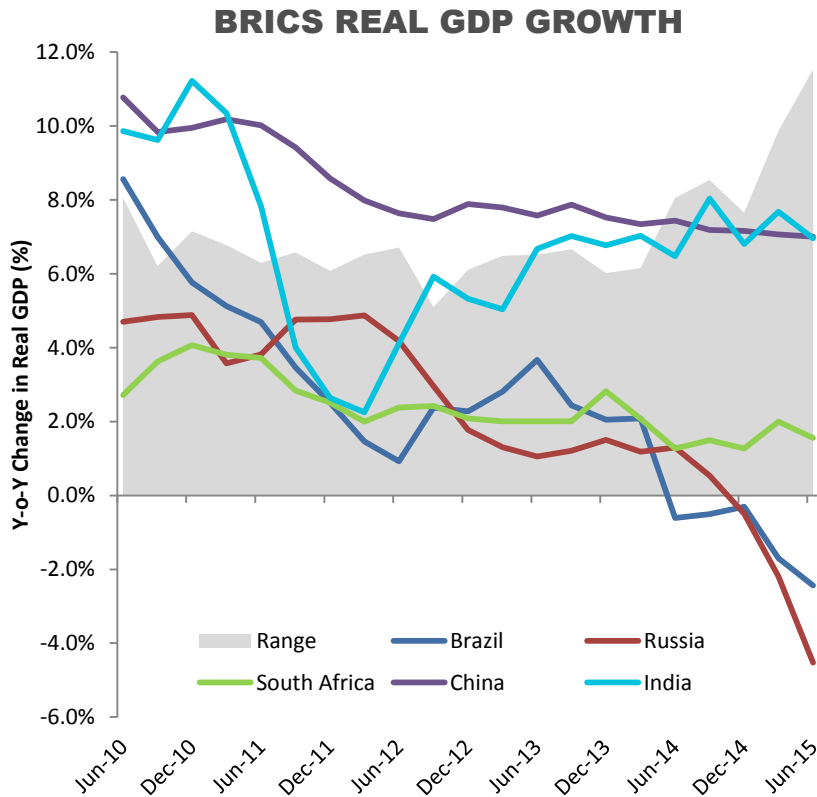


What's Ailing EM?

1. Low growth
2. Commodity price declines
3. Fed tightening & liquidity challenges
4. USD Strength
5. Contingent Liabilities
6. Idiosyncratic country developments

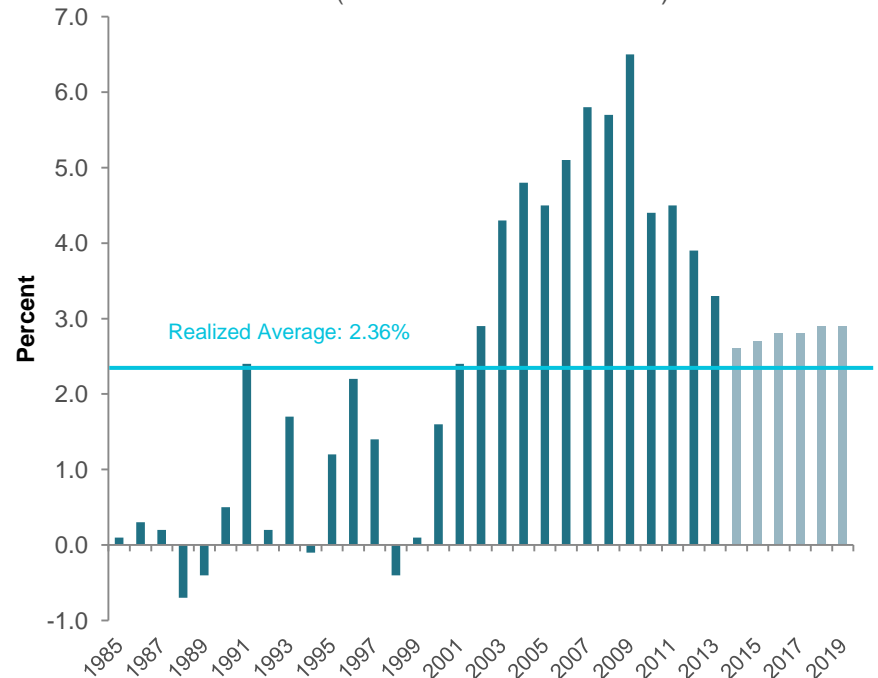
1. Low Growth

As of June 30, 2015



REAL GDP GROWTH RATE DIFFERENTIAL: EM PREMIUM OVER DM

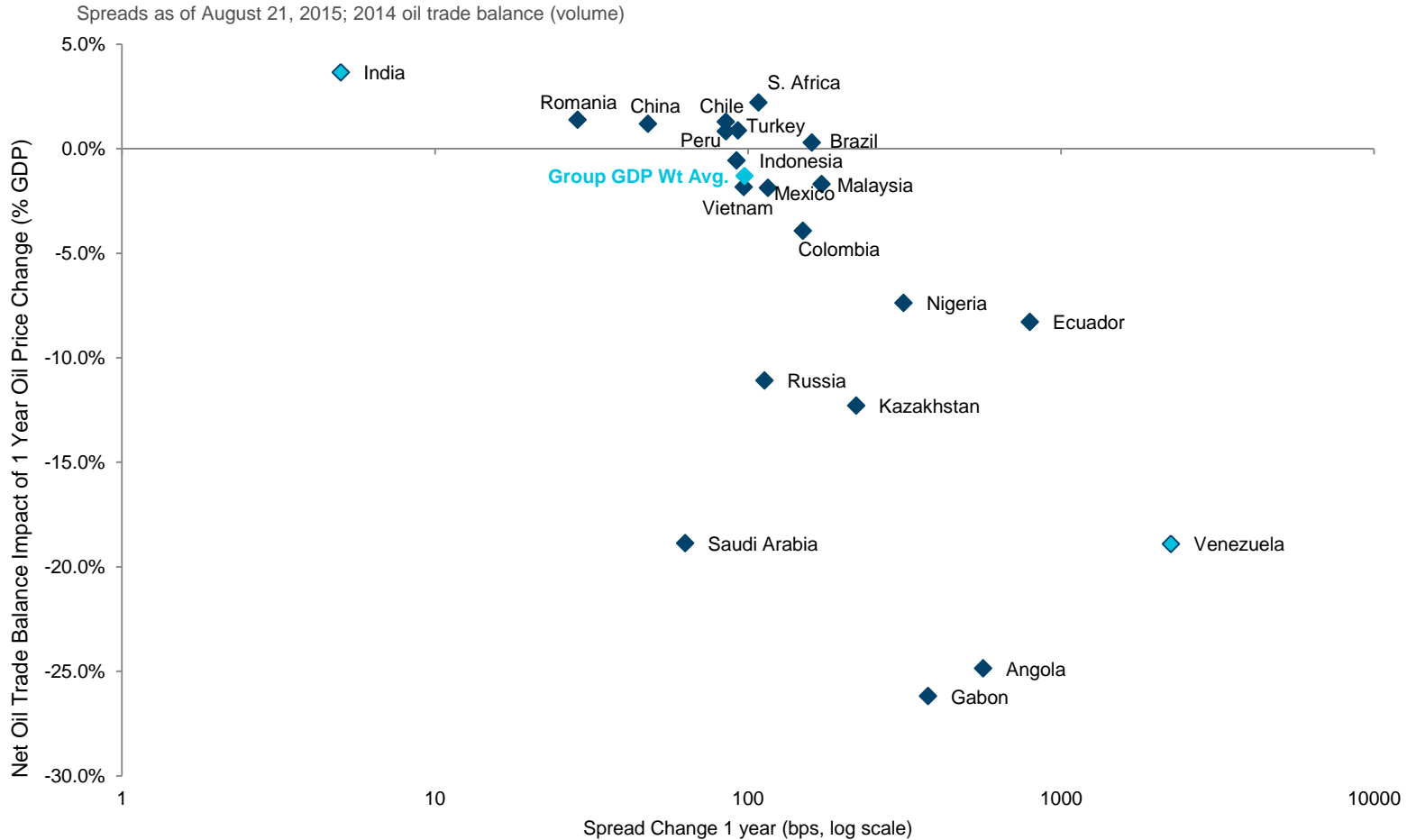
(2014 –2018 IMF Estimates)



