CAMRADATA

Pension Conference

Managing Objectives, Maximising Opportunity

19th April 2018

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Contents

Welcome to:

CAMRADATA's Pension Conference 2018

Our industry is rapidly advancing with technology and regulation being key drivers in this evolution. Hence the challenge of building genuinely diversified portfolios that deliver growth and income efficiently and on an attractive risk-adjusted basis is like finding the Holy Grail.

The silver lining, as we shall hear at today's CAMRADATA Conference, is that attractive opportunities do exist in the traditional and alternative space and that our ability to better understand behavioural finance could lead to a more acute awareness of market trends.

Agenda

9.00 **Registration and tea/coffee**

9.30 **CAMRADATA - Introduction**
Natasha Silva, Director, Client Relations

9:40 **AEW - The Changing Role of Real Estate Income in Cashflow Matching Strategies**
Ian Mason, Director and Portfolio Manager of the Real Return Fund

10.10 **ClariVest Asset Managemnt LLC - Behavioural Finance: Background Concepts & Application**
Stacey Nutt, PhD, Principal, Lead Portfolio Manager, CEO and CIO

10:40 **Mirae Asset Global Investments - The Multi-Decade Asian Consumer**
Natalia Mu, Client Portfolio Manager

11.10 **Refreshment break**

11:30 **MacKay Shields - Late Cycle Opportunities**
Dan Roberts, Executive Managing Director, Head of the Global Fixed Income Group and Steve Cianci, Senior Managing Director

12.00 **Cohen & Steers - The Case for Diversified Real Assets**
Vince Childers, Senior Vice President, Portfolio Manager

12.30 **CAMRADATA - Investment Research Reports**
Amy Richardson, Director, Client Relations

12:50 **Conclusion and Lunch**

14:30 **Finish**

Speaker

Bios

Ian Mason

Director and Portfolio Manager of AEW UK Real Return Fund

Ian Mason can rightly be called a veteran of the property fund management industry, having started at Mercury Asset Management in 1985, he joined their direct property team. It was here he began his drive to understand the needs of investors and to find ways to use property to meet their objectives. After a series of mergers, some 20 years later it emerged as Blackrock and he left, having seen their UK property fund grow from £35m to over £2.5bn, to take over running the Schroders Property Unit Trust in 2008. The global financial crisis was now in full swing and the fund performance was suffering.

Having repositioned the portfolio to get income to be the key driver of returns, and the fund had delivered five years' outperformance, it was time to move onto the next challenge. Having noticed that the needs of his UK client base were undergoing fundamental change; DB schemes were closing, liabilities were being sold to annuity linked insurance providers, in other sectors relative return benchmarks were being replaced with cash plus or inflation plus objectives and investors were selling core growth style strategies and investing in cash flow, Mason joined AEW UK to launch the AEW UK Real Return Fund.

He is a past Chairman of AREF (Association of Real Estate Funds) and Chair of the Regulation Committee. He is a passionate advocate of listed and unlisted funds.

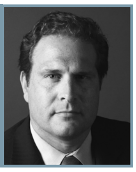
Stacey Nutt, PhD

Principal, Lead Portfolio Manager, CEO and CIO

Stacey R. Nutt, PhD - Principal, Lead Portfolio Manager, CEO and CIO
Stacey Nutt is a founder, owner, and board member of ClariVest Asset Management LLC. As CIO, Dr. Nutt oversees the firm's investment strategy and its application to all of the firm's products.

As CEO, he guides the firm's business activities. Prior to forming ClariVest in March 2006, Dr. Nutt led Nicholas-Applegate Capital Management's Systematic investment team, which managed over $5 billion in assets. In addition, he was the Portfolio Manager for Systematic U.S. Small-Cap strategies and Co-Manager for the Systematic Small/Mid (smid) strategy. Dr. Nutt was Research Director at Vestek Systems, an innovator in both stock selection and risk management tools, before joining Nicholas-Applegate. Earlier, he served as an Assistant Professor of accounting at Virginia Polytechnic Institute.

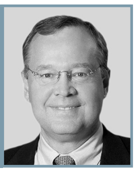
As an academic, Dr. Nutt performed research in the area of Behavioral Finance, focusing on bias within both the creation and interpretation of Financial Statement information. This work was published in top academic journals in Accounting and Finance. Dr. Nutt received his PhD and MBA from Georgia Institute of Technology and his Bachelor of Science degree from Oral Roberts University. He began his investment career in 1993.



Vince Childers
Senior Vice President, Portfolio Manager

Vince Childers, CFA, Senior Vice President, is a portfolio manager for Cohen & Steers' real assets strategy. He has 18 years of investment experience. Prior to joining the firm in 2013, Mr. Childers was a portfolio manager for real asset strategies at AllianceBernstein, where he co-managed a research team overseeing $2.3 billion in assets.

Previously, Mr. Childers was an associate in the financial advisory services department of Houlihan Lokey. Mr. Childers has an MBA from Carnegie Mellon University and a BS from Vanderbilt University. He is based in New York.



Dan Roberts
Executive Managing Director, Head of the Global Fixed Income Group

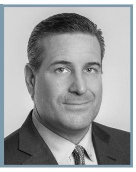
Dan C. Roberts is an Executive Managing Director, Head of the Global Fixed Income Group and its Chief Investment Officer. His responsibilities include spearheading macro-economic research, managing portfolios and chairing GFI's Investment Policy Committee (IPC). Directing the IPC is Dan's most important investment responsibility as this Committee is the foundation of the GFI team-based approach to managing portfolios. It sets all portfolio strategy within the context of the team's macro view and monitors compliance with its decisions. No significant positions are taken in any portfolio without the approval of the IPC. The IPC's voting members are GFI's three most senior investment professionals, who have worked together for nearly two decades.

