



RIETUMU

ASSET MANAGEMENT

SHORT BONDS

INVESTMENTS IN 2016: HOW TO MAINTAIN
YIELD WITH MINIMAL RISK?

Quality short bonds present a great opportunity to wait out turbulent phases on the markets and the effects of populist decision-making, which is traditionally present during important pre-election periods.

- The current investment climate is defined by substantial volatility and especially high market sensitivity to investor sentiment.
- Towards the second half of the year, investors' attention will gradually switch to a new factor – significant world political events, in particular the outcome of the US presidential election.

PRESIDENTIAL ELECTIONS IN THE USA

Most of the presidential candidates enjoy some degree of support from international business and Wall Street, and none of their programs involve economic uncertainty. At the same time, the main focus of investors (and the world community) is on Donald Trump, the excentric billionaire who currently leads the electoral race for nominee of the Republican party and shocks many with his bold statements. Trump offers policies aimed at stiffening protectionism, changes in the tax system and restrictions in immigration.

Despite such rhetoric receiving support among the electorate, the financial community takes it with a grain of salt. For this reason, an increase in political uncertainty is to be expected in the period running up to the election in November 2016.

In this investment climate, assets with minimal risk level traditionally enjoy higher demand. At the moment the most attractive such financial instruments are quality short bonds with a repayment period of 1 to 3 years.

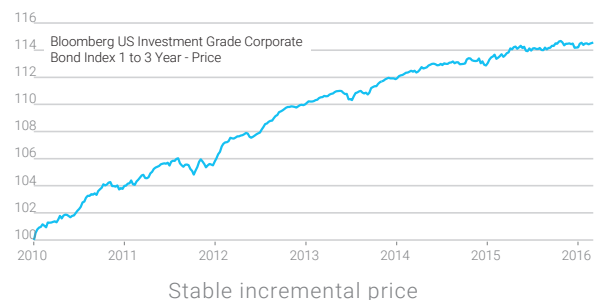
QUALITY SHORT BONDS: ATTRACTIVE RISK/RETURN RATIO

Analysis of the investment-grade corporate bonds index movement with the maturity period of 1 to 3 years (Bloomberg US Investment Grade Corporate Bond Index 1 to 3 Year) shows that this asset class gives an attractive risk/return ratio:

- at an average level of A- credit rating, average annual yield is over 2%
- securities conform with quality investing
- historic average volatility of quotations is just 0.92%, which corresponds to a low risk level
- probability of losses decreases substantially with increase in investment duration, due to the high quality and accumulating coupon payments:
 - with 1 month long investments the probability of a decrease of the bond price below its purchase price is 26%
 - with 6 months long investments the probability of the same scenario drops to 2%.

Moreover, investors can increase the levels of their expected profitability by concentrating their investments in the selected market segments (e.g. Russian-issued bonds), as well as using additional financing opportunities.