Slowing activity in key developing countries has lowered economic growth forecasts to be more in line with the long-term average

Source: Have Analytics, IMF, World Economic Outlook Update, T. Rowe Price

2. Commodity Price Declines



Commodity price declines challenge overly reliant exporters more than importing countries benefit

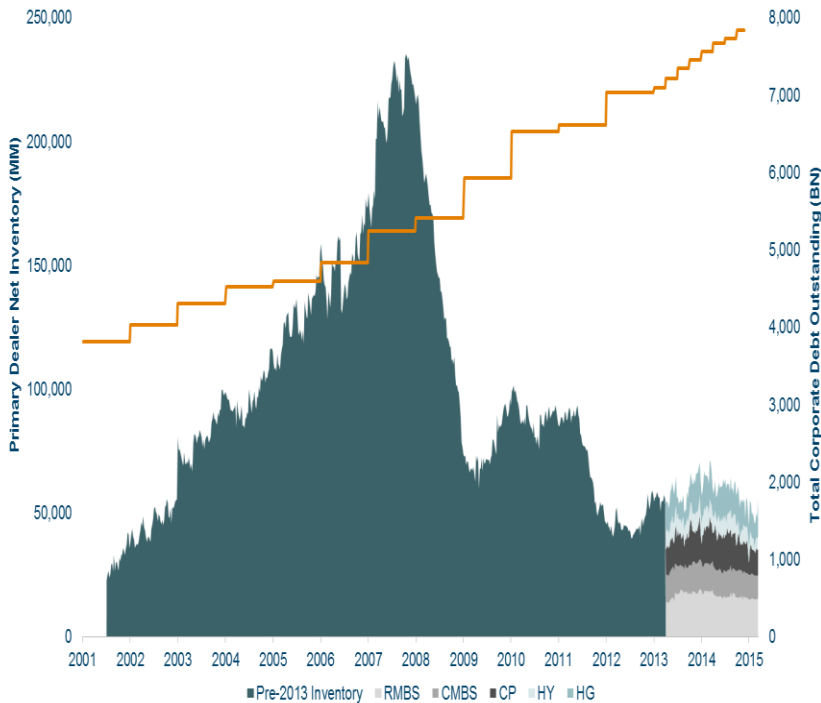
Sources: T. Rowe Price, OPEC, IMF, JP Morgan, Bloomberg

3. Fed Tightening & Liquidity Challenges

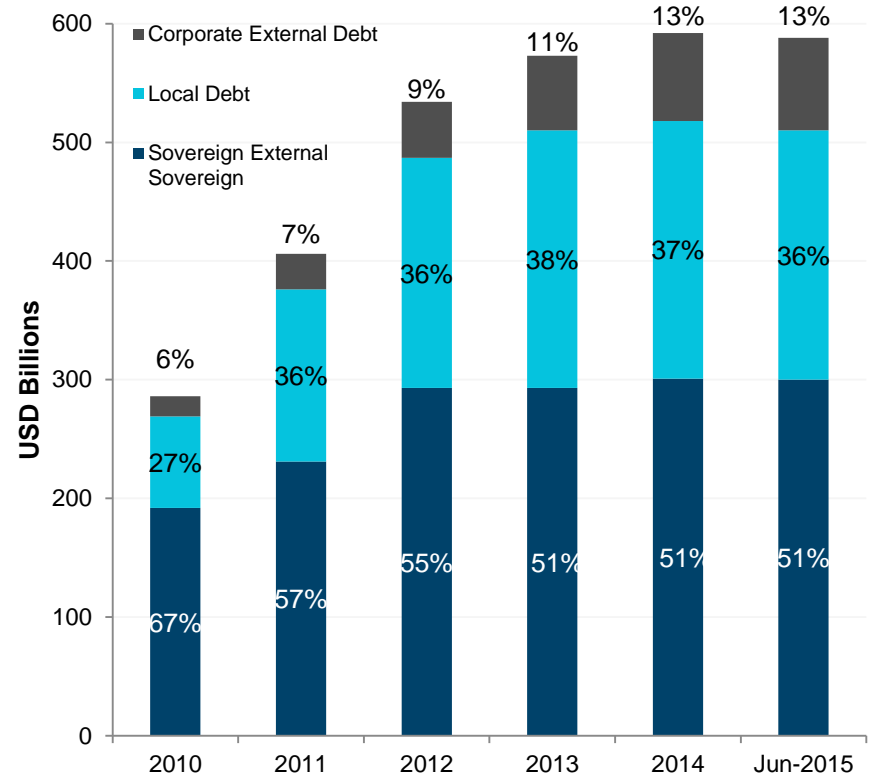
As of June 30, 2015

TRADING VOLUMES VS DEALER INVENTORIES

Primary dealer net corporate bond inventory and corporate debt outstanding (orange line)



