Capitalising on the growth of the global high-yield market

- High-yield bonds occupy a special capital market niche: They have offered significantly better risk-adjusted returns than equities and lower interest-rate sensitivity than the broad fixed-income market.

- Non-US issuers have grown from a negligible amount 20 years ago to almost half of a $2 trillion global high yield market, which provides expanded opportunities for alpha and diversification compared with investing in just one region.

- With three decades of experience in the high yield market, Eaton Vance offers investors the depth and breadth of expertise necessary to capitalise on the potential in today’s global high-yield market.

- Eaton Vance offers truly global high-yield portfolio management – an approach that frees it from regional biases.
Why allocate to high-yield bonds?

High-yield bonds occupy a special capital market niche. As obligations of companies with below-investment-grade credit ratings, they offer higher yields to compensate investors for accepting additional credit risk. Generally, the lower the bond rating, the higher the yield. From January 2001 through December 2016, high-yield bonds have offered better risk-adjusted returns than equities (Exhibit A) and lower interest-rate sensitivity than the broad fixed-income market.

The growing universe of global high yield

High-yield investors today have many investment choices from corporate issuers across the globe. While high-yield bonds first came to prominence three decades ago in the US, markets in Europe and emerging markets have truly come of age in recent years, as part of a $2 trillion market. Non-US issuers have grown from 12% of market capitalisation in 1997 to almost half in 2016 (Exhibit B). The substantial growth of the global high-yield universe has widened the opportunity set, and geographical, economic and political differences create the potential for diversified return streams. As we will discuss, professional expertise is key for maximising potential return from disparate global regions and issuers.

Better risk-adjusted returns than stocks

Over the past decade, high-yield bonds have produced almost twice the return of stocks, with less than two-thirds of the volatility, resulting in a higher Sharpe Ratio (Exhibit A).

Exhibit A

High yield has had almost twice returns than equities with less than two-thirds the risk.

<table>
<thead>
<tr>
<th>January 2001 - December 2016</th>
<th>Return</th>
<th>Standard Deviation</th>
<th>Sharpe Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global High Yield</td>
<td>8.2%</td>
<td>9.9%</td>
<td>0.68</td>
</tr>
<tr>
<td>Global Equities</td>
<td>4.4%</td>
<td>15.9%</td>
<td>0.18</td>
</tr>
</tbody>
</table>

Source: Zephyr StyleAdvisor as of 31 December 2016. Data provided are for informational use only. Past performance is no guarantee of future results. You cannot invest directly in any index. See end of report for important additional information. Global High Yield is represented by the BofA/Merrill Lynch Global High Yield Index (USD Hedged). Global Equities are represented by the MSCI ACWI (Net) Index. Start date reflects inception date of MSCI ACWI Index.

Exhibit B

EU and emerging market issues have grown to almost half of $2 trillion global high-yield market.

Lower interest-rate sensitivity than bonds

The high income stream and shorter maturities from high-yield bonds helps lower their duration compared with broad investment-grade indices like the Barclays Global Aggregate Index and other fixed-income sectors. High-yield bonds also offer substantial yield per unit of duration (Exhibit C).

Positive performance in rising rate markets

Rising rates are often an indicator of a strengthening economy. Because high-yield bonds are proxies for the credit strength of lower-rated companies, bond prices frequently move in tandem with equities. For example, since May 1987, there have been 16 times in which 5-year U.S. Treasury yields gained 70 basis points (bps) or more.
in three months (as of 31 October 2016). During those periods, high-yield bonds have averaged a gain of 2.5%, compared with a 3.0% return for the S&P 500 and a loss of 1.4% for investment-grade bonds, according to JPMorgan.

Even during the weak part of economic cycles, a diversified portfolio of high-yield bonds has shown resilience. Over the past 35 years, high yield has had just five years with negative total returns, compared with seven for the S&P 500.¹

**Improving fixed-income portfolio efficiency**

The unique attributes of high-yield bonds have resulted in performance with low correlation to other fixed-income asset classes. For example, Exhibit D shows that Treasury bonds are negatively correlated with global high yield, and US corporate bonds had a low correlation of 0.67.

**Global high yield: A new level of diversification**

Diversification among different issuers is one of the core methods for portfolio risk reduction, but the growth of the global high-yield market offers investors a new level for diversifying. Companies in the same region share common geographical, economic and political factors that have often driven returns. But those factors frequently differ in timing and impact across global regions.