Investment Grade Corporate Bond Index 1 to 3 Years

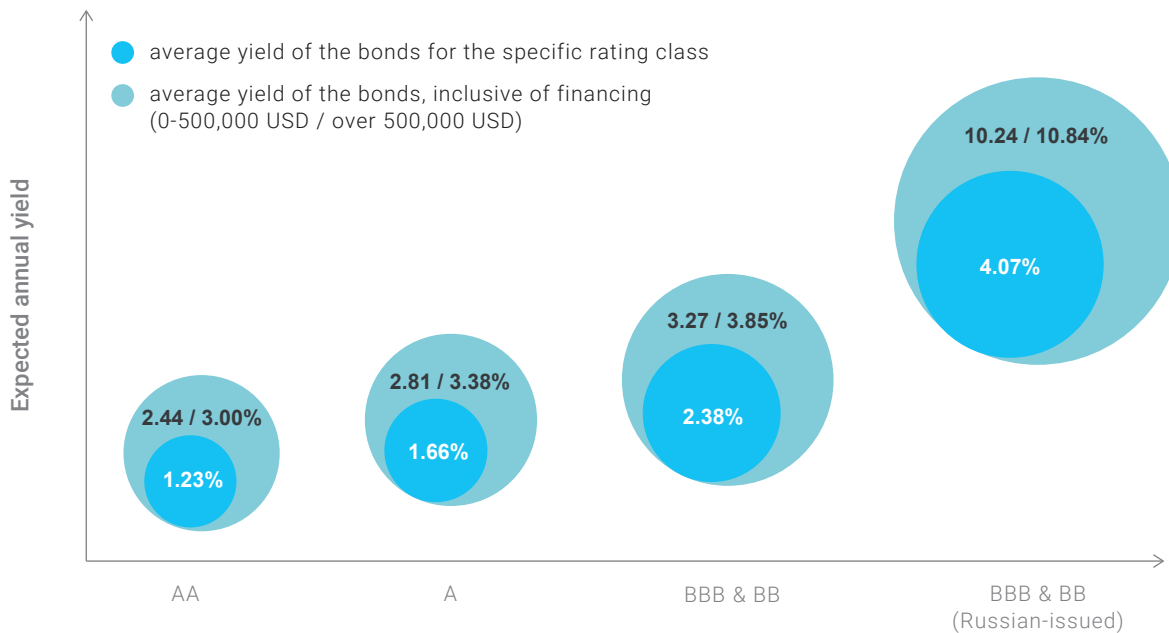


Yield to Maturity (%) of Investment Grade Corporate Bond Index 1 to 3 Years



Data source: Bloomberg

Analysis of the expected yield of the short bonds (1 to 3 Year) financing-adjusted*



* List of bonds consists of 2,311 titles. Selection criteria:

Corporate and government bonds, currency – USD, current volume of issue – over 300 mln USD, maturity period – 1 to 3 years, BB- composite credit rating and higher.

SPECIAL FINANCING TERMS

		Cost of financing, % per year	Amount of financing, %	Security, %	Stop-loss, %
Bonds of AA level	0 - 500,000 USD	0.80%	85%	15%	7%
	more than 500,000 USD	0.70%	85%	15%	7%
Bonds of A level	0 - 500,000 USD	1.25%	85%	15%	7%
	more than 500,000 USD	1.15%	85%	15%	7%
Bonds of BBB / BB level	0 - 500,000 USD	1.75%	70%	30%	15%
	more than 500,000 USD	1.50%	70%	30%	15%
Bonds of BBB / BB level (Russian-issued)	0 - 500,000 USD	2.30%	80%	20%	10%
	more than 500,000 USD	2.15%	80%	20%	10%

- Separate commission of the Bank-holder for depositing – 0.18% per year.
- The aforementioned special terms of financing are limited to 25 mln. USD and are available until the 29th of April 2016.
- Commission for portfolio construction – 100 USD, regardless of size.
- Financing terms can be changed depending on the market conditions.

Data source: Bloomberg

Examples of the short bonds (1-3 year) with the highest yield for its credit rating class (AA) and economic sector

