FREQUENTLY ASKED QUESTIONS

Barings Global Senior Secured Bond Fund*

*The Barings Global Senior Secured Bond Fund principally invests in sub-investment grade and/or unrated debt securities. The fund's investment in senior secured debt securities does not guarantee repayment of the principal of investments by the investors.

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OVERALL MORNINGSTAR RATING™#

APRIL 2024

Overall Morningstar Rating as of March 31, 2024 (EAA OE Global High Yield Bond). For the Tranche G USD Dist Monthly only, other share tranches may have different performance characteristics.

IMPORTANT INFORMATION

1. The Fund invests principally in a portfolio of fixed and floating rate corporate bonds, notes and other fixed and floating rate income securities that are either secured or unsecured, and, either senior or subordinated (i.e. non-senior), focusing primarily on North American and European senior secured high yield (i.e. sub-investment grade) instruments which are listed or traded on recognised markets in Europe or North America.
2. The Fund is subject to risks relating to investment, credit, interest rate fluctuations, downgrading, valuation, credit rating, and currency risks. The Fund's investment may be concentrated in North American and European markets and the value of the Fund may be more volatile. Further, investment in certain countries within the Eurozone may involve sovereign debt risks.
3. The Fund's investment in sub-investment grade or unrated debt instruments may be subject to higher liquidity, volatility and credit risks than investment grade instruments, as well as increased risk of loss of principal and interest. Investment in senior secured debt instruments is subject to credit/default risk of the issuer of the debt instruments and there is no guarantee of the repayment of principal of investment from the collateral pledged for the debt instruments in case of default.
4. RMB classes are subject to RMB currency risks. RMB is currently not freely convertible and conversion of RMB is subject to foreign exchange control policies and restrictions. There is no guarantee that RMB will not be subject to depreciation. Under exceptional circumstances, payment of realisation proceeds and/or dividend payment from underlying investments to the Fund in RMB may be delayed.
5. The Fund may invest in derivatives for hedging and/or investment purposes which may involve counterparty/credit, liquidity, valuation, volatility and over-the-counter transaction risks. Exposure to derivatives may lead to a high risk of significant loss by the Fund.
6. The Fund's investment in debt instruments with loss-absorption features ("LAP") are subject to risks of contingent write-down or contingent conversion to ordinary shares upon occurrence of complex and unpredictable trigger events which may result in higher price volatility and total loss of amount invested. LAP may also be exposed to liquidity, valuation and sector concentration risk.
7. Dividends, at the discretion of the Directors, may be paid out of unrealised capital gains and/or gross income while charging some or all fees and expenses out of capital (which represent effectively paying dividends out of capital), resulting in an increase in distributable income. The Fund may also pay dividends directly out of capital. Payment of dividends out of capital amounts to a return or withdrawal of part of an investor's original investment or any capital gains attributable to that original investment and results in an immediate reduction of the Fund's net asset value per share.
8. Investors may suffer substantial loss of their investments in the Fund.

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What are senior secured high yield bonds?

DEFINITION OF "SENIOR" & "SECURED"

A bond is a debt obligation sold to investors. If a corporation defaults on its obligations, it can be forced into bankruptcy liquidation, in which case its assets are sold off to repay its debts. Debts are repaid in a prescribed order of priority. "Senior" debt is repaid first, ahead of junior, or subordinated, debt. If a bond is classified as "secured", it is backed by issuer collateral, or some form of assets. As such, in the event that a company defaults, a secured bond may have a higher recovery rate of the amount invested than an unsecured bond.

FOR SENIORITY, WHAT ARE "FIRST-LIEN" & "SECOND LIEN"?

While both first lien and second lien bonds are forms of senior debt, second lien bonds are second in priority to first lien bonds when it comes to repayment in the case of bankruptcy or default.

