LM CAPITAL GROUP
GLOBAL BOND MANAGEMENT

Emerging Market Debt: The Case for Active Management

Building a low risk portfolio without sacrificing performance

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Part 2

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Executive Summary

The first part of our three-part series on emerging market debt (EMD) investing focused on the relatively high correlation across different regions within emerging markets and how changing economic and demographic fundamentals make Latin America an attractive investment for the future. Part two of this series, takes a detailed look into the investment process that allows LM Capital to generate attractive performance at a much-reduced volatility. LM Capital's investment process is rooted in the foundations of fixed income investing: high quality, high liquidity and low volatility.

Emerging market debt investing is associated with generating high returns at elevated levels of volatility. Severe drawdowns have occurred due to the political, social and economic uncertainty surrounding developing countries.

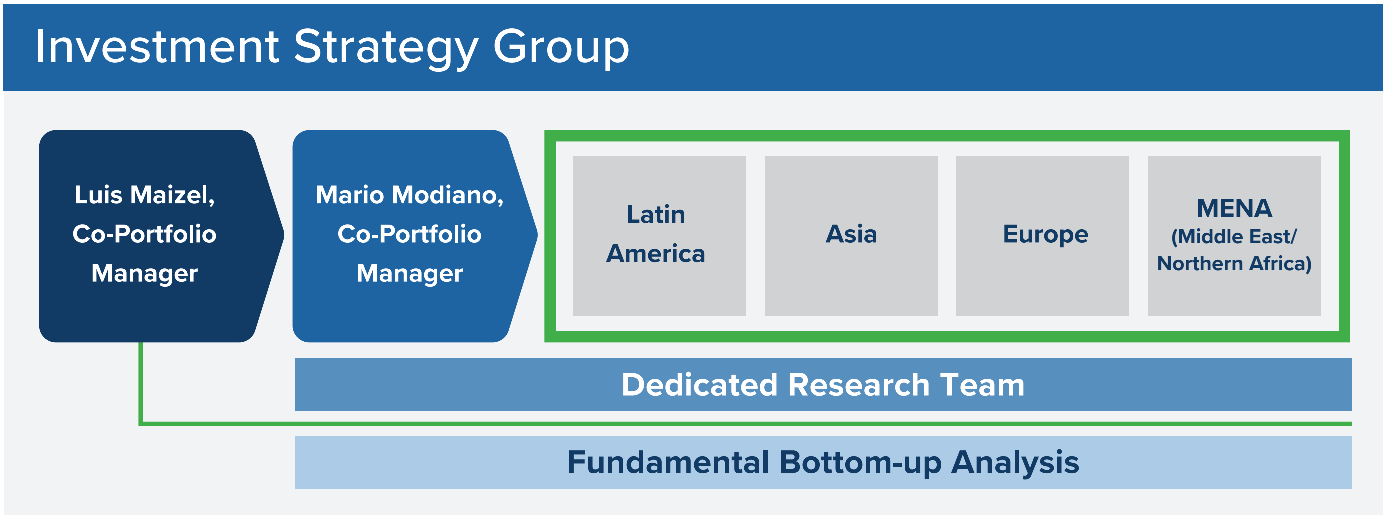
LM Capital looks at emerging market debt as a fixed income instrument where liquidity and principal protection are key aspects of the investment process. Identifying investments with higher-quality bias is the foundation of our bottom-up credit research process. We focus extensively on the risk/reward aspect of every investment, as our research indicates higher quality helps achieve higher risk-adjusted returns over a complete market cycle.

Since the inception of the EMD strategy (June 2015), this investment process has led LM Capital to generate returns comparable to its peers with much lower volatility. The risk management driven framework has allowed us to avoid severe drawdowns in difficult market environments such as the recent events surrounding the currency crisis in Turkey and Argentina (2018) as well as the Argentina election panic of August 2019.

Over the course of this white paper, we focus on the different steps involved in our investment process and the questions we ask as part of the process. Using examples from the current market environment, we highlight how the current portfolio came together through different steps of the investment process.

LM Capital EMD Strategy Overview:

- LM Capital has significant expertise in the asset class with almost 30 years of experience providing client allocations to emerging market debt through our Active Core Plus, Enhanced Return, and EMD Strategies.
- Internal guidelines serve as an **inherent risk mitigation** tool that removes much of the social and political risk associated with investing in emerging market countries. They are as follows:
    - Invest primarily in U.S. Dollar-denominated debt
    - Focus on higher quality corporate bonds (B-minimum rating)
    - No exposure to strongman governments with a history of lack of regard for bondholder protections (i.e. Russia, Venezuela, Ecuador, or Turkey).
    - Based upon relative value, the strategy currently overweights corporates versus sovereign debt
- Company transparency can be challenging in the emerging markets. As many businesses are family-owned in emerging markets, developing a strong knowledge of the underlying business operations and management incentives is an important step in the investment process.



Investment Process

LM Capital's investment philosophy, which has not changed since the firm's inception, is centered on the belief that money is a commodity whose price, or interest rate, is governed by the laws of supply and demand, and that global economic, political, and social factors significantly influence this equation. This philosophy results in a globally-comprehensive process.

LM Capital employs an active management style that bases investment decisions on a combination of top-down and a bottom up research process. We believe that by understanding the underlying global economic factors driving the performance of each region and sector, LM Capital can opportunistically move in and out of regions and sectors to take optimal advantage of market anomalies and inefficiencies, thus producing attractive, risk-adjusted returns. Security selection plays a bigger role in the EMD strategy than in other domestic strategies. Strong quantitative and qualitative security research is the key to our bottom-up security selection process. The investment process is time-tested, repeatable, and team-oriented.

I. Economic Matrix Construction:

The Investment Strategy Group (ISG) uses a unique method to analyze current economic data, applying a proprietary matrix created by Co-Founder and Senior Managing Director Luis Maizel. LM Capital's matrix is composed of the following six economic factors: Inflation, Employment, Trade Balance, Budget Deficits, International Influences, and Economic Indicators. The matrix is constructed for major global markets and lesser developed markets on a quarterly basis with a one-year outlook. The matrix analysis is based, in principal, on the work of Nobel Prize winner Wassily Leontief and has been refined for use in an investment process by Mr. Maizel and Co-Founder and Managing Director John Chalker. The process examines historical economic data and makes no attempt to forecast future interest rates.