DEDICATED EM DEBT INVESTOR BASE

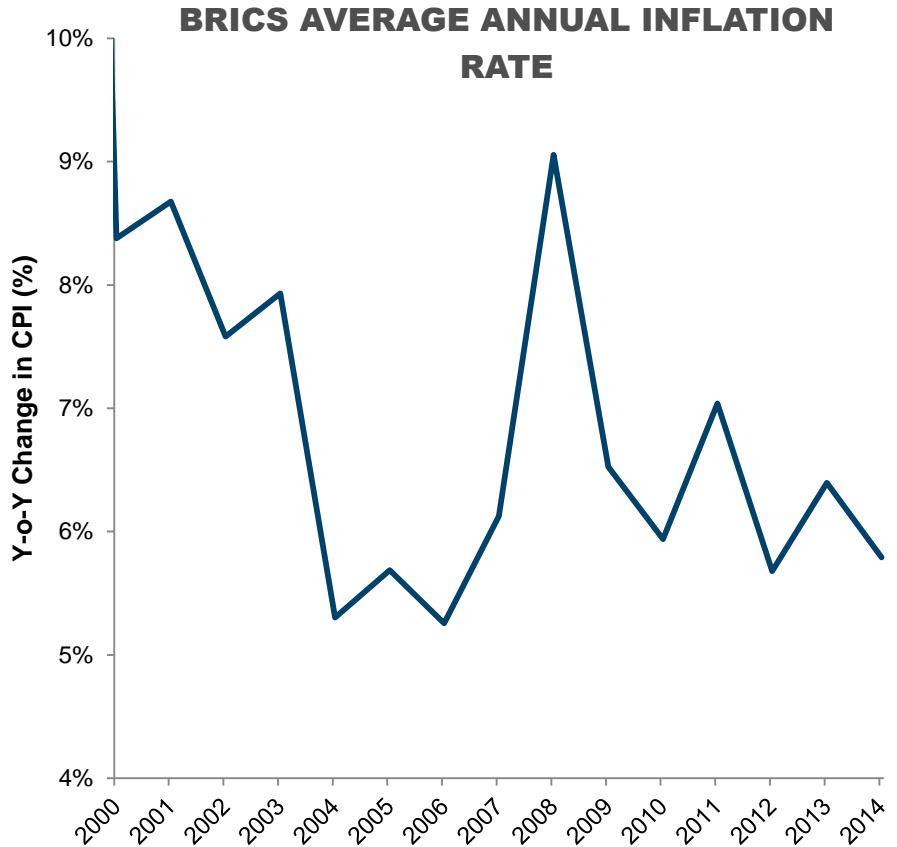
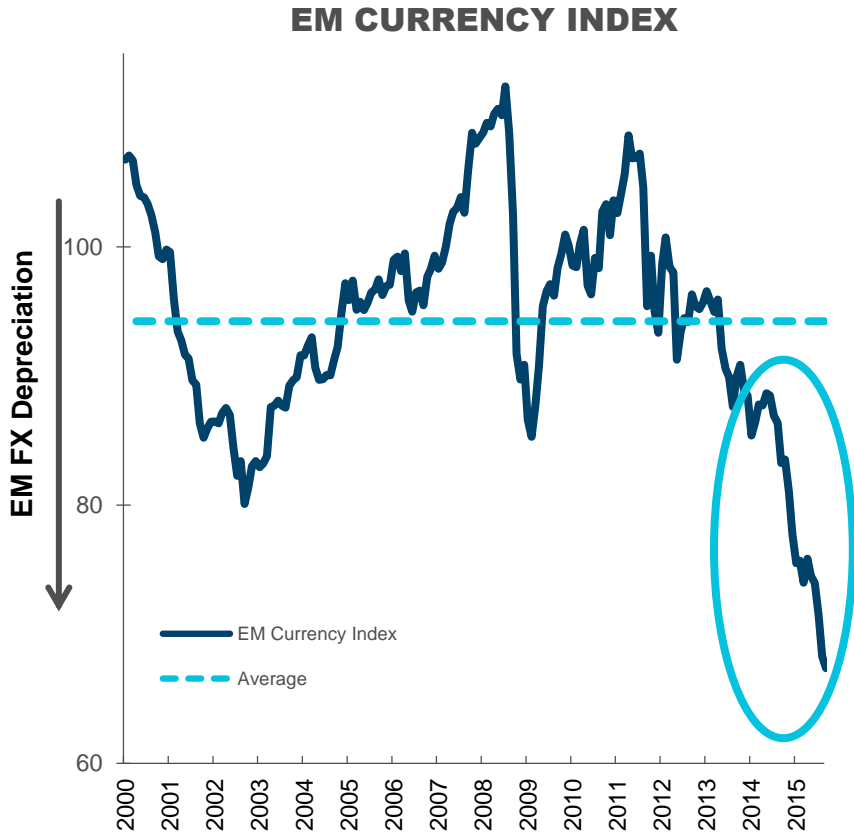


Less active dealer community and smaller dedicated investor base can make liquidity challenging

Source: JP Morgan, TRACE

4. USD Strength

As of September 30, 2015



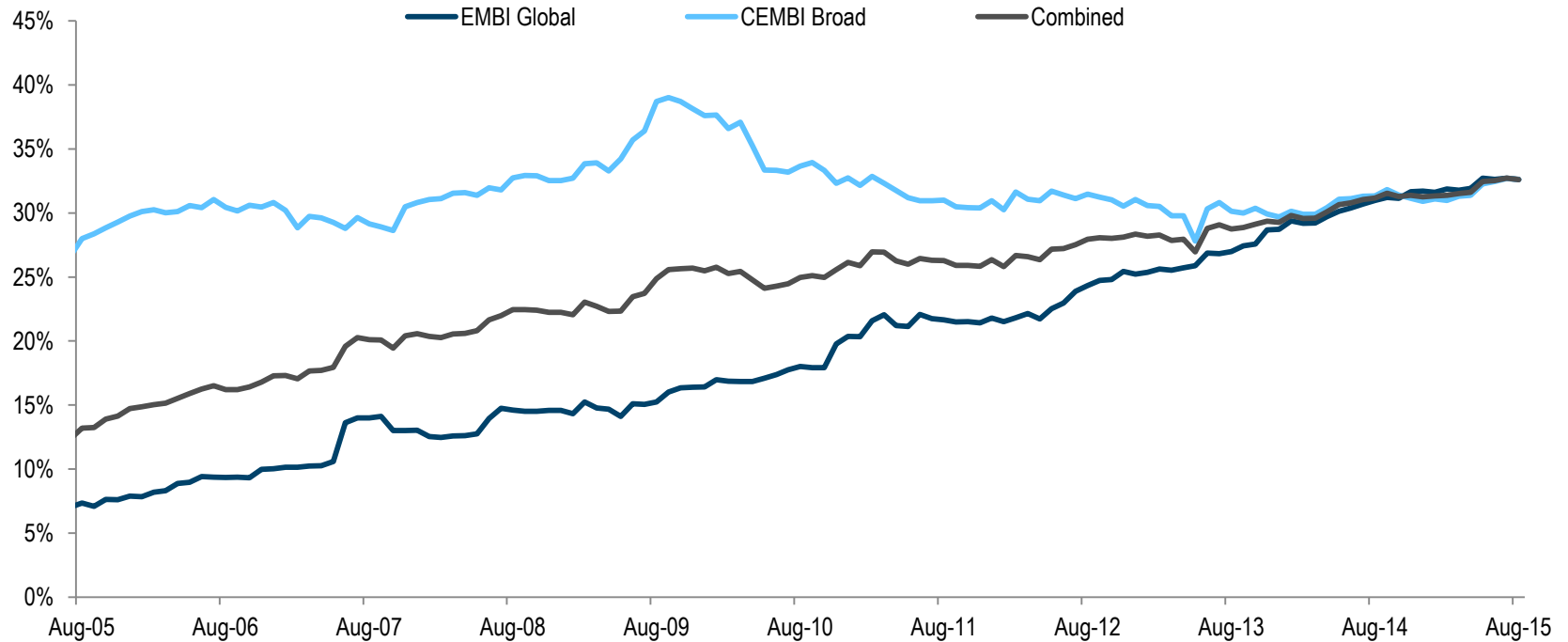
Although EM FX has suffered from an extended period of USD strength, many EM officials have adopted a non USD centric policy view