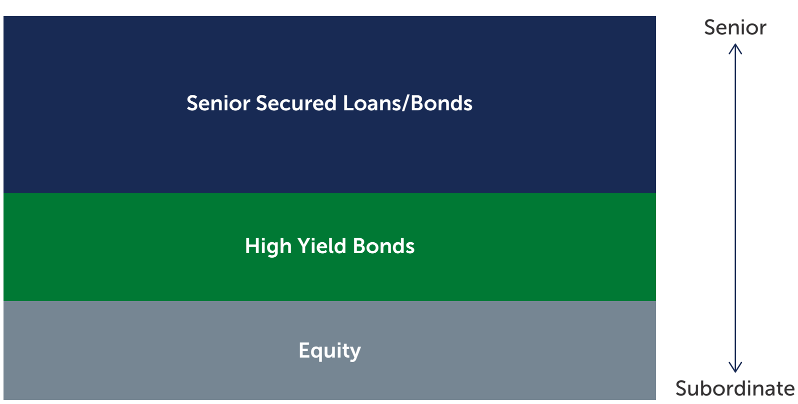
IS THIS BOND USUALLY "SENIOR & SECURED" OR "SENIOR OR SECURED"?

The term senior secured means that a bond is both senior and secured in its structure. A bond can also be senior but unsecured, meaning there is no specific collateral guaranteeing the bond.

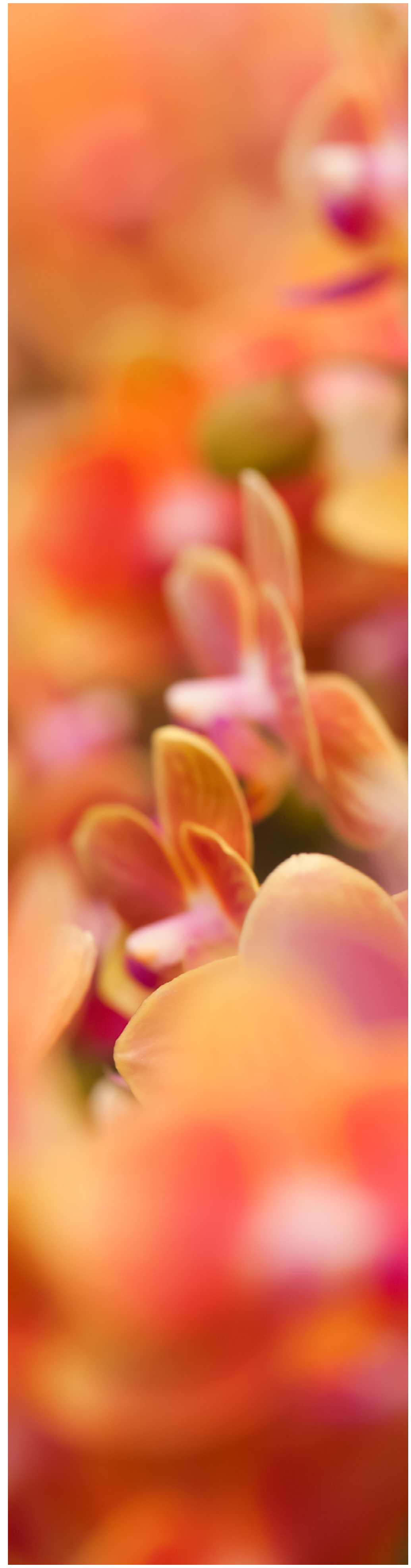
ARE THE ISSUERS OF SENIOR SECURED HIGH YIELD BONDS SMALLER & UNKNOWN NAMES?

Not necessarily. Some of the most recognizable brands and leaders within their respective industries have senior secured high yield bond facilities outstanding, such as American Airlines and Virgin Media*. Senior secured high yield bonds can be issued for a variety of reasons, such as refinancing existing debt, lowering cost of capital, or as part of a finance package to complete a merger or acquisition.

