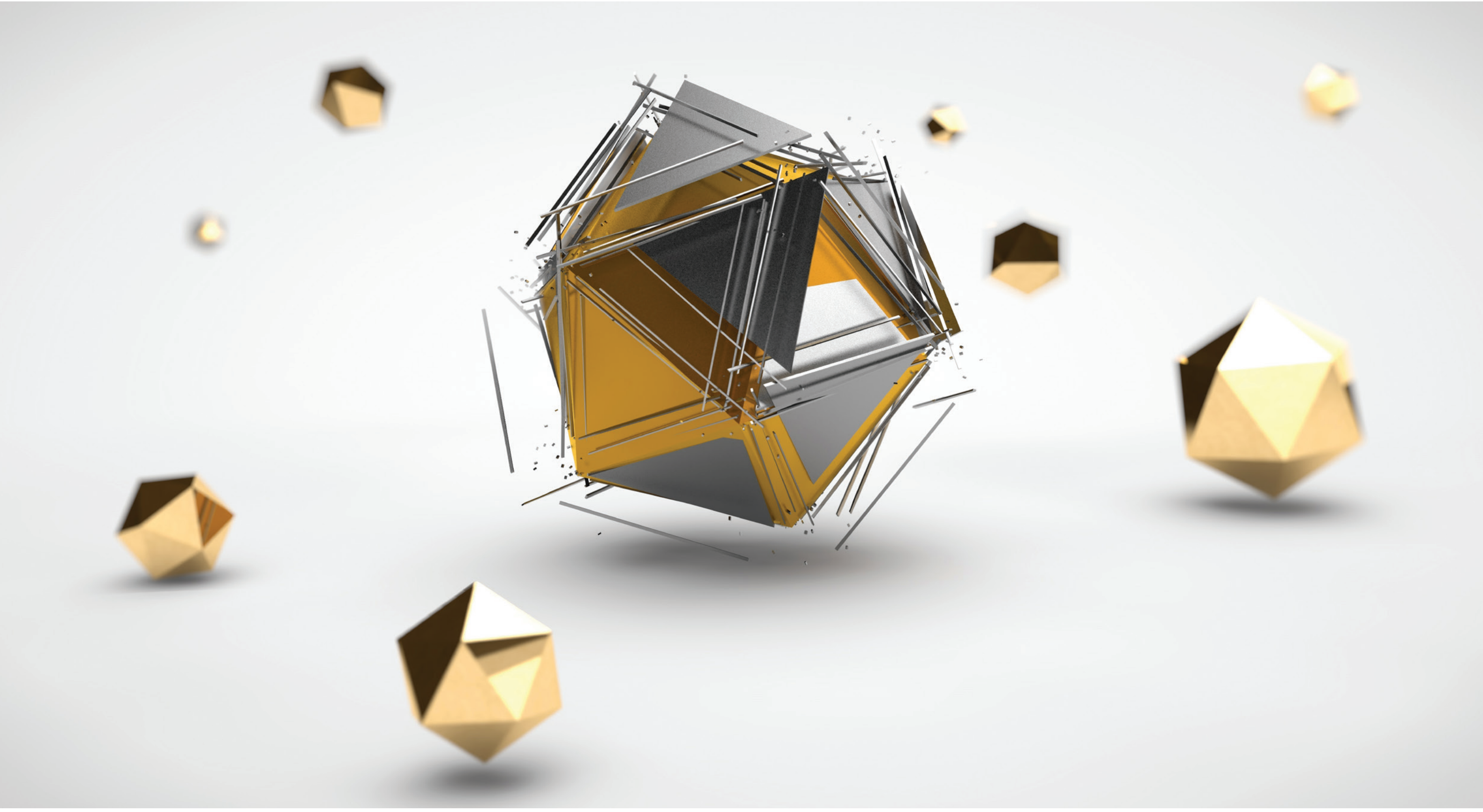
Pivoting Party, Policies, and Geopolitics:
Why High-Quality Income Should be a Solid Core



October 2017

At PineBridge Investments, we actively navigate fluctuations and uncover new income opportunities to help clients protect and earn more. Here we share key highlights across the region including increasing tensions in the Korean Peninsula and the highly anticipated 19th Congress of China and why strong fundamentals, low volatility instruments are a critical core to navigating upcoming uncertainties.