Sources: Haver Analytics, JP Morgan and T. Rowe Price
BRICS = Brazil, Russia, India, China, South Africa

5. Contingent Liabilities

As of August 31, 2015

PROPORTION OF QUASI-SOVEREIGN ISSUES IN EM INDEXES

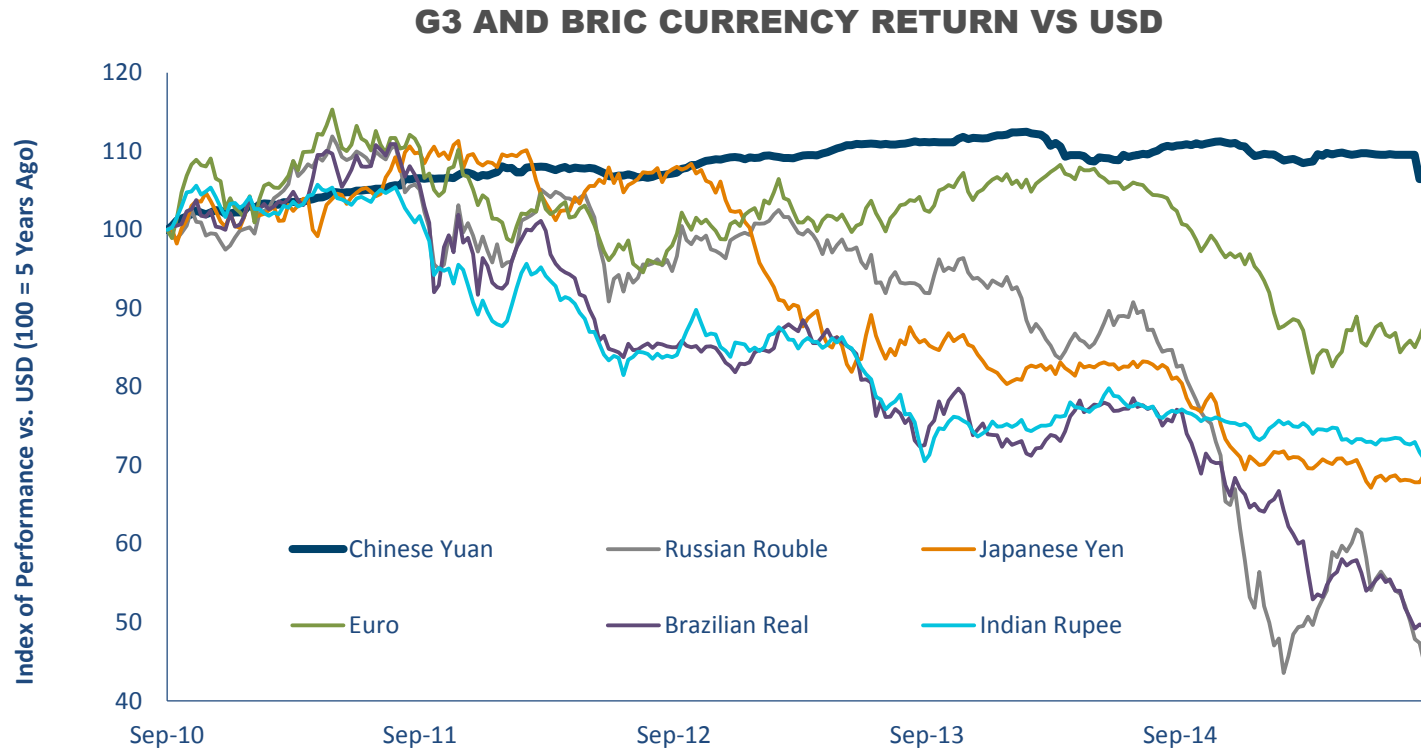


Steady growth in the debt profiles of state owned enterprises can be a contingent liability on sovereign balance sheets

Source: JP Morgan

6. Idiosyncratic Country Developments - China

As of August 31, 2015

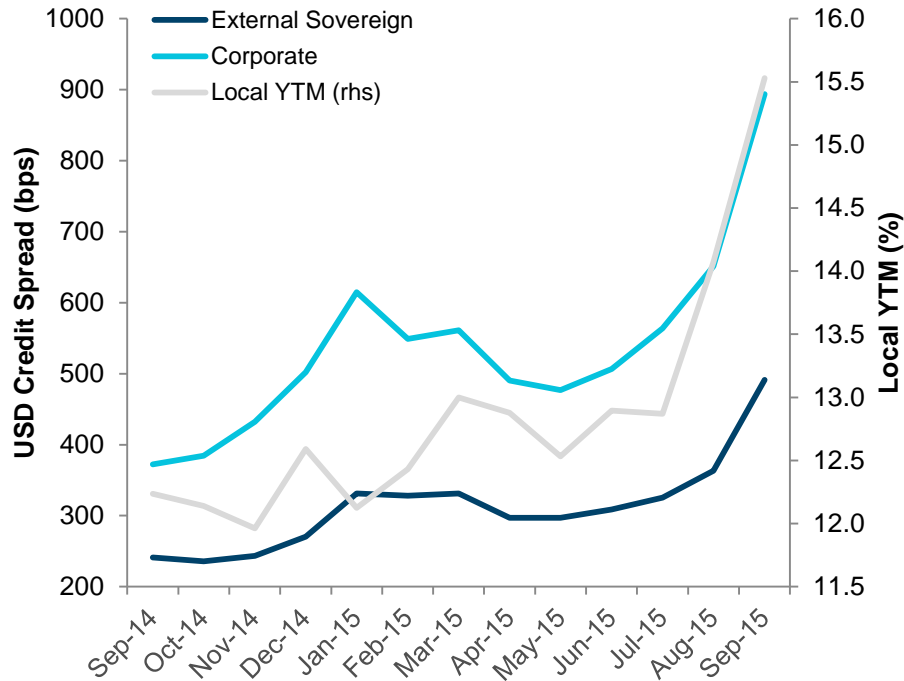


While we expect China to gradually manage growth into a “soft landing”, policy uncertainty and slowing economic indicators are a key driver of global investor sentiment