We analyze over 30 economic indicators in major global markets and categorize them into six primary factors.

Inflation	Economic Indicators	Trade Balance	Budget Deficit	International Factors	Employment
• CPI • PPI • GDP Deflator • Proces Paid Indices • Gold (spot price) • PMI • Capacity Utilization • Employment Cost Index	• Industrial Production Index • Housing Statistics • New Home Sales • Inventories • Consumer Confidence • Consumer Credit • Retail Sales • GDP • LEI	• Change in current account balance • Capital Flow • Foreign Holdings of U.S. Treasury Securities	• CBO Projections • Proposed Budgets • Proposed Legislation	• Country Events • Financial Crisis • Political Stability • Alternative Markets • Currency Exchange Rate • Trends	• Jobless Claims • Payroll Data • Employment Report vs. Demographics

Each factor gets a single score with inflation and economic indicators double weighted.

II. Trend Assessment:

The ISG scores the matrix on a numeric scale with a double weighting for Inflation and Economic Indicators. A top-down evaluation of the matrix assists us in assigning a Trend Identification score, which guides our view of the most attractive fixed income markets and helps determine how the portfolio will be positioned relative to the assigned benchmark with respect to the country and currency allocations. The duration and sector allocation decisions are the next steps and are within the constraints imposed by the client's investment policy.

III. Country/Sector/Currency Allocation Decision:

With better corporate governance and political transparency, economic scorecards are key factors for investing in developed markets. When investing in emerging markets, determining the impact of non-economic factors is the key to the investment process. For emerging market investing we have added an additional step to help us understand and reduce the portfolio impact of political uncertainty.

Macroeconomic Matrix Scoring System

Individual Factor Score	-1 Very Negative	-0.5 Negative	0 Neutral	+0.5 Positive	+1 Very Positive
Country Bond Market Score	-8		0 to 3		+8
	Adverse Fixed-Income Conditions				**Favorable** Fixed-Income Conditions

Socio - Political Risk Assessment

Governance and Legal Risk	Governance as a risk factor deals with corporate governance practices like minority shareholder rights, disclosure standards, board structure and independence within countries. A country's legal system deals with general enactment of law and order, minority shareholder rights, creditor rights, dispute resolution mechanisms, and regulatory and supervisory powers. The lack of these legal protections limit investor's ability to pursue action when necessary.
Political Risk	This refers to uncertainty regarding adverse government actions and decisions. Developed nations tend to follow a free market discipline of low government intervention, whereas emerging market businesses are often privatized upon demand. Factors that may contribute to political risk are: possibility of war, tax increases, loss of subsidy, change of market policy, inability to control inflation and laws regarding natural resource extraction. Major political instability can result in civil war and a shutdown of industry, as workers either refuse or are no longer able to do their jobs.
Ethnic and Social Risk	Nationalistic sentiments are quick to rise during economic downturns, as people look to blame their problems on external factors. Fingers are pointed not only at foreign countries, but also at elements of the domestic population, with fractures often forming along religious, economic or ethnic lines. Troubled governments are also often tempted to feed into populist demand and confiscate foreign assets or default on debt to foreign investors. Populist polices come at a heavy price, provoking international trade sanctions and Capital markets isolation which can worsen an economic downturn. Tensions around employment in emerging economies can be exacerbated by heavy reliance on particular sectors, like energy or minerals.

The Trend Identification scores in combination with socio-political risk assessment guides the portfolio positioning with respect to the country and sector allocation decisions. For emerging market investing, country allocation is the main driver for portfolio construction. This is followed by the sector allocation where we can focus on sovereign versus corporate issues and economic sectors where that option is available.

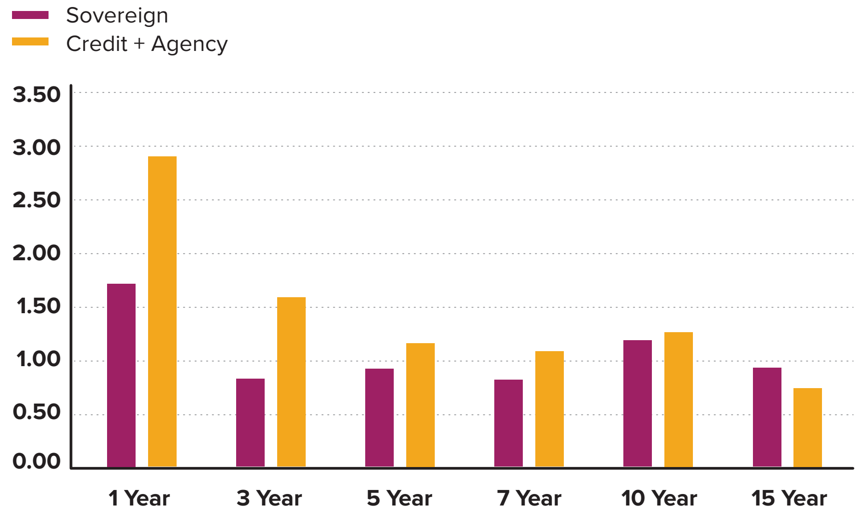
Based on the ISG's economic assessment, sectors with attractive risk/reward profiles will be identified for further bottom-up research/credit analysis LM Capital uses data from multiple U.S., multi-national and local governmental organizations, multiple broker-dealers and other statistical organizations in developing its macroeconomic strategy.

The duration decision plays a key role when sovereigns are added to the portfolio. For the EMD corporates, where issuance may be limited in a country, sector allocation becomes a significant element in the inclusion.

At LM Capital, we maintain an overweight to EM credit as compared to the sovereign sector. Empirical evidence suggests that the risk/reward ratio for credit is higher as compared to the sovereign sector. Although the sovereign sector comprises bonds with higher yield (Angola, Venezuela, Turkey, Nigeria, etc.), the high risk associated with these investment's makes them an unfavorable investment. Credit investments are generally higher quality and offer comparable returns with a much lower volatility.