Sector	Company name	Rating	Yield (%)	Minimal investment (USD)
Energy sector	KOREA MIDLAND POWER CO (KOMIPW 2 3/4 02/11/19)	AA-	1.83	200,000
	KOREA WATER RESOURCES (KORWAT 2 04/16/18)	AA-	1.79	200,000
	KOREA WESTERN POWER CO (KOWEPW 2 7/8 10/10/18)	AA-	1.78	200,000
	KOREA EAST-WEST POWER CO (KOEWPW 2 5/8 11/27/18)	AA-	1.78	200,000
	KOREA HYDRO & NUCLEAR PO (KOHNPW 2 7/8 10/02/18)	AA-	1.76	200,000
Raw materials	LUBRIZOL CORP (BRK 8 7/8 02/01/19)	AA	1.77	2,000
	-	-	-	-
	-	-	-	-
	-	-	-	-
Industrial companies	KOREA EXPRESSWAY CORP (HIGHWY 1 7/8 10/22/17)	AA-	1.43	200,000
	KOREA EXPRESSWAY CORP (HIGHWY 1 5/8 04/28/17)	AA-	1.40	200,000
	GENERAL ELECTRIC CO (GE 2.3 01/14/19)	AA-	1.02	1,000
	GENERAL ELECTRIC CO (GE 1 5/8 04/02/18)	AA-	0.91	1,000
	GENERAL ELECTRIC CO (GE 5 5/8 05/01/18)	AA-	0.87	1,000
Technology and communications	NIPPON TELEGR & TELEPH (NTT 1.4 07/18/17)	AA-	1.15	2,000
	APPLE INC (AAPL 1.7 02/22/19)	AA+	1.09	2,000
	MICROSOFT CORP (MSFT 1.3 11/03/18)	AA+	0.86	2,000
	APPLE INC (AAPL 1 05/03/18)	AA+	0.83	2,000
	MICROSOFT CORP (MSFT 1 5/8 12/06/18)	AA+	0.82	2,000
Healthcare	ROCHE HLDGS INC (ROSW 6 03/01/19)	AA-	1.33	2,000
	NOVARTIS SECS INVEST LTD (NOVNVX 5 1/8 02/10/19)	AA-	1.23	2,000
	SANOFI (SANFP 1 1/4 04/10/18)	AA-	0.93	2,000
	ROCHE HOLDING INC (ROSW 1.35 09/29/17)	AA-	0.88	200,000
-	-	-	-	
Consumer sector	JAPAN TOBACCO INC (JAPTOB 2.1 07/23/18)	AA-	1.59	200,000
	MTR CORP CI LTD (MTRC 2 04/12/17)	AA+	1.29	200,000
	NESTLE HOLDINGS INC (NESNVX 2 1/4 03/12/19)	AA	1.19	2,000
	NESTLE HOLDINGS INC (NESNVX 1 3/8 07/24/18)	AA	1.05	2,000
	PROCTER & GAMBLE CO/THE (PG 4.7 02/15/19)	AA-	1.04	2,000
Financial service companies	BNZ INTL FUNDING/LONDON (BZLNZ 2.35 03/04/19)	AA-	1.93	250,000
	ANZ NEW ZEALAND INTL/LDN (ANZNX 2 1/4 02/01/19)	AA-	1.88	200,000
	CAISSE CENTRALE DESJARDN (CCDJ 1 3/4 01/29/18)	AA-	1.80	2,000
	NORDEA BANK AB (NDASS 2 3/8 04/04/19)	AA-	1.74	200,000
	NATIONAL AUSTRALIA BK/NY (NAB 2 01/14/19)	AA-	1.70	250,000
Government debt	KOREA NATIONAL OIL CORP (KOROIL 2 3/4 01/23/19)	AA-	1.79	200,000
	KOREA DEVELOPMENT BANK (KDB 3 03/17/19)	AA-	1.69	200,000
	EXPORT-IMPORT BK KOREA (EIBKOR 2 7/8 09/17/18)	AA-	1.59	200,000
	KOREA DEVELOPMENT BANK (KDB 2 7/8 08/22/18)	AA-	1.59	200,000
	KOREA LAND & HOUSING COR (KOLAHO 1 7/8 08/02/17)	AA-	1.51	200,000

Data source: Bloomberg

Examples of the short bonds (1-3 year) with the highest yield for its credit rating class (A) and economic sector