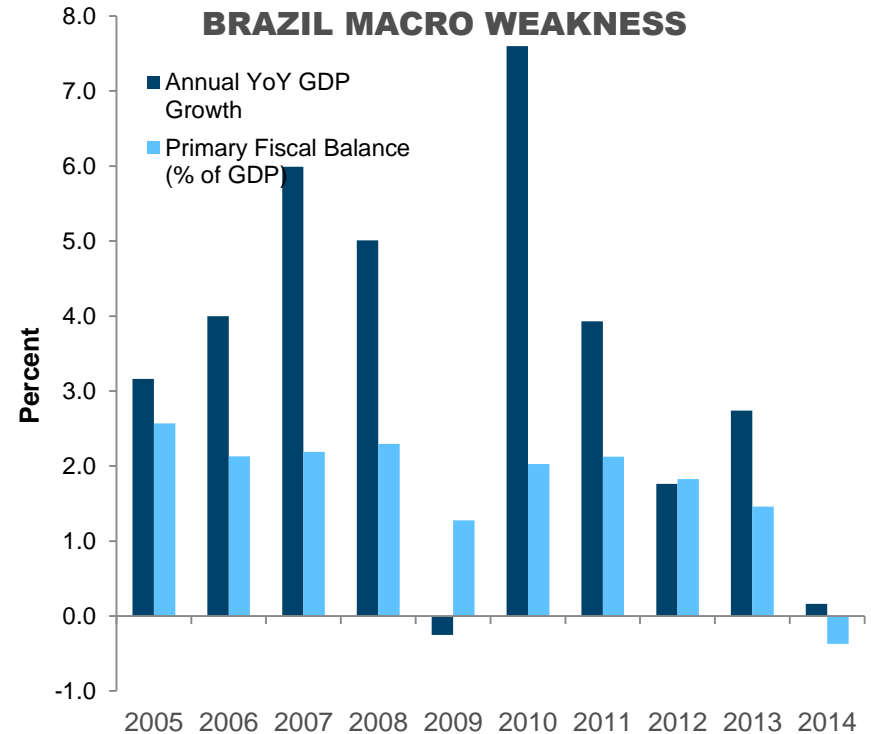
6. Idiosyncratic Country Developments - Brazil

As of September 30, 2015

BRAZIL VALUATIONS



BRAZIL MACRO WEAKNESS



Weak economic growth and an adverse political environment has weighed on Brazil's ability to enact sufficient fiscal adjustments to avoid credit rating downgrades

Source: Haver Analytics, T. Rowe Price, JP Morgan



SECULAR OPPORTUNITY

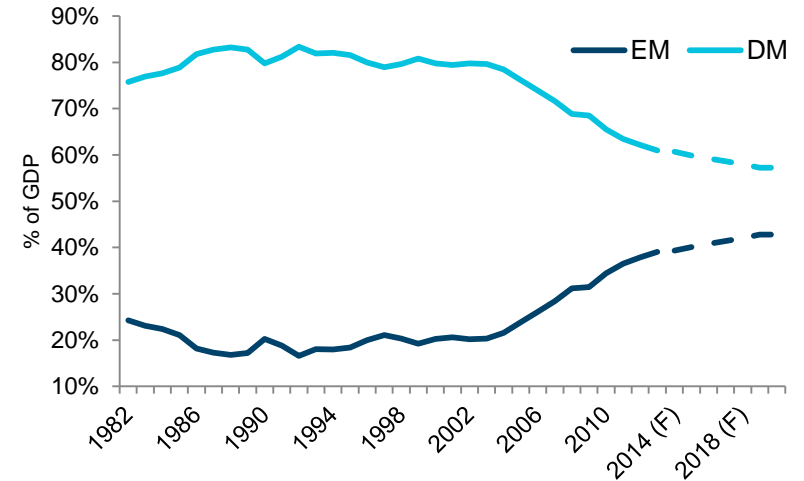
What do Investors Want from Debt Issuers?