Return/Risk

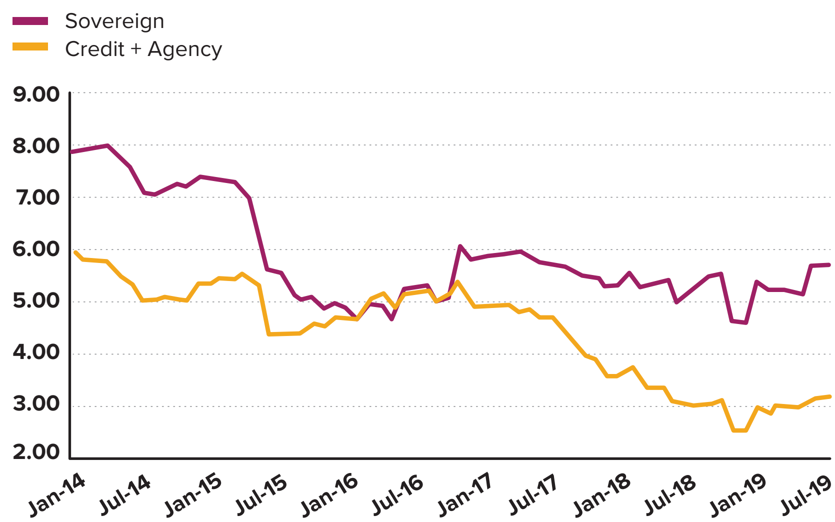
Sector breakdown Bloomberg EM USD Index



Source: Bloomberg

Rolling 2 Year Volatility Comparison

Credit+Agency vs Sovereign



Source: Bloomberg

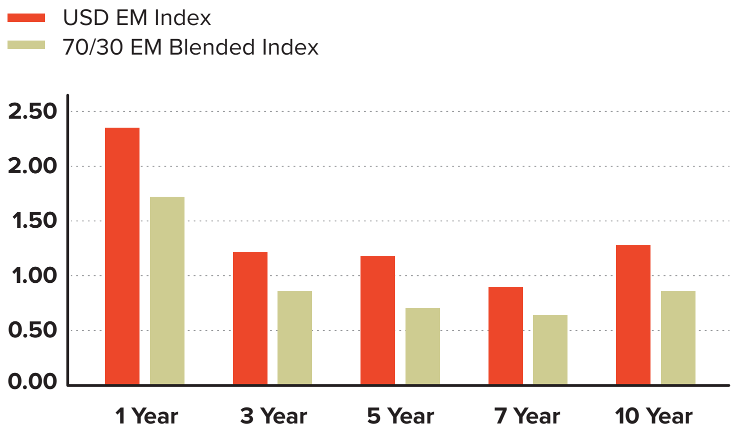
Currency comes into play as each country is reviewed and as each security is selected. Currency decisions are made exclusively by the ISG in conjunction with the country allocation decision. We maintain an opportunistic allocation to local currency bonds as compared to a fixed allocation.

Our historical analysis has concluded that allocations to local currency debt does not materially increase returns over time and simply exposes the portfolio to greater volatility. Over the last 10 years, the risk adjusted annualized return for the Bloomberg USD EM Index is consistently higher than the blended EM index.

The correlation benefits of adding local currency bonds are also largely overstated. Above, we look at 10-year correlations (July 2009 to July 2019) between the USD EM Index and blended EM index vs different asset classes.

Return/Risk

70/30 Blended EM Index vs Bloomberg US EM Index



Source: Bloomberg

10-year Correlations (July 2009 - July 2019)	SP 500 Index	Bloomberg US Aggregate Index	Bloomberg High Yield Index
USD EM Index	0.49	0.49	0.76
70/30 Blended EM	0.53	0.44	0.75

Blended EM Index: 70% Bloomberg USD EM Index + 30% Bloomberg LC EM Gov Index

IV. Security Selection/Credit Research

LM Capital's research team will review issuers within those specific sectors of interest. The research team utilizes industry research and company financial filings to better understand credit drivers and relative value. Issuers deemed to warrant additional study will undergo a comprehensive review. We may also use our outsourced research analyst at iMarkServe to perform a thorough prescreening review. The credit research process seeks to answer the below questions:

Once research on the issuer or security has been completed, it will then come under review by the ISG and may be added to, or excluded from, our approved issuer buy list. Once added to the list, the portfolio manager will then decide whether or not to add the security to the client portfolio. Individual securities are evaluated on the basis of duration, convexity, call features, quality, yield-to-maturity, liquidity, and other factors to ensure that each security meets the client's investment guidelines. Portfolio managers are free to select any issue belonging to an approved issuer for use in the portfolio. Currently, the team follows approximately 80 emerging market issuers.

Who is the issuer?

What's their history and what does that tell us about them?

Do we know people who have done business with management and can vouch for their responsibility to stakeholders?

Who owns them? A family? Index funds? Value investors? Shareholder activists? Previous history of business owned by the family?

Any significant events been in the last few years? Mergers? Attempted mergers? write-offs?

Who are their biggest competitors and what are they doing? Stock comparison to competitors?

Is their recent equity performance going to push them to reshape their balance sheet? Any pressure to borrow and buy back stock or paying more dividends?

Pressure to spin off underperforming divisions? Risk to credit ratings or bondholder credit support?

Do we understand the environmental, social, labor and governance risks associated with the issuer?

What is their business exposure to foreign currency volatility?

Are they exposed to commodity risk?

Are they exposed to political risk if a ruling party changes?

What do financial statements tell us?

How much debt do they have and what's their equity market cap? Amount of local currency and dollar denominated debt on balance sheet?

What's the trend on their net debt/leverage? Is their EBITDA volatile or stable?

What have their sales margins been doing? What's caused the margins to change?

Have they had significant write-offs over the years?

What's their free cash flow situation? If it's positive, is it steady or seasonal?