Sector	Company name	Rating	Yield (%)	Minimal investment (USD)
Energy sector	BAKER HUGHES INC (BHI 7 1/2 11/15/18)	A	2.47	2,000
	TRANS-CANADA PIPELINES (TRPCN 7 1/8 01/15/19)	A-	2.34	1,000
	TAQA ABU DHABI NATL ENER (TAQAUH 7 1/4 08/01/18)	A-	2.24	100,000
	SHENHUA OVERSEAS CAPITAL (SHENGY 2 1/2 01/20/18)	A+	2.22	200,000
	ZHEJIANG ENERGY GROUP HK (ZHENGY 2.3 09/30/17)	A	2.22	200,000
Raw materials	CODELCO INC (CDEL 7 1/2 01/15/19)	A	2.21	100,000
	CHINA URANIUM DEVELOPMEN (CHGDNU 3 1/2 10/08/18)	A	2.20	200,000
	SABIC CAPITAL II BV (SABIC 2 5/8 10/03/18)	A	2.06	200,000
	BHP BILLITON FIN USA LTD (BHP 6 1/2 04/01/19)	A	2.01	2,000
	BHP BILLITON FIN USA LTD (BHP 2.05 09/30/18)	A	1.75	2,000
Industrial companies	EASTERN CREATION INVEST (BEIJII 3 5/8 03/20/19)	A	2.51	200,000
	EASTERN CREATION II INVE (BEIJII 2 5/8 11/20/17)	A	2.08	200,000
	ATLAS COPCO AB (ATCOA 5.6 05/22/17)	A	1.73	2,000
	CATERPILLAR INC (CAT 7.9 12/15/18)	A	1.54	2,000
	CANADIAN NATL RAILWAY (CNRCN 5.55 05/15/18)	A	1.45	2,000
Technology and communications	OOREDOO TAMWEEL LTD (QTELQD 3.039 12/03/18)	A	2.11	200,000
	BAIDU INC (BIDU 3 1/4 08/06/18)	A-	2.05	200,000
	SK BROADBAND CO LTD (HATELE 2 7/8 10/29/18)	A-	2.02	200,000
	TENCENT HOLDINGS LTD (TENCNT 3 3/8 03/05/18)	A	1.86	200,000
	TSMC GLOBAL LTD (TAISEM 1 5/8 04/03/18)	A+	1.81	200,000
Healthcare	EMD FINANCE LLC (MRKGR 1.7 03/19/18)	A-	1.69	2,000
	ABBVIE INC (ABBV 2 11/06/18)	A-	1.55	2,000
	STRYKER CORP (SYK 2 03/08/19)	A-	1.54	2,000
	ABBVIE INC (ABBV 1.8 05/14/18)	A-	1.42	2,000
	DANAHER CORP (DHR 5.4 03/01/19)	A	1.37	2,000
Consumer sector	PROSPEROUS RAY LTD (COFCO 3 11/12/18)	A-	2.19	200,000
	WANT WANT CHINA FINANCE (WANTSP 1 7/8 05/14/18)	A-	2.10	200,000
	BAT INTL FINANCE PLC (BATSLN 9 1/2 11/15/18)	A-	1.91	2,000
	WESFARMERS LTD (WESAU 1.874 03/20/18)	A-	1.76	2,000
	COCA-COLA FEMSA SAB CV (KOF 2 3/8 11/26/18)	A-	1.72	150,000
Financial service companies	ADCB FINANCE CAYMAN LTD (ADCBUH 3 03/04/19)	A	2.62	200,000
	CENTURY MASTER INVESTMEN (ORIEAS 4 3/4 09/19/18)	A-	2.52	200,000
	EXIM SUKUK MALAYSIA (EIBMAL 2.874 02/19/19)	A-	2.39	200,000
	FIRST GULF BANK (FGBUH 3 1/4 01/14/19)	A	2.38	200,000
	ICBCIL FINANCE CO LTD (ICBCIL 2.6 11/13/18)	A-	2.34	200,000
Government debt	RAK CAPITAL (RAKS 3.297 10/21/18)	A	2.15	200,000
	EXPT-IMPT BANK MALAYSIA (EIBMAL 2 7/8 12/14/17)	A-	1.67	200,000
	JAPAN FIN ORG MUNICIPAL (JFM 2 1/8 03/06/19)	A+	1.63	200,000
	JAPAN FIN ORG MUNICIPAL (JFM 2 1/2 09/12/18)	A+	1.58	200,000
	DEVELOPMENT BK OF JAPAN (DBJJP 2 1/8 01/30/19)	A+	1.46	200,000

Data source: Bloomberg

Examples of the short bonds (1-3 year) with the highest yield for its credit rating class (BBB & BB) and economic sector