Dan joined MacKay Shields in 2004 when the firm acquired the fixed income business of Pareto Partners, where he had served as Chief Investment Officer. Dan first began assembling his team in 1989, when he was appointed head of fixed income at UBS Asset Management. In 1997 the team joined Forstmann-Leff International and was subsequently purchased by Pareto Partners in 2000. Prior to UBS, Dan worked at Chase Manhattan Bank, initially as a Financial Economist before being named head of Global Interest Rate and Currency Swaps Trading.

Before joining the private sector, Dan served at The White House with the President's Council of Economic Advisors from 1981 to 1983, was the Chief of Staff of the U.S. Congress' Joint Economic Committee from 1984 to 1985 and was an economist at the U.S. Securities and Exchange Commission from 1977 to 1978.

Dan holds a BBA and a PhD from University of Iowa. He has been working in the investment industry since 1977.

Bios



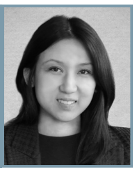
Stephen Cianci

Senior Managing Director

Steve Cianci, CFA, is a Senior Managing Director and Senior Portfolio Manager for the Global Fixed Income Team, joining MacKay Shields on January 2, 2018. Steve's focus is on multi-sector and core strategies. Prior to joining MacKay Shields, Steve was with Aberdeen for 7 years where his responsibilities included Head of US Core Plus and Opportunistic fixed income on the North American Fixed Income team. Before joining with Aberdeen, Steve worked as Co-Head of Core and Core Plus fixed income strategies, lead portfolio manager for Short Duration products and the Head of Structured Products at Logan Circle Partners.

Previously, Steve held similar roles as a Senior Vice President and Senior Portfolio Manager at Delaware Investments. He is an adjunct professor of finance and a member of the Business Advisory Council at Widener University.

Steve graduated with a MBA and BA from Widener University and is a CFA charterholder. He has been working in the investment industry since 1992.



Natalia Mu

Client Portfolio Manager

Natalia Mu is the Client Portfolio Manager at Mirae Asset Global Investments (HK), providing a link between the investment team and the sales team. A key part of her role is to deliver Mirae Asset's product strategies externally aimed at expanding the firm's global coverage.

Natalia first joined Mirae Asset's Product & Marketing team in 2015 where she took a pivotal role in liaising with the sales and investment teams and compiled marketing materials. Prior to joining Mirae Asset, she worked in the Asia Marketing team at Morgan Stanley Investment Management in Hong Kong. She started her career with the National Australia Bank (NAB) where she joined the MLC (wealth management) graduate program and upon completion, she joined NAB Asset Management's Product team as a Senior Analyst.

Natalia holds a combined Bachelor of Commerce & Bachelor of Economics degree from The University of New South Wales. She also participated in an exchange programme where she spent a year studying at the University of Hong Kong. She speaks English and Mandarin.

The changing role of real estate in cashflow matching strategies

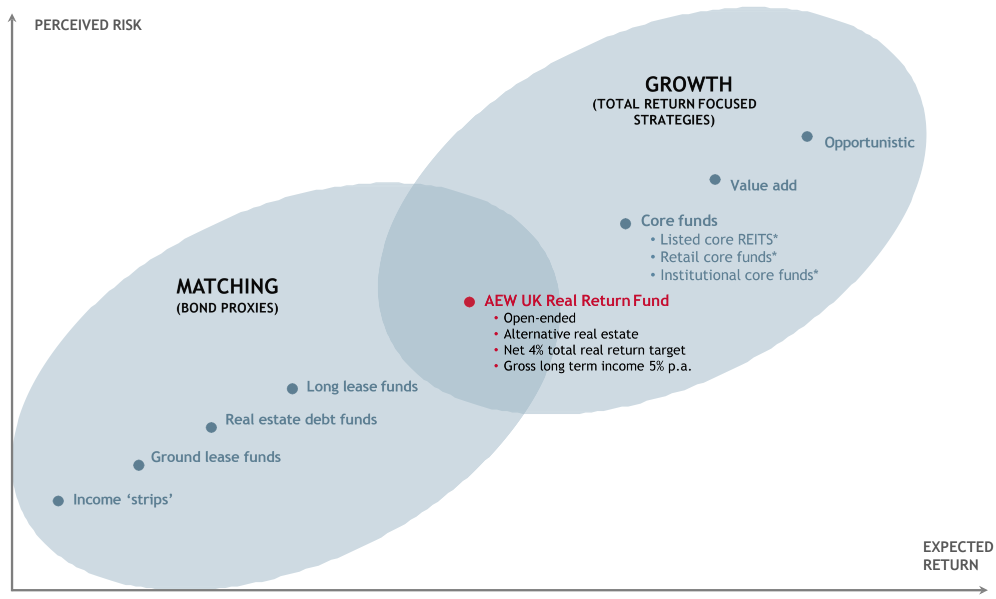
At a time when interest rates are starting to rise but the hunt for yield goes on, pension funds seeking cash flow matching strategies could do a lot worse than consider real estate income, says Ian Mason, a veteran of the property fund management industry.

This may seem surprising to many who traditionally regard property as a total return asset sitting in the growth allocation of a pension portfolio alongside equities, but with 32 years' experience at Mercury Asset Management/Blackrock and Schroders, Mason noticed that the needs of UK pension funds were undergoing fundamental change and he joined AEW UK to launch their Real Return Fund.

The property fund market has responded well to the changing needs of institutional investors, developing different matching strategies. These include long leases, real estate debt and ground lease funds. However, as these have found the greatest support in the actuarially-driven world of closed defined benefit schemes, they are shaped more as bond-proxies rather than strategies aimed at delivering a real total return and preserving capital, as well as providing a high level of income. Hence the conviction that there was a need for something different.