Are they paying down debt?

Do they have near-term maturities that they need to pay down or have an untapped revolver and/or cash?

Do they have a wall of debt in a certain year that might prove to be problematic?

Is their net debt/ebitda leverage low compared to history that they might be comfortable borrowing more?

What are the credit ratings and are they in danger of getting downgraded?

With a ratings change, would we expect current bondholders to rotate out because of the new ratings?

Relative Value

Who are their competitors and what are spreads relative to those competitors?

How has spread performance been compared to their competitors?

When comparing them to similarly rated companies and companies with similar equity mkt caps, do they seem attractive given the risks we have seen?

How liquid are the bonds? How often do they trade and how often do we see brokers quote them?

How volatile have their bonds been in the past? What caused them to move around?

Credit research for EMD securities include other elements that are not usually required in larger markets. For instance, many corporations in the EMD countries are still majority owned by the founding family, so an evaluation of the family's behavior relative to the public markets is as important as the financial statements they provide. Similarly, for government related agencies, it is important to establish the relevant importance of the issuer to their country's well-being. Individual references regarding company management and reputation are sources from our social network in the region, especially in Latin America.

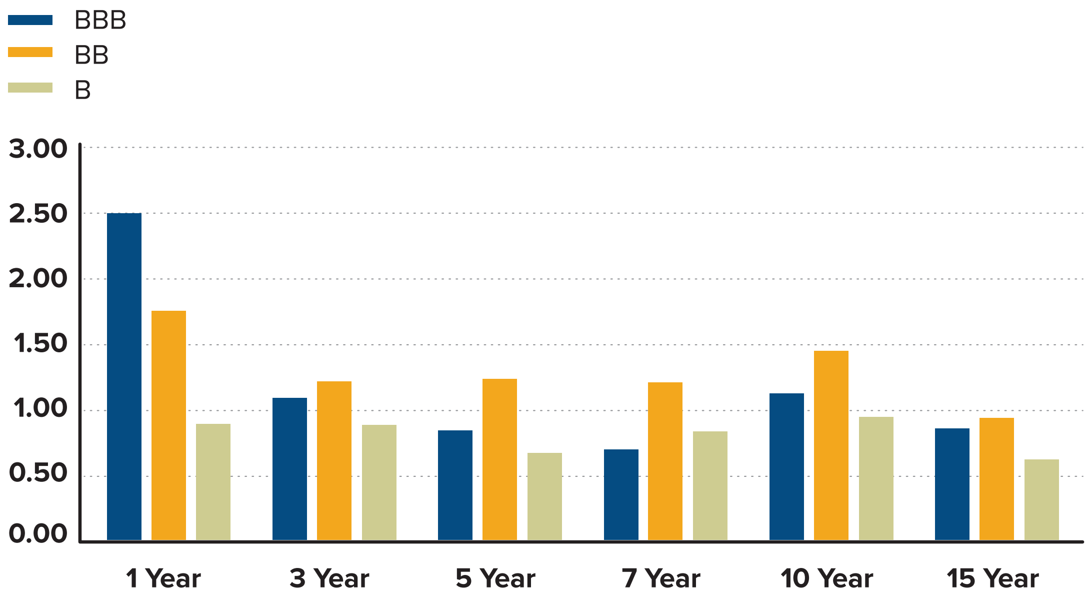
Identifying investments with an attractive risk/reward ratio is the foundation of the investment philosophy at LM Capital. We maintain an emphasis on identifying bonds with stable quality outlook and higher liquidity. Empirical research has shown that bargain hunting among fallen angels in the BB universe has performed better than chasing higher yields associated with low quality junk bonds.

Looking at 15 years of data for the Bloomberg EM USD index (July 2004 to July 2019), we can see that the return generated per unit of risk has consistently been higher for BBs when compared to BBB and B rated issues.

Due to the risk associated with forced sellers when BBBs are downgraded to junk, the risk/return trade-off for these issues is inferior when compared to BB rated issues.

Return/Risk

Quality breakdown Bloomberg EM USD Index



Source: Bloomberg

ESG Integration to Credit Research:

- The goal of the ESG Integration process with credit research is to comprehensively understand the risks facing the company. We expect to avoid negative "ESG Surprises" and benefit from positive "ESG Surprises."
- We carefully weigh the materiality of ESG concerns during credit research. To aid in identifying ESG material risks, we use RepRisk, MSCI's ESG Manager, Transparency International's Corruption Perceptions Index and other sources.
- We think that our approach to assessing ESG risks and opportunities sits on top of our fundamental investment research.

ESG - Portfolio Management	Environmental	Social	Governance
Maturity of the bonds: Some ESG risks pose long term risk to issuers, while other ESG risks may manifest themselves at any moment. We may find the short-term bonds of companies that do have long term ESG risks to have an attractive relative value. On the other hand, we may find avoid the bonds have issuers that have the risk of an ESG risk manifesting itself immediately. For example, we avoid issuers that own nuclear reactors because we feel that the market is too sanguine concerning the risks inherent in this business line. **Credit ratings are often a good proxy for the ability of a company to withstand a negative ESG event.** Aside from financial metrics, credit ratings are based upon scale, diversification, market share, franchise strength and the rating agencies assessment of management's ability. For example, a small oil and gas company with shallow water oil wells in the Gulf of Mexico is much more vulnerable than the global oil & gas company, BP, which was responsible for the Macondo/Deepwater Horizon disaster.	**Identify business lines or industries that represent underappreciated material risks.** For example, Celanese and Eastman Chemical, have very profitable businesses that make tow. Tow is the primary material in cigarette filters. Competitors are reluctant to enter this business and have allowed the two companies to demonstrate superior profitability compared to peers. **Does the issuer have "Green Business Lines" that present outsized opportunities?** For example, one issuer on our Approved List produces plastic pipes and spent US$1.5 billion in 2018 on an 80% stake in a micro-irrigation system manufacturer. As access to water becomes a greater issue world-wide, we expect this company to have outsized growth opportunities which will make the company financially stronger and make the bonds more attractive.	**Pay particular attention to social change, social costs and social licenses.** While each of these may on the face appear to be "Social" risks, they actually apply to all ESG concerns. For example, certain poultry and meat producers have had their activities curtailed based upon their environmental pollution. Society has reassessed the right of producers and their manure pools to impinge upon the rights of their neighbors to have unimpeded access to clean air. **Extractive industries are particularly subject to social license issues.** It is well known that oil and gas producers in Ohio and Pennsylvania have to be much more careful with environmental issues than their peers who are active in Texas. Over time, Texans may become less accepting of the environmental costs of accommodating the usual local practices. **Within the food and beverage industry, we are very aware that world and national health organizations are very interested and active in reducing the social costs of diabetes.** Certain issuers have been sensitive to this issue and have adjusted their products, while others have not changed their products. Within the food and beverage industry, we carefully consider whether bondholders are properly compensated for the risk that the social costs of diabetes may pose to issuer's business models.	**Exclude firms that are ESG "Worst of Class"** and have a demonstrated inability or unwillingness to manage material ESG risks. **"Rule of Law" and potential corruption issues in the issuer's country of domicile.** Some companies survive at the whim of a strongman running a particular country. Companies that are reliant on large contracts with governments are particular points of concern with regard to corruption. Consumer-facing issuers with small ticket sales are less susceptible to this risk. **Do potential ESG risks pose the material investment risks to bondholders?** Can negative ESG events put the company into bankruptcy court? Does the equity market value of the issuer help insulate bondholders from material risks?