FIGURE 1: GLOBAL SENIOR SECURED BONDS OFFER CAPITAL STRUCTURE SENIORITY



Source: United Nations, Department of Economic and Social Affairs, Population Division (2019). World Population Prospects 2019.



What does “senior secured” collateral mean?

Many different assets can be used as collateral, including real estate, equipment, vehicles and intangible items such as software or trademarks. Lenders can be offered different security packages by buying into a specific claim or lien over the collateral. Secured lenders are in effect the most preferred creditors in a company’s capital structure, having first call on a particular pool of assets ahead of even the most senior unsecured lenders.

How big is the global senior secured high yield bond market?

The senior secured high yield bond market has experienced substantial growth over the last decade. This is due largely to the emergence of the asset class as a viable source of funding for companies as other capital-raising avenues—including loans and unsecured bonds—faced limitations. Today, the value of the market is around US$560 billion.[1]

What happens when senior secured high yield bonds are restructured? Is that a good or bad thing?

Depending on the details of the restructuring, the event may, in fact, be beneficial for senior debt holders. Under a restructuring, the senior lenders may seize the collateral or renegotiate the terms of the original bond, and may sit on a creditor’s committee, which can result in significant control over the company. A restructuring is less likely to have a positive impact for junior, unsecured or equity holders.

Although each restructuring event is unique, the process may be a good thing if the company is over-leveraged with too much debt and too big an interest burden. If a company starts to deteriorate and comes under stress, bondholders may never recover the original amount paid. However, principal may be recovered through a restructuring versus just having the company default and go into liquidation. As mentioned earlier, the complexities involved in restructuring an issuer’s debt underscore the need for a highly experienced investment team overseeing a portfolio of senior secured high yield bonds.

How have senior secured high yield bonds performed in past recessionary environments?

While senior secured high yield bonds are not recession-proof, they are higher in the capital structure than unsecured bonds, which means they can offer investors greater protection from principal loss in the event that a company defaults. The asset class, like traditional high yield bonds, is sensitive to the credit fundamentals of the issuing company, and economic slowdowns can put pressure on corporate cash flows and/ or profitability.

Senior secured high yield bonds, like traditional unsecured high yield bonds, tend to be more highly leveraged than their investment grade counterparts and, therefore, may be more vulnerable in a recession. However, managers may seek to mitigate the credit risk associated with below investment-grade debt by carefully analyzing the fundamentals of the issuer and assessing the collateral attached to the bond. At Barings, we have more than 50 high yield investment professionals across the U.S. and Europe, providing the resources and expertise required to thoroughly analyze the fundamentals of every credit we underwrite.[2]

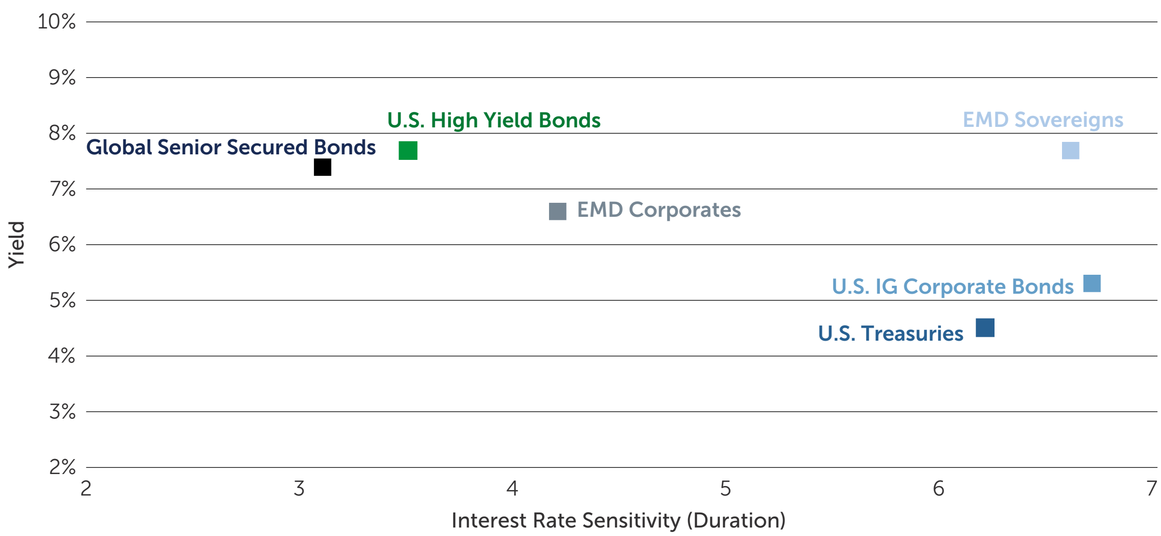
*For illustrative purpose and for reference only and must not be used, or relied upon, for the purposes of any investment decisions. References to specific issuers are not intended and should not be interpreted as recommendations to purchase, sell or hold securities of those issuers. Barings products and strategies may or may not include the securities referenced and, if such securities are included, no representation is being made that such securities will continue to be included.

