SILVA CAPITAL
MANAGEMENT, LLC

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Why Invest in Emerging Markets?

STRICTLY PRIVATE & CONFIDENTIAL

The Emerging Market Value Proposition

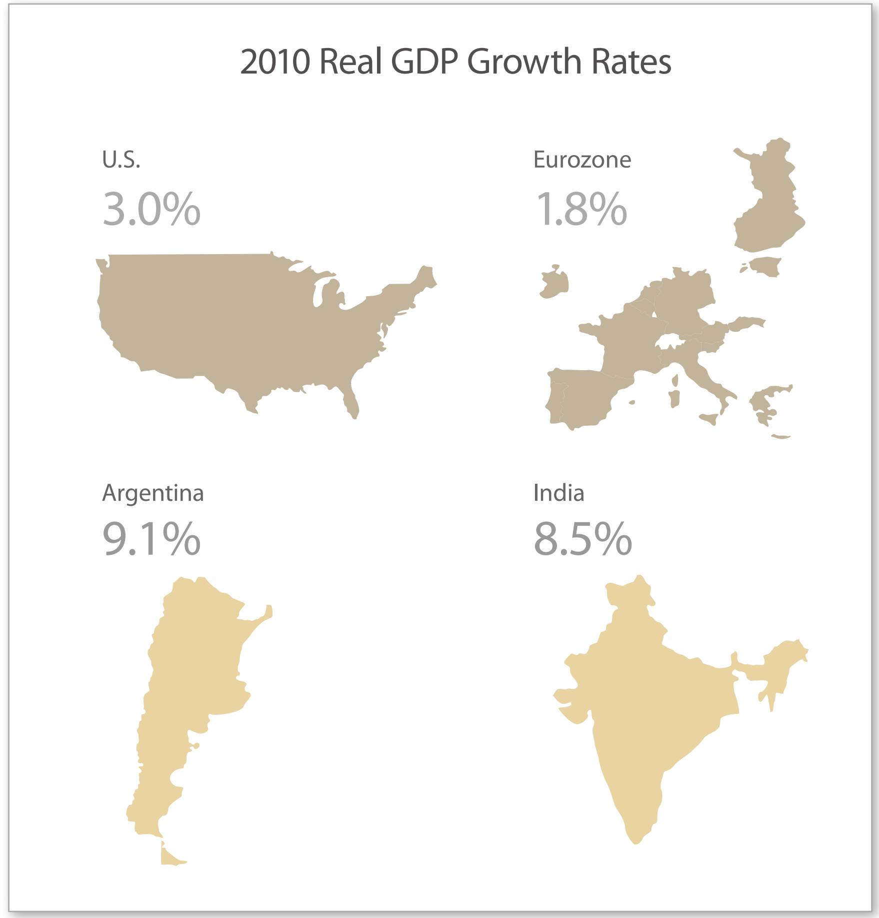
We believe that EMD will continue to offer attractive risk/return opportunities versus the debt of the developed world.

Emerging markets have evolved since the crises of the 1980s and 1990s.

Less than two decades ago, these countries were mired in legal risks, political instability, and fiscal disorder, and their investment potential conventionally was dismissed. Moreover, local markets were still in their infancy and were unprepared to deal with large swings in capital.

Times have changed. As was demonstrated in the aftermath of the 2008 financial crisis, emerging markets have matured. The macroeconomic landscape and fundamental outlooks of the developed world and emerging markets now stand in stark contrast; the discrepancy between growth potential, debt burden, and fiscal discipline has been completely reversed. Emerging markets are now positioned to be the new drivers of global growth.

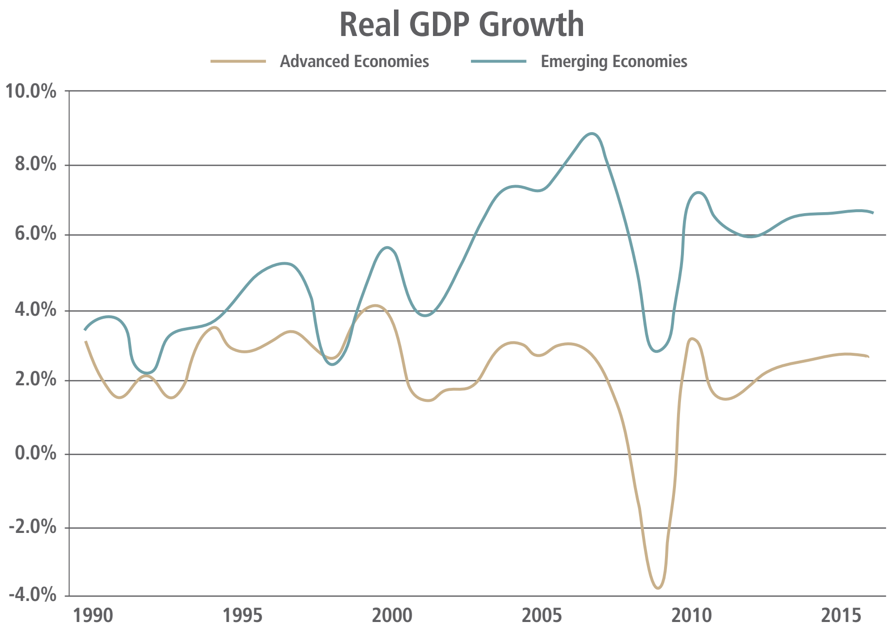
Silva Capital believes that currency and local market debt will be at the forefront of this evolution.