Scenario Planning and Risk Management

Scenario Planning, in addition to our quantitative risk tools, acts as a comprehensive risk management platform and allows for proactive response to unforeseen events.

Monitor Social, Economic, Political, and Risks — **Scenario Planning = Qualitative Risk Management Tool** — **BondEdge = Quantitative Risk Management Tool** — **Pre- and Post- Trade Checks to monitor Client Guidelines**

Scenario Planning

The Investment Strategy Group uses scenario planning to consider the impact of social, political and economic events on the long-term trend of interest rates and its effect on the LM portfolio.

LM Capital Group's Global Scenario Planning, a qualitative risk control incorporated into our process, allows us to react to major market moving events expeditiously in order to mitigate the negative effects on our portfolios. Potential events are weighed against current global macroeconomic conditions that will determine changes to the portfolio characteristics (duration/sector wt.)

What if....

- There is a terrorist attack on US soil
- Fed rate policy faster/slower vs expected
- Argentina defaults again
- Trade war escalates with China
- Middle east geopolitical tensions rise
- Mexico president enacts populist agenda.

Qualitative Risk Management

LM Capital's multi-decade experience and social network in the Latin America is an integral part of our risk management framework. This social network serves as a last line of defense in our credit research process where we ensure bondholder interests are in alignment with business owners.

Our qualitative risk management framework that is built around this social network helps us avoid investing in potential landmines in emerging markets. Although emerging market investing is associated with high volatility and severe drawdowns, LM Capital's risk management framework has allows us to generate comparable returns at a much lower volatility.

As large number of businesses in emerging markets are family owned, we track social indicators to avoid fraudulent investment.

- public perception of the family
- previous business history
- testimonials from business partners

Quantitative Risk Management

Although LM doesn't manage its portfolio with predefined risk/tracking error targets, we use those metrics to help understand risk exposures for the portfolio.

Quantitative Risk Management incorporates the use of Bloomberg Factor Model to determine key risk factors impacting the portfolios. Risk factors are broken down into 4 broad dimensions: Country/Sector/Currency and Selection factor group. Each factor group is further broken down into granular factors (eg: 1,5,10,30 key rate durations, industry group spread factors).

The risk analyst on the research team monitors the impact of these risk factors on the risk/tracking error of the portfolio on a daily basis. The research group also tracks the changes in spreads to from individual corporate bonds on a daily basis. Impact of these spread changes and a supporting commentary is passed along to the investment strategy group to ensure daily due diligence of portfolio.

For security level risk management, we carefully weigh acceptable and unacceptable risks and determine whether any portfolio action is required.

Given the size of our firm, an informal dialogue between the research and the ISG group takes place on a daily basis. Changes in market environment, position specific news and their corresponding impact on the portfolio are discussed informally through these dialogues. Formal reaction comes when an event such as a credit rating change occurs to any participating issuer in any of the portfolios. All PMs are informed in order for them to take appropriate action. In case of downgrades, the ISG could dictate the exit of the issuer from certain or all strategies.

Trade Compliance: The compliance officer reviews all transactions on a daily basis to ensure adherence to investment guidelines. Guidelines may be breached by changes in the portfolio's inherent characteristics, i.e. not as a result of trading activity. The compliance officer will then inform the PMs to evaluate the situation and confer with the client whether to remain in their present position, or if a corrective change is required.

How the Process Works Today?

Matrix Construction and Trend Assessment– June 2019

Recent Data - June 30, 2019

	Inflation (YOY%)	Economic Indicators (Real GDP (QTR/YOY%)	Trade Balance Last 4 Qtrs	Budget Deficit Last 4 Qtrs (% of GDP)	International Factors Current Account Last 4 Qtrs	Unemploy-ment (%)	Currency (vs US$) (YOY%)	3 Month Rate	10 Year Rate	Spread (vs 10 Yr US Tsy)	Trend Score
United States	1.60%	2.10%	(650.90)	(918)	(507.38)	3.70%	-	2.10%	2.01%	-	0
($)		2.30%		(4.3%)							
Mexico	3.78%	0.05%	(6.00)	(505)	(17.48)	3.54%	19.22	8.15%	3.45%	1.44	1.0
(Peso)		(0.74%)		(2.1%)			3.44%		(in US$)		
Brazil	3.22%	(0.20%)	58.15	(457)	(4.08)	8.20%	3.85	5.83%	7.32%	5.31	1.5
(Real)		0.46%		(6.5%)			(0.69%)				
China	2.70%	1.60%	396.30	(4,051)	(92.60)	3.67%	6.78	2.25%	3.24%	1.23	-1.0
(Renminbi)		6.20%		(4.5%)			(3.71%)				
South Korea	0.60%	5.60%	57.76	(38,492)	69.28	4.00%	1,154.70	1.70%	0.00%	(2.01)	3.0
(Won)		2.10%		(8.2%)			(3.60%)				
Hungary	3.30%	(11.14%)	4.77	(353)	0.15	3.30%	284.1	0.21%	1.88%	(0.13)	0
(Forint)		5.30%		(0.8%)			(0.82%)				
Russia	4.60%	(17.70%)	193.29	3171	111.54	4.40%	63.21	6.93%	3.93%	1.92	1.5
(Ruble)		0.50%		3.0%			(0.75%)		(in USA)		