1. World Population Prospects 2019. Source: ICE BofA. As of March 31, 2024.
2. Source: Barings. As of March 31, 2024. Excludes more than 25 structured credit and emerging markets debt investment professionals.

How have senior secured bonds performed in past rising U.S. Treasury yield environments?

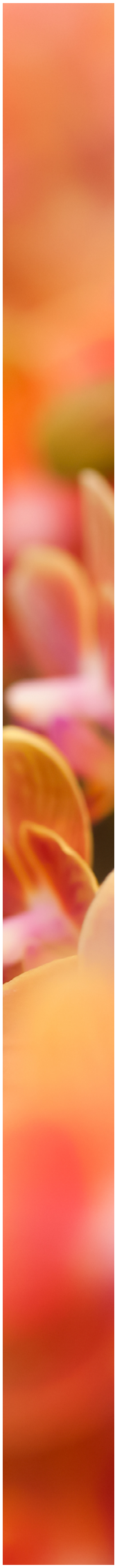
The global senior secured bond market exhibits relatively low sensitivity to interest rate moves as evident by its low interest rate duration profile. This relationship can also be observed via the historically low and often negative correlation across total returns between the global senior secured bond asset class and U.S. Treasury bonds. This also makes sense from an economic rationale standpoint. For example, periods of rising interest rates and government bond yields across developed markets are often associated with higher growth and inflation expectations, and this type of a reflationary environment is typically a positive backdrop for global senior secured bonds with credit spreads tightening (rallying), resulting in positive performance for the asset class. That said, interest rate sensitivity can vary considerably on a more bottom-up basis across specific credits, sectors and ratings, which warrants careful security selection. Finally, it is also worth noting the relatively shorter maturity profile of the global senior secured bond market—less than 1% of the market has a maturity profile greater than 10 years.[3]

FIGURE 2: HIGH YIELD PROSPECTS WITH LIMITED INTEREST RATE SENSITIVITY



Source: ICE BofA BB-B Global High Yield Secured Bond Index, ICE BofA U.S. High Yield Index, JPM EMBI GD Index, ICE BofA U.S. Treasury Index, JPM CEMBI BD Non-Investment Grade Index and ICE BofA U.S. Corporate Index.
As of March 31, 2024. EMD denotes emerging markets debt.

3. Source: ICE BofA. As of March 31, 2024.



What are recovery rates and why are they important for senior secured high yield bonds?