1. Solid revenue generation
2. Cash on hand to repay debt
3. Low levels of indebtedness

1

DM AND EM SHARE OF GLOBAL GDP

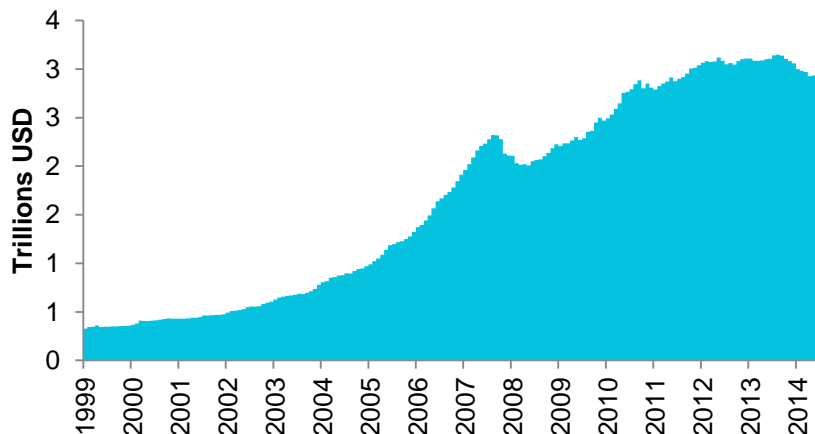
2014 – 2018 forecasted



2

RESERVE ACCUMULATION OF EM COUNTRIES

December 1999 – June 2015



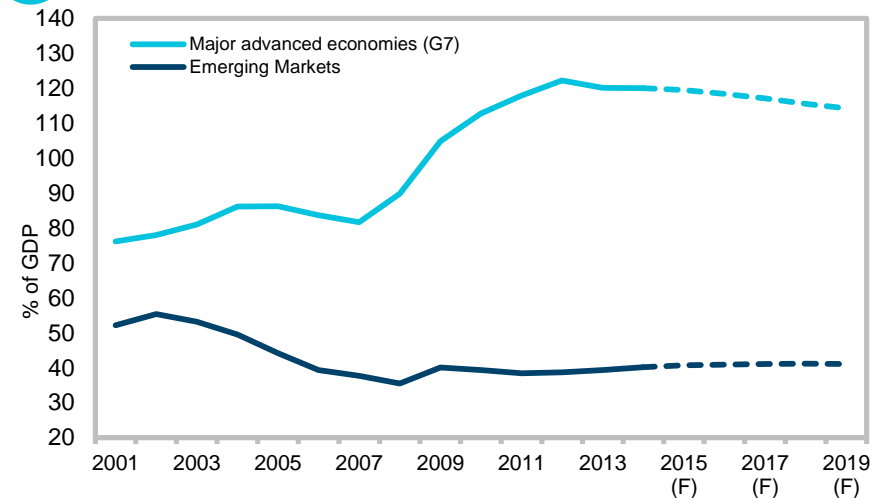
Source: JP Morgan, Haver Analytics, IMF

INVEST WITH CONFIDENCE®

3

EMERGING MARKETS VS. G7 PUBLIC DEBT

2014 – 2019 forecasted

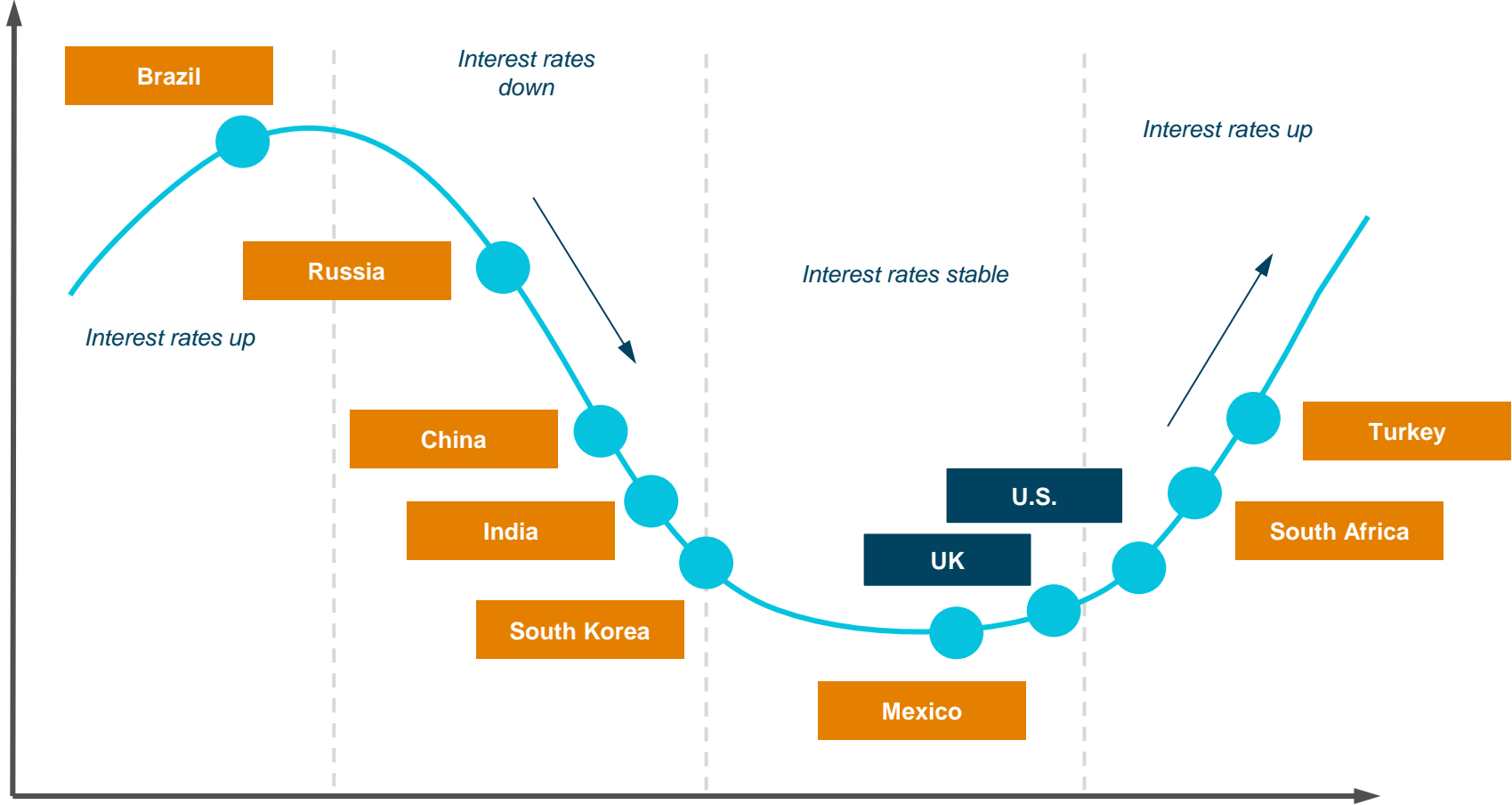


T. ROWE PRICE

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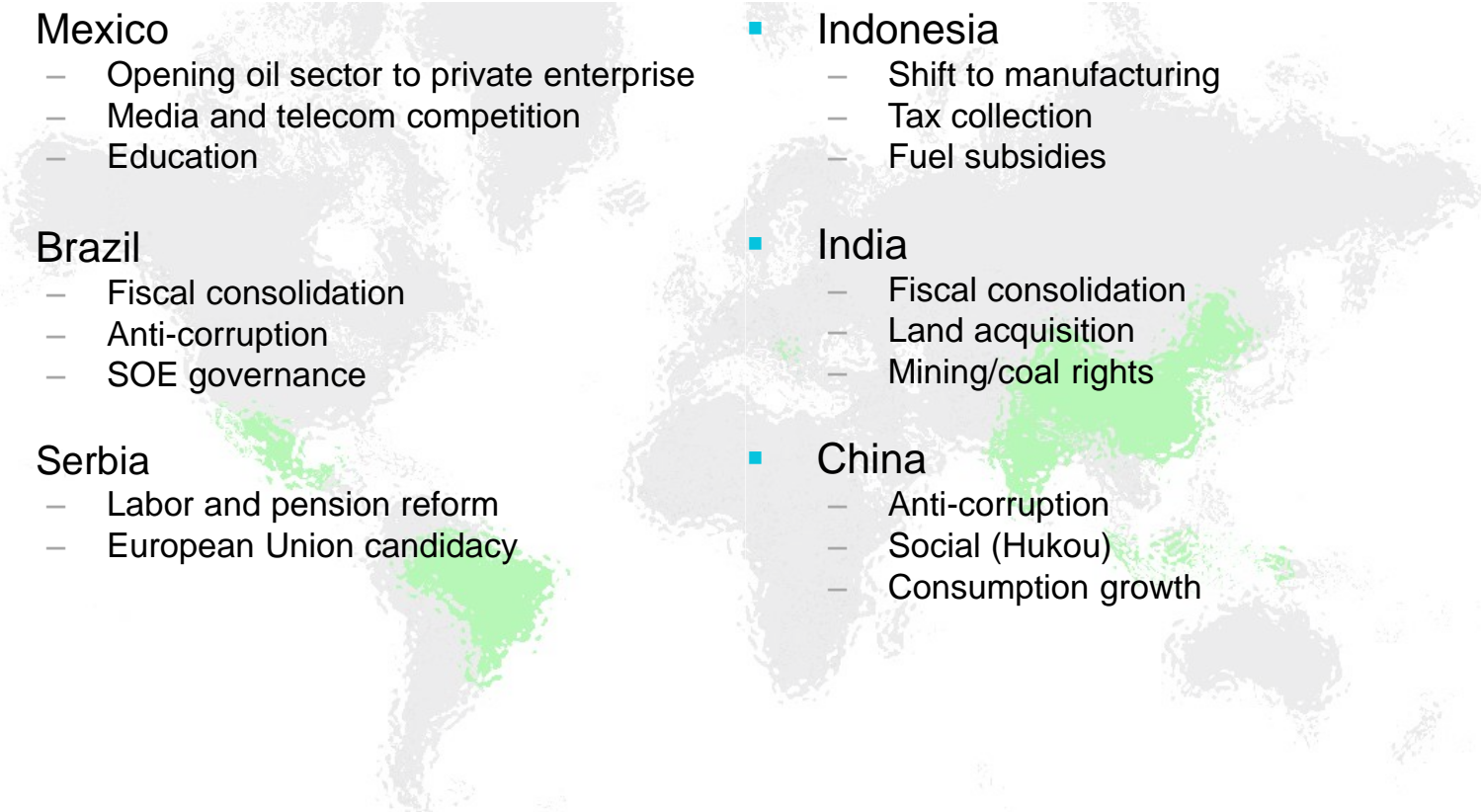
Diversification Opportunities

ILLUSTRATIVE INTEREST RATE CYCLE



Source: T. Rowe Price

Reform Potential

- 
- **Mexico**