Source: Bloomberg

EM Growth Expectations

Expectations of EM's long-term growth potential are based on economic fundamentals, which are structurally supported by positive demographics, urbanization, and increasing industrialization.



Source: International Monetary Fund (2011)

Drivers of EM Growth

- Structural improvements undertaken since the mid-1990s have resulted in fiscal and monetary discipline
- Increasing political accountability has generated improved economic policies, creating more broadly stable markets
- The importance of independent central banking has become generally accepted, and EM countries have adopted transparent inflation-targeting monetary policy regimes, which have led to lower inflation expectations and improved sovereign credit ratings

Key Facts
Over the past three years, emerging market GDP growth averaged 5.5%, compared with 0.32% growth in developed markets.
Projected growth differentials favor emerging over developed markets by more than 3% y/y over the next five years.
Should current growth rates be sustained, within the next decade emerging markets will contribute over 50% of global GDP.

Why Invest in Emerging Markets Through Bonds?

Silva Capital believes that emerging market debt will also be among the leading beneficiaries of EM growth for the following reasons:

1. Improved Fundamentals

- **Fiscal:** The vast improvement in the fiscal situation of EM countries over the last decade has been brought about through a combination of external requirements and a favorable macro environment
- **Macroeconomic:** Fundamentals of EM countries - are favor long-term growth prospects
- **Political:** Democratization has spurred pro-growth, market-friendly reforms

2. Improved Credit Quality

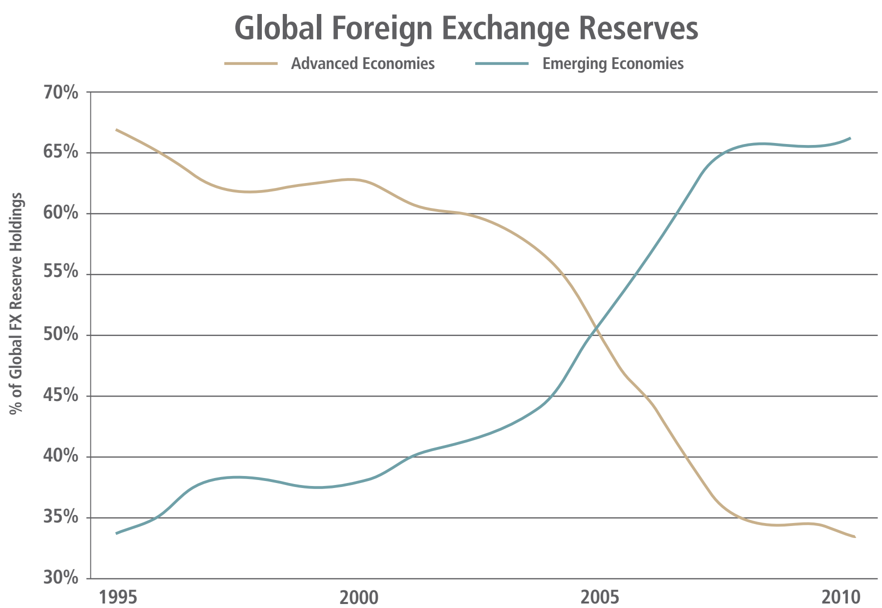
- Responsible fiscal and monetary policies have led to increased credit quality, where important issuers are now predominantly investment grade