Country Allocation – Socio-Political Risk Assessment:

Overweight India and Southeast Asia x China/HK:

- Following a successful campaign where the ruling party was re-elected with total majority, Indian prime minister Narendra Modi has pledged to make India the best investment destination in the world. The Modi government is committed to fulfilling the five-year vision of investment led growth through structural reforms that will make India more open to global markets. Reforms like focusing on improving India's ranking in ease of doing business, tax reforms with lower rates and simplifying procedures, labor sector reforms and FDI-related reforms to liberalize the investment climate bode well to ensure long term sustainable growth. Over the last few months we have added to our dollar denominated corporate debt allocation in India.
- Chinese companies are following their foreign counterparts out of the country in search of alternative production bases to mitigate the impact of the prolonged trade war with the U.S. Other South Asian countries like Malaysia, Thailand, India and Vietnam stand to benefit from this restructuring of supply chains.

Overweight Latin America:

- We maintain a significant overweight to Latin America as compared to the benchmark. Strong economic fundamentals coupled with demographic changes and a growing pension fund industry predict a growth environment in Latin America. See Part 1
- Many Latin American countries have undergone budget and fiscal reforms, and are moving (albeit unevenly) towards fiscal responsibility. Central banks in Latin America have used inflation targeting to moderate swings in the current account and reduce the volatility of currency values and economic growth. The levels of foreign exchange reserves have increased, which helps to dampen risks in case of a financial crisis

Underweight Hong Kong and China. Avoid Russia/Turkey/ Venezuela

- As part of our socio-political risk assessment, we have always maintained priority for investing in countries with well-defined corporate governance and debt holder protections in place.
- Lack of an independent judicial system where local courts suffer from interference of local governments when dealing with bankruptcy cases is a prominent issue in China. Taking into account this lack of transparency, we maintain a significant underweight to investing in China.
- Dictatorial regimes have had a history of discriminately changing laws, regulations and contracts governing an investment thereby leading to potential losses for debtholders. This has let us to avoid investments in countries like Turkey, Russia and Venezuela.
- With rising political tensions in Hong Kong surrounding the anti-extradition bill protests, we have curtailed our allocation to Hong Kong and maintain a relative underweight when compared to the benchmark.

Local Currency Underweight:

- For the first half of the year we maintained a 1.5% allocation to a local currency Mexican bond.
- Although volatile, the Mexican peso remained almost unchanged at the end of June 2019 when compared to earlier in the year. Spread tightening for the bond coupled with a higher coupon added an almost 9% return for the holding period.
- With added currency volatility amid potential tariffs on Mexico, we decided to liquidate the local currency position to avoid the risk of the Mexican peso weakening versus the U.S. Dollar.

Trend scores in combination with the socio-political risk assessment act as building blocks for the portfolio construction process.

The table below compares the sector and regional allocation for the portfolio vs the Bloomberg Barclays EM USD aggregate.

Portfolio Characteristics

Sector Allocation

	Portfolio	Bloomberg Barclays EM Aggregate
Credit	69.73%	24.77%
Sovereigns	9.98%	41.17%
Quasi-Sovereigns	8.10%	34.06%
Supranational	6.81%	0.00%
Cash	5.38%	00.0%

Regional Allocation

	Portfolio	Bloomberg Barclays EM Aggregate
Latin America	82.60%	29.98%
Europe	4.28%	9.71%
Middle East	1.66%	19.87%
Africa	0.00%	5.49%
Asia	6.07%	34.51%
Other	5.38%	0.44%

Security selection:

As described earlier, we maintain an approved list of securities that have been vetted by the investment strategy group using a fundamentally driven bottom up approach.

Below is a snapshot of the process through which a new issue gets added into the portfolio.

Phases of investment decision process

Top-Down Analysis

orbia

Favorable Trend Score for Orbia (2-4) led by contained inflation and good sovereign debt dynamics.

Strong external factors (healthy) balance of payments and solid economic activity (Real GDP). Central bank transparency has improved and widespread bankruptcy reform has strengthened rule of law for corporate restructurings.

Seeking companies positioned to benefit from government policy shift and focus on improving infrastructure across Mexico.

Orbia well positioned to benefit in increased demand for PVC piping used across homebuilding and construction industries.

Bottom-Up: Company Management

LM Capital met with Orbia management

LM knows principle investors and operators well, by utilizing social networks.

Management team has credibility built through strategic acquisitions and conservatively financing them.

Bottom-Up: Company Capital Allocation

Company generates consistent positive cash flow.

Management conservatively keeps leverage target ˜2x Net Debt/EBITDA.

Approximately 60% of income generated in hard currency.

Bottom-Up: Issue

APPROVED LIST

Investment Strategy Group discussion and approval.

Bottom-Up: Selection

INDIVIDUAL PORTFOLIOS

Selected by Lead Portfolio Manager

Currently hold the Orbia 2022 in Core Plus and EMD Portfolio

Note: Orbia is a Mexican producer of plastic pipes, and is the third largest chemical and petrochemical company in Latin America. Mexichem recently changed its name to Orbia.

ESG Integration: Brazilian Iron Ore Mining Company Vale S.A. on ESG Concerns:

- ESG integration into credit research helps us better understand the risks and opportunities facing a company. This allows us to get ahead of the market reaction associated with ESG surprises. The example below walks through how the process of ESG integration helped us benefit from a positive ESG surprise and later protected us from a negative ESG surprise.