 - Opening oil sector to private enterprise
 - Media and telecom competition
 - Education
 - **Brazil**
 - Fiscal consolidation
 - Anti-corruption
 - SOE governance
 - **Serbia**
 - Labor and pension reform
 - European Union candidacy
 - **Indonesia**
 - Shift to manufacturing
 - Tax collection
 - Fuel subsidies
 - **India**
 - Fiscal consolidation
 - Land acquisition
 - Mining/coal rights
 - **China**
 - Anti-corruption
 - Social (Hukou)
 - Consumption growth

Stronger growth and healthier balance sheets provide room for emerging markets to work through structural reforms

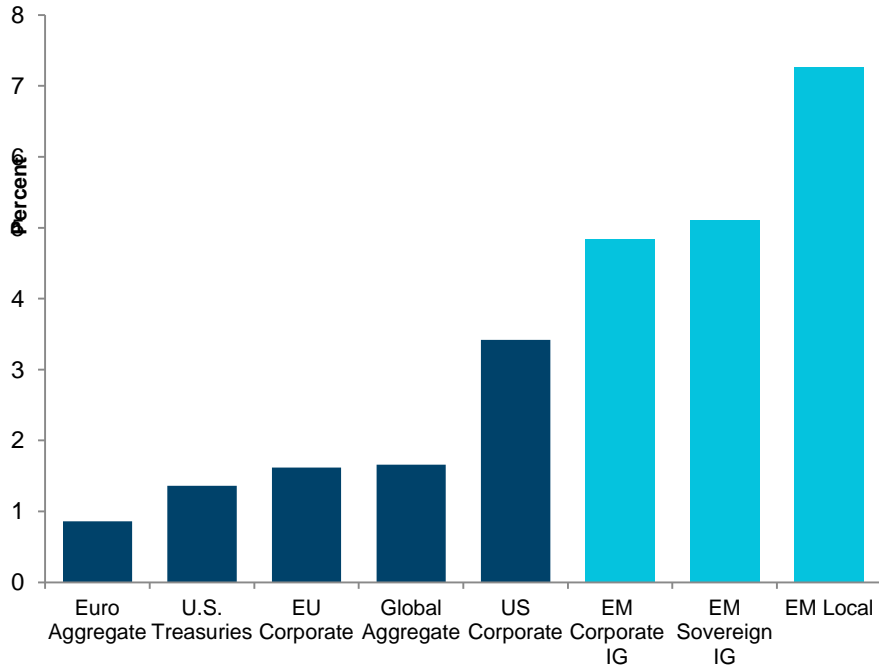


RELATIVE VALUE AND OUTLOOK

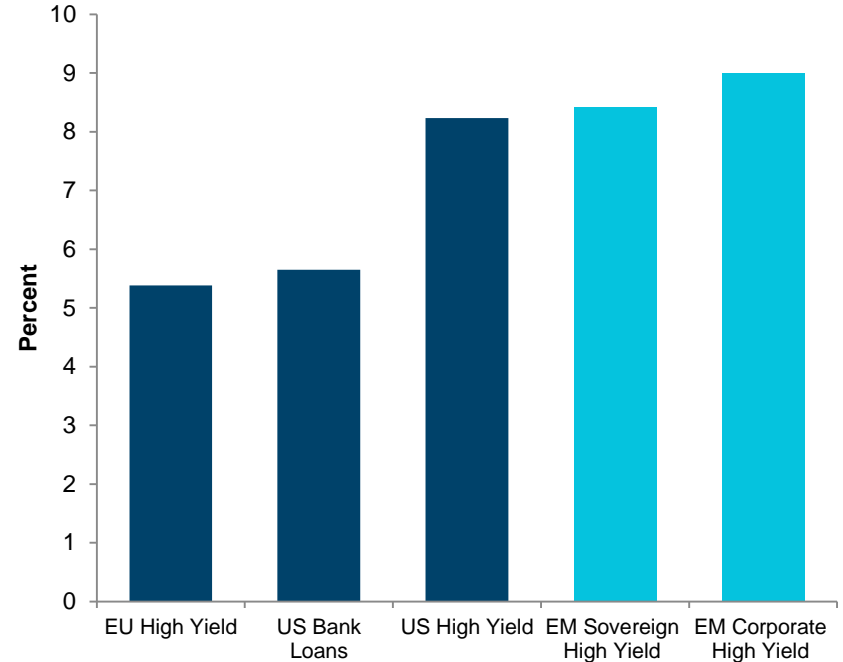
Attractive Opportunities in Global Low Yield Environment