> "The issue for traditional core "growth" strategies is that they tend to focus on relative peer group total returns that produce cyclical volatility that is increasingly seen an unacceptable risk in cash flow matching strategies"

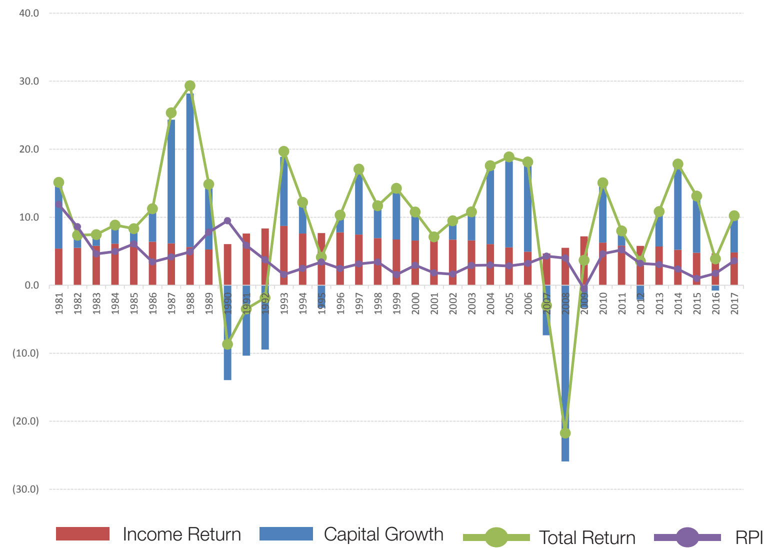
Chart 1. The property sector has responded well to the needs of investors and developed a range of new strategies; although these are mainly used as bond proxies:



Source: AEW * All typically seeking to outperform the MSCI peer group total return benchmark

The new AEW strategy focuses on the fact that whether saving for a pension via a corporate defined benefit (DB) scheme, a defined contribution (DC) scheme or a private pension such as a SIPP, most lifetime savers' underlying liabilities are linked to inflation. Real assets are therefore an excellent match for the cash flows which investors require. The issue for traditional core "growth" strategies is that they tend to focus on relative peer group total returns that produce cyclical volatility that is increasingly seen as unacceptable risk in cash flow matching strategies.

Chart 2. The volatility of property's total return disguises the fact that stable income has driven 70-80% of property's performance:



Source: MSCI

As a real asset however, property has delivered annualised returns of over 5% pa above inflation since 1980. In fact, nominal income returns alone have been more than 6% pa over the same period - ideal for cash flow matching and for inflation-linked liabilities.

So what seemed to make sense to the team at AEW was that if 70-80% of property's performance came from stable, sustainable income, then the Fund should have a core property strategy that simply focused on cash flow and income growth and avoided the traditional risks like development and leverage. After all, property is a very simple asset class; if you focus on property fundamentals and buy good quality buildings in areas of strong occupier demand, then if the market rent goes up, the value goes up. So unless you have paid a premium for the bond-proxy duration of a long lease, you get the capital growth for free.

> "Property is a very simple asset class; if you focus on property fundamentals and buy good quality buildings in areas of strong occupier demand, then if the market rent goes up, the value goes up"

Why is this relevant now? Well, in the current economic environment the new dynamic which has come into the equation is the prospect of rising interest rates as monetary tightening in the USA is starting to influence policies in Europe.The prospect of higher inflation driven by growth (rather than rising costs) in the US and UK should not be seen as a threat. Indeed increasing rates are normal at this stage of the cycle and certainly healthy, especially after such a prolonged period of accommodative policy and we anticipate this should not heavily impact the macro environment that should remain very supportive of the prospects for UK growth.

However, it is natural to expect that bonds should suffer from the rising rate environment, especially those delivering a fixed coupon and those with a long duration where expected cash flows will be discounted using higher rates. And the same should be expected of property strategies which are used as bond proxies. This means that there is a lot of capital at risk from rising bond yields even on long lease strategies despite the fact that they offer a relative yield advantage. That might be acceptable in the world of actuarial valuations that assume liabilities also fall alongside valuations, but not if you are a scheme sponsor trying to plug a deficit and few schemes have the luxury of a surplus that allows capital to be eroded whilst driving cash flow off a shrinking asset base.

As usual, the main questions with rates tightening should remain about the pace and speed of rate hikes and on how central bankers manage market expectations to avoid generating "surprises". We believe that the current rates' normalisation path will continue although this does not mean the end of growth; but the recent adjustments have signaled the end to the "bonds bubble". There are, however, ways for fixed income investors to take advantage of this environment as economies rotate into a growth phase.

One of these is real estate income but it requires a strategy where returns are driven not by total returns but by the cash flow available from good quality property and real income growth from occupier demand.

The AEW UK Real Return Fund was launched 2 years ago and as at 31st December 2017 was distributing a 5.3% yield from a portfolio of 35 properties, with a weighted average lease length of over 17 years and 77% of income linked to inflation.The strategy offers clear alignment between the Fund and the needs of investors, as well as a foot inside both equity and bond camps: a real asset growth strategy with relatively high levels of sustainable income as the hunt for yield continues.

> "The strategy offers clear alignment between the Fund and the needs of investors, as well as a foot inside both equity and bond camps: a real asset growth strategy with relatively high levels of sustainable income as the hunt for yield continues"

Written by

Ian Mason,
Director and Portfolio Manager
of AEW UK Real Return Fund

Actions & Reactions:

A behavioural finance approach

Distinctive Investment approach

At ClariVest, our investment approach is distinctive in that it represents a blend of tools and ideas centered on successfully implementing a single core investment philosophy. Most managers evaluate investment opportunities through one of a number of broadly recognised perspectives, often referred to as their style (value, growth, quant, etc.). Our perspective has never been defined by one of these lenses.

Rather, our perspective can best be defined as behavioural. It focuses on identifying optimal entry and exit points within companies' fundamental cycles as investors are faced with changing fundamentals, yet heuristically anchor expectations to historical or cross-sectional stereotypes or norms. Not only does it allow us to identify behaviourally based alpha opportunities, it also frees us to incorporate dimensions from across the various styles within our approach.