Sector	Company name	Rating	Yield (%)	Minimal investment (USD)
Energy sector	NOBLE GROUP LTD (NOBLSP 3 5/8 03/20/18)	BB-	18.32	200,000
	TRANSOCEAN INC (RIG 6 03/15/18)	BB-	10.75	1,000
	WEATHERFORD BERMUDA (WFT 9 5/8 03/01/19)	BB	9.18	2,000
	NABORS INDUSTRIES INC (NBR 9 1/4 01/15/19)	BB+	7.93	2,000
	TRANSOCEAN INC (RIG 2 1/2 10/15/17)	BB-	7.14	1,000
Raw materials	HARSCO CORP (HSC 5 3/4 05/15/18)	BB	13.92	2,000
	FREEMPORT-MCMORAN INC (FCX 2 3/8 03/15/18)	BB	8.77	2,000
	FREEMPORT-MCMORAN INC (FCX 2.3 11/14/17)	BB	6.71	2,000
	CHINA HONGQIAO GROUP LTD (HONGQI 6 7/8 05/03/18)	BB-	6.64	200,000
	BLUESCOPE STEEL LTD/FIN (BSLAU 7 1/8 05/01/18)	BB-	6.44	2,000
Industrial companies	DME AIRPORT LTD (DMEAIR 6 11/26/18)	BB+	6.62	200,000
	TBG GLOBAL PTE LTD (TBIGIJ 4 5/8 04/03/18)	BB-	4.12	200,000
	SCF CAPITAL LTD (SCFRU 5 3/8 10/27/17)	BB-	3.76	200,000
	CNH INDUSTRIAL CAPITAL L (CNHI 3 7/8 07/16/18)	BB	3.74	2,000
	ASCIANO FINANCE LTD (AIOAU 5 04/07/18)	BBB	3.64	2,000
Technology and communications	SPRINT COMMUNICATIONS (S 9 11/15/18)	BB-	6.76	2,000
	FRONTIER COMMUNICATIONS (FTR 7 1/8 03/15/19)	BB-	5.36	1,000
	FRONTIER COMMUNICATIONS (FTR 8 1/8 10/01/18)	BB-	4.71	2,000
	VIMPELCOM HOLDINGS BV (VIP 5.2 02/13/19)	BB-	4.49	200,000
	VIMPELCOM (VIP FIN) (VIP 9 1/8 04/30/18)	BB-	3.96	100,000
Healthcare	TENET HEALTHCARE CORP (THC 6 1/4 11/01/18)	BB-	3.14	2,000
	CHS/COMMUNITY HEALTH SYS (CYH 5 1/8 08/15/18)	BB	2.94	2,000
	HCA INC (HCA 3 3/4 03/15/19)	BB+	2.49	2,000
	MYLAN NV (MYL 3 12/15/18)	BBB-	2.45	2,000
	MYLAN INC (MYL 2.55 03/28/19)	BBB-	2.40	2,000
Consumer sector	GRAHAM HOLDINGS CO (GHC 7 1/4 02/01/19)	BB+	3.42	2,000
	CONTL AIRLINES 2012-3 C (UAL 6 1/8 04/29/18)	BB	3.15	1,000
	JAGUAR LAND ROVER AUTOMO (TTMTIN 4 1/8 12/15/18)	BB-	2.83	200,000
	GLP CAPITAL LP / FIN II (GLPI 4 3/8 11/01/18)	BB+	2.78	2,000
	BRIGHT FOOD HONG KONG LT (BRTFOD 3 05/21/18)	BBB	2.73	200,000
Financial service companies	LADDER CAP FIN LLLP/CORP (LADCAP 7 3/8 10/01/17)	BB-	7.56	2,000
	REGIONAL SAECA (PNPYG 8 1/8 01/24/19)	BB	6.52	150,000
	ICAHN ENTERPRISES/FIN (IEP 4 7/8 03/15/19)	BB	6.12	2,000
	BANCO DAYCOVAL SA (DAYCOV 5 3/4 03/19/19)	BB	5.98	150,000
	NAVIENT CORP (NAVI 5 1/2 01/15/19)	BB-	5.85	2,000
Government debt	EASTERN & SOUTHERN AFRIC (PTABNK 6 3/8 12/06/18)	BB	5.76	200,000
	BANCO NAC DE DESEN ECONO (BNDES 6.369 06/16/18)	BB	4.77	100,000
	VNESHECONOMBANK(VEB) (VEBBNK 4.224 11/21/18)	BB+	4.59	200,000
	VNESHECONOMBANK(VEB) (VEBBNK 5.45 11/22/17)	BB+	3.98	100,000
	AFRICAN EXPORT-IMPORT BA (AFREXI 3 7/8 06/04/18)	BBB-	3.61	200,000