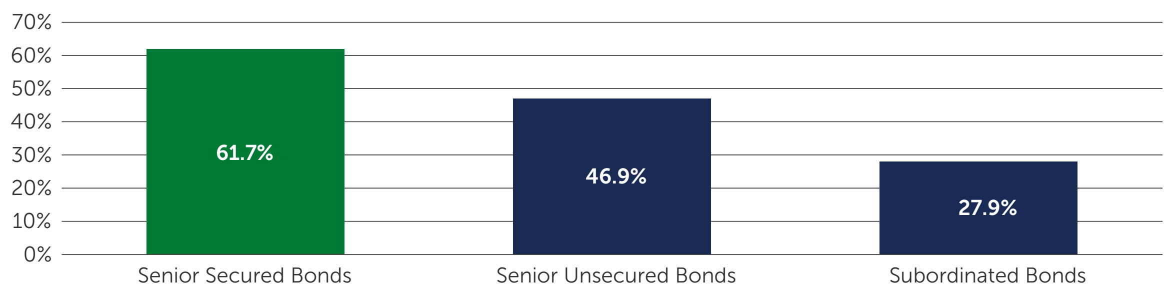
Recovery rates are the proportion of debt that is repaid or including the nature of the asset, the current market for it and the legal and practical steps involved in recouping the principal assets. The bottom line for any debt investor is that secured lenders will usually have a seat at the table in negotiations regarding a restructuring and will be treated as senior throughout the process.

Senior secured high yield bonds for North American non-financial companies have historically offered higher recovery rates relative to unsecured bonds. During the period from 1987–2023, the average recovery rate for defaulted senior secured bonds was 61.7%, compared to 46.9% for senior unsecured bonds and 27.9% for subordinated debt (Figure 3).

In reality, when an issuer defaults and goes through a restructuring, it is very rare for a lender to actually gain direct ownership of the company or the assets—rather, in the event of a default, lenders are in a position to drive the debt restructuring in a way that allows the greatest amount of principal investment to be recovered. In other words, it is not always about taking ownership of the assets and selling them—more often, it is about gaining control of the process and repackaging the debt.

It is also worth mentioning that restructuring an issuer's debt in order to achieve the best possible recovery rate requires deep resources and experienced investment teams. To that end, we believe it is important for senior secured high yield bond investors to partner with managers who have a long track record of handling these situations through the ups and downs of credit and economic cycles.

FIGURE 3: SENIOR SECURED BONDS HAVE HISTORICALLY OFFERED HIGHER RECOVERY RATES



Source: Moody's Investors Services Annual Default Study, please note that the above data refers to North American non-financial companies. As of February 26, 2024.

Why would a corporation issue senior secured high yield bonds rather than more traditional unsecured high yield bonds? Does an issuer have worse fundamentals if a senior secured bond is in its capital structure?

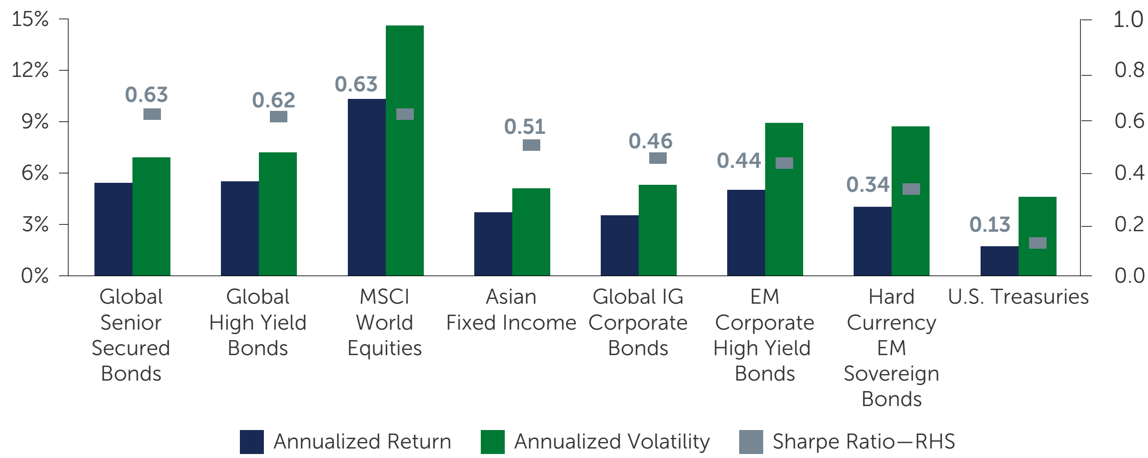
There can be a range of reasons for issuing a certain structure of bond, and the choice doesn't necessarily indicate the quality of an issuer's fundamentals. Companies will aim to match their balance sheet with what is specifically required for their needs and what is available in the market. If a company has assets it can pledge as security, a secured bond—as opposed to a traditional high yield bond—may better suit its needs, and could be a cheaper method of financing. Additionally, lenders may want to invest on a secured basis if a company has a limited operating history, while they may be more comfortable investing in traditional high yield bonds from more established firms.