Skill v Luck

A basic tenet of efficient market theory is that publicly available information that is useful for forecasting a company's future prospects is reflected in price. Most active managers try to capitalise on situations in which they believe one of two things is missing from this. Specifically, they have unique information about the future and/or unique insight into how information should be interpreted with regard to that future. It is difficult to argue with the possibility that such skill exists across a broad universe of educated, incentivised risk takers. Successful implementation of this approach, however, varies widely and at times can appear frustratingly random.

It appears random because it is. There is not an inherent reason why some individual, or small group of individuals, should be expected to regularly have access to unique information across many independent investment decisions. Nor should we expect such a group to consistently demonstrate unique insight on a broad enough group of stocks through time so as to make the approach robust. The information and insights are almost always unique to the stock specific situation — we should not be surprised if the advantage is not dependably robust. We should be surprised if it is.

> “There is not an inherent reason why some individual, or small group of individuals, should be expected to regularly have access to unique information across many independent investment decisions”

Focus on investor behaviour

Investor behaviour provides an alternate approach. We believe behaviour is the medium through which an overwhelming amount of information must flow as it is impounded into price. And human behaviour is dependably inefficient. We do not mean to imply that behaviour is perfectly predictable — human beings are far from it. However, across many fallible investors, tendencies are common enough that we can capitalise on them — timing our entry and exits from fundamental cycles using behaviourally based investing cues.

Characteristics of ClariVest's behavioural approach

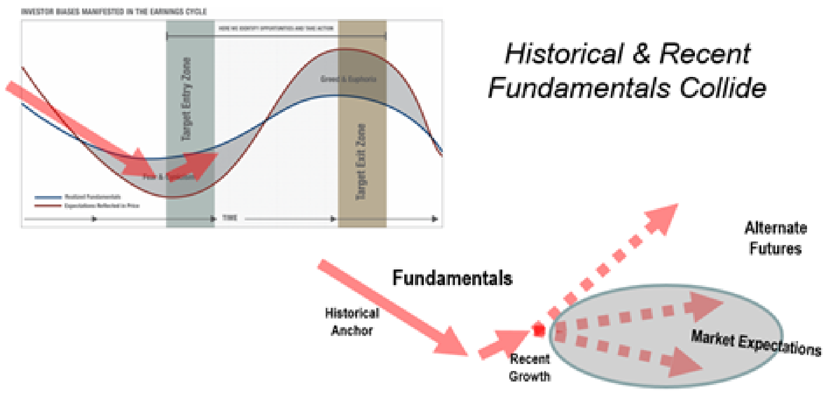
Across capital markets we can count on the fact that everything changes as fundamentals cycle through time. We can also count on investors reacting inefficiently to this change. There are multiple reasons for this, both incentive based and behavioural. Suffice it to say — conservatism is the default reaction to a forecasting crisis in which fundamental change has rudely disrupted heuristically based forecasting rules. This creates an opportunity to initiate investments in a diversified portfolio that exhibits three primary characteristics:

1. **Strong recent fundamentals.**
2. **That are inconsistent with some heuristically based expectation (e.g. historical or cross-sectional),**
3. **Resulting in a discounted multiple relative to what might typically be expected given the fundamental strength.**

Summary of the ClariVest Process Steps – we buy, we sell, we integrate

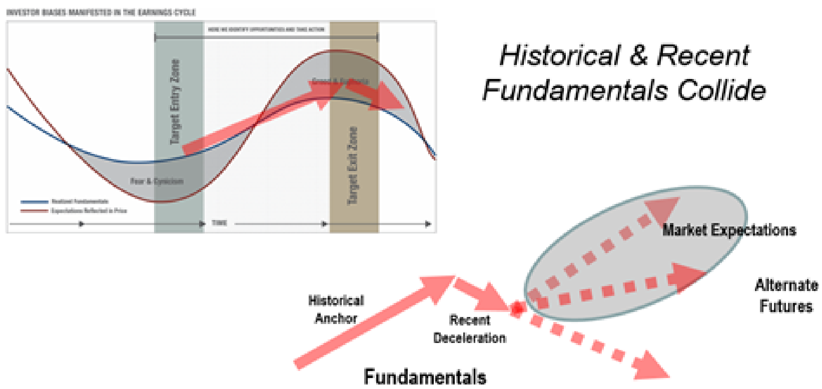
We buy a diversified basket of conservativism events, in which market participants appear to heuristically anchor to history or cross sectional stereotypes or norms as they underreact to recent fundamental strength. Some significant percentage of our ideas will fail, and must be divested. A significant percentage will grow into long-term trends, surprising the market and forcing expectations to re-rate, often over an extended period.

Conservatism “Event”



We sell stubborn optimism, when we see analysts anchor to optimistic views in the face of decelerating fundamentals. Our discipline objectively focuses on current attractiveness, irrespective of an idea’s history within the portfolio.

Stubborn Optimism “Event”



We integrate quantitative tools throughout our investment process in order to continually nudge our qualitative decision making towards objectivity and away from our own behavioural biases.

The goal of this overview was to highlight the key forces behind the distinctive nature of the ClariVest approach. We do not argue that ours is the only, or even the very best, course that a team might take in capturing behavioural alpha. However, we believe it to be a sound approach – and one that has been tested and proven robust across a broad array of markets.

“We integrate quantitative tools throughout our investment process in order to continually nudge our qualitative decision making towards objectivity and away from our own behavioural biases”

Written by

Stacey Nutt, PhD,
Principal, Lead Portfolio Manager, CEO and CIO

Actions & Reactions:
a Behavioural Finance Approach.

At ClariVest, our investment approach represents a blend of tools and ideas centered on successfully implementing a single core investment philosophy. Our universally applied investment strategy is **behaviourally based** and focuses on capturing the return potential created as investors react inefficiently to significant shifts in a company's fundamental growth cycle. Portfolio managers work as a cohesive team to manage strategies across geographies and the market-cap spectrum.