Exhibit E shows how high-yield markets in the US, Europe and emerging markets have diverged over the past decade. In 2015, an investor who lost 4.6% in the US markets could have mitigated some of that with the 1.1% gain in European high yield. Conversely, in 2011 when US high yield was up 4.4%, European high yield fell 2.3%.

Investors seeking to reduce volatility would have benefited from diversification in both regions through an allocation to global high yield.

---

¹ Based on the JPMorgan Domestic (US) High Yield Index. Past performance is no guarantee of future results. See end of report for important additional information, including index definitions.
Global high-yield offers new alpha sources.

Periodical market dislocations represent other occasions in which performance has diverged in different regions. Exhibit F shows how in 2002, 2009 and 2012 European high-yield spreads widened significantly more than for US issues, while the US has been wider than Europe in 2007, 2011, 2014 and early 2016. Managers with access to a global universe can take advantage of a wider alpha opportunity set under such circumstances, compared with those who may be confined to investing in one region.

Opportunities from dual-currency issuers

As the global high-yield market has grown, so has the number of dual-currency issuers – companies with bonds issued locally, and in a region other than their own. For example, a European company may have issues in both euros and US dollars. Periodically, technical price drivers and regional factors may cause the prices of the two issues to diverge, even though the underlying credit is the same.

For example, talk of the European Central Bank pursuing a more accommodative policy than the US Federal Reserve may affect euro issues to a greater extent than US issues.

Exhibit F

There’s a wider opportunity set in global high-yield during market dislocations.

<table>
<thead>
<tr>
<th>Year</th>
<th>US HY Index</th>
<th>European HY Index</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>'98</td>
<td>721</td>
<td>1,453</td>
<td>-732</td>
</tr>
<tr>
<td>'99</td>
<td>1,070</td>
<td>1,015</td>
<td>55</td>
</tr>
<tr>
<td>'00</td>
<td>189</td>
<td>2,157</td>
<td>-2,338</td>
</tr>
<tr>
<td>'01</td>
<td>435</td>
<td>1,033</td>
<td>-598</td>
</tr>
<tr>
<td>'02</td>
<td>327</td>
<td>621</td>
<td>-294</td>
</tr>
</tbody>
</table>

Sources: Eaton Vance, Bloomberg LLC, September 2016. Data provided are for informational use only. Past performance is no guarantee of future results. You cannot invest directly in any index. See end of report for important additional information. US high yield is represented by the BofA/Merrill Lynch Master II US High Yield Index. Europe is represented by the BofA/Merrill Lynch Developed Market European High Yield Index. Both indexes reflect option-adjusted spreads, ex energy and commodities, with ratings normalized, like for like.
Exhibit G shows the significant performance dispersion of the regional issues for six euro/US dual-region issuers, over a six-month period. A manager skilled in evaluating credit can assess the fair value of the issuer’s bonds, and potentially profit from arbitrage opportunities presented by their different prices.

The Eaton Vance global high-yield advantage

An expanding universe of global high-yield issuers requires an investment team of sufficient depth and breadth to cover the wider range of factors that may drive price changes, such as currency, politics, and fiscal and monetary policies across multiple regions. A global approach must include a presence in major regions, with a culture that guards against “home” biases – the tendency to tip the scale in favor of local issues. Above all, the manager should have capabilities that reflect a long-term commitment of resources to the high-yield sector.

Eaton Vance has been investing in high-yield since 1982 – virtually since the inception of the modern asset class – and has been investing in non-US high yield for more than a decade. We have a dedicated high-yield team of five portfolio managers and 12 research analysts, including a team of four in London. The average tenure at Eaton Vance for high-yield professionals is 10 years. The high-yield team draws on the expertise of about 150 Eaton Vance investment professionals across asset classes: the asset allocation group, global income team (with bottom up coverage of 135 countries), bank loan team, diversified income team and equity team.

The Eaton Vance high-yield approach centers on understanding and managing risk. Our philosophy consists of:

- **A research-driven culture** that holds bottom-up insights as the key to producing attractive risk-adjusted returns.
- **A long-term focus**, with the belief that the key drivers of long-term returns are starting valuations, and the true risk in investing is permanent impairment of capital.
- **Limiting downside risk**, given that the risk/return tradeoff in fixed income is asymmetrical: the credit losses from the default of one issue can negate the positive contributions from many successful positions.

Exhibit G

Regional price variations are a potential source of alpha.