Asia remains a main driver of global growth, with increasing economic and financial clout. Rapid Asian capital developments – and the corresponding impressive investment gain potential – offer new sources of portfolio return and risk translating into new beta and alpha opportunities.

Nowhere is this more apparent than in Asia's investment grade fixed income markets. Favorable yield and duration attributes continue to attract investors, and the segment offers compelling long-term risk-adjusted return potential for those who know where to look.

Many of the region's macro overhangs have also begun to dissipate. China's financials risks appear to remain in check, and a synchronized economic recovery is underway across Asia, offering greater systemic stability. There are also reduced concerns about a more protectionist US trade policy, and the Federal Reserve continues to take a very gradual and well-communicated approach in its tightening policy, helping to avoid roiling bond markets around the globe with unnecessary surprises.

At PineBridge Investments, we are continually searching for new ways for investors to expand income and appreciation opportunities, while seeking to protect capital. In this paper, we share key investment highlights about the potential we are currently seeing in high-quality Asian bonds and why strong fundamentals and low volatility instruments remain critical in successfully navigating the segment.

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Weighing investment potential by region

Although Chinese issuers continue to make up the bulk of Asia's investment grade credit markets, it is important to remember that the broader region represents a collection of large, incredibly diverse economies. Each comes with specific investment opportunities and considerations. Our outlook on several major markets are highlighted below.

China: 19th National Congress to anchor China's economic stability

The most significant near-term focus for the Asian bond market is the new Chinese government which will be unveiled in October at the 19th National Congress of the Communist Party. An intersection of politics and economic reform, the upcoming 19th National Congress of the Communist Party will set the tone and agenda for the region's largest country for the next five years. We expect announcements underlining the ongoing gradual steps China has been taking to liberalize its capital markets, rein in leverage and reform its state owned enterprises.

We continue to see value in China, particularly within some strategic state-owned enterprises (SOEs) and select real estate and large financial issuers. Further strategic SOE consolidation and merger and acquisition activity is expected to continue, which should generally lead to increased investment grade credit supply to the US dollar market. These new consolidated companies will maintain their investment grade ratings, given their government ownership and strategic positioning.

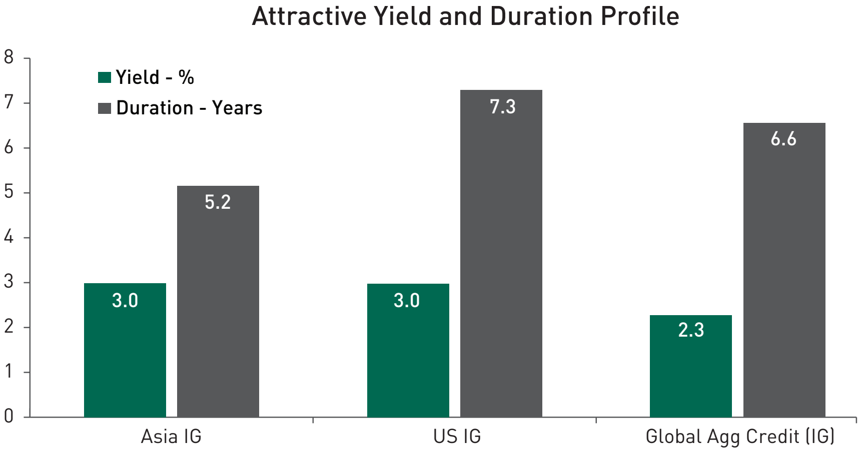
Korea: Strong fundamentals amidst rising tensions

Tensions radiating from North Korea have substantially increased and will remain an overhang over Korean assets, including Korean credit. However, market reaction has so far been mild, and South Korean bonds do look attractive on a selective basis. Putting political noise aside, several interesting new deals have offered attractive spreads relative to historical levels. However, given their elevated risk premium, many Korean issuers have had to tap the local market, rather than the US dollar market, for funding.

In our view, this risk premium is predominately due to the geopolitical tensions rather than fundamentals. When strictly considering the macro numbers, South Korea has no major issues. There are pockets of risk to be monitored, such as in the consumption and mortgage sectors, but other sectors, such as manufacturing, continue to perform remarkably well.