Traditional high yield bonds are typically unsecured, meaning they rank behind secured lenders; historically, these bonds have offered investors a higher return to compensate for this perceived additional risk. Senior secured high yield bonds, on the other hand, pledge security on assets (physical or intangible), typically with a limit on the proportion of assets and cash flow derived from the assets covered. This in itself will partially define the security of the bond, as it typically gives bondholders the ability to drive a restructuring should a downside scenario occur.

Please compare the investor risk-return profile of senior secured high yield bonds versus that of traditional high yield bonds.

Senior secured high yield bond returns have been compelling on a historical basis—over the last 13+ years, global senior secured bonds have delivered average returns of 5.4% per annum (Figure 4).

FIGURE 4: GLOBAL SENIOR SECURED BONDS HAVE DELIVERED ATTRACTIVE RISK-ADJUSTED RETURNS (FEBRUARY 2011–MARCH 2024)

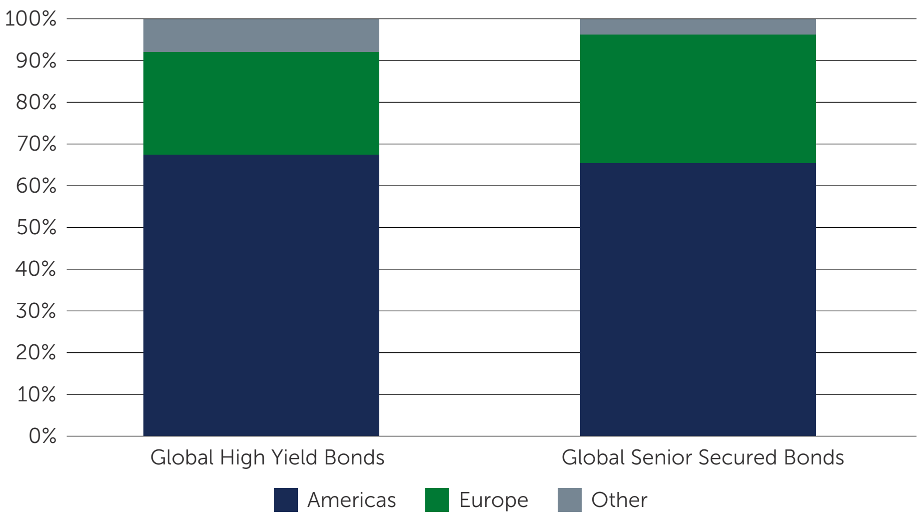


Source: ICE BofA BB-B Global High Yield Secured Bond Index (USD Hedged), ICE BofA Non-Financial Developed Markets High Yield Constrained Index (USD Hedged), JPM EMBI Global Diversified Index, JPM CEMBI Broad Diversified Non-Investment Grade Index, MSCI World Equity Index, Bloomberg Global Aggregate Index (USD Hedged), JPM U.S. Treasury Index and ICE BofA Global Corporate Index (USD Hedged). As of March 31, 2024. Notes: All Returns in USD. Risk-Adjusted Returns are calculated as (Annualized Returns-Risk Free Rate)/Standard Deviation. Risk Free Rate for Sharpe Ratio and Risk-Adjusted Return calculation is the Bloomberg Barclays U.S. Treasury Bellwethers 3-Month Total Return Index.