Learn more at clarivest.com

CLARIVEST
ASSET MANAGEMENT LLC
AN AFFILIATE OF CARILLON TOWER ADVISERS

Listed real assets:

Can combat today's investment challenge

COHEN & STEERS

The traditional asset class mix has become increasingly correlated, leading many investors to focus on alternatives to diversify beyond traditional equities and fixed income. And among the wide range of alternatives available, real assets have gained outsized attention thanks to their historic success in delivering meaningful diversification without pulling down portfolio returns.

However, there is a common misconception that private, illiquid investments are the only 'real' way to allocate to real assets. This often leaves smaller investors under allocated, due to the challenges of implementing private market strategies. Even larger investors often struggle to implement a well-diversified real assets program and are missing out on some of the most compelling characteristics of the asset class.

> "By focusing only on real estate and/or infrastructure, investors stand to miss out on the particular complementary attributes of natural resources and the broader commodities complex"

Why listed real assets?

Investments in private real assets typically require significant upfront capital and a commitment to keep money tied up for an extended and often indefinite period. For many investors, a more convenient way to access real assets is through publicly traded (listed) markets. This provides similar exposure to direct investments, but with the added benefits of liquidity and daily pricing.

As listed investments offer underlying liquidity, they are a natural match to liquid, daily traded vehicles. This avoids the pitfalls seen in the open-end property fund market, where we have seen many examples of popular funds being 'gated' in times of market stress to prevent forced selling.

The benefits of listed real assets go beyond liquidity though. Public markets offer investors access to a global opportunity set and the ability to readily diversify across different subcategories of real assets, with full transparency into underlying assets and typically lower fees than in private real assets.

Benefits of blending real assets

Despite the wide range of real asset exposures available, investors have tended to focus on just one or two categories of real assets – most commonly, real estate and infrastructure – but this approach has its drawbacks.

First, individual categories of real assets can be volatile on their own, but blending together multiple types of real assets can significantly smooth out that volatility thanks to their inherently different underlying return drivers. Second, by focusing only on real estate and/or infrastructure, investors stand to miss out on the particular complementary attributes of natural resources and the broader commodities complex.

Only by treating real assets as an asset class and establishing a diversified exposure to all four core categories of real assets—namely global real estate, commodities, natural resource equities and global infrastructure—do investors stand to benefit from the full potential that this asset class has to offer.

Cohen & Steers' analysis of nearly a half century of data shows that an equal-weighted blend of the four core real assets exhibited three valuable characteristics:

1. Diversification: The distinct performance drivers of a portfolio of blended real assets have historically resulted in diversifying correlations with stocks and bonds, especially during periods of joint stock-bond underperformance. In the past, simultaneous underperformance by stocks and bonds has happened relatively often.

Going back to 1973, representing the longest period of common available data, such periods have occurred in 21% of rolling one-year periods. Real assets have proved resilient in such times, providing critical portfolio diversification just when investors typically need it most.

2. Inflation sensitivity: A common characteristic among real assets is their positive sensitivity to inflation surprises, which is valuable in helping to protect a portfolio's future purchasing power. Our analysis shows that a blend of real assets has delivered particularly strong returns precisely during the periods when inflation exceeds expectations.

From 1973 to 2017, a diversified real assets blend would have outperformed its long-term average by 2.8% for every 1% inflation exceeded its prior-year estimate, according to our analysis. This is a strong indicator that real assets can serve as an effective inflation hedge.

3. Return potential: since 1973, an equal blend of real assets has generated superior annualised returns relative to global equities, but with far less volatility, reflecting low intercorrelations within the sub-categories of real assets. This suggests that real assets can potentially improve risk-adjusted portfolio returns without sacrificing growth potential.

While each real asset category has unique fundamental merit, historically, no one type of real asset has excelled equally across all three criteria of diversification, inflation protection and returns. This absence of a "silver bullet" solution suggests that a diversified portfolio of real assets may help investors better navigate the tradeoffs of individual categories and provide an optimal approach to a real assets allocation.

It is therefore not surprising to us that investors of all types are beginning to allocate to diversified real assets and often using listed markets to do so on account of their depth and the ease with which investments can be implemented. In the United States in particular, we are seeing institutional investors use listed real assets to complement their private investment portfolios, and in defined-contribution plans we are seeing the emergence of diversified real assets options together with the integration of real assets sleeves into target-date funds.

Amid growing uncertainty about the future for global equity and fixed income markets, together with mounting inflation concerns, we expect these developments to continue apace and cross over to this side of the Atlantic in 2018.

> "A blend of real assets has delivered particularly strong returns precisely during the periods when inflation exceeds expectations"

Written by

Vince Childers CFA
Senior Vice President and
Portfolio Manager

Late Cycle Opportunities

With the current US expansion standing at 104 months and the US economy supported by tax cuts, an ongoing program of deregulation, declining unemployment and unemployment claims, moderate inflation and accommodative global monetary policies, one could suspect things might be different this time and the traditional business cycle has been bypassed. While we don't believe that the business cycle has been bypassed, neither do we believe we face an imminent economic downturn.

Risks are increasing but so are opportunities. To unlock these opportunities we believe there needs to be an even greater focus on avoiding uncompensated risk when engaging in portfolio construction and asset allocation.

MacKay Shields
A NEW YORK LIFE INVESTMENTS COMPANY

The United States was the first to emerge from the financial crisis and, subsequently, has experienced the longest expansion among the major industrialized economies. As a consequence of this long expansion, the US economy is showing signs that are usually observed toward the latter stages of a normal economic cycle. Following the extended period of unprecedented central bank stimulus in the form of QE, in the U.S. and abroad, the Federal Reserve began to slowly raise the Fed Funds target rate in December of 2015. While central bank rate actions remain the most reliable indicator of an approaching peak in an economic cycle, preceding nearly every US recession since 1955, the market has been signaling the same view.