Southeast Asia: Positive credit momentum and rebounding trade

Southeast Asia is one of the few areas that witnessed positive credit ratings momentum in the past five years. The Philippines, for instance, went from below investment grade five years ago to investment grade by all three major rating agencies today. Indonesia also witnessed a substantial credit rating improvement, with three major agencies rating it investment grade earlier this year. In addition, with trade on the rebound, monetary policy still accommodative, and inflation in check, Southeast Asian economies are doing well. We are surgical in our issuer selection and aware of the relatively tight valuations, favoring some Indonesian exposure as well as select names in the commodity space.



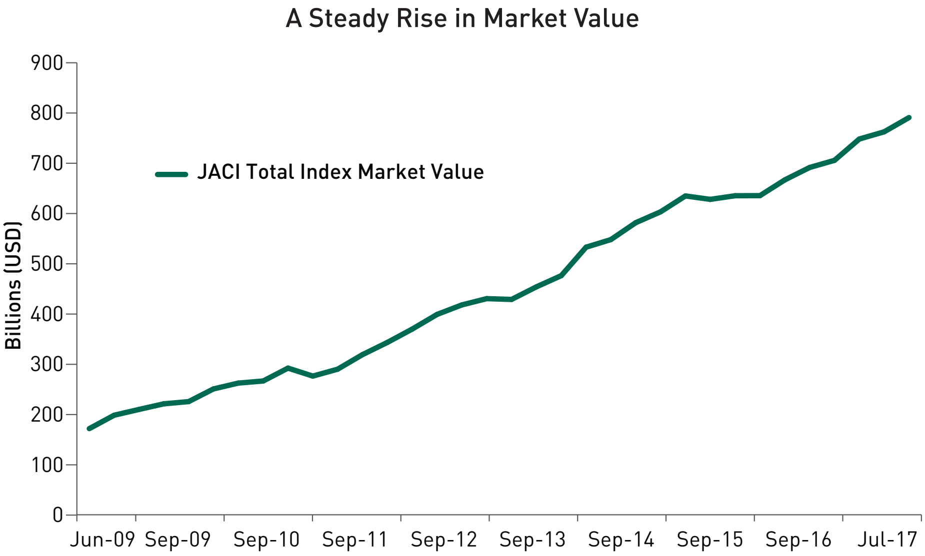
Source: Bloomberg, as of 31 August 2017. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

Asian investment grade credits offer an income advantage over other high quality global bonds with significantly less interest rate sensitivity.

A well-anchored asset class

A confluence of positive factors continue to strengthen the case for Asia's investment grade credit securities. What was a relatively small and niche market only a decade ago has expanded considerably in both size and appeal.

Consistent growth: Since 2009, the overall Asian credit market has more than tripled in value. This steady growth has helped increase liquidity and illustrates consistently growing investor demand to access the potential offered by the region's fixed income market, of which approximately 80% is represented by investment grade credits.



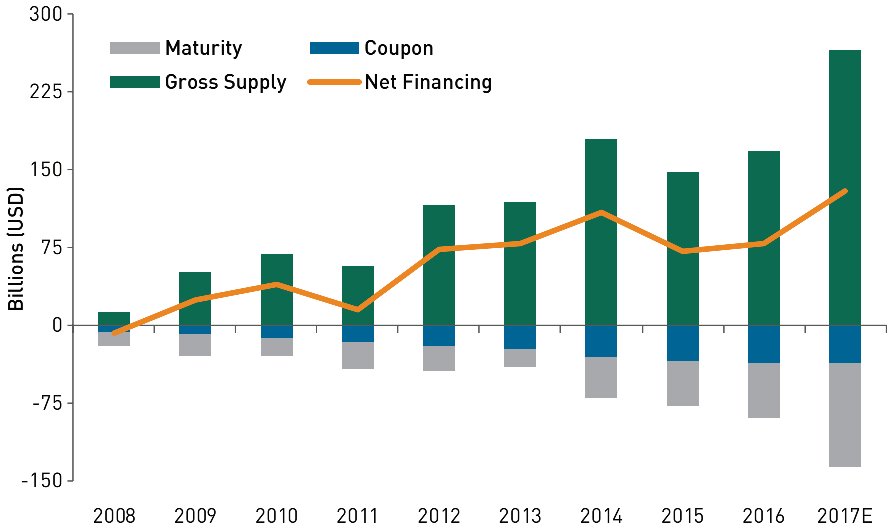
Source: JP Morgan, as of 31 July 2017. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

The Asian credit market has climbed in value by more than 460% over the past ten years.