From the view of sectors and geographies, is there any difference between senior secured high yield bonds and traditional high yield bonds?

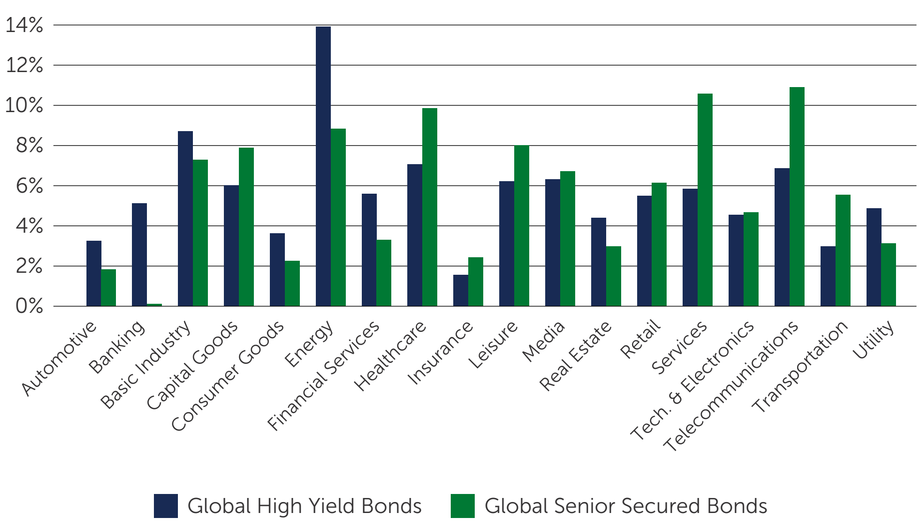
While the global senior secured high yield bond and the broader global high yield bond markets have similar exposure to sectors like capital goods, media and health care, the broader global high yield bond market has generally had greater exposure to energy, automotive and consumer goods relative to the global senior secured high yield bond market over recent years (Figure 6). The global senior secured high yield bond market has generally had greater exposure to leisure and services.

FIGURE 5: REGIONAL DIVERSIFICATION

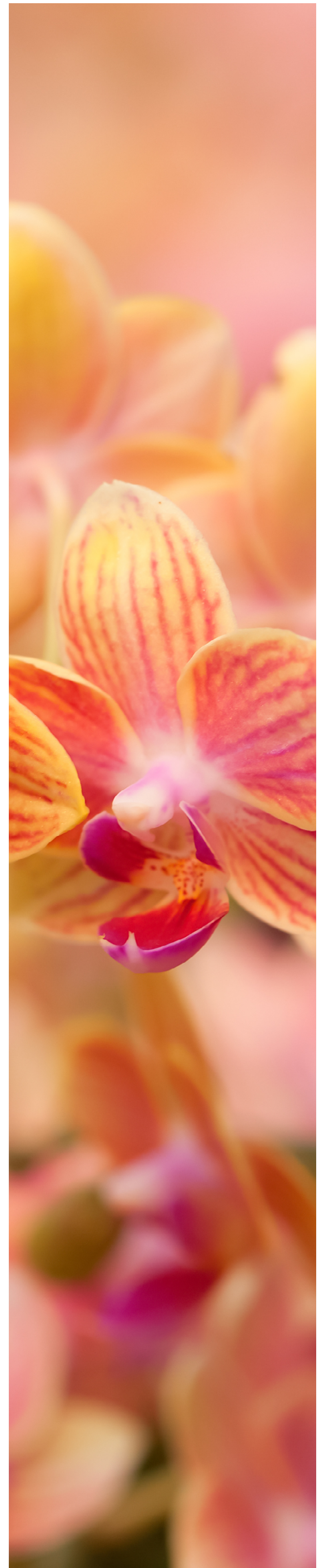


Source: ICE BofA Global High Yield Index (HW00) and ICE BofA BB-B Global High Yield Secured Bond Index (HW4S). As of March 31, 2024.