<table>
<thead>
<tr>
<th>Company</th>
<th>Euro or Pound HY</th>
<th>USD HY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Softbank</td>
<td>25.0</td>
<td></td>
</tr>
<tr>
<td>Jaguar and Land Rover</td>
<td>19.3</td>
<td>14.8</td>
</tr>
<tr>
<td>Wind</td>
<td>17.3</td>
<td>9.0</td>
</tr>
<tr>
<td>Dufry</td>
<td>16.6</td>
<td>9.3</td>
</tr>
<tr>
<td>Ball</td>
<td>14.3</td>
<td>8.4</td>
</tr>
<tr>
<td>Darling Ingredients</td>
<td>7.3</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Eaton Vance, Bloomberg LLC, September 2016. Data provided are for informational use only. Past performance is no guarantee of future results.
Eaton Vance's top-tier results

Eaton Vance’s high-yield experience and expertise is borne out by performance of the Eaton Vance high-yield bond strategy. For the five years ended 31 December 2016, for the 185 strategies in the eVestment Alliance high-yield bond category, the Eaton Vance high-yield bond strategy has been ranked among the:

- Top 17% for returns
- Top 21% for information ratio
- Top 50% for “up market” capture
- Top 27% for “down market” capture

We invite you to learn more about how Eaton Vance’s high-yield bond capabilities can help you meet your investment objectives.

For more information, please contact an Eaton Vance representative at the addresses below.

Eaton Vance Management (International) Ltd.
125 Old Broad Street
London, EC2N 1AR, United Kingdom

Telephone: +44 (0)203.207.1900
Email: internationalenquiries@eatonvance.com
global.eatonvance.com

Eaton Vance Management International (Asia) Pte. Ltd.
8 Marina View, #07-05 Asia Square Tower 1
Singapore 018960

Telephone: +65.6713.9241
Email: internationalenquiries@eatonvance.com

Eaton Vance Australia Pty Ltd
Level 65, MLC Centre,19 – 29 Martin Place
Sydney, NSW 2000, Australia

Telephone: +61.2.8229.0200
Email: internationalenquiries@eatonvance.com

Index Definitions

Bloomberg Barclays European High Yield Index (USD Hedged) measures non-investment-grade fixed-rate debt investments issued in Europe.

Bloomberg Barclays Global Aggregate-Securitised Index (USD Hedged) is a broad-based measure of investment-grade US securitised debt investments, including mortgage-backed pass-through securities issued by GNMA, FNMA and FHLMC.

Bloomberg Barclays Global Aggregate - Treasuries Index (USD Hedged) measures securities issued by the US government.

JPMorgan EMBI Global Diversified Index is a market cap-weighted index that measures USD-denominated Brady Bonds, Eurobonds and traded loans issued by sovereign entities.

JPMorgan CEMBI Broad Diversified Index is a market cap-weighted index that measures USD-denominated corporate bond issues in emerging markets.

JPMorgan Domestic High-Yield Index is an unmanaged index of US noninvestment-grade corporate securities.

MSCI ACWI (Net) Index is a market cap-weighted index that measures global equity performance.

S&P/LSTA Leveraged Loan Index is an unmanaged index of the institutional leveraged loan market.

BofA/Merrill Lynch High-Yield Index measures USD-denominated, noninvestment-grade corporate securities.

BofA/Merrill Lynch Euro High Yield Index (USD Hedged) is an unmanaged, capitalization-weighted index of European noninvestment grade corporate securities.

BofA/Merrill Lynch Global High Yield Index (USD hedged) is an unmanaged, capitalization-weighted index of global noninvestment grade corporate securities.

BofA/Merrill Lynch High Yield Emerging Markets Corporate Plus Index (USD Hedged) is an unmanaged, capitalization-weighted index of emerging-market noninvestment grade corporate securities.

BofA/Merrill Lynch Indices: BofA/Merrill Lynch™ indices not for redistribution or other uses; provided “as is,” without warranties, and with no liability. Eaton Vance has prepared this report, BofA/Merrill Lynch does not endorse it, or guarantee, review, or endorse Eaton Vance’s products.

Unless otherwise stated, index returns do not reflect the effect of any applicable sales charges, commissions, expenses, taxes or leverage, as applicable. It is not possible to invest directly in an index. Historical performance of the index illustrates market trends and does not represent the past or future performance.
About Eaton Vance

Eaton Vance is a leading global asset manager whose history dates to 1924. With offices in North America, Europe, Asia and Australia, Eaton Vance and its affiliates offer individuals and institutions a broad array of investment strategies and wealth management solutions. The Company’s long record of providing exemplary service, timely innovation and attractive returns through a variety of market conditions has made Eaton Vance the investment manager of choice for many of today’s most discerning investors. For more information about Eaton Vance, visit eatonvance.com.

