

Discretionary Management Services, LLC
(Affiliate of DeMarche Associates)

Insight: Subadvisor Showcase - Franklin Emerging Market Debt Opportunities

By Tom Woolwine, President, April 2017

Our 2017 fixed income market outlook suggests that the Federal Reserve will remain vigilant in raising interest rates; as the global uncertainty of the U.S. election and Brexit wanes, economic growth expectations are increasing, as are prospects for rising inflation. Since negative yields on many international bonds do not appear attractive, we think emerging market debt denominated in U.S. dollars can provide both diversification and yield potential.

The DMS portfolio management team has tactically implemented a portion of the fixed income allocation to the Franklin Emerging Market Debt Opportunities Fund. Here's why we made this decision:

Franklin's portfolio management team includes four investment professionals, led by Dr. William Ledward, Lead Portfolio Manager. The strategy takes an absolute return approach with a return target of 8-10% annually over a full market cycle. A secondary benchmark is the J.P. Morgan EMBI Global Diversified (USD Based) Index.

The manager's philosophy is that a diversified portfolio consisting of sovereign and corporate issues denominated in hard and local currencies has the potential to generate attractive returns at lower levels of absolute risk than standard EMD benchmarks. The investment process employs three steps:

1. **Country allocation**—this is the most important decision based on bottom up fundamental research. Index weights are not considered and three key questions must be answered positively:
 - a. Does the yield adequately compensate for the fundamentals?
 - b. Is the country an improving credit?
 - c. Will the security generate a return in line with the performance target?
2. **Currency**—a determination is made as to whether hard or local currencies can be used based on yield spreads.
3. **Security selection**—investing in the most attractive securities within each selected country is driven by the extent of their optimism on the country with respect to the shape of the sovereign spread curve and the outlook for yields in the underlying government market.

If you are interested in more information about our Investment Outsourcing Service or GTAA, please contact Tom Woolwine, President, at (913) 384-4994 or twoolwine@demarche.com. Let's begin a conversation.

Disclaimer: The asset class and/or investment strategies described here may not be suitable for certain investors. We encourage you to work with your investment counsel to understand the risk characteristics and potential fit with your investment program.