Record issuance and persistent demand: Asia's gross credit issuance has reached record highs in 2017, with an expected over US$200 billion coming to market. However, taking into account the more than US$135 billion in maturing bonds and coupon payments, net issuance is actually much lower. This limited supply, coupled with increasing demand for Asia's favorable bond yields, particularly for higher credit quality investment grade securities, is driving stronger technicals for the asset class. Moreover, Asian investors are now the dominant buyers of these credits, holding 81% of market assets. This helps explain the lower volatility the asset class has been experiencing, as domestic buyers investing in their home markets in companies they know and understand, often tend to be "stickier" in nature.

Net issuance remains near prior year levels with increasing demand that is driving stronger technicals.

Record Gross Issuance But Limited New Supply



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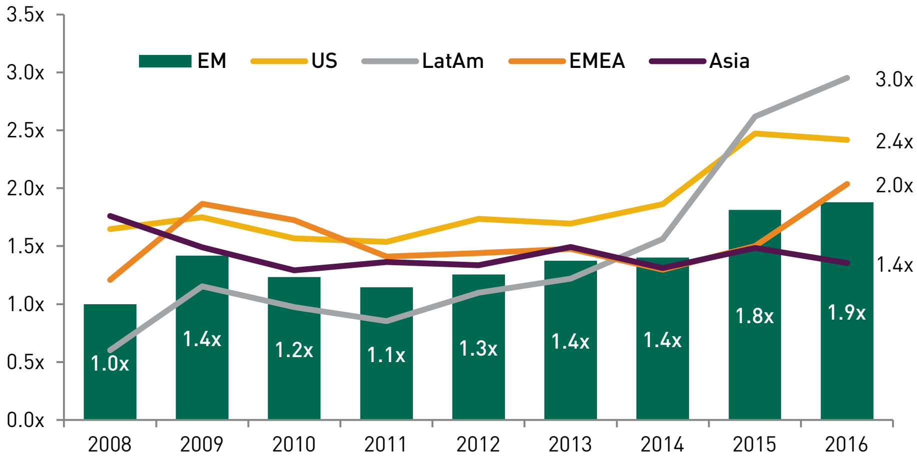
Solid fundamentals: Fundamentals across the region also remain steady, and improving in some pockets. For example, corporate leverage – particularly in China – has been a primary area of concern. However, looking across broader Asia, net leverage for investment grade issuers has remained relatively steady after moving lower post the 2008 economic crisis. In contrast, net leverage for issuers across other major global regions have markedly increased over the past several years, with broader Asian debt ratios now 26% lower than other emerging markets, 30% lower than EMEA, 40% lower than the US, and 53% lower than Latin America. While there are certainly areas of excess leverage in the region, as a whole it appears that Asian issuers are generally well positioned to support current debt levels, even should markets turn volatile.

Lower Net Leverage than Other Regions



Source: Bank of America Merrill Lynch, as of 31 July 2017. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

Asian investment grade debt ratios remain well below issuers across other global markets.

Looking ahead

We continue to see solid opportunities in Asia's investment grade bond market. While current headline risk may elevate market volatility toward the end of the year, favorable technicals and fundamentals continue to indicate the segment offers attractive long-term investment potential, particularly as investors prepare fixed income allocations for the increasing wind down of accommodative central bank monetary policies worldwide. Still, given some of the current uncertainties, investors interested in the region are likely best served with an active manager. This universe of securities can be quite complex, and strong on-the-ground research capabilities and a demonstrated ability to navigate both the region's opportunities and potential pitfalls can be crucial in unlocking the full additive potential of this attractive – and quickly growing – market.

About PineBridge Investments

PineBridge Investments is a global asset manager with experience in emerging and developed markets, and investment capabilities in multi-asset, fixed income, equities and alternatives. Our firm is differentiated by the integration of on-the-ground investment teams of more than 200 professionals, providing investors with the combined benefits of global fundamental perspectives and analytical insights. We manage over US$85 billion as of 30 June 2017 for a global client base that includes institutions, insurance companies, and intermediaries.

MULTI-ASSET | FIXED INCOME | EQUITIES | ALTERNATIVES

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