Positive ESG Surprise

In 2018, LM Capital identified high grade iron ore producers as a potentially underappreciated investment opportunity. As China has become a wealthier economy, the social costs of air pollution by steel mills have become unacceptably high. At the risk of greatly oversimplifying the steel making process, one can reduce polluting air emissions by changing the chemical composition of the commodities put into the blast furnace.

One affected company in this industry is the Brazilian iron ore miner, Vale S.A. Vale is one of the four main seaborne suppliers of iron ore to China. Over the last several years, Vale has repositioned its product portfolio to a higher percentage of premium products. The premium products tend to have a higher percentage of iron content and a lower percentage of contaminants. Aside from the lower emissions per unit of steel produced, using high grade ore increases the productivity of blast furnaces by reducing the amount of slag produced.

As we considered these two attractive ESG factors in the Vale investment opportunity, we also considered the implications of a November 2015 tailings dam that burst in Brazil at a joint venture between Vale and BHP Billiton. The dam burst was triggered by three small earthquakes that would normally have been unnoticed. In the aftermath of the dam burst, 19 people died and thousands were left homeless. On March 2, 2016, Vale entered into a preliminary agreement with the Brazilian Prosecutor's office that outlined a final settlement and payments of approximately US$55 billion. It appeared from the settlement and the actions that Vale promised to take, that the chances of a similar event were minimal. After the settlement, the company was extremely forthcoming on ESG concerns and unusually transparent compared to its peers.

Negative ESG Surprise

On January 25, 2019, another Vale tailings dam collapsed and left an estimated 270 dead. The government suspended production at certain other Vale mines that were reliant on the use of tailing dams. The suspension reduced the worldwide supply of iron ore and caused gradual increases in prices. Iron ore stockpiles in China were at relatively high levels in January when the accident occurred, but the decrease in supply from Vale pushed current inventories close to two-year lows.

Sell side analysts and journalists struggled to estimate what the accident would cost the company, and ultimately what the stocks and bonds were worth. On January 24, 2019, the company had an equity market value of about US$79 billion. This dropped to $58 billion on January 28. The company had net debt at December 31, 2018 of about US$10 billion.

In our reassessment of the bond's value, we focused on the governance and management issues that allowed these disasters to occur. News stories painted a picture of a company in which known safety issues were papered over, rather than fixed. Even though the CEO and other top managers were replaced, we felt the company's culture would not be so easily fixed. We came to the conclusion that we, and the market, had misunderstood the risks associated with the company's business by relying upon representations made by the company. We also felt that the market would concentrate on the near-term financial impact of the accident and not reassess the company's long-term risks. Therefore, we reached a decision to liquidate the Vale position at the first opportunity.

Qualitative Risk Management

An example of acceptable risk from the emerging markets may be a troubled issuer that is owned by the national government. Trinidad and Tobago's national oil company was recently facing a significant debt maturity in 2019. The issuer, Petrotrin, was not explicitly guaranteed by the government. The rating agencies were upfront that if the issuer defaulted, it would become a sovereign rating issue. The government restructured the company, closed down a money-losing refinery and was instrumental in arranging financing that removed the default risk. We would not have owned the issuer's bonds if the company had been publicly held.

Diversification Fallacy:

The key risk associated with investing in emerging market debt is the political and economic uncertainty associated with developing nations. To overcome this, investors are more inclined to diversify their emerging market exposure across several regions (Latin America, Asia, Eastern Europe, Africa and Middle East). The table below highlights that diversification benefits within EM are largely overstated.

	Latin America	EMEA	Asia	EM Currency Index
Latin America	1.00	0.85	0.81	0.75
EMEA	0.85	1.00	0.88	0.74
Asia	0.81	0.88	1.00	0.67
EM Currency Index	0.75	0.74	0.67	1.00

10 Year (2009 - 2019) Correlations between monthly returns for regional components of **Bloomberg Barclays EM USD Aggregrate Index and MSCI EM Currency Index**

Region Allocation for Bloomberg Barclays EM USD Aggregate Index - March 2019

Middle East/Europe/Africa	35.79%
Asia	34.69%
Latin America	29.52%
Total	100.00%

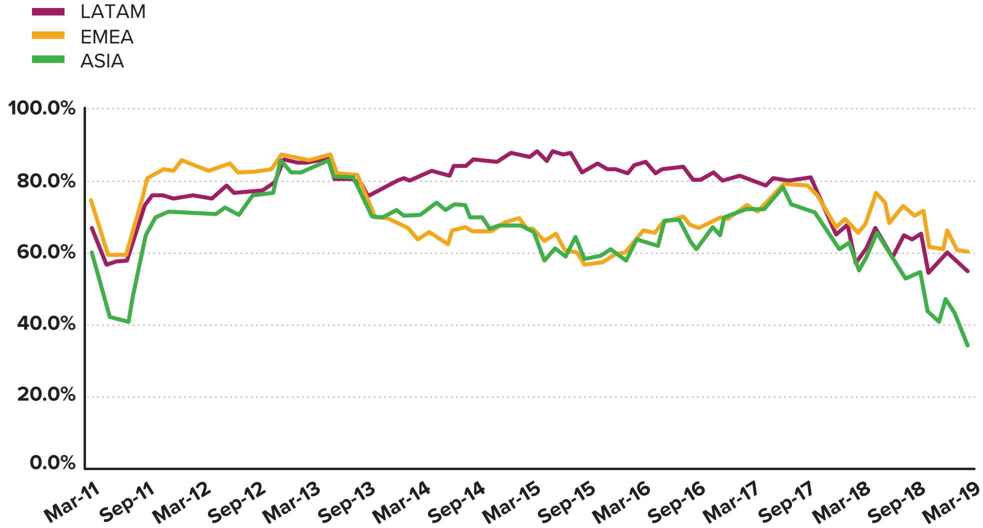
The correlation between the returns for different EM regions suggests that the opportunity cost of deviating from benchmark-based regional allocation is minimum. The high correlation across different regions highlights the presence of shared underlying factors that dictate regional returns uniformly.