About EVMI

Eaton Vance Management (International) Limited (EVMI) is a subsidiary of Eaton Vance Management, a leading U.S. asset management organisation, and markets internationally the investment capabilities of Eaton Vance Management and its affiliates, including Parametric. EVMI has been based in London since 2001.

This material does not constitute an offer or solicitation to invest in any Eaton Vance fund and/or products. Forecasts may not be attained. Past performance is no guarantee of future results. This material is communicated by Eaton Vance Management (International) Limited, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority and located at 125 Old Broad Street, London, EC2N 1AR, United Kingdom, Tel. +44 (0)203.207.1900.

EVMI is a wholly owned subsidiary of Eaton Vance Management (EVM). EVM is an investment advisor registered with the United States Securities and Exchange Commission (SEC) and is a wholly owned subsidiary of Eaton Vance Corp. (EVC). The nonvoting common stock of EVC, parent company of EVM, is publicly traded on the NYSE under the symbol “EV.” For purposes of this material, “Eaton Vance” or the “Company” is defined as all three entities operating under the Eaton Vance brand.

EVMI markets the services of the following strategic affiliates: Parametric Portfolio Associates LLC (Parametric) is an investment advisor registered with the SEC and is a majority-owned subsidiary of EVC and Hexavest, which is an investment advisor based in Montreal, Canada, registered with the SEC in the United States and which has a strategic partnership with Eaton Vance, who owns 49% of the stock of Hexavest Inc.

In Singapore, EVMI has a wholly owned subsidiary, namely Eaton Vance Management International (Asia) Pte. Ltd. (EVMIA), 8 Marina View, Asia Square Tower 1, #07–05, Singapore 018960, which holds a Capital Markets License under the Securities and Futures Act of Singapore (CMS1001851), is an exempt Financial Adviser pursuant to the Financial Adviser Act Section 23(1)(d) and is regulated by the Monetary Authority of Singapore. This document is to be distributed to Accredited Investors ONLY (as defined in the Securities and Futures Act, Chapter 289 of Singapore).

In Australia, EVMI is exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of the provision of financial services to wholesale clients as defined in the Corporations Act 2001 (Cth) and the Australian Securities and Investments Commission’s Class Order 03/1099.

EVMI is registered as a Discretionary Investment Manager in South Korea pursuant to Article 18 of Financial Investment Services and Capital Markets Act of South Korea.

Eaton Vance Management (International) Limited utilises a third-party organisation in the Middle East, Wise Capital (Middle East) Limited (Wise Capital), to promote the investment capabilities of Eaton Vance to institutional investors. For these services, Wise Capital is paid a fee based upon the assets that Eaton Vance provides investment advice following these introductions.

This document does not constitute an offer to sell or the solicitation of an offer to buy any Securities/Notes/Fund Units/Services referred to expressly or impliedly in this document in the People’s Republic of China (excluding Hong Kong, Macau and Taiwan, the “PRC”) to any person to whom it is unlawful to make the offer or solicitation in the PRC.

The document may not be provided, sold, distributed or delivered, or provided or sold or distributed or delivered to any person for forwarding or resale or redelivery, in any such case directly or indirectly, in the People’s Republic of China (the PRC, excluding Hong Kong, Macau and Taiwan) in contravention of any applicable laws.

Eaton Vance Management (International) Limited is licensed by the United Kingdom Financial Conduct Authority to engage in the investment management business and hereby operates in Japan under Article 58-2, and Article 61, Paragraph 1 of the Financial Instruments and Exchange Act of Japan. Accordingly, services provided by Eaton Vance Management (International) Limited are available to Japanese investors only to the extent permitted under Article 58-2 and Article 61, Paragraph 1.

The views expressed in this material are those of the authors and are current only through the date stated at the top of this page. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund.

This material may contain statements that are not historical facts, referred to as forward-looking statements. A fund’s future results may differ significantly from those stated in forward-looking statements, depending on factors such as changes in securities or financial markets or general economic conditions, the volume of sales and purchases of fund shares, the continuation of advisory, administrative and service contracts, and other risks. This material is for professional clients only.