FIGURE 6: INDUSTRY BREAKDOWN



Source: ICE BofA Global High Yield Index (HW00) and ICE BofA BB-B Global High Yield Secured Bond Index (HW4S). As of March 31, 2024.



Senior secured high yield bonds are rated below investment grade. What does this mean for investors?

Credit ratings indicate the relative ability of an entity to repay its debt, based on its history of borrowing, repayment and other factors. Ratings reflect a current assessment of an issuer's creditworthiness and do not guarantee performance now or in the future. Sub-investment grade, or high yield bonds, have a credit rating below investment grade (Baa3/ BBB-), as determined by the bond ratings assigned by one of the three major rating agencies: Moody's Investors Service (Moody's), Standard & Poor's (S&P) and Fitch. The ratings are the opinion of the agency. They are not a guarantee of credit quality, probability of default, or recommendation to buy or sell. Issuers rated below investment grade are expected to have a greater risk of default, and therefore typically pay a higher rate of interest to investors to compensate for that risk.

Can high yield bonds be core assets from an asset allocation view?

We think it makes sense to consider high yield bonds a core asset class within a broader portfolio. In addition to delivering historically attractive returns, high yield bonds offer diversification benefits due to their low correlations with other asset classes. Relative to other fixed income asset classes–such as loans and investment grade bonds–high yield bonds have historically offered the opportunity to pick up additional yield over time relative to the perceived incremental credit or default risk. Relative to an equity-like asset class, high yield bonds have the potential to offer comparable returns with less volatility.

At Barings, we believe fundamentals drive high yield returns over the long term. Over the short term, however, markets can be very inefficient—and high yield prices and spreads may move dramatically as a result of technical factors. For example, during the "taper tantrum" in 2013 and the Brexit vote in 2016, the entry point came and went relatively quickly. But it can be very difficult to time investment decisions around these short-term movements. In our view, this is one of the strongest arguments for a 'core' allocation to high yield bonds at a strategic level and for investing through the credit cycle.

Even in the event of broader market weakness, a strategic, long-term investment in high yield bonds—particularly for investors willing to withstand short-term volatility—can facilitate the timely capture of evolving relative value opportunities and position investors to capture the potential upside as the market recovers.

Why is it important to be diversified across geographies and sectors? What implication does this have for high yield investors?

In order to potentially offset volatility and capture the best relative value at any given time, we believe it is important to be diversified across regions—particularly developed markets—and teaming up with an active manager that can shift positioning over time is critical in this regard. While developed markets like the U.S. and Europe demonstrate similar characteristics, the sub components and sector exposures within each market tend to vary, which can drive relative value in each region. For example, energy exposure is greater in the U.S.—where the sector accounts for roughly 13% of the index—than in Europe, where energy makes up roughly 4% of the index.[4] As a result, during the 2015 energy selloff, the U.S. high yield market was broadly down, given its higher exposure, whereas Europe was somewhat insulated. Technicals and fundamentals will differ over periods of time, and an active manager can seek to identify relative value across markets, while simultaneously focusing on bottom-up fundamentals.

4. Source: ICE BofA. As of March 31, 2024.

Barings is a US$406+ billion global asset management firm that partners with institutional, insurance, and intermediary clients, and supports leading businesses with flexible financing solutions. The firm, a subsidiary of MassMutual, seeks to deliver excess returns by leveraging its global scale and capabilities across public and private markets in fixed income, real assets and capital solutions.*

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**As of March 31, 2024*

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