As of September 30, 2015

INVESTMENT GRADE YIELD (%)



NON-INVESTMENT GRADE YIELDS (%)



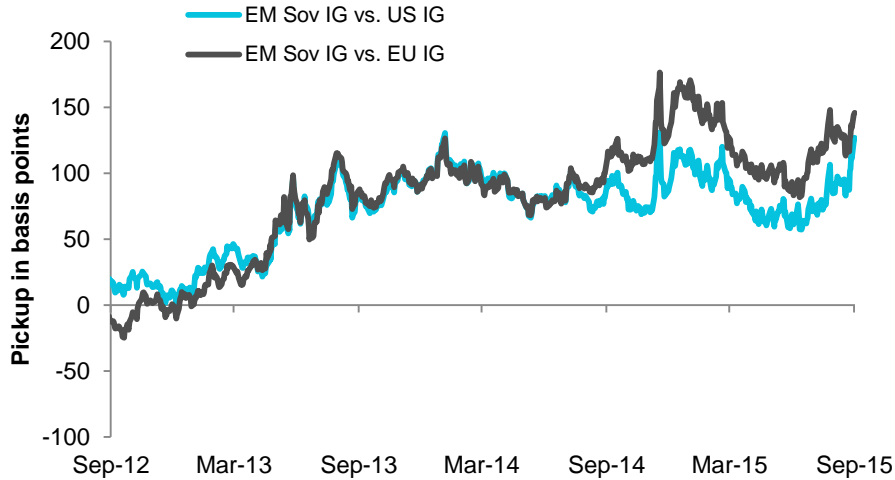
EM debt compares favorably to global fixed income asset classes in both an investment grade and high yield context

S&P LSTA Performing Loans index, U.S. Treasuries: Barclays US Treasury Index; U.S. Corporates: Barclays US Corp IG index; U.S. High Yield: Barclays US High Yield; EM Sovereign Hard Currency: JPM Emerging Market Global Diversified Bond Index (IG and HY sub-index); EM Corporates: JPM CEMBI Broad Diversified (IG and HY sub-index); EM Sovereign Local Currency: JPM; GBI-EM GD Index; EM Frontiers: JPM NEXGEM Index; Global Agg: Barclays Global Aggregate Index; Euro Corporates: Barclays Euro Agg: Corporates Index ; Euro HY: Barclays Pan-European High Yield; EURO Agg: Barclays Capital Euro Agg; JGB: Barclays Asian Pacific Japan; Bunds: Barclays Global Treasury Germany; Sources: J.P. Morgan Chase & Co., Barclay's Capita.

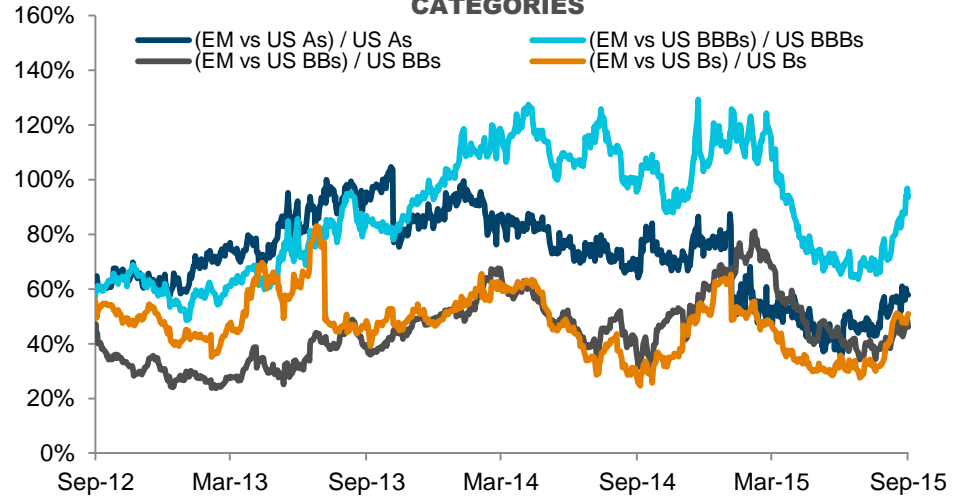
Relative Value Improving

As of September 30, 2015

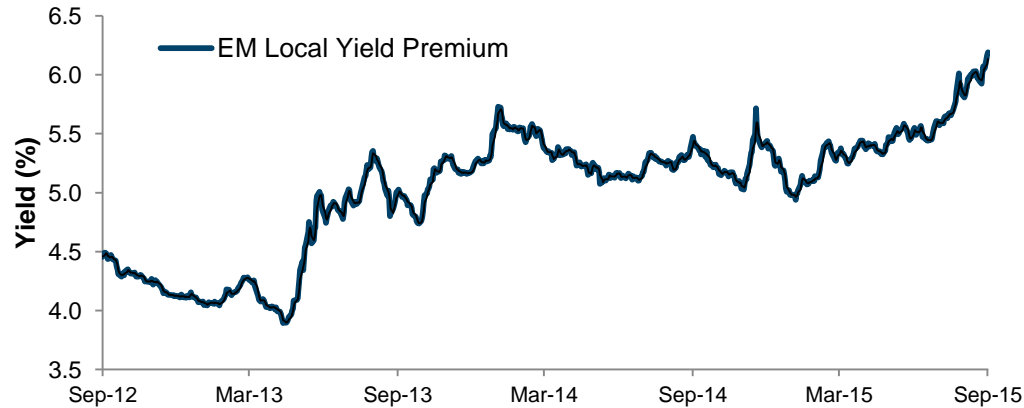
EM IG SOVEREIGN SPREADS VS. DM IG CORPORATES



EM VS US CREDIT - SPREAD % PICKUP ACROSS RATING CATEGORIES



EM LOCAL YIELD PREMIUM VS. GLOBAL TREASURIES



Indexes: JP Morgan Emerging Markets Bond Index Global Diversified – IG Only, JP Morgan CEMBI Broad Diversified (by rating bucket), Barclays US Corporate Investment Grade, Barclays European Investment Grade Corporate, JP Morgan GBI – EM Global Diversified, Barclays Global Treasury



Outlook

As of September 2015

- Fundamentals have weakened in select markets, driven by a combination of commodity weakness and slow growth, but have also proved to be a catalyst for reforms
- Investor sentiment remains cautious; underweight positions, high cash levels, and limited supply leave a favorable technical environment
- Liquidity likely to be a key challenge as the Fed normalizes policy and US Treasury rates rise – though the pace is likely to be modest
- Rate hikes in the US should provide an attractive entry point for investors over the coming months