3. Stability & Durability of the Asset Class

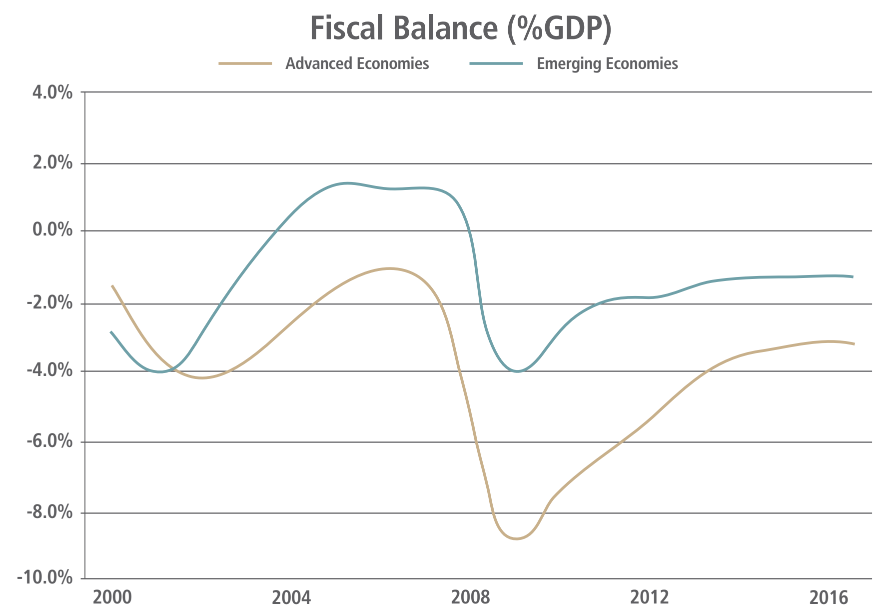
- Growth in the EMD marketplace and participation by a broader investor base has led to structural improvements and market efficiencies that reflect EMD's maturation as an asset class

> “WHILE EMD HAS MATURED AS AN ASSET CLASS, IT RETAINS ITS POTENTIAL FOR OUTPERFORMANCE VS. DEVELOPED MARKETS.”

Fiscal Comparison



Source: International Monetary Fund (2011)



Source: International Monetary Fund (2011)

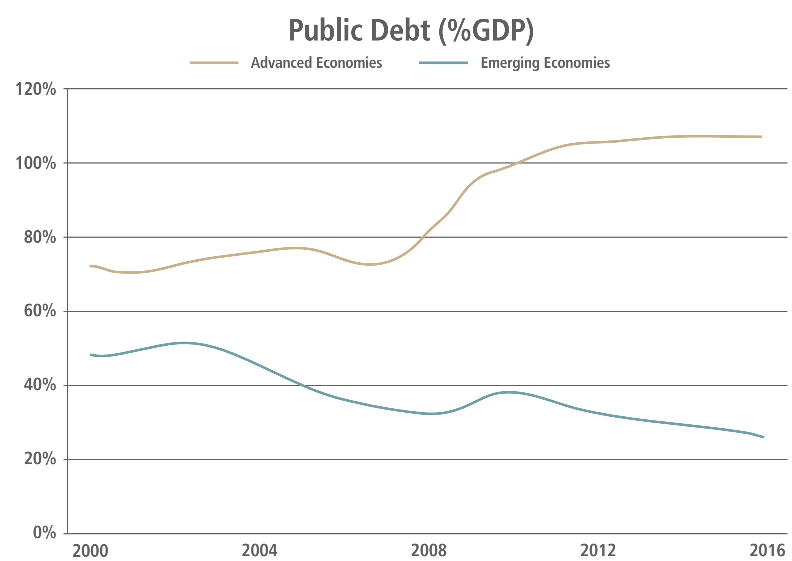
- Fiscal discipline has allowed EM countries to build up large amounts of foreign reserves - more than $5 trillion in aggregate over the last decade.

- EM fiscal deficits are currently less than half that of developed nations.
- In Q1 2010 the Fiscal Balance-to-GDP ratio of the JPMorgan GBI-EM Global Diversified Index was only -3.2%. At the same time the same metrics for the U.S. and U.K. were -6.9% and -9.9% respectively.

Relative Debt Burdens

Since the financial crisis, the emerging markets have enjoyed over 117 sovereign ratings upgrades, while developed markets have been downgraded over 70 times. All three J.P. Morgan EM debt indices are now investment-grade rated: EM sovereign debt (EMBIGD: Baa3/BBB-), EM corporate debt (CEMBI BD: Baa2/BBB), and EM local currency debt (GBI-EM GD: Baa2/BBB+)

Source: JPMorgan, "A Reversal of Fortunes. EM's New Standing as an Asset Class" (2011)



Source: International Monetary Fund (2011)

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Key Facts
In the last five years, developed market general government debt has increased from 75% of GDP to 103%
Over the same time period, emerging market general government debt decreased from 41% of GDP to 36%
The IMF projects that by 2016, the gap between DM and EM government indebtedness will be 79% of respective GDP

EM Maturation Has Changed the EMD Asset Class

As economies develop, their need to fund themselves in a foreign currency is reduced. In the 1990s nearly 1/3 of the EMD issuance was denominated in U.S. dollars. Today, that percentage has fallen by more than half, while the total value of the asset class has grown to $10 trillion. 85% of outstanding EMD in now denominated in local currencies. EM countries have shifted the burden of FX risk from themselves to their investors.

To reflect this change in the asset class, specialists in EMD must now also be specialists in local currency and its inherent risks.