The spread between short and long US government bond yields peaked in early days of recovery from the financial crisis and, with a retrenchment during the 2013 taper tantrum that spread has consistently declined. We've seen this phenomenon repeated in the United Kingdom. In addition, wage inflation has begun to moderately increase but is at risk of accelerating significantly as demographic trends begin to reverse, protectionist trade policy impacts demand for and prices of US goods and the unemployment rate continues to drop below NAIRU*.

Credit spreads, too, point to the maturity of the current expansion. High yield risk, as measured by Option Adjusted Spreads, peaked at over 2100 basis points at the end of 2008, widening again in 2011 during the Euro crisis and in 2015 during the energy meltdown. Currently high yield spreads stand at about 360 basis points which is significantly less than their historical average. Investment grade spreads have followed the same path. The spread on the US investment grade bond index is currently around 110 basis points, well inside its historical average of about 150 basis points. Lower quality investment grade bonds have performed similarly with that index trading at around 130 again well inside its historical average of about 200 basis points.

> "The key risks we see include technological disruption across a range of industries from energy to retail together with idiosyncratic risks"

All of the foregoing indicators notwithstanding, we do not see an imminent downturn in the short run. Our approach is to focus on investment themes that reflect both the maturity of and outlook for the economic cycle as well as the opportunities in sectors and securities. As always, our process focuses on identifying and avoiding uncompensated risk that exist in the markets and in individual securities. The key risks we see include technological disruption across a range of industries from energy to retail together with idiosyncratic risks. In addition, the extended period of low interest rates together with the dramatic change in market structure toward credit have, collectively, made duration a more meaningful risk today.

The duration of the Bloomberg Barclays Universal index has increased nearly one and one-half years. At the same time, US Treasury weighting in the Universal index has increased from 19% in 2007 to 31% today, while credit components (High yield & Investment grade corporates, Emerging Markets and Sovereigns) have grown by 10%.

Portfolio construction can mitigate and manage these risks while identifying pockets of value. Diligent security selection and asset allocation can then exploit these pockets of value in a market that has seen spreads tighten in concert across all asset classes and risk spectrums.

* Non-Accelerating Inflation Rate of Unemployment

Specific ideas we like include: floating rate bank loans which offer the combined benefit in the front end of the yield curve of reduced sensitivity to rising rates with still attractively priced credit, cross-over preferreds, bank and finance debt and selective investment grade emerging market credit in the intermediate maturity area.

Today investors are faced with increasing market risks from an aggressive protectionist agenda, less accommodative central bank policy posturing and a number of geopolitical tensions. We have seen the markets respond to this increasing risk with more price volatility and credit spread widening. But with an increase in risk comes opportunity. Avoiding uncompensated risk in portfolio construction and security selection are of paramount importance in today's environment as we grow closer to a turn in the economic cycle.

> "Portfolio construction can mitigate and manage these risks while identifying pockets of value"

* Non-Accelerating Inflation Rate of Unemployment

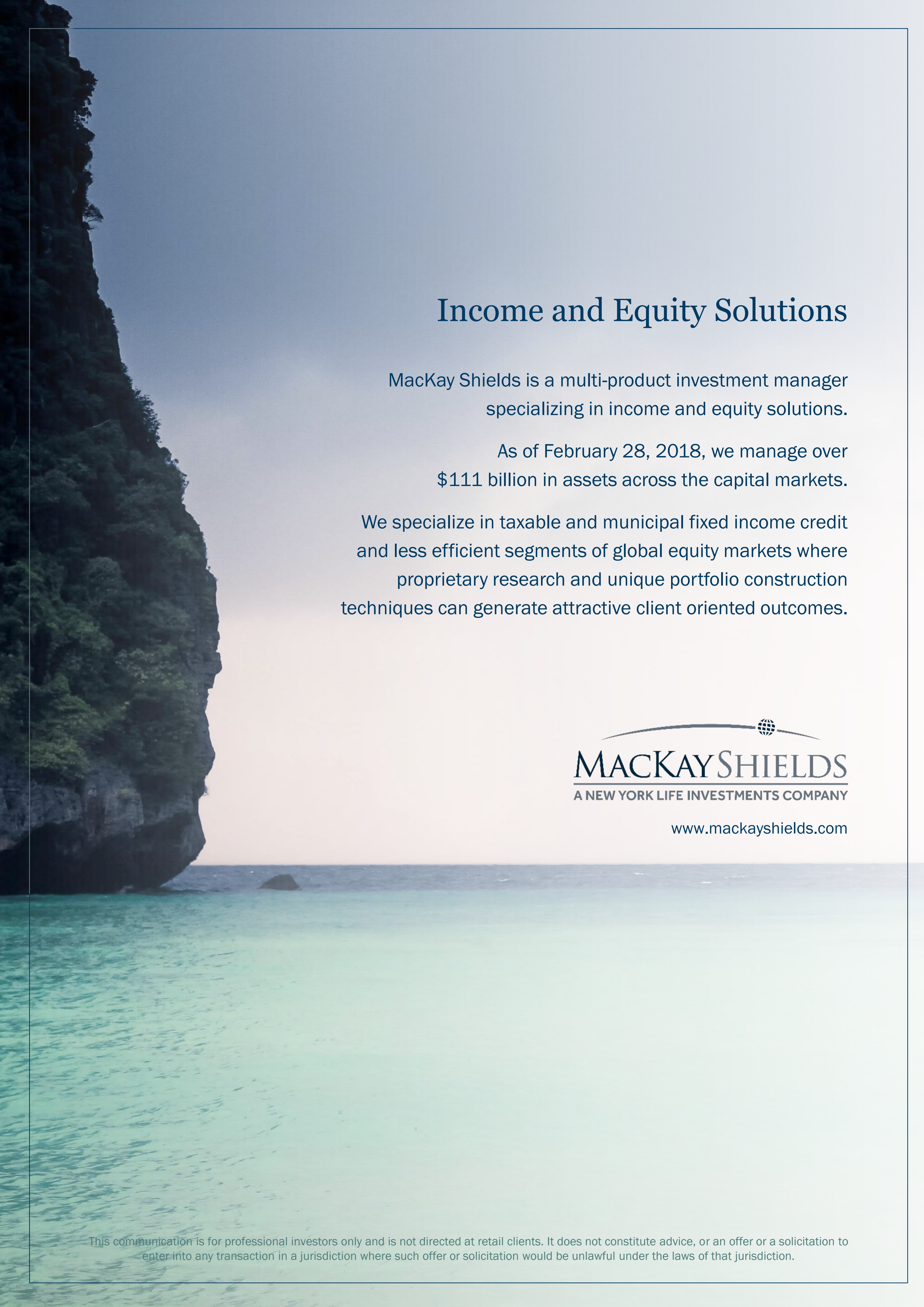
Unless otherwise stated all information provided is as of 3/23/2018. All references to the current market are made as of this date.