Data source: Bloomberg

Example of the short bonds (1-3 years) of Russian issuers

Company name	Rating	Yield (%)	Minimal investment (USD)
DME AIRPORT LTD (DMEAIR 6 11/26/18)	BB+	6.62	200,000
CREDIT BANK OF MOSCOW (C (CRBKMO 7.7 02/01/18)	BB-	5.61	200,000
VNESHECONOMBANK(VEB) (VEBBNK 4.224 11/21/18)	BB+	4.59	200,000
VIMPELCOM HOLDINGS BV (VIP 5.2 02/13/19)	BB-	4.49	200,000
NORD GOLD NV (NORDLI 6 3/8 05/07/18)	BB-	4.42	200,000
ALFA BANK (ALFA BOND) (ALFARU 5 11/27/18)	BB	4.28	200,000
OJSC RUSS AGRIC BK(RSHB) (RSHB 7 3/4 05/29/18)	BB	4.09	100,000
OJSC RUSS AGRIC BK(RSHB) (RSHB 5.1 07/25/18)	BB	4.06	200,000
VNESHECONOMBANK(VEB) (VEBBNK 5.45 11/22/17)	BB+	3.98	100,000
VIMPELCOM (VIP FIN) (VIP 9 1/8 04/30/18)	BB-	3.96	100,000
OJSC RUSS AGRIC BK(RSHB) (RSHB 5.298 12/27/17)	BB	3.94	200,000
VTB BANK (VTB CAPITAL SA (VTB 6 7/8 05/29/18)	BB+	3.90	100,000
URALKALI (URALKALI FINAN (URKARM 3.723 04/30/18)	BB-	3.87	200,000
ALFA BANK (ALFA BOND) (ALFARU 7 7/8 09/25/17)	BB	3.82	100,000
SCF CAPITAL LTD (SCFRU 5 3/8 10/27/17)	BB-	3.76	200,000
SEVERSTAL (STEEL CAP) (CHMFRU 4.45 03/19/18)	BB+	3.73	200,000
ROSNEFT FINANCE SA (TMENRU 7 7/8 03/13/18)	BB+	3.70	100,000
TRANSNEFT(TRANS CAP INV) (TNEFT 8.7 08/07/18)	BB+	3.67	100,000
OJSC NOVO(STEEL FUNDING) (NLMKRU 4.45 02/19/18)	BB+	3.66	200,000
EUROCHEM M & C OJSC VIA (EUCHEM 5 1/8 12/12/17)	BB	3.63	200,000
MMC NORILSK NICK VIA MMC (GMKNRM 4 3/8 04/30/18)	BB+	3.63	200,000
OJSC RUSS AGRIC BK(RSHB) (RSHB 6.299 05/15/17)	BB	3.61	100,000
GAZPROM (GAZ CAPITAL SA) (GAZPRU 8.146 04/11/18)	BB+	3.59	100,000
PHOSAGRO(PHOS BOND FUND) (PHORRU 4.204 02/13/18)	BB+	3.58	200,000
SIBUR SECURITIES LTD (SIBUR 3.914 01/31/18)	BB+	3.57	200,000
VTB BANK (VTB CAPITAL SA (VTB 6.315 02/22/18)	BB+	3.56	200,000
LUKOIL INTL FINANCE BV (LUKOIL 3.416 04/24/18)	BB+	3.54	200,000
GAZPROMBK (GPB FINANCE) (GPBRU 5 5/8 05/17/17)	BB	3.33	200,000
SEVERSTAL (STEEL CAP) (CHMFRU 6.7 10/25/17)	BB+	3.23	100,000
RUSSIAN FEDERATION (RUSSIA 3 1/2 01/16/19)	BB+	3.04	200,000
RUSSIAN FEDERATION (RUSSIA 11 07/24/18)	BB+	2.99	1,000
LUKOIL INTL FINANCE BV (LUKOIL 6.356 06/07/17)	BB+	2.50	100,000

Data source: Bloomberg

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