Correlations for MSCI EM Currency Index with regional index components highlights dollar strength/weakness as a significant factor.

For EM investing, we believe true diversification benefits can be harnessed by identifying investments with smaller beta to the factors driving index return. e.g. Identifying issuers which generate bulk of their revenue in U.S. Dollars helps decouple their performance from currency driven index return.

Rolling 24 Month Correlation

Bloomberg EM USD Regional Components vs MSCI EM Currency Index



Source: Bloomberg

Annualized Rolling 2 Year Returns

Bloomberg EM USD Index Regional Components

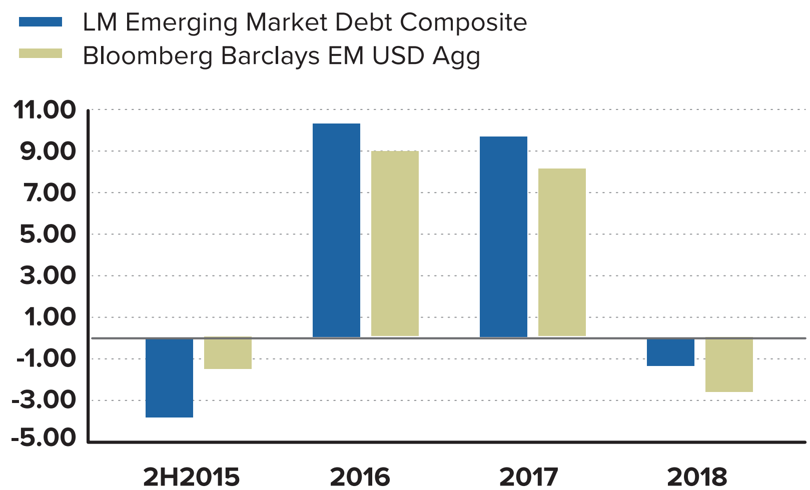
Source: Bloomberg

Conclusion:

Social, political and economic uncertainty associated with Emerging Market Debt investing leads to increased volatility. The diversification failure of benchmark based regional allocation further increases risk of severe drawdowns. LM Capital navigates these conditions through a repeatable investment process based on a combination of top-down and bottom-up fundamental research. A risk management framework focused on high liquidity and high-quality bias has helped LM Capital's EMD strategy provide a low-risk alternative to EMD.

Part three of this series will focus on how LM Capital's EMD strategy compares with other EMD alternatives from the standpoint of performance, risk management and correlation to systematic market factors.

LM Emerging Market Debt Fixed Income Annual Performance

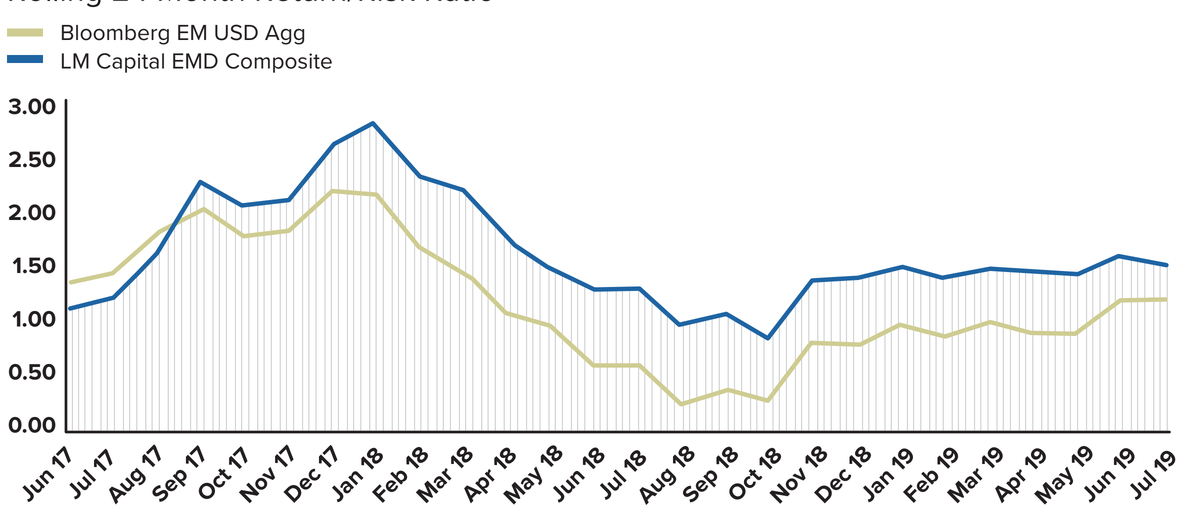


Source: Bloomberg

For periods ended June 30, 2019	LM Emerging Market Debt	Bloomberg Barclays EMD USD Agg	Tracking Error (%)	Standard Deviation (%)
1 Year	10.06%	10.95%	1.75	3.68
2 Year	5.28%	4.79%	1.56	3.43
3 Year	6.14%	5.05%	1.55	3.51
Since Inception	5.65%	5.74%	1.68	N/S

Bloomberg EM USD Agg vs LM Capital EMD Composite

Rolling 24 Month Return/Risk Ratio



Source: Bloomberg

The performance is that of the Emerging Market Debt Composite and includes fully-discretionary, institutional accounts, which qualify for inclusion into the Composite LM Capital Group claims compliance with the Global investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. LM Capital Group has been independently verified for the perioids January 1, 1997 through March 31, 2019. Performance from July 1, 2018 through March 31, 2019 is preliminary only and has not yet been GIPS verified. The verification and performance examination reports are avaiable upon request. As of March 31, 2019, the Emerging Market Debt Composite encompassed 3 accounts and was valued at $108.4 million. Performance results are presented before the deduction of management fees. Actual performance results will be reduced by management fees and other expenses, such as custody, incurred in the management of the account. The management fees are described on page 30. Historical performance is no guarantee of future results. The benchmark used is the Bloomberg Barclays EM USD Aggregate Index. Please refer to page 30 for a complete disclosure page for our Emerging Market Debt Composite.

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