Written by

Dan Roberts
Executive Managing Director,
Head of the Global Fixed Income Group

AND

Stephen Cianci
Senior Managing Director


Income and Equity Solutions
MacKay Shields is a multi-product investment manager specializing in income and equity solutions.
As of February 28, 2018, we manage over $111 billion in assets across the capital markets.
We specialize in taxable and municipal fixed income credit and less efficient segments of global equity markets where proprietary research and unique portfolio construction techniques can generate attractive client oriented outcomes.
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The Multi-Decade Asian Consumer

MIRAE ASSET
Global Investments

> It is important to note that new technology trends such as mobile usage and social media have meant that Asian consumption patterns are different to those of European or US consumers in their 'emerging' phase

What are the opportunities and the structural potential that you assign to Asia's consumer markets?

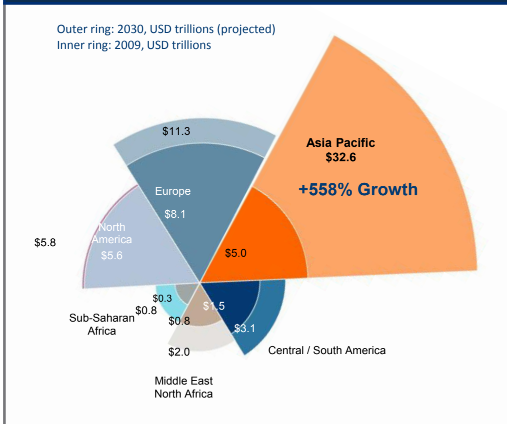
We believe that the rise of the Asian consumer is the most important opportunity in Asia and represents a multi-decade story that is still in its early stages. The main factors encouraging the long term consumption trend in Asia are demographics, wage growth and government policy.

China is a key growth driver in the region and the government's priority is transitioning the economy to one that is more conusmption led, a process which has already begun.

Over the past few years, technology advancements have been a game changer and they have brought about a big shift in consumption patterns. Take e-commerce for example, China has quickly become the world's largest e-commerce market with more than US$750 billion in sales in 2016. We believe that online retail will continue to grow rapidly in the coming years, driven by greater penetration in lower tier cities/rural areas and growth in categories such as fast-moving consumer goods (FMCG).

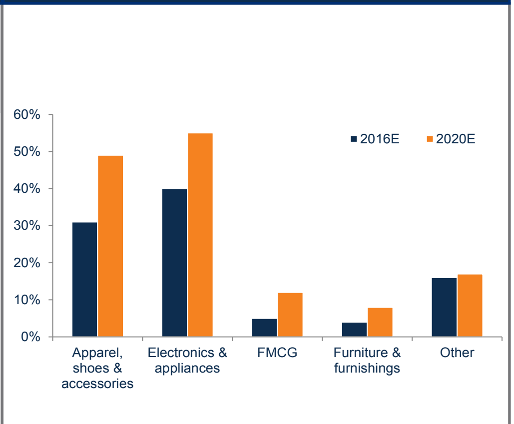
Besides leading online businesses in internet, e-commerce and online gaming, other themes that we are currently seeking to capture include growing demand for financial products and healthcare, tourism, education, gaming, consumers' upgrading ('premiumization') and the emergence of local brands throughout emerging Asian markets.

Middle Class Consumer Spending: 2009 to 2030



Source: OECD, The Emerging Middle Class in Developing Countries (2010), Accessed in August 2016

China Online Penetration of Goods



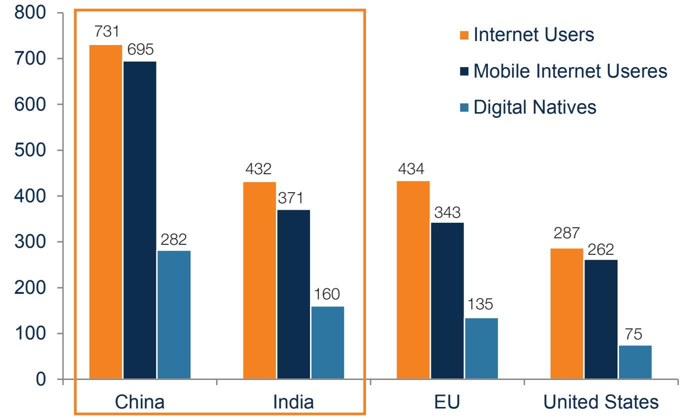
Source: Euromonitor, iResearch, Kantar, eMarketer, Company Data, GS Research, Mirae Asset (February 2017)

What are the unique characteristics of Asian consumers? Do you see shifts in attitudes and consumption patterns?

Although Asian consumers are considered as a 'new' or 'emerging' class of consumers, it is important to note that new technology trends such as mobile usage and social media have meant that Asian consumption patterns are different to those of European or US consumers in their 'emerging' phase. This is particularly true for the younger generation, as they have grown up in a connected world and are receptive to Western ideas and lifestyle.

As an example, a few years ago Asian consumers liked to buy luxury brand goods such as designer bags, watches, jewelry, etc., but nowadays they aspire to seek more experiences and focus more on leisure and wellbeing.

Snapshot of Internet Landscape Segments by Large Market



Source: "China's Digital Economy, A Leading Global Force," McKinsey Global Institute (August 2017)

We also see a shift in attitudes evident in the way that Asian consumers, especially in China, perceive local brands – e.g. in categories such as home appliances and food & beverage, local brands are becoming more popular and not viewed as being inferior in quality.

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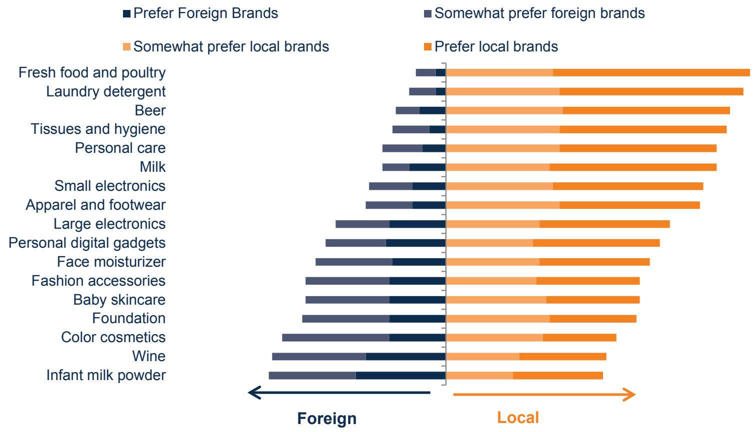
Chinese Consumers' Nuanced View of Foreign and Local Brands

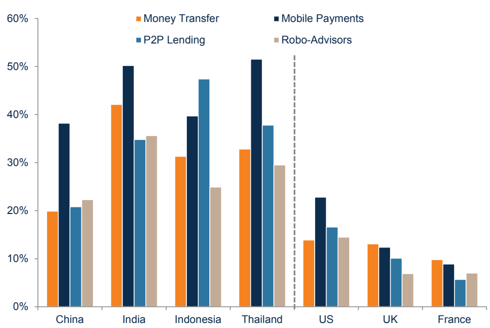


Source: "Double-clicking on the Chinese consumer," McKinsey & Company (November 2017)

Lastly, it is important to understand that consumption patterns for each of the countries in the region are quite unique due to the differences in consumer behavior, economic environment and government regulations. This means that the consumption related trends are country-specific and as such, taking a broad and bottom-up driven investment approach is more appropriate in order to better capture those opportunities.

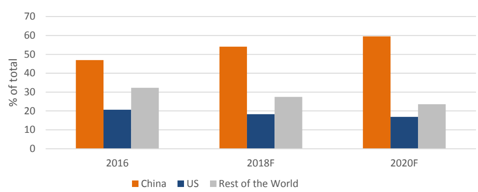
Asian Consumers More Open to New FinTech Services

Consumer Survey: % Respondents likely to use Non-Bank Financial Services over Next 12 Months



Source: UBS Evidence Lab survey (July 2016)

China is the World's Largest Retail E-commerce Market



Source: Source: eMarketer, 2016. China excludes Hong Kong.

How do you differentiate your style and approach toward investing relative to the peer group in the same category?

Unlike other pure-play consumptions strategies, the Fund does not focus solely on the consumer sector but on a broad range of sectors that will benefit from increased consumption. The portfolio also accesses companies in sectors such as technology, healthcare and financials. The investment process is benchmark-agnostic and sector/country allocation of the portfolio is purely an end-result of bottom-up stock picking. The portfolio manager aims to construct a concentrated, high conviction portfolio of 30 to 40 stocks of the best quality names which stand to benefit the most from the Asian consumption theme.

The Asian consumer opportunity is wide ranging and the best way to capture and benefit from this theme involves identifying the nascent developments early. We believe that in order to do this well, a local presence is important. Our investment teams are based across multiple cities in Asia – from Seoul to Taipei, Mumbai, Shanghai, and Hong Kong – and the teams often travel across the region to conduct research, which entails company meetings and extensive channel checks. Altogether, these visits essentially allow the investment professionals to get a good sense of what is happening on the ground.

How do you view the Chinese technology sector? Do you think there is further upside?

Indeed the Chinese internet/e-commerce stocks rallied strongly in 2017. However we believe the growth outlook for the Chinese internet/e-commerce companies, such as Tencent and Alibaba remains strong and healthy from a long-term perspective. We expect earnings growth/upgrades will continue to be the main return driver.

Tencent and Alibaba have been diversifying their earnings sources for the last several years through market consolidation in China. For Tencent, though it leads in online gaming and social media, advertising monetization is still relatively low with less than 1% advertising load on WeChat Moments. WeChat Pay will also be a new revenue driver on the back of the rapid mobile payment growth combined with Tencent's huge user base (close to one billion active users). Alibaba's core commerce business continues to be strong, evidenced by the Singles Day alone generating USD 25 billion in sales (GMV) this year and active buyers are increasing, reaching over 480 million. Cloud and payments businesses will also be key future levers of growth.

What are the risks for upcoming six to twelve months that may occur to the fund / Asia consumer market?

Currently our overall outlook is fairly positive as fundamentals continue to show signs of further strengthening. Underlying demand in major markets, such as China and India, appear resilient and provided a supportive external environment, we should see growth recovery continue. The main risks would be related to a meaningful deterioration in the current global macro environment such as excessive government/central bank tightening and global geopolitical risks. Given this, we expect 2018 will be a more volatile year; however, we believe the impact on company earnings should be limited for the consumption theme.

"Underlying demand in major markets, such as China and India, appear resilient and provided a supportive external environment, we should see growth recovery continue"

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